

# THE WALL STREET JOURNAL.

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EUROPE EDITION

DJIA 22118.42 ▲ 0.12%

NASDAQ 6383.77 ▲ 0.51%

NIKKEI 20055.89 ▲ 0.52%

STOXX 600 382.01 ▼ 0.14%

BRENT 52.37 ▼ 0.10%

GOLD 1258.20 ▼ 0.01%

EURO 1.1785 ▲ 0.09%

## What's News

### Business & Finance

**An investor consensus** that the dollar will keep weakening is rippling around the world, fueling rallies in everything from U.S. stocks to commodities. **A1**

◆ **Libor's demise** is likely to be felt by U.S. consumers with adjustable-rate mortgages, which are often pegged to the index. **A1**

◆ **United Technologies** made a bid for Rockwell, but the companies are wrangling over the price of a deal that would top \$20 billion. **B1**

◆ **Renault is set** to open a new factory in Iran, the latest in a wave of deals by Western firms following the lifting of sanctions. **B1**

◆ **Netflix made** its first acquisition, buying Millarworld amid plans to develop content based on the comic-book publisher's characters. **B3**

◆ **Fresenius's dialysis unit** agreed to buy NxStage for about \$2 billion, part of a broader push by the German firm into the U.S. **B3**

◆ **SoftBank's CEO** expressed interest in investing in Uber or Lyft to gain access to the U.S. ride-hailing market. **B4**

◆ **China's central bank** is increasing its monitoring of financial-technology firms. **B5**  
◆ **China's foreign-exchange** reserves rose for a sixth straight month in July. **B5**

◆ **South Korean prosecutors** are seeking a 12-year sentence for Samsung's head after a corruption trial. **B4**

◆ **Vanguard said** it would stop charging its investors for analyst research. **B7**

### World-Wide

◆ **North Korea responded** to new U.N. sanctions with a threat to use nuclear weapons against the U.S. if militarily threatened and rejected holding talks on its nuclear and missile programs. **A1**

◆ **Tillerson told** Russia's foreign minister that the U.S. would respond to Moscow's expulsion of American diplomats by Sept. 1. **A4**

◆ **Canada played down** the prospect of resolving a trade spat with the U.S. over lumber before the start of talks to revamp Nafta. **A4**

◆ **Egypt's President Sisi** is cutting food and fuel subsidies in a gamble to aid the stalled economy. **A5**

◆ **Chicago filed suit** over the administration's use of grant money to force cities to cooperate with a crackdown on illegal immigration. **A6**

◆ **Trump began** the first weekday of his working vacation with Twitter attacks on a Democratic critic and news-media outlets. **A6**

◆ **The Democrats suffered** a setback when West Virginia's governor switched to the GOP last week. **A6**

◆ **Maduro's supporters** marched in favor of a new, all-powerful legislative body in Venezuela. **A4**

◆ **Concerns about Brexit** are causing companies to postpone their investment plans in Britain. **A3**

◆ **A powerful storm** hit the Balkans and other areas in Europe following a week of record temperatures. **A4**

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# Pyongyang Rejects Nuclear Talks

North Korea says it won't negotiate on weapons and would strike U.S. if attacked

By BEN OTTO  
AND JAKE MAXWELL WATTS

MANILA—Defying pressure from new United Nations sanctions, North Korea threatened to use nuclear weapons against the U.S. if militarily provoked and said it would “under no circumstances” negotiate on its nuclear and missile weapons programs.

North Korean Foreign Minister Ri Yong Ho on Monday delivered the strongly worded statement to reporters on the sidelines of an Asian regional security conference hours after U.S. Secretary of State Rex Tillerson vowed to implement the stiffest sanctions yet imposed on the Pyongyang regime.

Washington is seeking to build support in its campaign to pressure North Korea to give up its nuclear program after the country launched ballistic missiles last month capable of reaching the U.S. The sanctions adopted unani-

mously by the Security Council over the weekend had the crucial support of China, North Korea's chief economic partner.

Mr. Ri's statement rejected assertions by some Security Council members that North Korea's military programs constituted a global threat and said they were instead a legitimate option for self-defense “in the face of a clear and real nuclear threat posed by the U.S.”

If the U.S. attacks North Korea, the country “is ready to teach the U.S. a severe lesson with its nuclear strategic

force,” the statement said. Other countries were not being threatened unless they joined the U.S. in a military attack, it said.

The sanctions are meant to close loopholes that have allowed the rogue regime to cultivate trade, financing and labor ties, thereby generating revenue to support its nuclear programs. The sanctions ban trade in coal with North Korea and bar countries from employing North Korean laborers and entering into joint ventures with Pyongyang.

U.S. officials say the sanctions could cut a third, or \$1

billion, from North Korea's annual foreign revenue.

Earlier Monday, Mr. Tillerson said that if North Korea wants talks with Washington, it must first stop launching missiles.

“That would be the first and strongest signal,” he said. “We have not had extended periods of time where they were not taking some type of provocative action by launch-  
*Please see KOREA page A4*

◆ **Gerald F. Seib:** Afghan policy pits Trump against himself.. **A2**  
◆ **Opinion:** The latest North Korean sanctions show..... **A10**

## Kenya Braces for Election After Charged Campaign



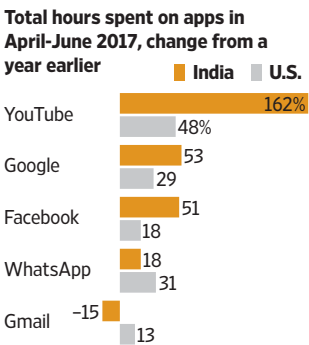
**GETTING READY:** Election workers prepared ballot boxes in the capital Nairobi ahead of Tuesday's general election for the presidency and more than 1,800 positions. Fears of violence heightened after an official in charge of balloting technology was found dead days before the vote.

# NEW INTERNET USERS SPRING UP

Technology companies retool products for the developing world, creating winners and losers

## Sudden Interest

The newest wave of people online leans more toward voice and video.



Source: App Annie  
THE WALL STREET JOURNAL.

By ERIC BELLMAN

The internet's global expansion is entering a new phase, and it looks decidedly unlike the last one.

Instead of typing searches and emails, a wave of newcomers—“the next billion,” the tech industry calls them—is avoiding text, using voice activation and communicating with images. They are a swath of the world's less-educated, online for the first time thanks to low-end smartphones, cheap data plans and intuitive apps that let them navigate despite poor literacy.

Incumbent tech companies are finding they must rethink their products for these newcomers and face local competitors that have been quicker to ferret them out. “We are seeing a new kind of internet user,” said Caesar Sengupta, who heads a group at Alphabet Inc.'s Google trying to adapt to the

new wave. “The new users are very different from the first billion.”

A look at Megh Singh's smartphone suggests how the next billion might determine a new set of winners and losers in tech.

Mr. Singh, 36 years old, balances suitcases on his head in New Delhi, earning less than \$8 a day as a porter in one of India's biggest railway stations. He isn't comfortable reading or using a keyboard. That doesn't stop him from checking train schedules, messaging family and downloading movies.

“We don't know anything about emails or even how to send one,” said Mr. Singh, who first went online in the past year. “But we are enjoying the internet to the fullest.”

Mr. Singh squatted under the station stairwell, whispering into his phone using speech recognition on the station's free Wi-Fi. It is a simple affair, a Sony Corp. model

*Please see WEB page A8*

## INSIDE



## BREXIT WEIGHS ON BUSINESS INVESTMENT

WORLD NEWS, A3



## NETFLIX MAKES ITS FIRST ACQUISITION

BUSINESS & FINANCE, B3

# Libor's End Creates Mortgage Mystery

By CHRISTINA REXRODE

The Libor index is going away. For U.S. consumers, its demise is most likely to be felt in adjustable-rate mortgages.

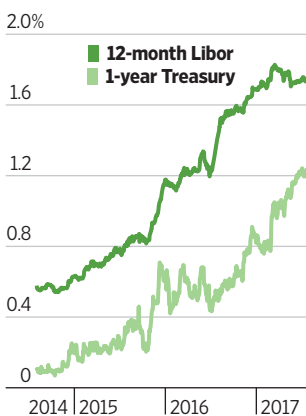
So-called ARMs—where the interest rate rises and falls with broader indexes—are often closely tied to Libor, or the London interbank offered rate. While ARMs are out of favor these days, they are still a sizable portion of the mortgage market, and once Libor disappears it is unclear what those mortgages would be pegged to.

U.K. authorities recently said Libor would be phased out over the next five years due to allegations bankers manipulated it, which could prove troublesome for borrowers, lenders and investors in mortgage securities.

“In a fairly short amount of time, no one is going to know how to compute what the next payment is going to be” for

## Bond Bellwethers

Yield on two popular fixed-income benchmarks



Source: FactSet  
THE WALL STREET JOURNAL.

this kind of mortgage, said Lou Barnes, a capital markets analyst with Premier Mortgage Group in Boulder, Colo. “And  
*Please see LIBOR page A2*

## Password Rules Expert Has A New Tip: N3v\$R M1nd!

Bill Burr's 2003 report advised using obscure characters; he regrets the error

By ROBERT McMILLAN

The man who wrote the book on password management has a confession to make: He blew it.

Back in 2003, as a midlevel manager at the National Institute of Standards and Technology, Bill Burr was the author of “NIST Special Publication 800-63. Appendix A.” The 8-page primer advised people to protect their accounts by inventing awkward new words rife with obscure characters, capital letters and numbers—and to change them regularly.

The document became a sort of Hammurabi Code of passwords, the go-to guide for federal agencies, universities

and large companies looking for a set of password-setting rules to follow.

The problem is the advice ended up largely incorrect, Mr. Burr says. Change your password every 90 days? Most people make minor changes that are easy to guess, he laments. Changing Pa55word!1 to Pa55word!2 doesn't keep the hackers at bay.

Also off the mark: demanding a letter, number, uppercase letter and special character such as an exclamation point or question mark—a finger-twisting requirement. “Much of what I did I now regret,” said Mr. Burr, 72 years old, who is now retired.

*Please see RULES page A8*



WORLD NEWS

# Afghan Policy Pits Trump Against Himself

**CAPITAL JOURNAL**  
By Gerald F. Seib

To understand the Trump administration's struggle to agree on a strategy to reverse the deteriorating situation in Afghanistan, it's useful first to look back in time.

In early 2013, Donald Trump tweeted: "We should leave Afghanistan immediately. No more wasted lives."

Early the following year, when President Barack Obama was trying to withdraw virtually all American combat troops, he tweeted: "I agree with Pres. Obama on Afghanistan. We should have a speedy withdrawal. Why should we keep wasting our money -- rebuild the U.S.!"

Thus, when Mr. Trump argues, as officials say he has in meetings, that the U.S. is "losing" in Afghanistan, that isn't a new thought. When he appears conflicted about sending in more troops to reverse Taliban gains there, that reflects his longstanding doubts about a prolonged American presence there.

And when administration officials argue that Mr. Obama made a serious mistake by publicly declaring he would withdraw American troops by the end of 2014, helping open the door for a Taliban resurgence, they are probably right. But that was a decision that private citizen Donald Trump openly cheered.



President Donald Trump's national security adviser, H.R. McMaster, right, is among those reviewing U.S. policy in Afghanistan.

Thus, the struggle to figure out what to do now is less about Mr. Trump arguing with his advisers or military leaders, and more about Mr. Trump arguing with himself. He is a man who hates losing, yet fears he's stuck with a losing proposition in Afghanistan.

Mr. Trump is, to be sure, the third American president over a 16-year period to try to figure out a formula to turn around Afghanistan. And he is the third president to be frustrated.

It's important to remember what the administration actually is debating as it tries to finish a delayed strategy review. It already

has effectively decided to increase America's troop presence in Afghanistan. That happened when Defense Secretary Jim Mattis was given the authority early to decide on troop levels, allowing him to go above the 8,400 U.S. troops there now.

That authority, along with the decision earlier this year to drop the biggest nonnuclear bomb in the American arsenal on a group of Islamic State fighters who had set up shop in Afghanistan, suggests the U.S. is prepared to make a broader military commitment.

Senior administration offi-

cials—Secretary of State Rex Tillerson, national security adviser H.R. McMaster, Central Intelligence Agency Director Mike Pompeo—all agree with this approach, officials say. Attorney General Jeff Sessions, the cabinet officer most intimately involved with the Trump campaign, has expressed misgivings about a broader commitment, as has senior White House adviser Steve Bannon.

What's lacking—and what's prevented Mr. Mattis from pulling the trigger on the increase in troop levels—is a broader strategy for using those troops. How deeply involved will they be in combat operations, as opposed

to advising and training the Afghan armed forces? Will they be free to go after fighters from the Taliban and the Haqqani network of guerrillas fighting the Afghan government, not just remnants of the al Qaeda organization?

Crucially, the new strategy will include a broader decision on how to handle Pakistan, which continues to provide sanctuary to Taliban and Haqqani fighters just across the border.

The policy review may well produce a plan to use more sticks and fewer carrots to persuade Pakistan to stop aiding enemies of the Afghan government. Paki-

stan could find that it is receiving less aid and more cross-border airstrikes by American forces until it changes behavior.

A few things are certain. One is that Afghanistan remains the home for a toxic brew of Taliban, al Qaeda and Islamic State fighters, ready to turn the country into the same kind of cauldron of Islamic extremism it was when it became the launchpad for the Sept. 11, 2001, terror attacks on America.

The second certainty is that Mr. Trump has on hand a cast of advisers with extraordinarily deep experience in and knowledge of Afghanistan. Mr. Mattis led an expeditionary brigade there and later oversaw all American forces in the Middle East. Mr. McMaster—currently the target of a nasty campaign by critics trying to undermine his authority—was a top commander of U.S. forces in Afghanistan. The White House chief of staff, retired Marine Gen. John Kelly, has a personal connection to the risks involved: His son, a Marine officer, was killed when he stepped on a land mine in Afghanistan in 2010.

The third certainty is that, as analyst Michael O'Hanlon of the Brookings Institution put it, "there probably aren't great Afghan options."

Which leads to what even Mr. Trump is likely to decide is the fourth certainty: The U.S. is compelled to be in Afghanistan for the long haul. A review of Afghan policy this summer by a star-studded Brookings panel of former military and diplomatic leaders in the region concluded: "The U.S.-Afghan partnership should be recognized as generational in duration, given the nature of the threat and the likely longevity of its future manifestations."

## DOLLAR

Continued from the prior page  
oversees \$294 billion. "We believe the dollar is moving into a bear cycle, and this is pushing us to make sure our portfolios are properly positioned."

A weaker dollar is typically good for shares of U.S. exporters, making their products cheaper for overseas buyers. S&P 500 companies got about 43% of their sales abroad at the end of 2016, according to S&P Dow Jones Indices.

Companies including PepsiCo Inc. and railroad CSX Corp. recently cited the weak dollar as helping to lift earnings, providing another level of support for a long stock-market rally that many think looks stretched. Morgan Stanley estimates that profits for companies in the S&P 500 rise by 1% for every 2% drop in the dollar.

A falling dollar helps commodities, too, which are priced in the U.S. currency and become more affordable to foreign investors when the dollar

declines. The S&P GSCI commodity index recently closed out its best month of the year, up more than 4% in July.

That is also good news for commodity-exporting emerging markets, where stocks are up around 24% this year.

The opportunity in emerging markets "is as big as anything we have seen since the mid-90s," said Lance Humphrey, who oversees \$6.4 billion as a global multiasset portfolio manager at USAA, a fund manager. He has increased positions in exchange-traded funds that target value in emerging markets, which contain holdings in Brazil and Russia.

Signs that central banks plan to wind down the easy-money policies that have helped boost risky investments hurt assets in developing countries last month, when flows into emerging-market funds slowed or even turned negative. But those fund flows have picked up, analysts say, in part because of the weakening dollar. A weaker U.S. currency makes it easier for these countries to pay back their dollar-denominated debt.

The dollar's decline, however, can cause challenges for European companies by making their exports less competitive and their U.S. sales worth less when translated back into euros. That is damping expectations after new signs of economic growth in the region had turned many investors bullish.

*The dollar's decline is damping the expectations for European stocks.*

"When you look at the stronger euro, it's clearly a risk for eurozone equities, especially large caps," said Ankit Gheedia, strategist at BNP Paribas.

At \$1.1774, the euro is up 12% against the dollar so far this year, although the currency remains far weaker overall than during most of the past decade.

The Stoxx Europe 600 auto sector, which generates more than half of its revenues

overseas according to FactSet, has fallen around 1.6% in the past month as the euro has strengthened against the dollar and is down for the year.

With the euro strengthening, Europe's earnings-revisions ratio recently moved from a seven-year high in mid-May to an 11-month low, according to analysts at Morgan Stanley.

In Tokyo, the Nikkei Stock Average is up only around 4.4%, underperforming many major markets. The dollar's weakness against the yen is a big factor behind the lag, investors say.

Some money managers aren't ready to count the dollar out, and the currency's rally on Friday raised their hopes. The WSJ Dollar Index gained 0.5% after the Labor Department said nonfarm payrolls rose by 209,000, beating estimates, and the unemployment rate fell to a 16-year low of 4.3%.

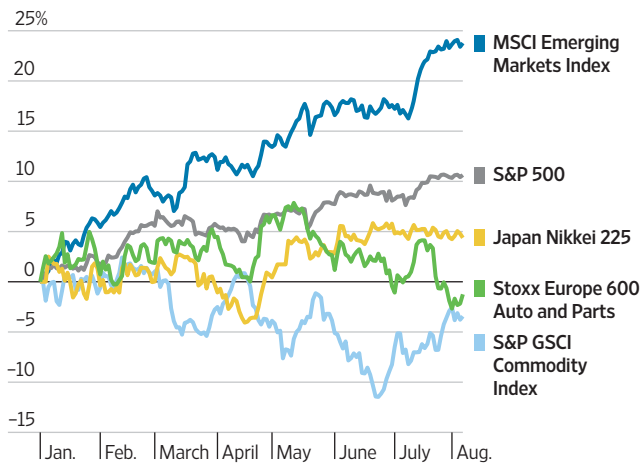
But even if the rebound continues, many investors say it would more likely represent a pause than a turnaround without U.S. rates moving higher or further indications that economic growth is picking up.

### Ripple Effects

The dollar's slide this year has boosted U.S. exporters, emerging markets and commodities while hurting some foreign companies.



### Index performance this year



Sources: WSJ Market Data Group (BUX); FactSet

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## LIBOR

Continued from the prior page  
that's why it's important."

Such mortgages were popular before the financial crisis, when lenders used their low teaser rates to get borrowers into bigger homes. They have been a tougher sell in an era of superlow interest rates, but still account for roughly \$1.33 trillion of mortgages outstanding, according to Black Knight Financial Services Inc., a mortgage data and technology firm.

That is nearly 14% of the overall market, and lenders had been expecting that share to grow as the Federal Reserve continues to raise interest rates. Banks also favor ARMs for jumbo mortgages, high-dollar amount loans they view as a source of revenue growth.

In a typical ARM, borrowers pay a fixed rate for five, seven or 10 years. After that, their rate resets each year, calculated as Libor plus a margin, often 2 to 3 percentage points.

"One issue is, should we be changing our product line now?" said Kirstin Hammond, who runs capital mar-



While adjustable-rate mortgages are generally out of favor these days, they still make up 14% of the overall mortgage market.

kets for United Wholesale Mortgage, one of the 20 largest mortgage lenders in the U.S. "Does it make sense to offer a [seven-year] ARM tied to Libor when Libor is not going to be around in seven years?"

Lenders have a vague blueprint for what to do when Libor disappears. Most ARM contracts specify that if the

underlying index is no longer available, the lender or investor will pick a new "comparable" index.

What qualifies as comparable isn't clear, but banks are already studying alternatives.

For banks that plan to keep the mortgages on their books, they could presumably set the ARMs to any index they wish. To sell the ARMs

to investors, they will likely follow whatever guidelines are set by Fannie Mae and Freddie Mac, the government-backed housing finance agencies that buy, bundle and sell mortgages.

A Fannie Mae spokeswoman said the agency is "monitoring the Libor situation closely and will notify the market when we come to a decision." A Freddie Mac spokeswoman said it will try "to minimize the impact on borrowers."

It isn't clear if there will be a single replacement, though some industry officials said they would prefer for Fannie, Freddie or regulators to mandate a replacement.

Investors would prefer that, too, said Mr. Barnes. They don't want to deal with mortgage pools where the underlying loans react differently to Libor's disappearance, he said.

The Alternative Reference Rates Committee, a group of banks convened by the Fed to look at Libor alternatives after the scandals broke, has proposed switching to a benchmark based on short-term loans known as repurchase agreements, or "repo" trades, backed by Treasury

securities.

Meanwhile, some ARMs are tied to the yield of the one-year Treasury rate. While banks might be willing to make new ARMs tied to Treasury rates, they will probably be reluctant to switch current ARMs to that because of potential lost income. The one-year Treasury is trading around 1.2%, compared with the one-year Libor at 1.7%.

Global investors could also balk at that substitute, preferring something less dependent on the whims of the U.S. central bank, said Keith Gumbinger, vice president of the mortgage information website HSH.com.

Rep. Brad Sherman, a Democrat from California on the House Financial Services Committee who has advocated for replacing Libor because of the manipulation scandals, said he would be watching to see how consumers are affected.

**CORRECTIONS & AMPLIFICATIONS**

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

Imagine if banks figured out a way to add just 0.10 percentage point to the cost of a mortgage, he said. "It would cost a consumer hundreds of dollars in the first year...and it would be very unfair."

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# WORLD NEWS



Political turmoil has gripped the U.K. since Prime Minister Theresa May's June electoral setback.

## Firms Eye Brexit, Delay U.K. Investment

Companies are delaying investment despite healthy profits and low employment

By WIKTOR SZARY  
AND ERIC SYLVERS

LONDON—As the clock ticks toward Britain's exit from the European Union, evidence is mounting that companies are postponing investment plans in the U.K.

After investment fell last year for the first time since 2009, according to government figures, a series of national surveys is finding that Brexit is weighing on business leaders' decision-making.

Britain has been gripped by political turmoil, as an electoral setback for Prime Minister Theresa May in June added further uncertainty about Britain's path out of the bloc as negotiations began over the terms of Britain's departure. Ministers have suggested the U.K. will seek a transition agreement to give businesses time to adapt, but have sent mixed signals on the shape of such a deal—keep-

ing companies on edge.

Chancellor of the Exchequer Philip Hammond says uncertainty is giving companies pause. "It is absolutely clear businesses—where they have discretion over investment, where they can hold off—are doing so," he told the British Broadcasting Corp. in July.

"They are waiting for more clarity about what the future relationship with Europe will look like," he said.

Backers say it is too soon to gauge the impact of Britain's impending departure on business investment.

"The plural of anecdote is not data," said Andrew Lilico, a Brexit backer and the executive director of London-based consultancy Europe Economics. He acknowledged a drop in investment is likely to come but said new trade deals will eventually pay off.

The Bank of England on Thursday cut its previous forecast for 2017 business investment growth by 0.75 percentage points, to 1%, with next year's forecast reduced by half a percentage point, to 2.75%.

The bank's Gov. Mark Carney, who echoed Mr. Hammond's

view, said that the level in investment in 2020 is forecast at 20% below the level projected just before the referendum.

In a recent survey of nearly 360 businesses, conducted by the Confederation of British Industry, 40% of them said their investment decisions had been affected by Brexit. Of those, practically all said the impact had been negative.

*Uncertainty about the future relationship with Europe is giving companies pause.*

"The prospect of multiple cliff edges—in tariffs, red tape and regulation—is already casting a long shadow over business decisions," Carolyn Fairbairn, the CBI's director general said in early July.

"The result is a drip, drip of investment decisions deferred or lost."

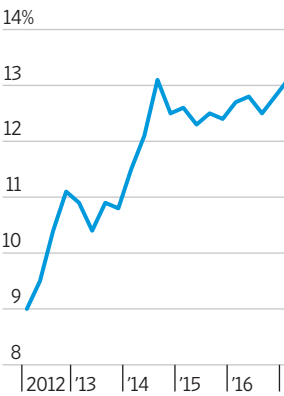
Companies aren't clamoring to announce shelved investments or to suggest business isn't going well.

But a large European engineering and electronics busi-

### Fear of Commitment

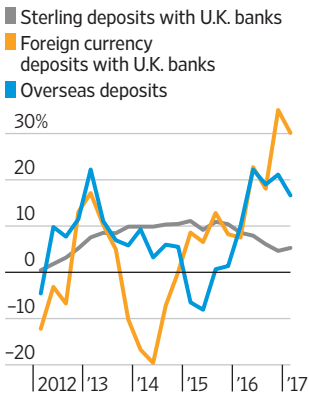
Despite robust profits, U.K. companies are stockpiling cash abroad instead of investing at home.

Net rate of return on capital for private nonfinancial corporations\*



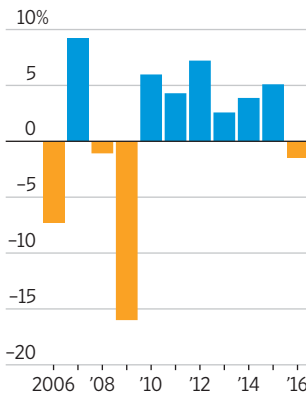
Source: Office for National Statistics

Annual growth in private nonfinancial corporations' deposits



\*Excludes oil and gas producers

Annual growth in business investment



THE WALL STREET JOURNAL.

from 2015.

Big industry players, including Ford Motor Co., are looking for clarity on Britain's post-Brexit trading arrangements before they press on with their investment plans.

"We have significant investment decisions to make during the Brexit negotiating period," said Andrew McCall, Ford of Europe's vice president for governmental affairs. "We are following the negotiations closely."

Paolo Pozzi, CEO of Agrati Group, an Italian maker of fasteners for the car industry that supplies manufacturers in the U.K. including Volkswagen and Peugeot, said U.K. orders dropped 10% in the second quarter after years of double digit growth.

"There are different things going on, including a correction after a period of strong growth, but Brexit certainly isn't helping," said Mr. Pozzi.

Business reluctance to invest ahead of Britain's expected exit from the bloc in March 2019 is beginning to feed into official economic figures.

Business investment grew only moderately in the first three months of the year, ex-

panding by 0.6% on the quarter, only partly offsetting the steeper fourth-quarter decline of 0.9%, data published by the Office for National Statistics showed. Preliminary second-quarter data will be published in late August.

In the whole of 2016—the year of the Brexit referendum and significant political upheaval—business investment shrank compared with the previous year for the first time since 2009.

That is unusual given U.K. companies' healthy profits and an unemployment rate of 4.5%, at its lowest in more than 40 years. Low unemployment normally encourages businesses to invest heavily in labor-saving capital projects.

"I don't think anyone can expect that the event on the scale of leaving the European Union can be without some transitional costs," said Europe Economics's Andrew Lilico. "I think that the losses from leaving will come first, and the opportunities, such as new trade deals with the U.S., Japan or changes to the U.K. regulatory environment, are a little down the line."

## German Industry Stumbled in June

By TODD BUELL

The German economy remains on a path of strong growth despite a surprising decline in factory output in June, economists said following Monday's release of data on industrial production for Europe's biggest economy.

In adjusted terms, output declined by 1.1% in June from the previous month, the country's Economics Ministry reported, marking the index's first monthly decline since December. Economists polled last week by The Wall Street Journal had expected a slight gain

of 0.1% in the index. The monthly decline was broad-based, with manufacturing output down 1.4% and construction output also down 1.0%. On the flip side, energy output grew by 1.4% compared with May.

The ministry reported, however, that output increased by 1.8% in the three months to end-June from the previous quarter. Indicators for new orders and business confidence pointed to a continued upward trend in industry, it said. Late last month, Germany's closely watched Ifo index of business sentiment hit a record high.

"This morning's decline isn't the end of the world, on the contrary. After a total of five consecutive monthly increases, it was sooner or later time for a technical breather," said UniCredit economist Andreas Rees in a note. He expects the German economy to have grown by 0.7% in the second quarter of the year. Data on economic output are due out next week.

Other economists agreed. "As unexpected as today's drop in industrial production has been, the German economy is still on track to post another strong quarter," said ING econ-

omist Carsten Brzeski in a research note. "Given the sound fundamentals, a month of weaker industrial data should only be like a rain shower on hot and humid summer day: a welcome refresher."

The ministry said Friday that total orders for the manufacturing sector increased by 1% in June compared with May, adjusted for seasonal swings and calendar effects. Economists polled by The Wall Street Journal had forecast a 0.5% rise. Analysts are also watching closely trade data, which Germany's statistics office is due to release Tuesday.



Workers assemble an e-Golf electric car on a production line at a Volkswagen factory in Dresden, Germany, in March.

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WORLD NEWS

# U.S. Cautions Russia on Expulsions

Secretary of state says Moscow's ejection of diplomats seriously harmed bilateral ties

By BEN OTTO

MANILA—U.S. Secretary of State Rex Tillerson told Russia's foreign minister that the U.S. would respond to that country's recent expulsion of American diplomats by Sept. 1 and that the nations must confront the distrust created by Moscow's meddling in the U.S. presidential election.

Mr. Tillerson, speaking with journalists Monday at an Asian regional security conference in the Philippines, said that he told his Russian counterpart in a meeting a day earlier that he wanted Russia to "understand just how serious this incident had been and how seriously it had damaged the relationship between...the American people and the Russian people."

He told Russia, "We simply have to find some way to deal with that," Mr. Tillerson said.

Mr. Tillerson and Foreign Minister Sergei Lavrov got together Sunday for an hour in a much-anticipated meeting on the sidelines of the conference following a spell of increasing



Secretary of State Rex Tillerson, pictured in July, said the U.S. will respond by Sept. 1 to Moscow's move.

acrimony over sanctions against Russia adopted by the U.S. Congress and reluctantly signed into law by President Donald Trump.

The Russian Foreign Ministry said the meeting began with Mr. Lavrov explaining the reasoning behind Russia's decision to expel U.S. diplomats. The decision came "after a long wait for the U.S. not to go down the path of confrontation. But, unfortunately, Russophobic mem-

bers of Congress prevented that from happening," the ministry said.

The ministers discussed a range of global issues, including cybersecurity, North Korea, Syria and Ukraine, the ministry said.

The sanctions were intended to punish Russia after the U.S. intelligence community concluded that Moscow had sought to interfere in the election, which Mr. Trump won. Russian

President Vladimir Putin responded by saying the U.S. would have to cut 755 diplomats and staff in the country by September.

Mr. Tillerson said Monday that he asked Mr. Lavrov several clarifying questions about that move, and promised a U.S. response by Sept. 1.

Mr. Trump, who has said that relations between the powers are at "an all-time low," has publicly questioned the in-

telligence findings on the election and dismissed investigations by Congress and a Justice Department special prosecutor into the matter. Russia has denied meddling in the election.

Mr. Tillerson said Mr. Lavrov indicated "some willingness" to resolve tensions over Ukraine. The countries have been in conflict since 2014, when Moscow annexed the Black Sea peninsula of Crimea and Russian-backed separatists started a war in the eastern part of the country.

After the territory grab, the U.S. and the European Union imposed sanctions on Moscow, which Russia has tried unsuccessfully to have lifted. Mr. Trump, who has spoken favorably of the Russian leader, has called for the two countries to make peace.

Mr. Tillerson said the administration viewed the relationship with Russia with pragmatism.

"We want to work with them on areas that are of serious national security interest to us while at the same time having this extraordinary issue of mistrust that divides us," Mr. Tillerson said. "That's just what we in the diplomatic part of our relationship are required to do."

—James Marson in Moscow contributed to this article.

# Lumber Rift Clouds Prospects For Nafta

By PAUL VIEIRA

OTTAWA—Canada played down the prospect of a resolution with the U.S. over a trade spat on lumber imports before the start of talks to revamp the North American Free Trade Agreement, denting enthusiasm raised by Prime Minister Justin Trudeau last month for such an outcome.

The inability to cut such a deal before the start of the renegotiations, set to formally start on Aug. 16, threatens to add another layer of complexity to efforts by the U.S., Canada and Mexico to find common ground on a new continental trade pact, Canadian lawmakers and trade watchers have warned.

Talks are aimed at settling the latest chapter in a decadeslong trade dispute between Washington and Ottawa over Canadian softwood lumber, which is mostly used to build houses.

Canadian Foreign Minister Chrystia Freeland told reporters in a teleconference from the Philippines on Monday that "she was unable to predict when we might reach an agreement."

She said talks continue, adding she and U.S. Commerce Secretary Wilbur Ross have been "actively, energetically and substantively engaged" for the past two months.

She didn't elaborate on what is dividing the two countries. "I do think an agreement which benefits both Canada and U.S....is absolutely possible and achievable, and I can see the outlines of that agreement already."

Last month, Mr. Trudeau said both the U.S. and Canada expressed a desire to settle the softwood dispute before the start of Nafta negotiations. "We are going to work very hard towards that," Mr. Trudeau said at a meeting of U.S. governors in Rhode Island.

In April and then again in June, the Trump administration slapped duties on Canadian softwood lumber, reaching as high as 30% on some products.

The U.S. accuses Canada of unfairly selling its lumber in the U.S. at prices below production costs, and providing subsidies to its producers.

The Canadian government has repeatedly said there is no merit in the U.S. accusations.

In 2016, the U.S. imported over \$5 billion worth of Canadian softwood lumber.

Mr. Ross has said the decadeslong disagreements over softwood lumber illustrate the shortcomings of Nafta.

Trade lawyers and Canadian politicians said it was crucial that a settlement be reached before the start of Nafta talks.

"We need to get it off the table, so Ms. Freeland and federal officials can focus on the larger challenge of the broader trade agreement," said John Horgan, premier of British Columbia, the West Coast Canadian province that produces the bulk of softwood lumber exported to the U.S.



Pedestrians stroll past portraits of the late leaders Kim Il-sung, left, and Kim Jong Il, right, on a wall in the North Korean capital of Pyongyang last month.

## KOREA

Continued from Page One

ing ballistic missiles." Asked how long a missile moratorium would have to last to be taken as a signal, Mr. Tillerson said, "We'll know it when we see it."

Mr. Tillerson said the next step for the U.S. is to see that sanctions are fully enforced around the world. The U.S. will monitor that carefully, he said, and have "conversations" with any country not fully embracing both the spirit of the sanctions and their "operational execution."

On Monday, President Donald Trump received an intelligence briefing and spoke for an hour with Mr. Tillerson and Chief of Staff John Kelly to discuss North Korea, the White House said.

At a dinner for conference attendees Sunday, North Korea's Mr. Ri told his South Ko-

rean counterpart that Seoul's offer last month of talks lacked "sincerity," Yonhap News reported, citing a South Korean government source. The offer came from the administration of new South Korean President Moon Jae-in, the country's first left-leaning president in nearly a decade.

On Sunday night, Mr. Moon requested a call with Mr. Trump, in which the two leaders discussed North Korea's July 28 launch of an intercontinental ballistic missile, the White House said, as well as the Security Council resolution.

Asia remains divided on how best to address North Korea's effort to produce a long-range nuclear missile. Some experts say they believe North Korea could develop a missile capable of handling atmospheric re-entry as early as next year. It is uncertain whether North Korea has developed the technology to miniaturize a nuclear device

for such a missile.

Australia and Japan said in a joint statement with the U.S. that they were pushing the international community to enforce sanctions and impose additional diplomatic and economic measures. China says it prefers continued diplomatic engagement with North Korea, despite supporting the sanctions.

Le Luong Minh, the Vietnamese secretary-general of the Association of Southeast Asian Nations, the conference host, said in an interview that most of its members "are not for unilateral [actions] and largely not for sanctions. We are for mutual existence."

The difference of opinion has left an opening for Kim Jong Un's regime, experts say, because it is able to maintain enough diplomatic and economic ties to continue developing weapons while stopping short of agreeing to negotiate.

North Korea also has limited options. "We are all for-

getting that North Korea has only one card to play and no amount of talking or sanctions will change their mind," said James Chin, director of the Asia Institute at the University of Tasmania and an expert on North Korean sanctions evasion.

North Korea's recent missile tests surprised the international community with their capability. One of the missiles would be able to fly more than 6,400 miles, according to one analysis, putting Los Angeles, Denver and Chicago within range.

In his statement, Mr. Ri said the North Korean regime was seeking nuclear capability as a deterrent and wouldn't use the weapons against any country except the U.S. unless another nation aided in an attack against North Korea.

Washington had sought the U.N. sanctions against Pyongyang to make the conflict an international issue, Mr. Ri said. The world was "becom-

## WORLD WATCH

### VENEZUELA

#### Maduro's Supporters March in Caracas

Supporters of President Nicolás Maduro marched in Caracas in favor of a new legislative superbody as hackers took down dozens of state websites to show their support for an armed assault on a military base the day before.

The attackers of the army base near the city of Valencia said their "Operation David," in reference to the biblical story of David and Goliath, was aimed at starting an insurgency against Mr. Maduro. But no more assaults appear to have followed and antigovernment protests in

Valencia were quickly controlled by tear gas.

Mr. Maduro has called the new, all-powerful legislative assembly Venezuela's only hope of peace but opponents say it will cement dictatorship in the country. About 2,000 people jammed the streets in front of Venezuela's congressional complex, where the constituent assembly will hold its sessions. They chanted in support of the assembly and called for an end to over four months of opposition protests and unrest in which more than 120 people have died.

The new assembly has power to rewrite the constitution, rejoin state institutions and could allow the president to rule by decree.

A group calling itself the Bi-

nary Guardians said it had hacked around 40 state websites. A representative, who said he was Venezuelan but declined to give specifics about the group or his location, said they weren't affiliated with Operation David but supported it.

—Reuters

### BALKANS

#### Storms Cause Wide Disruption, Deaths

A powerful storm with strong winds, hail and rain hit the Balkans and other areas in Europe following a week of record-high temperatures in the region.

Temperatures dropped significantly in some areas, bringing relief after reaching more than 40

degrees Celsius (104 Fahrenheit) last week.

Slovenia's STA news agency reported the storms "caused havoc" across the country overnight Sunday to Monday. Thousands of households were left without electricity, as hail and wind-driven rain flooded dozens of houses, collapsed trees and damaged cars and crops.

On Sunday, two men were killed in separate incidents in northern Italy when strong winds toppled trees that crushed them. In another incident, a hiker slipped to her death from a muddy path. A lightning strike killed a man in a forest in a fourth incident.

Meanwhile, officials in Romania retrieved the bodies of two teenage boys who drowned while

bathing in a river to cool off during the heat wave.

Authorities issued a flood warning for parts of western Romania on Monday after heavy rain following a weeklong heat wave. Officials say at least two people died last week.

In Croatia's Istria peninsula, storm winds late Sunday uprooted trees and damaged roofs. Temporary traffic restrictions were imposed in some areas along the Adriatic coast Sunday and Monday.

Dozens of wildfires have erupted in Croatia and elsewhere in Europe during an extremely hot and dry summer. Meteorologists say the heat wave will return later in the week.

—Associated Press

### RUSSIA

#### Pussy Riot Members Held After Protest

Two members of the Russian feminist punk band Pussy Riot were detained after rallying for the release of a Ukrainian filmmaker outside his Siberian prison.

During the protest in Yakutsk where Oleg Sentsov is serving his sentence, the band unfurled a banner on a nearby bridge that read "Free Sentsov!"

Longtime Pussy Riot member Maria Alyokhina tweeted that she and Olga Borisova were detained early Monday and were awaiting a court hearing.

—Associated Press



WORLD NEWS

# Egypt Makes A Risky Bet On Economy

Cuts to food and fuel subsidies seen as opening path to jobs, investment

By YAROSLAV TROFIMOV

CAIRO—Egypt’s President Abdel Fattah Al Sisi is cutting food and fuel subsidies, a program long plagued by waste and corruption, in a high-stakes gamble to aid the stalled economy that none of his predecessors dared execute.

The economic shock therapy, coupled with a steep currency devaluation, has rocked the Arab world’s most populous country. Fuel prices went up 50% in June, cooking-gas prices have doubled and the annual inflation rate has surpassed 30%.

As savings erode and consumer buying-power shrinks, Mr. Sisi is betting that the expected payoff—new jobs, foreign investment and growth—will arrive before the economic pain risks another social explosion in Egypt, whose 2011 revolution inspired other uprisings in what became known as the Arab Spring.

“The poor people are suffering too much, and the middle-class people are turning into poor people,” said Osama Heikal, a pro-government lawmaker who worries about the austerity’s social impact.

Tarek Kabil, the minister of trade and industry, compared the economic overhaul to an antibiotic. “You have to take the entire course,” he said in an interview. “You cannot take one tablet and stop.”

The subsidy cuts are among the conditions set by the International Monetary Fund in a \$12 billion loan agreement intended to help Egypt stabilize its economy after years of turmoil.

Subsidies on energy and food account for more than \$11 billion a year, or 18% of Egypt’s current budget, even after the latest cuts. The subsidies are just one obstacle to economic growth, which has slowed in the years since the revolution. Labor laws make firing workers nearly impossible, the judicial system is unreliable, and the government bureaucracy stifles initiative. Compounding matters, the military essentially operates a parallel and largely unaccountable economy.

The subsidy cuts nudge Egypt toward fixing economic distortions but carry pain and risk, according to former foreign minister Nabil Fahmy, now a professor at the American University in Cairo. “Is there a cost to it? Yes, there is a cost,” he said. “Now, the issue is: Will the return be large enough? Do we have enough time for the return to kick in?”

The government also has made infrastructure invest-

ments in electricity and transportation and is pushing plans to make it easier to open new businesses and factories, as well as obtain land for entrepreneurial uses. A former minister of defense, Mr. Sisi has also increased the already large role the military plays in the Egyptian economy.

Countries throughout the Middle East, even such wealthy monarchies as Kuwait, also are pursuing economic overhauls as they try to create enough jobs to keep up with their burgeoning populations.

Across the Red Sea from Egypt, Saudi Arabia’s new Crown Prince Mohammed bin Salman is trying an ambitious, if less painful, overhaul to wean the kingdom from its oil dependence. Under pressure, he rolled back austerity measures in April amid a succession struggle and mounting public dismay.

Mr. Sisi, who faces an election next year, has eliminated most political opposition and organized dissent since ousting and jailing Egypt’s first freely elected president, Mohammed Morsi of the **Muslim Brotherhood**, in 2013.

Egypt’s news media has been squelched and access to independent websites blocked in past months. New legislation has hobbled the work of non-government organizations, hiding the true scale of popular discontent. The government said the restrictions were needed to combat terrorism and extremism, a view disputed by human-rights groups and what remains of the opposition. “The current stability is stability on the tip of a volcano that is on the verge of an explosion. When it will explode, no one can predict,” said Abdelmonem Aboul Fotouh, a moderate Islamist politician who received 17% of the votes in the first round of Egypt’s 2012 presidential election.

“If it happens, it won’t be a revolution carried out by the middle classes, like in 2011,” Mr. Aboul Fotouh said. “Under current circumstances, what I’m afraid will happen is chaos. And if chaos unfolds in Egypt, it will be a threat not just to the Egyptians, but also to the whole region—and to the West.”

## Bargain bread

Every day, millions of Egyptians line up at government bakeries to buy five loaves of bread for less than two U.S. cents, a fraction of the wheat’s cost. The food subsidies extend to some 80% of Egypt’s families and were first instituted as part of rationing during World War II.

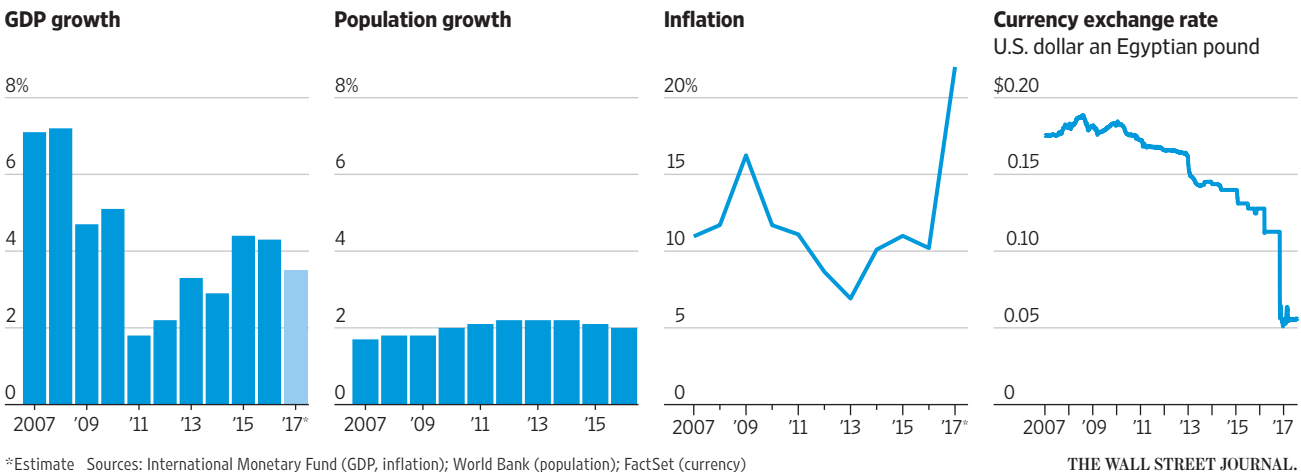
Farmers across Egypt nurture their crops with water pumps operating on diesel that, even after June’s 55% increase, still retails for 77 cents a gallon, less than a third of retail



Egyptians buy sugar from a truck in Cairo during a shortage last fall. The government has cut longstanding food and fuel subsidies.

## Egypt’s Knotted-Up Economy

President Abdel Fattah Al Sisi is betting the expected payoff from cutting subsidies on food and fuel will arrive before the economic pain risks another social explosion.



prices in the U.S.

Over decades, the system has been corrupted by the illegal resale of subsidized food, fuel and gas by officials to buyers in Egypt and abroad, government officials said.

In 1977, Egypt’s then-President Anwar Sadat tried to tackle the subsidy problems as he began opening the economy and abandoning the socialist and Arab nationalist legacy of his predecessor, Gamal Abdel Nasser. As part of a loan agreement with the IMF, Mr. Sadat ordered a reduction of subsidies on bread, sugar and cooking oil.

The announcement yielded mass protests that paralyzed the country. Dozens people were killed, and Mr. Sadat quickly reversed his decision.

His successor, President Hosni Mubarak, learned the lesson. Over three decades of rule, Mr. Mubarak remained wary of touching subsidies even as he pursued such economic overhauls as privatization and free-trade deals.

Egypt’s January 2011 revolution was sparked, in part, by outrage over corruption and cronyism that accompanied Mr. Mubarak’s economic liberalization, and public sentiment leaned toward nostalgia for Nasser-era socialist policies.

Many high-profile business executives landed in jail, privatization deals were reversed,

and tourism—a significant part of the economy—collapsed when potential visitors stayed away. With Egypt’s foreign reserves dwindling, fuel and electricity shortages further crippled growth.

After winning the election in 2012, Mr. Morsi tentatively agreed to subsidy cuts and new taxes during negotiations with the IMF over a \$4.8 billion loan. A public outcry forced him to backtrack, badly denting his popularity, which was already shrinking because of the government’s Islamist bent and intolerance. Mr. Morsi’s regional backers, primarily Qatar and Turkey, stepped forward to provide Egypt with billions of dollars in funding.

Mr. Sisi ousted Mr. Morsi in 2013 and turned to his own regional backers—the United Arab Emirates, Saudi Arabia and Kuwait. These Gulf monarchies, fearful of the Arab Spring contagion and eager to stem the spread of Muslim Brotherhood influence, funneled tens of billions of dollars to shore up Egypt’s economy. By last year, amid tensions between Cairo and Riyadh, that spigot dried up, too.

With a worsening deficit and shrinking foreign-exchange reserves, Egypt had little choice but to accept the IMF’s bitter medicine.

Mr. Sisi floated the Egyptian pound, which immediately lost

roughly half its value against the U.S. dollar. Then his government signed the \$12 billion loan deal with the IMF in November that included a pledge to trim food and fuel subsidies.

“They have been courageous, but they’ve been courageous under duress,” said Mohsin Khan, a fellow at the **Atlantic Council** and the IMF’s former director of Middle East and Central Asia. “Their options were very limited.”

## Hard choices

The government’s goal is to end the subsidies in three to five years, according to Mr. Kabil, the trade and industry minister. “The right thing to do is to lift them totally,” he said. “But you cannot do it today because you cannot correct 40 years of problems in one day.”

Instead of supplying subsidized food and fuel to most Egyptians, the government is moving to make cash payments to individuals based on need and, more broadly, increasing minimum salaries and pensions.

“You cannot have a subsidy as a blanket cover to the entire population,” Mr. Kabil said. “Some people do not require a subsidy.” Rationalizing the system will allow for more spending on health, education and industry growth, he said.

It has been a tough sell to

the average Egyptian. At a line outside the government bakery in Cairo’s Maadi district, Sayed Mohammed Sayed, a retired civil servant, launched into a tirade as others nodded.

The recent 100-Egyptian-pound increase in his monthly pension, about \$5.63, was useless considering the country’s inflation, Mr. Sayed said: “We don’t know how much longer we will be able to stick it through. Everything has shot up in price. Everything. And what are we getting in exchange for these skyrocketing prices? Nothing.”

In Cairo’s poorer Shubra neighborhood, Fatma Hassan, a 35-year-old mother of two, was just as angry. Her family’s income of around 4,500 Egyptian pounds a month, which provided a comfortable lifestyle a year ago, barely affords subsistence, she said.

“We used to have no restrictions on what we eat, where we go, what to wear,” Ms. Hassan said. “At the end of the year, we started omitting things we once could afford. Now, there is nothing left for us to do without.”

Recent increases in the price of subsidized cooking gas, oil and sugar risk putting the family over the edge, she said: “We don’t know what to do. Do they want us to rob a bank?”

As the government saves money from subsidy cuts, bringing prices for basic commodities more in line with market rates, Egypt should be able to accelerate cash subsidies to the poorest Egyptians, said Naguib Sawiris, a media tycoon and one of Egypt’s most prominent business owners. “The population needs someone to explain to them where is the light at the end of this tunnel to accept any more austerity measures.”

The chaos that has ravaged Egypt and other countries after the Arab Spring appears to have made Mr. Sisi’s efforts at economic change more palatable. Having witnessed the economic meltdown and the breakdown in law and order after their own revolution in 2011, many Egyptians—despite unhappiness with the austerity program—are, for now, wary of taking to the streets again. The latest round of subsidy cuts in June produced only minor protests.

“The people are suffering tremendously from the terrible economic situation and increased living costs,” said Younis Makhion, head of the Salafi Islamist Nour party. “But they also see the experiences of neighboring countries—Syria, Libya and Iraq—and dread Egypt facing the same fate.”

—Dahlia Kholiaif contributed to this article.



A banner of then-army chief Abdel Fattah Al Sisi hung from the high court in 2014, months after he ousted Egypt’s first freely elected president, Mohammed Morsi.



U.S. NEWS

# Defection Sets Back Democrats

West Virginia governor becomes a Republican just as the party tries to build out of a hole

By JANET HOOK

When West Virginia Gov. Jim Justice switched parties to the GOP last week, the Democratic Party lost more than a state leader. It also lost some mojo in an urgent battle to rebuild the tattered party from the state level up.

Republicans now hold governors' seats in 34 states—matching a record for the GOP—while Democrats have 15 governorships. One state is led by an independent.

The West Virginia switch was an unexpected blow for Democrats, who have pinned high hopes on governors races in 2017 and 2018. Many Democrats see those races as crucial to political recovery in the wake of the devastating 2016 presidential-election loss and the erosion of power at the state level over the past eight years.

Governors will “lay the foundation for how the Democrats will rebuild,” said Kelly Ward, executive director of the National Democratic Redistricting Committee, an arm of the party focused on state races. “They provide the leadership in both policy and politics. They are the bench.”

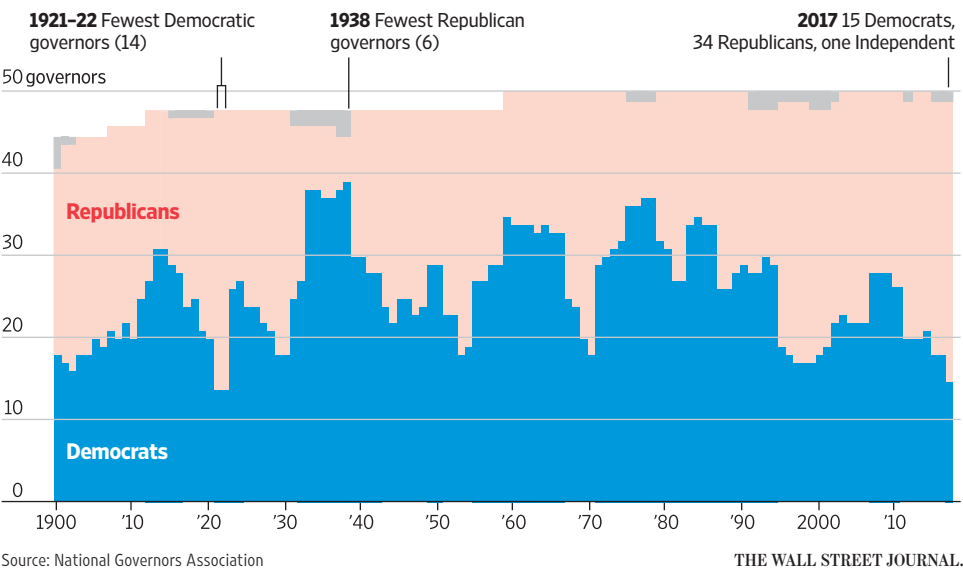
The 2017-18 political map gives Democrats a promising battleground: Of the 38 governors' seats on the ballot, 27 are held by Republicans, including 14 open seats.

Republicans say the West Virginia governor's defection is a warning that Democrats shouldn't be overconfident.

“Democrats talk a big game on 2018 governor's races, but their fundraising doesn't match their rhetoric,” said Wisconsin Gov. Scott Walker,

## Gubernatorial Ebbs and Flows

Only 15 Democrats run their states as governor, the second lowest number since 1900.



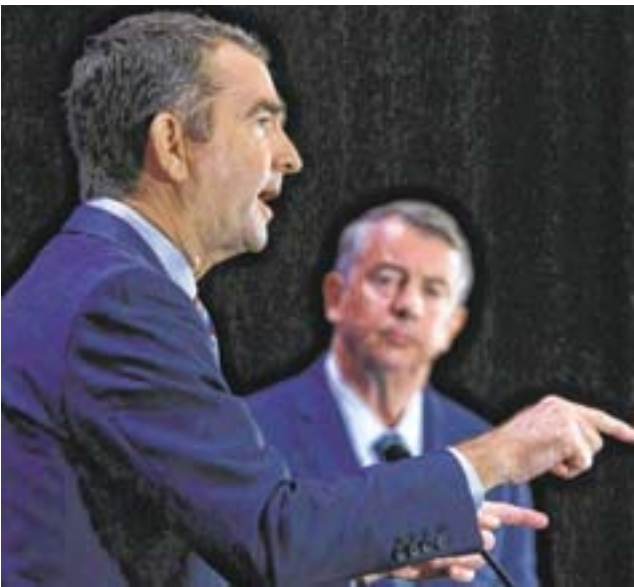
head of the Republican Governors Association.

Democrats see Mr. Justice's party switch as a one-off that isn't a harbinger of other defections to come. Mr. Justice is a unique case, they say, because he is a political novice who was a registered Republican until two years ago, and had strong ties to the family of President Donald Trump.

“It's a standalone event,” said Connecticut Gov. Dan Malloy, chairman of the Democratic Governors Association. “We simply move on.”

Democrats have an edge in both of this year's gubernatorial races. In New Jersey, a Democrat is strongly favored to win and succeed Republican Chris Christie, analysts say. There is a closer contest in Virginia, where a bitter fight to succeed Democratic Gov. Terry McAuliffe is being waged between Democrat Ralph Northam and Republican Ed Gillespie. Both Messrs. Christie and McAuliffe are barred by law from seeking re-election.

The stakes in Virginia—and



Virginia gubernatorial candidates Ralph Northam, left, and Ed Gillespie met for their first debate July 22 in Hot Springs, Va.

in other battlegrounds in 2018—aren't just about who sits in the governor's chair. These fights are also about who wields power in the coming battles over congressional redistricting, the decennial draw-

ing of district lines that happens next after the 2020 census. That process often helps determine whether Democrats or Republicans face more-competitive or safer re-election bids, and the GOP

made a concerted push to win control leading into the 2010 census.

Virginia is particularly important to Democrats because a loss there, combined with the state Legislature staying in GOP hands, would give Republicans broad power over redistricting decisions. Eric Holder, attorney general under former President Barack Obama and head of the National Democratic Redistricting Committee, spoke at a political dinner in Richmond in June and called Virginia “the epicenter of the political universe in 2017.”

One consequence of Mr. Justice's decision to swap parties last week is that West Virginia now has an all-GOP state government. That brings to 26 the number of states where Republicans have a “trifecta” versus just six states where Democrats have control of the legislature and the governor's mansion.

That is part of the reason Democrats are putting more emphasis on governors' races in 2017-18. Messrs. McAuliffe and Holder are helping lead an effort to get Democratic donors who tend to focus on presidential races to pay more attention to the states. The new redistricting committee headed by Mr. Holder, which started early this year, raised nearly \$11 million in its first six months.

Still, Republicans enjoy a fundraising advantage. The Republican Governors Association raised \$36 million over the first half of 2017, compared with the \$21 million raised by its Democratic counterpart.

Gov. Malloy in Connecticut said he is encouraged by the increase in donations over this time four years ago. The \$21 million raised this year so far is up from \$13 million over the first six months of 2013.

“Our organization is spending a lot of time and energy to make sure everyone is paying attention” to state races, said Mr. Malloy.

# Charities Push for Changes to Tax Plan

By RICHARD RUBIN

WASHINGTON—Charities stand to lose billions in donations if Republicans advance their tax overhaul, prompting the nonprofits to carefully attempt to persuade lawmakers to reshape their plan.

As a result of a proposal to double the standard deduction and prevent people from deducting state and local taxes from federal taxable income, fewer taxpayers—5% instead of 30%—would have a financial incentive to itemize their deductions, including their charitable gifts, according to several estimates.

Moreover, each deduction would be worth less to individuals if marginal tax rates are reduced, as Republicans want. For example, a married couple with costs of \$7,000 in mortgage interest and \$6,000 in local taxes would exceed today's \$12,700 standard deduction. That couple would have an incentive to itemize and deduct every dollar of charitable contributions.

If the standard deduction climbed to \$24,000 or more and state and local taxes stopped being deductible, the same couple would likely claim that standard break rather than itemize.

People don't donate only for the tax deduction. But according to an Indiana University study, these backdoor limits on charitable deductions could reduce giving by



Rep. Kevin Brady, head of the House Ways and Means Committee, said his panel is taking a 'very serious look' at a universal deduction.

\$13 billion, or 4.6%, annually. That is about four times the Salvation Army's 2015 annual revenue.

Many nonprofits—including universities, museums and foundations—don't want to be seen opposing a doubled standard deduction, which could lower taxes for millions of middle-class households and make the tax code simpler.

“What I have most encouraged them to do is to offer a solution and not position themselves as adversaries of

tax reform,” said former GOP congressman Phil English, a lobbyist at Arent Fox LLP, whose clients include Catholic Charities. “If they appear to be against tax reform, per se, they are running the risk of being adverse to many of their own donors.”

Instead, nonprofits are pitching an alternative: what they call a “universal” tax deduction for charitable contributions. That switch would let taxpayers deduct donations even if they don't itemize.

## An Expensive Proposition

Universal deduction would lower revenue and force even more trade-offs by lawmakers

A universal deduction for charitable contributions could be expensive for the government. Measured against today's tax code, the change would lower revenue by \$191 billion over a decade and deliver some of the biggest benefits to high-income households, according to an analysis by the Tax Foundation, a Washington think tank that favors a simpler tax system with lower rates.

That would force even more trade-offs by lawmakers. They already are searching for revenue-raising provisions to pay for lower tax rates.

“We don't think that anybody should have their charitable giving taxed. Anybody,” said David Wills, president emeritus of the National Christian Foundation, who was part of a group including prominent right-leaning donors and foundations that met with members of Congress and Vice President Mike Pence last month.

Rodney Prunty, president and chief professional officer of the United Way of Racine County, Wis., said he has been

Rep. Kevin Brady (R, Texas), chairman of the tax-writing House Ways and Means Committee, said his panel is taking a “very serious look” at a universal deduction. “We want to encourage Americans, who are incredibly generous already, to give more, to give earlier in life, and to continue to grow,” he said last month.

Elsewhere in the tax debate, many charities are choosing to stay on the sidelines when it comes to the estate tax, because lawmakers are unlikely to be swayed on that issue. Republicans' wish to repeal it would depress charitable bequests, which are tax-deductible.

Other policy questions in the nonprofit sector could emerge, including tax rules for foundations and limits on political activity by churches, and those could divide charities.

—Richard Rubin

encouraging his representatives—including the local congressman, House Speaker Paul Ryan—to be wary of changes that could undermine charitable giving.

“It's really the heart and soul of our sector,” Vikki Spruill, president and chief executive officer of the Council on Foundations, an industry association, said of the income-tax deduction. “As government resources become more scarce, philanthropy will not be able to fill the gap.”

# Trump's Tweets Aren't on Vacation

By LOUISE RADNOFSKY

PISCATAWAY, N.J.—President Donald Trump began the first weekday of his working vacation with social-media attacks on a familiar set of targets, including a Democratic critic and various news-media outlets, and an assertion that his base of support was stronger than ever.

“The fact is the Fake News Russian collusion story, record Stock Market, border security, military strength, jobs..... Supreme Court pick, economic enthusiasm, deregulation & so much more have driven the Trump base even closer together,” Mr. Trump wrote in two of nine morning tweets.

“Interesting to watch Senator Richard Blumenthal of Connecticut talking about hoax Russian collusion when he was a phony Vietnam con artist!” he continued.

Mr. Trump's attack came soon after Mr. Blumenthal, a Democrat, appeared on CNN discussing the federal investigation into Russia's efforts to influence the 2016 election.

Mr. Blumenthal said in his TV interview that the impaneling of a grand jury by Special Counsel Robert Mueller showed that the attack by the Russians “was purposeful and relentless and it involved propaganda and hacking into our voting machines—or at least an attempt to do it—and potential collusion by the Trump campaign and then obstruction of justice. That investigation must be pursued.”

Moscow has denied seeking to influence the election, and Mr. Trump has disputed allegations of collusion.

In his 2010 Senate race, Mr. Blumenthal was criticized for indicating in public appearances that he had served in Vietnam, when he was a Marine Corps reservist who stayed in the U.S. during the war. Mr. Trump, who was given deferments and didn't serve in Vietnam, has repeatedly attacked Mr. Blumenthal over the matter.

“Mr. President: Your bullying hasn't worked before and it won't work now. No one is above the law,” Mr. Blumenthal replied Monday, also on Twitter. “This issue isn't about me—it's about the Special Counsel's independence and integrity.”

Republican and Democratic senators have taken steps to protect the special counsel from interference, a response to Mr. Trump's criticism of the Russia probe and to his past dismissal of James Comey as director of the Federal Bureau of Investigation.

The president, who is staying at his New Jersey resort, had no public events planned for Monday, the White House said. Mr. Trump departed Washington on Friday and is set to return Aug. 20.

Officials didn't describe the president's activities over the weekend, though pictures posted on social media suggested that he played golf and greeted guests at a wedding being held at the club.

Democrats have criticized Mr. Trump for the length of his August break from Washington, noting that when he was a private citizen Mr. Trump frequently criticized President Barack Obama for his breaks and golf games.

# ‘Sanctuary City’ Chicago Files Lawsuit

By VALERIE BAUERLEIN

Chicago filed a federal lawsuit Monday challenging the Trump administration's use of federal grant money as a way to force local authorities to cooperate with a crackdown on illegal immigration.

The showdown over so-called sanctuary cities has been months in the making, as some local governments resist federal calls to hold people in jail when asked to do so by the Immigration and Customs Enforcement Agency.

Mayor Rahm Emanuel said Sunday the suit was filed be-

cause the Justice Department recently required such cooperation for cities to be considered for a long-running federal crime prevention grant, the Edward Byrne Memorial Justice Assistance Grant. Mr. Emanuel said the new rules would require cities to allow the Department of Homeland Security to have unlimited access to local police stations and law-enforcement facilities.

“Chicago will not be blackmailed into changing our values, and we are and will remain a welcoming City,” Mr. Emanuel said in a press release Sunday.

The Justice Department criticized Mr. Emanuel's stance. “In 2016, more Chicagoans were murdered than in New York City and Los Angeles combined,” said Devin O'Malley, a spokesman for the department. “So it's especially tragic that the mayor is less concerned with that staggering figure than he is spending time and taxpayer money protecting criminal aliens and putting Chicago's law enforcement at greater risk.”

Attorney General Jeff Sessions last month said it is appropriate and long overdue for the department to make grants

to local governments that allow federal immigration access to detention facilities and provide 48 hours' notice before the release of an illegal immigrant wanted by federal authorities.

“This is what the American people should be able to expect from their cities and states,” Mr. Sessions said.

The Byrne JAG funds provided \$347 million to state and local governments last year. The city of Chicago said it routinely uses the grant money to buy vehicles and SWAT equipment. Last year, Chicago received \$2.3 million in Byrne JAG funds.



Mayor Rahm Emanuel at a January news conference in Chicago.



U.S. NEWS

# South Carolina Seeks to Salvage Reactor

Governor looks to get at least one project completed after Scana abandoned the plant

By VALERIE BAUERLEIN  
AND RUSSELL GOLD

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

Last week, **Scana Corp.** said it would walk away from its project to build two nuclear reactors in tiny Jenkinsville—after nine years and \$10.4 billion spent—stunning local leaders and the 600 nuclear employees and 5,000 construction workers at its V.C. Summer Nuclear Station. The move left Jenkinsville, population 71, with an unfinished worksite the size of 1,000 football fields, while electric customers continue to pay 18% of their bill for a nuclear-power plant that may never generate a single kilowatt.

"I just hope that people who bought new houses, new cars, didn't create a situation where they lose everything they worked so hard to get," said Jenkinsville Mayor Gregory Ginyard.

The decision has been politically destabilizing, opening a rift between elected officials and Scana, the project's pri-



A 2016 photo of unit one of the abandoned V.C. Summer Nuclear Station near Jenkinsville, S.C.

mary partner, as well as with Santee Cooper, the state-run utility that is the project's junior partner. Gov. Henry McMaster called the shuttering of the plant "a jarring break of faith."

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

Separately, a bipartisan group of state senators is call-

ing for a special session to temporarily block the utilities from raising rates and passing on the costs of dismantling the reactors to customers.

The company said its decision was forced by the March bankruptcy of main contractor Westinghouse Electric Co. and a recently completed assessment that indicated the overall cost to build the facility rose to \$25.7 billion from \$14 billion. Scana said it had been ready to go ahead with building one of the two planned reactors, but its hand was forced when its partner, Santee Cooper, decided to back out.

"The costs of these units are simply too much for our customers to bear," said San-

tee Cooper Chairman Leighton Lord, in a statement.

A Santee spokeswoman declined to comment.

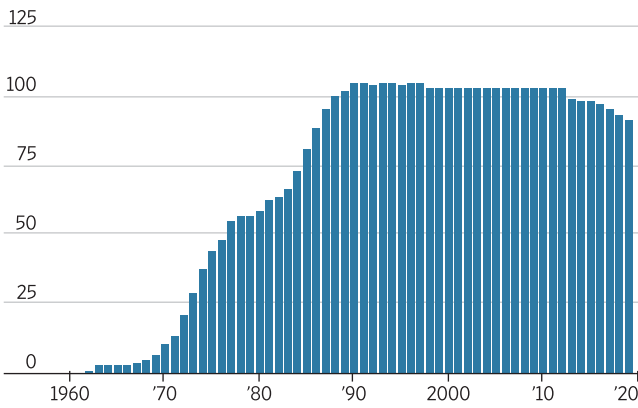
The repercussions go beyond Jenkinsville and surrounding Fairfield County, which is struggling with high poverty levels. The abandonment could lead to higher electricity bills in South Carolina.

Scana's utility in the state has some of the highest prices among the 100 largest power providers in the southeast, according to data from the Energy Information Administration.

"The public trust is gone, it is absolutely gone," said Micah Caskey, a Republican member of the South Carolina House

## Losing Power

Number of active nuclear reactors in the U.S.



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

THE WALL STREET JOURNAL.

who joined a new energy caucus investigating what happened. Regulators said they had been told previously that the project was troubled but on track. "It was like a gut punch," said Elizabeth B. Fleming of the Public Service Commission, the state regulator.

Other states in the South have run into trouble with new energy plants.

Mississippi regulators got fed up earlier this year with **Southern Co.**'s construction of a "clean coal" plant that had taken \$7.5 billion and seven years and still wasn't fully operational. So the state's top regulator ordered the company to stop building the coal-gasification technology and

"not increase rates one penny." Last week, Southern said it would take a \$2.8 billion pretax charge related to the Mississippi plant, transferring most of the remaining costs to its shareholders.

Georgia, meanwhile, is awaiting a decision from Atlanta-based Southern on whether it will keep pushing forward with its half-finished nuclear-power plant near Augusta. It is facing the same challenges as in South Carolina, with the Westinghouse bankruptcy also making the costs of completing the plant significantly higher than previously believed. Southern hasn't decided whether to continue work on the Augusta facility.

# Minnesota Mosque Blast Puts Focus On Bias, Security

By VALERIE BAUERLEIN

The bombing of a Minnesota mosque over the weekend is the latest in rising anti-Muslim incidents in the U.S. that have prompted Islamic groups to boost security measures.

Federal Bureau of Investigation figures showed a 67% rise in anti-Muslim incidents in 2015, the most recent data available from the bureau. Overall, the FBI said there were 5,850 reported hate crimes in 2015, a nearly 7% increase from the previous year. Anti-Jewish incidents rose 9%, the FBI said.

No one was injured in the 5 a.m. Saturday explosion at the Dar Al-Farooq Islamic Center in Bloomington, Minn., a city of 85,000 people south of Minneapolis, police said. Law-enforcement officials said someone appeared to have thrown an improvised explosive device from a passing truck into the mosque office just before early-morning prayers.

The FBI and the Bureau of Alcohol, Tobacco, Firearms and Explosives are investigating.

The building office and sprinkler system were damaged, according to supporters

seeking to raise \$95,000 for repairs. The mosque primarily serves members of the area's Somali community. About 41,000 of a total of 129,000 people living in the U.S. claiming Somali ancestry lived in Minnesota as of 2015, according to the Census Bureau.

The national office of the Council on American-Islamic Relations, a Muslim advocacy organization, has been encouraging Islamic centers to increase security, including guards and camera surveillance. A recent CAIR guide to mosque safety urges leaders to install glass-block windows, which are difficult to break, for example, rather than wire screens "if protection against thrown firebombs is a consideration."

The Bloomington center's executive director, Mohamed Omar, on Saturday said Muslims should continue to worship and attend education classes, rather than stay home out of fear. "This is our center," Mr. Omar said. "We hope that this will be the last [incident], and we won't see any problems."

The explosion is one of several such incidents in Minnesota in recent weeks, in-



Minnesota Gov. Mark Dayton on Sunday condemned the bombing of the Dar Al-Farooq Islamic Center in Bloomington, Minn.

cluding the vandalism of a Muslim cemetery in Castle Rock Township, south of Bloomington. In June, a Minnesota man was sentenced to 39 years in prison for injuring two Somali men and shooting at others last year while they were en route to prayers in Minneapolis.

A new Pew Research Center survey found that 64% of Muslim Americans say they are

dissatisfied with the way things are going in the U.S., up from 38% in 2011. Pew researchers said unease among Muslim Americans has grown since President Donald Trump, as a candidate more than a year ago, called for a "total and complete shutdown of Muslims entering the United States." More than half of U.S. Muslims—58%—are immigrants, according to Pew.

The acting secretary of Homeland Security, Elaine Duke, said Saturday the department "fully supports the rights of all to freely and safely worship the faith of their choosing and we vigorously condemn such attacks on any religious institution."

Elected officials and faith leaders from around the state joined mosque leaders in a Saturday news conference

calling for solidarity and peace.

The Rev. Curtiss DeYoung, head of the Minnesota Council of Churches, said the attack felt personal because he had shared the post-Ramadan Iftar meal with mosque members.

"An attack on a mosque, is an attack on a synagogue, is an attack on a church, is an attack on all faith communities," he said. "We stand with you."

# Detroit Vote Is Test of the City's Progress

By SHAYNDI RAICE

Detroit is gearing up for a nonpartisan mayoral primary Tuesday that will signal whether the progress the city made under Mayor Mike Duggan is enough to propel him to a second term in November.

Since filing the country's largest municipal bankruptcy in 2013, Detroit has seen its downtown revitalized with a luxury apartment boom, trendy restaurants and an influx of young residents. Basic services like streetlights, public transportation and police response times have improved.

But the mayor's top challenger, Coleman Young II, has argued that the revitalization has come at the expense of lower-income neighborhoods. Mr. Young, the son of Detroit's first black mayor, Coleman Young, has staked his campaign on the idea that poorer, black communities are being left behind.

"What is the purpose of creating jobs downtown if we don't provide jobs to the residents who need it?" Mr. Young asked when announcing his candidacy in February.



Mike Duggan's top rival is State Sen. Coleman Young II, right, the son of Detroit's first black mayor.

"It's two Detroits," said Mr. Young's spokesman, Adolph Mongo. "One rich and one poor. One black and one white." Over 80% of Detroit's residents are black. Mr. Duggan is the city's first white mayor in four decades.

Detroit's population keeps shrinking, and though the city has attracted young residents downtown, rising home prices have made parts of the city unaffordable to older ones.

Violent crime dropped 13% in 2015 from a year earlier, but Detroit still has the second-

highest violent crime rate for cities with over 100,000 residents, according to Federal Bureau of Investigation statistics.

Sharon Banks, a spokeswoman for Mr. Duggan, said the mayor's first priority when taking office in 2014 was to stabilize the city's infrastructure. We're "not saying it's done by any stretch of the imagination," she said. "Stabilizing the structure of the city, boarding up abandoned homes, blight removal, those things were paramount starting his first term as mayor."

The top two vote-getters in Tuesday's primary will proceed to the general election Nov. 7.

Mr. Young's family history has helped propel the state senator representing Detroit to the front of Mayor Duggan's seven primary challengers.

Still, Mr. Duggan, a former businessman, has been leading in the polls by a wide margin.

A recent poll by Target Insyght found 64% of respondents said they were likely to vote for Mr. Duggan, while 30% planned to support Mr. Young.

## U.S. WATCH

INTERIOR DEPARTMENT

### Plan for Sage Grouse Protection Revised

Interior Secretary Ryan Zinke has ordered his agencies to begin implementing a revised management plan to protect the greater sage grouse, a move that could undo some protections created under the Obama administration.

Among other things, the recommendations compiled by an Interior task force at Mr. Zinke's request call for potential loosening of sage grouse protections around mineral leasing areas, using states' conservation plans that provided more flexibility to potential economic development and using potentially increased cattle grazing in some sage grouse areas as a tool to protect the birds' habitat against wildfire and invasive grasses.

Separately, Mr. Zinke on Monday announced he is repealing an Obama administration rule that was supposed to go into effect earlier this year that would change the way oil, gas and coal is valued on federal leases, in a way the energy industry had said could make them pay more in royalties.

—Jim Carlton

OHIO STATE FAIR

### Corrosion Cited in Thrill-Ride Accident

The Dutch manufacturer of a thrill ride that broke apart on the opening day of the Ohio State Fair two weeks ago, killing one person and injuring seven others, said Sunday that "excessive corrosion" weakened a support beam that caused "the catastrophic failure."

Investigators for the company, KMG, traveled to Columbus to review video footage of the July 26 incident and conduct a metallurgical inspection of the 18-year-old Fireball ride, according to the statement, which the company posted on its Facebook page. "KMG has reviewed the results of the inspection and worked with industry safety experts to develop an inspection protocol in the form of a Safety Bulletin to allow properly inspected and maintained rides to safely reopen," the manufacturer said in the statement.

Ohio Gov. John Kasich called the accident the worst tragedy in the fair's history and ordered the state highway patrol to conduct an investigation.

—Quint Forgey



IN DEPTH

WEB

*Continued from page A1*  
with 4GB of storage, versus the 32GB that is typically considered minimal in the developed world.

On his screen are some of the world's most popular apps—Google's search, Facebook Inc.'s WhatsApp—but also many that are unfamiliar in the developed world, including UC Browser, MX Player and SHAREit, that have been tailored for slow connections and skimpy data storage.

Those three apps, not among the top 100 downloads in the U.S., were in India's top 10 over the 30 months through June, according to **App Annie**, which tracks apps; many of the most popular apps in the U.S. aren't in India's top 100.

Mr. Singh's phone uses Google's Android operating system, which nearly monopolizes India's smartphone market in phones from companies such as South Korea's Samsung Electronics Co. and India's Micromax Informatics Ltd.

Apple Inc., in contrast, has a 3% smartphone market share in India, estimates market-research firm Kantar Worldpanel, in part because its least expensive iPhone costs more than \$300; in India, more than 90% of smartphones cost less than that.

Apple declined to comment on its India strategy. During a call with analysts last week, Apple Chief Executive Tim Cook said he was "very, very bullish and very, very optimistic about India."

'Up for grabs'

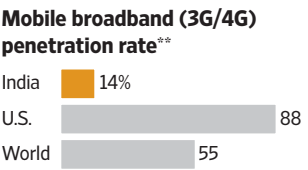
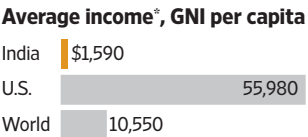
Scenes like Mr. Singh's are playing out on smartphones across Asia, the Middle East and Africa in places with pockets of less-educated people who are just getting online. UC Browser is a top download in countries such as Indonesia and Yemen. SHAREit is popular in Iran and South Africa. MX Player is big in Bangladesh, Oman and Cambodia.

"Since these are new consumers, everything is up for grabs," said Jan Chipchase, founder of Studio D Radiodurans, a consultancy that analyzes consumer behavior in emerging markets. "That's the potential for disruption."

The sheer size of the Indian market means gaining even a small share can bring huge traffic and expansion. About 400 million of India's 1.3 billion people are online, accord-

India vs. the U.S. and the World

India's low income keeps more people from getting online.



\*As of 2015  
\*\*As a percentage of population 2016  
Sources: World Bank (GNI); GSMA (penetration rate)  
THE WALL STREET JOURNAL.

RULES

*Continued from page A1*  
In June, Special Publication 800-63 got a thorough rewrite, jettisoning the worst of these password commandments. Paul Grassi, a NIST standards-and-technology adviser who led the two-year do-over, said the group thought at the outset the document would require only a light edit. "We ended up starting from scratch," Mr. Grassi said.

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

Long, easy-to-remember phrases now get the nod over crazy characters, and users should be forced to change passwords only if there is a sign they may have been stolen, says NIST, the federal agency that helps set industrial standards in the U.S.

Amy LaMere had long suspected she was wasting her

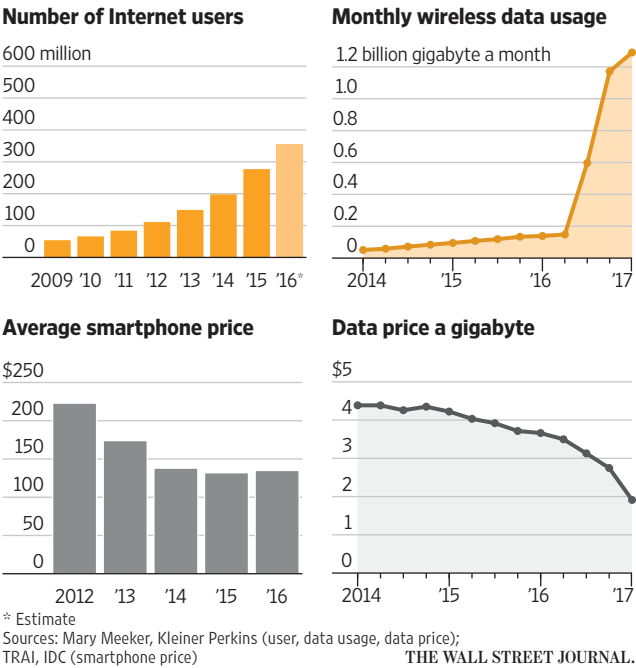


Ilphaz Khan communicates via voice text with a family member on WhatsApp at a railway station in New Delhi.

KARAN DEEP SINGH/THE WALL STREET JOURNAL

Affordable Net

In India, millions are getting online for the first time as smartphone and data prices plunge.



than eight million job seekers and 500,000 employers, said Vir Kashyap, one of the company's founders.

In contrast, LinkedIn Corp. has been focusing on the higher-end jobs in India, although it is looking into ways to help blue-collar workers find jobs, said Akshay Kothari, head of LinkedIn India. It launched LinkedIn Lite, an app less data-heavy so people can use it on 2G phones, he said, because "we need to make sure that connectivity and technology is not a barrier," for job seekers.

Google has revamped the way certain searches look in India. Seek a local cricket star, and the top of the search is crowded with photos and videos instead of long lists of links. Google's YouTube created apps in India to make it easier for users to share videos directly—helping them avoid data costs and circumvent slow internet speeds.

One five-person Google team took a long train ride through

the western Indian state of Maharashtra recently to poll passengers. "How does he get new music?" asked project manager Scott Velicer through a translator. "Ask him if he has trouble getting to know the name of songs he hears on TV."

The team showed passengers a "low-fidelity prototype," basically phone screens printed on paper with different apps and instructions, asking what they would do if they saw one of the screens. The group later stood at the Lonavla Station and discussed what it learned. "People here don't read the text," so the icons need to be easy to understand, Mr. Velicer said.

Google has also benefited from the dominance of its Android operating system.

Apple has been upping its bet on India, contracting with a manufacturer to assemble handsets locally, rolling out a bigger retail network and investing to support developers of more apps aimed at Indians. It has begun offering Apple Music—

available for Android phones—for a lower price than in the U.S.

Last year, Indian banks launched a mobile payment system that after a simple sign-up process allows the less-tech-literate to make payments and transfer money from their accounts with their phones. Paytm, the biggest mobile money app in India, now has more than 200 million users in India, vastly more than the number of credit-card holders in India.

PayPal is one of the most popular services for international transactions in India, but has yet to launch a payments system for the domestic market. PayPal Holdings Inc. said it plans to start a domestic service and that its deep experience and better technology will help it catch up.

Some poor users said they are willing to pay for data even if it means forgoing consumption of things like cigarettes to afford prepaid cards. Sales of shampoo and some snacks foods have slipped for certain consumers as they put more rupees aside for their phones, said consumer-goods companies such as Nestlé SA.

In few places is the impact of newfound internet access as striking as in the New Delhi station. More than half a million people a day chug through the station, where signs declare the standard porter rates: "Luggage up to 40 kg 60 rupees" (94 cents). The station's more-than-1,000 porters rush taxis and jump on moving trains, shouting: "Coolie, coolie, coolie, coolie." For 30 rupees, they fill up on roti and dal at a garage-sized structure labeled "Coolie Shelter," where they can nap, play cards and lock up their few belongings.

Most porters still think smartphones and internet are only for the rich and literate. The internet is "not for us," said porter Sajid Khan. "We are not educated, we are like this," he said, sticking his thumb out and pressing it down slowly to mime how he signs documents.

But a growing minority of porters have been using cheap smartphones to get online since the station started offering free Wi-Fi in 2015. One brags he now uses the web to download videos of religious songs using an app called VidMate. Another explains how through his phone he tracks how far a train has reached using an app called Indian Train Locator Live.

Mr. Singh said he gets to the station early every morning to send his friends and family recorded messages via WhatsApp. "Is everyone OK in the village? Anyone die?" he asked into his phone. Recorded replies come back throughout the day.

He scours the internet for shows and clips using YouTube, Google and MX Player all day. On YouTube, he starts with a voice search. "Woman singing Rajasthani folk songs," he said in Hindi and looked at the screen to see what showed up. He downloads more than 20 clips a day to watch at night when he returns to the flophouse room he shares with five other porters.

"Life has become better. Life has become faster," he said. "I wish I had it earlier. We wouldn't be so backward."

—Karan Deep Singh contributed to this article.



Lorrie Faith Cranor's dress includes common passwords.

LORRIE CRANOR

using Mr. Burr's old rules—could be cracked in three days, according to Mr. Munroe's calculations, which have been verified by computer-security specialists.

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

to publish guidance quickly.

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

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

The published guidelines were the best he could do.

"In the end, it was probably too complicated for a lot of folks to understand very well, and the truth is, it was barking up the wrong tree," Mr. Burr said.

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

Collectively, humans spend the equivalent of more than 1,300 years each day typing passwords, according to Cormac Herley, a principal researcher at Microsoft Corp.

His company once followed the Burr code for passwords, but no more.

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

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

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

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

shift dress she made and wore to a 2015 White House cybersecurity summit at Stanford University.

Adorned with the world's most common passwords—princess, monkey, iloveyou and others that are unprintable here—the dress has prompted careful study, and embarrassment.

"I've had people look at it and they're like, 'Oh, I'd better go change my passwords,'" said Ms. Cranor, a professor at Carnegie Mellon University.

The NIST rules were supposed to give us randomness. Instead they spawned a generation of widely used and goofy looking passwords such as Pa\$\$w0rd or Monkey1! "It's not really random if you and 10,000 other people are doing it," said Mr. Herley, the Microsoft researcher.

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

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



# LIFE & ARTS

WEEKEND CONFIDENTIAL | Alexandra Wolfe

## TaskRabbit CEO on Expansion

The head of the chore-service company talks about the company’s growth and increasing diversity in tech

**TASKRABBIT** chief executive Stacy Brown-Philpot still remembers running home one day to escape a group of grade-school bullies, only to have her grandmother lock her out of the house. “She said, ‘You’re going to have to get through this yourself,’ ” Ms. Brown-Philpot says. “And I had to stand up for myself and fight.”

Ms. Brown-Philpot, now 41, lost that fight with a punch in the face, but she learned a valuable lesson. “You have to learn to get through it yourself, because there are going to be times in your life when there’s going to be no one else around but you,” she says.

Ms. Brown-Philpot credits the lessons of her childhood, growing up in a tough neighborhood in Detroit, with helping her to succeed. In the past six months, she has expanded TaskRabbit, an on-demand chore service, to 21 new locations, bringing its presence to a total of 39 U.S. cities (plus London). This spring, she confirmed reports that the company is exploring a potential sale after receiving unsolicited interest from a buyer.

Through the TaskRabbit app, users can choose a task they want done, such as assembling furniture, moving, delivering packages or cleaning. Users then get a list of local “taskers,” people who are willing to do the job and have been vetted by the company, along with their hourly rate. The company takes a 30% cut of each completed task.

In the next few months, Ms. Brown-Philpot says, the company will launch a series of new partnerships, adding to its recent collaborations with IKEA and Amazon. Since it was founded in 2008, the company has raised about \$38 million. Documents related to a 2015 financing round put the company’s value at around \$50 million. A company spokesman says that the firm is “very close to overall profitability.”

Outside of TaskRabbit, Ms. Brown-Philpot joined the board of the department-store retailer Nordstrom in May and has been on the board of Hewlett-Packard since 2015.

She grew up the child of a single mother who was an insurance-claims adjuster. After graduating from the Wharton School of the University of Pennsylvania, she earned her M.B.A. from the Stanford Graduate School of Business and then eventually found a job in sales at Google.

In 2009, she moved from the San Francisco Bay Area to Hyderabad, India, to become senior director of Google’s online and sales operations in the country. It was a difficult decision. She and her husband had been thinking about starting a family when she got the offer. At first, she turned it down, but then her husband, who also works in technology, convinced her to take the job.

A year later, she returned to the Bay Area and soon had her first child. (She and her husband now have two daughters, ages 6 and 2.)



Stacy Brown-Philpot plans to launch a series of new partnerships in the next few months

TIMOTHY ARCHIBALD FOR THE WALL STREET JOURNAL

She ran Google’s global consumer operations before becoming an entrepreneur in residence there. She joined TaskRabbit as its chief operations officer in 2013 and became CEO in 2016.

Today, in an industry notoriously lacking in women and minorities, Ms. Brown-Philpot is one of the few black women running a sizable technology company. She is working to increase diversity at her own firm. TaskRabbit works with Code2040, a nonprofit aimed at providing minorities with training, experience and internships at tech companies. She also expects

recruiters to present her with a diverse list of candidates, especially for senior roles. Her goal is to raise the percentage of African-American employees at her company from its current 12% to 13% by the end of the year.

“The big problem is that a lot of Americans, whether they are underrepresented minorities or from rural areas, do not know about career opportunities in the tech industry because they may not have had role models who are part of this field or learned about STEM in school,” she says. “One goal for Silicon Valley must be to redouble

our collective efforts to make sure people of all backgrounds are aware of opportunities in tech.”

When she’s not at TaskRabbit, Ms. Brown-Philpot spends time with her family and enjoys exercising. Last month, she ran a half-marathon in San Francisco. She was so anxious that she could barely sleep the night before. “I’ve not always had as much confidence as I have now,” she says, but “there are days...even now, where I’m not sure [of myself].”

Ms. Brown-Philpot is looking to artificial intelligence to expand her company’s range. She thinks that

people will someday be able to talk to their devices to set up tasks. And appliances such as refrigerators could automatically signal to a tasker that, say, a filter needs changing.

Employees must act as a tasker every few months. That includes Ms. Brown-Philpot, though she’s kept her company title hidden. One user hired her to help clean his apartment before he moved out, and asked her, “Why do you task?” She said, “Because I love making people happy. And because I just want you to get your security deposit back.”

PLAYLIST: DIANE ACKERMAN

## THE TROUBLES WE BRIDGED

*Diane Ackerman is a poet, essayist and naturalist. She is the author of “A Natural History of the Senses,” “The Human Age” and “The Zookeeper’s Wife” (W.W. Norton). She spoke with Marc Myers.*

When I went off to Boston University in the late 1960s, I was a bio-psychology major. Within months, I decided to transfer to Penn State. But when I received their acceptance letter, there was a mistake: I was listed as an English major.

Growing up, I had always loved to write and had felt that I was a poet at heart. When I saw the letter’s error, it was all the confirmation I needed to switch to English at Penn State and become a writer.

Thumbing through Penn State’s course catalog, I noticed



that Prof. Paul West was teaching an interesting class in British fiction. In his class, I was intrigued by the nature of his mind.

Falling in love with a college professor happens more often than you think. But I was no longer Paul’s student when I bumped

into him on campus the following year. We went back to his house for drinks, and we stayed up all night talking.

Paul was 18 years my senior, but that didn’t matter. We were meant to be. We dated and soon married.

One day in early 1970, Paul and I were in my green VW Beetle when we heard Simon & Garfunkel’s “**BRIDGE OVER TROUBLED WATER**” on the radio for

the first time. The gospel piano introduction was enthralling yet calming.

As Art Garfunkel sang and the song began to build, I squeezed Paul’s hand. The most meaningful lyric came early in the song: “I’m on your side, when times get rough / And friends just can’t be found / Like a bridge over troubled water / I will lay me down.”

Paul was a heavy drinker with a troubled past. We did a lot to heal each other. Paul and I were together for 40 years, until his death in 2015.

Today, I still feel Paul in “Bridge.” The song also reminds me of the years following his stroke in 2004 when I nursed him and helped him relearn language.

Those were medically difficult years but also happy ones in many unexpected ways. During that time, Paul and I often listened to “Bridge.” The song was always restorative and emblematic of our deep love.



Art Garfunkel, left, and Paul Simon, in 1966

MICHAEL OCHS ARCHIVES/GETTY IMAGES



OPINION

REVIEW & OUTLOOK

## The Morgan Whale That Got Away

Politicians and journalists have made careers of lamenting that too few bankers have been convicted of crimes. They overlook that, at least in America, to prove a crime you have to have enough evidence and that a mistake isn't necessarily criminal. A case in point is the government's recent decision to drop all charges against two of J.P. Morgan Chase's former traders in the London Whale trading bust.

**Bankers haven't gone to jail because they haven't committed crimes.**

In 2012 J.P. Morgan's London-based Chief Investment Office ran up \$6.2 billion in losses from bad derivatives bets. No customer funds were lost, and the bank posted a \$5 billion profit in the second quarter of 2012. But the fiasco tarnished CEO Jamie Dimon's reputation and prompted outrage in Washington.

Senate Democrats issued a report accusing the bank of misleading regulators and investors. An internal bank analysis said management "failed to obtain robust, detailed reporting" and "appropriately monitor the traders' activity." Bank supervisors didn't perform due diligence, and Dodd-Frank's safeguards on risky behavior failed.

J.P. Morgan ultimately admitted to keeping some of its bad bets under wraps and paid \$920 million to settle civil charges with banking regulators. Yet Justice continued to pursue a criminal investigation with the Financial Fraud Enforcement Task Force, a coalition of 20 federal agencies, 94 U.S. Attorneys and states that the Obama Administration formed to prosecute bankers. While Justice wrung billions of dollars out of banks to settle claims related to residential mortgage securities—J.P. Morgan paid \$13 billion in 2013—progressives demanded scalps.

U.S. Attorney Preet Bharara struck a non-prosecution agreement with the former J.P. Morgan trader Bruno Iksil—the so-called London Whale who executed the bad bets—in re-

turn for his cooperation. Justice used Mr. Iksil's testimony to build a case against his colleagues Javier Martin-Artajo and Julien Grout, who were charged with conspiracy to falsify books and records, and wire fraud.

The traders' "lies misled investors, regulators, and the public, and they constituted federal crimes," Mr. Bharara said. "The difficulty inherent in precisely valuing certain kinds of financial positions does not give people a license to lie or mislead to cover up losses. . . . And that goes double for hand-somely-paid executives."

All of this made for nice political publicity, but it's not easy to prove that a company's employees "willfully and knowingly"—the standard for demonstrating criminal intent—misled investors. Especially when your chief witness has his own agenda. Earlier this year Mr. Iksil sent a letter to media outlets exalting himself as a whistleblower. He also announced a 400-page tell-all that essentially lays blame on everyone but himself, and he changed his story to blame Mr. Dimon and higher-ups without evidence to back it up.

In dismissing the charges against Messrs. Martin-Artajo and Grout, acting U.S. Attorney Joon Kim, who took over after Donald Trump fired Mr. Bharara in the spring, said that "based on a review of recent statements and writings made by Iksil, however, the government no longer believes that it can rely on the testimony of Iksil in prosecuting this case."

Prosecutors are often reluctant to walk back charges when presented with exculpatory or contradictory evidence, and Mr. Bharara was rebuked by federal judges for his Captain Ahab pursuit of Wall Street whales. So credit to Mr. Kim for pursuing justice rather than headlines. Justice's failed prosecution underscores that most financial errors aren't crimes, not that progressives will admit it.

## The Latest North Korean Sanctions Show

The Trump Administration and the United Nations Security Council are heralding Saturday's Resolution 2371, which imposes new sanctions on North Korea. But as Pyongyang sprints to the ICBM finish line, the insistence that this resolution will succeed when others failed is—let's be kind here—hard to believe.

On the positive side, Saturday's agreement completely bans trade in North Korean coal instead of capping it as U.N. Resolution 2321 did in November. Chinese companies evaded those sanctions by transshipping coal through third countries. Any coal shipments will be proof of cheating under the new sanctions, meaning Beijing will be exposed faster if it fails to hold up its end.

Coal is Pyongyang's biggest export earner, accounting for 40% of its exports and 10% of GDP by some estimates. The U.S. projects that the new sanctions will cut \$1 billion from the \$3 billion the regime earns in annual exports. If China follows through, it would show that loyalty to an ally is yielding to fears of a nuclear crisis on its border.

Also potentially significant is tightened control over financial transactions with North Korea. The U.S. designated Pyongyang a "primary money laundering concern" in May last year, opening up financial institutions that do business in U.S. dollars with the regime to secondary sanctions. North Korean front companies tried to use other institutions and currencies to continue trading. Saturday's resolution extends that ban to all convertible currencies and

**Why did China agree to tougher measures against its client state?**

institutions, including trading companies. China could be embarrassed if its companies continue to cheat, assuming that it cares.

The problem is that the resolution falls short in significant areas. It merely caps the employment of North Korean workers in other countries, meaning that Pyongyang can continue to earn money from exploiting the slave labor of its own citizens to earn hard currency that is funneled to the regime. Most of these workers are in China and Russia.

The resolution also allows foreign companies in existing joint ventures with North Korea to carry on doing business. Most important, China's sales of crude oil and refined-oil products to North Korea are left untouched. Cutting off these could bring down the regime, and Beijing's refusal to use this leverage shows that it still sees value in Kim Jong Un's survival.

North Korea reacted with fury on Monday, so the new sanctions must have some potential to bite. But the real test, as ever, will be China's enforcement. Did Chinese leaders agree to these new steps because they want to avoid even tougher U.S. action, including U.S. sanctions against Chinese firms? Or is this a genuine attempt to squeeze the North at long last to give up its nuclear weapons?

More than a decade of evidence suggests the answer is the former, and the new sanctions mean the U.S. will now have to delay further action to see if they work. If they don't, the U.S. will have to call China's bluff sooner rather than later.

## The Guns of Venezuela



AMERICAS  
By Mary Anastasia O'Grady

In a video posted on the internet Sunday morning, former Venezuelan National Guard captain Juan Caguari-pano, along with some 20 others, announced an uprising against the government of Nicolás Maduro to restore constitutional order. The rebels reportedly appropriated some 120 rifles, ammunition and grenades from the armory at Fort Paramacay in Valencia, the capital of Carabobo state. There were unconfirmed claims of similar raids at several other military installations, including in Táchira.

The Cuba-controlled military regime put tanks in the streets and unleashed a hunt for the fleeing soldiers. It claims it put down the rebellion and it instructed all television to broadcast only news of calm. But Venezuelans were stirred by the rebels' message. There were reports of civilians gathering in the streets to sing the national anthem in support of the uprising.

Note to U.S. Secretary of State Rex Tillerson: Venezuelans want to throw off the yoke of Cuban repression. They need your help.

Unfortunately Mr. Tillerson so far seems to be taking the bad advice of his State Department "experts."

The same bureaucrats, it should be noted, ran Barack Obama's Latin America policy. Those years gave us a rapprochement with Havana that culminated with the 44th president doing "the wave" with Raúl Castro at a baseball game in 2016.

Team Obama also pushed for Colombia's surrender to the drug-trafficking terrorist group FARC in a so-called peace deal last year. And it supported "dialogue" last year to restore free, fair and transparent elections in Venezuela. The result, in every case, was disaster.

Any U.S.-led international strategy to liberate Venezuela must begin with the explicit recognition that Cuba is calling the shots in Caracas, and that Havana's control of the oil nation is part of its wider regional strategy.

Slapping Mr. Maduro's wrist with sanctions, as the Trump administration did last week, won't change Castro's behavior. He cares only about his cut-rate Venezuelan oil and his take of profits from drug trafficking. To affect things in Venezuela, the U.S. has to press Cuba.

Burning Cuban flags, when they can be had, is now practically a national pastime in Venezuela because Venezuelans understand the link between their suffering and Havana.

The Castro infiltration began more than a decade ago when Fidel sent thousands of Cuban agents, designated as teachers and medical personnel, to spread propaganda and establish communist cells in the barrios.

Since 2005 Cuba has controlled Venezuela's citizen-identification and passport offices, keeping files on every "enemy" of the state—aka political opponents. The Venezuelan military and National Guard answer to Cuban generals. The Venezuelan armed forces are part of a giant drug-trafficking operation working with the FARC, which is the hemisphere's largest cartel and also has longstanding ties to Cuba.

These are the tactical realities of the Cuba-Venezuela-Colombia nexus. The broader strategic threat to U.S. interests, including Cuba's cozy relationship with Middle East terrorists, cannot be ignored.

Elisabeth Burgos is the Venezuelan ex-wife of the French Marxist Régis Debray. She was born in Valencia, joined the Castro cause as a young woman, and worked for its ideals on the South American continent.

**Castro is calling the shots in Caracas. Sanctions have to be aimed at him.**

Ms. Burgos eventually broke free of the intellectual bonds of communism and has lived in Paris for many years. In a recent telephone interview—posted on the Venezuelan website Proavinci—she warned of the risks of the "Cuban project" for the region.

"Wherever the Cubans have been, everything ends in tragedy," she told Venezuelan journalist Hugo Prieto. "Surely we have no idea what forces we face," Mr. Prieto observed—reflecting as a Venezuelan on the words of Ms. Burgos—because, as she said, there is "a lot of naiveté, a lot of ignorance, about the apparatus that has fallen on [Venezuelans]: Castroism."

Cuban control of citizens is as important as control of the military. In Cuba this is the job of the Interior Ministry. For that level of control in Venezuela, Ms. Burgos said, Mr. Maduro must rely on an "elite of exceptional experts" Castro grooms at home.

Cuba, Ms. Burgos said, isn't "simply a dictatorship." For the regime it is a "historical political project" aiming for "the establishment of a Cuban-type regime throughout Latin America."

She noted that along with Venezuela the Cubans have taken Bolivia, Ecuador, Nicaragua, and are now going after Colombia.

"The FARC, turned into a political party and with all the money of [the narcotics business], in an election can buy all the votes that it wants."

Mr. Tillerson is forewarned. Castro won't stop until someone stops him. To get results, any U.S.-led sanctions have to hit the resources that Havana relies on to maintain the repression.

Write to [O'Grady@wsj.com](mailto:O'Grady@wsj.com).

## LETTERS TO THE EDITOR

### Unchecked Climate Change Will Lead to War

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

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

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

PAUL SUSMAN  
Lewisburg, Pa.

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

STEPHANIE DOBA  
Brooklyn, N.Y.

To assert that carbon dioxide "hurts nobody's health" is ignorant. Humans exhale carbon dioxide as a waste product. CO<sub>2</sub> is linked to myriad health ailments, including respiratory conditions. As a greenhouse gas, carbon dioxide also traps heat in the atmosphere, which contributes to the rising sea level and disrupts weather patterns.

TED MILLAR  
Milton, N.Y.

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

along with deforestation, disrupts that critical balance.

The authors note that pollution and declining wildlife habitats are problems, but they fail to connect these to climate change.

The policies that cause climate change also cause pollution and loss of habitats. Fracking emits volatile organic compounds. Pipelines carrying fuel and fracking chemicals leak into waterways and aquifers, and pipeline compressors emit toxins into the air. Habitats are being lost everyday to fossil-fuel drilling. Focusing only on the economics of climate change is fundamentally flawed.

LISA HARRISON  
New York

Examining data over the past 21 centuries we see that sometimes we have experienced more-than-average warming and sometimes more-than-average cooling. That fact makes me suspect that eliminating activities that generate CO<sub>2</sub> won't do away with climate change.

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

TICO MORENO  
Sanibel Island, Fla.

Climate change is the greatest world-wide threat humanity has ever faced. If we don't implement effective solutions soon, we are likely to encounter devastating social, environmental and economic consequences.

LARRY KRAMER  
San Juan Capistrano, Calif.

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OPINION

# College Is Trade School for the Elite

By Allen Guelzo

Donald J. Trump has a degree from an Ivy League university—my alma mater, in fact—but he isn't one of the Ivies' admirers. "We must embrace new and effective job-training approaches, including online courses, high school curricula, and private-sector investment that prepare people for trade, manufacturing, technology and other really well-paying jobs and careers," the president declared in March. "These kinds of options can be a positive alternative to a four-year degree."

If ever an issue seemed assured of bipartisan support, you'd think it would be an initiative that helps connect workers with work. But up went the howls of injury anyway.

"I'm worried that the idea of vocational education has become so popular," wrote David Leonhardt of the New York Times. "We shouldn't be

Even education in the humanities has become vocationalized, though the transformation is subtle.

promoting vocational education at the expense of general education." Instead, "expanding the number of four-year college graduates also deserves to be a national priority."

Maybe. Mr. Leonhardt is pitting vocational education against the ideals of higher education—independence of thought, breadth of knowledge and understanding. It isn't hard to see how important these ideals are to a democracy, in which political sovereignty lies with the people at large. If the people are ignorant or fixed only on grubbing for a living, they may make awful—and irreversible—mistakes.



The problem is that so little of those ideals really operate in most of American higher education.

Judged by the catalogs, curricula and websites of American colleges and universities, American higher education already is vocational. The number of degrees in nursing, social work, education and the holy quartet of STEM—science, technology, engineering and mathematics—vastly outweighs those awarded in the humanities, which is where we're supposed to find the pure arts of thinking.

One out of every five bachelor-level degrees is in business—which is to say, accounting, marketing, management and real estate—while one in 10 is in a health-related field.

Business and education lead the parade among master's-level degrees. The bulk of doctoral degrees are in medicine, law, biology and engineering. The highest-growth fields since 2008 have been homeland security, law enforcement, firefighting, parks, recreation, leisure and fitness studies.

Even education in the humanities has become vocationalized, although the transformation is subtle. Take almost any college or university literature department, and its faculty will

be composed of people who have been trained in other college and university literature programs to be literature professors.

History majors are, in department after department, seen—and taught—as future history professionals, whether in museums or colleges. Even in schools that still valiantly defend the virtue of a liberal-arts education, much of it tends ineluctably toward professional formation, not breadth or understanding.

Vocational training is what higher education has been doing without even realizing it.

I wonder if the real complaint about Mr. Trump's praise of vocational education is that his interest in the "wrong" vocations—"trade, manufacturing, technology"—and in the wrong places.

College-based vocationalism is still vocationalism; there's no intrinsic difference between peeling a spud and popping a vein. But it is a vocationalism of merit, defined by testing, credentials and cultural signaling.

In this version of vocationalism, the four-year college experience becomes a path by which the talented and brainy are induced to abandon their

neighborhoods, churches and families to become the next generation of staffers for multinational corporations and nonprofits. Either you arrive already equipped with merit (through your meritocratic parents and your meritocratic college-prep program) or you are cherry-picked to receive it, and thereafter spurn the base rungs by which you do ascend.

Why the meritocracy's college-based vocationalism should be considered superior to Mr. Trump's vocationalism has little to do with dollars and cents and a lot to do with the cultural imperialism of the meritocracy.

Mike Rowe, creator of "Dirty Jobs" and "Somebody's Gotta Do It," was perplexed to find that even in the depths of the Great Recession small-business owners hung out "Help Wanted" signs in all 50 states, but couldn't find people to hire. Why? Because of "the stigmas and stereotypes that dissuaded people from exploring a career in the trades."

Everywhere, Mr. Rowe met with the blank convictions that "opportunity is dead" and "success can only occur if you purchase a four-year college degree." Tell that, he says, to the employers who have 5.6 million job openings that aren't in danger of being filled by robots.

Mr. Trump's determination to revive vocational education is a validation of varieties of work the meritocracy disdains. But meritocracy, as the cultural critic Christopher Lasch wrote, "is a parody of democracy." It promises advancement, but only for a few, and only at the expense of a common culture.

By validating a real vocationalism, we might also arrive at a new revival of democracy, and even—who knows?—a true rediscovery of the humanities.

*Mr. Guelzo is director of the Civil War Era Studies Program at Gettysburg College and a senior fellow of the Claremont Institute.*

# A Consumer Tech-Design Revolution

By Steve Vassallo

Walt Mossberg, the dean of tech journalism, officially retired earlier this summer. He began his first column for the Journal, in 1991, with the now-famous line, "Personal computers are just too hard to use, and it isn't your fault."

In his final column, Mr. Mossberg bookends the quarter-century of products, personalities and progress he's chronicled with this assessment of where we are now: "Personal technology is usually pretty easy to use, and, if it's not, it's not your fault."

In a generation, consumer tech went from unreliable and confusing to so intuitive that children are creating immersive three-dimensional worlds on devices with barely any instruction.

Why hardware and software have become so much easier to use since the 1990s.

Mr. Mossberg doesn't put a name to this remarkable shift, but as someone who witnessed it firsthand, I will: design. By design, I don't mean a spiffy logo or a pretty website. Design now also refers to a methodology and a mind-set that place the experience of the end user above all.

This form of design isn't concerned chiefly with how good something looks, but, rather, how well it works for ordinary consumers.

I'm a venture investor and was a Silicon Valley entrepreneur. But I started my career as a product designer at IDEO in the 1990s, when, as Mr. Mossberg puts it, "engineers weren't designing products for normal people."

I largely credit designers for bringing the needs and desires of everyday users to the development of new tech products. Engineers tend to focus on sheer technical limits: what can be done. But designers are preoccupied with what should be done.

In other words, whether they're building things that solve actual problems or fulfill real wants.

Over the past two decades, advances in computing power have met typical users' speed and reliability needs, and the means to launch products have grown better and more affordable. As a result, design is now the differentiator—and the driving force behind billion-dollar companies.

Apple is the canonical example. The iPod wasn't the first MP3 player; the iPhone wasn't the first smartphone. Nor did many of the underlying technologies originate with these devices. In other words, they weren't technical breakthroughs.

Rather, they were brilliant syntheses of engineering and emotion. They were design breakthroughs—instances of creative need-finding and human-attuned problem solving. And they raised consumer expectations for technology, ushering in a new era of innovation.

Witness how the industry has embraced design in the past several years: Google has invested heavily to reinvent itself as a design-centric business. Incumbents such as Samsung, General Electric and IBM have spent hundreds of millions to build in-house design studios with thousands of designers. Dropbox might've been an uninspiring file storage offering—a dumb bucket—but instead it distinguished itself with seamless integration across devices. Slack, through its design, used familiar technology to create a better team-messaging experience.

The last two examples are emblematic of a seminal development in the entrepreneurial ecosystem. Slack and Airbnb—like Pinterest, Instagram and Kickstarter—are recent successes founded by designers, people who are devoted to the practice of building impeccably considerate technology.

Design is the key to building the next great wave of companies. To compete seriously on design, startups must make it central to their strategy from the beginning.

Like other commentators, I think we're entering the age of "ambient computing," when personal technology will be invisible and omnipresent.

Augmented reality, artificial intelligence, robotics, drones, the Internet of Things, and other nascent tech will fade into the background of our lives. Technology will no longer come in the form of gadgets. Instead, as Mr. Mossberg predicts, "it'll be about actual experiences, with much less emphasis on the way those experiences get made."

In this new era, design will be ever more critical to how we build and use our technology. The 21st century will be the century of the designer founder, when core value for businesses is created by entrepreneurs who have a deeper, more intuitive sense for the human condition.

*Mr. Vassallo is general partner at Foundation Capital and author of "The Way to Design" (Foundation Capital).*

# A Labor Ruling Threatens America's Small Businesses

By Peter Schaumber

Atop goal of President Obama's National Labor Relations Board was to make union-organizing easier. With this objective in mind, the board subjected countless employers to unprecedented bargaining obligations and legal liabilities.

In 2015 the NLRB considered whether Browning-Ferris Industries, a recycling company, was an employer of workers provided by the staffing agency Leadpoint Business Services. Leadpoint hired and trained the workers, determined their wages, and retained direct and exclusive control over their supervision, discipline and termination. But if Browning-Ferris also was considered their employer, the company would have to bargain with the local Teamsters union and would become liable for Leadpoint's employment practices. The board ruled 3-2 that Browning-Ferris and Leadpoint were "joint employers."

According to a standard established in 1984, a joint employer had to have direct and immediate control over hiring, firing, supervising and directing employees. The NLRB found Browning-Ferris was a joint employer by changing the standard so that indirect control—mere influence over someone's employment—was enough. Such influence could manifest itself, for example, in provisions of the parties' staffing agreement that called for drug testing or performance standards.

Wrapping itself in the mantle of workers' rights, the NLRB claimed that complete bargaining would be impossible unless companies like Browning-Ferris were forced to the table. Never mind that U.S. Congress—undoubtedly aware of third-party business arrangements when it passed the National Labor Relations Act of 1935 and substantially amended it in 1947—defined an "employer" as a company that directly and immediately controls hiring and firing.

A principal target of the NLRB's decision is the franchise industry,

with its nine million workers in 801,000 franchise operations, according to a September 2016 report from PricewaterhouseCoopers. A company sets operating standards for its franchisees to protect its brand, making them joint employers under the NLRB's new ruling.

Instead of organizing franchise by franchise, unions will use a franchiser's newly minted liability for the unfair labor practices of its franchisees, engage in economic protest activity against it, and threaten similar skirmishes around the country, strong-arming the franchiser into agreeing to the unionization of all its franchisees. That's how the Service Employees International Union hopes to unionize McDonald's.

To avoid the risk of joint employer liability, companies will move away from using independent franchisees to sell their products or engage in costly oversight of existing franchise operations. Buying a small franchise will become less attractive for entrepreneurs, and smaller companies that can't afford oversight costs will be driven out of business.

A 2016 survey conducted by Frandata, a franchise-industry researcher, estimates that business failure,

downsizing and the declining rate of new franchise business formation may result in the loss or failure to create as many as 600,000 jobs over two years.

The NLRB's decision will be felt across the economy as companies like Browning-Ferris dispense with efficiency-boosting contractors.

The case rewrites decades-old law. It involves a contractor, but franchises may be even harder hit.

Small-parts manufacturers, security companies and janitorial agencies will find their services are no longer needed.

The Browning-Ferris decision is a carefully calculated effort to enhance union power, not a saintly attempt to help workers. Microsoft learned this firsthand. In 2015 a union representing one of its suppliers' employees filed a charge accusing the company of unlawfully refusing to bargain. The justification? Microsoft's social-responsibility initiative required large

# Kill the Filibuster Before It's Too Late

By Andy Biggs

The greatest obstacle blocking U.S. Republicans from fulfilling our agenda isn't manufactured outrage about Russians. It's the Senate filibuster, the 60-vote threshold to suspend debate that prevents most bills from making it to the floor.

For years, my fellow Arizonan Rep. Trent Franks has condemned the 60-vote rule, arguing that it stops too many bills already passed by the House from becoming law. President Trump has now joined the chorus of filibuster critics as he watches his agenda languish. Republicans should

consign the 60-vote rule to history—or risk throwing away their agenda along with their congressional majority.

The filibuster forces the majority into awkward legislative maneuvers. Take the GOP's plan to repeal and replace ObamaCare through the Senate's reconciliation process.

The way it works is that once a budget is passed, a follow-up bill gets one chance to be reconciled in the Senate with only 51 votes. So first the House had to pass a faux budget, to make reconciliation available. Then House leaders tried to stuff as much ObamaCare replacement in one bill as they thought Senate rules would allow. The result of these wild procedural manipulations was a legislative train wreck that—at least temporarily—has halted progress toward the central Republican goal.

But that's only the beginning of what the filibuster thwarts. The House has already passed more than 200 bills this year, including legislation to repeal Dodd-Frank and strengthen immigration enforcement. All that legislation is parked in the Senate because even getting a vote effectively requires 60 ayes.

The only conclusion is that the Senate is controlled by the minority party. Eight Democrats trump the Republican majority.

Another downside is that the filibuster rule shields senators from the responsibility of taking hard votes. They can play both sides of an issue by claiming to support a bill they know will never meet the 60-vote threshold. The filibustering senators get to bask in the glory of success without any risk, since they can

squash the legislation without having to vote against it.

The reason Republican senators don't want to eliminate the filibuster is they fear that they will one day return to the minority. Additionally, there is an ostensible "gentlemen's agreement" that says neither party will use its majority to repeal the 60-vote rule. But Democrats and Republicans alike have skirted that agreement when they thought it was necessary.

In 2013 Democrats dispensed with the filibuster for most nominations. Republicans did the same earlier this year when they confirmed Neil Gorsuch to the Supreme Court. Now Republicans should finish the job and repeal the 60-vote rule for legislation. If they don't, they can be sure Democrats will seize the opportunity to do so when they return to power.

The torments of the ObamaCare repeal process can be ultimately traced to the filibuster. That the "skinny repeal" bill, which needed only a simple majority, also failed doesn't change the fact that Republicans wasted months on procedural wrangling trying to make reconciliation work.

Yet critics of the filibuster are still voices in the wilderness. The tragedy is that President Trump is watching his agenda be derailed by his supposed allies in the Senate.

Republican lawmakers worry what might happen when they fall back into the minority. Unless they repeal the 60-vote rule and pass the GOP agenda, they will find out sooner rather than later.

*Mr. Biggs, a Republican, represents Arizona's Fifth Congressional District.*

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LIFE & ARTS

ART

# Putting the Art in Department Store

Frank Cohen, a major collector of British art, discusses his latest exhibit of Scottish painting at a London emporium

BY J.S. MARCUS

For a new exhibit of works by an underappreciated Scottish painter, the British collector Frank Cohen is sending art lovers to a department store. On Sept. 18, Mr. Cohen will preside over a show of 50 works by John Bellamy (1942-2013) at Fortnum & Mason, the venerable London emporium, founded in the early 18th century. Drawing on Mr. Cohen's own recently enhanced cache of Bellanys, as well as works on loan from the artist's estate, the show will spread paintings throughout the store, from street windows to areas near cash registers. It runs until October 28.

The works may prove a contrast to the atmosphere at Fortnum's, with its fancy food hall and posh picnic hampers. Known for his bold palette and fantastical figures, Bellamy has "a grit to his art," says Simon Hucker, a London-based senior specialist in modern and postwar British art at Sotheby's.

Mr. Cohen made his fortune selling Britons everything from wallpaper to wrenches. A native of Manchester, Mr. Cohen, now 73, first got interested in art in the 1970s through the work of L.S. Lowry (1887-1976). The artist, a longtime resident of greater Manchester, is known for his stark depictions of everyday life in northern England's industrial cities and towns.

During his early years of collecting, Mr. Cohen bypassed the prohibitively expensive giants of 20th-century British art, Francis Bacon and Lucian Freud. Instead, he focused on what he calls "lesser-value artists" like David Bomberg (1890-1957), a Birmingham-born avant-garde painter who later created near-abstract portraits and landscapes, and Edward Burra (1905-76), an English painter and draftsman known for his lurid, mid-20th-century urban scenes. Since then, works by Lowry, Bomberg and Burra have shot up in value.

By the 1990s, Mr. Cohen became "besotted," he says, with the so-



JOHN BELLAMY/THE FRANK COHEN COLLECTION

John Bellamy's 1988 'Bonjour Mr. Bowie (1240)' will go on view at Fortnum & Mason next month.

called Young British Artists, including Damien Hirst and Tracey Emin, and in 1997, he sold off the last of his businesses to devote himself full-time to collecting and displaying art. These days, he is buying works by American artists David Salle and David Hammons, as well as Germans Georg Baselitz and Thomas Schütte.

Mr. Cohen and Cheryl Cohen, his wife and co-collector, live in the Cheshire countryside, not far from Manchester, where they are

able to display about 50 or 60 artworks from their collection, now numbering around 1,500. Mr. Cohen spoke about Bellamy, the business lesson a Victorian penny taught him and an earlier venture in department-store art shows. (Edited from an interview.)

**Mr. Cohen:** I grew up in Cheetham Hill in north Manchester, an area that was very Jewish. My father worked in a raincoat factory, doing piecework from 7 in the morning

until midnight. My mother was one of 14 children. They didn't know the first thing about art.

I have worked since I was a kid of 16. I used to buy closeout wallpaper for a dime a roll and sell it at markets—that's how I got started. At the time, I wasn't collecting anything, but then I went to a cinema in Manchester and they gave me a Victorian penny in change.

Next door, there was a coin shop, and they gave me a half-

crown for the penny—in other words, I got 30 times my money. I then built a very big collection of English coins, until I needed money and had to sell it all.

I like Georg Baselitz's latest work. He had a 10-year gap when his work wasn't that great—he did too many portraits. But the work he does now of his wife is interesting.

Last year, I did the first show at Fortnum & Mason—all British art. I had Bridget Riley, Frank Auerbach, Leon Kossoff, Howard Hodgkin, and Edward Burra—all the artists that I love. I couldn't do that with contemporary artists, because their art dealers would go mental—they wouldn't like their artists being displayed in a department store. But people really loved it. When it came down the customers were complaining, "Why has the artwork gone off the walls?"

John Bellamy was a larger-than-life character—and a real alcoholic. They used to say, if you go out with John on Monday, you come home on Friday.

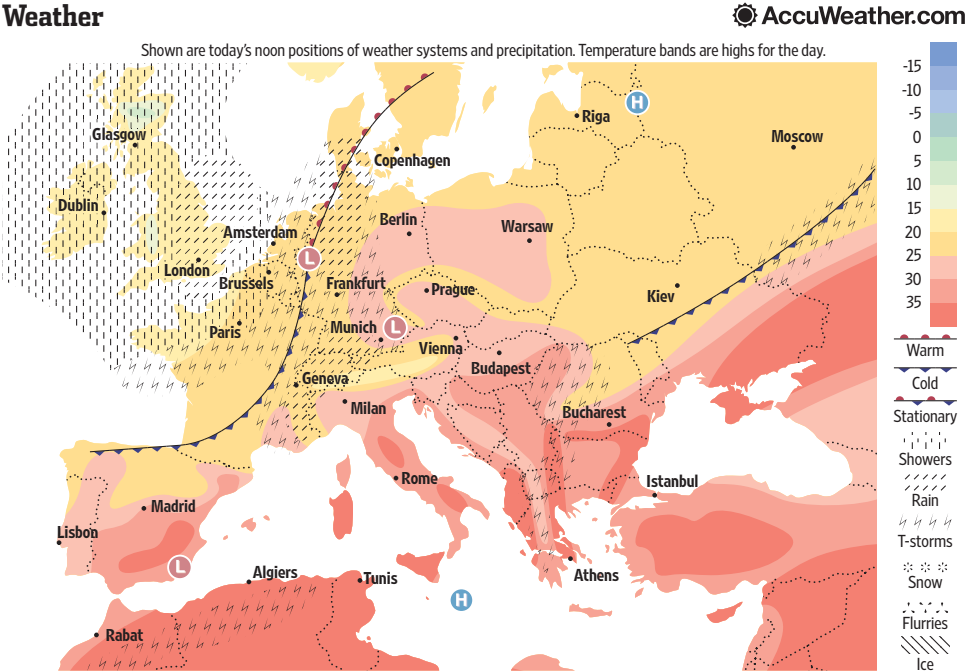
Bellamy came from a Scottish fishing village, and everything he does has to do with the sea. He was very affected by death. He did a series after visiting Auschwitz, and he was very upset by the 2004 tsunami, when thousands of fishermen died.

I've got a house full of art—I can't get anything else on the walls. I've got a Lowry. I've got a Burra, an Auerbach, two Damien Hirsts, a Tracey Emin. What I want to do is expand. I've got quite a lot of land, 12 acres, and I'm trying to get permission to build my own art space, like a museum. Not for the public though, just to hang a lot of the bigger pictures that I own, instead of keeping them in a warehouse.

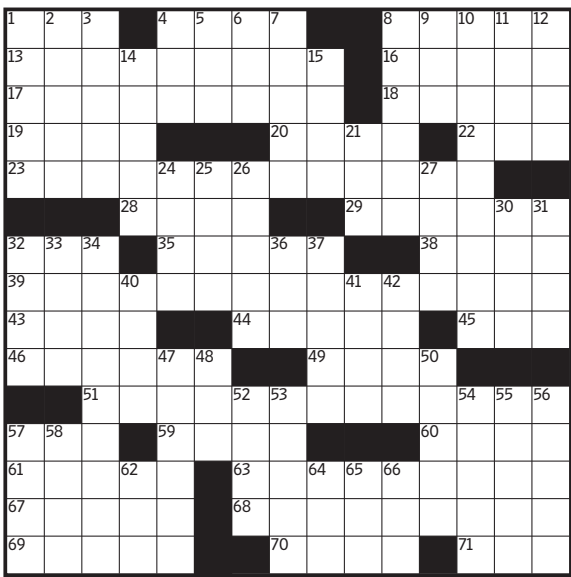
I go and see the auction viewings, but I never sit in the room during the auction. I find it boring, to be honest with you. But I'm on the phone if I want to buy something.

I can't think of where I can show art after Fortnum & Mason—unless I go to Buckingham Palace.

## Weather



## The WSJ Daily Crossword | Edited by Mike Shenk



### FIVE-STEP PROGRAM | By Jamey Smith

- |  |  |   |
|--|--|---|
| <b>Across</b>                                  | 28 Gin-flavoring fruit                     | 51 Hilarious  |
| 1 Slangy greetings                             | 29 Steadfast                               | 57 "Oh, nasty!"   |
| 4 Creamy color                                 | 32 Period of decline                       | 59 Straight, at the bar   |
| 8 Piggery enclosures                           | 35 "¿Cómo ____?" ("How are you?" in Spain) | 60 Aboard a liner, e.g.   |
| 13 Mottled mount                               | 38 Declared                                | 61 News sources   |
| 16 Racy wall art                               | 39 Celebrates with abandon                 | 63 Book containing lots of legends?                                 |
| 17 Bowler or batsman, e.g.                     | 43 Brain-freezing brand                    | 67 Like a Reuben  |
| 18 Opening words or bars                       | 44 Rap sheet listing                       | 68 Software for your phone, and a clue to four other Across answers |
| 19 Antlered animal                             | 45 Baseball Hall of Famer Griffey Jr.      | 69 Mount  |
| 20 Sierra Club founder John                    | 46 Hindu text regarding rituals            | 70 Banana discard   |
| 22 Steaming                                    | 49 Some are easily bruised                 | 71 Punctured tire sound   |
| 23 Show billed as "The Ultimate Job Interview" |  |   |

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

- Down**
- |  |                                    |
|--|------------------------------------|
| 1 Blue blood vessel?                                   | 33 Florida city, familiarly        |
| 2 Barack awarded her the Presidential Medal of Freedom | 34 "I know just how you feel"      |
| 3 Skyline feature                                      | 36 Loan letters                    |
| 4 Antlered animal                                      | 37 Pitch, of a sort                |
| 5 British miler Sebastian                              | 40 "Late Night" host Meyers        |
| 6 Hooley   | 41 Spa class                       |
| 7 1972 Bill Withers hit                                | 42 Plummet                         |
| 8 Pluck  | 47 Freed of lather                 |
| 9 Bronze ingredient                                    | 48 Biography figure                |
| 10 Safe and sound, theoretically                       | 50 More than a trickle             |
| 11 Cologne currency                                    | 52 Hippocratic oath no-no          |
| 12 Location  | 53 Brownstone feature              |
| 14 Substitute for                                      | 54 Cozumel y Mallorca, por ejemplo |
| 15 Make ____ for it (flee)                             | 55 Semimonthly tides               |
| 21 Part of TGIF  | 56 Sharp intakes                   |
| 24 Entreaty  | 57 Hovering flyers                 |
| 25 Ritz  | 58 Mannerly fellow                 |
| 26 Draw upon again                                     | 62 Salon stock                     |
| 27 Javier's house                                      | 64 Prez on pennies                 |
| 30 Nasty infestation                                   | 65 Conk out                        |
| 31 Blissful place                                      | 66 Monopolist's share              |
| 32 Work on a film or a manuscript                      |                                    |

### Previous Puzzle's Solution

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

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# BUSINESS & FINANCE

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Tuesday, August 8, 2017 | B1

Euro vs. Dollar 1.1785 ▲ 0.09%

FTSE100 7531.94 ▲ 0.27%

Gold 1258.20 ▼ 0.01%

WTI crude 49.39 ▼ 0.38%

German Bund yield 0.460%

10-Year Treasury yield 2.258%

## United Tech Bids for Rockwell

Aerospace suppliers haggle over price of a takeover that would surpass \$20 billion

By DANA MATTIOLI  
AND JOANN S. LUBLIN

United Technologies Corp. has made an approach to acquire **Rockwell Collins** Inc., but the aerospace suppliers are still wrangling over the price of a takeover that would exceed \$20 billion, said people familiar with the matter.

United Technologies recently made an initial offer of less than \$140 a share, according to a person familiar with the matter. The two sides are still in discussions and it is unclear whether the talks will

result in an agreement, the people said.

The timing of the discussions is unusual as they come just a few months after Rockwell Collins closed on its \$6.4 billion purchase of **B/E Aerospace**. United Tech executives have said recently they are looking for potential acquisitions, but suggested they would focus on smaller deals.

Rockwell Collins had a \$19.4 billion market value as of Friday's close. The company's share price was up 6.5% at \$126.73 in afternoon trading Monday, after earlier reports of the discussions. Shares of United Technologies were off 2.7% at \$118.25.

A deal would increase United Technologies' role as a significant supplier to **Boeing** Co. and **Airbus** SE as the aero-



A worker assembles a circuit board at a Rockwell facility in Iowa.

space industry boosts production for a new generation of jets. The company already owns one of the world's biggest jet-engine makers, Pratt &

Whitney, and an aerospace division that makes parts such as wheels and landing gears.

Rockwell specializes in cockpit displays and communi-

cations systems for passenger jets and military programs. In April, the Cedar Rapids, Iowa, company closed its acquisition of B/E Aerospace, a maker of plane seats and interiors. The deal added almost \$3 billion in annual sales to a company with \$5.3 billion in revenue.

In June, United Technologies Chief Executive Greg Hayes told analysts the company, which had about \$7 billion in cash, was looking to spend roughly \$1 billion on acquisitions this year.

"As far as bigger M&A, it's something we always look at, but I am reluctant to go out and pay some of the prices that we see today," Mr. Hayes said. *Please see TALKS page B2*

◆ **Heard on the Street: Rockwell deal is too pricey to fly..... B8**

## Renault Joins Iran Deal Binge

French car maker **Renault** SA is set to open a new factory in Iran, in the latest sign of deepening Western business ties with Tehran following the lifting of sanctions.

By *Matthew Dalton in Paris and Asa Fitch in Dubai*

Renault said Monday that the factory would produce 150,000 vehicles a year, in a joint venture with state-owned Iranian conglomerate Industrial Development & Renovation Organization, or IDRO, and Parto Negin Naseh, which imports Renault vehicles to Iran.

The deal, which the head of the IDRO said was valued at about €660 million (\$777 million) in its first phase, according to Iran's state news agency, comes on top of Renault's existing joint venture in Iran. Renault declined to comment on the deal's value.

The agreement is the latest in a wave of deals by Western corporations following the 2015 nuclear accord, with European companies so far appearing more active than their U.S. counterparts.

European energy and infrastructure giants, including Germany's **Siemens** AG and France's **Total** SA, have reached major deals in Iran since the lifting of sanctions, defying a push by the Trump administration to penalize Iran over its ballistic-missile program.

Against a backdrop of renewed sanctions pressure under President Donald Trump and Congress, American investors have been skittish in their approach to the Iranian market.

The Trump administration imposed its latest round of sanctions last month, and Congress passed additional sanctions targeting Iran, Russia and North Korea. Mr. Trump signed that bill on Wednesday.

Under the deal announced Monday, Renault will be the majority shareholder in the venture after an initial period of joint control. It announced in September plans to form the new venture, but only fully disclosed the partnership structure Monday.

Cars will start entering the country late in the next Iranian year, which ends in early 2019, IDRO chief Mansour Moazami said. The Iranian calendar runs differently to the Western one.

In addition to the vehicle plant, Renault said an engine plant with a capacity of 150,000 units a year is also planned. The facilities will be in Saveh, 70 miles south of Tehran. *Please see IRAN page B2*

### HEARD ON THE STREET

By Spencer Jakab

## Summer Stock Pick: Suncor Energy

Share price: \$32.92

Buy: Huge cash generator

Canada's oil sands are dirty, costly and the opposite of fast-money shale drilling, but the companies that mine them generate gushers of cash and are some of the biggest bargains in the stock market right now.

Canada's **Suncor Energy** is among the world's highest-cost producers of oil. By all rights it should have scaled back its ambitions during the last few difficult years. Instead, it did the opposite, buying out partners on the cheap and plowing ahead with projects that could pay off for decades.

This came at a time when the shale producers, which sport flashy growth rates but devour cash, attracted plenty of investment. Now Suncor's shares look undervalued at current oil price assumptions. If prices rise then Suncor is especially alluring.

Suncor produces conventional crude and it has large refining and fuel-marketing operations, but its main business is mining oil sands in remote parts of Canada. Unlike shale, oil sands require huge upfront investments. At current prices it would be foolhardy to start a new oil sands operation.

But the rewards rack up quickly the more optimistic one is about crude in the

*Please see HEARD page B2*



The Electronic Arts mobile videogame 'Star Wars: Galaxy of Heroes' sends notifications to get players to open the app.

## Games' Valuable Tool: Access to You

By SARAH E. NEEDLEMAN

The mobile videogame "Star Wars: Galaxy of Heroes" frequently sends smartphone notifications to players, in some cases multiple times daily, persuading them to open the app to outfit Han Solo, Rey and other famous characters for battle.

That tactic, akin to a virtual tap on the shoulder, is working. Players spent an average 162 minutes a day in the mobile videogame in the first six months of year, according to its publisher **Electronic Arts** Inc. Typically, people spend about 45 minutes daily playing mobile games, the research firm EEDAR estimates.

While most mobile games are free to play, developers have ways of enticing people to spend, often to help them progress quickly through levels. Smartphone home-screen alerts, bonus rewards for frequent logins and reminders between players to take their turns are driving up engagement. The more engaged play-

ers become, the more likely they will open their wallets, said Mike Hickey, a technology analyst at Benchmark Co.

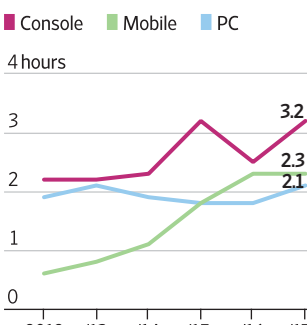
Overall, mobile games are expected to make up 42% of the \$108.9 billion in videogame revenue projected for this year, up 7.8% from 2016 and 54% from 2012, about the time when free-to-download games became popular, according to Newzoo BV.

Christopher Ponicki's smartphone buzzes with Star Wars notifications several times a day, he said. Initially, the messages were helpful reminders to log in and collect free virtual goods, the 23-year-old law student from Chicago said. Now, he routinely plays about 90 minutes a day and estimates he has spent some \$200 since taking up the game soon after its November 2015 launch.

Fewer than 2% of people who play mobile games spend money inside them; those who do on average spend \$21 a month, according to a June analysis from mobile-analytics company **Apps-**

### Playtime

Average weekly hours spent gaming



Source: Nielsen  
THE WALL STREET JOURNAL.

**Flyer** Ltd. That is up from an average of about \$18 a year ago.

Spenders make their first purchase inside a mobile game on average within 14 hours of downloading it, according to a 2016 report from **Swrve** Inc., a mobile marketing firm. About 56% go on to make a repeat purchase.

Even though notifications can be disabled, they remain

among the most "powerful and invasive retention mechanisms," especially since they can be timed to typically idle moments of the day, such as a lunch break, said Jonathan Kay, operating chief of app-analytics firm **Apptopia** Inc.

In addition to notifications, EA's Star Wars game recently deployed a new tactic: "flash" events, or challenges and rewards available for a limited amount of time.

EA's mobile games had second-quarter net sales of \$150 million, up 6% from a year earlier. Growth came primarily from the Star Wars game, as well as sports games, EA said. It credited robust software updates and special in-game events for the increase.

**Playdemic** Ltd., a U.K. studio owned by **Warner Bros. Interactive Entertainment**, also regularly holds contests in its games to hook players. In July, the studio's game "Golf Clash" took in \$1.1 million in a single day, thanks to a limited-

*Please see GAME page B4*

## Brands Join Local Retailers' Fight Against Amazon

By RUTH SIMON

As **Amazon.com** Inc. tightens its grip on retail sales, a growing number of brands are pushing back by championing local retailers.

Some manufacturers are enforcing minimum advertised prices to make it harder for online sellers to undercut local merchants, while others give local stores first dibs on new products or funnel customers from their own websites to local outlets.

"The pendulum has swung," said Rich Tauer, president of Quality Bicycle Products, a Bloomington, Minn., bicycle wholesaler that won't sell to Amazon. The company's sales representatives push brands that support local retailers by restricting advertised prices and enforcing restrictions on where products are being sold.

Nearly 90% of U.S. consumers selected Amazon as the online retail site they use most, according to RBC Capital Markets, which estimates

that the Seattle giant controls roughly 20% of U.S. online retail sales.

Amazon says more than half of the items sold on its

site come from small businesses and entrepreneurs. "Amazon helps small businesses increase sales and reach new customers by pro-

viding access to more than 300 million customers worldwide," a spokesman said.

While many brands sell directly to Amazon or through third parties, some worry about tying their fortunes too closely to one customer and fear that online price wars will damage their image.

Here are some of the strategies that brands are using to help local merchants strengthen their hand:

### Luxottica

**Luxottica Group** SpA last year launched a minimum advertised pricing program that restricts the price at which its Ray-Ban and Oakley sunglasses can be advertised. Like other MAP programs, Luxottica's policy doesn't set the actual sales price.

*Please see LOCAL page B2*



UPPAbaby's Sabrina Smith during a stroller-tuneup event at Tadpole, a Boston children's store.

### INSIDE



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MARKETS, B8



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IRAN

Continued from the prior page

Tehran.

Renault has 60% of the shares of the venture, with the remaining 20% with IDRO and 20% with Parto Negin Naseh, according to the Islamic Republic News Agency. The deal will create 3,000 jobs, it added, and Renault will provide distribution, sales and after-sales services.

Renault already had capacity to build 200,000 vehicles a year in Iran before the new production deal, but its expansion had been slowed by sanctions before the nuclear accord.

In January 2016, Western powers and the United Nations lifted penalties intended to block Iran from developing a nuclear weapon, after confirming the country was sticking

to the initial terms of the 2015 accord.

Since the deal, Western firms have moved in. Last month, Total said it would sign a deal to complete a \$1 billion investment in an Iranian gas field as part of a partnership with **China National Petroleum Corp.** and an Iranian company.

Shortly after sanctions were lifted, French auto maker **Peugeot** launched a €400 million joint venture with **Iran Khodro**, Iran's biggest car maker, which aimed to make 200,000 cars a year. **Citroen** also signed a more-than €300 million deal with Iran's SAIPA in October.

Renault has seen sharp growth in Iran, doubling its automobile production in the country to 68,365 in the first half of 2017 compared with a year earlier. That growth helped Renault boost its share of the Iranian market to 9.7%.



Renault's Thierry Bollore, left, Mansour Moazami of IDRO, and Kourosh Morshed Solouki of the Iranian Automobile Importers Association announce the deal for an auto plant.

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EUROPE

BUSINESS & FINANCE

New Nissan Leaf Sprouts Online

Twitter user posts photos of redesigned electric vehicle as it leaves assembly line

By SEAN MCLAIN

TOKYO—A month before the introduction of **Nissan Motor** Co.'s new electric-powered Leaf model, leaked photos from inside the factory where the car is being built have given a good glimpse of what it looks like despite Nissan's best efforts to keep it under wraps.

Nissan is betting heavily on the new Leaf to reassert its electric-vehicle leadership, which has been much touted by Chairman Carlos Ghosn.

That title is being challenged, especially by **Tesla** Inc.'s sleek new Model 3. About half a million people have paid \$1,000 to reserve a Model 3, around twice the number of Leafs sold cumulatively since its launch in 2010.

A Japanese-language Twitter user calling himself Blue Miata posted two slightly blurry photos showing the front and the rear of the new Leaf model as it came off the assembly line.

"I work at a Nissan-related workplace. I discovered the new Leaf on the inspection line at the Oppama plant," the user wrote.

A person familiar with the matter confirmed that the images showed the new Leaf.

The car seen in the photo is reminiscent of the new Nissan



An existing Leaf at a Tokyo showroom in February. The car's latest model is expected next month.

Micra, a gasoline-powered model that went on sale in Europe earlier this year.

That could bode poorly for the new Leaf's prospects in markets such as the U.S., where demand for the similarly styled Chevrolet Bolt have been tepid. Nissan has been planning a splashy launch of the new Leaf next month, dribbling out information including a silhouette of the car.

Nissan has said that the vehicle will be equipped with the ProPilot autonomous-driving suite and have a range of roughly 325 kilometers to 485 kilometers on a single charge.

"The world premiere for the

new Nissan Leaf with ProPilot will be on Sept. 6, 2017. We will provide more details then," said a Nissan spokesman.

Some analysts thought the new Leaf would resemble Nissan's IDS concept car, which it has shown at motor shows in recent years.

Instead, the photos suggest the new Leaf takes its style cues from Nissan's mass-market vehicles, such as the Micra and Note.

Nissan hopes to boost volume of the Leaf in response to Tesla's Model 3.

Responding to the leaked photos, one Japanese-language Twitter user posted a picture of

LOCAL

Continued from the prior page

"It was a race to the bottom that was not sustainable long-term," said Fabrizio Uguzzoni, president of Luxottica's North American wholesale division.

The average discount on Ray-Ban sunglasses on Amazon has shrunk to about 3% as of this month from 37% in April 2016, according to Luxottica. The sunglass maker has shut down several thousand accounts that didn't agree with or refused to follow the new policy, Mr. Uguzzoni said.

Online sales to third parties in North America fell 60% after the MAP program took effect, but a company survey conducted in October found that the opticians and optometrists who account for most sales welcomed the new plan. "Our independents tend to discount as little as they can," Mr. Uguzzoni said.

UPPAbaby

Free stroller tuneups are one way UPPAbaby, a Hingham, Mass.-based maker of baby strollers and car seats, draws customers back to local retailers carrying its products after they buy one of its strollers, which cost up to \$900.

Tadpole, a children's store in Boston, has hosted two tuneup clinics this year, with over 90 UPPAbaby customers receiving an appointment.

The events are not only a selling point—they also bring in customers who bought their strollers elsewhere, including some "who may not even have known about us," said Tadpole co-owner David Hauck.

Brooks

Running-gear maker Brooks is testing a new app that uses an iPad connected to a treadmill to help local retailers determine which Brooks shoe best suits a runner's biomechanics.

Brooks will help key retailers cover the \$960 cost, said Rick Wilhelm, a vice president



A Thule bicycle rack. The company provides a dozen U.S. stores with \$500 tablet computers that serve as a digital catalog.

of sales for Brooks, a unit of Berkshire Hathaway Inc.

The setup "allows stores to be the center of communication," he said.

In April, Brooks launched a website that lets stores order products they don't have in stock—and then drop-ship them directly to customers' homes. The system reduces the likelihood that a retailer will take the time to fit a customer with the perfect shoe, but then lose the sale to an online competitor.

Brooks is one of roughly 120 brands that have also teamed up with Locally, a startup that lets shoppers check a brand's website for an item, find out which stores in their neighborhood have it in stock and reserve for in-store pickup or, in some cases, local delivery.

Thule

Local retailers typically don't have enough shelf space to carry all the bulky cargo containers, bicycle racks and luggage Thule Group makes.

So the Sweden-based company has started providing stores with tablet computers that act as a digital catalog, said Schuyler Horton, a vice president of sales. A dozen U.S. stores are piloting the \$500 tablets, paid for by Thule.

TALKS

Continued from the prior page

said at the Paris Air Show. The Farmington, Conn., company also manufactures Otis elevators and Carrier air conditioners, but more than half of its \$15.28 billion in second-quarter revenue came from its jet-engine and aerospace divisions. United Technologies sold its Sikorsky helicopter business to **Lockheed Martin** Corp. in 2015.

Analysts at William Blair said a takeover of Rockwell Collins would make "tremendous strategic sense" as it would expand United Technol-

ogies' most profitable business with little overlap. But the firm thinks a deal is unlikely because United Technologies management has said it is interested in smaller deals.

Several analysts said they wouldn't expect significant antitrust issues with a merger, but airplane makers might voice concerns about any consolidation among their suppliers. Both companies are also major Pentagon suppliers.

Credit Suisse analyst Julian Mitchell said the timing is curious for a deal because United Technologies waited for Rockwell Collins's acquisition of B/E Aerospace in April to close and the subsequent 20% increase in its stock price.

Last month, Mr. Hayes warned that the company might need to raise prices for its jet engines and aerospace parts, if airplane makers such

*A deal would increase United Tech's role as a major supplier to Boeing and Airbus.*

as Boeing and Airbus try to steal some of its lucrative maintenance business. Jet-engine makers typically sell the engines with little or no profit but then make up the money

the edgier IDS car and asked, "Why don't they put this on the market?"

Another commented about the new Leaf model, "You mean this isn't a Note?"

Leaked images of coming car models are nothing new, but it is less common for them to come from the factory floor.

A Norwegian news website posted a series of pictures last month that the website said came from an apparent filming of a commercial.

Car makers try to keep the appearance of a new vehicle under wraps, in part to avoid the sort of negative chatter surrounding the new Leaf.

HEARD

Continued from the prior page

long run. At \$37 a barrel for U.S. benchmark crude, Suncor's funds from operations cover maintenance capital expenditures and its dividend—its shares currently yield 3%. At a price of \$50 to \$55, Suncor can double its return of cash to shareholders with an equivalent outlay for stock buybacks.

At a price of \$60, Suncor would have generated excess funds from operations equal to nearly 15% of its market value in the past 12 months. Cash flow will almost certainly rise in the near future if oil prices remain stable. The biggest reason is the nearly completed Fort Hills mining project which has a capacity of 194,000 barrels a day. It should reach full capacity in a year and produce oil for an extraordinary 50 years.

Fort Hills is an example of Suncor's contrarian bent. Near the depths of the oil-price slump, Suncor raised its stake in the project to 50.8%. Suncor also boosted its stake from 12% to 53.7% in an older, larger sands project by buying a rival and snagging a 5% stake from **Murphy Oil**.

Murphy said it would redeploy the capital into shale and investors applauded. Yet conventional wisdom is a strange thing. For example, if one adds up the projected free cash flow for 2018 and 2019 of Murphy plus six more U.S. shale drillers, **Pioneer Natural Resources**, **EOG Resources**, **Cabot Oil & Gas**, **Range Resources**, **Southwestern Energy** and **Devon Energy**, it doesn't quite add up to half of what analysts project that Suncor will generate. Even so, the collective enterprise value of those seven companies is two-and-a-half times as high.

Oil sands may have gone from a boom industry to a backwater, but they aren't going away. There is plenty of opportunity north of the border.

by selling decades of servicing and parts. Boeing recently created a new unit to develop and build aircraft avionics systems, focusing on equipment for future products but moving deeper into the territory of Rockwell Collins and **Honeywell International Inc.**

Meanwhile, Honeywell is re-evaluating whether to break off its own aerospace division by autumn, after activist Third Point LLC made a public push for a spinoff. The division, Honeywell's largest, also supplies parts for Airbus and Boeing jets along with engines for aircraft made by **Bombardier Inc.** and **Textron Inc.**

—Thomas Gryta contributed to this article.



BUSINESS NEWS

## Fresenius Unit Buys Dialysis Company

By BEN DUMMETT

**Fresenius** SE's minority-owned kidney dialysis business agreed Monday to acquire **NxStage Medical** Inc. for about \$2 billion as part of the German health-care provider's broader push into the U.S.

The NxStage deal comes less than five months after Fresenius SE, which owns 31% of **Fresenius Medical Care** AG, agreed to acquire U.S. generic-drug manufacturer **Akorn** Inc. for \$4.3 billion. That deal aimed to bolster and diversify its Fresenius Kabi unit's focus on sterile injectable medicines to treat critically and chronically ill patients.

Fresenius Medical Care, which describes itself as the world largest provider of dialysis products and services for the treatment of kidney diseases, is acquiring NxStage as hospitals face pressure to lower costs without undermining patient care. With the acquisition of NxStage, Fresenius Medical gains access to the Boston-based company's portable dialysis machines, for use in a patient's home as well as in hospitals and dialysis centers, that both health-care professionals and trained users can operate.

*The \$2 billion deal is part of the German health-care firm's push into the U.S.*

Fresenius Medical says it treats 315,305 patients globally through its networks of 3,690 dialysis clinics. The company, based in Bad Homburg, Germany, is also a provider of dialysis machines. For Fresenius Medical, development of home therapies is a key research and development focus. It is betting that rising health-care costs and limited availability of trained personnel will drive demand for NxStage's machines.

"Home dialysis is a critical component of renal care, and this acquisition would help us accelerate growth and innovation" in this area, said Bill Valle, head of Fresenius Medical's North American operations. Fresenius Medical is acquiring NxStage for \$30 a share, about a 30% premium to the company's closing price in New York on Friday.

For NxStage, the deals give it access to the resources of a larger company. In 2016, Fresenius Medical generated revenue of \$17.9 billion, compared with \$366 million for NxStage.

The NxStage deal underscores Fresenius SE's overall strategy of targeting the U.S. as a source of revenue growth and cost savings through acquisitions that complement its operations. NxStage, like Fresenius Medical, has its U.S. headquarters in Massachusetts.

—William Wilkes contributed to this article.

# Netflix Buys Comic-Book Publisher

By CARA LOMBARDO

**Netflix** Inc. made the first acquisition in its 20-year history, buying comic-book producer **Millarworld** amid plans to develop original content based on the publisher's characters and titles such as "Kick-Ass," "Old Man Logan" and "Kingsman."

The streaming-video company on Monday didn't say how much it paid for Millarworld, nor whether it was competing against other bidders.

Millarworld was created by Mark Millar almost 15 years ago. While working for **Marvel Entertainment**, now owned by the Walt Disney Co., Mr. Millar developed comic books with stories that are now blockbuster movies, including the 2012 installment of "The Avengers" and the film "Logan" released earlier this year.

The studio that produced "Logan" is owned by **21st Century Fox** Inc. 21st Century Fox and Wall Street Journal parent News Corp share common ownership.

Netflix said the acquisition is "a natural progression in the company's effort to work directly with prolific and skilled creators and to acquire intellectual property and ownership of stories featuring compelling characters and timeless, interwoven fictional worlds."

Three Millarworld titles—"Wanted," "Kick-Ass" and "Kingsman"—have already been adapted into movies that together have grossed nearly \$1 billion in ticket sales, according to Netflix.

Mr. Millar, who runs Millarworld with his wife, Lucy, said he is "so in love" with what Netflix is doing and is excited with the company's



'Kingsman,' a title from Millarworld, was adapted into a movie. Netflix is making a push to develop more of its own content.

plans.

"This is only the third time in history a comic-book company purchase on this scale has ever happened," Mr. Millar wrote in a blog post on his company's website Monday morning, citing Warner Bros's 1968 purchase of DC Comics and Disney's 2009 purchase of Marvel. "The moment Lucy and I walked into Netflix's headquarters in California last Christmas we knew this is where we wanted to be."

Mr. Millar didn't immediately respond to a request for further comment.

Netflix has beaten its subscriber-growth estimates in recent months, indicating its bets on original programming and international expansion are working. The company added 5.2 million users in its latest quarter, ending the period with almost 104 million subscribers.

Netflix offers a mix of original programming and content

purchased from other studios and networks. By developing more of its own content, Netflix can decrease its reliance on the outcome of contract negotiations and better control costs.

Analyst Rob Sanderson of MKM Partners said the Millarworld purchase is primarily an intellectual property and talent acquisition. "This is part of a larger strategy of Netflix to bring more resources in-house," he said.

"The action/comicbook hero genre is an important category of entertainment."

Chief Executive Reed Hastings has said the company plans to continue investing in high-quality original content, which he notes requires large investments upfront but yields sustained payouts over many years.

Netflix shares, up 45% this year, rose 0.8% to \$181.71 in early afternoon trading Monday.

## Tesla Intends to Issue \$1.5 Billion in Debt

By JUSTINA VASQUEZ AND CARA LOMBARDO

**Tesla** Inc. said Monday that it would sell \$1.5 billion in senior notes, opting to raise cash through the debt market rather than by offering equity, as the electric-vehicle maker ramps up production on the company's first automobile for mainstream customers, the Model 3.

Chief Executive Elon Musk told analysts last week that Tesla faces "manufacturing hell," and that the company was considering tapping the debt market in its efforts to compete as a mass-market manufacturer.

With this latest offering, Tesla would have more than \$10 billion of debt outstanding. Tesla reported it had \$9.67 billion of debt, including long-term notes and capital leases, at the end of the first quarter, according to S&P Global Market Intelligence.

The company finished its latest quarter with \$3 billion in cash, \$2 billion of which it plans to spend in the second half of the year.

"People need to get used to



CEO Elon Musk in Fremont, Calif., last month. Mr. Musk has said Tesla faces 'manufacturing hell.'

Tesla being heavily reliant on further capital raises to achieve its ambitious growth plans," David Whiston, an analyst for Morningstar Research, said last week.

The company said Monday

that it hasn't determined the interest rate, redemption prices and other terms in the debt offering, which will be due in 2025.

Mr. Musk has said Tesla faces challenges in learning to

manufacture the Model 3 at much higher volumes than previous vehicles in its lineup. The 14-year-old auto maker is aiming to boost production to 10,000 Model 3 vehicles a week by the end of next year,

after averaging fewer than 2,000 a week for other models last year.

The \$35,000 Model 3 is part of Mr. Musk's bet to transform Tesla from a luxury-car maker into a sustainable energy company that sells electric vehicles to the masses, offers solar power to generate energy, and produces large batteries to store that power at home and offices. The sedan is designed to remake the company as a more mainstream auto maker, ushering in an age of more affordable and popular electric cars.

There is a risk that a too-successful Model 3 launch could cannibalize sales of older Tesla models, such as the Model S sedan and the Model X sport-utility vehicle.

Those concerns were stoked when the auto maker recently reported second-quarter deliveries for those models that came up short of analysts' expectations.

—Tim Higgins contributed to this article.

◆ Heard on the Street: Tesla isn't using its best asset.... B8

## Alibaba, Marriott Forge Deal to Serve Chinese Travelers

By LIZA LIN AND CHRIS KIRKHAM

**Alibaba Group Holding** Ltd. said it would team up with U.S. hotel company **Marriott International** Inc. to expand its online-travel footprint as more Chinese venture abroad.

Chinese consumers will be able to use Alibaba's travel-service website and app to book rooms in the more than 6,200 hotel properties worldwide that Marriott operates under such names as Marriott, Courtyard, Ritz-Carlton and Sheraton, Alibaba said Monday. They also will be able to use the same Alipay smartphone payment platform they use at home when they stay in Marriott properties abroad.

Chinese e-commerce leader Alibaba, based in Hangzhou, is expanding beyond traditional retail categories, such as clothing, into entertainment and travel bookings as the Chinese appetite for international travel rises in tandem with income.

Marriott executives said the

joint venture, which involves undisclosed investments from both companies, is aimed at getting more Chinese consumers into Marriott's loyalty programs and hotel properties across the world.

Stephanie Linnartz, Marriott's global chief commercial officer, said in an interview that Alibaba's understanding of Chinese consumer tastes will give the hotel company a market-share advantage.

"They have significant customer data and insights on the Chinese consumer," she said. "We're getting deep and rich into the psyche of the Chinese consumers through this partnership."

Marriott, based in Bethesda, Md., already has a major presence in China, with more than 600 hotels that are open or in the pipeline. The company's acquisition of Starwood Hotels Resorts Worldwide Inc., which closed last year, helped to boost its footprint.

The partnership with Alibaba also will help Marriott drive more direct bookings to

its hotels. Many of the world's largest hotel chains have been trying to claw back business from third-party travel sites run by companies such as **Expedia** Inc., **Priceline Group** Inc. and China's largest travel website, **Ctrip.com International** Ltd.

The sites bring in new cus-

tomers but also add costs because they take commissions of up to 30% for each booking.

Alibaba's latest tie-up throws a challenge to Ctrip,

which in November acquired U.K. travel search engine **SkyScanner** Ltd. During the past year, Ctrip has also invested in three U.S. travel operators and an Indian tourism website, seeking to position itself as the first choice online for Chinese traveling abroad.

Marriott's Ms. Linnartz said bookings made through Fliggy, Alibaba's travel website, will count as direct bookings to Marriott properties. She said cost savings are a plus, but she added that the main goal is to connect better with Chinese consumers through personalized services at Marriott's hotels, such as ambassadors who speak Mandarin or curated sightseeing trips organized through the loyalty programs.

"We can bring things at the property level that have not been done before," she said.

China's online travel-sales market is expected to be valued at 584 billion yuan (\$87 billion) this year, up more than 20% from 2016, according to industry researcher Euromonitor International.



The lobby of a Marriott hotel in Los Angeles. The Chinese appetite for global travel is increasing.



# 12-Year Sentence Sought

South Korean court to rule on Aug. 25 after a lengthy corruption trial involving Samsung heir

By EUN-YOUNG JEONG

South Korean prosecutors sought a 12-year sentence for Lee Jae-yong, the de facto head of the **Samsung** conglomerate, after a monthslong trial over a national corruption scandal that has ensnared many of the country's high-profile figures, including former President Park Geun-hye.

The prosecutors' sentence recommendation on Monday marks the end of Mr. Lee's court hearing.

The court will give its final ruling on Aug. 25. Mr. Lee can be detained without a ruling by law until Aug. 27.

Mr. Lee, the grandson of Samsung's founder and the vice chairman of Samsung Electronics Co., has been on trial since April. Prosecutors accuse Mr. Lee of agreeing to pay some \$37 million to entities linked to a close friend of Ms. Park in exchange for the government's support in consolidating his grip over the Samsung empire. This included support for a merger between two Samsung affiliates that increased his personal stake in Samsung Electronics, the world's largest smartphone maker and the crown jewel of South Korea's largest conglomerate.

Mr. Lee, who has been detained since February as he undergoes trial, faces five charges centering around bribery. Mr. Lee has denied all charges against him.

The prosecutors' recommended sentence goes above the minimum five-year sentence previously estimated by legal experts surveyed by The Wall Street Journal, and would



Samsung's Lee Jae-yong, shown arriving at court Monday, faces five charges centering around bribery.

make Mr. Lee the first Samsung leader to be imprisoned since the company was founded in 1938. By South Korean law, sentences of more than three years cannot be suspended. If convicted, Mr. Lee would have to serve a third of his sentence term before he could win parole.

Ms. Park was removed from office in March by the country's Constitutional Court following her impeachment over accusations that she colluded with her confidante, Choi Soon-sil, to extort money from Samsung and other South Korean conglomerates.

Also on Monday, prosecutors recommended 10-year prison sentences for three other former Samsung officials involved in the same case as Mr. Lee, including the onetime head of the Samsung conglomerate's corporate strategy office, the group's former control tower that was abolished

in February. Prosecutors sought a seven-year sentence for one other former Samsung official.

Mr. Lee isn't the first Samsung head to be embroiled in legal issues. Mr. Lee's father, Samsung chairman Lee Kun-hee, was convicted twice: In 1995 for bribing the then-president, and in 2008 for embezzlement and tax evasion. The elder Mr. Lee said at the time that the payments were customary, not bribes, and pleaded not guilty in the latter. He was given suspended sentences and later pardoned in both cases, and never served prison time.

In recent years, the heads of South Korea's large, family-run conglomerates haven't let a prison sentence get in the way of running their businesses. Chey Tae-won, the second-generation head of SK Group, the country's third-largest con-

glomerate, did so before he was pardoned by the then president in 2015.

Under South Korean law, Mr. Lee isn't required to relinquish his board seat at Samsung Electronics, even if convicted. However, experts say he may face pressure from shareholders to step down if he is found guilty of embezzling company funds, one of the five charges made by prosecutors.

Separately, South Korean police raided a management office for Samsung's family-owned residences in Seoul as part of an investigation into allegations of fund misappropriation and tax evasion related to interior renovations that took place between 2008 and 2015. Samsung declined to comment on the raid. In June, Samsung issued a statement denying similar allegations raised by local media over property owned by its chairman.

# SoftBank's Chief Is Eager to Invest In Uber or Lyft

By MAYUMI NEGISHI

TOKYO—**SoftBank Group** Corp. Chief Executive Masayoshi Son expressed eagerness to invest in **Uber Technologies** Inc. or **Lyft** Inc. to gain access to the U.S. ride-hailing market after similar investments in Asia.

"We are interested in discussing with Uber. We are also interested in discussing with Lyft," the SoftBank chief said Monday at a news conference, adding that he wasn't sure what form an investment would take. "The U.S. is a very big market, the most important market, so we are definitely very much interested."

Mr. Son, founder and head of the Japanese technology and telecommunications group, has stepped up his already frenetic deal-making pace recently as he approaches his 60th birthday later this week.

He said he was close to a deal involving SoftBank-controlled U.S. wireless operator **Sprint** Corp. that would trigger consolidation in the U.S. telecom industry.

SoftBank and Sprint are brokering "multiple possibilities," he said. He declined to comment on whether a combination with T-Mobile US Inc.—which Mr. Son has pursued on and off for years—was on the table.

His war chest is generated from solid revenue from SoftBank's telecom operations in Japan, a lucrative early investment in Chinese e-commerce company Alibaba Group Holding Ltd., and \$93 billion in committed capital in the SoftBank Vision Fund, which was formed with Saudi government investment.

Already, SoftBank is a big investor in the three largest Asian ride-hailing companies: Singapore's GrabTaxi Holdings Pte., India's **Ola** and China's Didi Chuxing Technology Co. It has also invested in semiconductors, robotics and other areas relevant to autonomous driving.

By expanding its reach to Uber or Lyft, SoftBank could help determine the industry's direction in adopting autonomous-driving technology, Mr. Son said. The technology "is definitely coming, and when that comes, this ride-sharing business becomes even more important," he said.

An Uber spokeswoman in Japan declined to comment on Mr. Son's remarks. A representative of Lyft couldn't immediately be reached.

The Wall Street Journal has

reported that SoftBank approached San Francisco-based Uber recently about a multibillion-dollar stake but that the negotiations were preliminary and any deal would likely be on hold until Uber hires a new CEO.

Since the Vision Fund was started in May, SoftBank has announced new investments in companies such as shared office-space provider WeWork Cos., Indian mobile-payments firm Paytm, robotics firm Boston Dynamics, self-driving technology firms Nauto and Brain Corp., and many others.

The biggest deal in dollar terms—if it happens—would likely be the one involving Sprint. After buying a controlling stake in Sprint in 2013, Mr. Son said uniting Sprint and T-Mobile was the only way to take on U.S. wireless giants Verizon Communications Inc. and AT&T Inc. in an industry facing mounting capital expenditures. Opposition from Obama administration regulators led him to shelve the deal, but in April he reiterated that a T-Mobile deal was his first choice.

*Masayoshi Son has stepped up his already frenetic deal-making pace recently.*

SoftBank is considering making a formal offer to acquire Charter Communications Inc., the U.S.'s second-largest cable firm, The Wall Street Journal reported last month. Last week, Charter said it wasn't interested in buying Sprint.

How much control Sprint and SoftBank would wield in any deal depends on how potential partners value Sprint's spectrum, which Mr. Son has touted as essential for fifth-generation, or 5G, networks. Sprint's market capitalization is roughly one-third of Charter's and less than T-Mobile's.

"When the world goes to 5G, Sprint's spectrum will be extremely valuable," Mr. Son said. "The telecom industry has not fully recognized its value so far, but I think it does now."

At Monday's news conference, he reflected on his accomplishments. "Looking back, I have so much to regret. I get so frustrated at my own shortcomings," he said. Mr. Son said he would give himself a score of 28 out of 100. "But this is not the end," he said.

# Ad-Tech Firm in Deal With Taptica

By LARA O'REILLY

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

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

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

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

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

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

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

"It was a challenge to manage two sides of the business with the kind of scale we had, so we decided to focus on the sell-side where we had solid technology," Mr. Zagorski said,

adding that Tremor Video will have access to about \$80 million in capital after the sale, allowing it to continue to invest in its technology.

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

## BUSINESS WATCH

### TYSON FOODS

#### Profit Down Despite Higher Meat Demand

**Tyson Foods** Inc. predicted a continued boom in meat sales, as consumers gobble up more chicken strips and bacon even at higher prices.

U.S. restaurants are laying more bacon on entrees and Americans are expected to consume a record 41.4 kilograms of chicken each this year. On top of increased demand from foreign buyers, Tyson, the top U.S. meat company, says it is sometimes struggling to keep up.

"We're essentially busting at the seams," Tyson Chief Executive Tom Hayes said. Tyson shares were up 5.6% late Monday after the company reported higher-than-expected profit and revenue for the second quarter. Tyson said it expects sales to in-

crease 6% in its fiscal 2018, which begins in October.

For the most recent quarter, Tyson reported a profit of \$447 million, or \$1.21 a share, down 7.6% from \$484 million, or \$1.25, a year earlier. Excluding items such as the purchase of AdvancePierre Foods, earnings rose to \$1.28 a share. Revenue rose 4.8% to \$9.85 billion.

—Jacob Bunge

### WEWORK

#### Company Expansion Gets \$500 Million

**WeWork** Cos. raised \$500 million to expand operations in South Korea and Southeast Asia, the company said Monday.

The investment is an addition to WeWork's announcement in late July about a \$500 million funding round led by Japan's **SoftBank Group** Corp. and Hony

Capital of China to build offices in China beyond Beijing, Shanghai and Hong Kong.

WeWork, a shared-office-space company based in New York, said Monday that it also acquired Singapore co-working company Spacemob in a separate transaction.

WeWork didn't identify investors in the latest fundraising round announced Monday.

The company declined to specify the value of the Spacemob acquisition.

—Dominique Fong

### NETAFIM

#### Mexichem to Acquire Israeli Irrigation Firm

Mexican piping and chemicals company **Mexichem** SAB said Monday that it will acquire Israeli irrigation concern **Netafim** in a cash deal valuing the com-

pany at \$1.9 billion.

Mexichem plans to purchase an 80% stake in the company from private-equity firm **Pernira Holdings** Ltd. for \$1.5 billion. Netafim founder Kibbutz Hatzerim will retain a 20% stake in the company.

Since Pernira bought Netafim in 2011, the company has expanded into China, India and Africa. Netafim, which now has more than 4,300 employees and sales in over 110 countries world-wide, generated \$855 million in revenue last year.

The deal will give Mexichem access to Netafim's irrigation-system technology. It will add two countries to Mexichem's presence—Israel and Australia, while giving Netafim access to Mexichem sales channels, especially in Latin America, Mexichem Chief Executive Antonio Carrillo Rule told analysts during a conference call.

Mexichem already has a small irrigation business, which combined with Netafim will have annual sales of about \$1 billion.

"We are in the irrigation business. We are not as good as Netafim by a long shot, but we understand the business," Mr. Carrillo said.

The deal, which is subject to regulatory approval, is expected to close in the fourth quarter.

Mexichem is financing the transaction with a combination of about \$300 million in cash, \$200 million in short-term debt and a bridge loan that will later be substituted with long-term bonds.

The company has no plans to issue stock to raise capital.

—Cara Lombardo and Anthony Harrup



SoftBank is an investor in the three biggest Asian ride-hailing firms.

# GAME

*Continued from page B1*  
time tournament. "Our players love the mass participation and competition created by these events," said Playdemic Chief Executive Paul Gouge.

"Golf Clash" players are also frequently rewarded with free prizes, such as club upgrades that bestow more power or accuracy—just for returning to the game. People play it on average 48 minutes a day, according to the company.

By contrast, people on average spend more than 30 minutes a day on Snap, parent company **Snap** Inc. said on an earnings call in May.

Developer Pocket Gems Inc. says people spend about 2 hours and 10 minutes daily playing its team-based battle game "War Dragons." Since teams are more likely to win battles when all members show, players often remind each other to participate via the game's messaging system, said Harlan Crystal, the

company's co-founder.

They also use the chat system to coordinate strategy. "It's a very social game," Mr. Crystal said. "You don't want to let your team down."

Players indulge their habits enough that officials in China recently pressured Tencent Holdings Ltd., the world's biggest game developer by revenue, to install a curfew for children in the country playing its popular mobile game "Honor of Kings." That game is expected to arrive in the U.S. as soon as fall.

Harley Zaraza enjoyed the occasional console game at home but now plays mobile almost daily, sneaking in sessions during lulls at her ice-cream parlor job or while at the beach. The 18-year-old blames her phone.

"If I get a notification, it makes me want to open the app and take my turn," said Ms. Zaraza, a college sophomore in Toms River, N.J., whose favorite mobile game is Zynga Inc.'s "Words With Friends." "It's how they get you to play."



Top U.S. meat company Tyson expects sales to increase 6% in fiscal 2018, which begins in October.



FINANCE & MARKETS

# Drones Hasten Insurance Claims

By NICOLE FRIEDMAN

When Melinda Roberts found shingles in her front yard after a storm, her insurer didn't dispatch a claims adjuster to investigate. It sent a drone.

The unmanned aircraft hovered above Ms. Roberts's three-bedroom Birmingham, Ala., home and snapped photos of her roof. About a week later, a check from **Liberty Mutual Insurance** arrived to cover repairs. "It took a lot less time than I was expecting," Ms. Roberts said.

Drones, photo-taking apps and artificial intelligence are accelerating what has long been a clunky, time-consuming experience: the auto or home-insurance claim.

Traditionally, an insurance claim associated with minor home damage or fender-bender auto accidents started with a phone call from a customer and ended days or weeks later with a mailed check. In between, the insurer often would send an inspector to investigate the situation in person.

But about four in 10 car insurers no longer use employees to physically inspect damage in some cases, according to a LexisNexis Risk Solutions survey of insurance executives. Claims that rely on greater automation can be handled in two to three days, compared with 10 to 15 days for a more traditional approach that involves an in-person visit, according to the survey.

One new home insurer, **Lemonade**, drew attention in January, when it said it took just three seconds for its artificial-intelligence claims bot to settle and pay a claim for a stolen jacket.

Insurers typically guard their claims-handling times as industry secrets. But some said



GERALD HERBERT/ASSOCIATED PRESS

**A tornado tore up New Orleans homes earlier this year. Automation lets insurance claims be handled more quickly than with in-person visits, and drones can ease inspection of buildings.**

the time for a customer to get a price estimate and receive a payment is speeding up, and the change could make it more likely that policies are renewed.

A faster process can also save insurers money. About 11 cents of every premium dollar in personal property-and-casualty insurance is spent on investigating and settling claims, according to S&P Global Market Intelligence.

Automation can reduce the size of payouts, too. "The faster you can settle a claim, typically the less you can settle it for, so there is a direct financial incentive," said Matthew Josefowicz, chief executive of insurance-technology consulting firm Novarica. Claims such as water damage can get worse if they aren't addressed quickly, he said.

Speed can have drawbacks. Some auto-repair-shop industry groups have argued that photo-based appraisals can overlook significant damage and actually

slow the claims process.

"It's great to speed up certain parts of the process, [but] to think that one photograph, one piece of code or one algorithm is the Holy Grail, I think is a bit of a misnomer," said Andrew Newman, president of reinsurance broker Willis Re.

Delaware, Pennsylvania and Virginia changed their regulations last year to allow appraisers to base car-repair estimates on photos or videos, but Massachusetts and Rhode Island still have some restrictions on photo appraisals.

Chicago startup Screenshot helps car insurers with photo appraisals, using artificial intelligence to speed up the process. It takes up to three hours for the company to produce a price estimate after a customer submits photos of a damaged car, according to CJ Przybyl, Screenshot's president.

For claims involving more minor damage, the processing time is expected to fall sharply

as automation continues. A car-insurance claim is currently handled by an average of three employees, said Bill Brower, vice president of claims at RELX Group's LexisNexis Risk Solutions—the same number as when he started working in the industry in the 1980s.

Soon, the entire claims process—from notifying insurance companies when damage occurs to estimating repair costs based on photos—could be done with no human input, he said. LexisNexis Risk Solutions helps insurers streamline their claims processes. "We're on the cusp of this major, major change" in claims handling, Mr. Brower said. "Consumers' expectations have changed."

At Lemonade, customers already file claims by chatting with a bot through the Lemonade app, uploading relevant photos and recording videos of themselves describing the loss. The company's algorithms run 18 antifraud tests, said Daniel

## Beijing Tightens Fintech Oversight

BEIJING—China's central bank is increasing its monitoring of the loosely regulated financial-technology sector—a major source of risk, given the enormous sums involved.

The People's Bank of China said in a report that it is considering expanding its risk-assessment system beyond banks to include major online financial businesses. Last month, it reached agreement with 45 nonbank financial firms—including payment systems affiliated with internet giants **Alibaba Group Holding Ltd.** and **Tencent Holdings Ltd.**—on joining a new payment-clearing platform called Wanglian, according to listed-company documents.

This effectively gives the PBOC a clearer view of payments, enhancing regulation, said Tencent, which owns the TenPay payment system. It and Alibaba-linked Ant Financial Services Group said in separate statements that they are cooperating with the central bank.

Last year, financial companies that aren't banks handled online payments worth 99 trillion yuan (\$14.7 trillion), according to a report by Payment & Clearing Association of China, an arm of the central bank.

Innovation has outpaced regulation, and some lending platforms have imploded, costing investors billions of dollars.

"Some internet financial products already have systemic and important impact," the central bank said in the Friday report, which gauges the health of the country's financial sector.

Among the conclusions: Insufficient risk control at some online financial-service providers, including peer-to-peer lending platforms, crowdfunding and private equity, could lead to widespread defaults, with effects rippling through the financial sector.

Bringing these businesses into its risk-assessment framework would help the central bank monitor fluctuations in new financial products, the report said.

The report didn't say when the move would happen. The central bank didn't respond to a request for comment on the timing.

For online payments, an internal PBOC memo said that all the companies should transfer operations to the new Wanglian clearing platform by the end of June 2018, according to a person familiar with the matter.

—Yang Jie and Liyan Qi

# China's Forex Reserves Rise for a 6th Month

BEIJING—China's foreign-exchange reserves rose for a sixth straight month in July, underscoring Beijing's success in keeping money from moving offshore with some help from a weaker U.S. dollar.

Reserves rose \$23.93 billion from the previous month to \$3.081 trillion, the highest level in nine months, according to figures from the People's Bank of China released Monday. July's increase was bigger than economists' median forecast of a \$15 billion gain and was the sixth month in a row of increases, the longest stretch in three years.

Some economists said the string of increases is changing expectations in the market about where the PBOC is taking the yuan. "Looks like now the reserves will stay steady and show modest gains for the



ANTHONY KWAN/BLOOMBERG NEWS

**A stronger yuan against the dollar helped curb capital outflows.**

rest of the year," said Liu Xue-zhi, an economist at Bank of Communications.

The U.S. dollar index, which tracks the dollar against a basket of major currencies, de-

clined 3% last month, while the dollar dropped 0.75% against the yuan on China's onshore market in July.

Foreign-exchange rate changes boosted China's re-

serves by some \$24 billion to \$30.6 billion in July, according to estimates by economists. Factoring in China's usual trade surplus, economists estimate that some \$18 billion to \$27 billion of money left the country last month.

Since persisting weakness in the yuan caused a gush of outflows and a plummet in reserves starting two years ago, the central bank has been battling to turn the tide. It has tightened scrutiny of companies and individuals moving money out of the country and introduced a new "countercyclical" factor to confound market expectations in determining the yuan's exchange rate.

With the steady yuan exchange rate, purchases of foreign exchange by households and companies have become more rational, the State Ad-

ministration of Foreign Exchange said in a statement Monday accompanying the reserves data.

China's Finance Ministry last week unveiled new measures to better scrutinize overseas investments made by state-owned companies. In addition, starting in September, banks are required to report all overseas cash withdrawals and card transactions exceeding 1,000 yuan (\$149) to the foreign-exchange regulator on a daily basis.

Renewed tensions between Beijing and Washington over trade imbalances mean uncertainties remain for the yuan exchange rate, said Mr. Liu, the economist. In the near term, controls on capital outflows will likely remain, Citigroup economists said in a note.

—Liyan Qi

## FINANCE WATCH

LIBYA

### Biggest Oil Field Is Briefly Shut Down

Libya's largest oil field was shut late Sunday following an armed protest, although pumping restarted Monday, a Libyan official said, underscoring the persistent instability of the country's oil production.

Libya's average production has more than tripled in a year to one million barrels a day, an increase that could offset the impact of output cuts from the Organization of the Petroleum Exporting Countries.

A Libyan oil official said Sharara field, Libya's largest oil field with production of 270,000 barrels a day, had been shut late Sunday after the control room overseeing the field in the Zawiya oil terminal was targeted by an armed protest. He said the gunmen were seeking the release of Libyan pilgrims held in Saudi Arabia. Pumping resumed on Monday, the official said. Another Libyan official said output was "normal."

—Benoit Faucon

UNITED ARAB EMIRATES

### Nation Will Divide A Key Oil Concession

The United Arab Emirates' state energy company said it would split one of its most important offshore oil concessions and is in advanced talks with more than a dozen potential partners to improve returns.

The current concession, dating back to 1953 and producing about 700,000 barrels a day, expires in March. Its current shareholders are BP PLC, Total SA, and Japan Oil Development Co.

Abu Dhabi National Oil Co., or Adnoc, will split the ADMA-OPCO concession into two, or more, concessions with new terms, it said Monday.

Potential partners for development of the concession are a mix of existing concession holders and new participants. The government will continue to hold a 60% stake in the concession areas.

—Summer Said

BANK OF TOKYO-MITSUBISHI

### CFTC Fines Firm Over 'Spoofing'

The Commodity Futures Trading Commission charged **Bank of Tokyo-Mitsubishi UFJ** with "spoofing"—entering multiple buy or sell orders with an intent to cancel the trades before they were completed—in futures contracts on the Chicago Mercantile Exchange and the Chicago Board of Trade.

It said the spoofing, which it said the firm reported to the regulator, was done by an employee using a trading platform from a bank office in Tokyo.

The CFTC fined the firm \$600,000 over the activity. It said it found the trader used the tactic to move the market in a favorable direction.

—Steve Goldstein

By ROBB M. STEWART

MELBOURNE, Australia—**Commonwealth Bank of Australia Ltd.**, the country's largest bank, blamed a coding error for tens of thousands of instances of failing to report large transactions done through its ATMs and allegedly breaching money-laundering and terrorism-financing laws.

The bank made the admission in response to a lawsuit launched Aug. 3 by the country's financial-intelligence agency alleging the bank failed to provide 53,506 reports on transactions over a threshold of 10,000 Australian dollars (US\$7,929) over almost three years, starting in November 2012. The Australian Transaction Reports and Analysis Centre also claimed Commonwealth Bank failed to report suspicious transactions on time, or at all, on transactions totaling more than A\$77 million. It said that even after the bank became aware of suspected money laundering, it didn't monitor customers to manage the risks.

The allegations relate to the use of the bank's "intelligent deposit machines," a type of ATM that allows anonymous deposits of up to A\$20,000 in cash at a time to be automatically credited to accounts. There is no limit on the number of times a customer can use them daily.

The agency, known as Austrac, accused the bank of not carrying out any assessment of risks related to money laundering and terrorism financing before the machines were rolled out in 2012.

In a statement, Commonwealth Bank said the issue began in late 2012 after an unrelated software update to the machines. It said a coding error occurred that meant the machines didn't create the threshold transaction reports needed. It said the error became apparent in 2015, that Austrac was notified within a month of the discovery, that the missing reports were provided and that the coding error was fixed.

Commonwealth Bank said the vast majority of the reported failures alleged by the agency, about 53,000, relate specifically to the coding error. It added that it recognized that other serious allegations were also made by Austrac.

"In an organization as large as Commonwealth Bank, mistakes can be made. We know that because we are a big organization, these mistakes can have significant impact," the bank said.

### The matter centers on ATMs of Commonwealth Bank of Australia.

Austrac described Commonwealth Bank's breaches as serious and systemic noncompliance.

In the suit filed with the federal court in Sydney, Austrac described the actions of several alleged money-laundering syndicates. In one series of instances, it said, about A\$20.6 million was deposited into 30 Commonwealth Bank

machines between late 2014 and August 2015, including into 29 accounts in fake names. Most of the money was transferred offshore, it said in the document.

The agency also alleged Commonwealth Bank accounts were used for "cuckoo smurfing," a form of money laundering involving transfers between associates in different countries in such a way that money doesn't cross borders. It said that in May 2015, two people were arrested and charged with money-laundering offenses, allegedly using deposits made into Commonwealth Bank accounts that police in New South Wales state said involved about A\$1.8 million.

Delayed reporting hindered law enforcement and resulted in lost intelligence and evidence, further money laundering and proceeds from crimes including drug dealing being lost, Austrac alleged.

Advertisement

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FUND NAME	NAV	GF	AT	LB	DATE	CR	NAV	—%RETURN—
								YTD 12-MO 2-YR

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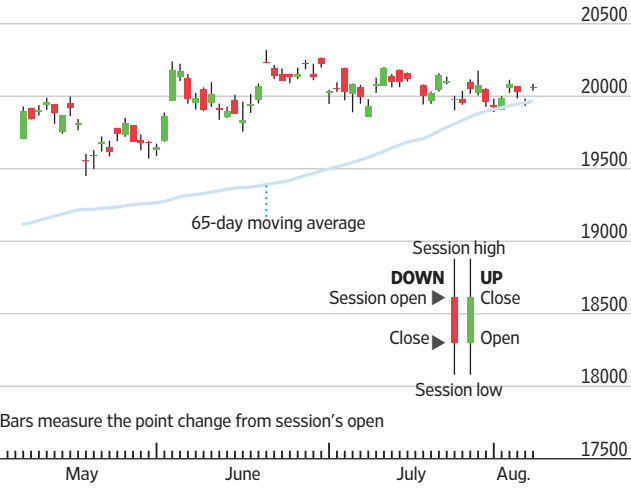
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MARKETS DIGEST

Nikkei 225 Index

**20055.89** ▲103.56, or 0.52%  
High, low, open and close for each trading day of the past three months.



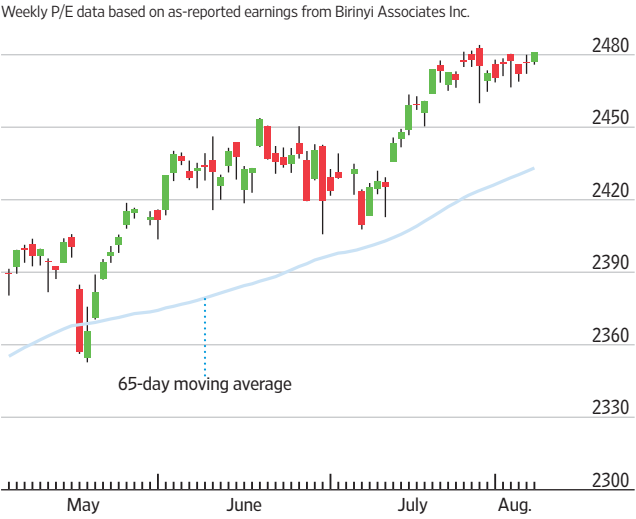
STOXX 600 Index

**382.01** ▼0.52, or 0.14%  
High, low, open and close for each trading day of the past three months.



S&P 500 Index

**2480.91** ▲4.08, or 0.16%  
High, low, open and close for each trading day of the past three months.



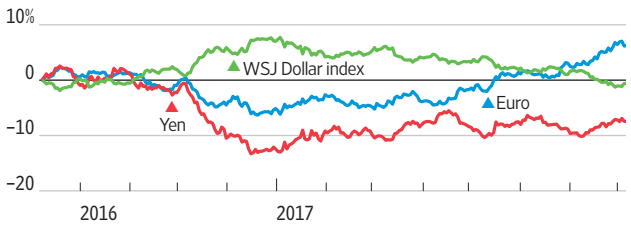
International Stock Indexes

Region/Country		Index	Close	Latest NetChg	% chg	Low	52-Week Range Close	High	YTD % chg
World		<b>The Global Dow</b>	2879.45	9.41	▲0.33	2386.93		2879.63	13.9
		<b>MSCI EAFE</b>	1954.29	6.67	▲0.34	1612.29		1955.61	13.9
		<b>MSCI EM USD</b>	1075.84	8.58	▲0.80	838.96		1075.84	35.5
Americas		<b>DJ Americas</b>	596.76	0.87	▲0.15	503.44		597.92	10.4
		<b>Sao Paulo Bovespa</b>	67945.12	1047.14	▲1.57	56459.11		69487.58	12.8
		<b>S&amp;P/TSX Comp</b>	15257.97	...	Closed	14319.11		15943.09	-0.2
		<b>IPC All-Share</b>	51416.22	87.93	▲0.17	43998.98		51772.37	12.6
		<b>Santiago IPSA</b>	3902.60	22.93	▲0.59	3120.87		3904.83	21.1
U.S.		<b>DJIA</b>	22118.42	25.61	▲0.12	17883.56		22121.15	11.9
		<b>Nasdaq Composite</b>	6383.77	32.21	▲0.51	5034.41		6460.84	18.6
		<b>S&amp;P 500</b>	2480.91	4.08	▲0.16	2083.79		2484.04	10.8
		<b>CBOE Volatility</b>	9.89	-0.14	▲1.40	8.84		23.01	-29.6
EMEA		<b>Stoxx Europe 600</b>	382.01	-0.52	▲0.14	328.80		396.45	5.7
		<b>Stoxx Europe 50</b>	3116.24	-6.08	▲0.19	2720.66		3279.71	3.5
		<b>ATX</b>	3278.72	19.06	▲0.58	2230.16		3279.35	25.2
		<b>Bel-20</b>	3960.03	-9.96	▲0.25	3384.68		4055.96	9.8
		<b>CAC 40</b>	5207.89	4.45	▲0.09	4310.88		5442.10	7.1
		<b>DAX</b>	12257.17	-40.55	▲0.33	10174.92		12951.54	6.8
		<b>ATG</b>	827.86	-1.64	▲0.20	548.72		859.78	28.6
		<b>BUX</b>	36941.60	263.38	▲0.72	27186.95		36959.46	15.4
		<b>Tel Aviv</b>	1398.27	-1.15	▲0.08	1372.23		1490.23	-4.9
		<b>FTSE MIB</b>	22031.17	95.38	▲0.43	15923.11		22035.54	14.5
		<b>AEX</b>	531.41	2.32	▲0.44	436.28		537.84	10.0
		<b>WIG</b>	62684.88	206.58	▲0.33	46321.24		63026.98	21.1
		<b>RTS Index</b>	1032.68	5.95	▲0.58	936.63		1196.99	-10.4
		<b>IBEX 35</b>	10676.50	18.10	▲0.17	8393.50		11184.40	14.2
		<b>SX All Share</b>	569.40	1.05	▲0.19	489.12		598.42	6.5
Asia-Pacific		<b>Swiss Market</b>	9155.13	-21.86	▲0.24	7585.56		9198.45	11.4
		<b>Johannesburg All Share</b>	56163.60	218.77	▲0.39	48935.90		56396.24	10.9
		<b>BIST 100</b>	109781.13	1235.82	▲1.14	71792.96		109947.87	40.5
		<b>FTSE 100</b>	7531.94	20.23	▲0.27	6654.48		7598.99	5.4
Asia-Pacific		<b>S&amp;P/ASX 200</b>	5773.60	53.00	▲0.93	5156.60		5956.50	1.9
		<b>Shanghai Composite</b>	3279.46	17.38	▲0.53	2980.43		3292.64	5.7
		<b>Hang Seng</b>	27690.36	127.68	▲0.46	21574.76		27690.36	25.9
		<b>S&amp;P BSE Sensex</b>	32273.67	-51.74	▲0.16	25765.14		32575.17	21.2
		<b>Nikkei Stock Avg</b>	20055.89	103.56	▲0.52	16251.54		20230.41	4.9
		<b>Straits Times</b>	3320.67	-5.85	▲0.18	2787.27		3354.71	15.3
		<b>Kospi</b>	2398.75	3.30	▲0.14	1958.38		2451.53	18.4
		<b>Weighted</b>	10579.38	72.82	▲0.69	8902.30		10579.38	14.3

Source: SIX Financial Information;WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	US\$/US		YTDchg (%)	Country/currency	US\$/US		YTDchg (%)
	in US\$	per US\$			in US\$	per US\$	
<b>Americas</b>							
Argentina peso-a	0.0564	17.7345	<b>11.8</b>	Hong Kong dollar	0.1278	7.8227	<b>0.9</b>
Brazil real	0.3199	3.1257	<b>-4.0</b>	India rupee	0.0157	63.8451	<b>-6.1</b>
Canada dollar	0.7881	1.2690	<b>-5.6</b>	Indonesia rupiah	0.0000751	13321	<b>-1.5</b>
Chile peso	0.001537	650.50	<b>-2.9</b>	Japan yen	0.009026	110.79	<b>-5.3</b>
Colombia peso	0.0003352	2983.03	<b>-0.6</b>	Kazakhstan tenge	0.003010	332.19	<b>-0.4</b>
Ecuador US dollar-f		1	<b>unch</b>	Macau pataca	0.1233	8.1073	<b>2.4</b>
Mexico peso-a	0.0557	17.9664	<b>1.3</b>	Malaysia ringgit-c	0.2335	4.2835	<b>-4.5</b>
Peru sol	0.3083	3.2433	<b>-3.3</b>	New Zealand dollar	0.7348	1.3609	<b>-5.8</b>
Uruguay peso-e	0.0353	28.350	<b>-3.4</b>	Pakistan rupee	0.0095	105.365	<b>0.9</b>
Venezuela bolivar	0.099034	10.10	<b>1.0</b>	Philippines peso	0.0198	50.449	<b>1.7</b>
<b>Asia-Pacific</b>							
Australia dollar	0.7901	1.2657	<b>-8.8</b>	Singapore dollar	0.7334	1.3636	<b>-5.8</b>
China yuan	0.1488	6.7193	<b>-3.2</b>	South Korea won	0.000863	1128.24	<b>-6.6</b>
				Sri Lanka rupee	0.0065176	153.43	<b>3.4</b>
				Taiwan dollar	0.03308	30.228	<b>-6.9</b>
				Thailand baht	0.03003	33.300	<b>-7.0</b>

Key Rates

	Latest	52 wks ago
<b>Libor</b>		
	One month	<b>1.22889%</b> 0.51190%
	Three month	<b>1.31139</b> 0.80650
	Six month	<b>1.45222</b> 1.18520
	One year	<b>1.73233</b> 1.50810
<b>Euro Libor</b>		
	One month	<b>-0.40143%</b> -0.37000%
	Three month	<b>-0.37271</b> -0.31571
	Six month	<b>-0.29971</b> -0.19586
	One year	<b>-0.19043</b> -0.07000
<b>Euribor</b>		
	One month	<b>-0.37400%</b> -0.36900%
	Three month	<b>-0.32800</b> -0.29800
	Six month	<b>-0.27000</b> -0.18500
	One year	<b>-0.15200</b> -0.04600
<b>Yen Libor</b>		
	One month	<b>-0.03879%</b> -0.06229%
	Three month	<b>-0.01821</b> -0.02329
	Six month	<b>0.01071</b> 0.00771
	One year	<b>0.11271</b> 0.08743
Offer Bid		
<b>Eurodollars</b>		
	One month	<b>1.2900%</b> 1.1900%
	Three month	<b>1.3600</b> 1.2600
	Six month	<b>1.5100</b> 1.4100
	One year	<b>1.7800</b> 1.6800
Latest 52 wks ago		
<b>Prime rates</b>		
	Canada	<b>4.25%</b> 3.50%
	USA	<b>2.95</b> 2.70
	Japan	<b>1.475</b> 1.475
	Hong Kong	<b>5.00</b> 5.00
<b>Policy rates</b>		
	ECB	<b>0.00%</b> 0.00%
	Britain	<b>0.25</b> 0.25
	Switzerland	<b>0.50</b> 0.50
	Australia	<b>1.50</b> 1.50
<b>Fed-funds target</b>		
	U.S. discount	<b>1.75</b> 1.00
	Cad money	<b>1.00-1.25</b> 0.25-0.50
		<b>3.00</b> 2.25
Latest 52 wks ago		
<b>Overnight repurchase rates</b>		
	U.S.	<b>1.06%</b> 0.52%
	Euro zone	<b>n.a.</b> n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

Top Stock Listings

Cur Stock	Sym	Last	% Chg	YTD% Chg
<b>Asia Titans</b>				
HK\$ AIAGroup	1299	60.65	-0.49	38.63
¥ AstellasPharma	4503	1404.00	0.07	-13.52
AUS AustNZBK	ANZ	29.80	1.05	-2.04
AUS BHP	BHP	26.16	1.71	4.39
HK\$ BankofChina	3988	4.00	127	16.28
HK\$ CKHutchison	0001	104.60	-0.48	19.00
HK\$ CNOOC	0883	8.69	-0.11	-10.41
AUS CSL	CSL	127.86	-0.22	27.34
¥ Canon	7751	3853.00	—	16.93
¥ CentralJapanRwy	9022	1787.5	0.06	-7.05
HK\$ ChinaConstructrBk	0939	6.65	0.67	11.39
HK\$ ChinaLifeInsurance	2628	24.95	0.20	23.51
HK\$ ChinaMobile	0941	83.60	0.30	1.70
HK\$ ChinaPetro&Chem	0386	5.90	—	7.27
AUS CmwthBkAust	CBA	81.52	0.99	-1.08
¥ EastJapanRailway	9020	1037.5	-0.53	2.72
¥ Fancu	6954	2240.0	-0.73	13.05
¥ Hitachi	6501	737.30	-0.20	16.66
TW\$ Hon Hai Precisin	2317	121.50	1.67	44.30
¥ HondaMotor	7267	3127.00	0.06	-8.43
KRW HyundaiMtr	005380	14800.0	-1.33	1.37
HK\$ IndsComml	1398	5.65	0.36	21.51
¥ JapanTobacco	9434	3819.00	0.45	-0.65
¥ KDDI	2913	3015.00	0.57	1.88
¥ Mitsubishi	8058	2575.00	0.41	3.41
¥ MitsubishiElectric	6503	1740.50	0.64	6.81
¥ MitsubishiUFJFin	8306	713.40	0.59	-0.94
¥ Mitsui	8031	1668.00	0.15	3.80
¥ Mizuho Fin	8411	195.10	0.72	-7.01
¥ NTTDocMo	9437	2603.50	0.33	-2.23
AUS NatAustBnk	NAB	30.18	0.84	-1.60
¥ NipponTelegr	9432	5450.00	0.28	10.95
¥ NissanMotor	7201	1091.00	0.51	-7.19
¥ Panasonic	6752	1523.00	1.26	28.04
HK\$ PingAnIns&China	2318	59.05	0.34	52.19
¥ RelianceIndsGDR	RIGD	50.30	-0.40	59.43
KRW SamsungElectronics	005930	23790.0	-0.25	32.02
¥ Sevens&Hlids	3382	4483.00	-0.33	0.79
¥ SoftBankGroup	9984	9023.00	2.38	16.20
¥ Sony	6758	4410.00	0.54	34.66
¥ Sumitomo Mitsui	8316	4265.00	0.26	-4.37
HK\$ SunHngKaiPrp	0016	123.00	-0.40	25.51
TW\$ TaiwanSemiMfg	2330	215.00	1.41	19.01

Cur	Stock	Sym	Last	% Chg	YTD% Chg
CHF	TakedaPharm	4502	5975.00	0.02	23.58
	HK\$ TencentHoldings	0700	320.60	2.95	69.00
	TokioMarineHldg	8766	4712.00	0.28	-1.75
	¥ ToyotaMtr	7203	6339.00	1.98	-7.84
AUS	Wesfarmers	WES	41.00	0.71	-2.71
AUS	WestpacBanking	WBC	31.94	1.27	-2.02
AUS	Woolworths	WOW	26.90	-0.37	11.62
Stoxx 50					
CHF	ABB	ABBN	22.62	-0.57	5.31
	ASMLHolding	ASML	131.05	0.92	22.88
AXA	CS	25.51	0.16	6.36	
	AirLiquide	AI	105.40	-0.52	-0.24
Allianz	ALV	185.30	-0.27	18.03	
	ABInBev	AB1	101.65	-0.49	1.09
AstraZeneca	AZN	4530.50	-0.08	2.10	
	BAF	BAS	81.71	-0.49	7.47
BNP Paribas	BNP	68.55	0.63	13.31	
	BT Group	BTA	316.00	-0.24	-13.87
BancoBilvizAR	BBVA	7.87	0.45	23.91	
	BancoSantander	SAN	5.83	0.29	17.60
Barclays	BARN	210.00	-0.17	-6.02	
	Bayer	BYAY	106.50	-0.19	7.74
BP	BP.	46.45	1.11	-9.37	
	BritishAmTob	BATS	5055.00	-0.04	8.08
Daimler	DAI	60.41	0.20	-14.58	
	DeutscheTelekom	DTE	15.95	1.24	-1.53
Diageo	DGE	2522.50	0.78	15.59	
	ENI	ENI	13.57	0.15	-12.28
GlaxoSmithKline	GSK	1526.50	0.49	-2.27	
	Glencore	GLEN	346.55	2.59	24.95
HSCB Holdings	HGBA	766.40	0.34	16.67	
	INGGroup	INGA	15.72	0.13	17.60
Imperial Brands	IMB	3267.50	-1.22	-7.76	
	IntesaSanpaolo	ISP	2.93	0.27	20.69
LVMHMoetHennessey	MC	222.50	0.27	22.66	
	LydsBankingGroup	LLOY	66.50	0.42	63.68
L'Oréal	OR	176.05	-0.28	1.53	
	NationalGrid	NG	956.40	0.15	-7.87
Novartis	NESN	83.15	-0.12	13.83	
	Neste	NOVN	82.05	-0.67	10.70
NovoNordiskBk	NOVO-B	263.00	-1.20	3.26	
	Prudential	PRU	1872.50	0.35	15.05
ReckittBenckiser	RB.	7486.00	-0.28	8.15	
	RioTinto	RIO	3657.00	2.57	15.19



FINANCE & MARKETS

# Vanguard Ending Research Charges

By CHRIS NEWLANDS  
AND MARK COBLEY

**Vanguard Group**, a pioneer of low-cost investing, will stop charging its investors for analyst research ahead of new rules that are set to shake up the European fund-management business, potentially denting profits and forcing managers to reveal more information about the fees they charge.

The investment company, which manages \$4.4 trillion, says it will cover the cost of using external analyst research from its own pocket in a move widely expected by industry insiders to force its rivals to do the same. Vanguard is the first U.S. asset manager to say

it will absorb these costs.

The switch comes ahead of new rules, which fall under Europe's overarching Mifid II directive, that will bring to an end the decadeslong practice among fund managers of lumping together the fees they pay investment banks for research and trading. Investment managers will now have to present clear budgets for the cost of research to their investors.

Under the current system, asset managers receive analyst research free, although the cost of this service is built into trading costs and ultimately borne by investors. The new regime is intended to stamp out conflicts of interest and

reduce costs for investors, which will directly hit fund companies' revenues.

Mifid II comes into force at the beginning of next year. Under the new framework, fund managers must either pay for research themselves, like Vanguard—treating it essentially as a cost of doing business—or set up new administrative structures that keep track of the fees paid.

“The one thing we have to make sure is that we act in the best interests of our investors,” Vanguard said.

Vanguard said the change will only affect its funds in Europe and will cost the company around \$5 million a year. Its plan was first reported by

the Financial Times.

So far only a handful of European asset managers, including Jupiter, M&G and Aberdeen, have said they would absorb the cost of research themselves. Vanguard's announcement is expected compel others to follow suit.

“This will pile on the pressure,” said Amin Rajan, chief executive of Create Research, a consultancy used by investment managers. “This trend will gain traction on both sides of the Atlantic. As regulators demand more transparency around costs, asset managers don't have much choice.”

The move comes as investment companies are being scrutinized by regulators glob-

ally over the fees they charge and the profits they make.

In June, the U.K. financial regulator issued a damning verdict on the sector and proposed a number of far-reaching changes designed to stamp out conflicts of interest and restore trust in the market, exacerbating existing challenges linked to the rise in popularity of passive investing.

The U.K. watchdog's most controversial changes include forcing investment managers to present investors with an all-encompassing fee—a measure the industry fought hard to avoid amid concerns it would result in a lowering of total fees—and to put two independent directors on fund boards.

# MetLife Spinoff's Stock Falls

By GEOFFREY ROGOW  
AND LESLIE SCISM

Shares of **Brighthouse Financial** Inc. were down more than 4% Monday on the insurance company's first day of trading after splitting off from MetLife Inc.

The stand-alone Brighthouse was created out of three parts of MetLife. The first two were MetLife's historic core selling life insurance to U.S. households, as well as one of the biggest sellers of retirement-income annuities. Brighthouse also has a large segment of “runoff” business of contracts MetLife sold and Brighthouse is responsible for, but which aren't being marketed.

More than a half dozen brokerages started coverage of Brighthouse. The analysts gave price targets for the insurance company ranging from around \$65 to \$78. Shares of Brighthouse were changing hands at \$61.72 late Monday, down 4.4%.

A large part of Brighthouse's business has been pinched in recent years by a near decade of ultralow interest rates that were ushered in by the global financial crisis of 2008. These rates have hurt the profitability of many types of life insurance as low interest rates depress the income that insurers earn by investing customers' premiums until claims are paid.

For MetLife, the strategy behind the spinoff is hope for a higher share valuation once the company is freed of slower-growing operations. After the spinoff, roughly 40% of MetLife's business will be international life insurance. MetLife also will continue selling insurance and pension products to employers, and it is keeping an asset-management unit and some other operations.

MetLife shareholders received one share of Brighthouse for 11 MetLife shares. MetLife will initially hold on to about 20% of Brighthouse.

# DAX Slips as German Factory Output Falls

By RIVA GOLD  
AND VICTOR REKLAITIS

German shares led European markets lower, while the Nasdaq Composite rallied in the U.S.

Data released Monday showed a surprising decline in

German factory output in June, although the eurozone's largest economy remained on a path of solid growth. The DAX, Germany's market benchmark, ended the day down 40.55 points, or 0.3%, at 12257.17, its sixth loss in eight trading sessions.

The Stoxx Europe 600 weakened by 0.1% to 382.01. Stock in Paddy Power Betfair fell 4.7%, one of the biggest declines among shares in the index, after the online betting company said its current Chief Executive Breon Corcoran is stepping down after 16 years with the company. Paddy Power named Peter Jackson as his successor.

PostNL's shares fell 5.1% after the parcel-delivery company reportedly said quarterly

profit would be within the bottom half of the range it had expected.

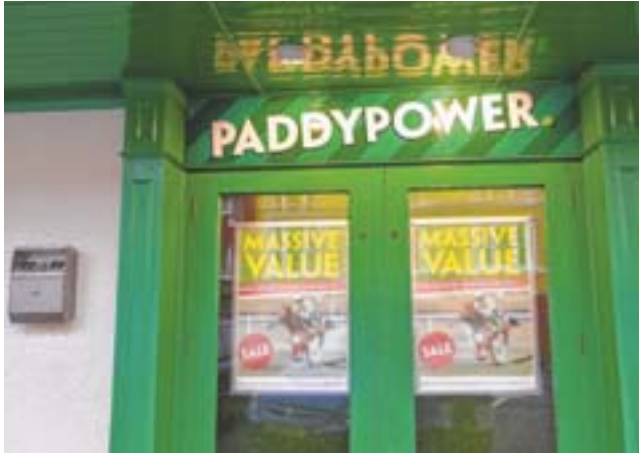
Corporate news drove some of the biggest moves in the U.S. market, where the Dow Jones Industrial Average gained 25.61 points, or 0.1%, to 22118.42, closing at a record and higher for an eighth consecutive trading day. The S&P 500 rose 0.2% to a record, with declines in energy shares chipping away at gains by consumer-staples companies.

The Nasdaq Composite rose 0.5%, as gains in health-care companies helped the index outperform its peers.

Shares of **NxStage Medical** jumped 28%—one of the biggest gains in the Nasdaq Composite—after **Fresenius's** minority-owned kidney-dialysis business said it would acquire NxStage for around \$2 billion. Fresenius fell 1.9% in Europe.

Netflix rose 0.6% after the company said it was buying comic-book maker Millarworld in its first acquisition.

One of the Dow's biggest decliners was United Technologies, which slipped 2.4% as The Wall Street Journal reported it made an approach to



ARTUR WIDAK/INUPHOTO/ZUMA PRESS

The CEO of Paddy Power is leaving the online-betting firm.

acquire aerospace supplier Rockwell Collins, according to people familiar with the matter. Rockwell Collins gained 6.8%.

Shares of **Tyson Foods** added 5.7% after the company said rising exports helped lift its top line in the latest quarter. **Hormel Foods** rose 1.6% and Kroger added 1%.

**Blue Apron Holdings** and Snap, the parent of Snapchat—companies that were widely watched during their initial public offerings earlier

this year—are scheduled to report earnings on Thursday. Major retailers including **Macy's**, Nordstrom, **Kohl's** and **J.C. Penney** are also due to release quarterly reports this week.

“Earnings are where the rubber meets the road. We're looking at some pretty good numbers year over year,” said David Schiegoleit, a managing director at U.S. Bank Private Wealth Management. “Employment numbers on Friday gave a solid tone to the equity

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MARKETS

Singapore Property Hot in China

Mainland developers, home buyers target city-state, where prices fell for years

By SAURABH CHATURVEDI

Over the span of a year, a team of senior executives at Chinese developer **Logan Property Holdings** Co. made frequent trips to Singapore as the company sought to make a big splash for its entrance into the city-state's market.

In May, their efforts paid off: A joint venture between Shenzhen-based Logan and Chinese conglomerate Nanshan Group won a government-run auction for a residential site, paying one billion Singapore dollars (US\$735 million)—setting a local record for such a property deal.

Chinese developers looking to diversify beyond the heated real-estate markets of the mainland and Hong Kong have Singapore in their sights, as residential-property prices in the Southeast Asian country appear to be poised for a near-term rebound after years of declines, analysts said.

Since 2013, when Singapore's government took additional steps to cool the formerly highflying housing market, prices have fallen 12%. However, the declines have slowed over the past year, with prices falling only 0.1% between the first and second quarters of 2017.

"This is a strong indication that the overall market is heading closer to the bottom," said Tay Huey Ying, head of research at the real-estate firm Jones Lang LaSalle Singapore.

In addition, compared with China, Singapore's simple and transparent tax and policy structures and operating environment are major draws, said Derek Lee, investor-relations head at Logan.



Singapore residential-property prices have fallen 12% since 2013, but the declines have slowed over the past year.

Also, diversification makes sense because it helps cover the developer's foreign-debt exposure, he said. As much as 20% of Logan's total borrowings are made up of overseas debt, so expanding into markets such as Singapore helps hedge leverage-related risks while building the company's brand, Mr. Lee said.

Cross-border residential-land investment has more than doubled in the Asia-Pacific region over the past decade, said the real-estate advisory firm Knight Frank. In 2016, investment topped US\$42 billion, 80% of which came from developers based in mainland China and Hong Kong.

In Singapore, a quarter of luxury-residence purchases by foreigners in the core central region in the first half of this year were by Chinese individuals who weren't permanent residents of the city-state,

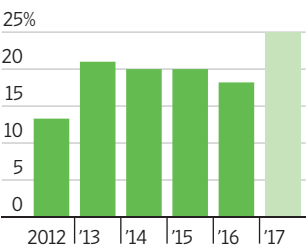
said the real-estate services firm Cushman & Wakefield, citing data from the Urban Redevelopment Authority. In the full years 2016 and 2015, such Chinese buyers accounted for 18% and 20% of those type of high-end purchases, respectively.

Against this backdrop, Ravi Menon, the head of Singapore's central bank, said in a recent speech that it wasn't yet the right time to ease market-cooling measures, in part because of firm underlying demand as global real-estate investors continue to seek yield and safety.

Singapore's steps to cool its housing market, whose prices rose 60% from 2009 to 2013, are a rare example of successful government action to tame prices, standing in contrast to those in mainland China and Hong Kong. The city-state imposed restrictions on borrow-

China Buying

High-end residences in Singapore bought by Chinese nationals who aren't permanent residents, as a percentage of foreign purchases of such properties



Note: 2017 data through June 30  
Sources: Urban Redevelopment Authority; Cushman & Wakefield

THE WALL STREET JOURNAL.

ing by home buyers and levied an added tax on any purchases by foreigners to weed out speculators, who tend to be highly leveraged and look for high capital appreciation over

the short term.

According to a report by Julius Baer, a 4,000-square-foot residential property in a prime location in Singapore costs on average US\$8.9 million, compared with US\$41.2 million in Hong Kong and US\$16.6 million in Shanghai.

"The risk of a renewed unsustainable surge in property prices is not trivial," the central bank's Mr. Menon said. Singapore needs to remain vigilant about overseas investors looking to escape tighter regulations at home, he added.

In China, strict controls on capital flowing out of the country aren't likely to stop property buyers wary of a possible domestic real-estate bubble from making "opportunistic investment in Singapore," said Christine Li, Cushman & Wakefield's Singapore research chief. "There is probably no better time to bottom fish."

Bearish Bets Take Bite From Odey Fund

By LAURENCE FLETCHER

Crispin Odey, one of Europe's best-known hedge-fund managers, ran up a nearly 10% loss in one of his hedge funds last month, in what is fast turning into a bad year for some big-name managers.

The European fund run by Mr. Odey, founding partner of London-based **Odey Asset Management** LLP which manages \$5.9 billion in assets, had a 9.8% fall in net asset value in July, according to an investor document seen by The Wall Street Journal. The fund is down 12% in the year through July.

Mr. Odey's European fund was once one of the biggest in the sector, worth billions of dollars, though some investors withdrew their cash after poor returns in the past two years. According to an April letter to investors, the fund held just under \$900 million in assets at the end of March.

A spokesman for Odey declined to comment.

Mr. Odey, who made millions betting on a recovery in Barclays Bank immediately after the financial crisis, has fared less well in recent years as his bearish views failed to pay off in rising markets.

The latest poor performance stems in part from bets on falling stock prices, particularly in the U.S., where the Dow Jones Industrial Average rose above 22000 for the first time last Wednesday. Mr. Odey's fund has bet against stocks such as **Tullow Oil**, up 13% in July, and specialty insurer **Lancashire Holdings**, up 6%, according to the investor document. The fund was positioned against the pound, which rose against the dollar, and U.K. government bonds, which also rose.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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Rockwell Deal Too Pricey to Fly

**United Technologies** may aspire to be even bigger in aerospace than it already is. Its shareholders should be wary of that happening at the wrong price.

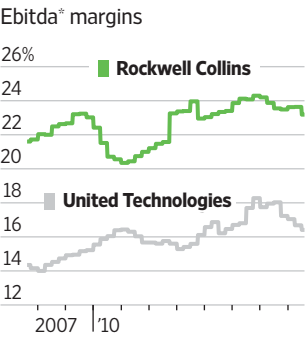
Shares in avionics and airplane-interiors maker **Rockwell Collins** surged Monday following reports that industrial conglomerate United Technologies approached the company about a takeover. Such a deal could be worth in excess of \$20 billion.

With little product overlap, combining the two would seem doable from a regulatory perspective.

United Technologies views aerospace as its fastest-growing area. It also would inherit that company's airplane-interiors unit, which Rockwell still is digesting following a \$6.4 billion acquisition of B/E Aerospace.

Imagine then a plane made with United Technologies' Pratt & Whitney engines, United Technologies landing gear and brakes, Rockwell Collins flight controls, drink carts, seats and toilets. If you are Boeing or

Changing Altitudes



\*Earnings before interest, taxes, depreciation and amortization  
Sources: FactSet; Bloomberg News (photo)  
THE WALL STREET JOURNAL.

Airbus, or an airline purchasing the finished product, you might think that the balance of power in the aerospace supply chain is tilting against you.

And they would be right on a certain level. Boeing's recent initiative to branch into avionics is a way to exert pressure back on its suppliers. The response by suppliers can be to join together and hold more of the cards in their relationship with the



A circuit board at Rockwell Collins in Manchester, Iowa

oligopolistic aircraft makers.

But such a combination would have high execution risk. Adding products also would fan the flames of the undying debate over whether a company should exist that makes such varied products as elevators, air conditioners and jet engines. If a deal happens, United Technologies would derive 58% of its sales from aerospace in 2019, its highest in over a decade, according to J.P. Morgan an-

alysts. Shareholder pressure to spin off some part of the company could increase.

Ultimately, the problem is price. United Technologies has space on its balance sheet with net debt of just 1.7 times its earnings before interest, taxes, depreciation and amortization, according to S&P Global Market Intelligence. That is all the more reason for shareholders to worry. Rockwell Collins shareholders would require a hefty takeover premium.

Without a firm deal in hand, Rockwell Collins already trades at a debt-adjusted market value of 20 times trailing Ebitda. The Wall Street Journal reported a possible deal price below \$140 a share, which would bring the ratio to more than 22 times. Rockwell Collins itself paid 13 times for B/E Aerospace. Berkshire Hathaway paid around 12 times for Precision Castparts in 2015.

United Technologies shareholders should hope such pricey deal talk passes quietly into the night.

—Alex Frangos

OVERHEARD

"Science is the poetry of reality," Richard Dawkins once wrote.

Author **Mary Soon Lee** has set out to prove his point.

She has written a haiku for each element on the periodic table, which are published on the Science magazine website.

She wrote the first couple of entries impulsively, before aiming to complete the entire table.

The entries should delight scientists and investors alike. Take lithium, element No. 3 on the periodic table: "Lighter than water, empower my phone, my car. Banish depression."

Even grander is her lyric on carbon. "Show-stealing diva, throw yourself at anyone, decked out in diamonds."

Frustrated commodities investors might take solace in the precious-metals entries. "Treacherous treasure, avarice tarnishing us, photos claiming souls," reads the haiku for silver, whose spot price is down 20% from a year ago.

A Missed Opportunity For Tesla

**Tesla** Inc. is gearing up for its most important product launch without putting its best asset to work.

Tesla announced Monday that it will issue \$1.5 billion in debt securities due in 2025 to help bring the Model 3 sedan to customers.

Tesla certainly needs new capital to fund its sizable ambitions. CEO Elon Musk told investors that Tesla was considering debt, rather than equity, on last week's second-quarter earnings call. While the interest rate on the bonds has yet to be determined, debt typically is cheaper than equity.

Still, at this particular moment, Tesla is taking a risk. It burned through \$1.1 billion in free cash in the second quarter, so the fresh capital accounts for only a few months of operations. The company had more than \$7 billion in long-term debt outstanding as of June 30.

Granted, Tesla does have slightly more than \$3 billion in cash on hand, but that number is something of an illusion. Accounts payable and accrued liabilities exceed \$3.8 billion. And while Tesla told investors to expect positive operating cash flow in the second half of 2017, it expects to spend an extra \$2 billion on capital needs before the year is out.

Tesla's high share price is arguably its greatest asset at the moment. At current prices, Tesla could raise \$1.5 billion by increasing total shares outstanding by less than 3% and without further balance-sheet strain.

Investors haven't shown any sign of losing faith in Mr. Musk's vision. If Tesla slips on what is the start of a financial tightrope act, he may rue this as a wasted opportunity.

—Charley Grant

NXP Investors Can Expect More Love From Qualcomm

**Qualcomm** looks outmaneuvered: **Elliott Management** shouldn't have trouble extracting a higher price for car-chip leader **NXP Semiconductors**, in which the activist investor disclosed a 6% stake late last week.

The \$38 billion price tag that Qualcomm agreed to pay for NXP last October never looked particularly expensive, equating to just 17 times expected earnings. The U.S. chip group took advantage of a slump in the Dutch company's share price, as investors worried about its capacity to digest the \$11.8 billion acquisition of Freescale, an Austin, Texas-based former Motorola spinoff with

automotive interests. Those worries have since abated as NXP has hit or beaten earnings forecasts.

Meanwhile, the semiconductor industry has been on a tear. The 34% premium over NXP's undisturbed share price that Qualcomm is offering compares with a 20% rise in the S&P 500 semiconductor index over the same time frame.

Chip companies specializing in the automotive sector have fared even better, buoyed by an arms race among big car companies to compete with Tesla. Thanks to Freescale, NXP is the leader in this field, according to consultancy Strategy Ana-

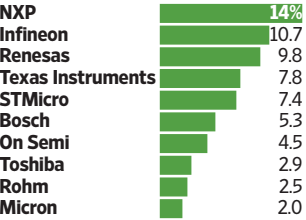
lytics, followed by German group Infineon and Japanese peer Renesas.

Qualcomm will struggle to push the acquisition through regardless. It needs investors to tender 80% of shares in order to complete the deal. That is a high bar, and four of NXP's top five shareholders, controlling at least 14.4% of the share capital, are hedge funds like Elliott. They don't need many allies to force Qualcomm back to the negotiating table.

Given Qualcomm's challenge with its licensing business—a legal dispute with Apple alone has thrown about \$2 billion in royalty revenue this year into ques-

Sweet Spot

Market share of automotive-chip vendors, 2016



Source: Strategy Analytics via Infineon

THE WALL STREET JOURNAL.

tion—it needs NXP more than ever.

But if it does walk away, the downside for NXP's share price looks limited, given peers' valuations. The

upside, meanwhile, could be substantial: NXP's current share price is where the stock might be even without a takeover offer and its implied control premium.

This situation may take time to reach a resolution: Qualcomm has gotten less than half the antitrust approvals it needs, and the European Union has escalated the case.

The company probably won't budge on price until it knows what remedial actions it will need to take—which may not be until November or December. Yet investors with a little patience should profit by riding on Elliott's coattails.

—Stephen Wilmut