

THE WALL STREET JOURNAL.

DOW JONES | News Corp **

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DJIA 22016.24 ▲ 0.24%

NASDAQ 6362.65 ▼ 0.005%

NIKKEI 20080.04 ▲ 0.47%

STOXX 600 378.63 ▼ 0.43%

BRENT 52.36 ▲ 1.12%

GOLD 1271.80 ▼ 0.06%

EURO 1.1868 ▲ 0.56%

What's News

Business & Finance

The Dow climbed above 22000 for the first time on a surge in Apple shares, closing up 52.32 points at 22016.24, the latest milestone in a stock rally that is now into its ninth year. **A1**

♦ **Mondelez's CEO** is stepping down as the snack giant faces pressure to improve sales and profits. **B1**

♦ **Qatar Air** dropped plans to buy a big stake in American, ending a brash attempt to push into the U.S. **B1**

♦ **Standard Chartered** said it sees too many uncertainties to resume dividends. Shares fell over 6% despite higher profit. **B1**

♦ **Tesla** posted a narrower-than-expected loss as it ramps up production of its Model 3 all-electric sedan. **B1**

♦ **Rio Tinto** plans to increase its share-buyback program and interim dividend after its half-year profit almost doubled. **B3**

♦ **European firms** delivered strong profits last quarter but at a slower pace than in the first period. **B5**

♦ **German auto makers** agreed to update software on their diesel cars to cut nitrogen oxide emissions. **B3**

♦ **Apple's revenue** was lifted by strong sales of apps, music subscriptions and other services. **B4**

♦ **Options-exchange** operator CBOE agreed to use bitcoin market data. **B5**

♦ **Carlyle's profit** soared in the second quarter as its investments appreciated. **B5**

World-Wide

♦ **Trump signed** a bill that imposes sanctions on Russia over election interference but restricts his ability to lift sanctions without congressional review. **A1**

♦ **The president** announced a bill to cut green cards by half, backing a Senate measure that advances his drive to reduce immigration. **A6**

♦ **China stepped up** pressure on India to withdraw from a weeklong military standoff in a contested area in the Himalayas. **A3**

♦ **The White House** is planning trade measures to pressure China over intellectual property and U.S. entry to the Chinese market. **A3**

♦ **Venezuelan authorities** tampered with votes during this week's election of a constituent assembly, a voting-software firm said. **A5**

♦ **Some health insurers** look to raise ACA premiums as much as 30% or more, amid uncertainty over administration policies. **A6**

♦ **Scientist reported** they edited the genes of a viable human embryo to correct a disease-causing defect. **A7**

♦ **Christopher Wray,** Trump's pick to lead the FBI, won Senate confirmation with the support of most Democrats. **A7**

♦ **Mexico denied** assertions by Trump that the Mexican president praised U.S. border policies. **A5**

♦ **Two U.S. service members** were killed in southern Afghanistan. **A5**

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WORLD NEWS

CAPITAL ACCOUNT | By Greg Ip

We Survived Spreadsheets; We'll Survive AI



Whether truck drivers or marketing executives, all workers consider intelligence intrinsic to how they do their jobs. No wonder the rise of "artificial intelligence" is uniquely terrifying. From Stephen Hawking to Elon Musk, we are told almost daily our jobs will soon be done more cheaply by AI.

Yet AI is too amorphous a label to actually convey anything useful about what, precisely, it's supposed to displace. Instead, think of it as a technology that does one thing particularly well: predictions. Such as, will that mark on the X-ray prove to be a tumor? Is the object in the road a paper bag or a child? Which headline will get the most readers to click on an article?

Treating prediction as an input into an economic process makes it much easier to map AI's impact. History and economics show that when an input such as energy, communication or calculation becomes cheaper, we find many more uses for it. Some jobs become superfluous, but others more valuable, and brand new ones spring into existence. Why should AI be different?

Back in the 1860s, the British economist William

Stanley Jevons noticed that when more-efficient steam engines reduced the coal needed to generate power, steam power became more widespread and coal consumption rose. More recently, a Massachusetts Institute of Technology-led study found that as semiconductor manufacturers squeezed more computing power out of each unit of silicon, the demand for computing power shot up, and silicon consumption rose.

The "Jevons paradox" is true of information-based inputs, not just materials. Until the 1980s, manipulating large quantities of data—for example, calculating how higher interest rates changed a company's future future profits—was time-consuming and error-prone. Then along came personal computers and spreadsheet programs VisiCalc in 1979, Lotus 1-2-3 in 1983 and Microsoft Excel a few years later. Suddenly, you could change one number—say, this year's rent—and instantly recalculate costs, revenues and profits years into the future. This simplified routine bookkeeping while making many tasks possible, such as modeling alternate scenarios.

"You could play the what-if game. You know, what if I

did this instead of that?" accountant Allen Sneider, the first registered buyer of VisiCalc, told NPR's "Planet Money" in 2015 for a retrospective on spreadsheets.

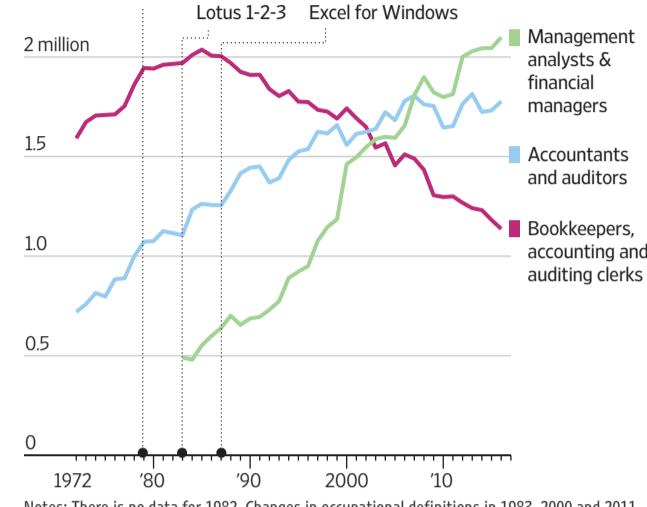
The new technology pummeled demand for bookkeepers: their ranks have shrunk 44% from two million in 1985, according to the Bureau of Labor Statistics. Yet people who could run numbers on the new software became hot commodities. Since 1985, the ranks of accountants and auditors have grown 41%, to 1.8 million, while financial managers and management analysts, which the BLS didn't even track before 1983, have nearly quadrupled to 2.1 million.

Just as spreadsheets drove costs down and demand up for calculations, machine learning—the application of AI to large data sets—will do the same for predictions, argue Ajay Agrawal, Joshua Gans and Avi Goldfarb, who teach at the University of Toronto's Rotman School of Management. "Prediction about uncertain states of the world is an input into decision making," they wrote in a recent paper.

Unlike spreadsheets, machine learning doesn't yield exact answers. But it reduces the uncertainty around different risks. For example, AI

The Spreadsheet Apocalypse, Revisited

Jobs in bookkeeping plummeted after the introduction of spreadsheet software, but jobs in accounting and analysis took off.



Notes: There is no data for 1982. Changes in occupational definitions in 1983, 2000 and 2011 mean that data is not strictly comparable across time. There was no category for management analysts or financial managers prior to 1983.
Source: Bureau of Labor Statistics

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makes mammograms more accurate, the authors note, so doctors can better judge when to conduct invasive biopsies. That makes a doctor's judgment more valuable.

Jim Manzi, a Washington, D.C., entrepreneur whose companies develop AI-based applications for business, says over the decades the AI label has been

slapped on whatever the frontier of computing is at the time. That tends to overstate its revolutionary character. Today is no different. If you took statistics in college, you learned how to use inputs to predict an output, such as mortality based on body mass, cholesterol and smoking. You added or removed inputs to improve the "fit" of the model.

Machine learning is statistics on steroids: It uses algorithms and computers to analyze far more inputs, such as the millions of pixels in a digital picture, and not just numbers but images and sounds. It turns combinations of variables into yet more variables, until it maximizes its success on questions such as "is this a picture of a dog" or at tasks such as "persuade the viewer to click on this link."

AI has already made some skills obsolete. Google Translate is faster, cheaper and often as good as a human interpreter. Some AI programs can outperform human radiologists at identifying malignant tumors.

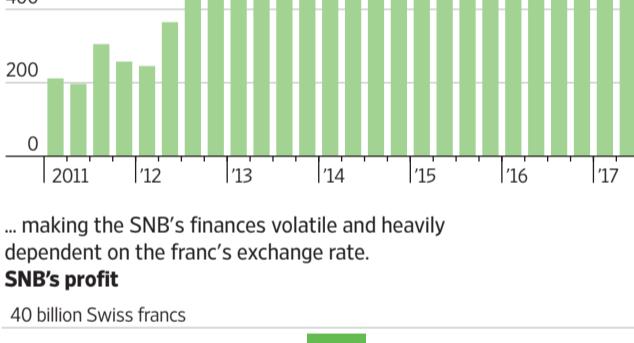
Yet as AI gets cheaper, so its potential applications will grow. Just as better weather forecasting makes us more willing to go out without an umbrella, Mr. Manzi says, AI emboldens companies to test more products, strategies and hunches: "Theories become lightweight and disposable." They need people who know how to use it, and how to act on the results.

Mr. Manzi should know. He co-founded a company, Applied Predictive Technologies, to test companies' strategies using AI, and sold it to Mastercard Inc. for \$600 million in 2015. It's still hiring.

Mountain of Money

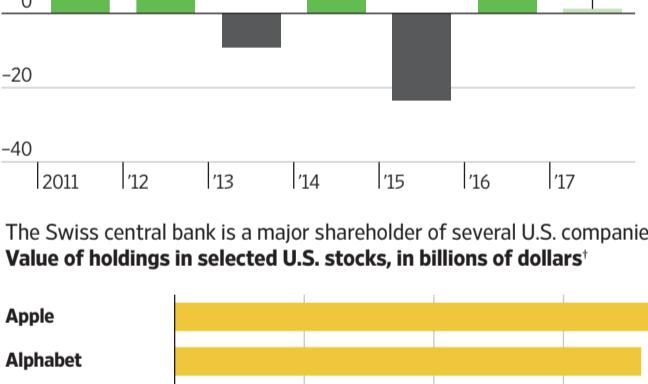
The Swiss National Bank has accumulated a massive amount of foreign assets in a bid to weaken the franc, prompting calls for a sovereign-wealth fund.

Foreign-currency investments



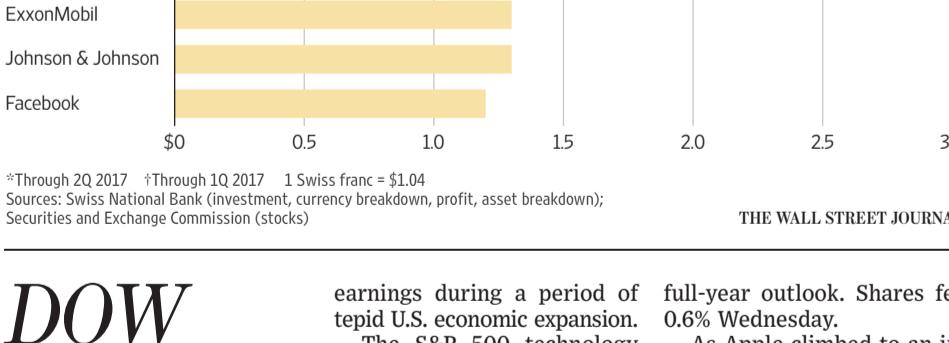
...making the SNB's finances volatile and heavily dependent on the franc's exchange rate.

SNB's profit



The Swiss central bank is a major shareholder of several U.S. companies.

Value of holdings in selected U.S. stocks, in billions of dollars[†]



[†]Through 2Q 2017 [‡]Through 1Q 2017 1 Swiss franc = \$1.04

Sources: Swiss National Bank (investment, currency breakdown, profit, asset breakdown); Securities and Exchange Commission (stocks)

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DOW

Continued from Page One
points, or 0.2%, to close at 22016.24. The index rose as high as 22036.10 and fell as low as 21967.46 during the session. It was the seventh consecutive session of gains.

The S&P 500 rose less than 0.1% and the Nasdaq Composite fell less than 0.1%.

Apple gave the Dow industrials their latest earnings-fueled boost, as the stock climbed 4.7% after the company reported strong iPad and Mac sales in its most recent quarter.

"It's been a name-driven model as far as growth, and today is no exception to that," said Kevin Barr, head of SEI's Investment Management Unit.

Technology firms have powered U.S. indexes to new highs this year, attracting investors with their ability to grow

earnings during a period of tepid U.S. economic expansion.

The S&P 500 technology sector is up 23% this year—the index's best performer.

Although Apple drove Wednesday's gain, Boeing has been the biggest contributor to the Dow industrials' latest milestone. The aerospace giant has contributed nearly 400 points to the index since it hit 21000 in March, with much of that coming in the past week after the company beat earnings expectations for a fifth straight quarter and lifted its

full-year outlook. Shares fell 0.6% Wednesday.

As Apple climbed to an intraday record, other highflying technology and internet stocks fell.

Shares of Microsoft, Facebook and Netflix declined, though they bounced back from intraday lows toward the end of the session. Netflix—off 0.7%—weighed on the S&P 500's consumer-discretionary sector, which was among the worst performers. Walt Disney also dragged down the sector, as the company's

ago. That is more than twice as much as the next biggest contributor, McDonald's Corp.

Wall Street analysts say Boeing's slimmer workforce and new manufacturing processes are paying off, and their higher price targets on the shares have provided fuel for the rally.

—Erik Holm

Dow Soars to 22000 On Boeing's Wings

The last 1,000 points of the Dow's climb to 22000 have been fueled by Boeing. Its shares have risen 30% and contributed 380 points to the index since it first closed above 21000 five months

ago.

Some investors and analysts have cautioned that market gains concentrated in the biggest names, and their relatively high valuations, leave stocks susceptible to a sell-off.

However, earnings for the most recent quarter have continued to come in ahead of analyst expectations, supporting major indexes.

S&P 500 companies that have reported quarterly results so far have posted around 11% growth in earnings per share from the same quarter a year earlier, a higher figure than Wall Street anticipated entering reporting season.

A day after soft economic data supported U.S. bond prices, Treasurys were little changed. The yield on the 10-year U.S. Treasury note was at 2.262%, according to Tradeweb, compared with 2.253% Tuesday. Yields fall as prices rise.

Technology stocks and earnings drove some of the biggest moves in Asia, where Japan's Nikkei Stock Average gained 0.5% and Hong Kong's Hang Seng Index added 0.2%.

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Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com.

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WORLD NEWS

China and India Face Off in the Himalayas

Tension between rivals rose when Beijing moved to extend a road in a disputed area

China on Wednesday stepped up pressure on India to withdraw from a weeklong military standoff that shows how the countries' contest for leadership in Asia is heightening the risk of conflict.

By Niharika Mandhana
in New Delhi and Chun Han Wong in Beijing

The dispute began in June when Beijing assembled workers and machines to extend a road in a remote Himalayan territory that is claimed by both China and Bhutan, a small, mountainous nation that is a close ally of India. The road is located near an area known as the "tri-junction," where China, India and Bhutan meet.

Bhutanese soldiers tried to stop the construction, according to India, which said it then dispatched its troops in coordination with Bhutan. Indian and Chinese soldiers have since planted themselves on the disputed land.

Beijing says India is trespassing and must fall back as a "precondition and basis for any meaningful dialogue." New Delhi says road-building in the area hurts India's security interests and Bhutan's territorial claims. Bhutan has called China's actions a "direct violation" of the countries' understanding not to change the situation on the ground until their boundary dispute is resolved.

In a position paper released Wednesday, China's foreign ministry accused India of "flagrantly" crossing over into Chinese territory. "India has in-



DIPENDU DUTTA/AGENCE FRANCE PRESSE/GETTY IMAGES

vented various excuses to justify its illegal action, but its arguments have no factual or legal grounds at all and are simply untenable," the ministry said in the paper.

The standoff on the Dolam Plateau is sparking concerns of a prolonged period of strain between China and India, which are maneuvering for power and influence in a region being redefined by China's rise.

"If India backed down, it would send a signal to the neighborhood that China is a better bet than India," said Srikanth Kondapalli, a professor of Chinese studies at Jawaharlal Nehru University in New Delhi.

"This dispute is not just about a road. It's a reflection of the changes and realignments that are taking place in Asia."

Both countries are headed by nationalist leaders who have emphasized shows of strength. Indian Prime Minister Narendra Modi wants to block a unipolar Asia. Chinese President Xi Jinping, meanwhile, is preparing for a key Communist Party congress in the fall. Foreign diplomats say that Beijing wants to minimize geopolitical tensions that could upset preparations but doesn't want to be seen as soft on boundary claims.

The two nuclear-armed nations face off from time to time

along the long, undemarcated stretches of their border. India lost a war, fought over territorial issues, to China in 1962.

The current dispute stands out because India doesn't claim the territory where its troops are positioned. Indian military strategists worry greater Chinese access to the area could leave India vulnerable at the "Chicken's Neck," a narrow sliver of territory near the trijunction that connects the bulk of India with its northeast.

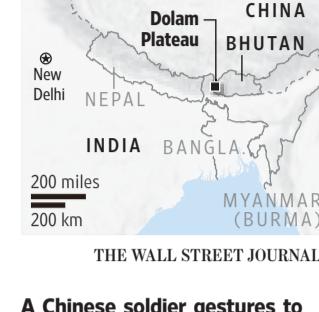
India's national security adviser, Ajit Doval, was in Beijing late last week. Neither side would say if the dispute was discussed in his talks with Chi-

nese officials.

Ties between the two countries, never close, have grown far knottier as China has pursued regional dominance. It has made inroads into India's traditional sphere of influence, from Nepal to Sri Lanka and the Indian Ocean. In response, India has forged closer relations with the U.S. and Japan, moves that have irked Beijing.

India has watched warily as Beijing has tried to shift the balance of power in Asia by enforcing its territorial claims in the disputed South China Sea.

The rivalry has surfaced in different ways in recent months. China is blocking In-



A Chinese soldier gestures to an Indian soldier at the longtime rival superpowers' common border.

dia's membership to an international body that controls trade in nuclear technology, and has stymied India's attempt to impose United Nations sanctions on the leader of a Pakistan-based terror group.

In April, India facilitated a visit by the Dalai Lama to sensitive parts of the country, despite repeated warnings from China, which considers the spiritual leader of Tibetan Buddhism a separatist.

The following month, India declined to participate in the launch of the One Belt, One Road initiative, China's expansive infrastructure plan that seeks to tie dozens of countries to its ambitions. China's efforts to build an economic corridor through Pakistan-governed territory claimed by New Delhi has drawn sharp protests from India.

"India's positions on issues that go to the core of China's vision for a new global framework have upset the Chinese," said Jayadeva Ranade, the president of the New Delhi-based Center for China Analysis and Strategy. "It sees India's intervention [over the Himalayan road] as the next in a series of provocative steps."

—Te-Ping Chen contributed to this article.

U.S. to Press Beijing on Trade Policy

BY JACOB M. SCHLESINGER
AND BOB DAVIS

WASHINGTON—The Trump administration is planning trade measures to force Beijing to crack down on intellectual-property theft and ease requirements that American companies share advanced technologies to gain entry to the Chinese market.

The administration is considering invoking a little-used provision of U.S. trade law to investigate whether China's intellectual-property policies constitute "unfair trade practices," according to people familiar with the matter.

That would pave the way for the U.S. to impose sanctions on Chinese exporters or to further restrict the transfer of advanced technology to Chinese firms or to U.S.-China joint ventures.

American business frustration with Chinese trade and market-access practices has mounted in recent years, with U.S. business groups urging the government to take a tougher trade line with China. Many organizations have complained that the Trump administration hasn't pushed hard enough in areas like intellectual property, as it has focused more on Chinese manufacturing and China's \$347 billion trade surplus with the U.S. last year.

That discontent has intensified as China's economy continued to expand and its computer and software sectors became bigger competitors internationally. Western firms fear China will use the regulations to bar foreign investments in areas that Bei-



A cargo ship was loaded at a port in Qingdao, Shandong province, last month.

jing targets for investment, including semiconductors, advanced-machine tools and artificial intelligence.

One big question hanging over the White House review is whether the administration pursues any complaint through the World Trade Organization, or whether it chooses to impose penalties on its own without first seeking permission from the international body, which some Trump advisers have argued is incapable of dealing with China's trade practices.

The White House has been wrestling in recent weeks with how to navigate trade relations with China following a stalemate during mid-July bilateral economic talks that yielded no concrete progress. President Donald Trump in recent days has also expressed open disappointment with Chi-

nese efforts to curb North Korea's nuclear program and administration officials have been increasingly outspoken in their criticism of Chinese trade practices.

The White House expects a crackdown on alleged Chinese intellectual-property expropriation would have widespread support among U.S. businesses, which have complained about China's business practices.

The response may be more divided, say industry officials. Those U.S. companies that want to keep their most advanced technology from Chinese hands would probably back the move, while others that want to license technology to Chinese firms could find the measures a hindrance. China could also retaliate by blocking U.S. investments or making life tougher for U.S. companies in China.

The Trump administration's exploration of new trade remedies against Beijing is significant in that they might involve dusting off long-ignored or little-used powers. In this case, one option under discussion is to use Section 301 of the Trade Act of 1974, which gives the U.S. government the authority to investigate alleged wrongdoing by trading partners and decide by itself the relevant penalty—to act, in the eyes of critics, as judge, jury and executioner.

Another option under discussion would be to invoke the International Emergency Economic Powers Act, a 1977 law that gives the president broad powers to regulate commerce after declaring a "national emergency."

—Ian Tally contributed to this article.

Seoul Plans Tax Increase to Fund Jobs

BY KWANWOO JUN

SEOUL—South Korea's left-leaning government plans to raise taxes on wealthy individuals and large companies, the first increase in the country's corporate tax rate since 1991, as President Moon Jae-in seeks to fund a massive expansion in public-sector hiring.

The move by the three-month-old government bucks the prevailing global trend of falling corporate tax rates. Countries such as the U.S., France and the U.K. have either slashed or have considered lowering rates in recent

years in a bid to boost competitiveness and investment.

Mr. Moon, who took office in May, envisions a larger role for government in raising household income and creating jobs, rather than his conservative predecessor's reliance on growth driven by large manufacturing exporters.

The Ministry of Strategy and Finance, which unveiled the newly revised tax bill on Wednesday, said the overhaul was focused on "redistributing income and expanding the tax revenue base."

The ministry expects the tax-code revision, which in-

cludes tax breaks and higher levies on the wealthy, to generate additional revenue of about \$5 billion a year.

Under the new tax code, individual rates will increase by 2 percentage points for the two highest tax brackets, to a maximum rate of 42% for those who earn about \$444,000 or more a year. Rates for individuals who earn less than \$270,000 will remain unchanged.

Corporate tax rates, meantime, will rise by 3 percentage points to 25% for companies whose net profit exceeds about \$180 million a year. Tax

rates for businesses earning less will remain the same.

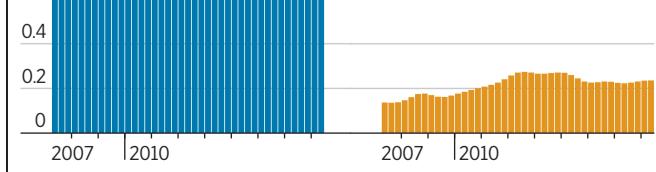
The country's ceiling on corporate tax rates has been untouched since 2009, when the conservative government under then-President Lee Myung-bak lowered rates to 22% from 25% to help boost business investment and spur sluggish economic growth.

The corporate tax rate hasn't gone up in a quarter-century. The Moon government plans to send the new tax bill to the legislature next month for lawmakers' scrutiny. If approved, the law would take effect in 2018.

Factory Settings

Australia has been losing manufacturing jobs, and mining employment has retreated from the levels of the recent boom years.

Number of employees in Australia



Source: Australian Bureau of Statistics

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WORLD NEWS

Rosy Picture Turns Darker in Rwanda

Economic doldrums, accusations of brutality plague popular leader as election approaches

BY NICHOLAS BARIKO

Paul Kagame is so certain he will secure a third term in Rwanda's presidential election on Friday that he claimed victory more than one month ago.

But cracks in the strongman's armor are starting to appear, as the coffee-fueled economy loses steam and rights groups say intimidation and oppression tar a state-building success story.

Polls ahead of the vote show more than 90% of Rwanda's 6.8 million voters back the former rebel leader who shepherded this tiny, landlocked East African nation from 1994's genocide to become a poster child for efficient governance and economic growth.

Lionized by government media and broadcast on digital billboards across the country, he has attracted a cult following after delivering an average economic-growth rate of 8% over the past decade, one of the world's fastest.

In the capital Kigali, a new \$300 million convention center caps a skyline transformed by commercial and residential developments. Traffic is orderly and crime is rare.

The government's success in reducing poverty has attracted waves of foreign capital from aid agencies and private investors and plaudits from Western leaders including Bill Clinton and Tony Blair, burnishing Mr. Kagame's technocratic autocracy.

But while supporters see a visionary leader, critics, diplomats and rights groups say the president's genuine popularity has risen in tandem with violent repression, including an expanded effort to muzzle the opposition in the weeks before



Supporters of Rwandan President Paul Kagame attended a campaign rally in Kigali on Wednesday, two days before an election.

the polls.

"Kagame is not your average African strongman," said Simeon Wielher, dean of the School of Social, Political and Administration Sciences at the University of Rwanda. "He has proved himself to be a formidable strategic organizer."

Meanwhile, more experts question the "Rwandan miracle" narrative, pointing to negligible fixed foreign investment and a failure of manufacturing and services sectors to grow as planned.

Rwanda's economy grew at 1.7% in the first quarter of 2017, the lowest quarterly real growth in gross domestic product in nearly a decade, according to the country's statistics office.

Mr. Kagame—able to run for the third term after constitutional changes were overwhelmingly approved in a

2015 referendum—is facing off against two unknown candidates who have had only three weeks to canvass for support.

Diana Rwigara, a popular critic of the 59-year-old leader, was disqualified from running after the election authority rejected her supporters' signatures.

Thomas Nahimana, a well-known Catholic priest living in France who wanted to repatriate and run for president was barred from returning.

When the U.S. and European Union envoys asked about the electoral commission's vetting process following the elimination of several presidential contenders, Mr. Kagame went on state television and warned them to "stop fueling fire."

In July, Human Rights Watch released a report documenting dozens of extrajudicial killings by Mr. Kagame's security forces over petty crimes, including stealing bananas.

slowdown," said Benedict Craven, an analyst with the Economist Intelligence Unit. "If Kagame insists on staying amid a much less rosy economic picture than people have been used to under his rule, there is going to have to be a lot more opposition-crushing than there has been."

A spokeswoman for Mr. Kagame's ruling Rwanda Patriotic Front party said Kigali wouldn't accept "uncalled for interference into the country's democracy by foreigners."

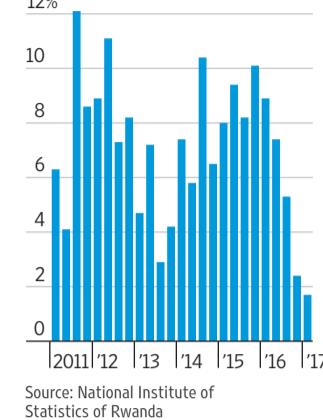
"This is not new. All the time we see the so-called international community make unhinged statements about Rwanda's success," the spokeswoman said. "Rwandans have rejected such influences."

The vast majority of Rwandans appear to strongly back Mr. Kagame as a steady hand

JEROME DELAY/ASSOCIATED PRESS

Roller-Coaster Ride

Annualized quarterly change in Rwanda's real GDP



Source: National Institute of Statistics of Rwanda

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who has kept his country stable in a volatile region. Vincent Kalemba, a clerk in downtown Kigali, said only Mr. Kagame would keep Rwanda united and progressing.

"My vote is only for Kagame," the 27-year-old said. "He has steered this country in the right direction, Rwanda will remain safe under his leadership."

Mr. Kagame's party, the Rwandan Patriotic Front, is campaigning on a platform of building new infrastructure, boosting agricultural productivity, mining and tourism. It has also promised to pave 2,500 miles of road over the next seven years.

Frank Habineza, one of Mr. Kagame's two opponents, told The Wall Street Journal that despite being on the ballot, he continues to face intimidation and harassment.

Local authorities have disrupted several of his rallies, accusing him of not seeking clearance to hold them.

"The ruling party has basically fused with the state over the past 20 years," Mr. Habineza said: "It's such a big risk to be in opposition."

June's Decline in Producer Prices Defies Eurozone Economic Upturn

BY PAUL HANNON

The prices of goods leaving the eurozone's factory gates fell in June for the third month in four, as inflation looks set to remain weak despite a sustained pickup in economic growth.

The European Union's statistics agency said on Wednesday that producer prices fell 0.1% from May, having also declined in that month and in March. Indeed, the latest month-to-month increase in producer prices was recorded in January. Thanks to rises in the second half of last year, prices in June were still 2.5%

higher than a year earlier, but that was the smallest annual increase in 2017.

The sustained drop in prices at the eurozone's factory gates comes despite a pickup in growth that has seen the eurozone outpace the U.S. over the past 18 months, a sign that the currency area's economy is finally emerging from the shadow of the past decade's financial crises.

Surprisingly strong growth in the first six months of this year has fueled expectations that the European Central Bank will start to remove some of the stimulus it has been providing since

mid-2014. In July, ECB President Mario Draghi described the recovery as robust and said policy makers would decide in the fall on the future of their bond-buying program, which is tentatively scheduled to end in December. ECB watchers expect the program to be extended into 2018, but at a reduced scale. Most doubt the purchases will continue into 2019.

However, Mr. Draghi also pointed to the sluggish pace of consumer-price rises as a reason to proceed with caution, and stressed that policy makers would need to be "persistent and patient" if they are to

meet their inflation target of just below 2%.

The drop in producer prices since the start of the year underscores how patient the ECB may have to be.

Five straight months of falling energy prices have been largely responsible for that weakness, although prices of intermediate goods—or things that are used to make other things—have now fallen for two straight months. Excluding the volatile energy component, producer prices were flat for the second straight month in June.

There appears to be little prospect of a revival of infla-



A Siemens employee works on a CT scanner in Forchheim, Germany.

tionary pressures over coming months. A survey of 3,000 manufacturing companies released Tuesday showed the cost of their raw materials and

other inputs rose at the slowest pace in nine months during July, while they in turn raised their prices at the slowest pace in 2017.

RUSSIA

Continued from page A1

identical authority, and wouldn't say whether the president would sign it. The bill includes a provision that would require the president to consult Congress before relaxing any sanctions against Moscow or restoring Russia's control over diplomatic compounds in the U.S. that had been seized by the Obama administration as part of U.S. reprisals for the alleged election interference.

Under the bill, the president must notify Congress if he wants to lift sanctions on Moscow. Congress then would have 30 days to pass a resolution of disapproval to stop the president. Should Mr. Trump veto that resolution, Congress would have 10 days to override the veto.

As he signed the bill, Mr. Trump directed a barb at lawmakers. "Congress could not even negotiate a health care bill after seven years of talking," he said in a statement released afterward. "By limiting the Executive's flexibility, this bill makes it harder for the United States to strike good deals for the American people, and will drive China, Russia, and North Korea much closer together."

Mr. Trump didn't hold a

signing ceremony for the bill, instead signing it behind closed doors and issuing the statement before holding a separate event proposing changes to the U.S. immigration policy.

Asked about the president's reaction to the bill, Sen. Bob Corker (R., Tenn.), the chair of the Senate Foreign Relations Committee, shrugged. "Whatever," he said.

The strong support of the bill in the House and Senate reflects abiding distrust between Mr. Trump and Con-

gress over how to deal with Moscow.

According to a January report from the U.S. intelligence community, Russia's interference was directed from the highest levels of its government. Its tactics included hacking state election systems, infiltrating and leaking information from party committees and political strategists, and disseminating through social media and other outlets negative stories about Democratic nominee Hillary Clinton and positive ones about Mr.

Trump, the report said. Mr. Trump has expressed skepticism about the findings. The Russian government has denied the allegations.

The bill tightens restrictions

on the extension of credit to

Russian entities and mandates

sanctions on those deemed to

be undermining cybersecurity,

as well as those engaging in

significant transactions involv-

ing the Russian defense and

intelligence sectors.

It would allow some joint

U.S.-Russian energy ventures

to go ahead but would impose

penalties on new projects and joint ventures in which a sanctioned Russian person or entity holds a stake of 33% or more.

The bill also allows the president to impose sanctions on firms backing a high-profile Russian pipeline project but stops short of mandating penalties.

That provision has upset Europeans because it poses a potential risk to the Nord Stream 2 pipeline, a Gazprom project backed by a consortium of five European companies, to transport gas from Russia to Europe through the Baltic Sea.

After European countries,

including Germany and Austria, protested, lawmakers added a stipulation that the president may impose sanctions, but "in coordination with allies of the United States."

U.S. energy companies had lobbied Congress against the bill, citing concerns over an earlier version that included measures to block partnerships with Russian individuals or companies, which they said could scuttle any U.S. business partnership that involved Russian entities.

On Tuesday, Secretary of State Rex Tillerson expressed dismay about the bill, saying the legislation would hamper efforts to re-establish a closer relationship with Moscow.

He said Russian President Vladimir Putin apparently saw the expulsion of U.S. embassy staff as a necessary tit-for-tat response to sanctions that the Obama administration placed on Russia late last year for alleged campaign interference.

"The action by the Congress to put these sanctions in place and the way they did, neither the president nor I are very happy about that. We were clear that we didn't think it was going to be helpful to our efforts. But that's the decision they made," Mr. Tillerson said.

"They made it in a very overwhelming way. I think the president accepts that."

The legislation also imposes new sanctions on Iran's ballistic-missile program and Revolutionary Guard Corps, and attempts to squeeze the cash available to North Korea for its nuclear and ballistic-missile programs.

"The president signing the legislation, although begrudgingly, was the right thing to do," Senate Minority Leader Chuck Schumer (D., N.Y.) said. "The president's extended signing statement, however, demonstrates that Congress is going to need to keep a sharp eye on this administration's implementation of this critical law and any actions it takes with respect to Ukraine."

—Paul Sonne

—contributed to this article.



Russian President Vladimir Putin met with President Donald Trump at last month's G-20 session.

EVAN VUCIC/ASSOCIATED PRESS

WORLD NEWS

Voting Firm Says Caracas Rigged Poll

BY KEJAL VYAS

Venezuelan authorities tampered with votes during an election this week to elect a body to rewrite the country's constitution, said the company that provides the government with the voting software.

The Wednesday statement from Smartmatic, a London-based company that has worked with Venezuela's electoral council since 2004, cast further doubt over the legitimacy of Sunday's election of a powerful constituent assembly staffed with loyalists to President Nicolás Maduro's Socialist government.

Smartmatic won't certify results of vote to elect assembly to rewrite constitution.

"Based on the robustness of our system, we know, without any doubt, that the turnout of the recent election for a national constituent assembly was manipulated," said Antonio Mugica, Smartmatic's CEO.

Mr. Mugica said officials tampered with more than one million of the 8.1 million votes the government said were cast. He didn't say how his company determined that or how the doctored numbers may have affected the total vote. He didn't respond to requests to comment.

The government had intended to draw millions to the polls and outflank the opposition, which on July 16 said more than 7.5 million

Venezuelans voted to reject the assembly in an unauthorized referendum.

The government didn't respond to a request to comment.

Smartmatic's statement follows other allegations that raise questions over the vote's fairness and legality.

One of the five rectors in the National Electoral Council, the only one who represents the opposition, this week called the election unconstitutional. He said the same audits and antifraud controls of past elections weren't employed.

"The CNE should respond before the country the complaint that Smartmatic made today about the manipulation of the data," the rector, Luis Rondon, said on his official Twitter account Wednesday.

An exit poll conducted on Sunday by the pollster Innovarum for the investment firm Torino Capital had estimated 3.6 million participants, less than half of the number the government claimed.

The election's outcome was a foregone conclusion, since government supporters were expected to select delegates from a field of ruling Socialist Party candidates and other Maduro allies to form the constituent assembly. The assembly, which was scheduled to convene on Wednesday, has broad powers over every institution in the country, including the opposition-controlled National Assembly.

The U.S. and many European and Latin American countries condemned the Sunday vote as a sham that was conducted in an atmosphere of intimidation and



Opposition lawmakers shout 'Fraud' during a session of the national assembly in Caracas, in reference to Sunday's controversial vote.

human-rights abuses.

Venezuelan opposition leaders on Wednesday called for an investigation of the rectors who run the National Electoral Council.

"The rectors committed a crime, which is to doctor the electoral results," said Julio Borges, president of the National Assembly. The council didn't respond to requests to comment.

Smartmatic was founded in 2000 by Venezuelans soon after Mr. Maduro's predecessor and mentor, Hugo Chávez, took power. After developing an electronic vote-counting machine, it oversaw its first

automated election in 2004 in Venezuela, the company says on its website. Later, it conducted elections in Brazil, Argentina, the Philippines, Belgium and other countries. It has also operated in the U.S., including in last year's Republican primaries in Utah.

Smartmatic said its voting system is protected by a number of safeguards including the ability to compare voter receipts from each polling station with the official tally. But those mechanisms don't work without auditors from independent monitoring groups, who weren't present in this election as they have been in

past votes. The opposition boycotted the election, saying it was stacked in the government's favor.

Smartmatic said it has had no problem certifying the numerous electoral victories of Mr. Chávez, as well as the 2013 election in which Mr. Maduro won the presidency over Henrique Capriles by a small margin. But the company said this time it couldn't endorse the result.

"An audit would allow everyone to know the exact participation," Smartmatic said.

Venezuela's leftist government has long boasted of having the world's best election

system, praise that had also been bestowed upon it years ago by former U.S. President Jimmy Carter. But the Atlanta-based Carter Center, which has worked in the past as an election monitor in Venezuela, has now condemned the vote.

"The electoral legitimacy and anyone's capacity to trust in this electoral council is absolutely destroyed," said Jennifer McCoy, who led election observer missions in the past in Venezuela and was director of the Carter Center for 17 years.

—Ryan Dube, Mayela Armas and José de Córdoba contributed to this article.

WORLD WATCH

MEXICO

Government Denies Praising Border Moves

Mexico denied assertions by U.S. President Donald Trump that his Mexican counterpart praised the U.S. administration's border policies, saying a phone call that Mr. Trump alluded to never happened.

A spokesman for Mexican President Enrique Peña Nieto said Wednesday the last time the two presidents spoke was at the G-20 meeting in Germany on July 7. The subject of migration was addressed by both leaders at that meeting, but the discussion was informative and not congratulatory, the spokesman added.

While praising his new chief of staff John Kelly's work as head of the Department of Homeland Security, Mr. Trump on Monday said that Mr. Peña Nieto had complimented him on the border actions.

"And even the president of Mexico called me—they said their southern border, very few people are coming because they know they're not going to get through our border, which is the ultimate compliment," he said.

The White House didn't immediately return calls seeking comment.

Mexico's Foreign Relations Ministry said earlier this week that Mr. Peña Nieto had noted at the G-20 meeting that deportations of Mexicans from the

U.S. had fallen 31% in the first half of this year, compared with the first half of 2016, and that during the same period migration to Mexico from Central and South America was down 47%. Both leaders also agreed to discuss guest worker programs.

—Robbie Whelan

TURKEY

Ankara Shakes Up Military Leadership

The spokesman for Turkey's president announced a shuffling of senior military officials, replacing commanders of three military branches.

Following an annual meeting of the Supreme Military Council on Wednesday, Ibrahim Kalin said Yasar Guler, Adnan Ozbal and Hasan Kucukayuz would take command of the army, navy and air force, respectively.

Since the July 2016 coup attempt, Turkey has arrested 169 generals and admirals suspected of involvement in the attempted overthrow of the government and president.

Prime Minister Binali Yildirim chaired the meeting, which included top ministers and current military commanders.

State-run Anadolu news agency said it is the third time since last summer's failed coup that the previously "top secret" meeting is being held at the prime ministry in Ankara, instead of at the military's headquarters.

—Associated Press

AFGHANISTAN

U.S. Service Members Killed in Kandahar

Two U.S. service members were killed in southern Afghanistan, underscoring the danger to U.S. troops as the White House struggles with a decision on the way forward there, the Pentagon said.

Pentagon officials said that two troops were killed in Kandahar when the convoy in which they were riding came under attack. News reports earlier Wednesday indicated that a suicide bomber drove a truck full of explosives into a convoy near the Kandahar airport, a sprawling complex where logistics and other operations take place for southern Afghanistan.

—Dion Nissenbaum and Gordon Lubold

INDIA

Central Bank Cuts Rate as Inflation Ebbs

India's central bank cut its main lending rate to a more than six-year low, as inflation and economic growth slowed.

The Reserve Bank of India's monetary-policy committee lowered its repurchase rate by 0.25 percentage point to 6.0%.

Consumer-price inflation slowed to 1.5% in June, well below the 2% bottom of the central bank's target range.

—Debiprasad Nayak and Corinne Abrams

OUTSOURCING OF AIRPORT SERVICES

1. Pakistan Civil Aviation Authority (PCAA) invites for PROPOSALS through this Request for Proposal (RFP) from the airport operator companies to license the airport services of **New Islamabad International Airport (NIAP), Islamabad, Allama Iqbal International Airport Lahore and Jinnah International Airport Karachi**.
2. The interested companies would be responsible for providing airport(s) services under a license, and will undertake periodic development of airport infrastructure, pursuant to an approved scheme.
3. The scope of work will include provision of:
 - a. Airport services
 - b. Commercial exploitation of airport terminal
 - c. Maintenance of allied infrastructure related to airport services
 - d. Management of existing outsourced concession at the airports
 - e. Provision of international standard ground handling services at the airport etc.
4. Interested Companies having relevant experience of rendering airport services with a sound capability to provide efficient and quality services are encouraged to apply.
5. The RFP Documents may be obtained from the Office of the Deputy Director General Airport Services, Headquarters Pakistan Civil Aviation Authority, Terminal-1, Jinnah International Airport [JIAP], Karachi on any working day from 0900 hours to 1600 hours till August 11, 2017 on payment of prescribed non-refundable fee of Rs. 113,000/- in Pakistan Civil Aviation Authority (PCAA) Collection Account No. C-2561-8 at National Bank of Pakistan Airport Branch, Terminal -1, (JIAP), Karachi.
6. Proposals / Bids shall be submitted in Two Envelopes separately marked as "Technical Proposal" and "Financial Proposal". The deadline for the submission of proposals / bids is **September 12, 2017 till 1200 hours**. The proposals / bids will be opened 2 hours after the deadline on same date.
7. PCAA reserves the right to reject all bids or proposals at any time prior to the acceptance of a bid / proposal. The PCAA shall upon request communicate to any participating company the grounds for rejection of a bid / proposal, but it is not binding upon PCAA to justify those grounds.

DEPUTY DIRECTOR GENERAL AIRPORT SERVICES,
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U.S. NEWS

Trump Backs Bill to Reduce Green Cards

Immigration proposal would prioritize high-skilled workers as well as English speakers

BY TED MANN
AND LAURA MECKLER

WASHINGTON—President Donald Trump announced a bill to cut green cards by half Wednesday, supporting a Senate measure that advances his drive to reduce legal and illegal immigration.

The measure, backed by Republican Sens. Tom Cotton of Arkansas and David Perdue of Georgia, maintains the existing number of employment-based green cards issued each year but sharply reduces immigration based on family ties, and it kills a lottery that gives people from underrepresented countries a chance to immigrate here.

The issue divides Republicans. Those from the pro-business wing of the party generally support increased immigration, while others say newcomers provide unfair competition for American workers. Mr. Trump's presidential campaign was built on the second argument.

Mr. Trump met Wednesday morning in the Roosevelt Room of the White House with Sens. Cotton and Perdue, giving the bill introduction—often a sleepy affair—a high-profile platform.

Their proposal would replace the existing system with an application process that prioritizes high-skilled workers, those who speak English, and newcomers who are financially stable enough to avoid relying on the welfare system, the president said. The bill would deny green cards, also known as legal permanent residence permits, to some who are now eligible, including the adult children and extended family of current green-card holders.



President Donald Trump, flanked by Sen. Tom Cotton, left, and Sen. David Perdue, unveiled an immigration-overhaul plan Wednesday.

"For decades, the U.S. has operated a very low-skilled immigration system," Mr. Trump said. "It has not been fair to our people, to our citizens, to our workers."

"This competitive application process will favor applicants who can speak English, financially support themselves and their families, and demonstrate skills that will contribute to our economy."

Sens. Perdue and Cotton say their proposal would boost the wages of the working-class Americans by restricting migration of low-skilled workers and prioritizing those with advanced skills, similar to systems in place in Australia and Canada.

The proposal is "proven to work," Mr. Perdue said.

A Cotton aide said the

sponsors estimate that the legislation would decrease overall immigration to about 638,000 in its first year—a 41% drop—and to about 540,000 by its 10th year—a 50% reduction. The number of employment-based green cards issued each year would remain at 140,000, she said.

The proposal is unlikely to advance. An earlier version of the bill, introduced in February, didn't attract broad support. This type of legislation needs 60 votes to surmount a filibuster, with Democrats and some Senate Republicans likely opposed. Many lawmakers support the family-based immigration rules, which aid those already in the country who want to bring loved ones to the county.

The bill would give the im-

mediate family members of U.S. residents priority in seeking to emigrate to the country, including spouses and minor children, according to a summary prepared by the White House. But it would end that preference for adult children and extended family members.

The bill also eliminates the existing Diversity Visa lottery system, a lottery by which people from underrepresented countries can win green cards. It would also limit the number of permanent resident permits issued to refugees to 50,000 a year, well below the numbers admitted in the final years of the Obama administration. Sponsors say that the lower limit is in line with the average number of refugees granted residency over the past 13 years.

Many economists and business interests argue that immigration provides a net benefit to the American economy and have urged the administration not to introduce new barriers to migrants seeking to enter the country legally.

Mr. Trump called the bill "the most significant reform to our immigration system in half a century."

Anti-immigration organizations praised the bill on Wednesday. The proposal "will do more than any other action to fulfill President Trump's promises as a candidate to create an immigration system that puts the interests of American workers first," said Roy Beck, president of NumbersUSA, which supports reduced immigration, in a written statement.

Immigration Operation Results In 650 Arrests

Federal immigration enforcement agents arrested 650 people last week during an operation aimed at families and children who illegally crossed the border and had been ordered deported, officials said.

Those arrested included 73 individuals who crossed the border as part of family units and 120 who entered as unaccompanied minors. Agents also arrested 457 others whom they "encountered" during the operation.

Under Trump administration policy, undocumented immigrants aren't safe from deportation just because they aren't high-priority targets like convicted criminals. Rather, anyone encountered during an operation can be arrested and processed for deportation.

One hundred thirty of the 650 arrested had criminal convictions, the Immigration and Customs Enforcement agency said Tuesday. Under Obama-era rules, agents targeted people with serious criminal records and recent border crossers, while other undocumented immigrants were mostly safe from deportation. ICE said that unaccompanied children targeted had either reached age 18 or were at least 16 with criminal histories or suspected gang ties.

"The practice of targeting unaccompanied minors who fled violence in Central America is appalling. The fact that ICE is targeting the family members who took them in makes it even worse," said Frank Sharry, executive director of the advocacy group America's Voice. "This kind of enforcement is designed to strike terror in the heart of immigrant communities," he said.

—Laura Meckler

Insurers Seek Higher Premiums Under Health Law

BY ANNA WILDE MATHEWS
AND LOUISE RADNOFSKY

Major health insurers in some states are seeking increases as high as 30% or more for premiums on 2018 Affordable Care Act plans, according to new federal data that provide the broadest view so far of the turmoil across exchanges as companies try to anticipate Trump administration policies.

Big insurers in Idaho, West Virginia, South Carolina, Iowa and Wyoming are seeking to raise premiums by averages close to 30% or more, according to preliminary rate requests published Tuesday by the U.S. Department of Health and Human Services. Major marketplace players in New Mexico, Tennessee, North Dakota and Hawaii indicated they were looking for average increases of 20% or more.

In other cases, insurers are looking for more limited premium increases for the suites of products they offer in individual states, reflecting the variety of situations in different markets. **Health Care Service Corp.**, a huge exchange player in five states, filed for average increases including 8.3% in Oklahoma, 23.6% in Texas, and 16% in Illinois.

Together, the filings show the uncertainty in the health-insurance marketplaces as insurers around the U.S. try to make decisions about rates and participation for next year amid open questions about changes that could come from the Trump administration and Congress.

Insurers face a mid-August deadline for completing their rates. The companies have until late September to sign federal agreements to offer plans in 2018. In some cases, insurers warn, the figures revealed by federal regulators might not reflect their up-to-date thinking.

The insurers' decisions will be closely dependent on moves by the Trump administration and Congress. Most important is whether the federal government continues making payments that reduce health-care costs for low-income exchange enrollees, which insurers say are vital and President Donald Trump has threatened to halt.



Harland Stanley in Louisville, Ky., uses Anthem, which seeks an average increase of 34% in the state.

A Republican Bid To Keep Health Overhaul Going

WASHINGTON—The White House and some Republicans who want to keep up efforts to repeal the Affordable Care Act have seized on a proposal aimed at giving states significant flexibility, though Senate leaders are suggesting they won't revisit the health-care issue in the near future.

The proposal, which Sens. Lindsey Graham (R, S.C.) and Bill Cassidy (R, La.) unveiled when the GOP's primary legislation to overhaul the 2010 health-care law was faltering, is

designed to let states craft their own health systems to some degree.

It would repeal a requirement that most people purchase insurance or pay a penalty and a related mandate that most employers offer it. The plan would keep the ACA's taxes except one on medical devices. But rather than using the money for premium subsidies and a Medicaid expansion, as the ACA does, it would be offered as block grants to states so they could address their health-care needs.

The White House has hosted multiple meetings on the proposal, including a session Monday with Mr. Cassidy, Health and Human Services

Secretary Tom Price and four GOP governors.

But the plan faces long odds in the Senate, where Republican leaders have said repeatedly in recent days they have no plans to bring another health proposal to the floor anytime soon.

With the absence of Sen. John McCain (R, Ariz.), who is undergoing cancer treatment, Republicans don't have enough votes to reopen debate on health legislation, and Senate Majority Leader Mitch McConnell (R, Ky.) has indicated he is eager to move on to a tax overhaul and other legislative goals.

The idea also has gotten a chilly reception from Democrats as well as conservative groups.

—Michelle Hackman

Insurers are also concerned about whether the Trump administration will enforce the requirement for most people to have insurance coverage, which industry officials say helps hold down rates by prodding healthy people to sign up for plans.

In Montana, Health Care Service linked 17 percentage points of its 23% rate increase request to concerns about the cost-sharing payments and enforcement of the mandate that requires everyone to purchase insurance. Kurt Kossen, a senior vice president at Health Care Service, said the com-

pany's rate requests are driven by causes including growing health costs and "uncertainty around issues like the continued funding of [cost-sharing payments] and mechanisms that encourage broad and continuous coverage."

Sen. Lamar Alexander (R, Tenn.), who chairs the Senate committee that oversees health policy, said Tuesday that he had told Mr. Trump directly that the government should continue making the payments to insurance companies.

The effect of the rate increases will be blunted for

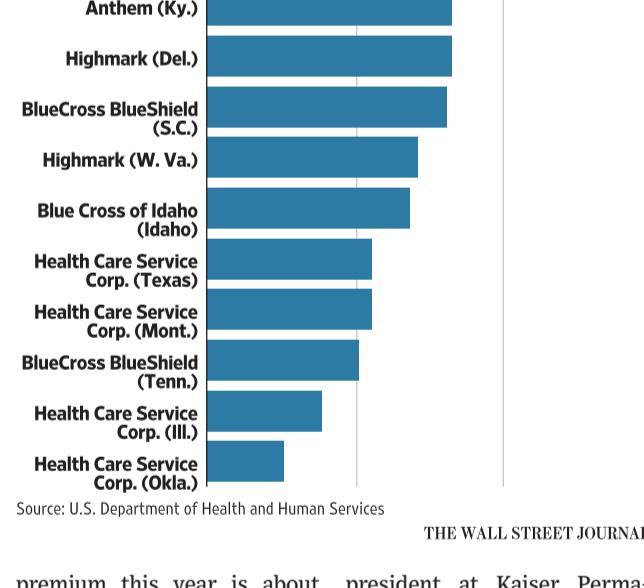
many exchange enrollees, because lower-income people receive federal subsidies that cover much of their premiums.

But increases could be tough to stomach for those who aren't eligible for the help, like Harland Stanley, 53, of Louisville, Ky. Mr. Stanley, who owns his own research business, pays about \$400 a month for a plan from Anthem Inc., which is seeking an average increase of 34% in the state, though Mr. Stanley's own premiums might rise by less or more than that.

"It's going to hurt," said Mr. Stanley, who said his monthly

On the Rise

Average premium increases proposed by big insurers for Affordable Care Act plans in select states



Source: U.S. Department of Health and Human Services

THE WALL STREET JOURNAL

premium this year is about \$120.

Meanwhile, Centene Corp.'s requests ranged from less than 1% in New Hampshire to 21% in Texas and 12.49% in Georgia. Those rate proposals generally assume the current rules surrounding ACA plans continue, the company said.

Within the marketplaces, "there is relative stability," said Chief Executive Michael F. Neidorff. "The uncertainty is driven by these policies on the ACA."

CareSource, a nonprofit insurer that offers exchange plans in four states, has prepared alternate rate filings for different scenarios, and one of its state regulators Monday asked it to refile with proposed rates that assume no cost-sharing payments.

"It's challenging; you learn to be very fluid," said Steve Ringel, president of the Ohio market for CareSource. According to actuarial firm Milliman Inc., at least seven states have made similar requests in the past week, while others had earlier asked for two versions of rate filings.

"Resolution of the [cost-sharing payments] is an urgent issue," said Bill Wehrle, a vice

president at Kaiser Permanente, which offers exchange plans in a number of states. "We're coming up at a point that's fairly soon, where the pricing decisions we make are set for all of next year."

The impact of potentially losing the payments was also clear in the rates requested by Blue Cross of Idaho, which average 28%. That would probably be in the lower teens if the payments were guaranteed, said Dave Jeppesen, a senior vice president. "It's a big swing," he said. "There's a lot of risk associated with the uncertainty in Congress right now, and we are pricing appropriately for that risk."

A recent Kaiser Family Foundation analysis found insurers' financial results on exchange plans improved in the first quarter, a sign of potentially emerging stability in the business. That is reflected in a number of states where rate-increase requests are limited. The exchange in California said Tuesday that insurers there were seeking an overall average increase of 12.5%—but there would be an additional 12.4% boost layered onto middle-tier "silver" plans if the cost-sharing subsidies aren't paid.

U.S. NEWS

'Air Capital Of the World' Has Problem

With too few aviation workers, Wichita is trying to hold on to its biggest industry

BY SHAYNDI RAICE

WICHITA, Kan.—This sunbaked central Kansas city has long been a center of aircraft manufacturing, with sprawling facilities for companies like **Textron Inc.** and **Spirit AeroSystems Holdings Inc.** dotting the landscape.

Manufacturing jobs largely supported by aircraft makers have fallen to 52,000 as of June from a high of 69,000 in July 2008, when demand for business jets was hit hard by the financial crisis, prompting a wave of pink slips.

Now the city of 390,000 is scrambling to scare up enough workers to keep the factories humming.

"When people lost their

jobs they either found other types of work or left town," explains Dave Franson, president of the Wichita Aero Club and a former executive at Cessna, a unit of Textron. "You have what has been an eight- or nine-year gap of people migrating away from the industry here."

Wichita, known as the "air capital of the world," is working with the industry to train thousands of new workers while sprucing up downtown in an attempt to make it a place where people want to stay—and to dissuade companies from shipping the jobs overseas.

In recent years, Wichita State University bulldozed a former golf course to double the school's size and build an "innovation campus" focused on the aviation industry. Airbus SE moved its local headquarters there so interns could study and work at the same time. And the local technical college has worked with the industry to offer free tuition to help train and supply workers.

Meanwhile, the city is working with the private sector and nonprofits to invest in parks, a bike-share program, a new baseball stadium and a luxury apartment building to try to attract more talent to the city and make the downtown area more livable.

"We're no longer going to play this traditional incentive game and offer cash to companies," said Mayor Jeff Longwell. "We think quality of life will do more."

The problems in Wichita mirror those in other manufacturing areas, where a skills gap has emerged due in part to aging workers and changing technology. But the turbulent



Workers assemble fuselages of Boeing 737s at Spirit's Wichita plant. The city is working to dissuade firms from shipping jobs overseas.

aviation industry—which is easily affected by economic cycles—adds another wrinkle to the challenge.

The labor shortage doesn't appear to have had much of an effect on pay—puzzling economists, who say weak inflation, slowing productivity and the effects of globalization may be holding back wage growth. Average weekly wages in 2016 were up 1.4% in the manufacturing sector in Kansas from a year earlier, according to Bureau of Labor Statistics data.

David St. Pierre, a 44-year-old jet mechanic, has been laid off nine times and moved five times in search of work since 1996. He came back to Wichita in 2011—his third stint living in the city.

Now, he is one of 459 employees receiving help from his employer, Textron, to get new training and certification, in his case for an airframe and power-plant license.

"If you're willing to transfer back and forth, there's work," said Mr. St. Pierre, standing in

Wichita Area Technical College's airplane hangar lab. In addition to a big salary bump, he is hoping the new credential will make it easier to find a new job locally the next time the industry hits bumps so he won't have to move his wife and four children.

WATC, with funding and support from the industry, last year launched a tuition-free program whose courses include sheet-metal assembly and composite technology. The program expects to have 110 students over the next few months, up from 77 currently signed up, WATC President Sheree Utash said.

Wichita, with a flat landscape and a concentration of early aviation entrepreneurs like Walter Beech and Clyde Cessna, emerged as a hub for aircraft making in the 1920s and 1930s, becoming the largest city in Kansas.

But technological advances and a sharp downturn in business jets after 2008 put Wichita's workers on a roller

coaster. Beechcraft went bankrupt and was bought by Textron. Boeing Co., a presence in Wichita for more than eight decades, closed its doors here in 2012, citing defense budget cuts.

Now things are starting to look up, especially for commercial aircraft. Spirit is delivering 47 fuselages as well as engine and wing parts for Boeing 737s each month—and Boeing wants more next year.

Spirit will hire 300 new workers by the end of March, or twice the 150 it needs to keep up with attrition, said Vic McMullen, vice president and general manager of operations at Spirit.

It isn't easy finding people to fill those jobs. And an aging workforce means the company needs to be prepared for an exodus of skilled workers.

Justin Welner, vice president of human resources for Spirit, said that one-third of his 10,000 plant employees are eligible for retirement. "Behind them, the younger gener-

ation doesn't have the same kind of affinity for that kind of work," he said. "It's been harder and harder to recruit experienced mechanics."

In 2012, when officials first woke up to the coming skills gap, concern was deep.

"There was a massive panic in Kansas," said John Tomblin, executive director of Wichita State University's National Institute for Aviation Research, prompting the building boom that saw the school expand onto the golf course and Airbus's move to campus.

"You need to have engineers coming out of that college pipeline who are ready for a career in aerospace," said John O'Leary, vice president of Airbus Americas Engineering who oversees the 300 engineers, support personnel and students working at the WSU campus site.

That kind of cooperation benefits the company and the students. "Before they cross that [graduation] stage, they have a job," Dr. Tomblin said.

U.S. WATCH

TRUMP ADMINISTRATION

Congress Urged to Retain War Powers

The Trump administration urged Congress not to revise the law underpinning the global war on terrorism and armed conflict in Iraq and Afghanistan, arguing Wednesday that the Pentagon already has the legal authority it needs under a war authorization passed after the Sept. 11, 2001, terrorist attacks.

In a letter to the Republican chairman of the Senate Foreign Affairs Committee, a State Department official said that the administration "is not seeking revisions" the 2001 Authorization for Use of Military Force Against Terrorists, also known as an AUMF, nor is it seeking additional congressional authority to fight terrorist groups across the globe.

"The United States has sufficient legal authority to prosecute the campaign against al-Qaida and associated forces, including against the Islamic State of Iraq and Syria (ISIS)," Charles Faulkner, an official with the State Department's bureau of legislative affairs wrote to Sen. Bob Corker (R, Tenn.) Secretary of State Rex Tillerson and Defense Secretary Jim Mattis also traveled to Capitol Hill to brief the Foreign Relations committee on the administration's position.

—Byron Tau

FBI

Senate Confirms Director Nominee

Christopher Wray, President Donald Trump's pick to lead the Federal Bureau of Investigation, won Senate confirmation with the support of most Democrats, putting the former Justice Department official and private lawyer in charge of an agency buffeted by political crosswinds.

The bipartisan nature of the 92-5 vote Tuesday was a shift after Mr. Trump's abrupt firing in May of the last FBI director, James Comey. Mr. Comey's dismissal alarmed lawmakers in both parties, but Democrats were especially critical.

—Aruna Viswanatha

and Del Quentin Wilber

Scientists Fix Defect In Human Embryo

BY AMY DOCKSER MARCUS

An international group of researchers reported they have edited the genes of a viable human embryo to correct a disease-causing defect, renewing concern that public discussion about the ethics of gene editing is lagging behind advances in the lab.

Using the gene-editing tool Crispr-Cas9, the researchers said they overcame key issues in previous experiments to successfully correct a mutation that can cause a heart condition called hypertrophic cardiomyopathy, or HCM. The condition, which is estimated to affect 1 in 500 people, is best known as a common cause of sudden cardiac death in young athletes.

The collaboration, led by researchers at Oregon Health & Science University, the Salk Institute for Biological Studies and Korea's Institute for Basic Science, used embryos created from sperm donated by an adult male with a family history of HCM and healthy egg donors. The embryos were created for research and not implanted in a woman, according to the researchers, who reported their findings Wednesday in the journal *Nature*.

The study results, which are a first in the U.S., open up numerous ethical questions because they involve changes to the human germ-line—the genes of sperm, eggs or embryos. Scientists and bioethicists have called for caution in

editing the germ-line because such changes wouldn't only alter the individual, but be passed on to future generations.

Regulatory agencies have been willing to consider testing Crispr-Cas9 therapies that treat diseases in individuals. But in the U.S., the Food and Drug Administration is prohibited from using funds to accept applications for research that uses gene editing of the human germ-lines.

A report published this year from an international committee sponsored by the U.S. National Academy of Sciences and the National Academy of Medicine, concluded that germ-line editing might someday be permitted, but only under limited conditions.

Among the committee recommendations was that the technique be used to treat only serious conditions and when other options aren't available.

Once studies are published in the scientific literature, other groups try to replicate them. Some countries might permit the work to eventually move forward to clinical trials. And even among this study's researchers, there is disagreement about how quickly such research should move forward.

Juan Carlos Izpisua Belmonte, a professor in Salk's Gene Expression Laboratory, co-senior author of the paper, said the results are promising but "the research should stay in the lab where scientists can improve the technologies."



Michelle Herrick, a photographer in Phoenix, watches TV using an antenna with her 11-year-old twins.

TV

Continued from Page One

The antenna is mounting a quiet comeback, propelled by a generation that never knew life before cable television, and who primarily watch Netflix, Hulu and HBO via the internet. Sales of all antenna types in the U.S. are projected to rise 7% in 2017 to nearly eight million units, according to the Consumer Technology Association.

Mr. Sisco, an M.B.A. student in Utah, made his discovery after inviting friends over to watch the Super Bowl in 2014. The online stream he found didn't have regular commercials—disappointing half of his guests who were interested only in the ads. "An antenna was not even on my radar," he says. He went online and discovered he could buy one for \$20 and watch major networks like ABC, NBC, Fox and CBS free.

There is typically no need to climb on a rooftop. While some indoor antennas still look like old-fashioned rabbit ears, many modern antennas are thin sheets that can be hidden behind a flat TV or converter boxes to pick up the free signals.

Scott Wills, a wireless-industry executive living in the San Francisco Bay Area, worked for over a year on the legislation that set the transition in motion. Mr. Wills discussed his work extensively with his son, who was almost a teenager at the time.

But many consumers still aren't getting the signal.

Carlos Villalobos, 21, who was selling tube-shaped digital antennas at a swap meet in San Diego recently, says customers often ask if his \$20 to \$25 products are legal. "They don't trust

me when I say that these are actually free local channels."

Almost a third of Americans (29%) are unaware local TV is available free, according to a June survey by the National Association of Broadcasters.

Since the dawn of television, the major networks have broadcast signals over the airwaves. It is free after buying an antenna, indoor or outdoor, and plugging it into your TV set. It still exists, though now most consumers have switched to cable television, which includes many more channels and costs upward of \$100 a month.

Much of the confusion dates to federal legislation that required broadcasters to stop sending analog signals in 2009 and shift to high-definition digital transmissions. The change meant old TVs wouldn't get the broadcasts, forcing consumers to buy new TVs or converter boxes to pick up the free signals.

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About a decade later, Mr. Wills had a hunch many people thought the transition simply killed TV signals, rather than made them better. He asked his son. "His answer was, 'Dad, you should know better than anyone that there's no broadcast TV!'" Mr. Wills recalls. "He thought

broadcast TV went away."

His son, Hunter, now 24 and living in Chicago, says he mostly watches Netflix. "I had no idea," he said of broadcast's continued existence. "I'm still not even familiar with the concept."

The Federal Communications Commission spent millions on a campaign to educate the public about the digital TV transition and Congress set aside more than \$2 billion to help consumers pay for converters so old TV sets could process digital signals. But the focus was largely on older people who already relied on antennas.

William Lake oversaw the agency's effort. A few years later, when he offered to buy an antenna for one of his daughters so she and her roommates could get live TV, she had no idea what he was talking about. "She thought it was some modern satellite service or something," the former FCC official says.

Richard Schneider, founder of a manufacturing company called Antennas Direct, says his occupation results in awkward small talk. "If I'm at a party and I tell people what I do for a living, they'll say, 'That's still a thing?' I'd think you'd be out of business by now."

Quite the opposite. He started selling antennas as a hobby more than 15 years ago and expected to sell only a few hundred each year. He says he sold 75,000 antennas in June. Even the latest high-definition flat-screen TVs need an antenna to get free broadcasts.

IN DEPTH

MOVE

Continued from Page One

Yet the overall mobility of the U.S. population is at its lowest level since measurements were first taken at the end of World War II, falling by almost half since its most recent peak in 1985.

In rural America, which is coping with the onset of socio-economic problems that were once reserved for inner cities, the rate of people who moved across a county line in 2015 was just 4.1%, according to a Wall Street Journal analysis. That's down from 7.7% in the late 1970s. It has fallen faster than the mobility rate in metropolitan areas, which the rural rate is now slightly below.

This drop in mobility is not only keeping rural residents from climbing a ladder to better livelihoods, but it is also choking off the labor supply for employers in areas where jobs are plentiful. This limits the economic growth that naturally occurs when people and capital cluster together, says David Schleicher, a professor at Yale Law School who has studied the issue.

It has also contributed to the nation's deepening political divide. Small-town residents fed a populist revolt that helped put Donald Trump in the White House last year, reinforcing the administration's plan to focus on issues such as curbing immigration and creating jobs through infrastructure spending.

For small towns, mobility has always been something of a problem: When the brightest youngsters leave and don't return, "brain drain" can be a drag on the community, even if it is a boon for the other cities they settle in.

Now, the lack of mobility has become a drag on the entire U.S. economy.

"We're locking people out from the most productive cities," says Peter Ganong, an assistant professor of public policy at the University of Chicago who studies migration. "This is a force that widens the urban-rural divide."

A decade ago, Ogemaw County hit an economic peak thanks to a stable of manufacturing jobs that accounted for more than one-fifth of payrolls in the county, plus work on dairy, soybean and corn farms. Automotive industry workers from Detroit, 175 miles to the south, for decades snapped up waterfront cottages, creating a flow of people between town and country.

Longtime residents say they love the rhythms of the place; schools close for the first day

of deer-hunting season and Friday summer festivals bring lots of residents downtown.

Today, manufacturers employ only a third the number of workers that they did 10 years ago, according to census data. Their payrolls have plummeted by 74% adjusted for inflation, or by \$30 million. Unemployment has averaged 7.7% over the past year, compared with 4.7% nationally. In one of many ominous signs, census figures show that more residents are using wood to heat their homes.

Driving through town, Denise Lawrence, the mayor of West Branch, offered a bleak assessment. "The county is the closest thing to bankrupt that you could be," she says.

Nevertheless, the inflow and outflow of people in Ogemaw County is so small that among its 21,000 residents, it loses only a net of one person a year for every 1,000 residents. Even some young people, who yearn to move to thriving nearby cities like Grand Rapids, find they can't.

Julie Madsen, the assistant manager at the St. Vincent de Paul thrift store in West Branch, says as many as 80% of queries for financial help come from people under age 35.

Economists say there are several practical reasons for the declining rural mobility—the first being the cost of housing. While small-town home prices have only modestly recovered from the housing market meltdown, years of restrictive land-use regulations have driven up prices in metropolitan areas to the point where it is difficult for all but the most highly educated professionals to move.

A lawyer who leaves Alabama, Mississippi or South Carolina for a job in New York, New Jersey or Connecticut would spend just 21% of his income on housing after moving, Prof. Ganong has found. But a janitor making such a move would have his higher salary gobbled up by housing costs equal to 52% of income.

Shiloh Maier, 38, is desperate to leave West Branch and move to Grand Rapids so she can be closer to her 8-year-old daughter, who lives near there with her ex-husband. The graphic designer has applied for about 70 jobs this year. She is a college grad but finds that employers are bypassing her in favor of younger graduates, which are cheap and abundant in the state's second-largest city.

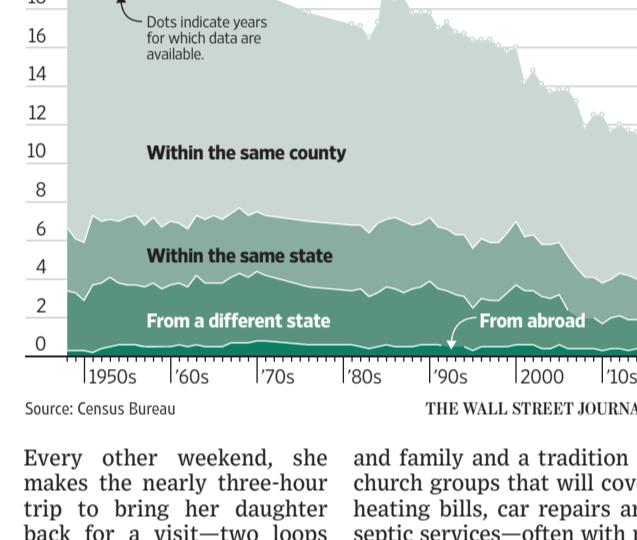
She continues to work in West Branch as a customer service manager for a manufacturer earning \$20 an hour.



Taylor Tibbetts, above, longs to live in a thriving city like Denver or Nashville but has found it hard to make a move. Below, Denise Lawrence, the mayor of West Branch, says, 'The county is the closest thing to bankrupt that you could be.'

Settling In

The share of Americans who reported moving in the past year is at its lowest level since measurement began just after World War II.



PHOTOS: MARK FELIX FOR THE WALL STREET JOURNAL

Every other weekend, she makes the nearly three-hour trip to bring her daughter back for a visit—two loops that result in 12 hours of weekend driving.

"I'm stuck," she says.

For many rural residents across the country with low incomes, government aid programs such as Medicaid, which has benefits that vary by state, can provide a disincentive to leave. One in 10 West Branch residents lives in low-income housing, which was virtually nonexistent a generation ago.

Civic leaders here say extended networks of friends

and family and a tradition of church groups that will cover heating bills, car repairs and septic services—often with no questions asked—also dissuade the jobless and underemployed from leaving.

Tom Quinn, president of the local Kirtland Community College, says the rationale boils down to: "I've got good social services. I'm stuck in one big rut. If you ask me to go to Indianapolis, I can't—even if there's a job there."

"People can't move," says Mandi Chasey, county economic development director.

Another obstacle to mobility is the growth of state-level job-licensing requirements, which now cover a range of professions from bartenders and florists to turtle farmers and scrap-metal recyclers. A 2015 White House report found that more than one-quarter of U.S. workers now require a license to do their jobs, with the share licensed at the state level rising five-fold since the 1950s.

Janna E. Johnson and Morris M. Kleiner of the University of Minnesota found in a nationwide study that barbers and cosmetologists—occupations that tend to require people to obtain new state licenses when they relocate—are 22% less likely to move between states than workers whose blue-collar occupations don't require them.

Beyond the practical difficulties, rural residents and experts say there is another impediment to mobility that is often more difficult to overcome—the growing cultural divide.

Tom W. Smith, who runs the University of Chicago's General Social Survey, says that cities' welcoming attitudes toward immigrants from abroad, same-sex marriage and secularism heighten distrust among small-town residents with different values. That widens the cultural gulf.

Economists have tried to measure whether Americans' eroding trust in one another is damping mobility—such confidence helps ease the transition to a new town—and found signs that this sliding trust may be keeping people from uprooting.

According to the GSS, the share of Americans who agree with the statement "Most people can be trusted" has fallen over the past four decades to 31% in 2016 from 46% in 1972. Raven Molloy, an economist with the Federal Reserve Board of Governors, found in

research that states with large declines in overall trust were also places where job-switching had decreased markedly.

Cody Zimmer, 29, of Ogemaw County toyed with moving to work for an uncle in New Jersey or closer to Detroit after a decadelong career in skilled manufacturing periodically left him unemployed.

But student debt and a divorce damaged his finances, and he says his best option ended up being renting his mom's house outside West Branch. "If anything happened there, I'd be right back out on my own," Mr. Zimmer says of these other places.

Bad experiences in cities also turned him off. In one job, he traveled the country cleaning Home Depot locations and recalls feeling uneasy when a black worker at a Kansas City McDonald's told him to leave because white boys didn't belong in that part of town, he

The bank foreclosed on his family's home, and for the past eight years they have lived in a low-income housing development, where black rubber tires are strewn around the sand-filled playground, and early-model Pontiac Grand Am cars fill the parking lot. About 70 applicants are on a waiting list for units there.

"I don't need a fancy car or a bigger house," Mr. Palazzolo says. "I have no interest whatsoever in dealing with the city, the congestion. I like my little corner of the world."

After leaving Converse College, Ms. Tibbetts enrolled the next year at Lincoln College in Lincoln, Ill., joined the swim team and felt more confident in the classroom. But she returned home after a semester because she clashed with her swim coach. As a conservative Christian, she also found the cultural divide on campus difficult to bridge. Students

A drop in mobility is choking off labor supply in areas where jobs are plentiful.

says. He took his children to Detroit for a motocross event at Ford Field and panhandlers hit him up for money.

"Mainstream news media—not to degrade your position—they say Detroit is getting better, but I don't trust it," Mr. Zimmer says.

Many West Branch residents say that the town's economic woes aren't enough to make them leave. They point to the safety net the community provides—a helping hand to pay bills, or the way people come together when a neighbor is diagnosed with cancer.

"One of the big cultural divides when people move from small towns to cities is this feeling that you can't be involved in your community," says David J. Peters, associate professor of sociology at Iowa State University. "You feel powerless to change large cities."

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smoked pot, engaged in casual sex and had parties at their parents' homes behind their backs. "Our world now is godless," she says. "I don't know if the places where I've been are places where I could discover God better."

Determined to try again, she started at Olivet College in south central Michigan in 2016. But she struggled to fit in there, too. She felt uncomfortable when a professor asked students to write about why Donald Trump would make a bad president. Ms. Tibbetts began racing back to work at the pizzeria on weekends to avoid roommates who threw up in the shower after excessive drinking. She eventually moved home.

On a recent evening inside the pizzeria, where Tiffany-style lamps dot the ceiling, Ms. Tibbetts said she isn't content with her decision. She looked around at the familiar faces and confessed she gets embarrassed when customers rib her about abandoning college.

After a brief stint teaching skiing in Colorado, she is still eyeing other paths out of town, such as a traveling job pitching Red Bull energy drinks at entertainment events.

"I was ready to go from the minute I graduated," she says. "It was just so hard."

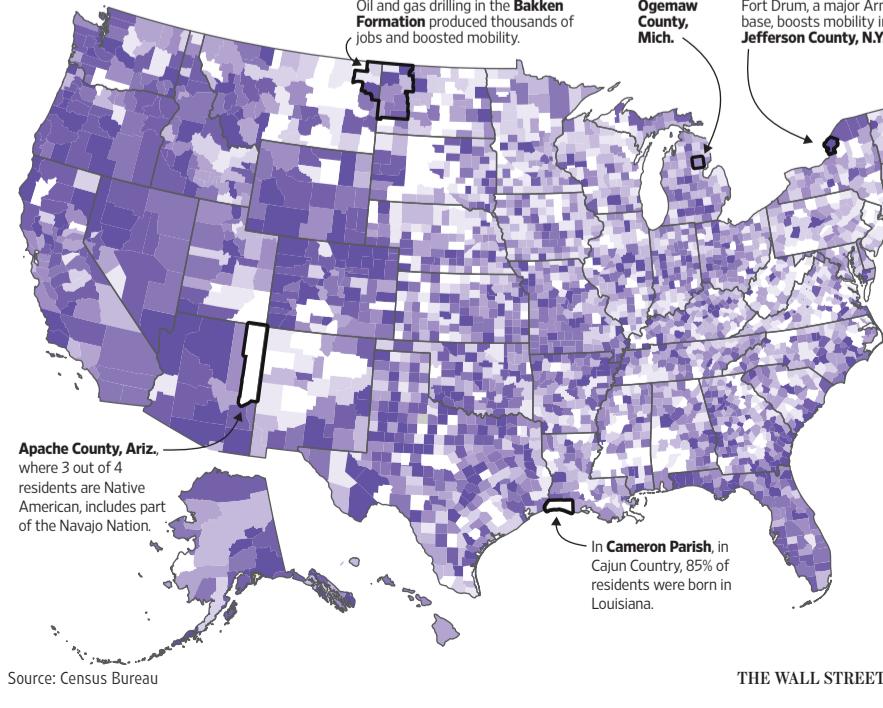


West Branch, Mich., is hurting from the decline in manufacturing and farm consolidation.

Stuck in Place

Few people are moving in many low-opportunity regions such as Appalachia, the Mississippi Delta and the rural Midwest.

Share of each county's population that reported moving in the past year, 2011–15



THE WALL STREET JOURNAL

LIFE & ARTS

BOOKS

On the Trail of Nazi-Looted Books

How hundreds of thousands of volumes stolen from Jewish families in Paris during World War II ended up in Minsk

BY LUCETTE LAGNADO

FRANÇOISE BASCH still remembers her grandfather's "massive" library at his home in the heart of Paris.

Her grandfather, Victor Basch, a French Jewish intellectual and professor, loved his books, she recalls. But during World War II, the Nazis seized the entire collection after he fled Paris.

Professor Basch and his wife were shot to death by members of the Vichy regime and the Gestapo in Lyon, where they had sought refuge. But some of his books recently surfaced in—of all places—Minsk, the capital of Belarus.

According to Holocaust experts, the Nazis stole tens of millions of books from Jews and other victims. Recently, scholars have focused on 1.2 million volumes the Nazis plundered—including 500,000 taken largely from French Jewish families and institutions. The books went from France to Germany to Silesia, where they were scooped up by the Red Army as spoils of war.

In 1945, the Soviets sent the books in 54 railcars to Minsk, where they have remained for 72 years, known to almost no one but handful of researchers and professors. The mystery of how half a million French books ended up 1,300 miles from Paris in Minsk—and what to do with them—has captivated Holocaust scholars and historians.

The Nazis also looted art, grabbing paintings by Monet, Renoir, Picasso and others. This sparked a campaign in recent years to trace the works and return them to the owners or their heirs.

Now, the curtain is being lifted on the books the Nazis stole in France. Many belonged to prominent Jews such as the Rothschilds and Professor Basch, along with other "enemies" of the Reich, including Communists and Freemasons. Experts say that most Hebrew books or volumes on Judaism went to Frankfurt. There, the Germans hoped to create a research "institute on the Jewish question." When Frankfurt came under American control after the war, there were efforts to return the books. But most owners were dead, so the U.S. turned the volumes over to a Jewish organization which distributed them to America, Israel and elsewhere; these in turn placed them in libraries and other institutions.

A large quantity of books ended up in Soviet hands. These were mostly secular works that went to Berlin, instead, and included novels by Victor Hugo, Marcel Proust, Emile Zola and Jean-Paul Sartre. There also were books on politics and philosophy, as well as volumes by Salvador Dalí and Marc Chagall. These were found after the war by the so-called Trophy Brigades of the Red Army—special divisions that picked up cultural property in occupied countries.

The French books were stored alongside hundreds of thousands of volumes the Nazis plundered from Belarus. Some experts say that—and the fact that Belarus

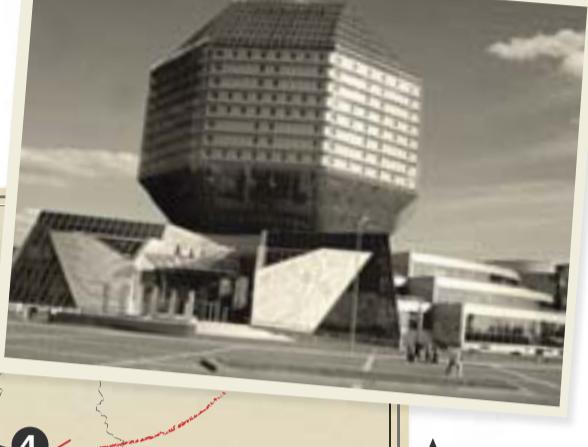
Painful Journey

A trove of some 500,000 books looted by the Nazis in Paris ended up in Minsk.



Paris

During World War II, the Nazis seized books from prominent Jewish families in the French capital.



Minsk

Many volumes ended up in the National Library of Belarus, which opened a new building, above, in 2006.

Silesia

Some of the stolen books ended up in what is now Poland, where the Red Army seized them as spoils of war.

Berlin

In Germany, the looted cultural property was inspected by its Nazi captors.

Note: Country boundaries are current

Sources: Dr. Patricia Grimsted, Harvard University's Ukrainian Research Institute, Cambridge, Mass.; Wesley Fisher, Claims Conference, New York City; photos: Yad Vashem (Paris, Berlin); Getty Images (Minsk)

THE WALL STREET JOURNAL.

longed to replenish what they had lost—is why so many of the books ended up in Minsk.

Devastated by the war, the Soviets were in no mood for restitution. While they eventually gave back some cultural treasures, including some French archives, the books remained in Minsk and were barely discussed until the 1990s, after the fall of Communism.

Only in recent years have there been serious efforts to track and document the books that ended up there. One problem that slows the quest: Books typically don't have the material value or sizzle that great paintings do.

"In many cases books are not unique," says Patricia Kennedy Grimsted, senior research associate at Harvard's Ukrainian Research Institute in Cambridge, Mass. "But," she points out, "many of these are unique."

Dr. Grimsted, who tracked the books' journey from Paris to Minsk, says "they do have financial value—but not in the millions like the art." Dr. Grimsted's research received support from the Conference on Jewish Material Claims Against Germany, a New York-based organization tasked since 1951 with compensating Holocaust survivors using German funds. The organization, also known as the Claims Conference, has sought restitution for those who lost property or art. The



Victor Basch, a French philosopher, writer and bibliophile, with his wife Hélène. Some books from the Basch library, including the author-inscribed volume on Leonardo da Vinci, above, were looted by the Nazis and ended up in Minsk.

Claims Conference is leading many of the efforts to examine the Minsk collection.

The books, taken from the private libraries of the Rothschilds and other prominent Jewish families in Paris, include first editions and volumes inscribed by French authors.

The books would also have value to victims' relatives, such as Ms. Basch, who was very attached to her grandfather, a historian who taught aesthetics at the Sorbonne. According to Nazi records, a squad descended on Professor Basch's Paris apartment in January 1941 and took 17 cases of books. The professor had already left, and ended up in Lyon, where he and his wife were executed in 1944.

Ms. Basch, who is herself a historian, says she was moved to learn about her grandfather's books. "I am terribly excited that his books are somewhere and within reach and I might someday look at them," she says. "But there isn't much time," she added, "I am 87. I mean this is such a slow process and these books are in Minsk."

"Why don't those books come back to France?" she asked.

France and Belarus have held conferences on the books, including one in Paris in March titled, "What became of the books plundered by the Nazis?" In September 2016, a group of scholars from France, Belgium and America went to the National Library of Belarus and other Minsk libraries to meet experts.

Wesley Fisher, director of research for the Claims Conference,

helped organize the Minsk gathering. He recalled having to promise to the organizers that the meeting wouldn't involve restitution, "which it did not," Dr. Fisher says. "Do we specifically think these books should be returned? The answer in a perfect world is yes but it is not a perfect world," Dr. Fisher says. The Claims Conference created a website on the looted books and the Minsk collection.

Vladimir Makarov, a scholar and retired professor in Minsk, penned an essay about the French trove and its tragic origins. "These libraries had their own holocaust," he wrote.

The French books were stored alongside volumes the Nazis plundered from Belarus.

"They suffered as suffered many thousands of people who on political, racial or other grounds were considered enemies of the Reich."

At the Paris conference in March, Anatol Stseburaka, an assistant professor at the School of Business and Management of Technology of the Belarusian State University in Minsk, said for years the books were decaying in an old church because there was no room for them in the library. After a new library building opened in 2006, the books were moved. While he thinks researchers would be welcome, he worries about talk

of restitution. "Restitution is a bit of a taboo for us," Mr. Stseburaka says, "We lost nearly all we had in the war." But he feels "optimistic" there could be joint projects with Western scholars.

Aliaksandr Susha, deputy director of the National Library of Belarus, echoed that the country's libraries lost most of their collections in World War II. He expressed a willingness for more exchanges.

"We are ready for cooperation and interaction," Dr. Susha noted, adding that his library welcomes foreign visitors and its collections are open to all. He also expressed willingness to discuss "the possibilities of the transfer and exchanges of publications," including books. He labeled the notion of restitution "a very very difficult question" and added: "we are ready for such discussions."

In France, François Croquette, roving ambassador for human rights and Holocaust issues, said he and his government were trying to "gather information about books looted by the Nazis and allow their lawful owners to get them back after such a long wait."

At the Journal's request, Mr. Stseburaka searched for books belonging to Victor Basch in Minsk. He found five works inscribed to Professor Basch, including a book about Leonardo da Vinci and one about the world economic crisis.

Those books, says his granddaughter, "belonged to a French citizen, to someone who was assassinated because he was French and a Jew. So, why aren't they restituted to France or to his family?"



Mr. Basch's granddaughter, Françoise, was moved to learn about his books.

OPINION

REVIEW & OUTLOOK

A Trump Card in Ukraine

Vladimir Putin has assumed he can seize territory without endangering his grip on power at home, and he's been right. But what if the U.S. changed that calculus by raising the cost of Moscow's aggression in Ukraine?

President Trump will soon have a chance to test that question when he receives an imminent recommendation from the State Department and Pentagon to sell Ukraine lethal, defensive weapons such as antitank Javelin missiles. These weapons would help Ukrainians defeat Russian armor and make it harder for Mr. Putin's proxy forces to advance farther into Ukraine's eastern provinces, which the Russians invaded in 2014.

Ukrainian President Petro Poroshenko has sought this kind of help for years. But Barack Obama refused on grounds that lethal aid would merely escalate the conflict; he shipped only such nonlethal aid as short-range radar and night-vision goggles. Mr. Putin escalated anyway, violating the Minsk cease-fire accords brokered by John Kerry.

The Russians have declared separatist strongholds in Donetsk and Luhansk and built up forces in the occupied areas. Kurt Volker, the U.S. Special Representative for Ukraine Negotiations, told Radio Free Europe/Radio Liberty last week that "there are more Russian tanks in there than in Western Europe combined." That's in addition to Russia's plans to deploy as many as 100,000 troops for military exercises in Belarus on NATO's front lines this summer.

As President, Mr. Trump hasn't been the patsy for Mr. Putin that his U.S. critics claim. He endorsed NATO's deployment of troops to Poland and the Baltic states. Vice President Mike Pence visited Estonia Monday and affirmed the U.S. will "always" stand with its Baltic allies, and on Tuesday he said in Tbilisi that the U.S. "strongly condemns Russia's occupation on Georgia's soil."

Mr. Trump now has a chance to show he's no Obama echo and make Mr. Putin pay attention by helping Ukraine, which has shown it is willing to fight for independence. Russia's invasion has cost 10,000 lives and displaced more than two million civilians. Mr. Poroshenko has plowed money into upgrading Ukraine's armed forces, embraced U.S. military training and quietly forged good relations with countries like Poland and Lithuania.

Opponents of lethal aid say Mr. Putin can always trump any Ukrainian effort, but then why hasn't he done so already? Russia could occupy all of Ukraine if it wanted to, at least for a time, but it fears the political and military cost. The point of lethal aid is to raise the price Mr. Putin pays for his imperialism until he withdraws or agrees to peace under the Minsk terms.

Mr. Putin launched his attack when Kiev had no soldiers protecting the eastern border, but his proxy troops were forced to slow down when the Ukrainians organized and started to inflict casualties. The Russian doesn't want dead soldiers arriving home before next year's presidential election.

Bolstering Ukraine's defenses would also send a message to Mr. Putin that Mr. Trump wants to negotiate with Russia from a position of strength. This could help the U.S. in Syria, where Mr. Trump has been too willing to accept Russian and Iranian dominance after the fall of Islamic State. Mr. Putin took advantage of Mr. Obama after concluding the American was weak and would never push back. Selling lethal weapons to Ukraine would show the Kremlin those days are over.



Vladimir Putin

America's Beef Backfire

American cattlemen have been gored again by the Trump Administration's withdrawal from the Trans-Pacific Partnership trade pact. Japan last week raised the tariff on frozen U.S. beef to 50% from 38.5% for the next eight months, while Australian ranchers enjoy a 27.5% rate and can expect that to fall to 9% over the next 16 years if TPP goes ahead.

Japan is the leading market for American beef, consuming \$1.5 billion worth last year. But Australia is a fierce competitor and already enjoys more than half the market for frozen beef. The Aussies locked in Japan's TPP market-opening with a bilateral trade agreement.

That's how they dodged last week's "safeguard" tariffs. Under World Trade Organization rules, Japan set up a mechanism to increase tariffs if imports surge by a set amount, in this case 17%. But Tokyo exempts countries with which it has trade deals. Since the U.S. left the TPP, it doesn't qualify for the exemption. So U.S. producers are likely to lose market share.

To add political insult to injury, eight of America's top 10 beef-producing states voted for Donald Trump. The eight are: Iowa, Kansas, Missouri, Nebraska, Oklahoma, South Dakota, Texas and Wisconsin. Culturally they belong to his political base, but his trade policy is hurting their interests. (The other two states are California and Colorado.)

Trump's withdrawal from the Pacific trade pact gores U.S. cattlemen.

The Administration has said it wants a bilateral trade deal with Japan like Australia's. But times have changed. Tokyo signed the Australian deal as part of the horse-trading for TPP in return for which it stood to gain access to 11 other nations' markets. Politically it now has no incentive to equal or improve those terms for the U.S.

Mr. Trump seems to be cooling on the idea of a bilateral trade deal with Japan and is hinting the U.S. may respond with tariffs if Japan doesn't lower the bilateral trade deficit. Last month he pressed Prime Minister Shinzo Abe to remove nontariff barriers to American car imports and stop the Bank of Japan from pushing down the value of the yen.

There's little evidence that either move would have a significant effect on bilateral trade flows. Mr. Trump's best bet to quickly expand U.S. exports to Japan would be a return to the TPP, with its lower Japanese tariffs on food products.

The trade deal would also help Mr. Abe lift Japan's economy, which would then consume more imports.

Instead, rising trade tensions between Japan and the U.S. risk a downward spiral of protectionism. Last week's safeguard tariffs will hurt Japanese consumers and American farmers. There are more losses to come if the U.S. stays out of the TPP.

cero program allowed workers to enter legally from Mexico, and illegal immigration apprehensions dropped 95% between 1953 and 1959.

Some who make it across the border stay in the U.S. illegally because they can't risk multiple crossings. A visa holder who could travel home freely might be less likely to venture a dangerous crossing with his entire family. More work visas would also be a fillip for the U.S. economy; agriculture, construction and many other industries report labor shortages despite rising wages.

Former Homeland Security Secretary John Kelly, who has since decamped for the White House, put out a statement that the Texas smugglers "have no regard for human life and seek only profits." But smugglers make money when politicians slap on new restrictions on immigration, and the way to bankrupt them is a system that allows safe, legal entry and exit. Ron Johnson (R., Wis.) has a bill in the Senate to let states experiment with guest-worker programs, which would be a place to start.

The recent deaths are gruesome but hardly unprecedented: The policy brief recalls how a dozen men died in the Arizona desert in the 2000s, one of whom was Lorenzo Ortiz Hernandez, a father of five who took out a loan at 15% interest to underwrite an illegal crossing. He was looking to support his family. Such casualties will continue until Congress finds the political will to reform the broken U.S. immigration system.

Deaths are rising even as apprehensions are going down.

Every so often comes a dark reminder of the human costs of immigration dysfunction, and last month 10 people suffocated in an 18-wheeler in Texas while trying to move to the U.S. from Mexico and Central America. Congress could prevent similar tragedies with more legal visas for guest workers, as a new report details.

The National Foundation for American Policy in a report out this week notes that "more than 7,000 men, women and children have died along the Southwest border" over the past two decades. More than 200 people have died so far this year, and last year the count topped 300. This year there have been 7.8 deaths for every 10,000 apprehensions of illegal border crossers.

The number of deaths increased by about 80% between 1999 and 2012, even as apprehensions—a reliable proxy for illegal immigration—plummeted by more than 75%. As a result, a person picking their way across the border is now "5 times more likely to die in the attempt than 18 years ago," the report notes. One reason is that an enforcement crackdown has encouraged people to slip across more treacherous or remote areas of the southwest.

Most immigrants come to the U.S. for work and opportunity, so the solution is to allow them to find jobs legally. The paper notes that the U.S. doesn't have a visa program that permits immigrants to work legally in "year-round industries like construction, hotels and restaurants." In the 1940s and '50s the Bra-

ist why she had been allowed out of the house. "They want to break one leg, then the other. I tell myself to stand straight, don't be afraid," she said.

"Is it a crime to be Liu Xiaobo's wife?" Ms. Liu asked. The Chinese government's behavior shows that the answer is yes.

Both of Ms. Liu's parents, who were allowed to visit her every month during her earlier years in detention, died while she was under house arrest. It's no wonder she suffered severe depression, had a heart attack and otherwise saw her own health deteriorate dramatically.

Throughout this time, the Chinese government claimed to the U.N. that Ms. Liu was "under no legal restriction." That was in one cynical respect true; there is no legal house arrest in China, meaning she has been held illegally.

The U.N. subsequently found both Lius were being detained in violation of international law and demanded their immediate release.

Ms. Liu's grief now is undoubtedly profound. She and her husband were famously in love and deeply bonded. Liu Xiaobo once wrote to Ms. Liu, "Even if I were crushed into powder, I would still use my ashes to embrace you."

Despite the death of her husband, the security cordon hasn't lifted. Ms. Liu has now been disappeared, with no end to her detention in sight.

At the U.S. Congress, legislation introduced by Sen. Ted Cruz proposes to rename the street in front of the Chinese Embassy "Liu Xiaobo Plaza." This has top Chinese officials upset. Apparently it frustrates their efforts to erase Liu Xiaobo from the world's collective memory.

Unless Ms. Liu and her brother are allowed to travel abroad, Congress should pass the bill quickly and send it to President Trump to sign into law. All democracies that claim to care about human rights should follow this example.

Ms. Liu has suffered for marrying an extraordinary man. She deserves freedom from fear and to have peace and tranquility for the rest of her life.

Nukes Won't Save North Korea



In 2012, the commander of U.S. allied forces in South Korea explained the nature of the thousands of North Korean artillery and conventional rocket systems aimed at Seoul, a city of 24 million.

"These systems are capable of ranging Seoul without moving, and can deliver both high-explosive and chemical munitions with little or no warning."

This would seem a pretty good deterrent given the improbable scenario, as North Korea surely understands, of a U.S. and South Korean attack on the North. Then why nukes?

Penetrating North Korean rationalizations is never a sure thing, but a likely answer is to be found in the recent joint Chinese-Russian proposal of a freeze in North Korea's missile and bomb testing in exchange for an end to U.S.-South Korean annual military exercises.

When North Korea is already spending 22% of gross domestic product to maintain its military, the cost of mobilizing in response to near-constant U.S. and South Korean maneuvers is a killing burden. Washington's and Seoul's war games are their most effective sanction and always have been.

North Korea upped the tempo of its training flights sixfold, to 700 a day, on the first day of the 2013 U.S. and South Korean "Key Resolve" annual maneuvers. That naturally sent Seoul's analysts to their calculators, concluding triumphantly that the North was either draining its war reserve or starving its civilian economy of fuel.

The North especially goes ape over carrier deployments. When President Obama dispatched the USS George Washington, the North denounced "imperialist aggression" and promised "unpredictable disasters." When President Trump sent the USS Carl Vinson, the North raged about "maniacal military provocations."

When the U.S. and Japanese navies are operating in nearby waters, the North must keep its jets in the air and defenses mobilized. When U.S. and South Korean and (recently) Chinese troops are on the move near its border, it must activate troops in response.

Blood-curdling threats are the norm, possibly because they are cheaper than jet fuel. The North's deputy United Nations ambassador warned earlier this year amid various Trump deployments that "thermonuclear war may break out at any moment."

Or not. Both sides have been playing this game for a long time. Miscalculation is always possible, but much less so than in 1950.

Adm. Harry Harris, chief of the U.S. Pacific Command, said before Congress in April that the goal is to "bring Kim Jong

Un to his senses, not his knees." Tellingly, the admiral noted North Korean "shortfalls in training and equipment."

In 2013, when Gen. Mike Flynn headed the Defense Intelligence Agency, he testified that "the North's military suffers from logistics shortages, largely outdated equipment, and inadequate training."

The U.S. and its allies can maintain their mobilization virtually indefinitely. North Korea can't. Motor fuel is a sore point, but so are food, equipment, sanitation and health care for troops in the field.

Ultimately, the Kim family regime remains in power by distributing resources to its loyalists, which actually shows every sign of being the growing priority today.

In April, foreign reporters were invited to witness a ribbon cutting on a sumptuous new apartment block in Pyongyang for Kim favorites. The Chosun Ilbo, a South Korean paper, recounted the scene:

The U.S. and South Korea's constant war games are their best sanction.

"Premier Pak Pong-ju then delivered a speech in which he claimed the opening of the street is more powerful than 'hundreds of nuclear bombs.' A Los Angeles Times correspondent tweeted that the street is 'impressive' and the skyscrapers lining it as 'very modern' but pointed out that the thousands of soldiers massing in the capital 'looked severely stunted. A reminder of widespread malnutrition outside of Pyongyang.'

In theory, what North Korea wants is a peace treaty ending the Korean War of 1950-53 and removal of U.S. forces from the region. Unfortunately, the North can't afford the treaty it claims to want, because it can't do without a U.S. threat to justify its sociopathic dictatorship.

In the end, the irresolvable dilemma is North Korea's, not the West's. The Kim regime doesn't have a realistic solution for itself except to make sure the stand-off goes on forever. The answer to North Korea's nukes is a deep breath and to invest in missile defense, which the world needs anyway. The upside is likely to be a marked deterioration in its conventional forces.

In the meantime, the U.S. and South Korea maintain their long-term watching brief on the northern regime's effort to hold itself together. Keep up the pressure through the annual war games variously known over the years as "Team Spirit," "Key Resolve," "Foal Eagle" and "Ulchi Freedom Guardian."

No regime is forever. And North Korea's more mercenary than most—suggesting an endgame in which the Kim family essentially sells out one day.

The Disappearance Of Liu Xiaobo's Wife

By Jared Genser

After the July 13 death of Nobel Peace Prize laureate Liu Xiaobo, his wife Liu Xia disappeared. The Chinese government claims she is "free," but even her closest friends are unable to reach her. It's clear that the authorities have detained her illegally.

As Ms. Liu's counsel, I filed a formal complaint to the United Nations Working Group on Enforced or Involuntary Disappearances, asking for urgent intervention. The world must act quickly to secure her release.

At the time of his death, Liu Xiaobo was serving an 11-year sentence for "inciting subversion to state power," imposed in December 2009, primarily for his role as the co-author and first signatory onto Charter 08, a pro-democracy manifesto that advocated multipartite democracy. He was awarded the 2010 Nobel Peace Prize in absentia.

I was hired by Ms. Liu to help her family in mid-2010, a few months before the announcement of the Nobel Prize. As that date approached, we discussed if it made more sense for her to stay in China or fight for his freedom from abroad if he were to win the prize. Despite my concerns about restrictions to her liberty if he won, she told me unequivocally, "My place is in China with my husband."

Within a week of the prize announcement, the authorities created a permanent security cordon around Ms. Liu. She was forced to live under strict house arrest in her one-bedroom apartment in Beijing. She was allowed to visit her husband once a month, but had no access to the internet, couldn't send or receive mail and couldn't freely use a telephone. A few times journalists broke through security and short videos showed her in severe distress.

To keep Ms. Liu quiet, the Chinese authorities made up charges against her brother Liu Hui. He was sentenced to 11 years in prison for alleged economic crimes and served two years of his sentence.

Viewed briefly being taken by security officials to observe the trial of her brother, Ms. Liu was asked by a journal-

ist why she had been allowed out of the house. "They want to break one leg, then the other. I tell myself to stand straight, don't be afraid," she said.

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Mr. Genser is founder of Freedom Now and pro bono counsel to Liu Xia.

OPINION

Britain's Problem Is Bigger Than Theresa May

By Andrew Hammond

Theresa May faces a major headache when she returns from vacation to Westminster later this month. Her absence has given rise to a remarkable public row within her cabinet over Brexit. This infighting, which the prime minister seems powerless to stop, is more than the result of weak leadership or outsize political egos. It's the enduring consequence of last year's divisive Brexit referendum.

Her government—and Labour—are in disarray because the country remains deeply divided over what Brexit means.

As June's general election revealed when voters rejected Mrs. May's hard-Brexit vision, there's no consensus in Britain for any specific version of European Union exit, even among the 52% of the population who voted Leave last year.

The latest battle is over the terms of any transitional period after March 2019, when the two-year Article 50 negotiations with Brussels must come to an end. On one axis is Chancellor Philip Hammond. Given the tight time frame, he supports a so-called off-the-shelf transition akin to the arrangements that Norway (with its membership of the European Economic Area) or Switzerland

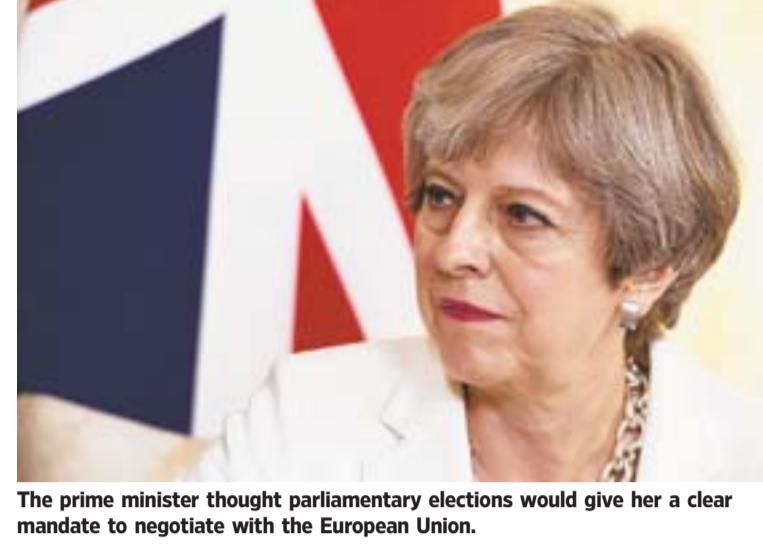
(with its alternative European Free Trade Association) enjoy now.

This is anathema to many hard Brexiteers, who argue that such a transition of potentially two to three years will be too similar to the conditions of current EU membership, especially given the significant freedom of movement this approach would entail. Secretary of State for International Trade Liam Fox has warned that freedom of movement must end in 2019, and Brexit minister Steve Baker claims there would be "blood in the water to even talk about [transition options like] the European Economic Area."

This reflects broader divisions within the nation at large. A ComRes poll released Wednesday found that 66% of the population believes that maintaining access to the European Single Market should be the priority in Brexit negotiations, while 31% want curtailing immigration to be uppermost in the minds of the government. Overall, some 52% want the nation to stay in a reformed single market with enhanced limits on immigration.

The opposition Labour party also remains divided on how to approach Brexit. Shadow Brexit Secretary Keir Starmer and Shadow Chancellor John McDonnell have indicated that the options of remaining in the single market and customs union should remain on the table, contradicting previous remarks by Shadow Trade Secretary Barry Gardiner.

London's mayor, Sadiq Khan, has even suggested that the U.K. could retain its full EU membership if Labour included such a pledge in its



EUROPEAN PRESSPHOTO AGENCY

The prime minister thought parliamentary elections would give her a clear mandate to negotiate with the European Union.

next election manifesto or committed to a second referendum once the outcome of the Brexit negotiations is known.

Within the Conservative party, Mrs. May and the hard Brexiteers around her had hoped for a substantial parliamentary majority from June's election that would have given weight to her vision of leaving the EU. The prime minister, a reluctant Remainer as recently as last year, made clear her strong view that immigration and sovereignty were the primary drivers behind the Leave campaign's victory and should become the main U.K. objectives in negotiations.

This pushed Mrs. May toward her hard-Brexit negotiating stance. Since the EU is widely presumed to be unlikely to separate freedom of movement from access to the single market and allow the latter without the former, the prime minister asserts that the only alternative for Britain would be to discard all the "bits of the EU." This includes not only membership in the 500-million-consumer European Single Market, but also full membership in the EU Customs Union, the Common Commercial Policy and the Common Commercial Tariff.

But Mrs. May's narrative is far from the whole picture. Those voting for Brexit in last year's referendum had diverse and even divergent views for why they wanted to leave the EU. Some, including isolationists, focused on the perceived costs and constraints of EU membership,

including U.K. financial contributions to the Brussels budget.

Many voters in this camp, for instance, were encouraged by the misleading claim that leaving the EU would free up a mammoth £350 million (\$462.5 million) a week that could be ploughed back into the National Health Service. This bogus pledge has since been dropped by Brexiteers.

Others voted Leave for visions of a global Britain that would, post-Brexit, secure new trading ties with non-EU countries in the Asia-Pacific, the Middle East and the Americas. Meanwhile, a significant number voted Leave as a protest against non-EU issues such as the domestic austerity measures implemented since the 2008-09 financial crisis.

Contrary to what many hard Brexiteers now insist, there was and remains a lack of consensus behind any specific version of Brexit. The consequences of this divide are most visible for Conservatives, since they are the ones who must govern. But Labour is also having its own significant debates about Brexit policy, which reflects the different views in that party too.

These divisions in Westminster will probably continue unless voters show much greater consensus over the country's future. Until then, and at a time of growing national urgency with the Brexit negotiations clock ticking, deep public division and confusion on Brexit will remain.

Mr. Hammond is an associate at LSE IDEAS at the London School of Economics.

Tillerson Can End the Qatar Standoff

By Dennis Ross

Deceiving Islamic State is the Trump administration's most important national-security priority. But removing it from Mosul and Raqqa may end up meaning little without the ability to secure, reconstruct and govern these and other cities. Preventing a dangerous power vacuum from forming in areas liberated from Islamic State control requires the urgent involvement of unified Sunni Arab states.

Unfortunately, the Bahrainis, Emiratis, Egyptians and Saudis are currently distracted by a diplomatic imbroglio with Qatar over its support for Hamas and the Muslim Brotherhood. U.S. Secretary of State Rex Tillerson has tried to mediate, but he erred by traveling to the region before negotiating a plan for ending the conflict. Good statecraft requires making it unacceptable to say "no" to the U.S.

Already there are signs that both sides may be more amenable to a face-saving settlement. The Saudi-

led coalition has softened its original 13 demands, which included shutting down Al Jazeera and closing a Turkish military base.

Instead they are asking for Qatar to act on a set of principles, including combating terrorism and extremism, denying financing and safe haven to terrorist groups, ending incitement of hatred, and refraining from interfering in the internal affairs of other countries.

These principles are broad enough to create space for both sides to reach understandings, and Qatar's emir, Tamim bin Hamad Al-Thani, has said he is open to dialogue.

The Al-Thani regime allows the U.S. to use Al Udeid Air Base and has invited American universities to open campuses in Qatar. Yet the tiny oil-rich emirate also hosts senior Taliban leaders, supports radical Islamists in Libya and Syria, and finances media platforms for the Muslim Brotherhood to broadcast its message.

Any resolution to the conflict must ensure that Qatar gives up this double game.

Assuming that Mr. Tillerson has the support of President Trump, the former Exxon CEO should quietly but bluntly inform all sides how the standoff will end—with Qatar imple-

The secretary of state needs to put a win on the board to preserve his credibility as a diplomat.

menting its recently signed memorandum of understanding with the U.S. on terror financing, committing to arresting or expelling all those that the U.S. has designated as supporters or facilitators of terror, and ceasing to provide material support to any group that the U.S. deems a threat to regional stability.

Mr. Tillerson must make clear that if the Qataris balk, the U.S. will withdraw its forces from Al Udeid. This is the type of threat that should concentrate Mr. Al-Thani's thinking.

The Qataris view the American military presence as a security guarantee. Preventing a U.S. withdrawal gives them the political cover they need to end the current standoff. The last thing the Qataris want is to be seen giving in to the Saudis.

Effective American intervention now is necessary for several reasons. A wounded Islamic State could exploit the current confusion to regain its strength. Iran and its Shiite militias are already positioning themselves to fill any power vacuum in both Iraq and Syria, further destabilizing the region. And, for Mr. Tillerson, his future effectiveness as secretary of state could depend on it.

Mr. Tillerson's reluctance or inability to fill out senior State Department positions and the Trump administration's often contradictory messaging have cast doubt on his ability to speak for the president.

This is an untenable position for a secretary of state. Mr. Tillerson needs to demonstrate that he can solve diplomatic problems by exer-

cising leverage and producing results, lest America's partners and adversaries begin to question whether it makes sense to work with him.

The most effective secretaries of state were characterized not by their strategic brilliance but their unmistakable authority. No one questioned whether Henry Kissinger or James Baker spoke for the president. The power and authority they exuded made their threats and inducements believable. Without leverage, diplomacy rarely works.

Unlike Messrs. Kissinger and Baker, Mr. Tillerson can't count on the White House's messaging to reinforce his diplomacy. Unless he wants to see his authority slowly erode, Mr. Tillerson needs a high-profile diplomatic success—and soon. The standoff with Qatar provides a perfect opportunity.

Mr. Ross has held senior national security positions in several presidential administrations and is counselor at the Washington Institute.

Can the 'Problem Solvers' Fix ObamaCare?

Last week, a gravely ill senator flew across the country to give the speech of his life. John McCain invoked the spirit of the Senate in better times to highlight our current ills.

"Our deliberations today," he said, are "more partisan, more tribal more of the time than at any other time I remember." The polarization of political discourse has practical—negative—consequences, he added: It isn't producing much for the American people.

Mr. McCain pleaded for a return to "the old way of legislating the Senate, the way our rules and customs encourage us to act"—a return to the process of carefully crafting policy in committees before bringing bills to the floor for open debate. And he called for a return to an older spirit of legislating as well.

"Merely preventing your political opponents from doing what they want isn't the most inspiring work," he

said. "There's a greater satisfaction in respecting our differences, but not letting them prevent agreements that don't require abandonment of core principles, agreements made in good faith that help improve lives and protect the American people."

As Mr. McCain spoke, the "Problem Solvers"—a 43-member House caucus split almost evenly between Democrats and Republicans, and originally launched by No Labels, of which I am a co-founder—were working to meet his challenge. The group's leaders, Reps. Tom Reed (R., N.Y.) and Josh Gottheimer (D., N.J.), announced their results earlier this week. The proposal is aimed at stabilizing the deteriorating individual health-insurance market and creating clarity for consumers as quickly as possible. The deadline for submitting coverage plans and premiums for 2018 comes in two weeks.

To help shore up the individual market, the Problem Solvers recommend resolving the current ambiguity in ObamaCare about the status of payments made to insurance companies to reduce the burden of copayments

and deductibles on lower-income beneficiaries. Under the Problem Solvers' plan, these payments would be covered by a guaranteed source of federal funds overseen by the congressional oversight and appropriations process. The plan also calls for a "stability fund" that states could use to reduce individual premiums while limiting insurers' losses for providing coverage, especially for individuals with pre-existing conditions.

The Problem Solvers also put forth ideas for tweaking the requirements ObamaCare established for the individual market. They suggest raising the threshold on the number of employees, to 500 from 50, at which an employer is required to provide coverage.

To address fears that ObamaCare's definition of full-time employment as 30 hours a week would give employers an incentive to slash hours, they recommend raising the threshold to 40 hours. And their plan would also require the Department of Health and Human Services to issue the regulations—already legal under ObamaCare—to allow states to enter into compacts in which insurers would be enabled to sell policies across state lines.

Although they left most of the ObamaCare taxes in place, the Problem Solvers advocated repealing the 2.3% medical-device tax, the costs of which, they said, are passed on to consumers. At the same time, they insisted that their package not add to

The GOP having failed, a bipartisan caucus offers a promising approach.

the budget deficit. To meet this test, they proposed lowering the costs of drugs (hence of federal subsidies) under Medicare Part D, remedying deficiencies in Medicare and ObamaCare reimbursement protocols, and expanding competitive bidding for Medicare Advantage programs.

The Problem Solvers didn't try to cure all the ills of the U.S. health-care system, or even to tackle ObamaCare's Medicaid expansion. They carved out one major issue, the instability of the insurance market, and agreed on as much as they could within that frame.

This style of addressing individual problems with short, simple leg-

islation won't turn the world upside down. But it can change the world for the better in small yet meaningful ways.

Sen. McCain vouched for this approach when he made his case for bipartisanship. "Incremental progress, compromises that each side criticizes but also accepts, just plain muddling through to chip away at problems and keep our enemies from doing their worst, isn't glamorous or exciting. It doesn't feel like a political triumph. But it's usually the most we can expect from our system of government, operating in a country as diverse and quarrelsome and free as ours."

James Madison would have saluted these words. They represent the essence of an honorable, progressive conservatism operating in the context of the pluralism that Madison knew would be the fruit of liberty.

"What do we have to lose by trying to work together?" Mr. McCain asked. "We're not getting much done apart." This is the spirit that animates the Problem Solvers. And it is the reason that their bipartisan agreement, modest as it is, may turn out to be an important step on the long journey to renew America's politics.

Notable & Quotable: Left-Wing Rhetoric

From "Assassination Fantasies" by Seth Barron, City-Journal.org, July 28:

Following President Trump's declaration on Twitter Wednesday that transgender people would not be permitted to serve in the armed forces, protesters converged on Times Square. . . . A few handmade signs stood out in the relatively compact crowd, in particular one that read, in black against a red background,

Lincoln

Garfield

McKinley

Kennedy

Trump

The first four names on this list, of course, are the presidents murdered in office, in chronological order; the last embodies the seeming wish of many on the American Left that someone put him on it for real. . . . The sign was held aloft for the duration of the event, in full view of the crowd, the media, the NYPD, and at least a dozen elected officials, but garnered no comment or acknowledgement. . . .

Public advocate Tish James spoke at the rally, and, in view of the sign calling for his death, led chants in favor of resistance to Trump. James first ascended to office in 2003, after her predecessor, Council Member James E. Davis, was shot to

death by a rival at City Hall. . . .

Council Member Corey Johnson, speaking at Wednesday's protest, said that Trump's announcement "is not just an attack on trans service members; this is an attack on the entire United States military by this president." Another city legislator, Jumaane Williams, tweeted a picture of the rally, including the sign calling for Trump's assassination, with the inscrutable comment, "At 42nd street rally against @realDonaldTrump #transmilitaryban. You cannot hate nearly. #istandforhuman dignity"—presumably meaning that there is no limit to the amount of hate that one should feel toward the president.

POLITICS & IDEAS

By William A. Galston
Executive Chairman, News Corp

George W. Bush's "Problem Solvers" were a group of conservative Republicans who sought to find common ground with moderate Republicans and Democrats. They were successful in some areas, notably in the area of energy policy, but they failed to achieve their goal of making the Bush administration more popular.

Now, a group of conservative Republicans, the "Problem Solvers," are seeking to find common ground with moderate Republicans and Democrats. They are successful in some areas, notably in the area of energy policy, but they fail to achieve their goal of making the Trump administration more popular.

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The "Problem Solvers" are a group of conservative Republicans who seek to find common ground with moderate Republicans

LIFE & ARTS

MUSIC REVIEW | By Jim Fusilli

Folk Full of Comedy and Sorrow

The album, with a sound at home on a mountainside, reflects the artist's slow-developing but increasing comfort in the limelight

WITH ITS SWAY and moments of breezy virtuosity, David Rawlings's "Poor David's Almanack" (*Acony*), out next Friday, has the feel of music made on a mountainside back porch for no other reason than the joy of doing so. Recorded on tape during freewheeling sessions at Woodland Sound Studios in east Nashville, many of its 10 songs are reminiscent of old-time folk tunes passed down across generations. But they were written by Mr. Rawlings, alone or with his longtime partner, Gillian Welch.

with a sympathetic ear and a bell-like tone, Mr. Rawlings has released five albums with Ms. Welch, with whom he's been playing since they met at the Berklee College of Music in Boston in the early 1990s. He's issued two albums as the Dave Rawlings Machine that featured, in addition to Ms. Welch, Willie Watson, Brittany Haas, Old Crow Medicine Show's Ketch Secor and the Punch Brothers' Paul柯沃特—all of whom appear on "Poor David's Almanack." They're joined here by Dawes' Griffin and Taylor Goldsmith on a collection that doesn't veer very far from the band's mostly folk songs of wry comedy and heartfelt sorrow. Dropping "Machine" from the group's name reflects Mr. Rawlings's slow-developing but increasing comfort in the limelight.

Center for the Performing Arts, where he and Ms. Welch would perform that evening, the agreeable Mr. Rawlings relaxed outside the venue, laughed easily and talked of his influences: the guitarists Norman Blake and Johnny Marr; jazz trumpeter and singer Chet Baker; and mandolinist Bill Monroe, whose cowboy hat Mr. Rawlings wore as protection against a bright mid-Atlantic sun. (He bought it years ago on eBay.) An incongruous foursome but a reflection of Mr. Rawlings's sound and intent—the purity of traditional acoustic music as conveyed

A black and white portrait of David Rawlings. He is seated, wearing a white cowboy hat and a dark, patterned jacket. To his left is a framed image of the album cover for 'Poor David's Almanack' by David Rawlings.

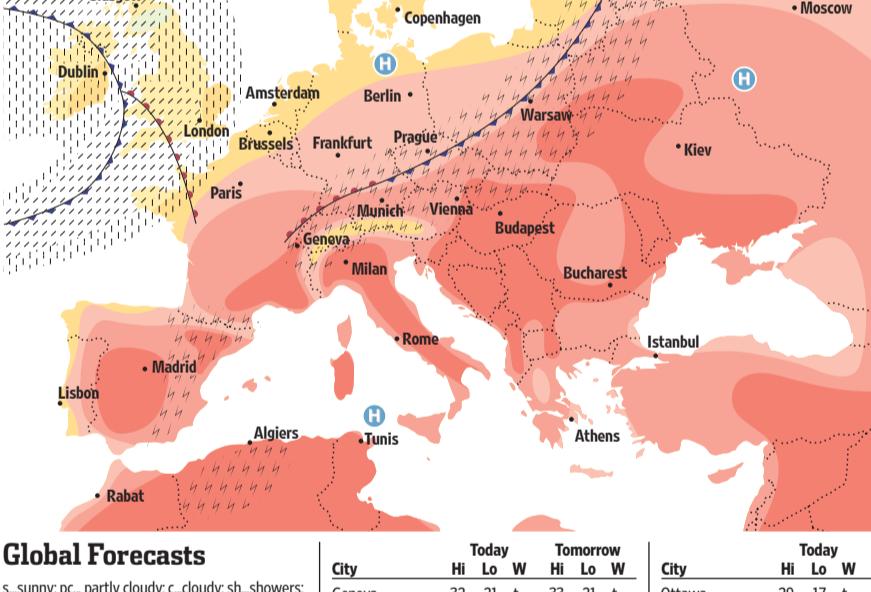
lo by Mr. Rawlings
he headed down a

In all points the group's ballad "Airplane" features characteristic ringing solos even as a string section soars. A droll twist on a country ballad about the devil, "Yup" finds Mr. Rawlings playing twisty filigrees between verses as Mr. Kowert pumps the upright bass and Ms. Haas's fiddle drifts sweetly along. Featuring the full band and Ms. Welch on vocals, "Cumberland Gap" mines Neil Young's folk-rock terrain and Mr. Rawlings plays a delicious solo. (Mr. Young's "Heart of Gold" was the first song Mr. Rawlings learned on guitar.) With Griffin Goldsmith on drums, "Guitar Man" is a rare number featuring Mr. Rawlings on electric guitar; here, his technique doesn't fully translate, but the track works as a change-up, even if the song fades out just as Mr. Rawlings gets going.

nyl release of their 2011 album, "The Harrow & The Harvest," and they played that Grammy-nominated disc from top to bottom. With his conversational solos in "Tennessee" and "Down Along the Dixie Line" he extended the somber lyrical narrative. In "Dark Turn of Mind," a fragile ballad that draws from the blues, he issued an mournful solo that slid perfectly under Ms. Welch's voice as she resumed the tale. After intermission, the duo explored the Welch catalog, and in "Revelator" Mr. Rawlings played with a ferocious attack throughout an extended solo to the song's end. "David Rawlings!" Ms. Welch exclaimed as the audience gave him a standing ovation. Soon, though, Mr. Rawlings returned to his customary cunning approach on a down-tempo reading of the standard "Make a Pallet on the Floor." As they have for so many years, his spry, delicate notes landed right where they needed to be.

Steve Shenk

6



t...t'storms; r...rain; sf...snow flurries

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W

Amsterdam	22	17	pc	22	16	pc	Houston	30	24	t	32	25	t
Anchorage	16	13	r	17	13	c	Istanbul	31	24	s	31	24	pc
Athens	32	25	s	34	25	s	Jakarta	33	24	s	32	24	pc
Atlanta	31	22	pc	28	21	t	Johannesburg	19	7	c	21	8	s
Baghdad	50	31	s	49	32	s	Kansas City	30	20	pc	26	13	t
Baltimore	32	20	s	31	20	pc	Las Vegas	39	29	t	39	30	s
Bangkok	36	28	t	34	27	t	Lima	21	15	pc	21	15	pc
Beijing	29	24	t	34	25	t	London	19	16	r	22	15	c
Berlin	26	18	pc	28	19	t	Los Angeles	32	23	pc	33	22	pc
Bogota	20	10	r	20	10	r	Madrid	36	21	pc	38	22	s
Boise	39	19	s	38	20	s	Manila	31	26	t	31	26	t
Boston	28	20	s	28	19	pc	Melbourne	14	5	pc	11	7	r
Brussels	23	18	pc	25	16	pc	Mexico City	25	14	pc	26	13	pc
Buenos Aires	16	6	pc	17	6	pc	Miami	33	27	t	34	29	pc
Cairo	37	26	s	37	26	s	Milan	37	24	pc	37	23	pc
Calgary	21	10	pc	26	12	s	Minneapolis	29	15	pc	17	14	r
Caracas	32	26	pc	33	27	pc	Monterrey	34	23	pc	33	23	pc
Charlotte	31	20	pc	32	20	pc	Montreal	30	18	pc	29	20	sh
Chicago	28	19	t	28	15	t	Moscow	26	20	s	23	15	pc
Dallas	31	23	pc	34	24	pc	Mumbai	31	26	sh	31	26	pc
Denver	31	13	t	22	12	t	Nashville	31	21	t	32	21	pc
Detroit	30	20	t	30	18	t	New Delhi	32	26	t	33	27	pc
Dubai	45	36	s	46	35	s	New Orleans	30	23	t	29	24	t
Dublin	21	13	r	20	11	sh	New York City	31	22	t	29	22	pc
Edinburgh	18	12	r	18	11	sh	Omaha	31	19	pc	24	13	pc
Frankfurt	28	19	pc	29	19	t	Orlando	31	23	t	33	24	t

Port-au-Prince	37	24	pc	35	24	pc
Portland, Ore.	42	21	s	41	21	s
Rio de Janeiro	29	20	s	30	20	s
Riyadh	45	29	s	44	30	s
Rome	34	22	pc	35	24	s
Salt Lake City	37	22	s	37	22	s
San Diego	27	23	pc	28	23	pc
San Francisco	26	16	pc	25	16	pc
San Juan	31	27	sh	31	27	sh
Santiago	19	2	s	22	3	s
Santo Domingo	34	24	pc	32	24	t
Sao Paulo	26	16	pc	21	13	pc
Seattle	35	19	s	37	19	s
Seoul	33	26	pc	34	25	s
Shanghai	37	29	t	37	30	s
Singapore	30	27	c	31	27	t
Stockholm	21	13	t	23	13	pc
Sydney	17	11	pc	19	11	r
Taipei	35	27	t	35	26	t
Teheran	35	25	s	35	25	s
Tel Aviv	32	26	s	32	25	s
Tokyo	27	22	pc	28	23	pc
Toronto	30	19	sh	28	21	t
Vancouver	29	17	s	29	18	s
Washington, D.C.	33	23	s	33	24	c
Zurich	30	19	t	30	19	t

THE DAILY SHOT

Micro Trends, Macro Context. In Minutes.

Get a complete look at the trends moving global markets with The Daily Shot. WSJ's latest member-exclusive newsletter delivers a sophisticated, impartial view in 30-plus



13			14				15	
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1 "Thy hour and thy harpoon are drawn a large congregation? 47 Western bands

at hand!"	28	Agenda entry	bands
speaker	29	Country reduced in size by about 25% in 2011	48 Once in a blue moon
5 Play starters	30	Harbor workers	49 Buyer in a familiar warning
10 Throw in	34	Fathead	52 Worker offering soft wares?
13 You might see one in a vault	35	Drop temporarily	56 Niche filler
14 "Parade de Cirque" painter	36	Beat	57 Cavern cacophony
15 Regulus is in it	37	Bounty punishment	58 Kitchen extension?
16 Worker with pitches and polishes?	39	Bud protector	59 Make blue, maybe
19 Quinella's kin	41	Involved account	60 Unnerved
20 Gifts	42	Worker whose prose is out of this world?	61 Modernists, slangily
21 Wins over			
24 Many dorm rooms			

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

hrewdness	40 Forsaken
egulus, for one	48 Chips source
Something to alk About"	50 Aboard
inger	51 GPS lines
arm feline	53 Electrical unit now called a siemens
Moxie, e.g.	54 Cattle call
Medicine ontainer	55 Rodent reaction

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, August 3, 2017 | B1

Euro vs. Dollar 1.1868 ▲ 0.56%

FTSE 100 7411.43 ▼ 0.16%

Gold 1271.80 ▼ 0.06%

WTI crude 49.59 ▲ 0.87%

German Bund yield 0.487%

10-Year Treasury yield 2.264%

Mondelez Chief Executive to Exit

Rosenfeld to leave the snack company amid difficulties for packaged-food firms

By ANNIE GASPARRO

Irene Rosenfeld is stepping down after 11 years as chief executive of **Mondelez International Inc.**, as the snack giant faces pressure to improve sales and profitability amid an upheaval in the packaged-food business.

Ms. Rosenfeld struggled for years to draw more profit from Mondelez's broad portfolio of traditional snacks such as Oreos and Ritz crackers.

"In hindsight I think perhaps we could have gone after the costs a little faster," Ms.

Rosenfeld said on Wednesday. "My regret is that we haven't fully realized the potential on the top line."

Now that work will fall to an outsider, Dirk Van de Put, head of Canada's privately held **McCain Foods Ltd.**, who will take over for Ms. Rosenfeld in November.

Ms. Rosenfeld, 64 years old, will continue as chair of the Mondelez board until she retires in March.

In an interview, Ms. Rosenfeld said she told Mondelez board members of her plans to retire about two years ago.

"I didn't have a precise timeline, but I said that after about a decade is a good time to think about a transition," she said.

Mr. Van de Put, who has also worked for **Danone SA**,

Coca-Cola Co. and **Mars Inc.**, will be moving from a \$7.3 billion maker of french fries and other potato products to a \$66 billion conglomerate whose disparate brands stretch from Triscuits to Trident gum.

"There's a real value in a fresh pair of eyes," Ms. Rosenfeld said, citing his experience at food companies on three continents, in both emerging and developed markets. Mondelez board members have been searching for Ms. Rosenfeld's successor since at least the spring.

"Irene truly transformed this company in her 11 years," said Lois Juliber, an independent Mondelez director since 2007, in a text message.

Ms. Rosenfeld's retirement will shrink an already small pool of female chief executives



Irene Rosenfeld says Mondelez didn't realize its top-line potential.

of the biggest U.S. businesses. As of Wednesday, women held 27 of the CEO spots at S&P 500 companies, according to

Catalyst, a research group, 5.6% of the total. Catalyst's tally reflects companies in

Please see CEO page B2

Qatar Airways Gives Up Planned U.S. Bid

By ROBERT WALL AND SUSAN CAREY

Qatar Airways dropped plans to buy a big stake in **American Airlines Group Inc.**, ending a brash attempt by the government-owned Middle East carrier to push into the U.S. amid political upheaval at home.

"The investment no longer meets our objectives," Qatar Airways said on Wednesday, in part citing American's latest financial results. "Qatar Airways will continue to seek opportunities to invest in global aviation."

American said Friday that profit fell 16% in the second quarter on higher fuel and labor costs. It said Wednesday it respects Qatar Airways' decision not to proceed.

"This in no way changes the course for American," the company said.

Qatar Airways said in June that it would buy 4.75% of American Airlines and build a stake of as much as 10% over time.

American Airlines, the world's largest carrier by traffic and revenue, has a market value of roughly \$24 billion. The surprise approach angered American Airlines Chief Executive Doug Parker who called it "puzzling and strange."

American disclosed in late June that Qatar Airways made an unsolicited proposal for a significant investment in the U.S. carrier, and that it made a filing with U.S. regulators. American said it was notified by the Federal Trade Commission that Qatar Airways had withdrawn its previous application and refiled a new one on July 10. That suggested the start of a new 30-day clock while U.S. regulators looked at the new application.

American Airlines shares closed down 1.2% at \$50.45 on Wednesday.

Equity investments between airlines have become an increasingly common maneuver because foreign-ownership rules bar cross-border mergers in many countries.

Delta Air Lines Inc. and **China Eastern Airlines Corp.** said last week that they were each taking a 10% stake in alliance partner Air France-KLM SA. Air France said it would in turn buy 30% of **Virgin Atlantic Airways Ltd.** Qatar Airways rival **Ethihad Airways** has also invested in several European and Asian carriers to help funnel traffic through its Abu Dhabi hubs.

Qatar's bid for American Airlines was unusual because the Doha-based airline and American, based in Fort Worth, Texas, have been on opposite sides of a bitter in-

Please see STAKE page B2

HEARD ON THE STREET

By Justin Lahart

Thank the Foreigners For Dow 22000

Americans cheering the U.S. stock market's latest milestone should pause to thank the rest of the world for making it possible.

The Dow Jones Industrial Average closed above 22000 on Wednesday after rising more than 2000 points so far this year. **Boeing** counted for 582 points of that gain. About 60% of its sales come from overseas.

No. 2, contributing 298 points, is **Apple**, which gets two-thirds of its sales abroad.

No. 3 is **McDonald's**, contributing 227 points; foreign sales count for about two-thirds of its total.

Indeed, while there are notable exceptions (hello, **International Business Machines**), the greater the share of a company's sales come from overseas, the better its stock has tended to perform this year.

Data from FactSet and S&P Dow Jones Indices show that companies in the top half of the S&P 500 by overseas sales exposure have had a median return of about 16% so far in 2017.

Among those in the bottom half (which includes companies that don't break out their foreign sales—in many cases because they are negligible) the median return is 8%.

A big factor behind the outperformance of foreign-exposed companies is the improved backdrop overseas. Buoyed by strength in Europe and many emerging-market countries, global economic growth outside of the

Please see HEARD page B2

OPEC Encounters Its 'Catch 22'



The cartel must find a way to avoid disrupting the oil market when it unwinds curbs on output. Above, an oilfield in Basra, Iraq.

OPEC and other big oil producers are facing a new high-wire act: how to keep the oil market calm if they decide to lift their output curbs and ramp production back up.

"The producers have created a Catch-22 situation," said Harry Tchilinguirian, head of commodity strategy at BNP Paribas. "There has been no guidance about a formal mechanism for exiting the agreement and that's unnerving the market."

Oil prices have zigzagged since the coalition of OPEC and non-OPEC producers hammered out final details in December, with crude prices at first rallying by around 20% only to fall into a bear market earlier this year. Prices have stabilized in recent weeks, with Brent, the global benchmark, trading just below \$52 a barrel early on Wednesday.

In an interview last week, Russian Energy Minister Alexander Novak indicated his country wasn't planning to remain locked in this agreement beyond March. Russia, the world's largest crude-oil producer, isn't an OPEC member. But it has cooperated with the

cartel for the past seven months by cutting its output by 300,000 barrels a day.

The deal between OPEC and non-OPEC producers "is an instrument that can be used in the future," Mr. Novak said. "At the same time, we don't believe it should be used too often. Only in critical situations."

Any exit strategy would likely involve some transition period past March, during which some production volume would be withheld from the market. But Mr. Falih has been vague on specifics.

"What we do and how we do it," Mr. Falih said, when asked in May about an exit strategy, "will be something we decide closer to the date. We certainly don't intend to

abandon market monitoring."

Mr. Falih said the details would pivot off the oil-market outlook. The cartel's supply cuts have worked more slowly than expected. Oil in storage, a proxy for the severity of a three-year global glut, remains higher than historical averages, though it is slowly coming down.

Representatives of OPEC nations say there hasn't been any serious planning yet for what to do when the deal expires—or if the agreement suddenly falls apart.

Many OPEC members, which rely on oil for a substantial part of their budgets, are struggling to keep up with the current cuts, so it is unlikely that an agreement to extend the current deal will come easily, analysts say. So far, seven of 11 OPEC members that agreed to cut output are falling short of their targets.

"OPEC needs to come up with a plan because if we don't, we will shock the market," an OPEC delegate said, underscoring the fear that members will flood the market

Please see OPEC page B2

Please see STAKE page B2

Tesla's Loss Widens, Is Less Than Feared

By TIM HIGGINS

Tesla Inc.'s second-quarter loss was narrower than analysts' expectations, buoying the Silicon Valley auto maker as it ramps up production for its first all-electric sedan designed for a mainstream audience.

The Palo Alto, Calif., company reported a second-quarter loss of \$336 million, compared with a year-earlier loss of \$239 million. On an adjusted basis, the company's per-share loss of \$1.33 beat the \$1.82-a-share loss predicted by a consensus estimate of analysts surveyed by Thomson Reuters.

Revenue more than doubled

to \$2.79 billion, besting the analysts' average projection of \$2.51 billion.

Deliveries of the Model S sedan and Model X sport-utili-

ty vehicle rose to about

22,000 during the quarter, a

53% increase from the same

quarter in 2016 but shy of

23,655, the average estimate of

analysts surveyed by The Wall

Street Journal.

The company has said it ex-

pects second-half sales of the

Model S and Model X to ex-

ceed the 47,000 vehicles it de-

livered during the first six

months of the year.

Tesla's shares rose about

2% in after-hours trading to

\$325.89.

Revenue more than doubled

Standard Chartered Shares Fall

By MARGOT PATRICK

LONDON—**Standard Chartered PLC**, a laggard among banks restructuring since the financial crisis, said it still sees too many uncertainties to start paying dividends again.

The Asia-focused bank's shares fell 6.1% on Wednesday despite improved second-quarter profit, after executives said the bank still has a long way to go to improve returns.

The bank is in the throes of a multiyear cleanup after years of rampant growth fizzled out three years ago.

Chief Executive Bill Winters has been unloading bad assets and resetting the bank's culture since joining two years ago, but has said it would still

take years to get Standard Chartered's return on equity to acceptable levels.

Underlying return on equity in the first half was 5.2%, the bank said Wednesday.

Mr. Winters said the target continues to be to get it above 8% by 2020, lower than targets from rivals that started their post-financial crisis restructuring years earlier.

Parts of Standard Chartered were struggling financially when Mr. Winters took over from a former management team led by Peter Sands.

In November 2015, he laid out a plan to cut jobs and relationships with unprofitable clients, and reduce costs.

Standard Chartered's balance sheet had ballooned during

the 2000s as cheap credit from banks helped lift Asian economies.

Mr. Winters said Wednesday the economic health of its markets is mixed, and that there are still question marks on regulatory and accounting rules that could force banks to hold more capital. Holding off on dividends for now "is the cautious thing to do," he said, but the board will watch to see how the second half goes.

Standard Chartered's earnings largely met analyst expectations. Revenue in the second quarter was \$3.61 billion, in line with analyst expectations.

Net profit for the first half climbed to \$971 million from \$465 million a year earlier.

The bank has fallen out of

Disappointment

Standard Chartered's share price in London

860 pence



Note: One-minute intervals

Source: Thomson Reuters

THE WALL STREET JOURNAL

favor with investors, with its shares trading at lower valuations than those of its peers.

Standard Chartered started reducing, then suspended dividends in 2015.

BUSINESS NEWS

Rio Tinto Rides Industry Rebound

By ROBB M. STEWART

MELBOURNE, Australia—**Rio Tinto PLC** plans to increase its share buyback program this year and reward investors with its highest interim dividend to date after it stepped up debt reduction and its half-year profit almost doubled from a year ago.

The decision is a reflection of a rebound in the mining industry's fortunes that has gained momentum, benefiting from a recovery in prices of commodities including iron ore and coal, as well as efforts to slash costs since prices slumped in 2015.

The gain in Rio Tinto's earnings came as it said Wednesday it expects further increases in cash flows from its operations in coming years. The company said it would continue to invest in projects that underpin its growth plans. By contrast, rival **BHP Billiton Ltd.**, the world's biggest listed mining company, has recently been assailed by activist investors for not doing enough for shareholders.

"We continue to have the strongest balance sheet in the sector," said Rio Tinto Chief Executive Jean-Sébastien Jacques, who took the helm of the company about a year ago, adding that it was also one of the few in the industry committing to significant investments.

Rio Tinto said it would return a total \$3 billion in cash to shareholders, including a \$1 billion increase to a \$500 million share-buyback program initiated earlier in the year, and a raised interim dividend.

The company emerged from the downturn in the resources sector in better shape than many of its peers, thanks to a rebound in prices for many of its products and following aggressive steps to cut costs and improve efficiency in mines from the U.S. to remote patches of Australia's Outback.

The Anglo-Australian company's net profit rose to \$3.31

billion in the first half from \$1.71 billion a year earlier, while revenue rose 25% to \$19.32 billion from \$15.5 billion. As cash flows from operations increased and Rio Tinto hit a target to strip out \$2 billion in cash costs six months earlier than planned, it said it reduced net debt by \$2 billion over the first half to \$7.6 billion.

Rio Tinto said it would beef up the repurchase of its London-listed shares by the end of the year and offer a dividend of \$1.10 a share, up from 45 cents a year ago and higher than even at the peak of the commodities boom.

Anglo American PLC kicked off earnings season for the world's big mining companies last week with a jump in its half-year profit and plans to reinstate a dividend slashed two years ago as commodity prices slumped.

The Anglo-Australian mining firm plans to return \$3 billion to its shareholders.

In early 2016, Rio Tinto scrapped a longstanding pledge to maintain or increase its dividend each year and adopted a more flexible policy allowing it to adjust the payout to circumstances after swinging to a loss for 2015. A year later, the company laid out plans to buy back shares and further reduce debt with the repurchase of bonds.

BHP scrapped its own progressive dividend policy soon after Rio Tinto did, following a first-half loss thanks partly to a hefty write-down of its U.S. oil-and-gas assets.

A year later, with a swing back to a profit BHP more than doubled its interim dividend. It is scheduled to release its full-year results later this month.

Miners Rattled in Tanzania

A \$190 billion tax bill, tough rules are aimed at generating more government revenue

By NICHOLAS BARIYO
AND JACQUIE McNISH

International miners that flocked to Tanzania for its low taxes and friendly laws are running up against a populist president eager to gain a greater share of mining revenue.

Since his election two years ago, President John Magufuli, nicknamed "the bulldozer" for his forceful leadership style, has taken a series of actions he says are aimed at redistributing mining revenue to Tanzanians. The moves range from compelling miners to list their stakes in local stock exchanges and demanding higher taxes and royalties to threatening to tear up entire extraction contracts.

"I will not hesitate to close down all the mines if companies don't pay what they owe us," Mr. Magufuli told a cheering crowd in Tanzania's northwestern mining region last week. "I have launched an economic war."

Tanzania's aggressive steps have rattled investors and led to selling of stock of the most affected companies such as **Acacia Mining PLC**. Some companies have ceased or scaled back operations, including Australia's gold and lithium miner **Liontown Resources**, which has been operating two gold-exploration projects, and has pulled all of its staff out of Tanzania, while Russia's **Rosatom State Atomic Energy Corp.** has paused its \$1.2 billion uranium project.

The legislative changes also mark a sea change in a country that has been a darling of foreign miners since the East African nation dismantled its socialist economic controls in the 1990s. The fourth-biggest gold producer in Africa, Tan-



President John Magufuli wants to redistribute mining wealth. Nicknamed 'the bulldozer,' he is shown during a visit to Kenya.

zania also has reserves of copper, nickel, uranium and natural gas. Tanzania aims to double the mining contribution to its gross domestic product to 10% by 2025. The government says the changes are necessary to stimulate processing of commodities within Tanzania, collect more revenue and create more jobs.

Analysts warn of potentially dire consequences for Tanzania's economy, one of Africa's fastest-growing nations with annual growth averaging 6% to 7% over the past decade. The latest—and largest—salvo was fired last week, when Acacia, the biggest gold miner in the country with \$1 billion in annual revenue, and majority-owned by Canada's **Barrick Gold Corp.**, was served with a \$190 billion bill for what Tanzanian authorities have said were unpaid taxes, penalties and interest accumulated over the past 17 years.

"Just when you think things couldn't get any worse and then—a surprise!" said a person who attended last week's meeting between Acacia executives and government officials, where the bill, equivalent to nearly 200 times Acacia's 2016 revenue and nearly 10 times Barrick's current market capitalization, was presented. "It was stunning."

The Tanzanian government didn't respond to requests for comment.

The demand follows a ban on exports from two of Acacia's three mines, imposed in March when a government audit, ordered by Mr. Magufuli, allegedly found 10 times more gold in the company's export containers than it had declared to Tanzanian authorities. Acacia says it declared everything of commercial value and has yet to see the government's audit reports. If the gold content of its exported concentrates was as high as claimed by the audit, the company says, its Bulyanhulu and Buzwagi mines in northern Tanzania would be the world's largest gold producers.

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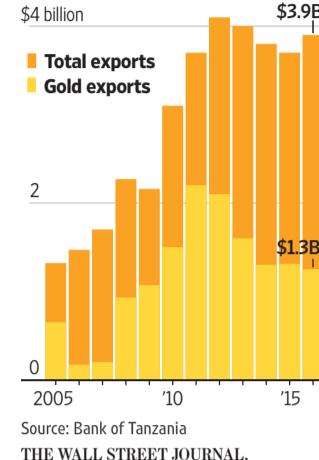
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Acacia isn't the only miner colliding with Mr. Magufuli's nationalist policies.

South Africa's **AngloGold Ashanti**, which operates Tanzania's largest mine, filed for

Losing Luster

Gold is shrinking as a percentage of Tanzania's exports.



Source: Bank of Tanzania
THE WALL STREET JOURNAL.

international arbitration over legislative changes that increased royalties to 6% from 4% of all minerals produced in the country.

The new rules also entitle the government to a 16% stake in a company's stock without compensation—and the right to buy a further 34%—and introduced a 1% clearing fee on all mineral exports.

Other companies with exploration projects, including **Strandline Resources**, **Magnis Resources** and **Graphex Mining**, have suspended trade in their shares on the Australian Securities Exchange, citing the new mining rules.

Since the new rules apply to all extractive industries, they may also jeopardize plans by energy giants, including **Exxon Mobil Corp.** and **Statoil ASA**, to build a \$30 billion liquefied natural gas plant in the country. Exxon declined to comment and Statoil said it was following the situation.

Some observers see the new law as a correction of unusually generous terms, including a raft of tax exemptions granted to foreign investors at the end of the last century when Tanzania opened up its economy.



Porsche maker Volkswagen and other German car makers agreed to update emissions software.

Germany Secures Diesel Pact

By ANDREA THOMAS

BERLIN—The diesel engine just got another knock, this time in the country where it was invented.

Germany's biggest auto makers agreed Wednesday to implement software updates to their fleet of diesel cars here, a move they say will reduce emissions of nitrogen oxide. The agreement fell short of calls by industry critics for much more expensive hardware changes to emissions systems.

The deal came at a meeting between German government officials and industry representatives amid growing public outrage over a series of revelations about lax emissions standards, emissions that exceeded auto makers' claims and outright emissions cheating in the case of **Volkswagen AG**. The auto maker in late 2015 admitted it installed cheat devices in millions of diesel cars around the world to help them evade emissions testing.

The anger has spilled across Europe, with a handful of cities drafting measures to curb or ban diesel use altogether in city centers. Until recently, the engine has been a big hit in Germany. Last year, 45.9% of new cars sold in the country were die-

sels, compared with less than 5% in the U.S.

The German government in the past has been largely supportive of diesel cars, including with tax breaks. Germany had hoped diesel would help it meet the European Union's aggressive greenhouse-gas emission targets.

Although diesels generate high nitrogen-oxides emission levels, diesel burns more efficiently than gasoline and gets better mileage. Modern diesel cars also emit on average 15% less carbon dioxide than regular gasoline engines.

In Germany—home of diesel inventor Rudolf Diesel, as well as some of the world's biggest auto makers—the industry wields enormous political clout.

But even here, public outrage has spurred official calls for action. In Munich, Hamburg and Stuttgart, the home of Mercedes-Benz maker **Daimler AG** and Volkswagen's Porsche unit, city officials have moved to ban diesel cars in their city centers.

An industry lobby group estimated the software fixes would cost Volkswagen, Daimler and **BMW AG** a total €500 million (\$594 million) for the 5.3 million cars those companies promised to upgrade. That includes the 2.5 million diesels in Germany that Volks-

wagen has separately recalled and promised to fix. The industry also has agreed to pitch in €250 million for a fund to promote sustainable mobility in cities, with the German government matching that amount.

The car makers also agreed to provide incentives for drivers to trade in their older diesels. BMW, for instance, is offering up to €2,000 for older diesel trade-ins. The auto makers are expected to disclose further details in coming days.

Environmental activists have urged the government to force car makers to offer further-reaching technical retrofits.

That is something the industry opposes, calling it technically difficult and more expensive. The government agreed not to force those hardware fixes on the industry at the Wednesday meeting.

"We basically consider it impossible to apply hardware retrofittings," Volkswagen Chief Executive Matthias Müller said.

German Environment Minister Barbara Hendricks said the more limited measures would improve air quality, but she agreed more needed to be done.

—William Boston contributed to this article.



LINGLING WEI CHINA CORRESPONDENT

The Face of Real News

Lingling Wei's expert insights into China and its economy helped answer some of the most pressing questions when the yuan significantly devalued. Her work gave readers an insider's look at the mechanisms at play during the complex turn.

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THE WALL STREET JOURNAL.

Read ambitiously

Source: Pew Research Center, Political Polarization & Media Habits, 2014

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TECHNOLOGY

WSJ.com/Tech

Apps, Other Services Buoy Apple

Music subscriptions, payment transactions were big contributors to company's revenue

BY TRIPP MICKLE

When Apple Inc. last year began breaking out revenue from app sales, music subscriptions and payment transactions, the accounting change seemed opportunistic. Sales of iPhones were declining and services provided a growing business to showcase.

The change now appears more than justified.

On Tuesday, Apple said services—the App Store, iTunes, Apple Pay, iCloud and more—generated more than \$27.8 billion in revenue for the 12 months ended July 1, making it the equivalent of a Fortune 100 company and larger than Facebook Inc.'s total revenue in 2016.

The company hit the Fortune 100 milestone a full quarter before predicted by Chief Executive Tim Cook, as rising subscriptions to Apple Music, Netflix Inc. and other services lifted services revenue 22% in the June quarter to \$7.27 billion. The iPhone is still Apple's chief moneymaker, but services combined with better-than-expected iPad and Mac sales reduced Apple's total revenue from the iPhone to 55% in the quarter from 57% a year ago.

"The business is really impressive when you think about it in terms of scale compared to other publicly traded companies out there," said Jeff Dillon, chief executive of Jackson, Mich.-based Dillon & Associates, which counts Apple among its largest holdings. "There's a long runway to go there."

Apple's total revenue rose 7.2% in the quarter to \$45.41 billion, while profit was up



An Apple Store in Taipei, Taiwan. The iPhone is still Apple's chief moneymaker, but iPads and Macs sold well in the latest quarter.

12% to \$8.72 billion. The company's stock rose 5% in mid-day trading Wednesday.

Apple boosted services revenue while facing a host of challenges, including discontinued movie sales in China, shrinking iTunes market share in the U.S., and a music-streaming service that is a distant No. 2 player in paid subscriptions to Spotify AB.

The company remains guarded about which sources are driving services revenue. Apple annually reports total payments to app developers, and in June said Apple Music subscriptions hit 27 million. But it hasn't broken out revenue from AppleCare, Apple Pay, iTunes, iCloud storage or any of the other pieces that contribute to the business.

The growth in services is driven by the size and quality of Apple's user base. Apple now has more than 1 billion

devices in use world-wide. Its pricier iPhones, iPads and Macs are typically bought by more affluent consumers who load them up with apps or pay extra to store photos in the cloud. The App Store generates nearly twice the revenue of Alphabet Inc.'s Google Play, according to App Annie, a tracking service.

Apple to some extent is drafting off broader consumer trends. An increasing number of customers are shifting from cable subscriptions to streaming-subscriptions services such as Netflix, HBO Now and Hulu, and many sign up through the App Store, giving Apple a 15% cut of the subscription.

Apple said its number of subscriptions rose 12% in the past 90 days to 185 million. In a call with analysts, Chief Financial Officer Luca Maestri credited some of the growth

to making App Store purchases easier by adding more payment options, such as Alibaba Group Holding Ltd.'s Alipay in China.

The services business hasn't been without headaches. In China, the government shut down Apple's movie and book sales because they violated local media guidelines. Apple also has faced criticism globally for removing apps in China such as the New York Times earlier this year, and others that allowed users to evade the country's censorship laws.

Apple's streaming-music service continues to lag behind Spotify, which in June reported more than twice as many paid subscribers at 60 million. Movie rentals and sales on its iTunes service in the U.S. have been pressured by Comcast Corp. and Amazon.com Inc., reducing its market share to about 20% from

more than 50% in 2012.

The iPhone maker is trying to differentiate to gain Apple Music subscribers and video viewers by branching out into original content. It released the reality show "Planet of the Apps" in June and will add "Carpool Karaoke" next week. It recently hired two top Hollywood television executives to spearhead a push into original programming.

"We'll see how this area goes, but it's still an area of great interest," Mr. Cook said on the call.

The services growth over the past decade is impressive considering late CEO Steve Jobs didn't want an app store. The iPhone launched without one, and Mr. Jobs primarily wanted to offer only Apple services, but employees and outsiders prevailed in getting him to change his mind, former employees said.

Blocking Of VPNs In China Pressures Business

China's moves to tighten the screws on its already heavily gated internet stand to significantly raise the costs and level of difficulty for foreign companies doing business in the country.

By Liza Lin
in Shanghai and
Josh Chin in Beijing

The government's recent crackdown on tools that allow internet users to circumvent China's system of web filters could make it harder for companies to communicate with business partners, clients and suppliers overseas.

The effort to block use of unapproved virtual private networks, or VPNs, and uncertainty over internet access is already weighing on foreign companies' operations in China, according to foreign business groups.

"The success of our members is dependent upon instantaneous access to information on a world-wide basis as well as the ability to freely communicate with their affiliates, suppliers and customers," said Lester Ross, chairman of the policy committee at the American Chamber of Commerce in China. "We urge the government to take such concerns into account."

Many see the crackdown as a sign that China plans to be aggressive in enforcing a new cybersecurity law aimed at giving Beijing more control over flows of information across the country's borders.

'This will affect the majority of foreign companies that operate in China.'

BUSINESS WATCH

UNIQLO

Retailer Tests Out Vending Machines

Your flight is boarding soon, but you forgot to pack warm clothes. What to do?

Uniqlo is betting that you might consider a lightweight down jacket from a vending machine.

The Fast Retailing Co.-owned retailer plans to roll out 10 of them this month and next in airports and shopping malls near New York, Houston, Oakland, Calif., and other U.S. cities.

The machines are part of the company's retooled expansion plans after a more ambitious effort to increase Uniqlo's U.S. presence fell short of expectations. Vending machines are cheaper to operate than physical stores and are a convenient way of selling basic, travel-friendly clothes to harried consumers, said Marisol Tamayo, Uniqlo's U.S. marketing chief.

The six-foot-high vending machines will sell heat-retaining shirts and lightweight down jackets. The limited selection allows Uniqlo to offer a range of sizes and colors. Items will be dispensed in boxes and cans and can be returned in a store or via mail.

—Khadeeja Safdar

KKR, WALGREENS

Firms Aim to Take PharMerica Private

KKR & Co. and Walgreens Boots Alliance Inc. reached an agreement to take PharMerica Corp. private in a deal valued at \$1.4 billion, the companies said Wednesday.

Shareholders of institutional pharmacy-services company PharMerica will receive \$29.25 a share in cash. Walgreens Boots Alliance will be a minority investor in a newly formed company that KKR will control.

On Wednesday, shares of PharMerica were up 15% to \$28.90 in afternoon trading on the New York Stock Exchange. The Louisville, Ky., company's decision to be acquired followed a review of strategic alternatives. The company's board has approved the transaction.

The deal still requires PharMerica shareholder approval, but the firms expect the acquisition to close by early 2018.

—Bowdella Tweh

Samsung Leader Testifies on Scandal

BY EUN-YOUNG JEONG



JUNG YEON-JE/AGENCE FRANCE PRESSE/GETTY IMAGES

Guards escorted Lee Jae-yong of Samsung Electronics to court in Seoul on Wednesday. Mr. Lee faces charges including bribery.

sung and other South Korean conglomerates.

The prosecutors' case centers on some \$37 million that Samsung arranged to pay to entities allegedly controlled by Ms. Choi. The payments include an \$18.6 million equestrian agreement Samsung made with a small sports consulting company in Germany.

In his testimony, Mr. Lee claimed ignorance of Samsung's payments and dismissed allegations that he had sought favors from South Korea's former president, denying prosecutors' accusation that he had ordered his company to fund entities linked to Ms. Choi.

"About 95% of my responsibilities are with Samsung Electronics and its affiliated companies," he said, adding,

ing that he wasn't generally briefed on the conglomerate's sports-related donations.

Prosecutors say Mr. Lee ordered his company to fund entities linked to Ms. Choi, and that in exchange Ms. Choi colluded with Ms. Park to have the country's pension service cast a decisive vote in favor of a 2015 merger of two Samsung affiliates. That deal was seen as critical to consolidating Mr. Lee's grip on Samsung Electronics Co., the world's biggest smartphone maker. Samsung has acknowledged making the payments, but has denied they were in exchange for political favors. Ms. Park and Ms. Choi have both denied wrongdoing.

Mr. Lee testified that the merger was decided by the heads of the two Samsung af-

filiates and dismissed its link to his succession. "To this day, I don't understand how the merger strengthens my link to Samsung Electronics," he said, adding that even without the merger, his role in the company wouldn't have changed.

Wednesday's court hearing also zeroed in on Mr. Lee's three private meetings with the former president between 2014 and 2016, in which prosecutors allege Mr. Lee asked for government favors.

Mr. Lee acknowledged Ms. Park had asked him for Samsung's support in equestrian activities in the first meeting. In the second meeting, Mr. Lee said that Ms. Park reprimanded him for not following through on her equestrian requests, but said he didn't think too much about why the former president was showing so much interest in equestrian activities.

Prosecutors said that Samsung's agreement to fund a German sports consulting company to train equestrian athletes, including Ms. Choi's daughter, came just one month after Mr. Lee's second meeting with Ms. Park. Mr. Lee said he didn't know of Samsung's agreement with the German company or of Ms. Choi's link to it at the time.

Mr. Lee has been the de facto leader of the conglomerate since his father, Samsung Chairman Lee Kun-hee, was incapacitated by a heart attack in 2014.

"This will affect the majority of foreign companies that operate in China," said Han Lai, China country manager for KrollDiscovery, a legal-technology consulting firm based in Washington, D.C.

Forcing companies to send data offshore only through government-approved VPNs is a first step in implementing new rules that require businesses in "critical industries" to store broad categories of data inside China and get permission before moving it out of the country.

The new rules could increase costs for foreign companies by requiring them to set up new data centers in China, analysts said.

By using a VPN under the control of Chinese regulators, companies also make it easier for the government to track their activities and potentially steal their data, said Michael Hull, co-founder of Psiphon, an Ontario-based censorship-circumvention company targeted in the crackdown.

"I can't think of a worse thing for a company to do than that. It's better not to use a VPN," Mr. Hull said.

The closing of leaky windows on the Chinese internet began last month when censors disrupted Facebook Inc.'s messaging app WhatsApp, used by activists and others to send encrypted messages, and several foreign VPNs.

More recently, Apple Inc., Amazon.com Inc. and the Waldorf Astoria Hotel in Beijing joined a list of companies that have taken steps to shut down access to unregistered or illegal VPN services.

Apple's move to withdraw some VPN apps from China's iTunes store has already had its costs, said Graham Webster, senior research scholar at Yale Law School. Many foreign and Chinese businesses depend on the commercial VPN products that Apple decided to remove from the iTunes store, he said, because other options could be less convenient and much more expensive.

All three companies said they took the steps to comply with China's new cybersecurity law.

For Apple, China Remains a Tough Market

BY ALYSSA ABKOWITZ

Increasing, analysts say.

"Consumers are still willing to upgrade and some of them are waiting to buy the next-generation iPhone," said Jin Di, a mobile-market analyst at research firm IDC.

Factoring in the new iPhone, research firm Canalys forecasts shipments of 27 million iPhones, iPads and iPod Touches in mainland China for the last four months of 2017, compared with 22 million during the same period last year.

Apple could use some good news from China: On Tuesday, it reported that sales sank 9.5% to \$8 billion in China, Hong Kong and Taiwan, for the third quarter ended July 1. That was the sixth consecutive

quarterly sales decline in Greater China.

Apple Chief Executive Tim Cook offered a positive view, saying sales in Taiwan rose 20%. The rate of decline also eased from the previous quarter, when sales fell 14%.

Along with shrinking sales in Greater China, Apple has also been grappling with new cybersecurity rules imposed by the Chinese government.

Last month, Apple said it would open a data center in China that will be operated by a government-owned firm. Over the weekend, Apple removed virtual private network, or VPN, apps that allow Chinese users to skirt internet censors from its App Store in

China to comply with new rules that require providers of such apps to obtain licenses from regulators.

"We would obviously rather not remove the apps, but like we do in other countries, we follow the law wherever we do business," Mr. Cook said on a call with analysts, adding that Apple believes "in engaging with governments even when we disagree."

Industry consultants say Apple is taking care not to offend the Chinese government, especially as it prepares to launch the critical iPhone 10th anniversary model this fall.

—Tripp Mickle
in San Francisco
contribution to this article.

FINANCE & MARKETS

European Firms' Results Climb

By NINA TRENTMANN

Profits at European companies are growing, but fears about the future and high investor expectations are keeping stock prices off records.

More than 350 companies in the Stoxx Europe 600 index had reported quarterly results by Tuesday, of which 57% beat earnings expectations. While this is roughly in line with the second quarter of 2016, it is a slowdown from the first quarter, when 66% of companies surpassed expectations.

Companies that delivered strong growth include Heineken NV, Swiss drugmaker Roche Holding AG and U.K. defense company BAE Systems PLC.

But results alone aren't enough to impress European investors. The Stoxx Europe 600 index is trading below its mid-May peak, weighed down by investor worries that firms won't sustain the momentum clocked during the first quarter. By contrast, the Dow Jones Industrial Average traded above 22,000 on Wednesday for the first time.

Shareholders also have been quick to punish companies that flagged potential problems. Standard Chartered PLC on Wednesday reported an 82% rise in first-half profit but the bank's shares fell 4.4% as investors expressed frustration with the pace of its turnaround plan.

Shares of Renault SA were hammered when it reported lower-than-expected profit-margin gains on July 28, posting a 5.1% drop.

Finance chiefs have little appetite for risk after a euro-area recession that ended in 2013, turbulence sparked by Britain's exit from the European Union, and a wave of populism during the French elections. At the same time,



Dutch brewer Heineken posted a 49% rise in quarterly net profit, fueled by stronger sales in Europe. A Heineken brewery in Myanmar.

low borrowing costs, which hover near zero for many companies, have fanned high expectations from investors, which make it harder for companies to impress the market.

"For the past five years, European companies have not seen persistent economic improvement," said Manish Kabra, a strategist at Bank of America Corp. "This is why they are remaining cautious."

The overabundance of corporate caution is one of several distinctive challenges that separate European companies from their American counterparts. Companies in the region don't trust the strength of the economic recovery despite 17 straight quarters of eurozone

economic growth and supportive monetary policy from the European Central Bank.

Dutch brewer Heineken is among the companies that are posting higher earnings even as they navigate this complex economic terrain. The company reported a 49% rise in net profit, fueled by stronger sales in Europe. Heineken in May launched an alcohol-free version of its flagship lager as it expands its nonalcoholic beverage offering.

Roche, the maker of cancer drugs, reported a 2% increase in earnings and 5% sales growth for the first six months of 2017. CEO Severin Schwan credited the success to new drug launches and raised full

year guidance.

Arms maker BAE Systems on Wednesday posted a 36% rise in first-half profit and an 8.9% increase in sales. The company has won a number of new contracts in the U.K. and expects to benefit from rising U.S. defense spending.

The euro is threatening to sap some of the business momentum. The currency has strengthened 12% against the dollar since the beginning of the year, making it less profitable for European companies to sell their goods in the U.S. A 10% increase in the euro against the dollar shaves off 3% to 5% in European earnings, said Emmanuel Cau, an analyst at J.P. Morgan & Chase Co.

"After earnings upgrades for several months in a row, people now need to reduce their forecasts," Mr. Cau said.

German chemicals maker Bayer AG and Heineken both flagged currency strength as a likely drag on future performance. It "is going to weigh on us going forward," Bayer CEO Werner Baumann told analysts.

The overabundance of caution among European companies is also cropping up in another area: growing piles of corporate cash. European non-financial companies held €974 billion (\$1.15 trillion) in cash at the end of 2016, up from \$921 billion in 2015, according to Moody's Investors Service Ltd.

Carlyle's Earnings Surge

By MATT JARZEMSKY

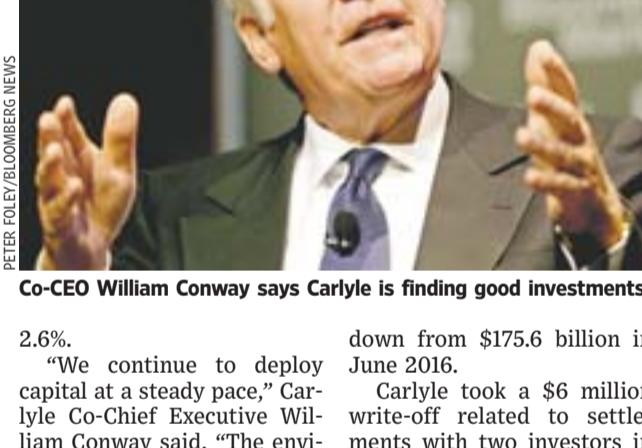
Carlyle Group LP's second-quarter profit soared as its investments appreciated, adding to private-equity firms' strong showing for the period.

For the three months ended June 30, the Washington asset manager reported earnings of \$57.6 million, or 59 cents a share, up from \$6.1 million, or 7 cents a share, in the year-earlier period.

Economic net income, a closely watched performance measure that reflects changes in the value of the firm's holdings, rose to \$274.8 million, or 81 cents a share, from \$115.1 million, or 35 cents a share, a year earlier. The latest result exceeded the 41-cent average estimate of analysts in a FactSet poll.

Private-equity managers are benefiting from global economic growth and healthy investor appetite for ownership in both public and private companies, along with other assets such as corporate debt and real estate.

Carlyle's private-equity funds appreciated 8% during the period. Blackstone Group LP's buyout funds appreciated 2.8% during the period, while KKR & Co.'s private-equity portfolio gained 7.3% during the quarter. The S&P 500 rose



Co-CEO William Conway says Carlyle is finding good investments.

2.6%.

"We continue to deploy capital at a steady pace," Carlyle Co-Chief Executive William Conway said. "The environment for new investments remains competitive, but our deep, global teams continue to find good investments."

Distributable income, the slice of profits available for payout to shareholders, dropped to 56 cents a share from 84 cents a year earlier. Carlyle said it would pay a 42-cent dividend, down from 63 cents a year earlier.

As of June 30, Carlyle had \$169.8 billion in assets under management, up from \$161.9 billion the prior quarter but

down from \$175.6 billion in June 2016.

Carlyle took a \$6 million write-off related to settlements with two investors in commodities investment funds that the firm had managed, which lost hundreds of millions of dollars in a Moroccan refinery deal gone awry.

Liability insurance kept the write-down near the low end of the private-equity group's previous estimate of up to \$60 million.

The settlements mark the completion of Carlyle's exit from hedge-fund businesses it had acquired from 2010 to 2014, and which struggled due to poor performance.

By contrast, Carlyle Group LP's buyout funds gained 8% during the period, while KKR & Co.'s gained 7.3%. The S&P 500 rose 2.6%.

Nevertheless, Apollo's relatively strong longer-term record continues to attract investors.

The firm recently secured \$24.7 billion for its ninth flagship private-equity fund, the largest buyout fund ever raised.

The firm and its peers have been raising money with rela-

tive ease, as pensions, sovereign-wealth funds and other large investors seek alternatives to stocks and bonds in an era of high valuations.

Distributable earnings, a measure of cash profits available for payout to shareholders, rose to 60 cents a share, from 40 cents a share in the year-earlier period.

Apollo's investment exits during the quarter included the \$2.8 billion sale of Texas oil and gas producer Double Eagle Energy Permian LLC to Parsley Energy Inc. Apollo sold stock in publicly traded portfolio companies such as snack-cake maker Hostess Brands Inc. and miner Warrior Met Coal Inc.

The firm said it would pay a 52-cent dividend for the second quarter, up from 37 cents a year earlier.

Apollo's assets under management rose to \$231.8 billion, from \$197.5 billion at the end of the prior quarter.

Apollo's Profit Declined in Quarter

By MATT JARZEMSKY

Apollo Global Management LLC's second-quarter profit fell as commodity-price weakness slowed investment gains.

In the period ended June 30, the New York private-equity firm's profit dropped to \$86.9 million, or 44 cents a share, from \$174.1 million, or 91 cents a share, in the year-earlier period.

Economic net income, which reflects unrealized investment gains, declined to \$183.5 million, or 46 cents a share, from \$394.9 million, or 98 cents a share, in the year-earlier period.

The latest profit result matched the 46-cent average estimate of analysts in a FactSet poll.

Volatility in oil and gas prices dented the investment gains of Apollo and peer Blackstone Group LP during the period, a relative weak spot in a generally strong quarter for

private-equity managers. Apollo's private-equity holdings increased 1.9%, trailing a 3.1% advance in the year-earlier period because of what the company called "depreciation in energy investments due to declines in commodity pricing."

Blackstone last week reported its private-equity investments appreciated 2.8%, as it also flagged energy-related headwinds.

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CBOE Inks Bitcoin Market Data Deal

By GUNJAN BANERJI

U.S. exchanges are racing to secure a piece of the cryptocurrency market.

CBOE Holdings Inc., which oversees the largest U.S. options exchange, has entered an agreement with brothers Cameron and Tyler Winklevoss to use bitcoin market data. The move paves the way for Chicago-based CBOE to list bitcoin derivatives.

CBOE is joining forces with Gemini Trust Co., a virtual-currency exchange founded by the Winklevosses, who are also behind an effort to bring the first bitcoin exchange-traded fund to market. The Securities and Exchange Commission denied the ETF in March, a decision that was appealed and is under review. The ETF would have been listed on one of CBOE's stock exchanges.

Pending regulatory approval, CBOE plans to launch futures on bitcoin by the end of 2017. The agreement also gives the company rights to use Gemini's data to create and disseminate new indexes.

"It will bring more participants into the market who will now be able to express a viewpoint on bitcoin," said Cameron Winklevoss, president of Gemini.

The move paves the way for Chicago-based CBOE to list bitcoin derivatives.

CBOE's relationship with Gemini marks a deeper foray into the world of digital currencies, which hit a market capitalization of \$100 billion this year.

U.S. stock-options exchanges have been plagued by flattening volumes in recent years. CBOE's marquee product—the CBOE Volatility Index, or VIX—slumped to historic lows this year. Unlike global stock markets that have experienced extraordinary calm, digital currencies have moved wildly, likely making them alluring assets for derivatives traders.

Bitcoin Cash, a new version of the digital currency created to speed up trading in bitcoin, rebounded sharply in its second trading day. In its debut Tuesday, the virtual currency dropped from a high of about \$400 to \$247.

Should the plan win regulatory approval, investors would be able to make directional bets or hedge holdings. CBOE plans to first launch futures on virtual currencies with monthly expirations, said John Deters, chief strategy officer at CBOE. He also said that CBOE could consider options on virtual currencies.

CBOE isn't the only exchange jockeying for position in the virtual currency sphere.

Miami International Holdings Inc., which oversees two options exchanges and has plans to launch a stock venue, has a stake in LedgerX, which won approval from the Commodity Futures Trading Commission for a bitcoin options exchange last week.

Miami International and LedgerX said they also envision launching a host of derivatives based on virtual currencies, such as futures, exchange-traded products and options.

CME Group Inc., a futures exchange operator, launched a bitcoin index in 2016 and filed a patent application for derivatives on virtual currencies this year.

"Cryptocurrencies of all forms are here to stay," said Mr. Deters.

FINANCE WATCH

FIXED INCOME

Virtu Seeks to Sell Trading Platform

Electronic-trading firm Virtu Financial Inc. is moving to sell BondPoint, the fixed-income trading platform it took over last month when it completed its acquisition of KCG Holdings Inc., a person familiar with the situation said.

The sale could raise at least \$400 million for Virtu, the person said. Firms that have expressed interest include Deutsche Börse AG, Intercontinental Exchange Inc., MarketAxess Holdings Inc., Nasdaq Inc., NEX Group PLC and Tradeweb Markets LLC, the person said. All six firms declined to comment.

News of Virtu's plans to sell BondPoint was earlier reported by Bloomberg News.

BondPoint is an electronic trading venue for corporate, municipal, government agency and other bonds. In 2016, an average of \$201.7 million in par value of bonds was traded daily on BondPoint, up more than 40% from the year before.

—Alexander Osipovich

SOCIÉTÉ GÉNÉRALE

Legal Expenses, Low Rates Hit Profit

French lender Société Générale SA said net profit

dropped 28% in the second quarter, hit by legal costs and persistently low interest rates.

The bank said net profit fell to €1.06 billion (\$1.25 billion) in the three months through June, from €1.46 billion a year earlier, meeting analysts' expectations.

Revenue fell 26% to €5.2 billion after the bank agreed to pay €963 million to settle claims that it paid a middleman alleged bribes to secure business from Libya's sovereign-wealth fund during Moammar Gadhafi's rule.

The year-earlier figure was buoyed by a €725 million gain on the sale of Société Générale's shares in Visa Europe.

Excluding one-time items, revenue was down 1% as a strong investment-banking result offset lower retail banking revenue.

—Noemie Bisserbe

INSURANCE

Generali's Net Rises

Italy's Assicurazioni Generali SpA said its net profit rose for the first half of the year, helped by improved performances in the property-and-casualty and financial parts of the business.

Net profit for the period stood at €1.22 billion (\$1.44 billion), compared with €1.18 billion for the first half of last year.

Operating income rose 4% despite the negative impact of low interest rates.

—Giovanni Legorano



GONZALO FUENTES/REUTERS

Addressing alleged bribery cost Société Générale €963 million.

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For information about listing

MARKETS DIGEST

Nikkei 225 Index

2008.04  94.25, or 0.47%

High, low, open and close for each trading day of the past three months.

Year-to-date
52-wk high/low
All-time high

20230.41 16083.11
38915.87 12/29/89

STOXX 600 Index

378.63  1.63, or 0.43%

High, low, open and close for each trading day of the past three months.

Year-to-date
52-wk high/low
All-time high

396.45 328.80
414.06 4/15/15

S&P 500 Index

Data as of 4 p.m. New York time

Last 23.94 25.03

P/E estimate * 18.94 18.42

Dividend yield 1.97 2.11

All-time high: 2477.83, 07/26/17

Bars measure the point change from session's open

May June July

Apr. May June July

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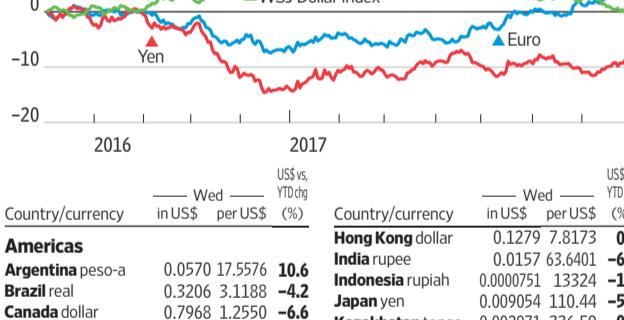
International Stock Indexes

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2863.80	-2.00	-0.07	2385.36	2867.78	13.3		
	MSCI EAFE	1950.23	-2.87	-0.15	1612.29	1952.28	13.6		
	MSCI EM USD	1070.73	1.73	0.16	838.96	1068.26	34.8		
Americas	DJ Americas	596.21	-0.17	-0.03	503.44	597.92	10.3		
Brazil	Sao Paulo Bovespa	67209.69	693.46	1.04	55788.00	69487.58	11.6		
Canada	S&P/TSX Comp	15268.24	66.14	0.44	14319.11	15943.09	-0.1		
Mexico	IPC All-Share	51226.45	31.44	0.06	43998.98	51772.37	12.2		
Chile	Santiago IPSA	3872.89	15.27	0.40	3120.87	3876.80	20.2		
U.S.	DJIA	22016.24	52.32	0.24	17883.56	22036.10	11.4		
	Nasdaq Composite	6362.65	-0.29	-0.005	5034.41	6460.84	18.2		
	S&P 500	2477.57	1.22	0.05	2083.79	2484.04	10.7		
	CBOE Volatility	10.22	0.13	1.29	8.84	23.01	-27.2		
EMEA	Stoxx Europe 600	378.63	-1.63	-0.43	328.80	396.45	4.8		
	Stoxx Europe 50	3088.93	-10.82	-0.35	2720.66	3279.71	2.6		
Austria	ATX	3228.99	-12.25	-0.38	2166.58	3262.55	23.3		
Belgium	Bel-20	3938.16	-22.20	-0.56	3375.68	4055.96	9.2		
France	CAC 40	5107.25	-19.78	-0.39	4293.34	5442.10	5.0		
Germany	DAX	12181.48	-69.81	-0.57	10092.53	12951.54	6.1		
Greece	ATG	826.02	8.28	1.01	546.95	859.78	28.3		
Hungary	BUX	36041.13	254.61	0.71	27001.48	36280.07	12.6		
Israel	Tel Aviv	1439.23	-7.91	-0.55	1372.23	1490.23	-2.1		
Italy	FTSE MIB	21573.61	-39.20	-0.18	15923.11	21828.77	12.2		
Netherlands	AEX	525.30	-2.18	-0.41	436.28	537.84	8.7		
Poland	WIG	62409.52	-391.44	-0.62	46321.24	63026.98	20.6		
Russia	RTS Index	1021.42	7.18	0.71	898.05	1196.99	-11.4		
Spain	IBEX 35	10513.90	-72.80	-0.69	8229.40	11184.40	12.4		
Sweden	SX All Share	564.94	-0.82	-0.15	483.91	598.42	5.7		
Switzerland	Swiss Market	9122.68	67.68	0.75	7585.56	9148.61	11.0		
South Africa	Johannesburg All Share	55200.49	-189.58	-0.34	48935.90	55554.23	9.0		
Turkey	BIST 100	106525.44	378.01	0.36	71792.96	108605.51	36.3		
U.K.	FTSE 100	7411.43	-12.23	-0.16	6615.83	7598.99	3.8		
Asia-Pacific	DJ Asia-Pacific TSM	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Australia	S&P/ASX 200	5744.20	-28.20	-0.49	5156.60	5956.50	1.4		
China	Shanghai Composite	3285.06	-7.58	-0.23	2976.70	3292.64	5.8		
Hong Kong	Hang Seng	27607.38	67.15	0.24	21574.76	27607.38	25.5		
India	S&P BSE Sensex	32476.74	-98.43	-0.30	25765.14	32575.17	22.0		
Japan	Nikkei Stock Avg	20080.04	94.25	0.47	16083.11	20230.41	5.1		
Singapore	Straits Times	3348.80	10.60	0.32	2787.27	3354.71	16.2		
South Korea	Kospi	2427.63	4.67	0.19	1958.38	2451.53	19.8		
Taiwan	Weighted	10519.27	81.98	0.79	8902.30	10519.27	13.7		

Source: SIX Financial Information/WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on Aug. 2

US\$ vs. Country/currency

— Wed — YTD chg

Country/currency

— Wed — per US\$ (%)

US\$ vs. Country/currency

— Wed — YTD chg

Country/currency

— Wed — per US\$ (%)

Key Rates

Latest 52 wks ago

Liber

One month 123056% 0.49690%

Three month 131278% 0.77760%

Six month 145167% 114240%

One year 172567% 145460%

Euro Libor

One month -0.40000%

Three month -0.37729%

Six month -0.29900%

One year -0.18829%

Euribor

One month -0.37300%

Three month -0.33100%

Six month -0.27300%

One year -0.15300%

Yen Libor

One month -0.03443%

Three month -0.01707%

Six month 0.00886%

One year 0.11143%

Offer Bid

Europollars

One month 13300% 12300%

Three month 13900% 12900%

Six month 15000% 14000%

One year 18200% 17200%

Latest 52 wks ago

Top Stock Listings

Latest 52 wks ago

Cur Stock Sym Last % Chg YTD% Chg

Asia Titans

HKS AlAAGroup I299 61.60 -0.56 40.80

AUS AustNZB ANZ 29.64 -0.40 -2.56

AUS BHP BHP 25.75 -1.57 2.75

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THE WALL STREET JOURNAL.

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MARKETS

Worries Rise Over a Venezuela Default

Potential sanctions aimed at its oil sector threaten the nation's primary source of cash

BY JULIE WERNAU
AND CAROLYN CUI

Investors have been bracing for a Venezuela debt default for more than a year, but fallout from the country's widely criticized election last weekend could prove to be the tipping point.

The government and state-owned oil company **Petróleos de Venezuela SA**, also known as PdVSA, together owe \$5 billion in principal and interest payments due between now and the end of the year, according to Caracas Capital Markets. The country has \$725 million due this month alone, the Venezuelan investment bank said.

The problem: Venezuela only has about \$3 billion of its foreign reserves in cash, according to S&P Global Ratings. That means the country is dependent on oil exports to make up the difference.

The U.S. government has been threatening tough sanctions to punish President Nicolás Maduro for what Washington and other governments have called an illegal vote on Sunday, designed to advance the president's power. Mr. Maduro has said that the vote was necessary to give the government the ability to fix Venezuela's political and economic crises, and put an end to anti-government protests.

While the Trump administration on Monday imposed sanctions against Mr. Maduro personally, it hasn't ruled out restrictions on the Venezuelan crude-oil trade that could deprive the government of its only real source of cash. Last week, the U.S. had leveled sanctions on 13 high-ranking Venezuelan officials.

The Venezuelan govern-



Venezuelans line up at a store. A default could free up cash for the government to spend on food.

Signs Flash Red In Debt Market

The market for Venezuelan debt is showing signs of investor nervousness.

The probability of a default within a year in Venezuela—as calculated through credit-default swaps, a form of insurance on the possibility of a default—has been rising, approaching 70% on Wednesday. That is the highest level since February 2016, when oil fell below \$30 a barrel, accord-

ing to Victor Fu, an emerging-market strategist at Stifel Nicolaus & Co.

Prices for **Petróleos de Venezuela SA** bonds that mature in November have dropped 3.5% since the last trading day before Sunday's election, according to Thomson Reuters data. The bonds are down 16% since the beginning of July. Venezuela's bonds that mature in 2038 have dropped 4.5% since the beginning of July and are down 11% since the beginning of July.

Not everyone is convinced a default is coming, even if there

were additional U.S. sanctions. "If only sanctions to exports of oil from U.S. to Venezuela are enacted, we think the downside will be limited as we think that would not be enough by itself to trigger a default this year,"

Bank of America Merrill Lynch said in a note Monday.

But if Venezuela does miss a payment, some observers say the default would likely make it among the largest in history. While it is difficult to know exactly how much Venezuela owes in external debt, some estimates say the figure approaches \$150 billion.

Venezuelan bonds have been widely held because they are in the major emerging-market bond indexes, with \$342 billion tracking the J.P. Morgan EMBI bond indexes that contain Venezuelan bonds.

Venezuela's bonds have outperformed the benchmark index by a wide margin through much of the country's economic crisis.

Venezuela's portion of that benchmark returned 121% from a trough in February 2016 through early March of this year, according to UBS Wealth Management. They were the largest contributors to emerging-market bond returns last year.

Part of the reason is Mr.

Maduro has been determined to pay Venezuela's debts, fearing that any default could enable creditors to seize the country's oil shipments and energy assets. Short on cash, Venezuela has been ravaged by food shortages, high inflation and violent clashes with protesters.

The country's international reserves briefly dipped below \$10 billion in recent days, its lowest in 15 years, according to Venezuela's central bank. S&P estimated about \$7 billion of those reserves are in gold, which wouldn't be easy to sell in bulk to meet debt interest payments.

A white paper from sovereign-debt attorney Lee Buchheit and Mitu Gulati, a professor at Duke University School of Law, warned off bondholders who have been buying PdVSA debt in Venezuela with the expectation that they will be able to hold out for a big payday after any default.

The bonds don't have collective-action clauses that force the minority of bondholders to go along with a supermajority of holders, which has led some legal observers to say that a default could lead bondholders to seize assets and hold up restructuring efforts.

Messrs. Buchheit and Gulati say Venezuela has several legal maneuvers available to it that could make collecting on those debts difficult.

Still, some investors are betting that the worst-case scenarios won't come to pass, and their investment will continue to pay off.

Victor Fu, an emerging-market strategist at Stifel Nicolaus & Co., has been encouraging investors to snatch up certain PdVSA bonds as well as Venezuela's bonds that mature in 2023, which have slumped, in the case that the U.S. doesn't impose sanctions on imports of Venezuelan oil.

—Ryan Dube contributed to this article.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

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Rio Tinto's Risk Is Complacency

For mining investors traumatized by years of overinvestment during the commodities boom, cash is king—and **Rio Tinto** suddenly has plenty of it.

The Anglo-Australian miner posted impressive first-half results Wednesday, with net profit nearly doubling from a year earlier to \$3.3 billion.

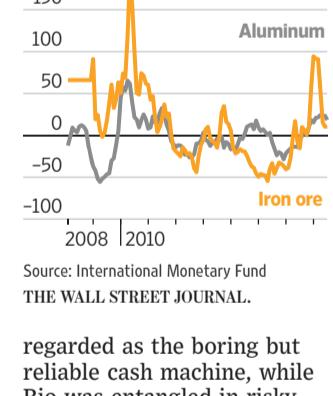
Rio also announced a record interim dividend and an expansion of its share-buyback program by \$1 billion, for a total shareholder payout of \$3 billion, or 75% of what it calls its underlying earnings.

Rio's strong performance is, of course, partly due to good luck. Prices of its key commodities—iron ore, copper and aluminum—were all up sharply in the first half of 2017 from a year ago, mostly due to recovering Chinese demand in the wake of that nation's massive 2016 economic stimulus.

But credit also needs to be given where it is due. It wasn't so long ago that **BHP**, Rio's Australian rival, was

Blastoff

Price change from a year earlier, dollars a metric ton



A Rio Tinto iron-ore mine in Australia

regarded as the boring but reliable cash machine, while Rio was entangled in risky and ultimately costly mistakes in Mozambique and Canada.

Now, the tables have turned: Rio is cutting debt rapidly and churning out cash from its core iron-ore business, while BHP's expansive oil and potash diversification strategy has come under fire from activist shareholder **Elliott Management**.

Management is careful not to express too much enthusiasm in public. "If the right conditions are there we'd be very interested in taking part of their business," Chief Financial Officer Ulrik Svensson told analysts Wednesday.

He stressed three sticking points: Air Berlin has too much debt; its staffing costs are too high; and a full merger of Germany's top two airlines couldn't escape antitrust scrutiny.

Alitalia was declared

first-half operating profits on Wednesday. It has a long record of defending its home turf against low-cost leaders **Ryanair** and **easyJet**.

State commissioners are now running an auction process, to which Ryanair and easyJet have both submitted non-binding bids. The commissioners made clear in bidding guidelines published this week they don't want the company to be split up.

Another hint of M&A activity came last week in the form of a complex deal that deepened pre-existing links between four of the world's biggest airlines: Air France-KLM, Delta Air Lines, Virgin Atlantic and China Eastern Airlines. Delta and China Eastern are each buying a 10% stake in Air France, which is in turn buying a 31%

stake in Virgin Atlantic from Richard Branson's Virgin Group. The shareholdings are designed to cement closer cooperation, particularly on trans-Atlantic routes.

Rejected a restructuring plan.

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OVERHEARD

Second-quarter results from flooring company **Lumber Liquidators Holdings** sent short sellers to the woodshed.

The company reported sales of \$263.5 million and adjusted earnings of 16 cents a share Tuesday. The analyst consensus was for \$256.9 million in sales and an adjusted loss of 6 cents a share.

Those results would be good enough to push any stock higher, but Lumber Liquidators shares rose 36% Tuesday.

High short interest added fuel to the rally because nearly one-quarter of available shares were sold short at last count, according to FactSet.

Such a bet had worked well in the past; shares are down 38% over the past three years. Yet the stock had soared by more than 50% so far this year, even before Tuesday's rally. Betting on retail stocks has become a dangerous game. Tuesday reminded investors that the danger cuts both ways.

Investors In Apple Can Breathe Easy

It is easy to forget that **Apple Inc.** makes things besides the iPhone. The company's fiscal third-quarter results Tuesday will be a salient—if short-lived—reminder of that.

The iPhone still accounts for the lion's share of Apple's revenue and earnings. But the June quarter saw an unexpected year-over-year jump of 15% in iPad unit sales. That is the best growth Apple's pioneering tablet has logged in more than four years. And the company didn't have to buy those sales with discounts:

The average selling price for the iPad stayed largely flat with the previous quarter.

The iPad and stronger-than-expected services revenue helped Apple exceed Wall Street's estimates for the June quarter. That wasn't the only good news.

Apple projected revenue in the range of \$49 billion to \$52 billion for the September quarter. The midpoint of that range represents a sales gain of 11% from the June quarter—the strongest forecast for this period that Apple has made since it began launching its new iPhones in September five years ago.

The forecast, in other words, suggests that at least some new iPhone models are coming in the September quarter and that Apple believes those models will sell.

That is good news for investors who have driven Apple's share price up 30% this year—not including the 6% additional bump the stock got Tuesday after the report. A stronger iPad and services business helps smooth out the iPhone cycle. And Apple clearly expects its new phones to make the connection.

—Dan Gallagher

Airline Deal Making Won't Cure Europe's Profit Problem

Tantalizing hints of airline consolidation are emerging in Europe. Sadly, none look likely to transform the industry's profitability along U.S. lines.

Both **Air Berlin**, the second-largest German airline, and **Alitalia**, the Italian flag carrier, are looking for new partners. Their previous backer, the Gulf-based, state-sponsored carrier **Etihad**, has been forced by the prolonged oil slump to rethink its strategy.

Lufthansa is the obvious buyer for Air Berlin. The German flag carrier—the largest European airline by most measures—is flush with cash, having announced record

rejected a restructuring plan.

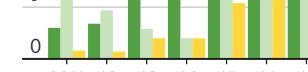
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Europe Lags

Airline operating margins



Note: Figures for 2017 are forecasts.

Source: IATA

THE WALL STREET JOURNAL.

All these moves should help trim excessive supply growth that has long bedeviled European short-haul, and has lately crept into the trans-Atlantic market.

But investors can't expect the kind of consolidation that has pushed U.S. airline margins into double-digit territory—and improved their stock-market performance—over the past half decade. Competition between low-cost carriers and former state airlines in Europe is as fierce as ever, and won't be much reduced by current M&A hopes. European airlines will remain a turbulent place to invest.

—Stephen Wilmot