

THE WALL STREET JOURNAL.

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What's News

Business & Finance

Tropical Storm Harvey is upending the flow of oil and petroleum all around the world, as shale formations in the U.S. supply a large amount of crude exports and gasoline. A1

◆ **Houston's economy** will suffer a significant blow from the devastating storm, but economists believe that the city is well-equipped for recovery. A6

◆ **Hyundai was forced** into a weeklong suspension of production in China, another setback caused by conflict between Seoul and Beijing. B1

◆ **Amazon added** hundreds of new Whole Foods products to its website in an effort to increase online grocery shopping. B3

◆ **Uber's new CEO** faces challenges before he assumes the position, due to news of a federal bribery probe into the company. B1

◆ **Toyota plans** to dive deeper into the ride-hailing business by teaming up with Singapore-based startup Grab. B3

◆ **Apple is allowing** Chinese customers to use WeChat Pay for purchases in its App Store. B4

◆ **Warren Buffett's** Berkshire Hathaway became the biggest shareholder of Bank of America. B5

◆ **IMDB paid** the second part of a missed installment to an Abu Dhabi sovereign fund, possibly calming investor concerns. B7

World-Wide

◆ **Tropical storm Harvey**, which has killed 19 people, came ashore again, bringing heavy rains and winds to southwestern Louisiana, but less than the rainfall it brought to Texas. A1

◆ **The U.S. military** carried out an airstrike to stop hundreds of Islamic State militants evacuated from the Lebanese-Syrian border from relocating. A1

◆ **Concern is rising** among South Koreans as they feel overlooked in the nuclear standoff between the U.S. and North Korea. A3

◆ **The U.N. condemned** North Korea's missile launch, saying the move violated multiple Security Council resolutions. A3

◆ **A referendum** on Kurdistan's independence has Baghdad and Washington concerned over political consequences. A4

◆ **NATO announced** it would send three observers to Russia's Zapad military exercise amid controversy over the exercise. A5

◆ **Trump headed** to Missouri to deliver a speech asserting that business tax cuts would benefit middle-class workers in the U.S. A7

◆ **The White House** will halt a planned Obama-era rule that would have required businesses to report pay by gender and race. A7

◆ **Eurozone sentiment** reached its highest level in over 10 years in August. A5

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WORLD NEWS

Thousands Flee Myanmar as Crisis Intensifies Between Army, Muslim Minority

Several hundred Buddhist nationalists, including monks, rallied in Myanmar's largest city on Wednesday to urge stronger action against insurgents from the Muslim Rohingya minority for attacks on police last week.

The attacks in Rakhine state in western Myanmar have spiraled into chaotic violence, with more than 100 dead and villages torched.

At least 18,000 Rohingya have fled the violence and crossed into Bangladesh in less than a week, with hundreds stranded in a no man's land at the country's border, the International Organization for Migration said Wednesday. (People unload a motorbike as they arrive in Rakhine state, right.)

The army, responding to last Thursday's attacks, launched what it called clearance operations against the insurgents, but advocates for the Rohingya say they are attacking and burning Rohingya villages, shooting civilians and causing others to flee.

The government blames Rohingya insurgents and their sympathizers for the violence.

—Associated Press



IP

Continued from Page One
hurting U.S. growth, wages and labor-force participation.

The study is causing a stir among economists, some of whom are skeptical of its conclusions. Yet its basic finding is eye-opening. Jan De Loecker of Belgium's University of Leuven, and

Jan Eeckhout of University College London start from the economic assumption that in a competitive market, a company can't charge much more for a product than the cost of making one more (what economists call the "marginal cost"). If it did, another company would swoop in and undercut it.

The authors analyze data on every publicly traded company in the U.S. back to 1950 to determine how much its revenues exceeded its variable costs such as labor and commodities. That excess, what they call the "markup" of price over marginal cost fluctuated between 16% and 32% until 1982 and has since climbed steadily, to 67%. The trend holds across industries, and

is more pronounced in smaller rather than the biggest companies.

This, they say, is proof that companies are increasingly able to exert "market power," that is charge higher prices so as to pad profits at the expense of consumers.

Other studies have come to similar conclusions. One by Barack Obama's Council of Economic Advisers found return on capital had become astronomical for the most profitable publicly traded companies, which should not be possible if competitors could freely enter their market.

The latest study goes even further, arguing the prevalence of market power helps explain deeper economic maladies. A company with such power often restricts production to prop up prices and profits. Messrs. De Loecker and Eeckhout argue this reduces demand for labor and thus explains why wages for low-skilled workers have stagnated in recent decades. Lower wages also discourage people from working, which depresses labor-force participation.

They add that markups may be evidence of barriers to entry by new competitors, which is corroborated by slumping business startup rates. The especially sharp

rise in markups since 2009, they say, may explain why economic growth has been so tepid since.

The paper's novel approach and audacious claims have attracted widespread attention in the blogosphere. Dietrich Vollrath, an

demand for skill. Growth has been weak globally since 2009 and seems due mostly to aging and repairing the damage of the financial crisis. The link to market power appears mostly circumstantial.

By focusing on variable

More Power to Them

The 'markup' that companies can charge over their marginal cost has risen steadily, potentially a sign of declining competitive forces that keep prices in check.



THE WALL STREET JOURNAL.

economist at the University of Houston, calls it "An intriguing (and very large) step forwards."

But some of its claims may also overreach. Ample evidence already links depressed wages to globalization, weaker unions and the

costs the authors may underestimate how companies' fixed costs have risen, for example to pay for software, information technology, research and development and marketing. One major fixed cost, depreciation, has risen from 12% of GDP in the 1960s to

around 16% as companies spend more on tech equipment that quickly becomes obsolete.

Tyler Cowen, a blogger and economist at George Mason University, writes that this might lead to more "monopolistic competition," i.e. a handful of companies, each of which exercises some market power, without generating excessive profits because those companies have to invest so much. The study's authors say profits have risen, but Mr. Cowen disputes their data.

One example of this is banks that now spend more on information technology to manage risks, design and market products and less on branches. This favors large banks that can spread those costs over many more customers. Cars increasingly contain software that is costly to develop but almost costless to reproduce, for example Tesla Inc.'s self-driving software which sells as a \$6,000 option.

The question for trust busters is whether this move toward fewer companies with higher fixed costs and more market power is benign or malign. The policy implications are either: "We're being too lenient," which is what we heard in the corri-

dors of Europe, or it could be, 'Here's the way business models are evolving,' " says Mr. De Loecker.

Last week the Federal Trade Commission blessed Amazon.com Inc.'s purchase of Whole Foods Market, no surprise since the combined company would control only a small slice of the grocery market. And Amazon, whose profit margins are infamously thin anyway, immediately cut prices on dozens of items—a move sure to depress rather than raise markups.

Critics worry that once Amazon has eliminated its competitors, it will be free to jack up prices or squeeze suppliers. Yet the very thing that in theory makes that possible, Amazon's size, also justifies the investments in technology and real estate that make its offerings so irresistible to customers and difficult for competitors to match. Whole Foods doesn't just give Amazon a big footprint in groceries, but a network of physical pickup locations close to its most affluent customers.

The latest study does not resolve these tensions. But the questions it raises about how corporate size is reshaping the economy beg for further investigation.

SPACE

Continued from Page One
other and live in different places on Earth."

Dr. Ashurbeyli, based in Moscow, has few details about how Asgardia, named after Asgard, the godly realm of Norse mythology, would be built, launched and run. Specifics are to be decided by the nation's parliament.

One mission: Guard against space threats like asteroids. "My task is to defend planet Earth and defend humanity," Dr. Ashurbeyli said in a phone interview, "nothing more."

Before liftoff, the Soviet-trained engineer wants the United Nations to recognize Asgardia as a country. He plans to establish a government online and devise a flag, anthem and currency. Initially, citizens will get to send data into space on a satellite he plans to launch

from the U.S. this fall.

Dr. Ashurbeyli, who owns an industrial company he values at \$200 million, insists he is deadly serious. He is the sole funder and pays about 50 people to manage Asgardia's affairs. His plan is to pay for launches through crowdfunding.

Others are skeptical of the project's success. "I think the initiators don't have any idea what they are doing, legally speaking," said University of Nebraska-Lincoln space-law professor Frans von der Dunk.

And earthbound Asgardians, it turns out, are a fractious lot. Hailing from Tulsa to Turkey to East Timor, they speak different languages and can't agree on basic policies. Hotly debated issues include the merits of establishing diplomatic relations with extraterrestrials, whether refugees should be welcomed and what role cryptocurrencies should play.

The biggest fault line is As-

gardia's constitution, which Dr. Ashurbeyli and his advisers wrote. Unveiled in June, it met opprobrium from rebellious corners of the would-be nation.

"I'd say the community is very divided," said Chris Hawkes, 58, a teacher from Preston, England, who joined because he liked the idea of a "societal restart."

Mr. Hawkes said the constitution accords too much power to Dr. Ashurbeyli by declaring Asgardia a "Space Kingdom"—giving him extensive rights to determine the composition of the powerful Supreme Space Council.

Debate raged on other aspects of the constitution, from its minimum age of 40 for parliamentarians to worries that Asgardia would impose taxes before launch. Such a levy, fretted one Asgardian online, would mean citizens supporting a nation "that has few assets, no territory, no institutions and no international recognition."

The constitution states that paying taxes is voluntary.

Critics' online clashes with those loyal to the founder got heated. The disputes delayed ratification of the constitution, which was scheduled for June 18, for almost six weeks.

Of the over 300,000 who became Asgardians by signing up online, only the 110,000 who finally voted to approve the constitution were granted official citizenship.

Jenn Roznicki, 40, a child-care provider in Calgary, Canada, quit Asgardia when it was revealed that those who didn't approve the constitution would be considered tourists, not citizens. "I was sad that it happened because I had so much hope for Asgardia," she said. "When I joined a year ago, my husband said, 'You know it's going to descend into madness,' and I said, 'No, I have faith!'"

Dr. Ashurbeyli said he simply wants to establish a more structured society and would

serve only one five-year term. As for anointing himself king, he said Asgardia would be a constitutional monarchy similar to those in Europe.

He has created a Vienna-based group—named NGO Asgardia—to manage the nation. It is now holding parliamentary elections, with almost 4,000 running for seats, with candidates including an Indian computer scientist and a British hypnotherapist.

While some have fleshed-out platforms advocating policies from universal basic income to building a virtual-reality-based society, many haven't bothered.

Lena De Winne, director of the NGO, recently stressed on Facebook that candidates needed platforms. She fielded questions from Asgardians about technicalities such as potential problems for those who live in countries that ban dual citizenship. "It's not like you're a citizen of America and Canada at the same time," she responded. "These are just earthly countries."

Asgardia will seek recognition from individual countries before venturing into space, she said, a process that has begun by sending messages of congratulations to newly elected leaders such as France's Emmanuel Macron.

To join the U.N., Asgardia needs Security Council blessing and must persuade two-thirds of member states "that it is a peace-loving state and is able and willing to carry out the obligations" of the U.N. charter, said Dan Thomas, a U.N. spokesman.

Asgardia's constitution is available in 12 languages and states it will "strive towards a single Asgardian language"—a subject of intense discussion among Asgardians, with suggestions ranging from Esperanto to a hybrid of Chinese and English.

Then there's a vexing demographic problem. As of March,

16% of Asgardians were women, prompting the organization to call for members to find ways to get more to join.

"We definitely need more women," said Samuel Fisher, 25, a Colorado-based Asgardian and book author, "but we're not in space right now."

CORRECTIONS & AMPLIFICATIONS

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JAMES VAUGHAN

One artist's concept of how Asgardia, a proposed Earth-orbiting colony, might look.

WORLD NEWS

South Koreans Feel Sidelined in Crisis

'Korea passing' enters the lexicon to describe the view that the U.S. is bypassing Seoul

By JOHN LYONS

SEOUL—Like many in this gleaming South Korean capital, Kim Hyun-soo says he feels like a helpless bystander in the nuclear standoff between the U.S. and North Korea, even though his fate hangs in the balance.

South Koreans are watching from the sidelines as U.S. President Donald Trump threatens North Korea with "fire and fury" and North Korea's leader Kim Jong Un vows to reduce the U.S. to "huge heaps of ashes." It's an unnerving position, locals say, since this city of 10 million could be leveled within minutes of any conflict.

The South Korean feeling of being bypassed in a debate affecting their future even has a name: "Korea passing." The phrase, which gets increasing use these days, is pronounced in English with South Korean inflection—and often with a healthy mix of frustration, resignation and irony.

"It doesn't feel good to be excluded. South Korea is the party with the most at stake," says Mr. Kim, a 38-year-old accountant from Seoul.

Many North Korea watchers in Seoul say the U.S. looks first to China and even puts Japan ahead of South Korea when it comes to dealing with the North. The Trump administration has yet to name an ambassador to Seoul, for example, while it has sent envoys to Beijing and Tokyo.

Following North Korea's launch Tuesday of a missile that flew over Japan, Mr. Trump spent 40 minutes on the phone with Japanese Prime Minister Shinzo Abe. No such call happened with South Korean President Moon Jae-in, a left-leaning former human-rights lawyer.

Still, U.S. officials have repeatedly reiterated the U.S.'s commitment to protect South Korea. Mr. Moon met with Mr. Trump in June in Washington, while U.S. Vice President Mike Pence, Defense Secretary Jim Mattis and Secretary of State Rex Tillerson have each made visits to Seoul, in part to reassure South Korea that the Trump administration stands by its security alliance. The U.S. State Department didn't immediately respond to a request for comment.

The administration of South Korea's Mr. Moon says it



People prayed for peace on the Korean Peninsula during a religious service near the U.S. Embassy in Seoul on Tuesday, Aug. 29.

doesn't recognize the term "Korea passing." The phrase, initially used by experts in Asian policy-making circles to describe the state of U.S.-South Korean relations, has become more commonplace in recent months to describe how Seoul is seemingly ignored by other regional players as well, including North Korea.

South Korean officials say their government is being heard and they don't need to respond every time Mr. Trump fires off a tweet, or North Korea's Mr. Kim issues a threatening statement.

Mr. Moon is seeking to assert a stronger role for South Korea. In a speech this month, he said any military strikes against North Korea would require South Korea's approval, even though many analysts say the U.S. is unlikely to seek permission if it's threatened.

On Monday, Mr. Moon vowed to upgrade South Korea's military capabilities, including developing greater of

fensive capabilities that would allow it to forcefully respond to attacks from the North.

South Koreans' sense of being left out grew in April, when Mr. Trump met with Chinese President Xi Jinping as part of an effort to enlist China to pressure North Korea economically. After the summit, Mr. Trump said Mr. Xi had explained to him that Korea was part of China dating back to antiquity. Mr. Trump's statement—disputed by many historians—was interpreted in Seoul as another sign of dwindling relevance.

Since then, Mr. Trump has issued Twitter messages calling on China to do more about North Korea, but he rarely mentions South Korea. On Wednesday, he tweeted that talking with North Korea isn't the solution, taking a different approach from President Moon's emphasis on dialogue with the North.

—Min Sun Lee contributed to this article.

U.S. Missile Defense Gaining Acceptance

SOSEONG-RI, South Korea—Climbing to a high outcrop in this rural corner of South Korea, a hiker can spot a pair of U.S.-made antimissile launchers parked on a golf course in a forested valley, aimed high over jagged mountains toward North Korea.

The bucolic scene is at odds with the controversy around the launchers, part of a Terminal High-Altitude Area Defense, or Thaad, battery installed here in April amid mass protests and a presidential race in which the winning candidate, President Moon Jae-in, questioned their deployment.

For months, a mix of anti-war Buddhists, university activists and local villagers protesting the Thaad system from a roadside encampment

seemed to be gaining the upper hand. After taking office in May, Mr. Moon halted the deployment of four additional launchers needed to complete the battery, pending environmental review.

Then, North Korea tested an intercontinental ballistic missile July 4. Public approval for deploying the system has surged to 72% from around 50% earlier in the year, a recent **Gallup Korea** poll showed. Mr. Moon gave the go-ahead for the completion of the Thaad battery after the launch on July 28 of a second North Korean ICBM.

These days, only a handful of protesters remain camped in blue tents draped with "No Thaad, No War" along the country road leading to the now-closed golf course where the Thaad battery sits. They have vowed to block delivery of the remaining launchers.

South Korea is paying a price for Thaad, however. Ran-

kled by Thaad's ability to peer into Chinese airspace with powerful X-band radar, the Chinese are making fewer tourist trips to South Korea and boycotting its car makers and other businesses, such as the Lotte Group, a conglomerate that provided the golf course for the Thaad battery.

Anti-Thaad activists question whether Thaad, which doesn't even cover Seoul, is meant to protect South Korea. They suspect the system's true purpose is to pick off missiles aimed at U.S. bases in Korea, Japan and Guam, or even the U.S. mainland.

Protesters from the village of Soseong-ri, close by the Thaad site, complain about the installation. "Thaad means everyone in this valley will die in a war," said Do Geum-nyeon, an 81-year-old resident. "If President Moon likes Thaad so much, he should bring it to his house."

—John Lyons

U.N. Condemns Missile Launch

By FARNAZ FASSIHI

UNITED NATIONS—The United Nations Security Council adopted a statement condemning North Korea "for its outrageous actions and threats against another U.N. member state" in the aftermath of its latest launch of a missile that flew over Japan.

The "presidential statement," which counts as the council's fastest form of reaction to unfolding events, reiterated that North Korea is in violation of multiple Security Council resolutions banning ballistic missile and nuclear tests and called on it to cease all such activity.

The Security Council expresses its grave concern that the DPRK is, by conducting such a launch over Japan as well as its recent actions and public statements, deliberately undermining regional peace and stability and have caused grave security concerns around the world," the statement said, referring to North Korea by its acronym.

The statement stopped short of spelling out consequences for North Korea's refusal to comply and didn't specify whether the council was considering further action, such as tightening economic sanctions.

The U.S. has maintained that all options, including a military one, are on the table. But Russia and China, two countries that hold veto power on the

Security Council, have made it clear that they would block the council from handing the U.S. endorsement or permission for military escalation.

Earlier Tuesday, U.S. Ambassador Nikki Haley said the council must get serious in reacting to North Korea's repeated provocations. In a statement after the Security Council meeting, she said: "The world is united against North Korea. The United States will not allow their lawlessness to continue. And the rest of the world is with us."

U.K. and French ambassadors, close allies of the U.S. on North Korea policy, told reporters that the international community must stand united in sending a strong message of condemnation to North Korea and saying there was no time for displaying weakness.

The statement, however, also appeared to reflect the position of Russia and China, which have consistently favored reducing tensions and resuming negotiations, while the U.S. and its allies have favored a tougher approach that laid out the consequences for violations as well as the rewards for its compliance.

China and Russia both told the council on Tuesday night that they reject a military solution to the North Korea crisis. "The council must seek a peaceful solution, there is no other way," said Russia's ambassador to the U.N., Vasily Nebenzya.



Traffic resumes slowly on a muddy Mumbai road where floodwaters had receded following heavy monsoon rains.

India's Financial Hub Hit by Floods

Associated Press

MUMBAI—Torrential monsoon rains paralyzed India's financial capital for a second day Wednesday as the streets turned into rivers and people waded through waist-deep waters.

On Tuesday, about 5 inches of rain fell on the city and its already hamstrung infrastructure collapsed.

Public transport stopped and thousands of commuters were stranded in their offices

overnight. Commuter trains shut down, buses were half-submerged in water and the deluged airport had to divert flights to other cities. By Wednesday morning, most trains were running but traffic remained chaotic.

According to the Meteorological Department, more heavy rain was expected and the city's local government asked all schools and colleges to shut down for a day.

Every year the city strug-

gles to cope with the annual monsoon deluge, drawing criticism about its poor planning.

Heavy rain warnings have also been issued for other parts of the state of Maharashtra, where Mumbai is located. A heavy rainfall alert has also been issued for parts of Maharashtra's neighboring states of Goa and Gujarat.

India's monsoon season runs from June through September.

Since the start of the sea-

son, devastating floods across South Asia have killed more than 950 people and affected close to 40 million across northern India, southern Nepal and northern Bangladesh.

The rains have led to wide-scale flooding in a broad arc stretching across the Himalayan foothills in the three countries, causing landslides, damaging roads and electric towers, and washing away tens of thousands of homes and vast swaths of farmland.

WORLD NEWS



AZAD LASHKARI/REUTERS

Kurdish people gathering this month in northern Iraqi city of Kirkuk in support of a controversial plan to hold a referendum on Iraqi Kurdistan's independence, to be held on Sept. 25.

Kurdish Statehood Plan Alarms Iraq, U.S.

Independence vote is to be held in an ethnically mixed region in September

Ibrahim Mahmood has been waiting to return to his hometown of Zummar in Iraq's Kurdistan region since Kurdish militias kicked him out three years ago, early in the battle against Islamic State.

By Maria Abi-Habib
in Beirut and Ghassan Adnan in Baghdad

But a referendum on Kurdistan's independence—planned for next month and certain to pass—will likely dash the hopes for return Mr. Mahmood shares with thousands of other Arabs displaced from the semiautonomous northern region during the latest war. American and Iraqi officials say they are worried the vote, hailed by Kurds as an exercise in democracy, will lead to the violent breakup of Iraq just as it is on the verge of expelling Islamic State.

"We will lose everything in this referendum," said Mr. Mahmood from a refugee camp in Baghdad, where he lives in a cramped tent with his wife, three children and his brother's family.

"We thought the end of Islamic State in Mosul would be an end to this violence," the 32-year-old said. "But the Kurds are now making their demands. We need to take the defense of our people into our hands."

The referendum, set for Sept. 25, is an initiative of the Kurdistan Regional Government, which administers a semiautonomous region roughly the size of Ireland



Peshmerga forces clashing with Islamic State militants in November 2016 in Bashiqa, east of Mosul.

and home to some 5.2 million people. Since 1991 Kurdistan has enjoyed broad self-rule under the Iraqi constitution, with its own security forces and immigration controls.

While Washington and Baghdad oppose the independence vote even within that region, they have expressed particular alarm that it is to be held across the far broader, ethnically mixed swath of northern Iraq where Kurdish Peshmerga fighters played a key role in expelling the Sunni Arab extremists of Islamic State.

In three years of chaotic fighting, Peshmerga fighters have grabbed disputed territory from their Arab neighbors, human-rights groups and Iraqi officials say. The referendum, they say, would solidify demographic changes wrought by

the conflict, feed longstanding grievances of the Sunni Arab community, and possibly set off clashes between Kurds and Arabs over contested areas across four provinces.

Mr. Mahmood's hometown of Zummar has a recent history typical of many such disputed territories. Islamic State briefly controlled the town until U.S.-backed Peshmerga fighters expelled the group in August 2014. But then the Kurdish militia kicked out the town's Arab residents and laid claim to their homes, according to residents and human-rights groups.

"The Peshmerga treated us like Islamic State did," Mr. Mahmood said.

The Kurdistan Regional Government, or KRG, denies that Kurdish forces forcefully displaced Arabs, and Majid Shigali

a senior Kurdish member of Iraq's parliament, defended the referendum and the ambition to make Kurdistan independent.

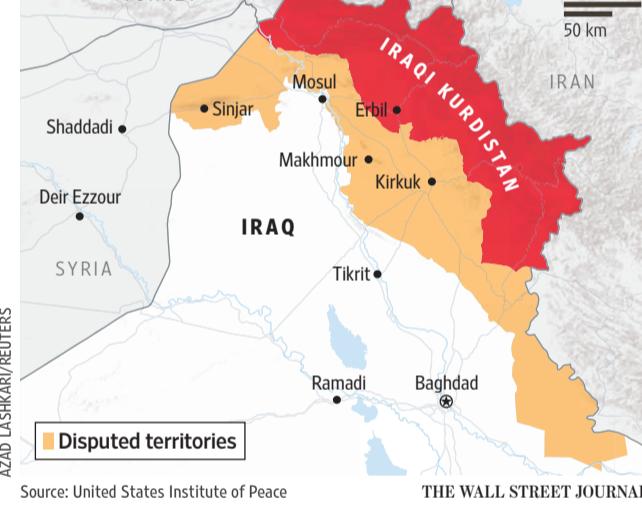
"We don't expect there to be any problems as all sides want to live in peace," Mr. Shigali said. "The only problem may surface is that of the disputed territories and in this case, we will craft a constitution to address it."

But U.S. and Iraqi officials say disputes won't be easily resolved, particularly in the oil-rich province of Kirkuk, claimed by Kurds and Arabs alike. The Peshmerga seized the ethnically mixed city in northern Iraq in June 2014, after Iraq's army fled south as Islamic State blitzed across lands bordering Kurdistan.

"We oppose the referendum for a number of reasons," a se-

Contentious Vote

Iraqi Kurdistan's Sept. 25 independence referendum, which Baghdad opposes, will also be held in areas Kurdish fighters helped free from Islamic State.



Source: United States Institute of Peace

nior U.S. official said. "The key one is the potential for violence, particularly if it is held in disputed territories like Kirkuk with its ethnic mix and various forces."

Arab Iraqis accuse the KRG of taking advantage of Baghdad's preoccupation with fighting Islamic State to seize Kirkuk, where the regional authorities voted on Tuesday to take part in the referendum, over the protests of representatives from the Arab and Turkmen communities.

While optimism over the referendum runs high among many Kurds, an independent Kurdistan would face considerable financial challenges. Like the government in Baghdad, Kurdistan's government has a cash-strapped economy heavily dependent on oil revenues, which fell to his-

toric lows this year. A regional real-estate boom ended in 2014 and construction cranes dotting the skyline of its capital, Erbil, now stand idle.

The U.S. is concerned the referendum will break down the close cooperation between Kurdistan's government and Baghdad, an alliance that has been crucial to defeating Islamic State.

U.S. officials are appealing to KRG President Masoud Barzani to scuttle the vote, partly out of fear that further instability in Iraq would ripple across a region already in upheaval. Turkey worries the referendum could stoke its Kurdish population's desire to break away from Ankara, as Kurds in Syria are building their own semiautonomous region in the country's north.

ISIS

Continued from Page One

Islamic State. That strike may have killed Islamic State fighters, the U.S. military said.

"Irreconcilable #ISIS terrorists should be killed on the battlefield, not bused across #Syria to the Iraqi border without #Iraq's consent," Brett McGurk, U.S. President Donald Trump's special envoy for combating Islamic State, tweeted ahead of the airstrike. "Our @coalition will help ensure that these terrorists can never enter #Iraq or escape from what remains of their dwindling 'caliphate.'"

Iraqi Prime Minister Haider al-Abadi also criticized the Hezbollah deal.

"We consider it an insult to the Iraqi people. Moving this number of terrorists for such a long distance through Syria is unacceptable," Mr. Abadi told reporters on Tuesday night. "We are fighting terrorism in

Iraq and we are killing them in Iraq. We don't send them to Syria."

U.S.-backed Iraqi forces are battling Islamic State, recently ousting the group from Mosul, Iraq's second-largest city, and the strategic town of Tal Afar near the Syrian border. Syrian government officials in the past have accused the U.S.-led coalition battling Islamic State of allowing some of the group's fighters to flee Mosul into Syria.

The Lebanese army earlier this month launched a ground operation in the country's mountainous northeast to clear it of Islamic State militants who controlled the territory for about three years. Syrian government forces and Hezbollah pressed a simultaneous but separate offensive from the Syrian side of the border.

The fighting stopped on Sunday after Hezbollah negotiated the cease-fire and evacuation agreement with Islamic State in return for information on the fate of nine Lebanese soldiers.

who were kidnapped by group in 2014. Eight bodies believed to belong to the soldiers have since been retrieved by Lebanese authorities.

The Lebanese military says it doesn't cooperate with Hezbollah, Lebanon's most powerful group and a close ally of Mr. Assad's government. Many in Lebanon, including people close to the military, criticized the deal, saying it undermined the regular armed forces and gave militants a free pass.

But many others said they were relieved that Islamic State no longer had a foothold in Lebanon, even if removing them was partly the result of a negotiated settlement.

"It was a nightmare that has been lifted," said Rev. Ibrahim Nehmo, the senior pastor at the Roman Catholic church in Ras Baalbek, a Lebanese village located on the foothills of the mountains that Islamic State controlled. "Not only has security returned to us, but there is also hope for a better future."



SCANIA
A convoy of Islamic State fighters and their families leaving the Lebanon-Syria border

OMAR SANADIKI/REUTERS



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WORLD NEWS

NATO to Send Monitors to Russia Drills

Moscow says 12,700 troops will take part in the exercises. Western officials expect 70,000.

BY JULIAN E. BARNES

BRUSSELS—The North Atlantic Treaty Organization announced it would send three observers to Russia's Zapad military exercise but said the invitation fell short of Moscow's international obligations.

The statement from NATO came as the U.S. took over the Baltic air-policing mission in Lithuania.

The U.S. began flying seven F-15C jet fighters from the U.K. out of Lithuania on Wednesday. The U.S. fighters will begin standing alert to intercept unknown aircraft Thursday, replacing four Polish F-16s.

NATO officials have warned the Zapad maneuvers, planned amid a military buildup in the region by the alliance and Russia, could serve as a screen for Russia to deploy more military equipment and heighten the risk of an accident or miscal-



PETRAS MALUKAS/AGENCE FRANCE PRESSE/GETTY IMAGES

The U.S. began flying seven F-15C jet fighters out of Lithuania on Wednesday as it took over the Baltic air-policing mission.

culation that could touch off a crisis.

NATO will send two experts to Belarus and one to Russia. The experts will be allowed to attend the official "Visitor Day" of the exercise,

NATO said.

Oana Lungescu, chief NATO spokeswoman, said that although the alliance welcomes the invitation "they are not a substitute" for the kind of observation required

under the Vienna Document, an international agreement governing military exercises in Europe.

The Vienna Document, which has no enforcement mechanism, requires briefings

on the exercise scenario and events, access to individual soldiers and overflights of the drill area.

"Russia and Belarus are instead choosing a selective approach that falls short," Ms.

Lungescu said. "Such avoidance of mandatory transparency only raises questions about the nature and purpose of the exercise."

Russian officials said Wednesday that the Zapad exercise would be under the threshold set by Vienna for inviting formal observation teams.

Russia plans to have 12,700 troops participate in Zapad. NATO and U.S. officials have disputed that saying that they expect 70,000 or more troops to take part in Zapad and interconnected exercises.

NATO ambassadors met for an update on the Zapad exercise on Tuesday, according to allied diplomats. While Poland and Sweden, a NATO partner, are conducting drills in September, the alliance as a whole won't hold any of its own exercises during Zapad.

While the alliance has increased the number of planes conducting the Baltic air-policing mission, it intends to keep the size of its ground force, roughly 4,000 personnel, steady in September, to avoid any moves that look like provocation, allied officials said.

Europe Economic Confidence Soars

BY NINA ADAM

FRANKFURT — Economic sentiment in the eurozone reached its "highest level in more than 10 years" in August, led by rising confidence among industrial companies and in the services sector, the European Commission said Wednesday.

Its Economic Sentiment Indicator, which aggregates business and consumer confidence, jumped to 111.9 from 111.3 in July. This marks the highest level since July 2007. Economists surveyed by The Wall Street Journal had expected a stable outcome.

Italy recorded the sharpest rise in economic sentiment among the region's largest economies, followed by France and Spain—a sign the recovery is spreading. The mood, however, eased slightly in Germany and the Netherlands, the region's traditional powerhouses.

The pickup in confidence underpins expectations that the eurozone will remain on its solid growth path in the second half of the year despite

a stronger euro, and will be aided by domestic demand.

It also fuels economists' expectations that the European Central Bank will soon begin to wind down its massive stimulus program, following in the footsteps of the Federal Reserve in the U.S. ECB President Mario Draghi could signal as soon as the bank's next policy meeting on Sept. 7 that stimulus will be gradually reduced from early 2018, economists say.

"Robust survey indicators in euro area countries suggest that growth should accelerate through the rest of the year," while the consumer confidence indicator close to a 16-year high bodes well for the consumer-driven recovery, said Madhavi Bokil, a vice president at Moody's Investors Service.

The European Commission said industrial companies in the 19-country euro currency bloc raised their employment plans in August and their selling-price-expectations increased, too. Consumers' price expectations remained "virtually unchanged," it said.

WORLD WATCH

VENEZUELA

U.N. Accuses Caracas Of Rights Abuses

The United Nations said Venezuela's security forces had committed extensive and apparently deliberate human-rights violations in crushing antigovernment protests and that democracy was "barely alive."

The actions indicated "a policy to repress political dissent and instill fear," the U.N. human rights office said in a report that called for investigation and accountability. It called on President Nicolas Maduro's government to release arbitrarily detained demonstrators and to halt the unlawful use of military courts to try civilians.

U.N. High Commissioner for Human Rights Zeid Ra'ad al-Hussein was asked whether the country was now a dictatorship.

"I think we would argue that over the course of time we have seen an erosion of democratic life in Venezuela," the official said at a news conference. "It must be barely alive, if still alive, is the way I would look at it."

Some 882 people are believed to be in custody, among 5,341 de-

tained in street protests since April, U.N. human rights official Hernan Vales said. Detainees are often subjected to ill-treatment, in some documented cases amounting to torture, the report said.

—Reuters

GAZA STRIP

Guterres Urges Israel To Ease Blockade

The U.N. secretary-general on Wednesday urged Israel to ease its blockade of the Hamas-ruled Gaza Strip and called for large-scale foreign aid, saying the situation in the isolated territory is "one of the most dramatic humanitarian crises" he has seen.

Speaking at a U.N.-backed elementary school in the northern Gaza Strip, Antonio Guterres also called for unity among the Palestinians' warring factions—Hamas, which rules Gaza, and Fatah, the party of Palestinian President Mahmoud Abbas.

Mr. Guterres is on his first visit since taking office in January. During his visit, he met with Israeli and Palestinian leaders to encourage peace talks.

—Associated Press

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SHELTER: Bishops stay cool under a hot sun at Pope Francis' weekly general audience in St. Peter's Square at the Vatican.

HARVEY'S DESTRUCTION

Economic Heft Gives Houston an Edge

City is equipped with means to recover faster than New Orleans did from Hurricane Katrina

BY CHRISTOPHER M. MATTHEWS

Houston's economy will suffer a significant and perhaps unprecedented blow from Tropical Storm Harvey. But economists project that unlike New Orleans following Hurricane Katrina, Houston's resurrection is nearly certain.

By some estimates, Harvey could be the most expensive U.S. storm ever. Kevin M. Simmons, a disaster economist at Austin College, estimated that \$145 billion in property is at risk of being damaged.

Adam Kamins, an economist for Moody's Analytics, estimates the price tag could be as much as \$75 billion for southeast Texas. He predicts that the city could lose as much as \$10 billion in economic output, and that businesses might suffer some \$10 billion to \$15 billion in property damage from flooding. Economic output could be flat for two months following the storm but would likely grow thereafter, he said.

Hurricane Katrina is estimated to have cost about \$100 billion in property damage in 2005, the most costly storm in U.S. history to date.

But unlike New Orleans, the greater Houston area economy is better equipped to absorb the blow because of its size, diversity and prominence as the nation's energy hub.

Houston is the country's fourth-largest city by population and economic output, with 2.3 million people and a gross domestic product of more than \$503 billion in 2015, according



DAVID J. PHILIP/ASSOCIATED PRESS

The greater Houston area is better equipped to absorb the blow from Harvey because of its size and prominence as the nation's energy hub.

to the most recent data from the Department of Commerce, making it roughly the size of Sweden's economy.

At the time of Katrina, New Orleans had a population of roughly 450,000 and an economy largely dependent on tourism. Following the storm, tens of thousands fled the city and never returned. Its population today is less than 400,000.

"New Orleans was hurt because people didn't come back," said James Richardson, an economics professor at Louisiana State University.

"We're still not back to the pre-Katrina population."

Mr. Richardson studied Katrina's effect on New Orleans and found it lost 190,000 jobs

and employment fell by more than 30% from August 2005 to December 2005. "I would be surprised if there's a comparable net loss in Houston," he said. Mr. Richardson said part of Houston's resilience lies in its diversified economy.

While the city has long been tied to the boom-bust cycle of the oil industry, it has diversified in recent years. Some 84% of Houston's economy was dependent on the oil-and-gas industry during the 1980s, according to data from the Dallas Federal Reserve. But that had dropped to about 44% by 2016.

Houston boasts one of the largest medical centers in the world. Its health-care and edu-

cation industries were the city's largest employers as of 2014, according to a 2017 study by the Greater Houston Partnership, the region's chamber of commerce.

Houston and the surrounding region are also in the midst of a petrochemical boom, with more than \$50 billion of capital investment projected to create thousands of jobs.

Mr. Kamins of Moody's predicts the real "economic tragedy" will be for homeowners. He predicts that most of the property damage—\$30 billion to \$40 billion in damage to homes and vehicles—will be residential and is unlikely to be covered by insurance.

That could prevent a full-scale reconstruction effort and even potentially slow the region's rapid population growth, he said, but it wouldn't spark a Katrina-like exodus.

The storm had disrupted more than 15% of U.S. refinery capacity located on the Texas Gulf Coast by Tuesday, and that figure is climbing. Employees in all industries could be prevented from reaching their offices for days to come as roads remain impassable.

Trade in the Houston Ship Channel, the second busiest in the country by tonnage, has also come to a halt and could need weeks before traffic resumes normal levels, according

HARVEY

Continued from Page One

The National Hurricane Center estimated that the storm would drop 3 to 6 inches of rain in southwestern Louisiana through Friday, with some areas receiving as much as 10 inches.

In the west Houston suburb of Memorial on Wednesday morning, residents on water-logged streets weren't sure whether to believe assurances that their homes would remain dry. Some began packing up just in case.

On Pebblebrook Drive, a group of neighbors chatted about their chances of remaining above the water line, which lapped at their front yards.

"This is a once in a lifetime flood," Kent Whitten said.

"We hope, but what happens when it floods next year?" replied Justin Beenneke, 42 years old, as he looked toward his mother-in-law's silver Toyota, which sat in water almost up to its tail-lights.

"If it comes up over that taillight, it'll be in the house."

Across the street, Jake Emery, 42, who lives in a multi-story brick home, surveyed the water at the edge of his front yard. He said it came within an inch of the house Sunday night, then receded—though it looked to have risen about 5 inches since midnight as water

pushed up through the storm drains.

"You think you have it beat," he said. "You look up and it's a beautiful cool morning but the water keeps coming."

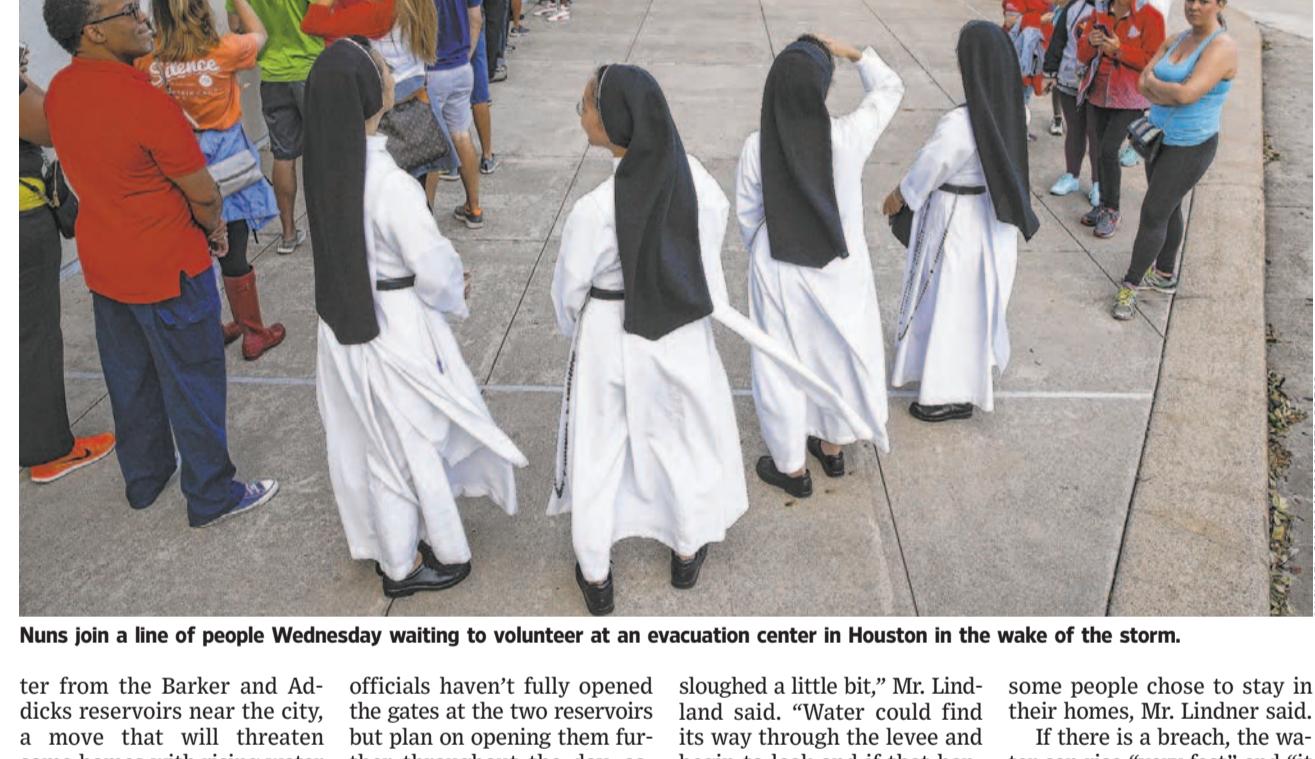
For five days the storm moved along the coast, dumping more than 50 inches of rain on parts of the state in a record for the contiguous U.S. The storm has been linked to as many as 19 deaths, though an accurate death toll is difficult to account for because Texas officials aren't releasing state figures.

Among the dead are five people confirmed by the medical examiner in Harris County and a veteran Houston police officer who died while heeding the call to help others. Police in Beaumont, Texas, have confirmed a woman died there after getting washed away into a canal with her young daughter holding on to her. The girl survived after a dramatic rescue, police said.

There are three confirmed deaths in Galveston County, and the number is likely to grow, Chief Medical Examiner Erin Barnhart said. Floodwaters have made it hard to get bodies to her office from outside funeral homes, she said.

Jeff Lindner, a meteorologist with the Harris County Flood Control District, offered a glimmer of hope, saying the city's watersheds have crested. Still, up to 30% of the county has been flooded.

Mr. Lindner said officials plan to continue to release wa-



Nuns join a line of people Wednesday waiting to volunteer at an evacuation center in Houston in the wake of the storm.

ter from the Barker and Addicks reservoirs near the city, a move that will threaten some homes with rising water levels but only those that are on the brink of flooding already.

The Buffalo Bayou, which runs through the middle of Houston, was expected to rise slightly throughout the day Wednesday and then hold steady.

Ed Russo with the U.S. Army Corps of Engineers said

officials haven't fully opened the gates at the two reservoirs but plan on opening them further throughout the day, essentially choosing to flood some areas and homes to prevent further disaster.

The decision to make the increased controlled releases was difficult but necessary," he said.

Meanwhile, a neighborhood north of the city was endangered by a levee that "has

sloughed a little bit," Mr. Lindner said. "Water could find its way through the levee and begin to leak and if that happens it could begin to breach," he said.

The likelihood of a breach remains low, he said, but he urged residents who are still in homes near the levee to leave. Parts of the Inverness Forest subdivision have been under a mandatory evacuation order since Monday night, but

some people chose to stay in their homes, Mr. Lindner said.

If there is a breach, the water can rise "very fast" and "it is going to be very deep," he said. In some areas, the water could rise to the rooftops, he said.

Officials were trying to determine the best way to shore up the levee, he said.

—Ben Kesling
and Russell Gold
contributed to this article.

EXPORTS

Continued from Page One

The U.S. became a net exporter of refined products in 2011. Gasoline exports surged 33% to a record last year and have continued to rise this year. Some 17% of gasoline made at the Gulf Coast and 39% of the diesel produced there this year has been exported, according to consultancy Turner, Mason & Co.

Exports of crude oil itself, which were largely banned before 2015, have grown from a trickle to surpass one million barrels a day at times this year, winding up in China, the Netherlands and Peru.

Harvey has shut off much of that flow. Ports along the Texas coast, including Houston and Corpus Christi, have been closed, and now some in Louisiana are shut as well.

Vessels that planned to come in to be loaded with crude destined for foreign markets changed course before entering Corpus Christi.

Nation's Largest Refinery Shuts

The U.S.'s largest refinery, in Port Arthur, Texas, said Wednesday that it has initiated a full shutdown because of flooding, as Tropical Storm Harvey pushed east of Houston, dumping a foot of rain on the region overnight.

In an emailed statement, Motiva, owned by Saudi Arabia state oil giant Saudi Aramco, said the controlled shutdown of its 603,000-barrel-a-day Port Arthur refinery began at 5 a.m. central time "in response to increasing local flood conditions." It said the refinery would stay shut until flood water recedes in the area. "Our priority remains

the safety our employees and community."

The Motiva Port Arthur refinery, located 90 miles east of Houston, had already begun reducing production rates on Tuesday as Harvey's rains poured down, and analysts warned then it was only a matter of time before the plant would have to do a full closure.

Otherwise, the refinery might have been forced to do a riskier emergency shutdown.

The nation's second-largest refinery, Exxon Mobil Corp.'s 560,000-barrel-a-day Baytown plant in the Houston area, already shut down Sunday, while more than a half dozen smaller refineries along the Texas coast have also shut. In all, some 3 million barrels a day of refining capacity has been taken offline.

about 20% of total U.S. capacity.

The halting of refinery operations is leading gasoline and other fuel prices to rise sharply, especially in the Gulf Coast region and some gas stations around Texas are already reporting shortages and some bouts of panic-buying.

Analysts from Morningstar say other key refineries in the Port Arthur/Beaumont region east of Houston could also completely shut down Wednesday, increasing worries of tightening fuel supplies. On the flip side, though, refineries that shut last week in Corpus Christi, which is west of Houston, have announced plans to restart in the coming days now that the storm is east of them and they are out of harm's way.

—Dan Molinski

last week, and one tanker that has been in Port Arthur since Aug. 19 is unable to leave because of bad weather, according to Kpler, a ship-tracking firm.

And fuel production has been curtailed. About 20% of U.S. oil-refining capacity has been shut because of the storm, and that number is climbing as Harvey has started

to track eastward. The storm has choked off crude supplies to the plants that have continued to run.

While everyone is watching the impact from a U.S.-

centric perspective...disruption to U.S. product exports to places like Latin America could actually end up being a bigger story," said Michael Tran, director of energy strategy at RBC Capital Markets.

"If you take a piece out of the puzzle, there's a significant ripple effect to other regions."

Market participants are already starting to respond. Trade flows should start to shift to bring more fuel from Europe to Latin America, which would typically get fuel from the U.S., analysts said. Analysts at research and consulting firm McQuilling Services LLC said they have also seen inquiries for cargoes from St. Croix and the east coast of Canada to head to the destinations typically served by the Gulf.

The storm is also resulting in increased competition for a smaller pool of fuel supplies, pushing prices higher. Refiners in the Gulf supply the U.S. East Coast with much of its fuel, shipping gasoline and diesel through pipelines that stretch

thousands of miles.

The Colonial Pipeline, the biggest fuel pipeline in the U.S., said Tuesday it was operating at reduced capacity because of less fuel coming in from the Houston area and storm-related damage at some of its loading and pumping stations.

Matthew Smith, director of commodity research at ClipperData, said the East Coast risks being "left somewhat stranded" if flows from the Gulf Coast are limited. As a result, European cargoes are also starting to head there.

It isn't clear how disruptive Harvey will prove to be. If refineries sustain significant damage, they could be down for months.

But even if producers, pipelines and fuel plants can ramp up relatively quickly, analysts said its effects may linger.

"Back to normal is months, not weeks, for exports and for the industry and the region. We have to acknowledge that," said Barclays analyst Michael Cohen.

U.S. NEWS



Gary Cohn, director of the U.S. National Economic Council, left, and Treasury Secretary Steven Mnuchin, lead the White House effort.

Economy Grew 3% In Second Quarter

By BEN LEUBSDORF

WASHINGTON—U.S. economic growth was stronger than initially thought during the second quarter, a sign of momentum headed into the second half of 2017.

Gross domestic product, a broad measure of the goods and services produced across the U.S., rose at a seasonally and inflation-adjusted annual rate of 3% in the second quarter, the Commerce Department said Wednesday.

That was a pickup from early 2017 and an upward revision from the government's earlier estimate of 2.6% growth during the spring quarter. It marked the strongest quarter of growth since the first quarter of 2015.

Growth in the second quarter was "above the trend for the expansion" but came "after a below-trend pace" in the first quarter, said Jim O'Sullivan, chief U.S. economist at High Frequency Economics, in a note to clients. "The trend is probably still not much more than 2%," he said.

The more robust GDP reading reflected stronger consumer spending and business investment, offset in part by a steeper pullback in spending by state and local governments.

Hitting the 3% mark for the first time in more than two years was notable because President Donald Trump has said he wants to lift annual economic growth above 3% in a sustained fashion by rolling back regulations, overhauling

the tax code and enacting other policy changes.

GDP growth tends to be volatile from quarter to quarter. Since the recession ended in mid-2009, the quarterly growth rate has bounced as high as 5.2%, while at times output has briefly contracted.

Overall, growth during the current expansion has averaged a little over 2% a year. That is in line with the 2.2% growth seen over the past 12 months.

Many forecasters expect continued modest growth in the coming years, shaped by long-term demographic and other forces. Federal Reserve policy makers' median projection in June was for 2.2% growth this year, followed by 2.1% growth in 2018 and 1.9% growth in 2019.

"Even as we see daylight in today's economy, we find ourselves in the shadow of daunting longer-term challenges to economic growth and shared prosperity," said John Williams, president of the Federal Reserve Bank of San Francisco, in an Aug. 2 speech. "These include a sea change in demographic factors like slowing population and labor force growth and a downshift in productivity growth."

Wednesday's report included the government's first estimate for profits at U.S. corporations during the second quarter. After-tax profits, without inventory valuation and capital consumption adjustments, fell 1.4% in the second quarter after rising 1.3% in the first quarter.



The GDP reading partly reflected stronger business investment.

Trump Pitches for Tax Cut

By RICHARD RUBIN

WASHINGTON—President Donald Trump headed to Missouri on Wednesday to argue that a tax plan that significantly cuts business taxes would benefit middle-class workers, White House officials said.

The speech in Springfield, which wasn't expected to offer new policy details, began a new phase of the president's direct engagement in the tax debate, said the officials, who spoke to reporters on a conference call on condition of anonymity.

One of the officials said Mr. Trump was set to make a "very bipartisan speech" that would reflect Americans' frustration that a well-connected few are reaping economic gains.

"We're going to end the rigged system," said the official, echoing language used by groups backed by billionaire industrialists Charles and David Koch and contending that Americans understand how they would benefit if businesses prosper. "We're going to build a tax code that really allows all Americans to have

cost is borne by owners of capital, who tend to be wealthier.

Faced with the political urgency of needing something to show to voters in 2018, Republicans hope to push a major tax bill through Congress by the end of the year.

They are still working on the legislation and they have a long list of obstacles to overcome. They haven't settled on which tax breaks would go away, or whether they want a net tax cut, or how much revenue the new tax code would raise.

The White House has agreed on a broad framework with lawmakers and is ceding much of the detailed work to Congress while the president makes the public case that business tax cuts would yield faster economic growth and rising wages. Even in the absence of a detailed bill, there are some consistent themes.

Mr. Trump's tax plans since he began running for office in 2015 have emphasized tax cuts, including lower rates for corporations, high-income households and businesses that pay taxes on their owners' individual returns.

He has also proposed to re-

peal the estate tax and the alternative minimum tax.

"Those are not exactly populist, keep-rich-people-from-rigging-the-tax-system provisions," said Michael Linden, a fellow at the left-leaning Roosevelt Institute who has advised Democrats on budget and economic policy. "Those are the opposite of those things," he said.

Republicans are proposing to limit or eliminate some tax breaks, including the deduction for state and local taxes that tends to benefit higher-income residents of high-tax states such as New York and New Jersey.

And they have proposed some tax cuts for lower-income households, including a doubled standard deduction.

But they have been less clear about what would happen to other tax breaks, including the personal exemption that is especially valuable for families with multiple children.

Mr. Trump was expected to be joined in Missouri by Sen. Roy Blunt (R., Mo.), Gov. Eric Greitens and six U.S. House members from the state, according to the White House.

Changing Fortunes

Top U.S. corporate income-tax rate



Source: Tax Policy Center

THE WALL STREET JOURNAL

access to the American dream."

Independent analyses of prior tax plans from Republicans and Mr. Trump show the biggest benefits going to high-income households. The Treasury Department and the congressional Joint Committee on Taxation estimate that workers do pay some corporate taxes in the form of depressed wages, but that the bulk of the

taxes are paid by owners of capital, who tend to be wealthier.

Mr. Trump's tax plans since he began running for office in 2015 have emphasized tax cuts, including lower rates for corporations, high-income households and businesses that pay taxes on their owners' individual returns.

He has also proposed to re-

Pressure Grows to Fund Health Program

By STEPHANIE ARMOUR

WASHINGTON—State officials increasingly worry that this year's turbulent health-care politics could threaten funding for the Children's Health Insurance Program, a popular initiative that usually wins broad bipartisan support.

Federal funding for CHIP is set to end Sept. 30. The federal-state program provides health coverage to more than eight million low-income, uninsured children whose family incomes are too high to qualify for Medicaid.

Republicans are looking to possibly attach a repeal of Affordable Care Act taxes—including levies on certain health-insurance plans and medical devices—to a CHIP reauthorization bill, people familiar with the thinking said.

Members of both parties have also discussed using the CHIP bill to extend payments to insurers under the ACA.

The risk, lobbyists and state health officials say, is that such brinkmanship could endanger quick passage of a funding reauthorization.

When Congress returns to

CHIP at a Glance



Sen. Orrin Hatch was a chief sponsor of the 1997 CHIP legislation.

- ◆ Serves more than eight million uninsured children
- ◆ About \$16 billion allotted to states in fiscal 2017
- ◆ Federal funding set to end Sept. 30 if not extended

Washington next week after its August recess, it isn't clear how hard lawmakers will push to attach measures to the CHIP bill. But some state officials are worried enough that they already are looking at whether they may have to wind down their programs if Congress fails to reauthorize the funding.

CHIP has earned bipartisan support from the outset. Sen. Orrin Hatch (R., Utah), now

chairman of the Senate Finance Committee, was a chief sponsor of the 1997 CHIP legislation along with the late Democratic Sen. Edward Kennedy of Massachusetts.

Mr. Hatch is working with fellow lawmakers and the Trump administration to find a way to ensure funding is provided, a committee spokeswoman said.

"There is a bipartisan desire

within the Finance Committee to ensure funding for CHIP is continued and services for vulnerable children are maintained," the spokeswoman said.

The uncertainty reflects the political dynamic after the failure of the hard-fought Republican effort to topple most of the ACA.

CHIP supporters face other obstacles. Congress must pass a broad spending bill by the end of September to avoid a partial government shutdown, and lawmakers also face pressure to raise the government's debt limit in coming weeks.

CHIP is authorized through 2019, but federal money for the state portion of the program isn't. Congress last reauthorized that funding in 2015 for a two-year period that ends Sept. 30. In fiscal 2017, federal CHIP allotments to the states came to roughly \$16 billion.

States have some cushion if the federal funding is delayed, with unspent federal funds redistributed to states that have used up their allotment covering some of the shortfall.

Arizona, Minnesota, North Carolina and Washington, D.C., would run out of their federal

CHIP funding by December, according the Medicaid and CHIP Payment and Access Commission, or MACPAC, a nonpartisan legislative agency that provides analysis and recommendations to Congress. An additional 27 states would exhaust their federal funds by March.

Some Republicans say the reserves mean there isn't an urgent need to reauthorize funding. But some state officials say they would run out of money sooner than projected.

Virginia is estimated to exhaust its federal funds in March, but due to its payment procedures the state's CHIP program would actually wind down in January, said Linda Nablo, chief deputy director for the Virginia Department of Medical Assistance Services.

Families would get a 60-day notice that their coverage was ending, she said.

More than 121,000 children are covered in Virginia, including 1,100 with cancer. About 70,000 would be at risk of losing coverage at January's end, she said. "We have kids in the middle of lifesaving treatment. What do we say to those families?" said Ms. Nablo.

Expanded Pay-Data Disclosure Is Halted

By TED MANN

The White House said it would halt a planned Obama-era rule that would have required businesses to begin collecting data about how much they pay workers of different genders, races and ethnic groups, saying that it posed a burden to employers.

The data-collection requirement was proposed by the Obama administration in 2016 as part of its efforts to address pay disparities among workers of different groups.

The Trump administration will stay implementation of the rule, which would have required employers to report the pay data for the first time in the spring. "It's enormously burdensome," said Neomi Rao, administrator of the Office of Information and Regulatory Affairs, which analyzes the cost of federal rules and regulations.

"We don't believe it would actually help us gather information about wage and employment discrimination."

The Obama administration proposal directed the Equal Employment Opportunity Commission to begin collecting wage and pay data from private employers with 100 or more employees and federal contractors with 50 or more employees. The proposal effectively expanded the range of data employers were required to report beginning this year on a form called the EEO-1. That form has been used to collect information on the racial and gender makeup of the workforce.

In a memo, dated Tuesday, to Victoria Lipnic, the acting chairwoman of the EEOC, Ms. Rao said the White House Office of Management and Budget would stay the rule and conduct a review.

U.S. WATCH

ILLINOIS

State Looks to Alter Chicago Policing

The Illinois attorney general filed a lawsuit that will enforce changes to policing in Chicago through court order, citing the unwillingness of the Trump administration to pursue a similar step after a Justice Department investigation of the Chicago Police Department.

The lawsuit, filed by Democratic Illinois Attorney General Lisa Madigan, will start a negotiation process to reach a consent decree for changes within the department. These decrees are typ-

ically negotiated between cities and the Justice Department, and were used under the Obama administration to change practices within police departments including Baltimore and Ferguson, Mo.

"We are essentially stepping into the shoes of the Department of Justice, shoes that the DOJ has abandoned," said Ms. Madigan in a news conference announcing the lawsuit Tuesday.

Attorney General Jeff Sessions said this year that the Justice Department will pull back on such probes, believing that they overextend the reach of the federal government into local policing and would undermine respect for police officers.

In a statement Tuesday, a Justice Department spokesman said policing is "first and foremost a matter of local responsibility."

—Shibani Mahtani

AGRICULTURE

Farm Incomes Seen Rising in Year

U.S. farm incomes will rise in 2017, halting three consecutive years of decline, as a slump in crop and animal prices eases.

The U.S. Department of Agriculture said net farm income will rise to \$63.4 billion, up 3% from a year earlier but still just about half of 2013's record \$124

billion. Rising profits are a relief to many farmers squeezed by the multiyear slump in the agricultural economy. Analysts nevertheless expect a continuing grain glut to pressure prices this year, with forecasts showing another year of bumper U.S. corn and soybean harvests after those crops appeared to recover from early weather troubles.

—Benjamin Parkin

NEBRASKA

Trial Set for 'AK-47 Bandit' Suspect

A federal trial has been scheduled in Nebraska for a man

suspected of being the "AK-47 bandit," who investigators believe robbed banks in five states.

Court records show Richard Gathercole pleaded not guilty last week to robbery and other charges in U.S. District Court. Mr. Gathercole is accused of stealing more than \$90,000 in August 2014 from a bank in Nebraska City, which sits about 50 miles south of Omaha. His trial is set to begin Oct. 23 in Lincoln.

FBI officials believe the bandit carried an AK-47 while robbing banks in California, Idaho, Iowa, Nebraska and Washington. Mr. Gathercole, of Montana, was arrested near Lexington, Neb.

—Associated Press

REVIEW



CARMEN SEGOVIA

Summer Books For All Seasons

Aimless, whimsical reading shouldn't just be for the beach and summer cottage

BY WILL SCHWALBE

THIS SUMMER, a friend told me that he was surprised to find himself sharing a cottage with Tom Brokaw, Tina Fey, John Irving, Mary Higgins Clark, Amy Tan, Al Gore and Condoleezza Rice. Not with any of those people themselves, of course. He had rented the cottage for a week with his family, and those were the authors of books left behind—by the owners or by previous renters and guests.

He had brought with him George Eliot's "Daniel Deronda," a book he'd always intended to read; this he left unread while he devoured John Irving's "The Water-METHOD Man," Amy Tan's "The Kitchen God's Wife" and several Mary Higgins Clark mysteries. The other books he didn't read cover-to-cover but sampled in the early morning hours, lying in bed and waiting until he heard some other family mem-

ber putting away the previous night's dishes and making the morning coffee.

My friend didn't take any of the summer-house books home with him—that would be more than bad manners. He left them all, and even added to the pile. Next year's visitors will find George Eliot waiting to greet them.

The rest of the year, we tend to be purposeful about what we read. Most of us carefully choose the books we buy or borrow, gaining inspiration from friends, reviewers, podcasts, librarians and booksellers—or we simply follow the choices of our book club. But summer days spent in someone else's home or at a B&B make possible a different kind of reading: more aimless, whimsical, promiscuous.

As I savor the remaining days of summer, it occurs to me that I could incorporate into my life some of this elusive summer spirit. In fact, I think we all might benefit from doing so. Summer is a time when we remember to put our smartphones down, even if only for a few

hours a day, and pay attention to things that last: the sea, mountains, friendships, a foolproof recipe for blueberry pie, great ideas and books—books of all sorts, whether published last week or centuries ago.

When you are in a rented home or staying with a friend for a weekend, you can be the kind of person you aren't for the rest of the year: someone who canoes, plays Parcheesi and reads detective novels from decades past and political memoirs from both sides of the aisle by politicians long dead. The serendipity is thrilling. What's best about books left behind in summer houses and country inns is that they so often offer random and unexpected choices.

There is some predictability, however. It is fairly likely that if you're staying at a seaside cottage, you'll find Anne Morrow Lindbergh's "Gift From the Sea," the 1955 classic that sought to teach everyone, but especially women, how to bring balance back into their lives. In a cabin in the woods, you'll probably encounter Henry David Thoreau's "Walden." Geography is destiny, as well.

Guides to local flora and fauna, books of maps and trails, cookbooks from the neighboring schools and junior leagues, mysteries set in the surrounding towns and villages—all find their way to a permanent place on summer-house bookshelves and bedside tables.

If there are mysteries and thrillers, and

The serendipity of a random book is thrilling.

there almost always are, you'll probably find a selection of books by James Patterson, Sue Grafton, Walter Mosley, Louise Penny and John Grisham, alongside dozens of Agatha Christie, Ngaio Marsh and Erle Stanley Gardner novels. And if there are children's books, you are pretty sure to come across Louisa May Alcott's "Little Women" and an assortment of Nancy Drew and Hardy Boys books.

Then there are the books of summer—the ones whose covers feature a baseball diamond or Adirondack chairs on a sun-dappled dock. No summer-house library is complete without a few of these.

Some houses are frozen in a particular time, with every book a best seller from the same era. In those, "Love Story" by Erich Segal, "The Love-Machine" by Jacqueline Susann, "Rich Man, Poor Man" by Irwin Shaw, "The Lord Won't Mind" by Gordon Merrick and "A White House Diary" by Lady Bird Johnson, all best sellers in 1970, might sit together, waiting patiently for today's summer readers to discover them. Some cottages feature yards of Reader's Digest condensed books, allowing visitors to whip their way through every decade's most popular works, year-by-year.

One friend reports that she and her friends stay every year at a turn-of-the-century hotel in Maine that has a library overflowing with books from decades past. They start each dinner by taking turns reading aloud from books chosen at random. These run the gamut from essays on archery to novels about zoology.

Summer is also a time for rereading. Recently, I came across Ken Follett's "The Key to Rebecca" while spending a weekend with a friend. I'll never forget racing through it and other Follett thrillers the summer I turned 20. It's still every bit as thrilling as it was then. As are "The Day of the Jackal" by Frederick Forsyth and Octavia E. Butler's "Parable of the Sower," a masterpiece set in a dystopian future.

But there is a different thrill that comes from the glorious oddities and unknowns. What makes summer house books so delightful is that they are often books I never knew existed and wouldn't have chosen to read if other options had been available. And yet it's astonishing how often my friends and I find ourselves engrossed in random books. My most recent was "Thatched With Gold: The Memoirs of Mabell, Countess of Airlie"; another was "Filletts of Plaice," a 1971 book of "vignettes" by the memoirist and naturalist Gerald Durrell. Often these are diaries, collected letters, or books of poetry by writers and public figures who were previously complete strangers to me.

Sometimes these are books I had heard about but thought would be of no interest. I'll find myself transfixed by the memoirs of a teen idol or happily exploring a topic in science or natural history that I had assumed would be as dry as the dust that covered the book itself. We could all spend more time reading books other than ones that simply confirm beliefs we already hold, or cater to interests we know we have.

There's a simple way of re-creating the serendipity of summer reading. It involves a superstition. I believe that if I knock over a book in a bookstore, I have to buy it. So in the darkest days of the fall or winter, when I need a break from everything, I'll take my clumsy self to my favorite local bookseller and buy the first volume I topple. Or if that fails, I'll let a random stranger choose a book for me. I'll then cancel any plans and stay home and read it. Instant summer, year round.

Mr. Schwalbe is an executive vice president at Macmillan Publishers and the author, most recently, of "Books for Living," out in paperback from Vintage on Tuesday.

REPEALING THE DEATH SENTENCE OF A SNAKEBITE

BY BETSY MCKAY

JOHN HEENAN stepped over a fence while volunteering at an organic farm in Novato, Calif., earlier this month and felt a sharp burning pain. "I've been bitten by a rattlesnake!" the 68-year-old yelled to fellow volunteers nearby, after looking down to see that he had stepped on one about 5 feet long.

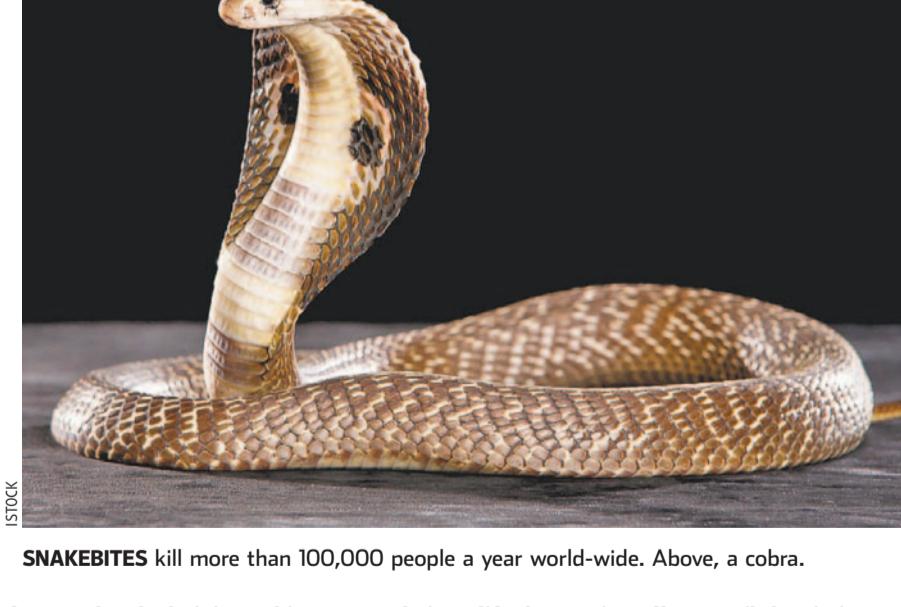
Mr. Heenan staggered a few steps and collapsed. He foamed at the mouth and felt like he was suffocating, and his muscles rippled uncontrollably. By the time he arrived at the hospital minutes later, his airway was so swollen and clogged that doctors struggled to put a breathing tube down his throat, and his blood pressure had plummeted. He was given antivenom and put on life support, and remained unconscious for two days.

Now recovering at home, Mr. Heenan faces extensive physical therapy and follow-up care. But he considers himself lucky to have gotten medical attention so quickly. "I'm alive," he says. "I can't ask for much more than that."

Many others aren't so fortunate. Every year, more than 100,000 people world-wide are killed by snakebites, and about 400,000 undergo limb amputations or are otherwise disabled, according to the World Health Organization. Experts say the real toll is likely much higher because so many poisonous snakebites go unreported.

Yet the problem attracts little investment. Snakebite "envenoming," or poisoning, is largely ignored by public-health authorities and drug developers, though experts hope that it will attract more attention and funding after being added to the WHO's official list of neglected tropical diseases in June.

Antivenom can be hard to find in Africa and Asia, where snakebites pose the largest threat. It can also be of poor quality. It usually has to



SNAKEBITES kill more than 100,000 people a year world-wide. Above, a cobra.

be kept cool and administered intravenously in hospitals or clinics, far from where many victims are bitten. And it is still manufactured using the same basic method created in the 1890s, which involves milking snakes through their fangs, injecting the venom into horses or other large animals and collecting their antibodies.

Scientists, including some from outside the field, are working on ways to modernize snakebite medicine, but it isn't easy. Venom is a complex mixture of enzymes and proteins and varies by species of snake.

Matthew Lewin, an emergency-medicine doctor in Corte Madera, Calif., is developing an antidote that could be administered to a snakebite victim on the spot, blocking many immediately

life-threatening effects until the victim can get antivenom and medical care. "We're just trying to fill the gap between the bite and the hospital," says Dr. Lewin, who helped to treat Mr. Heenan.

Lab tests show that the drug, known as an sPLA2 inhibitor, blocks one of the deadliest toxins in venoms from an array of snakes, Dr. Lewin says. The drug was originally developed by Eli Lilly and Shionogi for other purposes but was shelved. Eli Lilly recently provided documents to help Dr. Lewin further his research and development.

Snakebite science needs groundbreaking solutions, says Jerry Harrison, a member of the bands Talking Heads and the Modern Lovers, who co-founded a biotech company called Oph-

irex with Dr. Lewin to advance the drug. "The name 'antivenom' is so perfect that people think the problem is solved," says Mr. Harrison, who is now a music producer and works with technology and startup companies.

Other scientists are seeking more modern approaches. Andreas Laustsen, a bioengineer at the Technical University of Denmark, is developing a new type of antivenom that would be made with mixtures of human, rather than animal, antibodies. These so-called "recombinant antivenoms," produced in a fermentation tank, would be safer, more effective and less expensive than current antivenoms, says Dr. Laustsen. The idea is to develop an antivenom that would neutralize a range of toxins from different types of snakes, he says. He is using techniques, he adds, that were developed in the course of research on cancer and autoimmune disease.

Still others are working on ways to improve existing antivenoms. Some veterans of snakebite research say that should be the priority, given limited funding. "At the moment, we need to fix the current system because people are dying literally over 100,000 a year, and they can't wait 15 to 20 years for a wonder drug," says David Williams, a toxinologist and herpetologist at the University of Melbourne in Australia and CEO of the nonprofit Global Snakebite Initiative.

Dr. Williams sees an urgent need to improve the prevention and treatment of snakebites, to tighten regulations to keep poor-quality antivenoms off the market, and to make antivenom production more efficient. He supports both immediate and long-term approaches. "I think we need to innovate across the board," he says.

As for the farm where Mr. Heenan was bitten, it has put up signs warning about rattlesnakes. Once he recovers, Mr. Heenan is determined to get back to work there. "I guarantee you I will religiously watch every step from now on," he says.

LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

How to Inspect Every Piece of a Widebody Plane

American Airlines pilots, mechanics and flight attendants kick the tires on a new Boeing 787-9



TRAVIS DOVE FOR THE WALL STREET JOURNAL

North Charleston, S.C.

IMAGINE YOU'RE BUYING a \$270 million car. You'd want to kick the tires pretty hard. That's what airlines do with new airplanes.

Some carriers station their own engineers at **Boeing** and Airbus factories to watch their flying machines get built and check parts as they arrive. Finicky buyers send flight attendants, mechanics and pilots for what are called shake-down inspections. They get to be the worst passengers and pilots ever—yanking seat backs, punching all the call buttons and flying the plane aggressively right up to its limits before the deal is done.

"If I was buying the airplane, I'd probably want to fly it, too," says David Carbon, Boeing's vice president of 787 operations in South Carolina.

Tagging along with a team of experienced American tire-kickers at Boeing's factory here over two steamy days last week shows just how carefully airlines check out their purchases before passengers ever board.

Armed with rolls of red tape used to mark problems, five flight attendants, a couple of mechanical experts and a test pilot attack the 285-passenger plane. All the doors and panels are opened for inspection. In the cabin, everyone wears booties over shoes to keep dirt out. Like an operating room nurse counting sponges, Boeing counts flashlights and mirrors to make sure nothing gets left behind in an

efficiency. Five years ago, American's fleet averaged 15 years old. Now the average age is 10 years.

But getting that new airplane smell into service isn't like ordering pants on Amazon Prime. Boeing does its own testing, but most airline buyers repeat the same tests and do their own extra inspection. Some carriers are more persnickety than others, Boeing executives say, but the airline is always right. Unhappy customers could lead to lost future orders.

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American Airlines employees check the rudder and inspect the paint on a new 787-9, above. A technician tracks problems found in the cabin, below.



engine or mechanical compartment.

Joseph Maloy, American's director of aircraft acquisition, dispositions and records, heads straight to the tail of the airplane to inspect the auxiliary power unit—a small engine that provides power on the ground and in emergencies. He checks the oil level and insulation and looks for any leaks. He makes sure safety wiring is correct and fire-detection tubes are properly positioned and haven't been bumped or bent. It all looks OK.

But not everything is perfect. Another mechanic shows him a cooling tube inside the General Electric engine that appears bent. Mr. Maloy thinks it's probably within limits, but the tube gets written up for GE inspection.

Inside the cabin, flight attendants shake each seat violently, grab the headrest and pull it up as if curling weights and jerk the cord on each entertainment controller. They test power ports, USB ports, audio jacks and the entertainment system. They open all

tray tables, turn all lights on and off. Then they recline each seat with knee-knocking force.

One squeaks like a mouse on an exercise wheel. "Write it up," says Joyce Adkins, a veteran flight attendant from Los Angeles who's been part of the new-plane inspection team for 17 years. "No one wants to hear that in the middle of the night."

The team leaves the seats reclined during a lunch break to see if any creep back up, which would indicate a mechanical defect.

In galleys, flight attendants verify temperature readings on ovens and chillers. (On one plane, Ms. Adkins says she discovered a chiller wired backward, so off was on and on was off.) They flush all the toilets, blow fake smoke into smoke alarms, make sure all pre-recorded emergency messages sound when required. They check to make sure carpet seams line up. They look for scuff and scratches.

"We basically touch everything on the airplane that the crew and customers contact," says Steve Young, a Los Angeles based flight attendant. "We're all airplane geeks, very detail-oriented."

In the cockpit, Gary Beam, an American pilot whose main job is to test new and overhauled airplanes, checks systems on the ground with a Boeing analyst sitting beside him. He shuts off systems to see if backups kick in and warning lights come on, tests he'll repeat the following day in the air.

Capt. Beam cuts all the power—emergency lights illuminate the cockpit, as expected. He tests evacuation alarms and fire alarms. With no air conditioning in the cockpit because normal electrical power has been cut, sweat runs down his face.

The next day, Capt. Beam and a Boeing test pilot fly the plane south from Charleston to the Florida panhandle, taking it up to 38,000 feet. Capt. Beam flies the jet to its limits, making sure alarms sound when he increases air speed or slows the plane down to stall speed. Even at 690 mph, the ride is smooth, he says later.

After three hours of flight testing, Capt. Beam is pleased with the product. "It's really kind of an amazing flight. You learn so much about the airplane doing this," he says back on the ground.

Flight attendant Tom Baldwin says about 20 cabin items needed to be checked after the test flight. One major squawk: The crew couldn't connect to the Wi-Fi system.

The day before, 120 issues were recorded, most of them cosmetic and minor, like seat squeaks. "It was pretty routine," he says, except for the Wi-Fi failure.

Those 140 punch list items, about average for a widebody, Mr. Baldwin says, will be addressed this week by Boeing and its suppliers.

The airplane will be officially delivered to American on Friday, 74 days after assembly began, with tail number N830AN and American's fleet number 8LL.

PHOTO ILLUSTRATION BY THE WALL STREET JOURNAL; PHOTOS: GASOLINE GLAMOUR; KATE SPADE NEW YORK (3); CHASER BRAND; THREEPOTATOFOURCO; CUFFLINKS, INC; LETTERCLOTHINGCO; WILDFOX; UNCOMMONGOODS; ISTOCK (2)

FASHION

HOW TACOS BECAME A FASHION TREND

BY ANNE MARIE CHAKER

DON'T LOOK, but there's a taco on your T-shirt.

Tacos have gone from one of America's most popular restaurant foods to a serious fashion statement. A \$59 tank top from Los Angeles-based clothing brand Chaser reads "tacos are my life." New York-based Nylon Media's online store sells taco-themed jewelry and sunglasses while Kate Spade offers a \$358 purse in the shape of a taco truck. Online retailer Etsy says taco searches were up more than 65% in the first half of this year.

Kevin Palarz, a 36-year-old structural engineer in Barrington, Ill., has a thing for tacos. He and his friend Mark Lanctot track their taco consumption—including restaurants and ratings—on a shared spreadsheet. Mr. Palarz, who has consumed, 881 tacos since January, owns several taco-themed T-shirts and socks. "When I wear my taco T-shirt, people on the street talk to me," he says. "It's a social thing."

The public taco obsession has been stoked in recent years by teens and 20-somethings, experts say, who are exposed to celebrity-magazine images of a chilled-out, West Coast lifestyle. "There is something fundamentally California about tacos," says Megan Baca, vice president of design for Chaser, whose beachy T-shirts and dresses are sold in department stores such as Bloomingdale's and Nordstrom. Celebrities such as singer Katy Perry and model Chrissy Teigen have recently been photographed waiting in line for tacos or eating them. Tacos got a major break in 2015: After much lobbying by Taco



Bell and others, the nonprofit Unicode Consortium, which regulates coding standards for written computer text, approved the taco as an emoji. Graphics of tacos began trickling in after that, says Sarah Owen, senior editor of digital media and marketing at fashion forecasting firm WGSN. Everything from rugs, towels and baby booties followed,

as well as shirts that say "It's Taco Time" or "There is no We in Tacos."

Clothing with symbols and statements are like wearable tweets, says Ms. Baca at Chaser. "It's little soundbites of ourselves," she says. "I'm trying to capture the emotion of a mini-mental vacation in a T-shirt."

Ms. Baca designed her first taco shirt two

years ago after department store buyers balked at designs touting champagne and beer. "It was, 'How do you capture the fun . . . without alcohol?'" Ms. Baca says.

More broadly, food seems to be having a fashion moment. While many trends start on the runway and trickle down to the masses, the food-symbol trend is going the reverse, says Mark-Evan Blackman, assistant professor in the fashion design department at the Fashion Institute of Technology. High-end Italian brands such as Milan-based Etro are incorporating foods such as spaghetti into designs, he says. Tacos, Mr. Blackman says, remain planted in U.S. fashion. "They are cool and they are sexy."

Tacos are among the top five foods ordered at U.S. restaurants, according to NPD Group. Their influence has crossed into other restaurant cuisines.

Part of the fun is that some taco designs make people laugh and some leave others scratching their heads. Ms. Owen authors an annual report titled Slanguage which deconstructs popular new catch phrases and symbols for marketers. The report explains that teens and 20-somethings have created their own vernacular, "with an injection of humor and irony that transcends parents and anyone over the age of, say, 35." Tacos, which have attained street credibility among 20-somethings, she says, are part of that. "The microtrend of food," Ms. Owen says—designs containing symbols and expressions of love for certain foods—"is a backlash to this huge wellness and clean-eating movement. Now, it's that girl who says 'I'm going to treat myself to a doughnut and talk about how much I love tacos,'" she says.

OPINION

REVIEW & OUTLOOK

Nuclear Missiles Over Tokyo

Residents of northern Japan awoke Tuesday to sirens and cellphone warnings to take cover as a North Korean rocket flew overhead. The intermediate-range missile test will further roil the politics of security in Northeast Asia and is another prod toward Japan acquiring its own nuclear deterrent.

Pyongyang tested long-range missiles over Japan in 1998 and 2009, claiming they were satellite launches. The first shocked Japanese and led to cooperation with the U.S. on theater missile defense. After the second, Tokyo curtailed the North's funding sources within Japan's ethnic Korean community. Tuesday's launch is even more threatening because U.S. and allied intelligence agencies assess that North Korea now has the ability to hit Japan with a miniaturized nuclear warhead mounted on a missile.

Much of Japan is protected by its own missile defenses as well as systems operated by U.S. forces in the region. Japan also recently deployed four Patriot PAC-3 missile-defense batteries to the west of the country, but these didn't cover the northern island of Hokkaido overflowed by Tuesday's missile.

Japan's ultimate security is the U.S. defense and nuclear umbrella, with its treaty guarantee that the U.S. will respond if Japan is attacked. But the logic of deterrence depends on having a rational actor as an adversary, and rationality can't be guaranteed in North Korea. Its recent development of an ICBM capable of hitting the U.S. mainland also changes the equation. If North Korea attacked Tokyo and the U.S. responded with an attack on Pyongyang, U.S. cities might then be endangered.

Japanese leaders have long resisted building

Accepting a nuclear North Korea probably means a nuclear Japan.

their own nuclear arsenal, but that could change if they conclude America isn't reliable in a crisis. Or Japanese may simply decide they can't have their survival depend on even a faithful ally's judgment. Some Japanese politicians are already talking about their own nuclear deterrent. And while public opinion currently opposes nuclear weapons, fear

could change minds. Japan has enough plutonium from its civilian nuclear reactors for more than 1,000 nuclear warheads, and it has the know-how to build them in months.

This prospect should alarm China, which would suddenly face a nuclear-armed regional rival. The U.S. also has a strong interest in preventing a nuclear Japan, not least because South Korea might soon follow. East Asia would join the Middle East in a new era of nuclear proliferation, with grave risks to world order. This is one reason that acquiescing to a North Korea with nuclear missiles is so dangerous.

Yet this is the line now peddled by former Obama National Security Adviser Susan Rice and former Director of National Intelligence James Clapper, who says the U.S. must begin "accepting it and trying to cap it or control it." Having said for eight years that a nuclear North is unacceptable, they now say that President Trump and Japanese Prime Minister Shinzo Abe had better get used to it.

But "control it" how? North Korea has made clear it won't negotiate away its nuclear program. The U.S. can threaten mutual-assured destruction, but Tuesday's missile test over Japan shows how North Korea will use its nuclear threat to coerce and divide the U.S. and its allies. Accepting a nuclear North Korea means accepting a far more dangerous world.

Nixing the \$520,000 'Footlong'

America's Seventh Circuit Court of Appeals has given the plaintiffs something to chew on. Writing for a three-member panel, Judge Diane Sykes on Friday threw out a class-action lawsuit settlement involving the Subway food chain's "Footlong" sandwich on grounds that the only beneficiaries were the lawyers.

The case started in 2013 after an Australian teenager posted a photo on Facebook of a Subway Footlong next to a tape-measure showing it to be 11 inches. The post went viral—and so did the lawyers. Nine class-action suits were launched around the U.S., later consolidated into one.

Subway soon announced steps to ensure its baked rolls would be at least 12 inches. In 2016 a lower court approved a settlement under which Subway promised to maintain practices to ensure more uniformity in its bread. The suing

A U.S. appeals court tosses the Subway sandwich settlement.

attorneys were to collect \$520,000 in fees.

Enter Theodore Frank, who directs the Center for Class Action Fairness at the Competitive Enterprise Institute. He objected to the settlement on grounds that while the lawyers were "handsomely compensated" the class received "negligible to no relief."

During litigation it emerged that though the baked length of a roll may vary, the amount of dough is uniform. Judge Sykes also noted that "after the settlement—despite the new measuring tools, protocols, and inspections—there's still the same small chance that Subway will sell a class member a sandwich that is slightly shorter than advertised," owing to the inherent vagaries of food production. It's safe to assume, wrote Judge Sykes, that Subway customers "know this as a matter of common sense." These days we'll take any victory for common sense.

The Hurricane Learning Curve

Hurricane Harvey is still pouring torrential rain on Texas and Louisiana, which means more damage to come. But it isn't too soon to point out some compensating news: Storm responders are putting into practice the lessons of past extreme weather and saving lives as a result.

By late Tuesday the storm had dropped 50 inches of rain on parts of Texas—breaking continental records. Harvey appears to have claimed at least 15 lives, including a family of six swept away in a vehicle that remains missing. The Houston police by Tuesday morning had rescued at least 3,400 people from rising floodwater, and the Coast Guard rescued 3,000 on Monday. Officials are predicting the storm will force 30,000 people into shelters and the economic damage will be at least \$30 billion.

Yet as terrible as the toll is, it's impossible to ignore the improved response compared to storms past. Hurricane Katrina in 2005 left New Orleans a chaotic scene of failed evacuation, stranding 100,000 people in the low-lying city. It killed 1,833, left three million without power and cost an estimated \$100 billion to \$130 billion. A few weeks later more than 100 people died attempting to leave Houston, part of a panicked evacuation before Hurricane Rita.

The federal government, local officials and private and charitable interests are now applying the lessons of these past failures. Katrina exposed the Federal Emergency Management Agency's dysfunction, and Congress responded with reforms that altered how the agency works—particularly on pre-storm preparation. Prior to Katrina, FEMA waited until governors requested assistance, often arriving late as it did in New Orleans.

FEMA was on the ground in Texas nearly 48 hours before Harvey made landfall, working with local partners and unifying a larger federal effort. In addition to thousands of FEMA employees and the Coast Guard, the Energy Department was on hand to monitor oil and gas facilities, and Health and Human Services sent 650 staffers to provide medical assistance. The Department of Homeland Security on Saturday activated a post-Katrina program that stands up a "surge" force of non-FEMA federal employees trained to assist in natural disasters.

Former Louisiana Gov. Kathleen Blanco dawdled about getting her National Guard on the streets to help with rescues and maintain order. Texas Governor Greg Abbott quickly activated the entire Texas National Guard, including those

The lessons of failure in Katrina are saving lives in South Texas.

preparing to deploy overseas. By Monday more than 12,000 Guardsmen were assisting with search and rescue, and preparing to help with recovery.

The state ramped up more than 200 buses to transport people out of coastal areas, and more than 40,000 shelter beds in safe zones. Houston Mayor Sylvester Turner gave clear instructions to residents to stock up and avoid roads, and he quickly deployed police and firefighters. Dallas opened a megashelter at its convention center and put hundreds of buses on standby for flood victims. Officials in smaller, coastal towns worked with state authorities on mandatory evacuations.

One theme is communication and clear lines of authority. Every analysis of Katrina has pointed to confusion between Louisiana and Washington about who should be in charge. In this case, Governor Abbott and local officials appear to be taking the lead but are working closely with the feds to marshal resources. These agencies are also using social media to provide instructions to victims, cut through rumors, and work with Houstonians rushing to help neighbors.

Corporate America also learned from Katrina. Telecom companies have upgraded their networks against natural disasters after Katrina knocked out more than 1,000 cell sites and put 911 calls and other networks in gridlock. As Harvey neared, AT&T and Verizon dispatched fuel for emergency generators and deployed mobile cell sites.

The Federal Communications Commission reported Sunday that just 4% of 7,804 cell sites in Harvey's path were knocked out. While Texans are certainly getting busy signals, many emergency calls are getting through. By Friday Wal-Mart had already dispatched more than 1,000 trucks of goods to Houston, and Bass Pro Shops is handing over 80 of its Tracker boats for rescues.

The Texas stretch of the Gulf Coast is home to nearly five million barrels a day of oil and gas refining capacity. Post-Katrina, refineries hardened their facilities against the flooding threat by investing in systems that guard electric equipment. They stacked up on emergency generators and fortified against wind and storm damage. So while refineries are closed as they ride out the storm, they should be back online quickly when weather and roads clear.

The storm isn't over, and no doubt some will find reasons to point fingers. But at a time when Americans have so little trust in government, it's worth noting when it shows it can learn from previous failures.

The Arpaio Pardon: Ugly but Constitutional



POLITICS & IDEAS
By William A. Galston

President Trump's decision Friday to pardon Joe Arpaio sparked a predictable firestorm. As the partisan brickbats fly—as they do after every high-profile pardon—it's important to stay focused on the troubling details that set this specific case apart.

By pardoning the former sheriff after his criminal conviction for contempt of court, Mr. Trump acted well within his constitutional authority—even though Mr. Arpaio hadn't yet been sentenced. More than 150 years ago, in what remains the leading decision on this subject, the U.S. Supreme Court in *Ex parte Garland* (1867) stated that the president's pardon power "extends to every offense known to the law, and may be exercised at any time after its commission, either before legal proceedings are taken, or during their pendency, or after conviction and judgment."

Each time a president issues a controversial pardon, the American people rediscover the odd power that seems to cut against the spirit of the rest of the Constitution. It is a broad, unreviewable power vested in a single individual—entirely free of checks or balances.

And yet, this apparent aberration was an intentional addition by the Constitution's framers, who debated and decisively rejected a role for the Senate in granting pardons.

Alexander Hamilton devoted a substantial portion of Federalist No. 74 to defending the provision. "Humanity and good policy," he argued, "conspire to dictate that the benign prerogative of pardoning should be as little as possible fettered."

A single decision maker, he continued, would be more likely to be guided by the right kinds of considerations as well as a strong sense of responsibility in exercising this power.

Hamilton didn't see the pardon as a challenge to the rule of law, but the reverse—a correction of law's inherent imperfection. "The criminal code of every country partakes so much of necessary severity," he wrote "that without an easy access to exceptions in favor of unfortunate guilt, justice would wear a countenance too sanguinary and cruel."

The pardon was created as a way of tempering justice with mercy. It is, wrote the great Chief Justice John Marshall in *U.S. v. Wilson* (1833), "an act of grace."

This raises the first point of genuine controversy in the Arpaio case. Mr. Trump didn't seek to justify his pardon as an act of mercy or grace. Rather, he portrayed it as reversing an injustice.

At his rally in Phoenix last week, he posed a rhetorical question to a sup-

portive crowd: "So was Sheriff Joe convicted for doing his job?" And in a tweet shortly after issuing the pardon, he characterized Mr. Arpaio as an "American patriot" who "kept Arizona safe."

The president disregarded the court's finding that the sheriff was doing his job in an illegal manner and that the law specifies not only the ends of public policy but also the permissible means. Mr. Trump's action tacitly endorses the proposition that the ends justify the means, which is a direct challenge to the rule of law.

Can Trump explain his decision? Or is this just a sop—and an abuse of power?

The best-known use of the presidential pardon came in 1974, when President Gerald Ford pardoned former President Richard Nixon. Ford justified his action in part by the tradition Hamilton had cited. "Surely we are not a revengeful people," he said. Nixon "already is condemned to suffer long and deeply in the shame and disgrace brought upon the office he held."

But Ford's principal argument was an appeal to the national interest. The country confronted profound challenges at home and abroad, he contended. Americans needed to focus on these challenges, and the divisive trial of a fallen president would divert them from rising to the occasion.

Ford made these arguments in the statement with which he began his historic and entirely voluntary appearance before the House Judiciary Committee. In the course of his remarks, he answered 10 questions the committee had posed to him a month before his hearing. Conducting himself like any other witness, the president followed his statement by answering dozens of questions posed by committee members, some of which were decidedly hostile.

Ford's testimony underscored the notion that although there is no legal basis for overturning a presidential pardon, the president is nonetheless publicly accountable for his decision. Much as the drafters of the Declaration of Independence owed mankind a justification of the act of separation, Ford felt a similar obligation to Congress and the American people.

Does Mr. Trump feel any such obligation? Is he willing to answer questions—in writing and in person—about his pardon of Joe Arpaio?

If not, it will be hard to resist the conclusion that he issued the pardon to send a message to his core supporters and to free those charged with enforcing immigration laws from legal restraints. If this isn't an abuse of power, what is?

LETTERS TO THE EDITOR

Hong Kong Doesn't Have Political Prisoners

Regarding your editorial "Hong Kong's Political Prisoners" (Aug. 18):

The three defendants were imprisoned by the Court of Appeal (not the government) after a fair, open and transparent judicial process. They were convicted and sentenced not because they exercised their right to demonstrate, but for their unlawful conduct during the protest. They are not "political prisoners."

Freedom of speech and assembly are fundamental rights protected in

Merck's Frazier Resigned Because of Strong Values

As a long-time member of the Merck board of directors, I want to leave no doubt about the off-base sentiment in Holman Jenkins Jr.'s "Why Trump Lost Corporate America" (Business World, Aug. 17) in which he suggests that Merck CEO Ken Frazier's domino-leading resignation from the president's advisory council was somehow driven by political calculation rather than the fundamental American values eloquently referenced in Ken's resignation statement. This is simply wrong. As one of our country's most effective and highest-ranking African-American executives, Ken's capabilities, values and rise from modest means have been well documented.

For Mr. Jenkins to suggest that Ken's courageous, prompt and decisive statement may be concealing a "greater honesty" or have been sculpted by "risk-averse advisers" has no basis in fact. Ken's actions were a function of the transparent, values-based and sense-of-urgency leadership that has continually characterized his outstanding career.

PETER C. WENDELL

San Francisco

Hong Kong. However, the court pointed out that one must also respect the law when exercising such rights, and shouldn't overstep the boundary allowed under the law.

The prosecution's application to review the sentences of the defendants was made on legal grounds set out in our laws and it was handled as soon as the defendants abandoned their appeal against convictions. When imposing the sentences, the court has taken into account that the defendants have served their community service orders in their original sentences.

The claim that the prosecutions were politically motivated is completely groundless. Any suggestion that our judges were under political influence and were forced to "send democratic activists to jail" is an insult to our judiciary, which is internationally recognized for its independence, quality and professionalism.

CLEMENT LEUNG

Hong Kong Commissioner to the U.S.

Washington

Limiting Prosecutors' Abuse

Regarding your editorial "Texas Political Prosecution" (Aug. 22): One sure way to trim the sails of over ambitious prosecutors is to require judges to inform grand jurors—formally in writing, as well as verbally when they are empaneled—of their functions and duties. They should be made aware that they aren't an arm of the prosecution, but of the court, and their sworn duty is to protect the innocent from unnecessary prosecution.

SAMUEL COLMAN

Boca Raton, Fla.

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to wsj.ltrs@wsj.com. Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

PETER C. WENDELL

San Francisco

Big business has always been

about politics. Business just needs to

stay on task.

TERESA A. FANIN

Conover, N.C.

OPINION

Bolstering Alliances Against North Korea

By Michael Mazza

North Korea's launch of an intermediate-range ballistic missile over Japan once again highlights the threat that Pyongyang poses to the U.S. and its Northeast Asian allies. We've learned from this year's missile launches and from a series of U.S., Japanese and South Korean intelligence assessments that it's only a matter of time before North Korea can marry a nuclear warhead with a ballistic missile and reliably deliver it to all

Washington, Seoul and Tokyo will need a lot more than unifying rhetoric to defy Pyongyang.

three countries. This development threatens to upend the region's security architecture.

The Kim family has a variety of reasons for pursuing a nuclear-weapons capability, but one of its goals—one that happens to align with Chinese interests—is to unsettle and ultimately delink the U.S. alliances with South Korea and Japan.

A North Korea able to strike the U.S. homeland will raise concerns in Seoul and Tokyo about Washington

ton's commitment to their defense. Pyongyang is forcing South Korean and Japanese leaders to once again wonder if the U.S. is willing to trade Los Angeles for Busan or Osaka, a question that introduces doubt into these relationships and emboldens Kim Jong Un.

Moreover, North Korea's ability to target Japan with nuclear weapons could lead to Tokyo resisting U.S. intervention efforts on the peninsula from bases in Japan in the event of a crisis. Skepticism of an ally's dependability can flow both ways.

Assurances of commitment, whether in presidential statements or shows of force, are helpful in assuaging doubts among allies and signaling unity to foes, but such assurances can only go so far.

It's no longer enough for the U.S., Japan, and South Korea to simply profess the ironclad nature of their alliances. At a time when enemies and rivals are seeking to fray the ties that bind them together, the allies must move to deepen those ties.

To do so, the U.S. should organize a trilateral summit of the foreign and defense ministers to meet as soon as possible. Discussions should focus on assigning roles and responsibilities in the event of a crisis in the near term; coordinating defense planning for the North Korean threat over the medium-term; and, most controversially,



AGENCE FRANCE PRESSE/GTY IMAGE

From left, South Korea's President Moon Jae-in, U.S. President Donald Trump and Japan's Prime Minister Shinzo Abe at the G-20 summit in Hamburg, Germany.

moving towards a collective-defense treaty focused squarely on Pyongyang. Eventually, a North Korean attack on one should be considered an attack on all.

Many in South Korea will balk at an alliance with Japan, the country's former colonizer. Relations between the two nations remain touchy, at best, over their shared history.

Meanwhile, such an arrangement would face constitutional challenges in Japan. Even the U.S.-Japan security treaty isn't a mutual-defense treaty—Japan isn't bound to come

to America's defense unless a U.S. base on Japanese territory comes under foreign attack.

But Japan's Prime Minister Shinzo Abe and South Korea's former president, Park Geun-hye, for all her faults, demonstrated that the two countries' leaders can work through the most sensitive of historical issues. And the Japanese government's recent embrace of the right to collective self-defense could one day come to include an embrace of mutual-security obligations.

After all, events on the Korean peninsula have always been

understood to directly affect Japan's own security.

Embarking on such an effort, which the allies should make clear will progress in accordance with changing conditions in the region, might make Kim Jong Un reconsider the value of his nuclear arsenal.

Perhaps more importantly, it will place significant pressure on China. Beijing can choose to work with Washington, Seoul and Tokyo to solve the North Korean conundrum once and for all. Or it can learn to live with an eventuality it has long sought to forestall—the evolution of America's alliance system in Northeast Asia from a hub-and-spokes model to one of collective defense. China knows that an alliance focused narrowly on the North Korean threat could one day expand its purview.

Sanctions, military exercises and rhetoric all have their place in countering North Korea. But the allies cannot be content to keep muddling through crisis after crisis hoping that, sooner or later, Kim Jong Un will see the light of day.

Bold action is needed if the allies are to fundamentally shift the regional security environment in their favor.

Mr. Mazza is a research fellow in foreign and defense policy studies at the American Enterprise Institute.

Misusing U.S. Sanctions Will Sap Their Power

By Jarrett Blanc

Since taking office, President Trump hasn't hesitated to threaten or implement sanctions against countries such as Venezuela and North Korea. Sanctions are useful tools, but Mr. Trump and bipartisan majorities in U.S. Congress run the risk of making them less effective.

The U.S. economy's size isn't the primary reason its sanctions are so powerful: Countries without a significant trade relationship with the U.S. can still be severely damaged by bilateral sanctions.

Though the European Union's gross domestic product almost matches America's, EU sanctions are much less devastating. This influence derives from America's central position in international finance—particularly its control over the invisible plumbing that allows money to move around the world.

Recognizing how much of their work touches the U.S., major foreign banks will often go so far as to treat themselves as "U.S. persons" for legal and regulatory purposes. Countries or entities subject to U.S. sanctions thus have a very difficult time with even simple banking transactions, which is catastrophic for trade.

Yet America's dominant place in international banking, like its position in the broader international system, can be lost. The international financial plumbing can be changed with the investment of time and resources by banks, governments and regulators. So far there haven't been sufficient incentives to make those changes, but governments and banks will reconsider if the U.S. abuses its position.

Policy makers and regulators in the U.S. have long been sensitive to this risk. They have taken it into account in the application of new sanctions and have worked closely with foreign banks to ensure they're doing permissible business—even business barred to their American competitors.

For example, outreach surrounding the Iran deal was designed to assure foreign businesses and regulators that remaining U.S. sanctions were tailored and not a back door to enforcing the sanctions lifted by the deal. Thanks to these efforts, major foreign banks working with Iran have largely chosen to work with U.S. officials and stay in careful compliance.

Washington's caution seems to have been lost with the latest sanctions against Iran, Russia and

North Korea—legislation that passed with overwhelming support from both parties and was signed into law by a hesitant Mr. Trump. The new sanctions will do little to change the kinds of commerce allowed with the target

America's central role in finance gives it unique clout, but this could erode if Congress isn't careful.

countries. The law's main function is to shift influence over lifting sanctions from the White House to Capitol Hill.

Congress has historically found it more attractive to levy sanctions than to lift them. Sanctions generally target adversaries, so that even if a country changes the policy that prompted sanctions, it likely will have other problems with the U.S.

Some members of Congress will be tempted to promote these remaining issues as new reason to keep sanctions in place. That's why the 1974 Jackson-Vanik restrictions on most-favored-nation status for Russia stayed in place for a gener-

ation after Russia opened up emigration restrictions, the legislation's original aim.

Mr. Trump is right to say the shift in power toward Congress will make it harder to use sanctions as a chit in international negotiations.

For those who are deeply concerned by Russian meddling in other countries' elections—and by Mr. Trump's apparent nonchalance—congressional authority over sanctions may feel like progress. For banks, governments and regulators abroad, it looks as if the U.S. is turning sanctions from a means of achieving particular ends into permanent stigmas. That makes it more attractive to find ways to leave the U.S. banking system.

Mr. Trump also is threatening loudly to trash the Joint Comprehensive Plan of Action, better known as the Iran deal. Never mind that America's international partners and the intelligence community agree that Iran is fulfilling its commitments.

The U.S. built an international consensus that Iran's nuclear program was a problem. European and Asian partners took appropriate action, suffering real economic harm by ratcheting back oil purchases and other commerce with

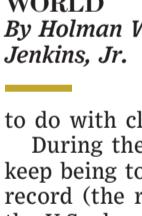
Iran and then working to negotiate the deal. If the U.S. cannot take "yes" for an answer, those same partners likely will be at least as concerned about the threat posed by America's financial power as the threat of Iran's nuclear program.

In a time when U.S. consistency and reliability is openly questioned by some of America's closest allies, threats of permanent sanctions will draw more attention to the risks of being dependent on the U.S. financial system. America's importance as an international financial hub won't disappear overnight, and neither will the reach of U.S. sanctions. If the U.S. comes to be seen as an untrustworthy custodian, there will be a slow and inexorable erosion of America's role and influence.

Sanctions compare favorably with any other tool the U.S. has—and certainly very favorably to military action. They can help address real problems in the world, which is why the U.S. shouldn't fritter them away.

Mr. Blanc, a senior fellow at the Carnegie Endowment for International Peace, was the U.S. State Department coordinator for Iran nuclear implementation (2015-17).

First Resilience, Then Boondoggle



BUSINESS WORLD

By Holman W. Jenkins, Jr.

An arrow straight up in recent decades has been the rising severity of hurricane damage.

The culprit is the ever larger number of people and their stuff in the path of these storms.

It has nothing to do with climate change.

During the past decade that we keep being told was the hottest on record (the record being skimpy), the U.S. also saw a dearth of hurricane landfalls. A major storm hadn't hit the U.S. since 2005.

Sandy, as many in the press played down at the time, had actually been downgraded to a tropical storm when it reached the New York and New Jersey shore in 2012. The impact was worse than it might have been for a simple reason: The storm followed an

unusual westward track, and a garden-variety storm surge happened to coincide with a full-moon high tide.

Harvey has been an energetic storm but also an uncharacteristically stationary one. The deluge that fell and continues to fall on Houston is created by a storm hovering in place, sucking up moisture from the Gulf of Mexico and dumping it on land.

Even press accounts that noted a lack of discernible connection to climate change somehow, by paragraph three, were quoting climate-change campaigners.

This is a counsel of despair. Daily tides rise and fall along the East Coast anywhere from 2 feet to 11 feet. Storm surges associated with hurricanes range from 7 feet to 23 feet. These dwarf the effect of any global-warming-caused increase in the steadily rising sea levels of the past century.

The U.S. economy consists of

millions of Americans who aren't waiting around for someone to tell them what to do. This makes it resilient. Private boat owners in Houston leapt into action to rescue the stranded, many whose pleas were transmitted via social media, bouncing server to server until they reached the guy with a skiff down the block.

Gasoline prices ticked up on reports of damage to the Gulf's massive refining industry, encouraging some to forgo filling up and leaving more fuel available for those who value it most. Foreign refiners are eyeing the higher margins available in the U.S. and dispatching cargoes our way.

Thousands in Houston have been flooded out, and thousands more are without power and likely to be so for days. The outages Americans experience nowadays aren't more frequent, but tolerance for them is lower, hence a growing number of householders who outfit themselves with emergency generators.

Even those Houston-area residents who were free to move

around in their cars found their way blocked by a massive cattle drive down U.S. 90, as ranchers moved their herds to higher ground.

Disrupted drivers didn't mind; they stopped to take pictures, according to the Houston Chronicle.

Maybe we should start budgeting for the kind of bailout Houston will need.

eyewitnesses to a phenomenon seen only in John Wayne movies. Another expression of resilience.

At the time of Sandy, New York's Mayor Mike Bloomberg and Gov. Andrew Cuomo blamed the damage, nonsensically, on global warming.

They had an eye on the administration in Washington. They knew its hobbyhorses and talking points. Their blather was aimed at creating an atmosphere conducive to the billions in federal rebuilding grants that soon would be flowing.

Two-thirds of Katrina's damage in New Orleans wasn't covered by insurance. Less than half of Houston commercial buildings and homes in the waterlogged zone are covered by flood insurance.

It wouldn't be politically realistic to expect the Trump administration to resist opening the spigots as every other administration has. The background chant may not be "climate change"—perhaps the political sound effects will dwell instead on Houston's role in protecting America's "energy independence."

Only 10% of California residents have earthquake insurance; 85% of the public assets in San Francisco are "self-insured"—i.e., uninsured. What will be the accompanying music then?

If Gov. Jerry Brown is still in office, maybe he will find some way to connect an earthquake to global warming. Otherwise taxpayers in the Midwest can expect to hear how vital Silicon Valley is to America's global leadership.

If the U.S. were a private business, such "contingent" liabilities would show up in measures of the federal debt and deficit. In Washington, they do things differently.

One of the most interesting quotes collected by Journal reporters this week comes from Michael Williams, a ballpark maintenance worker for the Houston Astros, whose position atop the American League West will be a solace to the hard-hit city. He noted succinctly: "Houston floods fast. They're doing all this construction but we still got no [storm] outlets."

Between the immediate displays of self-help and resilience, and the predictable federal spendathon that's coming, let Mr. Williams be heard too. A few such lessons and better planning might help lighten the burden of those facing future emergencies.

THE WALL STREET JOURNAL.

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Notable & Quotable: Waffles

Ethan Wolff-Mann, writing Aug. 25 at Yahoo Finance:

Hurricane preparation for many can be a scramble, but for Waffle House, it's a game of chess with military-style strategy and execution. Before a storm hits, and even before hurricane season, the company makes storm checklists for each location, meets with local authorities, and educates new employees, though many have been through 15 hurricanes.

"We've already done all that," Waffle House's director of external affairs Pat Warner told Yahoo Finance. "Right now we're getting jump teams ready."

A Waffle House jump team consists of a small team of restaurant operators from outside the hurricane zone. These employees swoop in at the first possible moment after a storm to restore service and get things open. Typically after a storm, demand for food is high and functioning restaurants are in low supply, and things get extremely busy.

"There's a jump team outside of Nashville ready to go on Sunday. Jump teams are [also] ready in Louisiana," said Warner. "Then we can deploy from the main office some teams that may or may not go depending on severity."

LIFE & ARTS

ART REVIEW

'Truth-to-Materials' Sculpture

Tom Joyce's monumental works are a love letter to abstract shape, paying homage to forebears dating back to Brancusi

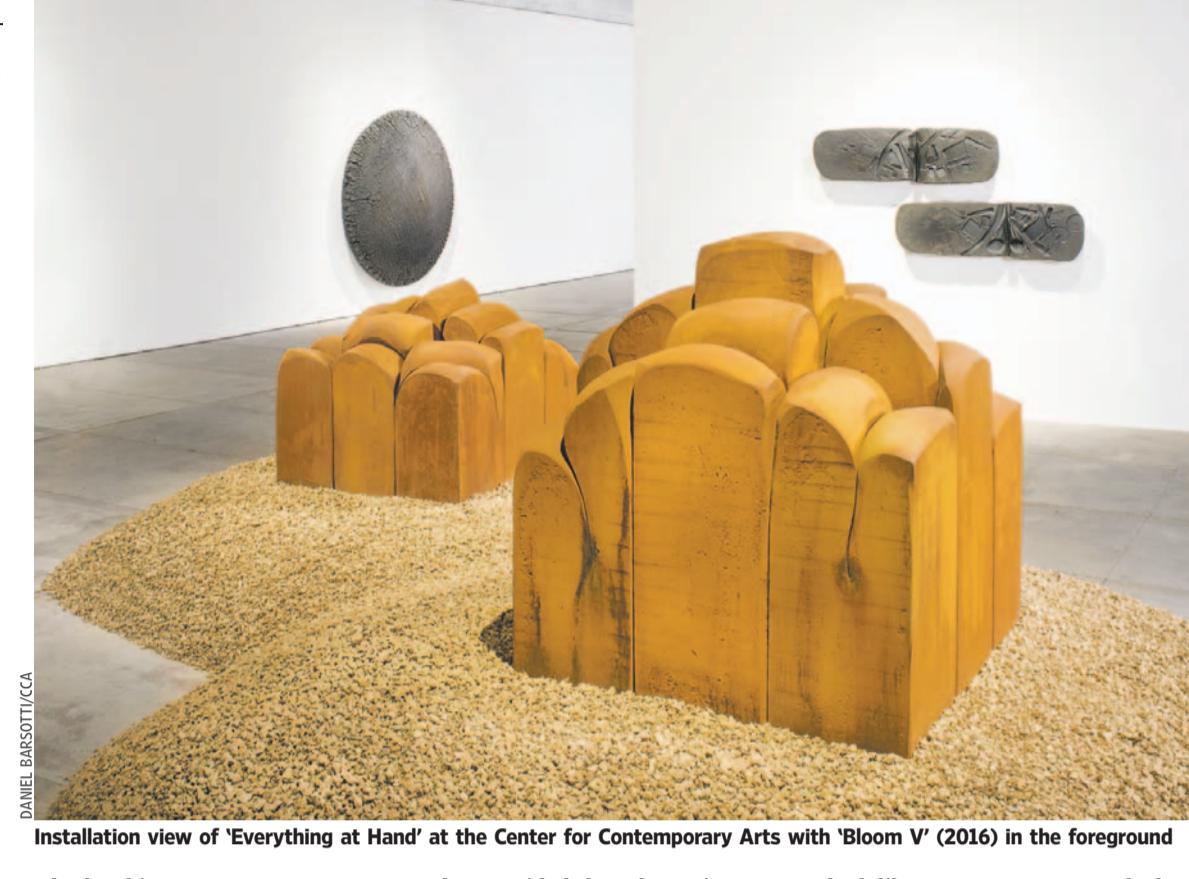
BY ANN LANDI

Santa Fe, N.M.

THESE ARE strange times for monumental sculpture, whether outdoors or indoors, sited in public spaces or ensconced in the capacious lobbies of high-rise buildings. Yet for ambitious artists, big works in durable materials can prove irresistible. And while contemporary art may not carry the controversial charge of Confederate statues, it's still a cultural landscape dotted with extremes: Jeff Koons's giant balloon dogs and Damien Hirst's flayed vision of the Virgin Mary on the one hand, and on the other, works by younger artists like Carol Bove and Roxy Paine, who riff on a Modernist tradition that the uninitiated may find hard to understand.

But another strain of sculpture is still adventurously at work, and this one stems from the venerable "truth-to-materials" aesthetic and love of abstract shape that runs from Constantin Brancusi through David Smith right up to Richard Serra. Tom Joyce—who is the subject of a mini-survey here at the Center for Contemporary Arts called "Everything at Hand," comprising 45 works made in the past 12 years—falls squarely into this tradition, with noble monuments weighing up to 21 tons made from cast iron and forged steel.

The show, however, runs into trouble almost from the start. Outside the main gallery doors are giant clusters of stainless-steel spikes, like frozen sparklers, with cast-iron modeled hammerheads providing a central core. Those inner elements are a reference to Mr. Joyce's history as a blacksmith, a trade he learned almost 50 years ago as a teenager in El Rito, N.M., and an important leitmotif that runs throughout a distinguished career that includes a MacArthur award. The spikes are made from steel filings retrieved from earlier projects, and recycling is another concern of the artist's,



Installation view of 'Everything at Hand' at the Center for Contemporary Arts with 'Bloom V' (2016) in the foreground

whether his sources are weapon parts or the soil from battlefields around the world. A little wall text might have lent more resonance to visually pleasing sculptures that otherwise haven't much new to say.

A couple of silent videos near the reception desk show the artist at work in the studio and the foundry, where clumps of red-hot metal emit showers of sparks as a layer of steel is sheared off. Not much explanation needed here, but "Core Value" (2015), a high-definition video projected on an interior wall is truly baffling. In conversation with the sculptor later, I learned that this was an animation of a CT scan of the compact sculpture "Core IX" (2013/2015) near the entrance. Those test results

also provided the schematic geometries for a series of three seven-color lithographs. This is a kind of high-tech recycling that could be tied together better through wall text.

Another gallery presents ghostly 3-D printed tools used by the artist, primitive shapes that look like they're made from quartz, suspended from the ceiling (they are "stereolithography printed clear polycarbonate-like plastic [with] LED lights," according to the exhibition checklist). In the same gallery is a series called "Well" (2017), described as "dye sublimation photographs on aluminum." They are painterly, with a nubbly texture that's illusory because the prints are flat and affixed to aluminum boxes. Though they might

look like crusty canvases cooked up by, say, Larry Poons 40 years ago, these are in reality photos of the ends of the massive ingots that provide Mr. Joyce with his raw material. Again, some explanation would be helpful.

This reviewer felt on firmer ground in the largest interior gallery, where big steel sculptures give full rein to Mr. Joyce's dexterity with shape and surface, talents that tie him to the grand Brancusi-to-Serra tradition. "Bloom IV" and "Bloom V" (both 2016) have a quirky organic life, blocky shapes rounded at the top and clustered together, rising from a bed of pebbles and suggesting Brancusi's "The Kiss." "Lignifact I" (2017), tucked in a corner, has a pillow-like aspect one never would have

thought possible from forged steel. And the same is true of several of the outdoor sculptures, like "Stack VI" and the "Surge" series (2015-17), five discrete plump sculptures, whose gentle folds have an almost erotic charge. In the same gallery, a couple of huge charred drawings, made up of exuberant circular shapes burned into wood fiber through "pyroengraving," are impressive in size but oddly inert, like giant doodles with a protractor and compass.

And what to make of the last interior gallery, an installation called "Tenet" (2017), which is literally the sculptor's studio turned upside down? A desk (with gloves, a notebook and other implements of the artist's trade attached), bookcases and tools are all affixed to the ceiling. Mr. Joyce told me it was a kind of farewell, a notion I had trouble grasping. To the average visitor, the dimly lighted installation will seem spooky, threatening and surreal.

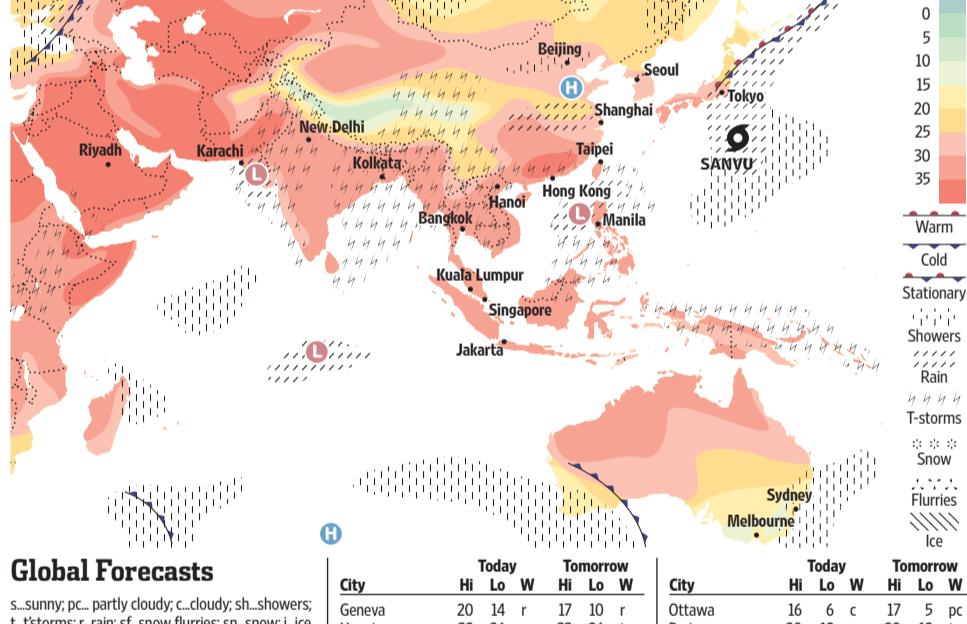
Mr. Joyce is an artist of huge gifts with perhaps too many ideas percolating at once. I'm generally not one to complain about the absence of lengthy labels (and I'm told a catalog will be available soon), but visitors to this show will need more hand holding to grasp the most promising direction suggested by this survey: the interface between technology (CT scans, 3-D computer imaging, video, high-tech photography) and traditional large-scale abstract sculpture.

There is much here to delight, and many works that puzzle. A better edited exhibition, one that connected the disparate strains of the artist's fertile imagination through text and placement, would leave visitors with more of a sense of "Aha" and less of "Huh?"

Tom Joyce: Everything at Hand
Center for Contemporary Arts, through Dec. 31

Ms. Landi writes on the arts and culture from Taos, N.M.

Weather



Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	18	11	c	19	11	sh
Anchorage	14	9	r	13	8	sh
Athens	30	21	s	31	23	s
Atlanta	27	22	t	28	17	t
Bahrain	48	29	s	48	29	s
Baltimore	29	15	pc	20	13	pc
Bangkok	34	25	t	35	26	t
Beijing	28	18	pc	29	20	pc
Berlin	25	12	t	16	11	pc
Bogota	20	7	pc	21	7	pc
Boise	32	15	s	34	18	s
Boston	27	12	pc	20	11	s
Brussels	20	10	c	18	11	pc
Buenos Aires	17	12	s	21	16	c
Cairo	35	23	s	33	23	s
Calgary	25	9	pc	25	12	pc
Caracas	31	25	pc	32	25	pc
Charlotte	26	21	t	28	19	t
Chicago	22	14	pc	21	12	s
Dallas	32	20	pc	32	21	pc
Denver	32	15	pc	31	14	pc
Detroit	22	10	pc	20	12	pc
Dubai	39	30	pc	39	30	pc
Dublin	16	9	pc	16	8	pc
Edinburgh	16	7	pc	17	8	pc
Frankfurt	21	12	c	18	10	pc

The WSJ Daily Crossword | Edited by Mike Shenk



KING ME! | By Brendan Emmett Quigley

Across			
1	Wee speck	26	Tesla creation
5	Amulet for Amenhotep	45	Grp. that confiscates water bottles
11	Circumference segment	46	Stipulation that things are on the house at an old drugstore?
14	Serb or Sorb	49	Graduation time
15	Sequoia, e.g.	50	Home of Presque Isle State Park, briefly
17	Big bank, of a sort	53	He had a beef with Biggie
18	Mexican treat at a Philadelphia university?	56	Patch things up?
20	Pizzeria sights	59	Put to rest
22	"Gangnam Style" rapper	60	Role Nigel Farage played in a 2016 vote?
23	Constant nag	63	Seacoast flyer
24	One in the upper class	64	Personal number

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

67	MC of NWA	30	Dalton's predecessor
68	Temporarily inactive	31	Lemon
69	1974 Sutherland/Gould spoof	32	Stars sometimes have big ones
Down		33	Fictional warrior from Amphipolis
1	"Abort, Retry, Fail?" software	34	Personal nature
2	Salad spheroid	35	Higher than
3	Observe closely	39	Uppermost limit
4	Though	41	Tournament Cyberball 2072 maker
5	Sex ed subj.	43	Elation
6	NYSE listing	44	"The Shining" prop
7	Sounds from the pros	47	Spa treatment
8	Music (Brian Eno's old band)	48	White sale goods
9	Worked on a sub	51	Item flattened in a souvenir machine
10	Incense ingredient	52	Precincts
11	Allowing eavesdropping, perhaps	53	Lift variety
12	Be on the fast track?	54	Pressure
13	Eschew modesty	55	Hammerhead's end
19	Cast	56	Narrow point of land
21	Capital on the Balkan peninsula	57	Absence of challenge
25	Relieved	58	Singer of a complex song
26	Wall St. bigwig	61	Chorus line syllable
28	Huddle in fear	62	"Claws" network
29	Region beyond the ozone	63	Previous Puzzle's Solution

SHANTY MINING
MIMOSA MENORAH
AGE GAP BUCKAROO
LUNG STOIC HAMS
LYDIA ARRAY DIT
NOTED ALI
CBS KOBE CHEAPO
OATH NORTH ETI TU
WHAMMY TEAM EAR
GOO OPTIC
ROE CANWE LARAM
IVAN DANES LOGO
VICE COPS UPLOAD
ENTRAPS ISITME
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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, August 31, 2017 | B1

Yen vs. Dollar 110.2400 ▲ 0.44% **Hang Seng** 28094.61 ▲ 1.19% **Gold** 1308.40 ▼ 0.36% **WTI crude** 46.56 ▲ 0.26% **10-Year JGB yield** 0.008% **10-Year Treasury yield** 2.138%

Hyundai Hits Political Roadblock

Beijing-Seoul dispute hurts sales and causes China production halt; parts payment missed

By TREFOR MOSS

SHANGHAI—**Hyundai Motor** Co. was forced into a weeklong suspension of production in China, as a political dispute between Beijing and Seoul wrecks havoc at the South Korean auto maker in its biggest overseas market.

Hyundai said Wednesday that its Chinese joint venture,

Beijing Hyundai Motor Co., halted production last week because it was unable to pay a supplier of essential fuel-tank parts, causing the supplier to halt deliveries.

"The slowdown in China has put a strain on their financial situation. That's why they haven't been able to pay their supplier," said a Hyundai spokesman.

Production resumed at midday Wednesday after talks with the supplier, he said.

Hyundai Motor's shares fell roughly 4% after news reports of the shutdown early Wednesday, before recovering

to close off less than 1%. The company's stock has lost 16% of its value since May. Hyundai posted its worst quarterly results in five years in July, citing the China situation as a primary cause.

The production halt compounds what has already been a disastrous year for Hyundai in China. Sales slumped after Seoul's deployment of a U.S.-built missile-defense system in February amid North Korea's growing nuclear threat.

Beijing condemned the move, claiming it threatened China's national security. That sparked an unofficial campaign against South Korean consumer goods in China, with retailers and auto makers among the hardest hit.

Hyundai's sales in China fell 55% from March to July, while sales at the company's Kia Motors Corp. subsidiary dropped 63%. Both operate in China with state-run joint venture partners **Beijing Auto Industry** Corp. and Dongfeng Motor Corp., respectively.

The dispute has led Kia to cut production at its three factories in Yancheng, about 965 kilometers south of Beijing. Those plants employ about 30,000 people who have been

getting by on reduced hours and lower pay, as Kia tries to avoid full-scale layoffs.

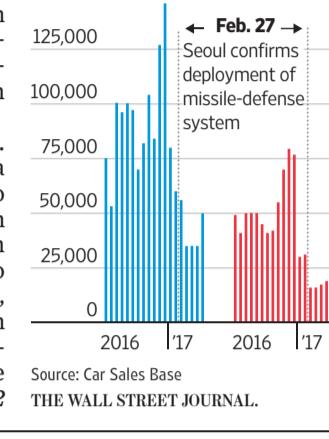
The production suspension at Beijing Hyundai didn't affect the separate Kia joint venture, the Hyundai spokesman said.

Hyundai, previously the No. 3 foreign auto maker in China by sales, had been planning to accelerate its China output in 2017. A fifth Hyundai plant in Chongqing had been due to start production this month, and in its 2017 business plan the auto maker said it expected China sales to increase

Please see CHINA page B2

In a Jam

China sales at South Korea's Hyundai and its Kia subsidiary tumbled after Seoul deployed a U.S.-made missile-defense system.



Source: Car Sales Base
THE WALL STREET JOURNAL.

U.S. Tax Plan May Drive Bonds Overseas

By VIPAL MONGA

Republican plans to scale back tax deductions on corporate interest risk pushing more borrowing overseas, say experts and market participants, eroding the competitive advantage of the mammoth U.S. bond market.

Rep. Kevin Brady (R., Texas), chairman of the House Ways and Means Committee, said this month he wants to curtail companies' capacity to deduct net interest payments from taxable income to pay for tax cuts. The comments virtually ensure the topic will feature prominently in the coming tax debate, expected to begin in earnest after the Labor Day holiday Sept. 4.

White House officials and top House Republicans say they are optimistic about finishing a major tax bill this year, but they have a long way to go. President Donald Trump was set to cite the importance of a tax-code revamp in a speech Wednesday afternoon.

Any U.S. limits on interest write-offs would diverge from the policies in many other rich countries and likely prompt companies to shift some borrowing to places where deductibility would still be in effect, many analysts say. Large U.S.-based companies like **Apple** Inc. and **Microsoft** Corp. routinely borrow billions of dollars in the U.S., knowing that interest payments will lower their tax bills.

Ironically, a tax revamp meant to boost U.S. competitiveness and bring overseas earnings home may weaken a central pillar of the U.S. capital markets.

Please see PLAN page B2



JOHN LOCHER/ASSOCIATED PRESS Since peaking in September 2015 at about \$2,133 a pound, average U.S. wholesale cannabis prices dropped to \$1,614 in July, according to an industry research firm.

High Returns Wither for Marijuana Growers

Cheaper High

Cannabis' U.S. wholesale price



\$2,200 a pound

2,000

1,800

1,600

1,400

2016 17

July \$1,614

Source: New Leaf Data Services LLC

THE WALL STREET JOURNAL.

By JACOB BUNGE

After decades of dodging law enforcement and fighting for legalization, U.S. marijuana growers face a new challenge: low prices.

From Washington to Colorado, wholesale cannabis prices are tumbling as dozens of states have legalized the drug for recreational and medicinal uses, seeding a boom in marijuana production.

The market is still tiny compared with the U.S. tobacco industry's \$119 billion in annual retail sales, but the nascent cannabis business has grown to more than \$6 billion a year at retail, according to data from Euromonitor International Ltd. and Cowen & Co.

For marijuana smokers, the price drop is sweet news. Recreational users and those prescribed cannabis for health reasons have seen prices decline as wholesale prices have fallen, though some retailers have pocketed part of the difference, according to **New Leaf Data Services** LLC, which researches the U.S. cannabis market.

At Hashtag Cannabis, a Seattle-based retailer running two dispensaries, co-owner Jerina Pillert said wholesale price declines show up on the plastic vials holding green-and-tan nuggets of "Super Silver Lemon Haze" marijuana produced by Longview, Wash.-based Bondi Farms. A gram sells for about \$10 currently, down by a third from the \$15

a gram it fetched in September 2015, she said.

But for growers—ranging from high-tech warehouse operations to backcountry pot farmers gone legit—the price drop has been painful.

Since peaking in September 2015 at about \$2,133 a pound, average U.S. wholesale cannabis prices fell to \$1,614 in July, according to New Leaf. That is the sort of market decline that hit Midwest corn and soybean growers in recent years after a string of record-breaking crops.

"There is an increasing recognition, on the part of the industry and those that grow and dispense, that this market is a commodity," said Jonathan Rubin, New Leaf's chief executive.

In response, some producers are taking a page from the food industry, where farmers and food companies increasingly appeal to health and environment-conscious consumers.

Growth in organic food products for years has outpaced conventional grocery sales, and products made without genetically modified crops, gluten and artificial flavorings can command premium pricing and shelf space.

Stephen Jensen, who secured a state license to grow cannabis in Washington in 2015, has yet to turn a profit. He is promoting what he described as natural growing methods.

"We needed to give people a reason to select us," said Mr. Jensen.

Please see FARMS page B2

HEARD ON THE STREET | By Jacky Wong

Megamerger Shows Beijing Power

The good news: China is trimming the number of its state-owned enterprises, the huge government-backed companies whose inefficiencies are often blamed for holding back the economy.

The bad news: It's doing so only by making even bigger state-backed entities.

Witness this week's whopping merger of **Shenhua Group**, China's top miner and a major power producer, and electricity firm **China Guodian**, which has the capacity to churn out 226 gigawatts of power, enough to light up 183 million American homes. The combined company will have assets of \$270 billion.

Chinese power producers like Guodian have suffered

from intensifying competition in the past two years as the government has started to liberalize part of the market, reducing the amount they can charge for electricity.

Return on equity in the sector is expected to plunge to 3.6% this year from 14.4% two years ago, according to Credit Suisse Group.

Fewer players in the sector will alleviate some of the pain by allowing producers to charge higher prices. And China's central planners will likely push for more consolidation in the industry. The vertical integration of coal mining and power generation is also supposed to streamline the business, making the company more efficient.

Yet part of the predication also stems from China's central planning.

Power producers have suffered from surging coal prices since last year thanks in large part to untimely Beijing-mandated capacity cuts.

As both the largest producer and consumer of coal, China has a big interest in stable coal prices, yet its all-too-visible hand has added more volatility to prices recently.

Sure, less competition in the power sector, as rivals bow to the new giant company, could help to reduce China's electricity glut in the short term. Yet in the long run, letting market signals dictate capital allocation rather than creating larger state-owned behemoths is a better way for China to reform.

Unfortunately, Beijing looks unlikely to give up its meddling in the market just yet.

Even before he takes the job as **Uber Technologies** Inc.'s new chief executive, fresh challenges confront **Expedia** Inc. CEO Dara Khosrowshahi, with

By Greg Bensinger,
Douglas MacMillan,
Aruna Viswanatha and
Chris Kirkham

news of a federal bribery probe into Uber and public disagreement over how the board's decision to hire him unfolded.

News of the probe, reported by The Wall Street Journal on Tuesday, came after Mr. Khosrowshahi made his first public comments since being voted in as CEO by Uber directors on Sunday. He would succeed Travis Kalanick, the Uber co-founder who was pressured to resign in June following a series of scandals and amid infighting on the board. Mr. Khosrowshahi was selected over two more seasoned executives in Jeff Immelt, chairman of **General Electric** Co., and Meg Whitman, chief of **Hewlett Packard Enterprise**.



Dara Khosrowshahi is expected to become Uber's chief executive. He said his predecessor Travis Kalanick would remain involved.

terprise Co.

Speaking with the Journal at Expedia's headquarters Tuesday morning, Mr. Khosrowshahi said his contract with Uber still needs to be finalized, but indicated he would take the job. He said Mr. Kalanick would remain involved with Uber and de-

Please see UBER page B2

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CHINA

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9.5% this year to 1.25 million vehicles.

But Hyundai only managed about 350,000 sales in the first seven months of the year.

Hyundai sold 1.14 million vehicles in China last year, not far behind its domestic tally of 1.67 million. China accounted for roughly one-quarter of its global sales.

South Korean President Moon Jae-in urged Chinese President Xi Jinping to remove the "constraints" being placed on Korean businesses in China at a July meeting, but the pressure on Korean companies hasn't eased.

Chinese officials have denied there is any official boycott against South Korean products, though state-controlled media have urged Chinese consumers to steer clear of Korean goods and switch off

once-popular Korean pop music and television shows.

When Mr. Moon took office in May, he put additional deployments of the new missile-defense system on hold, in an apparent effort to mollify Beijing, though he has since come under political pressure not to cave into China's perceived bullying tactics by discontinuing the missile system.

The missile-defense spat came at the worst possible time for Hyundai, which was already facing a "fundamental issue with product positioning and brand equity" in China, according to Janet Lewis, managing director of equity research at Macquarie Capital Securities.

The company needs to refresh its "aging product lineup" to win back customers, Ms. Lewis said, while hoping that an end to the political backlash against Korean products enables a quick rebound.

—Min Sun Lee in Seoul contributed to this article.

Ending or limiting that deduction is key to funding the House tax plan.

"If you remove interest deductibility in one location and retain it in others, then of course companies will want to move their borrowing," said Matt King, a credit analyst at Citigroup Inc.

A spokesman for the House Ways and Means Committee said the tax cuts will help revitalize the economy, which in turn will stimulate capital markets.

A postcrisis debt boom has only burnished the U.S.'s status as the world's largest bond market. Companies routinely borrow billions to build new factories, finance acquisitions

Continued from the prior page
the deduction is key to funding the House tax plan.

and fund share buybacks. Non-financial, investment-grade companies in the U.S. have borrowed roughly \$575 billion so far this year, on pace to break the record of close to \$800 billion set in 2015, according to Dealogic.

More than \$6 trillion worth of corporate bonds were outstanding in the U.S. as of Aug. 22, according to Dealogic. That is almost triple the figure in the euro corporate debt market, the world's second largest.

The U.S.'s sophisticated market infrastructure and ample liquidity give corporations better access to debt financing than anywhere else. While those advantages make a wholesale shift to other borrowing markets unlikely, changing the tax code could push some borrowing into foreign markets, Mr. King said.

Debt is popular because it is cheaper than selling equity. Its low cost is enhanced by deductibility, which began in the early 1900s when railroad and real-estate executives convinced the federal government their businesses wouldn't survive if they paid interest with after-tax profits, said Steve Bank, a professor at the UCLA School of Law.

—Richard Rubin in Washington contributed to this article.

BUSINESS & FINANCE

Cardiac Software Updated

Abbott releases patches to protect pacemakers against threat of hacking

BY PETER LOFTUS

Abbott Laboratories released new software updates designed to protect hundreds of thousands of implanted pacemakers from external hacking that could harm heart patients and to guard against dangerous battery depletions in a different cardiac device linked to two patient deaths.

U.S. health regulators flagged the risks of the devices and issued a blistering warning letter earlier this year criticizing Abbott's handling of the problems. Abbott acquired the products with its \$23.6 billion purchase of **St. Jude Medical** in January and said the issues cited in the warning letter occurred before the deal closed.

The software patches underscore the growing concern about cybersecurity of devices that are connected via the internet or other networks.

Abbott said in a letter to doctors Monday that the new firmware—a type of software embedded in the device's hardware—is intended to reduce the



MARY HUH/ASSOCIATED PRESS

The move comes amid growing concern about cybersecurity.

risk of unauthorized access to pacemakers that use radio-frequency communications.

"This firmware update provides an additional layer of security against unauthorized access to these devices that further reduces the potential for a successful cybersecurity attack," Abbott said in the letter.

Abbott said it doesn't recommend that patients have their pacemakers replaced. Rather, the company advises doctors to discuss the matter with patients at their next visits and to administer the software update if it is deemed appropriate. The doctor administers the update through a wand held over the

site of the implanted pacemaker.

About 465,000 implanted pacemakers are eligible for the update, and Abbott said the update will be built into all newly implanted devices. The pacemakers are sold under brand names including Accent, Anthem and Assurity.

The Food and Drug Administration said Tuesday there are no known reports of patient harm related to cybersecurity vulnerabilities in the implanted pacemaker devices.

The agency said it approved Abbott's software update "to reduce the risk of patient harm due to potential exploitation of

FARMS

Continued from the prior page

Jensen. He said his Green Barn Farms eschews synthetic pesticides and relies on natural light over high-powered lamps, which he said helps his cannabis stand out among more than 1,100 other Washington farms.

Because cannabis remains illegal under federal law, growers can't get their crops certified as organic, a label that can only be bestowed by the U.S. Department of Agriculture.

Cannabis farmers instead have turned to alternative labels such as SunGrown Certified, which requires that growers use sunlight and water-conservation practices. They hope such labels will entice smokers and secure shelf space in the 29 states where marijuana is legal in some form.

Another label, Clean Green Certified, is modeled on U.S. organic standards. It bars synthetic pesticides and emphasizes what the program deems fair labor practices. In May, Washington state passed a law that would set up a state-level organic-certification program, though it may need to have a label that doesn't use that word.

That push to differentiate is splitting pot farmers into rival camps.

Indoor-grown cannabis, where climate controls and high-powered lights allow several crops a year, typically is of a more consistent quality, industry officials say. Its dense, often bright-green buds

catch consumers' eyes, often sell at a higher price and can be costlier to produce.

Proponents of marijuana grown outdoors and in greenhouses say indoor facilities rely on synthetic fertilizers and heavily consume electricity. They point to a 2012 paper by University of California senior scientist Evan Mills, who estimated that indoor cannabis production accounted for 1% of national electricity use,

though some growers have been adopting LED lights, which consume less electricity.

Jeremy Moberg, owner of Riverside, Wash.-based Cannasol Farms and head of the **Washington Sungrowers Industry Association**, says marijuana smokers will come to care about the environmental cost of their high.

"The socially conscious, premium customer is going to want us because we're sustainable," he said. "It only takes me 30 seconds to convert somebody wearing Patagonia and driving a Prius that they should never smoke indoor weed again."

At Hashtag Cannabis in Seattle, Ms. Pillert said customers occasionally ask for pesticide-free or sun-grown varieties. Smokers' main fixation, she said, is the potency rating for the key active ingredient, tetrahydrocannabinol, or THC: "They want to make sure they are getting the biggest bang for their buck."

Many in the emergent industry expect marijuana to eventually resemble the beer business, where pricier craft brews have built followings in

the shadow of cheaper mass-market beers like Budweiser and Busch.

While high-quality strains and specialty brands may secure premium prices, more low-quality marijuana will be processed into oil used in vaporizer cartridges or adult-oriented baked goods like brownies and cookies, growers and retailers said.

Mr. Jensen, the Washington cannabis producer, said he hopes that his sun-grown, naturally produced plants over time will yield a 20% to 30% premium over the average market price.

"I always buy organic products at the store and think there is a future for that in the [cannabis] industry," said Mr. Jensen. But, he said, "it's a battle getting that awareness out."



NICK AGRO/THE ORANGE COUNTY REGISTER/ZUMA PRESS

UBER

Continued from the prior page

scribed as "budding" his relationship with the former CEO. "I think there's mutual respect there," he said.

"He's the founder of the company, he's an incredible visionary, so he will be involved with the company going forward," Mr. Khosrowshahi said. "Exactly how, exactly when, is something that's really up to Travis and the board."

The U.S. Justice Department has taken preliminary steps to investigate whether managers at Uber violated a U.S. law against foreign bribery, according to people familiar with the matter.

The agency is reviewing allegations that Uber may have violated the Foreign Corrupt Practices Act, which bans the use of bribes to foreign officials to get or keep business, these people said.

Based on what it finds, the Justice Department may or may not decide to open a full-fledged FCPA investigation into Uber. It is unclear whether U.S. authorities are focused on one country or examining activities in several countries where the company operates.

An Uber spokesman confirmed the company is cooper-

ating with the Justice Department on the preliminary investigation. A Justice Department spokeswoman declined to comment.

The choice of Mr. Khosrowshahi was intended to bring stability to the world's most valuable venture-backed startup after a year of tumult. But at a time when the ride-hailing company was supposed to be celebrating the end of its nine-week CEO search, Ms. Whitman spoke out on the selection process.

In a statement to the Journal on Monday night, Ms. Whitman said she hadn't been a candidate for the job until Friday, when an

Kalanick over control of board seats.

"By midday Sunday it was becoming clear that the board was still too fractured to make progress on the issues that were important to me," she said in the statement.

Her sentiment echoed the situation with Mr. Immelt, who publicly pulled his name from consideration early Sunday after making a formal presentation to directors, apparently spooked by what he felt was a fractious and disorganized board, according to a person familiar with his thinking. In particular, this person said, Benchmark wanted Mr.

sue the job, these people said. Mr. Immelt wasn't immediately available for comment.

Ms. Whitman, 61, has long-standing ties to Benchmark, which has pushed for her candidacy, say people familiar with the matter. The venture firm, which has denied it was a prime advocate for Ms. Whitman, led the push for Mr. Kalanick's ouster in June after a series of scandals rocked Uber, and sued him last month.

Soon after pulling her name from the running with a tweet in late July, Ms. Whitman began working to get back into consideration, the people familiar with the board deliberations said. And even as she said that she no longer wanted the job, arrangements were being made behind the scenes to present her vision for the company to directors, these people said.

In a statement late Tuesday, Uber's board sent a note to employees announcing Mr. Khosrowshahi's appointment, emphasizing the board vote's was unanimous. The company plans to introduce him to employees at an all-hands meeting in San Francisco Wednesday morning, the note said.

Mr. Khosrowshahi declined to discuss the controversy around the CEO search, saying "there has been too much obsession with the process."

Uber director she didn't name called to see if she would reconsider after the board couldn't decide between Mr. Immelt and Mr. Khosrowshahi. Ms. Whitman had reiterated to the Journal Wednesday that she wasn't "going anywhere."

Ms. Whitman said she laid out her terms: Uber must strengthen its governance structure, and Benchmark Capital, one of Uber's biggest investors, must settle its lawsuit with Mr.

Kalanick off the board and Mr. Immelt wouldn't say that the ex-CEO should be removed. By Saturday morning, Mr. Immelt planned to withdraw his name, this person said.

But people familiar with the board's deliberations say it was clear the 61-year-old Mr. Immelt wouldn't have enough votes to become CEO. So the recently retired GE CEO attempted to save face by tweeting that he decided not to pur-

chase the job, these people said. Mr. Immelt wasn't immediately available for comment.

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An Uber spokesman confirmed the company is cooper-

BUSINESS NEWS

Amazon Lures Grocery Shoppers

Whole Foods items
freshen up its online
offerings; delivery
strategy still unfolding

BY LAURA STEVENS
AND HEATHER HADDON

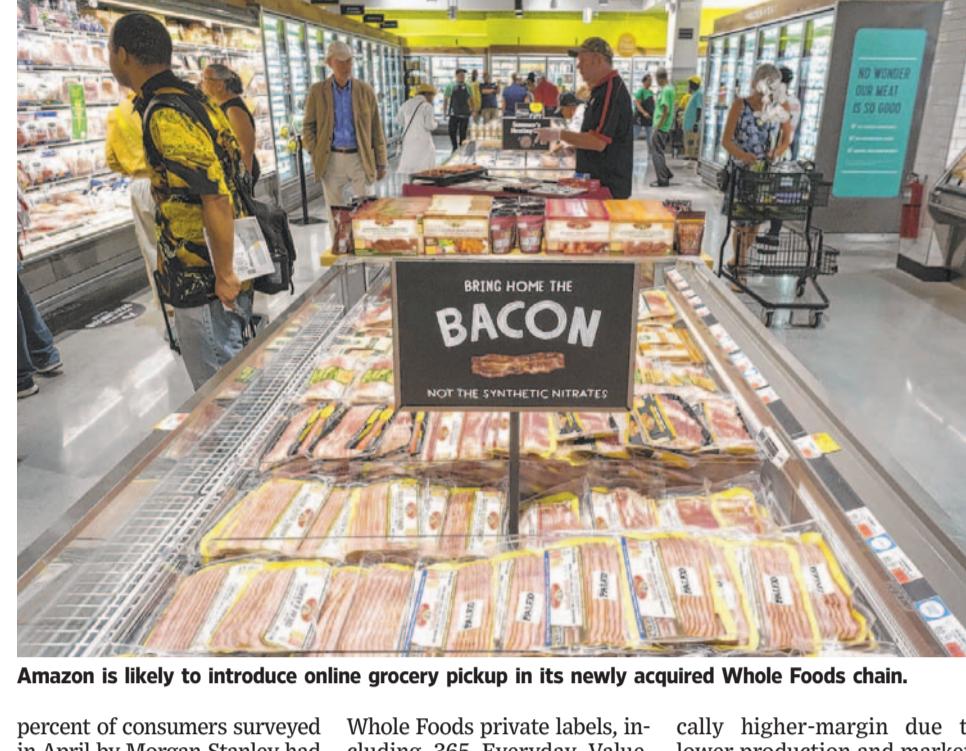
Amazon.com Inc. this week introduced hundreds of Whole Foods products to its website to encourage consumers to buy their groceries online.

Online grocery shopping accounts for less than 5% of the nearly \$800 billion in food and beverage sales in the U.S., despite Amazon and others rolling out deliveries in major U.S. metro areas. Buying groceries online has been slow to take hold because of shoppers' desire to touch and smell fresh produce, as well as price concerns and limits to where it is available.

"I don't want some guy picking out my tomatoes or my zucchini. I'm just going to get shovelled whatever is on top of the bin," said Skip Olinger, a 64-year-old retired shipping-container executive from Sonoma, Calif., who spends upward of \$100 a week at a local Whole Foods.

Amazon's \$13.5 billion acquisition of grocery chain Whole Foods Market Inc., which closed this week, is providing a new impetus for online grocery shopping. Amazon has expanded its catalog with Whole Foods groceries at the same prices as in stores, and could use Whole Foods' 470 stores as hubs for online pickups and deliveries.

Food retailers that have both physical stores and e-commerce offerings have done better in capturing the online grocery market. Twenty-two



Amazon is likely to introduce online grocery pickup in its newly acquired Whole Foods chain.

percent of consumers surveyed in April by Morgan Stanley had shopped for food from a nearby supermarket's website, while only 13% had done so from an online-only grocery service.

While shares of traditional grocers have tanked in the past week as Amazon implements price cuts in Whole Foods stores, the greater menace to their business could be Amazon's grocery ambitions online, especially if Amazon drives down prices further, analysts said.

"The biggest threat is what Amazon can do online. There's only so much reach the stores can achieve," said William Kirk, an analyst for RBC Capital Markets LLC.

Amazon declined to comment beyond its statement issued last week that several

Whole Foods private labels, including 365 Everyday Value, would be available on Amazon.com and via some of its grocery-delivery options. Whole Foods also declined to comment.

The new Whole Foods category on Amazon.com for customers of AmazonFresh, its online grocery-delivery service, displays nearly 900 results for everything from \$4.99 organic vanilla ice cream to \$6.99 creamy almond butter. On Amazon's Prime Now app, which offers faster delivery, about 90 products are available to start. Amazon said previously it would add other private label brands to its selection.

Amazon's strategy for selling Whole Foods online is likely twofold, analysts say. Private-label products are typi-

cally higher-margin due to lower production and marketing costs, so the grocery chain's addition brings a new profitable line to Amazon's site. And Whole Foods' cachet as a healthy lifestyle brand could entice more shoppers to add food to their online shopping cart.

Amazon's push into food started in earnest in 2007, when it launched AmazonFresh in Seattle. Fresh costs \$15 extra a month on top of Amazon's \$99 annual Prime membership fee. But it is tricky to handle perishable items, such as ice cream in the summer heat, and the business is costly, requiring expensive refrigerated storage that thins profit margins. After testing the delivery service for about six years in its hometown, Amazon rolled it out to more than

20 U.S. markets, as well as London, Berlin and Tokyo.

Adding to its grocery business, Amazon's Prime Now offers a more limited selection of food with one- and two-hour delivery. In some of the 50 markets where it operates, Prime Now joined in grocery delivery with Sprouts Farmers Markets Inc. The online retail giant recently opened two brick-and-mortar AmazonFresh stores in Seattle for pickup of online orders.

But online grocery has become increasingly crowded. Delivery services such as Instacart Inc., Peapod LLC, Shipt Inc. and FreshDirect LLC have expanded nationally. Instacart has handled Whole Foods online orders since 2014. (Instacart executives have declined to say what Amazon's merger with Whole Foods will mean for its business.)

Wal-Mart Stores Inc. and Kroger Co. have rolled out in-store pickup for online orders.

While Amazon hasn't described exactly how it might use Whole Foods to bolster its online delivery options, people familiar with the matter have said that it is likely to introduce online grocery pickup in stores. In an announcement last week, Amazon said it would be adding lockers for package pickups in Whole Foods stores. It is unclear if the lockers will be used for food orders.

Still, the higher prices charged by Whole Foods for its organic store goods could limit sales on a mass-market platform such as Amazon, analysts say. Whole Foods diapers, sandwich bags and other dry goods that drive its private-label sales will also compete with Amazon's own private labels and other cheaper offerings.

Toyota, Startup Grab Set Alliance

BY SEAN MCCLAIN

TOKYO—Toyota Motor Corp. said Wednesday it plans to dive deeper into the ride-hailing business by teaming up with Singapore-based startup Grab Inc.

Separately, Toyota Group company Toyota Tsusho Corp. said it would invest an undisclosed amount in Grab as part of a \$2.5 billion fundraising round announced in July.

Toyota says it will install tracking devices on 100 Grab vehicles to gather data on driver behavior to help develop aspects of its mobility services, such as usage-based insurance and financing programs.

Japanese auto makers have been dipping their toes into the ride-hailing and car-sharing business. In December, Honda Motor Co. invested an undisclosed amount in Grab to explore motorcycle ride-hailing.

Toyota's deal with Grab is its second foray into the competitive ride-hailing market. Last year, Toyota said it would work with Uber Technologies Inc. to lease vehicles to Uber drivers.

In October, Toyota said it was running a pilot program in the U.S. with car-sharing startup Getaround, making use of a Toyota technology that allows cars to be started with a smartphone.

The deals are part of Toyota's long-term plan to build its own platform for mobility services.

21st Century Fox Takes Fox News Off Air in Britain

BY STU WOO

LONDON—Rupert Murdoch's 21st Century Fox Inc. said Tuesday that it stopped broadcasting its Fox News Channel in the U.K., amid the media conglomerate's \$15 billion bid to buy the 61% of British pay-television company Sky PLC that Fox doesn't already own.

Fox said it was a business decision to withdraw Fox News, which in the U.S. is popular with conservative viewers and recently retained its No. 1 cable-news ranking despite a sexual-harassment scandal

that has roiled the unit and its parent company.

"Fox News is focused on the U.S. market and designed for a U.S. audience and, accordingly, it averages only a few thousand viewers across the day in the U.K.," a spokesman said. "We have concluded that it is not in our commercial interest to continue providing Fox News in the U.K."

A spokesman for Sky said the move was Fox's decision.

Fox News went off U.K. airwaves at 4 p.m. British time. Fed live from the U.S., its prime-time shows in the U.S. aired during Britain's wee

hours. A person close to Fox said the channel's British operation lost money and averaged only 2,000 viewers a day.

The person said the decision wasn't related to Fox's bid to buy Sky, which had been the only British broadcaster that aired Fox News. Sky is a subscription service that offers Fox News as part of its offerings. Still, the decision could affect the proposed acquisition's regulatory gauntlet.

Fox's predecessor, News Corp., abandoned a bid to buy Sky in 2011 amid revelations that a newspaper it owned hacked into the phones of poli-

cicians and crime victims. The company apologized, closed the implicated newspaper and spun off the other newspapers into a new company, which took News Corp as its name.

Mr. Murdoch and his family are major shareholders in Fox and News Corp., which publishes The Wall Street Journal as well as British newspapers.

In December 2016, Fox proposed acquiring the 61% of Sky it doesn't already own for £11.7 billion (\$15.1 billion). The bid won approval from European Union antitrust authorities in April. But British Culture Secretary Karen Bradley,

who oversees media mergers in the U.K., said in June that she would likely refer the proposal to U.K. competition authorities after Britain's media watchdog said the merger risked giving the Murdoch family too much control of the country's media.

Ms. Bradley is unlikely to officially make that move until after Parliament returns from summer break on Sept. 5.

Britain's media watchdog this year examined the sexual-harassment scandal at Fox News, interviewing complainants against the channel. A group of prominent British

politicians wrote to the media watchdog to urge regulators to block the deal, citing among their concerns the harassment allegations. In June, the watchdog said it considered allegations of sexual and racial harassment at Fox News "extremely serious and disturbing," but said there was no clear evidence that senior executives at Fox were aware of misconduct before the issue was escalated to them in July 2016, after which action was taken. Fox has said it is cooperating with U.S. government probes about the sexual-harassment claims.

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BUSINESS WATCH

BORAL

Company Expects More Profit Growth

Building-products supplier Boral Ltd. forecast continued growth across its businesses over the coming financial year as the construction of roads and other infrastructure in Australia rolls on and further improvements are expected in U.S. housing markets.

Riding on a 16% increase in net profit for its fiscal year ended June 30, Boral said it expected a significant lift in underlying earnings from its North American division in particular, aided by a recent acquisition, and expected market growth as housing starts look set to increase.

The company said it was monitoring flooding in the wake of Hurricane Harvey, which could have an impact on its operations in and around Texas.

Boral's Australian arm is expected to deliver higher earnings, underpinned by infrastructure volume growth, led by a need for asphalt and continued demand for concrete and cement, the company said on Wednesday. Still, the company said that is expected to be offset by property results.

For its latest fiscal year, Boral reported a net profit of 297 million Australian dollars (US\$214.6 million), compared with net profit of A\$256 million a year earlier.

Revenue for the fiscal year rose 2% to A\$4.39 billion from A\$4.31 billion.

The company said it plans to pay a final dividend of 12 Australian cents a share, bringing the full-year payout to 24 Australian cents, up 7% on last year.

—Rob M. Stewart

NEW YORK TIMES

Court Dismisses Suit Brought by Palin

A federal court on Tuesday dismissed a defamation lawsuit brought by Sarah Palin against New York Times Co., saying the former Alaska governor failed to show that the newspaper acted maliciously when it made an error in an editorial about gun violence.

The 2008 Republican vice-presidential nominee filed the suit after the Times ran an editorial in June that suggested her political-action committee helped incite the 2011 assassination attempt against former Democratic Rep. Gabrielle Giffords. After publication, the Times corrected the article, noting that there was no evidence of a link between Ms. Palin's activities and the shooting.

Representatives for Ms. Palin didn't respond to a request for comment.

The New York Times editorial was published hours after an anti-Republican gunman seriously wounded House Majority Whip Steve Scalise and injured three others at a congressional baseball practice outside Washington, D.C.

The piece explored the issue of political rhetoric and gun violence and made a connection to the 2011 shooting.

The paper posted its correction the day after the editorial ran. Ms. Palin's suit said the correction and apology the editorial board tweeted were "woefully insufficient."

A spokesman for the New York Times said that the error was an "honest mistake" and that the paper was delighted by the court's decision.

—Imani Moise

Messaging App Plans Initial Coin Offer

BY PAUL VIGNA

Messaging-app operator Kik Interactive said Tuesday that it was aiming to raise \$125 million through an initial coin offering in September, one of the first established companies to step into the mushrooming, highly speculative market for these digital tokens.

In doing so, Kik, which has encountered growth issues, is trying to tap into the surging interest in cryptocurrencies and digital tokens associated with them.

It also is experimenting with a potential way for its investors to essentially cash out of the company without actually selling their equity.

The market for digital coins has exploded in 2017, with more than 100 firms raising more than \$1.7 billion, up from 64 firms raising about \$103

million in 2016, according to research firm Smith & Crown.

Most of these firms, though, are startups and in many cases don't have a working product. In that, Kik is different: Its messaging app is popular among teens in Canada and

the U.S. Kik also allows developers to publish games and services within the platform.

The Ontario-based company has said it has 300 million registered users.

But Kik revealed in the token offering's marketing mate-

rials that it only has 15 million monthly active users, a key metric.

"We went on record two years ago and said growth is a problem for us," Chief Executive Ted Livingston said in a recent interview. Kik has been boxed out by larger rivals like Facebook Inc., he added, which can match any new service Kik offers and sell it to a larger user base. Now, Kik is trying to recast its platform around an in-house currency and refocus its shareholders on the digital tokens it plans to issue. Kik had previously disclosed plans for a coin offering, but it hadn't set a date until Tuesday.

The new tokens, or coins, will have multiple purposes. They will allow Kik users to purchase services within the app as well as enable payments between users.

Novartis Gene Therapy Wins U.S. Approval

BY AUSTEN HUFFORD

The Food and Drug Administration has approved the first gene therapy in the U.S., a long-heralded move for a promising method to combat cancer.

The FDA said Wednesday that it approved Novartis AG's Kymriah for certain children and young adults who suffer from a form of leukemia.

"We're entering a new frontier in medical innovation with the ability to reprogram a patient's own cells to attack a deadly cancer," FDA Commissioner Scott Gottlieb said.

Numerous pharmaceutical

companies are investing in gene-therapy projects. This week, Gilead Sciences Inc. agreed to pay about \$11 billion for Kite Pharma Inc., in an ambitious bet on the approach.

Kymriah is a type of personalized immunotherapy known as CAR-T, or chimeric antigen receptor T-cell therapy. T-cells, which are a type of white blood cell, are removed from an individual patient and sent to a manufacturing center where they are genetically programmed to target leukemia cells that have a specific marker. The cells are then infused back into the patient to kill cancer cells.

The specific form of cancer, acute lymphoblastic leukemia, affects bone marrow and blood and is the most common childhood cancer in the U.S. There are about 3,100 patients ages 20 and younger diagnosed with the disease each year, according to the National Cancer Institute. Kymriah is approved for use in the most common form of the disease and is only for patients whose cancer hasn't responded to initial treatments.

CAR-T treatments won't be like other newly approved drugs, which can quickly appear on pharmacy shelves and at hospitals. Novartis said it expects between 30 and 35 centers to be certified to offer the treatment by year-end. Treatment with Kymriah also has the potential for severe side effects, including cytokine release syndrome, which leads to high-fever flu-like symptoms, and other neurological events. The FDA also approved expanded use of Roche Holding AG's Actemra, which treats cytokine release syndrome.

Apple Reaches Out To WeChat's Users

By ALYSSA ABKOWITZ

BEIJING—**Apple** Inc. is now allowing Chinese customers to use local mobile-payment system WeChat Pay for purchases in its App Store, underscoring the expanding reach of the service owned by technology firm **Tencent Holdings** Ltd.

Apple's decision to accept payments from the service came despite recent tensions with Tencent, including over the Chinese company's rollout this year of a so-called mini-program system that has been seen as a competitor to the App Store.

"We are committed to offering customers across our ecosystem a variety of payment options that are simple and convenient," Apple said in a written statement.

In the second quarter of this year, Apple's App Store pulled in more revenue in China—an estimated \$2.2 billion—than in any other market, according to mobile-analytics firm App Annie.

Tencent's latest victory comes as it challenges the more established Alipay mobile-payment system backed by local rival **Alibaba Group Holding** Ltd. As WeChat Pay, which controls 40% of the Chinese market, has gained wider acceptance, Alipay's market share has fallen from 80% in 2014 to about 50% currently, according to data from iResearch Consulting Group. Apple began accepting App Store payments from Alipay in November 2016 and from state-backed network UnionPay two years earlier.

WeChat has become an all-purpose smartphone utility in China, with nearly one billion monthly active users who rely on it for mobile payments, social messaging and entertainment, among other functions.

Chinese smartphone users spend so much time on WeChat that some analysts say it could hurt sales of Apple's 10th-anniversary iPhone expected in September, because consumers here won't

see the need to upgrade their handsets as long as they can access the platform.

Apple has said it views Tencent, one of the world's biggest competitors in mobile games, as a partner. On an earnings call with analysts this month, Chief Executive Tim Cook said Tencent is "one of our biggest and best developers" and that Apple looked forward to working with the company "even more."

However, the decision to accept WeChat Pay comes as Apple struggles to gain traction with its own mobile-payment system, Apple Pay, which made its debut in China in May 2016. The system's footprint in the country's market is negligible, iResearch says.

Also, Apple has sparred with Tencent over purchases in the App Store. Earlier this year, Apple forced the Chinese company's WeChat messaging app to disable its "tip" function to comply with App Store rules. The function allowed WeChat users to give small



A sign near a restaurant cashier in China indicates that the establishment accepts WeChat Pay.

amounts of money to authors and other content creators as gratuities via transfers from mobile-wallet accounts. Apple considered these payments to be in-app purchases, of which it takes a 30% cut.

After Apple's decision to accept WeChat Pay, Chinese social-media users brought up the tipping spat.

"Apple finally lowers its head to Tencent," one wrote. "Come come come, every dog

will have his day. Now it's [Tencent Chief Executive Pony Ma's] turn to get the 30% fee," wrote another.

This month, a group of 28 Chinese app developers filed a complaint alleging antitrust violations by Apple, including excessive fees for in-app purchases.

The State Administration for Industry and Commerce told The Wall Street Journal in mid-August that it was reviewing the complaint.

Apple has said that "most submissions in China are reviewed and approved to be on the store within 48 hours, or less." The company also has said its App Store guidelines apply equally to all developers in every country and that if an app is rejected or removed, developers might request a review to restore it in a timely manner.

—Xiao Xiao contributed to this article.

Court Rules Two Airwaves Bidders Get Another Shot

By JOHN D. MCKINNON

WASHINGTON—A federal appeals court ordered the Federal Communications Commission to give two firms affiliated with **Dish Network Corp.** another chance at success in an airwaves auction in which the FCC determined they were ineligible for crucial small-business discounts.

The ruling means that the companies, **SNR Wireless LicenseCo LLC** and **Northstar Wireless LLC**, will have a shot at getting back hundreds of millions in penalties they paid to the government due to the failure of some bids, according to lawyers involved in the

case. The companies even could receive the discounts and spectrum they were forced to forgo two years ago. But the extent of the companies' victory was far from clear.

The controversy arose after SNR and Northstar submitted winning bids totaling \$13.3 billion for a significant chunk of the spectrum the government was auctioning in 2014. The two companies asked the FCC for \$3.3 billion in the small-business credits, which are designed to reduce the cost to smaller firms competing against larger players for valuable airwaves.

The FCC later determined that SNR and Northstar were

ineligible for the credits, because the companies were "not simply partners with Dish, but were under Dish's control," according to the court's opinion.

The Dish Network-affiliated companies can get back millions in earlier penalties.

The two companies bought some of the licenses at full price, but were forced to relinquish other spectrum licenses they had won in the auc-

tion, which also triggered penalties totaling hundreds of millions of dollars.

In its decision on Tuesday, the appeals court held that the FCC was within its rights to decide that the two companies were too closely tied to Dish, which was providing financial backing for their participation in the auction. But the court added that the agency didn't make it clear to the companies ahead of time that they wouldn't be able to modify—or "cure"—their agreements with Dish, in the event that the agency objected that the satellite-TV giant had too much control over them.

Now the FCC must give the

companies another chance to modify their agreements, the court held.

But the decision by the U.S. Court of Appeals for the District of Columbia Circuit leaves the FCC with significant discretion, and it could simply touch off another round of litigation.

FCC officials took comfort in the court's determination that their denial of credits for SNR and Northstar was justified under the agency's rules. Agency officials suggested they would focus on protecting the discount program from abuse.

"Today's D.C. Circuit decision explains in painstaking

detail why the commission reasonably determined that Dish abused a program designed to help small businesses," FCC spokeswoman Tina Pelkey said in a statement. "This is an important victory for American taxpayers....Going forward, we need to make sure that this program is available only to legitimate small businesses that actually control their own destinies."

Dish cheered the decision, saying in a statement: "We are pleased this has been referred back to the FCC. We look forward, along with Northstar and SNR, to working with the FCC to address any concerns they may have."

WSJ TALK / EXPERIENCE / OFFER / GETAWAY



MACY GRAY

Enjoy Exclusive Passes to The Podium Lounge

Get complimentary access to The Podium Lounge, a glamorous celebration of the annual Grand Prix Season Singapore. Join Asia's jet-setting party elite, celebrities and the racing community for a weekend of high-octane entertainment, featuring Grammy Award-winning artists Macy Gray, Coolio, Pixie Geldof and former Ferrari F1 driver, Giancarlo Fisichella.

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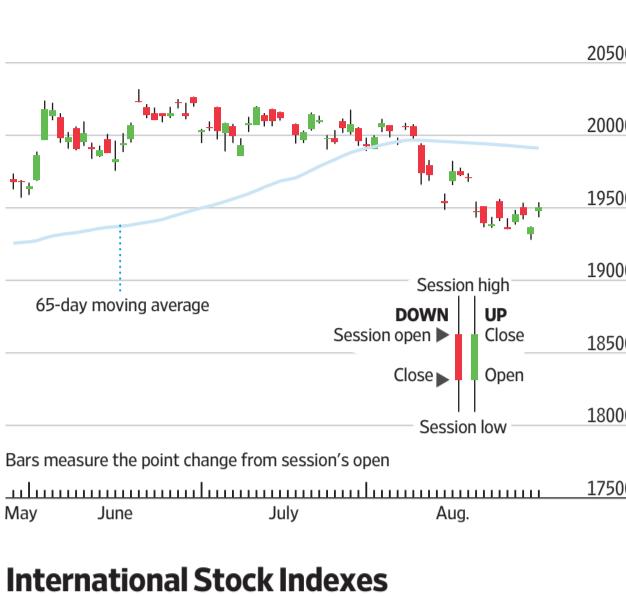
THE PODIUM LOUNGE SINGAPORE 2017

MARKETS DIGEST

Nikkei 225 Index

19506.54 ▲ 143.99, or 0.74%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

May June July Aug.

STOXX 600 Index

371.01 ▲ 2.59, or 0.70%

High, low, open and close for each trading day of the past three months.



May June July Aug.

S&P 500 Index

Data as of 12 p.m. New York time

Last 23.53 24.71

P/E estimate * 18.73 18.59

Dividend yield 2.01 2.11

All-time high: 2480.91, 08/07/17

2452.16 ▲ 5.86, or 0.24%

High, low, open and close for each trading day of the past three months.



May June July Aug.

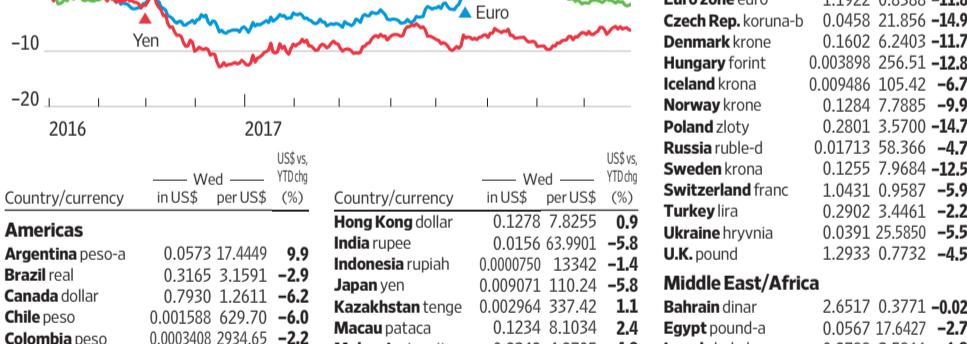
International Stock Indexes

Data as of 12 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2831.45	0.98	▲ 0.03	2386.93	● 2881.15	12.0		
	MSCI EAFE	1919.69	-5.88	-0.31	1614.17	● 1955.39	11.9		
	MSCI EM USD	1088.07	6.84	▲ 0.63	838.96	● 1088.07	37.0		
Americas	DJ Americas	590.57	1.25	▲ 0.21	503.44	● 599.20	9.3		
Brazil	Sao Paulo Bovespa	70825.54	-504.31	-0.71	56459.11	● 71505.69	17.6		
Canada	S&P/TSX Comp	15167.10	84.40	▲ 0.56	14319.11	● 15943.09	-0.8		
Mexico	IPC All-Share	51218.51	-95.15	-0.19	43998.98	● 51772.37	12.2		
Chile	Santiago IPSA	3919.56	-2.65	-0.07	3120.87	● 3945.90	21.6		
U.S.	DJIA	21857.19	-8.18	-0.04	17883.56	● 22179.11	10.6		
	Nasdaq Composite	6340.14	38.25	▲ 0.61	5034.41	● 6460.84	17.8		
	S&P 500	2452.16	5.86	▲ 0.24	2083.79	● 2490.87	9.5		
	CBOE Volatility	11.27	-0.43	-3.68	8.84	● 23.01	-19.7		
EMEA	Stoxx Europe 600	371.01	2.59	▲ 0.70	328.80	● 396.45	2.7		
	Stoxx Europe 50	3016.84	15.89	▲ 0.53	2720.66	● 3279.71	0.2		
France	CAC 40	5056.34	24.42	▲ 0.49	4310.88	● 5442.10	4.0		
Germany	DAX	12002.47	56.59	▲ 0.47	10174.92	● 12951.54	4.5		
Greece	ATG	823.65	0.98	▲ 0.12	548.72	● 859.78	28.0		
Israel	Tel Aviv	1390.99	9.38	▲ 0.68	1346.71	● 1490.23	-5.4		
Italy	FTSE MIB	21503.46	94.84	▲ 0.44	15923.11	● 22065.42	11.8		
Netherlands	AEX	513.01	2.98	▲ 0.58	436.28	● 537.84	6.2		
Russia	RTS Index	1084.41	16.83	▲ 1.58	944.88	● 1196.99	-5.9		
Spain	IBEX 35	10245.80	53.20	▲ 0.52	8512.40	● 11184.40	9.6		
Switzerland	Swiss Market	8851.26	36.72	▲ 0.42	7585.56	● 9198.45	7.7		
South Africa	Johannesburg All Share	56168.00	-241.62	-0.43	48935.90	● 56896.89	10.9		
Turkey	BIST 100	110423.11	...	Closed	71792.96	● 110530.75	41.3		
U.K.	FTSE 100	7365.26	27.83	▲ 0.38	6654.48	● 7598.99	3.1		
Asia-Pacific	S&P/ASX 200	5669.70	0.70	▲ 0.01	5156.60	● 5956.50	0.1		
China	Shanghai Composite	3363.63	-1.60	-0.05	2980.43	● 3365.23	8.4		
Hong Kong	Hang Seng	28094.61	329.60	▲ 1.19	21574.76	● 28094.61	27.7		
India	S&P BSE Sensex	31646.46	258.07	▲ 0.82	25765.14	● 32575.17	18.9		
Indonesia	Jakarta Composite	5872.51	-15.71	-0.27	5027.70	● 5915.36	10.9		
Japan	Nikkei Stock Avg	19506.54	143.99	▲ 0.74	16251.54	● 20230.41	2.1		
Malaysia	Kuala Lumpur Composite	1773.16	12.02	▲ 0.68	1616.64	● 1792.35	8.0		
New Zealand	S&P/NZX 50	7775.20	36.86	▲ 0.48	6664.21	● 7879.46	13.0		
Philippines	PSEI	7956.73	8.34	▲ 0.10	6563.67	● 8072.75	16.3		
Singapore	Straits Times	3265.26	15.92	▲ 0.49	2787.27	● 3354.71	13.3		
South Korea	Kospi	2372.29	7.55	▲ 0.32	1958.38	● 2451.53	17.1		
Taiwan	Weighted	10569.40	72.83	▲ 0.69	8902.30	● 10579.38	14.2		
Thailand	SET	1613.34	-0.80	-0.05	1406.18	● 1614.14	4.6		

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on Aug. 30

Country/currency	Wednesday	Wednesday	US\$ vs.	Wednesday	Wednesday
	in US\$	per US\$		in US\$	per US\$ (%)
Hong Kong dollar	0.1278	7.8255	▲ 0.9	5156.60	● 5956.50 0.1
India rupee	0.0156	63.9901	-0.8	2980.43	● 3365.23 8.4
Indonesia rupiah	0.000750	13342	-1.4	2720.66	● 3279.71 0.2
Japan yen	0.009071	110.24	-5.8	1614.17	● 1955.39 11.9
Kazakhstan tenge	0.020964	337.42	-2.4	12002.47	● 12951.54 4.5
Macau pataca	0.1234	8.1034	▲ 2.4	10174.92	● 12575.17 -11.8
Malaysia ringgit-c	0.2342	4.2705	-0.7	8072.51	● 8145.14 -14.9
New Zealand dollar	0.7207	1.3875	-3.9	8083	● 8145.14 -14.9
Pakistan rupee	0.0095	105.175	0.8	10150.1	● 10579.30 -0.1
Philippines peso	0.0195	51.214	3.2	10579.30	● 10600.75 -0.1
Singapore dollar	0.7371	1.3566	-6.3	10579.30	● 10600.75 -0.1
South Korea won	0.0008901	1123.43	-7.0	10579.30	● 10600.75 -0.1
Sri Lanka rupee	0.0065428	152.84	3.0	10579.30	● 10600.75 -0.1
Taiwan dollar	0.03317	30.144	-7.1	10579.30	● 106

FINANCE & MARKETS

Cantor Stops Trading Venezuelan Bonds

Firm halts debt trading after U.S. imposes financial sanctions on nation

Cantor Fitzgerald LP stopped trading Venezuelan debt on Tuesday, days after the Treasury Department slapped financial sanctions on the country for undermining democracy.

By Anatoly Kurmanov
in Caracas and Matt Wirz in New York

The move is the first blanket restriction on Venezuelan bonds by a large U.S. financial institution. Trading in Venezuelan debt, until recently among the most easily purchased emerging-market bonds, has slowed to a trickle this week, reflecting typical end-of-summer torpor as well as investor efforts to evaluate the impact of the U.S. sanctions.

Cantor, one of the largest intermediaries for Wall Street traders, and its affiliates GFI Group and BGC Partners have pulled all bonds issued by the Republic of Venezuela and state oil company **Petróleos de Venezuela** SA, known as PdVSA, from auctions and told customers that those trades are restricted, Cantor clients said.

Cantor declined to comment.

On Friday, the U.S. Treasury banned U.S. financial institutions from trading any new bonds issued by Venezuela or from trading with any Venezuelan government entity.

Officials said the proscription aims to punish President Nicolás Maduro and his administration for a move toward authoritarianism and that more financial sanctions would come if the repression contin-



People carrying gas cylinders at a distribution point in San Cristóbal, Venezuela in early August. The OPEC member country has faced gasoline shortages.

ues.

"Maduro may no longer take advantage of the American financial system to facilitate the wholesale looting of the Venezuelan economy at the expense of the Venezuelan people," U.S. Treasury Secretary Steven Mnuchin said last week.

Traders said they are slowing or stopping trades in the country's securities because of fear that they could be unknowingly buying or selling bonds on behalf of people connected to the Venezuelan gov-

ernment.

Just \$74 million worth of PdVSA's flagship bond due in 2024 changed hands on Tuesday, less than half the amount of a year ago and down from \$141 million traded on Aug. 24, the last day before the sanctions were imposed, according to MarketAxess data.

Large Wall Street investment banks that trade with investors continued to buy and sell Venezuelan bonds Tuesday, investors said. The difference, or "spread," between the bid and offer prices quoted by

the banks has widened to as much as 1 percentage point from half a point, they said, showing that the banks are charging clients more to execute trades as the perceived risk of doing so has risen.

Venezuelan bond trading attracted public scrutiny this year after the asset-management business of **Goldman Sachs Group** Inc. bought \$2.8 billion worth of the country's debt at about 30 cents on the dollar.

The Venezuelan opposition accused the investment bank

of financing Mr. Maduro's repression of peaceful protesters. Goldman Sachs had said the bonds were bought on the secondary markets and didn't add any fresh funds to the government.

This month, Credit Suisse Group said it prohibited its traders from buying and selling two existing Venezuelan bonds because of the risk the trades would finance human-rights abuses.

The policy forbids employees from trading or using as collateral two specific bonds,

one issued by the Venezuelan government due in 2036 and one by PdVSA due in 2022, as well as bonds from government entities issued after June 1.

The Latin America committee of the International Swaps and Derivatives Association, which oversees credit-default-swap trading, had scheduled a special meeting for Wednesday to discuss Venezuela, a person familiar with the matter said.

—Julie Wernau and Carolyn Cui contributed to this article.

Asian, European Stocks Bounce Back From Losses

BY RIVA GOLD
AND ESE ERHERIENE

Stocks in Asia rebounded Wednesday as investors brushed aside the worries that followed North Korea's missile launch over Japan.

Tuesday's missile was the first Pyongyang has fired over

Jap a n's main islands since 2009,

and the lat- est in a

a string of moves that have

briefly weighed on financial

markets in recent weeks. Still,

many investors said the economic and earnings backdrop for stocks remained favorable,

keeping the market within striking

distance of record highs.

Asian and European markets had fallen Tuesday in response to the launch, but the Dow Jones Industrial Average added 57 points that day after trading down as much as 135 points, its biggest intraday recovery in nine months.

"I think the market has learned the wrong lesson, which is to buy any dip indiscriminately, and there are risks out there that should be factored into stock prices," said Eddie Perkin, chief equity investment officer at Eaton Vance.

On Wednesday, Japan's Nikkei Stock Average rose 0.7%, helped by a nearly 1% gain in the dollar against the yen from the end of Tuesday's trading, a shift that supported

shares of exporters. Auto maker Mitsubishi Motors Corp. gained 1% while electronics giant Sony Corp. climbed 2.9%. Hong Kong's Hang Seng Index rose 1.2% while South Korea's Kospi index nudged up 0.3%.

U.S. economic data showing that growth remains steady and consumer sentiment is upbeat helped stocks to rise, said Masashi Murata, currency strategist at Brown Brothers Harriman.

"The fundamentals remain unchanged, so the bounce back has been easier," he said.

A measure of U.S. consumer confidence rose in August to its second-highest reading since late 2000 on Tuesday, while on Wednesday, eurozone

economic sentiment reached its highest level in more than 10 years in August, according to the European Commission.

In the U.S., the Nasdaq Composite was up 0.6% near midday in New York, while

small gains and losses.

Semiconductor stocks were among the best performers after Analog Devices beat earnings expectations. Its shares rose roughly 3%. Microchip Technology, Advanced Micro Devices and Applied Materials were also among the S&P 500's biggest gainers.

Shares of chip makers have soared in the past year, often leading larger tech companies on the way up and the way down because chips are used in so many consumer products. Analog Devices is one of several semiconductor and technology stocks up more than 30% in the past 12 months.

"They're the ones that can deliver the top-line growth,

which makes them kind of unique in this marketplace," said Crit Thomas, global market strategist at Touchstone Investments.

Brown-Forman was also one of the S&P 500's best performers after the Jack Daniel's parent exceeded Wall Street's profit expectations.

Haven assets, which tend to appreciate in times of market stress, gave back some of Tuesday's advance as investors' risk appetite recovered.

Gold edged down 0.4% after rising to an 11-month high in the previous session, while the yield on the 10-year U.S. Treasury note rose to 2.138%, according to Tradeweb, from 2.134%—its lowest level of the year—Tuesday.

After Delay, 1MDB Makes Payment to Abu Dhabi Fund

BY YANTOULTRA NGUI

KUALA LUMPUR—Malaysia's troubled state-investment fund **1Malaysia Development** Bhd., or 1MDB, said Wednesday that it had paid the second part of a missed installment to Abu Dhabi's **International Petroleum Investment Co.**

While 1MDB is under pressure and being wound up, the payment could alleviate some concerns about Malaysian state securities for foreign investors, who own a significant share of government bonds in Malaysia.

Allegations of fraud involving 1MDB, which is under investigation in half a dozen countries, have already spooked investors by weighing on the country's currency, the ringgit.

The payment announced on Wednesday is a balance payment by 1MDB to compensate the Abu Dhabi sovereign fund—a former business partner that is known as IPIC—for an emergency loan and other financial support extended after 1MDB was unable to service its debt obligations.

The precise amount of the payment wasn't disclosed either by 1MDB or IPIC, which stated earlier in a filing to the London Stock Exchange that it had been made.

IPIC said the payment fulfilled the obligations that were initially due July 31. 1MDB missed an original deadline of July 31 and an initial five-day extension granted by IPIC to pay \$628.75 million. The Abu Dhabi fund again extended the deadline and 1MDB made a payment of \$350 million on Aug. 11, with the understanding that the balance would be paid by Aug. 31.

1MDB, which is wholly owned by the Malaysian finance ministry, said that all funds were "paid from proceeds of the ongoing rationalization program," referring to an effort to reduce debt by selling assets.

The market has been watching closely to see if 1MDB would be able to meet its payment deadline.

A default would likely erode investor confidence toward Malaysian government securities and raise the risk of capital outflows from the country, Kuala Lumpur-based Kenanga Research said.

1MDB is due to make another payment, of around \$600 million, to IPIC by the end of the year.

In July, total foreign ownership of Malaysian government debt securities fell for the second consecutive month, by 2.3 billion ringgit (\$539.1 million), compared with a net outflow of 300 million ringgit in June, according to data from Malaysia's central bank.

IPIC and 1MDB signed a settlement agreement in April. The July 31 payment was the first to come due since the U.S. Justice Department in June and Singapore's public prosecutor in July alleged in court filings that units owned by 1MDB in an offshore investment fund were almost worthless.

1MDB had maintained they were worth about \$940 million. The fund hasn't commented on the U.S. and Singapore allegations.

The fund was launched by Prime Minister Najib Razak in 2009 to spur economic development but accumulated \$13 billion in debt. It began struggling in 2015 to make payments on its debts and later was found to be missing billions of dollars.

Investigations are under way in the U.S., Singapore and elsewhere. U.S. investigators allege that at least \$4.5 billion was stolen.

1MDB has denied wrongdoing and promised to cooperate with investigators. Mr. Najib has also denied wrongdoing and was cleared of any wrongdoing by the Malaysian attorney general.

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FUND NAME GF AT LB DATE CR NAV YTD 2-YR %RETURN—

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8865, Website: www.cam.com.sg, Email: cam@cam.com.sg CAM-GF Limited OT MUS 08/29 USD 308835.70 2.2 -2.3 6.7

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China A-Share Fund Cls A CAD H OT HKG 08/29 CAD 12.60 15.3 15.5 6.3

China A-Share Fund Cls A EUR H OT HKG 08/29 EUR 12.64 15.8 14.5 8.7

China A-Share Fund Cls A NZD H OT HKG 08/29 NZD 13.25 15.3 13.6 8.2

China A-Share Fund Cls A USD H OT HKG 08/29 USD 12.67 9.9 11.9 NS

China A-Share Fund Cls A GBP H OT HKG 08/29 GBP 13.25 15.0 13.5 10.0

China A-Share Fund Cls A HKD H OT HKG 08/29 HKD 13.25 15.1 14.1 12.5

China A-Share Fund Cls A INR H OT HKG 08/29 INR 13.47 15.4 14.2 16

China A-Share Fund Cls A SGD H OT HKG 08/29 SGD 14.07 25.2 20.8 11.8

China A-Share Fund Cls A NZD H OT HKG 08/29 NZD 13.53 16.6 16.0 10.4

China A-Share Fund Cls A HKD H OT HKG 08/29 HKD 12.02 20.7 20.2 6.0

China A-Share Fund Cls A CNY H OT HKG 08/29 CNY 14.88 18.7 18.5 12.4

China A-Share Fund Cls A USD OT HKG 08/29 USD 13.95 25.3 20.1 11.2

China A-Share Fund Cls A USD H OT HKG 08/29 USD 13.47 15.9 14.9 9.0

China Greenchip-A Units AS EQ CYM 08/29 HKD 16.53 28.8 24.7 12.6

China Greenchip-A Units AUD H AS EQ CYM 08/29 AUD 11.12 29.5 25.5 13.4

China Greenchip-A Units CAD H AS EQ CYM 08/29 CAD 10.82 29.4 24.9 12.4

China Greenchip-A Units NZD H AS EQ CYM 08/29 NZD 11.39 29.1 25.6 13.8

China Greenchip-A Units USD AS EQ CYM 08/29 USD 10.82 28.3 24.1 12.3

China Greenchip-A QDIs Units AS EQ CYM 08/29 HKD 11.80 28.4 24.2 12.5

GC HI Yield Inc-C MDLS AUD H OT CYM 08/29 GBP 9.63 6.3 9.4 12.2

GC HI Yield Inc-C MDLS CAD H OT CYM 08/29 CAD 11.12 22.6 18.0 14.8

GC HI Yield Inc-C MDLS CAD H OT CYM 08/29 HKD 9.32 8.2 11.6 13.6

GC HI Yield Inc-C MDLs SGD H OT CYM 08/29 SGD 9.32 8.2 11.6 14.6

GC HI Yield Inc-C MDLs SGD H OT CYM 08/29 USD 10.13 6.9 10.0 13.2

GC HI Yield Inc-C MDLs SGD H OT CYM 08/29 USD 10.25 6.9 10.7 13.1

GC HI Yield Inc-C MDLs SGD H OT CYM 08/29 USD 9.27 7.3 10.7 13.1

GC HI Yield Inc-C MDLs SGD H OT CYM 08/29 USD 10.83 5.9 8.5 11.4

GC HI Yield Inc-C MDLs SGD H OT CYM 08/29 USD 12.43 24.3 21.7 14.2

Hi-Div Stk Cls A RMDS H Acc OT HKG 08/29 HKD 14.23 16.2 17.5 12.7

Hi-Div Stk Cls A RMDS H Acc OT HKG 08/29 USD 87.75 22.4 18.9 11.4

Hi-Div Stk Cls A2 AUD H MDLs OT HKG 08/29 AUD 10.22 21.5 18.1 11.3

Hi-Div Stk Cls A2 CAD H MDLs OT HKG 08/29 CAD

MARKETS

Emerging Markets Pick Up LNG Slack

Gas demand is rising in developing Asian nations as it weakens in richer neighbors

By DEMI GUO

Emerging-market nations in Asia are turning to imports of liquefied natural gas to offset dwindling domestic supplies, bolstering LNG trade in the region as demand from bigger markets eases.

Nearly 90% of global LNG demand growth will come from emerging and frontier economies by 2022, the International Energy Agency estimates. Natural-gas prices fell to their lowest in a decade in 2016, according to the IEA, making it a more affordable source of energy for developing countries. LNG is a form of gas that is converted into liquid form so that it can be transported from producing to consuming countries, where it is converted back into gaseous form.

While most of the demand growth will come from economic behemoth China, as it competes with Singapore and Japan to establish itself as an LNG hub, the rest will come from smaller economies, the IEA says.

Domestic LNG reserves are running low in countries such as Bangladesh, Pakistan and the Philippines, forcing them to seek outside sources. Bangladesh has only 12 years' worth of domestic natural gas left, said Lance Crist, global head of oil, gas and mining at International Finance Corp., a private branch of the World Bank.

As demand growth slows in traditional consumers such as Japan and South Korea, those smaller players will make up 20% of the global LNG trade by 2022, the IEA says.

"What really drives the demand is the shortages of electricity," said Victoria Zarets-

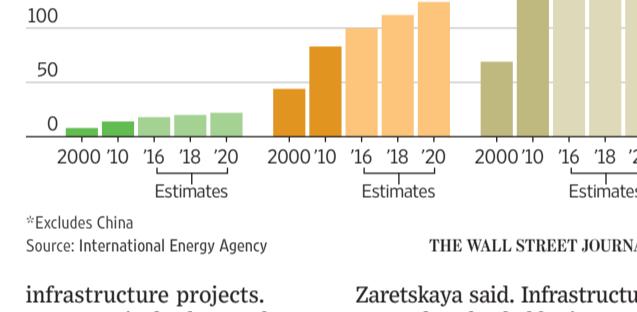


TOMOHIRO OSAKI/BLOOMBERG NEWS

An LNG tanker near Tokyo. Asia relies on liquefied gas because it is hard to build pipelines to isolated markets such as Japan.

Gas Demand

Non-OECD Asia* countries are increasingly turning to liquefied natural gas.



*Excludes China

Source: International Energy Agency

infrastructure projects.

"A typical plant takes at least \$4 billion to build," Ms. Zaretskaya said. Infrastructure cost, often funded by investors such as banks, is why nations

such as Bangladesh, which has a low international credit rating, have struggled to find lenders.

A cheaper alternative is to put the import terminals offshore. A floating LNG terminal costs significantly less than an onshore one. The leasing period is also shorter, said Mel Ydreos, executive director of public affairs at the International Gas Union.

Bangladesh's state-owned national energy company, Petrobangla, is building the country's first floating LNG terminal off Moheshkhali Island in the Bay of Bengal, partially financed by International Finance Corp.

Petrobangla expects to earn \$400 million annually selling

imports to the domestic market, but that isn't enough to cover the annual \$1.8 billion in estimated costs to import the LNG.

Petrobangla is seeking \$1.4 billion in financing from the government to offset the import costs.

Even so, the first pipeline to transport gas from the terminal was completed this month and Petrobangla expects the project to be finished in 2018.

The World Bank's IFC also helped finance Pakistan's first floating LNG terminal in Port Qasim, which became operational in early 2015, to facilitate imports from Qatar.

Pakistan's gas demand in 2015 was 6 billion cubic feet a day, while its domestic supplies covered 4 billion cubic feet a day, according to numbers provided by Engro Elengy Terminal Ltd., which runs the Port Qasim terminal.

As of the beginning of 2017, the terminal covers roughly 30% of that deficit, according to Engro Elengy Terminal data.

Emerging markets' surging demand for LNG stands in contrast with slowing growth in developed markets in the region.

Natural-gas demand from Australia, Japan, South Korea and New Zealand is expected to decline to 206 billion cubic meters in 2022 from 218 billion cubic meters in 2016, according to the IEA. Emerging-market demand, meanwhile, is expected to jump to 375 billion cubic meters in 2022 from 312 billion cubic meters last year.

While LNG prices will likely stay low for the foreseeable future, the real question is what happens when natural-gas prices rise, Mr. Ydreos said.

"It depends on how demand will increase and how all these projects on schedule are completed and can actually deliver to the market," he said.

HEARD ON THE STREET

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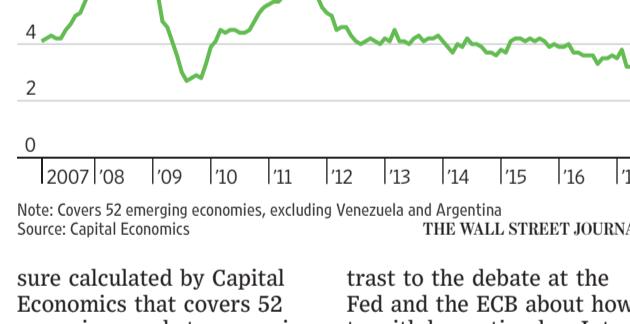
FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Stars Line Up in Emerging Bonds

Low Pressure

Aggregate emerging-market inflation



Note: Covers 52 emerging economies, excluding Venezuela and Argentina

Source: Capital Economics

nesia are among those to have cut rates in recent weeks. Further easing might not be priced into debt markets, meaning bond prices could yet rise. J.P. Morgan Asset Management points to Mexico, Indonesia and Turkey as offering potential.

The foreign-exchange part of the trade that has boosted returns may be more risky. A sharp rise in the dollar, perhaps because markets start to worry more about U.S. interest-rate rises, could be a big problem for many emerging-market assets, and could reverse investment flows into these countries.

But brighter growth prospects for emerging countries are a countervailing force.

The yield on the GBI-EM index is still north of 6%, far above the yield on developed-market government bonds. Even without foreign-exchange gains, that is tempting in a world where low yields are depressing prospective bond returns.

The stars may still be aligned for emerging-market investors.

—Richard Barley

OVERHEARD

According to the "Urban Dictionary," "Kanoa" is slang for having your girlfriend stolen by someone good looking. "I went to the gym with my girl and I got Kanoa'd" is the sample sentence.

Kanoa may soon become slang in Silicon Valley for losing money that was given to a startup.

A company with the name Kanoa had raised funds by offering a set of its planned high-tech Bluetooth earphones for upwards of \$150, a 50% discount for paying up front for a nonexistent product.

The promised earphones were supposed to arrive about a year ago, but now the company says it is going out of business and they never will.

"Over the past 2 years you have joined Kanoa on this journey to create something special," reads a message on its website, explaining that they were "emotionally overwhelmed" with the turn of events and that they "genuinely tried."

Will Harvey Soak Auto Insurers?

Most of those cars seen floating or submerged in pictures from Houston this week are auto-insurance claims waiting to happen.

Harvey may be remembered as the biggest storm that had the smallest impact on the insurance industry. That is because most damage was caused by flooding, which is mainly covered by the federal government.

Auto insurance does cover flood damage, which is why shares of the big auto insurers in the region are down more than those of other insurers. Still, the stocks haven't fallen much, and because they have risen a lot this year, if losses are higher than expected the shares could take a hit.

Auto insurers with the biggest Texas market share include **State Farm**, an unlisted mutual insurer owned by policyholders, as well as listed companies **Allstate** with a 12% share, **Berkshire Hathaway's Geico** with 10% and **Progressive** with 9%, according to analysts at Morgan Stanley.

Berkshire is so big that losses from Houston won't matter much. But Allstate and Progressive were among the biggest decliners among insurers Monday, falling 1.5% and 2.3%, respectively. Both shares rose slightly Tuesday.

So far these mild declines seem about right because investors know that insurers have ways to limit their risk. Allstate, for example, has substantial protection from reinsurance, notes Barclays analyst Jay Gelb.

However, with Allstate and Progressive up 22% and 33% this year, even a modest hit could depress shares further. Investors may want to stay away until the clouds part.

—Aaron Back

Weak Wage Growth Likely to Remain Problem for the U.S.

U.S. employment data for August have often been a downer over the past decade, with seasonally adjusted job growth of at least 200,000 positions occurring just twice, the least of any month. Fresh government figures suggest this month's report Friday will be the third.

Yet it may not result in the long-awaited acceleration in hourly wage growth, which has been below 3% since 2009.

Whether the slow gains are the result of slack inflation or a key cause of it, wages rising at a historically low rate have kept the Federal Reserve in a go-it-slow

stance regarding interest-rate increases. Without signs of faster hourly pay growth before December's meeting, the Fed could have already made its last increase of 2017.

Why there haven't been stronger wage increases with some unemployment data hitting levels last seen in 1973 has been long debated, including at the central bank.

If there are to be signs of accelerating wage gains, now is the time.

Beyond the unemployment rate already being at 16-year lows in July and payrolls growing for a record 82 months and counting, unemployment claims seasonally

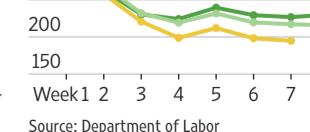
hit their annual lows in September as schools are back in session and other industries that pare back in the summer ramp up.

In September 2015 and 2016, initial jobless claims on an unadjusted basis—not the seasonally adjusted figures that grab headlines each Thursday—saw a combined three weeks' readings come in below 200,000. They were the first such occurrences since 1973. But in three of the past four weekly reports from the Labor Department, unadjusted claims have been under 200,000.

Based on historical norms, the number could bottom out around 180,000 next

Work Experience

Unadjusted U.S. jobless claims, eight weeks starting in July



Source: Department of Labor

THE WALL STREET JOURNAL.

month, also a level not reached since 1973.

A labor market near what some consider full employment should be resulting in faster wage gains. It hasn't

to date, perhaps as the result of the U.S. workforce being in stasis as firings and layoffs are around record lows, or as retiring baby boomers cap overall average wage growth, as a recent paper from the San Francisco Fed suggested.

Whatever the reason, the Fed—and the American worker—wants more than just another month of the strong job growth that Friday's report for August should contain.

If hourly wage gains remain around 2.5%, it would be yet another sign of the new normal in the post-financial-crisis world.

—Kevin Kingsbury