

# THE WALL STREET JOURNAL.

DOW JONES | News Corp

THURSDAY, AUGUST 17, 2017 ~ VOL. XLI NO. 246

WSJ.com

ASIA EDITION

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## U.S., China Coordinate on North Korea



GENERAL INTRODUCTIONS: The Pentagon's top general, Joe Dunford, left, met with China's Gen. Song Puxuan in Haichung, China, to discuss avoiding miscalculations if war breaks out with North Korea. A3

## Apple Piles Into Video Business

By TRIPP MICKLE

**Apple Inc.** has set a budget of roughly \$1 billion to procure and produce original content over the next year, according to people familiar with the matter—a sign of how serious the iPhone maker is about making a splash in Hollywood.

Combined with the company's marketing clout and global reach, the step immedi-

ately makes Apple a considerable competitor in a crowded market where both new and traditional media players are vying to acquire original shows. Apple's budget is about half what Time Warner Inc.'s HBO spent on content last year and on par with estimates of what **Amazon.com Inc.** spent in 2013, the year after it announced its move into original programming.

Apple could acquire and produce as many as 10 television shows, according to the people familiar with the plan, helping fulfill Apple Senior Vice President Eddy Cue's vision of offering high-quality video—similar to shows such as HBO's "Game of Thrones"—on the company's streaming-music service or possibly a new, video-focused service.

Please see **APPLE** page A2

## Growth Surge Spreads in Europe



COMEBACK: The eurozone's economic recovery has spread to areas such as Italy and the Netherlands. Above, Dutch cheese. A4

**At This Lab,**  
**Robots**  
**Run Amok**

\* \* \*  
Robotarium lets experimenters use devices remotely

By MELISSA KORN

A tiny robot, no bigger than a hockey puck, danced across Paul Glotfelter's desk as he worked at his computer. Last he checked, it had been standing still, next to his keyboard. Now it spun in circles.

"This is weird," Mr. Glotfelter, a robotics Ph.D. candidate, recalls thinking, worried he might have damaged it somehow. But then he shrugged, placed it on its back, wheels up, and returned to work.

So goes life in the Robotarium, a 10-square-foot table inside the Atlanta laboratory of Magnus Egerstedt.

Please see **ROBOTS** page A8

## Talks to Remake Nafta Open Amid Frictions

By WILLIAM MAULDIN

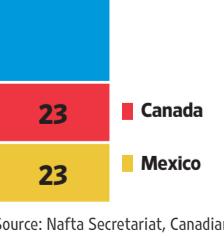
WASHINGTON—President Donald Trump's trade representative opened talks on renegotiating the North American Free Trade Agreement on Wednesday saying the 23-year-old pact has "failed many Americans," while Mexican and Canadian officials underscored the countries' friendship and working relationship.

"We believe that Nafta has fundamentally failed many Americans and needs major improvements," U.S. trade representative Robert Lighthizer said at the opening of talks in Washington. "We need to assure that the huge trade deficits do not continue."

Mr. Lighthizer said Mr. Trump, who vilified Nafta in the 2016 presidential campaign, isn't interested in just modernizing the pact and "tweaking" commercial rules, but rather wants new features to reduce the trade deficit. Among those, he said,

### Conflict Resolution

Among Nafta countries, the U.S. has been most often targeted in 'Chapter 19' trade-dispute cases.



Source: Nafta Secretariat, Canadian Section THE WALL STREET JOURNAL.

were changes to "protect our national sovereignty" in the dispute-resolution mechanisms laid out in Chapter 19 of the accord.

The Trump administra-

Please see **NAFTA** page A2

## Tech Firms Are Thrust Into Debate

By YOREE KOH  
AND JACOB GERSHMAN

Technology companies' recent moves to crack down on white supremacists thrust them into unusual territory for corporations that often take a more hands-off approach toward who uses their services and how.

In the wake of weekend violence at a white supremacists' rally in Charlottesville, Va., **Alphabet Inc.**'s Google and **GoDaddy Inc.** stopped providing hosting support for the Daily Stormer, a neo-Nazi site that the companies said violated their terms of service. **Airbnb Inc.** banned participants in the rally from staying in rentals booked through its site.

**Uber Technologies Inc.** blacklisted white supremacist James Allsup after Mr. Allsup and another passenger allegedly made racist remarks to

### Baltimore Removes Confederate Statues

The city quietly took away monuments overnight to avoid demonstrations, A6

their driver in Washington, D.C., on Friday night. In a video Mr. Allsup posted on Twitter, Mr. Allsup is heard asking the driver what he said was racist. Crowdfunding site GoFundMe removed campaigns to raise money to bail out the driver charged with speeding into a crowd of counterprotesters on Saturday, which killed 32-year-old Heather Heyer.

On Tuesday, payments company **PayPal Holdings Inc.** reiterated that it works to ensure "that our services are not used to accept payments or

Please see **TECH** page A7

## Remarks Further Isolate President

By GERALD F. SEIB

Throughout the strange odyssey that was the 2016 presidential campaign, Candidate Donald Trump never seemed afraid to be isolated from the political mainstream, standing on an island apart from those inside his party, to say nothing of those outside it.

Yet even Candidate Trump may never have left himself quite so isolated as President Trump did with a remarkable news conference inside Trump Tower on Tuesday afternoon.

Almost inexplicably, one day after Mr. Trump sent a sense of relief washing over his party

by unambiguously condemning neo-Nazi groups at the forefront of a protest in Charlottesville, Va., last weekend, the president did a U-turn. He said again that both the white supremacist marchers and those who were there to protest them were equally to blame for the violence there. In that violence, a 32-year-old woman was killed by a young man who drove his car into a gathering of people opposing the white supremacists.

Within minutes of Mr. Trump's comments, David Duke, a former Ku Klux Klan

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GARY HERSHORN/GETTY IMAGES

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Source: IDC "Worldwide SaaS Enterprise Applications Market Shares, 2015: The Top 15 by Buyer Size," doc #US41913816, Dec. 2016. Table 4. For the purposes of this report, SaaS enterprise applications include the following application markets: CRM, engineering, ERP, operations and manufacturing, and SCM.

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## WORLD NEWS

CAPITAL ACCOUNT | By Greg Ip

# For Business, a New Political Status Quo



In January, conservative legislators in Texas backed by Gov. Greg Abbott introduced a bill to regulate transgender access to public facilities such as bathrooms. That proposal went down to defeat Tuesday thanks in part to vociferous opposition by business leaders who condemned it as discriminatory and bad for the state's economy.

In a business-friendly state where Republicans control the entire government, it's a stunning rebuke. It's also not an outlier. On Monday, the chief executives of Merck & Co., Intel Corp. and Under Armour Inc. all quit President Donald Trump's manufacturing council after his failure to immediately blame white supremacists for weekend violence in Charlottesville, Va.

These episodes show how big business has become, at least on social policy, a check on Mr. Trump and other Republicans, ordinarily their allies.

Politically, business leaders are risk-averse. They prioritize stability and the status quo. What has changed is the definition of the status quo. Gay and transgender rights, and taking action on climate change, were once liberal causes. They are now largely mainstream, particularly in big cities that are home to corporate head offices and the educated workers they covet. Businesses have adapted their own plans, policies and attitudes to this new mainstream. White supremacy, of course, has long been rejected across the political spectrum, but for some companies, merely being associated with a president who didn't clearly condemn it poses risks.

This changes the cost-benefit calculus for corporate



Opponents of a Texas state Senate transgender 'bathroom bill' protested at the Texas Capitol in Austin in March.

executives: Speak up and embroil yourself in controversy, or stay silent and invite the opprobrium of customers, employees, social media, foreign governments, and, for some, their own families and consciences.

Increasingly, they have concluded that inaction is the riskier path. Merck Chief Kenneth Frazier quit Mr. Trump's manufacturing council despite his company's exposure to federal decisions on drug approvals and prices. Google fired an engineer who asserted biological reasons for why women are less suited than men for tech careers.

Typically, business has been a follower on social issues. Anthony Chen, a sociol-

ogist at Northwestern University, recounts that in the 1950s businesses resisted equal-employment ordinances across the Northeast and Midwest until change became inevitable.

In the 1960s, Southern hotels, lunch counters, restaurants and other businesses didn't back segregation until the cost of sit-ins, protests and bad publicity came to surpass any potential loss of white customers. Once they opened themselves to black customers, sales boomed, Stanford University historian Gavin Wright wrote in 2008: "It is small wonder that so many Southern businessmen began to change their tune on the

race issue at this time."

Business opposition to the Texas bathroom bill was in great part driven by fear of the boycotts North Carolina experienced after passing a similar bill in 2016. (That measure was watered down earlier this year.) The Texas Association of Business, the state's main business-lobby group, gathered more than 700 signatories in opposition, including the chief executives of Texas-based American Airlines Group Inc., Celanese Corp. and AT&T Inc. IBM Corp. warned the bill imperiled future hiring in the state where it now employs more than 10,000. This apparently swayed many state legislators, who adjourned their special ses-

sion Tuesday without acting on the bill, thus killing it.

Business motives are more complex than just fear of bad publicity. Many companies were on the vanguard of extending equality to gays, and more recently transgender people, partly to attract employees or customers. Half of Fortune 500 companies provide transgender-inclusive health benefits—up from none in 2002—and 61% offer domestic-partner benefits to gay couples, according to the Human Rights Campaign, which advocates for gay and transgender people. Restrictive legislation conflicts with those policies.

A similar dynamic is under way on climate. Nearly

half the Fortune 500 has some sort of internal target for greenhouse-gas emissions, renewable energy or efficiency, according to the Carbon Disclosure Project, which advocates for climate action. Mr. Trump's decision to withdraw the U.S. from the Paris climate accord ran counter to their adoption of low-carbon technology.

For some executives, the considerations go beyond the economic. The bathroom bill "is not just going to hurt our business and our employees, it's a moral imperative not to discriminate against this already marginalized group of people," says Jim Reinhart, the head of Tekvox Inc., an Austin-based audiovisual technology startup that is part of the coalition that opposed the Texas measure. He told the state senate it exposed Texas to ridicule: "It makes us look like backward, bucktooth hillbillies."

The many technology companies that spoke out against Mr. Trump's proposed travel ban earlier this year were bothered both by the potential loss of foreign workers and the perceived stigmatization of Muslims.

This pushback against the right on many issues means Mr. Trump and Republicans can't count on reflexive support from business simply because they promise to cut taxes and regulations. That Merck's stock initially rose after Mr. Trump lashed out at Mr. Frazier for quitting the council won't go unnoticed by other CEOs.

This offers Democrats an opening to grab business's support, although that could be difficult to reconcile with internal pressures to move left on economic issues. Business could find itself a counterweight to both parties, its loyalty up for grabs.

## NAFTA

Continued from Page One  
tion's position differed significantly from the comments of senior Canadian and Mexican officials, who sought to paint a picture of friendship among the three nations and a working commercial relationship that mainly needs an update.

The disparate approaches have worried some business leaders, who see a risk that political leaders could dig in on opposing positions and hurt the ability of negotiators on the ground to strike a deal. Mr. Trump has repeatedly warned he could pull the U.S. out of Nafta.

"Canada doesn't view trade surpluses or deficits as a primary measure of whether a trading relationship works," Canadian Foreign Minister Chrystia Freeland said, noting that the U.S. has a surplus in trade of goods and services with Canada. Ms. Freeland touted the "deep friendship our countries share."

Mexico's Economy Minister Ildefonso Guajardo said his country "thinks that Nafta has been a strong success for all parties."

Mr. Guajardo said achieving a consensus won't be easy. "Let's not be mistaken, the first challenge we have is to find a common ground among the three countries," he said. "For a deal to be successful, it

has to work for all parties involved; otherwise it is not a deal."

Mr. Lighthizer pointed to Nafta's success for many U.S. farmers, but he said it has hurt many others. The U.S. wants to boost rules to protect intellectual property, guard against currency manipulation, and negotiate tougher rules that would require "much higher Nafta content and substantial U.S. content" for cars and auto parts in order for the goods to cross North American borders duty free, Mr. Lighthizer said.

Washington's declared intention to do away with dispute-resolution panels empowered to overturn tariffs, as detailed in Chapter 19 of Nafta, has drawn particular concern among its partners in the trade deal.

Canada is digging in on its insistence that those panels are a crucial tool Canadian firms can use to fight tariffs imposed by its powerful southern neighbor.

"Canada absolutely stands very firm in the importance of having such a mechanism," Ms. Freeland said this week.

Mexican senators have also called for retaining the mechanism. Mr. Guajardo said the current system provides a deterrent against the improper use of duties, telling The Wall Street Journal in a recent interview that dismantling it could end up hurting exporters in all three countries.

One question is whether

the early rhetoric will give way to compromise once the negotiations begin. Trade talks are all about compromise, and Chapter 19 could end up a bargaining chip in a broader set of concessions each side seeks.

Stephen Powell, a former senior counsel at the Commerce Department who has written extensively on the dispute-resolution process, said given the historical importance Canada places on Chapter 19, it would likely demand a "very large concession" for abandoning the system.

"Canada can certainly insist on something very big, so can Mexico," Mr. Powell said.

But for Messrs. Trump and Lighthizer, Chapter 19 symbolizes an erosion of sovereignty, since the panels have primarily been used to overturn tariffs imposed by the U.S. Commerce Department on Canadian and Mexican products.

The issue is of particular interest to Mr. Lighthizer, who spent about three decades as a Washington trade lawyer arguing in favor of the types of tariffs that can be overturned under Chapter 19.

Officials of the three countries hope to hold several rounds of talks this fall and complete negotiations as soon as early next year, before the political seasons heat up in Mexico and the U.S.

—Paul Vieira in Ottawa and Anthony Harrup in Mexico City contributed to this article.

## APPLE

Continued from Page One

Apple declined to comment.

The budget will be in the hands of Hollywood veterans Jamie Erlicht and Zack Van Amburg, poached in June from Sony Corp. to oversee content acquisition and video strategy. They exited their Sony contracts a month early and started working this month from Apple's Los Angeles offices, where they are taking over programming responsibilities from the Apple Music team, according to the people familiar with the matter.

Elbowing into the video business won't be easy. Amazon and Netflix Inc. have considerable head starts and far bigger programming budgets. Apple also has to avoid jeopardizing its 15% cut of subscriptions from its app stores for video services like Netflix and HBO Go—a growing contributor to its \$24.35 billion in annual services revenue. Programming costs can range from more than \$2 million an episode for a comedy to more than \$5 million for a drama. An episode of some high-end shows such as "Game of Thrones" can cost more than \$10 million to produce.

The back-to-back success of the original shows "House of Cards" and "Orange Is the New Black" is credited with building Netflix's business. At the time they were released the company's annual budget for original and acquired programming was about \$2 billion; this year Netflix is expected to spend more than \$6 billion.

For its initiative to gain relevance, Apple needs at least one hit, according to the people familiar with the plan. The firm's initial video efforts via Apple Music—"Planet of the Apps," launched in June and, "Carpool Karaoke," out last week—were criticized by reviewers.

With \$215.64 billion in revenue last fiscal year and more than \$261 billion in cash on its balance sheet, Apple could quickly ramp up spending on content.

Messrs. Van Amburg and Erlicht have begun meeting with Hollywood agents and holding discussions about shows Apple could acquire, the people familiar said. The men also hired former WGN America President



The DJs Simihaze at a launch event for 'Carpool Karaoke' this month.

Matt Cherniss to oversee development, the people said.

Mr. Cherniss will assist with finding programming. He previously worked with Messrs. Erlicht and Van Amburg to bring the Sony shows "Underground" and "Outsiders" to WGN. Mr. Cherniss also has movie experience, having worked as a production executive at Warner Bros.

Apple is eager to shore up its existing video business—renting movies and TV shows through iTunes—which has been challenged by the rise of video-subscription services that offer programming for a monthly fee. Last year, iTunes generated an estimated \$4.1 billion in revenue, but its share of the movie rental-and-sales market has declined to less than 35% from about half in 2012.

Apple is hoping original video bolsters the appeal of movie rentals and other iTunes offerings—a critical piece of

its services business, which also includes App Store sales, Apple Pay and Apple Music. It aims to double that business to about \$50 billion by 2020.

—Joe Flint contributed to this article.

**THE WALL STREET JOURNAL.**  
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Hong Kong  
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**Printers**: Hong Kong: Euron Limited, 2/F, Block 1, Tai Ping Industrial Centre, 57 Ting Kok Road, Tai Po, Hong Kong; Indonesia: PT Gramedia Pratama, Jl. Palmerah Selatan 22-28, Jakarta 10270; Japan: Mainichi Newspapers Co., Ltd., 1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051; Korea: JoongAng Ilbo, 100 Seoumno-ro, Jung-gu, Seoul, 100-814; Publisher/Printer: Sony P/H-HO; Malaysia/Dasar Cetak (M) Sdn Bhd, Lot 2, Jalan Sepana 15/3, Off Persiaran Selangor, Seksyen 15, 40200 Shah Alam, Selangor, Malaysia; ROC No: 0488856; Singapore: Singapore Press Holdings Limited, 2 Jurong Port Road, Singapore 619088

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USPS 337-350; ISSN 0377-9200

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Trucks headed for Detroit go toward the Ambassador Bridge from Windsor, Ontario, in Canada.

# WORLD NEWS

## On Korea, Abe Is Trump's Loyal Sidekick

Japan's strategy reflects its reliance on U.S. might and Tokyo's frustration with Pyongyang

By PETER LANDERS

TOKYO—Amid a welter of conflicting views over North Korea, there is one reliable standby. Japan's prime minister has agreed with President Donald Trump, every time.

Shinzo Abe is the type of leader to repeat talking points in measured words, while Mr. Trump is known for issuing aggressive statements unpredictably. On substance, however, they are in the same place, a reflection both of Japan's dependence on U.S. military might in the event of a conflict and of Mr. Abe's personal frustration with Pyongyang, which mirrors Mr. Trump's.

"I think highly of President Trump's commitment toward the security of allies," Mr. Abe said Tuesday after a 30-minute phone call with the president, the ninth time the two leaders have spoken by telephone since Mr. Trump's inauguration. The two have also met three times this year in person, and their bond was strengthened in February when North Korea fired missiles while they ate dinner at Mr. Trump's Florida resort.

The Japanese leader's refusal to let any daylight come between him and Mr. Trump contrasts with other leaders who have hinted at unease with Mr. Trump's language, including his threat last week to



JAPAN AIR SELF-DEFENSE FORCE/ASSOCIATED PRESS, MARIO TAMA/GETTY IMAGES



Japanese jet fighters fly over U.S. Navy aircraft carriers in the Sea of Japan. Left, Donald Trump greets Shinzo Abe.

bring "fire and fury" on North Korea.

German Chancellor Angela Merkel said Aug. 11 that "escalation of rhetoric is the wrong answer," and South Korean

President Moon Jae-in warned Tuesday that the U.S. would need Seoul's consent for any military action on the Korean Peninsula.

Even the head of the junior

party in Mr. Abe's ruling coalition expressed irritation with Mr. Trump on Tuesday. "Countries around the world are seeking restraint from both sides," said Komeito party leader Natsuo Yamaguchi in reference to North Korea and the U.S.

But like Mr. Trump, Mr. Abe blames North Korean intransigence for the impasse. His determination has been stiffened by a problem of special concern in Tokyo: the dozens of Japanese believed abducted by North Korea in the 1970s and 1980s.

As a cabinet official in 2002, Mr. Abe helped bring five of the abductees home af-

ter negotiations with Kim Jong Il, father of current leader Kim Jong Un. In 2014, Mr. Abe made the surprise announcement that Pyongyang had agreed to reopen an investigation into the remaining abductees in return for Tokyo's lifting of sanctions. The investigation went nowhere, and Japan once again hardened sanctions.

"There is absolutely no meaning to having dialogue for the sake of dialogue" with North Korea, said Mr. Abe's top spokesman, Yoshihide Suga, on Tuesday.

On the North Korea issue, Mr. Abe has been dealing so far with a war of words—not an actual shooting war that would put Japanese lives at stake and amplify the voices of his critics in Japan who fear the nation may get ensnared in a war not of its making.

"It seems the U.S. is cornering itself into a situation of having to impose stronger and stronger threats," said Kyoji Yanagisawa, a former Defense Ministry official. "If its deterrence fails, the [U.S.] bases in Japan would become a target."

An Abe aide said Tokyo's concern was less that Mr. Trump intended to act immediately on his bellicose language and more that the words of the U.S. president would lose weight over time. Japan relies on the U.S. nuclear umbrella, so it is vital that its neighbors believe the U.S. guarantee of Japan's security. Even so, Mr. Abe thinks the best policy is to bolster the U.S.-Japan alliance through Tokyo's own actions rather than trying to steer Mr.

Trump's use of language, the aide said.

In June, when U.S. aircraft carriers Carl Vinson and Ronald Reagan were operating in the Sea of Japan, they were joined by Japanese ships including the helicopter carrier Hyuga in a show of force. And on Aug. 12, Japan set up Patriot missile-defense systems in four western locations to protect them in the event of a direct North Korean attack. Tokyo also has sea-based Aegis destroyers that might be able to intercept missiles passing over Japan.

A law pushed through parliament by Mr. Abe in 2015 allows Japan's military to help the U.S. more outside Japanese territory, but analysts say preparedness for a conflict remains uncertain. Tokyo is discussing whether it should develop the ability to carry out a pre-emptive strike on North Korea. Any implementation would be years away.

As with Mr. Trump, Mr. Abe tends to leave hints at conciliation to others. His defense minister, Itsunori Onodera, said Tuesday, "I personally think it would be most desirable if this issue could be solved through dialogue." Mr. Onodera said his view resembled the one laid out in a Wall Street Journal opinion article by Defense Secretary Jim Mattis and Secretary of State Rex Tillerson.

Those two U.S. cabinet members are set to meet their Japanese counterparts in Washington on Thursday to discuss North Korea.

—Chieko Tsuneoka contributed to this article.

## U.S. General Builds Closer Ties to Chinese Military

By GORDON LUBOLD AND JEREMY PAGE

SHENYANG, China—The Pentagon's top general said he discussed with his Chinese counterparts ways to coordinate with China's military to avoid dangerous miscalculations should war break out with North Korea.

Gen. Joe Dunford, chairman of the Joint Chiefs of Staff, described the contingency talks Wednesday after he paid a rare visit to the Chinese military command that oversees the North Korean border, viewing live-fire drills and sharing lunch with People's Liberation Army troops.

He said the discussion took place on Tuesday, when he also signed an agreement with his Chinese counterpart to formalize and increase operational communication between the U.S. and Chinese militaries.

The talks indicate that alarm on both sides over the tensions surrounding North Korea's advancing nuclear and

missile programs are pushing Washington and Beijing to set aside some of their mutual distrust and deepen military-to-military communication, analysts and diplomats said.

Gen. Dunford's trip was planned long before a series of tit-for-tat threats flared in recent days between U.S. President Donald Trump and North Korean leader Kim Jong Un.

United Nations Secretary-General António Guterres on Wednesday said tensions on the Korean Peninsula are the highest levels in decades and urged a resumption of talks.

But Beijing's decision to proceed with the visit at a sensitive time reflects growing displeasure with Pyongyang, the analysts and diplomats said.

The visit appears to signal "shared concern with the U.S. about the growing threat from North Korea," said Bonnie Glaser, an expert on the Chinese military at the Center for Strategic and International Studies.

Gen. Dunford said he held broad-strokes discussions

about a "contingency" in case of conflict with North Korea and that he had stressed to his Chinese counterparts the need for robust communication ties. He declined to provide details of how the Chinese side had responded.

China's Defense Ministry said the two sides discussed North Korea, citing Gen. Fang Fenghui, chief of China's Joint Staff Department, saying the Chinese military was willing to enhance communication to "effectively control risks," and to work together to resolve "current problems." It didn't elaborate.

China has been realigning its own military forces in recent months to prepare for a potential North Korea crisis but has long rebuffed U.S. requests to discuss ways to prevent Chinese and U.S. actions from conflicting with each other in such a scenario. The new discussions signal a shift in its thinking, experts say.

Ultimately, U.S. officials hope U.S. and Chinese military coun-

terparts could be connected at various levels. For example, U.S. military officials said that the American commander of U.S. Forces Korea, now Gen. Vincent Brooks, should be directly in touch with the commander of Chinese forces in their Northern Theater Command, which is responsible for the North Korean border.

"The time to have some initial conversations about what a contingency on the Korean Peninsula would look like would be before the contingency occurs," Gen. Dunford told reporters on his plane. "It would be helpful for us to have effective communication mechanisms in place so in the event of a crisis we can immediately speak to each other and avoid miscalculation and deepening the crisis."

Gen. Dunford's visit came as the U.S. and South Korean militaries prepared to begin large-scale war games in South Korea on Monday, a semiannual exercise that Pyongyang condemns

as a rehearsal for invasion.

Roy Kamphausen, an expert on the Chinese military at the National Bureau of Asian Research, noted that China isn't conducting any joint training or drills with North Korea—despite a formal alliance between the two countries.

He said Beijing intended Gen. Dunford's visit to convey a strong message to North Korea, also known as the Democratic People's Republic of Korea, or DPRK.

ANDREW HARNIK/ASSOCIATED PRESS



Gen. Dunford met with the Chinese Northern Theater Command's chief in Haichung on Wednesday.

## U.S. Says Pyongyang Makes Own Engines

BY FELICIA SCHWARTZ AND PAUL SONNE

WASHINGTON—The U.S. believes that North Korea produces its own rocket engines rather than relying on foreign imports, a U.S. intelligence official said.

Tuesday's comments from the intelligence community come as experts have questioned if Kim Jong Un's regime obtained Soviet-designed rocket engines through illicit channels in Ukraine or Russia.

A report by the International Institute for Strategic Studies released Monday said the liquid-propellant rocket engines North Korea has used in recent tests resemble those originating from Soviet designs and theorized that North Korea had somehow illicitly purchased engines smuggled out of Russia or Ukraine.

"We have intelligence to suggest that North Korea is not reliant on imports of engines,"



KOREAN CENTRAL NEWS AGENCY/REUTERS

a U.S. intelligence official said on Tuesday in response to the report. "Instead, we judge they have the ability to produce the engines themselves."

The report's author, Michael Elleman, said he remains skeptical that North Korea can produce engines of such sophistication on its own. Mr. Elleman said observations he made of the launch and trajectory of the missiles suggest they were of Soviet design. He inferred the missiles were imported to North Korea because Pyongyang lacked the expertise to build them unaided. "One does not start by creating a new, powerful, efficient and reliable engine from thin air," he said.

Mr. Elleman, a former missile engineer, pointed out that

the U.S. has faced challenges refurbishing old Russian engines for space launches and that U.S. engineers cannot manufacture a Russian engine the U.S. continues to rely upon, despite two decades of work beside Russian engineers.

The intelligence official declined to comment further, but officials said the U.S. has been tracking North Korea's program for a long time.

"The intelligence community has done remarkable work in understanding Kim Jong Un, watching his ballistic-missile program develop, watching his nuclear weapons program continue to exceed," CIA Director Mike Pompeo said Sunday on CBS. "The intelligence there is actually very good."

## Images Stir MH370 Query

BY ROB TAYLOR

CANBERRA, Australia—An examination of satellite images taken two weeks after Malaysia Airlines Flight 370 vanished suggests a cluster of likely man-made objects were in an area close to where authorities have long thought the plane crashed.

The area where the images were taken wasn't covered by an aerial search at the time. But it is near where authorities originally spent years scanning miles of remote seabed off Western Australia.

Flight 370 vanished from radar en route to Beijing from Kuala Lumpur on March 8, 2014, with 239 people on board from more than a dozen countries, including 152 Chinese nationals. That was followed by a search across thousands of square miles of ocean in what became the most expensive in aviation history—about \$160 million. The search was called off in January, with the governments of Malaysia, Australia and China saying they wouldn't resume it without firm new evidence.

The Australian Transport Safety Bureau on Wednesday released new analysis of data

gathered during the nearly three-year search. That included a study of the images, taken by French satellites on March 23, 2014, before Australian authorities took over the search effort.

Australian officials said the image resolution wasn't high enough to be certain whether the objects—ranging in size from 2.2 yards to 13.1 yards—were from the missing plane, or were objects found floating in oceans anywhere around the world.

"Clearly we must be cautious," said Greg Hood, chief commissioner of the Australian Transport Safety Bureau. "These objects have not been definitely identified as MH370 debris."

The researchers identified 12 objects in the images they thought were probably man-made. The objects were similar in size to debris from the plane that was discovered by happenstance, including a piece thought to be part of the aircraft wing that washed ashore in southeast Africa.

The images were taken by an Airbus Pleiades satellite and made available by France's military intelligence service. They were probably overlooked earlier because they were heavily affected by ocean

reflections, or "glint," and significant cloud cover, the researchers said.

"The small number of images, and lack of repeat observations over the area, resulted in insufficient data to support a data-driven or computer-learning approach. Hence, a comprehensive, manual, visual survey of each scene was undertaken," the bureau's report said.

Australian Transport Minister Darren Chester said the latest research, while positive, still didn't pinpoint the plane's resting place. "The search remains suspended and we will consider any new information as it comes to light," he said. "The fact that we haven't been able to locate MH370 is something that plays on everybody's minds."

Officials said in December they had a high level of confidence any debris hadn't been overlooked by high-resolution sonar scans of the seabed. But they did identify a prospective second search zone north of the existing area, sprawling over an additional 9,653 square miles. The latest drift modeling narrowed that to an area of some 1,900 square miles experts considered the most likely—one of the four areas in which objects were identified.

## WORLD NEWS

# Growth in Netherlands, Italy Aid Eurozone

Surprise economic surge makes currency area less reliant on Germany and Spain

BY PAUL HANNON

The eurozone's recovery was more rapid than first estimated in the three months to June as a pickup that started in Germany and Spain has spread to other parts of the currency area, aiding a comeback that is proving vital to the world economy.

The European Union's statistics agency Wednesday raised its measure of eurozone economic growth during the second quarter to 2.5% annualized from its first estimate of 2.3%, bringing it closer to the 2.6% recorded by the U.S., which it outpaced in the first quarter.

Holland overtook Spain as the fastest growing of the five largest bloc members.

That upgrade comes at an opportune moment, since the U.S. is growing more weakly than expected and there are signs China may be set for a slowdown.

Separate figures showed the Dutch economy surged during the period as exports jumped, while Italy recorded its strongest six months since the second half of 2010.

"The eurozone recovery continues, and seems to be broadening out," said Fabio Balboni, an economist at HSBC.

The bloc's strength during the first half of 2017 has come as a surprise to many economists, who had expected growth to slow in response to rising energy prices and

heightened political uncertainty as voters in the Netherlands, France and Germany chose new governments.

However, the rise in energy prices didn't last long and elections in the Netherlands and France—in March and May, respectively—produced wins for pro-euro centrists and reduced the threat of a breakup of the currency area. German Chancellor Angela Merkel has a large lead in opinion polls ahead of September's elections.

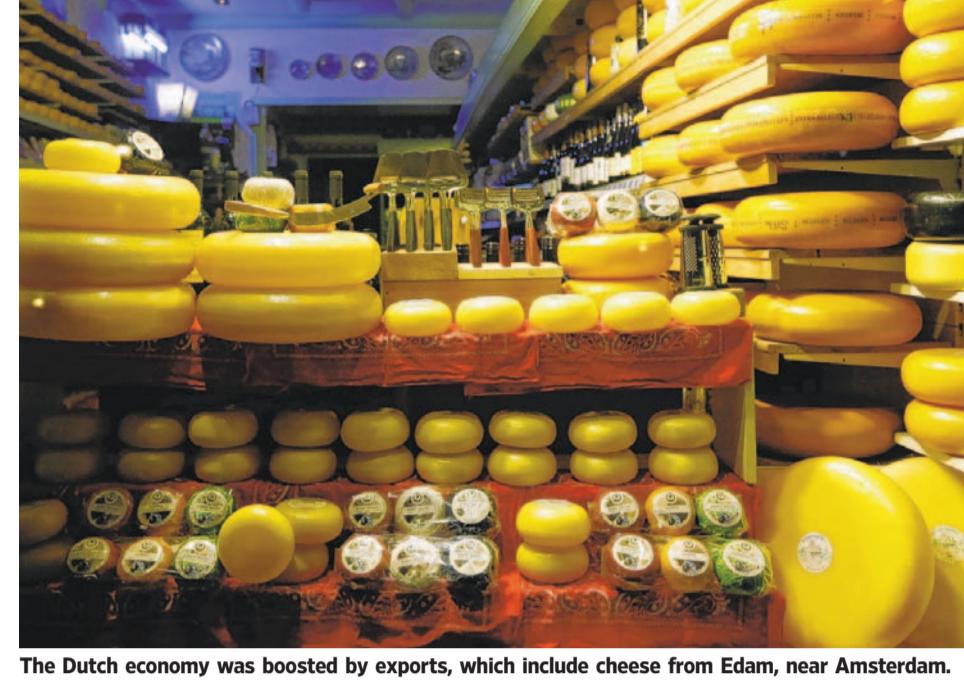
As Dutch Prime Minister Mark Rutte worked to form a new government, the country's economy surged in the second quarter, recording its fastest expansion since the final three months of 2007. According to the Dutch statistics agency, gross domestic product—the broadest measure of the goods and services produced by an economy—was 1.5% higher than in the three months through March and 3.8% up on the comparable period a year earlier. That was largely the result of a jump in exports, with overseas sales 11% higher in June than a year earlier.

As a result, the Dutch economy overtook Spain's as the fastest growing of the eurozone's five largest members. It had previously enjoyed steady if modest growth, expanding by 0.6% in the first quarter.

The CPB Netherlands Bureau for Economic Policy Analysis said it now expects the Dutch economy to grow by more than 3% in 2017 as a whole, the first year in which it will have done so since the financial crisis.

"The Dutch economy is well on the rise," the body said in its new report.

The eurozone's pickup has also been supported by slightly stronger growth in Italy, which recorded a third straight quarter in which GDP rose by 0.4%. Compared with a year earlier, the Italian economy was 1.5% larger, the



The Dutch economy was boosted by exports, which include cheese from Edam, near Amsterdam.

ing of the recovery in 2017 has contributed to its acceleration.

Eurostat didn't give details of the drivers of eurozone growth, but economists say national data releases suggest consumer and investment spending were the main factors, with exports playing a lesser role, except in the Netherlands and France.

The strength of the eurozone economy has prompted economists to raise their forecasts for the year as a whole. According to Consensus Economics—which tracks forecasters—the average growth rate for this year projected by the 29 institutions it follows is now 2%, up from the 1.4% expected in December.

The eurozone's acceleration has fueled expectations the European Central Bank will start to wind down its purchases of government bonds from January. However, there are few signs the pickup in growth has transformed the outlook for inflation, which is well below the ECB's target of just under 2%.

"With the economy maintaining a healthy pace of growth, the ECB should feel fairly confident about tapering its asset purchases next year," said Jessica Hinds, an analyst at Capital Economics. "But with GDP growth yet to boost inflation meaningfully, we doubt the bank will raise interest rates until early 2019."

There are signs the eurozone pickup is helping other parts of Europe with which it has close trade and financial relations.

The Czech economy was 2.3% larger in the second quarter than the first, while Sweden's economy grew by 1.7%. Earlier in August, the Czech central bank raised its key interest rate for the first time in nearly a decade, a milestone for Europe's central banks that have taken dramatic easing steps to prop up their economies.

### U.K. Jobless Rate Hits 42-Year Low

LONDON—The unemployment rate in the U.K. fell to its lowest level in decades in June, while the number of European Union nationals working in Britain hit a record high.

The Office for National Statistics said the unemployment rate declined to 4.4% in the three months through June, from 4.5% in the previous three-month period, marking the lowest rate of joblessness since spring 1975.

Figures show the labor market's strength still isn't feeding into robust wage growth, though, highlighting a conundrum that is testing central banks in many advanced economies. Wages in the U.K. rose in

the three months through June at an annual 2.1%, excluding bonus payments, only marginally above the 2.0% growth recorded the previous three months.

The Bank of England has nevertheless said it believes interest rates in the U.K. will need to rise faster than investors expect to keep inflation in check. Annual inflation in Britain was 2.6% in July, well in excess of the BOE's 2% target. Economists predict the BOE will likely raise its benchmark interest rate early next year.

The number of people in work in the U.K. in June rose to 32.1 million, the highest level ever recorded, swelled by an increase in both U.K. citizens and foreign nationals finding jobs.

The number of EU workers in the U.K. rose in June to 2.4 mil-

lion, reflecting a fall in unemployment among that group and a decline in those studying or otherwise outside the labor force.

The labor market data don't record whether the U.K. experienced an influx of new arrivals from the EU or elsewhere during the April-to-June period.

Controlling immigration from the EU is one of the central planks of London's Brexit strategy. Employers' groups and recruiters say they are finding it increasingly difficult to recruit workers from the EU following last year's Brexit vote, given the fall in the pound and an accelerating eurozone economy.

Brexit talks between London and Brussels are set to resume this month.

—Jason Douglas  
and Wiktor Szary

fastest rate of expansion since the first three months of 2011.

"The Italian economy, which admittedly is still one of the weakest, is finally showing signs of life," said Shweta Singh, an economist

at Lombard Street Research.

Despite the steady growth, Italy's economy is still 6.5% smaller than it was before the financial crisis. Only Greece, with an economy that is 27% smaller, has performed worse

in the past 10 years.

Spain and Germany were largely responsible for driving the eurozone's modest growth between the start of the recovery in mid-2013 and the end of 2016. But the broaden-

the government's initial valuation of the company at 306 billion rubles.

Valery Solovei, a political analyst and professor at Moscow State Institute for International Relations, said at the time Mr. Ulyukayev's arrest looked like fighting between factions of the government.

Analysts say the arrest was retaliation against opponents of Mr. Sechin who were trying to limit his oil empire. Among them, Mr. Ulyukayev was the easiest target, they say.

Mr. Sechin's Rosneft is currently involved in an arbitration battle with the former owners of Bashneft, conglomerate AFK Sistema, for 170.6 billion rubles (\$2.87 billion).

Rosneft has said Sistema destroyed value in the company during necessary preparations for an initial public offering. Sistema denies the accusations. The next hearing was set for Sept. 1.



Former Economic Development Minister Alexei Ulyukayev outside a Moscow district court after a hearing into bribery charges.

Mr. Putin's tenure, detaining a sitting minister—and the president's personal involvement in the case—is unprecedented.

Messrs. Ulyukayev and Sechin, reputed to have close links with Russian intelligence agencies and a personal relationship with Mr. Putin, had previously butted heads over the sale of Bashneft to the state oil producer Rosneft.

Critics of Rosneft and Mr. Sechin said the sale of Bashneft was meant to plug holes in Rosneft's own operations and lower profits from a falling oil price.

Mr. Ulyukayev spoke out against the deal in August, saying privatization of one state company by another was inappropriate. In early September, however, he said Rosneft would be allowed to participate.

Rosneft eventually bought the shares for 330 billion rubles (\$5 billion), higher than

agencies.

"The prosecution has completely ignored the circumstances of Sechin handing over to me this suitcase, which in total does not leave any doubt about the provocation carried out against me," the Interfax news agency quoted Mr. Ulyukayev as saying.

Russian agencies didn't report Mr. Ulyukayev as saying in what capacity he had been given the money. Rosneft spokesman Mikhail Leontiev said there was "exhaustive evidence" regarding Mr. Ulyukayev's guilt and said the former minister had demanded a bribe and tried to get away with it, Interfax reported.

Mr. Ulyukayev, who had served as Russian economy minister since 2013, was dismissed in November by Russian President Vladimir Putin. Mr. Putin accused the former minister of "a breach of trust" after a Moscow court placed

him under house arrest on the bribery charges.

Mr. Ulyukayev's arrest was the highest-profile detention of a sitting government official since Mr. Putin came to power

in 2000.

While Russia's security services have opened criminal investigations and occasionally arrested high-profile businessmen and senior officials under

## Hundreds of Migrants Are Rescued Off Spanish coast

More than 300 migrants were rescued in seven dinghies off Spain's southern coast after attempting to cross the sea from Morocco, the Spanish maritime rescue service said Wednesday.

Of the 317 migrants, who were mainly of northern African and sub-Saharan origin, there were 31 children and one baby, the maritime rescue service added.

(At right, migrants rested Wednesday on a rescue ship.)

Spain this year reported a rise in the number of migrants entering the country by sea or trying to cross the borders in its two North African enclaves, Ceuta and Melilla, and numbers are expected to double when compared to 2016. Government data show migrant arrivals in Spain are on track to reach 11,000 in comparison to the 5,000 average between 2010-2016.

Many more migrants are still using the sea route between Libya and Italy to try to reach Europe, however.

—Reuters



ANGELOS TZORTZINIS/AGENCE FRANCE PRESSE/GETTY IMAGES

## WORLD NEWS

# Zambian Opposition Leader Is Freed

BY NICHOLAS BARIYO

Zambian opposition leader Hakainde Hichilema was released from prison, ending a four-month detention amid mounting international pressure on President Edgar Lungu.

The country's High Court ruled that Mr. Hichilema should be freed after the state prosecutor dropped treason charges against the 55-year-old businessman. Wednesday's release appeared to mark a retreat by Mr. Lungu from a crackdown on the opposition since narrowly winning a 2016 election.

Mr. Hichilema has insisted that vote was rigged in favor of Mr. Lungu.

He was arrested in April and charged with trying to overthrow the government, after a convoy of his supporters allegedly disrupted Mr. Lungu's motorcade. At the time, police said the incident posed a risk to the president's life.

**Hakainde Hichilema's release came after pressure on President Edgar Lungu.**

If convicted of treason, Mr. Hichilema could have faced the death penalty.

Cheers erupted outside the courthouse, where hundreds of Mr. Hichilema's supporters gathered to witness his trial. His release followed months of pleas from local civil-society groups and the international community.

"We thank God justice has finally prevailed," said Martha Mushipe, one of Mr. Hichilema's lawyers. "We always knew this case was going nowhere."

Amos Chanda, a spokesman for Mr. Lungu, said dropping the charges against Mr. Hichilema was part of a deal the two men had reached with Patricia Scotland, secretary-general of the Commonwealth, of which Zambia is a member.

Ms. Scotland visited Lusaka last week, during which time Messrs. Lungu and Hichilema agreed to discuss overhauls to strengthen governance and the rule of law ahead of 2021 elections.

Zambia was viewed as one of Africa's most stable democracies. However, since winning last year's election, Mr. Lungu and his Patriotic Party have consolidated power, taking steps to control state institutions and smother dissent.

Opposition-leaning media outlets have been closed and dozens of critics, including students, have been arrested for criticizing Mr. Lungu on social media.

In July, the U.S. warned that Mr. Lungu's actions threatened Zambia's stability.

# Kenya Faces Legal Fight Over Vote

Opposition chief, in a shift, now says he will challenge election result at high court

BY MATINA STEVIS

NAIROBI, Kenya—Escalating a political crisis in East Africa's biggest economy, Kenya's opposition leader Raila Odinga said he will challenge the result of last week's election in the Supreme Court and promised to show evidence of mass fraud that led to his opponent, incumbent President Uhuru Kenyatta, being pronounced the victor.

In a U-turn from last week's statements, where Mr. Odinga and his top lieutenants said they wouldn't go to court because they had lost a similar case against Mr. Kenyatta in the 2013 election, the 72-year-old veteran politician on Wednesday said he wanted the world to see the manipulation that led Mr. Kenyatta back to the presidency. He said the decision would give the supreme court "a second chance...to redeem itself."

"Kenyans say 'no' to computer-generated leaders," Mr. Odinga told the media, repeating claims that a hacker installed a logarithm in the electoral body's software to rig the outcome.

Voting took place Aug. 8. On Friday the electoral commission, the Independent Electoral and Boundaries Commission, said Mr. Kenyatta won with 54.3% of the vote and Mr. Odinga garnered 44.7%.



Opposition leader Raila Odinga on Wednesday repeated claims that a hacker installed a logarithm in the electoral body's software.

International observers from the European Union, the U.S. and the African Union commended Kenyans on voting peacefully and noted that the voting process had largely been a success, but by Wednesday were warning the IEBC to publish all the formal documents accompanying the vote tally from every single polling station to ensure transparency of the vote count.

The EU mission called on the electoral commission to "continue to publish all results forms online promptly... [to] enable all stakeholders to examine the accuracy of the an-

nounced results and point to any possible anomalies. Provision of information and statistics would also help promote confidence through transparency," its chief, Marietje Schaake, said.

Mr. Odinga said that the crux of the matter was in those forms, and that a careful scrutiny of all 41,000 of them, one for each polling station, and a recount of the votes, would prove his case. Experts going through the IEBC portal where the forms are being published said some 10,000 were still missing more than a week after the vote.

"We refuse to sit and watch our country turn into a banana republic and playground accepting such a crime for a third time in a row," Mr. Odinga said, referring not only to the 2013 election but also to the 2007 one, which he also lost and is widely thought to have been rigged. It was followed by large-scale ethnic violence that left 1,100 people dead and hundreds of thousands displaced from their homes.

Mr. Kenyatta and his deputy, William Ruto, were charged with crimes against humanity by the International Criminal Court following the

2007 violence, but charges were later withdrawn. Both denied the charges.

With the specter of post-election violence rising yet again after the latest polls, Mr. Odinga explicitly and for the first time since the vote called on his supporters, some of whom have been involved in running street battles with riot police leading to several deaths, to protest peacefully.

The Kenyan Red Cross has confirmed 17 deaths, whereas the police say there were 10.

"Kenyans have no need to use violence to achieve justice," Mr. Odinga said.

# Indonesia Probes Alleged Islamist Terror Plot

BY ANITA RACHMAN

JAKARTA—Indonesian police are investigating an alleged terror plot by Islamic State supporters suspected of attempting to build chemical bombs for attacks at the presidential palace and other targets.

Five people have been arrested, police said, just ahead of Thursday's planned celebrations for the anniversary of Indonesia's independence. Police said the attacks were to be carried out by the end of this month, but didn't say whether they were planned to disrupt the events specifically.

The use of chemicals as a terror agent would mark an escalation in the capacity of Indonesia's militants, who have been unable to build sophisticated explosive devices in recent years. Police said the type of device planned was more complex than the pressure-cooker bombs typically used.

"We found chemicals and written documents detailing instructions on how to create chemical bombs," said Yusri Yunus, spokesman for the police in West Java. The arrests were made on Tuesday in Bandung, about 90 miles southeast of Jakarta.

Police didn't say how close the suspects were to completing a device to disperse chemicals, nor did they identify the



Police guarded a house of suspected militants following a raid in Bandung, West Java, on Tuesday.

type of chemicals found. Mr. Yunus said the smoke from one substance "could burn the skin."

Among those arrested were a husband and wife, police said, but the identities of the suspects haven't been disclosed and it isn't known if they have legal representation.

About 5,000 police and military personnel will be deployed at sensitive locations in Jakarta during Thursday's celebrations, police said. Such holiday deployments are customary in Indonesia. In May, a pair of terror-related blasts

killed three police officers who were stationed at a bus terminal ahead of the Muslim holy month of Ramadan.

"We stay alert during the National Day celebrations," said Prabowo Argo Yuwono, spokesman for the Jakarta police.

Police said the suspects were part of an umbrella group of extremist factions that have pledged allegiance to Islamic State. They said the bomb-making instructions came from a blog belonging to Bahrun Naim, an Indonesian militant operating from Syria who has

been linked to other plots.

Mr. Naim is suspected of remotely organizing an attack in Jakarta in January 2016 that left four civilians and four attackers dead. It was the deadliest attack on Indonesian soil in recent years. Police have attributed several plots to him since.

Indonesia's worst terror attack was the Bali bombing in 2002, which killed 202 people, many of them tourists, and was carried out by the al Qaeda-linked Jemaah Islamiyah. Indonesia, the world's largest Muslim majority coun-

try, improved its counterterrorism capabilities after the attack.

However, a new generation of militants have been inspired by Islamic State, with hundreds of Indonesians traveling to the Middle East to fight alongside the group, authorities say. Still, most recent attacks in Indonesia have been carried out by militants who never left the sprawling archipelago nation.

Arrests and deaths of suspected terrorists in Indonesia more than doubled to 170 in 2016. In recent years, militants have targeted symbols of a state, especially the police, that they accuse of holding back the Islamist tide.

In neighboring Australia, authorities this month said they had foiled a plot overseen by a senior Islamic State controller to release a chemical bomb into a crowded area, such as a commuter train or bus.

Australian Federal Police Deputy Commissioner Michael Phelan alleged that two men arrested were in the early stages of devising a "chemical-dispersal device" designed to release highly toxic hydrogen sulfide gas. The plot was believed planned with the help of an unnamed Islamic State member who sent components and instructions to the pair in Sydney via air cargo from Turkey.

—Rob Taylor in Canberra contributed to this article.

## WORLD WATCH

### PHILIPPINES

#### 32 Drug Suspects Killed in a Day

Philippine police said Wednesday that an updated report shows antidrug operations in a northern province this week left 32 alleged drug offenders dead—11 more than earlier reported as the highest death toll in a single day since President Rodrigo Duterte launched his war on drugs a year ago.

Senior Superintendent Romeo M. Caramat Jr. said 67 police operations in various parts of Bulacan province Tuesday left 32 suspects killed in encounters with police, while 109 others were arrested.

Confiscated during the operations were more than 200 grams of methamphetamine, 786 grams of marijuana, assorted firearms, grenades and ammunition.

Police records show since the nationwide crackdown started, more than 3,200 alleged drug offenders have been killed in gunbattles with law enforcers. More than 2,000 others died in drug-related homicides, including attacks by motorcycle-riding masked gunmen and other assaults.

—Associated Press

### TAIWAN

#### Government to Probe Wide Blackout

Taiwan said it was investigating a massive power black-

out that hit businesses and residential homes, affecting close to seven million households on the heavily industrialized island amid sweltering heat.

The worst appeared to be

over by Wednesday, with power fully restored and little impact on leading technology manufacturers.

The blackout was caused by

"structural problems" and hu-

man error involving the replace-

ment of equipment, which af-

fected the operations of a

state-owned Taiwan Power Co

power plant, state-owned gas

supplier CPC Corp said at a

news conference.

—Reuters

### KASHMIR

#### India, China Patrols in Border Encounter

Indian and Chinese soldiers yelled and hurled stones at one another high in the Himalayas in Indian-controlled Kashmir, Indian officials said, potentially escalating tensions between nations already engaged in a lengthy border standoff elsewhere.

The Chinese soldiers hurled stones while attempting to enter Ladakh region near Pangong Lake on Tuesday but were confronted by Indian soldiers, said a top police officer. The officer said Indian soldiers retaliated but neither side used guns.

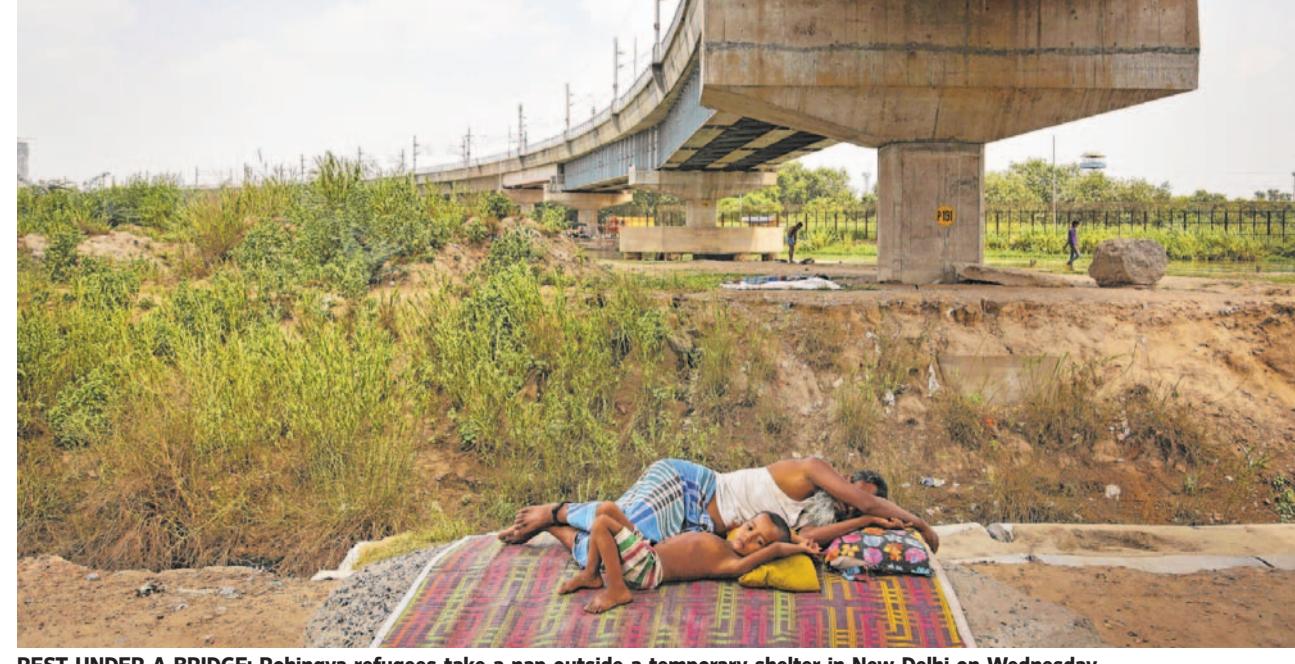
China called on India to help maintain peace and stability along the border.

An Indian officer said the confrontation occurred after Indian soldiers intercepted a Chinese patrol that veered into Indian-held territory after apparently losing its way.

The officer said that the soldiers shouted at each other and threw stones. He said some soldiers received minor injuries.

After nearly 30 minutes, the two sides retreated, he said.

—Associated Press



REST UNDER A BRIDGE: Rohingya refugees take a nap outside a temporary shelter in New Delhi on Wednesday.

DANIEL QADIR/ASSOCIATED PRESS

## U.S. NEWS

# Baltimore Removes Confederate Statues

To avoid protests, city officials didn't make public the timing of the dismantling

By SCOTT CALVERT

**BALTIMORE**—The city of Baltimore removed several Confederate monuments overnight in a move that city officials didn't announce ahead of time.

By dawn Wednesday, crews had removed three Confederate monuments from their pedestals. They also took down a statue of Roger B. Taney, a former U.S. chief justice who, while not a Confederate himself, wrote the pro-slavery Dred Scott decision in 1857.

"I said I would move as quickly as I could, and I did," Baltimore Mayor Catherine Pugh said, adding, "We didn't need those kinds of symbols."

On Monday, Ms. Pugh had called for the monuments' speedy removal but gave no indication that action was imminent.

She said an announcement wasn't necessary. "What was necessary was to get them moved," she said.

One goal was to avoid demonstrations by those who wanted to see the monuments

remain. "It was important to protect the citizens of Baltimore more because the protests happening around the country we didn't want to see in our city," she said.

Ms. Pugh said she didn't know yet what will happen to the monuments.

On Monday, the Baltimore City Council unanimously passed a resolution calling for the immediate destruction of all Confederate monuments in the city. On social media, some had promised to take the statues down themselves.

The city's overnight operation came in the wake of violent clashes between white nationalist demonstrators and their opponents in Charlottesville, Va. One woman, 32-year-old Heather Heyer, was killed when an alleged white supremacist drove his car into a group of counterdemonstrators.

A white 20-year-old named James Alex Fields Jr. has been charged with one count of second-degree murder and other charges.

Across the South, Confederate memorials have become a flashpoint since Saturday's violence in Charlottesville. Numerous monuments have been vandalized, and some are being removed. A statue of a Confederate soldier was toppled Monday in Durham, N.C.



Workers removed a monument dedicated to Maryland's Confederate women in Baltimore Wednesday.

while monuments in Louisville, Ky., and Atlanta were splattered with paint.

In Baltimore, one of the now-removed monuments—honoring Confederate generals Robert E. Lee and Thomas "Stonewall" Jackson—bore new graffiti Tuesday that said "Remember C-Ville," and "Black Lives Matter." A spokesman for Ms. Pugh said she understood the emotions surrounding the issue but didn't support vandalism.

Though Maryland remained in the Union during the Civil

War, it was a slave state, and it and the city of Baltimore were home to many ardent secessionists.

All that is remaining of the Lee and Jackson monument is a large stone pedestal that has been vandalized with spray paint. Still etched in the stone are these words, "So great is my confidence in General Lee that I am willing to follow him blind-folded."

Angela Devoti, a 39-year-old artist and activist, said she was driving by one of the monuments around 1 a.m.

when she saw crews preparing to dismantle it. She thinks taking down the monuments will help the fractured city, which faces a record homicide rate and lingering tension from riots in 2015 after the death of Freddie Gray, a 25-year-old black man, from injuries sustained while in police custody.

"Baltimore needed all the boost it can get," she said. "It's definitely a boost to the spirit."

But Ms. Devoti said she met a woman next to the site of the Lee and Jackson monument

who disagreed with the decision to take down the monuments and who scrawled "How does this help us?" on the graffiti-covered pedestal base.

James MacArthur, a 52-year-old city resident who calls himself a street reporter and who live-streamed much of the dismantling, said he is glad the monuments are down.

"It was a long time coming," he said, adding that they never belonged in a state that didn't join the Confederacy. "This is a majority black city. We would never honor any kind of a Nazi and put it in a Jewish neighborhood. You just wouldn't."

The fate of Baltimore's monuments had been the subject of debate since the deadly 2015 shooting at a historically African-American church in Charleston, S.C. The city's then-mayor, Stephanie Rawlings-Blake, created a seven-person commission to study the issue.

In January 2016, the commission suggested keeping two, the Confederate Soldiers and Sailors Monument, and the Confederate Women's Monument, while adding new signage for historical context. It recommended removing both the Taney statue and the Lee and Jackson monument. Ms. Rawlings-Blake left office in December without taking action on the removal recommendation.



Sections of pipe sit near a construction site for a natural-gas-liquids pipeline project near Morgantown, Pa., earlier this month.

## Trump Aims to Speed Up Projects

By TED MANN

President Donald Trump issued an executive order directing federal agencies to more quickly review the environmental effects of infrastructure projects, a bid to speed up the construction of the roads, bridges, pipelines and rails that he promised on the campaign trail.

Tuesday's action is one of the few avenues that Mr. Trump has to advance his infrastructure agenda without congressional legislation.

So far, Republican lawmakers and the Trump administration have focused their legislative energies on health care and a tax overhaul since the president took office.

Mr. Trump's plans to revitalize the country's infrastructure face an uncertain future, given the reluctance among members of both parties to follow the administration's

lead. Among the challenges the administration faces: identifying the sources of funding for a rebuilding program that the president has said will be worth \$1 trillion or more.

Mr. Trump's executive order, which he signed at Trump Tower in New York City, would sharply reduce the time federal agencies spend on environmental reviews before approving projects such as new highways.

The order also expands on efforts begun under President Barack Obama to improve federal permitting, including tracking project progress on a unified "dashboard" to improve transparency.

It also rolled back Obama-era flood-mitigation standards, to the chagrin of insurers and environmentalists who said the move would leave the country more vulnerable to the effects of climate change.

"One agency alone can stall

a project for many, many years and even decades," Mr. Trump said at a news conference. "This over-regulated permitting process is a massive self-inflicted wound on our country."

A senior administration official said the effort to speed permitting would address concerns from elected officials of both parties who have been frustrated at the length of time it can take to win approval to build new infrastructure or replace existing structures.

Environmental advocates reacted with alarm, saying that the administration exaggerated the delays imposed by the reviews in question, and would undermine a valuable process that helps prevent irreversible damage to natural resources and neighborhoods.

"We can modernize our country without rubber-stamping hazard and fast-tracking harm," said Rhea Suh,

president of the Natural Resources Defense Council. "We can't afford to shortchange our future by short-circuiting common-sense safeguards that protect clean water and air. Arbitrary decisions and artificial deadlines can lead to costly mistakes we'll all pay for down the line."

Kevin DeGood, director of infrastructure policy for the liberal Center for American Progress, said that the administration overstated the degree to which environmental analysis actually delays construction. Long reviews are typical for the most complex and largest projects, he said.

Also, some environmental reviews that take years are for projects that spend that same time waiting for full funding, he said, a problem that wouldn't be solved by the administration's new goal to complete environmental analysis within two years.

In 2013, interim districts were approved by the Texas Legislature after pressure from the court, but the plaintiffs have argued that those districts have continued to discriminate.

On Tuesday, the court agreed, concluding in regard to congressional districts 27 and

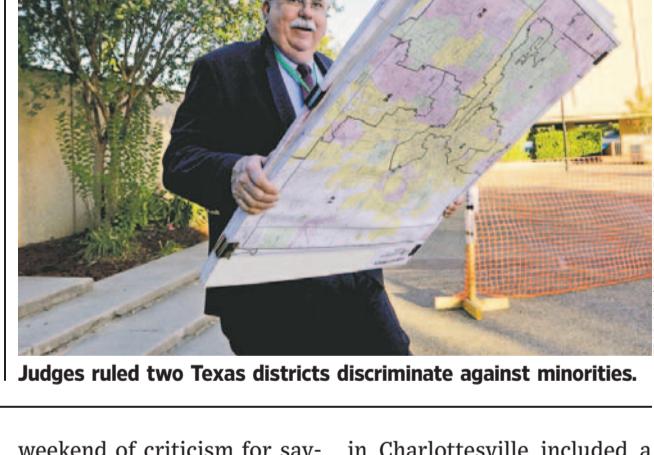
35 "that the racially discriminatory intent and effects that it previously found in the 2011 plans carry over into the 2013 plans where those district lines remain unchanged." Texas has 36 congressional districts.

The court said the Legislature failed to remove the discriminatory taint found in the 2011 maps and instead "intentionally furthered and continued the existing discrimination in the plans."

The judges said it appeared the Legislature passed the 2013 maps as a litigation strategy, rather than as an attempt to make sure the districts complied with the Constitution and the Voting Rights Act.

Mr. Paxton said Tuesday that he was disappointed the court found the two districts were discriminatory, since the boundaries adopted by the Legislature in 2013 were first suggested by the court. He noted that the court found another district was lawful.

The state can appeal the case directly to the U.S. Supreme Court, and Mr. Paxton said Tuesday that "we look forward to asking the Supreme Court to decide whether Texas had discriminatory intent when relying on the district court."



Judges ruled two Texas districts discriminate against minorities.

## SEIB

Continued from Page One leader, was tweeting his thanks to the president. Meanwhile, a variety of Republicans were separating themselves from their president.

Sen. Marco Rubio retweeted an earlier comment that the president should "describe events in #Charlottesville for what they are, a terror attack by #whitesupremacists," and proceeded to reel out a new string of tweets underscoring that view.

Rep. Will Hurd, a Republican on the House Intelligence Committee—which is looking into the question of whether Mr. Trump's campaign got inappropriate help from Russia in the 2016 campaign—declared on CNN that the presi-

dent should "apologize... Racism and bigotry and anti-Semitism in any form is unacceptable, and the leader of the free world should be unambiguous about that."

House Speaker Paul Ryan said "white supremacy is repulsive" and "there can be no moral ambiguity." Jeb Bush, a former Florida governor who ran against Mr. Trump last year, tweeted: "This is a time for moral clarity, not ambivalence. I urge President Trump to unite the country, not parse the assignment of blame for the events in Charlottesville."

And that was the reaction among Republicans. Among Democrats, the president's remarks were essentially radioactive. Ironically, they came at an event set up so he could, among other things, woo Democrats to work with him

on a plan to rebuild the nation's infrastructure.

Moreover, the response came less than a week after Mr. Trump entered into a rhetorical war with his party's leader in the Senate, Mitch McConnell, over the failure to pass a bill to repeal and re-

Mr. Trump has reacted to the Charlottesville violence.

The upshot is that the August recess, a time Mr. Trump might have been able to build support and momentum for what is supposed to be a fall legislative push on the most important items on his domes-

tic agenda, has become anything but. Instead, Mr. Trump may be on his way to emerging from the August period working with a shaken-up White House staff and fewer reliable congressional allies than he had coming in.

The real mystery is why Mr. Trump had endured a weekend of criticism for saying in his initial reaction to the Charlottesville violence.

He had no real reason to dive back into the controversy a day later. Yet he apparently couldn't resist, and instead appeared to be eager to vent anger at the criticism of his original statement—and to justify it by arguing that there were excesses by both the white supremacists and neo-Nazis, as well as the driver who plowed into a crowd of protesters objecting to their views.

He had no real reason to dive back into the controversy a day later. Yet he apparently couldn't resist, and instead appeared to be eager to vent anger at the criticism of his original statement—and to justify it by arguing that there were excesses by both the white supremacists and the counter-protesters.

One immediate problem for Mr. Trump is that his argument that the crowd gathered

in Charlottesville included a lot of good people who had simply come to protest the removal of a Confederate statue flew in the face of video footage showing the white nationalists marching to such chants as "Jews will not replace us" and "blood and soil."

Where things go from here is anybody's guess. Mr. Trump has never really seemed to mind being isolated from the political establishment. In fact, he often seems to relish that position as proof he is right, and in this case he gave voice to those who think that it is unnecessary to remove all historical symbols of the Confederacy from the South.

But that also leaves him mired in a debate over the ugliest aspects of American history—a debate that could get uglier still.

## U.S. NEWS

# Guilty Plea in Terror Case

American is said to have accepted Islamic State funds to help pay for a U.S. attack

BY CHRISTOPHER S. STEWART AND MARK MAREMONT

An American man accused of accepting funds from Islamic State for a possible terrorist attack in the U.S. pleaded guilty to multiple terrorism-related charges.

Mohamed Elshinawy, who was living in Maryland when he was arrested in late 2015, pleaded guilty in Baltimore federal court Tuesday to four counts, including conspiring to provide material support to Islamic State.

The Elshinawy case was critical in uncovering a global financial network centered on a British technology company used by Islamic State to clandestinely move money around the world and pay for weaponized-drone technology used by the terrorist group in Syria, the U.S. says.

Mr. Elshinawy, 32, faces as many as 20 years in prison for each of the three most serious terrorism offenses. Both Mr. Elshinawy and the government have the ability to appeal the sentence, according to the plea-bargain agreement.

A lawyer for Mr. Elshinawy couldn't be reached.

His is the first and only publicly known case in which Islamic State money flowed

into the U.S. for a potential terrorist attack in America, according to Seamus Hughes, deputy director of George Washington University's Program on Extremism.

The plot appeared to be "more sophisticated than other ISIS cases in America," Mr. Hughes said.

Federal investigators initially were tipped off to Mr. Elshinawy through a \$1,000 Western Union money transfer to him from Egypt in June 2015, sent by an Islamic State operative whom authorities haven't publicly identified, according to a Federal Bureau of Investigation affidavit and a person familiar with the situation.

FBI agents spent months tailing Mr. Elshinawy and combing through his transactions, eventually finding at least \$8,700 he allegedly had received from Islamic State operatives.

To hide some of the money transfers, Mr. Elshinawy pretended to sell computer printers on eBay, then received funds from the British company through the online payment service PayPal, according to an FBI affidavit.

A spokesman for eBay Inc. said the company worked closely with law enforcement to bring Mr. Elshinawy to justice. "We have zero tolerance for criminal activity on eBay and have robust systems in place to identify and prevent it," he said, adding that "nothing indicated that these were anything but legitimate transactions."



Mohamed Elshinawy used eBay in the scheme, the U.S. says.

A spokeswoman for PayPal Holdings Inc. said it "invests significant time and resources in working to prevent terrorist activity on our platform."

Mr. Elshinawy told FBI agents he was instructed to use the money for "operational purposes," which he understood to mean a terrorist attack.

He told agents he had no intention of carrying out such an attack and instead was taking money from "thieves," an FBI affidavit indicated.

Though several major U.S. attacks have been inspired by Islamic State, none are known to have been directly financed by the group, unlike attacks in Europe and elsewhere.

U.S. prosecutors have charged 131 people in terrorism cases connected to Islamic State, according to the George Washington University Extremism Program. Most are

U.S. citizens or permanent residents; 77 have been convicted or pleaded guilty, including Mr. Elshinawy.

When Mr. Elshinawy hit the radar of federal investigators, he was living with a woman in a one-bedroom apartment in a bungalow complex outside Baltimore.

Born in Pittsburgh, Mr. Elshinawy mostly grew up in Egypt in family of academics. By 2007, he was living in the U.S., according to his résumé, which is posted online. He delivered newspapers, worked at a convenience store and at a company that sold firearm accessories and other outdoor supplies through eBay, the résumé says.

Mr. Elshinawy returned to Egypt at least twice, where his parents still lived, according to former landlords and his résumé. It was during a more recent such trip that Mr. Elshinawy turned to Islamic State, federal investigators say.

He reunited there with a childhood friend who introduced him to a member of the terrorist group, which was looking for operatives in the U.S., a person familiar with the case said. They needed a "gofer," this person said, someone to support or carry out an attack.

In February 2015, Mr. Elshinawy pledged allegiance to Islamic State on social media and later said he planned to die a martyr, according to an FBI affidavit.

What he planned to attack in the U.S. is unclear.

## WHITE HOUSE

### Interim Chief Named For Communications

President Donald Trump named longtime aide Hope Hicks as interim communications director on Wednesday, giving one of the White House's key behind-the-scenes staffers more responsibility in a corner of the West Wing that has seen heavy turnover and instability.

The White House added that a permanent communications director will be announced "at the appropriate time."

Ms. Hicks is the fourth person in the first seven months of the administration to handle the duties of the top communications staffer in the White House. Anthony Scaramucci and Mike Dubke both resigned from the role under pressure. Former press secretary Sean Spicer, who also assumed those duties on an interim basis, resigned less than a month ago.

In the White House, Ms. Hicks has been director of strategic communications since the start of the administration.

One of the handful of original staffers who started the campaign with Mr. Trump in 2015, Ms. Hicks handled communications responsibilities almost singlehandedly for much of the political season.

A former Ralph Lauren model, Ms. Hicks was communications director in the Trump Organization's real-estate and hotel division before the campaign. In that role she was closer to Mr. Trump's daughter Ivanka before joining the campaign.

—Michael C. Bender

## HEALTH INSURANCE

### CBO Raises Prospect Of Rising Premiums

Premiums for many insurance plans on the Affordable Care Act's individual market would climb by 20% next year if the Trump administration halts billions of dollars in payments that go to insurers under the health law, the Congressional Budget Office estimated.

The payments that help compensate insurers for reducing out-of-pocket costs have become the latest front in the battle over the health law, with President Donald Trump warning he could end the funding after Senate Republicans failed late last month to repeal the ACA.

Democrats, insurers and some governors have been urging Mr. Trump to preserve the payments to protect the stability of the individual insurance markets.

The report by the nonpartisan

san CBO and the Joint Committee on Taxation, a panel that includes House and Senate members, says the ACA markets wouldn't implode without the funding, estimated at \$7 billion this year. But it concludes that a decision by Mr. Trump to halt the payments would raise premiums for midprice plans and leave slightly more people without an insurer to choose from on the individual market.

Stopping the subsidies would also wind up costing the federal government more in the end, the report said. Higher premiums for midprice plans would require the government to pay larger tax credits to consumers to help offset coverage costs. The federal deficit would increase by \$194 billion through 2026, the report said.

—Stephanie Armour

## ECONOMY

### Youth Unemployment At Nearly 50-Year Low

The youth unemployment rate fell this summer to match the lowest level in nearly a half-century.

The jobless rate for Americans between 16 and 24 years old fell to 9.6% in July from 11.5% a year earlier, the Labor Department said Wednesday. The rate reflects those actively seeking but unable to find a job.

Last month's youth reading, while more than double the rate for all adults, matched July 2000 as the lowest midsummer rate since 1969. Economists closely watch summer youth employment because it includes students working during school breaks as well as year-round employees.

The historically low youth jobless rate comes with a larger caveat: A far smaller share of young people are seeking summer jobs than in decades past.

The labor-force participation rate for the group edged up to 60.6% last month from 60.1% a year earlier. But both of those readings are well down from 1989, when 77.5% of those in their late teens and early 20s had or sought summertime jobs. The data reflect both short-term and long-term economic trends.

The low jobless rate is consistent with a tightening labor market. The overall 4.3% seasonally adjusted unemployment rate in July matched the lowest reading in 16 years. Businesses, including restaurants, retailers and warehouses, are complaining about a shortage of workers and appear to be tapping younger people in larger numbers.

—Eric Morath

# Housing Starts Decline Again

BY LAURA KUSISTO

U.S. housing starts declined for the fourth time in five months, driven by a decline in multifamily housing construction that is likely to remain a drag on the sector in the months to come.

Total housing starts decreased 4.8% in July from the previous month to a seasonally adjusted annual rate of 1.155 million, the Commerce Department said Wednesday.

Starts edged 0.5% lower for single-family construction and plummeted 17.1% for construction on buildings with five or more units.

Housing starts data are volatile and often are subject to large revisions, but a clear pattern has emerged over the past few months of slowing activity driven by a drop in apartment construction and only gradual improvement in single-family building.

Economists said single-family starts are being constrained by a lack of construction workers and land.

That is likely to mean continued gradual recovery in the sector rather than a turbocharged expansion.

"If we could overcome those hurdles the demand is there," said Gus Faucher, chief economist at PNC Financial



Housing starts have fallen in four of the past five months.

trends because they are going in different directions," Mr. Dietz said.

The homeownership rate hit 63.7% in the second quarter, the Census Bureau said last month, a jump of nearly a full percentage point from a year ago and a sign the trend toward more households renting is reversing.

Some 1.26 million new-owner households have been formed since the second quarter of 2016, while there are 702,000 fewer renter households than there were a year ago, according to the Census Bureau.

Residential building permits, a forward-looking indicator of how much construction is in the pipeline, fell 4.1% to an annual pace of 1.223 million in July.

Permits last month were flat for single-family homes and down 11.2% for buildings with multiple units.

The average size of new single-family homes under construction declined slightly during the second quarter, another indication that builders are ramping up starter-home construction, which in turn could help bring more buyers into the market.

—Eric Morath  
and Sarah Chaney contributed to this article.

Services Group.

Starts reached a postrecession peak in October 2016. Since then the pace of building has slowed despite strong confidence among builders and consumers, a rising stock market and low unemployment—all factors that should support construction.

Nonetheless, that isn't necessarily bad news for the U.S. economy overall because single-family construction employs three times as many workers per unit as multifamily

construction, according to Rob Dietz, chief economist at the National Association of Home Builders.

Starts in the first seven months of the year were up 2.4% from the 2016 period, including an 8.6% jump in single-family construction.

Apartment and condominium starts for buildings with five or more units are down 10.4% so far this year.

It's really important to separate the single-family trends from the multifamily

elected official or public agency, experts say. The First Amendment's protections of speech and expression are restrictions on government power.

"In general, the First Amendment is no barrier to discrimination on the basis of ideology or speech by a private person or entity," said Dale Carpenter, a constitutional law professor at SMU Dedman School of Law in Dallas.

Airbnb rejected the reservations of some visitors to Charlottesville after it said it learned this month that they

were planning to stay in and organize "a series of after parties at several Airbnb listings while in town to attend this terrible event," the company said in a statement. The company pointed to its community commitment as the reason for rejecting their reservations.

"We require those who are members of the Airbnb community to accept people regardless of their race, religion, national origin, ethnicity, disability, sex, gender identity, sexual orientation, or age," the company

said. "When we see people pursuing behavior on the platform that would be antithetical to the Airbnb Community Commitment, we take appropriate action."

However, companies such as Airbnb and Uber could face more challenges to applying their policies because the business segments they operate in open them up to a host of local laws, experts say. Businesses that offer their services to the public must comply with state and local laws banning various kinds of discrimination. Those laws typically protect against discrimination on the basis of race, religion, ethnicity and gender. Unless a company is targeting supremacists because of their gender or race, those laws probably wouldn't apply, according to UCLA constitutional scholar Eugene Volokh.

That isn't true everywhere. A few places like Seattle have laws that also ban discrimination on the basis of political ideology. Seattle's public accommodations law says a business can't turn away a patron because of conduct "reasonably related to political ideology" unless the customer's conduct would "cause substantial and material disruption" of the owner's property rights.

# TECH

Continued from Page One donations for activities that promote hate, violence or racial intolerance," saying that includes white supremacists and Nazi groups. It is unclear if PayPal has recently removed or suspended any accounts that violated its terms of service.

Behind the swift action from the firms lie considerations about freedom of speech and the legal application of company policy, which seems to vary depending on who the end user is. Companies that are considered communications platforms have the greatest leeway to enforce policies that bar certain users, legal experts say.

Tech companies "certainly have the right to make their own judgments about what's in the terms of service and whether it's being violated," said Mike Yang, former general counsel at Pinterest Inc. and a former deputy general counsel at Google.

Recently, the debate about what kind of speech tech firms allow on their platforms has focused on companies such as Facebook Inc., which has hosted fake news as well as violent live videos, and Twitter Inc., which has ramped up ef-

forts to remove some accounts from its site.

Following the violence in Virginia, domain registrars—which act as intermediaries by making sure that a website's domain name is linked to the correct IP address—have also become arbiters of free speech.

If a registrar pulls service from a site, the site will appear offline to the public until it finds another registration provider.

"The number of net intermediaries acting as gatekeepers has increased" since GoDaddy booted Daily Stormer, said Daphne Keller, who studies platforms' legal responsibilities at the Stanford Center for Internet and Society. "Suddenly the domain registrars are sitting in judgment on content and speech," joining the usual players around free speech such as Google, Facebook and Twitter.

Domain registrar GoDaddy said that, while it doesn't usually take actions on complaints that would "constitute censorship of content," it decided that an article Daily Stormer posted ridiculing Ms. Heyer crossed the line "to promoting, encouraging, or otherwise engaging in violence against any person." On Sunday, it gave Daily Stormer 24 hours to find a new registrar.

Daily Stormer then registered on Google. Hours later, Google canceled Daily

Stormer's website-hosting registration, saying the site violated Google's policies against inciting violence. Daily Stormer, whose site was inaccessible Tuesday, didn't respond to a request to comment.

Daily Stormer has reappeared on the web under what appears to be a new domain name, indicating it had found a new domain registrar.

Many of the actions that companies have taken against supremacists would probably be unconstitutional under the First Amendment if imposed by an

ANDREW HARRER/PRESSEUROPEAN PRESSPHOTO AGENCY

Tech firms took action against white supremacists in the wake of violence at a rally in Virginia.

## LIFE & ARTS

### ART REVIEW

# Photography in the Age of the iPhone

At the Met Fifth Avenue, curators try to make sense of the hydra-headed world of mobile-phone art

BY RICHARD B. WOODWARD

New York

**PHOTOGRAPHY** in the era of camera phones has flummoxed museums and galleries. Thousands of images are posted every second on social media, idiosyncratic records of things and events never seen before in this form. Top-rank artists introduce their latest work on Instagram—Cindy Sherman's account went public recently—and rank amateurs are even busier.

How can a curator or art dealer hope to catch anything but a glimmer of the flashy items in this racing torrent, much less present, store, archive and maybe sell the best of them—whatever "best" may mean in a medium so inchoate and collective?

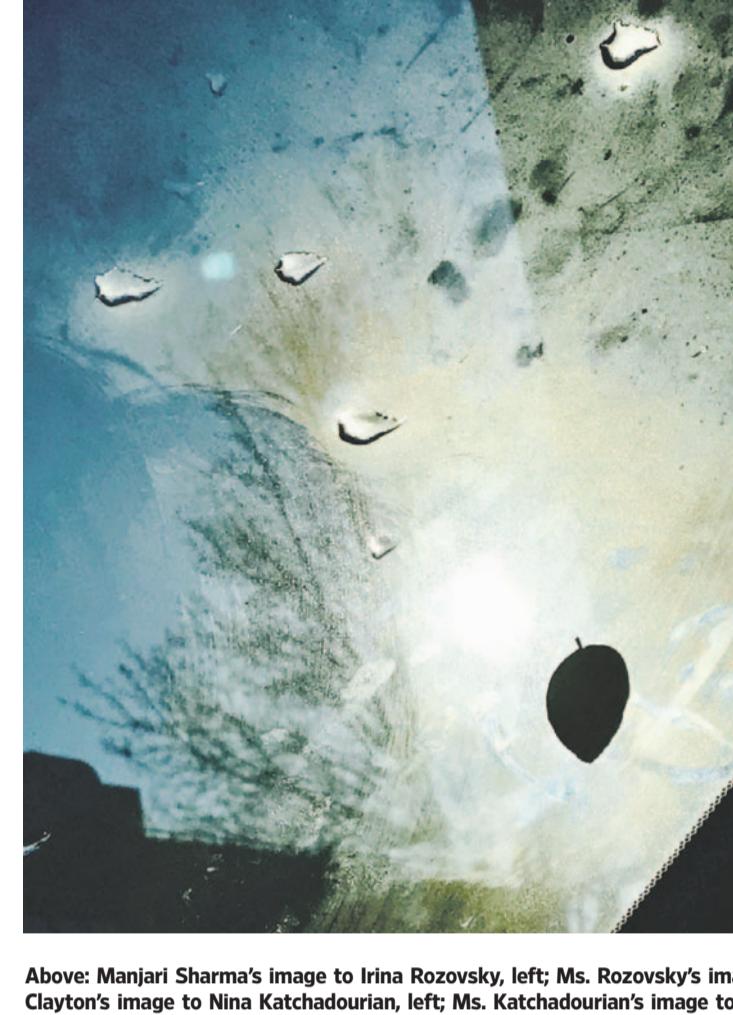
"Talking Pictures: Camera-Phone Conversations Between Artists," at the Met Fifth Avenue, is an ingenious attempt to address the problem. The show doesn't profess to have the answers. Instead, without taking sides, it merely exhibits four ways of displaying camera-phone images in a museum context—as prints on the wall, on video monitors, with touch-screen notepads, and in books.

Associate curator Mia Fineman believes that photographing with a phone is "more like talking than writing." To test this theory, she enlisted 12 artists to choose a partner and then collaborate in a visual dialogue over five months (from November 2016 to April 2017). The 24 artists were asked not to share their images on social media or to add text; otherwise, no rules. They could send pictures back-and-forth, still or moving, as often as they liked.

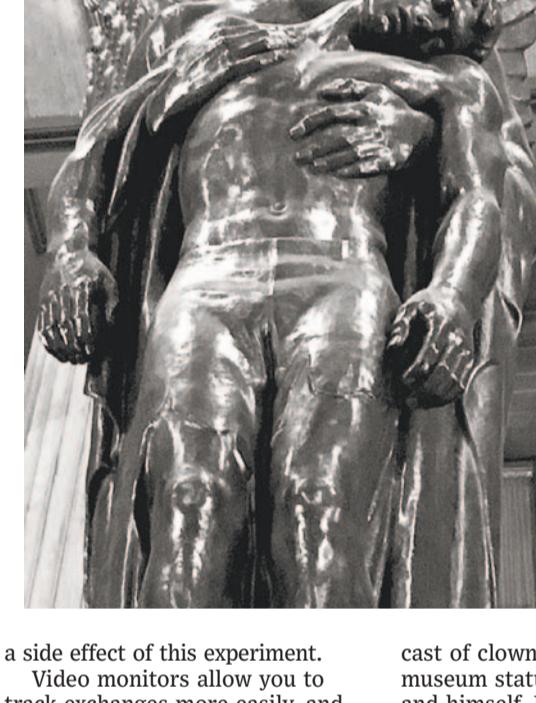
While negotiating the terms of their liaison, Manjari Sharma, an India-born photographer based in Brooklyn, and Irina Rozovsky, a Russia-born photographer in Boston, learned that each was pregnant. This became the main theme of their mutual chronicle. We see pictures of house interiors, dogs, children, adult men, snow, the Women's March in Washington, ripened fruit, an ultrasound scan, themselves, and their newborns.

Prints of their photographs dominate the show, running in parallel lines down the entire south wall of the gallery. (The women are also the only artists here with a story arc, complete with a happy ending.) And yet, seeing their back-and-forth diary in this array blurs the immediacy of an image on phone as well as their individual contributions. You have to consult a checklist to discern which was done by whom.

The same can be said of the grid on the opposite wall by the painters Cynthia Daignault and Daniel Heidcamp. The prints of their photographs of their 18-inch canvases—placid scenes from their lives and the media, and of paintings by others—look like the work of one person rather than two, which may be



Above: Manjari Sharma's image to Irina Rozovsky, left; Ms. Rozovsky's image to Ms. Sharma, right. Below: Lenka Clayton's image to Nina Katchadourian, left; Ms. Katchadourian's image to Ms. Clayton, right.



a side effect of this experiment.

Video monitors allow you to track exchanges more easily, and closer to real time. Images pop up on the left or right side of the screen, dated, with the name of the contributor as a caption. The drawback is that the flow is non-stop and rapid, and the viewer can't alter the pace.

William Wegman and Tony Oursler are the most garrulous artists in the show. Mr. Wegman's

cast of clowns includes dogs, toys, museum statues, hockey players, and himself. Mr. Oursler's responses are no less inventive and nutty. In one video scrap, he photographs bumps of ice from overhead as if it were a mountain range and he a surveillance drone.

Nothing tops the duo of Nina Katchadourian and Lenka Clayton for sheer fun. Like a couple of improv comics trading one-liners, they fire off visual puns—a fist is

answered by a cluster of piano keys, a revolving ceiling fan by an artificial leg rotating on a turntable. (On my two visits, this piece drew the biggest audiences and the most laughs.)

The three pairs of artists (Ahmet Öğüt and Alexandra Pirici, Rob Pruitt and Jonathan Horowitz, Shawn Peters and Sanford Biggers) whose work is displayed on video notepads, located on a table in the middle of the gallery, are at a

technological disadvantage. While these devices give the viewer more control over material, the images are smaller. The "conversation" seems slower, too.

The participants whose exchanges are bound in books are even worse off. For example, even though the photographs by Christoph Niemann and Nicholas Blechman are more permanent on paper, they lack the vibrancy of a screen's backlighting. Nor can they match the impact of the prints on the walls.

"Talking Pictures" may one day be seen as the first successful museum show about camera-phone art, as well as an artifact about the helpless bewilderment felt by many American artists following the election of President Trump. Images of an orange-colored man in a red tie are as common here as pets or weather.

Almost everyone is now a photographer, often a good one. Thanks to Ms. Fineman's planning, 12 works by 24 dedicated artists, many already skilled in this novel, quicksilver mode of communication, have been packed into one thin room at the Met.

Each project is worth your time. If there is a smarter exhibition in New York about where photography is going than this one, I haven't seen it.

**Talking Pictures: Camera-Phone Conversations Between Artists**

The Met Fifth Avenue, through Dec. 17

*Mr. Woodward is an arts critic in New York.*

## FROM PAGE ONE

# ROBOTS

Continued from Page One  
executive director of the Georgia Institute of Technology's Institute for Robotics and Intelligent Machines. At this open-access scientific playpen, where up to 50 ground bots and 20 aerial copters can be remotely controlled by researchers often from other schools—or even foreign countries—experiments can begin without notice.

It turns out the bot that startled Mr. Glotfelter back in the fall of 2015 was being controlled by a professor in Texas. "Every now and then they start moving, and we have no idea who's doing it," Dr. Egerstedt said.

Most of these maneuvers come and go with minimal drama. The robots are programmed to avoid colliding with one another and the wheels on the rolling bots lock when they leave the arena so they can't run away. As in any democracy, however, things occasionally get messy.

Last fall, half a dozen Robotarium copters were programmed by remote researchers to shoot straight up in the air. They did as told, hit the

ceiling and then fell. Propeller blades and motion capture markers scattered across the room, including onto an unfortunate graduate student, who escaped unharmed.

"That was absolutely horrifying. It was raining robot parts," Dr. Egerstedt recalls.

There is now a safety net in place, much to his chagrin.

In February, lab workers were doing minor maintenance on the tabletop space where robots are tested, opening up a gap in the barrier that prevents them from falling off the table. Suddenly, the bots rolled straight toward the opening.

"It was as if they knew where the hole was," Dr. Egerstedt said.

They weren't trying to escape. They were actually being controlled by a remote researcher, who wasn't aware of the scheduled maintenance.

A Ph.D. student sprinted across the room and made what Dr. Egerstedt called a "beautiful" dive between the legs of a \$15,000 camera to save a \$50 bot from crashing to the floor.

"I remember the effort to build them," the student, Gennaro Notomista, said of the robots. He didn't want to have to do it again.

The lab is slated to move to

a space nearly 20 times as big later this summer with 120 ground bots and, eventually, 60 airborne ones. Researchers use the swarms of robots to test search-and-rescue scenarios, simulate flight formations for the Defense Department or predict how fleets of self-driving cars might interact on the road.

Don't blame the robots for their occasional malfunctions, some researchers say.

"Robots do what we tell them to do," says Mac Schwager, an assistant professor of aeronautics and astronautics at Stanford University's Multi Robot Systems Lab, which also studies the capabilities of groups of robots. It's just that sometimes, the instructions they get are bad. "It's not as if they're trying to break free or they've developed a will of their own," he says.

Dr. Schwager recalls that a few years ago three aerial robots in his lab started an experiment correctly, flying to different corners of a room to monitor environmental conditions.

One started wobbling and slammed into another, and then the tangled mess of propellers and plastic plowed into the third. His colleague grew increasingly exasperated as the scene turned from exciting to Battle Bots.

Dr. Schwager hit an emergency button powering down the three robots and they crashed to the floor. His col-



Magnus Egerstedt, executive director of the Institute for Robotics and Intelligent Machines, inside the new Robotarium.

league also collapsed, he says, deflated by seeing weeks of work go to waste. The culprit in this case was a coding error: A researcher hadn't correctly measured the bots' positions.

Doctoral students in the Georgia Tech lab also have to guard the bots against another form of danger—the sticky fingers of fifth-grade boys, who tried to make off with a few robots during a demonstration in April.

As the experiment wound down, Mr. Mayya says, he

sprinted to the door of the lab to block the children from leaving with his robots.

"I'm almost 6 feet and I'm not skinny. It was probably a little imposing for a kid trying to leave the room, to have this guy stand right in front of him and say, 'I need that back,'" he says. They returned the bots, reluctantly.

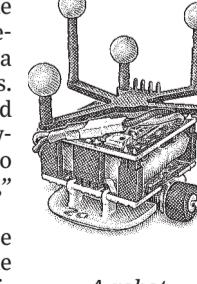
The new Robotarium looks like a Hollywood sound stage surrounding a net-lined 168-square-foot hockey rink. More than a half-dozen cameras dot the corners and ceiling to capture video and send the results back to researchers, so they can see their experiments in action. A few cushy seats off on the side provide a theatrical effect.

"I have always been mesmerized by schools of fish, or flocks of starlings," Dr. Egerstedt says. When alone, he says, he takes the safety net down and programs the bots to come. "...just stand there, immersed in the swarm."

At the formal opening later in August, the university's president will be joined at the ribbon-cutting by a scissor-wielding robot.

Dr. Egerstedt's team decided against using an aerial robot, given the risks on a windy day—but he said he still has some concerns about the ribbon-slicing bot being built for the event.

"It's vasectomy-height," he said. "So it's scary."



A robot

GEORGIA INSTITUTE OF TECHNOLOGY

# LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

## Why Savvy Fliers Take Air Canada

International travelers are finding better deals and faster flights than they get from the big three U.S. airlines by heading north

Toronto

One of the best ways to go east to Europe or west to Asia now is to go north.

Air Canada, revived after years of turbulence and bankruptcy, has turned its hubs in Montreal, Toronto and Vancouver into easy, fast connecting points for U.S. travelers. You clear U.S. Customs in Canada without even having to retrieve your checked luggage. Waits are minimal. Fares are sometimes cheaper. Planes are new and fitted with premium economy cabins—an option U.S. airlines are just beginning to roll out.

It's the in-the-know alternative for travelers who want to avoid the slog of connecting in New York or Los Angeles, Paris or London, Chicago or Atlanta.

"People are surprised when I say it's a much better experience on Air Canada," says Louise Clements, an advertising executive who splits time between New York and Toronto.

She lived in New York until last year and found it better to fly from New York's LaGuardia Airport to Toronto for overseas trips on Air Canada than U.S. airlines from Kennedy or Newark, N.J. Now living in Toronto, she flies Air Canada often to Minneapolis and sees more passengers connecting to international flights. Air Canada has put larger aircraft on the route.

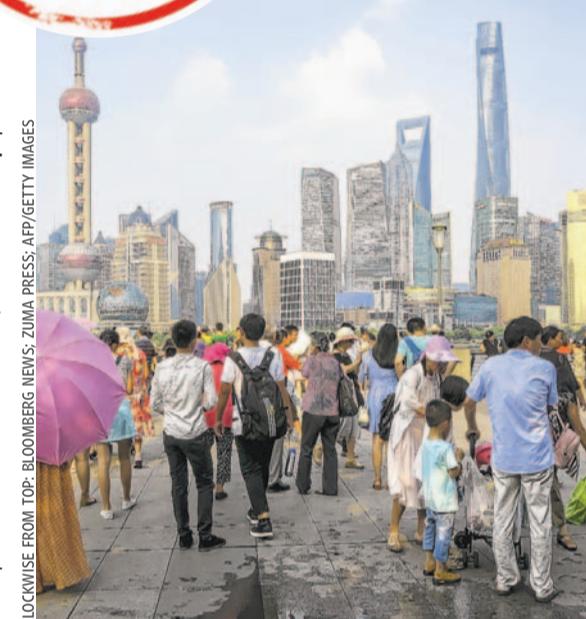
Air Canada's international connecting push has been a decade in the making. The airline has invested heavily in new planes, high-speed moving sidewalks, ultrafast baggage belts, bigger security checkpoints and international airport clubs with showers to poach travelers heading into or out of the U.S. Getting all its flights in the same terminal in all three of its hubs has made connections quicker and easier.

The carrier, a Star Alliance partner with United, has long offered connecting service abroad. But now it's building its schedule, offering cities that U.S. airlines don't like Casablanca and Dubai, along with high-demand destinations like Shanghai, London, Seoul and Tel Aviv.

It is trying to capitalize on its own revival while U.S. airlines are mired in customer battles and reputations for lousy service. Air Canada, which flies to about 60 U.S. cities, thinks its strongest U.S. markets will be secondary cities that don't have many direct overseas flights, itineraries such as Pittsburgh to Beijing or Tampa, Fla., to Copenhagen. Air Canada also provided an alternative when the U.S. ban on laptops in cabins on inbound flights from 10 airports, mostly Middle East, was in



Air Canada now flies to about 60 U.S. cities. The flight pictured above landed at New York's LaGuardia Airport in April. The airline is offering flights to cities like Shanghai, bottom left, and London, bottom right, with connections through Toronto, Montreal or Vancouver. U.S. cities without major airline hubs can especially benefit from these routes.



CLOCKWISE FROM TOP: ZUMA PRESS; ZUMA PRESS; AP/GETTY IMAGES

effect from March to July.

"They've made prices more attractive," says Jack Ezon, president of Ovation Vacations, a New York-based agency specializing in luxury travel. "When you have to make a connection anyway, it's a smart way to go."

Benjamin Smith, president of Air Canada's passenger airline division, says the U.S. dollar's strength—\$1 is worth about 25% more than a Canadian dollar—has enabled the airline to price aggressively in the U.S. The airline's focus has been primarily on luring business-class and premium economy passengers with good deals.

Geography helps with keeping flight times competitive, since

trips between the U.S. and both Europe and Asia pass over Canada. Air Canada can get you from Hartford, Conn., to Paris in nine hours, 25 minutes. That's 50 minutes faster than United, 65 minutes faster than American and more than 2½ hours faster than Delta.

Years back, Air Canada was torn with labor strife, a pension crisis, bankruptcy reorganization and a reputation for lousy service. Under Chief Executive Calin Rovinescu, who took over in 2009, the carrier has revived with \$10 billion capital spending program launched in 2010, 10-year labor contracts and a low-cost unit for leisure destinations.

This year, airline rating firm

Skytrax gave Air Canada four stars out of five and named it the best in North America.

Ryan Hoult is chief executive of a Calgary software company and flies over 100,000 miles a year with Air Canada. He says the airline is ahead of the three big U.S. international carriers because it refreshed its fleet faster, largely with new Boeing 787s and 777s. Air Canada was first in North America with lie-flat business-class beds on all its long-haul aircraft, first with aisle access for all business-class seats on all aircraft so you don't have to climb over a sleeping passenger to get to the bathroom, and first with true premium economy on all long-haul

flights.

"I know what I'm getting when I fly them," Mr. Hoult says of Air Canada. The product and service isn't as fine as Singapore Airlines, he says. He likens it to Marriott hotels—good quality, but not Ritz Carlton.

Regular fliers can point to one drawback: the kind of winter weather Atlanta or L.A. don't worry about.

Air Canada's Mr. Smith contends the airline handles winter storms more expeditiously than congested U.S. airports. Recovery is easier, since Toronto and Montreal are smaller than New York and Boston.

The increased passenger flow into and out of the U.S. has enabled Air Canada to offer more cities. Ben Lipsey, director of Air Canada's global connection product, points to flights to Hartford that probably wouldn't exist without the international connections.

Air Canada launched 16 international and U.S. transborder routes in the second quarter and traffic increased 13.6% over the previous year. "If you offer the right price and the shortest elapsed time, you're higher in the sort order" of online ticket-shopping, Mr. Lipsey says.

Some of the innovations can be confusing to travelers faced with unfamiliar procedures. Travelers entering the U.S. used to have to reclaim luggage before U.S. Customs clearance, and then go on to security screening. But Air Canada reversed the process. Your luggage gets screened while you get screened. That slashed 15 minutes off connecting times in Toronto, says Fady Riad, manager of baggage and hub connection performance.

After a security checkpoint, travelers wait in a holding room for their names to turn green on a display, indicating that their bags have been X-rayed and U.S. Customs is ready to process them. Unless officials order a physical search, the bags go straight to connecting flights.

Michael Foote, an American who lives in Copenhagen, travels back to relatives in Tampa frequently and has recently tried Air Canada twice. He finds the name-on-the-board system strange. "You have to scan your boarding card several times: to get into the room, to get out," he says. Lettering is small on the boards, which tell you to look for your initials and then the first three letters of a last name are displayed.

"You have to be alert—it's a little annoying after traveling so long," says Mr. Foote, a bank executive. Still, after trying London, Frankfurt, Zurich, New York, Chicago, Atlanta and Iceland, his family prefers Toronto.

Air Canada's Mr. Lipsey says the system "needs some fine-tuning."

ANATOMY OF A SONG | By Marc Myers

## HOW THE HOLLIES MET A 'LONG COOL WOMAN'

**UNDER PRESSURE** in July 1971 to deliver one last song for their "Distant Light" album, the Hollies recorded "Long Cool Woman (in a Black Dress)." The Hollies' Allan Clarke had co-written the song weeks earlier with lyricist Roger Cook about an F.B.I. agent, a raid and a woman. Released in 1972, the single reached #2 on the Billboard pop chart. Recently, Mr. Cook, Mr. Clarke and Hollies' drummer Bobby Elliott reflected on the song's evolution. Edited from interviews.

**Roger Cook:** In June of 1971, Allan Clarke of the Hollies and I were at my office on Park Street in London. We frequently wrote songs together there. At around noon, we left to grab lunch at La Genova, near Marble Arch.

After a bottle of wine and a brandy, Allan and I returned to work on a song. At some point we decided it should be set in New York during Prohibition.

Both of us loved Hollywood films about speakeasy bad guys and cops smashing beer barrels and whiskey bottles in the streets.

I was at the upright piano and Allan was next to me on a chair with his guitar. After messing about on the keys for a bit, I started pounding out a melodramatic and slightly sinister blues riff with my right hand. It was in the key of C. As my pointer and middle finger played the C and E notes, my thumb moved from G to A to B-flat and back down to A. I can't lay claim to the chords. It's an old rock 'n' roll riff.

**Allan Clarke:** As Roger played the riff, I came up with a melody on my Fender Telecaster Sunburst along with a simple chord sequence. We brought that bottle of brandy back with us.

**Mr. Cook:** Bouncing ideas back and forth, Allan and I thought the song should be sung from the perspective of an F.B.I. agent working undercover at a speakeasy.

I wanted the lyric to have the tough-guy language you hear in gangster films. We came up with lines like "sitting in a nest of bad men" and "people who are doing wrong."

We even avoided calling the place a speakeasy. We called it a "bootlegging boozier on the West Side." A "boozier" in London is slang for a pub that serves alcohol illegally after hours.

As the lyric developed, the agent is about to call the district attorney to tip him off when he spots the speakeasy's female singer. The woman takes his breath away.

As soon as we came up with, "She was a long cool woman in a black dress," Allan and I stopped and looked at each other. We had the song's title.

The guy named Charlie who says, "I hope that you're able, boy," is the agent's sidekick who was watching him eye the woman. At this point in the lyric, something had to happen. So we came up with lines about police sirens wailing, everybody running and a gun going off.

As the cops swept in to make their arrests, the F.B.I. agent says, "The D.A. was pumpin' my left hand and she was holdin' my right." The agent had saved the long cool woman from arrest by



saying she was his gal.

**Bobby Elliott:** The Hollies were getting pressure from EMI in the U.K. and Epic in the States to deliver "Distant Light," our next album. But we were still a song short and needed another one fast. In July '71, the Hollies arrived at AIR Studios, but Ron Richards, our producer, called in sick. Allan said he

had a song he wanted to play for us that might work. As he played and sang the song, I joined in on drums and Bernie Calvert played his Fender bass.

**Mr. Cook:** Here's an interesting bit. When Allan and I came up with the idea of a long cool woman, I had Billie Holiday in mind for the nightclub singer. I loved her voice.

## OPINION

### REVIEW & OUTLOOK

## Trump and the CEOs

**A**n old line in politics is that the Fortune 500 never elected anyone, and that's truer of Donald Trump than of any recent President. But this week's CEO resignations from Mr. Trump's manufacturing advisory council should still concern the President because they are a symbol of his eroding support beyond his core political base.

The CEOs of Merck, Intel and Under Armour resigned from the White House advisory group in the wake of the President's initial remarks after the violence in Charlottesville, Va., on Saturday. Kenneth Frazier, the Merck boss, was pointed in explaining that "America's leaders must honor our fundamental values by clearly rejecting expressions of hatred, bigotry and group supremacy, which run counter to the American ideal that all people are created equal." By Wednesday three more had resigned, and others who stayed joined the public criticism.

Mr. Trump dismissed the CEOs as "grandstanders," and that line will resonate with some of his supporters. Corporate America isn't popular these days. These advisory councils also don't do all that much, and perhaps the CEOs were looking for an excuse to dump an obligation that isn't central to their companies.

Yet with rare exceptions like Jamie Dimon of J.P. Morgan or Fred Smith of FedEx, CEOs are also politically risk-averse. Most probably didn't vote for Mr. Trump but they also don't want to court his wrath with three-and-a-half years left in his term. They joined the advisory group at the start of his Presidency because, whatever their doubts about Mr. Trump as a candidate, they support some of his policies and hope that as President he will

sign tax reform and ease regulations to help the economy and thus their companies, workers and shareholders.

### A GOP President who loses the business class has a big problem.

the President in the media and Hollywood isn't surprising, and Mr. Trump wears it like a badge of honor. But the business community is, or ought to be, a natural part of a Republican President's governing coalition.

Mr. Trump began his Presidency amid unprecedented hostility from those who didn't vote for him. This is all the more reason to govern in a way that seeks to broaden his coalition with new allies. Yet Mr. Trump has seemingly taken every opportunity to escalate feuds and attack even allies in Congress such as Senate Majority Leader Mitch McConnell.

As if to prove this point, Mr. Trump lashed out at Merck's Mr. Frazier on Twitter Monday with what amounted to a political threat: "@Merck Pharma is a leader in higher & higher drug prices while at the same time taking jobs out of the U.S. Bring jobs back & LOWER PRICES!" This display of pique does nothing but make others less likely to get anywhere close to Mr. Trump's orbit.

But then we repeat ourselves. Mr. Trump's ego won't allow him to concede error and he broods over criticism until he ends up hurting himself, as he showed again Tuesday by relitigating his response to the Charlottesville violence. This is how he has achieved a 34% approval rating, as even allies flee and his Presidency shrinks in on itself.

## The U.S. Wage Paradox Explained

**O**ne mystery of this economic expansion is that wage growth in America has remained slow even as the labor market has finally tightened. One widely cited culprit is historically low productivity growth. But a new analysis from the Federal Reserve Bank of San Francisco adds a more optimistic, albeit paradoxical, explanation.

The U.S. Bureau of Labor Statistics recently reported that median weekly earnings had risen in July by a healthy 4.2% on an annual basis, the fastest growth in a decade. As labor markets tighten, employers typically increase wages. Until this past year, however, median weekly earnings growth had hovered near 2%, which is significantly less than the 3.25% average from 1983 to 2015.

So why haven't wages risen faster amid an increase in hiring and unfilled jobs? One answer is that wages have actually been growing at a faster clip—around 4% to 5%—at least for full-time workers with steady jobs. But new full-time workers who are generally paid less than the retirees they replace are dragging down the *average* wage increase.

Researchers at the San Francisco Fed this week updated their 2016 paper that disaggregated the wages of full-time workers with steady employment from recent entrants—that is, new workers or those returning to full-time work. Their earlier analysis showed that average wage growth had slowed less than expected

during the recession while staying relatively flat during the recovery.

### A new Fed study shows faster gains than official figures suggest.

That's because workers who lost jobs during the recession were generally lower skilled and lower paid, so average weekly wages didn't fall significantly. However, many of those workers have since been rehired at below-average wages, which has depressed the aggregate.

In prior expansions, wage growth has been driven mostly by continuously full-time employed workers, and the researchers find that's still the case. Wage growth for these workers is now close to the prerecession 2007 peak. But there are now many more workers who have been on the labor-force sidelines who are moving to full-time employment, thus creating a drag on wages.

"Counterintuitively, this means that strong job growth can pull average wages in the economy down and slow the pace of wage growth," the economists note. The effect is even larger because so many higher-paid baby boomers are retiring. "With so many of this generation still approaching retirement, the so-called Silver Tsunami will continue to be a drag on aggregate wage growth for some time."

The study portends better wage news for all workers if we can keep the expansion going—and even more if tax reform can accelerate growth by spurring more capital investment and increasing productivity. As ever, the cure for wage stagnation is faster growth and greater demand for workers.

## America's Opioid Fix

**P**resident Trump last week declared the opioid epidemic a national emergency, which given the human toll may be an understatement. As states beg Washington for more money to treat drug abuse, one question worth asking is whether the gusher of Medicaid dollars has contributed to the crisis.

Drugs now rank as the leading cause of death for Americans under age 50. Opioid overdoses have quadrupled since 1999, and fatalities are soaring. The number of overdoses in Ohio this year is projected to exceed the nationwide count in 1990.

The overwhelming majority of people who are prescribed painkillers don't become addicted. But those who get hooked often turn to the street to buy and sell potent cocktails laced with fentanyl and heroin. While some of these drugs are funneled from China and Mexico, vast quantities of prescription opioids can be obtained cheaply with Medicaid cards.

A recent study by Express Scripts Holding found that about a quarter of Medicaid patients were prescribed an opioid in 2015. Wisconsin Sen. Ron Johnson presents intriguing evidence that the Medicaid expansion under ObamaCare may be contributing to the rise in opioid abuse. According to a U.S. Health and Human Services analysis requested by the Senator, overdose deaths per million residents rose twice as fast in the 29 Medicaid expansion states—those that increased eligibility to 138% from 100% of the poverty line—than in the 21 nonexpansion states between 2013 and 2015.

There were also marked disparities between neighboring states based on whether they opted into ObamaCare's Medicaid expansion. Deaths increased twice as much in New Hampshire (108%) and Maryland (44%)—expansion states—than in Maine (55%) and Virginia (22%).

Drug fatalities shot up by 41% in Ohio while climbing 3% in nonexpansion Wisconsin.

### Evidence suggests Medicaid may contribute to the epidemic.

Using open-source court files and news stories, Mr. Johnson's office also found 261 cases of people who were recently prosecuted for exploiting Medicaid cards to obtain opioids. Last month an Army veteran was convicted of selling oxycodone pills with forged prescriptions. His co-conspirator paid for the pills with a Medicaid card.

A police detective in Wisconsin told Mr. Johnson's office that 240 oxycodone pills can be purchased with a Medicaid card for a \$1 copay and resold for \$4,000 on the street. A single Vicodin pill can fetch \$50.

In a letter to the Inspector General for the Department of Health and Human Services, Mr. Johnson last month observed that "it appears that the program has created a perverse incentive for people to use opioids, sell them for large profits and stay hooked." He's asked the Inspector General to investigate Medicaid's controls to prevent such abuses.

Nearly all states maintain databases that track prescriptions, doctors and patients, though criminals are becoming increasingly adept at evading the system by operating across state lines. Another problem is that doctors inundated with patients often don't check the database or patients for signs of abuse prior to writing prescriptions. Most Medicaid prescriptions are for cheaper generics that aren't manufactured with tamper-proof casing or extended-release formulas that help prevent abuse.

Governors and Senators in hard-hit states are hoping that Mr. Trump's emergency declaration will free up cash from Medicaid and the Federal Emergency Management Agency for expanded opioid treatment. But another priority ought to be stemming abuse in the Medicaid system.

## A Powerful China Won't Respect India

By Sadanand Dhume

**A**s India's Himalayan border stand-off with China enters its third month, one thing has become glaringly obvious: Beijing has no intention of treating New Delhi as an equal. Belligerent official statements and bellicose articles in Chinese state-run media suggest that, in "Game of Thrones" parlance, President Xi Jinping expects Prime Minister Narendra Modi to "bend the knee."

The stand-off dates to June when Indian troops entered a plateau claimed by both China and the tiny Himalayan kingdom of Bhutan to block the Chinese from upgrading and extending a rudimentary road. From India's perspective, China's road building on disputed territory looks a lot like its construction of islands in the South China Sea—an attempt to create military advantage by building infrastructure.

Indian analysts fear that the road-work would make it easier for China to cut off the so-called chicken's neck, a narrow strip of land that links northeastern India to the rest of the country. Since India has a close treaty relationship with Bhutan, Indian officials play down the unusual step of intervening in a territorial dispute where technically India isn't a disputant.

China's position hinges on a confusingly worded 1890 treaty between the Qing dynasty and British India. According to Beijing's interpretation of that treaty, the disputed Doklam plateau falls firmly in Chinese territory. (Bhutan and India read it differently.) Moreover, as the Chinese argument goes, India has no business intervening in the matter since it lays no claim to the territory in question.

While Indian and Chinese troops face off in the disputed area, the tenor of Beijing's response ought to give Indians pause. Instead of taking Indian and Bhutanese concerns on board as a valid subject of discussion, China has adopted a stance that oscillates between belligerence and dismissiveness. It suggests a deeper truth that will endure regardless of how the current crisis is resolved. Bluntly put, a powerful China shows no intention of granting India the peer status that it craves.

In Bangkok last month, Chinese Foreign Minister Wang Yi underscored this dismissiveness. "The solution to this issue is simple, which is that the Indian troops back out honestly," he said. China's ambassador in New Delhi made similar demands for Indian troops to "unconditionally pull back." A Chinese defense ministry spokesperson warned India that "it's easier to shake a mountain than the PLA," or the People's Liberation Army.

Meanwhile, Chinese state-owned media outlets have taken to saber rattling. An editorial in China Daily blamed "India's audacity in challenging China's sovereignty" on a "sense of inferiority and insecurity in the face of China's rapid rise." Xinhua warned India to "dispel all illusions and avoid disastrous consequences." The reliably hyperventilating Global Times accused India's "naïve" government of not heeding the lessons of China's 1962 victory in a brief

that India seeks.

These economic disparities show in other ways too. Over the past three decades, Beijing and Shanghai have emerged as cities famous for their modern architecture and world-class infrastructure. India's shambolic cities compete with their Chinese counterparts on only one parameter: Pollution. Delhi has overtaken Beijing as the world's most polluted capital city.

Or take sports, where China has transformed itself from a straggler to an Olympic powerhouse. In India, they make movies about athletes who win medals in the largely invisible Commonwealth Games.

The Chinese view of India may be unkind, and almost certainly undervalues traditional Indian strengths such as a relatively free media, an independent judiciary and a historically successful record of managing vast diversity. But it would be unreasonable to expect China to value in its southern neighbor those qualities it lacks itself.

For India, the deeper lesson of the Doklam crisis ought to be clear. A Western-led order in Asia may not be perfect, but a Chinese-led order will diminish, not enhance, the standing that India seeks.

*Mr. Dhume is a resident fellow at the American Enterprise Institute, and a columnist for WSJ.com.*

## LETTERS TO THE EDITOR

### When Merit Isn't Enough to Get Into Harvard

Regarding your editorial "What Is Harvard Hiding?" (Aug. 8): Many years ago, my father told me that after graduating with honors in the 1930s from Stuyvesant High School in New York, he was told by the admissions people at Columbia University that he couldn't be admitted to the engineering department, as they didn't allow Jews in that department.

While studying under a prestigious fellowship for my Ph.D. at New York University, a close friend and I were the only fellows who were denied the option of teaching a course in our department. We were informally told it was because we were both Republicans and Vietnam veterans.

Racial, religious, political and intellectual discrimination are widespread in our colleges and universities. They need to be put out in the sunshine or they will continue for additional generations.

HARVEY GOLDSTEIN

Punta Gorda, Fla.

At my Harvard Business School 50th reunion in June a classmate said a former dean, who was asked about his most difficult challenge, said: "Admissions. If we went by test scores, HBS would be filled with students only of Indian descent."

Our son's family lives in an excellent school district. Increasing numbers of families led by Indian immigrants are moving in. The children of the Indian immigrants study harder. The non-Indian parents are concerned that their children are falling behind academically.

Perhaps instead of complaining, Americans should recognize how

dysfunctional many of our schools are and that all our children may need to be studying harder for longer hours during the year. We are in a global competition.

BOB ARMOUR

Virginia Beach, Va.

Harvard isn't hiding anything. It's attempting to reflect more of what we see around us. Harvard is using its judgment to take some of the best and brightest from various ethnic groups that make up our nation and give them an opportunity.

I find it odd that some would find fault with the communist model of education, which pushes the best young athletes or science students ahead with no remorse for those left behind, but find no fault in a pure higher-education meritocracy based entirely on academic achievement.

That type of achievement is easy to measure, but it's irresponsible not to consider the effects on the social fabric of the nation and what we desire to become.

JOHN VASI

Santa Barbara, Calif.

Must we make everything into a race issue?

REX JOHNSON

Cincinnati

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## OPINION

# The U.S. Doesn't Have to Take On China Alone

By James Bacchus

**D**onald Trump ordered an investigation Monday into China's alleged theft of intellectual property that could lead to retaliatory tariffs under the 1974 Trade Act. Before taking unilateral action in violation of international law, the Trump administration can and should bring cases against China at the World Trade Organization. It stands a good chance of winning precedent-setting judgments that the WTO would enforce through economic sanctions.

**B**efore launching a unilateral trade war over intellectual property, Washington should know it has a strong case against Beijing at the WTO.

Intellectual property accounts for nearly 40% of the U.S. economy, and the U.S. government has a duty to protect the IP of American rights holders abroad. The annual cost to U.S. companies of pirated software, counterfeit goods and the theft of trade secrets is as much as \$600 billion. Most of these losses are in China.

After 16 years in the WTO, China still falls far short of fulfilling its obligations to protect intellectual-property rights. About 70% of the

software in use in China, for example, is pirated.

China's mercantilist industrial policy, the Made in China 2025 program, aspires to make China a global leader in 10 strategic industries, including medical devices, artificial intelligence, driverless cars, and robotics. It requires the domestic content of manufactured products be increased to 70%, state subsidies be granted, and companies in these targeted industries be protected from foreign competition.

U.S. and other foreign companies report being pressured by the Chinese government and by Chinese companies to turn over their patent rights, trade secrets and other valuable intellectual property. Many major U.S. firms have long seen this behind-the-scenes intimidation as simply a cost of doing business in China. Now that it could place them at a competitive disadvantage globally, they are turning to the U.S. government for help.

Most WTO rules are "don'ts" that impose negative obligations. Don't discriminate. Don't apply tariffs higher than you promised. In contrast, the WTO rules on intellectual-property rights are affirmative obligations. Do respect intellectual-property rights. Do enforce them. Yet this aspect of the WTO intellectual-property rules is largely unexplored in dispute settlement.

WTO members are required by these rules to "ensure" that enforcement procedures are "available" that will "permit effective ac-



ASSOCIATED PRESS

Donald Trump and Xi Jinping at the G-20 Summit Meeting in Hamburg on July 8.

tion against any act of infringement" of IP rights. Moreover, these procedures "shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse." The WTO Appellate Body, the final court of appeal for trade, has said that "making something available means making it 'obtainable,' putting it 'within one's reach' and 'at one's disposal' in a way that has sufficient form or efficacy."

Is this happening in China? Some maintain that the WTO rules on IP enforcement only require good laws on the books and good procedures in principle, which the Chinese increasingly have.

The better argument is that enforcement means enforcement and

that these positive WTO obligations aren't being met if laws exist but IP rights are widely infringed. The U.S. could bring a systemic challenge to China's intellectual-property regime on the basis that the government is not fulfilling its affirmative enforcement obligations.

Trade secrets could be one part of a broad WTO challenge. The WTO IP agreement includes a rule requiring the protection of trade secrets, but it has yet to be asserted in a dispute settlement.

Another WTO rule requires that members administer all their laws, regulations and other actions in an "impartial" and "reasonable" manner. Is coercing foreigners out of their IP rights acting impartially and reasonably? If it can be shown using solid evidence that the Chi-

nese government is engaging in such coercion, this could be another strong legal claim.

Some in the Trump administration evidently assume that protectionist Chinese actions aren't covered by WTO rules, but a lot of them are. For example, in its membership agreement with the WTO, China promised to ensure that approvals for foreign investments wouldn't be "conditioned on: whether competing domestic suppliers of such products exist; or performance requirements of any kind, such as local content, offsets, the transfer of technology, export performance or the conduct of research and development in China." This sounds like the makings of another strong legal claim.

If the U.S. insists on acting unilaterally under the Trade Act, the Chinese are correct that this would break WTO rules. It would lead to retaliation by China, emulation by others and a cycle of tit-for-tat trade actions that will shrink trade and the world economy.

Before the U.S. damages the trading system by acting unilaterally, White House lawyers should read the fine print of the rule book. The Trump administration can better protect Americans' intellectual property by working within the WTO.

*Mr. Bacchus is the former chief judge of the World Trade Organization's Appellate Body and a former U.S. congressman and trade negotiator.*

## America Should Soften Its Tone and Harden Its Defenses

By Mark Helprin

**T**he North Korean nuclear crisis can be defused peacefully and to America's advantage if its elements are perceived with strategic clarity, and if U.S. leaders recognize that diplomacy depends less upon signals than upon maneuver.

Kim Jong Un is not entirely irrational. The purpose of his nuclear program is not to court annihilation but to deter American military options on the Korean Peninsula and change the correlation of forces in his favor.

North Korea created chemical and biological arsenals that effectively neutralized American tactical nuclear weapons and led to their withdrawal. What we see now is an amplification of that strategy, with the object of eventually driving American forces from Korea.

It is extremely unlikely that Mr. Kim would strike, if at all, before his nuclear forces have matured in numbers and reliability. Relatively few of his delivery systems or miniaturized warheads have been extensively tested. Nor have they been proven to work together. And the U.S. and Japan have multiple layers of midcourse and terminal-phase missile defenses.

Thus, time remains to set in motion options on the escalation ladder between the fatal extremes of either doing nothing or taking precipitous military action. The problem is that these opportunities have

not been exploited, the focus having been too much on Pyongyang rather than on Beijing, which can both completely shut down the North Korean economy and credibly threaten military intervention.

To the extent that China is shifting, it is because it fears a war on its border, understands what such a war would do to its own and the world's economy, fears even more that Japan and South Korea might develop nuclear deterrents, and sees that its nuclear calculus has been disrupted by the Thaad radar's ability to enhance American missile defense via forwarding data on Chinese missile launches in boost phase.

But this is not enough. As the U.S. ambassador to China James Lilek said: "You won't get anything from them unless you squeeze them." In view of America's disappearing red lines, repeated nuclear capitulations to North Korea and Iran, the largely substanceless pivot to Asia, and our passivity in the South China Sea, China will wait to see if we fold.

To date, the Trump administration has failed to apply the kind of intermediate measures on the escalation ladder that are outlined below. It needs to understand that China is watching and waiting, and that absent either overwhelming military superiority or a vast store of credibility—neither of which America now possesses—a diplomacy primarily of signals will not produce results.

In addition, the Trump administration may think that Pyongyang is too important for Beijing to abandon. True, North Korea serves as a "fleet in being" for China, tying down U.S. forces and ready to supply another front to divide them in case of war elsewhere, but now conditions are sufficiently dangerous and different that China can be stimulated to reassess.

### Trump can solve the North Korea crisis by pressuring China and rebuilding the U.S. military at last.

That is, if the U.S. takes previously neglected measures to respond to China's military rise, protect America's Asian allies, and guard international waters from maritime irredentism.

The president can switch from tough-guy talk to going before a joint session of Congress to ask for an emergency increase in funding to correct the longstanding degradation of American military power.

He can say that he has been kicked down the road far too long, and the buck stops with him. If Congress responds enthusiastically, as it should, China, Iran, North Korea and Russia will see that the giant has awakened, and the funding will make possible what follows:

• Given the immense distances across the Pacific, American conventional military leverage and deterrence vis-à-vis China depend entirely upon bases in Guam, Japan and South Korea. These bases are insufficiently hardened against attack by China's many intermediate-range ballistic missiles, air-launched cruise missiles, and bombers. Munitions bunkers and aircraft are ranged in tight rows rather than scattered in deep, underground, highly fortified shelters. Given the wingspans and tail heights of B-52s and C-17s, these would be immensely expensive, but war is much more so in every respect.

• Now that the U.S. may soon be threatened by a rogue regime's ICBMs, a vigorous acceleration of every aspect of ballistic-missile defense is warranted. This will protect against Iran and North Korea, promote uncertainty and hesitation in mature powers' calculation of their nuclear thresholds, and reduce the chances of a first strike against the U.S. by protecting its retaliatory capacities.

• The F-22—slated for 750 copies but reduced to 187; much faster than the F-35, with almost twice the range and more than twice the armament—is essential in the vast expanses of the Western Pacific. But it was taken out of production not that long ago when the Obama administration believed that security situations such as we now face were inconceivable. Restoring production lines, at a cost of one-tenth the AIG

bailout, would exert priceless influence upon China.

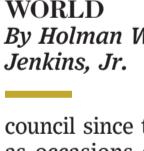
• Nothing would rivet China's attention more than if the U.S. formally announced that absent the abolition of North Korea's nuclear capacity it would look with favor upon and assist with a Japanese and/or South Korean nuclear deterrent, and then established a commission for this purpose. So as to de-link North Korea from the South China Sea, the U.S. should make clear to China that it is weighing supply of coastal anti-shipping missiles to the Philippines and Vietnam. Establishing such a gauntlet to preserve sovereign rights and freedom of navigation is long overdue.

These maneuvers well short of war can rebalance power, instill caution and stabilize the increasingly volatile Western Pacific, as well as contribute to stability elsewhere. A cost-benefit analysis objectively applied will so depress the value to China of a rogue North Korea that China should find common ground with America in coordinating action and point of view.

The choice need not be between capitulation and war, silence and bluster. But only if the U.S. decides upon carrying a bigger stick and speaking more softly.

*Mr. Helprin, a senior fellow of the Claremont Institute, is the author of "Winter's Tale," "A Soldier of the Great War" and the forthcoming novel "Paris in the Present Tense."*

## Why Trump Lost Corporate America



**BUSINESS WORLD**

By Holman W.

Jenkins, Jr.

Trump's advisory council since the Charlottesville riot as occasions of courage.

Still, these are some of America's most delicate PR canaries, surrounded by risk-averse advisers. Mr. Trump's administration is turn-

ing out not to be the administration they were hoping for, though probably the one they realistically expected.

Especially he has not made headway on corporate taxes—the issue that bought him whatever benefit of the doubt America's CEO class was willing to give him.

Now a handful are fleeing his advisory council because he didn't say the right words over Charlottesville, or didn't say them quickly enough. This is big news because the media can't get enough Trump. He insists on making himself the lightning rod. That's one problem.

If the president or a scraggly someone close to him in the West Wing is soft on white supremacists because he thinks these groups are a vital bloc, this would be the miscalculation of the century. Their adherents couldn't swing a race for dogcatcher. It is precisely the left's fantasy of the right that these people constitute a useful electoral base.

None of the departing CEOs likely believe Mr. Trump is a white supremacist or Nazi sympathizer. They just see no upside to being associated with him. Two of those who quit, Merck's Kenneth Frazier and Intel's Brian Krzanich, implicitly cited an unnamed individual's failure to speak out forcefully enough against racism.

Kevin Plank of Under Armour perhaps indulged a greater honesty when he suggested his company belatedly remembered that it "engages in innovation and sports, not politics."

There may be a temptation to liken these men to Google's Sundar Pichai, who overnight acquired a reputation as a moral coward for firing a diversity-policy dissenter. Other CEOs, like Jeff Immelt of GE, found voices to express opposition to white racism without trying to turn themselves into symbols of anti-Trump resistance.

But Mr. Trump hardly helped with his response, a series of tweets about Merck's high drug prices. Mr. Trump is the one party to these exchanges who doesn't have three layers of advisers to help him discover his deepest

thoughts. If he did, he might not be frittering away his presidency.

But let's also notice how little this has to do with Charlottesville. Mr. Trump was essentially correct when he warned in his initial, widely panned comments, about

### There is no point in taking brickbats for a president who does not deliver.

danger from "many sides." In one of those quirks of old-style magazine publishing, the Atlantic dropped a story, dated September, that went to press before Charlottesville and yet details the "The Rise of the Violent Left," especially the Antifa movement that was in the middle of the Charlottesville brawl.

Mr. Trump, who perhaps actually paid attention to his Charlottesville briefing, may just have responded the way 99% of Americans would have to the full story. Or the way European publics in the 1920s and '30s did when they saw Hitlerites and Stalinists battling in the streets and wanted nothing to do with either.

Happily, the social and political condition of America today is nothing like Germany circa 1930, even as both extreme right and extreme left peddle exactly the same delusive line that Trumpism is the force somehow carrying them to the centers of the Republican and Democratic parties, respectively.

To the extent there's any truth to this, however, notice what the Atlantic chose as its subject: "Antifa's violent tactics have elicited substantial support from the mainstream left," which in the magazine's reporting includes the Nation and Slate.com.

The overwhelming American sentiment after Charlottesville will be "Where were the cops?" Charlottesville is a Democratic town, in a state run by a Democratic governor. Its mayor, Mike Signer, declared the city a "capital of resistance" shortly after Mr. Trump's inauguration. Its vice mayor, Wes Bellamy, last year was obliged to step down from a high-school teaching job because of misogynistic, homophobic and anti-white tweets.

The Atlantic quotes a pollster's finding that 71% of Democrats detected "fascist undertones" in the Trump campaign. If the Hitlerites were spoiling for a fight in Charlottesville, they likely lacked any sway with the town fathers to keep the path clear for them. Perhaps not so the left-wing activists of Antifa.

At least the question is worth asking. Nobody is responsible for anticipating that a lone nut will drive a car into a crowd of mostly peaceful protesters. But for some reason, the city's leaders failed to head off an antifascist rumble they saw coming from a long way off—and that arguably they had a duty to head off once they issued, however reluctantly, a legal rally permit to the white-supremacist groups.

## THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

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## LIFE & ARTS

### WHAT'S THE BEST WAY to study for a test?

Many students will plunge into marathon study sessions this fall, re-reading textbooks and highlighting their notes late into the night. The more effort the better, right?

Not so, new research shows. Students who excel at both classroom and standardized tests such as the SAT and ACT aren't necessarily those who study longest. Instead, they study smart—planning ahead, quizzing themselves on the material and actively seeking out help when they don't understand it.

Carl Wilke, a Tacoma, Wash., father of six children ages 4 to 22, sees the studying challenges that students face almost every school day. He coaches his kids to pick out the main points in their notes rather than highlight everything, and to look for headings and words in bold type to find the big ideas in their textbooks.

Several months ago, his 18-year-old daughter Eileen tried to study for an advanced-placement exam. Eileen says she struggled with a practice test and realized that she didn't know how to study. She asked her mother, Catherine, for help. Ms. Wilke sat with Eileen for two hours while Eileen used an answer guide for the test to explain why her answers were wrong on questions she'd missed, then discuss the correct ones. Eileen says, "I was teaching her while simultaneously teaching myself" the material—a study technique that enabled her to ace the test.

High-achieving students take charge of their own learning and ask for help when they're stuck, according to a 2017 study of 414 college students. Students who performed better sought out extra study aids such as instructional videos on YouTube. Those who asked instructors for help during office hours were more likely to get A's, but fewer than 1 in 5 students did so, says the study by Elena Bray Speth, an associate professor of biology, and Amanda Sebesta, a doctoral candidate, both at St. Louis University in Missouri.

That activist approach reflects what researchers call self-regulated learning: the capacity to track how well you're doing in your classes and hold yourself accountable for reaching goals.



HANNA BARCZYK

Many students, however, take a more passive approach to studying by re-reading textbooks and highlighting notes—techniques that can give them a false sense of security, says Ned Johnson, founder of Prep Matters, a Bethesda, Md., test-preparation company. After students review the material several times, it starts to look familiar and they conclude, "Oh, I know that," he says. But they may have only learned to recognize the material rather than storing it in memory, Mr. Johnson says.

Top students spend more time in retrieval practice, he says—quizzing themselves or each other, which forces them to recall facts

and concepts just as they must do on tests. This leads to deeper learning, often in a shorter amount of time, a pattern researchers call the testing effect.

Students who formed study groups and quizzed each other weekly on material presented in class posted higher grades than those who used other study techniques, says a 2015 study of 144 students. At home, Mr. Johnson suggests making copies of teachers' study questions and having students try to answer them as if they were taking a test. Taking practice tests for the SAT and the ACT is helpful not only in recalling facts and concepts, but in easing

anxiety on testing day, he says.

Retrieval practice often works best when students practice recalling the facts at intervals of a few minutes to several days, research shows.

Studying in general tends to be more productive when it's done in short segments of 45 minutes or so rather than over several hours, Mr. Johnson says. He sees a take-off-and-landing effect at work: People tend to exert more energy right after a study session begins, and again when they know it's about to end.

No one can pace their studying that way if they wait until the night before an exam to start. Stu-

### Five Tips for Honing Sharper Skills

- Find out what the test will cover and the kinds of questions it will include.
- Start at least a few days before the test to plan how and when you will study.
- Identify helpful resources such as practice tests or instructors' office hours to assist with material you don't understand.
- Practice recalling facts and concepts by quizzing yourself.
- Limit study sessions to 45 minutes to increase your concentration and focus.

dents who plan ahead do better.

Students who completed a 15-minute online exercise 7 to 10 days before an exam that prompted them to anticipate what would be on the test, name the resources they'd use to study, and explain how and when they'd use them, had average scores one-third of a letter grade higher on the exam compared with students who didn't do the exercise, according to a 2017 study of 361 college students led by Patricia Chen, a former Stanford University researcher and assistant professor of psychology at the National University of Singapore.

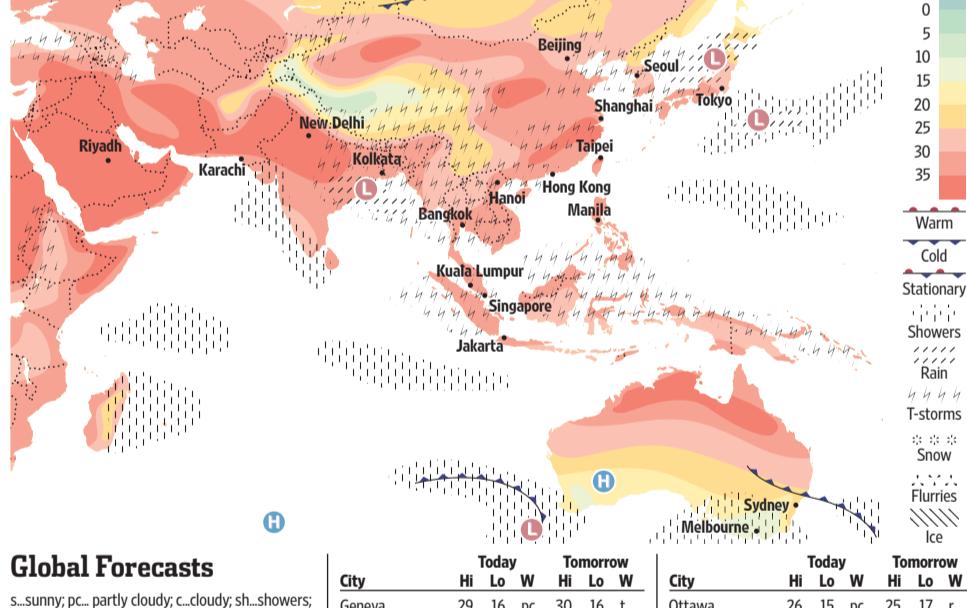
Many teachers in middle and high school try to teach good study habits, but the lessons often don't stick unless students are highly motivated to try them.

When her daughter Deja was still young, Christina Kirk began to encourage her to identify major concepts in her notes and use retrieval practice when she studied. When as a teenager Deja resisted being quizzed by her mother, Dr. Kirk asked an older cousin to serve as a study partner.

Dr. Kirk also encouraged Deja to invite one or two of her more studious friends to their Oklahoma City home so they could quiz each other. After the girls worked for a while, Dr. Kirk took them to the movies. "You have to give them something positive at the end, because they're still kids," she says.

Deja, now 18, still makes use of study groups in her college courses.

### 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	15	r	20	14	pc
Anchorage	13	9	sh	14	11	r
Athens	33	26	s	33	26	s
Atlanta	33	24	t	32	24	t
Bahrain	48	31	s	48	31	s
Baltimore	29	23	pc	31	23	t
Bangkok	32	25	t	32	26	t
Beijing	27	19	s	28	20	t
Berlin	26	18	pc	27	15	sh
Bogota	19	10	r	19	10	r
Boise	31	15	s	33	15	s
Boston	26	18	pc	25	20	r
Brussels	22	17	c	21	12	pc
Buenos Aires	20	11	s	22	12	pc
Cairo	34	26	s	35	26	s
Calgary	24	10	s	26	9	pc
Caracas	32	26	pc	32	26	pc
Charlotte	34	23	t	35	23	pc
Chicago	28	19	pc	27	18	pc
Dallas	36	26	t	37	26	t
Denver	30	14	t	31	15	pc
Detroit	28	20	t	28	17	pc
Dubai	41	32	s	41	33	s
Dublin	20	10	sh	16	10	sh
Edinburgh	20	11	sh	16	10	r
Frankfurt	27	17	c	24	13	r

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



### STAND APART | By Alice Long

Across		
1 Exercise	22 "Zip-__-Doo-Dah"	40 Put out, in a way
6 Indispensable item	23 Cold shower	41 Mink's Himalayan cousin
10 It has a supporting role	24 Stand	44 Stand
13 His New York Times obit called him "a cranky voice of CBS"	27 "Our Town" setting	45 Tries for a part
15 End of a slide, at times	31 Arrested	46 Mideast monarchy
16 Capitalist way	32 Comic strip character in a striped shirt	48 Milan-based label
17 Stand	33 Rent	50 Made one's case
18 What you might take to relax	34 "Right back __!"	51 Put on some concealer, say
19 Dept. of Educ. concern	35 Gray	54 Stand
20 "Hold on..."	37 Love of TV's "The Real"	55 Salmon topping, at times
	38 "O __ babbino caro" (Puccini aria)	58 Basic cell structure?
	39 Vegas offering	59 Estate employee
	60 Temple fixture	

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

- 61 Two-wheeled carriage  
25 8:15, e.g.  
26 Track direction  
28 Bring about  
29 Hygienist's request  
30 Pitch  
35 Slight variations  
36 Perry's top reporter  
37 Shark's offering  
38 Ollie's ally  
40 Jordan River's endpoint  
42 Closes on  
43 Adviser to Henry VIII  
47 Hardly assertive  
48 "Voulez-Vous" band  
49 Bum  
50 Strong cotton variety  
51 Take in  
52 Strikeout stars  
53 Baseball's Blyleven  
56 Contented comment  
57 Lingus

### Previous Puzzle's Solution

V	A	P	E	T	I	A	R	A	B	C	M
C	L	A	Y	E	S	O	C	O	R	T	M
H	A	T	E	O	F	T	H	E	M	O	N
A	T	E	O	F	T	H	E	M	O	N	T
P	S	Y	C	H	O	M	A	N	D	E	S

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THE WALL STREET JOURNAL.

Read ambitiously

# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, August 17, 2017 | B1

**Yen vs. Dollar** 110.8520 ▲ 0.16% **Hang Seng** 27409.07 ▲ 0.86% **Gold** 1273.30 ▼ 0.03% **WTI crude** 47.20 ▼ 0.74% **10-Year JGB yield** 0.042% **10-Year Treasury yield** 2.259%

## Tencent's Results Climb Sharply

Profit increases 70% as 'Honor of Kings,' other mobile games lift internet company

Global top-grossing mobile game "Honor of Kings" is the gift that keeps on giving for **Tencent Holdings** Ltd., the Chinese internet behemoth and the world's biggest video-game publisher by revenue.

By Alyssa Abkowitz  
in Beijing and Austen  
Hufford in New York

The Shenzhen-based company reported a 70% surge in profit to 18.23 billion yuan (\$2.73 billion), buoyed by revenue from "Honor of Kings"

and other mobile games; triple-digit growth in payment services; and a solid increase in online advertising.

The company beat analyst estimates by more than 30%, reporting overall revenue of 56.6 billion yuan (\$8.5 billion), a 59% increase from a year earlier, and its fastest revenue growth in seven years.

Tencent's shares were up 6.1% in New York at midday Wednesday.

"Honor of Kings," which has been the No. 1 global mobile game since March according to App Annie and could make its debut as early as this fall in the U.S., helped push Tencent's mobile-game revenue up 54% year over year, along with new titles in the role-playing genre.

Revenue from personal-



Mobile game 'Honor of Kings' boosted results at Tencent.

computer games increased 29% compared with the same period a year earlier, but management said it expects revenue growth rates to decelerate

in future quarters.

Analysts said a time limit for playing "Honor of Kings," imposed on minors in July, isn't likely to have a material

impact on the role-playing fantasy game's revenue, as less than 5% of "Honor of Kings" gamers are younger than 12 years of age, according to estimates from Citi Research.

Tencent imposed the limit amid criticism that children were falling asleep in school because they had played "Honor of Kings" late into the night. The system works by connecting children's game accounts with their parents' accounts, so they can monitor play time, and also requires real-name registration that is checked against a national database to verify player ages.

The company's social adver-  
Please see PROFIT page B2

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## CEOs Rethink White House Alliance

By VANESSA FUHRMANS

President Donald Trump's response to the weekend violence in Charlottesville, Va., has sparked a new round of soul-searching in U.S. corporate boardrooms over whether they should keep working closely with the White House.

On Wednesday, the number of members who have withdrawn from a White House advisory council grew to six, and executives including **Wal-Mart Stores** Inc. Chief Executive Doug McMillon criticized the president's initial unwillingness to specifically denounce the racist hate groups that rallied in Charlottesville over the weekend. 3M CEO Inge Thulin stepped down from the council on Wednesday, saying it was out of step with 3M's focus on diversity and environmental sustainability.

The fallout is testing already tense relations between the White House and corporate executives, many of whom face new pressures from employees, consumers and activists to take stands on social and political issues. At times, those issues have put them in direct opposition with a president whose pro-business agenda they are also seeking to shape.

"This is one of the toughest times for the consciences of corporate boards and corporate CEOs," said Davia Temin, head of Temin & Co., a reputation and crisis-management consultancy. Ms. Temin said she expects more leaders to resign their advisory posts.

Privately and publicly, some business leaders also have indicated doubts about how worthwhile their White House access has been, given the mixed progress with Mr. Trump's pro-business agenda. Although the president's meetings with chief executives this spring attracted heavy news coverage, they haven't yielded significant results. Hopes of a corporate-tax overhaul or an infrastructure-spending plan being completed soon are fading among executives.

Lawrence Summers, who served as Treasury secretary in the Clinton administration and as a top economic adviser in the Obama White House, said in an interview that business leaders serving on Trump advisory councils should pull out. "I don't think these are forums for either detailed advice or critical advice," he said, adding that he didn't believe corporate leaders serving on such councils received much in return.

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IMAGO/ZUMA PRESS  
Frankfurt, located on the Main River, is home to the European Central Bank, but some in the city fear an influx of bankers from London will drive up living costs.

## Brexit Bodes Ill for Some Frankfurt Residents

### Housing Crunch

Frankfurt, already grappling with a housing shortage, could see a further increase in prices if new residents arrive.

#### Apartment demand

40 thousand needed apartments

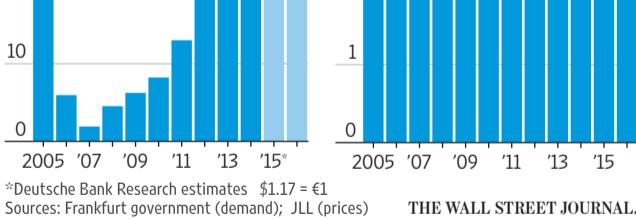


\*Deutsche Bank Research estimates \$1.17 = €1

Sources: Frankfurt government (demand); JLL (prices)

#### Apartment prices

€4 thousand per square meter



BY WILLIAM WILKES  
AND PATRICIA KOWSMANN

FRANKFURT—A bigger tax base, greater clout and a boost for the local economy: The city that hosts the European Central Bank has several reasons to welcome London bankers looking for a new post-Brexit home.

Residents, however, aren't happy.

Many longtime Frankfurt locals see a potential wave of deep-pocketed bankers driving up housing costs and even driving them out of a city that is already struggling to meet its housing needs.

The U.K.'s 2016 decision to leave the European Union

sparked a race among the bloc's capitals to lure bankers who want to keep the ability to sell their services across the EU if Britain leaves the single market.

Frankfurt's charm offensive on the banks is working, as several have said they would shift operations to the city.

But as Germany's financial hub steps up its campaign to attract bankers from London, residents—already faced with rising property prices and many construction projects around the city—are starting to say "nein."

"The city shouldn't be spending my taxes to get bankers from London," said Almuth Mayer, a nurse who lives in

central Frankfurt and has joined one of several protest groups that have sprung up demanding city officials act to curb spiraling housing costs.

Demonstrations are being planned outside luxury housing blocks to coincide with the national election campaign in September in which Angela Merkel's Christian Democratic Union seeks reelection.

Ms. Mayer said her landlord, property company Rohleder & Paz GbR, has refused to fix leaks and holes in the roof so as to encourage middle-class tenants to leave and make way for bankers. She also has criticized Frankfurt's mayor, Peter Feldmann, for personally going

Please see BANKERS page B2

HEARD ON THE STREET | By Nathaniel Taplin

## China Piles on Debt to Get Clean



China dreams of a greener future, and is borrowing heavily to get there.

An annual health check on China's economy by the International Monetary Fund out Tuesday highlighted a worrisome trend: China's real fiscal deficit, including borrowing by semiofficial entities such as local-government financing vehicles, known as LGFVs, hit 12.4% of gross domestic product in 2016, more than one-third higher than in 2012.

China's official budget deficit is only 3% to 4% of GDP, but most investing is done at the local level through a constantly evolving set of off-balance-sheet entities such as LGFVs, public-private partnerships and so-called

industrial funds.

The role of these often highly leveraged institutions in supporting growth is rising. As manufacturing and property investment has slowed, infrastructure has been used to fill the gap. Infrastructure spending hit 27% of total investment in mid-2017, up from just 22% in mid-2011. Over the same period, which also saw the huge blowout in the International Monetary Fund's broader fiscal deficit measure, manufacturing and housing investment fell nearly 10 percentage points to just 44% of the total in July.

This infrastructure funding, which used to go mostly into new roads and the over-supplied electric-power sector, is increasingly heading into environmental protection and water management,

which China desperately needs.

Although such projects may support growth in the long run by keeping the population healthy, they aren't typically big moneymakers. A water-conservation and treatment project in the northern megacity of Tianjin evaluated by the Asian Development Bank in 2010 had an internal rate of return of only 5% to 8%, according to the bank's estimate. With average bank and shadow bank lending rates running at around 5% and 7%, respectively, that doesn't leave much room for error.

China needs better water works and cleaner air. But as debt-funded infrastructure plays a more important role in China's postcrisis growth strategy, the future is looking greener—but not less risky.

## At Uber, Investors Continue Squabbling

BY GREG BENSINGER

The fighting among **Uber Technologies** Inc.'s investors spilled further into view with a new letter from one shareholder alleging underhand tactics by board member **Benchmark Capital**.

The letter, sent Tuesday, is the second from **Sherpa Capital**'s Shervin Pishevar in the last four days. It claims Benchmark is coordinating with another Uber shareholder, venture firm **Lowercase Capital**, to force former chief executive Travis Kalanick and media magnate Arianna Huffington off the board. The letter, which was addressed to "Benchmark

Partners," reiterated an earlier call from Mr. Pishevar and two other investors that Benchmark relinquish its board seat and sell much of its stake in the ride-hailing company.

The letter mires Uber, the world's most valuable venture-backed startup, further into a chaotic mix of competing claims and accusations among

its biggest shareholders, at a time when most of its top executive positions are vacant.

On Thursday, Benchmark filed a suit against Mr. Kalanick, claiming he knew about misbehavior at Uber, including alleged sexual harassment, in June 2016 when he persuaded Benchmark and other share-

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Shervin Pishevar is keeping the heat on a fellow Uber shareholder.

ANINDITO MUKHERJEE/BLOOMBERG NEWS

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## BUSINESS & FINANCE

# Uber Settles With FTC Over Data-Privacy Probe

Ride-sharing company agrees to two decades of audits as part of the U.S. settlement

BY GREG BENINGER

**Uber Technologies Inc.** agreed to two decades of audits as part of a settlement with the Federal Trade Commission over allegations the ride-hailing company didn't have sufficient data-privacy protections for its users.

The settlement revolves around a 2014 incident in which more than 100,000 names and driver's-license numbers were accessed in a breach of Uber's database. The FTC said Uber didn't take enough steps to secure data, such as including multifactor authentication.

The FTC also said an automated system Uber designed to monitor employee access to rider and driver data was abandoned less than a year after it was put in place.

The probe focused on assertions Uber made about the security of customers' data. As a result of the settlement, Uber will no longer be allowed to misrepresent its access to customer data or how it secures the data.

"Uber failed consumers in two key ways: First by misrepresenting the extent to which



Uber recruiting drivers in Los Angeles. An FTC inquiry focused on assertions Uber made on data security.

it monitored its employees' access to personal information about users and drivers, and second by misrepresenting that it took reasonable steps to secure that data," Maureen K. Ohlhausen, acting FTC chairman, said Tuesday.

One cause for the FTC's concern was a program Uber used called "God view," which allowed employees to monitor the locations of riders in real time. Uber has said it since limited employees' access to a similar tool to only those with a critical need to access such

data. Uber will now undergo regular third-party audits every two years for the next 20 years to certify it has privacy protections in place that meet or exceed FTC requirements, according to the terms of the settlement. The first such audit will occur within 180 days.

"The complaint involved practices that date as far back as 2014," an Uber spokesman said in a statement. "We've significantly strengthened our privacy and data security practices since then and will continue to invest heavily in these

programs."

Uber said it hired its first chief security officer in 2015 and has hundreds of people who work on data security.

The settlement was Uber's second with the FTC this year. In January, Uber agreed to pay \$20 million to resolve FTC allegations it misled drivers about potential earnings and vehicle financing.

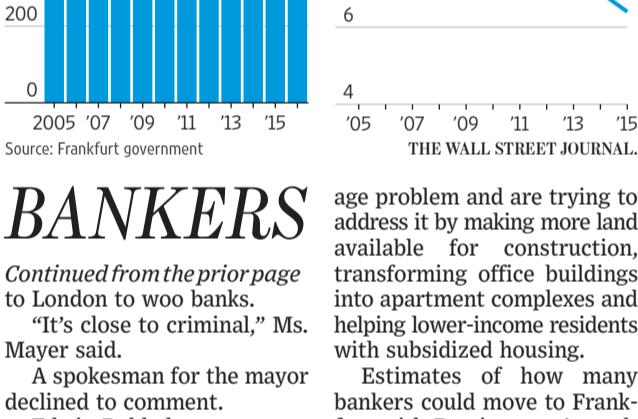
The consumer protection agency alleged Uber exaggerated the amount of money drivers typically could earn in nearly 20 cities.

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## Crowded Streets

Frankfurt's increased population combined with low unemployment has boosted demand for homes.



Source: Frankfurt government

## BANKERS

Continued from the prior page to London to woo banks.

"It's close to criminal," Ms. Mayer said.

A spokesman for the mayor declined to comment.

Edwin Rohleder, partner at Rohleder & Paz GbR declined to comment on the dispute with the company's tenants.

Development of middle-class housing is picking up in Frankfurt, but the pace isn't fast enough to meet booming demand.

The city's population has increased 15% over the last decade to 730,000, mostly thanks to immigrants attracted by Germany's strong economy. A low unemployment rate and subzero interest rates, meanwhile, have boosted demand for homes. But Frankfurt, which has less than a third the area of New York City, has a scarcity of land, creating a supply crunch that is driving up prices.

Rents have risen on average 45% over the last decade, according to real-estate firm JLL.

Frankfurt rents have risen on average 45% over the last decade, according to JLL.

Apartment prices have more than doubled over the same period to €4,550, or about \$5,320, per square meter.

While still much cheaper than European capitals like London and Paris, the rise in real estate costs has eclipsed the average 25% wage increase in the city.

"Too much available building land has gone to luxury housing already, [while] nurses and other lower earners can't afford to live here," said Jürgen Lutz, head of Frankfurt rental association MHM, a group that helps Frankfurt residents with housing issues.

Mr. Lutz called for the local government to tighten rental controls and build more homes.

A Frankfurt city government spokesman said authorities are aware of the residential short-

age problem and are trying to address it by making more land available for construction, transforming office buildings into apartment complexes and helping lower-income residents with subsidized housing.

Estimates of how many bankers could move to Frankfurt with Brexit vary. According to Deutsche Bank analysts, a 5,000-person inflow could give an extra 4% boost to residential prices. That figure could rise if more people end up coming, given the city already has an estimated shortage of 36,000 houses.

Frankfurt's housing problem hasn't spilled over nationally, but the topic is sensitive for both the local and national authorities. Berlin has largely held off in giving public support to Frankfurt's campaign to attract bankers ahead of September's elections. But behind closed doors, it is considering steps to make the country attractive to banks, including making more flexible labor laws for higher earners, according to people familiar with the government's plans.

The shortage of housing mirrors a dearth of office space in Frankfurt, where new building projects are snagged on the city's strict zoning laws.

"The greater the Brexit effect, and the more successful Frankfurt is in attracting British companies, employees and expats, the less equipped [traditional] housing policy will be to master these additional challenges," Deutsche Bank said in a report published in November.

At a quaint street near Frankfurt's center, residents complain a playground will soon give space to a new luxury development by property giant Vonovia AG. The company also is redoing surrounding buildings, which will result in higher rental prices for current residents including Robert Stojanowski, a 37-year-old logistics clerk.

"I was born in Frankfurt and would like to continue to live here," Mr. Stojanowski said at a recent residents meeting to discuss the higher rents. "But I can't afford to."

A spokesman for Vonovia said rent increases will be moderate. The company plans to build a new playground in the development, he said.

Merck & Co. Chief Execu-

## UBER

Continued from the prior page  
holders to allow him to add three board seats under his control. The misbehavior led to a months-long probe into Uber's culture by former U.S. Attorney General Eric Holder's law firm, which issued an internal report in June. This contributed to Mr. Kalanick's ouster as CEO that month.

Benchmark is seeking to force Mr. Kalanick off the board and have control of the three seats returned to the board. It said this week that it acted in part because it viewed Mr. Kalanick as impeding the search for his replacement.

"Resorting to litigation was an extremely difficult step for Benchmark," a Benchmark spokeswoman said in a state-

ment Wednesday in response to Mr. Pishevar's latest letter. "But the Holder report cannot be ignored. Failing to act now would mean endorsing behavior that is utterly unacceptable in any company, let alone a company of Uber's size and importance."

Mr. Pishevar's letter claimed that Benchmark was the obstructionist. "Benchmark is holding the company hostage and not allowing it to move forward in its critical executive search," said the letter, which was sent to various Uber investors and seen by The Wall Street Journal.

Representatives for Uber and Lowercase Capital declined to comment. A spokeswoman for Ms. Huffington declined to comment and a spokesman for Mr. Kalanick didn't respond to a request for comment.

The rancor among investors in Uber, which is valued at nearly \$70 billion, comes as the company is weighing new funding of at least \$1 billion from SoftBank Group Corp., as well as a potential deal to buy shares from Benchmark or other investors, according to a person familiar with the matter.

SoftBank is part of a consortium that includes private-equity firms **Dragoneer** In-

vestment Group and General Atlantic, this person said.

Mr. Pishevar said in his letter that Benchmark has threatened to block any funding deals until Mr. Kalanick relinquishes the board seats, which others familiar with the matter have also alleged.

Uber said last week it was disappointed Benchmark had filed a suit against Mr. Kalanick and had urged both parties to resolve the matter cooperatively and quickly.

Benchmark has a roughly 13% stake in Uber, which according to Mr. Pishevar is worth about \$8.4 billion. He is seeking to buy 75% of Benchmark's stake, according to people familiar with the matter, who said such a deal would likely require a loan.

Mr. Pishevar didn't respond to a request for additional comment.

## PROFIT

Continued from the prior page  
tising revenues, which mainly come from the WeChat social-media app, rose 61% to six million yuan. The company now has 963 million monthly active users on WeChat, an increase of nearly 20% year over year.

Online advertising also helped Tencent's earnings, propelled by more users watching the company's television dramas and variety shows—though Tencent President Martin Lau said it would be quite some time before the video business breaks even.

Tencent also expanded its self-service ad platform to enable first-tier cities to put promotions in WeChat's Moments news feed, which boosted ad sales 55% from the same period a year earlier.

Mr. Lau said there was no urgency for increasing promotions quickly, saying the company is "erring on the very conservative side" in terms of increasing ad inventory.

The company now has 963 million monthly active users on WeChat.

## CEO

Continued from the prior page

Three CEOs of major publicly held U.S. companies sought Ms. Temin's advice this week about whether to take a stance on the Charlottesville violence.

All three are Republicans who voted for Mr. Trump; each told her they would decline a seat on his councils if asked, Ms. Temin said.

Navigating the Trump presidency has been thorny from the start for CEOs. Tesla Inc.'s Elon Musk and Walt Disney Co.'s Robert Iger quit advisory councils to the president over his decision to pull out of the Paris climate accord. Others have had to justify their presence on the councils amid continuing pressure from employees and some in the public over their roles.

Chief executives such as J.P. Morgan Chase & Co.'s James Dimon have said they want to help Mr. Trump shape pro-business policy, but have recently voiced frustration over Washington's pace including on broad changes to the tax code.

Merck & Co. Chief Execu-

tive Kenneth Frazier was the first executive this week to resign from the White House manufacturing council, followed by the heads of Under Armour Inc., Intel Corp and the Alliance for American Manufacturing.

Late Tuesday, AFL-CIO chief Richard Trumka quit, saying, "I cannot sit on a council for a president that tolerates bigotry and domestic terrorism."

On Monday, Mr. Trumka quit, saying, "I again said 'both sides' demonstrating in Charlottesville were to blame for the clashes."

White House officials shrugged off the defections, saying Tuesday the councils aren't an active part of day-to-day policy formulation. "We have an incredible number of CEOs that want to give us their advice and guidance," one White House official said.

Mr. Trumka, in a news conference, characterized the CEOs as "not taking their jobs seriously as it pertains to this country." Earlier in the day, he called them "grandstanders" in a Twitter post, and he sug-

gested more leaders were waiting in the wings to join his councils.

Inside boardrooms, leaders are torn between a desire to reduce regulatory burdens and wariness of appearing to support the administration, board members and crisis managers say.

Northwestern Mutual Life Insurance Co. hasn't taken a position on the president or his policies, and the company isn't part of any White House advisory councils.

But last weekend's events "will be fodder for a lot of boardroom discussion" for the insurer, said Dale Jones, a board member and CEO of Diversified Search Inc., an executive recruitment firm.

Northwestern's board members believe less government regulation "is good for policy owners in our industry," said Mr. Jones. "We have to honor the authority of the president while at the same time hold true to our values and respect for dignity of all people."

Yet some business leaders argue that without a seat at the president's table, companies will have no influence on the issues where they lock horns with the White House.

"There are just as many people who would say: Have a seat at the table, try to bring things to him and his cabinet that are of import from a moral point of view," aid an executive at a company whose chief executive is a member of Mr. Trump's Strategic and Policy Forum.

One reason CEOs may be more willing to publicly oppose the president is that his tweet attacks on corporations no longer appear to pack the same punch as they initially did after his election, crisis managers said.

—Joann S. Lublin, Peter Nicholas, Jennifer Maloney contributed to this article.

Tencent's cloud-computing operations, an area that Chief Executive Pony Ma has indicated is a priority, also had triple-digit growth. While providing cloud computing for games and video internet startups is Tencent's sweet spot, analysts say it must pivot to provide solutions for larger enterprises to compete with Alibaba Group Holding Ltd., Baidu Inc. and Huawei Technologies Co.



AFL-CIO leader Richard Trumka, in Washington in April.

## BUSINESS NEWS

# Maersk Swings to Surprise Loss

Write-down of tanker and ports assets takes a toll, as does June cyberattack

BY DOMINIC CHOPPING  
AND COSTAS PARIS

Danish shipping and oil conglomerate A.P. Moller-Maersk A/S said it swung to a surprise second-quarter loss, as it wrote down the value of its tanker and ports assets, and warned of the impact of a major cyberattack in June.

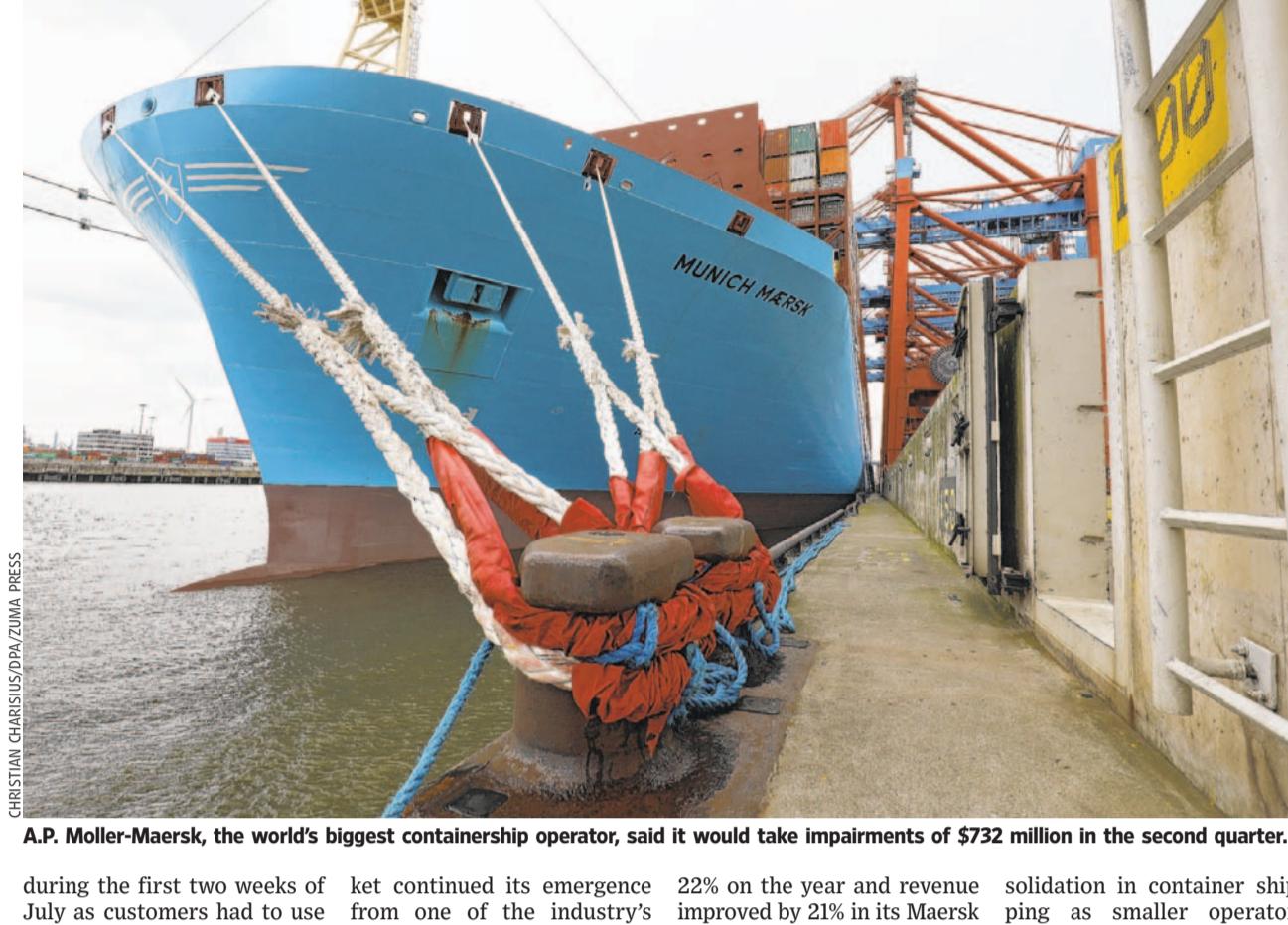
The world's biggest containership operator said Wednesday it would take impairments of \$732 million in the quarter, mainly related to lower asset valuations for Maersk Tankers and commercial challenges in its APM Terminals business.

Maersk also warned that the cyberattack, which hit companies across the world in the last week of the quarter, would cost it between \$200 million and \$300 million. The company will register the hit in the third quarter, with the impact on second-quarter results minimal.

The attack brought down part of the company's IT system, with malware infecting networks used by its container businesses. That prompted system shutdowns that meant several of its shipping terminals across the world were unable to operate.

Customers were prevented from making new bookings or receiving quotes, which led to lost revenue in July. Chief Executive Soren Skou said the financial impact relates to lost revenue, extra work during the attack and the cost of resolving the issue. "Business volumes were back to normal two weeks after the cyberattack," he added.

Mr. Skou estimates that Maersk Line lost out on carrying 70,000 40-foot containers



A.P. Moller-Maersk, the world's biggest containership operator, said it would take impairments of \$732 million in the second quarter.

during the first two weeks of July as customers had to use other firms. Maersk Line carried 2.7 million containers in the second quarter.

Despite the second-quarter loss and impact of the attack, Maersk maintained its full-year guidance of generating an underlying profit above the \$711 million achieved in 2016.

For the quarter ended June 30, the group posted a net loss of \$269 million, compared with a net profit of \$101 million a year earlier. Revenue rose 8% to \$9.6 billion. Analysts had expected a profit of \$536 million on revenue of \$9.64 billion, according to a FactSet poll.

The company's Maersk Line unit, traditionally its biggest earner, returned to profitability in the quarter as the mar-

ket continued its emergence from one of the industry's worst downturns, with demand outgrowing capacity for the third consecutive quarter while average freight rates stormed higher.

The unit added around \$500 million of profit in the quarter compared with last year, with the unit posting a net profit of \$339 million against a loss of \$151 million.

"We are clearly out of the financial crisis and benefiting from solid economic growth driven by the U.S., Europe and China," Mr. Skou said. "Oil-dependent economies like Russia and Brazil are no longer contracting, which is also good news."

Demand growth of 4% outpaced supply growth of 1.4%. Average freight rates increased

22% on the year and revenue improved by 21% in its Maersk Line unit compared with a year earlier, but the average fuel price a ton increased 61% to \$313.

"In the first half, container demand was around 6%, twice the global GDP growth. This is a very positive development as demand is steadily above supply, driving up freight rates," Mr. Skou said.

Maersk Oil also reported a rise in profit, boosted by a higher average oil price in the quarter of \$50 a barrel compared with \$46 last year. The division also benefited from lower costs.

Maersk said its Hamburg Süd acquisition is progressing as planned and should close in the fourth quarter.

Mr. Skou expects more con-

solidation in container shipping as smaller operators won't be able to compete with bigger players that have grouped into three main alliances to cut costs by sharing ships and port calls.

"Three years ago we had 20 global carriers, now we have 11 and in the future we will have five or six. The consolidation drive is not over," Mr. Skou said.

The company is continuing to evaluate the future of its energy unit, with a decision expected before the end of 2018. The four businesses within its energy unit—Maersk Oil, Maersk Drilling, Maersk Supply Service and Maersk Tankers—will either remain part of the group or be separated in the form of joint ventures, mergers or a listing.

## Akzo, Elliott Reach Accord

BY BEN DUMMETT

Akzo Nobel NV reached a truce with Elliott Management Corp. as the activist investor backed new board members following a months-long standoff over Elliott's push to force the Dutch chemicals company into talks over a \$28 billion takeover bid.

In a joint statement Wednesday, the two sides said they reached an agreement on Akzo's strategy to fully separate its specialty-chemicals business, following a disagreement on whether it should be sold or listed. The deal would "normalize the relationship" between Akzo and its shareholders and suspend all litigation for at least three months, they said.

Akzo announced two new nominations to its supervisory board, backed by Elliott, and intends to nominate a third supervisory board member, in consultation with major shareholders including Elliott. The activist investor will support the appointment of new Akzo CEO Thierry Vanlancker to the board.

The deal follows a dispute between Elliott and Akzo after a protracted takeover attempt from U.S. rival PPG Industries Inc. As one of Akzo's largest investors, Elliott mounted a bold public-relations and legal campaign to try to force the Amsterdam-based company into unwanted sale talks with PPG.

Akzo had argued that its plan to boost dividend payouts and spin off its specialty-chemicals business would generate more value and carry less risk than a sale. But the Elliott-led group said Akzo couldn't make that decision until it first tried to negotiate a deal with PPG.

Elliott argued that shareholders had lost confidence in Akzo's leadership after it rejected calls from Elliott and several other large shareholders for the company to hold a vote on the removal of Akzo Chairman Antony Burgmans as part of its plan to push for sale talks.

Akzo said it plans to "fully separate" its specialty-chemicals business, but didn't specify if that means selling the business outright or listing it through an initial public offering. An Akzo spokesman said that it is still considering both options.

Some investors have argued against an IPO of Akzo's specialty-chemicals business, saying such a move would make it harder for a future bidder to digest the company if it also owned a significant stake in the publicly traded chemicals company.

Akzo's stock price would more likely trade at a discount to its pure paint-making peers as a result of an IPO because of the added difficulty in valuing Akzo because of its continued ownership in the chemicals business, some investors said.

Rory Gallivan contributed to this article.

## Beijing Cracks Down on Pyramid Schemes

A Chinese crackdown on pyramid schemes has reopened an old debate about U.S. multilevel marketing companies such as Herbalife Ltd., which conduct a significant amount of business there.

Chinese regulators said they are embarking this week on a three-month national campaign targeted at pyramid schemes—literally “chain selling” in Chinese. These are organizations that profit off the recruitment of salespeople, rather than through the sales of products themselves.

The campaign aims to “eradicate all kinds of chain-selling organizations that trick job seekers to join through fraudulent postings,” according to a statement posted earlier this week on the State Administration for Industry and Commerce’s website.

The campaign follows probes into a few Chinese organizations that authorities suspect are pyramid schemes. Regulators didn’t mention any company by name.

But the news pummeled the shares of Herbalife and a number of other foreign multilevel

marketers, which pay salespeople for recruiting other salespeople, as well as for actual sales. The firms have a significant presence in China, whose fast-growing direct-sales market is the world's second-biggest after the U.S.

Herbalife, which sells nutritional supplements and draws 20% of its revenue from the Asia Pacific, has been embroiled in a yearslong battle between billionaire investors William Ackman and Carl Icahn over whether it operates as a pyramid scheme.

Herbalife and Mr. Icahn, who has amassed a large stake in the company and claimed several board seats, have said it doesn’t. Last year, Herbalife agreed with the U.S. Federal Trade Commission to pay \$200 million to settle government allegations that it misled consumers. The FTC stopped short of calling Herbalife an illegal pyramid scheme, although it forced the company to change its business model.

Mr. Ackman, who has bet against Herbalife, has said the company operates an illegal pyramid scheme. He has tar-

geted the company’s operations in China, claiming that Herbalife pays its distributors commissions on sales from downstream recruits, which would violate Chinese law.

“The FTC’s conclusion that Herbalife’s compensation plan incentivizes recruiting and qualification buying clearly shows that Herbalife is operating in violation of Chinese law,” a spokesman for Mr. Ackman’s fund, Pershing Square

Capital Management LP, said in a statement this week.

Herbalife has said its compensation model complies with Chinese regulations.

Fear of social unrest has made Beijing increasingly wary of fraudulent investment schemes. Pyramid-scheme operators—who have been known in China to extort money from targets or even kidnap them—are in the crosshairs. China investigated

over 2,800 pyramid-selling cases in 2016, up 19% from the previous year, according to the Ministry of Public Security.

The latest pyramid-scheme crackdown caused shares of Herbalife and other U.S.-listed companies such as Nu Skin Enterprises Inc. and USANA Health Services Inc. to fall sharply on Monday. Herbalife and USANA’s prices stabilized on Tuesday, but Nu Skin shares fell an additional 4.1%.

On Wednesday, Herbalife was up less than 1% at midday. Nu Skin and USANA were up 2.3% and 1.6%, respectively.

In Singapore, shares of skin-care and health-supplements direct seller Best World International Ltd., which had more than doubled this year, fell 1.1% Wednesday after a 12% drop Tuesday.

“The company adheres to strong principles of legal business, transparency and corporate governance,” Best World said in a written statement.

Nu Skin and USANA didn’t reply to a request for comment.

—Steven Russolillo, Yifan Xie and David Benoit



Herbalife, which sells nutritional supplements, has said its compensation model complies with Chinese regulations.

### BUSINESS WATCH

#### TARGET

#### Lower Prices Pay Off As Sales Rise 1.6%

Target Corp.’s efforts to cut prices and improve its digital operations showed signs of success in its latest quarter, as store sales rose for the first time in a year and the retailer raised its profit forecast.

Sales at stores open at least a year rose 1.3%, driven by stronger-than-expected foot traffic and an increase in online sales. The average amount customers spent fell 0.7%, another effect of the lower prices.

In a call with analysts Wednesday, Target Chief Executive Brian Cornell attributed the improved results to the company’s lower prices, which helped it cut down on discounts.

Comparable digital sales increased 32% in the quarter, up from 16% growth in the same period last year. Food and beverage sales were flat, while sales increased in other categories.

Overall, Target on Wednesday reported second-quarter profit of

\$672 million, or \$1.22 a share, compared with \$680 million, or \$1.16 a share, a year earlier.

Revenue rose 1.6% to \$16.43 billion from \$16.17 billion.

—Khadeeja Safdar

#### MOVIE THEATERS

#### AMC Objects to MoviePass Plan

The U.S.’s largest movie theater chain isn’t ready to embrace a plan to bring Netflix-style subscription pricing to multiplexes.

AMC Entertainment Holdings Inc. said Tuesday that it is seeking to block customers of MoviePass from seeing films in its more than 600 theaters across the U.S.

AMC said MoviePass’s new pricing is “unsustainable” and risks lowering the value of going to the movies.

MoviePass on Tuesday unveiled a radical change to its business plan, slashing its price to just \$9.95 a month to see movies as often as once a day at more than 91% of theaters in the U.S. Previously it charged

between \$40 and \$50 a month for a similar offering.

The average U.S. ticket price is \$8.95, according to the National Association of Theatre Owners, and AMC said its average price is \$9.33.

While extra attendance and revenue would seem like a good thing for theater chains, AMC appears concerned MoviePass will train consumers to expect lower prices.

A spokesman for MoviePass didn’t respond to a request for comment. AMC said it is consulting with attorneys on how to prevent MoviePass subscriptions from being honored at its theaters.

Uncertainty around the MoviePass program only adds to the woes facing AMC and other major exhibitors. AMC stock has plummeted this summer due to disappointing box-office grosses on the season’s biggest releases and continued uncertainty over how Chinese government scrutiny at its parent company, Dalian Wanda Group Co., could impact its U.S. holdings.

—Ben Fritz and Erich Schwartzel

## Car Makers Get a Legal Reprieve

BY PEG BRICKLEY

A bankruptcy judge issued a temporary stay shielding car makers from many lawsuits over defective air bags made by Takata Corp.

With one notable exception, Judge Brendan Shannon blocked for 90 days litigation against Honda Motor Co., Toyota Motor Corp., Subaru Corp., and other automobile manufacturers sued along with Takata over air bags that proved dangerous, sometimes fatal, in operation.

Takata’s U.S. units have been automatically shielded from lawsuits since they filed for chapter 11 bankruptcy protection in June. The ruling Wednesday extends that shield to car makers, who are alleged to share responsibility with Takata for personal injuries or deaths caused by the defective air bags.

The exception to the stay is a federal lawsuit in Florida over losses related to the largest automotive recall in U.S. history. Five of seven car mak-

ers caught up in that consolidated class action have already settled most damage claims against them in the Florida case, which relates to consumer losses, such as the need to rent cars while Takata air bags were replaced.

The Florida lawsuit brings together scores of individual lawsuits and is well advanced, Judge Shannon said, with trial set to go forward in the spring of 2018. He refused to block continued action against the car makers in that case.

State actions brought by authorities in New Mexico, Hawaii and the U.S. Virgin Islands will be stayed for 90 days, despite arguments that officials are acting to protect the public safety.

Because of weather conditions in those areas, Takata-made components are considered potentially more dangerous than in other areas, court papers say. Takata inflators have been shown to set off explosions that send shrapnel flying inside vehicles, sometimes to lethal effect.

The stay doesn’t affect the recall of Takata air bags, which is the largest in U.S. history.

Ruling in the U.S. Bankruptcy Court in Wilmington, Del., Judge Shannon granted Takata half the time it requested on behalf of the car makers that are its largest customers, and the source of financial support for Takata’s bankruptcy turnaround effort.

Judge Shannon said Takata and the car makers need breathing room to conduct negotiations over how to manage the company’s assets to cover damage claims.

Takata had requested six months’ relief from litigation for the car makers, saying it will be drawn into continued litigation against them, distracting its executives and engineers from the reorganization process.

Judge Shannon granted only a 90-day reprieve, saying he expects the Takata U.S. units will have their bankruptcy reorganization plan in shape by the time the stay expires.

## TECHNOLOGY

WSJ.com/Tech

# Oracle Retools Sales Staff to Tackle Cloud

By JAY GREENE

Oracle Corp. is starting to see the benefits of revamping its sales force, addressing longstanding questions from Wall Street about the software company's commitment to cloud computing.

Co-Chief Executive Mark Hurd nearly doubled Oracle's sales staff over the past six years to around 35,000 workers. Many hires were put through a revamped training program, then charged with winning over startups and small businesses that Oracle largely had bypassed.

Annual recurring revenue, a measure of Oracle's ability to attract new customers to its cloud-subscription business, topped \$2 billion in fiscal 2017 that ended May 31, up from \$1.4 billion the prior year. A 15% gain in fourth-quarter profit sent shares up 10% to a record \$50.95, where they have hovered since.

Oracle still faces challenges in the cloud, particularly from market pioneer **Amazon.com** Inc. But the sales changes have helped the 40-year-old company emerge as one of the few pre-internet technology giants to succeed in the era of cloud computing.

Just a few years ago, Oracle was ill-equipped to do so. Its highly compensated sales staff targeted chief information officers at corporate giants, looking for big-budget deals that came with fat commissions. The company not only bypassed smaller businesses—who were among early adopters of the cloud's web-based, on-demand computing ser-



Oracle's Mark Hurd in 2015. He has doubled the software firm's sales staff over the past six years.

vices—but also the division leaders at big companies who were starting to buy cloud services piecemeal.

While Oracle knew chief information officers, Mr. Hurd said in an interview, "We didn't know the head of HR. We didn't know the chief marketing officer."

So he created a program in 2013 to indoctrinate fresh out-of-college in Oracle's sales methods, rather than solely hiring veteran sales executives from other companies. Called "Class Of"—playing off the term for a group of graduating students—the program aims to develop a low-cost sales force that prospects for new mar-

kets. Oracle taps its own seasoned salespeople to become mentors to the newbies.

"We can now go from fundamentally startup to enterprise in terms of our ability to sell our capabilities," Mr. Hurd said.

Oracle's rethought sales approach has turned some doubters around.

As Thierry Zerbib prepared to move **Telesoft**, a Phoenix maker of expense-management software, to the cloud earlier this year, the chief technology officer got a cold call from an Oracle salesperson. Mr. Zerbib couldn't imagine becoming an Oracle customer, recalling a frustrating experience years

earlier when the company was a reseller of Oracle technology.

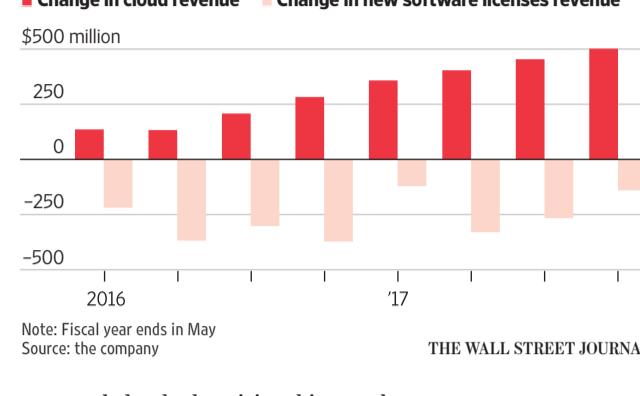
But the young sales rep persisted, winning over Mr. Zerbib and securing a three-year contract for around \$500,000 to deploy the full suite of Oracle's cloud services.

"I never felt pressure," he said of the negotiation. "There's a change that's happening at Oracle."

The transformation is aimed at helping Oracle, often criticized by analysts for being late to the cloud, better compete against the likes of Amazon and **Salesforce.com** Inc. Gartner Inc. estimates the overall cloud market, including on-demand computing resources,

### Sales Force

Oracle's growing sales team has helped it increase cloud-computing sales quarterly, even as revenue from its traditional business of selling new software licenses declines.



Note: Fiscal year ends in May

Source: the company

THE WALL STREET JOURNAL.

apps and cloud advertising, hit \$209.1 billion last year. This year it is projected to reach \$245.45 billion.

Winning over smaller accounts for cloud applications might not be enough, analysts warn. Customers often run Oracle databases on the computing, processing and storage services operated by rivals such as Amazon, effectively giving the rivals a chance to market their competing applications and services.

The risk is that those cloud-infrastructure competitors swipe Oracle's customers as they shift from running legacy Oracle applications in their own data centers to cloud services.

It is "the longer-term existential threat," said Stifel Nicolaus Co. analyst Brad Reback.

That puts pressure on Oracle's sales team to sell the full cloud portfolio, the databases and other applications as well as the underlying processing

and storage.

In four years, more than 4,500 representatives have gone through the five-week Class Of program. Mr. Hurd figures that in a decade or so all of Oracle's sales leaders will be graduates of Class Of.

The program didn't initially sit well with some Oracle veterans.

"Everybody thought, 'What the hell is this?'" said Mike Mansouri, a manager in the company's El Segundo, Calif., office, who has worked two decades in sales, the past three years at Oracle. "I thought it would do more harm than good."

Two years later, Mr. Mansouri said he was wrong. Recruits he managed were scooping up smaller customers, and he received commissions from deals they closed. He estimated his commission compensation has jumped 25% since the program began.

ADVERTISEMENT

## The Mart

AUCTION

### OFFICE OF THE OFFICIAL LIQUIDATOR BOMBAY HIGH COURT

IN OLR NO. 97 & 122 OF 2017

IN ACCORDANCE WITH THE DIRECTIONS OF THE HON'BLE SUPREME COURT  
IN CONTEMPT PETITION (CIVIL) NOS. 412 AND 413 OF 2012  
IN CIVIL APPEAL NOS. 9813 AND 9833 OF 2011 AND CONTEMPT PETITION (CIVIL) NO. 260 OF 2013  
IN CIVIL APPEAL NO. 8643 OF 2012 BEFORE THE HON'BLE SUPREME COURT

### PUBLIC NOTICE FOR AUCTION OF SALE/LEASE OF PROPERTIES OF

AAMBY VALLEY CITY, LONAVALA, DISTRICT PUNE, MAHARASHTRA, INDIA

Pursuant to the Hon'ble Supreme Court's order dated April 27, 2017 passed in Contempt Petition (C) No. 412 & 413/2012 in C.A. No. 9813 & 9833 of 2011 read with Contempt Petition (C) No. 260/2013 in C.A. No. 8643/2012 in the matter of Securities and Exchange Board of India Vs. Sahara India Real Estate Corporation Ltd. & Ors, the Official Liquidator, Bombay High Court (the "Official Liquidator") has been appointed by the Hon'ble Supreme Court of India to sell the properties of Aamby Valley City through an Auction on an "AS IS WHERE IS, WHATEVER THERE IS" basis.

The Official Liquidator hereby invites the Prospective Bidder(s) to submit their KYC Form and on qualification, invites bids from Intending Bidder(s) along with an amount of Fifteen Percent (15%) of the Reserve Price as Earnest Money to be paid through RTGS or NEFT for the sale of the Aamby Valley City through Auction I or Auction II. The Prospective Bidder(s) shall obtain digital signatures from the licensed certifying authorities namely Safe Script, IDRBT, NIC, Tata Consultancy Services, (n) code solutions, emudhra, CDAC, Capricorn and NSDL.

Please refer to the Information Memorandum in respect to the Properties under Auction I and Auction II along with the Reserve Price and Earnest Money with respect to the same which is available at [www.mstcecommerce.com/auctionhome/officialliquidatorbombay/aambyvalley/index.jsp](http://www.mstcecommerce.com/auctionhome/officialliquidatorbombay/aambyvalley/index.jsp) and [www.officialliquidatormumbai.com](http://www.officialliquidatormumbai.com). The links provided in the Information Memorandum can be accessed on payment of Rupees Ten Thousand plus taxes (Rs. 10,000/- plus taxes) through the payment gateway on the aforesaid webpage while downloading the KYC Form.

The details of the Properties under Auction for a Reserve Price of Rupees Thirty Seven Thousand Three Hundred and Ninety Two Crores (Rs. 37,392,00,00,000/-) can be accessed on the link above. As an overview, the Properties comprise of

(i) an Integrated Hill City Township namely "Aamby Valley City Development" the first of its kind Megalopolis, spread over 6761.642 undulating Acres of verdant expanse, is nested amidst picturesquely environs of the great Sahyadri Mountain range. The ultra-exclusive chartered city has residential options ranging from the Timber Chalets to fabulously modern and customized Villas in distinct architectural styles and several amenities such as golf course, airport, hospital, adventure sports, retail, entertainment, international school and hospitality;

(ii) Land admeasuring 1409.865 Acres surrounding Aamby Valley City Development; and

(iii) Land admeasuring 321.656 Acres within the district of Satara.

Given the quantum of the Properties to be sold, the Properties are being sold under Two (2) distinct phases of the Auction - Auction I and Auction II over a period of Two (2) days as an alternate to the other.

For further details with respect to the Terms and Conditions of the Auction, Information Memorandum and to register as a Prospective Bidder, please visit the webpage [www.mstcecommerce.com/auctionhome/officialliquidatorbombay/aambyvalley/index.jsp](http://www.mstcecommerce.com/auctionhome/officialliquidatorbombay/aambyvalley/index.jsp)

The terms and conditions set out therein shall be binding on parties participating in the Auction.

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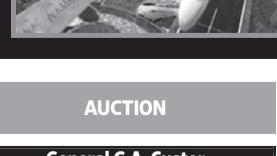
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## Alibaba, Tencent in Group Purchasing Telecom Stake

By DAN STRUMPF

HONG KONG—China's internet titans are among the companies joining in a government-encouraged plan to pump US\$11.7 billion into state-owned telecommunications giant **China Unicom** (Hong Kong) Ltd.

Beijing has said it wants government-owned companies to open themselves to more private investment, with the goal of becoming more competitive and innovative. On Wednesday, China Unicom became the first of the three state-owned telecom companies to announce its plan for doing so: It intends to sell 10.9

billion shares to domestic companies including technology giants **Tencent Holdings** Ltd., **Baidu** Inc. and **Alibaba Group Holding** Inc., as well as **China Life Insurance** Co. and online retailer **JD.com** Inc.

China Unicom said it hopes bringing its ownership structure more in line with "market-oriented principles" will "unleash new vibrancy" in the company. The sale would reduce the stake held by Unicom's state-owned parent to 37% from 63%, with the new investors holding 35%.

The money raised would go to upgrade the company's telecommunication networks and help it launch next-generation

5G technologies, according to China Unicom.

The changes are part of China's broader plan to overhaul its sprawling state-owned companies and stimulate a slowing economy. Despite a thriving landscape of private companies, state companies dominate parts of the country's economy, notably the telecom and energy sectors.

China Unicom announced the new ownership structure as part of its first-half earnings report. The company said its net profit rose 70% to 2.4 billion yuan (US\$360 million), though operating revenue fell 1.5% to 138.2 billion yuan (US\$21 billion).

## Fiat Joins Self-Driving Alliance

By CHESTER DAWSON

Fiat Chrysler said Wednesday it is joining a **BMW**-led consortium to develop self-driving car technology, a move that comes more than a year after the group was formed with an aim of producing fully automated vehicles by 2021.

BMW and **Intel** Corp. launched the cross-industry partnership in July 2016, along with Israeli car-camera software provider **Mobileye** NV, which Intel purchased earlier this year. The companies are seeking to create an industry standard for future fleets of autonomous vehicles.

The decision by Fiat Chrysler, which previously outsourced its self-driving program to Google's parent company **Alphabet** Inc., is the latest sign it is ready to embrace next-generation technology. The company's chief executive has been skeptical of auto-industry efforts to promote autonomously driven and electric-powered vehicles.

But last month CEO Sergio Marchionne said Fiat Chrysler's Maserati luxury sports brand would electrify half of its vehicles' powertrains by the early 2020s. He also signaled a willingness to collaborate with more parties on self-driving car technology.

"Joining this cooperation will enable FCA to directly benefit from the synergies and economies of scale that are possible when companies come together with a common vision and objective," Mr. Marchionne said in a statement issued Wednesday.

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Automotive PLC and Continental AG, two top global automotive component suppliers who signed up with the consortium in May and June, respectively. The alliance is working to integrate hardware, software and communication protocols for self-driving cars. It plans to start a pilot program involving

autonomous driving technology partners.

The alliance is working to integrate hardware, software and communication protocols for self-driving cars. It plans to start a pilot program involving

autonomous driving technology partners.

## FINANCE & MARKETS

# Wells Fargo Taps Duke To Be Its Chairman

BY EMILY GLAZER

**Wells Fargo & Co.** said Elizabeth Duke would replace its chairman, Stephen Sanger, on Jan. 1, making the former Federal Reserve governor the first woman to hold a top board role at one of the nation's largest banks.

The San Francisco lender, which has battled a sales-practices scandal and other problems in recent months, announced the promotion of Ms. Duke, the board's vice chairman, Tuesday along with other changes.

The moves represent the bank's strongest response yet to the high percentage of shareholders who voted against directors at its annual meeting in April, a clear sign of discontent after years of Wells Fargo being an investor favorite.

Mr. Sanger, 71 years old, will leave after a tumultuous period presiding over the board's response to the fake-account scandal that last year led to the departure of former Wells Fargo Chairman and CEO John Stumpf.

Mr. Sanger, a former General Mills Inc. CEO, is one of three directors who will retire at the end of 2017, the company said.



Elizabeth Duke

The other two are Cynthia Milligan and Susan Swenson, both of whom joined the board in the 1990s.

Mr. Sanger would have hit the board's mandatory retirement age next year and is stepping down about four months early.

The bank also named its newest director, Juan Pujadas, who will start Sept. 1. Mr. Pujadas recently retired from **PricewaterhouseCoopers LLP**, the accounting giant where he had been a principal and held numerous senior roles. Some of the coming changes were outlined in a Wall Street Journal article last week.

Wells Fargo, the third-biggest U.S. bank by assets, has spent most of the past year trying to put last fall's sales-practices scandal behind it. Employees of the bank opened as many as 2.1 million accounts without customers' knowledge, sparking public and political outcries as well as numerous investigations.

More recently, the bank has said even more customer accounts may have been impacted. It also is facing new problems in its auto-lending unit over insurance policies potentially involving thousands of borrowers. The bank has said it would reimburse customers for around \$80 million.

Ms. Duke said in a Tuesday interview that it is "time to change into another gear."

She added that she can bring her understanding of the financial system, importance of safety and soundness, and risk management to the role. That is alongside her "appreciation" for fair and responsible consumer financial services as Wells Fargo "is shifting from a sales culture to a service culture."

Ms. Duke became vice chair last October, when Mr. Stumpf abruptly retired in the face of the sales-practices scandal. Ms. Duke has served on the Wells Fargo board since January 2015.

She was a governor of the Federal Reserve from 2008 to 2013, the seventh woman to be appointed to the board and joining in the thick of the financial crisis.



Oregon, whose Mount Hood is above, is the first state to require employers without retirement plans to provide employees access to a state-run plan.

# States Push Retirement Savings

Oregon and others are taking aim at the 42% of workers without a plan through work

By ANNE TERGESSEN

States are forging ahead with efforts to bring retirement-savings plans to residents who don't have access to one through work, as debate intensifies over government's role in ensuring people can support themselves in their later years.

Oregon this summer became the first state to start requiring employers that don't offer a retirement plan of their own to give employees access to a state-run plan, by automatically enrolling them in individual retirement accounts invested in mutual funds.

Eight other states are designing similar programs, two of which—California and Illinois—are expected to launch initiatives next year.

Fans and foes alike say the endeavors will likely end up scrutinized in court, as detractors contend the programs violate federal pension laws.

With several more states considering legislation to authorize programs, "everybody is looking at how Oregon does," said John Scott, director of the Pew Charitable Trusts' retirement savings project. "If Oregon can get off to a good start, that will have a big impact" on confidence in these programs, he said.

Proponents of state-run retirement programs say they are concerned about the esti-

mated 42% of private-sector workers who don't have access to a workplace retirement-savings plan, many of whom don't save at all. State legislators also are trying to save taxpayers money over the long term by reducing retirees' reliance on public assistance programs, including Medicaid.

Opponents—including some company owners, a trade group for small businesses and the main mutual-fund trade association—have lined up against the state initiatives. They argue that state-run programs may encourage companies to scrap 401(k) plans. They also say that lower-income workers who participate may wind up in worse financial shape if they run up debt to make up for the income they tuck away.

By many accounts, Oregon's program, called OregonSaves, has begun relatively smoothly. While only 160 employees are eligible to participate in the pilot program that launched July 1, the number is expected to surge by the Jan. 1 deadline for companies with 100 or more employees to enroll participants.

To provide access to a workplace retirement plan for many of the estimated one million Oregon residents who currently lack one, the state is requiring all employers with workers for whom they pay unemployment insurance—including one-person operations—to join the program by 2020. Employees are free to opt out.

The participation rate of the 160 eligible employees—77%—is slightly ahead of the 70% to

75% policy makers had forecast. That has fueled hope that the program will accumulate enough assets over the next decade to drive down participants' fees from the current 1% and allow the private company providing administrative services, **Ascensus Inc.**, to recoup its costs and turn a profit before its contract expires in 2027.

Business owners in the pilot program say OregonSaves has cost them little aside from the

time it took—48 minutes, on average—to register and enroll employees.

Luke Huffstutter, owner of Anastasia Salon in Portland, who was referred to The Wall Street Journal by the state, said "retirement savings is essential to morale. This is a relationship business. When a hairdresser is in a good place in life, they provide a better experience for customers."

But other employers say they worry about the burdens the program could impose on them. Gary Peck, owner of five greeting-card and gift stores, said he spends about four hours every other week on his payroll. He said the payroll process is labor-intensive because all but five of his 35 to 40 employees work hourly and change their hours each week.

"Now I'll have to take another step and submit money to OregonSaves," said Mr. Peck, who is a member of the National Federation of Independent Business, which represents small employers and opposes state-based retirement savings programs.

Aligning with the critics, Congress recently revoked an Obama-era regulation that states such as Oregon—with auto-enrollment in IRAs—cite in part to reassure employers that the plans are exempt from the federal law governing 401(k)-style plans. That law imposes fiduciary requirements on employers, making them potentially liable if something goes wrong and workers sue the plan.

Oregon and other states with auto-enroll IRAs have hired lawyers who have issued

opinions saying the plans pose no legal risk to employers. But opponents aren't so sure.

"That is a question that's ultimately going to have to be decided by the courts," said Gary Sanders, vice president of government relations at the National Association of Insurance and Financial Advisors. The group's members, which include financial advisers who sell 401(k) plans, "don't see the need for the state to compete with the private sector," Mr. Sanders said. He said his association has no plans to file a lawsuit.

The Erisa Industry Committee, which lobbies for large companies on employee benefits policies, has "issues with the Oregon plan," especially a requirement that companies with retirement plans file paperwork certifying that their employees are exempt from OregonSaves, said Will Hansen, an Erisa Industry Committee senior vice president.

"Our argument is that states cannot legally impose a reporting requirement on retirement plans that follow federal laws," he said.

Lisa Massena, executive director of OregonSaves, said she "was told before I took the job that we will be sued." She added: "We have tried to put all the best practices in place. If someone sues us for doing the right thing, we will work to defend ourselves vigorously."

Katie Selenski, executive director of California's Secure Choice program, she is closely monitoring Oregon's rollout. "It looks promising so far," she said.

## Zinc Prices Increase To Highest in a Decade

By DAVID HODARI

The price of zinc hit a 10-year high on Wednesday as the industrial metal continues its steep climb following supply cuts from mining companies and continued strong demand out of China.

Analysts predict further gains, but that depends on whether producers, in particular **Glencore PLC**, will take advantage of the appreciation in value of this metal and quickly ramp up production.

Since mid-June, London Metal Exchange three-month zinc futures have gained more than 24%, and were trading Wednesday at \$3,081 a metric ton. That is their highest level since October 2007.

Zinc is the lightweight, rustproof metal used in the car and construction industries, and its rising costs can translate into higher auto and steel prices. The metal's fortunes have turned from its January 2016 low, after which mining firms cut the production glut that had sent its price down some 66% from a 2006 peak.

Global copper and aluminum production figures for June were 23% and 35% higher than they were six years earlier, around when prices started to drop, according to ING. Zinc production has lagged behind, growing only 3.4% in June.

"If you were to try and rank

base metals as to where they are in terms of the cycle, I'd say zinc is more advanced in terms of seeing supply constraints," said Robin Bhar, Société Générale's head of metals research. "Mines starting up won't yield results overnight and there'll be a lag until they do," he added.

Prices are getting a further boost from a seasonal third-quarter uptick in China's steel industry. Zinc is used to coat steel to stop it from rusting. Production from the Chinese automotive sector, though weaker than last year, has helped zinc demand, while China's better-than-expected second-quarter gross-domestic-production growth of 6.9% has boosted metals across the board, S&P Global said in a recent report.

Investors and analysts are betting that prices will move higher still. Wood Mackenzie, a commodities-industry consultancy, estimates prices averaging \$3,500 a ton between 2018 and 2020. London-based brokers Marex Spectron predict Zinc will hit somewhere between \$3,143 and \$3,227 a ton in the short term. Vivienne Lloyd, a base-metals analyst at Macquarie Group, sees the metal staying over \$3,000 a ton during the fourth quarter of this year and the first quarter of next year.

—Scott Patterson  
contributed to this article.

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Business owners in the pilot program say OregonSaves has cost them little aside from the

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AS EQ HKG 08/14 CNH 12.10 16.1 16.8 NS  
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All-time high

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## FINANCE & MARKETS

# Buffett Bets on Credit-Card Firm

Buying 17.5 million shares of Synchrony represents a wager on industry growth

BY ANNAMARIA ANDRIOTIS

Warren Buffett's Berkshire Hathaway Inc. is increasingly betting on the growing credit-card industry.

On Monday, Berkshire Hathaway disclosed it bought nearly 17.5 million shares of Synchrony Financial in the second quarter totaling nearly \$521 million.

That is a vote of confidence for the largest U.S. store credit-card issuer, whose shares rose 4.6% on Tuesday.

Berkshire Hathaway already owns \$12.8 billion in American Express Co.'s shares and smaller stakes in Visa Inc. and Mastercard Inc. While Synchrony's cards are mostly geared toward the mass market with its card holders comprising shoppers at stores including Wal-Mart Stores Inc. and Dick's Sporting Goods Inc., American Express is more aimed at affluent consumers. Coupled together, the holdings increase Berkshire Hathaway's exposure to credit cards, an industry where overall outstanding balances in June were up about 6% from a year earlier, according to the latest data from the Federal Reserve.

Bill Smead, chief executive of asset-management firm Smead Capital Management Inc., said that Synchrony's relatively cheap stock price likely played a role in the purchase. Synchrony's shares fell in late April after the company increased its outlook for full year 2017 charge-offs. From the beginning of the year through Tuesday, Synchrony shares were down 14.6%, compared with a 10% increase in the S&P 500.

Most of Synchrony's loan volume is tied to store credit cards that it issues. Those include a mix of cards that can be used only in the store that



Synchrony's cards are mostly geared toward the mass market, for use at stores such as Wal-Mart.

A representative for Berkshire Hathaway didn't have an immediate comment. A spokesman for Synchrony declined to comment.

The purchase of Synchrony stock was further notable in that it came at the same time that Berkshire sold its holdings of General Electric Co., unloading nearly 10.6 million shares. Synchrony Financial spun out of General Electric in 2015.

Paul Lountzis, president of Lountzis Asset Management LLC, a Berkshire Hathaway shareholder, said Synchrony is well capitalized. Its board recently approved a share repurchase program of \$1.64 billion for the four quarters through June 2018, above the consensus estimates that averaged around \$1.4 billion.

The store credit-card market is less competitive than the rest of the credit-card industry, with less than a handful of very large players.

Synchrony accounts for about 38% of outstanding store-card balances, according to trade publication Nilson Report. Its longstanding relationships with many merchants increase the chances that Synchrony will remain a dominant player in a market where retailers want to see that lenders have delivered on driving more store sales and loyalty.

"It's always better to be an incumbent and have all those longstanding relationships going back many years," said Mr. Lountzis. The firm "appeals to a different audience" than American Express.

By comparison, American Express mostly lends to affluent card holders and its losses are among the lowest in the industry.

Its chief executive, Kenneth Chenault, at a conference in June said that he had no desire to enter the store credit-card market, referring to it as a "very cyclical, volatile business. When you have good days, they can be really good, but those bad days are really, really bad."

### How Buffett Made \$1.5 Billion on GE

Warren Buffett managed to make more than \$1.5 billion by investing in **General Electric** Co., a stock that has rewarded few in recent years.

The billionaire investor's Berkshire Hathaway Inc. lent GE \$3 billion in the depths of the financial crisis—a time when the industrial conglomerate was straining under the weight of its huge financial-services business and tight credit markets.

The \$1.5 billion in profit for Berkshire is surprising partly because GE's stock isn't associated with large returns. In the 12 months to Tuesday, the

stock is down 19% and has been the worst performer in the Dow Jones Industrial Average so far this year.

Under the terms of the 2008 deal, Mr. Buffett lent the money in exchange for getting \$3.3 billion paid back, plus \$300 million in annual dividends, and a warrant that allowed him to buy \$3 billion in GE stock for \$22.25 a share for five years.

In 2011, GE paid off the loan by paying Berkshire \$3.3 billion and had already shelled out three full years of dividends at \$300 million apiece. Together, they accounted for a profit of about \$1.2 billion.

In 2013, as his warrant to buy the GE stock was to expire, GE settled so Berkshire wouldn't have to shell out the \$3 billion to buy the stock,

which was then trading above the \$22.25 exercise price. Instead, it gave Berkshire 10.7 million shares, which was equal to the total amount he would receive over the \$22.25 exercise price of the warrant.

Mr. Buffett sold all those shares in this year's second quarter, according to a newly released regulatory filing. We don't know when exactly they were sold, but the shares were valued at \$315 million at the end of March.

Add in about \$30 million in regular dividends paid over the time he held the shares, and the \$1.2 billion in profit from 2011, and Berkshire got a total of about \$1.545 billion in cash for lending \$3 billion for three years. Not a shabby return.

—Thomas Gryta

they are issued for and co-branded cards that can be used anywhere.

Synchrony's net charge-off rate, which reflects the dollar amount of balances it wrote off as a loss compared with its total average loan balances, increased by more than 0.9

percentage point from a year earlier to 5.42% in the second quarter. The company also continues to set aside more money to cover future losses, with provisions rising 30% in the second quarter from a year earlier. Synchrony's high interest rates, which run up to

the high 20% range for many Synchrony cards, can offset some concern.

Berkshire "must like the way their spread is set up despite the fact that there are defaults," said Mr. Smead, whose firm is a Berkshire shareholder.

## KPMG Will Pay to Settle SEC Claims

BY MICHAEL RAPORT AND DAVE MICHAELS

KPMG LLP agreed Tuesday to pay \$6.2 million to settle Securities and Exchange Commission allegations that the accounting firm botched its audit of an oil-and-gas company, and the lead partner on the audit agreed to a suspension from auditing public companies.

The SEC said KPMG failed to properly audit the financial statements of **Miller Energy Resources** Inc. in 2011, overlooking the overvaluation of oil-and-gas interests that the company had purchased in Alaska. Among other things, KPMG failed to detect that certain fixed assets were double-counted in the company's valuation, the SEC said.

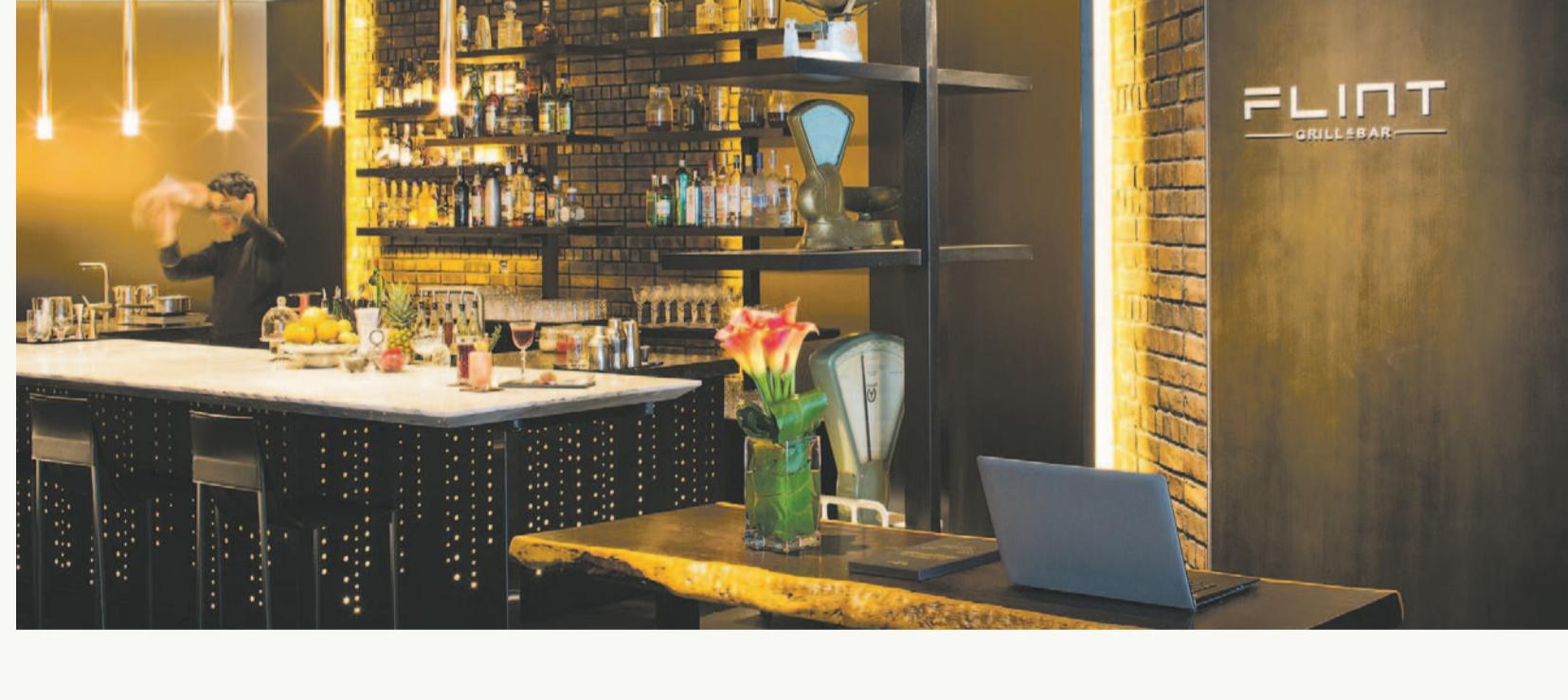
That led to investors being misinformed that properties Miller had purchased for \$4.5 million were worth \$480 million, the SEC said.

KPMG agreed to pay a \$1 million fine and disgorge nearly \$4.7 million in audit fees it had received from Miller Energy, and agreed to pay more than \$558,000 in interest. The Big Four firm didn't admit or deny the SEC's findings. In a statement, KPMG said the settlement was related to audit work from six years ago and that it has "fully cooperated with our regulators to reach a resolution."

John Riordan, KPMG's lead partner on the audit, also settled charges against him, agreeing to a \$25,000 fine and a suspension from auditing public companies for at least two years. He didn't admit or deny the SEC's findings.

Mr. Riordan, 52 years old, has been with KPMG since 1987 and became a partner in 2000. Since 2013, he has been managing partner of KPMG's Knoxville, Tenn., office, although he is based primarily out of the firm's Atlanta office, the SEC said. An attorney for Mr. Riordan couldn't be reached for comment.

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## MARKETS

# China Lifts Emergency Markets Actions

Beijing, citing stocks' steady rise and lower volatility, says those measures can end

SHANGHAI—Chinese regulators declared victory over the country's unruly stock markets, saying conditions are calm enough that they have removed the emergency measures put in place to support equities following crashes in 2015 and 2016.

In an unusual statement posted to its website late Tuesday, the China Securities Regulatory Commission said that the country's stock markets "have achieved smooth operation," thanks to "a series of forceful measures to eliminate risks."

China's key stock indexes have climbed steadily since March 2016, while the country's blue-chip benchmarks have performed better than the Dow Jones Industrial Average and S&P 500 this year, the statement said. Market volatility has dropped sharply during the first seven months of 2017, while share valuations are moving toward a "reasonable" range, it said.

The calm has allowed regulators to phase out measures it

had implemented to stabilize the markets after "the period of abnormal fluctuation," the statement said.

The statement marks a turnaround from two summers ago, when Chinese stock markets—which had surged earlier in the year—lost as much as 43% of their value and the central bank rolled out a surprise devaluation of the yuan.

In the wake of the crash, Chinese authorities imposed a flurry of measures to support the market, including a six-month ban on share sales by major corporate shareholders, restrictions on short selling, infusions of state funds and a temporary halt for initial public offerings. Securities regulators called many brokerages and funds directly, urging them to express publicly that they were bullish about stocks and refrain from selling shares. Stocks recovered, then crashed again early last year, spurring regulators to roll out another round of support measures.

Those measures have nearly all been lifted, following an extended period of calm, steady stock appreciation that started May 2016, after the installation of a new securities czar, Liu Shiyu, in February.

In a signal of their new-



Trading terminals at a brokerage in China. Regulators had implemented steps to stabilize markets.

found confidence, regulators in February eased restrictions on trading index futures that it had implemented in September 2015.

"This [statement] marks a largely positive official summary of market performance since the 2015 crash," said Zhang Gang, strategist at Central China Securities.

"It's a stamp of approval over the

regulator's achievement in stabilizing the market."

Analysts also noted that the statement trumpets market stability—long a goal of Chinese authorities—ahead of an important Communist Party congress this fall, during which President Xi Jinping is expected to cement his authority.

One big remaining question is whether China will start to

withdraw the state funds it pumped into stocks to support them. The money—initially 250 billion yuan (\$40 billion)—was injected through stock purchases starting in the second half of 2015, by a group of state-backed companies dubbed the National Team.

The National Team's stock holdings reached a peak of 1.4 trillion yuan in September

2015, and have since come down, but not much. They still held around 1.1 trillion yuan of equities as of the end of March, according to estimates by Deutsche Bank—around 2% of China's total market capitalization.

Because the National Team's funds came from bank loans that have to be repaid, the companies may eventually pull money out of stocks, although not right away, said Central China Securities' Mr. Zhang. Other analysts said they think the state money will stay in the market as ballast, although the National Team will likely trade less frequently if stocks are less volatile.

Some investors say that Beijing's pursuit of foreign investment for the country's markets means authorities are unlikely to resort again to strong-arm tactics to support shares the next time they fall.

But regulators might still informally urge investors and brokers to refrain from selling in times of stress, said Shen Meng, director of Beijing-based investment bank Chanson & Co. China "may resort to more covert and flexible measures such as so-called window guidance to forestall any big fluctuations," he said.

—Yifan Xie

## Rebound in Retail Stocks Gives U.S. Indexes a Lift

BY JUSTIN YANG  
AND AMRITH RAMKUMAR

U.S. stocks climbed Wednesday, supported by a bounce back in retail shares.

The Dow Jones Industrial Average rose 79 points, or 0.4%, to 22,078 around midday, on pace for a fourth consecutive session of gains. The S&P 500 gained 0.4%, and the Nasdaq Composite advanced 0.5%.

A day after brick-and-mortar stores were among the worst performers in the S&P 500, Target led the group higher. Shares of the retailer were up more than 3% around midday after the company reported same-store sales growth that outpaced analyst expectations in the most recent quarter, and raised its full-year earnings outlook. Gap, Dollar Tree and Best Buy were also among the S&P 500's best performers.

E-commerce competition and mixed earnings have

swung retail stocks recently. Shares of Advance Auto Parts and Dick's Sporting Goods posted their biggest percentage declines on record Tuesday after the companies missed earnings expectations. Urban Outfitters shares were having one of their best sessions ever Wednesday, advancing 19% around midday after the retailer beat Wall Street's quarterly earnings and sales projections.

Wednesday's gains came following Tuesday data that showed U.S. retailers posting

their strongest sales growth all year in July, with e-commerce strength responsible for much of the increase.

Investors and analysts are watching corporate earnings closely, with Wal-Mart scheduled to report before the market opens Thursday. Although S&P 500 firms are on track for another quarter of strong profits, analysts are currently forecasting slower earnings growth for the July-to-September period.

Many investors were also awaiting the release of min-

utes from the Federal Reserve's July meeting later Wednesday, as they seek clues on where interest rates are headed and when the Fed will begin unwinding its balance sheet.

Federal Reserve Bank of New York President William Dudley recently told the Associated Press a third rate increase was still likely in 2017 if the economy meets expectations.

The yield on the 10-year U.S. Treasury note fell slightly to 2.259% at midday, according to Tradeweb, from

2.264% Tuesday. Yields fall as bond prices rise.

Elsewhere, the Stoxx Europe 600 rose 0.7% in its third consecutive session of gains.

In Asia, the Shanghai Composite Index pared early losses to trade 0.1% lower. Stocks were higher in Hong Kong, with the Hang Seng Index up 0.9%.

The South Korean Kospi outperformed as traders returned from a public holiday to catch up with the region's earlier gains. The benchmark index rose 0.6%.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

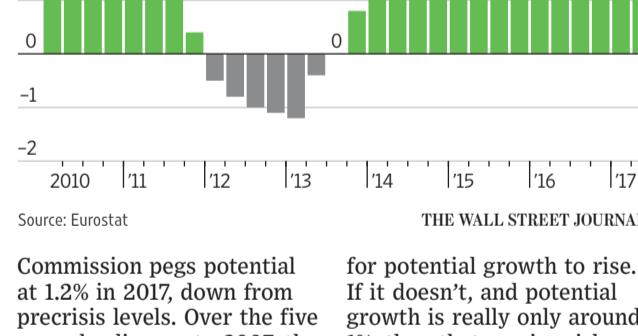
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## Just How Fast Can Europe Grow?

### Picking Up Pace

Eurozone gross domestic product, change from a year earlier



for growth in investment. Still, the European Central Bank has been consistent in calling on governments to do more. The place to watch right now is France under its new president, Emmanuel Macron. France has the benefit of better demographics than some of its big peers, a good starting point for efforts to get more people into work and boost productivity in the eurozone's second-biggest economy.

There may be reason for hope. The crisis did spur some reforms in those countries hardest-hit, like Spain and Italy. Calculations by UBS based on purchasing-managers-index data suggest eurozone potential growth may be around 1.5% now—a welcome pickup. The eurozone is never likely to be the most dynamic spot in the global economy.

But it needn't be a permanent laggard either.

—Richard Barley

If it doesn't, and potential growth is really only around 1%, then that carries risks. Low growth makes it harder to grow out of debt.

The task of raising potential growth mainly falls to governments. Monetary policy can help—for instance, by creating favorable conditions

## Don't Bet on Chinese Buyer for Fiat Chrysler

Fiat Chrysler Automobiles seems more likely to be broken up than sold to a Chinese company—and even a breakup is no sure bet.

The American-Italian car maker's shares surged 8.5% Monday in New York on an unconfirmed report in Automotive News, a Detroit-based trade paper, that it had rebuffed a bid from an unnamed Chinese peer.

It is plausible that a Chinese car maker would want to buy FCA. It is less plausible that FCA would sell out. Chief Executive Sergio Marchionne is known as a deal maker, having famously tried and failed to engineer a merger with General Motors.

But a Chinese takeover would come with big political risks. The Committee on Foreign Investment in the U.S. has appeared to toughen its stance under the Trump administration, while the European Union is also reportedly drafting new rules on takeovers.

With a raft of iconic brands on both sides of the

Atlantic—from Jeep to Fiat and Chrysler to Maserati—FCA would be a highly public test case.

A different kind of deal seems more likely.

The success of FCA's Ferrari spinoff, which is worth more than its former parent, has raised hopes of a sequel involving another FCA subsidiary. The most likely candidate in the short term is Fiat's car-parts business, Magneti Marelli.

Mr. Marchionne is due to retire in April 2019. Last month, he promised a new five-year plan in the first half of next year—and with it an answer to the big strategic question: How does FCA balance value-creating spinoffs or asset sales with the scale necessary to invest in electrification and self-driving wizardry?

At little more than four times forward earnings, FCA stock looks deeply undervalued. But that value may be harder to crystallize than Monday's share-price jump implies.

—Stephen Wilmot

## Beijing's Heavy Hand in China Business

From each according to his ability, to each according to his need. In the nominally communist country of China, capitalism does have a socialist bent.

China Unicom, the country's second-biggest telecom carrier, will raise \$12 billion from investors, including the country's largest private firms as Beijing tries to make its state-owned enterprises more competitive.

According to the plan announced Wednesday, China's largest internet firms—Alibaba, Tencent, Baidu and JD.com—will put in a total of \$4.1 billion in return for a 13% stake in the group's Shanghai-listed unit, while other investors, including state-owned China Life Insurance, will take a 22% stake.

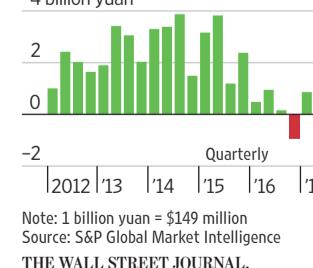
The investment is supposed to help the state-owned carrier—which has been trailing another state operator, China Mobile, for years—to "establish effective corporate governance and market-oriented incentive system."

Yet the state still holds a tight grip on the carrier. Even after the deal, the government will effectively own 53% of Unicom's Hong Kong-listed unit, which controls the operating assets and actually runs the business.

It seems unlikely the Chinese government will allow the market to dictate everything. Just in March, after

### Missed Calls

China Unicom's net income



the government said it wanted to lower tariffs for small businesses and international calls, all three wireless operators told shareholders in effect that: Your profits will be hurt, but we have to listen to the government anyway.

Instead, this looks more like a way for the government to ask the internet giants to pay for investments in faster networks that have benefited them immensely. Tencent, for example, on Wednesday announced a better-than-expected 59% rise in revenue for most recent quarter, as more people play mobile games and use its WeChat messaging app. The \$1.6 billion Tencent will sink into Unicom isn't a big sum for it and looks like a reasonable cost for doing business in China.

It is unlikely this private capital will help state-owned firms become more efficient and profitable. More likely, it will just serve to temporarily fill their coffers.

—Jacky Wong

## OVERHEARD

Until its legalization in several states, marijuana and the stock exchange were like oil and bong water.

Now, though, dozens of companies are listed on U.S. exchanges that profit from cannabis directly or indirectly.

The gold rush in that industry has had predictable results: some questionable firms that stink up the joint for the rest.

Now, however, arguably the oldest and best-known name in the business will find itself on the Nasdaq Stock Market.

That would be **Hightimes Holding** Corp., the publisher of the eponymous stoner maga-

zine. In business for over four decades, it has published a number of pieces by authors including Truman Capote, Hunter S. Thompson, Charles Bukowski and William S. Burroughs.

Unfortunately, Hightimes Holding won't be able to grab a giggle-inducing ticker symbol like BUDZ, WEED or HEMP, and not just because those tickers are already taken on the exchanges.

The company is using a special purpose acquisition vehicle called **Origo Acquisition** Corp., ticker symbol OACQ. Total buzz kill.