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What's News

Business & Finance

Uber plans to wind down its U.S. sub-prime car-leasing division to stem unsustainably high losses, just two years after starting the business. **A1**
The firm won't be bringing back co-founder Kalanick as CEO, the company's chairman told employees. **B4**

◆ Google fired an employee who wrote a memo suggesting men are better suited for tech jobs than women. **A1**

◆ Efforts to combat the bad-loan problem afflicting much of Southern Europe have accelerated, but a resolution could take years. **B1**

◆ An Abu Dhabi sovereign-wealth fund said it has extended the deadline for IMDB to make a payment of about \$600 million. **B6**

◆ Nissan agreed to sell its battery business, including its U.S. operations, to a Chinese investment firm, setting the stage for a potential ruling by a U.S. regulator. **B1**

◆ Hanjin Shipping says it has raised only a fraction of what it needs to repay creditors, whose claims total about \$10.5 billion. **B3**

◆ Large U.S. public pension plans face a funding shortfall of \$4 trillion despite posting their best fiscal-year result since 2014. **B6**

◆ SeaWorld swung to a loss in its latest quarter as negative public perception cut into attendance. **B2**

◆ Time said it plans to cut more than \$400 million in costs to help reposition the business. **B3**

World-Wide

◆ Tillerson urged Southeast Asian countries to shut down North Korean front companies and squeeze Pyongyang's diplomatic presence in the region. **A1**

◆ South Africa's Zuma survived his eighth motion of no-confidence in the face of mounting allegations of corruption. **A3**

◆ Venezuela said authorities were still looking for a group of rebels, including military officers, who raided an army base. **A3**

◆ China's economy is still getting a boost from trade, with exports and imports growing last month. **A4**

◆ American demand for Mexican farmhands and other laborers is growing as the Trump administration looks to curb immigration. **A2**

◆ Ousted prime minister Sharif warned that Pakistan was heading toward "tragedy" if elected leaders keep being removed. **A4**

◆ The U.S. Justice Department announced that guidelines for the use of forensic evidence in court will now be overseen by a former prosecutor. **A5**

◆ Kenyans headed to the polls to elect a new president after a campaign marked by acrimony. **A3**

◆ Malaysia launched an inquiry into massive foreign-exchange losses by the central bank over two decades ago. **A4**

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WORLD NEWS

U.S. Demand for Mexican Laborers Jumps

In the first nine months of fiscal 2017, number of mostly Mexican workers rose by 20%

BY ROBBIE WHELAN

MEXICO CITY—Demand in America for Mexican farmhands, landscapers and other temporary workers is surging as the Trump administration moves to curb immigration and renegotiate its trade relationship with Mexico.

That demand is prompting both countries to search for ways to ease labor shortages in key parts of the U.S. economy.

In the first nine months of fiscal 2017, which began Oct. 1, the U.S. Labor Department certified more than 160,000 temporary workers—the bulk of them from Mexico—to harvest berries, tobacco and other crops in the U.S. under the H-2A agricultural visa program. That was up 20% from the year-earlier period.

The annual issuance of H-2A visas nearly doubled from 85,248 in fiscal 2012 to 165,741 in 2016. The U.S. doesn't cap the number of these visas.

Outside agriculture, use of another type of seasonal-work visa also has surged in response to increased U.S. demand for unskilled laborers such as hotel housekeepers. The Department of Homeland Security in July raised the annual cap on H-2B visas by more than 20% to 81,000. The majority of workers receiving this type of visa also are from Mexico.

Among the employers that applied in the past year for guest workers under the H-2B program are two operations owned by the Trump Organization, the real-estate company controlled by President Donald Trump's family: the Mar-a-Lago resort in Florida and a Virginia vineyard. The Trump Organization declined to comment.

In raising the cap, DHS said



Mexican farmworkers harvest celery in Brawley, Calif. Growing demand is prompting a search for ways to ease U.S. labor shortages.

it had "considered the needs of American businesses and other factors, including the impact on U.S. workers."

American farmers for several years have voiced concerns about labor shortages, often paired with complaints about the H-2A visa program, which many see as overly bureaucratic, costly and time-consuming. The program requires employers to pay for food, housing and transportation for seasonal guest workers. Still, most farmers say the program is crucial to the U.S. agricultural industry.

"It's extremely burdensome," but cutting the program would "bring the industry to its knees" because there aren't enough U.S.-born farmworkers, said Steve Scaroni, owner of large-scale farms in several states and founder of Fresh Harvest, one of the largest recruiters of H-2A workers in the U.S. "Within a week there wouldn't be salad in

the store" if the program was canceled, he said.

In 2015, farmers in California's Santa Barbara and San Luis Obispo counties, which grow roughly 30% of the strawberries in the U.S., reported \$13 million in losses because they lacked enough labor to harvest their crops in a timely manner.

Last year, vegetable farmers in the two counties reported they had 22% less workers than needed on average, while berry farmers put the worker shortage at 26%, according to a survey conducted by a local growers association.

Last week, Mr. Trump unveiled legislation alongside two Republican senators that would make the U.S. immigration system more merit-based and change how the country issues permanent resident cards to foreigners with the aim of raising wages. The proposal doesn't address temporary worker visas.

In early July, Mr. Trump and President Enrique Peña Nieto of Mexico agreed to explore new ways of allowing Mexican guest workers into the U.S., but stopped short of committing to an expansion of existing visa programs.

Mexico's government argues that the guest-worker programs help tamp down on illegal border crossings, a Trump administration priority.

"If there are possibilities to have legal, temporary immigration, that deals with the problem of the work force supply, and then you won't have an illegal immigration problem," said Ildefonso Guajardo, Mexico's economy minister.

The U.S., Mexico and Canada are set to start renegotiating the North American Free Trade Agreement on Aug. 16. Mr. Guajardo said the renegotiation would likely address Nafta's professional visa program,

which allows some skilled workers to live and work in Nafta countries.

Advocates for migrants have pushed to expand that program to include a broader range of professions. But U.S. Agriculture Secretary Sonny Perdue said in a recent interview that the Nafta talks likely won't address the concerns by U.S. growers about labor shortages.

Temporary worker visas are controversial in Washington. In May, a bipartisan group of four U.S. senators wrote to the DHS urging it not to raise the cap on H-2B visas. They argued the program "puts all workers at risk" by eliminating U.S. jobs and depressing wages for American laborers, and by allowing some employers to abuse foreign guest workers, deprive them of wages and engage in human trafficking.

Immigration lawyers and migrant-rights groups say fraud in

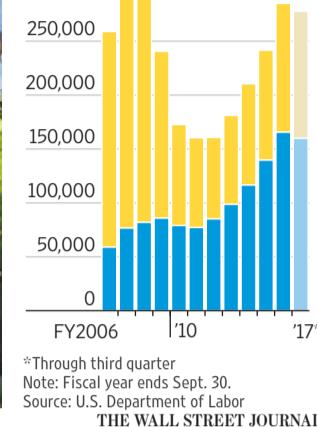
Hungry for Workers

Visa certifications for temporary workers, a proxy for seasonal U.S. labor demand, have nearly doubled since 2011 and appear to be on track to match the 10-year high reached in 2008.

H-2A (agricultural)

H-2B (nonagricultural)

350,000 positions certified



*Through third quarter

Note: Fiscal year ends Sept. 30.

Source: U.S. Department of Labor

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the recruitment of temporary workers is rising.

The Center for Migrant Rights, a Mexico City organization that provides legal services to guest workers said it received 242 complaints related to fraud and other abuse by recruiters of Mexican guest workers in 2016. Complaints have risen by 30% this year.

José Gabriel Mayorga, a 23-year-old who earns less than the equivalent of \$6 a day working in fields of corn and beans in a mountainous region of Mexico's central Hidalgo state, paid close to \$2,000 in June to a recruiter who promised him and his cousin 11-month contracts to pick lettuce and cucumbers in Ohio for \$1,300 a week.

After taking the money, allegedly for administrative fees to process their visas, the recruiter disappeared, Mr. Mayorga said.

RULES

Continued from the prior page
ing requirement.

"Much of what I did I now regret," said Mr. Burr, 72 years old, who is now retired.

In June, Special Publication 800-63 got a thorough rewrite, jettisoning the worst of these password commandments. Paul Grassi, an NIST standards-and-technology adviser who led the two-year-long do-over, said the group thought at the outset the document would only require a light edit.

"We ended up starting from scratch," Mr. Grassi said.

The new guidelines, which are already filtering through to the wider world, drop the password-expiration advice and the requirement for special characters, Mr. Grassi said. Those rules did little for security—they "actually had a negative impact on usability," he said.

Long, easy-to-remember phrases now get the nod over crazy characters, and users should be forced to change passwords only if there is a sign they may have been stolen, says NIST, the federal

agency that helps set industrial standards in the U.S.

Amy LaMere had long suspected she was wasting her time with the hour a month it takes to keep track of the hundreds of passwords she has to juggle for her job as a client-resources manager with a trade-show-display company in Minneapolis. "The rules make it harder for you to remember what your password is," she said. "Then you have to reset it and it just makes it take longer."

When informed that password advice is changing, however, she wasn't outraged. Instead, she said it just made her feel better. "I'm right," she said of the previous rules. "It just doesn't make sense."

Academics who have studied passwords say using a series of four words can be harder for hackers to crack than a shorter hodgepodge of strange characters—since having a large number of letters makes things harder than a smaller number of letters, characters and numbers.

In a widely circulated piece, cartoonist Randall Munroe calculated it would take 550 years to crack the password "correct horse battery staple," all writ-

ten as one word. The password Tr0ub4dor&3—a typical example of password using Mr. Burr's old rules—could be cracked in three days, according to Mr. Munroe's calculations, which have been verified by computer-security specialists.

Mr. Burr, who once programmed Army mainframe computers during the Vietnam War, had wanted to base his advice on real-world password data. But back in 2003, there just wasn't much to find, and he said he was under pressure to publish guidance quickly.

He asked the computer administrators at NIST if they would let him have a look at the actual passwords on their network. They refused to share them, he said, citing privacy concerns. "They were appalled I even asked," Mr. Burr said.

With no empirical data on computer-password security to be found, Mr. Burr leaned heavily on a white paper written in the mid-1980s—long before consumers bought DVDs and cat food online.

The published guidelines were the best he could do.

"In the end, it was probably too complicated for a lot of folks to understand very well, and the truth is, it was bark-

ing up the wrong tree," said Mr. Burr.

Nevertheless, NIST's password advice became widely influential, not just within the federal government but on corporate networks, websites and mobile devices.

Collectively, humans spend the equivalent of more than 1,300 years each day typing passwords, according to Cormac Herley, a principal re-

searcher at Microsoft Corp. His company once followed the Burr code for passwords, but no more.

The biggest argument against Mr. Burr's prescriptions: they haven't worked well. "It just drives people bananas and they don't pick good passwords no matter what you do," Mr. Burr said.

The past decade has seen a

data-breach boom. Hackers have stolen and posted online hundreds of millions of passwords from companies such as MySpace, LinkedIn and Gawker Media.

Those postings have given researchers the data they need to take a hard look at how people's passwords fare against the tools hackers used to break them. Their conclusion? While we may think our passwords are clever, they aren't. We tend to gravitate toward the same old combinations over and over.

Back in 2003, Mr. Burr didn't have the data to understand this phenomenon. Today, it is obvious to people like Lorrie Faith Cranor. After years of studying terrible concoctions, she put 500 of the most commonly used passwords on a blue and purple shift dress she made and wore to a 2015 White

House cybersecurity summit at Stanford University.

Adorned with the world's most common passwords—princess, monkey, iloveyou and others that are unprintable here—the dress has prompted careful study, and embarrassment. "I've had people look at it and they're like, 'Oh, I'd better go change my password,'" said Ms. Cranor, a professor at Carnegie Mellon University.

The NIST rules were supposed to give us randomness. Instead they spawned a generation of widely used and goofy looking passwords such as Pa\$\$w0rd or Monkey!. "It's not really random if you and 10,000 other people are doing it," said Mr. Herley, the Microsoft researcher.

Mr. Grassi, who rewrote NIST's new password guidelines, thinks his former colleague Mr. Burr is being a little bit hard on himself over his 2003 advice.

"He wrote a security document that held up for 10 to 15 years," Mr. Grassi said. "I only hope to be able to have a document hold up that long."

MEMO

Continued from the prior page
ument does."

Before he was fired, several Google executives publicly criticized his memo. Mr. Damore said that prompted him to submit a formal charge to the National Labor Relations Board "about how Google's upper management is misrepresenting and shaming me in order to silence my complaints." In reference to his firing, he added, "It's illegal to retaliate against a NLRB charge. I'm currently exploring all possible legal remedies."

Mr. Damore's firing is likely to spark a larger debate inside and outside Google about free speech. The memo received both support and disapproval from colleagues inside Google, according to news reports.

Mr. Pichai said in his Monday email: "We strongly support the right of Googlers to express themselves, and much of what was in that memo is fair to debate, regardless of whether a vast majority of Googlers disagree with it." Mr.

Sundar Pichai, Google's CEO, is shown from the chest up, wearing a dark zip-up jacket over a white shirt. He is gesturing with his hands while speaking. The background is a blurred indoor setting.

Pichai said he scheduled an employee town hall on Thursday to discuss the issue.

Danielle Brown, Google's vice president for diversity and inclusion, said in a statement to employees after the memo was published online Saturday that it "advanced in-

correct assumptions about gender" and is "not a viewpoint that I or this company endorses, promotes or encourages." Google engineering executive Ari Balogh, one of Mr. Damore's managers, wrote that the memo "troubled me deeply" because it suggested

federal contractor. Google sells advertising and cloud services to the federal government. During the case, a Labor Department official testified that initial evidence showed Google systematically pays women less than men.

Google denies the allegation, saying its internal analyses have shown no pay gap among Alphabet's nearly 76,000 employees. The Labor Department hasn't formally charged Google with any wrongdoing.

Google said in its annual diversity report in June that 31% of its employees are women, unchanged from a year earlier.

The percentage of black employees also was unchanged at 2%, and the number of Hispanic workers increased to 4% from 3%. Most Google workers are white and Asian men.

Google, meanwhile, is fac-

ing a Labor Department investi-

gation into whether it com-

pensates men and women dif-

ferently. Last month, an ad-

ministrative law judge ruled

that Google had to turn over some

data to the Labor Department

as part of the probe, which be-

gan as a routine audit into a

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that Google

WORLD NEWS

Zuma Faces No-Confidence Vote

South African lawmakers vote on president's fate amid corruption allegations

By GABRIELE STEINHAUSER

JOHANNESBURG—South African President Jacob Zuma's political future was on the line Tuesday as parliament prepared to vote on a motion of no confidence amid escalating allegations of corruption and influence-peddling against him and his government.

Mr. Zuma has survived seven attempts to vote him out of office since he was elected in 2009, and his African National Congress holds 249 of 400 seats in the National Assembly. A surprise announcement Monday that the vote would be secret increased the likelihood that ANC lawmakers would follow calls by prominent members to oust him, though most analysts still expected the motion to fail to garner the 201 votes it needs to succeed.

South Africans have been pounded by almost daily revelations, stemming from a huge email leak, of how the president, his family and several ministers have allegedly helped the controversial Gupta family make billions from fraudulent government contracts.

Mr. Zuma, the Guptas—a



Opposition supporters march in Cape Town, South Africa, ahead of the secret parliamentary vote.

in support of the motion of no confidence," Mr. Mbeki said.

Opposition parties first called for the vote in April, shortly after Mr. Zuma dismissed Finance Minister Pravin Gordhan and his deputy, sparking nationwide protests and two downgrades of South Africa's credit rating to junk. But the vote was delayed as they awaited a Constitutional Court ruling that parliamentary Speaker Baleka Mbete, a staunch Zuma supporter, had the right to call a secret ballot.

Still, Ms. Mbete's decision to allow a secret ballot came as a surprise, since she had previously insisted it needed to be public. "This decision is also about putting the resilience of our democratic institution to test," Ms. Mbete said Monday in a statement.

Some analysts speculated the move was a sign Mr. Zuma was confident he had enough votes to survive, while others warned it made the outcome hard to predict.

"If the vote passes we will be in a period of deep uncertainty with the possibility of President Zuma not going quietly, early elections in coming months or endless court challenges," said Peter Attard Montalto, an analyst at Nomura who put the likelihood of the motion against the president succeeding at 30%.

—Nthabiseng Gamede contributed to this article.

family of Indian immigrants that built a corporate empire stretching from media to mining—and the implicated ministers have all denied the allegations. But the scandal has ripped through the ANC and driven Mr. Zuma's approval ratings to an all-time low.

"The sanctity and security of the state are under direct attack from a felonious nexus of politicians, state officials and privateers," a group of veterans of the ANC's anti-apartheid struggle said in a statement

vote against Mr. Zuma.

Among those who signed were Denis Goldberg, who was convicted of treason alongside Nelson Mandela in 1964, and former Finance Minister Trevor Manuel.

Nonetheless, there is pressure on ANC lawmakers to support the president. ANC Chief Whip Jackson Mthembu last week likened a vote to dismiss Mr. Zuma to throwing a nuclear bomb into Africa's most developed economy.

Ahead of the vote, members of the left-wing opposition

Economic Freedom Fighters, dressed in red workers' overalls, blocked roads with rocks and burning tires in Johannesburg. Protests against the president were expected in all major cities, including Cape Town.

Speaking to reporters in Kenya, where he was monitoring national elections, former President Thabo Mbeki, a critic of Mr. Zuma, told his party's lawmakers to vote with their conscience. "They should vote truthfully without fear that the party, in this case the ANC, might punish them if they vote

Venezuela Hunts for Rebels Who Hit Army Base

By ANATOLY KURMANAEV

CARACAS, Venezuela—Venezuela's defense minister said that authorities were still looking for a small group of rebels—including active military officers—who raided an army base and stole weapons early Sunday.

The dawn raid, which led to three deaths, was an embarrassment to the government by underscoring how easily a group of civilians and former soldiers raided the ammunition depot of the Paramacay artillery base, home to an armored brigade.

The government said Monday that the attackers made off with close to 100 AK-103 assault rifles and a handful of grenade launchers. The incident in Valencia, the country's third-largest city, left two attackers dead, according to the government.

"I call to reject these vile acts of treason against the fatherland," Defense Minister Gen. Vladimir Padrino said in a televised speech.

The attack further ratcheted tensions in Venezuela following four months of antigovernment unrest and raised fears that government opponents could begin to arm themselves for conflict.

One protester was shot dead in Valencia during a demonstration in support of the attack.

The assailants were aided by Paramacay's ammunitions keeper, Lt. Yefferson Garcia, Gen. Padrino said.

The brazenness of the attack and the complicity of active officers raise questions about the military's willingness and ability to defend an increasingly unpopular government of President Nicolás Maduro, said Nicholas Watson, London-based political risk analyst at Teneo Intelligence.

The attack appears to have been focused on acquiring arms, rather than triggering a military uprising, said Luis Esculpi, a Venezuelan military analyst and former head of the congressional defense committee. The raid is the first significant sign of antigovernment groups seeking to arm themselves against Mr. Maduro, he said.

"This is very worrying, because it could be putting Venezuela in a situation of pre-civil war," he said.

The raiding party was led by a National Guard Capt. Juan Caguaripano, who deserted in 2014 in protest at the government's increasingly authoritarian tilt. He has since given a few interviews with media from hiding. He remained at large.

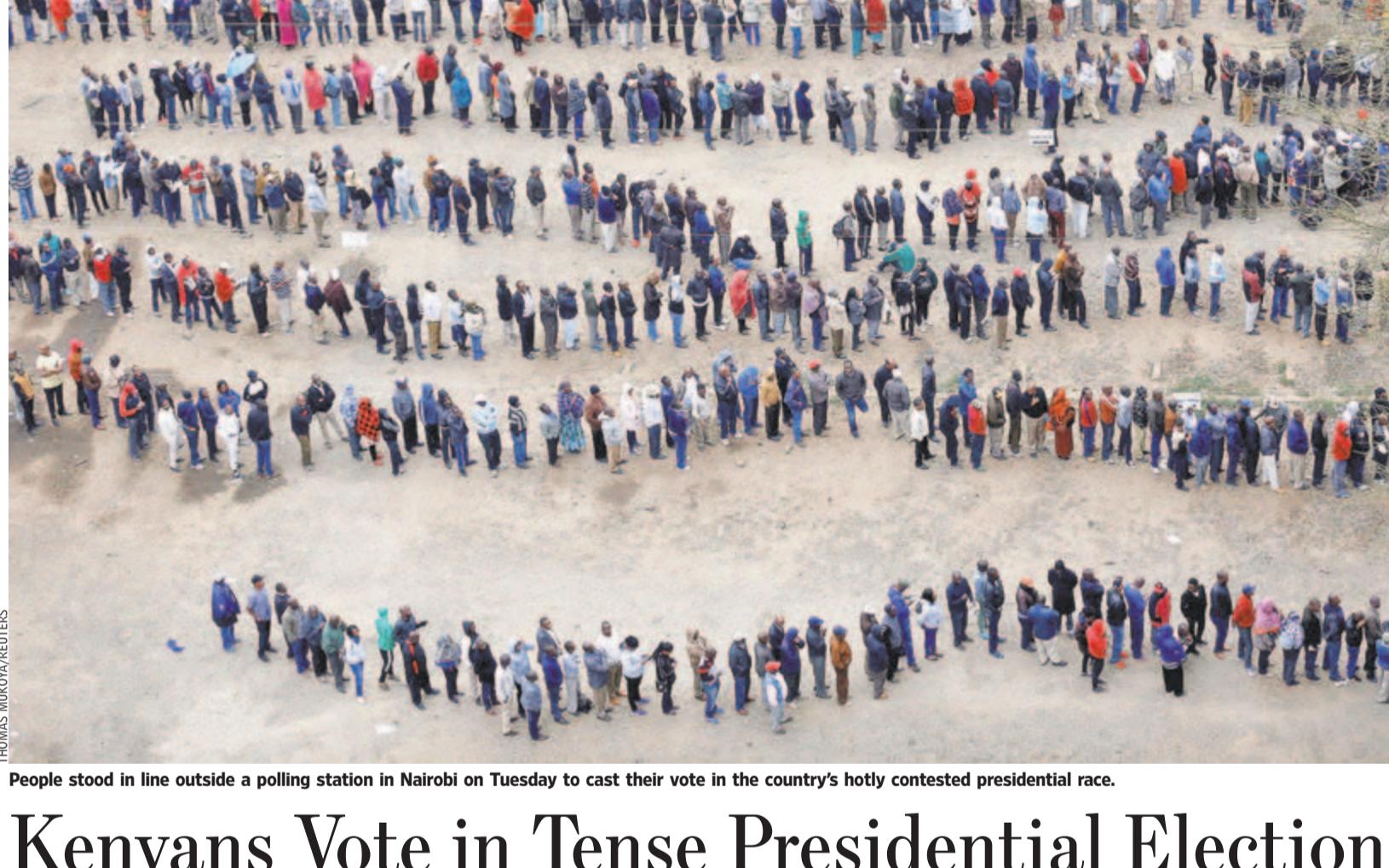
The government said the raiders made off with close to 100 assault rifles.

Venezuela's opposition alliance has relied on peaceful demonstrations to pressure Mr. Maduro to call general elections, which polls show he would lose.

Mr. Maduro has been responding with repression, and he moved ahead with installing an all-powerful assembly tasked with consolidating his power.

The repression has led to an increasingly violent response at protests from radical government opponents, who say peaceful demonstrations have failed to produce political change.

"Until now we have seen the civil society marching [against Mr. Maduro] with whistles and flags," said Rocio San Miguel, security expert at the policy group Citizens Control, in Caracas. "But a sense of defeat, desperation could produce in the medium-term groups that are prepared to take up arms to achieve their goals."



People stood in line outside a polling station in Nairobi on Tuesday to cast their vote in the country's hotly contested presidential race.

Kenyans Vote in Tense Presidential Election

BY MATINA STEVIS
AND JOE PARKINSON

NAIROBI—Kenyans headed to the polls to elect a new president after a hotly contested race between the country's top political dynasties raised fears of violence in one of Africa's most dynamic democracies.

A projected 20 million Kenyans were casting ballots Tuesday at 40,000 polling stations across East Africa's largest economy. The contest is pitting the scions of two major political families against one another: incumbent Uhuru Kenyatta, the 55-year-old businessman son of Kenya's first president, and Raila Odinga, the 72-year-old son of the first vice president.

After a bruising two-month campaign marked by acrimony, the murder of an election official, an explosion of fake news and mounting concerns of violence, opinion polls have put the candidates neck-and-neck. The winner needs one vote more than 50% to win. Final results aren't expected until Wednesday at the earliest, but election officials have up to a week to declare the outcome.

In a potent sign of electoral tensions and the importance of the vote as a bellwether for democracy in Africa, former U.S. President Barack Obama urged Kenyan leaders to reject violence and incitement.

"Respect the will of the people; urge security forces to act

professionally and neutrally; and work together no matter the outcome," said Mr. Obama, whose father was Kenyan.

Voters began lining up before sunrise on Tuesday in a drizzle-soaked Nairobi, with election officials predicting a high turnout. At a polling station in the capital's diverse Brookside district, most voters said they were optimistic.

"There's a lot riding on this. We are hoping for the best but I know communities are also preparing for the worst," said Daniel Gitonga, a 27-year-old barista.

The narrowing margin between the candidates has raised fears that glitches in the coun-

try's expensive new polling technology could give the loser grounds to question the result and bring supporters onto the streets. In 2007, accusations of cheating prompted nationwide clashes in which more than 1,100 people died and hundreds of thousands were displaced.

At stake is Kenya's hard-won stability and standing as a dynamic regional hub for enterprise and a destination for local and international businesses. The result and conduct of the vote will reverberate across Kenya's borders, from war-torn Somalia where Kenyan troops are fighting the Islamist insurgency al-Shabaab, to the faster-growing economies of Ethiopia,

Rwanda and Tanzania, where democracy is in retreat.

"There is a tsunami of money that would flood into Kenya if this election can be pulled off well," said Aly Khan Satchu, an investment expert in Nairobi. "From an economic perspective, this is a pivot election."

The largest and most sophisticated economy in East Africa, Kenya avoided the economic slowdown that hit many of its mineral-exporting neighbors when prices for oil and ores plunged in 2014. Gross domestic product grew 6% last year, outperforming the sub-Saharan average rate of 1.4%.

Lured by stability and an open market, international capi-

tal has poured into Kenya, cementing the country's position as a hub for finance and technology. But the infrastructure-driven growth has inflated a mushrooming debt load. Kenya's debt-to-GDP has jumped to 55%—some 10 percentage points higher than a decade ago.

Both presidential candidates are pledging to spend on development projects and stamp out corruption, but tribal divisions continue to frame Kenyan politics. Mr. Kenyatta says his leadership transcends ethnic divides, though he is dependent on support from his Kikuyu tribe, the nation's largest, and its allies; Mr. Odinga says his Luo tribespeople and other friendly smaller tribes have been neglected.

After the 2007 violence pitted tribes against one another, Mr. Kenyatta and his deputy, William Ruto, were accused of crimes against humanity at the International Criminal Court. The charges were later dropped.

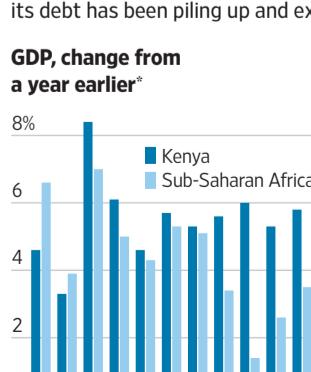
Kenya's Western allies, concerned about the prospect of violence, have poured in \$90 million in election assistance, deploying hundreds of international monitors and helping fund some 6,000 local observers in a mission to be led by former U.S. Secretary of State John Kerry.

"The system is being tested today," said Mr. Kerry as he headed into a polling station. "It's important that the legitimate processes are followed."

Mixed Picture

While Kenya's growth has far outpaced the sub-Saharan average, its debt has been piling up and exports shrinking.

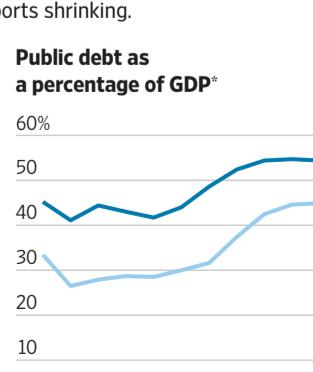
GDP, change from a year earlier*



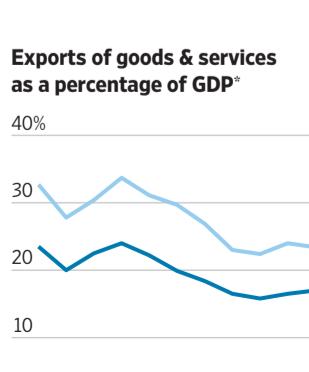
*2008 figure is an average 2004-'08. 2017 and '18 figures are estimates.

Source: International Monetary Fund

Public debt as a percentage of GDP*



Exports of goods & services as a percentage of GDP*



THE WALL STREET JOURNAL

WORLD NEWS

Pakistan's Sharif Stays in the Fray

Former prime minister questions his ouster, plans tour through election battlegrounds

BY SAEED SHAH

ISLAMABAD—Ousted Pakistani prime minister Nawaz Sharif warned Tuesday that the country is headed toward tragedy if elected leaders keep being removed, as he prepared for a show of strength with a political tour from the capital to his hometown.

"We want democracy to be respected, the Pakistani people's mandate to be respected, rule of law, for the constitution to be implemented," Mr. Sharif told a group of journalists. "It shouldn't be that there's a hobbled democracy."

Mr. Sharif was disqualified from office last month by the Supreme Court for not being honest—a requirement for lawmakers under the constitution.

Despite losing his job, Mr. Sharif still wields great power. The ruling Pakistan Muslim League-N party is built around him and his family. He chose his successor, former petroleum minister and party loyalist Shahid Khaqan Abbasi, who was supposed to be quickly replaced by Mr. Sharif's brother, Shehzad. However, the former prime minister said Tuesday that Mr. Abbasi may remain in the job.

Starting Wednesday, Mr. Sharif will lead a vehicle cavalcade along the historic Grand Trunk Road to his home and power base, Lahore, stopping frequently at towns along the way to greet and address



Pakistani workers install a billboard in Islamabad of deposed Prime Minister Nawaz Sharif on the planned route of his political tour.

supporters.

The 200-mile journey is to take two to three days, in what his aides say will be a demonstration of his popularity with the people.

The route passes through battleground area for elections due next year. Opposition leader Imran Khan, who brought the case against Mr. Sharif, has said that the journey is an act of defiance against the court verdict.

The former premier faces a corruption trial expected to start in the next few weeks. If convicted, Mr. Sharif could go

to jail, lawyers say. He denies corruption and believes the Supreme Court dismissed him on unfair grounds—for not declaring a salary, from a family company, that he says he never received.

Mr. Sharif said that he intends to start a "grand debate" about democracy in Pakistan. Mr. Sharif has been elected prime minister three times, and each of his terms has been cut short (two by military intervention). No Pakistan prime minister has been able to complete his or her tenure—usually removed by

the military, the courts or assassination—in its 70-year history.

"Will this keep happening to the country?" he said. "Will there ever be rule of law and supremacy of the people's mandate in this country? Are 200 million people just sheep, that they vote and elect a prime minister and are then insulted and disrespected like this?"

Mr. Sharif's party won in a landslide in 2013. His aides believe that the military found common cause with the courts to oust him, to prevent his re-

election next year. The military denies any involvement.

Mr. Sharif declined to spell out what he thought lay behind his removal, saying that he hoped the answer would emerge through the national debate he envisages.

Mr. Sharif began his term in 2013 by saying he wanted to see civilian supremacy, and pushed for peace with neighbors India and Afghanistan, leading to clashes with the military as it traditionally controls these policy areas.

—Qasim Nauman contributed to this article

Chinese Trade Growth Eases

BEIJING—China's unexpectedly robust economy is still getting a boost from trade, with exports and imports growing last month, albeit at a more moderate pace.

China's exports increased 7.2% in July from a year earlier, down from an 11.3% gain in June while imports expanded 11.0% from a year earlier, slower than June's 17.2% expansion, the General Administration of Customs said Tuesday.

Though both rates were lower than analysts expected, exports have now risen for five months in a row on sustained overseas demand. Imports slowed in part due to softer commodity prices, but overall are holding up on the strength of a continuing domestic property boom, economists said.

"Although China's trade growth slowed in July, the outlook remains positive as demand from the U.S. and the EU remains robust and domestic property investment is still solid," Shen Jianguang, an economist with Mizuho Securities. He said that the "growth retreat in July could only be temporary."

A rebound in exports this year has helped China to secure stronger-than-expected economic growth of 6.9% in the first half of the year. Exports have been a drag on growth for much of the previous two-plus years, before the turnaround.

While analysts expect China's exports to continue benefiting from foreign demand, a persistently large trade surplus, particularly with the U.S., is likely to aggravate trade tensions, casting a shadow over the outlook for economic ties between the world's largest economies.

U.S. President Donald Trump has described the trade imbalances between the two countries as a "very, very big issue" that he would address. His administration is considering launching investigations into China's suspected infringements on intellectual property and policies that force foreign firms to transfer technology—accusations that Beijing denies.

China's trade surplus in July widened to \$46.74 billion from \$42.77 billion the previous month, the customs bureau said. China's trade surplus with the U.S. stood at \$25.2 billion in July, down slightly from \$25.4 billion, according to data from Wind Information. The trade surplus with the U.S. accounted for 54% of the total surplus China ran with all of its trading partners.

Some economists anticipate that the growth in imports will slow further in the months ahead as Beijing continues a campaign against rising rates of debt and speculation in the property market.

—Grace Zhu and Liyan Qi

ASIA

Continued from Page One
gime to evade sanctions.

The United Nations Security Council passed its toughest sanctions yet against North Korea last Saturday, a week after North Korea launched the second of two missiles that officials said would be capable of striking the U.S. mainland.

"Southeast Asia is a logical place to focus on," said Sheena Greitens, an assistant professor of political science at the University of Missouri and an expert on North Korea sanctions evasion. "Many of the existing U.N. sanctions on the books already aren't strictly enforced, and so the effect of recent measures such as the U.N. resolution is going to depend heavily on how seriously countries take enforcement."

North Korea maintains eight embassies in Southeast Asia, including in Thailand, Malaysia and Indonesia. While China is by far North Korea's largest trading partner, Thailand and the Philippines were among its top five largest import partners in 2015, estimates by trade experts show.

There are signs that some states are re-calibrating their relations. One Southeast Asian diplomat said his country wasn't approving some staff at the North Korean embassy and



LAI SENG SING/REUTERS

U.S. Secretary of State Rex Tillerson arrived at a Malaysian military base on Tuesday.

had denied meetings at a senior level. The 10-member Association of Southeast Asian Nations called on North Korea on Saturday to comply with sanctions and said they supported "irreversible denuclearization of the Korean Peninsula."

In Bangkok on Tuesday, Foreign Minister Don Pramudwinai said Thailand had cut trade with North Korea by more than 90% in the first six months of this year compared with the same period a year earlier. He said Thailand

would also implement U.N. sanctions but that "we are not going to completely cut ties."

North Korea has used embassy staff, who enjoy diplomatic immunity, to conduct illicit business abroad to support the regime's agenda, according to U.N. sanctions reports.

After Kim Jong Nam, the half-brother of North Korea's leader, was killed in broad daylight in a Kuala Lumpur airport in February, Malaysian police identified several North Koreans as suspects in the killing.

Opposition leaders slammed the inquiry as an effort to dis-

ting, which South Korean intelligence officials believe was orchestrated by Pyongyang.

One was an employee of the country's state-run airline and another was a diplomat at the embassy in Kuala Lumpur. North Korea declined to make the suspects available for questioning, instead preventing Malaysian diplomats in North Korea from exiting the country until the regime brought the suspects home. North Korea has denied any connection with the killing.

The inquiry was set up after

North Korean businesses overseas are hard to track, frequently changing names and staff and benefiting from confusion in some cases about whether they are from North or South Korea, according to the U.N. and sanctions experts.

After Mr. Kim's death, The Wall Street Journal reported that Malaysian police were investigating allegations that North Korea was violating international sanctions through Malaysian businesses, including one that had used North Korean workers to build thousands of homes in Africa.

North Korea also earns money by allowing some citizens to work abroad for the regime. Wages are paid directly to North Korean officials, raising hundreds of millions of dollars each year, according to estimates by human rights groups.

T.J. Pempel, a professor of political science at the University of California, Berkeley, said he was skeptical that Southeast Asian countries are up to the task of isolating North Korea. "For the most part, the other Asian countries do not see [North Korea's] nuclear and missile program as their problem, except to the extent Washington, Seoul, Pyongyang and Beijing make it their problem," he said.

—Warangkana Chomchuen in Bangkok contributed to this article.

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Some economists anticipate that the growth in imports will slow further in the months ahead as Beijing continues a campaign against rising rates of debt and speculation in the property market.

—Grace Zhu and Liyan Qi

WORLD WATCH

CHINA

Strong Earthquake Hits Remote Area

An earthquake measuring 6.5 in magnitude struck China's remote and mountainous southwestern province of Sichuan, the U.S. Geological Survey said, killing five people and causing damage to buildings in a tourist resort.

The quake struck in a sparsely populated area 120 miles west-northwest of the city of Guangyuan at a depth of 6 miles, the USGS said.

The Sichuan earthquake administration said the epicenter was in Ngawa prefecture, largely populated by ethnic Tibetans, many of whom are nomadic herders, but also close to the Jiuzhaigou nature reserve, a popular tourist destination.

The Sichuan government said five people had been killed and more than 60 injured. The official People's Daily said the dead were all tourists. While there was no confirmation of their nationalities, few foreigners go to such remote areas, meaning the dead were likely to be Chinese.

—Reuters

GLOBAL ECONOMY

Major Economies to Grow, U.K. to Slow

The U.S. is set for steady economic growth, while the U.K. and Russia appear to be heading for slowdowns, according to leading indicators released by the Organization for Economic Cooperation and Development.

The leading indicator for the U.S. was unchanged at 99.7 for the third straight month, signaling its outlook has steadied, albeit at a weaker rate than normal. This is an improvement on indicators published in July, which hinted at a U.S. slowdown, and implies global economic prospects could be boosted as trade flows pick up.

The research body's gauge of future activity, based on data for June, continued to point to faster growth in Germany, France, China and Brazil.

Across the Group of 20 economies, which account for most of the world's output, growth firmed in the final three months of 2016 and stayed at that pace in the first three months of 2017.

—Paul Hannon

MALAYSIA

Mahathir Faces Currency Probe

Malaysia's government launched an inquiry into massive foreign-exchange losses by the central bank more than two decades ago, in a probe that could lead to criminal prosecution of former Prime Minister Mahathir Mohamad.

Opposition leaders slammed the inquiry as an effort to dis-

credit Mr. Mahathir just months after he set up a new political party. He leads an opposition coalition aimed at ousting Prime Minister Najib Razak in general elections due in mid-2018.

A five-member Royal Commission of Inquiry, meeting for the first time Tuesday, said it would investigate how much the central bank lost in currency trading in the 1990s and determine if there was a coverup.

The inquiry was set up after

the government said a preliminary investigation found that the extent of losses was larger than what was reported to the cabinet and Parliament.

The inquiry panel said a hearing will begin Aug. 21 and that it will aim to submit a report to the king by Oct. 13. The panel can make recommendations on action to be taken against people who are found guilty, but it is up to the attorney general to prosecute.

—Associated Press

JAPAN

Actor Who Played Godzilla Dies at 88

The man who played the original Godzilla, crashing through Japanese cities and destroying them with swipes of his massive tail, has died at the age of 88, film company Toho said.

Haruo Nakajima, in photo at left, who wore the rubber suit to play the monster who rose from the depths after a hydrogen bomb test in the 1954 "Godzilla," died of pneumonia, a Toho spokesman said. The first suit weighed 220 pounds and was so hard to breathe in that an oxygen tube was attached, Mr. Nakajima said.

He played the monster in a dozen films, running through to 1972. The first "Godzilla"—his name a combination of "gorilla" and the Japanese word for whale—opened as a symbol of atomic weapons less than a decade after the Hiroshima and Nagasaki bombings, as well as of frustrations with the U.S., which had just held a hydrogen bomb test at Bikini atoll that irradiated a boat full of Japanese fishermen.

—Reuters

JUNJI KUBOKAWA/ASSOCIATED PRESS



JERRY FAY/EVERETT COLLECTION

Haruo Nakajima, left, who played Godzilla in a dozen films, from 1954 to 1972, died of pneumonia at age 88. The rubber suit he wore in the first film weighed 220 pounds.

U.S. NEWS

Attorney General Scuttles Forensics Team

Sessions opts for prosecutors to develop guidelines, cutting out scientists

By BETH REINHARD

Prosecutors notched a victory this week over academics and defense attorneys in the long-running debate about what qualifies as sound crime-scene evidence versus "junk science" used to wrongly convict defendants.

Guidelines for the use of forensic evidence in court, previously developed by a partnership between the Justice Department and a panel of scientists, will now be spearheaded by a former state prosecutor who reports to the department's top leadership.

Forensic science has come under heightened scrutiny since a 2009 report by the National Academy of Sciences concluded that hair samples, bite marks, ballistics reports and handwriting analysis used to prove guilt were scientifically flawed. The Federal Bureau of Investigation has acknowledged that it used scientifically questionable microscopic hair comparisons to help identify suspects in hundreds of convictions dating back to the mid-1980s.

Prosecutors often say defense lawyers, in challenging scientific evidence, can persuade courts to question techniques that are entirely solid. Deputy Attorney General Rod Rosenstein said Monday that the new initiative to guide what forensic examiners and prosecutors can say about clues collected from crime



Attorney General Jeff Sessions, left, accompanied by his deputy, Rod Rosenstein, spoke last week in Washington.

would an internal Justice Department committee.

Misuse of forensic science contributed to wrongful convictions in nearly half of the 350 cases in which the Innocence Project, a nonprofit at the Cardozo School of Law in New York City, used DNA to help exonerate wrongly convicted defendants.

"The legal perspective is well represented by the Department of Justice, and it's the scientific perspective that I'm concerned won't get the attention it needs," said Suzanne Bell, chairwoman of the Department of Forensic and Investigative Science at West Virginia University and a former member of the National Commission on Forensic Science.

Ted Hunt, a former state prosecutor in Kansas City, Mo., who also served on the commission, will serve as the department's new senior adviser on forensics. Mr. Hunt's biography says that he has prosecuted more than 100 felony jury trials, most of which involved the presentation of forensic evidence.

"His skill set will be of great value to the criminal justice system nationwide," said Jason Lamb, executive director of the Missouri Association of Prosecuting Attorneys.

Under Mr. Hunt's direction, the new Forensic Science Working Group will create a program to monitor the accuracy of forensic testimony and assess the need for more personnel and equipment in crime labs. The National District Attorneys Association called those efforts "important steps to ensure consistent application of forensic science in the courtroom."

scenes would counter "efforts in the courtroom and elsewhere to reject reliable and admissible forensic evidence."

The move reflects Attorney General Jeff Sessions' crackdown on violent crime and is another step toward dismantling former President Barack Obama's legacy on criminal justice. Monday's announcement has been expected since Mr. Sessions declined in April to renew the National Commission on Forensic Science, an advisory group of scientists and lawyers created in 2013

after a series of crime lab blunders by federal, state and local police.

In his most sweeping criminal justice policy change, Mr. Sessions scrapped an Obama administration policy that avoided charges carrying long, mandatory-minimum sentences for nonviolent drug offenders. The attorney general has also reversed decisions under Mr. Obama to retreat from contracts with for-profit, private prisons and to intervene in local police departments accused of civil-rights abuses.

Despite the attorney general's success at executing President Donald Trump's law-and-order agenda, the president has criticized him repeatedly for recusing himself from the probe into Russia's alleged interference in the 2016 presidential election.

Mr. Sessions appears to be back on Mr. Trump's good side, however, after promising on Friday to take a tougher stance against leaks of classified information. "After many years of LEAKS going on in Washington, it is great to see

the A.G. taking action!" Mr. Trump posted Saturday on Twitter.

Defense attorneys, academics and civil-rights activists at odds with many of Mr. Sessions' policies raised concerns about his decision to walk away from the National Commission on Forensic Science.

The partnership between the Justice Department and a scientific panel called the National Institute of Standards and Technology offered a more thoughtful check on courtroom practices, they said, than

Nevada Senator Faces Challenge in GOP Primary

By JANET HOOK

WASHINGTON—Sen. Dean Heller, a Nevada Republican up for re-election in 2018 who has been whipsawed by the politics of Congress's health-care debate, has drawn a conservative primary opponent promising to be a more reliable ally for President Donald Trump.

Danny Tarkanian, a Las Vegas businessman, announced his candidacy in a statement early Tuesday morning, making real the threat Mr. Trump and his allies have made to challenge Republicans who didn't consistently support the effort to repeal and replace the 2010 Affordable Care Act, widely known as Obamacare.

"I am a conservative Republican who supports the policies of President Trump to repeal Obamacare and end illegal immigration," said Mr. Tarkanian, who has unsuccessfully run for office in Nevada

multiple times, most recently in 2016 when he lost a House race.

"I will continue to support President Trump's policies that have led to a 20% increase in the stock market in just six months," he said in his statement.

A primary challenge complicates the political outlook for Mr. Heller, whose seat is seen as one of the Democrats' best prospects for a pickup in 2018. He won the seat in 2012, beating Democrat Shelley Berkley with 46% of the vote to 45%. He is the only Senate Republican up for re-election next year in a state that was won by Democrat Hillary Clinton in 2016.

Tommy Ferraro, a spokesman for the Heller campaign, called Mr. Tarkanian a "perennial candidate" who will be defeated in the primary.

"He's wasted conservatives' time and cost the Republican Party seats up and down the

ballot," Mr. Ferraro said. "Dean Heller is a proven leader and is the only candidate with a solid record voters can count on."

The health-care debate was difficult for Mr. Heller because of the cross pressures between his party and his swing-state constituents.

He openly criticized an early version of the repeal-and-replace legislation, and voted against a bill that would have just repealed the law, without a replacement. He voted for the last version brought to a vote, a stripped-down bill known as "skinny repeal," which was rejected on a 51-49 vote.

Last month, Mr. Trump goaded Mr. Heller at a lunch with Republican senators for wavering on the repeal.

"Any senator who votes against starting debate is really telling America that you're fine with Obamacare," Mr. Trump said at the lunch.

He gestured at Mr. Heller, saying, "He wants to remain a senator, doesn't he?" The president hasn't taken a public stance on Mr. Heller's re-election.

Mr. Tarkanian, the son of the late University of Nevada-Las Vegas basketball coach

Jerry Tarkanian, accused Mr. Heller of going back on his campaign promise to repeal Obamacare.

"He turned his back on us," Mr. Tarkanian said, describing the message he heard from Nevadans who urged him to challenge Mr. Heller.

Mr. Heller will have his party's apparatus behind his re-election bid. The National Republican Senatorial Committee put out a statement saying it "fully supports Senator Heller in his primary and general elections. We are confident he will be re-elected."

TAXES

Continued from Page One

vestment. But agreement largely ends there, with wide-ranging differences of opinion about how the share of the tax burden is divided.

Official estimates from Congress and the Treasury Department have said owners of capital pay the majority of corporate taxes—a position held by many Democrats. Administration officials, Senate Finance Chairman Orrin Hatch (R., Utah) and conservative advocates are challenging that view as they mount a campaign this fall to lower business tax rates and build broad support for the idea.

The two views of who is hurt by the corporate tax could lead to fiery disagreements between Republicans and Democrats about who stands to benefit the most from a tax rewrite as the issue is debated in the coming months.

"This is about creating jobs," Treasury Secretary Steven Mnuchin said on CBS in April, noting many surveys show that 70% or more of the tax burden is borne by the U.S. worker. "This is about putting money back in the American worker's pocket."

Last month, Mr. Mnuchin

offered an increased estimate, saying 80% of business taxes are paid by workers.

Although some research supports a 70-30 labor-capital breakdown, many other analyses cut the other way, including work by Treasury Department staff in 2012 and estimates used by the Congressional Budget Office and the Joint Committee on Taxation. Their research attempts to determine how companies would distribute any after-tax

profits and which groups would benefit from new, incentivized investments.

The JCT, which evaluates tax bills that move through Congress, estimated that capital bears 75% of the long-run corporate tax burden, with labor paying the rest. Treasury Department staff estimated that 82% of corporate taxes are paid by owners of capital.

The focus of tax reform is to deliver a major tax cut for middle-income Americans and

encourage American businesses to create jobs, all to build sustained economic growth," a Treasury Department aide said in a statement. "This will be achieved both through individual- and corporate-tax cuts, as well as simplification."

However, no academic model or foreign data perfectly capture what would happen if the U.S. were to change its 35% corporate tax rate for the first time since 1993.

"There's a pretty wide band

of possible outcomes that are plausible," said Alan Auerbach, a tax economist at the University of California, Berkeley.

Until a few years ago, the Treasury Department and the JCT assumed the burden of corporate taxes fell entirely on owners of capital. Holders of stock get what is left over from a company's profit after it covers its expenses, including its taxes and worker pay. Reducing corporate taxes would thus mean more money available for shareholders.

The nature of a global economy complicates the situation, however, as corporations are taxed differently depending on their location and as capital flows easily across borders. A high corporate tax pushes investment and hiring to foreign economies, punishing domestic workers. By this logic, reducing the corporate tax could help domestic workers by drawing in capital.

That effect is in turn countered by the fact that the world economy isn't entirely open and there isn't unlimited investment that would flow into one country if its taxes dropped.

"I don't think any paper finds that it's a negligible incidence on workers," said Aparna Mathur, a resident scholar at the American Enterprise Institute, a conservative think tank.

The Treasury Department under Mr. Mnuchin pointed to a 2015 study by Céline Azémard and Glenn Hubbard that estimated that a \$1 increase in corporate taxes leads to a 60-cent decline in wages, suggesting a tight link between the two, with labor bearing about 60% of the corporate tax burden. The study also says that the effect is muted in larger economies.

Even if the benefits of a corporate tax cut flow to workers, the uneven U.S. wage distribution means high-income workers would capture a significant portion of that benefit. And, so far, it is companies, not workers, that have been the loudest advocates for corporate tax rate cuts.

Republicans haven't settled on their corporate tax policies and the full details will determine the economic effects of whatever they try to push through Congress.

"We're starting with half a policy and trying to understand what it would mean," said Greg Leiserson, who served as an economist in former President Barack Obama's administration and is now director of tax policy at the Washington Center for Equitable Growth, a liberal think tank. "But the other half is absolutely critical for figuring out whether anything gets to labor."



'This is about putting money back in the American worker's pocket,' Steven Mnuchin said in April.

TING SHEN/XINHUA/ZUMA PRESS

IN DEPTH

Uber Knowingly Leased Unsafe Vehicles

Chasing growth, ride-hailing firm bought cars subject to a recall—then one caught fire

BY DOUGLAS MACMILLAN
AND NEWLEY PURNELL

Uber driver Koh Seng Tian had just dropped off a passenger in a residential neighborhood in Singapore when he smelled smoke in his Honda Vezel sport-utility vehicle. Flames burst from the dashboard, melting the interior and cracking a football-sized hole in his windshield.

Mr. Koh walked away unhurt, according to the accident report filed with authorities. But the fire this January caused panic at Uber Technologies Inc.

The ride-hailing company had rented the Vezel to Mr. Koh after Honda Motor Co. recalled the model in April 2016 for an electrical component that could overheat and catch fire.

Uber managers in Singapore were aware of the Honda recall when they bought more than 1,000 defective Vezels and rented them to Mr. Koh and other drivers without the needed repairs, according to internal Uber emails and documents reviewed by The Wall Street Journal and interviews with people familiar with Uber's operations in the region.

Three days after the fire, executives at Uber's San Francisco headquarters were briefed on a response plan, according to the emails and former Uber managers in Asia. The company would deactivate the faulty devices and leave the cars on the road while waiting for replacement parts. The plan called for seeking approval from Singapore authorities and advice from auto-repair experts.

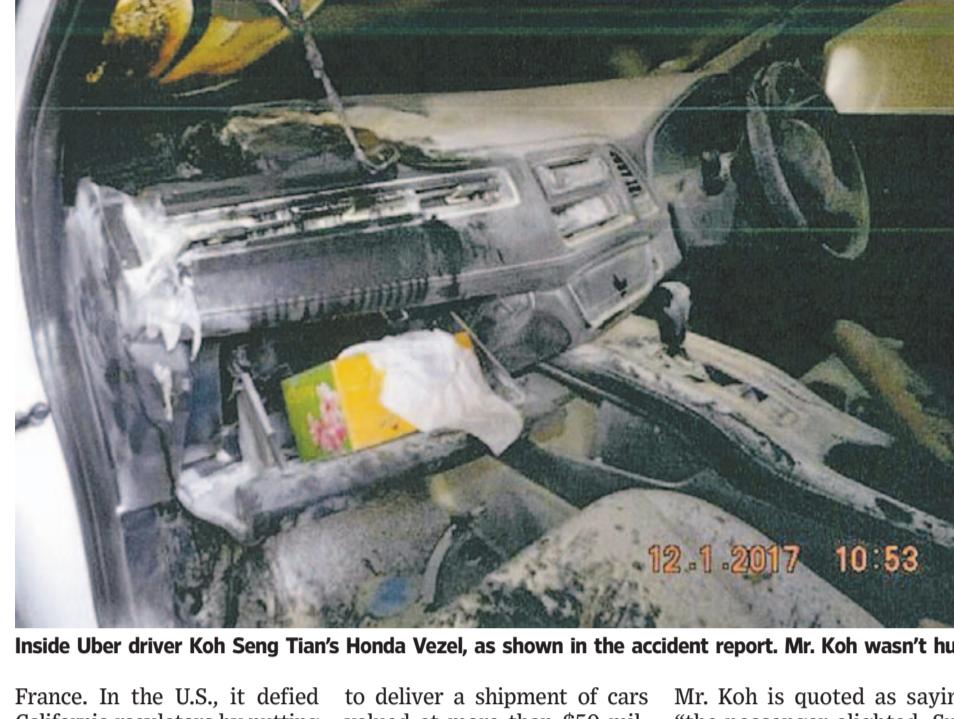
In the wake of the Vezel fire, Singapore managers sought to add new safety measures, Uber said. After the fire, "we took swift action to fix the problem, in close coordination with Singapore's Land Transport Authority as well as technical experts," said an Uber spokesman. "But we acknowledge we could have done more—and we have done so."

The emails don't indicate whether San Francisco executives knew about the Vezel safety recall before Mr. Koh's car caught fire. Mr. Koh, 61, declined to comment.

The Singapore episode, which wasn't previously public knowledge, adds to a growing list of crises that unfolded at Uber on the watch of former Chief Executive Travis Kalanick, during which he insisted on running the firm like a scrappy startup although it had become a large global operation.

The eight-year-old company spread to more than 70 countries in part by giving regional teams authority to adapt to local markets and expand as quickly as possible. Yet Uber didn't build the kind of systems and professional bureaucracy that multinational companies typically employ. It has no chief financial officer or chief operating officer. Its top global-safety executive left last year, and the role has been folded into the remit of Uber's head of insurance.

Uber has often flouted local laws in its drive for growth. It has been found in violation of transportation laws in countries such as South Korea and



Inside Uber driver Koh Seng Tian's Honda Vezel, as shown in the accident report. Mr. Koh wasn't hurt.

France. In the U.S., it defied California regulators by putting self-driving cars on San Francisco streets last year without proper permits, and it remains beset by legal challenges and a corporate culture stung by sexual-harassment allegations.

Meanwhile, Uber lost over \$3 billion last year. It retreated from costly battles with ride-hailing rivals in two big markets, China and Russia, and shut down its service in Macau due to pressure from regulators.

In Singapore, the plan Mr. Kalanick authorized to buy and rent out cars backfired, and Uber's slow response to the recall appears to have jeopardized the safety of drivers and passengers. A spokesman for Mr. Kalanick, who resigned in June, said the former CEO declined to comment.

Asian beachhead

Singapore in 2013 was Uber's first Asian city, a beachhead for expansion. Uber however struggled to find enough drivers, documents show. The cost of owning a car there is among the highest in the world.

Uber created a unit, **Lion City Rentals Pte Ltd.**, or LCR, in February 2015 to rent Uber-owned cars to drivers for about \$50 a day. Buying a fleet of cars was new for Uber, whose business model relies on not owning assets.

Uber filled parking lots with shipments of 200 used cars a month, one former manager said, and by early 2016 had exhausted much of the local supply of used-car dealers.

Mr. Kalanick approved a plan to borrow about 800 million Singapore dollars (about US\$590 million) to buy thousands of new cars and rent them out in Singapore, said people with knowledge of the plan.

Rather than buy most new vehicles from authorized Honda and Toyota Motor Corp. dealers, Uber's LCR unit bought new sedans and SUVs from more than a dozen auto importers, the emails show. These small dealers operate in the gray market—a legal channel outside manufacturers' authorized networks—where safety, service and legal contracts are difficult to enforce. The Singapore team calculated it would be able to buy cars for 12% less than at authorized Honda dealers, according to the emails.

Uber is suing one such dealer, Singapore-based **Sunrita Pte Ltd.**, claiming it failed

to deliver a shipment of cars valued at more than \$50 million. A judge in July dismissed Uber's request that Sunrita be subject to judicial management. A lawyer for Sunrita, Sivakumar Murugaiyan, said the dealer wasn't contractually bound to deliver the cars by a certain deadline. "As such, LCR were not creditors as regards the undelivered cars," he said.

Uber assured drivers that the cars they rented from LCR were in "perfect running condition," according to a rental agreement from 2016 reviewed by the Journal.

Honda's recall

The company had already bought some new Vezels, according to an internal document, when Honda issued a recall for gasoline-powered models on April 4, 2016, advising owners to get them serviced as soon as possible. The issue was an electrical component, designed to shut off the engine when the car is idle, which Honda said could overheat.

An internal Uber report shows that two days later, Uber bought 100 Vezels from Sunrita. On May 5, Sunrita sent Uber notices of the recall, estimating it would replace the affected parts by August's end, documents show.

Over the following eight months, Uber bought thousands of cars from Sunrita and other dealers, including 1,065 additional new Vezels with the faulty electrical part, emailed records show. The cars weren't fixed as of January 2017, emails show.

Sunrita hadn't fixed the cars it sold Uber as of the end of August 2016, citing a shortage of replacement parts in emails to Uber. Uber periodically sent emails asking Sunrita to speed up that process. It continued to rent faulty cars to drivers, emails show. An Uber spokeswoman said Sunrita hasn't provided replacement parts.

Sunrita's lawyer said Uber's LCR unit "requested Sunrita to procure replacement parts from their suppliers at Sunrita's costs. Sunrita duly did so and provided the replacement parts to LCR when these parts became available."

By January 2017, all of Uber's still-defective Vezels were rented to drivers, emails show.

On Jan. 11, Uber driver Mr. Koh picked up a passenger at 1:30 p.m. and drove 19 minutes, the accident report says. "Upon reaching the location,"

Mr. Koh is quoted as saying, "the passenger alighted. Subsequently I smelled some smoke in the interior."

The accident report shows photos of Mr. Koh's Vezel with its burned dashboard and a broken windshield.

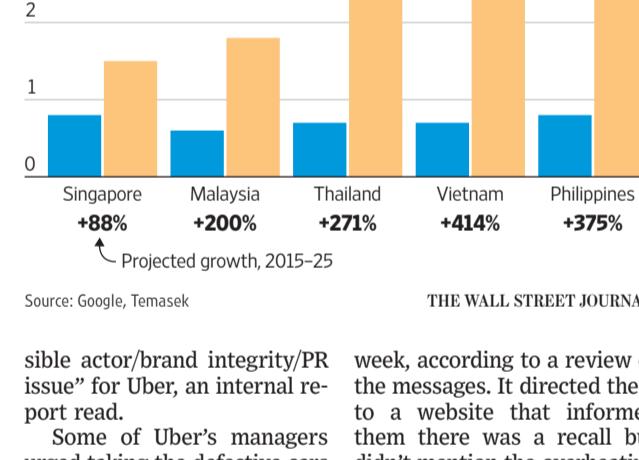
News of the fire rippled through Uber's Singapore office after its insurance provider said it wouldn't cover the damage because of the known recall, emails show. Word reached Uber's San Francisco executives two days later, emails show.

Uber's lawyers in Singapore began assessing the legal liability, including possibly violating driver contracts for supplying faulty cars and failing to immediately inform the Land Transport Authority about the defective cars, emails show. "There is clearly a large safety/response

Hotbed of Growth

Southeast Asia is one of the fastest-growing markets for Uber and its competitors.

People using a ride-hailing service at least once a month



Source: Google, Temasek

sible actor/brand integrity/PR issue" for Uber, an internal report read.

Some of Uber's managers urged taking the defective cars off the road, a plan that Michael Brown, general manager of the Asia Pacific region, said would help avoid "unnecessary risk," according to an email he sent to colleagues in Singapore on Jan. 13.

Warren Tseng, Uber's Singapore general manager, replied in an email that the plan would cost the company about 1.4 million Singapore dollars a week (about \$1 million) in driver wages, rental fees and parking costs. "Asking drivers to give up their keys with no suggested fix will send panic alarm bells to the mass mar-

ket," he wrote in an email to Mr. Brown and others.

Messrs. Tseng and Brown declined to comment, referring inquiries to Uber's public-relations department. The Uber spokesman declined to comment on their emails.

Another Singapore manager, Chan Park, supported Mr. Tseng, emailing that leaving cars on the road "feels like low risk," and: "The recall happened nine months ago," according to a review of the email. Mr. Park didn't respond to inquiries. The Uber spokesman declined to comment on the email.

Uber opted to leave the cars on the road and wait for replacement parts, documents show.

Meanwhile, Uber asked drivers to bring cars to repair shops to disable the faulty part, a stopgap measure managers described in emails as a "hack" not authorized by Honda, but one they believed would lower risk. Uber also planned to get its repair effort approved by Singapore authorities.

Top San Francisco executives were informed of the plan Jan. 14, including General Counsel Salle Yoo, insurance and regulatory chief Curtis Scott and global compliance chief Joseph Spiegler, according to the emails and some of the former managers.

The executives didn't respond to inquiries. Uber said they declined to comment.

The Uber spokesman said the company quickly notified affected drivers, asking them to disable the part and make appointments to replace it when parts became available.

Four days after the fire, Uber texted affected drivers that their Honda Vezel required "immediate precautionary servicing" and needed to be seen that

wasn't liable for the gray-market vehicles and declined to help Uber with the repairs or acknowledge whether disabling the part improved safety. Uber acknowledged Honda didn't have a legal duty to do repairs.

A Honda spokesman, asked about the cars Uber bought from Sunrita, said that "In Singapore, with parallel imported cars, the importer must handle the recall," referring to gray-market dealers. He said he couldn't comment on steps Uber took to disable the faulty part because he wasn't aware of the technical details.

Uber's repair process, beginning in January, continued at least several months, according to internal progress reports.

Seeking to limit negative publicity, Uber's communications team in Singapore prepared an information packet including the recall's details and responses to media questions. "The recall was announced in April 2016. Why is LCR only aware/taking action now?" was one question. Uber intended to blame the delay on the importers who didn't provide replacement parts, a review of the packet shows.

Renting out cars with known safety defects became illegal in the U.S. in 2015. U.S. firms aren't bound by American auto-safety laws in other countries.

The Uber spokesman said that, after the fire, Uber notified the Land Transport Authority, which approved its plan to fix the cars. In an internal report, Uber said the LTA failed to adequately maintain a list of recalled vehicles and check it against new cars coming in the country. The LTA didn't respond to requests to comment.

In the wake of the Vezel fire, Uber said, Singapore managers improved tracking of automaker recalls, posted job ads for automotive-safety experts and stopped buying cars from unauthorized importers. "We've introduced robust protocols and hired three dedicated experts in-house at LCR whose sole job is to ensure we are fully responsive to safety recalls," said the Uber spokesman. "Since the beginning of the year, we've proactively responded to six vehicle recalls and will continue to do so to protect the safety of everyone who uses Uber."

Uber has over the past two years expanded its rental-car operation, buying a small number of vehicles in India and Vietnam, people familiar with the expansion said. Uber plans to wind down its U.S. subprime leasing division to stem unsustainable losses, according to people familiar with the matter.

At February's end, Aik Chuan Goh, an Uber associate general manager in Singapore, invited staff to a celebration to reward everyone who helped the company get through "the Vezel snafu." The email invitation, which called for dinner, a massage and "other shenanigans," joked that transportation "might be in a Vezel." Uber said Mr. Goh declined to comment.

The week of the scheduled dinner, an Uber manager reported to his colleagues in an email that more than 65% of the defective Vezels still hadn't had the faulty parts replaced. The Uber spokesman said all the Vezels have now been fixed.

—Jake Maxwell Watts, P.R.
Venkat and Greg Bensinger contributed to this article.

LEASE

Continued from page A1

\$3 billion last year. Last month, Uber merged its Russian operation with the more popular ride-hailing app in that country, Yandex.Taxi. Investors have exerted pressure on Uber to rein in costs and prepare for a possible initial public offering following the ouster of Travis Kalanick as chief executive in June. As Uber's board searches for a new CEO, a 14-member executive committee is making weighty decisions while also dealing with the aftermath of a months-long investigation into its culture, a trade-secret lawsuit from Alphabet Inc. and ride-hailing partners around the world.

News of the planned shutdown follows a report from The Wall Street Journal that exposed safety problems at Uber's rental-car operation in Singapore, which the company began in 2013 and has extended to Vietnam and India.

Uber launched the U.S. car-leasing program in 2015 under Mr. Kalanick, and had high hopes for it, investing some \$600 million in the business, according to the people familiar with the matter. The idea was to offer leases to new drivers who otherwise might not be able to get cars because of spotty credit histories, in an attempt to maintain a healthy supply of vehicles, crucial to keeping fares and driving times low.

Uber has since expanded Xchange Leasing into 24 U.S. metro areas, including 14 branded showrooms. To support new car leases, Uber last year raised a roughly \$1 billion credit facility from a consortium of banks including Goldman Sachs Group Inc., J.P. Morgan Chase & Co., Citigroup Inc. and Morgan Stanley.

But Uber has struggled to control losses at Xchange Leasing despite rates of more than \$500 a month—well above an equivalent lease price from a regular dealer. The high lease fees pushed

many drivers to work longer hours and return the vehicles in poor shape, damaging their resale value, these people said. A fickle pool of drivers mixed with inconsistent earnings made it a challenging business to maintain, they said.

Uber had relied on a network of established dealers to offer leases, but soon found they were pushing drivers into more expensive vehicles, low-

ering their likelihood of turning a profit, according to a person familiar with the business. So Uber decided to start opening leasing facilities of its own, where it could better control the lease terms and streamline the process of registering new drivers.

Investors have exerted pressure on Uber to cut costs and prepare for a possible IPO.

Another person familiar with the matter said Uber might try to sell off the vehicles or the whole division and has held some preliminary discussions already. Uber may move some of the 500 workers into other divisions of the company such as customer service, this person said.

Uber has said Xchange Leasing was never meant to be profitable on its own, though executives were scrambling to bring the program closer to break-even, the people said. Vehicle depreciation and costly repossession cut into Xchange Leasing's profits, they said.

Unlike the Asian car-leasing program—which involves Uber buying cars from importers and leasing them to drivers—with Xchange Leasing, Uber holds titles in a trust rather than on its balance sheet. Uber has titles to nearly 40,000 vehicles through Xchange Leasing and would need to sell the vehicles. The San Francisco company has leased a variety of vehicles through the program, including Ford Focus, Hyundai Elantra

and Nissan Sentra sedans.

A 2014 Toyota Corolla was recently being offered for a term of 130 weeks at \$122 a week, totaling roughly \$500 a month, according to marketing materials distributed by Uber. Leases for current-model Corolla sedans, by comparison, can be had for around \$150 a month after a \$1,500 payment, according to Toyota's website, though generally for customers with high credit ratings.

A 130-week lease for a base-trim 2014 Corolla would end up costing a driver more than \$16,000, which compares with the Kelley Blue Book fair purchase price of about \$11,700. As Xchange Leasing is only two years old, no driver has yet gone through to the end of a vehicle lease.

Unlike more traditional leases, Uber allowed drivers to return vehicles with just two weeks' notice after the first month and didn't restrict mileage, a bid to keep the vehicles racking up rides. If a driver isn't logging shifts, payment obligations continue to pile up.

Uber keeps a \$250 deposit that drivers pay if they turn in their cars early, which is a fraction of typical termination fees. Drivers' earnings are deducted through the app to help pay for the lease, which also gives them a disincentive to drive for rival Lyft Inc. or small competitors. Uber installs tracking devices on many of the vehicles, which can help in repossessing the vehicles from drivers who miss multiple payments.

Uber is plagued by constant turnover among its drivers, who may find wages are less than anticipated or simply grow tired of the work.

As a result, Uber has tried a host of programs to get more drivers on the road, including a recent partnership with Avis Budget Group Inc.'s Zipcar allowing for hourly rentals. Last year it reached deals with Toyota Motor Corp. and General Motors Co. to offer leases or rentals to potential drivers.

U.S. NEWS

Nuclear Plant's Halt Triggers Stiff Reaction

South Carolina seeks to salvage a project abandoned after nine years, billions spent

By VALERIE BAUERLEIN
AND RUSSELL GOLD

An energy company's decision to abandon work on a nuclear project in South Carolina has left the state reeling and the governor seeking one of several solutions to save at least one of the two reactors.

Last week, Scana Corp. said it would walk away from its project to build two nuclear reactors in tiny Jenkinsville—after nine years and \$10.4 billion spent—stunning local leaders and the 600 nuclear employees and 5,000 construction workers at its V.C. Summer Nuclear Station. The company said its decision was forced by the March bankruptcy of main contractor Westinghouse Electric Co., which partly came about because of cost overruns in South Carolina and a similar project in Georgia.

The move left Jenkinsville, population 71, with an unfinished worksite the size of 1,000 football fields, while electric customers continue to pay 18% of their bill for a nuclear-power plant that may never generate a single kilowatt. "I just hope that people who bought new houses, new cars, didn't create

a situation where they lose everything they worked so hard to get," said Jenkinsville Mayor Greg Ginyard.

The decision has been politically destabilizing, opening a rift between elected officials and Scana, the project's primary partner, as well as with Santee Cooper, the state-run utility that is the project's junior partner. Gov. Henry McMaster called the shuttering of the plant "a jarring break of faith," in a statement.

Mr. McMaster, a Republican, is pursuing a number of options to try to ensure that at least one of the two reactors gets up and running, according to a person close to the governor. Those options include the sale of Santee Cooper's 45% of the facility or even the sale of Santee Cooper itself, this person said. The board members of Santee Cooper are appointed by the governor.

Separately, a bipartisan group of state senators is calling for a special session to temporarily block the utilities from raising rates and passing on the costs of dismantling the reactors to customers.

Scana, a public company based in Cayce, S.C., said a recently completed assessment by Santee Cooper indicated the overall cost to build the facility rose to \$25.7 billion from \$14 billion. Scana said it had been ready to go ahead with building one of the two



A 2016 photo of unit one of the V.C. Summer Nuclear Station near Jenkinsville, S.C., which Scana Corp. said last week it would abandon.

planned reactors.

"The costs of these units are simply too much for our customers to bear," said Santee Cooper Chairman Leighton Lord, in a statement.

A Santee spokeswoman declined to comment.

The move could lead to higher electricity bills in South Carolina. Scana's utility in the state has some of the highest prices among the 100 largest power providers in the Southeast, according to the Energy Information Administration.

The decision to abandon the V.C. Summer plant shows the challenges of building nuclear power in the U.S., where a nuclear plant hasn't been built since the 1980s. These projects take years to execute,

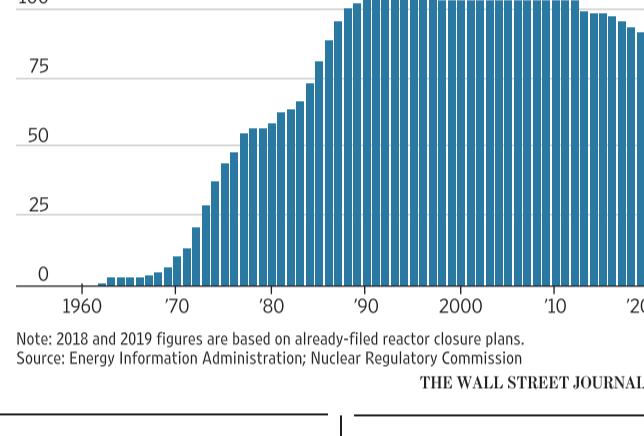
while energy markets are changing quickly.

Scana said it plans to ask regulators to approve a rate increase that would have customers foot a \$2.2 billion bill for the uncompleted work. The company is expected to vigorously defend any attempt to force it to swallow costs associated with securing the site.

Legislators seeking recourse for the failure of the plant have themselves to blame, said Brett Bursey, an energy expert with the South Carolina Progressive Network, a liberal advocacy group. In 2007, the legislature allowed the utility to charge customers in advance for future nuclear electricity, a rare and generous move benefiting utilities, he said.

Losing Power

Number of active nuclear reactors in the U.S.



Note: 2018 and 2019 figures are based on already-filed reactor closure plans.
Source: Energy Information Administration; Nuclear Regulatory Commission

THE WALL STREET JOURNAL.

Overturned Begging Laws Force Shifts in Policy

By JOE PALAZZOLO

Cities across the U.S. are abandoning efforts to regulate panhandling, as more federal courts declare local restrictions on where and when people can beg to be violations of First Amendment rights.

In recent years, federal judges have ruled panhandling ordinances unconstitutional in cities in Colorado, Florida, Illinois and Massachusetts, according to court records. Challenges to panhandling restrictions are pending in Washington, D.C., Houston, Oklahoma City and Pensacola, Fla.

Dozens of cities have repealed their begging laws to head off litigation with advocacy groups buoyed by a two-year-old Supreme Court ruling that expanded free-speech protections, according to civil rights activists and advocates for the homeless. Officials in several other cities have shelved plans for new ordinances, the activists said.

The rulings have frustrated efforts by city officials, who describe panhandling as a nuisance, a drag on tourism and a safety risk for both panhandlers and the people they solicit for donations.

"It is a serious public health issue when pedestrians get struck, or cars are having to get out of the way," said Marc Eichenbaum, a special assistant to Houston Mayor Sylvester Turner. The city's ordinance, the subject of a legal challenge filed in May, a month after it was enacted, prohibits solicitation in roadways and near ATMs, gas stations and outdoor cafes.



Cities around the U.S., including Cleveland, have recently repealed panhandling restrictions in response to court challenges. Above, a homeless man in downtown Cleveland in February.

ernment disapproves of its message.

But Justice Clarence Thomas wrote in the June 2015 ruling that speech restrictions based on the topic discussed or subject matter also demand the highest level of scrutiny.

Regulations that limit speech without regard to content or speaker—known as “content-neutral” restrictions—have an easier legal test to pass. Some courts placed panhandling laws in the content-neutral category because the restrictions weren’t meant to silence a message with which the local governments disagreed.

Since Justice Thomas’s ruling, the lower courts have relabeled panhandling restrictions as content-based speech, and put them to the harshest legal test, one that few laws pass.

In the months following the decision, federal courts blocked ordinances in Springfield, Ill., and Lowell, Mass., that banned panhandling in their historic downtown districts; dashed a Grand Junction, Colo., ordinance that prohibited begging after dark or near restaurant patios and ATMs; and struck down two Worcester, Mass., ordinances that barred panhandlers from roadways, traffic islands, mass transit stops and other places.

In defense of the ordinances, city officials testified about their desire to create zones, particularly in tourist areas, where pedestrians could be free from unwanted solicitation, and pointed to potential safety hazards.

U.S. WATCH

ECONOMY

Job Openings Climb To Record 6.2 Million

Employers across the U.S. had a record 6.2 million job openings posted at the end of June, a sign that employers are hungry for new workers.

The number of job openings climbed by 417,000 in June for private employers and by 44,000 for government postings, which include state and local government, according to the Labor Department’s Job Openings and Labor Turnover Survey, known as Jolts.

The number of job openings plunged during the recession but has been rising steadily for years, first setting a record in April 2015, and continuing to climb since then. The primary jobs report, which was released last week for the month of July, shows the overall gains in employment. The Jolts report, by contrast, tracks the labor market’s complex churn—the millions of postings companies have available at the end of the month, and the millions of Americans who quit a job, are fired, or start a new job.

Today’s report reveals that while the number of available job openings surged, the hiring for those positions has remained flat, continuing a trend of recent years, where openings have risen rapidly and actual hiring has lagged behind. The hiring rate was unchanged in June.

—Josh Zumbrun

PENTAGON

Military Gets Approval To Disable Drones

The Pentagon has sent new guidance to the armed services that outlines the military’s authority to disable or shoot down any drone that violates airspace restrictions over a U.S. base and is deemed a security risk.

Navy Capt. Jeff Davis said a classified policy was approved in July. On Friday, additional public information was sent to military bases around the country so officials can alert their communities about the restrictions and the actions the military can take.

He said the new policy provides details about the actions the military can take to stop any threat, including destroying or seizing any unmanned aircraft—including the smaller ones that the general public can easily buy—that is flown over a base.

"The increase of commercial and private drones in the U.S. has raised our concerns with regards to safety and security of our installations," Capt. Davis said.

—Associated Press

By QUINT FORGEY

The U.S. Army Corps of Engineers is recommending a new weapon to defend the Great Lakes from invading Asian carp: a high-tech sound system to scare the critters away.

The Army Corps has used an underwater network of electric fences for about 15 years, but the fish have been inching closer to the Great Lakes, threatening native species and the \$7 billion fishing industry.

"The various noises that this complex noise would create would deter the fish from coming to that area," said Allen Marshall, a Corps spokesman.

tributaries of the Chicago Area Waterway System and making their way about 37 miles upstream to Lake Michigan.

Only two carp have been found above the fences—one bighead carp in 2010 and one silver carp in June—and there is no evidence either species currently exists in the lakes, said Kevin Irons, aquatic nuisance species program manager with the Illinois Department of Natural Resources.

Still, Midwestern states have undertaken several initiatives in recent years to deny Asian carp entry to the basin. Last week, Michigan Gov. Rick Snyder announced an international competition that will



The U.S. Army Corps of Engineers is recommending technological fortifications to stop Asian carp from reaching the Great Lakes.

award up to \$700,000 in cash prizes for creative solutions to halt the carp's expansion.

The carp compete for space and food with smaller fish, threatening the Great Lakes' roughly \$7 billion fishing business, said Tammy Newcomb, senior water policy adviser

with the Michigan Department of Natural Resources.

The silver carp's affinity for launching itself several feet in the air terrorizes the region's roughly \$16 billion boating industry, she said. "People don't want to get hit by flying, 50-pound fish."

—Associated Press

Build a Wall of Sound to Stop Asian Carp, Report Urges

By QUINT FORGEY

In a study released Monday, the Army Corps recommended several new technological fortifications at Brandon Road Lock and Dam in Will County, Ill. These include a new electric barrier, complex noise generators, water jets, an engineered channel and a flushing lock. Construction costs for the suggested plan are estimated at more than \$275 million.

Brandon Road Lock and Dam, on the Des Plaines River, is situated roughly 15 miles downstream from an existing electric-fencing system in the 100-foot-wide Chicago Sanitary and Ship Canal. The nonlethal fences are meant to prevent Asian carp from entering the

tributaries of the Chicago Area Waterway System and making their way about 37 miles upstream to Lake Michigan.

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—Associated Press

SPORTS

GOLF

Rory McIlroy's Quest to Be Great Again

The 28-year-old appeared poised to dominate golf, but lately, it feels like something is missing

BY BRIAN COSTA

WHAT CONSTITUTES a slump for Rory McIlroy would make an enviable career for most golfers. Since winning his fourth major title three years ago, his misery has included seven world-wide victories, a FedEx Cup title and being part of a winning Ryder Cup team.

But for a player who not long ago appeared poised to dominate the game for years to come, it feels like something is missing.

"Three years has been too long," McIlroy said after the British Open last month.

It isn't an unheard of gap for an all-time great player. But McIlroy's major drought, if it can be called that, will come into sharper focus at this week's PGA Championship for a couple reasons.

For one thing, the venue would seem to suit him perfectly. Quail Hollow, located in Charlotte, N.C., is the site of two of McIlroy's 13 wins on the PGA Tour. He hasn't just won there. He owns the course records, both for lowest single-round score and lowest 72-hole total, both of which he set in 2015.

On the other hand, Jordan Spieth comes off his win at Royal Birkdale last month needing only a PGA victory this week to achieve something that McIlroy has been on the cusp of since 2015: the career grand slam.

The potential outcomes are both dramatically divergent and equally plausible.

McIlroy could become, at age 28, only the 20th men's golfer in history to win five or more major titles. He could also watch Spieth, at age 24, surpass him as the pre-eminent player of their generation.

McIlroy's impatience with the status quo was evident last week when he fired his longtime caddie, J.P. Fitzgerald. One of McIlroy's old friends, Harry Diamond, is carrying his bag for now.

CBS golf analyst Dottie Pepper said the move could prompt McIlroy to take more responsibility for his play.

"It puts yourself on notice: 'It's time for me to take ownership of what I've got here,'" she said. "I think it's a positive thing."

This scenario seemed far-fetched when McIlroy won the



Rory McIlroy is seeking a career grand slam—and his first major championship in three years.

PGA Championship at Valhalla in 2014, when Spieth was just a rookie. The labels he earned that summer—best in the world, the next Tiger Woods—didn't come from him. But he thought about them all the same.

What has unfolded since then is less an indictment of McIlroy than an indication of the state of modern golf. The margins between the best players in the world have become so thin, and the list of viable contenders at majors so long, that it has become nearly impossible for one to separate from the rest for very long.

McIlroy pointed to a range of factors that have clouded the picture at the top of the sport, among them advances in equipment technology and analytics that help players understand their own games better than ever. The effect is that the McIlroy Era became the Spieth Era, which became the Ja-

son Day Era, which became the Dustin Johnson Era. It is all just an extension of the Who-Won-Last-Week Era.

"There's so many good players now," said Brooks Koepka, who won the U.S. Open in June. "Even in the college level, even the guys that are coming up, I mean, some of them are going to win majors. You just know it."

But even if no golfer can dominate for very long these days, there is still a pecking order, and no measure determines it more than majors won.

Early success has given McIlroy the luxury of patience, and he retains it in abundance. After finishing tied for fourth at the British Open, he said he still has another 15 or 20 years to add to his total.

"You look at Jack Nicklaus, he went through a stretch where he didn't win a major in three years," McIlroy said. But once Nicklaus

won his first major, it wasn't until he reached his early 40s that he went that long without winning a major. And while golf offers the promise of greater longevity than other sports, most players who win several majors do so in a more condensed period than one might think.

The major championship window for players who have won five or more of them is, on average, around 13 years. McIlroy is only seven years into his, which started with his win at the 2011 U.S. Open.

But even he has suggested that the physical toll of the modern swing is likely to result in reduced longevity for players in his generation. And McIlroy has felt that toll already. His schedule this year has been curtailed by a nagging rib injury.

McIlroy's prime may yet be a long way from over. And there are outside factors besides the in-

jury he has had to deal with. He only recently signed an equipment deal with TaylorMade, following months of experimenting with different clubs after Nike's exit from the equipment business last summer.

But even players of his stature only have so many chances to win majors, and it is hard to imagine one setting up more favorably for McIlroy than this one.

Though Quail Hollow has undergone some renovations ahead of the PGA Championship, it still figures to reward McIlroy's greatest strength—his power off the tee—more than most major venues.

"It is a power golf course," six-time major winner Nick Faldo said. "We're all looking at, 'Is it going to be a real power player that wins? Is it going to be one of the top-10 longest drivers?' That's what we've seen in the past when Rory won."

CYCLING

HORRIFIC RIO CRASH IS A DISTANT MEMORY

BY JOSHUA ROBINSON

Marseille, France

ANNEMIEK VAN VLEUTEN missed the part of the Rio Olympics when everyone thought she was dead.

Even her own mother feared the worst when the Dutch cyclist flipped over her handlebars and landed on her neck during the women's road race last year. Her teammates, too, knew she was in trouble after they sailed by her crumpled body in the road. Everyone's ugliest fears about racing down the treacherous descent off Vista Chinesa had been confirmed with one gruesome slip.

In the year since her accident, Annemiek van

Vleuten's career has taken a therapeutic turn.

When van Vleuten opened her eyes in a Brazilian recovery room, her friends and family all told her how insanely lucky she'd been to survive. Except van Vleuten's memories of overcooking that corner were blank. All she knew was that her head hurt, her back hurt, and that she wasn't relieved in the slightest.

"They were so happy that I was still alive," van Vleuten, 34, said in Marseille. "But I only woke up in hospital like, 'Shit, I lost the gold medal.'"

She had blown up her rivals on the climb and was leading solo just 7 miles from the finish line in Copacabana. Olympic gold was right there. Her regrets over that race lasted far longer than her injuries.

But in the year since she was peeled off the road, her career took a sudden, therapeutic turn: Van Vleuten started winning.

A month after the crash, having

recovered from a severe concussion and three broken vertebrae, she wasn't just back on the bike, she was on the top step of the podium at the Lotto Belgium Tour. As she continued her transformation into one of the world's top climbers—a process she and her coach undertook in the year before the Olympics—she attacked the hardest races the calendar had to offer in 2017.

She finished third at the women's Giro d'Italia only due to a tactical error. Then in July, she won the two-stage women's race hosted by the Tour de France with a blistering climb up the Col d'Izoard in the Alps and a perfect time-trial in Marseille.

"I don't know what would have happened had she won in Rio, but there's a hunger there," because of the crash, said Gene Bates, van Vleuten's coach on the Orica-Scott team. "It certainly kicked on her career."

Pro cyclists are no strangers to crashing. Scars and gashes on elbows, knees and collar bones are as much a part of the kit as padded shorts. It all comes with the territory in a sport that pushes inch-wide bike tires to the limits of grip and throws lightweight machines on narrow roads and hairpin curves at more than 25 miles an hour.

A year before Rio, van Vleuten was hit by a car during training, suffering a broken collarbone and broken ribs, and called her mother like it was no big deal. And, 24 hours before her Olympic race, she had been reminded of how dangerous the Vista Chinesa descent was when she watched Italian Vincenzo Nibali wipe out in the leading group of the men's event.

None of that made sitting in a Brazilian hospital any easier. Due to the concussion, van Vleuten couldn't use her phone or her laptop or even watch television. There were no distractions from the single thought eating away at her. "I'd wake up in the morning with a stone in my stomach thinking, 'Why did I mis-



Annemiek van Vleuten was leading the Olympic road race before she crashed.

judge that corner?" she said. "I was so near to something so big in my life, in my career, and I just made a stupid mistake. Why? What if? But also, that's not helpful."

Van Vleuten escaped Brazil as soon as she felt well enough to fly. And a week later she was back on two wheels: a town bike with tall handlebars that she could putter around on to cafes without worrying about power-to-weight ratios or mountain gearing. She started with half an hour. Then an hour. In mid-August, she posted a Strava file that showed she'd completed a 1.5-hour ride covering 14 miles.

For a pro racer, that barely counts as moving. For a pro racer making a comeback, it was something to believe in.

But soon, she found she needed to escape the Netherlands as well. Van Vleuten simply couldn't keep talking about the crash. So she and her mother flew to Livigno, a town in the Italian Alps where van Vleuten loved to train. This time, it would be strictly a vacation—at least initially.

The plan before the Olympics

had been to make the rare move of turning her into a climber, midcareer. Van Vleuten and her coach built her schedule around altitude camps. She quit her gym training to drop upper-body weight—some pure climbers are so neurotic about keeping down their muscle mass they won't even lift heavy groceries.

Without Olympic gold, van Vleuten worried she'd have nothing to show for all of her uphill toil. In Italy, however, she made a discovery: her form had survived the crash. She broke out her racing bike for the first time in weeks and the vacation morphed into a training camp.

"I thought oh my God I still have my Rio shape," she said.

The climbing legs were still there. Now she and her coach needed to know if her head was, too. She linked up with the second-tier Nippo-Vini Fantini men's team for training rides. She relocated to the volcanic slopes of Sicily. Only one question remained: Was she brave enough to start descending again?

"It was something we knew would be problematic," Bates said.

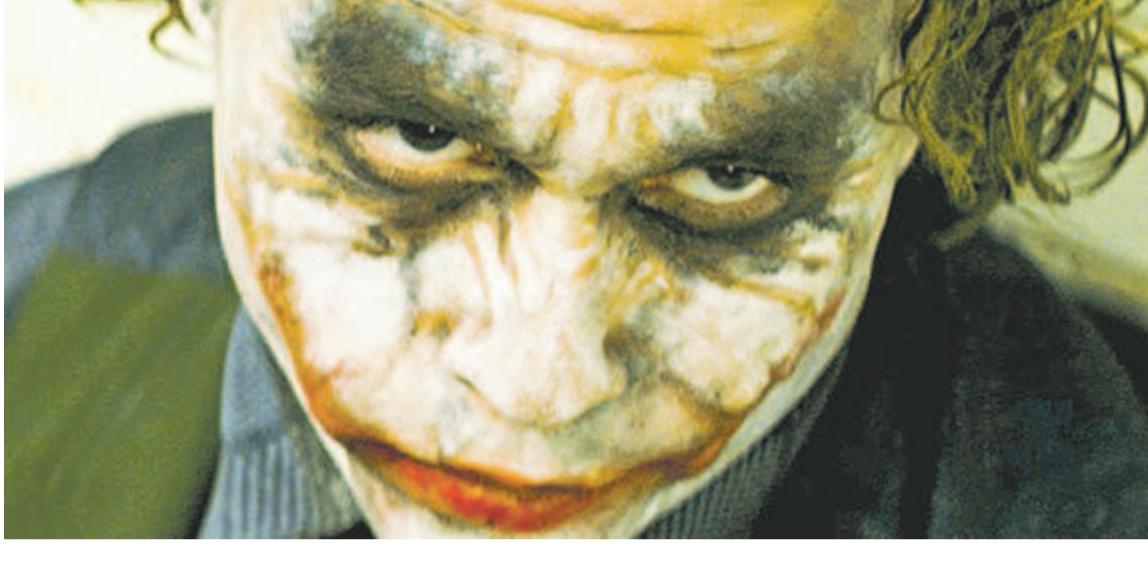
"The worst thing we could have done was throw her down a dangerous descent in the wet again."

The courage came through sheer repetition. Descent after descent, each time with a slightly more aggressive line around the corners. Months behind schedule, she could finally resume her mission to become a dominant force in the mountains.

Nothing made that clearer than her performance in France last month. She shot up the Izoard almost as fast as Warren Barguil, the top male climber in the Tour de France, and destroyed the women's field. Eleven months after the Olympics, she hit the summit and celebrated a pure climber's victory. This time, there was no descent on the other side.

"A lot of people think I don't want to talk about Rio. But actually, I'm super proud of what I did in Rio," van Vleuten said. "It's sometimes hard when [TV shows] introduce me and they only show the crash. Then I'm a bit sad. Come on, also show how strong I was uphill."

LIFE & ARTS



FILM

Creating a Villain We Love to Hate

What goes into creating a Hollywood antihero who rivets—and terrifies—audiences? Some actors are naturals at playing scary parts

BY ELLEN GAMERMAN

WILL POULTER IS emerging as a powerful new villain in the movie, "Detroit," with critics latching onto not only his performance but his face, an unnerving mix of impishness and evil.

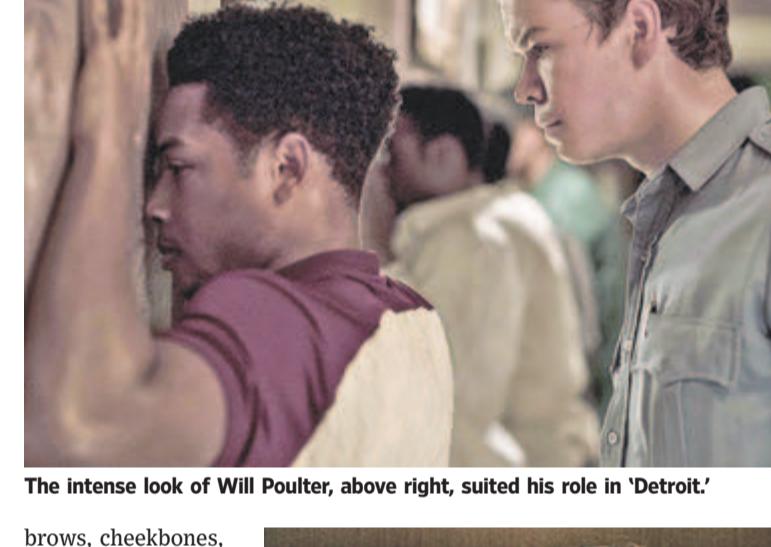
What goes into building a screen villain who terrifies at first sight?

Thanks to digital effects, filmmakers have more tools than ever to heighten an actor's air of menace. At the same time, neuroscientists are pushing to understand how fear is processed and threat is conveyed in facial expressions. Still, in the business of looking sinister on screen, success often comes down to one plain truth: You either have it or you don't.

"He's the only one who really scared the guys at the read-through," casting director Victoria Thomas said of Mr. Poulter's "Detroit" audition. Reading the role of a white police officer who terrorizes black civilians at a motel during that city's 1967 riot, the young British performer unnerved the cast more than any other actor. "Just his presence and demeanor scared the guys. He wasn't trying outwardly to scare them, he wasn't yelling, he just was."

Mr. Poulter, whose career launched with help from his goofy role in the comedy "We're the Millers," is aware of his intense look. Discussing his performance in the 2015 film "The Revenant," he told the Times of London how "there is something inherently strange about me," adding that director Alejandro Iñárritu described it as the "interior baggage in my eyes."

Filmmakers have long used makeup and lighting to dial up the intensity of a villain's face. "There's a lot of power in the 45-degree angle," said movie makeup artist Joel Harlow, calling eye-



The intense look of Will Poulter, above right, suited his role in 'Detroit.'

brows, cheekbones, jawbones, ears and hair instantly more menacing at that slant because they evoke the expression of an animal predator. "That speaks to us on a primal level," he said.

The arched eyebrows of villains have been compared to those of dead and decaying bodies, an effect central to creating unease particularly in the horror genre. "Through the natural atrophy of the forehead and the skin along the face that accompanies decay and death, the middle part of the eyebrows gets tugged downwards, and the skin along the temples stretches," said Steven Schlozman, an assistant professor of psychiatry at Harvard Medical School who teaches an undergraduate course on horror stories.

Often, he said, it's the conflict-



ing traits that spook audiences the most. "Scary faces play a lot with what Freud and others called the uncanny, this idea where something is familiar but just a little bit off," Dr. Schlozman said. "It's just off enough to make you do a double take."

Judging by Cade Jones and his older brother Blake, looks go a long way in determining whether an actor portrays a friend or foe. Cade, 15, who is shorter and stockier than his sibling, played a bully in the

Netflix science-fiction series "Stranger Things." He has gotten calls to audition for bullies ever since he hit Billy Crystal in the crotch with a baseball bat in the 2012 movie "Parental Guidance." Blake, 19, who is lanky with the easy bearing of a jester, played a young Chesley "Sully" Sullenberger in the 2016 movie "Sully"—a pilot hero portrayed as an adult by the ultimate good guy, Tom Hanks.

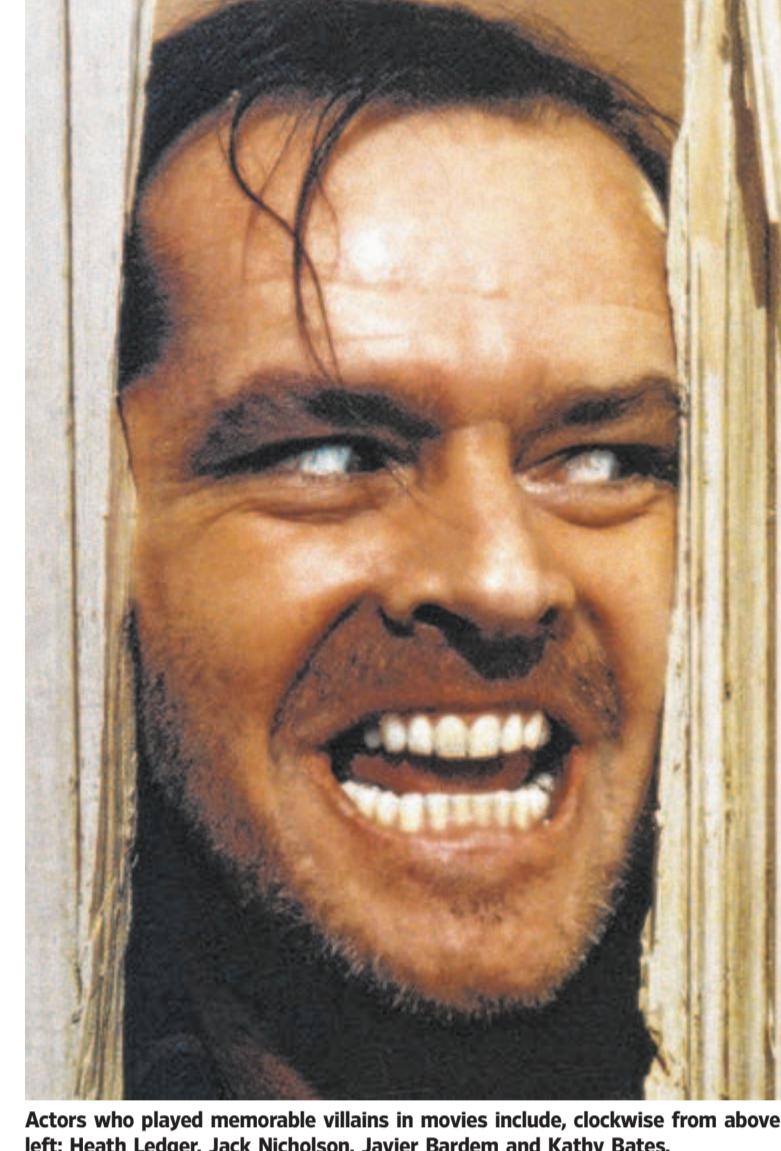
Blake has actually auditioned for quite a few bully roles, and when he walks in the room, people are like, "No." He just can't go there—his aura is completely different," said Julie Jones, the actors' mother. She understands why Cade gets the villains. "He's given his mom some looks—I know it's in there," she said. "It's usually when I ask him to stop playing videogames."

In "Get Out," a psychological thriller set around a black man's visit to his white girlfriend's fam-

ily, cinematographer Toby Oliver at first filmed the father, played by Bradley Whitford, with the golden light reserved for protagonists. When viewers finally learn the truth about that character, Mr. Oliver shoots the actor's face from below, making his eye sockets look like caves and his features appear more jagged. A reflection of flames from a fireplace flickers in Mr. Whitford's glasses. "It starts putting him in a very menacing visual space," Mr. Oliver said.

Bad guys often have less screen time to establish their back stories than heroes, making it more challenging to convey their complexity. Tobin Bell, who plays the villain in the "Saw" movies, which return in October with "Jigsaw," looks for the logic in his character's actions and searches for what makes him human. "He's someone who was a child once and had a mother who loved him, the same as all of us," Mr. Bell said. "It's just that his path led him down a different life."

Some actors can draw on special talents. After director Andy Muschietti cast Bill Skarsgård as the villain in "IT," the Stephen King horror movie out next month, he told the actor that he wanted to digitally add a wandering eye to his face in post-production. "He goes, 'Uh, I can do it,'" Mr. Muschietti said, recalling how Mr. Skarsgård then turned one eye outward on the spot. "What are the odds that the one you pick for a role can do that?"



Actors who played memorable villains in movies include, clockwise from above left: Heath Ledger, Jack Nicholson, Javier Bardem and Kathy Bates.



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In "Get Out," a psychological thriller set around a black man's visit to his white girlfriend's fam-

MUSIC

IN SEARCH OF A NEW LEAD SINGER?

BY ERIC R. DANTON

WHEN THE PIXIES were looking for a bass player 30 years ago, the alt-rock band put a classified ad in a Boston newspaper seeking a woman who liked both the band Hüsker Dü and folk trio Peter, Paul and Mary. These days, the Pixies might have turned to Treble instead.

Treble is a new app that connects songwriters, rappers, singers, musicians, producers and other potential collaborators. Participants post and peruse profiles on the app and get together for one-off jobs or longer-term work. Treble users can sift through musicians' profiles, hear samples of their work and post opportunities on a bulletin board. Treble was released on Apple's app store this month, following a test phase that began in December.

Brooklyn singer Christa Williamson connected there with a producer to make beats for an EP she's working on. Ms. Williamson, who is 21 years old, also is using Treble to find a bassist and guitarist to play with her in the studio. A rapper she met at a Treble



mixer invited her to sing on one of his tracks. "It's legit. People actually care to connect," she said.

Not every musician is inclined to comb cyberspace for collaborators. Katie Von Schleicher, 30, a Brooklyn musician who just released her second album, prefers finding them the old-fashioned way. "What's beautiful, at least if

you're based in New York, is that you simply have to go talk to someone at a show," Ms. Von Schleicher said.

While the Beyoncé and Coldplay of the world are unlikely to use the app, Treble sees potential among aspiring musicians who aren't necessarily destined for superstardom. "They might never

win a Grammy or have a platinum record, but they're incredibly passionate about what they do," says Matt Bond, Treble's 25-year-old chief executive.

Mr. Bond had the idea for Treble when he was a student at New York University. At the time, he was an aspiring rapper and was having trouble finding producers with whom to work. "There's technology to connect people for so many other purposes, but there was no platform to connect artists and musicians," said Mr. Bond, who graduated in 2014.

After working in advertising, he quit in 2015 to develop Treble with two friends and help from 30 Weeks, a start-up incubator that Google ran for designers. He declined to say how much it has cost to develop Treble so far.

The company has been sustained by corporate-sponsorship deals and ticket sales for special events, along with cash from outside investors as well as Mr. Bond's savings and "bar mitzvah money."

Since last year's soft launch, Treble has assembled about 1,500 users, who all had to apply.

"We wanted to manually cultivate the right community and culture," Mr. Bond says. When the company makes its platform widely available through Apple, anyone with an iPhone will be able to create a profile, free. A web-based version will follow in the fall. Treble likely will add a premium tier along with some kind of advertisements.

Though Treble bills itself as a platform for any music maker, it is proving very popular with rappers and electronic musicians. "There's a constant need to find new people to work with" in those genres, Mr. Bond says.

Chicago rapper Taylor Bennett found a whole band on Treble to play on his song "New York Nights."

"It's kind of like a Tinder for musicians," said Mr. Bennett, 21, referring to the dating app with tens of millions of users.

While Mr. Bennett knows plenty of musicians—his older brother is Chance the Rapper—he says Treble is perfect for "those times when you're like, 'Oh, my God, I need strings on this, and I don't know anybody who plays violin.'"

OPINION

REVIEW & OUTLOOK

European Border Confusion

Europeans heading off on their August vacations face a new headache on top of cramped seats, baggage fees and liquid limits at airport security: hourslong immigration lines. This is evidence that new counterterrorism measures are working, although pardon Europeans if they wish the implementation was better.

Long airport queues have resulted from stricter checks of the passports of European Union citizens leaving and returning to the Schengen zone of countries that have eliminated internal border controls. Until recently, governments were discouraged from conducting thorough checks of EU citizens, so Europeans for the most part could simply show their passports to border guards who would wave them through. Now governments are supposed to scan each passport of EU nationals exiting or entering the bloc, to check against a shared EU database of terrorist suspects.

Civil libertarians objected to the new rule when it was approved in March, after a debate that began after the November 2015 terror attack in Paris. But it was irresponsible not to apply the same sort of border check already used in the U.S. and other free countries. Hundreds of European citizens have traveled to the Middle East in recent years, European passports in hand, to fight with Islamic State. They pose a serious threat when they return.

New passport checks can boost public confidence, if they're applied well.

The EU database against which passports must now be checked isn't a failsafe. It's only as good as the intelligence adding names to the watchlist. But it's useless if EU member governments don't fully exploit it at the borders.

A more legitimate grievance is that some governments are bad at performing the checks. The new rule was under discussion long before it took effect in April, but authorities at some popular destinations, including France, Italy and Spain appear to have been caught off guard by the requirements heading into the predictably busy summer season. Tourists and business travelers are stuck in long lines due to outdated technology and understaffed immigration posts.

This is a new political challenge for the Schengen zone. European citizens doubted that their governments could keep them safe without national border checks between EU countries. Now they have to wonder whether EU countries can implement common-sense security measures at the external border without bureaucratic failures triggering frustration and missed flights.

The ability for people and goods to travel seamlessly from Portugal to Poland is one of modern Europe's greatest achievements. Governments have belatedly adopted security rules that can boost public confidence in this system. They need to show they can implement those rules with a modicum of competence.



MAIN STREET
By William McGurn

When Pope Francis wants to make the objects of his disfavor feel his sting, he's never lacked for words—especially when it involves the U.S.

But when it comes to the brutality of Venezuela's government against its own people, Pope Francis and the Vatican have mostly avoided calling out Nicolás Maduro by name.

Until Friday, that is. That's when a popular uprising in Venezuela finally pushed the Vatican to oppose the regime's bid to tighten its grip by imposing an illegitimate superassembly to rewrite the constitution.

Even this late in the day, the Vatican's expression of "profound concern" is better than nothing. Particularly welcome is Rome's call for Mr. Maduro to "suspend" the new assembly. Still, it's hard not to notice that in sharp contrast to Venezuela's bishops—who recently tweeted a prayer to "free our homeland from the claws of communism and socialism"—even the toughest Vatican statement on Venezuela has all the zing of a World Bank communiqué calling for more resources for a clean-water project in Moldova.

How different the tone is when the subject is Donald Trump or Uncle Sam. Whether suggesting that Mr. Trump is not Christian, warning on Mr. Trump's inaugural day that populism can lead to Hitler, or implying that America's economy is one that "kills," Pope Francis has an ardent of displeasure all his own.

Its absence here is particularly striking. Because for an example of a populism that leads to totalitarianism or an economy that kills, it's hard to beat oil- and mineral-rich Venezuela, whose citizens have now been reduced to picking through garbage cans while their leaders ratchet up the repression. Not to mention Cuba's military-socialist colonialism.

As for the bishops, good ones are not given to criticizing their pope publicly, and Venezuela's are no exception. But they may be speaking more frankly in private. In a June 11 article headlined "Stop being soft on our despot, Venezuela's bishops tell Francis," the Economist reported on a meeting six bishops forced onto Francis' schedule when they flew to Rome in June—uninvited.

Two months earlier, the bishops put it this way: "We have to defend our rights and the rights of others. It's time to very seriously, and responsibly, ask if civil disobedience, peaceful demonstrations, appeals to the national and international public power, and civic protest, are valid and opportune measures."

Defenders of the Francis approach have been assuring everyone the pope's reluctance to speak forthrightly against the regime, and his preference for talk-

ing about "both sides" as if they are morally equal, is part of a larger plan. In particular they claim that those criticizing the pope for his silence were playing into Mr. Maduro's hands, given how the Venezuelan strongman likes to chide his country's bishops for impeding the "dialogue" he and Francis have called for.

The events of the past week have shattered any silly pretense about some master Vatican plan. But the roots of Pope Francis' misreadings run deeper than Venezuela. In some ways, it is but the latest reflection of a historic misunderstanding that has often led a poor and Catholic Latin America to blame its wealthy and Protestant neighbor to the north for all its woes.

The first Latin American pontiff is harder on Trump than on Caracas's despot.

Just last month, for example, Pope Francis fed this trope by accusing the U.S. of having a "distorted view of the world." At nearly the same time, a semi-official Jesuit-run Vatican journal carried an article decrying an alliance between American Catholics and evangelical Protestants as an "ecumenism of hate." On top of it all rests the old idea, still popular on the religious left, that socialism represents the Gospel ideal.

The Acton Institute's Samuel Gregg was probably closer to the mark when he recently put it this way: "Venezuela's crisis doesn't fit into Pope Francis's standard way of explaining contemporary political and economic problems. It's very hard for the pope to blame Venezuela's problems on the tyranny of Mammon, financial speculation, free trade agreements, arms-dealers, nefarious 'neoliberals,' or any of his usual list of suspects."

The ironies here are legion. In the latter half of the 20th century, Latin American liberation theologians posited a "people's church" pitted against a "formal church" whose hierarchy was aligned to the military dictatorships that prevailed in much of the continent. Before he was elected pope, Jorge Mario Bergoglio faced precisely this claim in the accusation that he didn't adequately criticize the military regime that ruled his native Argentina during his time as the head of its Jesuit community.

Today Catholic priests and bishops are courageously defying a Venezuelan regime that has hijacked what was once the richest nation in Latin America and driven it to poverty and despotism. At this dark hour, don't the struggling people of Venezuela deserve some public inspiration from the first Latin American pope?

Write to mcgurn@wsj.com.

LETTERS TO THE EDITOR

Unchecked Climate Change Will Lead to War

In "Climate Change Isn't the End of the World" (op-ed, Aug. 1), David Henderson and John Cochrane argue that climate-change policy should follow careful economic analysis.

Already counted in the hundreds of thousands of deaths a year are those associated with crop failures and food scarcity, heat waves and forced relocation. The several-year East African drought may be a harbinger of what's to come. Malaria, Zika and dengue, among other diseases, spread as a warmer climate extends the range mosquitoes travel.

The authors' analysis neglects environmental damage and ecosystem disruption that enters a spiraling feedback loop. Even if you don't believe that humans have a responsibility to be stewards of the earth, certainly the damage to systems that support human life should be factored into the equation.

PAUL SUSMAN
Lewisburg, Pa.

War, disease and chaos are exactly the stresses that will be caused by unchecked climate change. Environmental degradation caused by climate change will drive food shortages and migrations. Even U.S. Defense Secretary James Mattis stated in his congressional testimony that "climate change is impacting stability in areas of the world where our troops are operating today."

STEPHANIE DOBA
Brooklyn, N.Y.

To assert that carbon dioxide "hurts nobody's health" is ignorant. Humans exhale carbon dioxide as a waste product. CO₂ is linked to myriad health ailments, including respiratory conditions. As a greenhouse gas, carbon dioxide also traps heat in the atmosphere, which contributes to the rising sea level and disrupts weather patterns.

TED MILLAR
Milton, N.Y.

Billions of years of evolution have created a perfectly balanced ecosystem that sustains life as we know it. Extracting and burning fossil fuel, along with deforestation, disrupts that critical balance.

LISA HARRISON
New York

Examining data over the past 21 centuries we see that sometimes we have experienced more-than-average warming and sometimes more-than-average cooling. That fact makes me suspect that eliminating activities that generate CO₂ won't do away with climate change.

There is a lot of uncertainty regarding the benefits of fighting climate change, but there is more certainty about the costs. Proponents of the Paris agreement estimate that full compliance would reduce the global temperature by 0.17 degrees Celsius by 2100, but that's hardly worth the cost. There is no use being Don Quixotes fighting windmills.

TICO MORENO
Sanibel Island, Fla.

CORRECTION

The Hindu sage Yajnavalkya lived in the eighth century B.C. Due to an editing error, the Aug. 7 article "The Holy Cows That Weren't" misstated the date.

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Money for Marrow, Finally

Arya Majumder would have celebrated his 19th birthday last month. Instead he died of cancer in 2010, his condition exacerbated by a scarcity of bone-marrow donors. Arya's father later recounted how the loss of his only child "took away my very heart and soul, and triggered the collapse of my 23-year-old marriage."

Other families may be spared the same life-upending sorrow because last week the Department of Health and Human Services withdrew a proposed Obama-era regulation that would have prohibited compensation for bone-marrow donation. About 11,000 ailing Americans are currently searching the national marrow registry, hoping to find a compatible donor. This year at least 3,000 people will die waiting for a transplant. Others, like Arya, must settle for an inexact match, which can cause lifelong health complications or prove fatal.

The odds of finding a stranger with matching marrow markers can be especially daunting for patients of color. One example: 10-year-old Texas girl Gabi Ornelas, diagnosed with acute lymphoblastic leukemia in 2015, urgently needs a marrow transplant but hasn't found a match because there are too few Hispanic donors.

The bitter irony is that it's easier than ever to be a donor. Apheresis, a medical breakthrough from the mid-1980s, transformed most marrow extraction into an outpatient procedure. Donors receive a series of injections to boost blood-forming cells, which are then harvested through a six-hour process that's much like giving plasma.

Apheresis is not pleasant—the injections can cause flu-like symptoms, and it usually

An Obama rule that literally kills people gets the ax.

takes about a week to fully recover. But the process, now used in 70% of donations, sure beats the old needle-through-bone method.

Still, merely 2% of the American population has opted into the registry, and only half of those are ready to donate at any given moment.

Compensation could dramatically boost the number bone marrow. Nonprofit or third-party involvement could mitigate ethical concerns, refereeing to make sure neither the buyer or seller is exploited, and remuneration could come in the form of a perk, like a scholarship or paid month's rent, or cash.

Federal policy has long trailed medical progress. The 1984 National Organ Transplant Act prohibited payment for organ donors, and bone marrow was included, though it regenerates like blood, eggs or plasma. Represented by the Institute for Justice in 2012, the mother of three girls suffering from a condition known as Fanconi anemia, which often impairs bone-marrow function, won a lawsuit against the federal government to allow compensation.

But the Obama Administration then wrote new rules to recriminalize payment for marrow, and HHS sat on the pending regulation for four years, leaving sick patients and their families in limbo. The regulatory uncertainty deflated the interest of entrepreneurs seeking to invest in much-needed marrow-supply services, as well as of top-tier researchers who wanted to study the effectiveness of compensation.

This regulatory reversal will literally save lives. But the Majumder and Ornelas families would be justified in asking the federal government what took so long.

OPINION

Mueller Can Avoid an Iran-Contra Repeat

By C. Boyden Gray

Will Special Counsel Robert Mueller's investigation morph into an open-ended inquisition? Independent and special-counsel investigations of the executive branch since Watergate often have. Mr. Mueller's recently reported impaneling of a grand jury in Washington doesn't guarantee that it will happen again, or even that anyone will be indicted. But it seems that the investigation is moving beyond questions of campaign collusion with Russia.

He should proceed quickly to get the facts out. So should congressional investigators.

There has been a Russia investigation under way for more than a year, with no indication yet of a collusion crime, notwithstanding the leakiest period in presidential history. This isn't to deny that the Russians have meddled in U.S. elections. Nor is it to say that persons associated with the Trump campaign mightn't possibly have committed offenses unrelated to collusion that merit prosecution. Such investigations may be beyond Mr. Mueller's core jurisdiction, but the wording of his assignment lets him roam far beyond collusion issues.

As a practical matter, there is no firm, clear limit to the resources or time that can be devoted to special-

counsel investigations. Nor is there an obvious limit on their scope.

As Attorney General (later Justice) Robert Jackson observed in 1940, the prosecutor's "most dangerous power" is "that he will pick people that he thinks he should get, rather than cases that need to be prosecuted. With the law books filled with a great assortment of crimes, a prosecutor stands a fair chance of finding at least a technical violation of some act on the part of almost anyone." Willie Stark—seeking dirt on a political opponent—explained this truth succinctly in Robert Penn Warren's "All the King's Men": "Man is conceived in sin and born in corruption. . . . There is always something."

The Iran-Contra independent counsel investigation (1986-93), authorized under a now-expired post-Watergate statute, illustrates the point. Despite nearly seven years of distracting inquiries sustained by unlimited budgets—and unfair political effects and leaks—no one was convicted or even indicted for any action pertaining to Iran or the Contras. The law barring certain funding for the Contras in Nicaragua, the Boland Amendment, was an appropriations provision, containing no civil or criminal penalties.

That didn't matter. The independent counsel obtained a series of peripheral convictions, mostly for obstructing Congress's Iran-Contra investigation in various ways. The investigation didn't end until after President George H.W. Bush pardoned former Defense Secretary Caspar Weinberger—a vigorous *opponent* of the Iran-Contra transactions—for alleged offenses relating to

offenses unrelated to collusion that merit prosecution. Such investigations may be beyond Mr. Mueller's core jurisdiction, but the wording of his assignment lets him roam far beyond collusion issues.

As a practical matter, there is no firm, clear limit to the resources or



ASSOCIATED PRESS

Robert Mueller testifies on Capitol Hill in 2013 when he was the director of the FBI.

diary and meeting notes that he had not produced to investigators.

The independent-counsel statute plagued presidents of both parties and expired unceremoniously in 1999, a few months after Bill Clinton's impeachment trial. But Justice Department regulations still provide for the authorization of special counsels like Mr. Mueller.

Will history repeat itself? Deputy Attorney General Rod Rosenstein, who appointed Mr. Mueller, told "Fox News Sunday" this past weekend that "Bob Mueller understands and I understand the specific scope of the investigation and so, it's not a fishing expedition."

But Mr. Rosenstein's order appointing Mr. Mueller is somewhat mixed. It authorizes Mr. Mueller to investigate not only "any links and/or coordination" between Trump campaign associates and the Russian

government, but also "any matters that arose or may arise directly from the investigation."

President Trump has understandable grounds for concern that the probe will drag on. But the best solution isn't to dismiss Mr. Mueller. It is for all responsible parties to get the facts out speedily. That includes the congressional committees investigating the matter, which are under no obligation to lag the Mueller inquiry. Any valid prosecutions should also proceed quickly.

So far the publicly available evidence doesn't paint a picture of a conspiracy to collude with Russia. That includes the infamous June 2016 meeting between campaign principals and various Russian nationals at Trump Tower. The meeting—and an ill-considered email chain preceding it, involving Donald Trump Jr. and others—was unwise.

But there doesn't seem to have been any follow-up.

It bears repeating that not every interaction between campaign personnel and foreign nationals or governments is unlawful or even inappropriate. U.S. law is more complicated.

Various forms of foreign involvement in American elections are prohibited. Most prominently, U.S. law forbids campaign donations in U.S. elections by foreign governments and nonresident aliens. And the Foreign Agents Registration Act, among other statutes, imposes criminally enforceable disclosure requirements on agents of foreign governments who attempt to influence public opinion, policy and law.

Yet the Foreign Agents Registration Act isn't the Foreign Agents Prohibition Act. U.S. law allows foreign agents significant freedom to advocate and even to lobby. Saudi Arabia and Qatar are prime examples. More prosaically, foreign nationals and governments often participate in agency rule makings, which can have campaign impact.

To prevent a never-ending replay of Iran-Contra, it will be essential to flush out the Russia facts, in a disciplined way, as soon as possible. No statements should be made or actions taken that could be construed as undermining the investigations. Equally important, the investigators must proceed promptly and evenhandedly. Within their proper mandates, investigators ought to review questions about potentially troubling behavior by Democrats during the 2016 campaign, too.

Mr. Gray served as counsel to the vice president (1981-89) and White House counsel (1989-93).

Iran Is Using Syria to Advance Toward the Mediterranean

By Naftali Bennett

Hezbollah announced last month that it had captured the Syrian-Lebanese border area of Juroud Arsal from Islamic State forces. Far from being a minor development, this marks another Iranian success in its quest for power and dominance across the Middle East.

Since its 1979 revolution, Iran has sought to become a dominant world power capable of imposing Islamic rule on as many people as possible. The Iranian regime finances and supports armed militias in other countries and is the world's top exporter of terror. Hundreds if not thousands of Americans have died at the hands of Iran's terrorist proxies.

An essential part of Tehran's strategy is to control a land corridor from Iran to the Mediterranean Sea. Under the cover of Syria's bloody

civil war, Hezbollah is helping to build such a highway. Trained and supported by Tehran, Hezbollah is classified as a terror group by the U.S., France and the Arab League, among others.

Its effort endangers the entire Western world. Controlling this corridor would directly connect Iran with its proxies in Syria and Lebanon, allowing it to transfer advanced weapons cheaply and quickly. The highway would let Iran build its military presence on the Mediterranean, bringing much of Europe into the range of its air force, navy and midrange missiles. Iran could even build arms factories outside its borders.

Iranian apologists frame Hezbollah's capture of the border area as a victory over Islamic State, as if the U.S.-led coalition ought to be cheering. Islamic State needs to be stopped, but Iran is a far greater problem in the long run. Tehran

shouldn't be mistaken for part of the solution.

As Syria disintegrated through civil war, Iran acted swiftly. It broke international law and forcefully expelled the Sunni population and replaced it with Shiites. This changed

Islamic State must be stopped, but Tehran is a far more menacing threat.

the local demography to support Tehran's planned land corridor through Syria and Iraq.

Iran also sent its generals to train Bashar Assad's troops. Hezbollah has effectively morphed from a terror group into a division of the Iranian army, working for Tehran not only in Lebanon and Syria, but also in Yemen and Iraq.

Western leaders mistaking Is-

lamic State as the most serious threat has allowed Iran to move forward and gain better position. The Iran nuclear deal in 2015 demonstrates Tehran's patience, as it temporarily slows the country's preparations to acquire nuclear weapons without stopping them over the long term.

I and others are concerned by the cease fire in southern Syria brokered by the U.S., Russia and Jordan last month. With American and allied forces present in the north, Iran has focused its efforts on the south. The hiatus from violence in that region only gives Tehran another piece of territory in its bid to build a highway to the coast.

It will take time and patience to stop Iran. The international community needs to defeat Tehran whenever its forces advance: in cyberspace, on the battlefields of Yemen and Iraq, and in advanced-weapons laboratories. This effort will be both

public and covert, economic and technological. If it results in direct military confrontation, Iran's foes must be ready to win there too.

Iran must be made to pay a price every day its soldiers remain on Syrian soil helping the Assad regime kill its own people. Tehran's leaders must know that every violation of the nuclear deal will trigger harsh sanctions. They cannot direct terror attacks in America, Asia and Europe and expect the world to ignore their actions.

There are many possible courses of action against Iran. Yet the free world—led by the U.S.—has yet to take the first and most important step: declaring that it cannot abide an Iranian empire from the Persian Gulf to the Mediterranean Sea.

Mr. Bennett is a member of Israel's Security Cabinet and a reserve major in the Israel Defense Forces' General Staff Reconnaissance Unit.

America's Immigration Anxieties, Then and Now

By Walter Russell Mead

It should come as no surprise that the Trump administration has endorsed the Raise Act, a bill by Sens. Tom Cotton and David Perdue to reduce the number of legal immigrants to the U.S. while giving greater priority to highly skilled workers. Immigration reform drove President Trump to victory in 2016, and he is unlikely to drop it now.

Yet immigration has been—and remains—a key to America's success. From colonial times, the country's ability to integrate newcomers has facilitated its economic and technological achievement. From Alexander Hamilton to Albert Einstein to Steve Jobs, immigrants and their children have enhanced American dynamism, challenged American insularity and played critical roles in developing American power.

But the public doesn't always support a welcoming immigration policy. In 1924 the Johnson-Reed Act reduced legal immigration from the Old World by about 80%. Not even Hitler's persecution of the Jews could persuade Americans to raise the quota.

Four factors turned the U.S. restrictionist in the 1920s. First, the numbers felt overwhelming. In 1910, almost 15% of American adults—three in every 20—were foreign-born.

Second, the immigrants arriving in the early 20th century were overwhelmingly from Eastern and Southern Europe, rather than the traditional source countries in Northern Europe and the British Isles. This wave of migrants was seen as culturally alien and thus a challenge to American values and coherence.

The native population's fears amplified racism and xenophobia. The Ku Klux Klan, largely crushed by federal counterterrorism policies in the 1870s, was revived into a restrictionist force that was anti-Semitic and anti-Catholic as well as antiblack.

Third, economic uncertainty was already high. The Industrial Revolution was disrupting society. Family farms, the foundation of middle-class prosperity and security for generations, were failing nationwide. Inequality was rising, incomes for many in the middle class were stagnant or falling, and the new economy was more volatile and offered

less security. Native-born rural Americans feared that immigrants would compete for jobs and depress wages, and that their political power would marginalize traditional American values and concerns.

Fourth, a small proportion of immigrants brought violent ideologies with them. Anarchist terrorists had attacked heads of state and political leaders around the world. Luigi Galleani, an Italian immigrant to the U.S., organized mainly other immigrants and inspired attacks—valorized as "propaganda of the deed"—against prominent people and institutions. His disciples were believed responsible for a 1920 Wall Street bombing that killed 38. Russia's Bolshevik Revolution also sparked fears that immigrants might carry the "bacillus" of communism.

Do these factors sound familiar? Immigration levels are at a historic high, the cultural gap between immigrants and the native population is wide, the economic outlook for many Americans is troubled, and a (very) small number of immigrants sympathize with horrific ideologies abroad.

A fifth and serious additional factor, not paralleled in the early 20th century, is the presence of millions

of illegal immigrants. As Mr. Trump understood, illegal immigration corrodes public sympathy for high levels of legal immigration.

Meanwhile, some of the classic arguments in favor of immigration may need to be re-examined. If automation will destroy millions of

Circumstances in the U.S. today resemble those in 1924, when Congress curtailed legal entry.

routine jobs in the next decade, how much unskilled labor does the U.S. require?

Nevertheless, America still needs immigrants. Their talent and dynamism are more vital than ever. If U.S. companies want to maintain their technological edge and profitability in a competitive world, they need skilled immigrant workers. Immigrants create jobs and industries, making the future brighter for all Americans, while paying into the country's hard-pressed social-insurance system.

Yet history suggests that when public opinion sours on immigration, policy eventually follows. Now that process may be under way. Public dissatisfaction with the relatively liberal immigration policies in place helped drive the 2016 election. The Raise Act is provocative, perhaps intentionally so.

But giving greater priority to highly skilled immigrants, while reducing total numbers, might secure the many benefits of a liberal immigration regime while reducing the political fallout. Properly designed, a new system might offer Silicon Valley and other employers better access to the specialized professionals they need, while also addressing the politically potent concerns of Mr. Trump's populist base.

America's ability to welcome and integrate immigrants remains one of its strengths, but history suggests that a dogmatic insistence on the current policy may well stoke an anti-immigrant backlash. It is more prudent to accommodate these concerns than to defy them.

Mr. Mead is a fellow at the Hudson Institute and a professor of foreign affairs at Bard College.

Notable & Quotable: Cuddling Against Trump

From "Why Professional Cuddling Is Booming Under Trump," Rolling Stone.com, Aug. 4:

As executive orders, cabinet appointments, abuse of power, protests and other signs of political unrest sweep the nation, there's a sense of unease brewing in many. They are turning to alternative forms of care to alleviate these fears. . . . A significant number of those seeking professional cuddling services have experienced abuse, and some see in Trump qualities that remind them of past trauma. . . .

For others, generalized anxiety and depression are heightened because of some of Trump's executive

orders. John, who declined to give his last name, originally sought out cuddling services after determining talk therapy and prescribed medications didn't fit his needs. A veteran who served in Iraq, John felt that a combination of his experiences and chemical makeup contributed to his mental health and that the inclusion of positive touch in his life was the most effective form of treatment. Since Trump took office, he noticed his stress levels creeping higher again. The day prior to the inauguration, John received a career-changing job offer. Days later, it was rescinded—the job was a government position and Trump's federal hiring freeze prevented the department

from moving forward with John's employment. Cuddling has been a way to help him cope.

Abhit Singh has worked past his initial cuddle shyness and engages in the spoon train. . . .

His mood fluctuates, he says, but for the most part, the start of 2017 is a lot harder for him, emotionally, than the end of 2016 because of the new administration.

"There's a lingering sadness but it's not like I'm still in the shock phase. I've gotten over that," Singh mentions. "If that triggered [me] attending an event, I didn't consciously think about it, but it could've been a perfect storm, [Trump] driving me subconsciously to attend this."

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EDITORIAL AND CORPORATE HEADQUARTERS:

1211 Avenue of the Americas, New York, N.Y. 10036

Telephone 1-800-DOWJONES

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LIFE & ARTS

MUSIC

Yo-Yo Ma's Plea to Save a Musical Barge

The cellist's plea to rescue this Louis Kahn-designed boat has drawn bids from Estonia, France, the U.K. and U.S.

BY BRENDA CRONIN

A MUSICAL BARGE with an architectural pedigree and the silhouette of a spaceship may have dodged a trip to the scrapyard.

The Point Counterpoint II, a 195-foot steel vessel designed by the award-winning architect Louis Kahn, has served since 1976 as a floating stage for the American Wind Symphony Orchestra.

Robert Boudreau, the symphony's maestro—and skipper of the Point Counterpoint II—recently turned 90 and is ready to relinquish his baton and the helm. His wife and first mate, Kathleen Boudreau, also is stepping down. With no successor in sight, things looked bleak for the Point Counterpoint II.

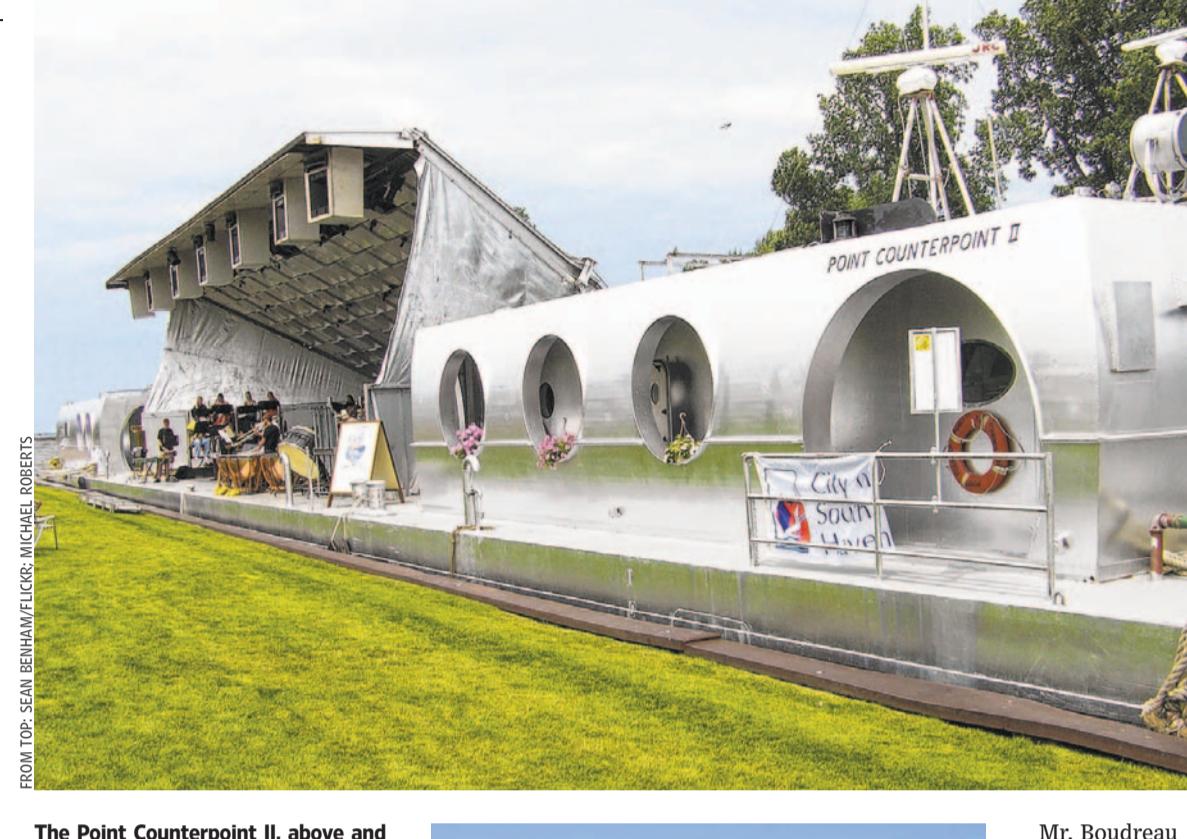
But last month, cellist Yo-Yo Ma wrote a plea for help in the New York Review of Books. Concerned that the Point Counterpoint II was in peril, Mr. Ma hailed the vessel as "a vibrant ambassador for our national unity."

Within days, inquiries from across America, France, the U.K. and elsewhere poured into the Pennsylvania farm that is both the Boudreaus' home on terra firma and the headquarters of the American Wind Symphony Orchestra.

Mr. Boudreau has heard from supporters in Mr. Kahn's birthplace, Estonia, and from the president of a French chateau and museum eager to dock the Point Counterpoint II along the Loire River for concerts on its open-air stage.

The new stewards of the Point Counterpoint II will face significant logistical hurdles, such as relocating the 1,600-ton vessel. The boat is in Ottawa, Ill., following the orchestra's swan-song tour this summer on the Great Lakes and the Illinois River.

"We don't have to worry about going to the scrapyard at this point," says Mr. Boudreau, who said that because relocating the barge is such a job, she is likely to end up in the U.S. Bids for the



FROM TOP: SEAN BENHAM/Flickr; MICHAEL ROBERTS

The Point Counterpoint II, above and at right, might have ended up in a scrapyard if Yo-Yo Ma hadn't stepped in.

Point Counterpoint II began at around \$3 million and have risen to \$4 million, he said.

Mr. Boudreau is sorting through inquiries from supporters in Philadelphia, where Mr. Kahn worked, as well as Charleston, S.C., and Washington, D.C. Last week, he traveled to Buffalo, N.Y., and Kingston, N.Y., to hear pitches to host Mr. Kahn's distinctive creation. Buffalo's reviving waterfront, architectural heritage and celebrated Philharmonic make it the perfect home for the Point Counterpoint II, said Newell Nussbaumer, founder and editor of the online magazine Buffalo Rising, and a force behind the campaign for the barge.



Kingston has a thriving waterfront and music scene, said the city's mayor, Steve Noble, with recent performers including Bob Dylan. "We do care a lot about this type of culture," Mayor Noble said. "And we want to see this type of architecture not be given to a scrapyard."

Mr. Boudreau would like the next owner to continue the kind of concerts he led with the American Wind Symphony Orchestra. A Juilliard-trained trumpet player, he established the "symphony orchestra minus the strings" in

1957. Benefactors sustained his idea of roving musical ambassadors performing world-wide. Every year, the Boudreaus auditioned young musicians from around the world and assembled about 45 of them, most in their early 20s, for tours. Aboard the Point Counterpoint II, the orchestra performed

along waterways in the U.S., Europe and the Caribbean.

Navigating can be "a little scary sometimes," says Mr. Boudreau, who has weathered more than 500,000 miles aboard the vessel. During a stop a few years ago in West Virginia, he recalls walking "through three feet of water just to get to the gangplank." Flooding in Pennsylvania once washed the boat on to a highway, where she had to be retrieved by cranes. On the Erie Canal, he says, the 38-foot-wide barge has a mere foot or so "on each side when we go through a lock."

During the tours, Mr. and Mrs. Boudreau lived aboard the boat. The musicians, who received a stipend, stayed with host families along the route. They played 90-minute concerts on the barge's deck, while the audience watched from the waterfront. Mr. Boudreau mixed in chestnuts such as Handel's "Water Music" and John Philip Sousa with new commissions. An unabashed showman, he liked to kick off performances conducting Aaron Copland's "Fanfare for the Common Man" while the roof above the deck retracted, revealing the orchestra.

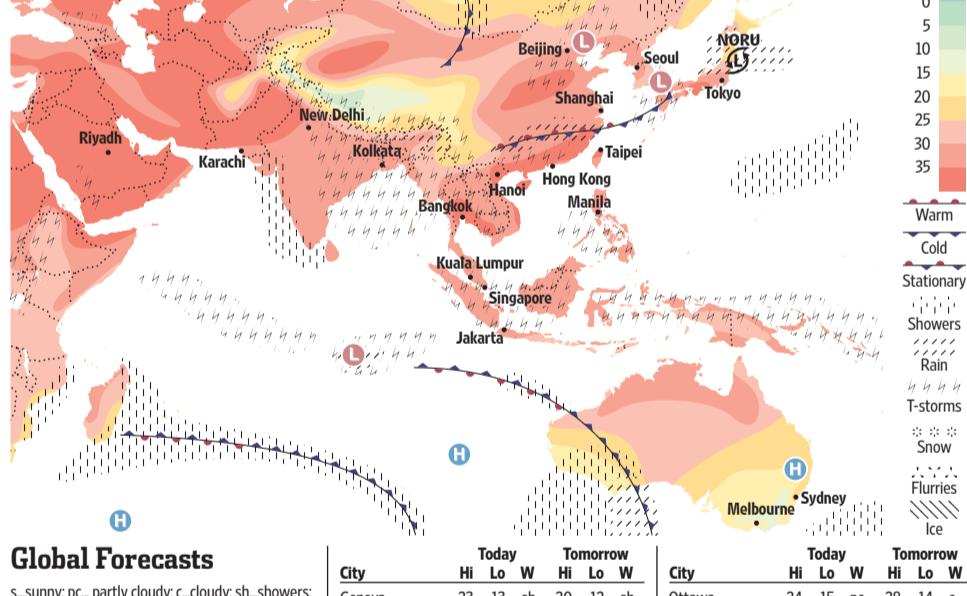
"My dream has always been to help young people follow their dreams," Mr. Boudreau says. After the orchestra outgrew its first vessel, the Point Counterpoint I, Mr. Boudreau asked Mr. Kahn to work on a successor. Support from philanthropists, corporate donors and government helped fund the construction.

The architect's design included a performance space on deck as well as a small indoor theater and an art gallery. The barge's inaugural tour coincided with the U.S. Bicentennial, two years after Mr. Kahn's death in 1974.

Mr. Ma, a longtime Louis Kahn buff, got to know Mr. Boudreau a few years ago and was struck by his "enormous generosity of spirit...that inspires other people."

"I want to be like him when I'm 90," Mr. Ma said.

Weather

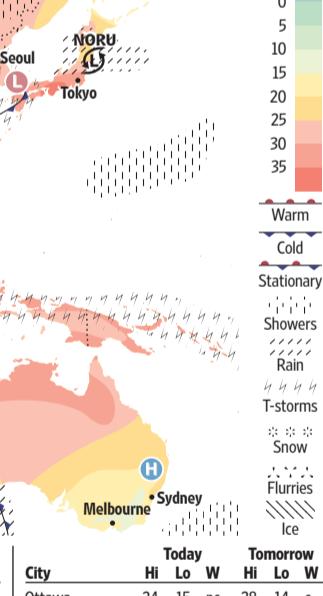


Global Forecasts

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	20	12	t	19	12	r
Anchorage	18	14	r	18	11	c
Athens	34	27	pc	35	26	pc
Atlanta	27	21	c	28	22	t
Bahrain	50	32	s	50	30	s
Baltimore	27	16	s	27	19	pc
Bangkok	35	27	t	35	27	pc
Beijing	30	22	c	33	23	pc
Berlin	26	16	pc	22	16	r
Bogota	20	7	pc	21	8	r
Boise	35	19	pc	34	19	pc
Boston	28	18	s	28	19	pc
Brussels	21	12	t	18	12	r
Buenos Aires	18	13	c	18	13	r
Cairo	36	26	s	37	26	s
Calgary	25	11	s	26	11	pc
Caracas	33	26	pc	32	27	pc
Charlotte	26	19	c	27	20	t
Chicago	29	18	pc	28	19	pc
Dallas	33	24	pc	36	26	pc
Denver	26	13	t	26	13	pc
Detroit	29	18	pc	30	18	pc
Dubai	44	34	s	43	34	s
Dublin	19	8	pc	19	12	pc
Edinburgh	19	8	pc	18	11	pc
Frankfurt	25	13	pc	19	12	r

AccuWeather.com



City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Ottawa	24	15	pc	28	14	c
Paris	21	12	t	20	12	sh
Philadelphia	29	18	s	29	19	pc
Phoenix	44	31	s	42	31	pc
Pittsburgh	27	16	s	26	18	pc
Port-au-Prince	36	23	pc	35	24	pc
Portland, Ore.	35	18	pc	35	18	pc
Rio de Janeiro	31	19	s	25	18	sh
Riyadh	45	29	s	45	29	s
Rome	32	22	pc	32	21	pc
Salt Lake City	32	20	pc	33	22	t
San Diego	26	21	pc	26	21	pc
San Francisco	22	15	pc	21	15	pc
San Juan	32	25	sh	32	25	sh
Santiago	13	5	r	12	4	r
Santo Domingo	33	24	pc	33	23	pc
Sao Paulo	28	13	s	20	13	pc
Seattle	32	17	pc	33	17	pc
Seoul	33	25	pc	31	25	t
Shanghai	33	27	r	34	28	t
Singapore	30	26	t	31	26	t
Stockholm	23	14	r	23	13	pc
Sydney	21	9	s	24	15	pc
Taipei	38	28	pc	38	28	pc
Tehran	37	27	s	36	25	s
Tel Aviv	32	26	s	32	27	t
Tokyo	34	26	s	33	26	pc
Toronto	27	17	c	28	20	pc
Vancouver	25	16	s	25	16	s
Washington, D.C.	29	19	s	28	21	pc
Zurich	23	12	sh	17	11	sh

The WSJ Daily Crossword | Edited by Mike Shenk



GRRR! | By Gabriel Stone

Across	22	Makeup item?	39	Watchdog's warning to a burglar?
1	Swingy tunes	23	Marble banned in tournament play	42 Result in
6	Dosage container, at times	25	Not natural, in a way	45 pollio
10	"SOS" or "Help!"	26	Graffitist's mark	46 Prunes
14	Overflowing	27	They soothe weary soles	47 Fumes
15	Eva Marie Saint's "On the Waterfront" role	30	One spitefully refusing to share his apple?	51 Give approval
16	River featured in an Oscar-winning film	34	Post counterpart	53 Makes a choice
17	National Endowment for the Woodworking Arts offerings?	35	She dies beneath the Temple of Vulcan	54 Suffix for phenyl or propyl
20	Official lang. of Belize	36	Windshield wiper's trace	55 Elegant movement of runners around the bases?
21	"Why not!"	37	Veg-O-Matic marketer	58 Offended
22	Cpl., e.g.	38	Eight Days ___	59 Day divider
23		61	Fires	60 "Eight Days ___"

► Solve this puzzle online and discuss it at WSJ.com/Puzzles.

62	Slips up	28	Do a barista's job

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, August 9, 2017 | B1

Yen vs. Dollar 110.5810 ▼ 0.15%

Hang Seng 27854.91 ▲ 0.59%

Gold 1253.00 ▼ 0.41%

WTI crude 49.45 ▲ 0.12%

10-Year JGB yield 0.069%

10-Year Treasury yield 2.283%

Nissan to Sell Battery Business

The acquirer, GSR Capital of China, could face scrutiny from U.S. regulatory agency

BY SEAN McLAIN

TOKYO—Nissan Motor Co. agreed to sell its battery business, including its U.S. operations, to a Chinese investment firm, setting the stage for a potential ruling by a U.S. regulator on the transfer of sensitive technologies.

The buyer, **GSR Capital**, agreed Tuesday to buy the majority of Nissan's electric-car battery operations for an undisclosed sum. The deal, which the parties said they expected to close by the end of the year, includes Nis-

sam's battery-manufacturing operations in Smyrna, Tenn.; Sunderland, England; and Japan.

Nissan also agreed to hand over part of its battery research operations in Japan and battery subsidiary Auto-motive Energy Supply Corp., which it has operated as a joint venture with **NEC Corp.** of Japan but would be fully owned by GSR Capital under the deal.

Batteries are among the most sought-after areas of technology because leading car makers have said they plan to sharply boost the proportion of their sales coming from electric-powered cars. South Korea and Japan have some of the battery industry's leading companies, with China in fast pursuit.



A rise in electric-powered cars is boosting demand for batteries.

GSR Capital chairman Sonny Wu said in a statement that the deal "represents an important step for us in the new energy vehicle industry

chain."

Nissan has been seeking to get out of the battery-manufacturing business for some time. Chairman Carlos Ghosn

has said the joint venture with NEC was set up a decade ago when Nissan had few options for getting electric-car batteries except making them itself. Today, there are a number of suppliers competing on price and technology, so it makes sense for Nissan to purchase from outside the company, he has said.

Those options include LG Chem Ltd., which supplies batteries to Nissan's alliance partner Renault SA. Mr. Ghosn told The Wall Street Journal in 2015 that he would consider using LG batteries in future electric vehicles.

In 2015, GSR Capital raised a \$5 billion buyout fund. Its chairman, Mr. Wu, is also the co-founder of venture-capital firm **GSR Ventures**, which Please see **NISSAN** page B2

Google Uproar Sparks Debate

BY YOREE KOH AND KELSEY GEE

Technology companies such as Facebook Inc., Twitter Inc. and Google parent Alphabet Inc. encourage employees to speak up, providing internal message boards, town halls and other forums for them to voice their opinions.

But what happens when a worker expresses a wildly unpopular—or even offensive—viewpoint?

That is one of the questions Google must now grapple with after an employee wrote an internal memo posing that women's biological attributes such as being prone to "higher anxiety" contribute to the company's gender gap, not sexism. The missive set off a firestorm within the search giant and the broader tech community.

While many tech companies provide workers with the digital forums to discuss topics including press coverage, the ways consumers use their products and critiques of management, the uproar at Google highlights the risks that come with open discussion of contentious issues.

Companies can prohibit some speech and behaviors that discriminate against or harass members of staff, and may terminate those who violate the employer's values and mission, attorneys said.

"There's no unfettered right for employees to say whatever they want without facing repercussions from their company," said Daniel A. Schwartz, employment law partner at Shipman & Goodwin LLP. "The question for companies like Google is, are you going to discipline employees for speaking their minds, when you've created a platform that encourages it?"

The Google employee argued that company initiatives to increase diversity discriminate against some workers, and that a liberal bias among executives and many employees makes it difficult to discuss the issue at the company, according to a version of the memo reviewed by The Wall Street Journal and verified by Google employees.

The memo has gone viral since it initially was published internally last week, then leaked to the press over the weekend. The incident is the latest to underscore the notion that the tech industry is unwelcoming to women and minorities.

Google Chief Executive Sundar Pichai tried to strike a balance in a message sent to employees Monday. "We strongly support the right of Googlers to express themselves, and much of what was in that memo is fair to debate regardless of whether a vast majority of Googlers disagree with it.

Please see **MEMO** page B2

Please see **MEMO** page B2

HEARD ON THE STREET

By Nathaniel Taplin

Copper And Iron Rallies Get Overheated

After spending the spring fretting over the effect of China's debt crackdown on metals prices, investors in copper and iron ore are now in full party mode. Reports of capacity cuts and planned curbs on scrap imports by the world's largest metals consumer have driven copper prices up 7% and iron-ore prices up more than 20% since the end of June.

But July trade data, out Tuesday, contained some dispiriting news: Year-over-year growth in Chinese imports of copper concentrate slowed from June's pace, while imports of iron ore and coal declined outright compared with both a month and a year earlier. Overall import and export growth also slowed, hinting that the lift to China from rebounding global trade may be close to its peak.

The Chinese real-estate sector—the single biggest source of metals demand—remains in decent shape, but the outlook for infrastructure is worrying.

The bulk of growth in investment is coming from water- and environment-related projects, less metals-intensive than their power, road and railway counterparts.

Investment growth has stalled in the electric-power and information-technology sectors, the most important infrastructure sectors for copper. June investment was up just 4% from a year earlier, compared with a pace of better than 20% in mid-2016.

Chinese steel-capacity cuts, while real, are unlikely to be sufficient to sustain a strong rally without help from solidly growing demand.

Overcapacity remains severe: Margins have rebounded, but only to half the level of the early 2000s.

Nonferrous-metals margins show a similar pattern.

The determining factor for metal prices now isn't capacity cuts, but real estate. A significant fall in housing inventory in China's interior, after years of overbuilding, is giving property developers and steel demand a shot in the arm.

If this month's housing data show prices in China's interior still moving higher, the metals rally can continue. If not, those red flags—weak power-sector investment and slowing trade numbers—may cast a shadow over commodity investors' exuberance.



Production workers for the Santa Teresa rum company in Venezuela. Santa Teresa has a new global distribution deal with Bacardi.

In Venezuela Tumult, a Rum Flows

BY ANATOLY KURMANAEV AND NICOLE HONG

In a dimly lit Manhattan speakeasy, bartender Erika Ordoñez brought a \$15 glass of Venezuela's Santa Teresa 1796, the world's oldest vintage blended rum, to her nose.

"You can definitely get a little bit of the nuttiness of the aging," Ms. Ordoñez said. Though little known in the U.S., Santa Teresa has become a standard rum for the \$19 daiquiri at Slowly Shirley, an underground, art-deco bar in the West Village where she works.

It is also about to go mainstream because of a new global distribution deal with **Bacardi Ltd.**, the world's biggest rum maker, that will make Santa Teresa's 35-year-old 1796 brand available world-wide starting in September.

Ron Santa Teresa CA is part of a small group of Venezuelan companies leaning on

exports to overcome a political maelstrom that has gutted the country's economy.

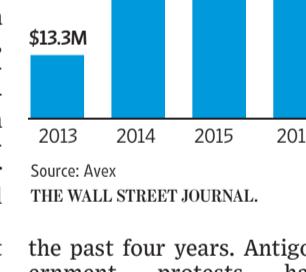
Owner Alberto Vollmer, 48 years old, says expanding his prized tipple abroad is easy compared with operating in a country steeped in graft and stifling state controls. To get his products to port, Mr. Vollmer's trucks have to run a gauntlet of looters, flash riots, protest barricades and military checkpoints. Signatures have to be secured from a dozen government agencies. Then there is the wait for the increasingly rare ship still docked in Venezuela.

He said he has done it by working with local communities, building ties with officials and concentrating on exports. "We're in the business of extreme sports," said Mr. Vollmer, a fifth-generation rum maker whose family has distilled sugar cane in Venezuela's lush Central Valley since 1796.

Venezuela's economy has shrunk by one-third during

Rum Exports

Venezuela's rum exports have more than tripled since 2013.



Source: Avex

THE WALL STREET JOURNAL

the past four years. Antigovernment protests have claimed more than 120 lives since April.

About 20% of all companies went broke last year, according to Venezuela's largest business group, Fedecámaras. The industrialists who haven't fled the country are operating at one-third of capacity. In June, hungry people looted 80 businesses just 15

minutes' drive from the Santa Teresa estate.

"That is a little surprising to me that they continue to make this product," said Edward Hamilton, a Florida-based rum importer, referring to Santa Teresa. Mr. Hamilton is also the author of four books on Caribbean rum.

Yet Mr. Vollmer is expanding the company. Santa Teresa plans to boost export volume 30% by 2020 to about 200,000 cases, he said in an interview in his house on the 8,000-acre estate.

Focusing on exports allows Mr. Vollmer to keep 80% of the hard currency earned from every bottle sold abroad. Those U.S. dollars permit him to import inputs such as oak casks, pay some of the country's highest salaries and invest in local social projects to deter theft.

In contrast, companies that only earn the nearly worthless local currency are collapsing from constant devaluations

Please see **RUM** page B2

Please see **RUM** page B2

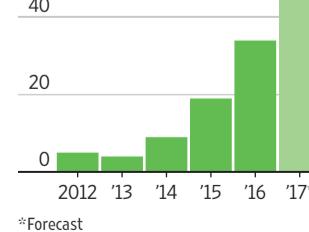
No End in Sight for Europe's Bad-Debt Mess

When a small Italian bank was looking to buy a portfolio of nonperforming loans last year, its due diligence turned up an unpleasant surprise: Virtually all the documentation for the 40,000 loans was on paper.

With each loan dossier consisting of about 1,000 pages, "we were talking about several 18-wheelers full of paper," recalls Andrea Clamer, head of **Banca Ifis** SpA's bad-loans unit. So he knocked the price down by 10%, paying less than 5% of the loans' €1 billion (\$1.17 billion) face value. Teams of employees have since spent months manually sorting and scanning all the paper.

Gathering Steam

Gross value of nonperforming loans sold to investors in Italy



*Forecast
Source: PwC market analysis

€60 billion in bad loans this year, according to PricewaterhouseCoopers LLP, partly as a result of this summer's €25 billion government bailout of three ailing lenders.

Greece has passed new laws aimed at kick-starting a market for bad loans, and banks there have added staff—a five-fold increase to about 10,000—to chip away at their €110 billion of bad debt. Meanwhile, investors have poured hundreds of millions into new funds to buy up debt representing bundles of loans. Investors make money mainly by buying nonperforming loans at a fraction of their face value and then renegotiating terms with borrowers or seizing collateral.

Yet the lenders face such a long slog in bringing the bad debt to manageable levels that bank executives and analysts

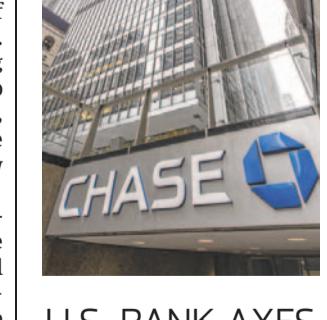
don't expect a resolution of the problem for years to come.

Instead, nonperforming loans will continue to eat up capital and depress lending, they say, possibly stifling the long-awaited recovery now under way in Europe.

The enormity of the problem—notably in Italy, where sour loans more than doubled in six years to €350 billion—caused a crisis of confidence in southern banks last year. In response, the European Central Bank has forced several banks to present plans to trim their bad loans.

UniCredit SpA, whose shares plummeted last year in part on concerns over bad debt, sold €18 billion of bad loans to two investors last month. Greece's **Eurobank** and **Alpha Bank** plan to sell more than €6 billion in bad loans by

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BUSINESS & FINANCE

At Two Brands, Optimism

Michael Kors, Lauren post lower sales, but scale back discounts; shares climb sharply

By SUZANNE KAPNER

Two big U.S. brands, **Michael Kors Holdings Ltd.** and **Ralph Lauren Corp.**, showed some progress Tuesday on efforts to wean themselves—and shoppers—off heavy promotions.

Both companies reported sharp sales declines in their latest quarters, as they reduced discounts at their own retail stores and pulled back the amount of goods sold through department stores. However, profits were better than expected and executives at Michael Kors pointed to signs of improved consumer spending in the U.S.

Shares of Ralph Lauren were up 11% to \$86.52 in afternoon trading. Michael Kors shares were 22% higher, at \$45.49. The gains recouped losses from earlier in the year, when both stocks had fallen sharply.

Michael Kors Chief Executive John Idol said consumers were willing to buy full-price merchandise if the style was right. He pointed to strong demand for the company's Bancroft handbag, which is made in Italy and sells for roughly \$1,000. "If it's the right product you don't have to have these aggressive markdowns at retail," Mr. Idol said.

But while the demand for



A Ralph Lauren store in New York City. The company wants to strengthen its e-commerce efforts.

full-price goods helped raise the company's average prices, it was more than offset by a decline in sales volume because of the reduced discounts, he continued.

Michael Kors revenue declined 3.6% compared with a year earlier to \$952.4 million for the three months ended July 1. Sales at existing retail stores fell 5.9%, while sales through department stores dropped 23%.

At Ralph Lauren, quarterly revenue fell 13% to \$1.35 billion, including a 17% drop in North America, which the company attributed to declines in its retail and wholesale channels.

Ralph Lauren's new CEO, Patrice Louvet, who took the helm last month, said that

while he was largely sticking with a strategy laid out by his predecessor that focused on streamlining operations, he wanted to place more emphasis on boosting revenue.

One way he hopes to do that is by strengthening e-commerce, where sales in North America fell 22% in the most recent quarter. Mr. Louvet said he hasn't ruled out deepening Ralph Lauren's relationship with **Amazon.com Inc.**, where the luxury brand currently sells a limited number of items.

He added that other partnerships with online retailers are in the works. Ralph Lauren recently struck a deal to sell through Zulily, which is owned by the home-shopping retailer **QVC Inc.**

While net income at Michael Kors fell to \$125.5 million in the quarter, from \$147.1 million a year earlier, the results exceeded analysts' expectations. Likewise, for Ralph Lauren, where net income totaled \$59.5 million, compared with a loss of \$22.3 million.

Mr. Idol, the Michael Kors CEO, said plans call for small increases in wholesale sales next year, providing the holiday season is strong. He also said that with the dollar weakening against the euro there is hope that foreign tourists will return to the U.S.

"We are definitely seeing business improve in North America," Mr. Idol said.

Ralph Lauren said it expects wholesale revenue to be down about 5% going forward.

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SeaWorld Grapples With Attendance Slide

By EZEQUIEL MINAYA

SeaWorld Entertainment Inc., troubled by a backlash over its use of its signature orcas, swung to a loss in its latest quarter as the company once again grappled with negative public perception cutting into attendance.

Company officials said that overall attendance has plunged some 353,000 guests during the first half of the year, compared with the same period a year ago. The decline was mostly due to shrinking domestic and international attendance at the parks in Orlando, Fla., and San Diego.

The theme-park operator said its Orlando location was affected by reduced national advertising and competitive pressures, while the park in

In a text message, Mr. Wu said, "We will jointly file for CFIUS with Nissan." He said GSR Ventures has acquired stakes in two U.S.-based battery companies in the past.

The battery deal with GSR Capital could face scrutiny from CFIUS, since it includes the transfer of a U.S.-manufacturing facility.

In a text message, Mr. Wu said, "We will jointly file for CFIUS with Nissan." He said GSR Ventures has acquired stakes in two U.S.-based battery companies in the past.

Mr. Wu and a Nissan spokesman declined to comment on expectations for the regulatory process.

The deal comes amid U.S. lawmakers' calls for greater scrutiny of deals involving Chinese investors.

GSR Capital expects close scrutiny of the deal from CFIUS and is lining up a charm offensive in the U.S. to ensure approval, said a person with knowledge of the company's thinking.

The deal comes as Nissan prepares to introduce a new version of its Leaf electric car next month, which it says will have increased range and the ProPilot autonomous driving suite. Nissan is also developing a low-cost electric vehicle for China.

GSR Capital said that if the deal goes through, it plans to construct a battery facility in China.

San Diego was hurt by "public perception issues" that have "resurfaced" since the company reduced spending on marketing.

Shares in the company, down 28% over the past six months, plunged nearly 6% to \$12.85 in late-morning trading Tuesday.

In a bid to reverse its fortunes, SeaWorld plans to increase spending on national advertising and reinvest "in our reputation messaging to target perceptions in key markets, particularly California," said Chief Executive Joel Manby. SeaWorld has faced criticism from lawmakers and animal-rights activists over its treatment of captive orcas, also known as killer whales.

Public outcry was fanned by the 2013 documentary "Blackfish," an exposé of SeaWorld's

cured debt at steep discounts. Banks have struggled to sell debt secured by warehouses, buildings or machinery, for instance. In some cases, a lack of proper documentation—one debt servicer says half of all loans he manages lacks crucial information—forces banks or debt servicers to drop attempts to recover the loan.

"For a portfolio worth

300,000 to 400,000 euros, which can include 30,000 to 40,000 borrowers, it takes three months and costs us €20 per borrower simply to have the correct information to start out with," says Carmine Evangelista, head of debt servicer AZ Holding.

In Spain, organized groups of squatters target properties the banks are anxious to sell,

orcás for decades to come. It has nearly 30 killer whales across its locations and said they typically live up to 50 years. Some animal-rights organizations have called for

SeaWorld to release its remaining stock. SeaWorld has said it wants to highlight its animal-rescue efforts and add more educational and advocacy work to its parks.

But the debate has affected the company's results. For the second quarter ended June 30, the company swung to a loss of \$175.9 million, or \$2.05 a share, from a year-earlier profit of \$17.8 million, or 21 cents. The loss for the period includes a \$269.3 million non-cash impairment charge linked to its Orlando park.

Revenue was nearly flat, edging up 0.4% to \$225 million. The company cut its annual guidance for adjusted earnings before interest, taxes, depreciation, and amortization to a range between \$280 million and \$310 million.

Other problems remain.

About half of all restructured debt turns sour again. So-called strategic defaulters—or solvent borrowers who stop paying loans—represent one out of every five bad

loans, according to bank officials. Insolvency procedures aren't nearly sufficient to clean up such huge amounts of debt, say experts.

Creditors take several years to secure a court decision on insolvency procedures, compared with six months in Ireland, according to European Union data.

As a result, bankers privately say it is all but impossible to meet ECB-set targets of reducing problematic loans by 40% in two years.

"This is the biggest challenge of my career," says Theodoros Kalantonis, Eurobank's deputy CEO in charge of troubled assets. "This job requires a strong stomach, knowledge of many technical issues and rarely offers any joy."

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BUSINESS NEWS

Time Inc. Poised for Cost Cuts After Loss

BY JEFFREY A. TRACHTENBERG AND IMANI MOISE

Time Inc. is undertaking an ambitious cost-cutting strategy as advertising and circulation continue to tumble, dragging the magazine publisher to a loss in the second quarter.

The media company said it plans to cut more than \$400 million in costs—much of which is expected to be made in the next 18 months.

During a call with investors, Chief Executive Rich Battista said Time would reinvest some of its expected cost savings in events, television, licensing and merchandising, as well as paid products and services.

In a later interview, he declined to comment on potential layoffs, and said two-thirds of the cost savings would result from becoming a more efficient operating company, including improvements to procurement and IT and the globalization of its workforce.

"There are no sacred cows," he said.

Time, like its rivals in the publishing industry, is emphasizing its commitment to a digital transformation, including the launch of new social-media brands and the production this year of nearly 40 hours of TV programming.

It also said it sees revenue opportunities in licensing deals and new direct-to-consumer product offerings intended to make it less dependent on advertising. For example, on Monday, Time said it was launching a pet-related paid membership program that would offer discounts on veterinary expenses.

Since calling off talks with potential buyers in April, Time has moved to reshape its magazine portfolio as it focuses on a more digital and video-driven future.

Hanjin Raises Fraction of Claims

By TOM CORRIGAN

South Korea's **Hanjin Shipping** Co., which roiled global trade and temporarily marooned more than half a million cargo containers when it filed for bankruptcy, says it has raised only a fraction of what it needs to repay creditors, whose claims total about \$10.5 billion.

In court papers filed Friday with the U.S. Bankruptcy Court in Newark, N.J., the trustee overseeing the carrier's bankruptcy proceeding in Seoul said Hanjin has raised about \$220 million since filing for bankruptcy nearly a year ago.

Hanjin, once one of the world's largest container-shipping companies, filed for receivership in South Korea in August last year. The company has since sold ships, stakes in seaport terminals and other assets, with proceeds destined to repay creditors, whose claims must pass muster with a Korean court. The shipper says more than 180 creditors attended an initial court-supervised meeting, held June 1.

In Friday's court papers,



South Korean container-shipping company Hanjin filed for bankruptcy protection last year.

Hanjin said it was unclear when distributions to creditors would begin. But it made clear those distributions would be carried out according to a plan worked out in South Korea and consistent with Korean bankruptcy law.

A Korean judge ordered

Hanjin's liquidation earlier this year.

Hanjin filed for chapter 15 bankruptcy protection in the U.S. just days after filing for receivership in South Korea.

The company initially sought to keep its business alive through a restructuring

but eventually succumbed to a mountain of debt. By filing for chapter 15, companies can protect their U.S. assets from creditors while they seek to sell their holdings or to restructure in their home countries.

It has become a common tool for shipping companies,

whose vessels face seizure by unpaid creditors in ports around the world. Dozens of Hanjin ships carrying more than half a million cargo containers were denied access to ports around the world because of uncertainty about who would pay docking fees and unloading bills.

Judge John Sherwood, who oversaw Hanjin's U.S. bankruptcy proceeding, signed off on its chapter 15 petition, prodding stranded ships to dock in U.S. ports and unload their cargo.

U.S. creditors fought to hold on to any proceeds from the sale of Hanjin's U.S. assets instead of sending them to South Korea. But Judge Sherwood ultimately ruled that repatriating sale proceeds and administering U.S. creditors' claims in South Korea would be the most fair and efficient way forward for Hanjin.

Hanjin's troubles can be traced to the global financial crisis in 2008 and a more recent downturn in trade, though some analysts say part of the blame falls on costly long-term ship leases.

—In-Soo Nam contributed to this article.

Dean Foods Shares Fall as Milk Sales Cool

By JACOB BUNGE
AND CARA LOMBARDO

The milk business is shaking **Dean Foods** Co.

The top U.S. milk processor by sales has been struggling amid slowing milk sales and rising costs. Now its largest customer, **Wal-Mart Stores** Inc., is preparing to open its own milk-processing plant, reducing its reliance on Dean.

The Texas-based milk supplier on Tuesday nearly halved its per-share profit expectations for 2017.

Dean Foods shares plummeted 19% by midday Tuesday.

"We are not satisfied with our performance and are de-

termined to improve our execution," Chief Executive Ralph Scorzafava said. He pledged to reduce annual expenses by up to \$50 million by the end of the year.

For years processors have battled ebbing demand for milk, as consumers eat less breakfast cereal and gravitate toward plant-based milk alternatives made from almonds and soybeans. Dean's recent struggles, however, raised broader questions among some analysts on payoffs from the milk company's long-term strategy to focus investment on branded milk products. Dean executives in 2015 unified its regional milk opera-

tions under a national brand in an effort to win market share and lift profit margins.

Retailers have added to the price pressure by aggressively pushing for cheaper milk for

Wal-Mart's plan for its own processing facility is another blow to the milk processor.

their own store brands. Executives said that cut into sales of branded milk from Dean and other milk companies in the

quarter.

Wal-Mart's soon-to-open milk plant in Indiana will cost Dean about 90 million to 95 million gallons' worth of sales annually. Though Dean has been preparing for the shift, Mr. Scorzafava said recent overall sales declines will make it harder to offset.

Amit Sharma, an analyst with **BMO Capital Markets**,

wrote in a research note that he doubts the company can

meet the updated guidance.

The pivot to higher-profit,

branded foods so far has

failed to help Dean weather

tough competition, he said.

Consumers' continued

move away from milk generally, with U.S. fluid milk vol-

umes down 2.9% in Dean's second quarter.

"At some point you will see a bottoming in this category," Mr. Scorzafava said. "I'm not sure when you will predict that."

Dean has been working to diversify, in June announcing a deal for juice company Uncle Matt's Organic. The company also sells ice cream, teas and bottled water.

For the quarter ended June 30, Dean's volumes declined 2.7% to 615 million gallons, while raw milk costs climbed 15%, pushing net income 45.5% lower to \$18 million.

Analysts polled by FactSet had expected \$22 million.

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Ex-Uber CEO Won't Return

Garrett Camp, in email to staff, says firm is 'committed to hiring a new world-class CEO'

BY GREG BENSINGER

Uber Technologies Inc. won't be bringing co-founder Travis Kalanick back as chief executive, Uber's chairman told employees in an attempt to quell reports the co-founder was attempting a comeback.

"Travis is not returning as CEO," Garrett Camp, himself a co-founder, wrote Monday in a staff email reviewed by The Wall Street Journal. "We are committed to hiring a new world-class CEO to lead Uber."

In his note, Mr. Camp said the subject of Mr. Kalanick returning as CEO came up during a product leadership meeting last week and he wanted to tamp down the speculation. Uber, according to people familiar with the matter, has narrowed its list of outside CEO candidates to three, including former General Electric Co. CEO Jeff Immelt.

Mr. Kalanick was pushed out in June by a group of investors after nearly a half-year of scandal and negative attention.



Uber co-founder Travis Kalanick was pushed out in June.

post but is expected to remain as a director.

Uber retained executive-search firm Heidrick & Struggles International Inc. to help it find its new CEO and COO. Meg Whitman, the Hewlett Packard Enterprise CEO, was a contender for the top job at Uber, according to people familiar with the matter, but last month on Twitter declared herself out of the running.

Separately, major Uber investor Benchmark Capital on Monday sent a series of tweets apparently meant to alleviate tensions between the venture firm and the ride-hailing company. The firm, which was the driver behind Mr. Kalanick's June ouster, has been discussing selling a portion of its stake to SoftBank Group Corp. at a valuation below that of Uber's last funding round, according to people familiar with the matter.

Benchmark, on Twitter, said it is "incredibly optimistic about Uber's future" and that it is "long Uber," while noting it thinks the company's value could exceed \$100 billion—compared with about \$70 billion now. Benchmark partner Matt Cohler is an Uber board member and sits on the executive search committee.

tion surrounded Uber, last valued by investors at \$68 billion. The San Francisco company underwent a months-long probe into its culture following allegations of sexism and sexual harassment and is fighting a lawsuit from rival **Alphabet Inc.** over allegedly stolen trade secrets. The company also has to fill other executive spots, such as chiefs of finance, marketing and operations.

An Uber spokesman declined to comment. Messrs. Kalanick and Camp didn't respond to requests for comment.

The note came as a surprise

to other board members, who hadn't seen its contents or been briefed on it prior to it being sent to all staff, according to people familiar with the matter. Though chairman, Mr. Camp doesn't sit on the five-member executive search committee, these people noted.

"Uber must evolve and mature as we improve our culture and practices," Mr. Camp said in the email. News site Recode reported the email earlier.

The next CEO of the company will have to quickly fill the deputy positions, while also seeking a new independent chairman to replace Mr. Camp who is relinquishing the

CBS Plans to Expand Sports and Streaming

By JOE FLINT
AND IMANI MOISE

then in other heretofore undisclosed international markets.

CBS Corp. is ramping up its digital efforts by expanding its online streaming service All Access abroad and launching a new digital sports network later this year in the U.S.

The aggressive expansion of its digital operations is the latest sign that growth for so-called traditional media companies such as CBS will lie in online platforms as viewing habits change.

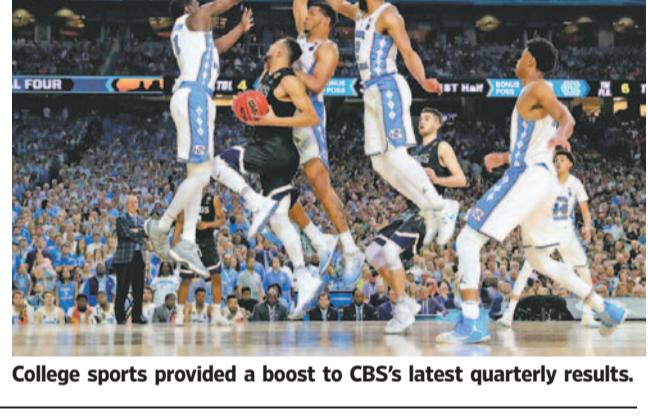
"Clearly there is a lot of upside here," CBS Chief Executive Leslie Moonves said of the digital businesses, when he unveiled the latest plans during the company's earnings call Monday.

The benefit of its own streaming efforts as well as deals with other online skinny bundles started to play out in second-quarter results. For the quarter ended June 30, CBS reported higher-than-expected sales and earnings as it received a boost from college sports and streaming subscription services.

CBS All Access, which is a direct-to-consumer service available in the U.S. for \$5.99 a month that includes a live feed of the network as well as library fare, will launch in Canada early next year and

Details on the new streaming sports service were sparse, as it is still in the early stages of development. Much of the focus will be opinion and news as well as highlights.

CBS already owns a cable sports channel called CBS Sports Network. It has some sports rights but not at the level of Walt Disney Co.'s ESPN or 21st Century Fox's Fox Sports unit.



College sports provided a boost to CBS's latest quarterly results.

Ad-Tech Firms in \$50 Million Deal

BY LARA O'REILLY

U.S. ad-tech company **Tremor Video** is selling its "demand-side platform" to Israel-based mobile advertising firm **Taptica** for an enterprise value of \$50 million, continuing a raft of consolidation in a sector facing stiff online competition from **Alphabet Inc.**'s Google and **Facebook Inc.**

Demand-side platforms help advertisers and their ad agencies buy online video ads using automated processes. Tremor Video is retaining its "supply-side platform," which helps online publishers manage

age and sell their video advertising inventory.

The \$50 million price includes about \$22.5 million of working capital, which mainly comprises accounts receivable, as Taptica looks to maintain Tremor Video's relationships with advertising agencies and marketers.

Taptica Chief Executive Hagai Tal said the company had looked at other businesses in the sector as it seeks to expand its presence geographically and extend its offerings in the media-buying space, but it chose Tremor Video due to its scale.

"We are seeing the budget

that traditionally went to TV shifting into the digital area, and we thought it was the obvious bet for us to grow," Mr. Tal said.

Tremor Video CEO Mark Zagorski, who assumed the role on July 10 this year, said his company will now become more focused, rather than trying to offer services to both buyers and sellers.

Mr. Zagorski said its sell-side video platform grew about 83% in the past 12 months, with net revenue of roughly \$34 million and a gross margin of about 91% in that period.

The acquisition marks the latest in a wave of consolidation within the ad tech sector.

Notable deals this year have included Sizmek's acquisition of Rocket Fuel for \$125.5 million last month; Dutch telecommunications company Altice acquiring Teads for an enterprise value of up to €285 million (\$336 million) in March this year; and Amobee, Singapore telecommunications company Singtel's digital advertising division, acquiring Turn for an enterprise value of \$310 million in February.

The online advertising space is dominated by Google and Facebook.

The Face of Real News

Jon Hilsenrath's investigation into the economic workings of America's heartland uncovered the brewing dissatisfaction that led to the election of Donald Trump.

Real journalists and real news from America's most trusted newspaper.

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#TheFaceOfRealNews

JON HILSEN RATH
ECONOMICS EDITOR

MANAGEMENT

Gig Economy Delivers New Perks

Uber, other companies dangle more benefits to attract and retain on-demand workers

BY KELSEY GEE

Uber Technologies Inc., Instacart and other gig-economy companies are straining to attract and keep the short-term laborers who give rides, shop for groceries and deliver meals at the tap of an app.

Amid low unemployment and fierce competition, startups have begun offering richer perks, benefits and signing bonuses to lure on-demand workers to sign up for, and stay with, their platforms. Companies have beefed up recruiting, even touting the opportunity to join the staff full time—a sign that maintaining a steady labor pool is growing expensive and difficult.

"Founders know that showing these workers they can earn a stable living with some predictability in pay and hours is one major way to compete," said Roy Bahat, head of venture fund Bloomberg Beta, a unit of **Bloomberg LP** that invests in startups such as job-listing platform **Textio Inc.**

The so-called gig economy, which is composed of part-time and freelance jobs, came on the heels of the 2007-09 recession, when high unemployment and stagnant wages made short-term workers relatively easy to find.

Today, the pool of these workers remains significant—a 2016 McKinsey Global Institute report found that roughly 4% of the U.S. workforce has earned money using apps and platforms in the gig economy, while some economists peg the total closer to 1%, or 1.5 million Americans. But the gig economy is under pressure from a stronger labor market and some workers souring on piecemeal jobs, investors say.

Uber, seeking to repair rocky relations over pay and benefits with its roughly 600,000 active drivers, updated its app in July to enable tipping by customers. It has also rolled out a pilot insur-



Sidney Walker delivered DoorDash food orders in San Francisco in June. DoorDash leases GenZe motorized bikes for workers' use.

ance plan launched in partnership with Aon PLC to help cover on-the-job accidents.

In June, Uber also committed to developing a program to help drivers take on full-time roles. Over 100 drivers have been hired into customer-support jobs in the U.S., according to a spokesman.

Ride-sharing competitor **Lyft Inc.** in 2015 launched a tiered perks program, giving enhanced tax, health and car-maintenance services depending on the number of rides completed by its 700,000 drivers, a spokeswoman said.

Companies are also using signing bonuses to lure workers. Postmates Inc., an on-demand delivery service, offers bonuses ranging from \$50 to \$500. Bonuses for new Uber drivers recently hit \$1,000 in San Francisco; for Lyft, it was \$800. Drivers get referral bonuses, too.

Harry Campbell, who runs The Rideshare Guy, a blog that compiles information for on-demand workers, says turnover is driven by gig workers' unhappiness with their take-home pay. The most effective sweeteners, he says, are those that reduce workers' expenses and give them quicker access to their pay.

A 2015 analysis of Uber's

workforce found that 45% of new drivers left the platform in their first year, a rate that remained steady in a separate 2016 study by economists in partnership with the firm.

In any given month, an estimated one in six participants in the gig economy is new, and more than half of such workers exit within a year, according to a November report from the JPMorgan Chase Institute.

Adding perks can "smooth out" any dips in service sparked by worker turnover for on-demand companies, said Jennifer Fonstad, co-

said Scott Witlin, an employment attorney with law firm Barnes & Thornburg LLP. Sweeteners such as discounted cellphone plans and referrals to affordable benefits, keep companies on safe legal ground, he said.

Food-delivery startup **DoorDash Inc.**, based in San Francisco, has enlisted outside companies to connect its 100,000 independent contractors to health-insurance plans and offers next-day payments.

DoorDash is trying to expand the pool of potential delivery workers—dubbed "dash-

ers" number of orders coming in from customers," said Mr. Xu. The company is betting that perks will help retain experienced delivery workers who will provide better service, thus helping expand DoorDash's customer base, he said.

Instacart will begin offering workers discounted mobile-phone plans in the coming months; it has also begun opening its company town halls to its tens of thousands of on-demand shoppers, said Senior People Operations Partner Ru Cymrot-Wu.

Shoppers hear executives' updates on company performance and can ask questions of Instacart leaders. The company recently settled a class-action lawsuit brought by contractors for \$4.6 million in March, after they claimed the company improperly pooled their tips and failed to reimburse them for business expenses.

Instacart denied the charges, but has since added a more visible way for customers to tip their shoppers.

"There's been a lot of growth in the area of acknowledging that people are what makes our business run," said Ms. Cymrot-Wu, referring to Instacart's on-demand shoppers. "We need to ensure they have support and resources."

Instacart will offer workers discounted mobile-phone plans in coming months.

founder of venture firm **Aspect Ventures**, which has investments in UrbanSitter and other gig-economy startups. "These new, ancillary services can enhance the gig worker's ability to do a job better and more easily," she added.

Businesses can face lawsuits if they treat independent workers too much like employees who, unlike contractors, must legally be provided certain benefits and protections,

ers"—by leasing motorized bicycles for workers' use during delivery runs in four cities.

DoorDash could eventually rent the fleet to interested workers for a small daily fee, according to Chief Executive Tony Xu. For now, GenZe, the bikes' maker, is providing the \$1,600 vehicles to the company free of charge.

"It's a matching game between maintaining a steady supply of dashers with the

MEMO

Continued from page B1

However, portions of the memo violate our Code of Conduct and cross the line by advancing harmful gender stereotypes in our workplace," Mr. Pichai wrote. Google hasn't publicly named the memo's author.

Software engineer James Damore, who wrote in an email that he was the author of the memo and had been fired for it, said he has complained to federal labor officials about executives' efforts to silence him.

Workplace-harassment laws give employers latitude to police digital message boards in the same way they monitor the photos and messages workers hang in their physical workplaces, said Mr. Schwartz. Companies restrict the posting of violent and pornographic material for those reasons.

Experts said moderating digital discussions requires clear guidelines for how employees should participate and proper internal coordination to manage responses to messages that violate norms.

Victoria Plaut, a law professor and the director of the culture, diversity and intergroup relations lab at the **University of California, Berkeley**, suggested that companies can enhance their internal message boards with more-structured environments where difficult conversations can take place. That might include soliciting employees' opinions through focus groups and surveys, she said.

"Google could use this as a learning opportunity—both to reflect on how the climate is experienced by all employees and to pinpoint sources of resistance to its initiatives," she said.

Mr. Damore's termination could create more complications for Google. Valerie Frederickson, CEO and managing partner at Frederickson Pribula Li, an executive-search firm specializing in human resources, said firing an employee on such grounds could alienate others at the company who quietly agree with the memo's author. "Yes, maybe there are 10,000 who want him fired but maybe there are 30 or 40 people who feel he should be allowed to speak his mind," she said.

—Jack Nicas contributed to this article.

BUSINESS WATCH

PANDORA

Jeweler Buys Some Distribution Rights

Danish jeweler **Pandora A/S** said it would pay €110 million (\$130 million) to buy the distribution rights for its jewelry in Spain, Gibraltar and Andorra and said it would continue to open more stores after seeing strong growth across its business in the second quarter.

The acquisition allows Pandora to enter Spain directly, getting direct access to one of the larger jewelry markets in Europe, and follows the takeover of distribution rights in Belgium and South Africa earlier in the year. Revenue from the acquired business was around €94 million in 2016.

Pandora, which sells charm bracelets, rings and earrings, said markets like China, Italy, the U.K.,

and Australia all performed well in the quarter. Despite a challenging U.S. retail environment, the company said it still expects full-year revenue of 23 billion to 24 billion Danish kroner (\$3.65 billion-\$3.81 billion) and an earnings before interest, tax, depreciation and amortization margin of about 38%.

General mall traffic in the U.S. fell around 5% in the quarter but Pandora's U.S. store network is located predominantly in high-quality malls less affected by declines in footfall.

The company has identified up to 100 new concept-store locations in the U.S. that will offer potential in the region over the next 3 to 5 years, Pandora added.

Net profit fell 10% to 1.1 billion kroner in the three months to June 30, from 1.22 billion kroner in the year-earlier period. Analysts polled by FactSet had ex-

pected net profit of 1.24 billion kroner.

The jeweler said revenue rose 12% to 4.83 billion kroner, up from 4.33 billion kroner. Pan-

dora's operating margin fell to 30.1% from 34.4% last year.

Pandora plans to add more than 300 new concept stores this year, having previously ex-

AVAYA

Company Unveils Plan to Cut Debt

Bankrupt telecommunications firm **Avaya Inc.** filed a revised reorganization plan that the company said will cut \$3 billion in debt and sets a course to exit chapter 11 in the fall.

Avaya laid out its new plan to exit chapter 11 in papers filed Monday in the U.S. Bankruptcy Court in New York.

The plan also includes a settlement that will allow Avaya to end a pension plan for salaried employees. The company said the new reorganization plan has support from creditors holding more than 50% of its senior debt.

Creditors' recoveries are based on a \$5.72 billion enterprise valuation.

—Jonathan Randles

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FINANCE & MARKETS

Fund Extends 1MDB Payment Deadline

Abu Dhabi's IPIC adds conditions as it grants Malaysian investment fund more time

BY SAURABH CHATURVEDI

An Abu Dhabi sovereign wealth fund said it extended the deadline for a Malaysian state-investment fund to make a payment of about \$600 million, giving its former business partner until the end of Au-

gust to honor its obligations.

The money is the first installment of a \$1.2 billion sum that 1Malaysia Development Bhd., known as 1MDB, agreed to pay Abu Dhabi's International Petroleum Investment Co. to compensate it for an emergency loan and other financial support extended after the Malaysian fund was unable to service its debt obligations.

As a condition for extending the July 31 deadline, IPIC said it will require the Malaysian Finance Ministry and

1MDB to pay at least \$310 million by Aug. 12. 1MDB will also have to pay default interest on the delayed payment, IPIC said in a statement filed to the London Stock Exchange.

Malaysia's Finance Ministry and 1MDB didn't respond to requests to comment on Tuesday.

1MDB last week said it had been due to make the payment to IPIC by July 31, using proceeds from the sale of units it owns in offshore investment funds, but failed to do so be-

cause of regulatory hurdles in getting the money. The Malaysian fund said it had "written to IPIC to inform them of our commitment to meet the obligations."

IPIC at the time confirmed it hadn't received the payment and said 1MDB and Malaysia's Finance Ministry had five business days to remedy the situation before they "become subject to additional obligations."

1MDB was launched in 2009 to spur economic development

in Malaysia but accumulated \$13 billion in debt. It began struggling in 2015 to make payments on the debt and later was found to be missing billions of dollars. Investigations in search of the money sprang up in the U.S., Singapore and other countries. U.S. investigators allege that at least \$4.5 billion was stolen from 1MDB.

1MDB has denied wrongdoing and promised to cooperate with investigators.

IPIC and 1MDB signed a set-

tlement agreement in April. The \$600 million payment owed to IPIC was the first to come due since the U.S. Justice Department in June and Singapore's public prosecutor in July alleged in court filings that units owned by 1MDB in an offshore investment fund were actually almost worthless. 1MDB had maintained they were worth about \$940 million. The fund hasn't commented on the allegations.

—Bradley Hope contributed to this article.



Stocks' rally lifted results for pensions such as the California Public Employees' Retirement System.

Pension Shortfalls Remain

BY HEATHER GILLERS

A run-up in U.S. stocks following the presidential election produced double-digit returns for many public pensions. But even a banner year doesn't come close to solving their problems.

U.S. public pensions earned a median return of 12.4% in the fiscal year ended June 30, according to figures released Tuesday by Wilshire Trust Universe Comparison Service, up from 1.07% the prior year.

That is their best result since 2014.

Despite the recent gains, large public pension plans still face a funding shortfall of \$4 trillion because their liabilities are so large, according to Moody's Investors Service. They have just 70% of what they need to pay future benefits to police, firefighters, teachers and other public workers, according to 2016 figures from Wilshire Consulting.

The funding deficit isn't expected to improve much in 2017 despite the robust returns, according to analysts.

"It's a hole that took a long time to dig, so it will take a long time to fill," said Fitch Ratings analyst Douglas Offerman.

The pensions' predicament is the result of decades of low government contributions, overly optimistic investment assumptions, benefit over-promises and two recessions that left many retirement systems with deep funding holes.

Demographics are also a factor: Liabilities are rising as waves of baby boomers retire, leaving fewer active workers to contribute to pension plans.

Many pensions' funding problems worsened in the years following the 2008 financial crisis due to a period of rock-bottom interest rates.

Many scaled back future investment assumptions, which pushed liabilities higher. Public pension funds use a combination of investment income and contributions from employees, states and cities to fund benefits.

Plans tracked by the Na-

tional Association of State Retirement Administrators have an average return projection of 7.45%, down from 7.55% last year and 7.7% five years ago.

Even if public plans in the U.S. meet their current investment targets over the next five years, funding levels won't improve significantly unless cities and states ramp up their yearly pension contributions, according to a recent report by the Center for Retirement Research at Boston College.

That is less likely to happen because of budget problems in many U.S. states and cities. Governments either can't afford to make aggressive payments or stretch them over decades so big outlays are delayed.

Despite recent gains, big public pension plans face a funding gap of \$4 trillion.

No state is struggling more with these issues than Illinois, a place that has struggled for years to agree on budget priorities and pay for mounting pension liabilities. One result is the fund that oversees retirement money for state employees, judges and lawmakers now has just 35% of what it needs to pay for all future retirement obligations.

That retirement system earned nearly 12% in the fiscal year ended June 30, its best result since 2014, but its chairman said he expects the funding deficit to widen.

"Our liabilities are three times our assets," said Marc Levine, chairman of the Illinois State Board of Investment. "Maintaining our funding level would require investment returns over 20% annually. That's not going to happen."

"Even in a fantastic year," he added, "we can't keep up."

Many other public pensions around the country reported robust returns in the year ended June 30 but warned of

difficult choices ahead. The California Public Employees' Retirement System, the biggest in the U.S., earned 11.2% in fiscal 2017—largely because of stocks and private equity—but noted it has just 68% of assets it needs to pay for future benefits. That is up from 65% in 2016.

"We welcome this fiscal year's strong returns, but we also remain about 68% funded and vulnerable to a downturn in stock markets," Marcie Frost, chief executive officer of the fund also known as Calpers, said in a statement. The fund has about \$332 billion in assets for 1.8 million workers and retirees.

The California State Teachers' Retirement System, which sits roughly one mile from Calpers' headquarters in Sacramento, Calif., reported a fiscal 2017 return of 13.4%. The fund's chief investment officer, Christopher Ailman, touted the number on Twitter as being higher than Calpers: "BOOYAH!!"

In a release, though, he offered some caution: "Just as one bad year will not break us, one good year will not make us."

One of the best gains among public pensions happened in Connecticut, where its retirement funds earned a collective return of 14.3% in the fiscal year ended June 30.

"It was a jackpot for the taxpayers," said state Treasurer Denise Nappier.

But the fund that oversees retirements for state employees has just 35.5% of what it needs to pay for future obligations and a fund for teachers has 56%.

The state, Ms. Nappier said, made a mistake by not contributing more to the funds in past years.

Now she wants the teachers' fund to be more realistic about future gains, calling its current goal of 8% "an unrealistic expectation." The state employee fund last year dropped its assumption to 6.9% from 8%.

"The robust returns in the past aren't in the cards for the future," Ms. Nappier said.

is expected to cut sales of oil supplies to Asia by up to 10% in September to tackle the global crude glut, according to multiple reports Tuesday.

However, oil prices wavered between gains and losses as investors stayed focused on the challenges the global oil cartel has faced in lowering supply this year.

The Organization of the Petroleum Exporting Countries and 10 producers outside the cartel including Russia agreed late last year to cap their production at about 1.8 million barrels a day lower than their

peak October 2016 levels.

The oil-market reaction has proved muted, in part because of rising U.S. production, though poor compliance by some participants in the OPEC output-cap agreement has also contributed.

OPEC is in the second day of a two-day meeting in Abu Dhabi to discuss compliance.

"The reality is OPEC has no way of enforcing the production caps," said Gao Jian, an analyst at SCI International. "That has been the problem of the cartel for many years now."

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Amid Fraud Fears, Bank Ends Debit-Card Feature

BY KATE FAZZINI
AND EMILY GLAZER

J.P. Morgan Chase & Co. has quietly canceled a popular program that allowed customers to replace lost debit cards at many of its 5,300 branches, responding to factors including an uptick in fraud, according to people familiar with the matter.

The change means that customers who lose their debit card or have it stolen will have to wait for a new one to be mailed to them.

J.P. Morgan had machines to make the cards in about half of its branches, according to one of the people. That would be about 2,650 locations. The bank started eliminating the service in March, and finished late last month, the people said.

Other banks also have faced problems when expanding new financial technology. For example, some banks have placed more restrictions on mobile check-cashing technology to cut down on fraud, such as longer wait times for a deposit to post and dollar limits on daily deposits.

J.P. Morgan was one of the first major lenders to introduce instant-issue debit cards in branches, touting the service in a 2012 news release as "a real time-saver for our customers."

Since then, a cross-section of national, regional and local banks and credit unions have introduced the service, which often is used to quickly replace the cards of customers who might have been the victim of a retail data breach.

About two years ago, J.P. Morgan's Chase branches began to experience a jump in people coming in with fake IDs that matched customer information such as name and birth date, some of the people familiar with the matter said.

The swindlers then requested new replacement

debit cards on the spot, the people said. They could use the new card made in the branch to make purchases or withdraw an unsuspecting customer's money from a teller or the bank's ATM. New pins are set for new cards.

After bank officials started noticing the problem picking up, Chase started requiring customers to produce the same form of ID they had used to open their account, such as a driver's license or passport.

"We found the issue and fixed the process almost two years ago, virtually eliminating the issue," said bank spokeswoman Anne Pace.

The more-recent decision to discontinue the service reflects numerous factors, she added, including a fresh push to cut costs and customers increasingly migrating to other payment options, such as mobile banking. Ms. Pace said the fraud issues covered less than 1% of all consumer-related fraud at the bank.

Not every bank agrees that these types of machines pose a security risk. TD Bank and PNC Financial Services Group Inc. still offer instant-issue debit cards, publicizing them as a way to get cards replaced faster. Companies that produce the instant-issue technology also have said it is



Chase tightened its practices.

a way to reduce theft through the mail.

The service is "extraordinarily popular with customers," a PNC spokesman said.

In May, TD Bank released a new ad touting its instant-issue cards. In the ad, a young woman leaves her wallet in a taxi, walks right into a branch, and has her card replaced instantly.

As of March, TD Bank had rolled out machines to produce full-function debit cards for all its U.S. retail locations. "We have not seen an increase in fraud related to these machines," said TD Bank representative Lauren Schmidt.

Other large banks, such as Bank of America Corp., Citigroup Inc., and Wells Fargo & Co., offer temporary replacement debit cards in some branches, in part to reduce the possibility of fraud. J.P. Morgan is now offering a temporary ATM card at the branch, but not one that can be used as a debit card at merchants.

Some bank customers questioned J.P. Morgan on Twitter with sad or puzzled emojis after Chase removed the service.

"Chase really lost me with that one," complained one customer, Diron Gipson, last month. "I need my debit card the same day! Not 5 days later."

J.P. Morgan offers rush delivery of a new debit card that takes two or three days, but that also can carry a \$5 fee.

Financial institutions using the technology are forecast to grow by about 65%, by 2021, according to a June report from research firm Aite Group.

Still, others have voiced concerns in addition to J.P. Morgan. Entrust Datacard Corp., which manufactures the machines that the bank used in branches for the instant debit replacement cards, co-wrote a 2015 white paper that advised companies using the machines to "tighten know-your-customer protocol."

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FINANCE & MARKETS

Bad Reviews Threaten RLJ's Hotel Deal

Analysts criticize offer price, strategic fit and timing of acquiring FelCor as vote nears

BY PETER GRANT

Wall Street has been hammering shares of **RLJ Lodging Trust** ever since the hotel company founded by storied African-American entrepreneur Robert L. Johnson announced plans in April to acquire FelCor, another lodging real-estate investment trust, at what many considered too high a price.

The all-stock deal, if approved by shareholders, would create one of the largest hotel-focused real-estate investment trusts, with about 160 properties valued at more than \$7 billion.

Analysts have criticized the deal for being too costly to RLJ shareholders—given the low price its stock has been trading at—and for being a bad fit strategically, especially given slowing growth in the hotel industry.

Investor concern intensified after RLJ revealed that in June it was approached by an unidentified buyer offering to buy RLJ for about a 20% premium to its share price. That buyer turned out to be private-equity giant **Blackstone Group LP**, according to people familiar with the matter.

A Blackstone spokeswoman declined to comment.

Several analysts have argued the all-cash Blackstone offer would benefit investors far more than RLJ's proposed acquisition of FelCor.

"Shareholders can no longer trust that RLJ has their best interests in mind," wrote Green Street Advisors in a report after Blackstone's interest was reported.

Now the decision is coming down to the wire. RLJ shareholders are scheduled to vote Aug. 15 on the transaction. While management teams typically win in situations like



MICHAEL BUGER/THE WALL STREET JOURNAL

RLJ Lodging is seeking shareholder approval to buy FelCor, a REIT whose properties include the Knickerbocker Hotel in Manhattan.

this, observers said the outcome could be closer than expected given the poor stock performance and analyst skepticism.

RLJ executives declined to comment. In a conference call with analysts in April after the deal was announced, RLJ Chief Executive Ross Bierkan said the merged company would benefit from its increased size, more-efficient operations and increased negotiating leverage.

The deal would also provide growth opportunities not otherwise available given the slowdown hitting hotel prices and rates. "We are in a challenging period in the cycle to grow," Mr. Bierkan said.

If the deal is approved, the

success of the merged company will depend largely on RLJ's ability to combine two hotel companies that target different parts of the hotel market. RLJ is a leader in what is known in the industry as select-service hotels, with brands like Hilton Garden Inns and Courtyard by Marriott, that have limited food and meeting services.

Select hotels basically just offer rooms with relatively low prices, a strategy that has made them attractive to cost-conscious business travelers and tourists in the years leading out of the downturn.

Consumers want to check in somewhere, have free Wi-Fi and maybe a free banana or muffin they can grab on their

way out to their first meeting," said Whitney Stevenson, an analyst at JMP Securities.

FelCor has focused on hotels with more services and food offerings, like the Knickerbocker Hotel in Midtown Manhattan, which it purchased for \$115 million in 2012, upgraded and then reopened in 2015. The highly leveraged company has been under pressure to put itself up for sale since early 2016, when activist investor Jonathan Litt took a position in the company and began agitating for a sale of assets or the entire company.

Raymond James analyst William Crow said there was a "good bit of work" needed to integrate the two companies into "one cohesive portfolio."

He added that it might be tough for the merged company to sell assets at this point in the cycle to reduce leverage.

"There's considerable risk in doing this," Mr. Crow said.

RLJ founder Robert Johnson, 71 years old, was born in Hickory, Miss., one of 10 children in a family that had owned land in the area for four generations. A pioneer of the cable-television business, he launched Black Entertainment Television, or BET, in 1980. Twenty-one years later he sold the channel to Viacom Inc. for about \$2.3 billion in stock.

RLJ, which went public in 2011, has its roots in the hotel investments Mr. Johnson started making following his

sale of BET. He currently serves as the chairman of the REIT.

With Mr. Johnson's consent, RLJ and FelCor started discussing a possible merger in November, just two months after FelCor's chief executive stepped down and FelCor began a review of its long-term strategy. RLJ's first offer implied a value of FelCor stock "in the low \$8 range," according to a Securities and Exchange Commission filing.

The deal announced in April put an implied value of \$8.54 a share on FelCor stock. It had been trading in the \$7.40 range before the deal was announced.

Blackstone, which is referred to in the proxy material as "Party Y," made its unsolicited offer for RLJ in June, according to the SEC filing. Such a maneuver was unusual for the private-equity giant, which has a reputation for waiting to be invited into a deal before making such an offer.

There remains widespread speculation that Blackstone or another firm would make an offer for RLJ if the FelCor deal fails.

Another big unknown is whether the slowdown in hotel-industry occupancy and rates will continue. The merged company's strategy to reduce debt and integrate the two companies would depend on its ability to improve cash flow, analysts say.

But RLJ didn't boost Wall Street's confidence in its ability to do this last week when it released what many analysts considered to be disappointing second-quarter results. The company also cut its guidance on expected performance for the rest of the year.

Executives in the hotel industry are "split about 50-50" on whether they expect to see a "reacceleration" of rates and occupancies at this stage in the cycle, Ms. Stevenson said. But for the RLJ-FelCor deal to work, she said, "you have to use that as your underpinning base assumption."

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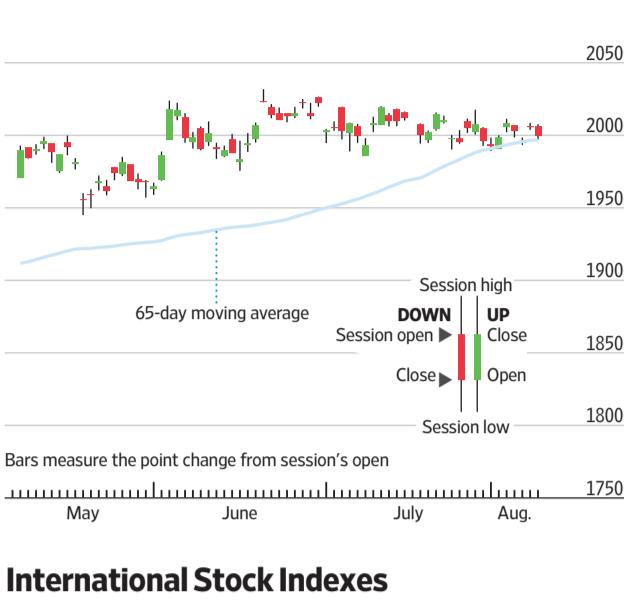
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MARKETS DIGEST

Nikkei 225 Index

19996.01 ▼ 59.88, or 0.30%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

STOXX 600 Index

382.65 ▲ 0.64, or 0.17%

High, low, open and close for each trading day of the past three months.



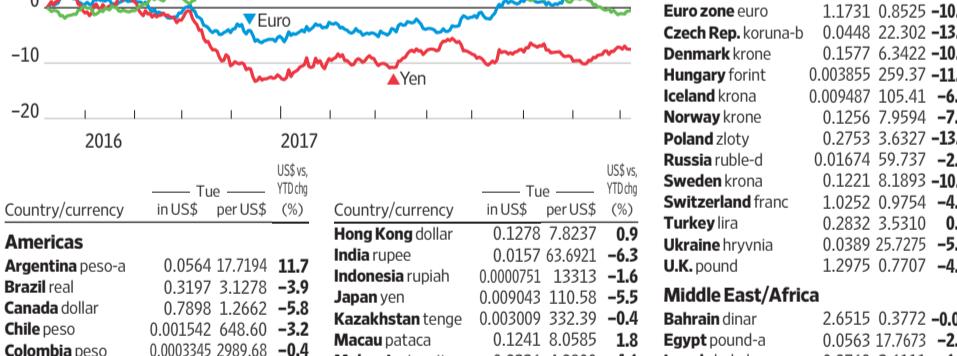
Data as of 12 p.m. New York time

International Stock Indexes

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2881.13	2.14	▲ 0.07	2386.93	2882.16	14.0		
	MSCI EAFE	1949.17	-4.56	▼ -0.23	1614.17	1955.39	13.6		
	MSCI EM USD	1080.09	4.73	▲ 0.44	838.96	1080.09	36.0		
Americas	DJ Americas	598.88	2.15	▲ 0.36	503.44	598.93	10.8		
Brazil	Sao Paulo Bovespa	68374.41	434.75	▲ 0.64	56459.11	69487.58	13.5		
Canada	S&P/TSX Comp	15284.10	26.13	▲ 0.17	14319.11	15943.09	-0.02		
Mexico	IPC All-Share	51676.29	287.02	▲ 0.56	43998.98	51772.37	13.2		
Chile	Santiago IPSA	3894.32	-11.44	▼ -0.29	3120.87	3908.55	20.8		
U.S.	DJIA	22168.70	50.28	▲ 0.23	17883.56	22173.42	12.2		
	Nasdaq Composite	6417.74	33.97	▲ 0.53	5034.41	6460.84	19.2		
	S&P 500	2489.49	8.58	▲ 0.35	2083.79	2489.81	11.2		
	CBOE Volatility	9.59	-0.34	▼ -3.42	8.84	9.59	23.01	-31.7	
EMEA	Stoxx Europe 600	382.65	0.64	▲ 0.17	328.80	396.45	5.9		
	Stoxx Europe 50	3123.99	7.75	▲ 0.25	2720.66	3279.71	3.8		
France	CAC 40	5218.89	11.00	▲ 0.21	4310.88	5442.10	7.3		
Germany	DAX	12292.05	34.88	▲ 0.28	10174.92	12951.54	7.1		
Greece	ATG	830.44	2.58	▲ 0.31	548.72	859.78	29.0		
Israel	Tel Aviv	1392.75	-5.52	▼ -0.39	1372.23	1490.23	-5.3		
Italy	FTSE MIB	22048.30	17.13	▲ 0.08	15923.11	22065.42	14.6		
Netherlands	AEX	532.68	1.27	▲ 0.24	436.28	537.84	10.2		
Russia	RTS Index	1048.69	16.01	▲ 1.55	937.32	1196.99	-9.0		
Spain	IBEX 35	10734.70	58.20	▲ 0.55	8393.50	11184.40	14.8		
Switzerland	Swiss Market	9162.33	7.20	▲ 0.08	7585.56	9198.45	11.5		
South Africa	Johannesburg All Share	55980.05	-183.55	▼ -0.33	48935.90	56396.24	10.5		
Turkey	BIST 100	109639.12	-142.01	▼ -0.13	71792.96	110321.81	40.3		
U.K.	FTSE 100	7542.73	10.79	▲ 0.14	6654.48	7598.99	5.6		
Asia-Pacific	S&P/ASX 200	5743.80	-29.80	▼ -0.52	5156.60	5956.50	1.4		
China	Shanghai Composite	3281.87	2.42	▲ 0.07	2980.43	3292.64	5.7		
Hong Kong	Hang Seng	27854.91	164.55	▲ 0.59	21574.76	27854.91	26.6		
India	S&P BSE Sensex	32014.19	-259.48	▼ -0.80	25765.14	32575.17	20.2		
Indonesia	Jakarta Composite	5810.56	61.27	▲ 1.07	5027.70	5910.24	9.7		
Japan	Nikkei Stock Avg	19996.01	-59.88	▼ -0.30	16251.54	20230.41	4.6		
Malaysia	Kuala Lumpur Composite	1781.65	3.74	▲ 0.21	1616.64	1792.35	8.5		
New Zealand	S&P/NZX 50	7782.72	11.15	▲ 0.14	6664.21	7782.72	13.1		
Philippines	PSEI	7986.51	-5.76	▼ -0.07	6563.67	8071.47	16.8		
Singapore	Straits Times	3318.08	-2.59	▼ -0.08	2787.27	3354.71	15.2		
South Korea	Kospi	2394.73	-4.02	▼ -0.17	1958.38	2451.53	18.2		
Taiwan	Weighted	10568.97	-10.41	▼ -0.10	8902.30	10579.38	14.2		
Thailand	SET	1577.44	3.77	▲ 0.24	1406.18	1591.00	2.2		

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on Aug. 8

Country/currency	in US\$	in US\$	per US\$	YTD chg (%)
Country/currency	in US\$	in US\$	per US\$	YTD chg (%)
Hong Kong dollar	0.1278	7.8237	9.9	-0.9
India rupee	0.0157	63.6921	-6.3	-
Indonesia rupiah	0.000751	13313	-1.6	-
Japan yen	0.009043	110.58	-5.5	-
Kazakhstan tenge	0.003009	332.39	-0.4	-
Macau pataca	0.1241	8.0585	1.8	-
Malaysia ringgit-c	0.2336	4.2800	-2.2	-
New Zealand dollar	0.7333	1.3637	-5.6	-
Pakistan rupee	0.0095	105.343	0.9	-
Philippines peso	0.0198	50.578	2.0	-
Singapore dollar	0.7335	1.3633	-5.8	-
South Korea won	0.0008875	1126.80	-6.7	-
Sri Lanka rupee	0.065232	153.30	3.3	-
Taiwan dollar	0.03311	30.198	-7.0	-
Thailand baht	0.03005	33.280	-7.1	-

Key Rates

Latest 52 wks ago

Cur Stock	Sym	Last	% Chg	YTD% Chg	Cur Stock	Sym	Last	% Chg	YTD% Chg	Cur Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans														
HKS ALAGroup	I299	61.50	1.40	40.57	Y TakedaPharm	4502	5957.00	-0.30	23.21	E RocheHldgctf	ROG	247.20	-0.08	6.28
HKS BHP	BHP	26.10	-0.23	4.15	V TokioMtn	8766	4652.00	-1.27	-3.00	E RoyDitchShellA	RODSA	2213.50	0.73	-1.29
HKS ChinaConstructB	0091	104.50	-0.10	18.89	AU Wesfarmers	WES	41.00	...	-2.71	E SAP	SAP	90.82	0.18	9.67
HKS Cnoco	0883	8.81	-1.38	-9.18	AU WestpacBanking	WBC	31.90	-0.13	-21.25	E Sanofi	SAN	82.18	0.61	6.87
HKS CSL	CSL	126.96	-0.70	26.44	AU Woolworths	WOW	26.94	0.15	11.78	E SchneiderElectric	SU	70.20	1.53	6.19
HKS ChinaMobile	0941	84.45	1.02	2.74	AUZ NatAusBnk	NAB	30.18	...	-1.35	E TEF	TEF	9.82	1.23	11.32
HKS ChinaPetro&Chem	0386	5.90	-0.27	-2.74	AUZ BNPL	BNP	68.89	0.50	13.77	E Unile				

THE PROPERTY REPORT

Best Place for New Warehouse: Old Mall

Abundance of closed shopping centers draws attention from logistics companies

By ESTHER FUNG

The pressure for speedy online package delivery is prompting companies to look for distribution facilities closer to residential areas or highways.

Some of the best locations, it turns out, are dead malls.

Warehouse landlords say they like former malls because the shopping centers occupy swaths of space relatively close to where consumers live or near main highways.

But it isn't easy to convert a mall into logistics space quickly. Developers say it takes a community ready to accept that the mall has failed as well as understanding that there are viable job opportunities in logistics real estate.

The dramatic shift in the retail industry and growth of e-commerce have led some analysts to estimate that 400 or so of the roughly 1,100 malls in the U.S. will close in the coming years.

Meanwhile, the appetite for industrial space continues unabated. Roughly 247 million square feet of industrial space is expected to be delivered this year, according to real-estate services firm JLL.

In North Randall, Ohio, Amazon.com Inc. is considering the site of the former Randall



FedEx built a distribution facility on a Mesquite, Texas, plot that used to be home to Big Town Mall.

land," said Jade Davis, vice president of external affairs at Port of Cleveland.

For a short time when it opened in 1976, Randall Park Mall was the largest shopping center in the world and had been "a thriving heartbeat" for the local economy, according to Mr. Davis. But the mall closed in 2009 as stores struggled with fewer shoppers.

Amazon's possible entry there could eventually create 1,200 jobs, said Mr. Davis, noting that the large size of the site and its proximity to a deep-water port, airports and interstate highways are conducive for a distribution facility.

Taking note of changing consumer behavior, many retailers are looking to adjust the number and size of stores they operate and are closing stores to allocate some resources to online capabilities.

"In the old days of shopping, you drive into New York City to look for an item and it was a whole-day endeavor. Now you can search on your smartphone and have it delivered," Mr. Landy said.

In Union City, Ga., property developer Rooker purchased a 90-acre site in 2014 that formerly housed Shannon Mall. It built a 987,840-square-foot distribution facility called Union Station Business Center and a television studio facility on the site after demolishing the 765,000-square-foot mall. Shannon Mall opened in 1980 and had stores such as Sears, Mervyn's and Toys "R" Us, but closed in 2011 after the final

tenant left.

John Rooker, chief executive at the development firm, said the site's proximity to the Hartsfield-Jackson Atlanta International Airport and the interstate highway made it attractive for industrial development.

The facility was built on a speculative basis, but potential tenants started knocking on Rooker's door just months after the developer started ground-up construction.

"I'm pretty sure we haven't even poured the floor yet when they came along," said Mr. Rooker, referring to the DHL Supply Chain that now occupies the distribution facility. Rooker sold the building to a real-estate fund last year.

Good malls with attractive tenant mixes in locations with strong demographics are likely to remain, but some struggling open-air centers and malls are sitting on sites that could become coveted logistics land.

Right now, many property sellers are still holding out for a higher price for some sites, but buyers aren't biting.

"I think it would take a couple of years for those expectations and realities to match up, but I bet you before too long you will see some two-anchor, Class B malls converted into logistic buildings. That is not too far-fetched at all. And we're definitely looking at some of them," Hamid Moghadam, chairman and chief executive at Prologis Inc., said recently, referring to smaller, second-tier malls.

Park Mall as a fulfillment center, according to Port of Cleveland, a local government agency focused on spurring job creation and economic growth in Cuyahoga County. Amazon didn't immediately respond to requests for comment.

In Mesquite, Texas, FedEx Corp. next month will open a 340,000-square-foot distribution facility on what once was the site of the former Big Town Mall.

Located along U.S. Highway 80 in Texas, the mall declined after newer malls were built nearby.

It was demolished in 2006

and the land was later rezoned for industrial use.

"Land uses do change," said Michael Landy, president and chief executive officer of Monmouth Real Estate Investment Corp., which owns and leases the distribution facility to FedEx.

"After a review of developed and undeveloped properties in the Dallas and Fort Worth area, the site was chosen because of its ease of access to major highways, proximity to customers' distribution centers and a strong local community workforce for recruiting employees," said David Westrick, a

FedEx spokesman.

Property developers increasingly are looking to accommodate delivery giants and retailers, either refurbishing former department stores or doing ground-up, build-to-suit construction. Local business communities are also hopeful that distribution centers will drive commerce and employment growth.

Amazon, for instance, said earlier this year it plans to hire 100,000 full-time and 30,000 part-time workers in the U.S. by mid-2018.

"What's most meaningful to us is that it can bring new life to an unproductive piece of

Retail REITs Say They Have Plenty of Life Left

BY ESTHER FUNG

Last week, the top mall operators delivered a blunt message to short sellers and naysayers who had expected more gloom for landlords in the bricks-and-mortar retail business: Don't count us out just yet.

The real-estate investment trusts delivered second-quarter results that showed some resilience, with average sales productivity holding steady and occupancy rates taking a smaller-than-expected hit from retailer bankruptcies and announced store closures.

Simon Property Group Inc. and Macerich Co. reported strong re-leasing activity and a pickup in same-store net operating-income growth, and their shares have climbed since their results were announced last week.

"The important message is, these properties are vibrant, there's a lot of demand and we're able to execute leases that are growing our rents," said Richard Sokolov, president and chief operating officer of Simon Property Group, during its Aug. 1 earnings call. He said the landlord is opening stores from many retailers such as Untuckit, Peloton, Eloquii and more.

The real-estate investment trust said there are challenges in the retail industry but that it remains confident. It raised its full-year guidance on per-

share funds from operations, a cash flow metric, by four cents after taking into account a debt charge.

Mall landlords said they are working to fill vacated space with tenants such as restaurants and entertainment providers that draw foot traffic.

Taubman Centers Inc., which has the smallest portfolio of the four A-mall REITs, was the only one to reduce its full-year guidance on growth in net operating income, to a range of 1% to 3% from 3.5%. That was in part due to its

I have no empathy for the incorrect conclusions that the mall is dead...

narrower re-leasing spreads—the difference between leases that end and new leases—as shorter lease terms, modifications and rent concessions increasingly are part of rent negotiations.

Yet those tactics can be beneficial because they keep tenants closer to current consumer tastes. Landlords such as CBL & Associates Properties Inc., for instance, said some tenants use potential store closings as a pretense to reduce their occupancy cost, but end up closing fewer stores

than anticipated.

"It never ends up being what they announce," said Stephen Lebovitz, chief executive of CBL & Associates Properties, during an earnings call Friday, adding that Gordmans Stores, for instance, initially planned to close four of five stores in CBL's portfolio but ended up closing just one.

"Claims that 55% of malls will be shuttered in the near future and nearly 9,000 stores will close this year are the product of poor research and sensationalism," added Mr. Lebovitz.

Credit Suisse in a May report estimated that retailers will close more than 8,600 locations this year, exceeding the roughly 6,200 closings recorded during the recession in 2008. Credit Suisse declined to comment.

During recent earnings calls, mall landlords criticized reports that declared the end of bricks-and-mortar retail. They noted that their strategies focused on drawing more foot traffic—such as in bringing in multiplex theaters, virtual-reality retailers and health clubs, as well as including more mixed uses such as entertainment, residential and office space—are working.

"I have no empathy for the incorrect conclusions that the mall is dead and that it is in late innings or demising," said Art Coppola, chief executive officer of Macerich.



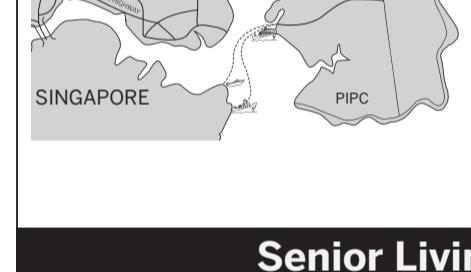
Mall landlords said they are working to fill vacated space with tenants that draw foot traffic.

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MALAYSIA

Senior Living/ Retirement Themed Landed Development Opportunity in Johor, Malaysia



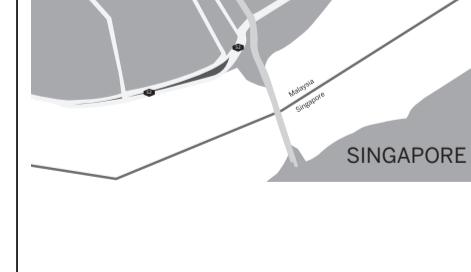
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- Approx. 30 mins drive to the multibillion ringgit oil and gas project
- Joint development or sale of entire land plot

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- Next to a 9000 ac conserved wetlands
- Nature setting for complementing eco-recreational and eco-tourism activities
- Approx. 20 mins drive from Singapore
- Ideally suited for the growing aging population in S.E. Asia
- Joint development or sale of entire land plot

Hotel Development Opportunity in Johor Bahru City Centre, Malaysia



- Development rights for sale - 4 or 5 star hotel in an existing mixed-use development
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THE WALL STREET JOURNAL

MARKETS

Investors Enjoy a Sleepy Summer

Stocks have risen in unusually calm trading, but sometimes August brings jolts

By STEVEN RUSSOLILLO

HONG KONG—It may seem like the dog days of summer for investors. But August is known for offering financial markets a range of surprises.

Trading has slowed as stocks have risen steadily around the world, a reflection of quiet markets and sleepy sessions that have stretched from Asia to Europe to the U.S. Volatility has remained historically low, traders have fled for vacations and pullbacks have been nonexistent.

Two years ago this week, though, China ruined the summers of many foreign-exchange and equity traders with a surprise devaluation of its currency. The move not only stoked fears about the world's second-largest economy, but it also rippled across Asian markets and sent tremors around the world. Chinese stocks plunged, and its foreign-exchange reserves fell, putting an abrupt end to a sleepy summer.

Few at the moment expect a repeat of such magnitude. In China, reserves rose in July for a sixth straight month and the yuan has gained about 3% against the U.S. dollar this year. A rebound in exports fueled stronger-than-expected economic growth of 6.9% in the year's first half.

Asian stocks, broadly, have rallied as a result. Hong Kong's Hang Seng Index, which has risen in 19 of the past 22 trading days, is up 26% this year and is among the world's top-performing indexes.

The MSCI AC Asia Pacific ex-Japan Index, a broad barometer that counts big Asian companies listed globally, is up 25% and trading at nearly a 10-year high.

Even hedge funds, long criti-



Traders on the NYSE floor last week. The average daily moves of the Dow industrials this year have been the smallest in 53 years.

icized for high fees and under-performance, are doing well in the region. Chinese hedge funds gained 16% in the first half of the year, significantly outperforming a benchmark tracked by data provider Hedge Fund Research. In the second quarter, Asia hedge funds collectively attracted their first quarterly asset inflow in two years, HFR said.

"It was a very good first six months for a lot of hedge funds and portfolio managers," said Arthur Kwong, head of Asia-Pacific equities at BNP Paribas Asset Management in Hong Kong. "If you made a lot of money in the first half, there's little reason you need to take extra risk in the summer months."

The situation in other parts

of the world is similar. In the U.S., the Dow Jones Industrial Average rose above 22000 last week for the first time in what has been a methodical move higher. Through last week, the Dow's average daily move in either direction so far this year has been 0.31%, the smallest swing in 53 years, according to The Wall Street Journal's Market Data Group. Ten years ago, this average daily move was more than double its current level.

August is typically a time for slow trading volume, too. Average daily activity in early August, measured by NYSE composite volume, has been lower than this year's daily average, according to FactSet.

History shows that just because markets are quiet now

doesn't mean they will stay that way for the rest of the summer.

In August 2011, Standard & Poor's surprise downgrade of its U.S. debt rating prompted some of the most volatile days on record for U.S. stocks. In August 2007, the subprime mortgage meltdown in the U.S. was morphing into the global financial crisis. And in the summer of 1997, a financial crisis that started in Thailand eventually spread throughout Asia, as currencies of many of the region's hardest-hit economies such as Thailand, Indonesia, Malaysia and South Korea lost more than 50% of their value against the dollar.

For now at least, investors say they wouldn't be surprised if the calm in the markets continues.

No Surprise

The occasional jolts seen in summers past have been few and far between this season.

Hong Kong's Hang Seng Index over the past five years



Source: FactSet
THE WALL STREET JOURNAL.

Stocks in U.S. Get Lift From Financials

By RIVA GOLD AND AKANE OTANI

U.S. stock indexes edged higher, buoyed by a rise in shares of financial companies.

The Dow Jones Industrial Average added 30 points, or 0.1%, to 22148 around midday, extending gains after logging its ninth consecutive record close Monday.

The S&P 500 edged up 0.3%, and the Nasdaq Composite rose 0.4%.

Stocks' moves have been muted in recent sessions as the second-quarter earnings season has wound down.

Financial shares climbed 0.9% in the S&P 500, leading gains in the broad index, as government-bond yields moved higher. Banks tend to benefit from higher yields since they boost their net-interest margins, a key measure of lending profitability.

The yield on the 10-year U.S. Treasury note was at 2.283% at midday, according to Tradeweb, up from 2.258% on Monday. Yields rise as bond prices fall.

Elsewhere, the Stoxx Europe 600 edged up 0.2% after data showed Germany's trade surplus widened slightly in June, though imports and exports declined.

Earlier, a report showed China's exports and imports expanded less than analysts expected in June.

Japan's export-heavy Nikkei Stock Average fell 0.3%, its third decline in four sessions.

Reaction to the trade data was limited in China, with the Shanghai Composite Index ending the day up nearly 0.1%.

—Demi Guo contributed to this article.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

Rockwell Deal Too Pricey to Fly

United Technologies may aspire to be even bigger in aerospace than it already is. Its shareholders should be wary of that happening at the wrong price.

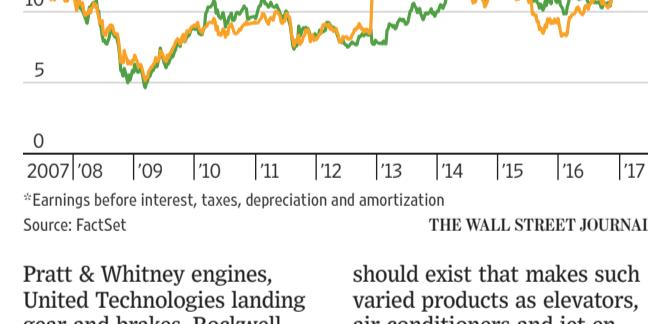
Shares in avionics and airplane-interiors maker **Rockwell Collins** surged Monday following reports that industrial conglomerate United Technologies approached the company about a takeover. The companies were mum, but such a deal could be worth in excess of \$20 billion.

With little product overlap, combining the two would seem doable from a regulatory perspective. United Technologies views aerospace as its fastest-growing area and it might covet Rockwell Collins' high-margin cockpit gizmos business. It also would inherit that company's airplane-interiors unit, which Rockwell still is digesting following a \$6.4 billion acquisition of B/E Aerospace that closed in April.

Imagine then a plane made with United Technologies'

Flight Patterns

Debt-adjusted market value to Ebitda*



*Earnings before interest, taxes, depreciation and amortization

Source: FactSet

space on its balance sheet with net debt of just 1.7 times its earnings before interest, taxes, depreciation and amortization, according to S&P Global Market Intelligence.

That is all the more reason for shareholders to worry. Rockwell Collins shareholders would require a hefty takeover premium given the company's margins, which are substantially higher than that of United Technologies.

Without a firm deal in hand, Rockwell Collins already trades at a debt-adjusted market value of 20 times trailing Ebitda. The Wall Street Journal reported a possible deal price below \$140 a share,

which would bring the ratio to more than 22 times. Rockwell Collins itself paid 13 times for B/E Aerospace.

Berkshire Hathaway paid around 12 times for Precision Castparts in 2015.

United Technologies shareholders should hope such pricey deal talk passes quietly into the night.

—Alex Frangos

OVERHEARD

When a flywheel is mentioned, mechanically minded types think of a heavy wheel that, through its inertia, helps smooth fluctuations in a piece of machinery. For corner-office types, it is so much more.

Just consider a few of last week's earnings calls. **Re/Max Holdings** co-Chief Executive **Adam Contos** told investors the real-estate company's aim working in new regions was "getting that flywheel moving and keeping it at a velocity at this point."

Dun & Bradstreet CEO **Robert Carrigan** said that after years of cost-cutting and no growth, "it takes a while to sort of get that flywheel going again."

Shopify CEO **Tobias Lutke**: "All of these things go on the flywheel that hopefully then spins faster and faster and faster."

The flywheel has become such a staple of corporate jargon that what has become rare are the instances when they talk about an actual flywheel.

Apple Plays Costly Game Of Catch-Up

Apple Inc.'s new 10th Anniversary iPhone is still slight unsee, yet a glance at the company's latest quarterly results raises the question of what else may be coming.

Apple's spending on research and development totaled \$2.9 billion for the third fiscal quarter ended July 1, rising 15% year over year. That brought Apple's R&D spending to \$11.2 billion for the trailing 12 months, which is about 5% of the company's revenue for the period. Apple hasn't expended a greater portion of its revenue on R&D on an annual basis since 2004.

That suggests other big things on the horizon, though what exactly is anyone's guess. Apple only claims "an increase in headcount-related expenses to support expanded R&D activities" in its quarterly filing. The company is widely reported to be working on projects related to self-driving cars, health-care monitoring and augmented reality, to name just a few.

Apple's market value has surged 35% this year to \$820 billion—adding \$45 billion since last week's earnings report, which all but confirmed that some new iPhones will launch this quarter. And it is hard to forget the stock has seen downturns twice in the past five years following big iPhone launches.

It is worth noting that Apple is competing with other deep pockets willing to dig even deeper. As a percentage of revenue, Apple's R&D expenditures rank the lowest among big tech companies save for HP Inc. Of course, spending gobs of money now is never a guarantee of future success, but Apple has a distinct need to make its billions count. —Dan Gallagher

A Gusher of Oil Cash Is Springing From Suncor Energy

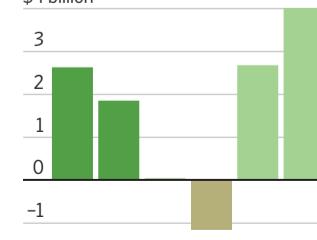
Canada's oil sands are dirty, costly and the opposite of fast-money shale drilling, but the companies that mine them generate gushers of cash and are some of the biggest bargains in the stock market right now.

Canada's **Suncor Energy** is among the world's higher-cost producers of oil. By all rights, it should have scaled back its ambitions during the past few difficult years. Instead, it did the opposite, buying out partners on the cheap and plowing ahead with projects that could pay off for decades.

This came at a time when the shale producers, which sport flashy growth rates but devour cash, attracted plenty of investment. Now Suncor's shares look undervalued at

Northern Light

Suncor free cash flow



*Projection

Source: FactSet

THE WALL STREET JOURNAL.

current oil-price assumptions. If prices rise then Suncor is especially alluring.

Suncor produces conven-

tional crude and it has large refining and fuel-marketing operations, but its main business is mining oil sands in remote parts of Canada. Unlike shale, oil sands require huge upfront investments.

At current prices, it would be foolhardy to start a new oil sands operation. But the rewards rack up quickly the more optimistic one is about crude in the long run.

At \$37 a barrel for U.S. crude, Suncor's funds from operations cover maintenance capital expenditures and its dividend—its shares currently yield 3%. At a price of \$50 to \$55, Suncor can double its return of cash to shareholders with an equivalent outlay for stock buybacks.

At a price of \$60, Suncor

would have generated excess funds from operations equal to nearly 15% of its market value in the past 12 months. Cash flow will almost certainly rise in the near future if oil prices remain stable. The biggest reason is the nearly completed Fort Hills mining project, which has a capacity of 194,000 barrels a day. It should reach full capacity in a year and produce oil for an extraordinary 50 years.

Fort Hills is an example of Suncor's contrarian bent. Near the depths of the oil-price slump, Suncor raised its stake in the project to 50.8%.

Suncor also boosted its stake from 12% to 53.7% in an older, larger sands project by buying a rival and snagging a 5% stake from **Murphy Oil**.

Murphy said it would redeploy the capital into shale and investors applauded. Yet conventional wisdom is a strange thing. If one adds up the projected free cash flow for 2018 and 2019 of Murphy plus six more U.S. shale drillers, **Pioneer Natural Resources**, **EOG Resources**, **Cabot Oil & Gas**, **Range Resources**, **Southwestern Energy** and **Devon Energy**, it doesn't quite add up to half of what analysts project that Suncor will generate. But the collective enterprise value of those seven firms is 2½ times as high.

Oil sands may have gone from a boom industry to a backwater, but they aren't going away. There is plenty of opportunity north of the border. —Spencer Jakab