

# THE WALL STREET JOURNAL.

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DJIA 21891.12 ▲ 0.28%

NASDAQ 6348.12 ▼ 0.42%

NIKKEI 19925.18 ▼ 0.17%

STOXX 600 377.85 ▼ 0.13%

BRENT 52.65 ▲ 0.25%

GOLD 1266.60 ▼ 0.14%

EURO 1.1814 ▲ 0.54%

## What's News

Business & Finance

Credit-card losses are increasing, with average charge-offs for large U.S. card issuers hitting a four-year high last quarter. **A1**

◆ Discovery agreed to buy Scripps for \$11.9 billion, betting that lifestyle programming will help it weather the upheaval in cable TV. **B1**

◆ HSBC said that it would regularly buy back shares if it has extra capital, in the global banking firm's latest sign of strength. **B1**

◆ VW faces fresh legal pressure over its emissions scandal after EU authorities recommended fraud charges against two VW officials. **B1**

◆ Charter said it isn't interested in buying Sprint, potentially ending several weeks of deal talks. **B4**

◆ Dutch brewer Heineken posted higher profit for the first half, fueled by strong sales in Europe. **B3**

◆ HBO became the latest entertainment company to be hacked and have its content leaked online. **B4**

◆ Sanofi said net fell 10% on higher restructuring costs, but the French drugmaker lifted its 2017 forecast. **B3**

◆ A new bitcoin is set to be launched Tuesday, resulting in two competing versions of the digital currency. **B6**

◆ LabCorp agreed to buy London-based Chiltern, a drug contract-research business, for \$1.2 billion. **B3**

◆ Lyft named ex-Obama aide Valerie Jarrett as its first independent director. **B4**

### World-Wide

◆ Scaramucci was ousted as White House communications director, just 10 days after his appointment to the post, at the urging of new Chief of Staff Kelly. **A1**

◆ Retired Gen. Kelly, who had headed the Homeland Security department, was sworn in as chief of staff. **A6**

◆ The Pentagon and U.S. State Department have devised plans to supply arms to Ukraine and are seeking White House approval. **A1**

◆ Pence warned against aggression from Russia during a visit to Estonia and said Trump would sign a new sanctions bill. **A4**

◆ The U.S. sanctioned Venezuela's leader and said a vote that would let his government redraft the constitution was illegitimate. **A3**

◆ Trump administration officials urged China and other nations to confront North Korea over its missile ambitions. **A5**

◆ Australia tightened airport security after police thwarted an alleged Islamist plot to bring down a commercial airline. **A5**

◆ The EU should consider slapping large fines on European governments that fail to adopt its economic proposals, the ECB said. **A3**

◆ Free movement of people between the U.K. and EU will end with Brexit, May's spokesman said. **A3**

◆ Died: Sam Shepard, 73, Pulitzer Prize-winning playwright and actor. **A7**

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## Turmoil Worsens in White House

Trump's new chief of staff ousts the recently appointed communications chief

BY REBECCA BALLHAUS AND MICHAEL C. BENDER

WASHINGTON—Anthony Scaramucci was removed from his position as White House communications director, just 10 days after his appointment to the post.

Mr. Scaramucci, who is nicknamed "The Mooch," was removed at the urging of former Marine Corps Gen. John Kelly, who was sworn in as

White House chief of staff Monday morning. Mr. Kelly is seeking to impose more discipline in the White House, two administration officials said.

After the swearing-in ceremony—which Mr. Scaramucci attended—Mr. Kelly returned to his office, where he informed Mr. Scaramucci in a one-on-one meeting that he was being forced to resign, a White House official said.

Mr. Scaramucci is expected to retain his position at the U.S. Export-Import Bank, a White House official said, which he asked to keep when he gave his resignation.

In a statement, White

House press secretary Sarah Huckabee Sanders confirmed that Mr. Scaramucci would be leaving his role as communica-

U.S. Freezes Maduro Assets

Washington is sanctioning the Venezuelan leader for human-rights abuses ..... **A3**

tions director. "Mr. Scaramucci felt it was best to give Chief of Staff John Kelly a clean slate and the ability to build his own team," she said.

Mr. Scaramucci didn't re-

turn a call seeking comment.

The move comes four days after the New Yorker magazine published an expletive-filled interview with Mr. Scaramucci, in which the Wall Street financier attacked other top staffers in the White House, including Mr. Kelly's predecessor Reince Priebus.

Mr. Scaramucci had told fellow White House officials in recent days that he knew it was a possibility that his New Yorker interview could result in him being ousted, said two people familiar with the conversation. But in a White House that has driven an unceasing news cycle for much

of the past six months, with one breaking news story quickly overshadowing the last, Mr. Scaramucci told colleagues that he thought it might blow over.

Mr. Scaramucci—who had reported directly to President Donald Trump while Mr. Priebus was chief of staff—had told the president on Sunday that he wanted to report to Mr. Kelly, according to a Republican close to the White House. But Mr. Kelly felt the communications director was unable to be a "team player" and found his comments about his colleagues unbecoming, the person said.

Please see STAFF page A6

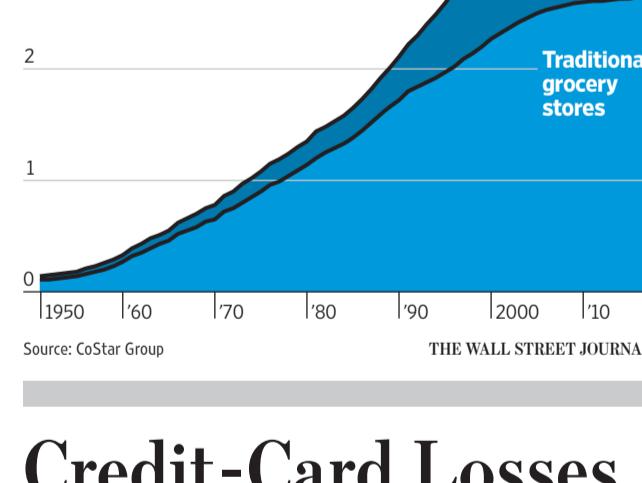


New Chief of Staff John Kelly, left, with President Donald Trump, urged Anthony Scaramucci's removal as communications director.

### Supermarkets' Growing Problem

The amount of retail space selling groceries per capita in the U.S. has hit a record as supermarkets have expanded while club retailers, mass merchants and dollar stores have also increased their food offerings. **B1**

4 square feet per capita



## Credit-Card Losses Mount Up in U.S.

By ANNA MARIA ANDRIOTIS

Credit-card losses are increasing, a reversal from a six-year trend that could be a warning sign for markets and the broader economy.

The average net charge-off rate for large U.S. card issuers—the percentage of outstanding debt that issuers write off as a loss—increased to 3.29% in the second quarter, its highest level in four years, according to **Fitch Ratings**. The quarter was also the fifth consecutive period of year-over-year increases in the closely watched rate. All eight large issuers, including J.P. Morgan Chase & Co., **Citigroup Inc.**, **Capital One Financial Corp.** and **Discover Financial Services**, had increases for the quarter.

The trend, which accelerated in the first half of this year, has started to suppress bank earnings. If consumers' budgets get more stretched, a

pullback in spending could put pressure on both growth and corporate profits.

While losses are rising, they remain low compared with historical levels and the 10% net charge-off rate they hit in early 2010. Lenders say they aren't expecting a return to crisis-level losses and that the increases are largely a return to normal after a period of abnormal lows.

Still, other bankers have noted the change in direction, a new string of losses in the industry after 24 quarters in which they fell. "The overall environment is deteriorating," said David Nelms, chief executive at Discover in an interview. It is "not quite as favorable as it was over the past few years."

In 2010, when credit-card write-offs started declining, banks lent mostly to credit-worthy borrowers. But starting around 2014, many lenders

Please see CREDIT page A2

## COURTROOM CHAOS PLAGUES INDIA

With 30 million pending cases, the country's dysfunctional legal system is hobbling its emergence as a global economic power

By NIHARIKA MANDHANA AND VIBHUTI AGARWAL

ALLAHABAD, India—At India's largest courthouse one recent Thursday, the wheels of justice began their slow grind at 10 a.m.

A dairy farmer settled into his usual spot, hoping for a breakthrough in a 34-year-old property dispute filed before his birth by his father. In Courtroom 41, a murder appeal from 1983 topped the docket. The delay has kept the convicted men out of prison through the intervening decades. In bail court, Justice Vipin Sinha faced his usual, impossible case-load—380 cases in 300 minutes. What he can't finish will fall to another day.

A typical workday at the 150-year-old Allahabad High Court reveals a pattern repeated across India's overburdened judicial

system, which is hobbled by a pileup of cases that stretch as far back as four decades. The backlog has eroded the rule of law in the world's largest democracy, upended constitutionally guaranteed rights of swift justice, and threatens India's emergence as a true global economic power.

"It has become totally and thoroughly unmanageable," said Gopal Chaturvedi, a private lawyer since 1972. "It is a pathetic state of affairs."

Foreign investors looking to bet big worry about getting buried in notices, hearings and appeals with no effective way of resolving disputes.

Companies face constant delays and overloaded dockets to settle even the smallest business dispute. Enforcing successful judgments

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### INSIDE



### WHEN REAL LIFE MEETS THE MOVIES

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### BITCOIN SPAT SPLITS INDUSTRY

BUSINESS & FINANCE, B5

### A 36-Year-Old Building Super Dreams of Skiing in the Olympics

\* \* \*

Besnik Sokoli trains in a boiler room

hoping to compete for his native Kosovo

By MICHAEL M. PHILLIPS

BROOKLYN—On any given day, building superintendent Besnik Sokoli might be in the boiler room working on the furnace. Or he might be there, working on his skiing.

Mr. Sokoli, a war refugee and super of five apartment buildings in the hip Dumbo neighborhood between the Brooklyn and Manhattan bridges, entered his first serious ski race six months ago, when he was 35. Now he's making a long-shot bid for the

2018 Winter Olympics.

After work each day, Mr. Sokoli sets aside his walkie-talkie and tool belt, slips on a weighted vest, dons a mask to mimic high-altitude oxygen deprivation, and climbs onto a secondhand ski simulator braced between a broken cooling unit and a tub of snow-white paint. Then he spends 45 minutes swiveling from side to side, imitating a slalom run.

Says Mr. Sokoli: "It doesn't get any more Brooklyn than this."

Please see SKI page A2

## WORLD NEWS

# As Washington Churns, Threats Intensify



### CAPITAL JOURNAL

By Gerald F. Seib

**W**hen folks in Washington end a summer filled with White House hijinks and an epic but inconclusive healthcare debate, they will look up and discover something unsettling: The world has become a more dangerous place while everybody has been distracted.

That's most obviously true in North Korea, where its rogue weapons program has leapt so far forward that the nation now has a missile with the range to reach much of the U.S. Pyongyang's capabilities are advancing so quickly that the Defense Intelligence

Agency has had to ratchet forward, to as early as next year, its estimate of when it will have an intercontinental ballistic missile capable of carrying a nuclear warhead.

There is widespread expectation the North Koreans may conduct another missile test in a matter of days, and, perhaps not long down the road, another underground test of a nuclear device.

Meanwhile, American relations with China, the country most able to cooperate in slowing down Pyongyang, are deteriorating amid presidential recriminations—delivered via Twitter—about Beijing's behavior.

Relations with Russia are sliding backward as well, punctuated by passage of a bill imposing new American sanctions and the Kremlin's decision to kick 755 diplomats and U.S.-hired staff out of the country in response. Both sides agree that ties now are at their lowest point since the Cold War.

That soured relationship with Russia means it will be tougher to untangle the world's second-messiest

problem, behind that Korean nuclear threat: the war in Syria, where the U.S. and Russia are essentially on opposite sides, with forces always on the verge of bumping into one another.

The U.S. also is being challenged by Iran. In possible defiance of new sanctions being imposed by Congress, the Iranians have just launched their own missile into space. Meantime, U.S. forces in the past week have fired both warning shots and warning flares at Iranian ships acting provocatively in the Persian Gulf.

In case that isn't enough, few paid much attention over the weekend when nuclear-armed Pakistan, also one of the most dangerous places on Earth, fell into a governing crisis as its prime minister was ousted amid a scandal that is creating new instability.

Is this all bad coincidence? Mostly, yes. Certainly the Trump administration didn't create all these problems. Still, the spectacle of dysfunction in Washington has the potential to make

things worse.

**W**hen a president appears weak, distracted or in trouble, as President Donald Trump does right now, the effects on international affairs can play out on many fronts. First, adversaries may feel more emboldened to

*The world has become a more dangerous place while everybody has been distracted.*

challenge a besieged American leader. That may be a miscalculation, but the chances of miscalculation go up at such times.

Second, there always is the suspicion that a president embattled at home is looking for a distraction abroad. Even if there's a real crisis, there would be charges the White House is pumping it up to divert attention. "Wag the Dog" sus-

picion is never far beneath the surface.

In any case, the president's pattern of engaging in exaggerations and outright misstatements has downside risks in a dangerous international environment. When the leader of the free world speaks in a time of genuine crisis, he needs his countrymen to believe him and the rest of the world to take him seriously. On the world stage, calm and understated usually beats bluster.

Third, when a president is thought to be distracted or in trouble, Congress steps in to fill what it perceives to be a void. That's what happened during Watergate, when lawmakers voted to cut funding for the war in Vietnam and passed the War Powers Act to limit a president's hand in military operations abroad.

Was this congressional mindset at work in recent days when Congress passed legislation imposing more sanctions on Russia, Iran and North Korea? Probably; at a minimum, lawmakers worried that Mr. Trump other-

wise would be soft on the Kremlin after a campaign in which he talked of wanting to improve relations, and amid accusations Moscow worked to help him win.

But in the process, the legislation also blocked the president from rolling back sanctions without congressional approval, a provision that severely limits presidential flexibility in conducting foreign policy. Mr. Trump doesn't like it, and neither will future presidents if that becomes the pattern.

**O**f all these problems, the North Korean one is the most urgent and dangerous. Mr. Trump is right when he says China hasn't done what it could to curb North Korea: At this point, Beijing's true intentions have to be considered suspect. The grim reality, though, is that China's belligerence leaves few options, and no good ones, for dealing with the threat.

And that's a problem a lot more important than who's up and who's down in the White House this week.

and Synchrony, have raised projections for charge-offs. Investors are jittery about more revisions.

Alliance Data Systems Corp., the third-largest issuer of store cards by outstanding balances, had been guiding investors to a full-year 2017 loss rate in the mid-5% range. In July, though, it wouldn't commit to that figure when pressed by analysts on its earnings call.

The company also reported a net charge-off rate for cards of 6.2% for the second quarter, up 1.1 percentage points from a year earlier. Its shares plummeted more than 9% that day.

Credit cards also moved to the top of the list of concerns about potential losses in the Federal Reserve's annual stress test of banks in June. The central bank said lenders would incur \$100 billion in projected credit-card losses in a severely adverse hypothetical recession, tied with commercial and industrial loans. Cards ranked third the year before.

"We've seen an inflection point in credit," said Charles Peabody, managing director at Compass Point Research & Trading LLC. "It is going to get worse from here."



Lenders said they don't expect a return to crisis-level losses.

term to grow earnings when credit is moving against us," Mr. Nelms said.

The rising losses are occurring during a time of near record-low U.S. unemployment, which suggests that credit performance could quickly weaken should the jobs situation turn.

"That's a little concerning," said Michael Taiano, a director at Fitch.

During the first-quarter earnings period, some lenders and analysts pointed to delays in tax refunds as a possible

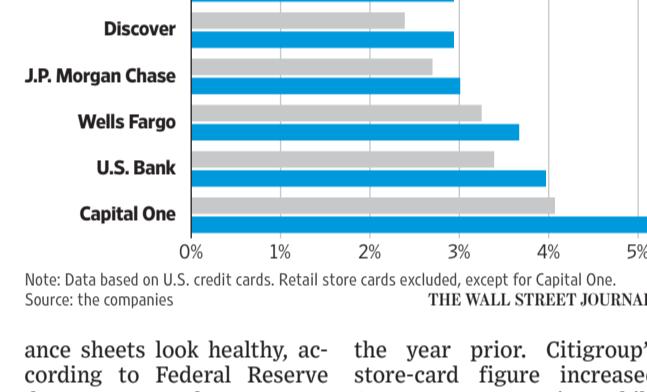
reason for the pickup in card-related losses. But this quarter, charge-offs kept rising for many lenders, fortifying worries that consumers are taking on too much debt.

The card market is an indicator of consumers' ability to pay back their debts. Unlike mortgages, a much broader group of consumers have access to cards. And these accounts can fall low on the priority list of bill payments when household finances are tight.

While overall consumer bal-

### Taking a Loss

Net charge-off rates



Note: Data based on U.S. credit cards. Retail store cards excluded, except for Capital One.

Source: the companies

THE WALL STREET JOURNAL.

ance sheets look healthy, according to Federal Reserve data, some numbers suggest they are starting to stretch. Balances are growing faster than purchases charged to retail-store cards from Synchrony Financial and Citigroup Inc.

Card losses in the U.S. are up at most big banks, including those that specialize in subprime lending or store credit cards. The net charge-off rate at Capital One in the second quarter increased more than a percentage point from

the year prior. Citigroup's store-card figure increased 0.63 percentage point, while Synchrony's overall rate rose more than 0.90 percentage point.

Broader consumer figures also point to overleveraging. Nonmortgage consumer debt payments, including credit cards and auto loans, account for the largest share of consumers' after-tax income since 2009, according to an analysis by Barclays PLC.

So far this year, several card lenders, including Capital One

out falling or missing a gate.

He arrived in Norway with 990 points in giant slalom; he left with 375.

Mr. Sokoli returned to Brooklyn, to patrolling the halls, straightening carpet tiles and picking up stray wads of paper. He acquired another credit card, ordered top-notch Austrian skis and left for his races in the southern hemisphere. On Friday, in his first slalom race in South Africa, he finished 44th out of 56 and slashed his FIS points to 258.74.

Says Mrs. Sokoli: "One-hundred percent he believes he's making it to the Olympics."

### CORRECTIONS & AMPLIFICATIONS

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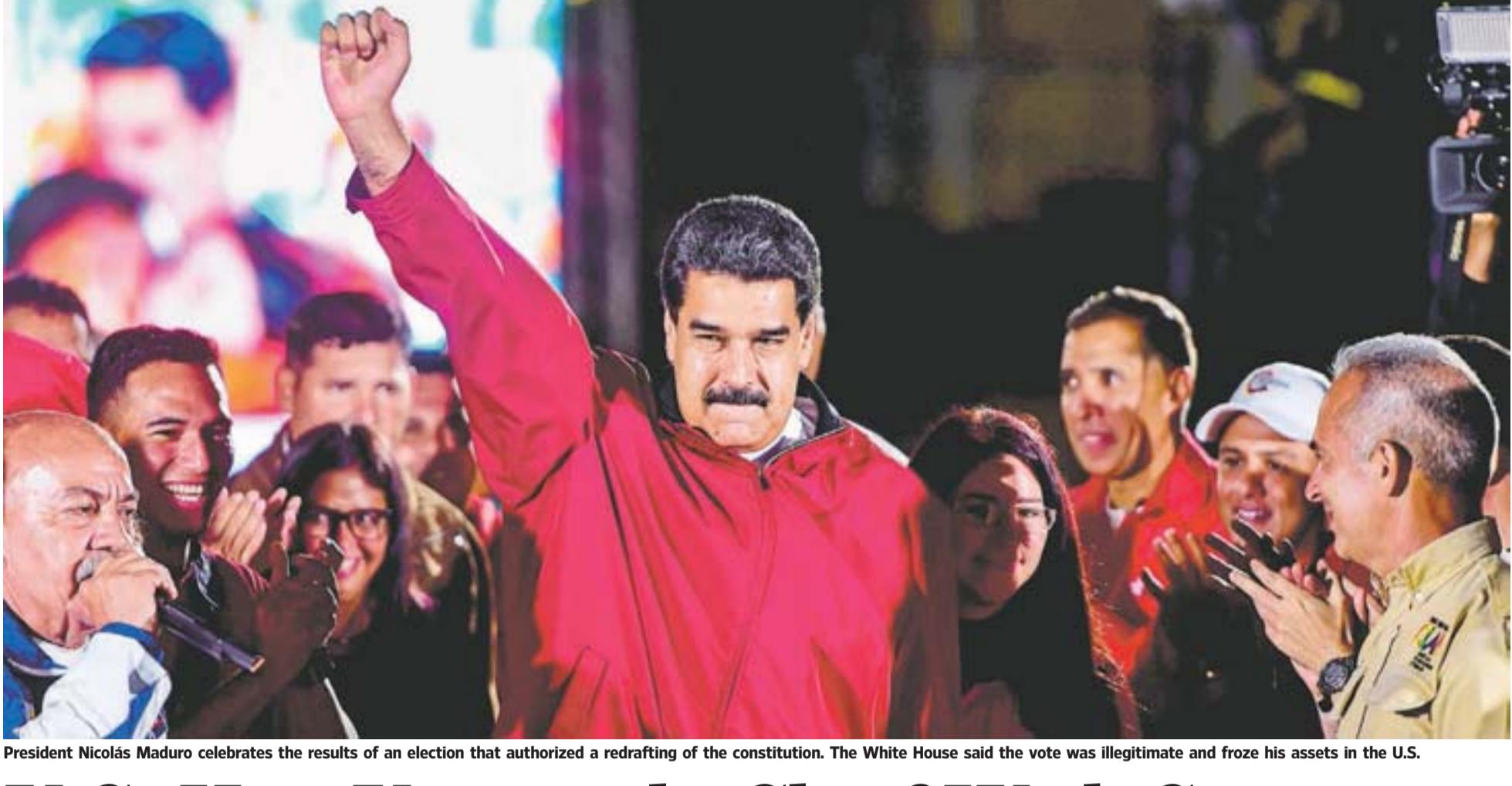
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# WORLD NEWS



President Nicolás Maduro celebrates the results of an election that authorized a redrafting of the constitution. The White House said the vote was illegitimate and froze his assets in the U.S.

## U.S. Hits Venezuela Chief With Sanctions

Treasury cites human-rights abuses, says vote on constitution was illegitimate

WASHINGTON—The U.S. Treasury Department imposed sanctions against Venezuela's leader, citing human-rights abuses and calling a Sunday vote to give his administration

their country to a full and prosperous democracy."

Treasury also warned that any officials connected with the constituent assembly, which Mr. Maduro plans to use to rewrite the constitution, also face possible sanctions.

Treasury made no mention of any oil-related sanctions even though senior administration officials had warned that Washington was considering banning the petroleum trade with Venezuela if the president moved ahead with the constituent assembly. Analysts say the administration will likely continue ratcheting up sanctions against Venezuela, keeping an oil and products ban as a possible sanctions threat.

Other leaders targeted by U.S. sanctions include Syria's Bashar al-Assad, North Korea's Kim Jong Un, Zimbabwe's Robert Mugabe and the former leader of Serbia, Slobodan Milošević.

"Under Maduro, the Venezuelan government has deliberately and repeatedly abused the rights of citizens through the use of violence, repression, and criminalization of demonstrations...and engaged in systemic corruption," Treasury said.

The move came as Mr. Maduro on Monday threatened to imprison his adversaries and



Clashes broke out in Caracas on Sunday between government security forces and protesters in which 10 people were killed.

opposition leaders said the vote was fraudulent.

"Some will end up in a jail cell," Mr. Maduro said. "We are going to write a new history."

The government said eight million people had voted to choose delegates to form an assembly to write a new charter that many observers say will give the government unchecked authority. The voting results released by the government and the electoral process lead-

ing up to the vote drew scorn from many Venezuelans and condemnation from governments in Europe and the Americas, including the U.S.

The rhetoric on both sides portended heightened instability in a nation racked by protests that since Sunday resulted in 10 new deaths in confrontations between protesters and security forces. A total of 123 people have died since a steady stream of pro-

tests began in April, Venezuela's attorney general says.

While many in the opposition despaired at what they said was an increasingly authoritarian tint to the Maduro administration, others worried that a government saddled with a collapsing economy and low popularity risks collapse.

Francisco Rodríguez, who has strong links with government and opposition officials here and is the chief economist at New York-based brokerage Torino, said that as support for the administration declines, it may not be able to maintain its hold power "even with the institutions of an authoritarian state."

"In other words," he said in a note to client, "even non-democratic governments require some level of political support for their grasp on power to be stable, and it is unclear whether the government's current numbers are still above that threshold."

Though the two sides revile each other, people close to both of them say that the talks some of their representatives have held in recent months could lead to a solution. But they would need to transform into negotiations, with mediators and an agenda, with a primary goal being presidential elections.

Mr. Maduro, in his speech early Monday, said he would look to force the opposition to sit down for negotiations through a so-called truth commission that he previously said would be created by the new constituent assembly. Though he made his comments in a threatening manner, Stalin González, an opposition member of congress, said that the two sides needed to embark on real negotiations.

"An accord has to be the way out," he said. "Today we have to bet on an accord being a possibility."

The election results were announced on state television by Tibisay Lucena, head of the National Electoral Council, near midnight on Sunday.

"Peace won. When peace wins, Venezuela wins," said Ms. Lucena, summing up the vote. "It was a result that was so big, so surprising."

On Monday, government opponents promised more protests in the capital, though the streets remained calm into the late afternoon.

"Now is the time to keep fighting in Venezuela for peace, for free elections," Julio Borges, head of the opposition-led National Assembly, said in a television interview. "Maduro is behaving like an emperor."

## U.K. Cabinet Bickers Over Brexit

By JENNY GROSS

LONDON—Free movement of people between the U.K. and the European Union will end when the U.K. leaves the bloc in March 2019, Prime Minister Theresa May's spokesman said Monday, underscoring divisions within the government over future immigration policy.

Ministers have agreed over the past week that the U.K. will seek a multiyear transition arrangement with the EU to give businesses time to adjust to Brexit, but they have expressed differing views about which EU rules would continue to apply—particularly on immigration.

James Slack, Mrs. May's spokesman, said free movement, which gives citizens of the bloc the right to live and work in any EU country without a visa, would end when Britain departs the EU but that further details were up for negotiation. Talks got formally under way in June.

"Other elements of the post-Brexit immigration system will be brought forward in due course," he said. "It would be wrong to speculate on what these might look like or to suggest that free movement will continue as it is now."

Mrs. May's spokesman's comments, if followed through, would appear to rule out the least disruptive type of transition deal with the EU—and also the easiest to negotiate—under which the U.K. would stay temporarily inside the bloc's single market and its customs union. The EU requires countries to agree to



Border agents check the passports of EU passengers arriving at London's Gatwick Airport.

free movement of people if they want to reap the benefits of free movement of trade and services within the bloc.

Businesses and others have been eager for certainty on the U.K.'s approach as they make plans, but cabinet members have sent mixed signals.

Ministers have been bolder in voicing opinions on Brexit since Mrs. May's Conservative Party lost its parliamentary majority in a June election.

While she was vacationing in Italy, Chancellor Philip Hammond last week gave several fresh details about Britain's Brexit plans, including that the U.K.'s relationship with the EU could look similar to what it does now for a number of years after leaving.

Mr. Hammond, who supported staying in the EU, said he wanted to avoid a "cliff-edge" scenario where goods and people would stop being able to move across Britain's borders as soon as the U.K. left the bloc.

He also said that rules affecting Britain's relations with the bloc would be implemented gradually by 2022 and that it would be some time before full immigration controls could be introduced.

Over the weekend, Liam Fox, trade secretary, said in an interview with the Sunday Times that he doubted free movement of people could continue for up to three years after the U.K. leaves the EU. "I have not been involved in any discussion on that, nor have I

signified my agreement to anything like that," said Mr. Fox, who supported leaving the EU.

Tony Travers, politics professor at the London School of Economics, played down the significance of the Downing Street spokesman's words. He said that although the comments appear to contradict Mr. Hammond's, in practice, they may not be that different.

"Free movement is ending, but that wouldn't preclude introducing something that isn't the same as free movement minus some tiny element," Mr. Travers said, referring to the transition period. "It's a very nuanced world of being able to assert everything changes when it doesn't."

## ECB Takes Hard Line On Economic Reform

By TOM FAIRLESS

FRANKFURT—The European Union should consider slapping large fines on European governments that fail to adopt its economic reform proposals, the European Central Bank said, underlining the ECB's mounting frustration at a sluggish pace of eurozone reform that risks hurting the bloc's longer-term growth and stability.

The stern advice, in a report published Monday, comes as the ECB prepares to discuss reducing its large monetary stimulus as soon as its next policy meeting on Sept. 7. Less support from Frankfurt will shift the onus onto national governments to help drive economic growth in the 19-nation currency union.

European governments can be fined up to 0.1% of gross domestic product if they repeatedly fail to address economic flaws flagged by EU authorities under a new risk-monitoring system launched during the region's recent debt crisis.

The system, known as the macroeconomic imbalances procedure, aims to prevent worrisome economic developments such as high current-account deficits, unsustainable debt levels and house-price bubbles.

In practice, though, the EU has so far stopped short of issuing such sanctions.

But the ECB suggested that should change. "There seems to be a strong case for applying the corrective arm of this procedure for all countries

with excessive imbalances," the central bank said.

EU policy recommendations typically address issues such as boosting the sustainability of public finances, reducing the tax burden on labor, and increasing the efficiency of public administration and state-owned enterprises.

ECB President Mario Draghi frequently scolds eurozone governments for their failure to implement reforms that could bolster the region's growth rate and lower unemployment. At a news conference 10 days ago, Mr. Draghi warned that the pace of reforms "needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost productivity growth."

The ECB has launched sweeping stimulus measures in recent years in an effort to support lending and growth in the currency bloc, to drive up inflation, which has hovered around zero. The bank is currently buying €60 billion (\$70.4 billion) a month of eurozone bonds under its quantitative-easing program, which is due to run through December.

But policy makers are expected to start reducing QE early next year, as the eurozone economy picks up speed.

The number of countries in which EU authorities have identified "excessive imbalances" is at a record high, according to the European Commission, the EU's executive arm. They include Bulgaria, France, Croatia, Italy, Cyprus and Portugal.

## WORLD NEWS

# Pence Rips Moscow, Affirms NATO's Role

Vice president visiting three nations Kremlin has considered within its traditional sphere

BY PETER NICHOLAS

TALLINN, Estonia—Vice President Mike Pence issued one of the Trump administration's toughest attacks to date on Russia, coming to a nation on Russia's border to warn against aggression from the "unpredictable neighbor to the east."

Mr. Pence said Monday that President Donald Trump would sign a bill passed by Congress that imposes new sanctions on Russia, despite earlier reservations from the White House and a promise from Moscow to expel hundreds of U.S. diplomats in return.

Mr. Pence said the Russia must be held accountable for its actions, saying the U.S. wouldn't lift sanctions until it sees as a reversal of "the actions that caused the sanctions in the first place."

"At this very moment, Russia continues to seek to redraw international borders by force, undermine the democracies of sovereign nations, and



In Estonia speech, Vice President Mike Pence called Russia the 'unpredictable neighbor to the east.'

ceived a private military briefing that opened with an officer referencing the "eastern flank of NATO."

Mr. Pence praised Estonia for being one of just five in the NATO alliance to devote 2% of its gross domestic product to defense. The country of 1.3 million has pushed for more U.S. air cover for the region, but NATO officials say its 183-mile border with Russia would be hard to defend against a determined Russian assault.

A Rand Corp. study last year showed that Russia could beat back NATO forces reach the outskirts of Tallinn, the capital, in just a few days.

In his 2016 presidential campaign, Mr. Trump often spoke of more cooperative dealings with Russia, and described NATO as obsolete. But he has since toughened his line on Russia, and Mr. Pence's remarks signaled again that the U.S. supported NATO's common-defense provision, known as Article 5.

"The United States rejects any attempt to use force, threats, intimidation or malign influence in the Baltic States or against any of our treaty allies—and under President Donald Trump, the United States of America will stand

firmly behind our (NATO) Article 5 pledge of mutual defense—and the presence of U.S. Armed Forces here today proves it," Mr. Pence said.

Mr. Trump in recent months has described relations with Russia at a low point.

After insisting he didn't believe Russia interfered in the 2016 presidential race, he has said Russia was "probably" involved, though he has also said China and other actors could have been. Russia has denied interfering in the election.

Mr. Pence, talking to reporters during a visit to Old Town Square, said that Mr. Trump's feelings on the matter are clear.

"The president has confirmed repeatedly that we believe Russia did meddle in U.S. elections," Mr. Pence said. "I think he has also said it could have been other actors as well. But he's confirmed his belief and our intelligence that Russia was involved in meddling in U.S. elections."

Having chided Russia for its actions, Mr. Pence held open the possibility of a thaw. "President Trump has made it clear: America is open to a better relationship with Russia," he said.

## U.S.-Russia Ties, Now Frayed, Face Further Retreat

BY NATHAN HODGE

MOSCOW—The latest battleground in the escalating feud between the U.S. and Russia is an unassuming cabin behind a high wooden fence on the western edge of Moscow.

Angry over new sanctions legislation passed by Congress, the Russian Foreign Ministry vowed last week to suspend the U.S. Embassy's access to the diplomatic retreat in Serebryany Bor, cutting off the spot on the Moskva River where diplomats entertain and relax at weekend get-togethers.

Russian camera crews have been staking out the country house—known as a dacha—in a gated community that once housed senior Communist

treats on the eastern shore of Maryland and on Long Island.

In retaliation for the sanctions passed by Congress, Russian President Vladimir Putin said the U.S. diplomatic presence in Russia would be reduced by more than half as of Sept. 1, but access to the dacha will be closed a month earlier, on Tuesday, along with a warehouse.

Vladimir Zhirinovsky, a Russian nationalist politician prone to hyperbole, told the television channel NTV he would ask Russian Foreign Minister Sergei Lavrov to turn the compound over to him.

"I've never had a decent dacha in my life," he said. "Serebryany Bor is good."

A guard on the road leading to the compound didn't allow a Wall Street Journal reporter to drive to the entrance of the house, but television crews from the Kremlin-financed RT television channel and Rossiya 24 were parked outside.

Mr. Putin has described the new sanctions passed by Congress as a grave insult, saying last week that it was "impossible to endlessly endure some rudeness in relation to our country."

But the new sanctions law has yet to be signed into law by President Donald Trump, and Russian rhetoric has remained somewhat tempered.

The Russian Embassy in the U.K., which maintains an often-provocative Twitter feed, wrote Monday that Russia did not fault the American people, but blamed the "elite and deep state" in Washington.

Fyodor Lukyanov, chairman of a prominent council of experts that advises the Russian government on foreign policy, said Russia was unlikely to start a policy of active confrontation, but that the potential was high for a "downward spiral of measures and countermeasures."

—Thomas Grove contributed to this article.

Party officials. Little was visible behind its fence except for a picnic table and a riding mower, but it appeared rustic and modest compared to the palatial modern villas that towered nearby.

Andrey Kortunov, who heads a think tank close to the Foreign Ministry, said it had been a regular tradition since the 1990s for the U.S. Embassy to host private parties at the dacha, often inviting Russian politicians from Moscow and even American celebrities.

"It's no palace, nothing really big," he said.

But it is a big symbol of the strain on Russian-U.S. ties, at their tensest since the Cold War. Last year, under President Barack Obama, the U.S. State Department denied Russian diplomats access to re-

## Torrential Rains During India's Monsoon Season



Indian flood victims stand atop a partially submerged building in Gajol village, some 40 miles (66 kilometers) west of Calcutta, on Monday. The floods have hit millions of people—submerging villages, washing away crops, destroying roads and disrupting power.

## UKRAINE

Continued from Page One

fighting the Kiev government.

Since Russia invaded and annexed Ukraine's Crimean peninsula in 2014 and then began supporting Russian-speaking insurgents in the country's east, Washington, wary of escalating the conflict, has largely limited its support for Kiev's military to so-called nonlethal aid and training.

A senior administration official said there has been no decision on the armaments proposal and it wasn't discussed at a high-level White House meeting on Russia last week.

The official said President Donald Trump hasn't been briefed on the plan and his position isn't known.

Some U.S. and Ukrainian officials said they expect it could be months before the White House makes a final determination.

Any decision to provide arms to Ukraine would come against a backdrop of severely deteriorating relations between Washington and Moscow. Russia said it would expel hundreds of American diplomats after the U.S. Congress last week approved new economic sanctions on Russia.

A Pentagon spokeswoman, Lt. Col. Michelle L. Baldanza, said the U.S. hasn't "ruled out the option" of providing "lethal defensive weapons to Ukraine." U.S. Defense Secretary Jim Mattis has endorsed the plan, according to U.S. officials.

A State Department spokesman didn't immediately respond to a request for comment.

When the Obama administration considered supplying arms to Ukraine, it faced con-

siderable opposition from German Chancellor Angela Merkel and other allied leaders and instead provided Kiev with short-range radar, night-vision goggles and other equipment.

Germany and France remain deeply skeptical about providing arms to Ukraine, fearing that such moves would raise tensions and deepen the conflict there. But U.S. officials said they expect allies, possibly including the U.K., Canada, Poland and Lithuania to be open to increased military support.

"It is really important we don't inflame the situation," said British National Security Adviser Mark Sedwell. "There has been quite a lot of agitation from across the border in the east."

Roughly 10,000 people have died in the Ukraine conflict since 2014, according to the United Nations. Russian support for the rebels was thrown into sharp relief when

a Malaysian passenger jet was shot down in July 2014 by a Russian-made surface-to-air missile, according to international investigators.

U.S. officials say they worry that the conflict has intensified, with a rising number of cease-fire violations as progress on peace efforts has faltered.

"The level of violence is up a bit of late," said Gen. Curtis Scaparrotti, the top U.S. and NATO commander. "The Russians provide equipment, some of their most modern equipment, and they provide proxy forces with advisers."

Russian officials have long denied supporting separatists and criticized Western efforts to train the Ukrainian military. Russian officials have said in recent days that any U.S. move to send weapons to Ukraine would further impair peace efforts.

Under the Pentagon and State Department proposal, the U.S. would provide anti-

tank weapons, most likely Javelin missiles, as well as possibly antiaircraft weapons, in addition to other arms. Ukraine has long sought Javelins to counter Russian-made armored vehicles in rebel-held areas.

U.S. officials, however, said the plan would be to deploy the antitank missiles with Ukrainian troops stationed away from the front lines of the conflict—part of an effort by policy makers to limit the risks of escalation and defuse criticism that the moves could encourage offensive action by Kiev.

Javelin missiles and launchers are lightweight and usually carried by two-man teams, so they are highly mobile.

Should Ukraine use the weapons improperly, Washington could decide to withdraw its support or technical assistance.

—Paul Sonne and Dion Nissenbaum in Washington contributed to this article.



A U.S. trainer, right, instructs Ukrainian soldiers on correct use of a grenade launcher in April 2015.



Russian police officers entered a compound used by U.S. diplomats in Serebryany Bor, on Moscow's western edge, on Monday.

PIYAL ADHIKARY/EUROPEAN PRESSPHOTO AGENCY

PETE KIEHART/GETTY IMAGES

## WORLD NEWS



## U.S. Presses Beijing on Pyongyang

Trump administration officials urged China and other nations to band together to confront North Korea over its nuclear and ballistic-missile

clear weapons.

At the United Nations, U.S. Ambassador Nikki Haley rejected calls for an emergency session of the Security Council, saying "the time for talk is over" and that a further Security Council resolution that doesn't "significantly increase the international pressure" on North Korea would be "worse than nothing."

Secretary of State Rex Tillerson also singled out Russia on Friday, saying it could do more to blunt Pyongyang, while Ms. Haley in a tweet on Sunday said Japan and South Korea could step up as well.

Their remarks came as President Donald Trump signaled his chagrin at what he described as China's inaction on North Korea's nuclear and ballistic-missile ambitions.

After North Korea's first ICBM launch, in early July, Defense Secretary Jim Mattis said the U.S. wasn't closer to war, and said the Trump administration would give diplomacy more time to resolve the crisis.

On Friday, the White House said Mr. Trump would sign a package of sanctions passed last week by Congress designed in part to limit the cash available to North Korea to further its nuclear and missile programs. Yet on Sunday, it wasn't clear the administration's strategic calculus had fundamentally changed with the second missile launch.

For now, Trump administration officials have been making preparations to act unilaterally, including by drawing up measures targeting Chinese companies and banks that are funneling funds into North Korea's nuclear and weapons programs. That direction has already prompted protests from Beijing.

The U.S. also has been demonstrating military force in the region, including by conducting a missile test, sending two American bombers to fly over

the Korean Peninsula and testing a sophisticated missile-defense system known as Thaad.

The State Department's acting top Asia diplomat told lawmakers last week before North Korea's second test that the U.S. would soon impose sanctions on additional Chinese entities for violating U.N. sanctions on North Korea.

China's ambassador to the U.S., Cui Tiankai, last week warned against unilateral sanctions by the U.S., calling Washington's targeting of a small Chinese bank in late June that the administration accused of facilitating Pyongyang's weapons program unacceptable.

The increasingly public rancor between Beijing and Washington over the issue threatens to affect other aspects of the relationship, especially trade.

The Trump administration could still do more to penalize Beijing. There are hundreds more Chinese companies that trade with North Korea and could be targeted by secondary U.S. sanctions.

That would infuriate Beijing, but wouldn't impose sufficient economic costs to force a change in policy, some analysts and diplomats said.

U.S. officials have privately warned Chinese counterparts that the U.S. could also expand the missile-defense system in Asia if North Korea continues to accelerate its nuclear and ballistic-missile programs.

## China Slowdown Suggested in Data

BEIJING—A gauge of China's manufacturing activity fell more than expected in July, offering a sign of an anticipated slowdown in the world's second-largest economy after a strong start to the year.

China's official manufacturing purchasing-managers' index fell to 51.4 in July from 51.7 in June, according to data released by the National Bureau of Statistics on Monday. The July reading fell below a median forecast of 51.6 from a Wall Street Journal poll of economists, but still remained above the 50 mark that separates expansion from contraction, as it has for 12 months straight.

The downturn in manufacturing was seen by some economists as the first and expected sign that the economy is slowing after the government began to try to rein in a hot property market and rising corporate debt.

"The latest official PMI readings suggest that China's growth momentum may have waned at the start of the third quarter," said Julian Evans-Pritchard, an economist with Capital Economics.

China achieved a 6.9% growth rate in the first half of the year, a pace seen as higher than expected by some economists and that gives Beijing a comfortable margin to continue the deleveraging effort, meet the 6.5% growth target for this year and maintain stability ahead of a leadership shuffle this year.

Zhao Qinghe, an economist

with China's statistics bureau, attributed July's drop in the official manufacturing PMI chiefly to weaker foreign demand and slower production amid hot weather and floods in southern China.

Moving into the second half of the year, some economists have predicted a deceleration in the economy as rising financing costs and some cooling in the real-estate market weigh on growth.

A possible slowdown in the broader economy was also reflected in the decline of non-manufacturing PMI. The index fell to 54.5 in July from 54.9 in June, as transportation and property sectors softened. Growth in construction was a bright spot, with the sector's subindex rising to its highest level since December 2013 due to government-backed infrastructure spending.

The tug of war between maintaining growth and deleveraging will continue to play out for the rest of the year, economists said, and the improved growth in the first half enables Beijing to prioritize its focus on financial regulation.

The Chinese economy has been heavily dependent on borrowed money and government-led investment. Government officials and economists both have said the debt-fueled growth model is hard to sustain and has left the economy increasingly overleveraged while delivering a diminished impact on growth.

—Grace Zhu



ANDY WONG/ASSOCIATED PRESS

## WORLD WATCH

### INDIA

#### Central Bank Seen Cutting Key Rate

The central bank is likely to cut its key lending rate by a quarter percentage point this week after a sharp slowdown in inflation and weaker-than-expected economic growth.

The Reserve Bank of India's monetary-policy committee, headed by Gov. Urjit Patel, is scheduled to announce its rate decision on Wednesday. Eleven of 14 economists polled by The Wall Street Journal predicted it would cut its key lending rate to 6% from 6.25%, while three economists expect the RBI to leave the rate unchanged.

Inflation has been easing steadily for the past few months. Benchmark consumer inflation was at 1.5% in June, well below the 2% lower end of the central bank's target range.

Earlier signs that prices were cooling had prompted a rethink of inflation forecasts by the

RBI during the previous monetary-policy meeting. That led the RBI to lower its inflation forecast to 2% to 3.5% in the six months through Sept. 30, compared with an earlier projection of 4.5%.

"It is an opportune time to act," said Madhavi Arora, an economist at Kotak Securities.

The RBI previously cut its benchmark interest rate in October.

—Debiprasad Nayak

### MEXICO

#### Services Strength Helps Push Up GDP

The country's economic growth slowed less than expected in the second quarter as robust output in services continued to compensate for a modest advance in industrial production.

Gross domestic product expanded a seasonally adjusted 0.6% from the previous quarter, and was up 1.8% from the second quarter of 2016, according to a preliminary reading published Monday by the National

Statistics Institute. The next GDP report is due Aug. 22.

Industrial production edged up a nonannualized 0.1% from the first quarter while services grew 0.8%. —Anthony Harrup

### UNITED KINGDOM

#### Central Bank Staff Prepare to Strike

Bank of England workers were set to go on strike Tuesday for the first time in 50 years.

Last-ditch talks on Monday failed to avert the proposed three-day strike over what BOE staff said was a pay offer that was below the inflation rate.

Members of the Unite union blamed BOE Gov. Mark Carney for the breakdown in negotiations.

The employees, many of whom work in security and maintenance, planned to protest outside the central bank wearing masks bearing the governor's image.

—Associated Press



YAHYA ARHAB/REUTERS/SHUTTERSTOCK

## Australia Boosts Airport Security

BY ROB TAYLOR

CANBERRA, Australia—Security lines stretched out the doors at Australia's major airports as travelers faced tighter screening after police thwarted an alleged plot by Islamist-inspired militants to bring down a commercial airliner.

Prime Minister Malcolm Turnbull declined on Monday to comment on local news reports that four men detained in Sydney over the weekend by counterterrorism police planned to kill everyone on board a passenger aircraft using toxic sulfur gas or an improvised bomb, hidden inside a kitchen meat grinder carried on board.

The Wall Street Journal wasn't able to independently verify the reports of the alleged plot.

"I can't say precisely how far they were advanced at this stage, because that's a matter that's being investigated," Mr. Turnbull told Australian national ABC radio. "But I can say that certainly the police will allege they had the intent and were developing the capability."

Mr. Turnbull hinted that the information that led to the sweep came from another government.

"We have very fine intelligence services. But every nation depends on the work of others," he said. "We are intensifying, all the time, our collaboration with other countries and other agencies, because with the threat there are no borders. Nowhere is far away from anywhere else nowadays."

Australia is a member of the Five Eyes intelligence-sharing alliance together with the U.S., Canada, New Zealand and the U.K. It has less formal intelligence-sharing agreements with other countries including Germany, France and



the Netherlands.

Authorities urged patience as increased security-screening measures ordered after the weekend sweep triggered long delays at airports in Sydney and Melbourne, as police continued to search the homes of the four men arrested on Saturday.

"The traveling public needs to have confidence that we're doing everything we can to maintain safety throughout Australia," Transport Minister Darren Chester said.

Most of the properties raided were in gritty parts of the city's western suburbs where many migrants settle, although one was in the inner city near Mr. Turnbull's affluent beachside constituency.

While police declined to say whether the alleged plot was focused on domestic or international flights, the Daily Telegraph newspaper in Sydney said the four suspects—two Lebanese-Australian fathers and their sons—planned to carry a device onto an aircraft

flying from Australia to the Middle East.

"We have very good security at airports now," said Andrew Colvin, who heads the Australian Federal Police. "What we are doing, what you're seeing at the moment is making sure there is extra vigilance, to make sure we aren't cutting any corners in our security."

Australia, a close U.S. ally that has contributed military advisers and warplanes to the U.S.-led coalition combating Islamic State in Syria and Iraq, has disrupted 13 planned terrorist attacks since 2014, including a 2016 plot to behead police during national Anzac Day veterans' parades and a separate plot the same year to attack Christmas shoppers in Melbourne.

Separately, two men and a teenager pleaded guilty Monday in a Sydney court to plotting a terrorist attack on government buildings including a police headquarters in Australia's largest city in late 2014.

## U.S. NEWS

# Kelly Takes Charge at the White House

West Wing aides hope ex-military man can bring order to chaotic operation

BY TED MANN  
AND REBECCA BALLHAUS

WASHINGTON—Retired Marine Corps Gen. John Kelly took charge of the Trump White House on Monday morning, after a ceremony with the president and a host of his top aides and advisers.

Mr. Kelly, who had served as President Donald Trump's first Homeland Security secretary, was sworn in as the White House new chief of staff in an Oval Office crowded with administration officials, including the president's son-in-law, Jared Kushner.

Senior advisers Steve Bannon and Stephen Miller, as well as departing press secretary Sean Spicer, also attended the event. So did John Dowd, Mr. Trump's private attorney representing him in the special counsel probe of Russian meddling in the 2016 election. Mr. Kelly succeeds Reince Priebus, who was forced out of office last week amid deep internal tensions in the West Wing that spilled into public view.

"He will do a spectacular job, I have no doubt," Mr. Trump said of Mr. Kelly on Monday. "We look forward to—if it's possible—an even better job as chief of staff."

Mr. Kelly sat silently to Mr. Trump's right as the president touted what he called his administration's accomplishments, including a record-high stock market.

The president told reporters that Mr. Kelly had performed "record-shattering"



**'He will do a spectacular job,'** President Trump said of John Kelly, left, who was sworn in Monday as the White House's new chief of staff.

work running the Homeland Security department and implementing the president's policies to more strictly control the country's borders. Mr. Kelly has also overseen implementation of Mr. Trump's executive order banning travelers from six Muslim-majority countries, which has been curbed by the federal courts.

"With a very controversial situation, there's been very little controversy," Mr. Trump said.

Following the swearing-in ceremony, Mr. Trump held his first cabinet meeting with his

new chief of staff. The meeting was his first face-to-face encounter in several weeks with Attorney General Jeff Sessions, whom he repeatedly criticized last week on Twitter and in an interview with The Wall Street Journal.

Mr. Trump spoke briefly to reporters before the meeting began, with members of the cabinet, including Mr. Sessions, seated around the table in the White House Cabinet Room in silence. Mr. Trump again praised Mr. Kelly and said that economic indicators, including measures of busi-

ness confidence and gross domestic product, were exceeding expectations.

"We're going to have a good time but much more important we're going to work hard," Mr. Trump said of the Kelly-led West Wing operation. "It's all about making America great again."

The cabinet meeting contrasted with a similar meeting in June, in which Mr. Trump prompted each member of the cabinet to praise the work of the administration in turn. This time, Mr. Trump spoke briefly and answered only a

single shouted question from reporters, about how he would deal with the rising tensions with North Korea. "It will be handled," the president said.

White House aides have expressed hope that as a former military man, Mr. Kelly can bring order to the White House and perhaps rein in the president. "If he says you should stop, he might actually think twice about sending that tweet," one official said of Mr. Trump, whose top advisers have proved unable to curb his penchant for bombastic social-media posts.

### John F. Kelly Chief of Staff

**Age:** 67

**Background:** Discharged from the Marine Corps in 1972 at the rank of sergeant. Graduated University of Massachusetts in 1976. Commissioned and returned to active duty, where he served for four decades.

**Service:** Commander U.S. forces in Western Iraq, 2008-09; Commander U.S. Southern Command 2012-16

**Notable:** In 2010, Gen. Kelly became the highest-ranking military officer to lose a child in Iraq or Afghanistan, when his son, Lt. Robert Michael Kelly, was killed after stepping on a land mine in Afghanistan.

Mr. Kelly said he had never met Donald Trump before he was offered the job as Homeland Security secretary shortly after the election.

—Shane Harris

Before Mr. Kelly's swearing-in, Monday morning, like many mornings of the Trump administration, saw a series of tweets from the president addressing a range of issues including health care and criminal gangs.

Mr. Trump again suggested he was willing to cancel some of lawmakers' health-care benefits if they didn't repeal and replace the Affordable Care Act. He also touted what he said were his economic accomplishments in the White House so far, and wrote: "No WH chaos!"

## STAFF

# Trump's Decisions Deepen Republican Divide

BY SIOBHAN HUGHES  
AND THOMAS M. BURTON

WASHINGTON—President Donald Trump's tumultuous past week has widened rifts in his party, between those who vocally support the president's combative style and others who bridle at it, according to interviews with GOP officials and supporters across the country.

Mr. Trump has long been a polarizing force among members of his party, but for the first several months of his tenure, the GOP was largely united by a shared desire to make the most of his election and the party's total control of the government for the first time in a decade.

After a week that included the president attacking his attorney general, the collapse of a GOP health bill, a surprise effort to bar transgender people in the military, and a White House staff shake-up, divisions that were largely set aside at the start of 2017 have emerged anew.

"Particularly among some of my former colleagues in the House, there is a frustration and lament about opportunities squandered in what

should be a prime time for a GOP legislative agenda," said former Republican Rep. David Jolly of Florida. In 2015, Mr. Jolly urged Mr. Trump to drop out of the presidential race and, as a result, lost the support of some GOP voters during his unsuccessful re-election bid.

Mr. Jolly added that Mr. Trump remains popular among many of his voters.

"They are going to stick with Trump—they like him the more combative he is and the more his back is against the wall," he said.

During the Obama years, the party was split between establishment Republicans and hard-line conservatives who rose to prominence out of the tea-party movement. Now, more Republicans are beginning to split from the president, seeing him as easily riled and hampering the party's ability to govern.

Last week started with Mr. Trump's criticisms of Attorney General Jeff Sessions as "weak" and "beleaguered" and ended with his decision to push out his chief of staff, Reince Priebus. Along the way, Republicans reacted to short-lived White House com-

munications director Anthony Scaramucci's profane denunciation of fellow West Wing aides in a published interview and Mr. Trump's military transgender ban, a policy change Republicans neither requested nor anticipated.

Sunday on CNN, Sen. Susan Collins of Maine, a Republican who has said she didn't vote for Mr. Trump, took a shot at

publicans who echo Mr. Trump's behavior and tone.

Rep. Blake Farenthold (R., Texas) last week suggested that he would have settled differences with Ms. Collins and Sen. Lisa Murkowski (R., Alaska), who both made decisive votes against a GOP health plan, by challenging them to duels had they been male. Mr. Farenthold later

Trump. "I'm really disgusted over the GOP."

Rep. Chris Collins (R., N.Y.), the first member of Congress to endorse Mr. Trump, said that instead of turbulence, Mr. Trump last week "had one of the best weeks he has ever had." Pointing to his calls to crack down on the street gang known as MS-13, Mr. Collins said that "he is addressing one of the scourges of America."

In Congress, some Republicans are pushing back at Mr. Trump through actions. Last week, the House and Senate passed legislation that would make it hard for Mr. Trump to relax economic sanctions on Moscow or to restore Russia's control over diplomatic compounds, in response to U.S. intelligence findings that Russia interfered in the elections, which Russia denies.

In the meantime, Republican senators moved to block every path Mr. Trump might try to use to fire and replace Mr. Sessions, out of concern that doing so would disrupt the independence of the investigation into any election interference.

—Janet Hook contributed to this article.

# GOP Moves to Protect Election Documents

BY REBECCA BALLHAUS

Republican National Committee officials have been ordered by the party's legal team to preserve documents pertaining to the 2016 presidential campaign, a precaution in the face of a broad federal investigation into Russian interference in the election.

In a memo sent Friday to all RNC staffers, the RNC counsel's office said investigators hadn't yet contacted the party committee but could do so in the future "given the important role that the RNC plays in national elections." The memo stated that the counsel's office wasn't aware of "any suggestion whatsoever of improper or illegal activity by the RNC or any of its employees."

Justice Department Special Counsel Robert Mueller is conducting the probe of election meddling by Russia, and investigating whether associates of President Donald Trump col-

luded in Moscow's effort. Mr. Trump and his campaign have denied any collusion, and the president has called the investigation a "witch hunt." Moscow has denied any interference in the U.S. election. The RNC memo, first re-

ported by BuzzFeed, orders staffers not to "delete, destroy, modify, or remove from your paper files, laptop computer, desktop computer, tablet, mobile device, email, or any storage system or device, any documents, records, or

other materials that relate to the 2016 presidential election or that may relate to any investigation concerning the election."

Administration officials have also been told to preserve documents and to consult the White House Counsel's Office if they have any questions about what they may discard. One aide warned a friend not to email him any off-color jokes in the event that the records are subpoenaed and made public.

Mr. Trump's transition team has also been advised not to destroy documents related to Russia, according to former transition officials.

According to a January report from the U.S. intelligence community, Russia's interference was directed at the highest levels of its government. Its tactics included hacking state election systems and infiltrating and leaking information from party committees, the report said.

Talks between the parties accelerated in early July, after the full membership of the IOC approved a plan to award the 2024 and 2028 Games simultaneously at its upcoming meeting in September.

—Matthew Futterman

## U.S. WATCH

### OLYMPICS

#### L.A. Reaches Deal to Host 2028 Games

Officials in Los Angeles and leaders of the International Olympic Committee have reached a deal to bring the Summer Games to Southern California in 2028.

The deal comes after months of discussions between the two parties and won't be official until a vote by the IOC in September, which is considered a formality at this point. The talks moved forward after L.A. officials and the U.S. Olympic Committee signaled they would step back from the race against Paris for the 2024 Games in exchange for securing hosting rights for 2028.

Talks between the parties accelerated in early July, after the full membership of the IOC approved a plan to award the 2024 and 2028 Games simultaneously at its upcoming meeting in September.

—Matthew Futterman



Special Counsel Robert Mueller is conducting the Russia probe.

RON SACHS/CNP/ZUMA PRESS

Anthony Scaramucci gave a profanity-laced interview.

CHIP SOMODEVILLA/GETTY IMAGES

## U.S. NEWS



Jay Dearborn, left, meets with a colleague at WEX's offices in South Portland, Maine. Mr. Dearborn, a former Mainer who spent 20 years working away from the state, was recruited back by the company's CEO, also a Mainer, to become Wex's vice president of strategy.

# Calling Ex-Mainers Home

Recruiters search for candidates with ties to the state to fill jobs in a tight labor market

BY JON KAMP

Employers and recruiters looking to fill positions in Maine are scouring the U.S. for people who once lived in the northern New England state in hopes work will coax them back.

With the state's unemployment rate hovering at 3.5%, near record lows, the labor market is tight, particularly in the southern part of the state near Portland, Maine's largest city with 67,000 residents.

Though the state known as "Vacationland" draws tourists to its coastal hamlets and rugged wilderness, it can be harder to convince outsiders to actually live there, recruiters say. Maine doesn't have a deep roster of major companies, lacks a large city and has notoriously harsh winters.

To improve his odds at finding a good candidate, recruiter Ed McKersie, who runs Portland staffing firm Pro Search Inc., looks on social-media sites such as LinkedIn to identify ex-Mainers and graduates from Maine colleges who might be persuaded to return to their old stamping ground.

"They know what it's like here, they have an affinity," said Mr. McKersie. He said the key is to show ex-Mainers that the state has more available jobs than they may think.

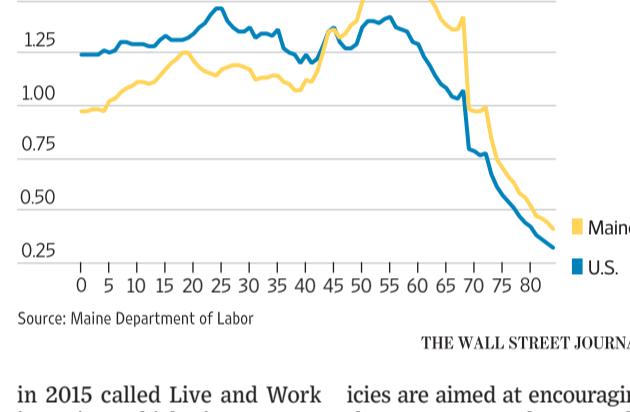
With roughly 1.3 million residents, Maine is among the smaller U.S. states by population. But there are also nearly a half-million people who were born in Maine scattered throughout the country, according to U.S. Census data.

The state has thus far invested \$100,000 in an organization Mr. McKersie launched

### Gray Maine

In nation's oldest state, many people are set to age out of the workforce.

Percent of population by age, 2015



Source: Maine Department of Labor

THE WALL STREET JOURNAL.

in 2015 called Live and Work in Maine, which aims to convert visitors into residents by linking them to employment opportunities. The website added job boards last year that include roughly 300 active employers, Mr. McKersie said. The organization is using social-media ads and partnerships with colleges to seek former Mainers, he said.

Authorities in Maine are also concerned about the need to offset older workers retiring. The state's median age was 44.6 years in 2016, highest in the nation, according to U.S. Census estimates. Retaining and recruiting younger workers is personal for Republican Gov. Paul LePage: His 28-year-old son left Maine for a job in Florida, his spokesman said.

Mr. LePage is pushing for a \$100 million bond program aimed at helping young people accelerate the payment of student loans provided they work in the state for five years. This would build on an earlier tax-credit program aimed at students started before he took office. "Retaining young Mainers and attracting those who have left the state is definitely a goal, and the governor's pol-

icies are aimed at encouraging them to come home," the spokesman said.

A recent state survey showed that employers had 31,000 job openings in September, nearly 5% of the non-farm payroll jobs in the state at that time, said Glenn Mills, chief economist in the Maine labor department's Center for Workforce Research. Three-quarters of responding employers said the jobs were difficult to fill.

Anecdotally, jobs in information technology and health appear particularly hard to staff, said Quincy Hentzel, chief executive at the Portland Regional Chamber of Commerce.

The extra effort to lure workers to Maine is a sign of the times as companies look for workers to fill skilled positions amid low unemployment nationally. The U.S. jobless rate was 4.4% in June, around a level that indicates nearly everyone looking for a job has one.

Other hard-sell locales are also trying to keep young people at home and tempt back those who moved away. Detroit has hosted annual confabs to show off the city to

successful natives who live elsewhere. Similar events are in the works in Cleveland and in Erie, Pa. Lawmakers in Connecticut have proposed a tax credit for college graduates to stay put.

In Maine, Idexx Laboratories Inc., a veterinary-health company with roughly 2,500 local employees, hunts for job candidates with connections to the state, said Giovani Twigge, the chief human resources officer. This includes looking for clues on social media, including Facebook and LinkedIn. "Maine is not on everybody's radar," Mr. Twigge said. "The sale was very difficult when people didn't know Maine."

Idexx found its director of software research and development, Alan Boucher, because his LinkedIn profile listed his location as both Northern California and Maine. He and his wife bought a small Maine cottage in 2011 as a vacation home, and after Idexx offered him a job, they moved across country permanently with their grade-school-age daughter four years later.

Mr. Boucher, a Connecticut native, said he and his wife were already drawn to the small-town feel and pace of life. They now live in the coastal town of Kennebunkport. "It was a both a great opportunity and a great outcome for our family," he said.

Jay Dearborn left Maine for college in Pennsylvania 20 years ago and moved back to the state last year. Working as a principal for McKinsey & Co. and living in Princeton, N.J., Mr. Dearborn met Melissa Smith, the chief executive of Maine-based payment-processing firm WEX Inc. at a lunch event. Ms. Smith helped convince the 38-year-old to return home with his family, he said.

"There is something about the place and the people that get in your bones," he said.

# Police Confront Peril of Fentanyl

By ZOLAN KANNO-YOUNGS AND CORINNE RAMEY

Law-enforcement officials across the U.S. are taking extraordinary new precautions against a growing threat to their ranks: fentanyl, a drug so toxic that just a few grains can kill.

In Maryland, an officer overdosed after inhaling fentanyl while searching a home for heroin. An Ohio officer also overdosed on fentanyl after responding to a traffic stop. And in Florida, three trained police dogs overdosed while searching a house with suspected narcotics. Law-enforcement officials worry that such risks will rise as fentanyl proliferates across the nation.

Kevin Phillips, a deputy sheriff in Harford County, Md., recently felt the drug's wrath when he responded to an increasingly routine call of drug overdose, opening a nightstand in the home while searching for heroin.

"About two or three seconds after I shut it, my face started burning. I broke out in a sweat," said Cpl. Phillips, who was rushed to the hospital for treatment after overdosing on fentanyl that had been mixed into the heroin.

Authorities swiftly set a new policy: officers must treat drug seizures like an active shooter incident—slow down and evaluate the scene before rushing inside. They must also wear protective gear.

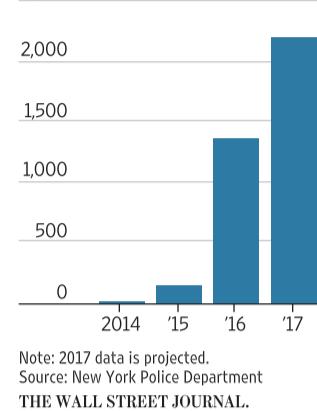
Law-enforcement encounters with fentanyl nationwide rose to more than 14,000 in 2015 from about 1,000 in 2013, according to federal data. Fentanyl, which is 50 times more powerful than heroin, has been used legally for decades, including as a painkiller for cancer patients.

But in the past five years, illegal forms of the drug, often produced in China and Mexico, have quickly spread throughout the U.S. and contributed to a broader opioid epidemic that has killed tens of thousands of people.

Two to three milligrams of fentanyl—the equivalent of five to seven grains of table salt—is enough to cause respiratory depression, cardiac arrest or death, according to the U.S. Drug Enforcement Administration, which issued new guidelines for first re-

### Deadly Menace

Like law enforcement agencies across the U.S., the New York Police Department is increasingly coming into contact with fentanyl. Number of times the NYPD found the drug in narcotics cases.



Note: 2017 data is projected.  
Source: New York Police Department  
THE WALL STREET JOURNAL.

sponders in June.

"[Fentanyl] is a new challenge, a game changer for law enforcement," said Harford County Sheriff Jeffrey Gahler. "It could be anyone exposed."

It's not just humans at risk. While executing a narcotics search warrant in October, officers from Broward Sheriff's Office in Florida directed three trained dogs—Primus, Finn and Packer—to sniff around a house.

The dogs soon became drowsy, found it difficult to stand and eventually adopted blank stares and became unable to move, said Det. Andy Weiman, the head dog trainer. The dogs, who were later found to have overdosed, were treated at an animal hospital and returned to work the next day, he said.

Law-enforcement officials are swiftly overhauling their procedures for handling fentanyl. About a year ago, New York Police Department detectives routinely tested narcotics at a crime scene. Now, they wear protective gloves to package the drugs and drive it to a Queens laboratory to be tested. There, workers with white safety suits, respirator masks and the antidote naloxone stand by as an analyst tests the drug, which lies within a glass tank.

NYPD officials estimate they will find fentanyl in more than 2,200 narcotics cases by the end of the year, up from nine cases in 2013.



Breathing even a tiny amount of fentanyl can be dangerous. New York police officials recently tested drugs in a forensics laboratory.

# Playwright, Actor Chronicled America in the 20th Century

BY ERICH SCHWARTZEL

Sam Shepard, the Pulitzer Prize-winning playwright and actor celebrated for chronicling America in the 20th century, died Thursday at his home in Kentucky, according to a spokesman.

He was 73 years old and died from complications related to Lou Gehrig's disease.

Widely regarded as one of the country's greatest—and most prolific—contemporary playwrights, Mr. Shepard catapulted to the top echelon of American letters with "Buried Child," his 1978 play about a fractured Illinois family, which won the Pulitzer Prize.

"Buried Child" and other plays, including "Curse of the Starving Class" and "True West," examined favorite themes of American playwriting—fathers and sons, outcasts, family obligations and the nation itself. Mr. Shepard wrote more than 40 plays in his career.

In a 2010 interview with the *Guardian*, Mr. Shepard said

his troubled relationship with his alcoholic father had influenced his work, and many of his most celebrated plays concerned the breakdown of the nuclear family.

In the same interview, Mr. Shepard said "there's not a day goes by" that he doesn't think about death.

"We're all haunted by it in one way or another. And it's the easiest thing in the world to push it away, you just get a cappuccino. But, yes, you're haunted by it in a different way [as you get older]. I feel its presence. I feel it in sleep, in dreams, in waking," he said.

Born on Nov. 5, 1943, at Fort Sheridan, Ill., Mr. Shepard grew up on military bases before settling with his family in the Los Angeles suburb of Duarate, Calif. He dropped out of nearby Mt. San Antonio College after one year to move to New York and work in theater. His early plays became a staple of the off-off-Broadway scene.

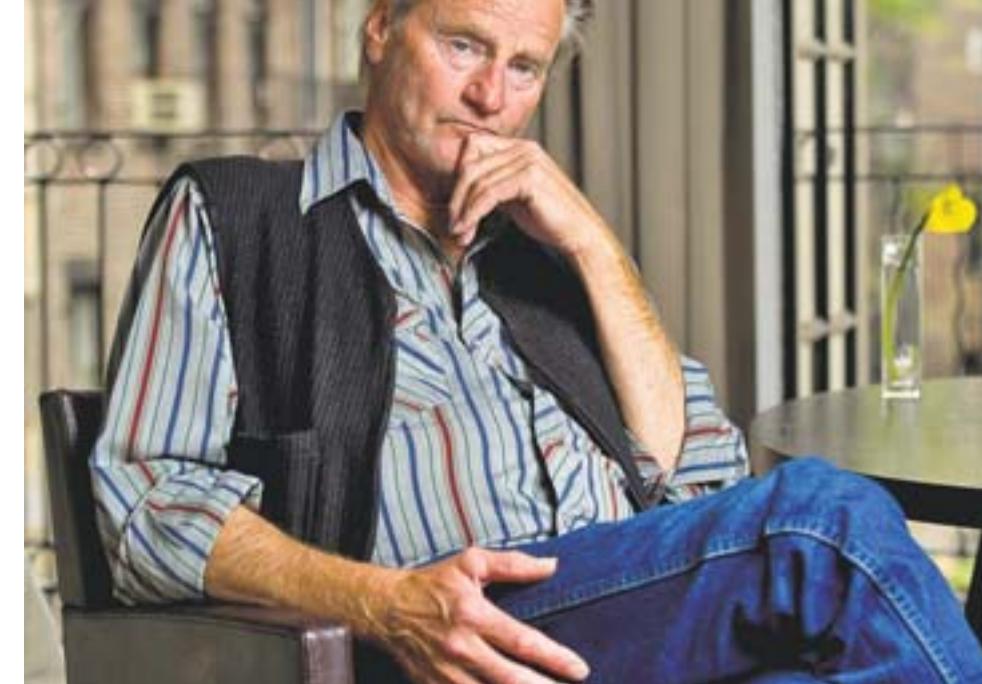
Mr. Shepard was a mainstay of the 1970s New York hub of artists that included singer Patti Smith and photographer Robert Mapplethorpe. Ms.

Smith, in her 2010 memoir "Just Kids," credits Mr. Shepard with encouraging her to trust her instincts and pursue music, at one point buying her a used black Gibson guitar for \$200. "With Sam I could be myself," wrote Ms. Smith. "He understood more than anyone how it felt to be trapped in one's skin."

The writer of many rambling monologues was a man of few words himself. Mr. Shepard cultivated a frontiersman persona and demeanor that became as well-known as the plays he wrote and roles he played.

Mr. Shepard appeared in dozens of films, including an Oscar-nominated turn in "The Right Stuff," starring as military test pilot Chuck Yeager. His other credits include "Steel Magnolias," "Black Hawk Down" and the film adaptation of "August: Osage County." He most recently appeared on the Netflix series "Bloodline."

Mr. Shepard was in a relationship with actress Jessica Lange, whom he met filming "Frances," from 1982 to 2009. He is survived by three children and two sisters, according to the spokesman.



Mr. Shepard catapulted to the top echelon of American letters with "Buried Child," his 1978 play about a fractured Illinois family, which won the Pulitzer Prize. He also appeared in dozens of films.

## IN DEPTH

# INDIA

Continued from Page One  
ments or arbitration awards  
can take years.

South Korean steelmaker Posco's billion-dollar plans to build a plant in India were mired for a decade in lawsuits, as well as land-use and environmental protests, before the company finally dropped the project last year.

India's government doesn't have it any easier. Highway projects worth hundreds of millions of dollars remain stalled over eminent-domain disputes.

The 2017 World Bank's "Doing Business" report placed India 172nd out of 190 countries on the "ease of enforcing contracts," an indicator that evaluates court systems. Sudan and Iraq ranked higher.

Indian Prime Minister Narendra Modi made an improved business climate a test of his leadership. A chronic shortage of judges hinders that goal. India has roughly 17,000 judges to handle 30 million open cases. About 40% of posts for high-court judges remain vacant. Last year, then-chief justice T.S. Thakur wept when he rebuked the Modi administration for moving too slowly.

The law ministry said it has instituted new courts and approved dozens of judges last year.

The judiciary, which picks judges, and the government, which approves them, are locked in a power struggle. India's supreme court in 2015 struck down a law that gave the executive branch greater sway in selection. Continuing discord means appointments aren't being substantially ramped up.

Allahabad's High Court, which is located in the state of Uttar Pradesh in India's north, is housed in a majestic, colonial-era stone building. Nearly 45% of the judicial positions are unfilled.

### Appeals for justice— 10:10 a.m.

Arguments began in Courtroom 41 in the appeal of murder convictions that had been reached 34 years ago. Two men found guilty in the case, and freed on bail during their appeal, had died without serving more than a few days of their life sentence. To keep the two others out of prison, men now in their 70s, their lawyer recounted an exculpatory version of the Aug. 29, 1982, killing of a young farmer who was fatally stabbed on his way home from a local fair.

The judges shuffled through documents and struggled to reconcile conflicting testimonies recorded more than three decades ago. Were the eyewitnesses 10 steps away that moonlit night or 100? Did the digested food in the victim's stomach put the time of death closer to 2 a.m. than 10 p.m.?

After hearing closing arguments, the judges set a future date for a verdict.

Half the cases due to be taken up that day were postponed because court administrators hadn't yet prepared typed records for the hearings.

### The lawyer—11 a.m.

Associates of civil lawyer Manish Goyal fanned out to keep track of his 34 lawsuits listed on calendars in various courtrooms at the Allahabad courthouse. It isn't possible to predict which cases, if any, will be called.

Most judges here are consumed by the fire hose of new cases—nearly 1,000 on this day. They seldom get to the hundreds of open ones, which they carry forward to another day and then another.

To stem the flow of new filings, Mr. Modi wants the government, party in 46% of pending lawsuits in India, to litigate less. New legal desks are being created to scrutinize official orders, which are frequently faulty and trigger disputes, said P.P. Chaudhary, minister of state for law.

One of Mr. Goyal's cases, filed in 2006, was called at about 11:20 a.m. A public-sector financial institution sold its client's property to recover a loan from the client's fertilizer company. The client sued.

Proceedings in the case lasted about a minute. One of the parties was granted another week to prepare objections to a filing Mr. Goyal had made 10 years ago. During that period, the case had sur-



Crowds seek entry on a recent Thursday to the Allahabad High Court in Allahabad, India. The country has roughly 17,000 judges to handle 30 million open cases.

VIVEK SINGH FOR THE WALL STREET JOURNAL (2)

faced in court at least 25 times. Usually, lawyers for one side or the other hadn't shown up because they were busy in other courts, or they had filed "illness slips," a major cause of delays.

### The farmer—11:30 a.m.

Waiting anxiously in the back of a nearby courtroom, Mohammad Aqeel Hasan, a 27-year-old farmer, has lost count of the number of court trips he has made from his village. He said he was sure it was less than his father had made in the 1983 lawsuit against their neighbor. Each side claims ownership of land between their properties.

His father had won a swift victory in a lower court, but the decision was overturned on appeal. His father's appeal of that decision has been pending since 1986. A few years ago, when his father could no longer travel, Mr. Hasan took over.

"At this rate, the case will go on for hundred years," Mr. Hasan said. Court appearances require a 10-hour journey by train from his village.

Mr. Hasan's case came and went in a heartbeat. The other side's lawyer had sent an illness slip, forcing a delay.

"Not well again?" the judge said, and he moved the hearing to another month.

Mr. Hasan was crest-fallen. "Coming to court is not easy," he said, heading to the railway station for his trip home. "The lawyer just puts an application he's not well and the case gets adjourned. It's very unfair."

### Bail court—12 p.m.

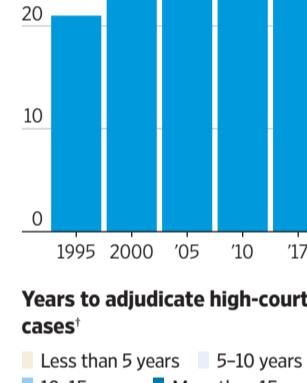
Justice Vipin Sinha's court was packed with black-robed lawyers awaiting their turn. The judge tackled requests for bail at the rate of one every two minutes. The man accused of abetting a homicide is 68 years old with no criminal history: bail granted. An uncle accused by his niece of molestation: bail rejected.

His docket that morning

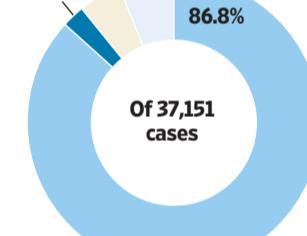
### India's Caseload Hits Overload

A court backlog has eroded the rule of law in the world's largest democracy and impeded economic growth. Foreign investors worry about getting buried in notices, hearings and appeals—with no effective way of resolving disputes.

#### Number of ongoing court cases in India



#### Years to adjudicate high-court cases<sup>1</sup>



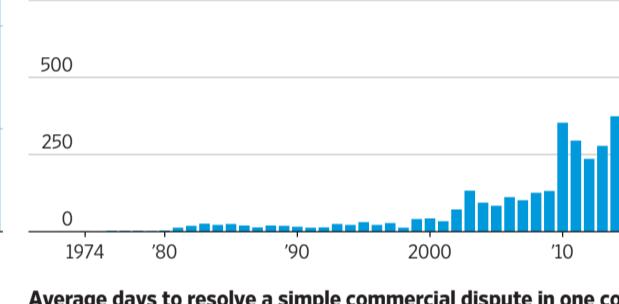
Of 37,151 cases

<sup>1</sup>Does not include the approximately 1,000 new cases scheduled, only cases that have been seen at least once before

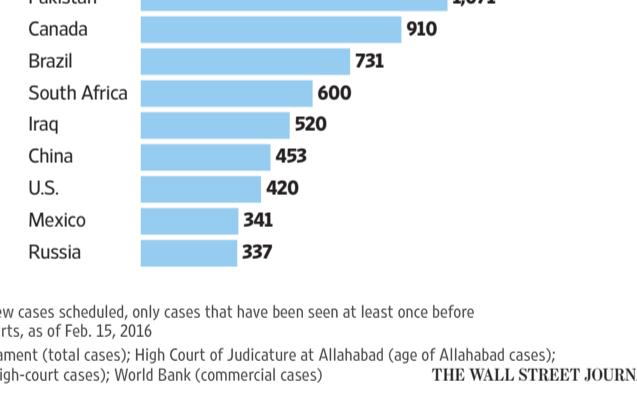
<sup>2</sup>For Bombay, Gujarat, Orissa, Kerala high courts, as of Feb. 15, 2016

Sources: Law Ministry as told to India's Parliament (total cases); High Court of Judicature at Allahabad (age of Allahabad cases); DAKSH database (years to dispose of other high-court cases); World Bank (commercial cases)

#### The year of origin for cases scheduled to be heard in Allahabad High Court on July 31<sup>2</sup>



#### Average days to resolve a simple commercial dispute in one court



THE WALL STREET JOURNAL.

judge said when Mr. Goyal's case was called. "We'll hear it at length when there's more time."

### Bailing out: 4 p.m.

Justice Sinha's bail court erupted in an uproar at adjournment. Lawyers with pending cases all shouted for attention.

"It's a senior-citizen case," one pleaded.

"Our bail is unopposed," another cried.

"He's been in jail for two years, your lordship," a third said.

Justice Sinha dispensed early hearing dates for those cases before leaving.

### Paper shuffle—4:30 p.m.

After the courtrooms closed, the activity shifted to processing rooms that store case files.

Porters hoisted rope-tied bundles onto their shoulders and hauled them up to courtrooms for the next day's docket. Others brought that day's files back from courtrooms. Three men must transport 2,000 bail files. One was out sick.

Space is scarce. Tattered stacks of case paper were piled on racks, tables, chairs and the floor. Towers of folders spilled into corridors where passersby toppled smaller stacks. Files from 2015 mixed with ones from 2016 and 2017, creating a nightmare for officers struggling to locate hundreds of them every day.

On a stuffy third floor, Amit Kumar Yadav, age 35, squeezed sideways through dust-laden stacks, then pulled himself up on his toes and vaulted over the paperwork that carpeted the floor.

After an eight-hour hunt, he was still missing 17 of 65 files for the next day's hearings. Those cases won't be heard.

"I've lifted 200 bundles today," he said, and pointed to a cluttered corner. "There's no other way to search those files at the very end."

To replace paper records, the court has hired teams that are scanning and coding documents as far back as 1863, a trove of ink-pen calligraphy. It will take some years.

### No urgency—3:30 p.m.

p.m.

With only a few minutes of court left, Mr. Goyal, the civil lawyer, got word of a big case

that had been in and out of courts since 2009. His clients have challenged the acquisition of their land, ostensibly intended for industrial development and new roads.

Across India, such eminent-domain acquisitions are bogged down in disputes over compensation or allegations the government misused the property.

A bench of two judges had earlier heard arguments and held the case to write a judgment. When one of the judges retired without completing it, the case had to be argued over again.

"There's no urgency," the

lawyers prepared for another day of bail applications, appeals, petitions and delays. Cloth-covered bundles tucked away in the office of Mr. Dwivedi, the criminal lawyer, are labeled 2008, 2009 and 2010. "Maybe my children will handle these," he said.

Sliding his finger down his list of cases for the next day, Mr. Dwivedi enumerated the potential roadblocks for each of them: Case won't come up; opposing lawyer won't turn up; judge is too slow.

Looking at one of the cases, he smiled and said: "I'm going to stall this one until the judge changes. This judge doesn't give bail."



A man carries court documents through a crowd outside the Allahabad High Court.

# LIFE & ARTS

FILM

## When Real-Life Meets The Movies

BY CARYN JAMES

**IN "THE GLASS CASTLE,"** based on Jeannette Walls' best-selling memoir, Brie Larson plays the Jeannette, a successful magazine writer in New York. Like the book, the film is largely a flashback to her girlhood, when the family was often homeless and hungry, and to her relationship with her charming, brilliant, alcoholic father.

During a visit to the movie set, Ms. Walls watched a scene in which Jeannette leaves home for New York and her father, played by Woody Harrelson, pleads with her to stay. Ms. Walls was so distressed that she apologized to Mr. Harrelson when the scene was over. "He hugged me and said, 'You had to do it, Honey, or we wouldn't be here.' He said it in Dad's voice. So 40 years after I walk out on my father, I get absolved by him."

A wave of memoirs and fact-based movies are coming to the screen this year, highlighting the popularity of non-fiction in print and film. The real people watching their stories portrayed by actors say the experience is sometimes comic, and often so emotionally raw that they see themselves in a new light.

For Emily Gordon, who co-wrote the current hit romantic comedy "The Big Sick" with her husband Kumail Nanjiani, the line between movies and life sometimes wavered. Mr. Nanjiani plays himself in the film. Zoe Kazan plays Ms. Gordon, who falls ill and is put into a coma while doctors diagnose her with a rare autoimmune disease.

After watching Ms. Kazan play her in a hospital bed with a respirator in her mouth, Ms. Gordon apologized for the discomfort it caused the actress. When Ms. Kazan said it was fine, Ms. Gordon realized, "Oh, right, you don't have the connotations with this that I do."

Some real-life people see their fictional selves serving a bigger purpose. Adam Schumann is played by Miles Teller in "Thank You For Your Service." Set for release in October, the film is based on David Finkel's book about soldiers returning from Iraq with post traumatic stress disorder. Mr. Schumann was a military adviser for the film, and has a cameo as a sergeant who takes the soldiers' weapons as they are arriving home.

"I was really nervous about what the movie world had to bring to this story," Mr. Schumann says. Being involved reassured him. He views the screen Adam as "a version of everybody who was over there," in Iraq. He was fine with details being changed, such as his largely fictionalized friendship with another soldier, as long as the message about dealing with trauma remained. He cried throughout his first viewing of the movie, "because they got the way it feels, the way everything is kind of a mess when you come back."

Rebecca Skloot wrote the book "The Immortal Life Of Henrietta Lacks," about a family's search for the true story of their mother, whose cancer cells were used for medical research. In the HBO film, Henrietta Lacks' daughter, Deborah, who died before the book was published, is played by Oprah Winfrey, and the fictionalized Rebecca is played by Rose Byrne. A consultant on the film, Ms. Skloot insisted on some points, such as having Rebecca ask permission before turning on a tape recorder for an interview. The character is a journalist with her name, she says, and she was protecting her professional reputation.

More often, she was amused at the reinventions. She recalls walk-



ing into the film's production office and seeing a giant board labeled Rebecca with images connected to her character: photos of herself alongside others she

'The Glass Castle' cast from left, Sadie Sink, Charlie Shotwell, Ella Anderson, Woody Harrelson and Naomi Watts and Eden Grace Redfield. Below, author Jeannette Walls, right, with her real-life mother Rosemary.

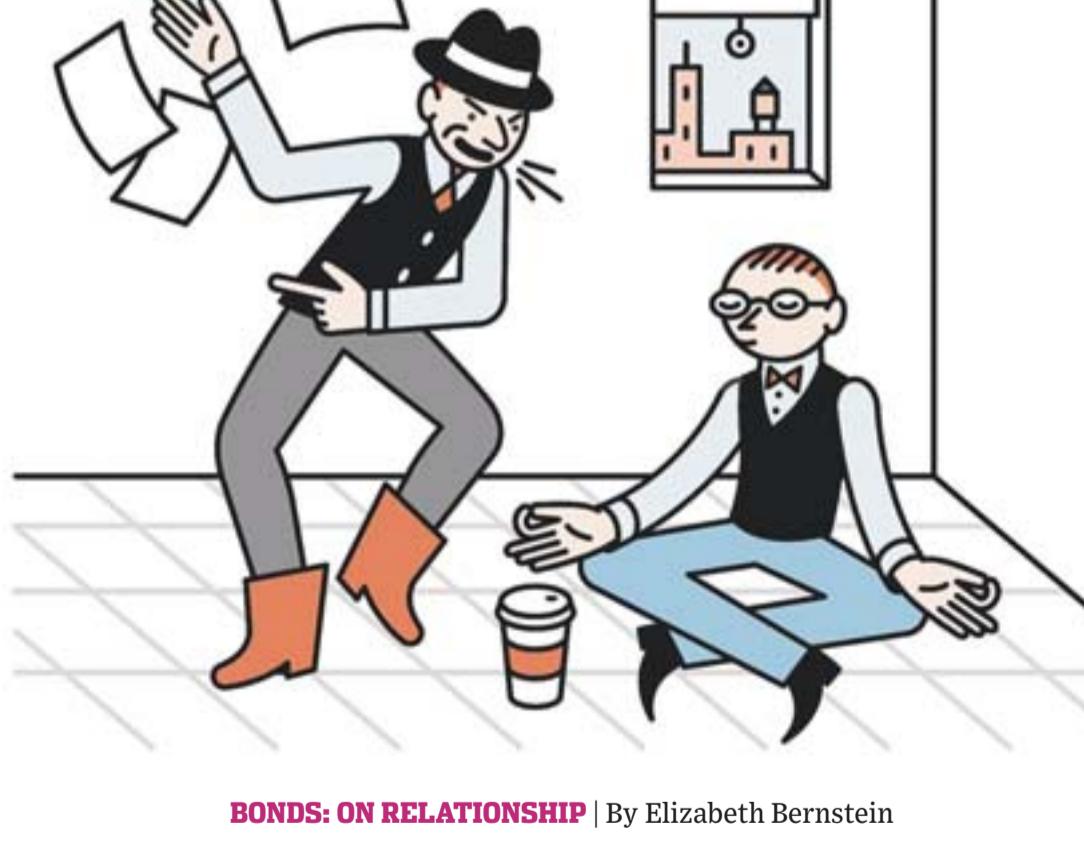
couldn't identify, such as boy bands popular during her teenage years. "There are moments in creepy movies where somebody's been stalking somebody, and then they go to the apartment and see the wall is covered with some kind of crazy collage. In some ways it was like that," she says.

In "Stronger," due out Sept. 22, Jake Gyllenhaal plays Jeff Bauman, who lost his legs as a result of the Boston Marathon bombing. The first time Mr. Bauman saw Mr. Gyllenhaal in costume was when he re-enacted a scene not long after the bombing: Mr. Bauman was wheeled onto the ice at a Boston Bruins game, cheered by the crowd. Mr. Bauman was on set with Mr. Gyllenhaal, walking on prosthetics. "I was pushing him around in the wheelchair, joking," Mr. Bauman

says about the actor. "That was when I realized how freaky it was to see him. I noticed how good he was at portraying me."

Some details are tidied up for the movies. Mr. Bauman and his wife, played by Tatiana Maslany, announced earlier this year that they were divorcing. Mr. Schumann and his wife, played by Hayley Bennett, divorced years ago. The movies don't mention either split.

More profoundly, the films sometimes offer a reality check even to the people who inspired them. Looking at himself on screen, Mr. Bauman thought, "I'm a real piece of work. I was drinking a lot and partying." A year ago, long before seeing the film, he stopped drinking and returned to college. "The movie, it showed me how far I've come in the last year."



**BONDS: ON RELATIONSHIP** | By Elizabeth Bernstein

## FIND COMPASSION FOR DIFFICULT PEOPLE

**IT TAKES COMPASSION** to deal with the difficult people in your life.

New research suggests the answer to avoiding the anxiety, high blood pressure and disappointment of interacting with a person that rubs you the wrong way lies in preparation. You can adjust your thinking about the person before an encounter and learn to feel compassion for him or her.

Researchers say compassion has four components: You recognize another person's suffering, are

emotionally moved by it, wish the other person didn't suffer and feel motivated to help relieve the suffering. Whether you actually help or not is up to you. It is enough to be willing to do so, the researchers say.

The new study, conducted by researchers at the University of California, Berkeley, Stanford University and the University of California, Davis and published online last month in the journal "Mindfulness," looked at the efficacy of Stanford's Compassion Cul-

tivation Training Program (CCT), which is an eight-week course that teaches people how to become more compassionate. Researchers tracked 51 adults in the course through an iPhone app that prompted them to rate their levels of four different emotional states—anxiety, calm, fatigue and alertness—twice a day. Participants were also asked if they felt they could successfully regulate these emotions and how they would do that. (Did they try to reduce the emotion, maintain it, in-

crease it or ignore it?) They answered weekly surveys as well.

Over the time period of the class, people were able to regulate and improve negative states, such as anxiety and stress, and increase positive states, such as calm, by cultivating compassion, both for themselves and others.

Anyone can take Stanford's CCT course, which was created in 2009 by Thupten Jinpa, the Dalai Lama's chief English translator, and a group of neuroscientists, psychologists and therapists and aims to teach people compassion toward all, including the difficult people in their lives. It is taught through the university's medical school and by more than 100 certified teachers around the world.

The program, which includes training on meditation and how to adjust one's thoughts, takes people through a number of steps that get more difficult as the program goes on. Some of the steps are about learning to focus, practicing compassion toward yourself and a loved one, and developing an appreciation for people outside your inner circle, including difficult people.

Exercises include reflecting on how the difficult person in your life is someone's son or daughter, mother or father, sister or brother—just as you are—and has hopes and dreams and sorrows of his or her own.

The program doesn't advocate that people forgive someone who has been hurtful or continue a relationship with that person. Rather, it suggests we can feel compassion for that person—recognize that he or she suffers and wish for an end to that suffering—as a way to help ourselves.

"There are consequences to ourselves in terms of negative emotions when we are walking around thinking bad thoughts about someone or trying to avoid him; this al-

lows us to let them go," says Hooria Jazaieri, a researcher at Berkeley's Greater Good Science Center, who teaches the compassion class at Stanford and is the lead author on the new study.

Here are tips for using some of the Stanford program's teachings at home:

**Don't suppress your thoughts.** Research shows that suppression activates the amygdala in your brain, where your body's fight-or-flight response resides. Suppressing will make you more anxious in the long-run and will have harmful effects on your physical health. It will also make you think more

about the person you might be trying to stop focusing on. In one classic study in which participants were told not to think about a white bear, the bear took over their thoughts. If your difficult person's

name or a memory arises, try to pay attention briefly then let your thoughts drift on to something else.

**Acknowledge that you can be difficult, too.** Ms. Jazaieri calls this the "just like me" rule—remember that just as this person is difficult for you, you might be difficult for someone else. "Maybe I have not done as many bad things," Ms. Jazaieri says. "But I have said things that aren't true or have hurt people and it is humbling to remember that."

**Be curious.** For a moment, imagine what life might be like for this other person. Remember that he or she also has hopes and dreams. He is a father or son. She is a mother or daughter. By tapping into their struggles, you will be able to let go of some of your anxiety or anger.

*Write to Elizabeth Bernstein at elizabeth.bernstein@wsj.com or follow her on Facebook, Twitter or Instagram at EBernsteinWSJ.*

## OPINION

### REVIEW & OUTLOOK

## The Regime Change Solution in Korea

The North Korean crisis is accelerating as dictator Kim Jong Un moves closer to holding U.S. cities hostage to nuclear blackmail. Some in the U.S. intelligence community are admitting they have underestimated the threat, and President Trump again tweeted his frustration with China's refusal to restrain its client state. A new U.S. strategy is needed, so it's notable that CIA Director Mike Pompeo recently suggested that the Trump Administration may be contemplating a goal of regime change in Pyongyang.

"It would be a great thing to denuclearize the peninsula, to get those weapons off of that, but the thing that is most dangerous about it is the character who holds the control over them today," Mr. Pompeo told the Aspen Security Forum recently. "So from the Administration's perspective, the most important thing we can do is separate those two. Right? Separate capacity and someone who might well have intent and break those two apart."

Mr. Pompeo is right. Israel is believed to have nuclear weapons but its arsenal is defensive. Democratic India doesn't threaten its neighbors with a first strike. The nature of the regime matters as much as the weapons, and in North Korea that means the dynastic cult that attributes supernatural powers to its young, reckless leader Kim Jong Un.

The U.S. has no time to waste after the North's latest missile test on Friday that experts say flew far enough to put in jeopardy Los Angeles and Denver. Media reports last week say the Defense Intelligence Agency now believes the North will be able to deploy a nuclear-capable ballistic missile by next year. Thanks for letting us know. For years U.S. intelligence agencies have predicted the North was several years away from posing such a threat.

Mr. Trump blasted China on Saturday for doing "NOTHING FOR US with North Korea, just talk. We will no longer allow this to continue." China continues to preach the illusion of a diplomatic solution even as it abets the North's evasions of international sanctions. The U.S. and its allies need to raise the ante if the world is going to avoid another Korean war.

A policy of regime change needn't require an invasion or immediate unification of North and South Korea. Security in Northeast Asia could

also improve if the Kim regime is overthrown from within by generals or a political faction that wasn't determined to threaten the world with a nuclear arsenal.

The U.S. does have policy tools to promote this strategy, especially if the goal of regime change is clearly stated. Some are economic, such as the North Korea Sanctions and Policy Enhancement Act that cuts off North Korean banks from the dollar-based international financial system. The Trump Administration recently began to sanction Chinese banks and trading companies that violate United Nations sanctions, and the list should be expanded.

Washington could also promote the truth to the North Korean people and elites about the Kim family's crimes. If army officers believe that Kim is leading the regime toward disaster, they will have an incentive to plot against him.

The Trump Administration can encourage that calculation by drawing a red line at further long-range missile tests. Shooting down future test launches would deny the North's researchers the data to perfect their re-entry vehicles. It would also show U.S. resolve to stop the North's sprint to obtain an intercontinental missile that could strike the U.S. mainland.

The other audience for this policy is in Beijing. Chinese leaders have long calculated that a nuclear North might serve the strategic purpose of driving the U.S. out of the region. And if the U.S. pursues regime change in the North, Beijing will at first react angrily and blame Washington for destabilizing the region.

But a debate is already under way among Chinese elites about the wisdom of supporting the Kim dynasty. China might decide to manage the process of regime change rather than allow a chaotic collapse or war on the Korean peninsula, perhaps by backing a faction within the army to take power.

A military dictatorship beholden to China is no guarantee of reconciliation between North and South. But it would be preferable to the erratic Kim regime and its strategy of nuclear blackmail. A new government would need to grow the economy to build its legitimacy, and it would need foreign investment.

North Korea has become an urgent threat because U.S. administrations pursued endless accommodation. Let's hope Mr. Pompeo is signaling that this era is over.

## Putin's Advances in Syria

Vladimir Putin confirmed Sunday that he is expelling 755 U.S. diplomats from Russia in retaliation for new sanctions passed last week by Congress. But a more important thumb in the eye of the Trump Administration came last week as Mr. Putin moved to consolidate Russia's strategic gains in Syria.

On Wednesday Mr. Putin ratified a 49-year lease on Hmeymim air base, near the coastal Syrian town of Latakia. Russia has used the base since 2015 to launch operations to defend Bashar Assad's forces, attack U.S.-backed rebels and provide cover for Iran's Revolutionary Guard Corps operations inside the country.

Russia bases a variety of offensive and defensive capabilities at Hmeymim, including Sukhoi SU-35 fighters, attack helicopters and, occasionally, advanced reconnaissance aircraft that fly in from Russia and land for refueling. The base is also home to a contingent of Russian troops and advanced S-300 air defense sys-

tems of the type that Moscow sold to Tehran and pose a potential threat to U.S. and NATO aircraft flying missions in the region.

The Kremlin solidifies its strategic gains for backing Assad. Mr. Putin's long-term lease solidifies his position as the primary defender of the Assad regime and sends a message to regional allies that it plans to remain even after the defeat of Islamic State around Raqqa. Russia's other long-term Syrian lease is for the naval base at Tartus, where Moscow bases destroyers, frigates, submarines, mine-sweepers and other ships.

The solidified Russian presence shows the naivete of Barack Obama's 2015 claim that Mr. Putin was entering "a quagmire" in Syria. Mr. Obama's abdication in Syria created the opening for Mr. Putin to intervene. But it should also be a dose of reality to President Trump's hopes that Russia will cooperate to stabilize Syria by working out a diplomatic solution. The only solution Mr. Putin wants is a victory for Mr. Assad, Iran and the Kremlin.

## A Fiduciary Rule Reckoning

The Obama era imposed many destructive regulations, but few were more arrogantly conceived than the Labor Department's new fiduciary rule on retirement accounts. The good news is that the bureaucratic victory may be rolled back.

Though the new rule took partial effect on June 9, Labor recently said it now opposes allowing an enforcement provision that would encourage class-action lawsuits. President Trump also ordered a review of the economic damage, which won't be complete until later this year. Meantime, the Fifth Circuit Court of Appeals on Monday heard arguments from business groups seeking to overturn a lower-court decision upholding the rule.

The rule applies a fiduciary standard to the broker-dealers and insurance agents who assist their clients with IRAs. The claim is that this will protect ordinary investors from brokers who recommend certain investments because of the commissions they get. But the new rule imposes many new burdens, from new disclosure requirements to changes to compensation practices.

As so often happens, the new reality is harming the very people the rule is meant to help. One problem is that small investors often can't afford the higher costs associated with the fee-based investments the rule promotes. Another is that some firms will no longer serve the retirement funds of small-business plans because the account balances aren't large enough for the risk. Then there's the added paperwork and costs that are many times Labor estimates.

The main legal objection is the flimsy authority Labor used to upend an industry and es-

### An opportunity in the U.S. to roll back regulatory overreach.

Establish control. In a flim-flam worthy of Robert Preston's con man in "The Music Man," Labor made an end run around the U.S. Securities and Exchange Commission by claiming authority to regulate these retirement accounts.

In the musical, Preston's character bases his authority to lead a band on a degree from a nonexistent Conservatory of Music in Gary, Ind. Labor did much the same by invoking the 1974 Employee Retirement Income Security Act (Erisa), which gave it the authority to reduce the regulatory burdens on IRAs. Labor turned that on its head and used Erisa to impose a new, industry-altering regulation.

The arbitrary and capricious way this rule was created and imposed is a fitting subject for the Fifth Circuit's attention, not least for what it says about the legal doctrine of *Chevron* deference. Under this doctrine, courts are supposed to defer to regulatory agencies when the language from Congress isn't clear. Labor naturally is banking on *Chevron* to sustain its naked power grab.

But as Judge Brett Kavanaugh of the D.C. Circuit Court of Appeals pointed out in a recent dissent in an unrelated case, in a narrow class of cases involving major agency rules "of great economic and political significance," the Supreme Court has articulated a "countervailing canon" that reflects both common sense and the Constitution's separation of powers.

Judge Kavanaugh puts it simply: "For an agency to issue a major rule, Congress must clearly authorize the agency to do so. If a statute only ambiguously supplies authority for the major rule, the rule is unlawful." Let's hope the Fifth Circuit takes note.

## The Germany That No One Bargained For



EYE ON EUROPE  
By John Vinocur

When Vladimir Putin apparently promised that four Siemens gas turbines sold last year for use in a Russian power plant would reach their intended destination, Angela Merkel's government took the Russian president's assurances to heart. Siemens now

says the turbines have wound up in Crimea, in violation of sanctions that ban such trade with the Ukrainian province stolen by Russia in 2014.

Germany, according to Reuters, was mulling last week whether to react to Mr. Putin's truthlessness by adding four Russian individuals or organizations to the sanctions list. *Sueddeutsche Zeitung* commented that it was "astonishing" the chancellor's office hadn't shown greater mistrust earlier. It added: "Putin could say to himself that in spite of sanctions we get what we want."

Exactly. The turbines are an essential part of Russia's plan to end Crimea's dependence on Ukrainian energy and to accelerate Ukraine's disintegration. The trickery is so gross—construction never began at the fake destination—as to open questions about Siemens's own role beyond the Merkel government's apparent eagerness to accept Mr. Putin's promise to Foreign Minister Sigmar Gabriel 11 months ago.

Is there a kind of German complicity or reflexive softness involving Russia that permits Moscow's blatant (and strategic) lying without anything resembling serious retaliation? Or a German relationship with Russia that leads to near-hysterical criticism of the latest bill passed by U.S. Congress approving sanctions against Russia?

The bill, beyond hitting Russia for its interference in America's presidential election, states that the Nord Stream 2 Russia-to-Germany natural-gas pipeline threatens the energy security of the European Union.

Mr. Gabriel, a Social Democrat, says Congress's so-called real intention behind the bill is "the sale of American liquefied natural gas and driving out Russian gas deliveries from the European market." If that's his case, then right on, dear Congressmen.

Through fracking, the U.S. has become a potential competitor to Russia when it comes to supplying Europe with liquefied natural gas, pushing prices down and diversifying market options. If this, with the bill's possible sanctions against those affiliated with Nord Stream 2, reduces Gazprom's position as a top energy supplier to Europe or even kills the pipeline project, it's all to the good.

Some might have expected Mrs. Merkel—with counselors who privately say Nord Stream 2 is a mistake—to dress down Mr. Gabriel for his defense

of Russian interests. She's expected to be a comfortable winner in September's national elections. But according to her spokesman, there's "substantial agreement on content" between the chancellor and her minister.

This is a Germany no one openly bargained for. It has even supported retaliation against Congress's measures, although Berlin left it to the European Commission to make the threat. This is all the more embarrassing since Mr. Gabriel said in 2015 that Nord Stream 2 was strictly a German-Russian legal entity, constituted to avoid EU meddling.

Or American objections. The U.S. has been concerned about the vulnerability of its European allies's energy supply since Gen. Jim Jones, at the time the commander of NATO, wrote a memorandum on the subject in 2005. Indeed,

### Defending Russia, even in the face of Moscow's open duplicity, and obstructing America's attempt to aid Ukraine and protect Europe's energy security.

Mrs. Merkel opposed Nord Stream 1 until she became chancellor later that year, defeating Gerhard Schröder. A month after taking office, she flipped to favor the first pipeline's completion. Mr. Schröder is now Nord Stream 2's Russia-appointed president.

Norbert Röttgen, the Christian Democrat president of the Bundestag's foreign-affairs commission and a critic of the pipeline, told me last week that EU retaliation against the U.S. "in order to protect European companies in the Nord Stream 2 business" means "Mr. Putin would start reaping the fruit of his geostrategic project."

There may be even greater German-American tension in store. The U.S. may soon supply Ukraine with defensive antitank weapons, a provocation of Russia for large segments of the dominant nonconfrontational German political mindset.

Kurt Volker, the U.S. special representative on Ukraine, was in Europe last week telling reporters that nothing so provocative was at hand given Russia's presence inside eastern Ukraine, where, he said, there are more tanks deployed than the combined arsenals of Britain, France and Germany.

Indeed, Ukraine's President Petro Poroshenko announced on June 25 that U.S. Defense Secretary Jim Mattis was expected in Kiev "in the next two to three months" to sign important agreements on "procurement."

Americans contending with reality in Europe seem to have already written off any accompanying German distress.

## The Cost of Raising Prices

By Andy Kessler

Most investors love companies with pricing power. Me? Not so much. Consider the wealthy expat who asked a broker to show him the most expensive apartments in Rome. The first, at €20,000 (\$23,500) a month, was a dump. So was the second, at €18,000. Yet the third apartment, at €16,000, was well-maintained, with gorgeous views of the Italian capital. Sensing confusion, the broker explained that the first two apartments had sat empty for months—and the owners kept raising prices to make up for the lost rent.

Sound familiar? The U.S. Postal Service has seen first-class mail volume drop to 61.2 billion letters last year from a peak of 103.7 billion letters in 2001. It raised rates to 49 cents from 34 cents to make up the difference. Movie tickets sold in the U.S. peaked at nearly 1.6 billion in 2002. Last year only 1.3 billion were sold. Meantime, average ticket prices jumped to \$8.65 from \$5.81.

The more prices rise, the more customers bolt. With the stock market hitting highs just about every day, investors need to be wary of companies that raise prices to make their numbers. These stocks make for spectacular sell-offs on even the slightest earnings miss.

Disney's stock has been stuck around \$100 for the past few years as investors bite their nails over cord-cutters. ESPN and cable networks were more than half of Disney profits in 2012. Figuring the party would rage on, ESPN signed multibillion-dollar television deals with the National Basketball Association and the National Football League. The Oakland Raiders' Derek Carr makes \$25 million a year? Thanks, ESPN.

Yet the sports channel's subscribers have dropped to 89 million today from 100 million in 2011. So ESPN raised prices, to \$7.21 for a monthly sub from \$4.69. It's now five times as high as any other channel.

This newspaper reported last month that Disney is in talks with cable operator Altice USA to raise prices again by perhaps 6% a year and institute "minimum penetration guarantees" to make up the difference. ESPN may be a few

price increases away from losing another 11 million subscribers.

I had a friend who worked at General Electric for decades. He told me that in strategy sessions with his management, Jack Welch would constantly berate them, saying, "Any idiot can raise prices." Except he used a stronger word than idiot to coax them into squeezing out costs, adding features, improving services and generally delighting customers.

Contrast this with Berkshire Hathaway. Vice Chairman Charlie Munger found that with See's Candies "we could raise prices 10% a year and no one cared. Learning that changed Berkshire." But \$40 for a pound of Crunchy Nutty Goodness Peanut Brittle? Lobster is cheaper.

There's a long list of price bumpers. Walk down any supermarket aisle. Kellogg's prices constantly snap, crackle and mostly pop. Procter & Gamble toothpaste sizes shrink faster than my cavity count, always less for the same price. Now private-equity firms are circling P&G. Same for Nestlé. Expect rising beer and liquor prices soon.

Empires are lost on rising prices. Until recently, rather than innovate in mobile or cloud computing, Microsoft kept raising the price of its Windows operating system to computer manufacturers. Tablets and phones ate their lunch.

Fees rose at eBay until Amazon took its growth away. Booksellers raised effective prices on digital books to offset the decline of physical copies. I never understood that one.

Increasing prices attracts others to attack your market. Amazon's Jeff Bezos warns: "Your margin is my opportunity." Competition solves much of this problem. Investors love protected businesses, but eventually relentless price increases kill them all. Consumers are the kangaroo at the bar in the old cartoon: The bartender says, "Say, we don't get a lot of kangaroos in here." The kangaroo replies, "No, and with these prices, I can see why!"

Call me a kangaroo, but I prefer to invest in companies that lower prices and offer more.

Mr. Kessler writes on technology and markets for the Journal.

## OPINION

# Climate Change Isn't the End of the World

By David R. Henderson  
And John H. Cochrane

**C**limate change is often misunderstood as a package deal: If global warming is "real," both sides of the debate seem to assume, the climate lobby's policy agenda follows inexorably.

It does not. Climate-policy advocates need to do a much better job of quantitatively analyzing economic costs and the actual, rather than symbolic, benefits of their policies. Skeptics would also do well to focus more attention on economic and policy analysis.

**E**nough if world temperatures rise, the appropriate policy response is still an open question.

To arrive at a wise policy response, we first need to consider how much economic damage climate change will do. Current models struggle to come up with economic costs commensurate with the apocalyptic political rhetoric. Typical costs are well below 10% of gross domestic product in the year 2100 and beyond.

That's a lot of money—but it's a lot of years, too. Even 10% less GDP in 100 years corresponds to 0.1 percentage point less annual GDP growth. Climate change therefore doesn't justify policies that cost more than 0.1 percentage point of growth. If the goal is 10% more GDP

in 100 years, pro-growth tax, regulatory and entitlement reforms would be far more effective.

Yes, the costs aren't evenly spread. Some places will do better and some will do worse. The American South might be a worse place to grow wheat; Southern Canada might be a better one. In a century, Miami might find itself in approximately the same situation as the Dutch city of Rotterdam today.

But spread over a century, the costs of moving and adapting are not as imposing as they seem. Rotterdam's dikes are expensive, but not prohibitively so. Most buildings are rebuilt about every 50 years.

If we simply stopped building in flood-prone areas and started building on higher ground, even the costs of moving cities would be bearable. Migration is costly. But much of the world's population moved from farms to cities in the 20th century. Allowing people to move to better climates in the 21st will be equally possible. Such investments in climate adaptation are small compared with the investments we will regularly make in houses, businesses, infrastructure and education.

And economics is the central question—unlike with other environmental problems such as chemical pollution. Carbon dioxide hurts nobody's health. It's good for plants. Climate change needn't endanger anyone. If it did—and you do hear such claims—then living in hot Arizona rather than cool Maine, or living with Louisiana's frequent floods, would be considered a health catastrophe today.

Global warming isn't the only risk our society faces. Even if science



ALAMY STOCK PHOTO

A dike and a windmill in Rotterdam, a city already prone to floods.

tells us that climate change is real and man-made, it doesn't tell us, as President Obama asserted, that climate change is the greatest threat to humanity. Really? Greater than nuclear explosions, a world war, global pandemics, crop failures and civil chaos?

No. Healthy societies don't fall apart over slow, widely predicted, relatively small economic adjustments of the sort painted by climate analysis. Societies do fall apart from war, disease or chaos. Climate policy must compete with other long-term threats for always-scarce resources.

Facing this reality, some advocate that we buy some "insurance." Sure, they argue, the projected economic cost seems small, but it could turn out to be a lot worse. But the same argument applies to any possible risk. If you buy overpriced insurance against every potential danger, you soon run out of money.

You can sensibly insure only when the premium is in line with the risk—which brings us back where we started, to the need for quantifying probabilities, costs, benefits and alternatives. And uncertainty goes both ways. Nobody forecast fracking, or that it would make the U.S. the world's carbon-reduction leader. Strategic waiting is a rational response to a slow-moving uncertain peril with fast-changing technology.

Global warming isn't even the obvious top environmental threat. Dirty water, dirty air and insect-borne diseases are a far greater problem today for most people world-wide. Habitat loss and human predation are a far greater problem for most animals. Elephants won't make it to see a warmer climate. Ask them how they would prefer to spend \$1 trillion—subsidizing high-speed trains or a human-free park.

Then, we need to know what effect proposed policies have and at what cost. Scientific, quantifiable or even vaguely plausible cause-and-effect thinking are missing from much advocacy for policies to reduce carbon emissions.

The Intergovernmental Panel on Climate Change's "scientific" recommendations, for example, include "reduced gender inequality & marginalization in other forms," "provisioning of adequate housing," "cash transfers" and "awareness raising & integrating into education." Even if some of these are worthy goals, they aren't scientifically valid, cost-benefit-tested policies to cool the planet.

Climate-policy advocates' apocalyptic vision demands serious analysis, and mushy thinking undermines their case. If carbon emissions pose the greatest threat to humanity, it follows that the costs of nuclear power—waste disposal and the occasional meltdown—might be bearable. It follows that the costs of genetically modified foods and modern pesticides, which can feed us with less land and lower carbon emissions, might be bearable. It follows that if the future of civilization is really at stake, adaptation or geo-engineering shouldn't be unmentionable. And it follows that symbolic, ineffective, political grab-bag policies should be intolerable.

*Mr. Henderson is a research fellow with the Hoover Institution and an economics professor at the Naval Postgraduate School. Mr. Cochrane is a senior fellow of the Hoover Institution and an adjunct scholar of the Cato Institute.*

## Kim Jong Un Is Going Ballistic in More Ways Than One

By Henry Sokolski  
And Zachary Keck

**A**mong the many types of missiles North Korea is perfecting is a short-range system that Kim Jong Un is almost certain to export. Although not as worrisome as the intercontinental ballistic missile, Pyongyang tested Friday, this weapon has a highly accurate front end optimized to knock out overseas U.S. and allied bases, Persian Gulf oil fields, vital Israeli assets and eventually even commercial shipping and warships. The good news is there's still time to halt the system's proliferation, but only if we act quickly.

The missile is an advanced version of a Scud, a 185- to 620-mile-range missile that has been in use worldwide for decades. What makes the version North Korea just tested so different is that it has a maneuvering reentry vehicle, or MaRV, which allows the missile's warhead to maneuver late in flight both to evade missile defenses and achieve pinpoint accuracy.

China, Russia, South Korea and the U.S. have all tested MaRVs but decided, so far, not to export them. Iran has also tested a MaRV, raising ques-

tions about Tehran's possible cooperation with Pyongyang.

The worry now is how far and quickly this technology might spread. Pyongyang has already sold ballistic missiles to seven countries, including Iran, Syria and Saddam Hussein's Iraq. For the Kim regime these sales generate precious hard currency, which is otherwise difficult to come by as Washington continues to ratchet up sanctions.

PyonYang will have no trouble finding customers. While only Iran or Pakistan might consider purchasing a North Korean ICBM, 15 countries besides North Korea already possess older Scud missile systems they might want to upgrade. Getting a MaRV version would be an affordable way to threaten targets that previously could have been knocked out only by a nuclear warhead or scores of missiles.

If Syria—which previously purchased Scuds from North Korea—were to acquire this missile, it would need only a handful to wipe out the bases the U.S. uses to launch airstrikes within its borders. Rebels in Yemen have repeatedly fired Scuds at Saudi air bases. Most have either

missed their targets or been shot down by Saudi forces. A MaRV would ensure a successful strike. If Hezbollah, a North Korean arms customer, got its hands on the new system, it could make good on its threats to take out Israeli chemical plants and

### North Korea has developed advanced short-range weapons and is almost certain to export them.

the Dimona nuclear reactor. Eventually, if paired with capable surveillance systems, MaRV Scuds could even be used against moving targets such as warships or oil tankers.

If these missiles spread, hostile nations and terror groups won't need nuclear weapons to threaten America or its allies. They will be able to upgrade their threat level by merely trading up the Scuds they already have.

What should the Trump administration do about this? First, start talking more candidly about the

threat. The U.S. Navy has been clear that it's now vulnerable to China's highly precise conventional MaRV missiles. Washington now needs to spotlight the threat North Korea's MaRV Scuds will pose if these systems proliferate globally.

Second, along with developing defenses to cope with this threat, the U.S. needs to double down on blocking illicit missile exports. In 1987 Ronald Reagan worked with the Group of Seven nations to create the international Missile Technology Control Regime, which today urges missile suppliers (including China and Russia) not to export missiles capable of lifting 1,100 pounds for distances of more than 185 miles—precisely the type that North Korea might sell.

The MTCR also serves as the basis for the 105-nation Proliferation Security Initiative, which allows countries to search ships and airplanes carrying proscribed missile technology. These tools for stifling the illegal trade of missiles have already been developed. It's time to hone and use them.

Finally, America must get serious about restricting missile sales more generally. President Reagan wanted

to eliminate what he called "nuclear missiles." His efforts to do so—the MTCR and the Intermediate Nuclear Forces Treaty, which banned an entire class of ground-based nuclear-capable missiles—suggest he was focused on eliminating missiles ideally suited for surprise first strikes.

Given that today's missiles are accurate enough to destroy their intended targets with conventional warheads, it's time to update our thinking in this area.

Persuading the world's major powers to sign on to new missile-trade restrictions will be no simple feat. Russia, for one, has already violated the existing INF Treaty. Yet before this violation, Moscow proposed expanding the INF to include other countries, especially China, the world's largest land-based missile power.

Bringing all parties to the table in good faith will be a long-term proposition. But given the missile threats that are already emerging, the time to begin is now.

*Mr. Sokolski is executive director and Mr. Keck a fellow at the Nonproliferation Policy Education Center.*

## Venezuela on the Brink of Civil War

AMERICAS  
By Mary Anastasia O'Grady

**A**Forget all you've heard about dialogue in Venezuela between the regime and the opposition. Hungry, hurting Venezuelans are done talking. The country is in the early stages of civil war. Sunday's Cuban-managed electoral power play was the latest provocation.

In 2005 Havana took over the Venezuelan office that issues national identity cards and passports. It was a Castro-intelligence coup, carried out with then-President Hugo Chávez's permission. The move handed Havana the national Rolodex necessary to spy on Venezuelans and surreptitiously colonize the country.

Islamic extremists received Venezuelan passports to give them false cover when crossing borders. Re-

gime supporters got the papers they need to vote under more than one identity.

This is something to keep in mind as Venezuelan strongman Nicolás Maduro claims victory in Sunday's election for representatives to draft a new constitution. In polls, some 80% of Venezuelans opposed Mr. Maduro's "constituent assembly." But the opposition boycotted Sunday's election because they knew Cuba is running things, that voter rolls are corrupted and that there is no transparency in the operation of electronic voting machines.

Opposition leaders in Caracas are still trying to use peaceful means to unseat Mr. Maduro. Last week they orchestrated an effective 48-hour national strike and on Friday another day of demonstrations.

But grass-roots faith and hope in a peaceful solution has been lost. One symptom of this desperation is

the mass exodus under way. On Tuesday the Panam Post reported that "more than 26,000 people crossed the border into Colombia Monday, July 26, according to the National Director of Migration in [the Colombian city of] Cúcuta."

Venezuelan applications for asylum in the U.S. were up 160% last year, making Venezuelans No. 1 among asylum seekers to the U.S. According to the United Nations Refugee Agency, there were 27,000 Venezuelan asylum seekers worldwide in 2016. By mid-July this year there were already 50,000.

Last week the National Guard arrested and badly beat violinist Wuilly Arteaga, who has become a national symbol of peace. Many of those fleeing say they fear that after Sunday the regime crackdown will intensify. Some of those staying behind have already begun to launch counteroffensives. This provides the regime an excuse for increasing repression, yet there is a growing sense that violence is the only remaining option.

The regime has the armored vehicles, the high-powered rifles and the SWAT gear. But the population has the numbers and the anger. It also

may increasingly have support from dissident government forces.

Consider what happened in the municipality of Mario Briceño Iragorry in the state of Aragua last month, when the pro-government mayor and the regime's paramilitary, known as *colectivos*, began looting shops that were closed during a one-day national strike.

### The regime has rifles and armored vehicles, but the people have numbers and anger.

Eye witness testimonies sent to me by a source in Caracas describe how townspeople tried to defend the shops. The mayor brought in para-military reinforcements. But the town was saved when the judicial police arrived from the state capital of Maracay. According to the Venezuelan daily El Nacional, they arrested the mayor, who was armed, and "many" *colectivos*.

The judicial police, who number around 12,000 and conduct criminal

investigations, are Venezuela's largest national police agency. They are also responsible for protecting Attorney General Luisa Ortega Díaz. Ms. Ortega broke with the regime in March when the Maduro-controlled Supreme Court tried to dissolve the opposition-controlled legislature. She is an outspoken critic of Mr. Maduro's constituent assembly. She hasn't been arrested, probably because the regime doesn't want to confront the judicial police.

There are also dissident members of the military but their possible role in recovering democracy seems difficult. The leadership is pro-regime and though there are rumors of grumbling among the lower ranks, organizing a coup requires communication. The security and intelligence apparatus installed by Cuba makes that challenging.

But a citizens' revolt, led by young people whose families are starving, is already under way. Last week after 24-year-old Ender Caldera died from injuries sustained in a demonstration in Timotes, Merida, his friends exacted revenge by intercepting an armored National Guard truck on a mountain road and setting it afire. Numerous other National Guard vehicles have been torched in Caracas.

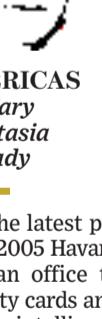
The state of Barinas, where Hugo Chávez was born, was once a regime stronghold. Today it is an anti-government pressure-cooker where dissidents burn debris in the streets and confront the National Guard. It is the state with the highest number of protest fatalities in the country since the street protests began in April.

Mr. Maduro tried Sunday to put a "democratic" imprimatur on his power grab. But by the afternoon there were at least 10 dead in clashes with the regime. On the streets of Venezuela, it is now fight or flight.

*Write to O'Grady@wsj.com.*

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## Notable & Quotable: Hillary

From "What happened? What happened?! You blew it, Hillary," by Damon Linker, ThisWeek.com, July 28:

Donald Trump as an opponent! What a dream! Clinton didn't even need to campaign in August. She could just rest up and travel to a few fundraisers where she could rake in \$143 million in excess cash. The media buy would take care of Trump. Hell, she wouldn't even need a motivating message of her own. Just be-

ing Not Trump and reminding voters over and over and over about his self-evident awfulness would be more than enough to win—and not just in the usual states behind the fabled Blue Wall. No siree, she could clean up in other places, too. Arizona. Georgia. Maybe even Texas! Wouldn't that be something? . . .

I even believed it for a while, writing the most boneheaded column of my career as a writer, on how Trump would lose in a historic landslide.

## LIFE & ARTS

YOUR HEALTH | By Sumathi Reddy

# Patients Take Big Risks to Stop Statins

One in five patients taking the cholesterol-lowering drugs report muscle aches, new research shows

**A NEW STUDY** on statins—widely used medicines that lower cholesterol levels—highlights the dangerous outcomes that occur when patients stop taking them due to adverse side effects.

One in five patients taking a statin reports a side effect, mainly muscle aches, according to the study. About one-third of those patients stop taking statins completely, leaving them 13% more likely to die or have a heart attack or stroke over the next four years than those who continued to take statins. The study was published in the *Annals of Internal Medicine* last week.

Since the discovery and usage of statins began about 30 years ago, doctors have touted them as a safe, inexpensive method for lowering bad, or LDL, cholesterol levels for the prevention of cardiovascular disease, the leading cause of death.

Experts say 56 million people in the U.S. should be taking statins, such as atorvastatin (brand name Lipitor) and rosuvastatin (brand name Crestor). But only about half actually take the inexpensive, generic drugs. Previous studies have found that anywhere from 25% to 75% patients stop taking statins, usually due to side effects, and doctors are increasingly worried about the discontinuation of the medicines due to perceived side effects which may be caused by something else or due to the placebo effect, which is the negative expectation of a drug.

A recent paper published in the journal the Lancet compared the rates of muscular side effects in patients getting statins to those taking a placebo. They repeated the analysis with patients knowingly taking statins in a second leg of the trial and found little difference in the rate of side effects.

"This kind of analysis supports the idea that statin intolerance is probably not as big of a problem as we have thought it is," said Ethan J. Weiss, a cardiologist and



scientist at the **Cardiovascular Research Institute** at the **University of California, San Francisco**.

For the *Annals of Internal Medicine* study, researchers analyzed data from two Boston Hospitals, focusing on 28,266 patients who reported a side effect to a statin between 2000 and 2011, said Alexander Turchin, senior author on the study and an associate professor of medicine at **Harvard Medical School** and endocrinologist at **Brigham and Women's Hospital**. About 71% of the patients con-

tinued to receive a statin prescription and about half of those continued taking the same medication. About 29% of the patients stopped taking statins. The researchers compared the mortality, heart attack and stroke rates of both groups after about four years.

A secondary analysis of 7,600 patients found that 26% of patients who had an adverse reaction to the first statin they took, reported another adverse reaction to the same or a different statin again. But about 80% continued to

receive a statin prescription.

Pradeep Natarajan, director of preventive cardiology at **Massachusetts General Hospital** in Boston, said when deciding whether to keep patients on statins, there needs to be a discussion weighing the benefits against the risks. For those patients who have previously had a heart attack or who have cardiovascular disease, the benefit will almost always outweigh the risk.

The recent *Annals of Internal Medicine* study, he said, brings

"good awareness to the fact that a lot of people who are on statins who report musculoskeletal issues can often continue on the statin and do well or be re-challenged on another statin."

In many cases the muscular aches are mild, said Dr. Natarajan, though there is a subset of patients who have more debilitating symptoms. They can often be helped by lowering their dose of the statin, he said.

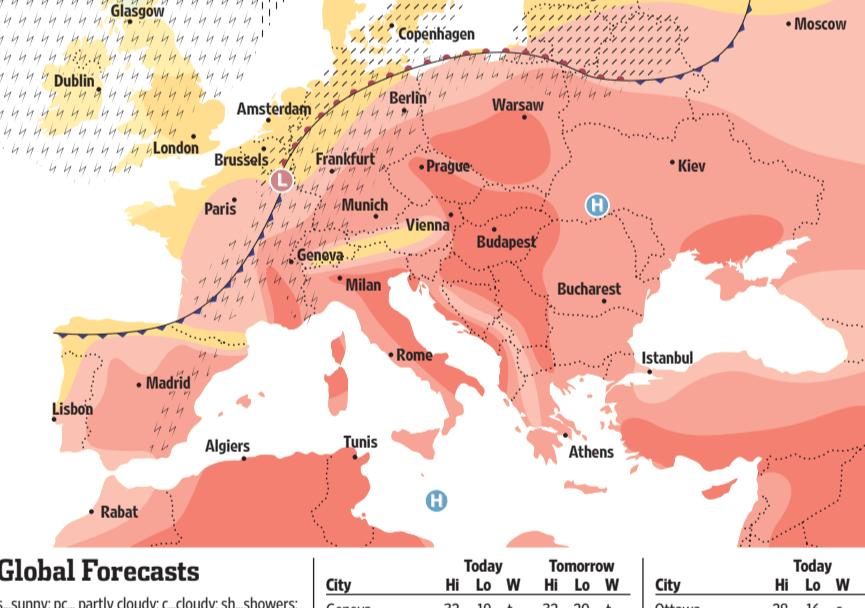
The **American College of Cardiology** has an app to help clinicians rate the likelihood that a musculoskeletal issue is being caused from a statin, he said. If pain is happening on one side of the body it is less likely to be caused by a statin. Pain in the shoulder and thighs is more likely to be caused by a statin.

The two other risks often linked to statins are an increased risk for diabetes and cognitive problems. Dr. Natarajan said there is a "very modest" increased risk of developing diabetes but the benefits usually outweigh that risk. The data associating statins with cognitive problems is very limited, he said.

Steven Nissen, chairman of the department of cardiovascular medicine at Cleveland Clinic and author of an accompanying editorial, said numerous websites and blogs have made unscientific claims about statins, which are damaging the reputation of a critically important medicine. "The vast majority of people do very well on statins," he said.

William O'Neill, medical director of the Center for Structural Heart Disease at Detroit's **Henry Ford Hospital**, tried numerous statins to treat his cardiovascular disease. He experienced debilitating muscular aches and doesn't believe the problem of statin intolerance is overblown. "When a patient comes to an exam room the doctor doesn't ask, 'Are your muscles hurting?' he said. "Patients won't really offer that unless it's really severe."

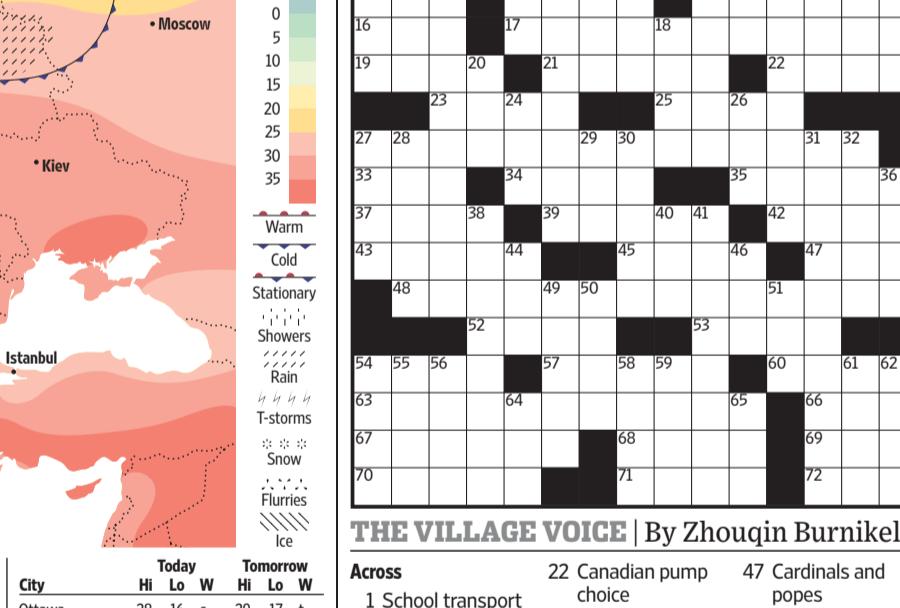
## Weather



## Global Forecasts

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	23	15	pc	22	16	pc
Anchorage	18	13	pc	16	13	sh
Athens	31	24	s	32	24	s
Atlanta	31	21	s	31	22	pc
Bahrain	48	32	s	50	30	s
Baltimore	32	20	s	32	20	s
Bangkok	35	28	t	34	27	t
Beijing	30	24	c	28	24	t
Berlin	30	20	t	25	19	t
Bogota	19	9	r	20	10	r
Boise	39	19	s	39	20	s
Boston	28	20	s	28	21	s
Brussels	22	14	pc	24	17	pc
Buenos Aires	16	8	c	16	6	s
Cairo	37	25	s	37	26	s
Calgary	18	11	sh	21	11	c
Caracas	32	27	pc	32	27	pc
Charlotte	31	19	s	31	21	t
Chicago	29	20	pc	29	20	t
Dallas	29	22	pc	30	24	t
Denver	31	15	pc	31	14	t
Detroit	31	20	pc	31	20	t
Dubai	43	36	pc	46	36	s
Dublin	19	12	t	19	12	r
Edinburgh	18	10	t	18	12	r
Frankfurt	31	19	t	28	19	t

## AccuWeather.com



## The WSJ Daily Crossword | Edited by Mike Shenk



## THE VILLAGE VOICE | By Zhouquin Burnikel

Across		
1	School transport	22 Canadian pump choice
4	Sharp response to an insult	48 *Oft-marinated salad addition
8	Second-largest city in Oklahoma	52 Rooney of "Carol"
13	Mine yield	53 Swear words? e.g.
14	Largest city on the Big Island	54 Zap with light
15	"A Girl With a Watering Can" painter	55 Drab green color
16	Periodontist's org.	60 Spot
17	*Feature of many Shakespeare comedies	63 *Winter weather map line
19	Backside	66 Colgate rival
21	Baseball's Al, nicknamed "the Hebrew Hammer"	67 "Oh, goodness!"
43	Weak— (easily intimidated)	68 Proton's place
45	"Wonderfilled" snack	69 Chain that sells supplements
70	Vancouver	70 Panasonic subsidiary
		71 Freeway hauler
		72 Letter that looks like an H

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

Down	
1	Tusked creature
2	Pakistani tongue
3	Image on some old maps
4	"Pipe down!"
5	1997 Jim Carrey comedy
6	Canned snack for shepherds
7	Daddy
8	Royal flush card
9	Upset winner
10	Lane in Metropolis
11	Lust and envy, for two
12	Best Picture based on a hostage crisis
15	Zellweger of "Bridget Jones's Diary"
18	Cry out loud
20	Course instructor
24	Creative class
26	Put away the dishes
27	Stole stuff
28	Donald's first ex
29	Number before quattro
30	Boorish brute
31	Compliments to a big star
32	Harder to find
36	Email status
38	"Step aside, I'll do it!"
40	Biblical refuge
41	Toxin that may cause an anaphylactic reaction
44	Domingo, for one
46	"Looky here!"
49	"Time in a Bottle" singer
50	Game period
51	Farm female
54	Young chaps
55	Triangle measure
56	Look over quickly
58	Retirement plan components
59	Say "nay," say
61	Ice cream purchase
62	Hit song literally hinted at by the answers to the starred clues
64	"I believe," to texters
65	"Spare me the deets!"

## Previous Puzzle's Solution

CANON	ALI	BARB
AMORE	BET	OILER
LIVELINES	NOLTE	SAHARA DESERT
TOOME	LANE	BAA
HABANERO	ROPEPPERS	STY
MEAD	GOLDIE	EVEN
BRA	ENC	ANTS
LATEST	TRENDS	MEAD
ADORE	STOLEN CAR	SPASM
NINOS	TEN	RAISE
DIES	OSS	SPASM

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, August 1, 2017 | B1

Euro vs. Dollar 1.1814 ▲ 0.54%

FTSE 100 7372.00 ▲ 0.05%

Gold 1266.60 ▼ 0.14%

WTI crude 50.17 ▲ 0.93%

German Bund yield 0.545%

10-Year Treasury yield 2.292%

## HSBC to Buy Back More Shares

By MARGOT PATRICK  
AND JOANNE CHIU

LONDON—**HSBC Holdings** PLC said that it would regularly buy back shares if it has extra capital, in the latest sign of strength from the global banking giant.

HSBC said Monday it will buy back another \$2 billion in shares, adding to the \$3.5 billion in stock it repurchased since last year. The transaction announced Monday is part of a new pledge by the bank to regularly buy back shares if it can, in contrast to the earlier purchases that were specifically limited to capital it freed up by selling its large Brazilian unit.

Chief Executive Stuart Gulliver said that HSBC will review potential buybacks every half year. The bank has been adding capital through profit, as well



Chief Executive Stuart Gulliver said HSBC Holdings will review potential buybacks every half year.

them if it has surplus equity and nothing more attractive to invest in.

The bank has been adding capital through profit, as well

as by shrinking in some areas, and analysts had expected more cash returns. Factors helping the bank in recent quarters include lower bad

loans and rising interest rates on an expanding deposit base. HSBC has also been freeing up capital from its defunct U.S. consumer-lending business.

On Monday, the bank said net profit for the second quarter rose 57% to \$3.87 billion from \$2.47 billion in the same period a year earlier. Its profit before tax for the period rose 47% to \$5.3 billion.

Mr. Gulliver in an interview said the bank is seeing the fruits of the strategy he laid out in June 2015, including getting more cross-unit business from its 38 million customers. Revenue that can be attributed to such cross-selling rose to \$5.9 billion in the second half from \$5 billion in the first half of 2016, he said.

Analysts covering banks such as HSBC, J.P. Morgan

Chase & Co. and Citigroup Inc. have sought proof that the universal banking model is suited for an industry hobbled by banking rules and capital charges since the financial crisis. HSBC says its global reach should be a magnet for companies looking to trade or invest overseas, and it can do anything from managing their cash to helping them tap capital markets, all supported by a strong retail brand and private bank. At the bank's 2015 strategy day, Mr. Gulliver laid out an aim to get revenue growth in its international network above growth in gross domestic product, and said that he tracks the estimated figure every two weeks.

"It's an obsession because we need to prove the logic of

Please see HSBC page B2

## Cable Rival To Buy Scripps

By JOE FLINT  
AND SARAH RABIL

**Discovery Communications** Inc. has agreed to buy **Scripps Networks Interactive** Inc. for \$11.9 billion, a bet that a bigger footprint in lifestyle programming—like the kind seen on TLC, HGTV and Food Network—will help it weather the upheaval in cable television.

A bigger portfolio of channels that specialize in topics such as home improvement, food, travel and science would give the combined company an edge in talks with advertisers, who covet the female and young viewers gravitating to shows such as "Property Brothers" and "House Hunters" on HGTV and "Shark Week" on Animal Planet.

A critical mass of these types of unscripted shows puts Discovery and Scripps in a position to offer a web-TV bundle directly to consumers, who are "cutting the cord" to cable at a fast pace and turning to "skinny" online bundles from Hulu, Google Inc.'s YouTube, Dish Network Corp.'s Sling TV and other competitors.

It will also give the combined firm more heft with programming distributors that are under pressure to curb the monthly cable fees passed through to media companies.

News of the deal overshadowed the companies' quarterly earnings reports, both of which fell short of Wall Street expectations.

Under the terms of the agreement, announced Monday morning, Scripps shareholders will receive \$90 a share, \$63 of which will be in cash and \$27 a share in Class C Common shares of Discovery stock. The price represents a 34% premium to the level where Scripps shares were at before The Wall Street Journal reported that the companies were in talks.

Including Scripps's debt, the deal is valued at a total of \$14.6 billion.

Discovery owns networks including Discovery Channel, Animal Planet and TLC. Scripps operates HGTV, Cooking Channel and Food Network among others.

The two companies account for 13% of overall cable viewership but receive just 7% of the monthly cable fees consumers pay, according to RBC Capital Markets.

The deal will create a must-buy network group for advertisers interested in targeting women and help the network command more premium ad rates. Of the top 20 U.S. cable networks, the merged company will control four of the top five with the highest percentage of female viewers—TLC, HGTV, Investigation Discovery and Food Network.

Please see SCRIPPS page B2



Bill Garrett with his wife, Angela, at a store in Illinois. He said he has reduced his weekly grocery bill by shopping on Amazon.

DAVID KASNIC FOR THE WALL STREET JOURNAL

## Grocers Hit by Glut of Retail Space

By HEATHER HADDON  
AND JULIE JARGON

Never before in America has so much retail square footage been devoted to selling food—and it is too much.

A massive build-out by retailers has left the country piled up with grocery shelves as consumers are shifting from big weekly shopping trips to more snacking and to-go meals. The mismatch has flattened retail sales and leaves the industry vulnerable to a wave of closures that some executives, bankers and industry experts think is coming soon.

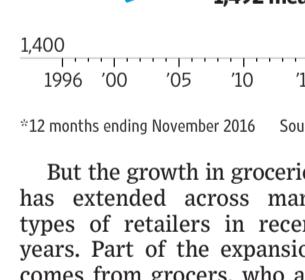
Commercial square footage of retail food space per capita last year set a record, with 4.15 square feet of food retail per person, according to **CoStar Group**, a commercial real-estate firm, nearly 30 times the amount of space allocated to groceries at major chains in 1950.

To be sure, major grocery chains weren't as numerous decades ago, with many Americans shopping for food at mom and pop stores.

### Skipping Meals

Americans are consuming less food on a per capita basis as the largest U.S. demographic groups—millennials and older baby boomers—are in their peak food-buying stages.

#### Annual number of meals consumed per capita



\*12 months ending November 2016 Source: NPD Group THE WALL STREET JOURNAL

#### Per capita meals consumed by age, change from previous year\*

18-34	-5%
35-44	No change
45-54	No change
55-64	+2%
65 and older	-2%

\*12 months ending November 2016 Source: NPD Group THE WALL STREET JOURNAL

But the growth in groceries has extended across many types of retailers in recent years. Part of the expansion comes from grocers, who accelerated their store openings as a way to drive sales growth after the 2008 recession. At the same time, club chains, dollar stores, pharmacies—and even gas stations—increased their fresh food offerings to drive traffic and boost profits.

While shopper loyalty to conventional chains had lifted same-store sales for food retailers by at least 3% annually since 2013, that metric was flat in 2016 and is projected to remain static this year as com-

"Everybody is getting into the grocery business," said David Hirz, chief executive of Smart & Final Stores Inc., a California-based warehouse grocer.

While shopper loyalty to conventional chains had lifted same-store sales for food retailers by at least 3% annually since 2013, that metric was flat in 2016 and is projected to remain static this year as com-

petition grows, according to FactSet. "There's only so much food we can buy," said Suzanne Mulvey, director of research for CoStar.

The food-retail sector has become even more saturated at a time when competition is only getting fiercer, particularly at the two ends of the shopping spectrum.

Growing European deep-discounters Aldi and Lidl are vying for U.S. market share, hoping their prices will win over the budget-conscious shopper, while internet companies like Amazon.com Inc. are trying to lure higher-income grocery shoppers online. Regional supermarkets and conventional ones such as Kroger Co. and **Albertsons** Cos. are the most likely to get squeezed in the process, according to analysts.

"We've hit that critical moment where traditional supermarkets have realized they can't keep opening new stores to solve their problems," Kantar Retail analyst Diana Sheehan said.

Some grocers have already

Please see FOOD page B2

Please see SCRIPPS page B2

## New Legal Woes for Volkswagen

By LAURENCE NORMAN

BRUSSELS—German car maker **Volkswagen AG** faces fresh legal pressure over its emissions-cheating scandal after European Union authorities for the first time recommended fraud charges against two company officials.

The EU's antifraud office, known as OLAF, has been investigating since November 2015 whether Volkswagen knowingly misused loans it was given by the EU's finance arm, the European Investment Bank. The probe, which has come to focus on two officials at the company, began after the EIB passed on its concern about the loan.

At least one manager has left the company and is under

investigation, according to people familiar with the case.

The status of the other is unclear.

The allegations center on a €400 million (\$470 million) loan the EIB granted Volkswagen in 2009 with the intention of promoting the company's environmental performance, officials say. The loan has since been repaid.

Volkswagen denied any wrongdoing connected to the EIB loan.

"We reiterate our position that all funds received by Volkswagen from the European Union were used for the designated purpose; this also applies to loans granted in the past by the European Investment Bank," a spokesman said.

Volkswagen has been em-

broiled in lawsuits in the U.S. in connection with its admission in September 2015 that it had installed cheating devices in some 11 million vehicles world-wide. It is facing legal settlements of as much as \$25 billion in the U.S. following a buyback deal it struck last year. German authorities are also conducting probes.

The antifraud office said it had made a judicial recommendation to the public prosecutor's office in Braunschweig, Germany, to pursue legal action against officials, who weren't named. OLAF said it has been in contact with German authorities throughout the case.

German prosecutors are conducting several investiga-

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## INSIDE



CHRISTIAN VIERIG/WIREIMAGE/GETTY IMAGES

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## HSBC

Continued from the prior page  
the network that comes from  
referrals going between the  
three global businesses," Mr.  
Gulliver said.

"Global banking and markets ought to be taking commercial clients to the high-yield bond market, and retail ought to be introducing high-end premier accounts to the private bank," he said.

HSBC's decision follows

strong results from several of Europe's largest lenders, a change that shows the sector's grinding restructuring is starting to pay off. European bank shares have shot up 50% over the past year as investors bet on lenders riding a European economic recovery and a lightening of regulations, and optimism has permeated once-gloomy bank boardrooms.

Net profit in the period was

\$7 billion, up 10% from \$6.36

billion a year earlier.

Showing that his strategy for HSBC is working is crucial to Mr. Gulliver's legacy building at HSBC. The revamp he and Chairman Douglas Flint started in 2011 involved exiting dozens of businesses and swaths of the world, and marked a U-turn for HSBC after a stint of unbridled growth. Mr. Flint is leaving in September and will be succeeded by Mark Tucker, the former CEO of AIA Group Ltd. Mr. Gulliver has said he would leave next year after a new CEO is named.

For the first half, revenue fell 11% to \$26.2 billion from \$29.47 billion a year ago. The bank said that after stripping out the impact of the bank's sale of its Brazil unit and other one-off factors, revenue was up 3%, mainly from higher revenue on customer deposits.

Net profit in the period was

\$7 billion, up 10% from \$6.36

billion a year earlier.

period ending in January. That

has helped the nation's largest food seller by sales to spend billions of dollars renovating its stores and offer more online-order pickup, a company spokesman said.

There has been consolidation in the sector, too. Kroger and Supervalu Inc. have scooped up stores and wholesale businesses after two Midwest regional chains, Marsh Supermarkets LLC and Central Grocers Inc., declared bankruptcy this year.

But enduring changes in eating and food-shopping habits toward cheaper and more convenient options means consumers will increasingly spread their dollars among a variety of retailers. Food retailers are also chasing a shrinking pool of consumers.

Not only is U.S. population growth slowing, but America's largest demographic groups—millennials and baby boomers—aren't at their food-buy-

peaks.

"I don't have the energy to work full-time and make my own food," said Leah Steinberg,

a 32-year-old unemployed soft-

ware engineer who recently moved back in with her parents in St. Paul, Minn. Ms.

Steinberg struggled to make healthy meals for herself while working, and now relies on her family to shop and cook while

## VW

Continued from the prior page  
tions into former top Volkswagen executives on suspicion of fraud, centering on who knew what and when about the emissions cheating.

"OLAF finalized its investigation into the possible misuse of EU funds and European Investment Bank loans by the Volkswagen Group, which could be linked to the production of engines or devices implicated in the manipulation of the real gas emissions level of vehicles," OLAF said in a written statement.

According to people familiar with the case, Volkswagen officials omitted relevant information in response to questions by the EIB when the loan was negotiated in 2008. Two

of the officials were aware at the time of the work on so-called defeat devices, auxiliary control devices that can be used to circumvent emissions standards.

The agency believes the withholding of that information amounts to fraud under German law. At least one of the officials has left the company and is under investigation, according to people familiar with the case.

EU authorities have been kept largely on the sidelines in the emissions scandal. The European Commission, the EU's executive arm, must rely on national authorities to press companies into reporting their activities.

OLAF can only investigate

possible fraud among EU institutions, companies and individuals but cannot prosecute.

It can recommend that na-

tional authorities take legal action.

OLAF also took aim at the EIB, a significant source of funding for companies and governments inside and outside the 28-nation bloc. The EIB has provided some €4.5 billion in loans to Volkswagen

### At issue is the company's use of a \$470 million loan from the EIB.

in Europe since 1990, around one-third of which was aimed at technologies to improve the environmental performance of cars, the bank said. OLAF said the EIB should take "active steps" to implement its own

antifraud policy.

A spokeswoman for the EIB said the bank "cannot exclude that one loan of €400 million was linked to emissions-control technologies developed at the time the defeat software was designed and used."

The EIB opened its own probe into the €400 million loan shortly before OLAF did but shelved it to avoid duplication once OLAF started its work.

The EIB at the same time put on hold all new loans to Volkswagen, a policy it has maintained. The bank cooperated closely with OLAF's investigation.

"The findings and the evidence of OLAF's investigation will be carefully reviewed by EIB to determine appropriate action and the extent of action available to it," the spokeswoman said.

health-care company officer from Wilmette, Ill., said he sliced about one-third off his weekly grocery bill of \$150 by shopping on Amazon. Amazon made a \$13.7 billion bid for Whole Foods Market Inc. in June, a move analysts say could further acclimate shoppers to the concept of online grocery shopping.

Supermarket chains operating in densely populated areas where shoppers have more online grocery options are particularly vulnerable to future consolidation, according to Barclays, which said that 38 of the top 50 grocery markets in the U.S. are already too saturated by food retail per capita or are on track to be so by next year.

"Everybody should stop growing," said Barclays analyst Karen Short. "It would make the whole industry much healthier."

—Annie Gasparro contributed to this article.

## FOOD

Continued from the prior page  
started to retrench, similar to the way the broader retail market reduced square footage of brick-and-mortar stores as e-commerce drew away customers.

Kroger, the nation's largest traditional supermarket chain by stores and sales, is reducing its new-store openings this year to 55 from 100, a nearly billion-dollar drop in capital expenditures, and its chief financial officer, Michael Schlotman, recently said that the company expects to continue to invest less in bricks and mortar. Smart & Final plans to build 19 stores this year after opening 37 in 2016.

Wal-Mart Stores Inc. plans to build 55 supercenters and smaller-format stores in its 2018 fiscal year, down from the 132 it opened in the 12-month

period ending in January. That

has helped the nation's largest food seller by sales to spend billions of dollars renovating its stores and offer more online-order pickup, a company spokesman said.

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Steinberg struggled to make healthy meals for herself while working, and now relies on her family to shop and cook while

she searches for a new job.

Grocery executives say they

have survived competition on thin margins in the past, and that they conduct detailed studies before building new stores.

"We're comfortable with the amount of square

footage there is [in] the market at the moment," said Andrew Nadin, chief marketing officer for Schnuck Markets

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Grocery executives say they

have survived competition on thin margins in the past, and that they conduct detailed studies before building new stores.

"We're comfortable with the amount of square

footage there is [in] the market at the moment," said Andrew Nadin, chief marketing officer for Schnuck Markets

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has helped the nation's largest food seller by sales to spend billions of dollars renovating its stores and offer more online-order pickup, a company spokesman said.

There has been consolidation in the sector, too. Kroger and Supervalu Inc. have scooped up stores and wholesale businesses after two Midwest regional chains, Marsh Supermarkets LLC and Central Grocers Inc., declared bankruptcy this year.

But enduring changes in eating and food-shopping habits toward cheaper and more convenient options means consumers will increasingly spread their dollars among a variety of retailers. Food retailers are also chasing a shrinking pool of consumers.

Not only is U.S. population growth slowing, but America's largest demographic groups—millennials and baby boomers—aren't at their food-buy-

peaks.

"I don't have the energy to work full-time and make my own food," said Leah Steinberg,

a 32-year-old unemployed soft-

ware engineer who recently moved back in with her parents in St. Paul, Minn. Ms.

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## BUSINESS NEWS



Heineken and Anheuser-Busch InBev both beat earnings outlooks.

# European Sales Boost Heineken

By NICK KOSTOV

**Heineken** NV has lifted sales in Europe—but the extra beer isn't all going to drinkers' heads.

The Dutch brewer posted higher profit for the first half of 2017, fueled by strong sales in Europe—including double-digit revenue growth for non- and low-alcohol drinks there. The lift represents an early vote of confidence after an investment push into the sector by Heineken and its rivals.

Heineken joins the world's largest brewer, **Anheuser-Busch InBev** NV, in reporting better-than-expected results, thanks in part to a rebounding European beer market. Last week, AB InBev said sales grew by double digits across Western Europe—a market that has lagged behind in recent years amid a stop-and-start recovery after the global financial crisis.

"It was a really good performance of Europe, with the growth coming from a number of countries," Chief Financial Officer Laurence Debroux said. "It was pretty balanced."

The world's second-largest brewer by sales said profit growth was strongest in Europe, as beer volumes rose in France, Italy, Spain and Portugal, helped by warmer weather.

Global beer sales have been hit in recent years by a shift among drinkers toward wine

and spirits.

Consumers in the developed world have also pivoted to healthier drinking options, putting added strain on the market.

That has led the world's biggest brewers to invest heavily in a product that has been hit-or-miss for decades: nonalcoholic or lower-alcohol beer.

Heineken launched an alcohol-free version of its flagship lager in May. The company said results "look promising," including in the U.K. and France. Brewers earn fatter profit margins from nonalcoholic beer because of the absence of excise tax and the fact that these beers often sell at a premium. But some products have been tough sells, in large part because of consumer complaints about taste.

Despite the upturn in Europe, Heineken said low- and no-alcohol sales around the world fell slightly, to 6.1 million hectoliters from 6.2 million last year. It blamed weakness in malt products in Nigeria and Egypt.

Net profit rose 49% to €871 million (\$1.02 billion) from the 2016 period, when Heineken booked an impairment charge on the company's business in the Democratic Republic of Congo. Revenue rose 5.7% on an organic basis to €10.48 billion.

Consolidated beer volumes climbed 2.6% organically.

# Sanofi's Profit Drops Amid Overhaul Costs

By NOEMIE BISSEMER

PARIS—French drugmaker **Sanofi** said net profit fell in the second quarter as it was hit by higher restructuring costs, but the company lifted its earnings guidance for 2017.

On Monday, the Paris-based drugmaker said net profit declined 10% to €1.04 billion (\$1.22 billion) from €1.16 billion a year earlier.

Business net income, the company's term for adjusted income excluding the impact of acquisitions and divestments, increased 1% to €1.7 billion, lifted by Genzyme, Sanofi's biotech business. That beat analysts' expectations of €1.6 billion, according to a poll by data provider FactSet. Total sales rose 6% to €8.66 billion.

Sanofi said it now expects business earnings per share—excluding the impact of acquisitions and divestments—to remain stable in 2017 at constant exchange rates. The com-

pany previously said it expected business earnings per share to be stable or decline by as much as 3% in 2017.

Sanofi has faced dwindling sales of its blockbuster insulin drug Lantus since it went off patent in the U.S.

To revive growth, Sanofi has boosted its research and is seeking to acquire an innovative pharmaceutical company that could replenish its new drug pipeline. It lost out to Pfizer Inc. in a bidding war for cancer drugmaker Medivation in August. Late last year, talks with Actelion Ltd. collapsed after the French company and the Swiss biotech failed to hash out an agreement. Johnson & Johnson agreed to take over Actelion for \$30 billion in January. In January, Sanofi exchanged its animal-health business for most of Boehringer Ingelheim GmbH's consumer health-care business. Boehringer also paid Sanofi €4.7 billion as part of the deal.

# Life-Science Firm LabCorp To Purchase U.K.'s Chiltern

By JUSTINA VASQUEZ

**Laboratory Corp. of America Holdings** struck a deal to buy **Chiltern International** Ltd. for \$1.2 billion in a move to grow its stake in the drug development and contract-research industry.

LabCorp expects the acquisition to add to adjusted earnings within one year and to earn back its cost of capital in three years.

The Burlington, N.C.-based life-science and technologies company said Chiltern will become part of its Covance segment once the transaction is complete. LabCorp acquired Covance, another contract-research organization, in late 2014 and says the addition of Chiltern to its portfolio will further its growth strategy and provide it "enhanced capabilities across a broader cli-

ent base."

Chiltern, a London-based clinical services company with a headquarters in Wilmington, N.C., specializes in contract research for pharmaceutical and medical-device companies. It plans to benefit from the greater amount of resources, including Covance's client base of many leading biopharmaceutical companies.

Covance Chief Executive John Ratliff said in a written statement that his company's contract-research business has grown to \$3 billion in annual revenue in the nearly three years since its acquisition by LabCorp.

So far this year, LabCorp has made two other purchases: Pathology Associates Medical Laboratories LLC and the clinical outreach laboratories from Mount Sinai Health System Inc.

## ADVERTISEMENT

### The Mart

#### BUSINESS OPPORTUNITY

## GOVERNMENT OF MAHARASHTRA PUBLIC WORKS DEPARTMENT

### NOTICE INVITING TENDER E-Tender Notice No. 06 For 2017-18

The Public Works Department, Government of Maharashtra, The Principle Secretary, Public Works Department (the "Authority") represented by the Executive Engineer, P.W.Division, Jalgaon is engaged in the development of highways and as part of this endeavor, the Authority has decided to undertake development and operation / maintenance of the single Project (the "Project") on (Design, Build, Operate and Transfer (the "DBOT") Hybrid Annuity basis, and has decided to carry out the bidding process for selection of a private entity as the Bidder to whom the Project may be awarded. Brief particulars of the Project are as follows:

Sr. No.	State	Dist.	Pack- age No.	Name of Project	Project Length in km)	Project Cost	Earnest Money / Bid Security	Duration Of the Project	Cost of Tender Fee Document
1)	Maharashtra	Jalgaon	NSK-47	A) Improvement of Chopda Khedi Bhokar Amoda Kanalda Jalgaon Pachora Wadi Satgaon Bharadi Road S.H.-40, CH-0/00 to 51/00 (Chopda to Jalgaon) B) Improvement of Bhikangaon Pal Khiroda Savda Amoda Road S.H.-45, CH-0/00 to 44/00(Pal to Amoda), District Jalgaon	84.65 km	₹ 190.33 Crore	₹ 1.90 Crore	18 months	₹ 50,000/- Online Payment through NEFT/ RTGS

### E-Tender Time Table

Sr. No.	Event Description	Date
1)	Invitation of RFP (NIT) (Download period of online Tender)	Dt. 25.07.2017 at 10.00 am to Dt. 22.09.2017 at 18.00 pm
2.A)	Last date for receiving queries for Pre-Bid No.1	15.08.2017 upto 10.30 am
2.B)	Pre-Bid Meeting No.1	Online or in the office of the Chief Engineer, Public Works Region, Nashik on or before Dt. 15.08.2017 upto 11.00 am.
2.C)	Authority response to queries for Pre-Bid Meeting No.1	21.08.2017
3.A)	Last date for receiving queries for Pre-Bid No.2	05.09.2017 upto 10.00 am
3.B)	Pre-Bid Meeting No.2	Online or in the office of the Chief Engineer, Public Works Region, Nashik on or before Dt. 05.09.2017 upto 11.00 am.
3.C)	Authority response to queries for Pre-Bid Meeting No.2	11.09.2017
4)	Bid due Date (submit Hash to create online tender by Bidder) (Technical and financial Bid Last date and time)	Dt. 25.09.2017 till 18.00 pm
5)	Physical submission of Bid Security / POA etc. (as per clause 2.11.2 of RFP)	Till 11.00 am on 29.09.2017 in the office of Superintending Engineer, Public Works Circle, Jalgaon.
6)	Opening of Technical Bids.	at 11.30 am on 29.09.2017 office of Superintending Engineer, Public Works Circle, Jalgaon.

#### Note:-

1. The payment towards the cost of Tender forms will be done online only through RTGS / NEFT. It should be noted that one should complete these activities at least one day in advance.
2. All eligible / interested Bidders who want to participate in tendering process should compulsorily get enrolled on e-tendering portal "<http://mahatenders.in>"
3. Contact below for difficulties in online submission of tenders:- (NIC Toll Free Ph. No. 1800 3070 2232)
4. Bid submitted through any other mode shall not be entertained. However, Bid Security, proof of online payment of cost of bid document, Power of Attorney and joint bidding agreement etc. As specified in Clause 2.11.2 of the RFP shall be submitted physically by the Bidder on or before Dt. 29.09.2017 upto 11.00am.
5. Other terms and Conditions are detailed in online e-tender form. Right to reject any or all online bid of work, without assigning any reasons thereof, is reserved with department.
6. Short Tender Notice is displayed on Public Work Department (PWD) website [www.mahapwd.com](http://www.mahapwd.com)

Executive Engineer,  
DGIPR. 2017-2018/1761

Executive Engineer,  
Public Work Division, Jalgaon

## Municipal Corporation Of Greater Mumbai

### No. Ch.E/B.M/9128/II Dtd.25.07.2017

### Short E-Tender Notice

Department	Ch.E. (Building Maintenance )
Sub-Department	Dy. Ch.E. (Building Maintenance) City
Tender No.	Part 'A':- % rate basis: 7100101830 Part 'B':- Item rate basis: 7100101831
Subject	E-Tender Notice for the work of "Construction of Exhibits for Tiger, Lion, Sambar & Barking Deer, Nilgai & Four Horned Antelope, Swamp Deer, Black Buck and Bird Aviary-2 in V.J.B Udyana-Zoo, Byculla (E Ward), Mumbai."
Total Estimated Cost	Rs. 57,11,32,344/-
E.M.D.	Part 'A':- % rate basis: Rs. 29,79,004/- Part 'B':- Item rate basis: Rs. 27,32,319/-
Tender -Sale	27.07.2017 from 11.00 am to 18.08.2017 upto 12.00 pm
Pre-Bid Meeting Date & Venue	03.08.2017 @12.00 noon Office of AMC (City), Brihan Mumbai Mahanagarpalika, 2nd floor, Head office Extension building, Mahanagarpalika Marg, Mumbai-400001.
Website	<a href="http://portal.mcgm.gov.in">http://portal.mcgm.gov.in</a>
Concern Person	Sub Engineer - (B.M) City-E
Name	Uday D. Kachare
Telephone No.	8450960261
Email-Id	se01.pd@mcgm.gov.in

PRO/680/ADV/17-18

Dy. Ch.E. (B.M) City

## HINDUSTAN PETROLEUM CORPORATION LIMITED

(A Government of India Enterprise)  
CIN: L23201MH1952G01008858

CENTRAL PROCUREMENT-MARKETING NOTICE INVITING GLOBAL e-TENDER

HPCL-CPM(I) invites bids from all eligible bidders for the following e-tenders.

Tender No. 17000110-HD-10002 Global tender for Procurement of Drag reducing agents for cross country pipelines at various locations of HPCL in India

Bid Submission Date 18th August 2017 upto 1500 hours

Contact Us 022-22638530/19

Tender details can be downloaded from the following websites

1. [www.hindustanpetroleum.com/TendersAndContracts](http://www.hindustanpetroleum.com/TendersAndContracts)

2. HPCL e-Tender website : <https://etender.hpcl.co.in>

3. Central Procurement Portal : <https://procure.gov.in/cpppl> (After 48 hours)

All details, revisions, corrigenda, addenda etc., to the tender's will be hosted on the above websites only.

Bidders meeting the eligibility criteria can participate by logging into the site <https://etender.hpcl.co.in>.

Startup with +40 years of Hospitality and Resort/Spa Management on Board are looking to raise capital for Beach Front Resorts in the U.S.A at select locations. Bio's, Financials and Design plans available to qualified investors.

- Initial Capital Private Equity: \$3M

- 2nd Round: Institutional Capital: \$20M

- Final Round: Institutional Capital: >\$50M

Nawaf Marjan (Triangle Business Ventures); [nawaf.marjan@gmail.com](mailto:nawaf.marjan@gmail.com): T-919-601-6837

#### BUSINESS OPPORTUNITY

## GOVERNMENT OF MAHARASHTRA PUBLIC WORKS DIVISION, SANGAMNER

### Notice For Hybrid Annuity (Online) Tender

#### E-Tender Notice No. 06 For 2017-18

The Public Works Department, Government of Maharashtra, represented by the Executive Engineer, P.W.Division, Sangamner (the "Authority") is engaged in the development of highways and as part of this endeavor, the Authority has decided to undertake development and operation/ maintenance of the one Project (the "Project") on [Design, Build, Operate and Transfer (the "DBOT") Hybrid Annuity basis, and has decided to carry out the bidding process for selection of a private entity as the Bidder to whom the Project may be awarded.

Brief particulars of the Project are as follows:

Sr. No.	State	Dist.	Pack- age No.	Name of Project	Project Length in km)	Project Cost	Earnest Money / Bid Security	Duration Of the Project	
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## TECHNOLOGY

WSJ.com/Tech

# Charter Rebuffs Sprint on Merger Offer

Proposed deal would have created a massive media-telecom entity controlled by SoftBank

BY RYAN KNUTSON

**Charter Communications** Inc. said it isn't interested in buying **Sprint** Corp., rebuffing a sizable merger offer and potentially ending several weeks of deal talks between the media and communications companies.

While the announcement could effectively kill the possibility of a deal between Sprint and Charter any time soon, a person familiar with the matter said that Sprint Chairman Masayoshi Son might still decide to make a formal offer to acquire Charter anyway.

Sprint proposed a merger with Charter that would create a massive new entity controlled by Japan's **SoftBank Group Corp.**, Sprint's parent, The Wall Street Journal reported Friday.

On Sunday, Charter rejected the merger idea and indicated it would stick with an existing wireless reseller agreement with **Verizon Communications** Inc.—known as an MVNO pact—rather than switch to one with Sprint.

"We understand why a deal is attractive for SoftBank, but Charter has no in-



Charter has influential investors, including Liberty Broadband, which is controlled by John Malone.

terest in acquiring Sprint," Charter spokesman Alex Dudley said in an emailed statement. "We have a very good MVNO relationship with Verizon and intend to launch wireless services to cable customers next year."

Charter has influential investors, including **Liberty Broadband** Corp., which is controlled by cable mogul John Malone.

Mr. Malone has been interested in a wireless deal.

Sprint entered into exclusive talks with Charter and Comcast Corp. in late May

about an array of deal possibilities, including one that would allow Comcast and Charter to offer wireless service under their own brands using Sprint's network, people familiar with the matter have said.

Also on the table was a potential investment in the wireless carrier from the cable companies, people familiar with the matter have said.

The exclusivity ended last week, but Sprint and Mr. Son, who is also SoftBank's chairman, continued to pursue a full combination with Char-

ter, the people said.

Together, the companies have a market value exceeding \$130 billion, though Charter, worth roughly \$100 billion, is much bigger than Sprint.

Comcast has made clear it wasn't interested in participating in any merger with Sprint.

The telecommunications company is free now to resume merger talks with rival T-Mobile US Inc., which it had held earlier this year. Sprint shifted to the talks with the cable companies

when discussions with T-Mobile, which have been on and off for years, hit an impasse, people familiar with the situation said.

T-Mobile has also made public statements lately indicating it is in no hurry to strike a merger, as the carrier has been adding new customers at a fast clip while also improving financial performance.

Sprint recently reversed years of subscriber losses but still hasn't turned profitable. It reports quarterly results on Tuesday.

The rebuff adds to the already high drama surrounding the cable, telecommunications and media industries, which are jockeying for position as consumers spend more time watching video and surfing the web on smartphones. AT&T Inc. is awaiting approval for a proposed \$85 billion acquisition of the content company Time Warner Inc.

Comcast Chief Executive Brian Roberts said on an earnings call last week that he was happy with his current business units, including cable, content and theme parks, all of which show healthy growth.

The wireless industry, meanwhile, is under great pressure, as there are more active cellphones in America than people. Carriers have resorted to price cuts and bigger data allowances to win a

smaller pool of available subscribers.

The competitive pressure in the wireless business that gives carriers motivation to consolidate has been a boon for consumers, who have recently seen prices fall. The consumer-price index for wireless service recorded its largest fall to date earlier this year, according to the U.S. Labor Department.

The wireless industry is also poised for another major technology cycle to fifth generation, or 5G, technology, which will require significant investment.

T-Mobile and Sprint, the third- and fourth-largest U.S. carriers by subscribers, respectively, have indicated that greater scale will help them invest in such technology, which their larger rivals are already working on.

Sprint isn't the only carrier to have an eye for Charter. Verizon also discussed a deal with the cable company earlier this year, but the talks didn't amount to anything.

Charter's rejection of Sprint is good news for Verizon, which currently carries wireless traffic from Comcast's new offering, called Xfinity Mobile, and the service Charter plans to launch in the coming months.

While such reseller deals don't typically bring in as much revenue as Verizon's own customers, they are still highly profitable connections.

## Saint Laurent Makes Web Push in China

BY MATTHEW DALTON

PARIS—French fashion house Saint Laurent is launching online sales in China, a significant step in the storied brand's efforts to expand in China's rapidly growing domestic market.

Saint Laurent Chief Executive Francesca Bellettini said the brand is teaming up with online fashion retailer Farfetch to sell over the internet in China. The brand will sell merchandise on a new online platform recently announced by Farfetch in a joint venture with **JD.com**, China's second-biggest e-commerce company.

The announcement marks a cautious foray into China's freewheeling internet market by one of the most elite brands in fashion.

Until relatively recently, luxury-products companies had been reluctant to sell over the internet in China because of concerns that China's main online retailers, JD.com and **Alibaba Group Holding Ltd.**, run marketplaces that are riddled with counterfeit goods.

Only a few luxury brands have the size to attempt online sales in China without teaming up with either e-commerce giant.

But Farfetch's partnership with JD.com helped ease concerns about knockoffs, Saint Laurent said.



FRED DUFOUR/AGENCE FRANCE PRESSE/GETTY IMAGES

The elite fashion brand operates China stores such as this one in Beijing, but is new to online retail there.

"Protecting the brand from counterfeiting is fundamental for Saint Laurent," Ms. Bellettini said in an interview, adding that the agreement with Farfetch would "guarantee to our clients secured purchases in addition to a very efficient service."

Alibaba has recently drawn more concern from Western brands and authorities about counterfeits than JD.com. The U.S. government last year placed Taobao.com, Alibaba's flea-market-like website, on its Notorious Markets List, published annually to highlight websites where U.S. authori-

ties allege knockoffs are sold frequently.

Alibaba says the listing doesn't reflect its efforts to root out counterfeits.

The importance of the Chinese domestic market is overcoming the industry's concerns about relinquishing some control over physical distribution there. Chinese consumers, who account for 30% of global luxury spending, are increasingly shopping at home—partly the result of efforts by Beijing to block Chinese tourists from bringing expensive merchandise back from abroad.

That means selling to the Chinese consumer in China has become important to the luxury industry's growth.

Ms. Bellettini said that Saint Laurent's sales to Chinese consumers have surged in recent years despite a slowdown in the global luxury market.

**Kering Co.**, which owns Saint Laurent, Gucci and other brands, last week reported that sales rose "sharply" across Asia, "particularly in mainland China."

"There is this population of millennial Chinese, very well educated, in particular Chi-

nese university students, that are incredibly literate with the brand," she said.

Saint Laurent has taken a relatively conservative approach to expanding in China. It has only 18 stores in the country, concentrated in Beijing and Shanghai, compared with dozens opened by luxury competitors such as **Prada SpA** and **Louis Vuitton**. Ms. Bellettini said the online sales push will help the brand reach customers in smaller Chinese cities without risking overexposure.

"We will be able to deliver to these locations without a physical store," Ms. Bellettini said.

Saint Laurent is pledging same-day delivery in Beijing, Shanghai and Hong Kong. Starting in October, the brand aims to offer delivery within 90 minutes in each of those three cities.

Luxury firms have had a tumultuous relationship with Chinese e-commerce companies, particularly Alibaba. Kering sued Alibaba in 2015 in federal court in New York, claiming the firm was conspiring with Chinese manufacturers to produce and sell counterfeit versions of Kering brands.

A judge dismissed part of the complaint last August.

Alibaba has denied the accusations.

## Snapdeal Abandons Deal Talks

BY NEWLEY PURNELL

NEW DELHI—**SoftBank Group Corp.**'s attempt to merge India's two biggest homegrown e-commerce companies to compete with **Amazon.com** here hit a roadblock.

For months the Japanese conglomerate has been pressing **Snapdeal.com**, in which it owns a stake, to combine with market leader **Flipkart Ltd.**, according to people familiar with the matter. But Snapdeal said Monday it is calling off the talks.

"Snapdeal has been exploring strategic options over the last several months," the firm said in a statement. "The Company has now decided to pursue an independent path and is terminating all strategic discussions as a result."

SoftBank said it respects Snapdeal's decision and looks forward to "remaining invested in the vibrant Indian e-commerce space."

A Flipkart spokesman declined to comment.

Snapdeal last week sold its digital-payments platform FreeCharge to **Axis Bank Ltd.** of India for around \$60 million.

The infusion of funds means Snapdeal should become cash-flow positive soon, said a person familiar with the matter.

Analysts say Bangalore-based Flipkart leads India in online sales, but both it and New Delhi-based Snapdeal have been losing ground to Amazon, which has grown quickly since arriving in India in 2014 armed with slick advertising and technological know-how.

SoftBank, which in 2014 invested \$627 million in Snapdeal, in May launched the world's biggest technology fund, a nearly \$100 billion vehicle to invest in emerging fields and promising markets.

U.S. companies such as Amazon, Facebook Inc. and Uber Technologies Inc. have been expanding quickly in India.

Those companies are eager for a foothold in an internet economy that is growing as legions of people access the web for the first time, taking advantage of inexpensive smartphones and data plans.

The value of India's e-commerce industry is likely to triple between this year and 2021 to \$63.5 billion, said Satis Meena, an analyst at research firm Forrester.

—Mayumi Negishi contributed to this article.

## HBO Says Hackers Stole Programming

BY JOE FLINT AND ROBERT MCMILLAN

Westeros is under siege by hackers.

HBO, home of "Game of Thrones," is the latest entertainment company to be hacked and have its content leaked online.

In a memo to staff, HBO Chief Executive Richard Plepler said that proprietary information including some of the company's shows was stolen recently. HBO said it is working with law enforcement and cybersecurity firms to fix the breach.

HBO, a unit of **Time Warner Inc.**, declined to elaborate on what was stolen and whether the theft included sensitive employee data. Entertainment Weekly, which broke the news of the hack, said the hackers claimed that episodes of the comedies "Ballers" and "Room 104" were put online as well as a script for a coming episode of "Game of Thrones."

The party claiming responsibility for the hack sent an email to some outlets detailing it, according to Entertainment

## Former Obama Adviser Joins Lyft

BY GREG BENINGER

Ride-hailing startup **Lyft Inc.** is adding its first independent board member, Valerie Jarrett, a former top adviser of President Barack Obama.

The appointment, effective Monday, brings Lyft's board to nine directors, who are mostly investors, but also include co-founders Logan Green and John Zimmer. Mr. Green is chief executive and Mr. Zimmer is president.

Ms. Jarrett, 60 years old, was one of Mr. Obama's closest confidantes and served in several roles during his eight-year administration, including as an assistant for intergovernmental affairs and in the Office of Urban Affairs. She joined the board of money-management firm Ariel Investments in March.

Lyft's move comes as rival **Uber Technologies Inc.**'s board faces pressure to diversify its ranks after a workplace investigation conducted by the law firm of former U.S. Attorney General Eric Holder in part called for the company to add new independent directors, including at the chairman level. It recently named Wan Ling Martello, a Nestlé SA executive, as an independent di-

rector. Uber is scrambling to fill several top executive roles, including a new CEO and chiefs of operations, finance and marketing.

Ms. Jarrett is the second woman on Lyft's board, alongside Ann Miura-Ko, a partner at venture-capital firm Floodgate. The board includes Anndreessen Horowitz's Ben Horowitz; Icahn Capital's Jonathan Christodoro; Rakuten Inc. CEO Hiroshi Mikitani; former Trulia Inc. CFO Sean Aggarwal; and General Motors Co. President Dan Ammann.

GM invested about \$500 million in Lyft last year and is working with the San Francisco company on developing self-driving vehicles.

Uber also has two female board directors on its eight-member board, including media magnate Arianna Huffington, herself an investor.



Valerie Jarrett will be the firm's first independent board member.

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—Mayumi Negishi contributed to this article.

## FINANCE & MARKETS

# 'Big Fund' Fuels China Chip Push

A \$20 billion state entity is centerpiece of Beijing's effort to dominate industry

BY EVA DOU

BEIJING—In China's push to become a semiconductor power, a discreet government-backed fund is playing an outsize role.

The national chip fund has provided financing for deals seen as key in helping Chinese companies produce more powerful, cutting-edge semiconductors. U.S. chip makers Intel Corp. and Qualcomm Inc. each have participated in deals with Chinese companies backed by the fund, said its Executive Vice President Wei Jun.

"We maintain frequent exchanges with the U.S. side," Mr. Wei told The Wall Street Journal in a rare interview. "It doesn't matter if it's international or domestic [companies]. We will invest or participate in the best development projects in this field in China."

Announced in 2014, the \$20 billion government-controlled fund is the centerpiece of Beijing's plan to dominate the computer-chip industry. Formally known as the **China Integrated Circuit Industry Investment Fund** Co., it is known locally as "the Big Fund."

Detractors in the U.S. call it a slush fund, and American trade groups warn its deep pockets will subsidize so many Chinese factories it will flood the sector with overcapacity.

Mr. Wei said at the fund's Beijing offices that he and his colleagues are a force to keep overcapacity in check by promoting consolidation.

Mr. Wei pointed to Qualcomm's and Intel's willingness to co-invest with the fund, despite the criticisms from Washington that China's mas-



A worker at a Tsinghua Unigroup factory. The firm has unveiled plans for a \$24 billion chip plant.

ADAM DEAN FOR THE WALL STREET JOURNAL

sive spending push could distort the market. The American chip makers previously announced their China investments but not the involvement of the Big Fund. Intel and Qualcomm declined to comment on their dealings with the chip fund.

Mr. Wei said he isn't bothered by the criticism from Washington. "In one sense, this means they are taking us seriously," he said.

The chip fund is a new model for China's state-driven economic development. After being criticized by the West for interfering with market forces, Beijing is shifting from government subsidies to investment funds that it says operate on market principles.

The Big Fund is an experiment to try to invest government funds more efficiently, said Wei Shaojun, a government adviser and head of Tsinghua University's microelectronics department.

But the line between government officials and private-sector executives in China is hazy. Many executives of the chip fund, including its head



Wei Jun, executive vice president of the Chinese fund

CHINA INTEGRATED CIRCUIT INDUSTRY INVESTMENT FUND

Ding Wenwu and Mr. Wei, are former officials of China's technology ministry. Mr. Wei said the fund aims to generate returns for investors, which are primarily departments of China's central government.

"State-owned investors are the majority, there's no way around it," Mr. Wei said. "But when I sit here, I'm no longer a government employee, I'm a company executive. My interests are tied to the business performance of this company."

The fund had pledged 59% of the total \$20 billion by the

end of 2016 and will complete investments by 2019, Mr. Wei said. It will seek to recoup its investments in 2024, although fund shareholders can vote to give projects a five-year extension, he said.

The national fund has played a pivotal role in shaping China's chip industry over the past three years. Most of the country's key chip projects count it as a financier.

The fund also brokered an important merger last year, resulting in a domestic company that China hopes can become

competitive in capital-intensive memory chips. Memory chips are a main focus for China, as they are used in all smartphones and other gadgets. Tsinghua Unigroup, one of China's strongest chip companies, took over the Wuhan city government-owned XMC, then immediately announced plans to build China's first world-class memory chip factory for \$24 billion.

Mr. Wei said XMC was too slow-moving as a local state-owned enterprise. "With Tsinghua Unigroup partnering with it, we have a greater chance of success for China memory chips," Mr. Wei said.

Mr. Wei said the Big Fund co-invested with Intel in China's top chip designer Spreadtrum—owned by Tsinghua Unigroup—and with Qualcomm on a joint venture with China's largest chip manufacturer SMIC and a chip packaging factory in Jiangsu province.

Intel didn't comment on its \$1.5 billion investment, other than to say that "Intel has a long and successful history of growing its business in China in a responsible manner that complies with applicable U.S. national-security controls." Qualcomm declined to comment about the Big Fund joint venture.

The fund's executives agree with Western critics that overcapacity is a danger of China's chip drive, Mr. Wei said. But he sees it as a problem caused by provinces across China trying to jump on the bandwagon with their own funds and chip projects. He says he is doing his best to keep such funds in check.

"This industry requires companies to have large scale to survive," he said. "Small companies will surely die, so there's no use investing in a lot of small companies."

—Bob Davis contributed to this article.

## Venezuela Bonds Decline After Vote

BY JULIE WERNAU AND CAROLYN CUI

Venezuelan bonds slipped Monday after the U.S. announced additional sanctions on the country but stopped short of targeting its oil sector.

Some investors said the Treasury Department's move to freeze the Venezuelan president's assets in the U.S. didn't alleviate concerns that stricter sanctions may be in the offing that could impact one of the South American nation's most crucial sources of revenue: oil sales to the U.S.

State-owned oil producer **Petróleos de Venezuela** SA's bonds due in November were down 0.9% in late New York trading Monday, according to UBS Wealth Management. Prices for the government's bonds due in 2038 were down 1.1%.

Following an election Sunday spearheaded by President Nicolás Maduro that will give his administration broad powers to redraft the constitution, The Wall Street Journal reported that U.S. government officials were considering stepping up sanctions against

**Worries remain that sanctions could still impact Venezuelan oil sales to the U.S.**

Venezuela that could target its oil industry by making it more difficult for Venezuela to import refined products from the U.S., which it uses to dilute its extra heavy oil to make it suitable for export.

"This certainly qualifies as 'strong and swift' in the immediate aftermath of Sunday's constituent assembly, but not yet crossing over to cross-border trade or financial flows or even business-specific transactions," said Siobhan Morden, head of Latin America fixed-income strategy at Nomura Securities International. She said she thinks there is still the potential for further action from the U.S.

Investors and analysts are worried about whether Venezuela will be able to make a total \$725 million in debt payments over the coming month amid the country's political and humanitarian crisis.

Venezuela's credit-default swap spreads spiked on Friday and remained steady Monday, with the probability of default within a year reaching 62%, the highest since February 2016, when oil fell below \$30 a barrel, according to Victor Fu, an emerging-market strategist at Stifel Nicolaus & Co.

Last week, the U.S. levied sanctions on 13 high-ranking officials in the Venezuelan government, a move that was quickly complemented by Colombia, Panama and Mexico.

A ban on Venezuelan crude imports, which is regarded as one of the boldest options, would essentially cut off the country's largest source of dollar revenue. About 95% of Venezuela's export revenue comes from the oil sector, according to S&P Global Ratings. In 2016, Venezuela derived \$10.5 billion from its crude exports to the U.S., or \$28.7 million a day, according to Stuart Culverhouse, chief economist at Exotix Partners, a U.K.-based investment bank.

The country appears to have little room to maneuver if it loses export revenues. Its international reserves briefly dipped below \$10 billion in recent days, the lowest in 15 years, according to Venezuela's central bank. But S&P analysts estimated that only about \$3 billion was liquid.

## A Bitcoin Rival Arises As Spat Splits Industry

BY PAUL VIGNA

This week, after years of industry infighting, the digital currency bitcoin is set to get a new competitor: itself.

A splinter group of bitcoin developers is launching a new version of the currency with a different configuration, the latest twist in a political quarrel for control over the network that controls bitcoin's trading.

But the new experiment, known as Bitcoin Cash, is causing confusion as exchanges and brokerages scramble to deal with the new currency.

The new bitcoin is slated to be launched Tuesday, a retaliation against a somewhat controversial July agreement in the industry that concerned expanding the bitcoin trading network. As a result, there will now be two competing versions of bitcoin, both vying for the support of investors, developers and miners. Miners are companies and individuals that process bitcoin transactions.

While bitcoin is known as a currency, its core is software, an open-source project initially supported by volunteers and technology enthusiasts. Because the software is open-source, anybody can copy it and release their own version.

The prospects for the new bitcoin are uncertain, and it isn't clear who exactly is behind it. A website for Bitcoin Cash says it is backed by a "group of miners, developers,

investors, and bitcoin users" who previously were pushing for a split before the July compromise.

One large mining-equipment company, Bitmain, based in Beijing, was spearheading the split effort. The firm is still supporting the July compromise but said it did "not rule out" supporting Bitcoin Cash, assuming it survives. Additionally, Roger Ver, a prominent bitcoin investor, has been publicly supporting Bitcoin Cash.

Mr. Ver said he didn't know about Bitcoin Cash until it was announced July 22, but is enthusiastic about its prospects. "I think it fits the original vision of bitcoin," he said.

One exchange, China-based ViaBTC, which is partially owned by Bitmain, is already allowing users to trade Bitcoin Cash in accounts that would be redeemable once the currency goes live.

In very illiquid trading—fewer than 1,900 bitcoins over 24 hours—the price of Bitcoin Cash was at 0.0951 bitcoin, or about \$266, on Monday morning. Bitcoin was trading at \$2,801.

It is unclear what volume and prices will look like once live trading begins, scheduled for 8:20 a.m. Eastern time on Tuesday.

In the meantime, bitcoin exchanges are scrambling to figure how they will either support Bitcoin Cash or won't, and protect their customer accounts at the same time.

On Thursday, the U.S. ex-

change Coinbase said in a statement that it wouldn't support Bitcoin Cash, on the reasoning that it wasn't clear how long the rebel currency would last and what market value it would have. It advised customers who wanted to access Bitcoin Cash to withdraw their bitcoin before July 31.

Another exchange, San Francisco-based Kraken, conditionally said it would support Bitcoin Cash trading, assuming it was successfully launched, and would credit its customer accounts with an equal amount of Bitcoin Cash.

The group behind Bitcoin Cash is copying bitcoin's software, adding a couple of new features, and releasing it to the public. It will be an almost identical copy, and anyone who has a bitcoin balance can automatically hold the exact same amount of Bitcoin Cash.

The balances from the original to the new version will be copied on a 1:1 basis, and it will exist as of Aug. 1.

Whether or not users get access to the new coin depends. If a user has control over their "wallet," or online account, they can spend their existing balance anywhere either currency is accepted.

Whether this new money retains any value or collapses will depend upon whether exchanges support it, and users adopt it. If they don't, it could die quickly.

The main difference between bitcoin and Bitcoin Cash is how fast it trades and how many trades can happen in a short amount of time.

On bitcoin, transactions are bundled into blocks that are limited to one megabyte in size, which means the network can process about seven transactions per second.

Bitcoin Cash will have an eight megabyte maximum. It is an arcane coding issue, but it is the source of a major rift in the industry. On one side: developers who want to expand the system to compete against major payment companies. On the other: miners who prefer the status quo and fear big technology companies could be too dominant if speed and large trades take over.



Starting Tuesday, bitcoin will compete with Bitcoin Cash.

FRANCK ROBICHON/EUROPEAN PRESSPHOTO AGENCY



Keith Noreika, acting Comptroller of the Currency

ANDREW HARRER/BLOOMBERG NEWS

## Regulator Won't Delay CFPB Rule

BY YUKA HAYASHI

WASHINGTON—A top financial regulator installed by the Trump administration said Monday he wouldn't seek to delay a new rule on arbitration agreements, skirting a showdown with another agency.

Keith Noreika, acting Comptroller of the Currency, was previously considering asking the Financial Stability Oversight Council, a board of top regulators, to temporarily halt the rule, citing concerns that the regulation could threaten the stability of the broad financial system.

The arbitration rule, unveiled by the Consumer Financial Protection Bureau on July 10, makes it easier for consumers to band together and sue banks by prohibiting the use of clauses in financial services agreements to force consumers into arbitrations to resolve disputes.

Amid strong industry opposition to the rule, Republican lawmakers are seeking to repeal it using a legislative tool

called the Congressional Review Act.

"Given that Congress is considering use of the Congressional Review Act to overturn the CFPB's final rule, I will not petition the FSOC to stay the effective date of the rule," Mr. Noreika said in a statement.

Mr. Noreika had been pursuing another route to thwart the rule: mobilizing the FSOC's authority to issue a temporary delay of a rule. The group, made up of federal regulators, monitors the health of the financial system and includes the heads of the Office of the Comptroller of the Currency and the CFPB.

Mr. Noreika's announcement came after the deadline to file a petition with the FSOC passed on Saturday.

The acting OCC chief said the agency's economists would continue to review the impact of the arbitration rule. After receiving a set of requested data from the CFPB, Mr. Noreika has asked for more information from the agency.

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## MARKETS DIGEST

### Nikkei 225 Index

**19925.18** ▼34.66, or 0.17%

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

Year-to-date  
52-wk high/low  
All-time high

20230.41  
16083.11  
38915.87 12/29/89

### STOXX 600 Index

**377.85** ▼0.49, or 0.13%

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

Year-to-date  
52-wk high/low  
All-time high

396.45 328.80  
414.06 4/15/15

### S&P 500 Index

Data as of 4 p.m. New York time

Last 2470.30

Year ago 23.94 25.03

Trailing P/E ratio 18.94 18.42

P/E estimate \* 1.97 2.11

Dividend yield All-time high: 2477.83, 07/26/17

Bars measure the point change from session's open

17500 18000 18500 19000 19500 20000 20500

Apr. May June July

18000 18500 19000 19500 20000 20500

Apr. May June July

18000 18500 19000 19500 20000 20500

Apr. May June July

18000 18500 19000 19500 20000 20500

Apr. May June July

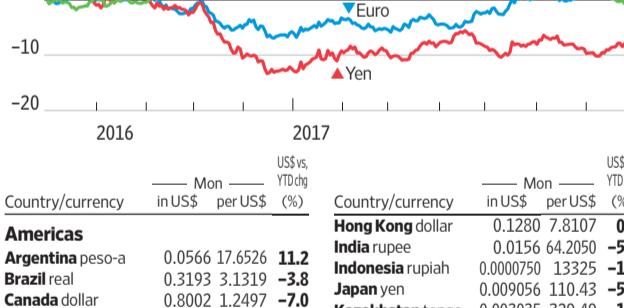
### International Stock Indexes

Region/Country	Index	Close	Latest NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2856.32	8.10	▲0.28	2384.24	2865.60	2856.32	2865.60	13.0
	<b>MSCI EAFE</b>	1940.88	9.15	▲0.47	1612.29	1952.28	1940.88	1952.28	13.1
	<b>MSCI EM USD</b>	1066.52	3.55	▲0.33	838.96	1067.89	1066.52	1067.89	34.3
<b>Americas</b>	<b>DJ Americas</b>	594.87	-0.46	▼-0.08	503.44	597.92	594.87	597.92	10.1
Brazil	<b>Sao Paulo Bovespa</b>	65957.32	460.19	▲0.70	55695.52	69487.58	65957.32	69487.58	9.5
Canada	<b>S&amp;P/TSX Comp</b>	15158.14	29.49	▲0.19	14319.11	15943.09	15158.14	15943.09	-0.8
Mexico	<b>IPC All-Share</b>	51011.17	-202.43	▼-0.40	43998.98	51772.37	51011.17	51772.37	11.8
Chile	<b>Santiago IPSA</b>	3839.00	-17.62	▼-0.46	3120.87	3861.48	3839.00	3861.48	19.1
<b>U.S.</b>	<b>DJIA</b>	21891.12	60.81	▲0.28	17883.56	21929.80	21891.12	21929.80	10.8
	<b>Nasdaq Composite</b>	6348.12	-26.55	▼-0.42	5034.41	6460.84	6348.12	6460.84	17.9
	<b>S&amp;P 500</b>	2470.30	-1.80	▼-0.07	2083.79	2484.04	2470.30	2484.04	10.3
	<b>CBOE Volatility</b>	10.54	0.25	▲2.43	8.84	23.01	10.54	23.01	-24.9
<b>EMEA</b>	<b>Stoxx Europe 600</b>	377.85	-0.49	▼-0.13	328.80	396.45	377.85	396.45	4.5
	<b>Stoxx Europe 50</b>	3082.91	-3.84	▼-0.12	2720.66	3279.71	3082.91	3279.71	2.4
Austria	<b>ATX</b>	3217.93	-21.80	▼-0.67	2166.58	3256.74	3217.93	3256.74	22.9
Belgium	<b>Bel-20</b>	3942.46	-2.10	▼-0.05	3362.71	4055.96	3942.46	4055.96	9.3
France	<b>CAC 40</b>	5093.77	-37.62	▼-0.73	4293.34	5442.10	5093.77	5442.10	4.8
Germany	<b>DAX</b>	12118.25	-44.45	▼-0.37	10092.53	12951.54	12118.25	12951.54	5.5
Greece	<b>ATG</b>	812.21	-7.81	▼-0.95	546.95	859.78	812.21	859.78	26.2
Hungary	<b>BUX</b>	35769.87	19.22	▲0.05	27001.48	36280.07	35769.87	36280.07	11.8
Israel	<b>Tel Aviv</b>	1447.14	-2.48	▼-0.17	1372.23	1490.23	1447.14	1490.23	-1.6
Italy	<b>FTSE MIB</b>	21486.91	56.55	▲0.26	15923.11	21828.77	21486.91	21828.77	11.7
Netherlands	<b>AEX</b>	525.44	-0.09	▼-0.02	436.28	537.84	525.44	537.84	8.7
Poland	<b>WIG</b>	62595.76	229.26	▲0.37	46052.49	62853.78	62595.76	62853.78	20.9
Russia	<b>RTS Index</b>	1007.14	-7.30	▼-0.72	898.05	1196.99	1007.14	1196.99	-12.6
Spain	<b>IBEX 35</b>	10502.20	-33.90	▼-0.32	8229.40	11184.40	10502.20	11184.40	12.3
Sweden	<b>SX All Share</b>	559.45	-2.24	▼-0.40	483.91	598.42	559.45	598.42	4.7
Switzerland	<b>Swiss Market</b>	9055.00	35.69	▲0.40	7585.56	9148.61	9055.00	9148.61	10.2
South Africa	<b>Johannesburg All Share</b>	55207.41	324.20	▲0.59	48935.90	55366.74	55207.41	55366.74	9.0
Turkey	<b>BIST 100</b>	107531.44	-168.28	▼-0.16	71792.96	108605.51	107531.44	108605.51	37.6
U.K.	<b>FTSE 100</b>	7372.00	3.63	▲0.05	6615.83	7599.99	7372.00	7599.99	3.2
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1682.13	7.37	▲0.44	1405.52	1691.23	1682.13	1691.23	18.2
Australia	<b>S&amp;P/ASX 200</b>	5720.60	17.80	▲0.31	5156.60	5956.50	5720.60	5956.50	1.0
China	<b>Shanghai Composite</b>	3273.03	19.79	▲0.61	2953.39	3288.97	3273.03	3288.97	5.5
Hong Kong	<b>Hang Seng</b>	27323.99	344.60	▲1.28	21574.76	27323.99	27323.99	27323.99	24.2
India	<b>S&amp;P BSE Sensex</b>	32514.94	205.06	▲0.63	25765.14	32514.94	32514.94	32514.94	22.1
Japan	<b>Nikkei Stock Avg</b>	19925.18	-34.66	▼-0.17	16083.11	20230.41	19925.18	20230.41	4.2
Singapore	<b>Straits Times</b>	3329.52	-1.23	▼-0.04	2787.27	3354.71	3329.52	3354.71	15.6
South Korea	<b>Kospi</b>	2402.71	1.72	▲0.07	1958.38	2451.53	2402.71	2451.53	18.6
Taiwan	<b>Weighted</b>	10427.33	4.28	▲0.04	8902.30	10513.96	10427.33	10513.96	12.7

Source: SIX Financial Information; WSJ Market Data Group

### Currencies

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



### London close on July 31

Country/currency	Mon	US\$ vs. per US\$ (%)	YTD chg
Country/currency	Mon	US\$ vs. per US\$ (%)	YTD chg
	in US\$	per US\$ (%)	(%)
<b>Europe</b>			
Bulgaria leva	0.6044	1.6546	-11.0
Croatia kuna	0.1595	6.271	-12.6
Euro zone euro	1.1814	0.8465	-11.0
Czech Rep. koruna-b	0.0453	22.075	-14.1
Denmark krone	0.1589	6.2950	-11.0
Hungary forint	0.003883	257.50	-12.5
Iceland krona	0.009685	103.25	-8.6
Norway krone	0.1266	7.8962	-8.7
Poland zloty	0.2773	3.6066	-13.9
Russia ruble-d	0.01667	60.001	-2.1
Sweden krona	0.1237	8.0860	-11.2
Switzerland franc	1.0359	0.9653</td	

## FINANCE & MARKETS

# Beijing Lifts Metals Prices

Renewed vows by Beijing to slash steel-production capacity triggered a big rally in Chinese metals futures Monday, again highlighting the government's ability to move markets—but also raising concern that prices have risen too far.

Steel rebar and iron ore led the gains after Premier Li Keqiang over the weekend called for further efforts to cut overcapacity in steel production.

Iron ore—a key raw material for steel—rose strongly at the open and steadily climbed from there, hitting the 8% daily limit for gains or declines by late morning. Prices held for the rest of the session on the Dalian Commodity Exchange, putting them at a four-month high of 570.5 yuan (\$84.66) a metric ton. In Shanghai, benchmark futures for steel reinforcing bars rose to 3,733 yuan, a 3½-year high, up 4.7% on the day. The gain left the price 27% higher than the low point in June.

"The market is in a hyper-excited state since funds tend to flood in the moment any policies on capacity cuts" are released, said Fan Qingtian, an analyst at Nanhua Futures Co. "It's pretty crazy."

Beijing has repeatedly warned against illegal steel production, which has picked up late as steel prices have risen.

China first pledged "supply-side reforms" for its steel and coal sectors—reducing excessive production capacity that had long plagued the industries—in January 2016. Capacity was cut by 6% and 8%, respectively, last year.

This year, at least two-thirds of the reductions targeted for 2017 had taken place by May. In the first half of the year, the government said, some 120 million tons of low-grade steel capacity, targeted because of the pollution it causes, was eliminated. That amounted to 11% of the country's steel capacity and 15% of annual output.

But two mills in Tianjin and Hunan that had been ordered

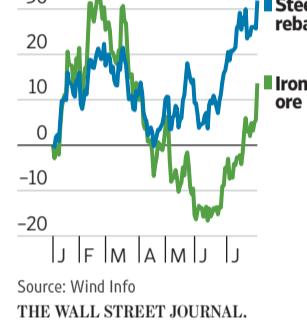


Stockpiles of steel reinforcing bars have been growing because weather has hampered construction.

### Wild Ride

Chinese metals' 2017 roller coaster is now going uphill.

#### Year-to-date price performance



Source: Wind Info

THE WALL STREET JOURNAL.

pacity-cutting efforts to prevent shutdowns in production from flaring up again," said Mr. Li on Saturday, according to the official Xinhua News Agency.

However, the bulk of the capacity set for cutting was never in actual production, analysts say, and a large portion of the illegal high-pollution low-grade capacity that was eliminated has been replaced by legal capacity.

Still, the clampdown is expected to significantly improve the profitability of China's mills. Xinhua recently said that midyear reports from 21 of 24 listed steel companies are projected to show higher earnings than a year earlier.

Mr. Li's comments came ahead of the release of the purchasing managers' index for July, which contained figures considered positive for the steel industry.

Though steel demand has supported the latest jump in

iron-ore and steel-rebar prices, speculative fervor is also at work, said S&P Global Platts analyst Hongmei Li: "People are looking at steel and iron-ore futures to gamble."

Demand is projected to cool for the rest of 2017, analysts say, especially in residential construction. And steel-rebar stockpiles have been growing since June as weather delayed overall construction activity, according to Soochow Futures Co.

ANZ Bank analyst Daniel Hynes warned about a rerun of the market cycle seen earlier this year: After charging higher to start 2017, iron ore fell as much as 38% and steel rebar lost 17%. High output should worsen the iron-ore oversupply into the end of 2017, according to He Ming of the consultancy Wood Mackenzie.

—Yifan Xie  
and Biman Mukherji

# European Shares Fall as Euro Rises

By RIVA GOLD  
AND ALEXANDER OSIPOVICH

European stocks turned lower amid concerns about persistent strength in the euro as investors finished up trading for July.

### MONDAY'S MARKETS

The Stoxx Europe 600 fell 0.1% to 377.85, its lowest level since April, and posted a 0.4% monthly loss, for its second consecutive month of declines.

The common currency has climbed 2.8% against the U.S. dollar this month through Friday, and was stronger Monday at \$1.1833 after data showed the eurozone unemployment rate fell to its lowest level in more than eight years, while the annual rate of inflation remained unchanged.

"The longer this U.S. dollar slump goes on, the more worrying it becomes. It is this that is behind the ongoing rise in the euro and sterling, and it is this that spells trouble ahead for stock markets as August looms," said IG's chief market analyst Chris Beauchamp in a note.

In the U.S., the Dow Jones Industrial Average gained 60.81 points, or 0.3%, to 21891.12, a closing record. It

was 2017's 30th record close. The S&P 500 was down 0.1%, while the Nasdaq Composite slipped 0.4%, dragged down by a decline in technology stocks.

Facebook fell 1.8% after hitting a record high last week and Alphabet, the parent of Google, was down 1.3% in late trading. Tech stocks in the S&P 500 fell 0.4% by late afternoon.

Still, the Nasdaq ended July 3.4% higher. The Dow is up 2.6% for the month, while the S&P 500 has gained 1.9%.

Improved earnings were "the main driver" of July's gains, said Michael Arone, chief investment strategist at State Street Global Advisors. "A lot of other stuff is just noise: the turmoil in D.C., the political events that flare up from time to time," he said.

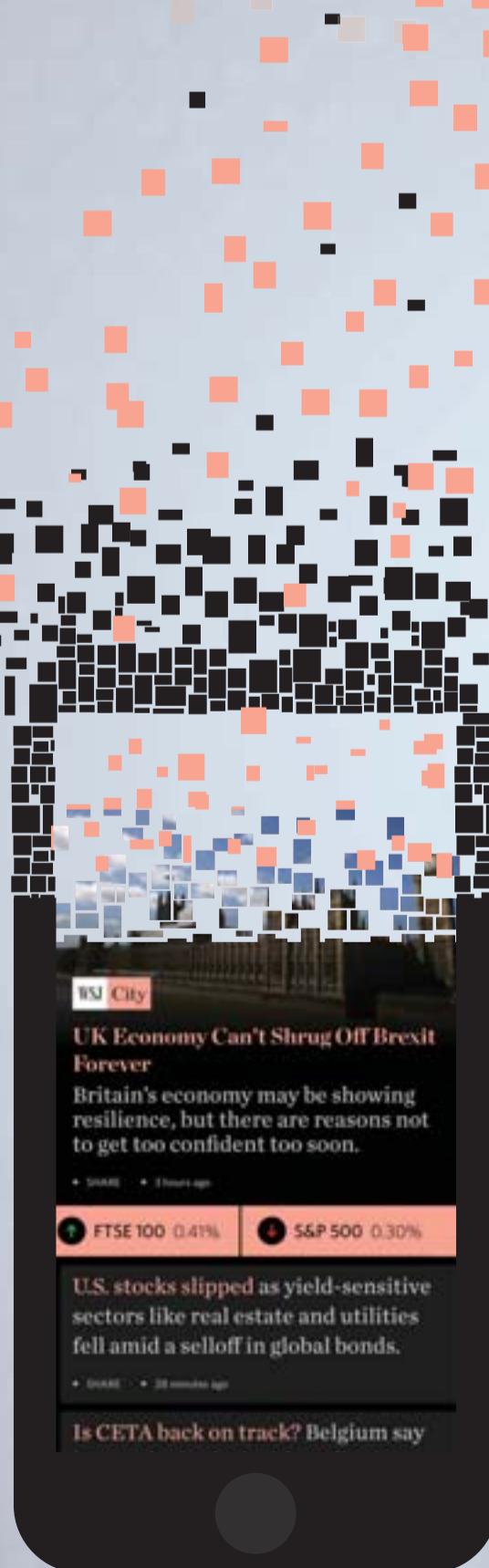
In Europe, Carrefour fell 1.8% after Deutsche Bank cut its rating on the French supermarket operator to "sell" from "hold," saying the shares were expensive.

In government bonds, the yield on the 10-year U.S. Treasury note was little changed at 2.292%, according to Tradeweb, compared with 2.291% on Friday. Yields rise as prices fall.

—Carla Mozee contributed to this article.



THOMAS SAMSON/AGENCE FRANCE PRESSE/GT/GETTY IMAGES



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# MARKETS

# Dollar's Fall Threatens Foreign Stocks

Drop causes analysts to lower earnings forecasts for many overseas companies

By RIVA GOLD AND MIKE BIRD

A surprise fall in the U.S. dollar is taking the fizz out of international stock markets and prompting investors to damp overseas expectations for the months ahead.

European and Japanese benchmarks—which were among the world's best performers in the spring—have lagged behind the S&P 500 since the dollar fully erased its postelection rally two months ago. Analysts are cutting their earnings forecasts for companies in the regions as the dollar's unexpected drop has upended more optimistic projections.

The ICE Dollar Index is down over 9% so far this year as of Monday's close of European trading, with the greenback shedding 10.9% against the euro, 6.4% against the British pound and 5.6% against the yen.

Overseas stock markets are already reflecting the trend. Despite a buoyant global economy, the Stoxx Europe 600 has fallen 3.4% in local-currency terms and the U.K.'s FTSE 100 has dropped 1.7% since the dollar fell back to its pre-election value on May 22. The S&P 500, meanwhile, notched a 3.3% gain over that period.

"The biggest risks on European earnings are the currency," said Martin Moeller, head of global equities at Union Bancaire Privée. "The U.S. could benefit and Europe could suffer if the euro keeps being strong."

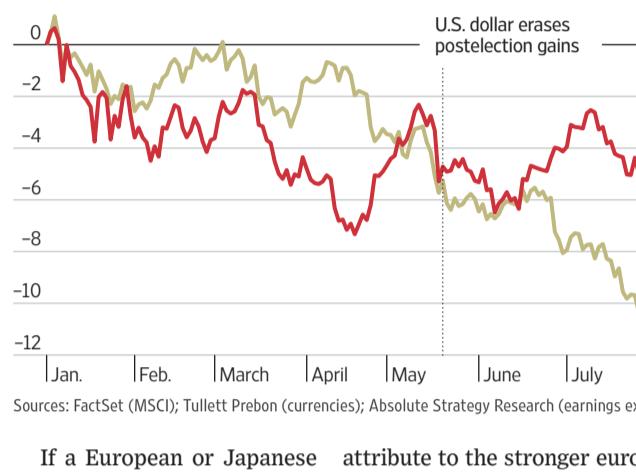
Export-oriented companies with high sales exposure abroad, which make up a large chunk of overseas stock-market benchmarks, are particularly affected by foreign-exchange movements.

## Bucking the Trend

The U.S. stock market is once again outperforming global and European equity indexes, after matching or underperforming them earlier in the year.

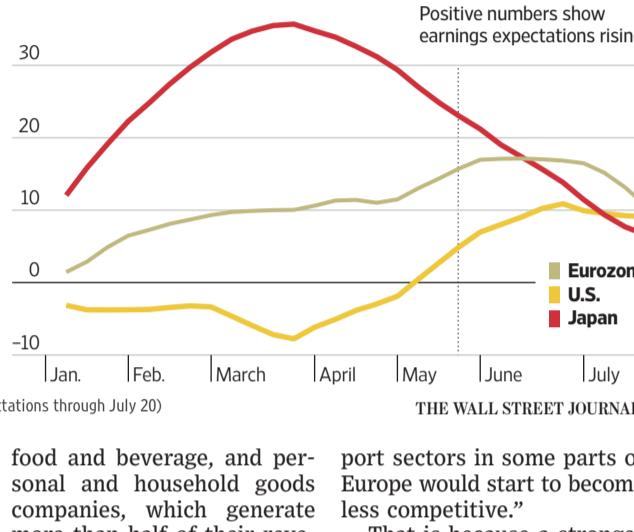


Since the beginning of the year, the U.S. dollar has declined against the yen, and more sharply against the euro.



Sources: FactSet (MSCI); Tullett Prebon (currencies); Absolute Strategy Research (earnings expectations through July 20)

Heightened earnings expectations for Japan and the eurozone have recently been trimmed back, while U.S. expectations have risen.



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If a European or Japanese company earns much of its revenue in dollars, a weaker greenback is bad news for its euro- or yen-denominated earnings.

Bank analysts project a fall of roughly 4% to 5% in euro-zone profits for every 10% rise in the euro.

Although the dollar's latest drop won't have fully filtered through, earnings are already stuttering after the euro's strongest quarter against the dollar since 2010.

Analysts since the middle of May have downgraded European earnings forecasts for the second quarter and the year ahead, in a move many

attribute to the stronger euro. Unlike the strong start for second-quarter results in the U.S., Europe's reporting season has proven more muted so far, said analysts at Morgan Stanley.

Swings in the euro have historically been a key driver of earnings beats, with a weaker euro prompting better results.

Some companies hedge their overseas revenues, meaning the effects of the weaker dollar could take several quarters to fully materialize in earnings, according to Ankit Gheedia, strategist at BNP Paribas. He expects the impact of a stronger currency to be worst on Europe's large-cap automotive, technology,

food and beverage, and personal and household goods companies, which generate more than half of their revenues overseas.

For now, the effect on non-U.S. companies has primarily come from translating earnings into stronger local currencies. The euro was at \$1.1830 at midafternoon Monday in New York.

But "if the euro's strength continues and you spend time around the mid one-twenty levels where you'd see a more meaningful impact on earnings," said Ronan Carr, European equity strategist at Bank of America Merrill Lynch. "Ex-

port sectors in some parts of Europe would start to become less competitive."

That is because a stronger local currency makes a company's products more expensive for foreign buyers, which tends to hurt demand.

The dollar has weakened against the yen in the past few months too, raising a perennial risk for the Japanese equity market, which is even more tightly linked to foreign-exchange markets than Europe's are.

Over the past five years, the dollar-yen exchange rate and the Nikkei 225 equity index have displayed a correlation coefficient of over 0.9, accord-

ing to FactSet data. A coefficient of zero means two series are unrelated, while a coefficient of one means they are perfectly correlated, moving in tandem.

"Japan is a market without a strong domestic narrative, very much being driven off the currency," said Zahra Ward-Murphy, equity strategist at Absolute Strategy Research. While earnings have been revised lower for most regions in recent weeks, Japan has fared worse.

The country's Nikkei Stock Average snapped a three-month winning streak in July.

To be sure, international stocks could do well despite currency headwinds as stronger local economies help push up profits just as valuations grow more compelling compared with the U.S. According to Bank of America Merrill Lynch's July fund manager survey, investors still remain positioned heavily in international stock markets.

Outside of advanced economies, some international stocks may also benefit from a weaker dollar, particularly in emerging markets.

"Commodity-sensitive regions—Russia, Brazil, South Africa—they tend to suffer most when the dollar starts rising, because of their external position with regards to dollar debt," said Gautam Batra, head of investments for Mediolanum Asset Management. "They breathe a sigh of relief when the dollar is weaker."

Meanwhile, it has certainly been a boon for U.S. multinational companies, many of which have stocks trading at record highs.

"For three years, strong dollar complaints were in every single earnings report," said Omar Aguilar, chief investment officer for equities at Charles Schwab Investment Management. "Now they seem to be benefiting a lot from the reverse effect."

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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# More Cash to Come From HSBC

HSBC's departing leaders are enjoying their victory laps and investors are finally cheering them on.

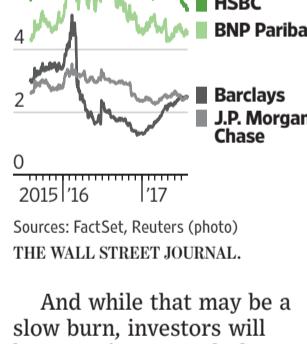
The bank announced another \$2 billion of stock buybacks on Monday on the back of better first-half profit and higher capital. That adds to the \$3.5 billion of buybacks since last year, when both Douglas Flint, chairman, and Stuart Gulliver, chief executive, announced their pending retirements.

Investors have become more convinced of HSBC's payout potential: Its dividend yield has come down dramatically from over 7% most of last year to about 5.2% now. But that still leaves the stock with room to do better as its yield remains more than double that of U.S. and European rivals.

Return on equity, at 8.8% annualized in the first half, is still behind a target of more than 10%. But if U.S. interest rates keep rising, that should lift revenue from HSBC's huge deposits of U.S. and Hong Kong dollars and push the bank toward its goal.

## Paydays

Forecast dividend yields, 12 months ahead



Sources: FactSet, Reuters (photo)

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Incoming HSBC Chairman Mark Tucker

And while that may be a slow burn, investors will keep getting rewards from management's balance-sheet restructuring and cost-cutting over the past two years.

These efforts will allow a stream of further stock buybacks in the next few years. Between 2017 and 2019, HSBC could buy back up to \$4 billion in stock a year, according to recent estimates from Morgan Stanley. That would be on top of more

than \$10 billion a year in dividends, assuming the bank sticks to its habit of paying 51 cents a share annually.

Even then, there might still be money left over. HSBC's investors usually take 20% to 30% of dividends in the form of new shares, which lowers the cash cost of paying them and means the group retains more capital. With this and current levels of profitability, the bank might end up with an extra

\$1 billion a year of excess capital.

Mr. Gulliver pointed to a handful of things that may eat up capital. There are coming changes to global bank capital rules, which could increase HSBC's capital requirements. However, expectations are that these won't start to take effect until after 2021 and won't be fully implemented until 2026.

There is also the potential cost of new international accounting rules, known as IFRS 9, which will increase loan-loss provisions for many banks.

The bank will want to keep some extra capital for unforeseeable political or economic risks, but even after the buyback announced Monday, HSBC has a common equity Tier 1 capital ratio of 14.5%, compared with its target of 12% to 13%.

The main challenge for incoming Chairman Mark Tucker will be in finding a CEO who can help him use this inheritance wisely.

—Paul J. Davies

## OVERHEARD

Investors won't want to see the sequel to this horror flick.

Indian film and streaming video company **Eros International** reported fiscal fourth-quarter results Friday. Full-year sales of \$253 million fell 8% from a year earlier, and net income declined 14%. That was well short of analysts' consensus forecasts. That is a problem, because the company's stock trades at more than 150 times trailing earnings.

Management put on a brave face. The financial performance reflects "the flexibility and robustness of the Eros business model wherein we are able to offset slate volatility as well as impact of extraneous market factors beyond our control," said CEO **Jyoti Deshpande**. But while the artist was happy, critics are less impressed with the show. Eros' shares plunged in New York on Friday after being halted for volatility, leaving them down more than 40% over the past 12 months.

## Chip Makers Have Long Memories

Those holding their breath for an inevitable plunge in memory chip prices can breathe a little easier.

A handful of key earnings reports last week suggests the peak in memory prices isn't yet at hand. **Samsung Electronics**, the world's largest maker of DRAM and NAND Flash memory, posted record profits for the second quarter that were driven in large part by its chip-making business. That comes a month after record earnings from memory rival **Micron Technology**. **Lam Research** and **KLA-Tencor**, which make tools used by chip makers, posted record operating profits last week, helped by capital investments in memory production.

These companies are benefiting from a resilient memory market. Memory is a volatile market that can turn quickly, but DRAM prices are still about 30% below their five-year peak, with new demand drivers like automated cars still in their infancy.

Also, the current players in the market have a strong motivation to behave rationally. Samsung, which has boosted memory production sharply in past cycles, said in its earnings call last week that it will manage its chip-making business with a "profitability focus" rather than chase market share. Lam CEO Martin Anstice said in his company's call that capital spending should remain stable at levels well below prior cyclical peaks.

Some things could still upset the balance, such as a group of memory fabs under construction in China that may come online next year. But for now, it is nice to know that the painful lessons of the past haven't been forgotten.

—Dan Gallagher

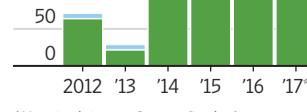
# Chinese Lenders' Dash for Capital Is Getting Under Way

Investors have long questioned when China's banking system, with its heaps of bad loans and hidden leverage, would resort to raising much-needed equity. From the look of it, the weakest lenders are starting to do so.

Ping An Bank, a midsize lender notorious both for selling piles of high-yielding investment products and for sitting on masses of overdue loans, said last week that it plans to issue 26 billion yuan (\$3.9 billion) of convertible bonds—uncommon in China—that can be switched into its Shenzhen-listed shares. While convertibles don't count as equity straight away, they could

## Capital Rush

Chinese banks' annual equity and debt issuance



\*Year to date

Source: Dealogic

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help improve Ping An's equity levels when they are turned into stock.

Owned by **Ping An Insurance**, listed as one of the world's systemically important

insurers, Ping An Bank is a poster child for Chinese bank excesses. Its loan impairments rose almost 30% on the year in the first quarter. Its issuance of wealth-management products, used to raise cash by many mid-size Chinese banks that struggle to attract deposits, rose 50% last year. It has also been embroiled in high-profile cases lending to troubled companies like **China Huishan Dairy** and **Sunac** against shares pledged by their senior executives.

Across China's banking system, capital cushions have been deteriorating. Capital adequacy ratios, at 11% on average, might look healthy,

above the minimum requirement of 7.5% to 9%, depending on bank size. But regulators have been tightening rules, including forcing banks to bring more off-balance-sheet assets onto their books. That will likely force more banks to raise capital to keep their ratios robust.

In theory, banks could earn their way out of trouble. That won't be easy, though, as Chinese authorities try to ease the country's credit bubble. Banks' net interest margins have deteriorated to their lowest in over five years, and earnings are barely growing.

Another problem: With Chinese banks trading at 60%

to 70% of their book value, raising equity is tricky, one reason Chinese banks have raised \$100 billion of debt this year, up 20% from last year. Such funding is getting more expensive.

Other lenders could, then, follow Ping An Bank's lead in turning to convertibles as a stopgap. Its planned convertible bond is equivalent to 15% of its core equity Tier 1 ratio. **China Everbright**, a sizable Chinese bank, also issued 30 billion yuan's worth in March.

As Chinese banks' hunt for capital gets going, a conversion to convertibles could prove lasting.

—Anjani Trivedi