

# THE WALL STREET JOURNAL.

DOW JONES | News Corp

WEDNESDAY, AUGUST 16, 2017 ~ VOL. XLI NO. 245

WSJ.com

ASIA EDITION

As of 12 p.m. ET

DJIA 21993.17 ▼ 0.002% NIKKEI 19753.31 ▲ 1.11% STOXX 600 376.50 ▲ 0.09% BRENT 50.50 ▼ 0.45% GOLD 1270.80 ▼ 1.04% EURO 1.1734 ▼ 0.41% DLR \$110.49 ▲ 0.78%

## What's News

Business & Finance

After Novo Nordisk concentrated on making insulin better and better—and charging more and more—customers have suddenly balked at paying for all that improvement. **A1**

◆ Retailers didn't show a lot of clarity as Dick's Sporting Goods and Coach reported weak results while TJX and Home Depot posted strong sales. **B1**

◆ Loan defaults in a popular U.S. program meant to finance energy-saving home upgrades have increased substantially. **A1**

◆ Air Berlin said it filed for bankruptcy protection and was in talks to sell part of its operations to rival Deutsche Lufthansa. **B1**

◆ Berkshire Hathaway sold 10.6 million GE shares in the second quarter, worth an estimated \$315 million as of June 30. **B7**

◆ Chip-testing firm Cohu is mounting a quiet campaign to derail the sale of U.S. rival Xcerra to a Chinese state-backed group. **B1**

◆ Benchmark told Uber employees that it sued Kalanick in part to prevent the ex-CEO from undermining a search for a new chief. **B4**

◆ More firms are trying to destigmatize mental illness and encourage workers to use mental-health days for their original intent. **B5**

◆ Blackstone is betting that even if gas prices remain stuck at depressed levels, it can profit. **B6**

World-Wide

◆ North Korea toned down its threat to attack Guam, continuing the country's familiar pattern of brinkmanship. **A1**

◆ Trump is raising dangerous stakes with China by taking trade action against the country while also pressing for help with North Korea. **A1**

◆ Moon Jae-in warned that the U.S. would need Seoul's consent for any military action on the Korean Peninsula. **A3**

◆ Iran's president threatened to revive his country's nuclear program if the U.S. continues to pile on sanctions. **A4**

◆ The U.K. proposed a deal with the EU that would eliminate the need for border checks on imports and exports after Brexit. **A4**

◆ Over 300 people were killed during a mudslide in Sierra Leone, prompting the country to call for international aid. **A5**

◆ Violent clashes between white nationalists and their opponents are testing local police in the U.S. **A6**

◆ Alabama Republicans voted in a U.S. Senate special election that highlights GOP divisions. **A7**

◆ The growth of North Korea's missile program has prompted suspicion that the country obtained rocket engines illicitly from Russia or Ukraine. **A3**

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KDN PP 9315/10/2012 (03275); MCI (P)  
NO. 066/01/2017; SK MENPEN RI NO. 01/  
SK/MENPEN/SCJ/1998 TGL 4 SEPT 1998

ISSN 03779920 4 12 45  
9 770377992000

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Sources: Blackstone; the companies

THE WALL STREET JOURNAL.

## Pyongyang Backs Down on Guam

Next flare-up could come in days, when U.S. forces begin joint drills with South Korea

North Korea's climbdown from its threat to attack Guam was a product of textbook

By Jonathan Cheng in Seoul and Jeremy Page in Beijing

Brinkmanship from Pyongyang, amid economic pressure from Beijing, President Donald

Trump's bellicose rhetoric and an effort by senior U.S. officials to emphasize the need for diplomacy.

But concrete progress is less certain. Pyongyang is expert at rapidly escalating and de-escalating tensions, and the next cycle could begin as early as next week, when American forces begin annual joint exercises with South Korea.

North Korea's turnaround also does little to address the Trump administration's longer-term challenge: stopping the country's quest for an intercontinental ballistic mis-

sile capable of reliably delivering a nuclear warhead to the U.S. mainland.

Pyongyang's exact motivations for dialing down tensions are as opaque and subject to debate as its motivation for having threatened Guam in the first place. In addition to concerns about further escalation, they appear to have been influenced by Beijing's announcement Monday that it would enforce new trade sanctions and diplomatic statements by senior U.S. officials.

Officials in China, Japan, South Korea and other nations

had been alarmed last week when Mr. Trump threatened to unleash "fire and fury" in response to threats from North Korea, and declared that U.S. military solutions were "locked and loaded."

In many ways, North Korea's announcement on Tuesday that it would hold off—for now—on threats to surround Guam with an "enveloping

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◆ Seoul warns U.S. against unilateral military strike.... A3

◆ North Korea rocket engines linked to Russia, Ukraine.... A3

## Trump Raises Stakes With Xi

BY ANDREW BROWNE

SHANGHAI—By ordering his first trade action against Beijing, while amping up pressure on Chinese leaders to rein in Pyongyang's nuclear menace, U.S. President Donald Trump is bringing to a head two of the most intractable problems that bedevil U.S.-China relations.

**ANALYSIS** There are hints that Mr. Trump's hard-nosed strategy could be having an impact—at least in the near term. After repeated North Korean threats to launch missiles toward the U.S. Pacific territory of Guam, Pyongyang suddenly backed away from that threat Tuesday. And China has signed on to U.N. sanctions that will slash North Korea's already meager foreign revenues by another \$1 billion.

But Mr. Trump's strategy comes with risks; each issue—trade and North Korea—is volatile enough to upset the relationship. Mismanaged, one could ignite a trade war, the other to scenarios that lead to military conflict.

To avoid these dangers, the two sides would have to reconcile clashing views on Asian security, which shape their divergent approaches to North Korea, and incompatible eco-

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◆ China's import ban expected to hinder North Korea.... A2

◆ U.S., Chinese militaries to coordinate more closely.... A3

## India Celebrates 70 Years of Independence



AMONG THE PEOPLE: Prime Minister Narendra Modi greets children in New Delhi after addressing the nation on the 70th anniversary of India's independence from British rule. He vowed to stop graft and called for an end to religious violence after a spate of attacks on minorities.

## WHEN 'NEW AND IMPROVED' FAILS

Insulin maker Novo Nordisk stumbles as customers balk at higher price of latest version of its core product

BY DENISE ROLAND

Danish drug giant Novo Nordisk AS is living through a corporate nightmare that any CEO might recognize from business school.

After the company concentrated on making essentially one product better and better—and charging more and more—customers have suddenly stopped paying for all that improvement. The established versions are, well, good enough.

In Novo Nordisk's case, that prod-

uct is insulin, a hormone that is deficient in people with diabetes.

Since its founding in 1923, the company has made successive waves of better insulin. It is the world's biggest producer of the stuff, and insulin brings in more than half of the company's revenue.

Over the years, that innovation has translated into an ability to charge more and more for the latest version, boosting profit margins and swelling the company's stock price. As diabetes—an incurable disease—

morphed into a global epidemic in recent years, Novo Nordisk's tight focus on insulin provided reliable and growing profits.

Lately, that flow ended. Doctors, health-plan managers and insurers all have balked at paying for Novo Nordisk's newest version of its insulin. Clinical trials show it works as promised in controlling diabetes and delivers significant side benefits compared with its predecessors. But for many customers, all that isn't enough to warrant paying more—be-

cause the older drugs on the market already work pretty well, too. In Europe, the company had hoped to price Tresiba at 60%-70% higher than its previous product.

"The incremental improvements don't seem to justify the premium prices," said Steve Miller, chief medical officer of Express Scripts Holding Co., one of America's biggest pharmacy-benefit managers, a key middleman that buys drugs in bulk on behalf of insurers.

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## More U.S. Homeowners Default on 'Green' Loans

BY KIRSTEN GRIND

Loan defaults in a popular program meant to finance energy-saving home upgrades have increased substantially, despite lenders' claims that few borrowers have missed payments.

The small, high-interest-rate loans were made as part of the Property Assessed Clean Energy program, or PACE, a nationwide initiative designed to help people afford solar panels, energy-efficient air-conditioners and other "green"

appliances. PACE loans are among the fastest-growing types of loans in the U.S.

Private lenders in the PACE program have told Wall Street investors, as well as local and federal government officials, that borrower defaults are rare and that no homeowners have gone into foreclosure as a result of the program, according to investors and public officials.

But a Wall Street Journal analysis of tax data in 40 counties in California—by far the largest market for PACE loans—

Please see PACE page A6

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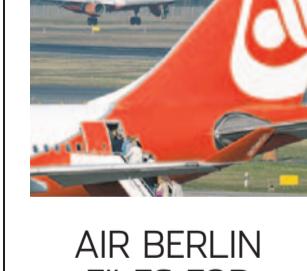
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## Blackstone's \$7 Billion Bet on Gas

Blackstone Group since 2012 has assembled a roughly \$7 billion wager on U.S. natural gas, focused on producing and transporting the fuel from low-cost drilling regions. **B6**

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KDN PP 9315/10/2012 (03275); MCI (P)

NO. 066

## WORLD NEWS

# China's Ban Likely to Hinder Pyongyang

Import sanctions expected to curb lively coal trade, cut back iron ore and seafood

As China throws its weight behind new global economic sanctions against North Korea, a lively trade in coal—legal

By Chuin-Wei Yap in Hong Kong and Eva Dou in Beijing

and through rampant smuggling—is likely to recede further. Shipments of seafood and iron ore will be curtailed for the first time.

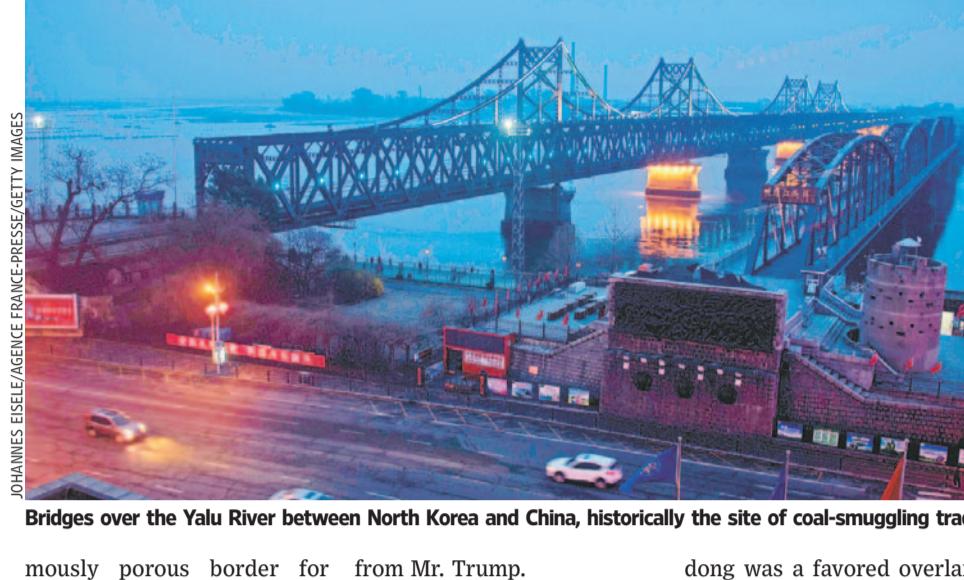
Beijing's latest "total ban" on coal imports from North Korea closes a loophole that had survived an earlier round of sanctions in February, which had allowed for "livelihood" shipments, or exemptions for humanitarian purposes.

China is also targeting iron ore, of which imports from North Korea soared as coal fell, as well as seafood for which it was the primary customer.

The moves will make it harder for North Korea to acquire resources to build up its military capacity, said Zhao Tong, a fellow at the Carnegie-Tsinghua Center for Global Policy in Beijing.

"This is going to have significant impact on the functioning of North Korean industry, especially the defense industry," he said.

The limited coal ban imposed earlier this year surprised some foreign observers by its effectiveness. A fa-



Bridges over the Yalu River between North Korea and China, historically the site of coal-smuggling trade.

mously porous border for smugglers between the two countries had stymied previous attempts to get China to effectively sanction Pyongyang's ambitions for nuclear power.

Since March, however, imports of anthracite—the coal used to power Chinese electric plants—have dropped to zero, China customs data show.

China's latest move comes as U.S. President Donald Trump signed an order Monday to investigate China for alleged intellectual property theft, and amid accusations that Beijing isn't taking a strong enough stand against North Korea.

China's Foreign Ministry said it tightened the screws in response to new U.N. directives aimed at cutting off \$1 billion in Pyongyang's foreign earnings, and not pressure

from Mr. Trump.

Revenue from anthracite at one time provided nearly half of Pyongyang's foreign exchange. Two years ago some 80% of China's anthracite came from North Korea. Imports in 2016 totaled 22.4 million metric tons, giving North Korea \$1.2 billion.

This year, China has imported just 2.67 million tons valued at \$220 million.

North Korea exported \$196 million worth of seafood and prepared fish in 2016, with 97% of that going to China, according to U.N. statistics.

The coal trade in particular shows how active China used to be in North Korea. Commerce was dominated by some 5,000 Chinese companies, some state-owned, trading with North Koreans legally or otherwise, analysts say.

The Chinese city of Dan-

dong was a favored overland entrepôt; the Chinese ports of Rizhao and Dongjiang were established counterparts of Nampo and Songrim in North Korea. Chinese cellphone towers along the countries' 870-mile border extended into North Korea territory, helping to facilitate a lively market for contraband.

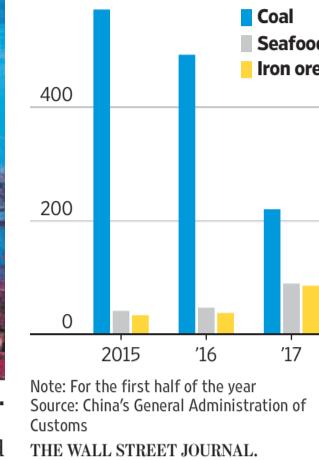
"It's difficult for [smuggled] iron ore or coal to go through normal customs checkpoints, so sometimes they do it by river boats," said Justin Hastings, an international-relations scholar at the University of Sydney who has researched the China-North Korea illicit trade. "Trucks can also go over the frozen river" along the border.

As Beijing turned up the heat, some North Korean smugglers took to meeting Chinese counterparts on the

Yellow Sea to shift cargo, a method favored by trading companies based in the northeastern Chinese port of Dalian, Mr. Hastings said.

## Cutting Off Coal

Chinese imports of North Korean goods



Note: For the first half of the year  
Source: China's General Administration of Customs

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Yellow Sea to shift cargo, a method favored by trading companies based in the northeastern Chinese port of Dalian, Mr. Hastings said.

As coal shipments to China declined, imports of iron ore ticked up, rising 60.3% in the first half from a year earlier to 1.3 million tons, China data show.

Beijing's decision to include the steelmaking ingredient indicates a close monitoring of trading patterns, and a willingness to find new pressure points on Pyongyang.

"There have been reports of iron ore traders encouraged to import less from North Korea, even before the sanctions took place," said Tomas Gutierrez, analyst for Shanghai-based Kallanish Commodities. "As I understand, some companies

were refused new permits to import from North Korea earlier in the year."

For North Koreans, the pain is likely to hit coal workers who were among its more highly paid laborers, analysts say. North Korean colliers earned about 500 yuan (\$75) a month, compared with average salaries at other factories of about 280 yuan.

For the Chinese, the impact is mostly limited to corporate bottom lines. Russian coal carried by rail substitutes costs 50% more than the North Korean commodity; seaborne Australian coal costs 70% more.

"This won't have a lot of impact on the Chinese side, as there already hasn't been a lot of trade going on either way," said Chi Jingdong, deputy secretary-general of the China Iron and Steel Association.

Some analysts doubt if any of the global sanctions would achieve their desired result: to slow North Korea's missile development.

"The nuclear missile programs are the top priority, so when resources become fewer, they will just concentrate them on the nuclear missile programs," Mr. Zhao said.

Neither is it clear how long Beijing's freeze will last.

"Whenever China has wanted to make a point, China seems to hold up trade just enough for North Korea to feel the pain," Mr. Hastings said. "That doesn't mean it will last forever."

—Jonathan Cheng in Seoul and Kersten Zhang in Beijing contributed to this article.

## BROWNE

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nomic systems, which drive trade frictions.

Successive U.S. administrations have delayed the reckoning that Mr. Trump now seeks, precisely because the chances of pulling off such a diplomatic outcome are so improbable.

Indeed, Washington may have missed the opportunity long ago when it

**CHINA'S** had more leverage.

**WORLD** The Chinese economy is now powerful enough to withstand any trade sanctions; it is less dependent on exports, whereas U.S. corporations are more reliant than ever on access to China's consumer markets. A tit-for-tat trade war would hurt both sides, and damage U.S. friends and allies in global supply chains that run through China.

Meanwhile, Chinese President Xi Jinping, riding a wave of assertive nationalism he's helped to whip up, aims to diminish the U.S. presence in Asia and weaken its alliance system. He has no interest in any kind of arrangement for the Korean Peninsula that would strengthen America's position there, and allow Washington to turn its attention to other flashpoints like Taiwan and the South China Sea.

**Some think Trump is deploying Nixonian 'Madman Theory' to influence China.**

Beijing's bottom line: The status quo in North Korea is preferable to the upheaval required to take out its nuclear weapons, most likely including regime change.

White House officials insist there is no linkage between the North Korea issue and Monday's presidential order to examine whether an investigation is warranted into Chinese requirements that U.S. companies give up technology in return for market access, as well as outright intellectual property theft. China, too, insists that trade disputes and North Korea tensions are separate issues.

Yet Mr. Trump has explicitly made the connection. This was the grand bargain he dangled to Mr. Xi: Help me on North Korea, and I'll go easy on trade. He's rapidly losing patience, though. "Our foolish past leaders have allowed them to make hundreds of billions of dollars a year in trade," Mr. Trump tweeted,

"yet they do NOTHING for us with North Korea, just talk."

That's been the U.S. complaint for years. Now, North Korea is on the point of perfecting intermediate-range ballistic missiles able to strike the U.S. mainland.

And mercantilist policies, like forced technology transfers, have become an integral part of China's state-led industrial model, imperiling America's long-term economic prospects.

We're moving toward a climax on two fronts in a crisis atmosphere.

To be sure, Mr. Trump is acting cautiously and deliberately, despite heated rhetoric. An investigation into alleged Chinese trade abuses could take up to a year, leaving ample room for compromise.

On North Korea, he has stressed the need for cooperation, although his threat to unleash "fire and fury" against North Korean Leader Kim Jong Un was as much intended to scare Beijing into action as to rattle the Korean dictator.

Some think Mr. Trump is deploying Nixonian "Madman Theory" to make Chinese leaders believe he is crazy enough to unleash chaos on their doorstep. In a phone call last week, Mr. Xi urged Mr. Trump to "avoid words and deeds that increase tensions."

A nightmare for Beijing is a North Korean collapse that brings U.S. troops pouring across the 38th parallel, running into Chinese forces headed in the opposite direction to impose order, prevent a refugee wave and secure "loose nukes."

Avoiding worst-case scenarios is a challenge as great as any the U.S. and China have faced since diplomatic normalization in 1979.

Henry Kissinger, an architect of that breakthrough, writes in *The Wall Street Journal* that instead of subcontracting to Beijing the task of achieving American objectives on North Korea, the only feasible approach is "to merge the two efforts and develop a common position."

But the gap between Beijing and Washington remains immense.

Hours ahead of Mr. Trump's announcement on trade, Beijing said it would start implementing bans on coal, iron ore, seafood and other products from North Korea. But it won't go so far as to cut off fuel and food supplies.

When it comes to trade, Beijing brought so little to the table during the first round of formal talks with the Trump administration they broke up with no joint statements, action plans or even a news conference. The implication is that China feels no sense of urgency, nor does it fear a showdown.

## KOREA

Continued from Page One  
fire" of intermediate-range ballistic missiles follows a familiar pattern in Pyongyang's playbook.

Two years ago, during another August standoff, North Korea issued a 48-hour ultimatum to South Korea to switch off loudspeakers blaring propaganda critical of North Korean leader Kim Jong Un across the demilitarized zone that separates the two countries, following the explosion of a land mine there that maimed two South Korean soldiers. North Korea threatened to use force to stop the broadcasts.

South Korea ignored the deadline, and days later, North Korea expressed regret for the land mine, dismissed several senior officials and put inter-Korean relations back on what it called a "track of reconciliation and trust." South Korea shut off its loudspeakers.

In March last year, also during U.S.-South Korea military exercises, Pyongyang threatened to attack Seoul's presidential palace unless it received an apology from then South Korean President Park Geun-hye. No apology was forthcoming, and the threat never materialized.

North Korea's threat to Guam was consistent with its record of using strategic brinkmanship to compensate for its relative weakness, said Yang Xiyu, a former Chinese diplomat who has taken part in multilateral talks on North Korea's nuclear program.

"They try to create a situation where North Korea and the U.S. are at the brink of war and if you want to save the whole world, then you have to return to negotiations," he said.

However, Mr. Yang said Pyongyang's climbdown this time came faster than expected. He gave some of the credit for North Korea's apparent reversal to China's rapid implementation Monday of new United Nations sanctions banning North Korean exports of goods including coal, iron, lead and seafood. "The significance is that if China can stop major imports like these, then it can do something further too," he said.

China has resisted U.S. pressure to take bolder measures, such as cutting oil exports to Pyongyang, fearing that might cause the regime to collapse, trigger a flood of refugees into northeastern China and bring U.S. forces closer to its border.

China almost certainly sent back-channel messages to the North Koreans in the past few days warning them against fir-

ing missiles toward Guam, said Dennis Wilder, a former senior China analyst at the Central Intelligence Agency.

Beijing also appeared to indicate displeasure with Pyongyang by proceeding with a long-planned visit to China this week by Gen. Joe Dunford, chairman of the U.S. Joint Chiefs of Staff.

Gen. Dunford signed an agreement with his Chinese counterpart on Tuesday to formalize and increase the level of communication between the U.S. and Chinese militaries. On Wednesday, Gen. Dunford is due to visit China's Northern Theater Command, which oversees Chinese forces on the North Korean border.

On a visit to Seoul before arriving in Beijing on Tuesday, Gen. Dunford said the U.S. military was supporting efforts to find a diplomatic solution to the North Korean crisis, even as it prepared other options.

His comments echoed remarks from other senior administration officials, including Defense Secretary Jim Mattis and Secretary of State Rex Tillerson, who in recent days have sought to moderate Mr. Trump's threats toward North Korea.

Some longtime North Korea watchers say that North Korea had likely never intended to launch four missiles toward Guam. The leadership in Pyongyang may also have been encouraged that, while President Trump raised the rhetorical temperature last week, the U.S. refrained from taking any actions that would signal more of a war footing.

North Korea was particularly sensitive about the dispatching of B-1B bombers from the U.S. Air Force base on Guam, the initial stated impetus for the North's most recent threat, said Euan Graham, director of the international security program at the Lowy Institute for International Policy,

an Australian think tank. The U.S. hasn't conducted any further B-1B flyovers since the threat against Guam.

Mr. Trump's tough talk could also have spooked the North Koreans into fearing that the regime was truly in danger of unleashing a war against the U.S., said Grant Newsham, a senior research fellow at the Japan Forum for Strategic Studies in Tokyo.

"Maybe North Korea felt that they had pushed it a little too far, at least for now," said Mr. Newsham, a retired U.S. Marine colonel. "Now you've got a president who is certainly a different kind of president, and when Kim starts talking big, Trump says 'I see you and raise you one.' "

But any lull in tensions could prove ephemeral.

"I don't think they've taken the threat off the table," said Adam Mount, senior fellow with the left-leaning Center for American Progress think tank in Washington.

The North's statement now appears to tie a Guam launch to the coming military exercises, Mr. Mount said.

Much could depend on whether the U.S. sends major assets, such as aircraft carriers, to participate, or stages

lower-key drills.

Ahead of those exercises, Gen. Vincent Brooks, the top American military commander in South Korea, on Monday played down questions about whether the U.S. was planning to deploy more "strategic assets" to the Korean Peninsula. The phrase "strategic assets" typically refers to nuclear weapons, stealth bombers or aircraft carriers—all of which tend to trigger complaints from Pyongyang.

—Lucy Craymer in Hagatna, Guam, contributed to this article.



Kim Jong Un is shown visiting his forces in a photo distributed Tuesday by North Korea's government.

KOREA NEWS SERVICE/ASSOCIATED PRESS

THE WALL STREET JOURNAL.  
Dow Jones Publishing Company (Asia)  
25/F, Central Plaza, 18 Harbour Road,  
Hong Kong  
Tel: 852 2573 2101 Fax 852 2834 5291

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Advertising: Hong Kong: Euroen Limited, Block 1, Tai Ping Industrial Centre, 57 Ting Kok Road, Tai Po, Hong Kong; Indonesia: PT Gramedia Printing Group, Jl. Palmerah Selatan 22-28, Jakarta 10270; Japan: Mainichi Newspapers Co., Ltd., 1-1 Hitotsubashi, Chiyoda-ku, Tokyo 100-8051; Korea: JoongAng Ilbo, 100 Seosomun-ro, Jung-gu, Seoul, 100-814; Publisher/Printer: Song Pih-Ho, Malaysia:Dasar Cetak (M) Sdn Bhd, Lot 2, Jalan Sepana 15/3, Off Persiaran Selangor, Seksyen 15, 40200 Shah Alam, Selangor, Malaysia; Singapore: Singapore Press Holdings Limited, 2 Jurong Port Road SPH Print Centre, Singapore 619088

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# WORLD NEWS

## Seoul Warns U.S. on North Korea Action

President says Trump needs his consent for military strike, renews calls for discussions

South Korea's president warned that the U.S. would need Seoul's consent for any military action on the Korean Peninsula and renewed calls

By Jonathan Cheng  
in Seoul  
and Lucy Craymer  
in Hagatna, Guam

for talks with the North, addressing the country's concerns about becoming ground zero for a catastrophic war it didn't start.

The comments by President Moon Jae-in followed a week of brinkmanship that ended on Monday when North Korea backed away from a threat to fire missiles at Guam.

The South Korean leader extended the olive branch in a speech on Tuesday on the 72nd anniversary of Japan's surrender in World War II. He called on North Korea to suspend nuclear and missile tests as a precondition for talks, and offered a fresh invitation for the North to attend next year's Winter Olympics in South Korea.

In a message that appeared to be aimed at Washington, he said allied military action could be taken on the Korean Peninsula only with the consent of South Korea, an implicit signal that Mr. Moon



President Donald Trump hosted South Korean President Moon Jae-in at the White House in June.

tary should reclaim operational control of its forces under wartime conditions. Under terms of the alliance between Washington and Seoul, the U.S. assumes operational control of the South Korean military in war.

"We cannot rely only on our ally for our security," Mr. Moon said in Tuesday's speech. "When it comes to matters related to the Korean Peninsula, our country has to take the initiative in resolving them."

Experts disagree on whether the U.S. would be legally obliged to seek Seoul's approval before launching a military strike, particularly if the U.S. believed that its national security was at stake. At a minimum, any move to act first against North Korea without the South's buy-in, as the president's speech indicated, would risk straining the alliance.

Euan Graham, director of the international security program at the Lowy Institute for International Policy in Sydney, said it was clear that Mr. Moon was pushing for more of an assertive role in dealing with Pyongyang.

"South Korea feels neglected and forlorn, especially when the crux of Trump's policy is to use China and North Korea as leverage," he said.

But Mr. Graham also cautioned that Mr. Moon's speech may have been aimed at pleasing a domestic audience on the anniversary of Korea's liberation from Japanese occupa-

tion, rather than marking a major break with the U.S.

To be sure, Mr. Moon has stressed close cooperation with the U.S., particularly following North Korea's first two test launches of intercontinental ballistic missiles last month, several weeks after he took office.

After the second such test on July 28, he reversed policy by ordering the redeployment of a controversial U.S. missile-defense system whose full deployment he had previously ordered a hold on. China strongly opposes the system, known as Terminal High-Altitude Area Defense, or Thaad, and views it as a threat to its security.

He has also upgraded South Korea's Patriot missile-defense systems and presided over a joint U.S.-South Korean drill in the hours after North Korea's most recent launch.

In Tuesday's speech, which followed a meeting in Seoul with Gen. Joe Dunford, the chairman of the U.S. Joint Chiefs of Staff, Mr. Moon reiterated his support for more sanctions on Pyongyang, in line with the U.S. approach.

"The past history of the North Korean nuclear problem showed that a clue to resolving the problem was found when sanctions were combined with dialogue," he said.

But Mr. Graham also cautioned that Mr. Moon's speech may have been aimed at pleasing a domestic audience on the anniversary of Korea's liberation from Japanese occupa-

wouldn't tolerate any unilateral action by the U.S. to strike North Korea. It reflected the difficult situation the new president finds himself in at the center of a crisis driven by other countries.

"War must never break out again on the Korean Peninsula. Only the Republic of Korea can make the decision for military action on the Korean Peninsula," he said, using the country's formal name.

The U.S. Embassy in Seoul declined to comment on the speech. There was no immediate reaction from North Korean state media.

Mr. Moon's remarks come

amid concerns among policy makers in Seoul that South Korea is being sidelined during the current standoff between the U.S. and North Korean leader Kim Jong Un.

They also reflect anxieties that South Korea, and especially its capital, could bear the brunt of North Korean firepower in the event of an armed conflict.

Mr. Trump has repeatedly portrayed China, Pyongyang's largest trading partner and ally, as the key to reigning in the regime's nuclear and missile program. That has left Mr. Moon, the son of North Korean refugees and the first

left-leaning president in nearly a decade, pushing for a greater role for Seoul in addressing the crisis.

Mr. Moon has called for closer cooperation between North and South Korea, and sought a summit meeting with Mr. Kim, asserting a more dovish position than Washington. And he has said repeatedly that the future of the Korean Peninsula should be decided by Koreans.

But Mr. Moon's most striking remarks concerned South Korea's relationship with the U.S., its most important ally. In the past, Mr. Moon has argued that South Korea's mili-

ary

crisis are "in place, locked and loaded." Separately, Mr. Trump and Chinese President Xi Jinping discuss North Korea in a telephone conversation. China says it urged restraint. The U.S. says the leaders affirmed the importance of the new sanctions.

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In recent months, China has been bolstering border

defenses and modernizing and retraining forces in the Northern Theater Command to prepare for a potential crisis in North Korea, including the possibility of an American military strike, say military experts.

China has long feared that regime collapse in Pyongyang would create a united, democratic, and pro-American Korea, trigger a flood of North Korean refugees into northeastern China, and bring U.S. forces closer to the Chinese border.

China's contingency plans range from establishing refu-

gee camps across the border to seizing North Korean nuclear facilities, and sending forces to prevent U.S. and South Korean troops from advancing beyond the 38th Parallel, military experts say.

Beijing has repeatedly rebuffed U.S. requests to discuss planning for North Korean contingencies, U.S. officials say.

In recent weeks, however, China has shown signs of willingness to establish better mechanisms to communicate with the U.S. military in the event of a crisis, they say.

Late on Tuesday, Gen. Dunford signed the Joint Staff

Dialogue Mechanism with his Chinese counterpart, Gen. Fang Fenghui, at the ceremonial headquarters of the People's Liberation Army, or PLA. The agreement calls for a formal dialogue to commence in Washington in November, U.S. military officials said. The context of North Korea was clear as the two sides met.

"The last several months have incentivized both sides to take this step," said one U.S. military official.

Officials stressed that the new agreement was a "hopeful first step" in bringing closer together the two militaries so they can coordinate better. But they cautioned it would only be valuable if it led to substantive discussion between the Pentagon and the PLA.

"We hope this leads to reducing the risk of miscalcula-

tion, but it is only useful if it leads to communication that actually reduces the risk of miscalculation," said the U.S. military official.

Military exchanges between the two sides are already limited by U.S. law and American officials stressed that the two sides wouldn't begin to cooperate under the deal but would at least be able to prevent misunderstanding about each other's actions.

The perils of miscommunication have grown higher since North Korea's threats and U.S. President Donald Trump's counterthreats created a crisis in the region.

"Military to military relations will result in mitigating the risk of miscalculation, and making sure that we have the ability to communicate in a crisis," Gen. Dunford said earlier this week with a clear eye on North Korea.

## U.S., China Militaries Edge Closer

By GORDON LUBOLD  
AND JEREMY PAGE

BEIJING—The Pentagon's top military officer will make a rare visit on Wednesday to the Chinese armed-forces command that oversees the territory bordering North Korea, a move experts say suggests Beijing's displeasure with Pyongyang.

Chairman of the Joint Chiefs of Staff Gen. Joe Dunford, the officer, also signed a deal with his Chinese counterpart on Tuesday to formalize and increase operational communication between the U.S. and Chinese militaries, officials from both sides said.

Gen. Dunford's visit was planned well before North Korea threatened to attack Guam, but the two developments reflect mounting concern on both sides that the crisis over North Korea's nuclear and missile programs could lead to military miscalculations between the U.S. and China, analysts said.

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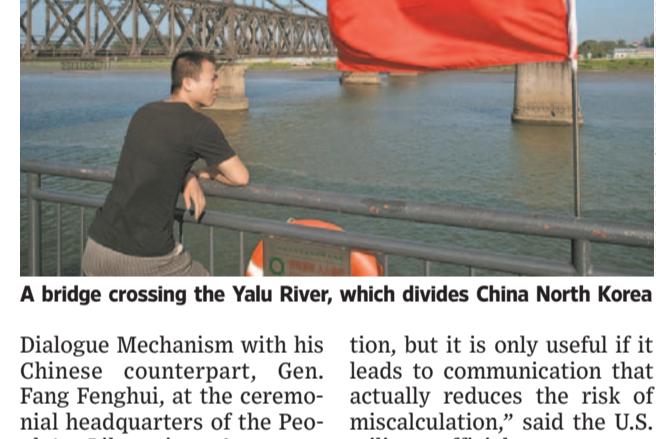
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A bridge crossing the Yalu River, which divides China and North Korea.

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## Report Ties Pyongyang's Rocket Engines to Russia, Ukraine

The rapid advance of North Korea's intercontinental ballistic missile program has prompted questions about whether Kim Jong Un's regime obtained Soviet-designed rocket engines illicitly from Ukraine or Russia.

By Paul Sonne  
in Washington  
and James Marson  
in Kiev

The liquid-propellant rocket engines North Korea has been using in recent tests resemble the RD-250 and were probably acquired through illicit channels originating in Ukraine or Russia, where the complex rocket engine was designed, a report from the International Institute for Strategic Studies said on Monday.

Michael Elleman, author of the report, said the single combustion-chamber version of the RD-250 rocket engine that resembles what the North Koreans are testing likely traces back to Ukraine's Yuzhnoye State Design Office or Russia's

Energomash, two state defense companies involved in designing the engine in the past. Both defense contractors played critical roles in the Soviet Union's ballistic-missile program.

"The actual sourcing to me is still an open question," Mr. Elleman, a missile expert, said in an interview. He said it was unlikely that either the Ukrainian or Russian governments had any knowledge about a rocket engine sale to North Korea and posited that Mr. Kim's regime somehow obtained the engines through illicit networks.

Elleman didn't respond to a request to comment.

Whether North Korea has the capacity to produce such rocket engines itself domestically is a matter of debate. Mr. Elleman believes it is far more likely that Pyongyang somehow smuggled dozens of engines from a place such as Ukraine, where they may have been available in factories or storage facilities, given the complexity of the technology.

"The engine itself could fit into a box that's 1 by 1 by 2

## WORLD NEWS

# Iran Threatens to Restart Nuclear Program

President says he will back out of deal if U.S. continues to impose sanctions on Tehran

Iranian President Hassan Rouhani threatened to revive his country's nuclear program if the U.S. continues to pile on sanctions, in a direct warning on Tuesday that he is prepared to tear up a deal that set the stage for Iran's opening to the West.

By Aresu Eqbali  
in Tehran, Iran,  
and Asa Fitch in  
Riyadh, Saudi Arabia

Mr. Rouhani didn't specify a threshold that would trigger Iran's departure from the 2015 nuclear deal with six world powers, including the U.S., but, in a fresh escalation of tensions, he said the country could react swiftly if it chose to restart its efforts.

"Iran will certainly return to conditions much more advanced than before the negotiations started in a short period, not on a weekly or monthly scale, but on a daily and hourly scale" if the U.S. continues leveling sanctions, Mr. Rouhani said.

At a time when the Trump administration is also trading threats with North Korea over its nuclear program, the comments threaten to exacerbate already tense relations with the U.S. under President Donald Trump, whose election



ATTA KENARE/AGENCE FRANCE PRESSE/GETTY IMAGES

President Hassan Rohani's warnings threatens to exacerbate already tense relations with the U.S. under President Donald Trump.

produced an about-face in American policy toward Iran.

Though Mr. Trump has certified that Iran is still in compliance with the accord, the president has lashed out at Tehran over its continued ballistic-missile tests and support for U.S.-designated terrorist groups in the region. His administration put new sanctions on Iran-related entities,

mostly connected to its ballistic-missile program, in February, May and July.

Iranian forces have also had a fraught recent string of interactions with American naval forces in the Persian Gulf.

An Iranian drone came within 100 feet of an American F/A-18 Super Hornet fighter jet as it prepared to land on the USS Nimitz aircraft carrier a

week ago, an incident the U.S. military described as unsafe and unprofessional.

Another Iranian drone made close passes to the Nimitz on Sunday, coming within 1,000 feet of U.S. aircraft, the military said.

Iran's Islamic Revolutionary Guard Corps, a powerful force separate from the regular military that answers only to Supreme Leader Ayatollah Ali Khamenei, said Monday that the U.S. claims of a dangerous approach by an Iranian drone were baseless.

"The Guards' drones will constantly continue their patrol within the framework of protecting the Islamic Republic's borders, regardless of the psychological atmosphere created by foreign forces in the

Persian Gulf," the IRGC said in a statement carried on its official news website.

Iran's nuclear deal with the six powers was reached amid a foreign-policy push by former President Barack Obama. It placed limits on Iran's ability to enrich uranium and other nuclear materials, addressing concerns abroad that it was working to develop nuclear warheads. Iran in exchange got relief from international sanctions.

There is no mention of missiles in the text of the deal, although a United Nations Security Council resolution tied to its implementation called upon Iran to refrain from developing missiles designed to carry nuclear weapons.

The Trump administration latest moves skirt provisions in the deal that disallow the reimposition of sanctions.

Iran responded to renewed U.S. sanctions pressure by imposing sanctions of its own against American entities, among them numerous defense companies that have no dealings with the country.

Iranian officials have argued that the missile tests don't violate the nuclear deal because they're intended for defense and aren't designed to carry nuclear warheads. Iran's most advanced missiles can reach Israel.

The Iranian parliament on Sunday nearly unanimously passed a bill that would allocate more than \$300 million to the missile program, among other spending on military projects.

## U.K. Offers EU Broad Customs Deal

BY JASON DOUGLAS

LONDON—The U.K. government proposed a far-reaching customs arrangement with the European Union that it said would eliminate the need for border checks on imports and exports after Brexit.

The "new customs partnership" with the EU was one of two suggestions the government put forward on Tuesday in a paper detailing its thinking on customs before resuming talks with Brussels this month over terms of Britain's withdrawal from the EU.

The proposals highlight the complexity of negotiating Britain's EU exit after more than 40 years in the bloc. British officials acknowledged that their borderless customs idea was without precedent in international trade.

In the paper, one of several due to be published in the coming days on various issues, the U.K. set out a two-stage approach to giving up its place in the EU's customs union and moving to new arrangements for policing trade in goods with the EU. It hasn't yet spelled out its thinking on services trade, which accounted for 45% of British exports in 2016.

As a first step, the U.K. said it proposed to leave the customs union when it exits the EU in March 2019. Goods move freely between union members but imports from outside EU borders face common tariffs.

The U.K. said it would seek to negotiate a temporary customs deal that broadly mirrors that arrangement but, critically, would enable it to negotiate its own free-trade deals with non-EU countries—though those agreements



Brexit secretary David Davis, seen Tuesday, said a customs arrangement could last around two years.

couldn't go into force until after the temporary agreement had expired. As an EU member, the U.K. can't currently negotiate its own free-trade accords, which proponents of Brexit tout as one of the biggest potential prizes of withdrawal.

David Davis, Brexit secretary, told the British Broadcasting Corp. he anticipates this temporary phase would last "something like two years," meaning it would come to an end before a scheduled election in the U.K. in 2022.

The U.K. offered two proposals for longer-term customs arrangements with the EU to take effect after that transition phase has passed.

The government's more ambitious proposal called for a new partnership between the

EU and the U.K. that it said would eliminate the need for customs checks entirely between the EU and U.K.

The paper said this could be achieved by preventing goods from abroad that don't comply with the EU's rules from leaving the U.K. for the EU market, while collecting the correct EU taxes on goods destined for the EU market. This would require monitoring U.K. imports from non-EU countries to determine whether they were bound for the EU.

Officials described this approach as "innovative and untested" in international trade. It isn't clear whether the EU would be willing to sign up to such an arrangement if it proved practically possible.

The government's second proposal sketched out a more modest, "streamlined" customs arrangement that would rely on a combination of existing EU agreements with other countries and technological fixes to reduce delays at borders and similar impediments to trade.

It said this approach would likely mean "an increase in administration" for businesses compared with current arrangements.

The government's proposals drew a mixed response. Keir Starmer, Brexit spokesman for the main opposition Labour Party, described them as "incoherent and inadequate," though they were welcomed by the Institute of Directors, a business lobby group.

—Jenny Gross contributed to this article.

## Germany Reports Robust Economy

BY NINA ADAM

FRANKFURT—Germany maintained its solid economic performance, despite an unexpected yet mild slowdown in the second quarter.

Its gross domestic product grew at a 0.6% in the three months through June, or 2.5% in annualized terms, the Federal Statistical Office said Tuesday. Economists polled by The Wall Street Journal forecast an annualized pace of 2.8%.

Germany's economy hence lagged behind the U.S., which expanded at an annualized pace of 2.6% in the period, but slightly outpaced the 2.3% growth in the 19-country euro currency zone.

"The economy looks strong and robust," supported by domestic demand, said Andreas Rees, UniCredit's chief Germany economist.

Illustrating the trend, Germany's statistics body lifted its quarterly growth estimate for the first quarter to 0.7%, or an annualized pace of 2.9%, from an earlier estimate of 0.6%.

As a consequence, and following revisions to GDP data before 2017, economists at Commerzbank raised their growth forecast for the German economy to 2% this year from an earlier estimate of 1.6%.

Economists say that a robust economy is likely to play into the hands of Chancellor Angela Merkel, who has maintained a comfortable polling lead ahead of general elections on Sept. 24.

It is also likely to bolster expectations that the European Central Bank will begin to phase out stimulus measures next year, amid increasing signs that the region's recovery is broadening, economists say.

Germany's statistics body said that "positive impulses" in the second quarter came from domestic demand, as spending by households and the government increased "markedly." Corporate investments in plant and machinery also increased from the first quarter.

Foreign trade, however, weighed on Germany's performance, it said, because imports grew more strongly than exports, on a quarterly basis. A detailed GDP report is due Aug. 25.

Looking ahead, the euro's appreciation in recent months poses a risk to future exports, economists say, as it erodes the international competitiveness of goods produced in the region.

But many forecasters say that Germany's economy should maintain its solid performance in the next few quarters. The Ifo institute recently described the mood among companies as "euphoric" and Germany's VDMA engineering federation said this month that the sector has entered the second half of the year "with a spring in its step."

"All in all, the German economy is still thriving and currently the biggest risk is probably policy complacency," said Carsten Brzeski, an economist at ING.

## Judges Refer QE Stimulus Challenge to European Court

BY TODD BUELL

Germany's constitutional court said it was referring a challenge to the European Central Bank's large-scale bond-buying program to the European Union's Court of Justice, delaying efforts to set up a legal block to the scheme, but still giving some hope to its opponents.

The German court expressed reservations about the legality of the ECB's signature scheme on Tuesday and requested an "expedited procedure" to push the European court to deal with its case quickly.

"It is doubtful whether the [QE] decision is compatible with the prohibition of monetary financing," it said in a statement.



ULI DECK/DPA/ZUMA PRESS

the court's move.

Christian Lindner, head of the pro-business Free Democratic Party, told Germany's *Rheinische Post* newspaper

that the program represented "the financing of public debt through the backdoor."

"We respect the independence of the ECB, but of course it is also bound by the law," he said.

The ECB's current quantitative-easing program, unlike OMT, buys bonds of countries from across the eurozone, rather than from a specific set of troubled states. The scheme started in March 2015; the current purchase volume is €60 billion (\$71 billion) a month and is due to remain in place until the end of 2017. Economists expect the central bank to gradually reduce purchases thereafter.

Markus Kerber, a Berlin-based law professor, filed an injunction in late May to try to get the German court to force the Deutsche Bundesbank to stop participating in QE. Though the ECB centrally decides bond purchase quantities, national central banks

do most of the buying—effectively in proportion to the size of their country's economy. The Bundesbank is the largest purchaser of bonds under the program.

Mr. Kerber said he was "pleased with the decision" of the German Court and said this case was different from OMT because the former had never been used. "Then they were talking about a case that's fictitious."

Noting the court's move, the ECB said it believed its asset purchases were "fully within our mandate." The bank added that the program remained "fully operational, in line with previous Governing Council statements."

The German Bundesbank declined to comment on the move.

## WORLD NEWS



WILL SWANSON FOR THE WALL STREET JOURNAL

Commuters waited Monday at a bus station in the central business district of Nairobi, but pockets of the Kenyan capital have been rocked by demonstrations following last week's presidential election.

# Kenyan Election Exposes Society's Rifts

BY MATINA STEVIS  
AND JOE PARKINSON

NAIROBI, Kenya—A week after a hotly contested presidential election, this nation's tribal and economic divisions have been laid bare in Nairobi.

In affluent districts of this bustling capital, traffic has returned, and voters gather in upmarket cafes to toast the reelection of President Uhuru Kenyatta.

Just minutes away, in the slums of Kibera and Mathare, smoke rises from tires burning in the streets, and supporters of opposition candidate Raila Odinga fight police in deadly clashes.

"What I've learned from my first time voting is you vote, you lose, you get beaten up," said Vincent Ochieno, 22 years old, a teacher from Mathare, in eastern Nairobi. As some residents picked through a vast mound of trash in the center of the slum, he said he didn't want to protest, as nothing would change: "Why should I go out and vote again?"

In the heart of Nairobi's booming business district on Monday, employees hurried back to work, ignoring Mr. Odinga's call that voters should strike to protest the election. On Tuesday, the Kenyan stock index rose to a three-year high,

up more than 25% since the beginning of the year.

But in opposition strongholds-dominated by the poorest members of minority tribes—angry voters are responding to Mr. Odinga's claim that Mr. Kenyatta rigged the election. It is a charge Mr. Odinga's Luo tribe has leveled repeatedly at Mr. Kenyatta's majority Kikuyus since Kenya became a multiparty democracy in 1992.

The persistent polarization of this city of about four million has been thrown into a sharper focus by the election, raising fears that years of dynamic economic growth envied across the continent has failed to ease tribal grievances and inequality that could be a time bomb for east Africa's richest economy.

"One of the striking things for everyone in Nairobi was that much of the city was eerily quiet and in other areas we saw extreme violence," said Justin Willis, an Africa specialist at the University of Durham who was in the city to observe elections. "It reflects a geography of economic and tribal separation that many in Kenya fear poses the gravest threat to their society's law and order."

Mr. Kenyatta urged Mr. Odinga on Monday to order

his supporters off the streets and to take his claims of vote-rigging to the courts. Mr. Kenyatta's appeal followed a weekend of election-related violence; by Monday, the death toll had reached 17, according to the Kenyan Red Cross.

Analysts say that in pockets of Nairobi, robust economic growth has helped create a middle class that has chipped away at historic tribal affiliations. Yet, a decade after post-election violence left more

Luos, with some 13% of the population, are the fourth-largest tribe, according to the latest census in 2009.

Tribal arithmetic can be complex and in flux, often making other tribes the kingmakers: the Kalenjin, the country's third-largest tribe, is aligned with the Kikuyus; the Luhyas, the second-largest, with the Luos.

The Kenyatta-Odinga rivalry dates to those first post-colonial days, when Uhuru's father,

them, including the most recent, were rigged.

In Mathare, the sprawling area that houses some 500,000 on Nairobi's eastern flank, hundreds of Mr. Odinga's supporters have been facing off with riot police, demonstrating about what they consider an unfair election. Some shouted, "No Raila, no peace!"

With her right arm swaddled in a cast, Leticia Achieno, said security forces barged into her home and beat her with a baton after claiming to see protesters entering her doorway. "I put my hand up to protect my head, and they broke all my fingers," she said.

The injuries and deaths have deepened the sense of injustice here. Stefanie Moraa, a 9-year-old girl, was killed by a stray police bullet on Saturday in the heart of Mathare. "She was just a girl, she was only playing," said her mother Damagrin Marube. "She didn't vote, she didn't protest, why would they kill her?"

The police have said they are investigating the incident.

Some say Mr. Odinga, who addressed thousands of young, poor men in the slums Sunday and asked them to continue supporting him, is mobilizing them to maintain pressure on the government.

"He's like the chess player

who has used his queen, used his bishop and is now down to his pawns to fight," a senior Western diplomat said.

Seven miles away, in the well-heeled neighborhood of Westlands, young middle-class Kenyans spoke not of divisions but of the election's success and the closing of traditional tribal rifts.

Shoppers on Monday were strolling around Westgate, the recently reopened shopping mall that has become a symbol of Nairobi's resilience after being devastated in 2013 by a jihad attack.

Cindy Thairu, 24, a criminology student at Nairobi University, said she was frustrated her peers in poorer areas were, in her view, sacrificing themselves in vain.

"Young people are out fighting for people who are up there [in power], drinking together, enjoying together, and who don't care one bit about them in the grass roots," she said.

Like many here, she hopes education will help Kenya inch closer to transcending tribal politics.

"At university, I've made friends from across the country, from all sorts of backgrounds," she said. "Don't be poisoned by your parents, just because they keep a hatred. We are new, we want change. Our blood is the same."

## Divisions, many along tribal lines, cast a shadow on economic dynamism.

than 1,000 people dead, tribal rifts continue to frame politics in this city and the country.

Mr. Kenyatta and his deputy, William Ruto, were charged with crimes against humanity by the International Criminal Court following the bloodshed. The charges were later dropped, and both denied them.

The Kikuyus are the largest and economically dominant tribe in Kenya, representing about 22% of the population. They organized most successfully against the British and so secured the first fruits of independence in 1964. Mr. Odinga's

Jomo Kenyatta, appointed Raila's father, Oginga Odinga, as his vice president in the country's first black-led government.

The men clashed, and Mr. Odinga left the government to form the leftist Kenya People's Union party in 1966. Mr. Kenyatta banned the movement in 1969 and put his former ally in government detention.

In recent decades, Mr. Odinga, 72, has assumed his father's role as a thorn in the government's side. He has run four losing presidential campaigns; he claims three of

them, including the most recent, were rigged.

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## WORLD WATCH

INDIA

### Modi Vows to End Graft in His Country

Prime Minister Narendra Modi pledged in his Independence Day speech to wipe out corruption and usher in good governance, urging people to help him build a prosperous and united "New India."

In a speech marking the anniversary of India's independence from Britain, Mr. Modi pledged to bring in transparency to end decades of graft.

Speaking from the Red Fort, a sprawling 17th-century fortress in the heart of New Delhi, Mr. Modi hailed his government's efforts in recent months to cut graft, including the surprise decision to withdraw large currency notes and an overhaul of taxes on goods and services that he said had brought billions of dollars of unaccounted money into the mainstream economy.

Although his government has been pursuing a tough line in the Indian-controlled part of disputed Kashmir, Mr. Modi urged a more conciliatory approach toward Kashmiri people, saying rather than resort to abuse or bullets, efforts should be made to "embrace" the people and bring them into the mainstream.

—Associated Press

AUSTRALIA

### Lawmaker Withdraws Government Backing

The government's fragile grip on power weakened after an independent lawmaker said he could withhold backing for the ruling conservatives amid a scandal over rules barring politicians from holding dual citizenship.

Bob Katter, a maverick member of Parliament, offered support for the conservatives to form a government last year after cliffhanger national elections, in return demanding funding for expensive dam and rail projects, curbs on migration and a halt to foreign farm purchases.

Prime Minister Malcolm Turnbull eventually formed a government with a bare majority of one in the lower house, without needing Mr. Katter.

After Deputy Prime Minister Barnaby Joyce became the fifth lawmaker to fall afoul of a constitutional rule stating that federal parliamentarians must not owe allegiance to a foreign power, Mr. Katter said Tuesday his support was no longer guaranteed should the government's survival again be put in doubt. Mr. Joyce said Tuesday he had formally renounced his New Zealand citizenship.

—Rob Taylor

## Sierra Leone Mudslide's Death Toll Tops 300

BY JOE PARKINSON

The scale of the devastation from a mudslide in Sierra Leone came into sharper focus as the death toll topped 300 and the government called for urgent international aid to help prevent a cholera outbreak.

Days of storms and floods caused a densely populated hillside to collapse on Monday in a district around 15 miles east of the capital Freetown, engulfing dozens of homes. By Tuesday afternoon, the number of confirmed dead had reached 312 and was expected to rise, the International Red Cross said. More than 600 people are missing and thousands are believed to have lost their homes, the agency said.

A mass burial was to be held Tuesday evening to free up space in Freetown's central morgue, which was swamped by panicked family members looking for loved ones. Hundreds of volunteers scoured mounds of debris in the hunt for survivors.



Rescue teams and soldiers searched near a mudslide and damaged building near Freetown on Tuesday.

"Everybody here has lost loved ones," Unisa Carew, a volunteer working in Freetown's central hospital, said in a telephone interview. "We've blocked them from entering the hospitals and morgues, but the area is tense and over-crowded."

The mudslides have overwhelmed authorities in one of the world's poorest nations. Less than two years ago, Sierra Leone emerged from an Ebola pandemic that left some 4,000 people dead.

President Ernest Bai Koroma on Tuesday declared a state of emergency and said the country needs "urgent support now" for the thousands of survivors.

"This tragedy of great magnitude has once again challenged us to come together, to stand by each other and to help one another," he said in a televised address.

Relief workers, although aided by hundreds of volunteers, said they were struggling to cope with the workload.

"I've never seen anything like this....The hospitals and morgues are full, there are bodies everywhere but we can't identify them," said Abu Bakar Tarawellie, a Red Cross disaster manager.

"There are more than 25 houses submerged in mud but we only have one bulldozer," he added.

Aid agencies said help was needed to mitigate the risks of cholera and other diseases that could spread in the stagnant floodwater.

## U.S. NEWS

# Police Scrutinize Strategy for Protests

Some law-enforcement experts and activists criticize local, state response in Virginia

By ZUSHA ELINSON

Violent clashes between white-nationalist groups and their opponents are testing local police, particularly smaller law-enforcement departments unaccustomed to dealing with large protests.

Some policing experts and protesters are criticizing state and local police in Virginia after Saturday's chaotic protests in Charlottesville turned deadly.

Fights broke out between white nationalists gathered to protest the removal of a statue of Confederate Gen. Robert E. Lee and crowds who arrived to demonstrate against them. A car smashed into a group of counterprotesters, killing 32-year-old Heather Heyer and injuring 19 others.

The alleged driver, James Alex Fields Jr. of Ohio, who espoused white-supremacist views, was arrested and charged with second-degree murder. Two state troopers died when their helicopter crashed while monitoring the clashes.

Former and current police chiefs said when opposing groups come together in a charged atmosphere, efforts should focus on avoiding physical clashes.

"The goal there has to be keep them separated," said Charles Ramsey, a retired chief who led police departments in the cities of Philadelphia and Washington.

Local police in Charlottesville "may not have had enough resources, and if they did, there were clearly problems with how they were de-



Virginia State Police cordoned off an area around the site where a car ran into a group of protesters in Charlottesville on Saturday.

ployed," he said.

At a news conference Monday, Charlottesville Police Chief Al Thomas said police had intended to keep the two groups apart. "Unite the Right" protesters had agreed to enter Emancipation Park from the rear entrance, but they strayed from the plan, he said.

"They began entering at different locations," he said, making it difficult for police to control the crowd and separate the factions.

A spokesman for Unite the Right didn't respond to a request for comment.

Corinne Geller, a spokeswoman for the Virginia State

Police, who were assisting local police, also said the plan was to keep the two sides separated.

"There were physical barriers to separate those opposing sides and law enforcement as well; however, individuals chose to assemble on the streets," she said. "We are not in a position to tell people where to assemble."

Ms. Geller said in the early going, conflicts would "flare up and people would dissolve into the crowd," making it difficult for police to find them.

"We recognized that there was a serious potential for violence," Ms. Geller said. "We recognized that in advance,

and we came prepared to respond."

Police responded to 250 service calls Saturday, she said, then ordered the crowd to disperse when things grew too violent. She declined to say how many state troopers were deployed. Charlottesville, with a population of about 47,000, has 114 sworn officers, according to the Federal Bureau of Investigation's 2015 tally.

In the past several years, large demonstrations have swept across the country, beginning with protests against police brutality. During the 2016 presidential campaign, rowdy crowds faced off with protesters at Trump rallies.

More recently, there have been violent clashes at universities.

In Seattle, police are deployed to more than 300 protests each year, according to police officials. Seattle police have taken a more strategic approach since the mass protests against the World Trade Organization in 1999 in which they were criticized for being unprepared and using too much force.

On Sunday, a day after the violence in Charlottesville, a right-wing rally drew a large contingent of counterprotesters in Seattle.

The goal of the Seattle police Sunday was to keep the two groups apart, Seattle Po-

lice Chief Kathleen O'Toole said.

"When one group started to march, when they tried to directly confront the rival side, we had our personnel reroute the march in a safer direction," she said.

Chief O'Toole said that one of the keys to Seattle's response to protests now is a group of police officers on bicycles who help "facilitate the marches, control traffic and as a last resort they're used to form a fence line."

On Sunday, for instance, a group of officers used their bicycles to block the path of some protesters.

"I've always felt if you send riot police at the start, you can assume there'll probably be a riot," she said. "The bicycle officers are able to start with a bit softer approach; they're accessible and they engage with the protesters."

Seattle police made three arrests, and there were no reports of injuries, she said.

Chief O'Toole said she wouldn't second-guess police in Charlottesville.

"I know how difficult and volatile these challenges are," she said. "Even in Seattle, where we do hundreds of demonstrations a year, things can go awry."

In Boston, city officials are bracing for a planned "free speech" rally of conservative activists on Saturday that they expect to draw big crowds and counterprotesters.

"Right off the bat, our intention is to not let the two groups together," Mayor Marty Walsh said.

In Charlottesville, "both sides were able to connect," he said. "In our city, we will do everything we can so that those two sides never connect."

—Jennifer Levitz contributed to this article.

## Massachusetts Gears Up for a 'Free Speech' Rally

By JENNIFER LEVITZ  
AND JON KAMP

Officials in Massachusetts' largest city are gearing up for what they fear could be a large and contentious rally and counterprotest on Saturday, only a week after a deadly white-supremacy event in Charlottesville, Va.

Boston Mayor Martin J. Walsh on Monday said he would encourage a group planning to hold the "Boston Free Speech Rally" not to come to the city while the "wound and the pain is very fresh" from the Charlottesville tragedy, but he and other officials said they planned to deploy a large public-safety presence if the event went on.

"We will do every single thing in our power to keep hate out of our city that believes in free speech," the mayor, a Democrat, said at a news conference at City Hall Plaza, flanked by Republican Gov. Charlie Baker, Boston's police commissioner and community leaders. "But we will not tolerate threatening behavior. We will not have it," Mr. Walsh added.

Meanwhile, two planned



Massachusetts Gov. Charlie Baker, left, and Boston Mayor Martin J. Walsh in the city on Monday.

high-profile speakers for the event said on Twitter they were dropping out amid the blowback, while the status of other speakers was unclear.

An organizer of the planned "Boston Free Speech Rally" said they were "currently assessing

the situation" but that the event wouldn't be postponed or called off. He said the group isn't connected to organizers of the "Unite the Right" rally in Charlottesville, where a man rammed his car into a group of counterprotesters on Saturday,

killing a woman.

"We are not white supremacists in any way, shape or form," Alexander Sender, an organizer, said in a Facebook message Monday, in response to a question from a Journal reporter.

The event is being organized

by "The New Free Speech Movement," and the purpose is "to celebrate the First Amendment and to open up a dialogue amongst those who disagree with each other," he wrote in the message.

Online ads and Facebook posts by organizers of the Boston event list attendees including a conservative internet figure known as Baked Alaska, and Augustus Invictus, a former Libertarian Party candidate for the U.S. Senate from Florida who runs a website called "the Revolutionary Conservative." He was listed among attendees on a flier for the "Unite the Right" rally in Charlottesville.

In a video on his Facebook page on Sunday, Mr. Invictus described the Charlottesville rally as an event that had unified "the right wing" and given them a "common enemy," mentioning state and local elected officials, police and groups like Black Lives Matter.

There is conflicting information about whether Mr. Invictus plans to attend the Boston rally. Mr. Invictus couldn't be reached to comment.

Counterprotesters including

Black Lives Matter planned their own march and rally Saturday in Boston to "demand justice and stand in defiance of white supremacy," according to a Facebook post from organizers. They said they would have marshals, safety teams and legal observers on site.

On Monday, a collection of groups including the Anti-Defamation League and the Massachusetts Association of Minority Law Enforcement Officers wrote Mr. Walsh to say the event shouldn't go forward until the city had developed a comprehensive public-safety and emergency-response plan.

Given the outcome in Charlottesville, local and state officials said they are monitoring the situation closely and have a plan for thwarting violence, including separating those at the rally from counterprotesters. "We anticipate large groups," Boston Police Commissioner William Evans said at the news conference.

"We're not going to tolerate...anyone getting hurt," he said. "If we see that start to happen, then the rally is going to end real quick."

## PACE

Continued from Page One  
the biggest market for PACE loans—shows that defaults have jumped over the past year.

Roughly 1,100 borrowers have missed two consecutive payments this year through the tax year that ended June 30, compared with 245 over the previous year. That means they are in default, and could potentially have their homes auctioned off by local governments within five years.

The lenders, including Renovate America Inc., Ygrene Energy Fund and Renew Financial Inc., say the overall default rate of less than 2% provided by the Journal's analysis is in line with the average percentage of people who miss property-tax payments.

A spokeswoman for Renovate America said the partial data gathered by the Journal is more negative than what the company is seeing. Rocco Fabiano, the chief executive of Ygrene, said in a statement

that "Ygrene's PACE delinquency rate remains far below that of average property tax delinquencies in California."

A spokesman for Renew Financial said property owners in its CaliforniaFIRST PACE program "have similar delinquency and default rates as all other property owners."

In the PACE program, private companies make the loans and the balances are placed on a homeowner's property tax bill. Local governments are responsible for collecting the payments and, in the event of a default, potentially seizing the home to recoup the loan amount.

The average PACE loan is about \$25,000. But unpaid balances get bigger quickly; they accrue additional interest at the rate of 18% annually. Under California law, homes can be auctioned off in a tax sale in up to five years if the homeowners don't pay the balance.

"For us to be the heavy hand and make [borrowers] go through the tax sale process is onerous on us," says Jon Christensen, the tax collector

in Riverside County, where 227 PACE borrowers are in default.

Wall Street is hungry for bonds made from PACE loans. In July, asset managers and pension funds piled into a \$205 million deal from the largest PACE lender, Renovate America. It was the company's 11th securitization since its 2008 funding.

Investors are attracted to the bonds' relatively high yield of about 4% and the loans' priority structure. If a borrower defaults, PACE lenders are paid back before mortgage lenders. The deals have received high marks from rating agencies, which have said the program is too new to predict future defaults.

Still, some investors are getting nervous.

"If we can't get more data, it's going to limit our ability to take the risk," says Dave Goodson, the head of securitized products at Voya Financial Inc., noting that monthly updates on the PACE bond deal he has invested in don't include default rates. Mr. Goodson said he has shared his concern about lack of de-

linquency data in the PACE program to lenders.

Indeed, such performance data are hard to come by. It is up to local tax collectors to track default rates. "No one is even collecting all the data," said John Rao, an attorney with the nonprofit National Consumer Law Center.

The Journal analyzed data from the California Association of County Treasurers and Tax Collectors, which collected

the information from local tax collectors and from counties. The association is advocating state legislation to increase consumer protections in the PACE program.

The data, which offer only a limited view of overall PACE loan performance, show that the average default rate has

climbed to 1.6% from 0.9% last year.

The default rate is lower than the average credit-card default rate of roughly 3.5%, and higher than the first mortgage default rate of 0.6%, according to the S&P Dow Jones Indices.

But the PACE default rate doesn't capture borrowers whose missed payments are covered by mortgage escrow accounts, which appears to be a common occurrence, according to borrowers, banks, real-estate agents and attorneys.

Last year, California tax collectors reported that roughly 1.1% of homeowners missed property-tax payments, according to the tax collectors association.

PACE loans totaling nearly \$3.7 million are past due across the state, up from about \$520,000 in the 2015-16 tax year. Tax collectors don't know for sure whether homes with PACE loans attached defaulted specifically because a homeowner could have been unable to pay the entire property tax payment as they are lumped together.

PACE lenders have made roughly \$3.6 billion in PACE loans nationwide, making the total number of loans roughly 140,000.

Some borrowers say they were pushed into loans by plumbers and repairmen who serve as middlemen in the transactions, and that they were approved for loan amounts they couldn't afford, the Journal has reported.

A bipartisan group of U.S. senators has introduced legislation to subject the loans to the same level of regulations as faced by mortgages.

Kern County, with a population of about 874,500 people in central California, logged just two defaults from PACE loans in the 2015-16 tax year. As of June 30, 42 borrowers with PACE loans are in danger of losing their homes to tax sales.

The county this year started training its tax collectors on how to deal with struggling PACE borrowers, said county tax collector Jordan Kaufman. In July, Kern County voted to terminate the PACE program.

## U.S. NEWS

# Household Debt Reaches Record

By JOSH ZUMBRUN

U.S. household debt reached a record of \$12.8 trillion in the second quarter, driven by rising mortgage debt, a strong quarter for auto loan originations and an uptick in credit-card balances, which reached their highest level since 2009.

Tuesday's report marked the 12th consecutive quarterly increase in household debt, as Americans continue to re-embrace credit as the financial crisis recedes into memory.

The total volume of debt is now \$1.7 trillion higher than it was in 2013, according to the Federal Reserve Bank of New York's quarterly report on household debt and credit.

While overall debt has increased, the figures aren't adjusted for the growth of the population or the economy. Total debt was 67% of the nominal gross domestic product in the second quarter, down from as high as 87% in 2009.

The increase partly reflects renewed confidence in the economy, as Americans are more willing to purchase homes and borrow to fuel consumer spending.

But there are signs that some households are becoming overstretched, with a rising share of credit cards going delinquent each quarter.

About 6.2% of credit-card balances became 30 days delinquent over the quarter, an increase from 5.1% in the same quarter a year ago. Though on the rise, it is still well below the amount of delinquency seen during the financial crisis, when as much as 13% of balances were going delinquent.

The share of credit cards becoming 90 days delinquent has also risen, an early sign that some borrowers are becoming distressed.

"While relatively low, credit-card delinquency flows climbed notably over the past

year," said Andrew Haughwout, a New York Fed economist. "The current state of credit-card delinquency flows can be an early indicator of future trends, and we will closely monitor the degree to which this pickup is predictive of further consumer distress."

Total credit-card debt climbed by \$20 billion in the second quarter, reaching \$784 billion, the highest level since the fourth quarter of 2009.

The quarter also showed strong increases in auto lending, with \$148 billion of new auto loans originated in the quarter, including \$51 billion of loans to borrowers with credit scores under 660, which are considered subprime. Both figures are near the highest levels of the past 10 years. The total volume of auto loans rose by \$23 billion and is now at a record \$1.19 trillion.

Auto loans are showing some increased signs of distress as well; various measures of delinquency have been slowly rising for the past four years.

Student-loan balances were unchanged in the quarter. The figures aren't seasonally adjusted and because of the academic calendar, few students take on loans in the second quarter.

The biggest category of household borrowing is for mortgages. Total mortgage balances increased by \$64 billion in the quarter. Borrowing for mortgages has been slow to recover since the financial crisis and remains about 6.5% below its peak in 2008. Delinquency rates on mortgages have dropped after rising during the financial crisis, and are now the type of debt with the lowest delinquency.

The data is compiled by economists at the New York Fed and based on the borrowing records of millions of consumers that are compiled by the credit-ratings firm Equifax.



Rep. Mo Brooks, left, Roy Moore, center, and Sen. Luther Strange competed in Tuesday's Alabama Republican Senate primary.

## Race Shows GOP Divisions

By JANET HOOK

WASHINGTON—Alabama Republicans went to the polls Tuesday in a Senate special election that illustrated just how divided the GOP remains in the President Donald Trump era.

The primary contest to succeed Attorney General Jeff Sessions has come down to a fight among candidates close to longstanding party factions: a religious conservative, a tea party insurgent and a candidate backed by the Washington establishment.

The competition remained unsettled even after the president last week personally endorsed Sen. Luther Strange, the Republican appointed to hold the Sessions seat temporarily. Mr. Strange is also backed by Senate Majority Leader Mitch McConnell (R., Ky.) and the party establishment.

If, as expected, no candidate received more than 50%

of the vote Tuesday, a GOP runoff will be held Sept. 26 between the top two vote-getters.

Polls indicate that the candidates most likely to go to the runoff are Mr. Strange and former State Supreme Court Judge Roy Moore, a favorite of religious conservatives because he lost his judicial post for refusing to remove a Ten Commandments monument from a state building. Rep. Mo Brooks, a member of the House's insurgent Freedom Caucus, is close enough in some polls to be in contention for one of the top spots.

The general election is Dec. 12, but Alabama is so heavily Republican that the winner of the GOP primary is considered the prohibitive favorite.

Alabama Democrats also voted Tuesday to select their nominee. Top-polling candidates are former U.S. Attorney Doug Jones, who is the favorite of party leaders, and Robert Kennedy Jr., a business-

man and Navy veteran who isn't related to the Kennedy political dynasty.

Because Mr. Trump remains extremely popular in Alabama, his endorsement was considered a big boon for Mr. Strange. But polls suggest he may not even come in first place, let alone hit 50%.

Mr. Strange, a former state attorney general, is both blessed and burdened by the strong support he has gotten from Mr. McConnell. That backing has brought a windfall of support from Mr. McConnell's political organizations, including a barrage of ads attacking Mr. Brooks. But Mr. Strange's opponents have demonized Mr. McConnell as a creature of the Washington establishment mistrusted by many conservatives and Trump voters.

"Mr. President, isn't it time we tell McConnell and Strange, 'You're fired?'" Mr. Brooks said in a closing ad. Mr. Brooks has also at-

tacked Mr. Strange for getting the Senate appointment to Mr. Sessions' seat from a scandal-tainted governor, Robert Bentley, who resigned this year after pleading guilty to campaign-finance violations connected to an alleged affair with a senior aide. The attorney general's office was investigating the governor, leading critics to question whether Mr. Strange leveraged the inquiry into an appointment—something Mr. Strange denies.

Elsewhere on Tuesday, Utah voted in a special election to replace Rep. Jason Chaffetz, who resigned from the House at the end of June. Mr. Trump looms over the GOP primary because the front-runner, Provo Mayor John Curtis, didn't vote for Mr. Trump in 2016, and his leading opponent is holding it against him.

"From the very beginning, I've made it known that I voted for Trump," said Chris Herrod, a former state lawmaker.

them off their trajectory.

In the end, even those who failed came away with a clearer sense of what they didn't know. This reporter flunked but overcame clumsiness and a fear of crashing.

Claudia Garber, the Harley marketing manager who oversees the riding academies who dropped out the first time she tried the class, can relate. She was initially nervous on a bike, but after retaking the class and passing, is now an avid motorcyclist and rides to work most days. "One of the biggest challenges is psychological," she said.

Some of the students planned to keep practicing before venturing into traffic. The Harley course is basic training but can't prepare riders for all situations.

"There's very little that prepares you for the real thing when you're on the streets of Delhi," said Anoop Prakash, Harley's U.S. director of marketing and sales development, who passed the course. He was successful riding on an assignment in India. "I'm still here," he said.

Both Mr. Fradin and his son, Sam, passed; last weekend they rented Harleys and took a trip to Wisconsin. The elder Mr. Fradin said he might have purchased his own bike, but that he would have to overcome a challenge unrelated to riding skills: "I value my marriage," he said.

## HARLEY

Continued from Page One

left foot, while rolling on the throttle with their right hand—at least when not using that hand to brake along with the right foot. Oh, and don't look down! Keep those eyes fixed on the road ahead.

Sometimes the bikes not so gently remind riders of their power. "It literally just knocked me on my ass," said Jeff Mappa, 47 years old, a Chicago police lieutenant who had never driven a car with a stick shift. He let up too quickly on the clutch, inadvertently engaging the engine, which rocketed the bike forward. For the remainder of the course, he walked with a limp.

"It's fun, but no one said it was easy," said Rick Matus, one of the riding instructors at the Chicago Harley-Davidson dealership in the suburb of Glenview, tasked with pointing out how you're doing it wrong.

About 3% of all registered vehicles in the U.S. are motorcycles, according to federal data. Some analysts see a long-term decline in motorcycling. Harley said its U.S. retail motorcycle sales fell 9% in the second quarter from the year-earlier period.

The iconic American manufacturer is making a big push to cultivate its next generation of riders through the academies, which follow a training regimen by the **Motorcycle Safety Foundation**, a nonprofit funded by makers including Harley. Other manufacturers also offer training, and riders can take other safety courses.

The class at the suburban Chicago dealer costs \$350, with discounts for veterans and others, and students can retake the class if they fail or quit. Prices vary depending on where you go. More than half a million students have taken the Harley courses since they were first offered in 2000, the company said.

The lessons are part of Chief Executive Matt Levatich's strategy to produce longtime riders and draw more potential customers by giving them the

confidence to ride safely.

Harley could make it easier to pass, but the company said it prefers a tougher course to prepare riders for the long haul. It said about 80% of its riding students last year eventually passed.

At the recent course held in a classroom and in a back lot at the Chicago Harley dealership, Scott Fradin, 53, attended with his son for an 18th-birthday present before the teen headed off to Ohio State University. The construction attorney was notching another thrill after he went skydiving three years ago with his daughter when she reached the same milestone.

Sandra Holmes, 49, one of those who passed, was ready to grab the handlebars after riding for about five years as her husband's passenger. "I was more comfortable than most," she said.

Johanna Hernandez, 37, an accountant who works part-time in the Army National Guard, had previously bought a Harley, setting her back about \$11,000. "I was so in love with the bike I just purchased it—without knowing how to ride," she said. She regretted it, since after failing the course she couldn't immediately drive it home herself. She said she plans to keep practicing and retake the course.

Students rode on entry-level Hogs with protective bumpers, modified to keep a

lid on their speeds in first and second gear.

Some were naturals. Among them was Josue Avila, a Marine reservist who also drives semitrailers loaded with flour, sugar and wheat for a living. He was at ease turning and wanted to move into third gear early into the training. He passed.

Other students, however, tipped over their bikes, or nearly did, during tight U-turns. There were also struggles shifting, braking and using the clutch's "friction zone" to navigate at slow speeds.

**Harley prefers a tougher course to prepare riders for the long haul.**

The training included learning to weave through miniature cones and to safely swerve away from obstacles, or, in the case of two-by-fours in the road, to roll over them.

Some lessons that sounded simple were among the hardest to master. Riders should look before turning, so the bike follows where you aim.

Straightening the handlebars before braking can help you stop upright. And with yawing dogs, best to slow down and then speed up, to throw



Taylor Glasscock for The Wall Street Journal



Credit-card debt is at its highest level since the end of 2009.

## U.S. WATCH

WHITE HOUSE

### Two More Executives Leave Advisory Panel

Two more chief executives resigned from a manufacturing-advisory council to the Trump administration in an apparent protest of President Donald Trump's failure to quickly condemn white supremacists who marched and engaged in violence in Charlottesville, Va., this past weekend.

Drug maker Merck & Co. issued a statement Monday on Twitter from Chairman and Chief Executive Kenneth Frazier saying, "America's leaders must honor our fundamental values by clearly rejecting expressions of hatred, bigotry and group supremacy, which run counter to the American ideal that all people are created equal."

Intel Corp. Chief Executive Brian Krzanich on Monday night also announced his resignation from the manufacturing-advisory council.

Mr. Krzanich stepped down "to call attention to the serious harm our divided political climate is causing to critical issues," including the decline of U.S. manufacturing, he said in a statement.

Kevin Plank, founder and chief executive of Under Armour Inc., said late Monday that he also would step down from the council.

Earlier in the day, the company posted a comment attributed to Mr. Plank on its Twitter account that read: "We are saddened by #Charlottesville. There is no place for racism or discrimination in this world. We choose love & unity."

—Peter Loftus

OKLAHOMA

### FBI Arrests Suspected Bomb-Plot Architect

The Federal Bureau of Investigation arrested a man Saturday for attempting to detonate a van he believed to be stockpiled with explosives near a downtown Oklahoma City bank, roughly a half-mile from where a truck bombing cratered the Alfred P. Murrah Federal Building in 1995.

Officers apprehended Jerry Drake Varnell, 23, after he dialed a cellphone number he thought would trigger the explosion of a vehicle parked in an alley near his target, according to a news release from the U.S. attorney's Western District of Oklahoma Office.

Mr. Varnell was upset with the government, according to a criminal complaint, and initially wanted to blow up the Federal Reserve Building in Washington, D.C., with a device similar to the one Timothy McVeigh used to bring down a federal building in Oklahoma City more than two decades ago.

His arrest marked the close of an investigation conducted by state and federal law-enforcement teams, during which an undercover FBI agent posed as a man who could help Mr. Varnell detonate the explosive device, which was inert.

Mr. Varnell is charged with attempting to use explosives to destroy a building in interstate commerce and could face as long as 20 years in prison. He will next appear in court on Aug. 22, according to a spokesman with the U.S. Attorney's Western District of Oklahoma Office. The spokesman wouldn't say whether Mr. Varnell had entered a plea.

—Quint Foregy

## IN DEPTH

# NOVO

Continued from Page One

Novo Nordisk's hopes for the new drug—which it once expected to generate blockbuster profits—have dimmed. The company has warned repeatedly it won't meet its long-term growth targets, and its stock price has shrunk by more than a quarter since the beginning of last year. Executives are scrambling to diversify—pouring money into research outside its core insulin-focused science. The company announced 1,000 job cuts last fall.

"A lot of staff—anyone who joined within the last 18 years—had not seen anything but success and constant growth," said Chief Executive Lars Fruergaard Jørgensen in an interview.

As the turmoil at Novo Nordisk shows, there are commercial limits to innovation. Nokia Corp. and BlackBerry Ltd. both lost their market dominance in smartphones because competitors beat them with major technological advances. Both firms are in the process of reinventing themselves.

In other cases, though, innovation has hit a wall. That is especially the case in some pockets of the pharmaceuticals business, where the scope for big improvements is narrowing.

Common, deadly ailments, such as asthma, high cholesterol and heart disease, were the focus of the pharmaceutical industry during a golden age of drug launches in the 1990s. Now, building on those advances has proven costlier and more complex, and usually results in smaller gains. Incrementally improved medicines are harder to sell at the prices needed to cover their development costs.

Sanofi SA and Amgen Inc. are struggling to make headway with their new cholesterol-lowering drugs. These medicines, known as PCSK9 inhibitors, bring about a greater reduction in cholesterol levels than older statins alone for certain people. But the companies have yet to convince insurers that it is worth putting these patients on them: Both cost more than \$14,000 a year before rebates and discounts. Older statins are available for just pennies a day.

Novartis AG hoped its new heart-failure medicine Entresto's proven superiority to older, so-called ACE-inhibitors would guarantee rapid uptake among cardiologists. But insurers initially incentivized doctors to prescribe older, cheaper drugs, leading to a much slower launch. That is changing as insurers gradually adopt more permissive policies toward Entresto.

People with diabetes don't make enough insulin, a hormone needed to convert sugar into storable energy. In Type 1 diabetes, the body doesn't make insulin at all. In Type 2, the far-more-common form linked to obesity, the body develops resistance to insulin, and the pancreas cannot produce enough for the proper effect.

Around 12% of American adults have diabetes, according to an estimate published this year by the Centers for Disease Control and Prevention, though around a quarter of those aren't aware they have the disease. That figure could rise to as many as one in three American adults by 2050, according to a 2010 report by the CDC.

Of those diagnosed with diabetes, about a third depend on insulin injections, the CDC said. That was about six million people in 2011.

Novo Nordisk has been



Anette Søndergaard works in a Novo Nordisk lab in Denmark, above. Left, a Novo Nordisk insulin production line in Denmark.



making insulin since the hormone was discovered in the early 20th century. That breakthrough, by two Canadian scientists, led to the first effective treatment for diabetes.

August Krogh, a Danish medical professor and Nobel laureate, heard about the discovery in 1922 while lecturing in the U.S. with his wife, Marie, a doctor who suffered from Type 2 diabetes. After a stopover in Toronto, the couple returned to Denmark with permission to manufacture the lifesaving treatment in Scandinavia.

Nordisk Insulinlaboratorium was founded the next year. Denmark, home to one of Europe's biggest pork industries, made sense for a business based, in its early days, on harvesting the hormone from the pancreases of pigs and cows.

In 1924, two brothers left Nordisk to set up their own firm, Novo. The rival companies competed fiercely, one-upping each other with insulin innovations, such as injections with longer effects.

Novo adopted new genetic engineering technology in the 1980s. The technology ushered in synthetic human insulin and ended the dependence on animals. The two companies joined forces in 1989, leapfrogging America's Eli Lilly & Co. as the world's biggest insulin producer.

Over its history, the company's narrow focus was a strength: Its deep expertise boosted its ability to produce ever-better products.

Through the 1990s, the company tweaked the basic insulin molecule to fine-tune its performance. It developed a fast-acting insulin, called No-

volog, that enters the blood quickly, providing a ready boost at mealtimes. It also rolled out a long-acting version called Levemir that releases a steady stream of insulin into the blood throughout the day.

In the mid-2000s, Novo Nordisk launched a handful of these so-called analog insulins, as patients clamored for more convenient forms. Doctors, patients and health-care managers in the U.S. and Europe were appreciative, willing to pay more for the new benefits.

Novo Nordisk's stock surged. By 2013, Copenhagen's tiny stock exchange was forced to change its blue-chip benchmark index to keep it from being overwhelmed by the company's swelling market value.

By then, Novo Nordisk enjoyed a duopoly for its longer-acting drug, competing only with French giant Sanofi SA.

After the success of Levemir, Novo Nordisk aimed higher. It developed Tresiba, even more convenient: The drug can be taken at any time of day, whereas Levemir and Sanofi's equivalent, Lantus, require a regular dosing schedule. In addition, Tresiba is associated with fewer episodes of dangerously low blood sugar, or hypoglycemia.

An early set of results for Tresiba impressed executives, Novo Nordisk's research chief, Mads Thomsen, recalled. "We just sat there and said, 'Wow,'" he said. "We had kind of realized we were very close to perfection."

As it awaited final blessing from the U.S. Food and Drug Administration, the company rolled the drug out across Europe, starting in 2013. It hit the market with a thud.

Drug pricing in Europe is

very different from the U.S. The biggest buyers aren't insurance companies and health-plan managers, but government-controlled entities or their middlemen. They typically negotiate hard with companies for supplies for an entire country. The system keeps prices lower than in the more-fragmented U.S. system.

Once a price is set by one of these bodies, it is very difficult to raise. So, drug companies typically launch a new drug at the highest price they think they can get, knowing they won't likely be able to increase it.

Novo Nordisk, however, struggled from the start to convince European buyers that Tresiba was different enough from Levemir to command a big premium.

In Germany, for example, a pricing board set the price for Tresiba at the same level as the basic synthetic human insulin that had been available since the 1980s, which has none of the long-acting or other special benefits of newer forms.

An agency that assesses the cost-benefit of new medicines concluded Tresiba had no real advantage in terms of controlling the disease itself.

Novo Nordisk withdrew Tresiba from Germany, Europe's largest drug market.

Other countries, such as the Netherlands, Denmark and Spain, allowed Novo Nordisk to launch Tresiba at around its desired price of 60%-70% higher than Levemir and Sanofi's Lantus.

But to minimize the impact on their budgets, the health systems wouldn't reimburse patients for Tresiba, and the new insulin gained very little market share. Last year, Novo Nordisk lowered its price to a

level that the health systems would reimburse, and use of Tresiba has picked up.

"In Europe, we launched with a very high premium," said Mr. Jørgensen, the CEO.

"That turned out to be too high." He said Tresiba's premium over Levemir and Lantus is now around 20% in most European markets.

Still, executives were sanguine. Prices in Europe were now locked in at much lower rates than they had expected. But they thought they could rely on the U.S. market to more than make up. In the U.S., drugmakers usually introduce new products at a modest premium over previous versions, with the assumption they will be able to raise prices for years to come.

Novo Nordisk launched Tresiba in the U.S. in early 2016, ahead of the presidential election. Politicians on both sides were slamming drug companies for raising prices.

Beyond the campaign rhetoric, insurers and health-plan managers were targeting diabetes medicine, in particular, for cost-cutting scrutiny.

The medicines are their second-largest drug outlay, after cancer medicines, according to analyst Ronny Gal of investment research firm Bernstein.

Payers were girding for expected cost increases related to a raft of new cancer-fighting drugs, many of which promised big gains for patients.

In the diabetes field, a string of new, pricey drugs designed to control blood sugar levels in early-stage Type 2 patients were also stretching budgets.

These pressures made insulin, where the older products worked pretty well, an obvious target for cost savings.

Diabetes "is on payers' radar with big, red, flashing lights," said Barry Farrimond, a European drug-pricing analyst at ZS Associates, a management consultancy.

Amid that environment, Novo Nordisk couldn't convince executives at pharmacy-benefit managers such as Express Scripts that Tresiba was enough of a game-changer to warrant a significantly higher price.

For that, large clinical groups like the American Diabetes Association "have to tell us that this medication is clearly superior and as a result everybody who has diabetes should have access to it," said Troyen Brennan, chief medical officer of CVS Health Corp., another large pharmacy-benefit manager.

Doctors and the ADA view Tresiba as "not much different," he said. This year's ADA guidelines group Tresiba alongside other long-acting insulins and note that patients with well-managed, Type 2 diabetes can use basic synthetic human insulin "safely and at much lower cost."

Novo Nordisk accepted a list price for Tresiba only around 10% higher than Levemir. The list price doesn't take into account rebates and other concessions, and some pharmacy-benefit managers are charging a higher copay for Tresiba to steer patients to cheaper drugs.

At the same time, Novo Nordisk was being hit by another new threat: competition.

Eli Lilly, which for years had mostly played in the short-acting insulin market, launched a low-cost, longer-acting one, pressuring prices even more.

"We knew the dynamics were going to change, but it ended up being more dramatic than we anticipated," CEO Mr. Jørgensen said in the interview.

This month, he told reporters the price for Tresiba would take another hit in 2018, having already fallen in 2017. "The competitive environment we are in is now a permanent situation," he said.

Tresiba is gradually gaining traction. As of June, it had grabbed a 6.2% share of the U.S. long-acting insulin market, according to health data provider Quintiles IMS. That momentum helped Novo Nordisk post better-than-expected earnings in the second quarter this year, leading the company to brighten its full-year outlook.

But the tougher U.S. pricing environment took executives by surprise. Last year, the company slashed its long-term profit-growth forecasts twice: in February, to 10% from 15%, and in October, to 5%.

The company's breakneck growth of the past two decades is "an era that's over for now," said Claus Johansen, senior portfolio manager at Danske Capital, a top-15 investor in the company.

The company is protected from some market forces. In a quirk of its Danish ownership structure, a foundation owns the majority of the company, shielding it from an opportunistic takeover.

The Tresiba experience has prompted a strategic overhaul. Mr. Jørgensen, who had been chief executive-designate since September 2016 and formally took up the role in January, has pivoted the company away from making incremental improvements to insulin.

"The market will probably not be screaming to get a slightly better Tresiba," he said in a February investor call.

It is widening its research to diseases that the company considers "adjacent" to diabetes. Novo Nordisk has long had a sideline in hemophilia treatments but has generally refrained from dabbling in other diseases. Now, it will start investigating drugs for conditions like NASH, a disease in which fatty deposits build up in the liver; diabetic kidney disease; and cardiovascular disease.

Within the diabetes field, the company still makes and sells the popular, less-expensive insulins. A Novo Nordisk drug called Victoza is part of a new class of treatments that boost insulin production in Type 2 diabetes patients. And it hasn't given up on insulin research altogether. In October, it scrapped a project working on a tablet version of the medicine. Instead, it is now focusing on more meaningful improvements, such as "smart insulin" that acts only in the presence of high blood sugar.

"I still believe we will bring new insulin to the market," said Mr. Jørgensen. "But the innovative height has to be better than what we have today."

## Hitting Price Resistance

Novo Nordisk is heavily focused on insulin, but customers are balking at paying higher prices for its new Tresiba product. The company's research and development costs continue to grow, but sales forecasts have narrowed and the share price has fallen.

### Revenue by type of drug, 2016

Other diabetes\* 23.2%

Insulin 56.4%

Total drug revenue: \$15.8 billion†

Other 20.4%

Note: 1 billion Danish kroner = \$159 million at the current exchange rate

\*Including obesity drugs

†Converted from Danish kroner at the exchange rate at the end of 2016

Source: the company (drug revenue, research and development); FactSet (sales, stock price)

Research and development costs

15 billion Danish kroner

Proj.

2005 10 15 20 25

Sales, change from a year earlier

20%

Proj.

2005 10 15 20 25

Stock price

450 Danish kroner

400

350

300

250

200

150

100

50

0

2006 10 15 20 25

17

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# LIFE & ARTS



STEPHANIE DALTON

**REMEMBER** the doctor's advice to always finish your antibiotics, even if you feel better?

That message is being upended by concerns that taking antibiotics when they are no longer needed is contributing to the growing danger of antibiotic resistance.

In a recent article in the journal BMJ, a group of infectious disease experts from England argue that doctors should stop making the recommendation because it isn't based on any evidence. In fact, they note, studies have shown that in some cases—such as pneumonia—shorter courses of antibiotics are just as effective as longer ones.

The longstanding advice to finish a course of antibiotics was based on concerns that the infection wasn't completely treated and could relapse in a resistant form. "We are challenging this now because antibiotic resistance is such an enormous issue," says Martin Llewelyn, a professor of infectious diseases at Brighton and Sussex Medical School in England.

The danger with stopping antibiotics too early is recurrence of the infection, not resistance, Dr. Llewelyn says.

"We're not suggesting stopping antibiotics when you feel better is necessarily the right thing to do across the board," he adds.

The improper use of antibiotics has become a pressing public health issue because it allows bacteria to evolve into new strains that are resistant to the drugs. Earlier this year, the World Health Organization released a list of the 12 most dangerous of these "superbugs," and in June updated a list of antibiotics that should be reserved as a last resort.

**YOUR HEALTH** | By Sumathi Reddy

## The Question of When to Stop Antibiotics

Ending treatment earlier may help prevent dangerous resistance, but it's not the best course of action all the time

Doctors prescribe antibiotics for different infections based on clinical guidelines from medical professional societies.

But despite widespread acknowledgment in the infectious disease community that finishing a course of antibiotics isn't always needed, the message persists in guidance from many health organizations, including the WHO.

A WHO spokesman says it agrees with the BMJ analysis and is reviewing evidence about the ideal course duration for different cases.

Lauri Hicks, director of the office of antibiotics stewardship at the Centers for Disease Control and Prevention, says the organization changed its guidance about a year ago, to taking an antibiotic as directed by a health care provider.

"We are very interested in identifying opportunities to improve how antibiotics are being used, and that involves making sure the patient gets the right drug, the right dose and the right length of therapy," she says.

For most infections, she says, the ideal course of therapy is probably based on the type of infection and patients' health, including other medications they may be taking.

"We're trying to find the sweet spot," she says. "We're trying to find the shortest length of therapy that clears the infection without recurrence."

Studies have found that shorter courses of antibiotics are as effective as longer ones in treating skin infections, pneumonia and uncomplicated urinary tract infections.

But one recent study looking at children under 2 with middle-ear infections found that those treated with the standard 10-day course did better than those with a five-day course.

"I'm reluctant to say for every patient that it's OK to just stop taking your antibiotics when you feel better," Dr. Hicks says. But, she noted, "there are probably a lot of opportunities for patients who have mild infections and for which there isn't a well-established duration of therapy to take a watch-and-see approach."

Vance Fowler, a professor of medicine in the division of infectious diseases at Duke University Medical Center, says there are circumstances in which he abbreviates therapy, making sure the patient is aware of signs of relapse.

"If you can partner with your provider in terms of watching out for adverse events, then it actually is something that makes a lot of sense," he says.

Dr. Fowler heads the federally funded Antibacterial Resistance Leadership Group. This network of nearly 100 researchers worldwide is conducting about 35 studies on antibacterial resistance, such as comparing five and 10 days of treatment for pediatric pneumonia.

The theory, he says, is that the longer antibiotics are used, the more likely the bacteria or organisms can develop ways of resisting them.

"And it's important to point out that the resistance that develops may not be in only the bacteria that you're treating," he says, noting that humans carry pounds of bacteria, both good and bad. "All or most of those bacteria will be exposed to the antibiotics."

Barbara E. Murray, director of the division of infectious diseases at the University of Texas Health Science Center in Houston, says most trials focused on duration were based on trial and error.

She cautioned that it can be hard for a patient to truly know when they are better.

For example, coughs in some infections can persist for long after the bacteria have been killed. Conversely, patients may feel better on antibiotics while still having an active infection.

And some conditions, like heart-valve and bone infections, require taking antibiotics for extended periods.

"There a patient may feel better after a week, but if they stop taking antibiotics, then they will relapse," she says.

**MY RIDE** | By A.J. Baime

## THE PLYMOUTH THAT RUNS ON FLOWER POWER



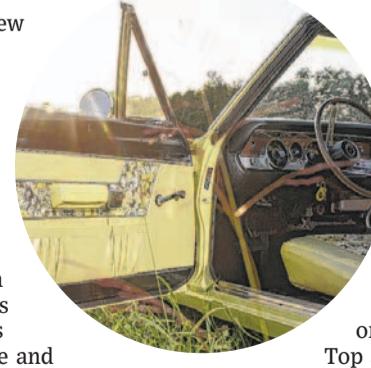
MATT ROTH FOR THE WALL STREET JOURNAL  
Kim Barnes with her 1969 Plymouth Barracuda Mod Top at her farm in Pylesville, Md. The car comes with floral-printed seats and trim, right, as well as a floral-printed roof.

Kim Barnes, from Pylesville, Md., the event director for the Art in Motion Concours d'Elegance at New York's Monticello Motor Club, on her 1969 Plymouth Barracuda Mod Top, as told to A.J. Baime.

Growing up, I loved cars, and in 1969, I used to ride my bike 2 miles to a Chrysler dealership in Des Moines, Iowa, to see this new vehicle in the window. It was a yellow Plymouth Barracuda Mod Top, and it had this gorgeous floral design on the roof and seats. [Plymouth was a division of Chrysler.]

The story was, Chrysler executives in the 1960s realized that women were buying their own cars rather than their husbands buying cars for them. More and more women were getting jobs and making choices for themselves, and Chrysler wanted a car that would appeal to them. Company executives came up with this idea of floral roofs and seats, and partnered with another company that specialized in shower curtains and tablecloths to make patterned vinyl that did not fade in the sun. Chrysler called the car Mod Top, and advertised it as "The Car You Wear."

The Mod Top was not originally a success, so only 937 1969 Mod Top Barracudas were made. It took me about 40 years to find



mine. I passed on two six-cylinder Mod Tops, but then, just before Christmas in 2015, I saw one with the more powerful V-8, for sale on eBay. My husband already thought I had too many cars—I have a small collection—so I was reluctant to bring it up. In the end, I could not help myself.

The car was in Texas. I bought it sight-unseen and had it transported to my house. My daily driver is a 2017 Jeep Wrangler Unlimited Sahara, and this Mod Top cost roughly the same as that car.

Six months later, I took it to the Carlisle Chrysler Nationals, in Carlisle, Pa.—a huge gathering for Chrysler fans. There was one other 1969 Barracuda Mod

Top at the show, and the owner had the original paperwork. When I looked at it, I could not believe my eyes.

His car had been purchased in 1969 from the same Iowa dealership that I used to go to as a kid, where I first saw a Mod Top. Chrysler made so few of these, and this one had the same yellow paint, so it had to be the exact car. It was a wonderful moment, for me and my Mod Top.

Contact A.J. Baime at [Facebook.com/ajbaime](http://Facebook.com/ajbaime).

## OPINION

### REVIEW & OUTLOOK

#### Trump's China Trade Sally

**D**onald Trump's trade policy has been more measured than his campaign rhetoric, but on Monday he ramped up the pressure on China by ordering an investigation into its rampant theft of intellectual property from U.S. firms. The danger is that the stick the President is brandishing, Section 302(b) of the Trade Act of 1974, could harm efforts to open markets to American goods.

Mr. Trump is right that China is breaking the promises it made to enter the World Trade Organization in 2001. Instead of embracing freer trade, the country has turned in the direction of import-substitution under current leader Xi Jinping and predecessor Hu Jintao.

The "Made in China 2025" program that Mr. Xi started in 2015 aims to boost the Chinese-made content of manufactured products to 70% within eight years. It also calls for China to become the leader in 10 industries through state investment and closing off its market to foreign companies. The Obama Administration released a damning report in January on China's mercantilist strategy to dominate the global semiconductor industry—to pick one example of the squeeze Beijing puts on U.S. companies.

China's developed-country trading partners are united in believing that these practices are unacceptable, and Beijing has retreated somewhat in response to criticism. But history suggests it will continue to pressure auto makers and technology firms to hand over cutting-edge technology to the government and joint-venture partners.

The problem is that Section 302(b) is a blunderbuss weapon that could backfire because it allows the U.S. executive to play judge, jury and executioner, and take any action the President deems appropriate. In the 1980s the Reagan Administration used tariffs to counter Japan's nontariff barriers and a rising bilateral

trade deficit. Instead of opening Japan's markets, the U.S. and Tokyo settled for managed trade in the likes of semiconductors, which divvied up market share and kept prices higher than they should have been.

That outcome was due in part to the lack of a binding mechanism to force Japan to follow international trade law.

The conflicts of that era led to the 1995 creation of the WTO along with an appellate division that decides when countries have broken their treaty obligations.

So what would happen now if the Trump Administration raised duties on Chinese goods? First, Beijing could pose as the victim and bring the U.S. to the WTO. If the dispute escalated, companies on both sides would lose opportunities, consumers would pay more and the economies would slow down.

The conflict would also erode respect for the rules-based WTO system, which could work to China's advantage. Beijing could use its position as the leading trade partner of East Asian nations to cement its pre-eminence in the region and marginalize the U.S. America's trading relationships with allies would suffer. The U.S. thus has a strong interest in maintaining the rules-based trading system it helped to build.

The flip side of China's trade surplus is the need to invest in foreign assets, and Beijing wants to diversify from U.S. Treasurys. The Trump Administration is rightly emphasizing reciprocal treatment, and regulations give it the power to hold up Chinese investment, especially in fields using advanced technology.

That suggests a more WTO-compliant way to retaliate if Beijing continues to restrict the ability of American companies to invest in China. If the U.S. and other developed countries work together on this issue, they can insist that Beijing follows the trade law it signed up to.

#### The German Miracle

**A**ngela Merkel is a rare leader on the Continent in recent years to head into an election with a strong economy. She is the luckiest politician in Europe.

Germany's 0.6% growth in the second quarter, according to data released Tuesday, was slightly short of what economists expected, but no matter. Year-on-year growth was 2.1%, and some reading the survey data think the country could approach 3% growth for the year. Mrs. Merkel is campaigning on the promise of "Germany in which we live well"—yes, that's really the slogan—and now she can tell voters she knows how to deliver.

But does she? What's striking is how little Germany itself has to do with its own growth. Strong domestic consumption is one driver, and households support the economy to a greater degree than many foreigners imagine. But the main cause for the current growth spurt appears

to be rising confidence in the prospects of the eurozone economy as a whole, rather than any specific German policies. Investment, unaccountably low at 20% or less of GDP for 15 years, is also finally perking up. Here, too, the credit belongs to other parts of Europe. It can't be due to pro-investment policies from Mrs. Merkel, since she hasn't proposed any.

Today's German economy shows how far you can get on a few modest labor reforms such as those passed 15 years ago by social-democratic Chancellor Gerhard Schröder. The French can take heart from this as they contemplate their own overhauls. Mrs. Merkel has prospered politically from the Schröder reforms, which have helped Germany ride out policy mistakes like the high cost of her green-energy projects. The Chancellor seems poised to win a fourth term next month but it's too bad she's missing an opportunity to build a more durable economy.

#### Britain's Warning for the Dollar

**B**rexit is going badly in many ways, and one way is the falling pound that is increasingly a drag on the U.K. economy. That's a problem for London, and a warning for Washington's weak-dollar brigade.

The pound has lost some 17% of its value since its most recent peak in November 2015 on a trade-weighted, inflation-adjusted basis. Many economists, including some Tories, predicted this would lift the economy by making British exports more price-competitive in global markets.

Data released last week show the opposite. Britain's trade deficit in goods and services ballooned to £4.6 billion (\$5.97 billion) in June from £2.5 billion in May. Trade deficits aren't an economic evil. But the persistence of Britain's trade deficit whether the pound is weak or strong demonstrates that the exchange rate isn't altering Britain's competitiveness.

A closer look at the numbers explains why. Export volumes do finally appear to be picking up, growing 5% in the second quarter compared to a year ago. But the Office for National Statistics (ONS) notes that pound-denominated export prices have increased, though economists expected exporters to hold pound prices steady to grab market share.

Something's afoot, and as ONS report noted last month, Britain now exports higher-end goods that are harder for customers to substitute. This suggests that the pound matters less to British exports than does the health of the global economy, which influences demand for British goods and services at any price.

Sure enough, rising export volumes since the pound started to fall in early 2016 have mainly continued trends visible before the depreciation. Don't tell the Brexiteers, but most of Britain's export-volume gains in the second quarter came from trade with an economically recovering EU.

This mirrors Japan's recent experience with currency depreciation. The yen's decline after Prime Minister Shinzo Abe took office increased exporters' profitability, especially since Japanese workers are slower than others to demand raises. But only in the past year has capital investment reached its precrisis level, as managers awaited signs of a global economic revival regardless of the yen rate.

A weak currency was also supposed to help

#### The weak pound is raising consumer prices and hurting growth.

domestic producers by encouraging British consumers to switch to local products. The problem is that in Britain and other modern economies, often domestic consumers can't switch. Fruits and vegetables are a telling example. Britain depends on imports of food it can't grow year-round or at all. The weaker pound didn't dent fruit and vegetable imports, the volume of which has grown around 11% since the last quarter of 2015. But depreciation has forced households to pay 14.4% more for their produce.

British households are now being squeezed by rising import prices that contribute to inflation expected to hit 3% this year. Yet their pay won't catch up until employers, including exporters, feel confident enough in Brexit and the global economy to boost investment again.

Tourism encapsulates all these trends, and packs a punch for vacation-loving Brits. The ONS found that the spending of Brits traveling abroad stopped growing after 2015 because the weaker pound made travel more expensive. But the depreciating pound had almost no effect on visits by foreigners to the U.K. So in exchange for no gain in exports, Brits are stuck with fewer vacations while they eat pricier strawberries and asparagus.

\* \* \*

If only someone in Washington would notice all this before the Trump Administration makes a similar mistake with the dollar. President Trump told this newspaper last month that he "like[s] a dollar that's not too strong."

The best watchwords for a currency are strong and stable. Since the long economic anemia of the 1970s, America has prospered most, in the 1980s and then the 1990s, when the dollar has been strong. A strong dollar means capital is flowing into the U.S., which lifts investment that drives innovation and productivity gains. It also means a higher standard of living for American consumers. A strong dollar and the 89-cent-a-gallon gasoline it delivered arguably saved Bill Clinton from impeachment—a relevant lesson for Mr. Trump.

With his approval rating under 40%, Mr. Trump needs faster economic growth. Britain's experience shows a weak currency won't help. Domestic reform such as a tax-code overhaul will help, and that's where politicians on both sides of the Atlantic should put their energies.

#### Fighting for Free Speech When It Matters Most



MAIN  
STREET  
By William  
McGurn

It's not every day this columnist finds himself on the same side as WikiLeaks, Glenn Greenwald and the American Civil Liberties Union.

That's especially true for the ACLU, because these days it has too often let progressive politics trump its

founding mission of protecting core civil liberties such as speech and due process.

All the more reason, however, to applaud the ACLU for the principled—and unpopular—stand it took in Charlottesville, Va., for free speech.

In two tweets put out just hours after James Alex Fields drove his Dodge Challenger into the crowd, killing 32-year-old Heather Heyer and injuring many others, the ACLU's national office explained its work in Charlottesville this way. "The First Amendment is a critical part of our democracy," it said, "and it protects vile, hateful, and ignorant speech. For this reason, the ACLU of Virginia defended the white supremacists' right to march."

This, of course, hasn't tempered the outrage on Twitter, where the attacks on the ACLU are mostly variations of "How could you?" Or in the New York Times, where a Princeton prof complained that the ACLU goes out of its way "to defend the rights of provocative speakers like Milo Yiannopoulos and Ann Coulter to speak on campuses but has been virtually silent on cases involving leftist or progressive faculty members who face suspension for provocative comments."

On Monday Virginia Gov. Terry McAuliffe piled on, suggesting the violence was the ACLU's fault.

The unkindest cut came from within, when a board member of the ACLU's Virginia chapter resigned in protest of... well... the ACLU. "I won't be a fig leaf for Nazis," declared Waldo Jaquith.

Plainly Mr. Jaquith, when he joined the ACLU, somehow hadn't noticed that way back in 1977 the organization had defended a similarly provocative plan by Nazis to hold a march in Skokie, a Chicago suburb where Jewish Holocaust survivors constituted a high percentage of the population. In the end the ACLU prevailed at the Supreme Court but lost many donors and members in the process. (Ironically, the Nazis never did march in Skokie.)

The ACLU's involvement in this past weekend's march in Charlottesville started after the city revoked a permit issued in June to local alt-right activist Jason Kessler. The permit was for a rally in a park that until this June had been named for Robert E. Lee and features a statue of the Confederate general the city council wants to remove.

A week before the rally, the city of Charlottesville revoked the permit, saying it wanted the rally moved to another.

As usual the liberal website Vox put its finger on what is at stake in a way it almost surely didn't intend, when it explained the reasoning of those attacking the ACLU. "It's one thing in theory to support universal free speech rights, but it's another to actually spend time and money defending neo-Nazis."

Exactly. The ACLU's sin here is that it didn't just support free speech in theory. It supported it in practice. Even speech the ACLU detests. Even while most ACLU members are probably more personally in sync with the anti-Trump sentiments of the counterprotesters.

So three cheers for the ACLU for defending free speech at the moment it most matters: when it's guaranteed to make you unpopular.

*Write to mcgurn@wsj.com.*

#### At 70, a New Vigor Coming Out of India

By Tunku Varadarajan

**I**ndependent India turned 70 on Tuesday. It is an ancient civilization and a youthful republic. India has more global clout now than it did at 50, the result of its hefty economy and palpable new self-belief. Once pious and retiring, India has become forceful and outgoing—hungrily acquisitive of assets, opportunities, even new alliances (Hello, Washington!). The country is unrecognizable from the one that the war-worn British left on Aug. 15, 1947.

Pragmatism has replaced sanctimony as the guiding principle of Indian foreign policy. But the new Indian ambition still has a strident and unlovely side.

It is fair to say that the forces of nationalism, which have allowed India to count on the world stage, also sowed great discord at home. India has never been more internally divided than it is now, and the country seems to be on the edge of turmoil.

The ruling Bharatiya Janata Party, showing scant regard for India's secularism, has hacked away at the roots of social harmony by asserting a fundamentalist brand of Hinduism. As Hamid Ansari, India's vice president from 2007 until last week, said upon his retirement, there is "a sense of insecurity" among India's Muslims.

Predictably, Hindu hard-liners suggested to Mr. Ansari, a Muslim himself, that if India wasn't to his taste, he should go live in Pakistan. "Live in a country where you feel secure," he was told. (The vice presidency in India—like the presidency—is a ceremonial post.)

Not everything about the old India was bad, but today's BJP government is behaving as if many of the political and social norms that preceded its rise to power were worthless.

It is irrefutably the case that the governments of Jawaharlal Nehru, Indira Gandhi and the Congress Party

crippled India's economy through their obsession with autarky and economic "self-sufficiency." In effect, that came to mean the exclusion of foreign capital and goods and the coddling of a crony-capitalist regime that left India's people impoverished and its consumers ripped off.

The old foreign policy, too, ensured that India was a midget in global affairs. New Delhi traversed a Wonder Land of "nonalignment," Cold War jargon for a soft anti-Americanism.

#### But its retreat from secularism is worrying.

Yet this old, penurious India had an asset that was essential for harmony in a nation of several hundred million people with multiple religions and languages. That was secularism.

The country was never entirely free of religious tension, and communal violence erupted from time to time, but there was never any doubt that the Indian state—however corrupt in so many other ways—was an evenhanded arbiter between religions. India's Muslims, while poorer on average than its Hindus, never felt regarded as second-class citizens, let alone as unwanted aliens (as the BJP's base would like to suggest).

In all of this, Prime Minister Narendra Modi has lost sight of the insistent need for economic reform. As his Hindu activists grow ever more emboldened, he has had to devote his energy to appeasing them. Worryingly, there is little evidence that he finds their intolerance at all distasteful.

Which leaves India, at 70, vulnerable to tensions that could wound gravely not only its economy, but also its very nature as a secular, democratic republic.

*Mr. Varadarajan is a fellow at Stanford University's Hoover Institution.*

## OPINION

# Don't Even Think About Being Evil

By Heather Mac Donald

**J**ust wait till those campus snowflakes enter the real world—that'll shape 'em up!" So goes a typical response to totalitarian hysteria at colleges. The firing of a Google engineer last week for questioning the company's diversity ideology exposes that hope as naive. The "real world" is being remade in the image of college campuses with breathtaking speed.

A conveyor belt of left-wing conformity runs from the academy into corporations and the government, so that today's ivory-tower folly be-

**Corporate America has managed to make higher education look like an open marketplace of ideas.**

comes tomorrow's condition of employment. Google's rationale for firing James Damore perfectly mimics academic victimology—the equation of politically incorrect speech with violence, the silencing of nonconforming views, the refusal to hear what a dissenting speaker is actually saying.

After attending a diversity training session, Mr. Damore wrote a 10-page memo titled "Google's Ideological Echo Chamber." He observed that "differences in distributions of traits between men and women may in part explain why we don't have 50% representation of women in tech and leadership." Among those traits are assertiveness, a drive for status, an orientation toward things rather than people and a tolerance for stress. He acknowledged that many of the dif-

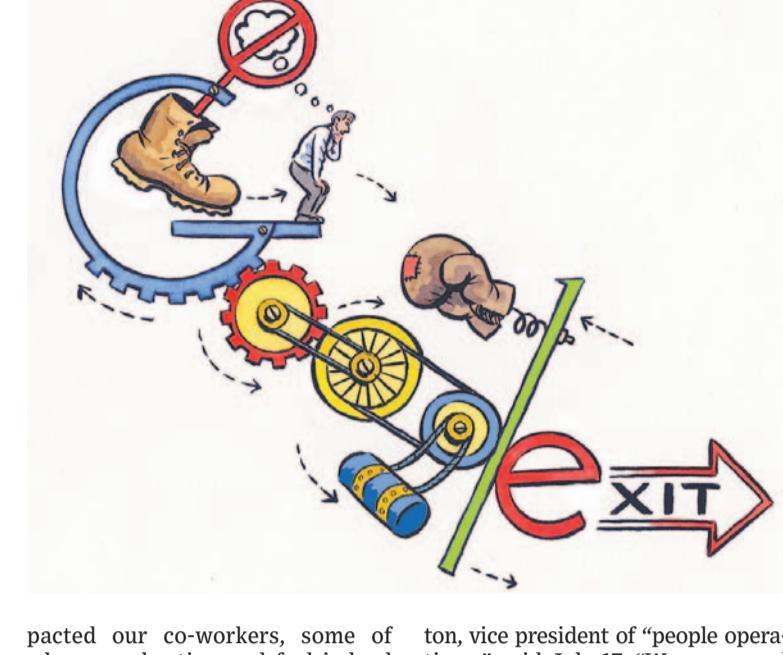
ferences in distribution are small and overlap significantly between the sexes, so that one cannot assume on the basis of sex where any given individual falls on the psychological spectrum. Considerable research supports Mr. Damore's claims regarding male and female career preferences and personality traits.

Mr. Damore affirmed his commitment to diversity and suggested ways to make software engineering more people-oriented. But he pointed out that several of Google's practices for engineering diversity discriminated in favor of women and minorities. And he called for greater openness to ideas that challenge progressive dogma, especially the "science of human nature," which shows that not all differences are "socially constructed or due to discrimination."

Mr. Damore's fate was foreshadowed by the sacking of Harvard president Larry Summers in 2006. At a conference the previous year, Mr. Summers had hypothesized that the unequal distribution of the highest-level mathematical abilities may contribute to the sex disparity of science faculties. Numerous studies have confirmed that men predominate at the farthest reaches of math skills (high and low).

Mr. Summers's carefully qualified speculation infamously provoked MIT biology professor Nancy Hopkins to flee the room and tell reporters she "would've either blacked out or thrown up" had she stayed. Mr. Summers issued a groveling retraction and ponied up a cool \$50 million for more gender-diversity initiatives, but his tenure as president was doomed.

Google CEO Sundar Pichai employed the same bathetic language of injury in his response to Mr. Damore. "The memo has clearly im-



DAVID GOTTHARD

pacted our co-workers, some of whom are hurting and feel judged based on their gender," he asserted in a memo of his own.

Yonatan Zunger, a recently departed Google senior engineer, claimed in an online essay that the speculations of Mr. Damore, a junior employee, have "caused significant harm to people across this company, and to the company's entire ability to function." He added that "not all conversations about ideas even have basic legitimacy" (emphasis his).

Ironically, Google is making even stronger claims about its lack of bias against women than Mr. Damore is. U.S. Labor Department auditors allege that the company's salary differentials reflect sex discrimination; Google strenuously denies it.

"We remain committed to treating, and paying, people fairly and without bias with regard to factors like gender or race," Eileen Naugh-

ton, vice president of "people operations," said July 17. "We are proud of our practices and leadership in this area."

But typical of the cognitive dissonance affecting every diversity-obsessed company, Google puts its workers through "implicit bias" training on the theory that such biases inevitably cloud their ability to judge female and minority employees and job applicants fairly.

The corporate world is even mimicking academia in its inhospitality to nonconforming speakers. Earlier this year, a Google employee asked me if I would be interested in speaking there about the police. The employee ultimately abandoned the idea, however, citing "personal/professional matters." An affiliation, however remote, with someone who challenges the Black Lives Matter narrative is apparently a job hazard at Google.

Don't assume that the discipline of the marketplace will prevent this imported academic victimology from harming business competitiveness. Google sets managerial goals for increased diversity. Mr. Damore wrote that he has observed such goals resulting in discrimination. That is fully believable. A comment on an internal anonymous discussion app warned that more Google employees need to stand up "against the insanity. Otherwise 'Diversity and Inclusion' which is essentially a pipeline from Women's and African Studies, will ruin the company."

America's tech competitors in Asia are not yet infected by identity politics. The more resources U.S. companies spend on engineering diversity while competing firms base themselves on meritocracy, the more we blunt our scientific edge. Employees are thinking about leaving Google because of its totalitarian ideology, Mr. Damore said in an interview after his firing. While the prestige of elite companies may outweigh the burden of censorship for now, there may come a point when the calculus changes.

Eric Schmidt, chairman of Google parent Alphabet Inc., told a June shareholder meeting that Google was founded on the principle of "science-based thinking." It says a lot about the corporate world that it makes universities look like an open marketplace of ideas. Research into biological differences may be unwelcome in much of academia, but it proceeds on the margins nevertheless. In the country's most powerful companies, however, it is enough to disparage a scientific finding as a "stereotype" to absolve the speaker from considering the question: But is it true?

*Ms. Mac Donald is a fellow at the Manhattan Institute and author of "The War on Cops" (Encounter, 2016).*

## Brexit's Northern Ireland Problem

By Peter Geoghegan

**F**or most of the 14 months since the U.K. voted to leave the European Union, attention has focused on London and Brussels and Paris and Berlin as the places where the important decisions about Brexit will be made. Now, however, a new center of gravity is set to emerge: Dublin.

Avoiding a border in Ireland is one of the EU's three priorities in Brexit talks. The British government is set to publish on Wednesday its position paper on the issue, calling for a "light touch" regime along the 310-mile border between the Republic and Northern Ireland, using new technology to make border control "as seamless and frictionless as possible." Irish ministers have already dismissed such solutions as unworkable.

Dublin's anxieties about the U.K.'s Brexit approach have become increasingly—and unprecedently—vocal. Prime Minister Leo Varadkar last month said he was "not going to design a border for the Brexiteers." Brexiteers, in turn, accused Dublin of everything from wanting to derail Brexit to irredentist ambitions in Northern Ireland.

Mr. Varadkar's rhetoric reflects both strength and weakness. A transitional Brexit deal, over which each EU member state would have a veto, greatly increases Dublin's leverage.

But if, as British government ministers have promised, the U.K. leaves the single market and the customs union even after a transitional period, checks will be needed on goods crossing the border. That would be a boon for a region notorious for smuggling but also, with some 300 roads traversing the border, a serious economic impediment.

Around 13% of Irish exports go to the U.K. The Irish economy is increasingly all-Ireland, with a common energy market and some goods moving multiple times over the border during production. The post-Brexit slump in the value of the pound wiped an estimated €500 million (\$591.2 million) off Irish sales to the U.K. in 2016.

Most worrying, Brexit puts Dublin and London on opposing sides of a vital issue upon which both have been united for more than 20 years—Northern Ireland.

The Conservative government in Westminster and the Democratic Unionist (DUP) members of parliament on which the Tory majority depends insist that there will be no bespoke Brexit deal for Northern Ireland and that leaving the EU will even benefit the region's sluggish economy. But if anything, Brexit will deepen Northern Ireland's political and economic problems.

EU membership helped paper over vexing questions of identity and

sovereignty. Anyone born in Northern Ireland can claim Irish, British or dual citizenship, but all share EU passports allowing them to live and work freely on either side of the line. EU structural funds worth around £500 million (\$650.6 million) annually to Northern Ireland helped rebuild an economy recovering from decades of conflict.

### Membership in the EU was a crucial element of the peace process and can't easily be undone.

The Brexiteers' "Take Back Control" vision of sovereignty ignores Dublin's legitimate involvement in Northern Ireland. The 1998 Good Friday Agreement explicitly recognizes the Irish Republic's "special interest" in affairs north of the border. That peace deal allows for a referendum on unification. Some republicans are calling for such a plebiscite, which they think might draw support from among the 56% of Northern Ireland that voted to remain in the EU.

A return to armed conflict in Northern Ireland seems unlikely, but the factions appear to be hardening. In June, between them the

DUP and Sinn Fein took all but one of Northern Ireland's 18 Westminster seats. Moderate voices are being squeezed out.

Since the Brexit vote, Northern Ireland's devolved assembly has collapsed. Mrs. May's reliance on the DUP, the only mainstream Northern Irish party to advocate for Leave, has all but ended any prospect of power sharing before the Brexit process is completed. It's as if the national government in Westminster is putting a finger on the delicately balanced scales in Belfast.

Many Brexiteers take the view that the border is Dublin's problem. DUP member of parliament Jeffrey Donaldson cited Irish toll roads as evidence that there was no need for a border—suggesting license-plate recognition could play the same role as customs checks. Conservative member of the European Parliament Daniel Hannan recently tweeted: "It would surely be logically easier to treat the British Isles as what it has always been—a single customs area."

This is economically and historically illiterate. Mr. Hannan's solution would not be logically easier for the many Irish companies that also do significant trade with the rest of the EU. And it's out of step with how modern Irish view themselves and their relationships with their neighbors. The term "British Isles" was

removed from Irish textbooks more than a decade ago.

The naive belief that Ireland will bend to Brexit logic, or even leave the EU altogether, ignores political reality. The Good Friday Agreement effectively removed the border from Irish politics. In the Irish Republic, even Sinn Fein campaigns more on poverty and garbage-removal charges than unification.

But Brexit has inflamed Irish opinion. The ruling Fine Gael, often seen as the most "pro-British" party, recently resurrected its "United Ireland" slogan. No Irish government backing a Brexit deal that brings back the border can expect to remain in office for long.

There is little sign that London has given serious consideration to any of this. Mr. Varadkar's warning in essence was that the U.K. government needs to get real about how Brexit will affect Northern Ireland and Ireland, and soon. The longer Westminster delays, the more damaging for its relations with a crucial economic partner, and the more dangerous for a region that has only recently started to put its troubled history behind it.

*Mr. Geoghegan is a lecturer at the University of the West of Scotland and the author of "The People's Referendum: Why Scotland Will Never Be the Same Again" (Luath Press, 2015).*

## Americans May Be More Tolerant of Muslims Than Ever

By Paul E. Peterson

**A**s lawsuits multiply and partisans continue to squabble over President Donald Trump's executive order banning migration from six majority-Muslim nations, liberals in the mainstream media have been pushing the line that America's historic tolerance of religious diversity no longer extends to adherents of the Islamic faith. A just-released Education Next survey tells a different story.

My colleagues and I asked a rep-

resentative sample of Americans: "Do you support or oppose allowing a group of Muslim students to organize an after-school club at your local public school?" It was the same question EdNext asked in 2008. We framed it that way because the Supreme Court's 2001 decision in *Good News Club v. Milford Central School* found banning such clubs was a violation of students' religious freedom.

Respondents were given the choice to say they support club formation by Muslim students or op-

pose it. They were also offered the option of remaining neutral by indicating they neither support nor oppose Muslim student clubs. And for comparison, the survey also asked another group of respondents about generically "religious" students.

Like the Supreme Court, a majority of the general public supports the right of religious students to form clubs. In 2008, 58% were in favor while only 10% were opposed. Today, a majority is still in favor, though opposition has increased by 13 percentage points and approval has slipped by three. (The remainder said they neither supported nor opposed the clubs.)

Despite the increased opposition to religious-student clubs in general, support for Muslim students looking to form clubs has risen dramatically. In 2008, only 27% of respondents were in favor, while 23% were opposed. Today, tolerance of Muslim clubs has climbed steeply, to 45%—a near-majority of all respondents—while opposition has ticked up by only four percentage points, from 23% to 27%. What was once a near-even split in opinion has morphed into a 2-to-1 advantage for those who tolerate Muslim-themed student clubs.

The biggest change has occurred among Democrats, whose support for Muslim club-formation rights has spiked by 24 percentage points. Today, Democrats support Muslim clubs by 55% to 15%. The shift comes even though Democrats are today

less tolerant of "religious" students than they were in 2008. Democratic opposition to "religious" students has grown by 18 percentage points, while support has dropped by four percentage points.

### How would you feel about an Islamic after-school club at a public school? Support has been rising.

By contrast, Republican attitudes toward Muslim clubs have remained remarkably stable. Fewer Republican respondents took the neutral position in the current survey than did so in 2008. But the balance between those in favor and those against has held steady. With Democrats becoming much more tolerant of Muslims, and Republican views remaining essentially unchanged, the result has been increased toleration of Muslims throughout the U.S. as a whole.

We suspect this change has occurred very recently. In 2016 the American National Election Studies repeated a 2004 question asking people to rate groups from "warm" to "cold" on its feeling thermometer.

The warmth of the public's temperature toward Muslims was unchanged after a dozen years. Yet one year later our question about Muslim student clubs reveals a dramatic shift in opinion among Democrats.

What explains it? Many of the Democratic Party's allies in the mainstream media insist that Mr. Trump's immigration restrictions are motivated purely by anti-Muslim sentiments, which they harshly condemn. Mr. Trump and his Republican colleagues are no less adamant that their goal isn't to discriminate against any religious group, but rather to deter terrorists.

Perhaps the friction of debate and the exposure the issue has received have created an environment conducive to tolerance? Neither side gives the other's argument much credence, but both say they are committed to toleration.

Of course, the Democratic respondents' sudden embrace of Muslim student clubs may be nothing more than a convenient way to register their disgust with Mr. Trump's policies, even though the president has taken no position on Muslim student clubs per se. Confirmation of that theory will have to wait until next year, when our survey poses the Muslim club question again.

As unlikely as it seems, the rancorous debate over immigration has somehow enhanced the public's willingness to allow Muslim students to gather together after school in Islamic-themed clubs.

*Mr. Peterson is director of the Harvard Program on Education Policy and Governance, senior editor of Education Next and a senior fellow at the Hoover Institution.*

## THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

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## LIFE & ARTS

BONDS: ON RELATIONSHIPS | By Elizabeth Bernstein

# Yes, You Are Oversharing Photos

How to show your favorite snapshots to friends and family without becoming a pest; preventing: 'Debbie, we don't care.'

**A WEEK AFTER** her father died, Dianne Adelberg arranged to meet an old pal for yoga. She was wiped out emotionally and looking forward to a restorative class and then catching up at lunch after with her friend, whom she hadn't seen in a while.

The two women greeted each other warmly. Then Ms. Adelberg's friend asked: "Have you had a chance to see the photos I posted on Facebook of my hiking trip last week?"

The pressure to view people's photos can feel inescapable these days. The pictures don't just pop up on Facebook. They're also on Instagram, Snapchat and Twitter, as well as other places.

They appear unbidden in your email inbox and your text chats. When you're really unlucky, they arrive via a group text, so you have to view not only the pictures but also everyone's replies. "Awesome!" "Hilarious!" "Sooooo cute!"

Of course, it's nice to keep up with what friends and family members are doing.

But a body of research shows that all these photos—and the implicit pressure to look at them—can harm our relationships, causing envy, resentment and even depression.

A study, published as a working paper in June 2013 by the University of Birmingham, in England, showed that, in general, when people frequently post photos of themselves or their families on Facebook it may lead to a decline in support, intimacy and companionship in their relationships with the people who view them. (The study didn't define how frequent was too frequent. And it showed that some relationships were harmed more than others: Romantic partners, in particular, did not like to view photos of their beloved's friends.)

People rarely share just one photo—or consolidate them into a group. Rather, the pictures arrive in stream-of-consciousness fashion,



sometimes on several social-media apps at once.

We get to see our cousin's kid at camp—standing on a pier, standing in the outfield, standing in line at dinner—or a course-by-course litany of everything Uncle Bob ate on his cruise to Alaska. One recent afternoon, an acquaintance of mine posted more than a dozen photos of two geese in a Paris park—one after another—on both Facebook and Instagram.

The pressure to view all this is substantial—and the closer you are to the person doing the sharing, the trickier it is to ignore.

There's a high expectation that you should comment on the photos of a loved one.

And the emotional buttons the photos push are higher too. ("My brother hasn't returned my call in two days, but he has time to post 15 photos of his daughter's soccer

game?")

Ms. Adelberg, a 57-year-old tax specialist for a government agency, says that same friend she met after yoga once opened her computer atop a restaurant table and tried to show her photos of the rafting trip she had just done.

Ms. Adelberg reacted by saying: "We haven't even ordered the appetizers yet. Why don't we just chat?" Often, when Ms. Adelberg talks to her friend on the phone, the woman asks her if she's viewed her pictures.

"I love her dearly but I feel like she's assigning me homework," says Ms. Adelberg, who lives in Alexandria, Va. "And I feel scolded, like I haven't done a good job if I haven't sat down and looked at the photos."

Giana Crispell wonders why she is supposed to care about the photos her sister, Debbie Evenich,

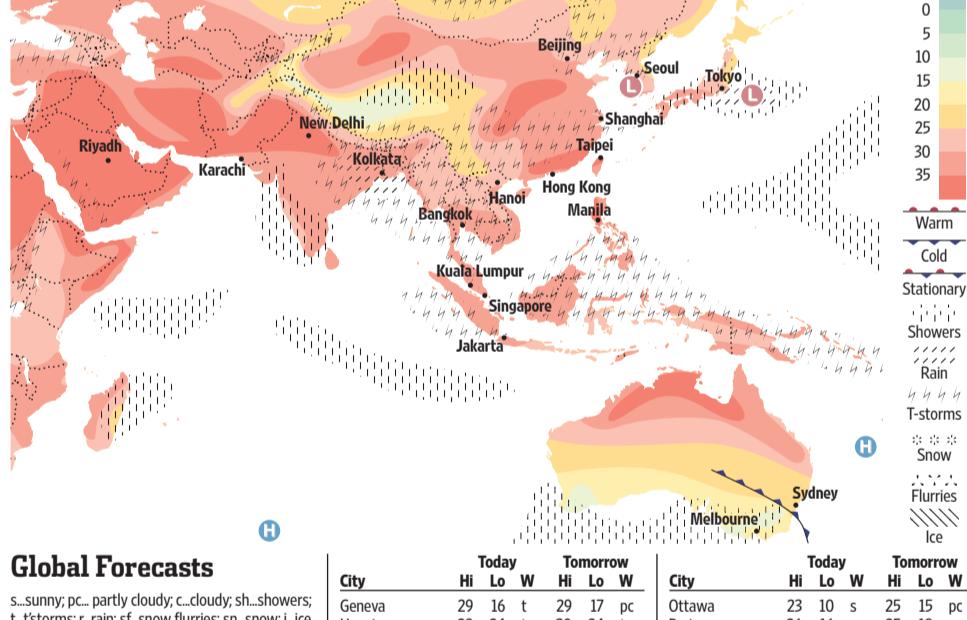
posts on Facebook and sometimes sends via email. Often, they are of Ms. Evenich's travels—the villa she rented with friends in Italy, her folk-dancing troupe performing in San Francisco or the waitress at a restaurant in Paris.

"She also has to give you the whole story behind the photo—'This is the couple I told you about from Oregon and he is an engineer,'" says Ms. Crispell, 72, a retired financial planner in San Diego. "I think, 'Debbie, we don't care.'"

Ms. Crispell has never dared to tell her sister this, though. No one else has either, says Ms. Evenich, 73, a retired elementary teacher from Petaluma, Calif.

Ms. Evenich also says she gets plenty of Facebook "likes" and compliments from friends—her real target audience, she says—who often recognize people in the pic-

### Weather



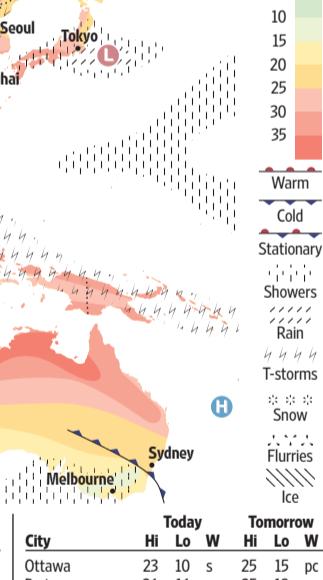
### Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	22	14	pc	21	17	r
Anchorage	14	9	r	16	9	sh
Athens	33	26	s	33	26	s
Atlanta	32	24	t	32	24	t
Bahrain	46	32	s	49	32	s
Baltimore	32	21	pc	31	23	pc
Bangkok	34	27	t	32	26	t
Beijing	29	21	t	29	21	s
Berlin	24	15	pc	26	18	pc
Bogota	19	10	t	20	9	r
Boise	31	15	s	31	15	s
Boston	29	17	s	27	17	pc
Brussels	24	16	pc	22	17	c
Buenos Aires	18	6	s	20	11	pc
Cairo	34	25	s	34	26	s
Calgary	26	10	pc	25	10	pc
Caracas	32	26	t	33	27	t
Charlotte	33	22	c	34	23	pc
Chicago	30	22	pc	29	18	pc
Dallas	37	27	s	35	26	t
Denver	25	12	t	29	14	pc
Detroit	29	19	pc	29	19	t
Dubai	41	33	s	41	33	s
Dublin	18	11	r	19	11	sh
Edinburgh	17	13	r	20	10	sh
Frankfurt	26	15	pc	27	17	c

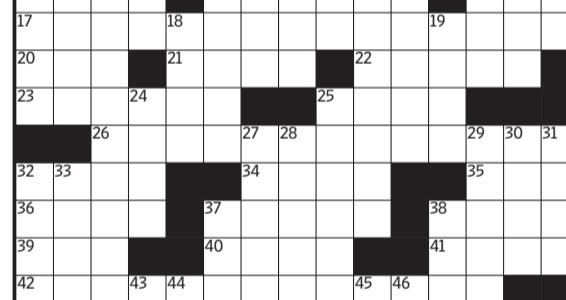
### AccuWeather.com

Show are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.



City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Ottawa	23	10	s	25	15	pc
Paris	26	16	pc	25	18	c
Philadelphia	32	22	s	30	23	pc
Phoenix	39	25	s	40	24	s
Pittsburgh	29	19	pc	30	22	t
Port-au-Prince	36	24	pc	36	25	t
Portland, Ore.	27	14	pc	25	13	pc
Rio de Janeiro	25	20	sh	24	20	r
Riyadh	44	29	s	44	30	s
Rome	32	19	pc	32	20	s
Rio	32	19	pc	32	20	s
Salt Lake City	31	19	s	33	20	s
San Diego	23	18	pc	24	18	pc
San Francisco	22	15	pc	23	15	pc
San Juan	31	27	sh	31	27	sh
Santiago	20	5	s	20	6	s
Santo Domingo	34	24	pc	31	24	t
Sao Paulo	18	15	sh	17	15	r
Seattle	25	14	pc	23	13	pc
Seoul	27	23	r	27	23	r
Shanghai	33	27	sh	32	27	t
Singapore	30	25	t	30	26	t
Stockholm	21	11	r	23	12	pc
Sydney	24	13	s	24	13	s
Taipei	37	28	t	36	27	t
Tehran	36	26	s	36	27	s
Tel Aviv	31	25	s	32	26	s
Tokyo	25	23	r	29	24	c
Toronto	25	15	s	24	19	pc
Vancouver	21	13	s	21	13	pc
Washington, D.C.	32	24	pc	31	24	t
Zurich	27	15	t	27	16	pc

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



Down	29 "Hurry up!"
1 TV component since 2000	30 Australian avians
2 Astronauts Bean and Shepard	31 Holds up
3 Orders for the grill cook	32 Did a few laps
4 Look over	33 Funny Fey
5 Cookware coating	37 Iago in "Otello," e.g.
6 Analogist's colon	38 Unappetizing gruel
7 Consequence of overexercising	43 Jamboree setting
8 Sea urchin eggs	44 Cow in commercials
9 Comely companion	45 More avant-garde
10 "Ain't that the truth!"	46 Difficult to comprehend
11 Angular	49 Tuckered out
12 Guest accommodation	50 Fresh
15 Puccini opera	51 Ticklish Muppet
18 Pearl Harbor setting	52 Captivated
19 Appearance	53 Lasting mark
24 Monk's wear	54 Not to mention
25 Brahms works	56 Cochlea's place
27 Texting tools	57 Big name in ATMs
28 Speaker's output	58 Org. whose members do a lot of driving

### MIXED FEELINGS | By Harold Jones

Across	23 #1 film on AFI's "100 Years...100 Thrills" list	47 Bulldog backers
1 Satisfy a nicotine craving, in a way	48 Boarding sites	51 Dada pioneer Max
5 Sparkly topper	52 Ruff stuff	53 Stuffing seasoning
10 Home of "Shark Tank"	54 Furious feeling brought on by high elevations?	55 By means of
13 Adobe material	32 Fret	56 Ones who feel euphoric while collecting coupons?
14 One who's coming along nicely?	34 Not achromatic	57 Concert stage sight
16 Dairy sound	36 Dead giveaway?	58 Cover completely
17 Hostile feeling that's fleeting?	37 Chum	61 Heads out
20 Acct. addition	38 Ticket remnant	62 Molder
21 Succulent plant with toothed leaves	3	

# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, August 16, 2017 | B1

Yen vs. Dollar 110.4910 ▲ 0.78%

Hang Seng 27174.96 ▼ 0.28%

Gold 1270.80 ▼ 1.04%

WTI crude 47.41 ▼ 0.38%

10-Year JGB yield 0.048%

10-Year Treasury yield 2.254%

## Retailers Bring Out a Mixed Bag

By SUZANNE KAPNER

U.S. retailers navigating a rocky landscape didn't show a lot of clarity Tuesday, as Dick's Sporting Goods Inc. and Coach Inc. reported weak results while TJX Cos., and Home Depot Inc. posted strong quarterly sales.

Consumer spending has been strong, though purchases continue to shift online. Sales at retailers and restaurants in July rose 0.6% from a month earlier, the biggest increase since December, the U.S. Commerce Department said Tuesday.

Dick's sales at stores open at least a year rose 0.1% in the second quarter. The company had expected a 2%-to-3% increase, and it lowered its earn-

ings forecast for the year.

In a call with analysts, Dick's Chief Executive Edward Stack acknowledged the challenging retail environment, calling it "highly competitive and dynamic" but said the company would benefit from industry consolidation as competitors falter.

Although consumers are showing signs of life, they are choosy about where they spend. Coach's total sales fell 1.8% from the year-earlier quarter to \$1.13 billion, short of Wall Street's expectations, though the company's latest period was a week shorter than the year-earlier one.

Sales excluding recently opened or closed stores for the Coach brand rose 4% in

North America.

In midday trading Dick's shares were off 20%, while Coach was down 14%.

At TJX, the parent of the T.J. Maxx, Marshalls and HomeGoods off-price chains, total sales increased 6% to \$8.36 billion in the latest quarter. Sales excluding newly opened or closed locations rose 3%, extending a string of gains.

Shoppers continue to snap up bargains at TJX, which has become one of the country's fastest-growing retailers by sticking with a playbook from a vanishing era.

It relies heavily on the instincts of its merchandise buyers, many of whom have been with the company for decades. TJX stores rapidly turn



Coach reported lower sales.

over limited quantities of products that are all sold at bargain prices. The result is a rarity in retail—a constant treasure hunt.

TJX's profit fell to \$553

million in the three months to July 29, from \$562 million a year earlier. Income took a foreign-exchange hit of about 4 cents a share, and was hurt as well by lower gross margins due to the company's inventory hedges.

Home Depot's total sales jumped 6.2% to \$28.11 billion in its second quarter, while same-store sales rose 6.3%.

The company is continuing to benefit from the recovering housing market and cited sales growth among first-time home buyers.

"We anticipated this happening with millennials coming into an age where they start to form families," Chief Financial Officer Carol Tomé said during a call with analysts.

## China, U.S. Chip Battle Spreads

By KATE O'KEEFFE AND EVA DOU

The battle between the U.S. and China over computer-chip makers has expanded to a new front: the companies that test the technology.

Citing national-security concerns, a Poway, Calif., semiconductor-testing company, Cohu Inc., is mounting a quiet campaign to derail the planned \$580 million sale of a U.S. rival, Xcerra Corp., of Norwood, Mass., to a Chinese state-backed group, according to documents reviewed by The Wall Street Journal.

The U.S. government has previously shot down attempts by Chinese interests to buy the chip technology that powers mobile phones, military equipment and other systems, in an effort to fight what it says is Beijing's attempts to dominate the semiconductor industry through the use of government financing and subsidies. Xcerra and Cohu test chips but don't actually make them.

Cohu's efforts to persuade the U.S. government to reject a Chinese state-backed consortium's acquisition of Xcerra could test how far the Trump administration is willing to go in its resolve to shut China out of the sensitive sector that is at the heart of a trade battle.

U.S. officials and executives say China's push to become a major competitor in the global chip market threatens national security. Their Chinese counterparts say U.S. companies are simply trying to hobble competitors.

Cohu recently provided the Committee on Foreign Investment in the U.S., a multi-agency panel that vets deals for national-security concerns, with its analysis of risks associated with the proposed Xcerra sale, according to the correspondence reviewed by the Journal.

The committee, known as CFIUS and led by the Treasury Department, can approve the acquisition or recommend the president block it.

The deal, announced in April, could give China access to intellectual property that could accelerate its efforts to become a serious competitor in the industry, Cohu alleges in a six-page white paper it sent to a Treasury paper it handling CFIUS matters.

"If Xcerra becomes a Chinese state-owned enterprise and obtains top-tier semiconductor companies like Qualcomm, Broadcom and Texas Instruments as customers, it is reasonable to expect transfer of this critical information to Chinese semiconductor companies," the document says.

Xcerra, in a statement, said: "The allegations Cohu make are false, as Xcerra does not possess critical [intellectual property] from any customer." Both parties in the deal intend to cooperate fully.

Please see CHIPS page B4

## Losing Streak Hits the Philippines

Security problems, scandal slow casino firms' ambition to make country an Asian gambling hub



SANTU DAS/BLOOMBERG NEWS

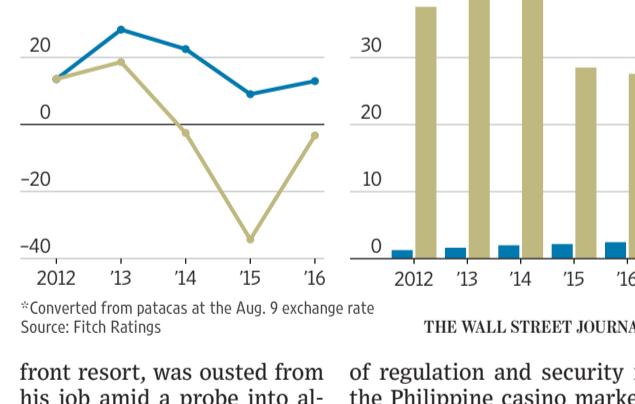
Crown Resorts of Australia initially invested in the City of Dreams casino in Manila, but the company has since sold its stake.

By JAKE MAXWELL WATTS AND BEN OTTO

### Beginner's Luck

A nascent, weakly regulated Philippine casino industry is expanding at a time when revenue is falling at Asia's largest gambling market.

Gross gambling revenue ■ Philippines ■ Macau\*



\*Converted from patacas at the Aug. 9 exchange rate  
Source: Fitch Ratings

front resort, was ousted from his job amid a probe into alleged improper payments.

Industry experts say these events illustrate the poor state

of regulation and security in the Philippine casino market, which, while growing rapidly, so far has largely failed to attract big Western investors.

"The credibility, the transparency, is just not there to satisfy the requirements of most international investor operators," said Ben Lee, a managing partner of Macau-based IGamiX Management & Consulting.

The Philippines has stepped up as a global gambling center at the same time that growth at traditional hubs, such as Macau and Las Vegas, has slowed or even contracted. Philippine gambling revenue, worth \$2.4 billion last year, has risen an average of nearly 24% a year from 2009 through 2016, according to data from Fitch Ratings.

Macau's casino revenue, though much larger at \$27.8 billion in 2016 alone, has grown less than 13% a year over the same period and has contracted in each of the past three years. Analysts expect

Please see CASINO page B2

## Air Berlin Files for Bankruptcy Protection

By ROBERT WALL

Air Berlin PLC, Germany's second-largest airline, on Tuesday said it had filed for bankruptcy protection and was in talks to sell part of its operations to larger rival Deutsche Lufthansa AG.

The German government, facing potentially big job losses at Air Berlin ahead of general elections next month, stepped in to provide a €150 million (\$176 million) bridge loan to Air Berlin in order to keep the airline afloat during the busy summer holiday season. The airline has about 8,000 staff and without the money would have been grounded, officials said on Tuesday.

Air Berlin becomes the second high-profile European carrier to go bust this year amid fierce competition that

has led to sharp declines in airline ticket prices. Italy's flag carrier, Alitalia, filed for bankruptcy in June. The German carrier, which has lost about €2 billion in the past four years, had been trying to

cut unprofitable operations and rapidly expand its more lucrative trans-Atlantic routes to the U.S. but ran out of time.

Air Berlin has struggled with high costs and growing competition from budget ri-

HANNIBAL HANSCHKE/REUTERS

The German carrier said Etihad Airways is no longer providing support.

vals such as Ryanair Holdings PLC, Europe's largest airline by passenger numbers. Ryanair has been expanding aggressively in Germany.

Air Berlin said it was forced to file for the German equivalent of chapter 11 bankruptcy protection after one of its largest investors, Abu Dhabi's Etihad Airways, said it would no longer provide the German carrier with financial support.

Etihad owns a 29.2% stake in Air Berlin and has repeatedly provided extra liquidity to the German carrier to keep it flying.

Etihad Airways took minority stakes in a number of airlines, including Italy's Alitalia, to help deliver passengers to its own network and drive growth. But it is stepping back from that strategy after it

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## INSIDE



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## The Volatile Bet Against Volatility

The VelocityShares Daily Inverse VIX exchange-traded note, or XIV, has plummeted as North Korean tensions stoked volatility.



## Thursday's most-traded stocks by value

Three volatility-related funds featured in the top 12 most-traded stocks as the VIX rose on Thursday. (Figures in billions)

Company name	Value traded	Market value
SPDR S&P 500 ETF	\$29.51	\$238.57
PowerShares QQQ ETF	8.99	50.81
Apple	6.42	813.42
iShares Russell 2000 ETF	5.61	35.08
Nvidia	5.49	92.80
Amazon.com	5.48	465.00
iShares MSCI Emerging Markets ETF	4.49	34.22
Alphabet	4.17	638.98
Facebook, Class A	3.51	488.14
<b>VelocityShares Daily Inverse VIX Short-Term ETN</b>	<b>3.38</b>	<b>0.65</b>
<b>iPath S&amp;P 500 VIX Short-Term Futures ETN</b>	<b>3.24</b>	<b>1.51</b>
<b>ProShares Ultra VIX Short-Term Futures ETF</b>	<b>2.65</b>	<b>0.34</b>

Sources: Thomson Reuters Datastream (percent-change); WSJ Market Data Group, Thomson Reuters Datastream, VelocityShares (table) THE WALL STREET JOURNAL.

## STREET

Continued from the prior page

make no difference.

It isn't only volatility funds, and isn't only Thursday: This year, the junior gold miners' ETF has been the 24th most-traded stock in the U.S., even though by value it wouldn't even feature in the S&P 500.

It shows up in some of the most speculative stocks, too: Trading in Tesla Inc. this year has been five times its market value, while trading in Nvidia Corp. has been four times its market value. Some people might be trying to make sensible assessments of the long-run cash flows from Tesla's electric cars or Nvidia's graphics chips, but a lot have just been betting on how sentiment toward the companies will change.

As economist John Maynard Keynes put it in 1936: "Americans are apt to be unduly interested in discovering what average opinion believes average opinion to be; and this national weakness finds its nemesis in the stock market."

There are three obvious questions about market speculation.

First, does it matter? Second, is there anything to be done about it? And third, how can those who recognize it profit?

Clearly excessive speculation matters. The market fulfills a social function as well as a way to make money, and the social function is to provide a way to raise capital, and a guide to asset allocation. Successful companies are rewarded with a higher share price, and the effort to make money—or greed, if you are on the left—pushes more capital toward that area.

Tesla is able easily to

raise new equity to finance

electric-vehicle development

because its shares are in demand; at the same time, investor interest in electric cars pushes the rest of the auto industry toward battery power, too.

Excessive speculation would mean markets become less effective at directing capital toward profitable endeavors, harming the economy as effort is wasted on projects such as dot-com disaster Pets.com.

But that doesn't mean anything should be done about it. Keynes advocated a trading tax to reduce speculation, an idea recently revived by the European left. The 81 years since have given countries with stock markets the biggest uplifts in living standards of any period in history—mostly without such taxes.

Some speculation is essential, to provide the ease of trading that makes a listed stock more attractive to buyers than an identical private investment. It felt to Keynes like there was too much speculation, it felt to 19th-century British politicians like there was too much and it feels today like there is too much. But no one really knows, and the main risk of speculation is to the speculators themselves; regulations should stick to ensuring fair markets and avoiding damage to the banking system.

Investors should try to avoid behaving like Capt. Renault in "Casablanca," who was "shocked"—shocked!—to find that gambling is going on in here.

If speculators are putting the wrong price on a stock, that is an opportunity to buy it cheap or sell it above its value.

The long-term investor has to accept that share prices can always become even further removed from reality, but they should regard excessive speculation as an opportunity, and hold their nerve.

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Second, is there anything to be done about it? And third, how can those who recognize it profit?

Clearly excessive speculation matters. The market fulfills a social function as well as a way to make

money, and the social function is to provide a way to raise capital, and a guide to asset allocation. Successful companies are rewarded with a higher share price, and the effort to make

money—or greed, if you are on the left—pushes more capital toward that area.

Tesla is able easily to

raise new equity to finance

electric-vehicle development

## BUSINESS & FINANCE

### Amazon Issues Refunds for Shady Eclipse Glasses



ON THE LOOKOUT: Counterfeit eclipse glasses have bedeviled Amazon. People observing a 2015 solar eclipse near Egypt's Giza Pyramids.

Online retailer **Amazon.com** Inc. started issuing refunds to consumers who bought certain brands of eclipse glasses after reports that counterfeits were flooding the market.

On Aug. 21, a total solar eclipse will traverse 14 states in the continental U.S., and most of the country will be able to see at least a partial eclipse. Staring at the partially covered sun without protective gear can cause vision loss, according to scientists.

"Out of an abundance of caution and in the interests of our customers, we asked third-party sellers that were offering solar eclipse glasses to provide documentation to verify their prod-

ucts were compliant with relevant safety standards," Amazon said. It kept offers from sellers that provided documentation, and removed the others. Customers of sellers that didn't provide documentation were notified last week of the refund.

While Amazon directly sells some merchandise on its site, it has increased its reliance on third-party sellers in recent years. Those sellers now make up more than 50% of units sold on the site world-wide.

Dozens of models of glasses to view the eclipse are being sold in stores and across the internet for as little as \$1 a pair. Tens of millions have been sold

in recent months. The glasses must meet strict safety standards. The demand has given rise to counterfeit and substandard products, say manufacturers and the National Aeronautics and Space Administration, which warned on its website of "unsafe paper solar glasses being distributed."

Some of those were being sold on Amazon, according to NASA and the American Astronomical Society.

The online retail company removed suspect items, it said previously. Last year, Amazon filed lawsuits targeting sellers allegedly listing counterfeit goods on its website, and it has instituted

programs to better protect brands. The Amazon eclipse-glasses refunds have ignited confusion and increased demand for verified products, according to manufacturers and consumers.

The American Astronomical Society lists on its website 12 brands it has independently verified to meet international safety standards. The organization also recommends several vendors that sell verified products.

"Sellers that provide the appropriate safety documentation will not be responsible for the cost of any refunds," said Amazon spokesman Erik Fairleigh.

—Daniela Hernandez and Laura Stevens

## CASINO

Continued from the prior page  
improving relations between Manila and Beijing—making it more feasible for Chinese visitors to come to the Philippines—to drive growth in Manila's gaming sector.

But foreign casino operators remain wary. Ed Bowers, senior vice president of U.S. resorts company MGM Resorts International Inc., told Philippine media in May that MGM decided not to enter the market, citing concerns about competition and the dual role of the country's regulatory authority, which is also a casino operator.

Significant investors here include the Philippines' richest man, property and retail magnate Henry Sy, and local ports tycoon Enrique Razon. Both have raked in substantial profits after pouring billions of dollars into casinos located on a plot of reclaimed land, dubbed Entertainment City, near Manila's international airport. Australian James Packer's **Crown Resorts Ltd.**

initially invested in an Entertainment City casino called City of Dreams, but it has since sold its stake.

The only high-profile foreigner still in the mix was Mr. Okada. He was scheduled to formally open Okada Manila in July in Entertainment City, until he was removed as chairman of the resort after an internal investigation into alleged improper payments.

The investigation has yet to

conclude, and while the Okada Manila casino is partially open, its full launch has been delayed. Mr. Okada hasn't responded to the allegations and couldn't be reached for comment.

The Philippine government sees promise in the casino sector but the country is an outlier in Asian gaming in its light-touch regulation. It allows proxy gaming—gambling anonymously—that is illegal in

the rest of Asia's major casino markets. The country's state-owned casino operator, Philippine Amusement and Gaming Corp., or Pagcor, also acts as its industry regulator, creating what other countries say is a conflict of interest.

A U.S. State Department report in March described the Philippine casino sector as a "weak link" in anti-money-laundering and terrorist financing, adding that criminal

groups had "infiltrated casino operations" for organized crime. Last year, \$81 million stolen from the Bangladesh central bank by hackers was laundered through Philippine casinos. The report also said drug traffickers "use the Philippine banking system, commercial enterprises, and particularly casinos, to transfer drug and other illicit proceeds from the Philippines to offshore accounts."



The City of Dreams casino in Manila. Philippine gambling revenue is up an average of nearly 24% a year from 2009 through 2016.

## CARRIER

Continued from the prior page proved too costly. Etihad last month reported a \$1.87 billion net loss for the financial year ended in March, in part driven by write-downs on its Air Berlin and Alitalia investments.

"We are working tirelessly to achieve the best possible outcome for the company, our customers and employees, given the situation," said Air

Berlin's Chief Executive Thomas Winkelmann, who has been in the job about six months.

The airline said flights would continue as planned and that it remained open to bookings.

Lufthansa, Germany's No. 1 airline by traffic, said it was already in talks with Air Berlin to take over some of the rival carrier's operations.

Lufthansa wouldn't address what assets it may acquire during negotiations but said it in-

tends to conclude the negotiations "in due time." It also indicated it could hire some Air Berlin staff. Lufthansa this year already deepened ties with Air Berlin by renting some planes from its rival and said that relationship would persist.

Any deal between Lufthansa and Air Berlin could raise competition concerns.

Air Berlin shares fell 34% and Lufthansa shares were up 4.7% late Tuesday in Xetra trading.

Germany Transport Minister Alexander Dobrindt said that he expected the government funds should keep Air Berlin in operation until the end of November. Germany's federal government found out about Air Berlin's pending insolvency application on Friday night and worked over the weekend to secure the transition credit to keep the airline in operation, Mr. Dobrindt said.

## BUSINESS NEWS

# Amazon to Issue Debt For Whole Foods Deal

BY JUSTINA VASQUEZ

**Amazon.com** Inc. will issue debt to help fund its purchase of **Whole Foods Markets** Inc., according to a securities filing Tuesday, and credit-ratings firm **Moody's Investors Service** said the e-commerce giant wants to raise up to \$16 billion in the offering.

The Seattle-based company is selling senior unsecured notes in a private offering as it prepares both the financial and operational integration of the largest purchase in its 23-year history. Details weren't immediately available on the interest rate, redemption prices and other terms on the debt.

Excluding lease obligations, Amazon reported \$7.68 billion of long-term debt as of June 30.

Moody's assigned a rating of Baa 1 on the new offering, and lifted the company's rating outlook to positive from stable. Moody's Vice President Charlie O'Shea said Amazon's pending acquisition of Whole Foods's nearly 500 stores are "an immediate credit positive" and should provide "greater scale and a crucial brick-and-mortar presence in a segment where it has been trying to grow."

Moody's also said the rating outlook reflects the strength of Amazon's business model and highlighted the company's cloud-services unit Amazon Web Services, which accounts for the majority of its operating income. Moody's said Amazon had more than \$21 billion in cash and short-term investments on its books in the latest quarter.

As Amazon works to close on the \$13.7 billion acquisition including debt of Whole Foods, the two companies still are working on a corporate integration plan. There are questions over whether to leave Whole Foods roughly as is or begin to overhaul its operations or brand while working to maintain customer loyalty. Amazon has said Whole Foods Chief Executive John Mackey will remain at the head of the chain after the deal closes.



A business-management firm hired by Johnny Depp is facing a U.S. fraud investigation. The actor sued the Management Group in January, blaming it for sizable losses.

## Ex-Depp Manager Faces Probes

Investigators from three U.S. agencies are probing a top Hollywood business-management firm facing fraud allegations from a former client, actor Johnny Depp, according to people familiar with the situation.

By Scott Patterson,  
Justin Baer and  
Ben Fritz

The Internal Revenue Service and Justice Department are jointly looking into possible fraud and money laundering by the **Management Group**, founded by brothers Joel and Rob Mandel, the people said.

The Securities and Exchange Commission is separately investigating how the Management Group handled Mr. Depp's funds, according to people familiar with the matter.

Mr. Depp sued the brothers in January and is seeking more than \$25 million in damages from the Mandels for alleged fraud and professional negli-

gence. The Mandels have denied Mr. Depp's claims in a countersuit, calling them "baseless."

The IRS-Justice Department probe, which is in its early stages, is being led by the IRS's criminal investigation division and is currently focused on elements of the Mandels' dealings with Mr. Depp, according to people familiar with the matter. Mr. Depp's lawyers have met with government officials, the people said.

The probe may not result in any charges against the Management Group or its owners. Federal investigators typically look at the possibility of money laundering as they trace the path of funds that allegedly have been misappropriated, said the people familiar with the situation.

"In 30 years of business, no current or former client of TMG has raised any issue" of impropriety other than Mr. Depp, a lawyer for the Management Group said.

The SEC has subpoenaed at least one person in its probe, according to a person familiar with the matter.

The actor in his lawsuit alleged the Mandels invested millions of his dollars in ventures partly owned by the Management Group and the Mandels, which the lawsuit

staple in Hollywood, charged with making investments, paying bills and handling taxes for wealthy actors and executives. Like many business-management firms in Hollywood, the Management Group maintains a low profile and keeps its client list private.

Mr. Depp alleged in his lawsuit, filed in Los Angeles Superior Court, that the Mandels caused him to lose tens of millions of dollars, incur more than \$40 million in debt and dispose of significant assets.

The Mandels, who worked for Mr. Depp from 1999 to March 2016, said in the countersuit that the actor's financial problems are the result of his own overspending and failure to heed repeated warnings. Alleging breach of contract and fraud, they claimed Mr. Depp lived a "selfish, reckless and irresponsible lifestyle" that cost \$2 million a month.

The Mandels claim they repeatedly warned Mr. Depp that he couldn't continue to afford

his lifestyle. He responded "by rebuking and cursing his business managers for issuing such warnings and advice," according to their suit.

The Management Group is seeking \$560,000 in unpaid fees and a ruling that the movie star himself is solely responsible for his financial situation. Both suits are pending.

Mr. Depp, in an April interview with The Wall Street Journal, said it was the Mandels' negligence and fraud, not his spending, that caused him to lose tens of millions of dollars over more than a decade.

Mr. Depp in his suit also accused the Mandels of failing to make timely tax payments on his income for years, resulting in about \$8 million in penalties. The Mandels, in their firm's countersuit, said they were unable to pay all of Mr. Depp's taxes because he was "squandering vast sums of money and had insufficient funds to timely pay all of his taxes."

## Producers Sue AMC Networks Over Profits

BY JOE FLINT

The creator and three other producers of the hit show "The Walking Dead" have filed a suit against **AMC Networks** Inc. alleging they have been denied their rightful share of the hit program's profits.

In the suit, filed in California Superior Court in Los Angeles, "The Walking Dead" co-creator Robert Kirkman along with producers Glen Mazzara, Gale Ann Hurd and David Alpert claim that by using in-house dealings between AMC Network and AMC Studios, which produces "The Walking Dead," the parent AMC Networks has avoided sharing the financial

success of the zombie drama with the producers.

Similar charges were made against AMC Networks by Frank Darabont, a former executive producer of "The Walking Dead," in a wrongful termination suit he filed against the network.

In their suit, the current producers say that profit participation usually kicks in at the production-company level while any profits the network makes stay there. Because in this case the studio and network are owned by the same company, the producers claim that AMC Networks paid a much lower license fee to AMC Studios to "keep the lion's

share of the profit at the network level and not pay a fair-market-value license fee to the production company."

In a statement, an AMC Networks spokesman said, "These kinds of lawsuits are fairly common in entertainment and they all have one thing in common—they follow success. Vir-

tually every studio that has had a successful show has been the target of litigation like this, and 'The Walking Dead' has been the #1 show on television for five years in a row, so this is no surprise. We have enormous respect and appreciation for these plaintiffs, and we will continue to work with them as

partners, even as we vigorously defend against this baseless and predictably opportunistic lawsuit."

Last week, Mr. Kirkman signed a deal with Amazon.com Inc. to develop new shows for its Amazon Prime service. However, he will continue to be involved in "The Walking Dead."

## Jana Takes Stake in Meal-Kit Company

BY HEATHER HADDON

The activist hedge fund that invested in **Whole Foods Market** Inc. and catalyzed the natural grocer's takeover by **Amazon.com** Inc. has taken a 2% stake in meal-kit maker **Blue Apron Holdings** Inc.

**Jana Partners** LLC disclosed the investment on Monday in a regulatory filing. Representatives for Blue Apron and Jana declined to comment.

Jana trades in many stocks but pushes for major executive or operational changes in just a few. Its roughly \$3 million stake in Blue Apron is much smaller than the \$794.5 million position it took in Whole Foods.

Blue Apron Chief Executive Matt Salzberg said in an interview last week that he wasn't worried about an activist push and that his company was creating long-term value for its investors. "Obviously we have a robust investor-relations function. We talk to key shareholders," Mr. Salzberg said.

Blue Apron's shares have fallen nearly 50% since making their debut in June as the New York-based company struggles to attract and maintain customers in the increasingly competitive meal-kit space.

Jana took a nearly 9% stake in Whole Foods in April and demanded changes to the company's board and operations. The push helped prompt Whole Foods to agree in June to be bought by Amazon for \$13.7 billion, including debt. Whole Foods investors are slated to vote on the deal next week.

The hedge fund also previously took a more-than-6% stake in the Safeway supermarket chain in 2013.



A 'voguing' dance class in Harlem will be included as part of a planned tour to New York offered by Vice Media and Airbnb.

## Vice, Airbnb Team Up on Edgy Travel Packages

BY LUKAS I. ALPERT

**Vice Media** has always tried to show what living on the edge looks like, but now it is inviting people to experience it for themselves.

The youth-focused digital media company is joining with **Airbnb** Inc. to offer custom-made travel packages in keeping with the Vice's "punk 'zine" ethos.

"Vice has long gone all over the world to find the most unique stories with reporters on the ground, but we have never given our audience a chance to experience it," said Spencer Baim, Vice's chief strategy officer.

The partnership will kick off with a contest in which

100 people will receive one of four customized tours in South Africa, Paris, New York

and Tokyo free of charge. A fee will be charged for future tours.

Going forward, profit from tour fees will be kept by Airbnb, while Vice will receive advertising spending from Airbnb to market its "Experiences" offerings and other products.

"This is something a bit different than a typical ad relationship, in that we are both putting in money and time to develop the offerings," Mr. Baim said. "We've done a ton of research on this and given

that we are in 80 countries,

our ability to send viewers on incredible trips seems pretty endless."

The pilot offerings include a

look at the electronic music scene in Cape Town led by DJs Spoek Mathambo and Yolanda Fyrus, a tour of Tokyo's LG

BTQ nightlife culture and an inside look at the voguing dance world in Harlem. In Paris, the tour will focus on cabaret and burlesque events.

The tours will be part of Airbnb's "Experiences" packages, which it launched last year to offer travelers the opportunity to take part in aspects of a destination's culture—for example, drum lessons in Cuba or glitter face-painting workshops in London. Airbnb offers 2,500 experience packages in 35 cities.

"The experiences side of our business appeals more to a younger, more exploratory, more innovative human mindset and that seems like it would fit well with Vice's core audience," said Jonathan Mildenhall, Airbnb's chief marketing officer.

## TECHNOLOGY

WSJ.com/Tech

# Kalanick Critic Stirs the Pot

Benchmark Capital tells Uber employees that former CEO is hurting their company

BY GREG BENSINGER

Days after it sued **Uber Technologies Inc.**'s former chief executive, investor **Benchmark Capital** sent a letter to the ride-hailing company's employees on Monday saying it took action in part to prevent him from undermining the search for his replacement.

Benchmark, one of Uber's early investors, also said in the letter that its suit against Travis Kalanick was intended to hasten cultural changes at the San Francisco company following a series of scandals during Mr. Kalanick's tenure.

Benchmark last week sued Mr. Kalanick, saying he had defrauded investors by keeping secret bad business practices. The venture-capital firm said it hopes to push Mr. Kalanick off the board of directors and free up three board seats he effectively controls.

"It's easy to reduce this situation to a battle of personalities. But this isn't about Benchmark

versus Travis," said the letter from Benchmark, which was sent to all Uber employees and posted on Twitter. "It's about ensuring that Uber can reach its full potential as a company," adding "We are sorry that it has taken us so long to do the right thing."

Mr. Kalanick said he is working with the board to hire a new CEO, and criticized Benchmark's actions. "I am disappointed and baffled by Benchmark's hostile actions, which clearly are not in the best interests of Uber and its employees on whose behalf they claim to be acting," he said in a statement.

An Uber spokesman didn't respond to a request for comment.

Chief among Benchmark's complaints, it said, is that Mr. Kalanick remains involved in the company's daily operations and is obstructing the CEO search. Benchmark, which has a board seat and is on the committee overseeing the search, was the prime actor in pushing out Mr. Kalanick in June, drafting a letter that other investors signed and dispatching two partners to deliver it to him in Chicago.

The Uber board's five-member CEO committee had as of earlier this month narrowed its search to three candidates, ac-

cording to people familiar with the matter.

The allegations in Benchmark's lawsuit center on an agreement in June 2016 to expand Uber's board to 11 seats from eight, effectively giving Mr. Kalanick control over the designation of those additional seats. The San Francisco-based investment firm said the former CEO had agreed in writing when he resigned to relinquish control of the board seats.

**Benchmark claims that Mr. Kalanick is obstructing the search for a new CEO.**

A spokesman for Mr. Kalanick, in a statement last week, said the lawsuit is without merit and "riddled with lies and false allegations."

Benchmark said in its letter Monday that it warned the 41-year-old company co-founder more than a month ago that it would sue if he didn't return control of the three board seats to other directors.

"Travis's failure to make good

on this promise, as well as his continued involvement in the day-to-day running of the company, has created uncertainty for everyone, undermining the success of the CEO search," the Benchmark letter said.

The letter also zeroed in on a report issued in June by former U.S. Attorney General Eric Holder's law firm, Covington & Burling LLP, that resulted from a months-long probe into Uber's culture after allegations of sexism and sexual harassment. The board adopted 47 measures recommended in the report.

Uber's human resources chief, Liane Hornsey, said in a companywide email Monday that the firm was making progress in implementing the Holder report's recommendations. "We certainly have more work to do, but I am proud of the work the team has done so far," she said.

Some shareholders say they resent Benchmark's suit and public criticism of Mr. Kalanick's leadership because Benchmark is bound to reap a once-in-a-lifetime reward from its investment. Another group of shareholders on Friday demanded Benchmark divest itself of at least 75% of its shares and relinquish its board seat, held by partner Matt Cohler.



# Neo-Nazi Site Gets Booted by Google, GoDaddy

BY YOREE KOH  
AND JACK NICAS

Google on Monday said it canceled the website-hosting registration for the neo-Nazi website Daily Stormer, hours after GoDaddy Inc. told the site it needed to find a new host.

Google, a unit of **Alphabet Inc.**, said it canceled the Daily Stormer's registration because the site violated its policies against inciting violence. A spokesman declined to specify what content on the site violated the policy.

Daily Stormer for years has posted hateful content criticizing Jewish and nonwhite people. On Sunday, the site ridiculed Heather Heyer, the 32-year-old woman who was killed Saturday while protesting a white nationalist rally, kicking off a string of web-service companies trying to sever ties or distance themselves from the site.

Late Sunday evening, GoDaddy said on Twitter it had given Daily Stormer 24 hours to find a new web host. The company said it generally doesn't take action on complaints that would involve censorship of content, but that given the recent events in Charlottesville, Va., the Daily Stormer article violated its terms of service by "promoting, encouraging, or otherwise engaging in violence against any person."

Daily Stormer didn't respond to a request for comment.

Extremist groups increasingly use the internet to spread their message and gather recruits, forcing tech companies to grapple with how to handle such activity, trying to maintain a tricky balance of protecting free speech without hosting hateful content.

Several hours after Google pulled the registration, a YouTube spokeswoman said the video site terminated Daily Stormer's YouTube channel because of hate-speech violations.

Facebook Inc. said it re-

moves links to Daily Stormer shared on Facebook—unless the caption clearly condemns the content in the post—because the site often praises hate crimes. The company said it relies on users to flag the posts to remove them. Facebook said it initially allowed an event listing for the Unite the Right white-nationalist rally in Charlottesville, but pulled the listing shortly before the rally when it became clear the event could result in violence.

On Monday, Daily Stormer registered its site with Google via an automated process shortly before 11 a.m. ET. About three hours later, Google said it had canceled the registration, and that it might take up to 48 hours to take effect, adding that it isn't the hosting provider. Without a website registration, a site will appear offline to visitors. To use its web address dailystormer.com, the site would have to find one of the thousands of accredited companies to register the site.

It isn't clear who now is hosting the Daily Stormer site.

Toronto-based Tucows Inc. denied ever giving a home to the site. Michael Goldstein, vice president of marketing at Tucows, said Daily Stormer used its so-called contact-privacy service, which blocks a site's domain information to the public. The site "violated our terms of service and we no longer need to provide that service to that domain," Mr. Goldstein said.

In a tweet, GoDaddy pointed to San Francisco-based content-delivery network Cloudflare Inc. as hosting provider. Cloudflare said it isn't the host, though it appears to provide services that mask the true host's identity, according to Whois.com, which allows users to search for website domain registrations and hosting providers.

"Cloudflare is aware of the concerns that have been raised over some sites that have used our network," the company said.

## CHIPS

Continued from the prior page with CFIUS "to address any potential national security interests," Xcerra said.

A Treasury spokesman said the agency doesn't comment on whether any particular transaction is being reviewed by CFIUS.

The deal's primary financier is a \$20 billion Chinese government-controlled fund called the **China Integrated Circuit Industry Investment Fund Co.**, known locally as "the Big Fund." A representative declined to comment.

Cohu's June 2 paper says a sale of Xcerra could disrupt the semiconductor supply chain and lead to U.S. job losses if the company uses subsidies from its new owner to improperly undercut U.S. rivals.

Some U.S. officials assert that, for example, China could use state subsidies to drive U.S. chip firms out of business and eventually dominate the industry, leaving the U.S. and its military reliant on Chinese chips.

Others, though, say it is critical for CFIUS to focus solely on traditional national security matters, and taking economic concerns into account would be wrongly protectionist.

President Donald Trump has ramped up trade pressure on China, directing aides on Monday to begin a study of whether to launch a formal in-



Drivers gather outside an Uber office in Manila on Tuesday. Philippine regulators ordered the company to cease operations for a month.

# Uber Will Comply With Suspension

BY JAKE MAXWELL WATTS

**Uber Technologies Inc.** said it would comply with a one-month suspension imposed by regulators in the Philippines after authorities rejected its appeal and threatened to arrest Uber drivers still on the road.

A month's absence could be damaging in the highly competitive Southeast Asian market, where Uber is pitted against regional rival **Grab Taxi Holdings Pte** in a race that many analysts see as winner-take-all.

Singapore-based Grab said Tuesday that it is experiencing a surge in demand and credited the Uber suspension.

Uber, which has clashed with regulators world-wide as it disrupts the traditional taxi business, was suspended on Monday by the Philippines' Land Transportation Franchising & Regulatory Board for allegedly violating an order not to register and activate new drivers.

Saying the suspension had

left tens of thousands of riders stranded, Uber declared Tuesday that it would continue to operate, and filed a motion with the same board asking for a reconsideration.

The regulator rejected the company's plea Tuesday evening and said it had asked law enforcement to detain Uber drivers defying its order, after which Uber said it was "disappointed" but would in fact comply.

Filipinos rushed to defend Uber on social media Tuesday. Facebook users accused the regulator of acting in the interests of taxi companies at the expense of consumers.

Sen. Grace Poe, an unsuccessful presidential candidate last year, said on Facebook that the suspension is "cruel and absurd."

Uber told a government hearing this month that it had more than 66,000 registered drivers who had worked at least once in the past year in the Philippines. Grab said it had 52,000 vehicles. Only about 6,000 vehicles on the

two networks had been accredited by the regulator.

Uber's decision to comply with the regulator's suspension order marks an unusual U-turn by the U.S. firm, which has in other global markets often forged ahead with its service despite clashes with regulators, amid popular demand from consumers.

The thinking among Asia's ride-hailing companies has historically been to "plow on ahead and then sort out the repercussions later," said Bryan Tan, a lawyer specializing in technology at Pinsent Masons in Singapore. Mr. Tan said that he observed Uber trying to cooperate with regulators around the region, but that "it's cheaper to repent than to stop" when interests collide.

The Philippines regulatory board has previously said it welcomes technological innovation and wants ride-hailing companies to be able to operate. It has cited safety concerns and a necessity to promote fair dealing and

accountability as a reason to compel ride-hailing companies to comply with registration demands.

A year ago, the board stopped issuing vehicle registrations for ride-hailing companies in Manila pending a policy review. In July it stressed that companies like Uber are prohibited from accepting new drivers and would need to deactivate those registered after June 30. It fined Grab and Uber 5 million pesos (about \$98,000) each for allegedly allowing drivers to operate without permits.

The board said it suspended Uber's services because the company continued to take on new drivers. It didn't suspend Grab's services.

This has been a tumultuous year for U.S.-based Uber, the world's most valuable startup, which has been beset by legal challenges, the departure of its founder and chief executive and accusations that its corporate culture encourages sexual harassment.

# Former Sling TV Chief Chosen as Pandora CEO

BY ANNE STEELE

**Pandora Media Inc.** said former Sling TV Chief Executive Roger Lynch will lead the Internet-radio company as it faces an increasingly competitive landscape.

Mr. Lynch will take the helm Sept. 18, when he will also join the company's board. Naveen Chopra, who has served as interim CEO since June, will continue as chief financial officer.

Pandora co-founder Tim Westergren stepped down as CEO in late June.

Mr. Lynch, the founding CEO of Sling TV, led that company's growth to become the

No. 1 live online-television service in the U.S. Previously, he worked for **EchoStar Corp.** and **Dish Network Corp.**, which owns Sling.

"As a lifelong musician and exuberant music fan, this is the perfect opportunity to combine my industry experience with my love for music," said Mr. Lynch, who plays lead guitar in a classic-rock and R&B band called the Merger.

Earlier in June, Pandora secured a \$480 million investment from satellite-radio company **Sirius XM Holdings Inc.** As part of the deal, SiriusXM will name three directors to Pandora's board, in-

cluding the chairman.

On Monday, Pandora named Snap Inc. Chairman Michael Lynton to its board. Before joining Snap in 2013, Mr. Lynton was CEO of Sony Entertainment.

Pandora shares rose 3.6% midday Tuesday to \$8.36.

Pandora has been struggling to find a direction—and to turn a profit—as it contends with subscription services like Apple Inc.'s Apple Music and Spotify AB. Earlier this year it launched a \$10-a-month subscription-music offering amid a tough environment for ad-supported services. And in June, it announced the sale of Ticketfly to Eventbrite Inc. for \$200 million—significantly less than Pandora paid for the ticketing business in 2015.

Pandora's new CEO Roger Lynch

ETHAN MILLER/GETTY IMAGES

Some U.S. officials assert that, for example, China could use state subsidies to drive U.S. chip firms out of business and eventually dominate the industry, leaving the U.S. and its military reliant on Chinese chips. Others, though, say it is critical for CFIUS to focus solely on traditional national security matters, and taking economic concerns into account would be wrongly protectionist.

President Donald Trump has ramped up trade pressure on China, directing aides on Monday to begin a study of whether to launch a formal in-

## MANAGEMENT

### WORKAROUNDS

#### Hackers Target Young Job Seekers

Khawar Latif suspected fraud from the start.

In May, the 25-year-old founder of a domain registration business, who lives in Sialkot, Pakistan, received an invitation to chat about a job with someone claiming to represent the **Financial Industry Regulatory Authority**.

"See your website and like to discuss with you about our new job post if you are available," read the message Mr. Latif received on Microsoft Corp.'s Skype internet-calling service. The person also sent him a file to download.

Mr. Latif contacted the Washington, D.C.-based Wall Street regulator, which quickly confirmed the person didn't work for the agency and that Finra had no external Skype accounts.

Hackers attempt to hook tens of thousands of people like Mr. Latif through job scams each year, according to **U.S. Federal Trade Commission** data, aiming to trick them into handing over personal or sensitive information, or to gain access to their corporate networks.

Employment fraud is nothing new, but as more companies shift to entirely-digital job application processes, Better Business Bureau director of communications Katherine Hutt said scams targeting job seekers pose a growing threat. Job candidates are now routinely invited to fill out applications, complete skill evaluations and interview—all on their smartphones, as employers seek to cast a wider net for applicants and improve the matchmaking process for entry-level hires.

Young people are a frequent target. Of the nearly 3,800 complaints the nonprofit has received from U.S. consumers in the past two years, people under 34 years old were the most susceptible to such scams, which frequently offer jobs requiring little to no prior experience, Ms. Hutt said.

Sydney Wang in California bought nearly \$30,000 worth of office supplies for a fake job she was tricked into applying for this past January. After the 27-year-old made the purchases for a made-up employer using the name S.M.L. Digital Agency, the fake hiring managers she had been in touch with about the assignment for weeks disappeared, she said.

"I was desperate for a job. I thought I did my due diligence but we were tricked," said Ms. Wang, who had been sending out resumes and interviewing for a full-time role for seven months before she was duped. She now works as a receptionist.

Investigating the source of job scams can be a yearlong effort, involving coordination from law-enforcement agencies, technology companies and financial institutions.

Cybersecurity research firm Dell SecureWorks in 2015 uncovered a network of dozens of fake LinkedIn profiles, which it suspects were being used by hackers in Iran to build relationships with potential victims around the world. The hackers posed as employment recruiters to deliver fake job applications containing malware, said Dell SecureWorks senior security researcher Allison Wikoff.

—Kelsey Gee

# Minding Your Mental Health

Companies are encouraging employees to step away from work to address illnesses including depression and anxiety

BY FRANCESCA FONTANA

Bosses want their workers to start taking mental-health days for the right reasons.

Workers often say they are taking a mental-health day with a wink and a nudge, as it is commonly understood that they will be catching up on housework or going to the beach. Meanwhile, many people who genuinely need time off to see a therapist or recover from an anxiety attack say they are less than forthcoming with their managers about why they need a break.

More companies are trying to destigmatize mental illness and encourage workers to use mental-health days for their original intent. EY, or Ernst & Young, has an initiative called "r u ok?" that encourages workers to check in with each other and offer support to those who might be struggling. American Express Co.'s employee-assistance program offers on-site access to mental-health professionals and free counseling. Prudential Financial Inc. gives employees flexible work arrangements and access to mental-health professionals.

Taking time off for mental illness can qualify as a sick day or personal time off, depending on the company's policies.

The policies don't just reflect employer benevolence. Major depressive disorder alone cost companies \$78 billion in lost productivity in 2010 because of employees showing up to work while struggling with the illness, according to a 2015 study published in the *Journal of Clinical Psychiatry*.

In June, Madalyn Parker, a web developer at Ann Arbor, Mich., software maker Olark, sent a companywide email to say she was taking a couple of days off to focus on her mental health. "Hopefully I'll be back next week refreshed and back to 100%," she wrote. Olark Chief Executive Ben Congleton replied and thanked Ms. Parker for her openness.

"Every time you (send



BRITTANY GREENON FOR THE WALL STREET JOURNAL

Madalyn Parker sent an email to colleagues at software maker Olark to say she would take time off to focus on her mental health.

emails like this), I use it as a reminder of the importance of using sick days for mental health," he wrote. "You are an example to us all."

Ms. Parker, who suffers from depression and anxiety, later tweeted a screenshot of the exchange with the caption, "When the CEO responds to your out of the office email about taking sick leave for mental health and reaffirms your decision."

The tweet went viral with nearly 50,000 users liking the post, and Mr. Congleton garnered widespread praise from other executives such as Facebook Inc.'s Sheryl Sandberg.

Aside from Mr. Congleton's empathetic response, what likely resonated with thousands of Twitter users was Ms. Parker's candid explanation of her need for rest, says Clare Miller, director of the Center for Workplace Mental Health at the American Psychiatric Association Foundation.

Still, many people are un-

willing to open up, fearing it could jeopardize their careers. One in five adults in the U.S. has a mental-health condition, according to the National Alliance on Mental Illness. But most workers who have a mental illness keep it secret at work. A 2014 survey conducted by market-research firm Ipsos found that 73% of workers with depression hadn't told their employer about their diagnosis. Almost half of respondents said they thought telling their boss would put their job at risk.

"Silence often equals shame," Ms. Miller says. "It adds power to the stigma by not feeling free to share all of yourself at work."

Legal experts point out that the law protects employees with mental illnesses, and provisions in the Americans With Disabilities Act allow such workers to seek accommodations such as modified work schedules, says James McDonald, a California-based employment

attorney at Fisher Phillips.

In 2016, Ms. Parker's company, Olark, added language about mental health to its employee handbook. The company's flexible paid-time-off policy now includes provisions for "mental-health needs such as a rest day [or] seeking treatment," according to a spokesman.

Boston software company HubSpot Inc. has taken a different tack. It offers its roughly 1,800 employees flexible hours and unlimited vacation so they can take time off without feeling forced to explain why, says Katie Burke, the company's chief people officer. The aim is to make employees feel comfortable sharing who they are without forcing them to divulge their private struggles, she says.

HubSpot also has meditation rooms at its main office, and employees started a group to promote self-care, Ms. Burke says.

Taking the extra steps to create a culture that sup-

ports mental health can send a powerful message to employees, says Jeanne Meister, a consultant who advises Microsoft Corp. and Intel Corp. on workplace issues.

"They will never forget that," Ms. Meister says, and in the long run managers can see increased loyalty and retention as a result.

Ms. Parker, 26 years old, has been living with depression and anxiety since college, she says. When she had panic attacks during meetings at Olark, she says she would excuse herself just long enough to go to the bathroom, take a Xanax and return to the gathering.

"I would plow right through," she says. If she had to miss work because of her mental illness, Ms. Parker says she would email her co-workers vague excuses. Now, she says, she is transparent about her mental health with co-workers to set an example for "the majority of people who are suffering silently."

## BUSINESS WATCH

### DOMINO'S PIZZA

#### Pizza Chain Meets Challenges in France

##### Domino's Pizza Enterprises

Ltd. thought its online delivery platform could be the pièce de résistance of a strategy to fire up sales in France.

Turns out, the system—used in English-speaking countries like Australia and New Zealand—had problems dealing with apostrophes, commonly found in French addresses and locations like the Rue de l'Université in Paris. It was also challenged by French slang, resulting in hungry diners being told delivery wasn't available where they were.

Investors found the confusion hard to stomach on Tuesday when the Sydney-listed company, which licenses the brand

from U.S.-based **Domino's Pizza** Inc., blamed sluggish performance in France for a lower-than-expected annual profit.

Shares fell 19% Tuesday in Sydney, wiping more than 800 million Australian dollars, or about US\$628 million, off the company's market value.

The system "wasn't optimized for French addresses," said Chief Executive Don Meij, adding that the problem was fixed. The removal of some long-standing promotions and lukewarm reception for a new budget line of pizzas also hurt performance in the French market. The pizzas are offered at €5.99 (US\$7.06) for a medium-size pie with a single topping of olives, pepperoni or ham.

The episode underscores how even a minor mishap can sink shares of a company like Dom-

ino's. It had been a darling of the market that posted impressive sales numbers as it aggressively opened stores, made acquisitions and offered quick delivery and easy ordering from mobile phones.

—Mike Cherney

##### JBS

#### Brazilian Firm Posts Drop in Earnings

**JBS SA** reported a sharp drop in quarterly profit amid corruption and food-safety scandals that have ensnared the meatpacker, the world's largest supplier of animal protein.

The Brazilian company was forced to cut beef production amid accusations that employees at several meatpacking plants in Brazil had bribed sani-

tation inspectors in that country, allowing tainted meat to be sold.

As part of a cooperation agreement with prosecutors, JBS's parent company, J&F Investimentos, admitted to bribing Brazilian politicians in exchange for government favors, such as access to taxpayer-subsidized financing that helped fund an acquisition spree in the U.S. and other countries.

Also, JBS has since hired a former head of food safety at the U.S. Department of Agriculture to oversee safety practices and quality assurance.

On Monday, the company said that it hadn't determined the potential impact that the "allegations and facts which are subject of the plea bargain agreement" could have on its financial performance.

The Brazilian company, which

controls U.S. poultry producer Pilgrim's Pride Corp., reported a net profit of 309.8 million reais (\$97 million) in the three months ended June 30, down from 1.54 billion reais in the same period a year earlier, the company said Monday.

In all, the company's quarterly sales fell to 41.67 billion reais, driven by a 11% decline in South America.

Analysts surveyed by Thomson Reuters had projected 170.8 million reais in profit on 40.46 billion reais in sales.

JBS ended the quarter with 4.14 billion reais in cash and 50.4 billion reais in net debt. JBS attributed the 5% increase in net debt from the previous quarter to the depreciation of the Brazilian real and the Plumrose USA acquisition.

—Maria Armenta

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## FINANCE & MARKETS

# Blackstone Is Betting Big on Natural Gas

Equity firm thinks it can profit even if gas prices remain stuck at depressed levels

BY RYAN DEZEMBER

**Blackstone Group LP** is making one of its biggest bets on the growth of natural-gas production, wagering that even if gas prices remain stuck at depressed levels, it can profit.

The New York private-equity firm has built a roughly \$7 billion bet on natural gas by investing in drilling fields, pipelines and a gas export terminal. The latest piece came last month, when it agreed to pay \$1.57 billion for a 32.4% stake in the Rover Pipeline, a 710-mile tube being built across Ohio.

Natural-gas investments have been popular in recent years among private-equity firms. Many investments count on prices rising to turn profits—and have been doomed by low prices.

Blackstone says its wager is generally more dependent on production volumes increasing than on prices climbing. Most of the \$7 billion has been put toward moving gas out of areas where drilling has increased despite low prices. The remainder has been invested in exploration and production in those regions.

"We're betting on which basins are going to be the winners," said David Foley, who leads the firm's energy investing. He has put Blackstone's money down in West Texas, Appalachia and Louisiana.

Blackstone raised its latest energy fund, a pool with more than \$8 billion, in late 2014 and early 2015, when collapsing crude prices stoked optimism that investors could snap up oil assets on the cheap. The



Blackstone recently agreed to pay \$1.57 billion for a 32.4% stake in the Rover Pipeline, above, which is being built across Ohio.

firm has invested billions in oil, but its splashiest deals have been aimed at natural gas.

The natural-gas gambit has grown into one of Blackstone's biggest, comparable in scope to its \$10 billion bet on rental homes. But unlike home prices, the prognosis for natural-gas prices isn't as bright.

Goldman Sachs Group Inc., Citigroup Inc. and others say that abundant supply, and production that can be ramped up quickly, should keep U.S. natural-gas prices at an average of around \$3 per million British thermal units for the next couple of years. Futures contracts for gas to be delivered in the winter, when demand and prices tend to be highest, don't exceed \$3.50 an MMBTU until

late 2027.

Blackstone joins a crowded field of private-equity firms that have barreled into gas investments since the combination of horizontal drilling and a rock-cracking process called hydraulic fracturing unlocked new drilling fields across the country. These firms' cash helped feed a drilling frenzy that has produced a flood of the heating and power-generation fuel.

Some firms have made disastrous bets, underestimating the new drilling technology and how severely it would affect prices.

The Texas power producer formerly known as TXU Corp. was bankrupted by buyout debt after KKR & Co. and TPG

bought the company in 2007 for \$32 billion assuming that gas prices, and thus electricity prices, would remain high. Instead, shale gas flooded the market.

Another surge of shale gas sent prices spiraling shortly after KKR and others paid \$7.2 billion for oil-and-gas producer Samson Resources Corp. in 2011. Samson's bankruptcy case is approaching its second anniversary.

But there have been enough successes to keep investor interest in natural gas alive. KKR once made \$1.5 billion in about a year by flipping Pennsylvania shale fields. Big scores like that have helped draw more than \$200 billion into energy funds since 2013, according to Preqin.

The earliest of Blackstone's natural-gas investments is poised to begin paying dividends. In 2012, the company put \$1.5 billion toward the construction of Cheniere Energy Inc.'s facility in Sabine Pass, La., to liquefy natural gas for export.

The facility, which last year became the first to ship U.S. shale gas overseas, is adding capacity and recently reached a construction milestone that triggered Blackstone's stake to convert to common shares of an entity that distributes 42.5 cents a share each quarter. With more than 202 million shares, Blackstone is due about \$86 million quarterly, or \$344 million annually.

The Rover Pipeline could be

completed as early as autumn, according to Energy Transfer Partners LP, which is building the project. It will connect some of the country's most prolific wells to markets around the Great Lakes and along the Gulf of Mexico. Once it opens, the Appalachian drillers who have signed up for shipping space on the pipeline will pay fees whether they send gas or not.

Earlier this year, Blackstone paid \$2 billion for 375 miles of pipelines in West Texas that gather gas being produced as a byproduct of the frenzied Permian Basin oil drilling, and is therefore not particularly sensitive to gas price movements.

Mr. Foley says owning infrastructure like gas pipelines and export terminals is akin to selling supplies to speculators during the California Gold Rush. "It's like picks and shovels for gold mining," he said. "We don't really care about the gold price, we just need it to be sufficient that people continue to mine."

Blackstone's strategy isn't without price risk. A decline much below \$3 could hurt the firm's investments in exploration and production outfits. Persistently low prices have pressured such companies and limited the places where drilling is profitable.

In Appalachia, Blackstone has placed hundreds of millions of dollars with closely held prospectors, including \$250 million with a 105-year-old Pittsburgh outfit called Huntley & Huntley, which it has used to acquire acreage and drill wells near fields that gas giant EQT Corp. has been consolidating. In northwest Louisiana, it spent \$1.2 billion on drilling fields and created a company called Vine Resources Inc., which filed paperwork in April to pursue an initial public offering.

## From Wall Street Trader To Chronicler of the Poor

BY MATT WIRZ

"God it smells like dead animal in here," says Chris Arnade, a former bond trader, as he opens the doors of his battered minivan in an attempt to clear the baked-in stink.

It's 105 degrees in the parking lot of a Bakersfield, Calif., McDonald's on a recent Saturday. Homeless men and women pass by on their way to get breakfast, free ice or to sit in the air conditioning.

Mr. Arnade walked away from Wall Street after 20 years to photograph and write about America's disaffected poor. His work, especially on how economic inequality contributed to Donald Trump's political ascent, has garnered a large following of fans—and detractors—across the political spectrum.

Mr. Arnade's unusual bipartisan appeal—both Arkansas Republican Sen. Tom Cotton and billionaire Democratic fundraiser Chris Saccia invited him to lunch this spring—reflects the contradictions of a life spent straddling social and economic divides.

He grew up lower middle class in the rural South, where his family stuck out for its civil-rights activism. He made millions on Wall Street from what he calls "intellectual graft," while spending his days arguing for liberal economic changes with conservative co-workers.

The 52-year-old Mr. Arnade says the new career is a conscious attempt to reconcile his multiple identities, and perhaps atone for his time in finance.

"This is more comfortable to me," he says, waving his hand at the foot traffic around the Bakersfield McDonald's. "This is what I grew up with."

ball and learned to shoot guns. But he was also teased for his bookishness," he says. His parents skimped on new clothes and car repairs so they could take the family on far-flung academic research trips, he says.

"Being caught in the middle you end up something of a watcher," says Mr. Arnade. "You never fit in entirely."

He also felt like an outsider on Wall Street, where he landed in 1993 after receiving a doctorate in particle physics from Johns Hopkins University, borrowing money to buy the suit he needed for his interview with Salomon Smith Barney.

"He was very rural Florida and different from anyone else we were working with, these lacrosse players who grew up well off in the suburbs," says Jeff Lox, a former colleague of Mr. Arnade.

Financial analysis came easy to him, Mr. Arnade says, and he enjoyed the problem-solving aspects of his job trading emerging-market bonds.

*He was very rural Florida and different from anyone else we were working with.'*

ing immigrant and poor communities. A turning point came in 2012 when Citigroup shut down Mr. Arnade's proprietary trading desk because of new bank regulation. Around the same time, his mother died of pancreatic cancer.

He decided to quit finance and focus on photo essays, starting with addicts and prostitutes he had befriended on walks in the Bronx. The move caused anxiety at home. "I'm not the clingy type but there's a panic about 'where's the money going to come from?'" said Valerie Arnade, Mr. Arnade's wife. The family cut expenses by relocating to a house in New Paltz, in the Hudson Valley.

He spent several years working on the streets, in squats and in rehabs getting to know his subjects for the series, which has been viewed about 1.5 million times on Flickr. Mrs. Arnade became his editor, catching mistakes and offering feedback on his writing, a partnership that continues today.

Some attacked his work on social media, calling it exploitative, and Mr. Arnade grew nostalgic for the arguments he used to have on Wall Street. "Everybody I ever dealt with on the trading floor would acknowledge when they were wrong," he says. "That doesn't happen on Twitter."

He began reporting for newspapers and magazines and in late 2014 started traveling to towns across the country with high rates of poverty and drug addiction. He met residents on the street, in churches and mosques, community colleges and McDonald's franchises. Many felt abandoned economically and angry enough about Wall Street bailouts to support Mr. Trump.

Driving through Bakersfield's dilapidated downtown, Mr. Arnade pulls over to speak to Ruth Tate, an 87-year-old African-American woman sweeping her sidewalk in the heat. She tells him about her move from Mississippi 50 years ago, her disappointment in how the U.S. is "going down the drain."

He listens, then asks, "I don't mean to make you uncomfortable but, is the racism bad here? Who did you vote for in the election?" She avoids the first question, then reluctantly says she voted for Mr. Trump.

Mr. Arnade says he stayed on Wall Street so long because he and his family grew accustomed to their affluent lifestyle in Brooklyn, including private schools and luxury vacations. "I stuck it out as much by inertia here? Who did you vote for in the election?" She avoids the first question, then reluctantly says she voted for Mr. Trump.



Chris Arnade's photographs and writings have drawn fans—and detractors.

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FUND NAME GF AT LB DATE CR NAV YTD 12-MO 2-YR

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FUND NAME GF AT LB DATE CR NAV YTD 12-MO 2-YR

VP Class-Q Units AS EQ HKG 08/14 USD 148.10 29.3 23.2 8.6

VP Classic-C Units AS EQ HKG 08/14 USD 18.64 29.0 23.0 8.4

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THE WALL STREET JOURNAL.

## FINANCE & MARKETS

# Buffett Exits Crisis-Era GE Stake

Berkshire's \$3 billion investment resulted in a profit of more than \$1 billion

By THOMAS GRYTA  
AND MARIA ARMENTAL

Warren Buffett's **Berkshire Hathaway Inc.** is getting out of one of America's oldest companies: **General Electric Co.**

The billionaire investor's firm sold 10.6 million GE shares in the second quarter, a stake that would have been worth an estimated \$315 million as of June 30, according to a regulatory filing. Berkshire received most of the shares in 2013 after the investor lent roughly \$3 billion to GE in October 2008 during the depths of the financial crisis.

In addition to the shares, Berkshire received hundreds of millions in dividends from GE over several years. All told, Mr. Buffett's \$3 billion crisis-era investment generated a profit of more than \$1 billion. Berkshire's decision to cash out its GE stake came in the same quarter that the conglomerate announced it was changing leaders, with Jeff Immelt stepping aside as chief executive after 16 years and handing over the job to one of his lieutenants, John Flannery.

Mr. Immelt had been under pressure from activist investor Trian Fund Management to cut costs and analysts have expressed concerns the company will need to lower its profit targets.

GE shares have slumped this year, dropping nearly 20% through Monday, compared with a 10% gain in the S&P

500 index. It is the worst performing member of the Dow Jones Industrial Average year to date. Last week, Mr. Flannery disclosed he had increased his personal investment by buying \$2.7 million worth of GE shares in his 401(k) retirement plan.

GE declined to comment on Mr. Buffett's disclosure. The company is the second U.S. blue chip that Mr. Buffett has recently exited. The billionaire sold off the majority of his long-held stake in **Wal-Mart Stores Inc.** late last year.

The holdings were disclosed Monday in a 13F filing with the Securities and Exchange Commission, a quarterly requirement for investors managing more than \$100 million.

The GE deal was one of a series of transactions Mr. Buffett made during the 2008 financial crisis, including separate investments with Bank of America Corp. and Goldman Sachs Group Inc. He continues to own stakes in both of those financial giants.

Also in the second quarter, Berkshire bought shares of **Synchrony Financial**, GE's former consumer finance unit, and added to positions in **Bank of New York Mellon Corp** and **Apple Inc.**

A seemingly unending rally in U.S. stocks got a mixed forecast from some of the world's most well-known investors, their filings suggest.

David Tepper's **Appaloosa Management** sold its entire stake in the SPDR S&P 500 exchange-traded fund in the quarter. That ETF aims to track the performance of the broader market. Appaloosa had more than \$350 million in the ETF at one point in the quarter.



Turbine parts at a General Electric plant in Greenville, S.C. GE shares have slumped this year and Jeff Immelt recently left the CEO job.



Warren Buffett's Berkshire lent roughly \$3 billion to GE in 2008.

At the same time, George Soros purchased a new stake in the PowerShares QQQ Trust in the quarter worth more than \$1 billion. That index tracks the Nasdaq-100 index with broad market positions and a focus on large technology firms.

Founded by Mr. Soros in 1969, the New York City firm manages the Soros family fortune, although much of the money is distributed to other hedge funds and investment firms. The S&P 500 has risen steadily for several years.

Also in Monday's filing, hedge fund Viking Global Investors disclosed it had purchased 12.3 million shares of **Wells Fargo & Co.** in the second quarter. The Wells Fargo investment was worth about

\$680 million at the time of purchase.

A spokeswoman for the firm, founded by Norwegian billionaire Andreas Halvorsen,

declined to comment beyond the filing.

Wells Fargo has spent most of the past year trying to put a sales-practice scandal behind

it. The bank's CEO John Stumpf retired abruptly following the scandal. The firm has paid a fine and faces numerous federal and state inquiries into its sales-practices issues, including from the Justice Department. The bank has said it is cooperating with those inquiries.

But the bank's troubles picked up in recent weeks over problems in its consumer-lending unit relating to auto-insurance policies involving many borrowers and issues with other auto-related products.

The Wall Street Journal also reported last week that the bank is expected to shake up its board in the coming weeks. Shares of Wells Fargo are up 9.6% over the past year.

—Emily Glazer contributed to this article.

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## MARKETS DIGEST

### Nikkei 225 Index

**19753.31** ▲ 216.21, or 1.11%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

### STOXX 600 Index

**376.50** ▲ 0.34, or 0.09%

High, low, open and close for each trading day of the past three months.



### S&P 500 Index

**2464.24** ▼ 1.60, or 0.06%

High, low, open and close for each trading day of the past three months.



Data as of 12 p.m. New York time

Last 23.59 24.91

P/E estimate \* 18.78 18.57

Dividend yield 1.99 2.09

All-time high: 2480.91, 08/07/17

### International Stock Indexes

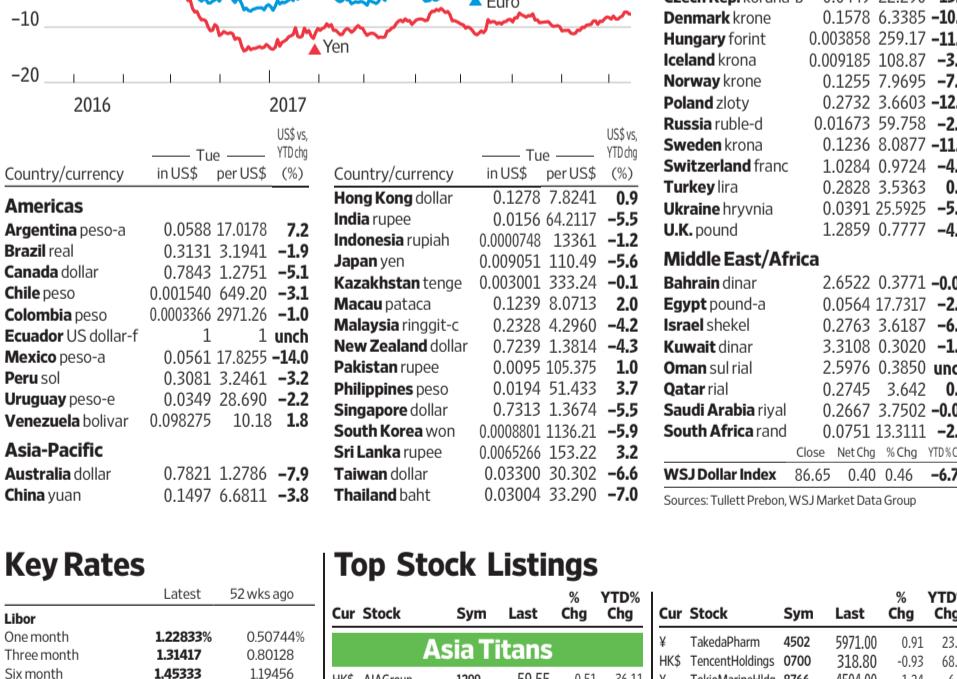
Region/Country	Index	Data as of 12 p.m. New York time					
		Close	Net Chg	% chg	52-Week Range	Close	YTD % chg
<b>World</b>	<b>The Global Dow</b>	<b>2835.31</b>	-3.32	<b>-0.12</b>	2386.93	2881.15	12.1
	<b>MSCI EAFE</b>	<b>1920.58</b>	-3.78	<b>-0.20</b>	1614.17	1955.39	11.9
	<b>MSCI EM USD</b>	<b>1053.19</b>	-0.46	<b>-0.04</b>	838.96	1078.53	32.6
<b>Americas</b>	<b>DJ Americas</b>	<b>591.75</b>	-0.86	<b>-0.15</b>	503.44	599.20	9.5
Brazil	<b>Sao Paulo Bovespa</b>	<b>68670.77</b>	386.11	<b>0.57</b>	56459.11	69487.58	14.0
Canada	<b>S&amp;P/TSX Comp</b>	<b>15094.92</b>	-24.99	<b>-0.17</b>	14319.11	15943.09	-1.3
Mexico	<b>IPC All-Share</b>	<b>51282.09</b>	114.62	<b>0.22</b>	43998.98	51772.37	12.4
Chile	<b>Santiago IPSA</b>	<b>3847.25</b>	...	<b>Closed</b>	3120.87	3908.55	19.4
<b>U.S.</b>	<b>DJIA</b>	<b>21993.17</b>	-0.54	<b>-0.002</b>	17883.56	22179.11	11.3
	<b>Nasdaq Composite</b>	<b>6334.50</b>	-5.74	<b>-0.09</b>	5034.41	6460.84	17.7
	<b>S&amp;P 500</b>	<b>2464.24</b>	-1.60	<b>-0.06</b>	2083.79	2490.87	10.1
	<b>CBOE Volatility</b>	<b>11.96</b>	-0.37	<b>-3.00</b>	8.84	23.01	-14.8
<b>EMEA</b>	<b>Stoxx Europe 600</b>	<b>376.50</b>	0.34	<b>0.09</b>	328.80	396.45	4.2
	<b>Stoxx Europe 50</b>	<b>3062.68</b>	3.68	<b>0.12</b>	2720.66	3279.71	1.7
France	<b>CAC 40</b>	<b>5140.25</b>	18.58	<b>0.36</b>	4310.88	5442.10	5.7
Germany	<b>DAX</b>	<b>12177.04</b>	11.92	<b>0.10</b>	10174.92	12951.54	6.1
Greece	<b>ATG</b>	<b>827.77</b>	...	<b>Closed</b>	548.72	859.78	28.6
Israel	<b>Tel Aviv</b>	<b>1388.68</b>	0.10	<b>0.01</b>	1346.71	1490.23	-5.6
Italy	<b>FTSE MIB</b>	<b>21722.11</b>	...	<b>Closed</b>	15923.11	22065.42	12.9
Netherlands	<b>AEX</b>	<b>522.67</b>	1.57	<b>0.30</b>	436.28	537.84	8.2
Russia	<b>RTS Index</b>	<b>1027.45</b>	-3.68	<b>-0.36</b>	944.88	1196.99	-10.8
Spain	<b>IBEX 35</b>	<b>10481.50</b>	20.30	<b>0.19</b>	8393.50	11184.40	12.1
Switzerland	<b>Swiss Market</b>	<b>9012.52</b>	-18.75	<b>-0.21</b>	7585.56	9198.45	9.6
South Africa	<b>Johannesburg All Share</b>	<b>54983.32</b>	-482.33	<b>-0.87</b>	48935.90	56396.24	8.5
Turkey	<b>BIST 100</b>	<b>106913.26</b>	-2624.10	<b>-2.40</b>	71792.96	110321.81	36.8
U.K.	<b>FTSE 100</b>	<b>7383.85</b>	29.96	<b>0.41</b>	6654.48	7598.99	3.4

### Asia-Pacific

Australia	<b>S&amp;P/ASX 200</b>	<b>5757.50</b>	27.10	<b>0.47</b>	5156.60	5956.50	1.6
China	<b>Shanghai Composite</b>	<b>3251.26</b>	13.90	<b>0.43</b>	2980.43	3292.64	4.8
Hong Kong	<b>Hang Seng</b>	<b>27174.96</b>	-75.27	<b>-0.28</b>	21574.76	27854.91	23.5
India	<b>S&amp;P BSE Sensex</b>	<b>31449.03</b>	...	<b>Closed</b>	25765.14	32575.17	18.1
Indonesia	<b>Jakarta Composite</b>	<b>5835.04</b>	33.55	<b>0.58</b>	5027.70	5910.24	10.2
Japan	<b>Nikkei Stock Avg</b>	<b>19753.31</b>	216.21	<b>1.11</b>	16251.54	20230.41	3.3
Malaysia	<b>Kuala Lumpur Composite</b>	<b>1772.39</b>	1.31	<b>0.07</b>	1616.64	1792.35	8.0
New Zealand	<b>S&amp;P/NZX 50</b>	<b>7813.74</b>	51.80	<b>0.67</b>	6664.21	7813.74	13.6
Philippines	<b>PSEI</b>	<b>8009.41</b>	47.29	<b>0.59</b>	6563.67	8071.47	17.1
Singapore	<b>Straits Times</b>	<b>3294.93</b>	-13.76	<b>-0.42</b>	2787.27	3354.71	14.4
South Korea	<b>Kospi</b>	<b>2334.22</b>	...	<b>Closed</b>	1958.38	2451.53	15.2
Taiwan	<b>Weighted</b>	<b>10311.16</b>	85.88	<b>0.84</b>	8902.30	10579.38	11.4
Thailand	<b>SET</b>	<b>1567.19</b>	5.88	<b>0.38</b>	1406.18	1591.00	1.6

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



### Key Rates

	Latest	52 wks ago
<b>Liber</b>		
One month	<b>1.22833%</b>	0.50744%
Three month	<b>1.31417</b>	0.80128
Six month	<b>1.45333</b>	1.19456
One year	<b>1.72789</b>	1.49822
<b>EuroLibor</b>		
One month	<b>-0.40071%</b>	-0.37143%
Three month	<b>-0.37757</b>	-0.32157
Six month	<b>-0.30329</b>	-0.20214
One year	<b>-0.20429</b>	-0.07271
<b>Euribor</b>		
One month	<b>-0.37100%</b>	-0.36900%
Three month	<b>-0.32900</b>	-0.29900
Six month	<b>-0.27100</b>	-0.18900
One year	<b>-0.15700</b>	-0.05000
<b>Yen Libor</b>		
One month	<b>-0.03393%</b>	-0.04814%
Three month	<b>-0.03357</b>	-0.01329
Six month	<b>-0.00171</b>	0.01036
One year	<b>0.10143</b>	0.01024
Offer	Bid	
Americas		
Argentina peso-a	0.0588	17.0178
Brazil real	0.3131	3.1941
Canada dollar	0.7843	1.2751
Chile peso	0.001540	649.20
Peru so	0.3081	3.2461
Uruguay peso-e	0.0349	28.690
Venezuela bolivar	0.098275	10.18
Asia-Pacific		
Australia dollar	0.7821	1.2786
China yuan	0.1497	6.6811
Europe		
Euro	1.13	1.13
Yen	-0.09	-0.09
US\$ vs. Yen	1.00	1.00
US\$ vs. Euro	1.00	1.00
US\$ vs. Yen/Euro	1.00	1.00
US\$ vs. Yen/Euro/USD	1.00	1.00
US\$ vs. Yen/Euro/USD/CHF	1.00	1.00
US\$ vs. Yen/Euro/USD/CHF/JPY	1.00	1.00
US\$ vs. Yen/Euro/USD/CHF/JPY/USD	1.00	1.00
US\$ vs. Yen/Euro/USD/CHF/JPY/USD/CHF	1.00	1.00
US\$ vs. Yen/Euro/USD/CHF/JPY/USD/CHF/JPY	1.00	

## THE PROPERTY REPORT

# Food Makers Grab Up Chicago Property

Real estate heats up in third-largest U.S. city as a new business renaissance takes hold

BY PETER GRANT

In Chicago's trendy Fulton Market district, a once gritty area known only for Oprah Winfrey's Harpo Studios, construction crews have started facade work on a new headquarters for McDonald's Corp., which is returning to the city after more than four decades in the suburbs.

McDonald's, now building at the former Harpo site, isn't alone in making that move. Conagra Brands Inc., Hickory Farms Inc. and other traditional American heartland companies have shifted major operations to Chicago in recent years as well. Overall, businesses returning to the city or moving there for the first time have leased more than 7 million square feet of space since 2008, according to real-estate services firm JLL.

Like many other major U.S. cities, Chicago is enjoying a boom as big employers opt for downtowns over suburban office parks that are being shunned by young workers. More than \$20 billion of residential, office, cultural and retail projects are in development or on the drawing board, according to the city Planning and Development Department.

But Chicago's growth engine is different from those benefiting booming cities on this country's East and West Coasts. Unlike cities such as San Francisco and Boston, where the technology sector is fueling economic development, Chicago lately has been relying heavily on growth of food and consumer-products companies.

While most of these companies are decades old, they also are recognizing the need to attract a young and urban workforce as they add new products, technology and services in response to shifting consumer preferences. McDonald's executive workforce, for example, has launched a mobile app, added self-order kiosks and added healthier items to its menu.

Hickory Farms, a food retailer founded in Toledo, Ohio, in the early 1950s, moved its headquarters to Chicago ear-



Chicago's Fulton Market district will be home to McDonald's Corp. once its new headquarters is built. Conagra Brands and Hickory Farms moved operations there, too.

TERRENCE ANTONIO JAMES/TNS/ZUMA PRESS

lier this year to tap the city's talent pool in e-commerce and marketing. "We often refer to ourselves as a 66-year-old startup," said Chief Executive Diane Pears.

Officials in the administration of Mayor Rahm Emanuel, who was first elected in 2011, say the longer the list of relocations, the more other companies are considering Chicago moves.

"It has become an easier sell," said David Reifman, commissioner of the Chicago Planning and Development Department.

At the same time, Chicago's growth pace also has been threatened by problems unique to many older Midwestern cities. Once dominated by manufacturing, the city still has hundreds of acres of under-used industrial land, some of it prime riverfront real estate.

Also, many working-class and low-income neighbor-

hoods in Chicago are losing population, partly due to the city's high rate of murders and other crime. Unlike cities such as New York and San Francisco, which are seeing record real-estate values practically across the board, values in some Chicago neighborhoods are still well below their pre-crash highs.

Mr. Emanuel bristles over critics who call him "Mayor 1%" for focusing much of his economic-development efforts on attracting major corporations and luxury-housing developments to the downtown core. In an interview earlier this month, he ticked off a wide range of programs designed to add jobs in struggling neighborhoods and affordable housing throughout the city.

He pointed out that he has opened up hundreds of acres of land that had been set aside for industrial use, for commercial and residential develop-

ment. Past efforts to preserve it for Chicago's historical heavy manufacturing were backward-looking, he said.

"Denial is not a long-term strategy," Mr. Emanuel said.

Chicago's current boom goes back more than 15 years to when Boeing Co. relocated its headquarters there from Seattle after a highly publicized search, and UAL Corp., the parent of United Airlines, moved back to the city it had left in 1962. The boom was stoked by demand for luxury apartment buildings in top neighborhoods from young people and empty nesters preferring urban living.

As in most parts of the country, Chicago development stalled after the 2008 crash. One of the symbols of the recession became a circular hole on a prime site in the city, the foundation for what was intended to be the tallest residential building in North

America.

But both the residential and office markets picked up steam starting about five years ago as the latest wave of corporate relocations began. Developers began snapping up sites, including the hole at the prime site that was purchased by Related Cos. The New York-based company, which has built more than 2,000 units during the past five years, plans to reveal its plans for the hole later this year.

Meanwhile, residents and tourists have been flocking to new shopping, entertainment and cultural events along the city's reinvigorated waterfront. Other megaprojects in the pipeline include a \$1 billion, 94-story condominium and hotel tower being planned by Magellan Development Group and Dalian Wanda Group of China, the redevelopment of Chicago's 92-year-old Union Station, and a new 51-story

tower anchored by Bank of America scheduled to open in 2020.

Chicago's downtown renaissance has made it easier for corporations throughout the Midwest to move there. Many of these companies want to capture that energy as they try to reinvent their brands and products for the 21st century.

Take the case of Conagra, the formerly Omaha, Neb.-based food company known for brands including Slim Jim snacks and Peter Pan peanut butter: Soon after becoming CEO in 2015, Sean Connolly decided to move Conagra's headquarters to Chicago to take advantage of its creative talent pool, according to a spokesman for the firm.

"We needed to make a drastic change to be truly competitive," the spokesman said. Chicago "provides the perfect setting for us to breathe new life into these brands."

## An Old Site Learns New Tricks

BY PETER GRANT

For more than 100 years, the A. Finkl & Sons Steel plant on the North Branch of the Chicago River was a big employer in Chicago as it supplied the world with a wide range of steel products.

Today a real-estate developer is planning to convert the 22-acre former plant site into office, retail and residential uses as the third-largest American city reinvents itself.

Sterling Bay, which has been one of Chicago's most active developers in its current boom, purchased the site last year for more than \$100 million. Sterling Bay envisions \$7 billion to \$9 billion of projects over the next decade on the site.

The world economy has shifted since then with much of the steel industry shrinking, focusing on specialty products or moving overseas. The Finkl steel operation has moved to Chicago's South Side.

Developers, meanwhile, are coveting waterfront sites for

other uses. "On balance the [Chicago] region has seen more growth in its services sector and has seen somewhat tepid growth compared with some other places in its manufacturing sector," said Mark Muro, senior fellow with the Brookings Institution's Metropolitan Policy Program.

Chicago is trying to preserve manufacturing jobs by directing some fees and other revenue from developers of North Branch projects to development of industrial businesses in other parts of the city. It also has been supportive of a manufacturing-innovation center named mHub, which helps create new products and businesses.

"We're putting ourselves in the forefront of whatever the transportation, distribution and logistics economy will be," said David Reifman, commissioner of the city Department of Planning and Development.



Chicago developer Sterling Bay envisions \$7 billion to \$9 billion of projects over the next decade on its North Branch holdings, including the site of the former A. Finkl & Sons Steel plant.

STEVEN VANCE

## Strip Malls Have Cover From Retail Upheaval

BY ESTHER FUNG

Open-air shopping centers are on the upswing.

Shares of real-estate investment trusts that own and operate the broad category of open-air shopping centers are up about 7% since June 30 after skidding 19.6% in the first half this year, according to an index that tracks shopping center REITs by the National Association of Real Estate Investment Trusts.

For the year, the shares are still down 14%.

Retail landlords have been battered in recent years as online shopping grabs market share and major retailers announce store closures.

Occupancy rates declined in the first half of the year, but most 2017 store closures

likely have occurred already because tenants typically stay put in the second half through the year-end holidays, analysts said.

Strip centers are less vulnerable to the retail storm, according to Mizuho Securities, because they have less exposure to apparel retailers and offer more affordable rents than mall landlords.

Kimco Realty Corp., based in New Hyde Park, N.Y., said it already has accounted for retailers that are restructuring and remains confident about its portfolio, with well-located sites and affordable leases.

"It's hard for retailers to find a better economic deal in these tough markets. So typically, the rents that they have are very much below-market so they have to hold on to those

leases," Kimco Chief Executive Conor Flynn said recently. He said the growing number of retailers Kimco is doing business with will far outweigh exposure to some of its tenants that are closing stores.

**Strip centers are less exposed to apparel retailers and offer more affordable rents.**

Mall landlords concede they are working harder to woo tenants that are more in tune with customers' tastes and are spending more time structuring leases that are accommodative to tenants' demands

while still being profitable.

Federal Realty, another shopping-center REIT, said it still has concerns about how Ascena Retail Group Inc., which owns Ann Taylor and Loft, can continue paying its rents, but added that it is getting calls from mall-based retailers looking for better deals.

The REIT, based in Rockville, Md., also announced a \$345 million joint venture earlier this month with Primestor Development Inc. for a majority stake in a portfolio of seven retail properties in underserved Hispanic communities in southern California.

"The retail world right now is very unpredictable," Christopher Weilminster, executive vice president at Federal Realty, said recently.

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# MARKETS

## Macron Rally Skips French Stocks

Here is a look at the winners and losers of the pro-EU candidate's presidential victory

By RIVA GOLD  
AND ANDREW BARNETT

At the start of the year, concerns that anti-European Union politicians could win elections depressed markets across the region. But in May, pro-EU centrist Emmanuel Macron won the French presidency, triggering a rally in the region's stocks, bonds and common currency. Investors anticipated greater political stability and more business-friendly policies across the eurozone, shifting their focus to the improving economy, which grew faster than the U.S.'s at the start of the year.

Three months into Mr. Macron's presidency, here is a look at some of the market's biggest winners and losers since the two-round vote. Investors are still betting on solid growth, but that isn't doing any favors for French stocks.

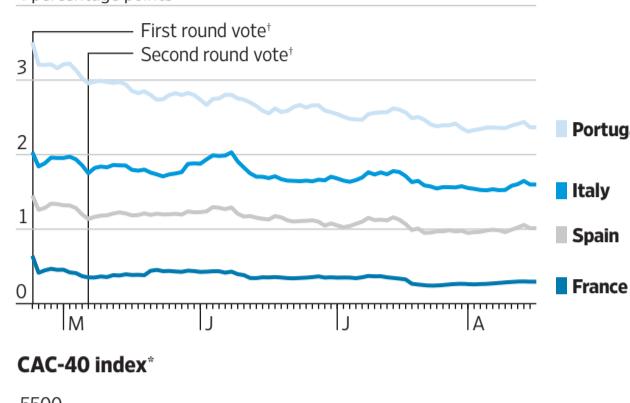
**WINNERS:**  
Italian stocks struggled earlier this year, before Mr. Macron's election helped defuse investors' fears of a eurozone breakup and reversed a ballooning yield gap between Italian and German government bonds. Coupled with recent efforts to shore up some of Italy's most troubled lenders, Milan's benchmark stock index has climbed 10% since the first round of the French vote, outpacing regional peers.

With political worries out of the way and a rush of flows into European funds, the euro has swelled against the U.S. dollar since the French vote. Speculators currently hold the longest position on the euro since 2007, according to data from the Commodity Futures Trading

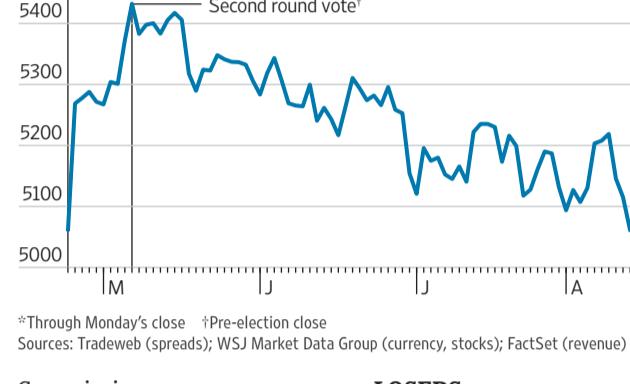
### French Stocks Flambéed

Southern European and French bonds have strengthened since Macron's victory, and the euro has gained, but France's stocks have lost ground.

#### Yield gap over 10-year German government bonds\*



#### CAC-40 index\*



\*Through Monday's close †Pre-election close

Sources: Tradeweb (spreads); WSJ Market Data Group (currency, stocks); FactSet (revenue)

#### Commission.

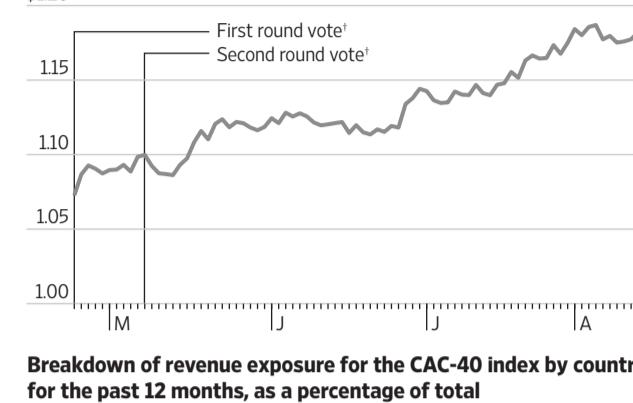
When National Front candidate Marine Le Pen or left-wing firebrand Jean-Luc Mélenchon were pulling ahead in the polls, investors dumped French, Italian and Spanish bonds and turned to ultrasafe German debt on worries about the impact of a possible eurozone breakup on Europe's most-fragile economies. But the day after the first-round vote, the difference between French and German yields dropped by the most since the height of the eurozone crisis in 2011, and spreads across Europe have mostly remained compressed since.

#### LOSERS:

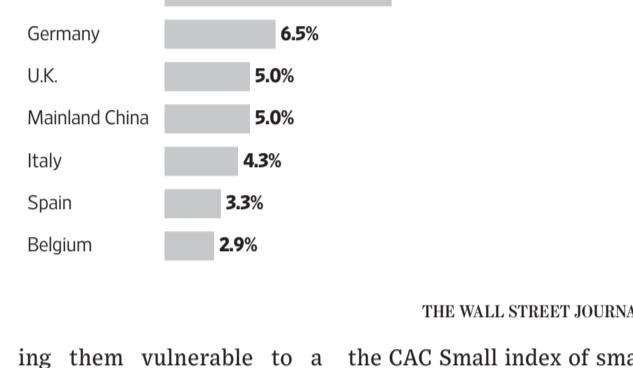
The benchmark index of blue-chip French stocks shot up 4.1% the day after Mr. Macron cleared the first round of the vote as investors bet that a reduction of political jitters and an onslaught of business-friendly policies would boost shares of Paris's largest companies. But analysts say there have been few signs of progress on market-friendly policies in France, while a stronger euro has been a headwind for shares of multinationals across the bloc.

Companies in France's CAC-40 index generate 61% of their revenue in Europe, mak-

#### How many dollars €1 buys\*



#### Breakdown of revenue exposure for the CAC-40 index by country for the past 12 months, as a percentage of total



ing them vulnerable to a strengthening local currency when overseas revenue is translated back into euros. That compares with 67% for the CAC Mid 60 index, which

*Investors anticipated greater stability and business-friendly policies in eurozone.*

tracks the second 60-largest and most actively traded shares listed on Euronext Paris, and roughly 80% for

the CAC Small index of small companies. Both have significantly outperformed the CAC-40 since the French election.

Investors migrated into the ultrasafe debt of the eurozone's largest economy ahead of the French vote to protect their portfolios against the chance of an outcome that could destabilize the currency area and wider financial markets. But since then, expectations for greater cooperation between France and Germany, weaker demand for haven assets and the prospect of less central-bank stimulus in the months ahead has put pressure on the bund.

## HEARD ON THE STREET

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## Garmin's Watches Merit a Look

For a company that made a name for itself in maps, Garmin should get more credit for seizing a solid niche in the turbulent world of smartwatches.

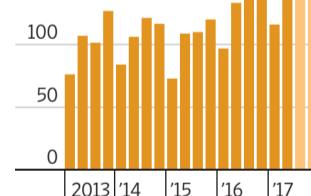
That was no simple feat. Putting navigation devices into cars was a highly profitable market until smartphones came up to the task. Meanwhile, wearable technology isn't an easy market to crack.

Fitbit has long led the fitness band market with a wide range of devices across several price points, while Apple Inc. has quickly taken over the burgeoning smartwatch market.

Apple accounted for about 51% of smartwatches sold globally in the first half of this year, according to Counterpoint Research. Garmin accounted for only about 3%, but it has been making the most of that niche. Garmin

#### Wind Up

Garmin's quarterly outdoor segment revenue



Sources: the company, FactSet

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Garmin's Fenix smartwatch in particular has proven to be a hit. Sales in Garmin's Outdoor segment, which includes the Fenix, surged 35% in the first half of this year compared with a year earlier.

Operating margins in

Garmin's outdoor segment

also reached their highest in

nearly three years in the second quarter.

It is worth noting that

Garmin accomplished this

against a refreshed version of the Apple Watch that launched last fall.

That should earn Garmin an extra look from investors. Garmin's share price has risen by half the Nasdaq Composite's gain this year.

At 18 times forward earnings, Garmin currently features a 17% discount to the Nasdaq.

Some of the stock's recent weakness stems from a slowdown in the fitness band

market. Revenue in Garmin's fitness category rose barely 1% year over year in the second quarter. Category leader Fitbit, however, saw revenue plunge 40% in the period.

Garmin's aviation and marine businesses also are growing and keep the company from becoming too reliant on wearables. Aviation in particular has a lot of potential, given new standards for air-traffic control that will require private planes to be outfitted with new transponder equipment of the type that Garmin sells.

The smartwatch contest is heating up, too. Fitbit is expected to launch a new device later this year, while Apple is widely rumored to be working on a version of its smartwatch that can connect directly to cellular services.

Garmin hinted in its last

earnings call that it has its own new products on the way.

Those should be worth

a look, as the company's smartwatch efforts to date have managed to tick all the right boxes.

—Dan Gallagher

## OVERHEARD

Apple Inc. may have about 3 billion reasons to be thankful for its rival Google.

According to Bernstein analyst Toni Sacconaghi, \$3 billion is what Google will pay to iPhone maker Apple for the current fiscal year ending in September.

That money is what Google's parent company, Alphabet Inc., terms as "traffic acquisition costs" paid in exchange for Apple making Google's search engine the default on its mobile internet browser.

For Apple, this money equates to a very-high-margin revenue stream for its services business, which is on track to generate about \$29 billion in revenue this year, up 19% from last year, according to Wall Street's current consensus.

The rub would be if Google ever decided it no longer needed the arrangement.

Mr. Sacconaghi estimates that Apple's services revenue averages a gross margin of about 65%—well above the corporate average of 39%.

## Shadow Fed Is Glum on U.S. Stocks

The economic predictions from the annual gathering known as Camp Kotok resemble two smart people trying to steer a canoe: lots of zigging and zagging to get back to the same place.

Every year, David Kotok, chief executive of Sarasota, Fla.-based Cumberland Advisors, invites about 50 economists, money managers, former central bankers and others to a fishing camp at the northern edge of Maine.

The highlight of the trip is a betting pool predicting how the economy will fare in the coming year. While the individual forecasts remain anonymous, their collective prediction doesn't. This year's guesses offer widely divergent views, but the consensus often looks like more of the same.

The predictions for core inflation, for example, averaged 1.9%, with a high of 3.2% and a low of 1%. In other words, the consensus expectation is for little change. Likewise, a marginal bond sell-off will push yields on 10-year Treasurys to 2.57% and U.S. benchmark oil prices will be \$50.20 a barrel or barely changed.

The one bold and surprising prediction is for a modest retreat in stocks over the next year. The forecasts for the S&P 500 were as low as 1800, a 27% drop from Monday's levels, while the average was just 2416.

Should readers be reassured by the mostly status quo predictions? Not really. Groups of smart people often get blindsided by reality.

Contrarians may take solace from some campers' bearish call on stocks too. As any angler knows, though, those who go looking in the weeds sometimes land the big one.

—Asjlyn Loder

## How to Fight a Giant Like Alibaba? With Help From Friends

### The Quartet

Market values of China's biggest internet firms, in billions

Alibaba	\$395.98
Tencent	\$393.45
Baidu	\$61.35
JD.com	\$52.80

Sources: FactSet

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items such as share-based compensation.

Things are looking up in other ways. The company spun off its unprofitable finance unit. And it is hiring out its extensive logistics infrastructure, creating a new revenue source. Unlike Alibaba, which doesn't own its own delivery network, JD has an advantage in areas like groceries and daily goods.

One big fear for JD is that Alibaba, with about three-quarters of online sales in China, could launch a punishing discount war. Bernstein estimates that half of JD's operating profit this

year could be at risk in such a scenario.

So JD is enlisting help wherever it can.

In one eye-catching development, JD said last week it would cooperate with China's biggest search engine, Baidu. The two will share consumer data, and users will be able to buy goods from JD directly on Baidu's app.

This matters because Tencent is already JD's largest shareholder with an 18% stake, and means China's second-, third- and fourth-biggest internet companies are joining hands to fight Alibaba.

Tencent owns WeChat,

China's most popular social network, with nearly a billion monthly active users.

JD said last month it will integrate its platforms and supply chains with Wal-Mart, which owns 10% of JD. It also struck a deal last year with Toutiao, a newsfeed app with about 100 million daily active users, to divert traffic to the e-commerce site.

JD's share price is also catching up with Alibaba's: It is up 75% over the past year versus Alibaba's 59%.

Even with all the help, fighting Alibaba will still be tough, but at least JD has increased its chance of success.

—Jacky Wong