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## What's News

### Business & Finance

**I**taly's expected nationalization of Monte dei Paschi and its decision to sink billions into two failing banks are raising questions about the government's bank oversight. **A1**

◆ **The trial over** Lee Jae-yong's role in a corruption scandal has turned its focus to a deal Samsung signed two years ago to fund a company in Germany. **A1**

◆ **U.S. auto sales** continued to slide in June, as car buyers react to higher vehicle prices and Detroit backs away from dumping inventory into rental-car lots. **B1**

◆ **Jana has taken** a roughly 5% stake in EQT and is looking to withdraw the company's proposed acquisition of Rice Energy. **B1**

◆ **Total signed** a contract pledging \$1 billion to the development of the company's Iranian gas field. **B1**

◆ **Federal investigators** believe Caterpillar failed to submit numerous required filings with the U.S. government in recent years. **B3**

◆ **GE completed its** deal to combine its long-suffering energy business with Baker Hughes. **B3**

◆ **The sale of** Toshiba's semiconductor unit may lead to SK Hynix eventually taking a minority stake in the business. **B4**

◆ **Former Barclays CEO** Varley and three other former executives appeared in court to face fraud charges over deals struck during the financial crisis. **B7**

### World-Wide

◆ **Saudi Arabia's** crown prince has launched a crackdown on dissent in recent weeks, attempting to silence activists, critical clerics and his deposed predecessor. **A1**

◆ **Trump will meet** with Putin this week, amid lingering allegations of Russian interference in the 2016 election. **A1**

◆ **Macron called for** electoral changes that he thinks would help parliament represent a wider spectrum of political views. **A3**

◆ **Merkel's conservatives** have pledged to achieve full employment by 2025 and cut income tax as part of their election campaign. **A3**

◆ **Singapore's prime minister** denied allegations by his siblings that he abused state powers in a feud over the last wishes of their late father Lee Kuan Yew. **A4**

◆ **The 280 airports** that send direct flights to the U.S. must have explosives-detecting scanners near the end of July. **A7**

◆ **Joaquín "El Chapo" Guzmán**, accused of amassing billions from drug trafficking, is now struggling to pay for a lawyer. **A7**

◆ **Australia's Turnbull** rejected doubts about his leadership, as the country is threatened by another government turnover. **A4**

◆ **Trump offered** assistance for a gravely ill British boy at the center of a legal and moral fight. **A5**

CONTENTS		Opinion.....	A10-11
Business News.....	B3	Sports.....	A8
Crossword.....	A12	Streetwise.....	B1
Heard on Street.....	B8	Technology.....	B4
Life & Arts.....	A9,12	U.S. News.....	A5,7
Markets.....	B8	Weather.....	A12
Markets Digest.....	B6	World News.....	A2-4

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## French President Spells Out His Next Steps



**A NEW AGENDA:** Emmanuel Macron, shown entering the château de Versailles, laid out his political, security and diplomatic priorities at an extraordinary joint session of parliament. He vowed to lift a state of emergency but harden security steps to fight Islamic extremism. **A3**

## IRAQ'S ISIS GAINS ELEVATE ABADI

Prime minister, who generated few expectations, stitched military alliance, damped sectarianism

By BEN KESLING

MOSUL, Iraq—Three years ago, Abu Bakr al-Baghdadi proclaimed the existence of an Islamic State caliphate and proceeded to sweep his forces through northern Iraq and toward Baghdad, threatening the viability of the fragile country.

Today, the leader declaring an end to the caliphate is someone few would have imagined in the position, Iraqi Prime Minister Haider al-Abadi. A man seen as the favorite of none but ac-

ceptable to all, the 65-year-old former electrical engineer has managed to turn that tepid sentiment into a defining strength.

Over nearly three years in office, Mr. Abadi has narrowed gaps between Iraq's warring Shiite and Sunni politicians. He balanced competing interests among geopolitical rivals Iran and the U.S., and spearheaded an overhaul of Iraqi security forces, who had fled advancing Islamic State fighters. Iraq is close to retaking Mosul, Islamic State's psychologically important stronghold.

"Abadi has magnificently shifted between leading and balancing," said Jon Alterman, director of the Middle East program at the Center for Strategic and International Studies in Washington. "If he led too much then there'd be too many alienated people, and if he balanced too much there would be no forward progress."

Today, Iraq's security forces are on the verge of defeating Islamic State, *Please see ABADI page A6*

◆ Iraq, militias duel over next big battle... **A6**

## Backdrop of Russian Mischief Clouds Meeting

By GERALD F. SEIB

When President Donald Trump meets Russian leader Vladimir Putin late this week, many will be watching to see whether they discuss alleged Russian interference in the 2016 election.

That much is obvious. Less obvious, but more important, is how any Russian meddling in the American presidential-election season—whatever form it may have taken—fits into a much larger tale. This is the tale of a systematic Rus-

sian effort to disrupt democratic and capitalist systems internationally, using an updated version of tactics Mr. Putin learned in the bad old days of the Soviet KGB.

In fact, one of the dangers in the current hyperpartisan American debate over Russia's role in the 2016 presidential election is that it is blurring this larger picture. If the 2016 election was the tip of an iceberg, the rest of the iceberg warrants serious attention.

A useful reminder of the breadth of the problem comes in the form of "The Kremlin Playbook," a publication re-

leased last October by the Center for Strategic and International Studies, a centrist American think tank, and the Center for the Study of Democracy, a European public-policy institute. In retrospect, it was a remarkably prescient look at the controversies that have mushroomed since the American election that came a month later.

The Playbook is an in-depth study of Russian efforts to use overt and covert tactics over a period of a decade to expand its economic and political influence in five Central and *Please see SEIB page A5*



**President Donald Trump, left, and Russian President Vladimir Putin are set to talk at the G-20 summit in Germany this week.**



## Samsung Heir's Trial Rides On Allegation of Horse Deal

By EUN-YOUNG JEONG

SEOUL—South Korea's Samsung business empire makes hundreds of deals each year. But an obscure \$18.6 million equestrian agreement it signed two years ago to fund a company in Germany could upend a decadeslong leadership succession process at the conglomerate.

Samsung heir Lee Jae-yong was arrested in February, and is on trial over his alleged role in a corruption scandal that led to former South Korean

President Park Geun-hye's impeachment. Three months into the trial, the prosecutors' criminal case is riding on what they describe as a form of horse-trading: an effort by Samsung to channel money for political favors by funding the equestrian aspirations of the daughter of a close friend of the country's former president.

The prosecution's case centers on the funding of Core Sports International GmbH, a small German sports-consulting company prosecutors say was controlled by Ms. Park's

close friend, Choi Soon-sil. Core Sports had just one client: Ms. Choi's daughter, Chung Yoo-ra, an equestrian athlete.

Samsung's Mr. Lee is accused of having ordered his company to fund Core Sports. In return, prosecutors allege Ms. Choi colluded with Ms. Park to have the then-president direct the country's pension service to vote in favor of a 2015 merger of two Samsung affiliates that was seen as a critical step in consolidating Mr. Lee's grip on Samsung *Please see TRIAL page A4*

## Saudi Scion Moves to Silence Ousted Prince

By JUSTIN SCHECK  
AND SHANE HARRIS

The new heir to Saudi Arabia's throne has launched a crackdown on dissent in recent weeks, attempting to silence activists and critical clerics as well as his deposed predecessor, according to U.S. and Saudi officials familiar with the events.

King Salman upended Saudi Arabia's succession order last month by naming his 31-year-old son, Mohammed bin Salman, crown prince and next in line to the throne, and sidelining his nephew and heir apparent, Mohammed bin Nayef,

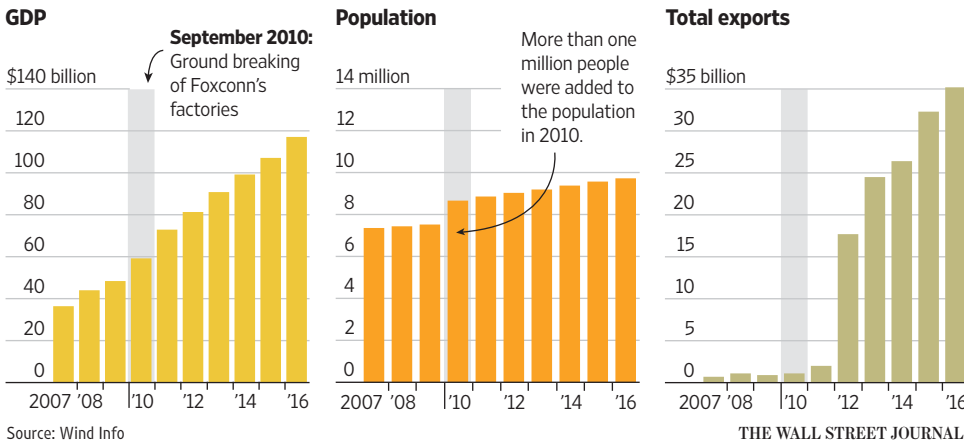
who has deep ties to U.S. intelligence and is widely viewed by U.S. officials as a stabilizing force in the region.

The newly elevated crown prince has limited the movements of Mohammed bin Nayef, the officials said. He has also replaced Mohammed bin Nayef's guards with ones loyal to the royal court, they said, in a bid to ensure that Mohammed bin Nayef doesn't take any steps to rally support. "They want to make sure nothing is being plotted," one of these people said.

Referring to Mohammed bin Nayef, a representative of *Please see SAUDI page A2*

### China's iPhone City

The arrival of Foxconn's iPhone factories in Zhengzhou sparked explosive growth in the Chinese city's economy, population and exports. **B1**





WORLD NEWS

# Japanese Workers Rethink Retirement

A cosmetics shop with older staff and clientele illustrates a change in attitudes in the country's aging workforce

By MEGUMI FUJIKAWA

HIRATSUKA, Japan—Yoshiko Iida, at 85 years old, is a trendsetter. Offering antiwrinkle creams and beauty treatments at a Pola-brand cosmetics shop outside Tokyo, she works six-day weeks and supervises a team of saleswomen all above Japan's normal retirement age. They outsell many regional outlets.

"I want to continue this job as long as I'm healthy," she said.

In a country where more than a quarter of the population is over 65, many of her customers are in that age range, too. One of them, Tomoko Inoue, said she has been a Pola customer for 35 years largely because of Ms. Iida, whom she calls her "source of energy."

Ms. Iida is part of a larger rethinking among Japanese companies and their employees about retirement age. The Japanese government, concerned about the costs of supporting an aging populace, is encouraging companies to keep older people in the workforce longer and offering subsidies to some that employ workers over 65.

Many large companies here still enforce a strict two-stage retirement path for career employees: They



MIHO INADA/THE WALL STREET JOURNAL

must step down from their well-paid jobs at 60, then can work at lower salary as contract employees for an additional five or 10 years. After that, they are pushed out altogether.

Companies typically figure they are dumping high-price workers who are past their prime. But some are realizing that can be shortsighted, especially in a sales business like Ms. Iida's when the people walking out the door have client lists that took de-

cades to build. Who better to target senior consumers than other seniors?

At Pola, part of **Pola Orbis Holdings Inc.**, the sales force of 42,000 includes about 1,500 salespeople in their 70s, 80s and 90s.

"They've worked for a long time, and the relationships with their customers go back just as far," says Miki Oikawa, who is in charge of the beauty business at Pola.

**Daiwa Securities Group**

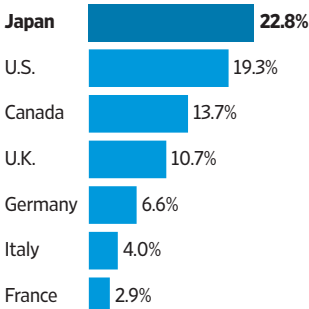
Inc. used to set an age limit of 70 for veteran salespeople working under contract. It recently scrapped the limit.

"This will make it possible for us to have more consultants in the age range of 60 to 80, which is similar to the generation that holds the largest financial assets," says the brokerage firm's chief executive, Seiji Nakata.

Some 23% of Japanese age 65 or over were working in 2016, the highest level among the Group of Seven

## Staying Active

Japan had the highest proportion of people 65 and older in the workforce among Group of Seven nations in 2016.



Source: OECD  
THE WALL STREET JOURNAL.

**Yoshiko Iida gives a facial massage to a customer at a shop near Tokyo.**

industrialized nations and ahead of 19% in the U.S., according to the Organization for Economic Cooperation and Development.

Still, many of those older workers hold jobs near the minimum wage such as convenience-store clerk. Those with specialized skills often have a harder time.

Some Japanese business groups have expressed reservations about raising the retirement age, citing increased costs of retaining

older workers in senior positions. The Japan Business Federation says keeping older people in their jobs longer could also discourage younger workers who want to advance into those posts.

At **Yakult Honsha Co.**, a manufacturer of fermented milk drinks, there is no retirement age for salespeople, and some 5,000 people over 60 years old, mainly women, are selling the drinks by visiting homes and offices.

For companies like Yakult and Pola, it is easier to keep older salespeople because they are contractors working on commission, rather than employees. That means the companies aren't as exposed to risks if an older salesperson has to take time off.

In the case of Ms. Iida, that risk seems pretty low. She has been on the hunt for customers since 1964, when she started going door to door. She said her husband wanted her to stay home as a full-time homemaker, taking care of their two children. So she initially kept her job secret.

"When I meet my clients—including those I've known for long time—I always speak to them with keen attentiveness and sincerity. That's the biggest secret behind my long career," Ms. Iida said.

# SAUDI

*Continued from Page One*  
the Saudi royal court said in a text message that there were "no restrictions on his movement whatsoever, either in or outside of Saudi Arabia." The prince has hosted guests since the leadership change, the representative wrote in an emailed statement.

U.S. and Saudi officials said the royal court's efforts to stifle dissent within the kingdom include monitoring and in some cases infiltrating the social media accounts of some activists and bloggers.

Some activists and religious figures viewed as stirring protest on social media have also been summoned in person to meet with interior ministry officials, and at least one of those people was told by officials to quiet down or face jail time, according to people familiar with the matter.

The royal court official didn't respond to questions about the broader attempt to stifle dissent that the people familiar with the situation described.

Political parties are banned in Saudi Arabia, as are protests; unions are illegal; the press is controlled and criticism of the royal family can lead to prison. Since the 2011 Arab Spring, the kingdom has stepped up efforts to curb dissent with tough laws.

The recent crackdown follows the royal power shuffle and a move earlier in June by the kingdom to lead an economic blockade of neighbor-



SAUDI PRESS AGENCY/EUROPEAN PRESSPHOTO AGENCY

**Crown Prince Mohammad bin Salman, right, at a ceremony to receive pledges of allegiance in June.**

ing Qatar, and is raising concerns among U.S. officials and observers that more political upheaval may be on the way, since the aging King Salman consolidated power in the hands of Mohammed bin Salman.

The Qatar blockade was championed by Mohammed bin Salman, while Mohammed bin Nayef favored a more tempered approach through diplomatic channels. That difference of opinions contributed to the timing of the power shuffle, The Wall Street Journal has reported.

Mohammed bin Nayef was a trusted contact for those officials. U.S. President Donald Trump has appeared to embrace Mohammed bin Salman by meeting with him in both Riyadh and Washington, D.C., before his elevation to the crown prince role.

The White House didn't respond to requests for comment.

Mohammed bin Nayef "and his U.S. counterparts tended to see eye to eye on things," said Steven Simon, who worked on Middle East security issues as a senior director at the National Security Council during the Clinton and Obama administrations.

One former diplomat said of the sidelined prince that in Saudi Arabia and the U.S., "the whole security apparatus has been dependent on him."

Complaints about the escalating clash with Qatar led Saudi officials to boost efforts to monitor dissident communications and halt public criticism last month, in the weeks leading up to the power shuffle. Officials working for Mohammed bin Salman used technology from Hacking

Team, an Italian company that provides surveillance tools to governments, according to people familiar with the matter.

Hacking Team didn't return a call and emails seeking comment.

Some critics have left social media. Cleric Bader al-Amer told his followers on June 14 that he will stop posting on Twitter and other social media indefinitely. His announcement came after he tweeted that several clerics and intellectuals believe Qatar's claim that it doesn't sponsor terrorism.

Ibrahim al-Modaimagh, a former legal adviser to the government, said on June 27 that he was leaving Twitter temporarily for health reasons and hoped the new Saudi leadership would free people imprisoned for their political views.

# ITALY

*Continued from Page One*  
political pressure, lackluster growth and a failure to restore precrisis levels of profitability stall the process of selling.

Between 2008 and 2013, the U.S. government intervened in some 1,400 banks, while the Europeans stepped in with nearly 500 troubled lenders, according to Mediobanca SpA. The U.S. shut down nearly 500 banks, according to the Federal Deposit Insurance Corp., while the Europeans wound down just a handful.

Time hasn't made things easier. While the U.S. government exited its stakes after just a few years, Europe didn't—and has faced low interest rates, a dive in profits and seismic events such as Brexit that have made it harder to sell.

"Banks aren't today what they used to be five or 10 years ago," said Filippo Aloatti, Hermès Credit senior analyst in London. "Interest rates are low, capital requirements went up, and lots of regulations mean very little appetite to buy banks."

Executives at Monte dei Paschi expect Rome to control the Tuscan bank for many years, said a person familiar with their thinking. A bank representative declined to comment.

In Rome, government and Bank of Italy officials say, choices are driven by a determination to avoid applying Europe's tough new banking rules, particularly the bail-in clause that demands that shareholders, creditors and even some depositors suffer losses before governments can inject money in struggling banks.

When Rome lent Monte dei Paschi, the country's biggest lender, €4.1 billion between 2011 and 2013, the stiff interest rates levied deepened losses as the bank's bad-loan portfolio ballooned. Brussels insisted on high rates as a condition to approve the transaction. Over the following years, Monte dei Paschi's problems festered.

Last year the government spent months attempting a private-sector fix, to no avail. During that time, the bank lost €25 billion in deposits and its bad loans remained stubbornly high. The result: The bill for the rescue—which will be partially shouldered by some of the bank's creditors—rose from €5 billion to nearly €9 billion.

"The situation at Monte dei Paschi has been neglected for years, but if you don't act quickly problems mount," said Silvia Merler, an affiliate fellow at Bruegel, a think tank.

Meanwhile, in late 2015 Rome forced healthy lenders to pay for the rescue of four small, long-troubled lenders. That wiped out profits for some of the rescuers and badly shook confidence in the sector.

Last month, two banks the fund attempted to rescue last year—Banca Popolare di Vi-

cenza SpA and Veneto Banca SpA—finally went bust, requiring a government rescue. Rome avoided applying bail-in rules.

It instead used bankruptcy laws to liquidate the lenders' bad assets and sold the good ones to Intesa Sanpaolo SpA for one euro. Rome will give Intesa €5 billion to digest and restructure the two banks and has earmarked another €12 billion in guarantees covering the potential cost of disposing the bad loans and some legal risks related to the two banks' previous activity.

Italian officials, who say the government could recoup all of the taxpayer money over time and even pocket a profit, defend the transaction.

"It was a necessary and unavoidable operation," said Fabio Panetta, deputy governor of the Bank of Italy. In general, Italian officials argue their efforts to limit bail-ins ulti-

*The challenges are representative of difficulties in rescues across Europe.*

mately avoided destabilizing situations that would have carried far higher costs to the sector and, possibly, to taxpayers. "We have always tried to avoid [full] bail in," Mr. Panetta said.

Economy Minister Pier Carlo Padoan said in an article published Friday in German weekly WirtschaftsWoche that "without public intervention the liquidation would have entailed the immediate interruption of services to clients, in particular credit to small companies." He added that the amount of money Italy used to shore up its ailing banks has been very limited compared with some other countries.

## CORRECTIONS & AMPLIFICATIONS

**Voters in Washington,** Arizona, Colorado, and Maine approved measures to raise their states' minimum wages to \$12 an hour. A U.S. News article in the Friday-Sunday edition about cities in Silicon Valley pursuing minimum-wage increases incorrectly said that state legislatures approved the measures.

**Schnuck Markets Inc.** was incorrectly called Schnucks Markets Inc. in a Business News article in the Friday-Sunday edition about grocery-delivery services.

**The prices and sources** for two antique flags circa 1850 pictured with an Off Duty article in the Friday-Sunday edition were transposed in the caption. The flag at the top left in the grid with the large star in the center is \$22,500, from [bonsellamericana.com](http://bonsellamericana.com). The flag in the grid's top right with the large circle of stars is \$45,000, from [historicalamericana.com](http://historicalamericana.com).

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

## Steering Through an Indian Deluge



AMIT DAVE/REUTERS

**TRICKY NAVIGATION:** A motorcycle made its way over a flooded road in Ahmedabad, India, on Monday.

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**Thorold Barker**, Editor, Europe  
**Grainne McCarthy**, Senior News Editor, Europe  
**Cicely K. Dyson**, News Editor, Europe  
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Sales: Hong Kong: 852-2831 2504; Singapore:  
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2003. Registered address: Avenue de Cortenberg  
60/4F, 1040 Brussels, Belgium

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By email: [subs.wsje@dowjones.com](mailto:subs.wsje@dowjones.com)  
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# WORLD NEWS

## France’s Macron Seeks Electoral Changes

Plan for proportional representation could give smaller parties more seats

By **WILLIAM HOROBIN**

PARIS—French President Emmanuel Macron delivered a rare address to both houses of parliament at Versailles on Monday, pressing his case for an electoral overhaul he says will open up parliament to a wider spectrum of political views.

In a 90-minute speech, Mr. Macron said he would seek to reduce the number of lawmakers by a third and introduce some proportional voting to ensure “all political leanings are fairly represented” in the legislature.

The changes proposed by Mr. Macron would galvanize his political authority after his surge to power in May’s election on a promise to revamp the political system and cast aside the mainstream political parties that have ruled France for decades. In legislative elections last month, he won a commanding majority by fielding many candidates who had no formal political experience.

Although the president gave no details of the type of proportional voting system he seeks, such voting would likely give more seats to parties like Marine Le Pen’s National

Front, which won only eight of the 577 seats at the National Assembly despite garnering more than 13% of the first-round vote.

France’s electoral system favors larger political parties by awarding a parliamentary seat only to the candidate who wins the largest share of the ballots in the second round of voting.

The 39-year-old Mr. Macron said he would also simplify the legislative process, cut down on the number of laws and make it easier for citizens to petition parliament for change. If necessary, Mr. Macron said, he would call for a referendum on his proposals.

“I want all these transformations that our institutions desperately need to be completed in a year, and for us to hold back from half measures and cosmetic changes,” the president said.

Presidential addresses to parliament are very unusual in France. François Hollande, Mr. Macron’s predecessor, convened both houses of parliament once during his five-year term, in that case to propose counterterrorism measures in the immediate aftermath of the November 2015 Paris attacks. Before Mr. Hollande, Nicolas Sarkozy used the forum in 2009 to outline his response to the global financial crisis.

Besides special presidential addresses, both houses of par-



Emmanuel Macron addressed the National Assembly and the Senate at Versailles on Monday.

liament are assembled only to change the constitution or to ratify expansion of the European Union.

Mr. Macron’s decision to resort to a seldom-used practice to lay out his policies has drawn sharp criticism from some opposition lawmakers.

Jean-Luc Mélenchon, who ran against Mr. Macron in the presidential election, said his parliamentary group boycotted the invitation to attend a

speech by a “presidential monarch.”

“We are rebelling. We won’t submit,” Mr. Mélenchon said.

Some centrists from the Union of Democrats and Independents party, which is loosely allied with Mr. Macron in parliament, also stayed away from Versailles. By speaking on Monday, they said, the president is undermining his prime minister, Edouard Philippe, who is sched-

uled to present government policy to the National Assembly the next day.

“It is useless and costly, it belittles the government and the president doesn’t need us to do his communications,” Jean-Christophe Lagarde, head of the UDI, said in a message on Twitter.

Opposition lawmakers who attended Mr. Macron’s address in Versailles Monday said it lacked crucial details.

“You get the impression he’s continuing with the vague song that marked the election campaign,” Ms. Le Pen said.

Mr. Macron now faces a turbulent few months ahead in parliament.

Later this month, lawmakers will vote on using a fast-track decree procedure to push through changes to labor laws.

In September, the government will present its first budget, which is likely to be focused on spending cuts, after the state auditor last week revealed a larger-than-expected budget shortfall.

But Mr. Macron didn’t detail his government’s policy plans on Monday, saying that task belonged to Mr. Philippe.

In his speech on Monday, the president also announced plans to lift the state of emergency that has been in place since the Paris attacks.

“I will bring back the freedoms of the French people by lifting the state of emergency in the fall, because these freedoms are the condition for a strong democracy,” he said.

Under the wide-ranging powers allowed under a state of emergency, authorities are permitted to bar people from leaving their homes and to conduct searches without a court order.

Parliament will vote on new measures that target only terrorism suspects, Mr. Macron said.

## Bus Carrying Elderly Germans Crashes, Killing 18



**FIERY COLLISION:** A bus carrying German senior citizens on vacation crashed into a truck Monday on a highway in Bavaria and burst into flames, killing 18 people and injuring 30 others, some seriously, officials said. Police said the truck driver wasn’t injured.

## Merkel’s Party Sets Out Economic Game Plan

By **ANDREA THOMAS**

BERLIN—Chancellor Angela Merkel’s conservatives pledged Monday to achieve full employment by 2025 and cut income taxes as part of their platform for the September elections.

The joint announcement by Ms. Merkel’s Christian Democrats and their Bavaria-based sister party, the Christian Social Union, is the latest indication that the economy will play a central role in campaigning.

The center-left Social Democrats have also promised tax cuts as well as substantial increases in welfare benefits, in a departure from recent elections that were dominated by the need for budget cuts and austerity measures. Germany hasn’t seen significant tax cuts since the mid-2000s.

“Our plan for the future is prosperity and security for everybody,” said Ms. Merkel, the front-runner in the autumn ballot. In their joint platform, the conservatives pledged to bring unemployment down from 5.5% to below 3%, which

economists consider full employment.

The health of the German economy—with its strong jobs market, budget surplus and declining public debt—is one of Ms. Merkel’s main assets, though most economists credit Gerhard Schröder, her predecessor as chancellor, for turning the country around with painful economic reforms.

Families are likely to be among the main beneficiaries of the conservatives’ planned largesse. In addition to €15 billion (\$17 billion) a year in income-tax cuts, the parties have pledged extra tax breaks for families with children and grants to home buyers with children.

Ms. Merkel’s conservative bloc currently has a 15-percent-age-point lead over the Social Democrats, according to an Emnid poll of 936 voters conducted between June 22 and 24.

Despite their agreement on the economy, the conservatives failed to hammer out a joint position on how to tackle the continuing refugee crisis.



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Breitling Caliber B12 with 24-hour military-style display. Officially chronometer-certified.



WORLD NEWS

# Singapore's Ruling Family in Bitter Feud

By Chun Han Wong

SINGAPORE—Prime Minister Lee Hsien Loong rejected allegations by his siblings that he abused state powers in a bitter family feud over the last wishes of their late father, Singapore's founding premier, Lee Kuan Yew.

Speaking to lawmakers in parliament Monday, Prime Minister Lee apologized for the public spat and the damage it has done to Singapore's image, and expressed hope of resolving the dispute, which is centered on the late patriarch's desire for his house to be razed after his passing.

Lee Kuan Yew, who died in 2015, had repeatedly said his house should be demolished to prevent it from engendering a personality cult. His two youngest children last month accused their elder brother—the current prime minister—of misusing state powers to frustrate their father's wishes.

These allegations “are entirely baseless,” Prime Minister Lee told lawmakers. “Today I stand here before you to answer your questions, clear any doubts, and show you that you have every reason to maintain your trust in me and my government.”

The rupture in the Lee family has set off a political

firestorm in a city-state that prides itself on its orderly meritocracy, and sparked debate about government integrity in a country where public criticism of leaders is rare and can result in jail.

Lee Kuan Yew first moved into his Oxley Road home at the end of World War II and held weekly political discussions there that led to the 1954 founding of the People's Action Party, which took power five years later when Singapore became self-governing.

As prime minister from 1959 to 1990, Mr. Lee steered Singapore's transformation from a colonial trading post to one of the world's richest nations, providing a model for other authoritarian governments. His elder son, Lee Hsien Loong, became prime minister in 2004.

All three children have publicly said they want to honor Lee Kuan Yew's desires, though Prime Minister Lee and his siblings have accused each other of misrepresenting their father's wishes.

Lee Kuan Yew's will stated his wish to tear down the house, but also stated that if changes to laws and regulations prevent his house from being demolished, then access to the premises should be granted only to his children, as



Prime Minister Lee Hsien Loong spoke before a special sitting of Parliament on Monday.

well as their family members and descendants. Prime Minister Lee said in parliament Monday his siblings seem to assert that their father wanted nothing short of demolition of the house, a claim that the siblings have denied.

Some Singaporeans, meanwhile, have called for the house to be preserved as a monument or heritage site. Singapore's government has

the power to acquire property for purposes of heritage preservation.

The dispute over the house burst into the open on June 14, when Lee Kuan Yew's daughter Lee Wei Ling and younger son Lee Hsien Yang published a six-page statement alleging that their brother had misused his “position and influence over the Singapore government” to try to pre-

serve the Oxley Road home.

A key part of their claims centers on a ministerial committee that the government says was set up to consider options for the Oxley Road house. The siblings allege that Prime Minister Lee was making use of the committee to question the validity of their father's will. They also allege that the four-member panel isn't impartial as it comprises

the prime minister's subordinates, and was dealing with a private dispute that should be heard in court.

Prime Minister Lee on Monday denied these allegations, saying he has recused himself from any government decision related to family house.

Deputy Prime Minister Teo Chee Hean, who chairs the committee, on Monday defended its impartiality and said it isn't attempting to investigate the validity of the will.

Over the weekend before Monday's parliamentary debate—arranged by Prime Minister Lee to answer allegations that he abused power—his siblings published Facebook posts reiterating their allegations. They also questioned whether parliament was the proper venue for discussing allegations against the prime minister.

Prime Minister Lee on Monday defended the process, saying he expected all lawmakers to engage in a “full airing and accounting of the public issues and allegations.”

His ruling PAP dominates parliament with 83 members in a chamber of 89 directly elected lawmakers. The opposition Workers' Party fields six full parliamentarians and three so-called nonconstituency members with limited voting rights.

## TRIAL

Continued from Page One  
Electronics Co., the world's biggest smartphone maker.

Prosecutors say they believe they have enough evidence to show Samsung's equestrian sponsorship constitutes bribery. “The equestrian support was for one person, Chung Yoo-ra,” said special prosecutor Park Young-soo, at April's opening hearing.

Mr. Lee's defense attorneys have acknowledged Samsung's sponsorship of the German company but denied the funds were intended to benefit a specific person.

“Samsung did not pay any bribes and did not make any improper requests or seek favors. We believe that the court proceedings will reveal the truth,” said a Samsung spokeswoman, reiterating an earlier statement.

Prosecutors have so far put forward 10 witnesses, thousands of pages of emails, texts messages and phone records to detail how Samsung's equestrian sponsorship was allegedly a coverup for channeling funds to Ms. Choi and Ms. Chung for over 10 months.

Ms. Park was removed from office in March by the country's Constitutional Court, following her impeachment over accusations that she colluded with Ms. Choi to extort money from Samsung and other South Korean conglomerates. Ms. Park and Mr. Lee have both denied wrongdoing.

Mr. Lee's lawyers have rejected all allegations against Mr. Lee in court. “Samsung's business activities were not a part of Mr. Lee's succession plan, but regular business activities,” said Song Wu-cheol, one of Mr. Lee's lawyers at a hearing, adding that Samsung sponsored the equestrian training at Ms. Park's request “with no strings attached.” Mr. Lee has yet to testify in court but at a parliamentary hearing in December, he denied asking the government to support the merger.

Ms. Choi was arrested last year and has been indicted on multiple criminal charges, including bribery and abuse of power; her trial continues. Both Ms. Choi and Ms. Chung have denied wrongdoing. Ms. Choi's lawyer rejected the bribery charge in another trial involving Ms. Choi and Mr. Park. Ms. Choi's lawyers didn't respond to several requests for comment.

A conviction of Mr. Lee could boost the prosecutors' case against Ms. Park, who also faces several charges centering around bribery. It would also throw into question a succession process at Samsung when it is seeking growth in new fields such as biologic drugs and automotive parts.

Mr. Lee, 49, has been the de facto heir of South Korea's largest conglomerate since his father, Samsung Electronics Chairman Lee Kun-hee, became incapacitated after a heart attack in 2014. Samsung declined to comment on the succession situation.

The younger Mr. Lee is in custody and has been absent from his role as the vice chairman of Samsung Electronics since February, when he was arrested. Under South Korean law, he can be detained until the end of August without a verdict, which can be extended. If convicted, he can face at least five years in prison.

South Korea has seen cases of conglomerate heads managing companies from behind bars. While Mr. Lee's absence won't immediately affect the company's business performance, it may complicate decision-making, said Chung Sun-seop, the head of Chaebol.com, a corporate-governance research firm in Seoul.

The prosecutors' case stretches back to August 2015, shortly after South Korea's National Pension Service—then the biggest shareholder in Samsung C&T Corp., one of the Samsung affiliates in the 2015 merger—cast a decisive vote in favor of the merger, ensuring its approval. That deal, which strengthened Mr. Lee's control over Samsung Electronics, was opposed by many foreign investors and proxy advisory firms Glass Lewis & Co. and Institutional Shareholder Services Inc., which regarded it as detrimental to Samsung C&T shareholders. Last month, the court sentenced two former South Korean officials tied to NPS each with a 2½ year prison term for abuse of power and embezzlement in connection with the merger. The two officials have appealed the verdict to a higher court.

A spokesman at NPS declined to comment for this article. In December, before prosecutors began investigating the pension fund, NPS said it had voted in favor of the merger “in the view of improving the fund's long-term profit following careful review.”

Weeks later, on Aug. 26, Samsung Electronics officials met with Core Sports employ-



Chung Yoo-ra performing at the Asian Games in 2014.

ees at Frankfurt's Intercontinental Hotel to sign a contract promising the consulting company \$18.6 million over a three-year period to train South Korean athletes for the 2018 Asian Games and the World Equestrian Games, according to witnesses questioned during the trial. Ms. Choi was in the lobby of the hotel during the signing, witnesses said.

Under the agreement, Core Sports would use the funds to buy 12 horses and support six athletes, as well as a number of coaches, trainers, team managers and horse managers, according to a copy of the contract reviewed by The Wall Street Journal.

But Core Sports was ill-equipped to carry out conditions of the deal at the time.

The company was registered only a day before its deal with Samsung, according to a German commercial registration document presented by prosecutors in court.

Park Sung-kwan, a Germany-based lawyer and one of Core Sports' co-signees for the contract between the German company and Samsung, declined to comment citing attorney-client privilege.

Park Won-oh, a former official at the Korea Equestrian Federation, said the company had only one employee with relevant equestrian experience. But Core Sports paid monthly salaries to Ms. Chung's husband and a friend who watched her pets and ran small household errands, testified another witness who

briefly managed the company's accounting.

The prosecutors' case has rested heavily on testimony of Mr. Park, the 67-year-old former equestrian official and no relation to Ms. Park. He was also contracted by Samsung to advise the company on equestrian matters.

In his testimony, Mr. Park described how he worked with Samsung and the equestrian federation to devise a training plan that became the backbone for Samsung's sponsorship deal with Core Sports. Mr. Park testified that he went over the contract conditions with Ms. Choi and then relayed her demands back to Samsung.

Mr. Park testified at a court hearing that Samsung appeared to “let Choi Soon-sil do what she wanted—almost 100%.”

Mr. Park said he was perplexed at the time by why a company as large and powerful as Samsung would be so pliable to Ms. Choi's demands, even when it was “doubtful” that Core Sports had the capacity to train Ms. Chung at the time of the agreement.

Mr. Lee's defense lawyers and some witnesses said that Samsung intended for the dressage training project to support more than one athlete, but was prevented from doing so by Ms. Choi.

Ms. Choi's lawyer didn't respond to requests for comment. Last week, Ms. Choi delayed taking the witness stand at Mr. Lee's trial, citing health issues.

Ms. Chung said she had no knowledge of what went on between her mother and Ms. Park. “My mother said that I would be one of the athletes out of six funded by Samsung Electronics,” Ms. Chung told reporters in May.

Prosecutors are expected to complete witness examinations in the coming weeks, after which defense lawyers can call witnesses to the stand.

## WORLD WATCH

AUSTRALIA

### Ruling Coalition Falls In Opinion Polls

Australia's prime minister sought to douse doubts about his leadership as a ruling-party battle threatens more of the political volatility that has shaken the country in recent years.

Malcolm Turnbull said Monday that he won't be forced easily from office. Party putsches have turned out three prime ministers since 2010, and he had said over the weekend that he would quit politics if he lost the leadership of the Liberal Party, the more conservative of the two main blocs.

“I can assure you I will be prime minister for many, many years to come,” Mr. Turnbull told reporters Monday.

With his coalition trailing in opinion polls after scraping through cliffhanger elections a year ago, Mr. Turnbull has been beset by party turmoil. The man he ousted two years ago, Tony Abbott, has railed in speeches against what he calls a leftward drift under Mr. Turnbull.

For months, surveys by Newspoll—triggers for previous leadership challenges—have shown Mr. Turnbull's Liberal-National coalition trailing the opposition Labor Party by around 53% to 47%.

Labor leader Bill Shorten, a former union official, has proved a more durable opponent for Mr. Turnbull than many expected, positioning his party as most-trusted on education and health care.

—Rob Taylor

UNITED KINGDOM

### Bank of England Faces Labor Strife

The Bank of England faces strike action by some of its staff after a ballot of workers in the maintenance, parlors and security departments found 95% supported a series of walkouts.

The Unite labor union Monday said that, as a result of the ballot, staff will strike on July 31, and August 1-3 unless the BOE acts to resolve a pay dispute.

The BOE said the three departments account for just 2% of its employees and it has plans in place to ensure it can “continue to operate effectively.”

Staff have been given a 1% pay rise for the year commencing March 1, in line with a cap on public sector wages imposed as part of the government's efforts to cut borrowing, though the central bank isn't bound by that rule. In its most recent forecasts, the BOE predicted that consumer prices will rise by 2.8% this year and 2.4% in 2018, above its target of 2%.

Unite said workers in the departments being balloted can earn as little as £20,000 (\$25,678) a year.

The dispute comes as a pickup in inflation, driven in part by the pound's depreciation in the wake of a June 2016 vote to leave the European Union, has squeezed Britons' spending power.

—Paul Hannon



Lee Jae-yong, center, vice chairman of Samsung Electronics Co., arrives for his trial in April on corruption charges.



# U.S. NEWS



New Jersey Gov. Chris Christie, right, lounged on the beach Sunday with his family and friends at the governor's summer house at Island Beach State Park, one of the New Jersey state parks closed to the public because of the government shutdown.

## Budget Standoffs Persist In New Jersey and Maine

By KATE KING

State government remained closed in New Jersey on Sunday, with Republican Gov. Chris Christie and Democratic lawmakers seemingly no closer to reaching a budget deal that would reopen state parks and beaches for the remainder of the holiday weekend.

More than 30,000 state workers were furloughed Monday. Essential employees, including state police, remained on duty.

"If the leadership came to an agreement today then I could reopen government tomorrow," the governor said Sunday at an afternoon news conference in Trenton, referring to the state Legislature. "But I don't know if we'll have an agreement today."

New Jersey is one of several states across the country mired in budget disputes. In Maine, Republican Gov. Paul LePage implemented a partial

shutdown until Monday. Connecticut Gov. Dannel P. Malloy on Friday signed an executive order that sharply curtailed state spending after the Legislature failed to approve a budget plan to close a two-year deficit of \$5.1 billion. In Illinois, lawmakers worked through the weekend to try to pass a spending plan. New Jersey lawmakers missed Friday's midnight deadline to pass a balanced budget, prompting Mr. Christie to close state government.

Visitors were turned away from state beaches and parks Saturday and Sunday, although the governor and his family spent the weekend at a state-owned residence in Island Beach State Park.

Mr. Christie said he would sign a budget sent to him by Democrats, including more than \$300 million in additional spending for education and other services, but only if lawmakers passed a

bill giving the state more control over its largest insurer. The insurer, Horizon Blue Cross Blue Shield of New Jersey, has strongly opposed the legislation.

Mr. Christie, who earlier this year said he wanted the company to contribute to a new state fund for addiction-treatment services, has called for more transparency on executive and lobbyist pay and more state oversight of its finances. A spokesman for Horizon said the proposed legislation would be unduly burdensome and force the insurer to raise premiums.

Assembly Speaker Vincent Prieto, a Democrat, has refused to put the legislation demanded by Mr. Christie up for a vote, calling it an unfair intervention in the not-for-profit company that shouldn't be part of the budget process. Mr. Prieto and the governor were both at the Statehouse over the weekend but haven't spoken since Friday.

Mr. Christie, who is prevented by term limits from running for a third term, is scheduled to leave office in January. His lieutenant governor, who is also the Republican nominee in the race to replace him, said she supports setting aside the Horizon bill and completing the budget.

In Maine, Mr. LePage ordered the state's first shutdown since 1991, after lawmakers failed to strike a deal on new taxes and education funding.

"The Maine people are taxed enough," Mr. LePage said. "I will not tax them any more and in my budget overall taxes were decreased. Maine has plenty of revenue to fund state government without raising taxes."

Essential services in the state remain in place as will a host of others, including some state parks, unemployment benefits and child welfare.

—Kate Linebaugh contributed to this article.

## Trump Tweets Offer to Help Sick British Boy

By LOUISE RADNOFSKY

BRIDGEWATER, N.J.—President Donald Trump offered assistance for a gravely ill British boy at the center of a legal and moral fight but didn't say what form that would take, tweeting Monday that "if we can help...we would be delighted to do so."

The parents of 11-month-old Charlie Gard have battled his doctors in British and European courts for months over continuing life support for the brain-damaged baby. Doctors said the child's condition couldn't be effectively treated with further medical intervention and that keeping him on a ventilator could be causing him pain.

The mother, Connie Yates, and father, Chris Gard, countered that a U.S. physician and hospital were willing to try an experimental treatment for their son's rare genetic disorder. The parents have raised more than \$1.7 million online and made their case on social media.

Mr. Trump's tweet didn't specify what kind of assistance he was willing to offer, personally or on behalf of the U.S. The White House director of media affairs, Helen Aguirre Ferre, said Monday afternoon that he was "just trying to be helpful if at all possible."

She also said that some members of Mr. Trump's administration had been in contact with the boy's family.

"Upon learning of baby Charlie Gard's situation, President Trump has offered to help the family in this heartbreaking situation. Although the president himself has not spoken to the family, he does

not want to pressure them in any way, members of the administration have spoken to the family in calls facilitated by the British government," Ms. Ferre said.

"We are aware of the president's tweet. This is a very delicate case and it would be inappropriate to discuss this further at this stage. All our thoughts are with Charlie and with his family," a spokesman for Prime Minister Theresa May said Monday.

The case has focused attention on the role of courts in making end-of-life decisions for very young children.

Britain's Supreme Court decided last month that prolonging Charlie's life would be "not in his best interests." His parents asked the European Court of Human Rights to overturn the ruling; the court last week said the case raised "sensitive moral and ethical issues" but declined to intervene.

The issues in the case have also posed a test to the Catholic Church, which contends that it is immoral to deliberately end a life, but also that Catholic bioethics must recognize the limits of medicine. In a recent statement, Pope Francis said the baby's parents should be allowed to "accompany and treat their child until the end."

In another development Monday, the Vatican children's hospital, Bambino Gesù, offered to provide care for Charlie. The hospital's president stressed that the Vatican hospital wasn't able to offer any treatments beyond what were available in London.

—Francis X. Rocca in Rome contributed to this article.



Charlie Gard's parents have battled doctors in court for months.

## Getting Ready for Independence Day Celebrations



NEW YORK CITY TRADITION: Pyrotechnicians on Macy's 4th of July Fireworks crew prepared 60,000 aerial effects last week on Staten Island, N.Y., for the annual pyrotechnic show Tuesday.

## SEIB

*Continued from Page One*  
East European nations. A group of regional leaders from such nations warned President Barack Obama in a 2009 letter—which also looks prescient now—that Russia was conducting "overt and covert means of economic warfare, ranging from energy blockades and politically motivated investments to bribery and media manipulation in order to advance its interests...."

The Russian strategy, the study finds, isn't ad hoc. Rather, it is the implementation of a doctrine developed by Russian Gen. Valery Gerasimov called "new generation warfare." One European analyst called that "primarily a strategy of influence, not of brute force" aimed at "breaking the internal coherence of the enemy system."

The strategy, as it has unfolded in Central and Eastern Europe, proceeds along two parallel tracks, the study found. The first track is economic. Russia seeks to find business partners and investments that allow it to establish an economic foothold, which in turn produces economically influential patrons and partners who have a vested interest in policies friendly to the Kremlin. That is a particularly fruitful endeavor in Europe, where many nations depend on Russian energy supplies.

The goal on this track is to cultivate "a network of

local affiliates and power-brokers who are capable of advocating on Russia's behalf."

The second track, perhaps more relevant to the U.S., is designed to disrupt prevailing democratic political patterns. The goal, the Playbook says, is "to corrode democracy from within by deepening political divides and cultivating relationships with aspiring autocrats, political parties (notably nationalists, populists and Euroskeptics

*A danger of the debate over Russian meddling is that it blurs the big picture.*

groups), and Russian sympathizers."

On this track, the effort is designed in part to advance parties and figures sympathetic to Russia. But the broader goal is simply to disrupt the process, create confusion and discord, and discredit democratic systems both in targeted countries and in the eyes of Russian citizens, who are told the chaos to their West shows they shouldn't long for a Western-styled democratic system at home.

A key tool in this effort, the report says, is a "war on information" campaign that uses disinformation and propaganda to disable opponents and foment nationalist and anti-Western sentiment. "Toward this

end, Russia exploits existing political pressure points such as migration and economic stagnation, blames Western and U.S. operations for all negative international dynamics (such as the attempted July 2016 coup in Turkey), and discredits the current state of Western democracy," the report says.

Remember that this was written before Mr. Trump won the American presidency and the investigations into Russian influence went into high gear. The findings are about a broader pattern of Russian behavior, not about what it might have done in the U.S. political system.

Yet these findings present a backdrop for both the current debate over Russia's 2016 U.S. activities, as well as Mr. Trump's meeting with Mr. Putin on the sidelines of the G-20 meeting in Germany this week.

Heather A. Conley, a senior vice president of CSIS and one of the authors of The Kremlin Playbook, says the months since its publication have brought "an acceleration" of Russian influence-seeking, ranging from a plot against the prime minister of Montenegro to interference in the French election to cyberattacks in Ukraine.

The goal, she says, "is disruption, to create governmental policies that accommodate Russian interests," first in ending Western economic sanctions and then in building a broader sphere of influence. She adds: "We continue to be unprepared."



IN DEPTH

ABADI

*Continued from Page One*  
the key requirement if the nation wants to enjoy a stable and cohesive future, despite daunting challenges that remain. Sectarian anger still simmers, and the country's economy and infrastructure have been devastated by years of fighting.

"Abadi is riding high," said one U.S. official in Washington. "But the government needs to show that it can act to make people's lives better, and probably the window for that is pretty limited. If it doesn't, all that goodwill Abadi built up will diminish."

There wasn't always such a sense of possibility in Iraq. Before Islamic State swept to power in 2014, the country was at its most-fractious since the fall of Saddam Hussein. Mr. Abadi's predecessor, Nouri al-Maliki, was a polarizing figure, accused of fueling sectarian conflict and packing ministries with loyalists.

Transparency International ranked the country near the bottom at 171 of 177 countries world-wide for corruption, with such pervasive problems that the country has only moved up a few positions after years of attempted overhauls. Mr. Maliki didn't respond to a request for comment, but Sunday released a public statement praising the military and militias.

When the festering Syrian civil war next door bled across the border, Iraq's military crumbled. In June of 2014, militants exploited Iraq's problems to blitz into Mosul—grabbing nearby land, stores of weapons and oil fields. In Islamic State's advance, millions of civilians came to live under the Sunni extremist

group's rule. Some Sunnis initially welcomed the militants as an alternative to the predominantly Shiite government of Mr. Maliki. The implementation of Shariah law followed, where people could be jailed for smoking or executed for unauthorized use of a cellphone.

Amid the turmoil, the conciliatory Mr. Abadi was tapped to become prime minister, an antidote to Mr. Maliki's divisive rule. He faced growing alarm among Iraq's allies.

Iran, the world's biggest Shiite-majority country, couldn't countenance its neighbor falling to a Sunni extremist group. In 2014 Grand Ayatollah Ali al-Sistani, the pre-eminent Shiite cleric in Iraq, called on fellow countrymen to rise up to help protect the country; Shiite militias formed that Mr. Abadi has both empowered and theoretically kept under central government control. Iran's Islamic Revolutionary Guard Corps's elite Quds Force decided to fund and train many of them.

Ayatollah Sistani, who typically makes public statements via a representative at Friday prayers, didn't respond to a request for comment.

For Iran, forging such a partnership offered a way to cultivate a new proxy in Iraq and also to nurture others. Iran could revive overland supply routes through Iraq and its other ally, Syria, to Lebanon, where the Shiite political and militant group Hezbollah is based.

For Mr. Abadi, the relationship provided a backstop to a buckling Iraqi military. It also offered a skilled battlefield partner in Qasem Soleimani, the commander of the Revolutionary Guards. Iran's heavy involvement in Iraq also exposed Mr. Abadi to accusations that he was turning his country into an Iranian pawn.

An official in the office of Iran's United Nations representative didn't return a request for comment on Iran's relationship with Mr. Abadi.

U.S. State Department officials mostly sidestep the thorny issue of Iran's involvement in Iraq's war against Islamic State, saying Baghdad was ultimately in charge of the powerful Shiite militias. As part of this balancing act, Mr. Abadi courted the U.S. military for assistance, too, just years after the Americans pulled troops out of the country.

In 2014, the U.S. military started a gradual increase of troops with the launch of Operation Inherent Resolve. By the end of Barack Obama's presidency, more than 5,000 Americans were deployed to Iraq with hundreds close to the front lines of combat. Support has increased under President Donald Trump.

Iraq has benefited from a more than billion-dollar investment by the U.S. to train and equip forces, and fund U.S. troops in the country. Mr. Abadi also fired generals from the Maliki era and demanded that top officers eschew sectarianism. Those steps brought increased assistance from the U.S., including advanced weapons and air support.

As the war with Islamic State heated up, Iraq became a tinderbox of crisscrossing rivalries and sectarian tensions. Christian and Sunni minorities in Iraq grew wary of Iran's growing influence, with those groups forming some of their own militias.

Some Iran-friendly Shiite forces, meanwhile, became openly hostile to U.S. troops.



The ruins on Sunday of the Al-Nuri Mosque in Mosul, where Abu Bakr al-Baghdadi proclaimed the Islamic State caliphate three years ago.

In late 2015, multiple militias pledged to fight U.S. troops if they deployed to Iraq and established bases in the country, harking back to their efforts against Americans during the Iraq war.

Mr. Abadi sought to keep everyone on the same side, largely by lauding the benefits of a unified Iraq, adding Kurdish and Sunni elements to his cabinet and reaching out to Sunni leaders for dialogue.

From the beginning of his tenure, the Iraqi prime minister reached out to Sunni Arab countries in the region while maintaining his ties with Iran. In 2015, the Saudi government reopened its embassy in Baghdad, which had been shuttered decades before in response to Saddam Hussein's invasion of Kuwait.

Inside Iraq, Mr. Abadi begin to win over the country's minority Sunnis.

"This government led by Abadi has not met desired levels of ambitions, but if you compare it with the previous government, you will find a big difference," said Ahmed al-Masari, head of the Sunni political bloc in federal parliament. "Now there are reforms and progress, while during the previous government several provinces fell to terrorism."

Renad Mansour, a fellow at

*Abadi, the favorite of no one but acceptable to all, emerged as the leader Iraq needed.*

Chatham House, a London-based internationally focused think tank, said Sunni leaders came to realize a flexible Shiite leader may be their least bad option, especially if they hoped to exercise some power as a minority group in a democratic Iraq. "The Sunnis are past their denial of reality," he said. "They realize that they're going to be a minority."

Mr. Abadi didn't neglect the country's Shiite majority either. By 2015, Ayatollah Sistani, arguably the most revered figure in the country, voiced strong support for Mr. Abadi and worked to ensure the militias remained by law ultimately under Iraqi government control. Mr. Abadi in turn has praised the cleric, even this week saying his call to form militias was a crucial move to save the country from Islamic State dominance.

In marshaling foreign and domestic support, Mr. Abadi's



Iraqi Prime Minister Haidar al-Abadi, left, with Iran's Supreme Leader Ayatollah Ali Khamenei in Tehran in June

government began racking up wins. In mid-2015 Iraqi forces took back Tikrit from Islamic State, their first major territorial victory. In November 2015, Kurdish Peshmerga forces pushed into the northern town of Sinjar, and the Iraqi military soon declared the Anbar hub of Ramadi free from militant control. The city of Fallujah fell months later.

In Mosul, where an offensive began last fall, Islamic State didn't retreat but dug in deeper. Even as Iraqi forces surrounded the city and advanced, the militants used hundreds of thousands of civilians as human shields while stockpiling munitions and setting up snipers' nests in the warrens of the old city.

Today, Iraqi forces are fighting scattered pockets of Islamic State fighters.

In east Mosul, shops selling mobile phones or fashionable jeans have reopened next to restaurants slicing up kebabs. Patrons smoked openly, even during the holy month of Ramadan—a display unthinkable under Islamic State control.

Still, seeds of new conflicts are just below the surface.

Iraqi soldiers are accused of beating and summarily executing unarmed men and boys fleeing fighting in the heart of Mosul. The most recent allegations come from a Human Rights Watch report released Friday. Because the military is seen as a Shiite institution and Mosul is predominantly Sunni, such abuses, real or even rumored, threaten to fan sectarian tensions.

The Iraqi government will investigate any credible cases of abuse, according to Saad al-Hadithi, a spokesman for Mr. Abadi, but he said those allegations must be based on evidence and not hearsay. Mr.

Abadi has said he wouldn't tolerate any human-rights abuses by troops.

In Anbar Province, tribal officials have exiled families of Islamic State members. In the city of Mosul, the city council recently passed a resolution declaring the same. Mr. Abadi has signaled he will use his federal authority to prevent the local government from taking such actions.

Mosul mobile-phone salesman Forat Latif said the environment is ripe for another antigovernment group to lure Sunnis into more fighting.

"We will go back to the same environment that created Daesh," he said. "It's the same cloud that brought all this rain."

Iraqi officials recently released a 10-year \$100 billion reconstruction plan. The government doesn't have the money, and the World Bank and the International Monetary Fund haven't come forward with funds. Last year, the IMF provided a \$5.3 billion dollar emergency loan to help stabilize the country—a sizable contribution at the time but a fraction of what is needed now. Large sections of major cities like Ramadi and Mosul have been destroyed, with buildings, bridges and water mains turned to rubble.

During his tenure, Prime Minister Abadi has overseen an increase in oil production, which helped boost the country's GDP last year by 11%, according to the IMF. Yet low oil prices have complicated Iraq's efforts to pay government workers, who have sporadically taken to the streets to protest, and the non-oil sector of the economy is still reeling.

One of the biggest challenges for Mr. Abadi is the pressure from different Iraqi

minorities for more autonomy. The Kurdish north, led by President Masoud Barzani, has been angling for independence for years, and last month announced it will hold a referendum on the issue in September.

Federal elections are scheduled for April, and Mr. Abadi may face rivals for his position. He has managed to remain on good terms with both Iran and the U.S.—with U.S. Secretary of State Rex Tillerson praising the prime minister publicly in March.

But as the relationship between the U.S. and Iran deteriorates, there is a risk that Iran will back a challenger to the prime minister more clearly in Tehran's camp. Mr. Maliki has remained a constant presence in the political realm.

Mr. Abadi may face his biggest test when Iraq and its foreign allies no longer share a common foe.

On Thursday, as he declared the end of the caliphate, Mr. Abadi stayed focused on defeating Islamic State. "We will continue to fight Daesh until every last one of them is killed or brought to justice."

On the same day, though, brownouts in Baghdad left millions without power, showing the government's limited capacity to provide public services to its people. Four improvised bombs, meanwhile, detonated in different areas of Baghdad, killing a handful of people. Such attacks are a reminder that the war against Islamic State is moving beyond the battlefield and into the daily lives of Iraqis, something they had hoped a prime minister would prevent.

—*Ghassan Adnan in Baghdad, Asa Fitch and Ali A. Nabhan in Erbil, Iraq, and Dion Nissenbaum in Washington contributed to this article.*

Iraq, Militias Duel Over Leading the Next Big Battle

By Tamer El-Ghobashy and Ali A. Nabhan

MOSUL, Iraq—A political dispute threatens to complicate Iraq's next big battle against Islamic State as the extremists face imminent defeat in Mosul: Both the U.S.-backed Iraqi military and Shiite militias supported by Iran want to spearhead the fight.

The militias have surrounded Tal Afar, which has strategic and symbolic value to Islamic State, in a bid to choke off the terror group's supply lines between Iraq and neighboring Syria. The militias are eager to avenge the loss of Tal Afar to Islamic State in 2014, which was followed by mass executions of Shiites.

But the Iraqi government says the military will be in charge of the Tal Afar campaign.

paign. The military is currently fighting Islamic State in Mosul, a much larger city about 75 miles to the east. The extremist fighters are cornered in Mosul's Old City and expected to lose there within weeks.

"We are seeing the end of the fake Daesh state," Iraqi Prime Minister Haider al-Abadi said Thursday, using an Arabic acronym for Islamic State.

Both the Iraqi military and the Shiite militias report to Mr. Abadi. The militias were legally incorporated into Iraq's security apparatus by parliament last year, though their leaders have close ties to Tehran.

Tal Afar had a population of about 200,000 before Islamic State took over, but the town has outsized importance because of its proximity to Syria and Turkey. The U.S. and Turkey worry that Tehran wants



Source: Institute for the Study of War THE WALL STREET JOURNAL.

its militia allies to take Tal Afar to help secure a land corridor by which Iran could move fighters and resources through Iraq into Syria, a longtime Iranian ally, and on to Lebanon, where Iran's Hezbollah proxy is based.

Maj. Gen. Joseph Martin, the commander of U.S. ground forces in Iraq, said he expects

the Iraqi military to lead the fight for Tal Afar and added that U.S. advisers "will be right there with them." The U.S. won't work with the Shiite militias, he said.

Turkey has threatened to send in its own troops if the Shiite militias lead the fight for Tal Afar, which was once part of the Ottoman Empire.

The jockeying for influence is taking place amid rising tension between the U.S. and Iran-backed forces seeking to buttress the Damascus regime. In recent weeks, U.S. forces have shot down a Syrian regime warplane and two Iranian-made drones viewed as threats to the U.S. and allied fighters in the campaign against Islamic State, and carried out airstrikes on Syrian government forces and their Iranian-backed allies in southern Syria.

Iraqi officials estimate between 1,000 and 1,500 Islamic State fighters remain in Tal Afar. The extremists have used the town as a way station between Mosul and Raqqa, the group's de facto capital in Syria. A handful of the group's leaders are natives of Tal Afar, and thousands of its foreign fighters came to the town for training.

The Shiite militias have had Tal Afar surrounded for at least six months, and the siege has weakened the remaining militants there. It has also taken a heavy toll on civilians.

No regular Iraqi military units have yet been assigned the task of entering the town. Iraqi officials say forces will enter the town soon after Mosul is declared liberated. The U.S.-led coalition fighting Islamic State has been coordinating airstrikes in Tal Afar for about eight months with the Iraqi military, which is stationed outside the town.

The presence of the Shiite militias around Tal Afar is due to a political concession Mr. Abadi made to keep them out of the fight for Mosul, a majority Sunni city, where their participation would have risked deepening sectarian strife.



U.S. NEWS

# Kentucky City Readies for ‘Eclipse-Stock’

By CAMERON McWHIRTER

HOPKINSVILLE, Ky.—This western Kentucky community is betting big on being “Eclipseville” this summer.

That is the moniker and website name the city of 32,000 adopted after scientists determined it will be the point of greatest eclipse—with the darkness lasting 2 minutes and 40 seconds—during the first total solar eclipse in the continental U.S. since 1979.

Hopkinsville and the surrounding countryside hope to cast the region in a positive light when it is flooded by an estimated 50,000 to 100,000 visitors on Monday, Aug. 21.

Residents of the city and Christian County—a swath of verdant farmland on the Tennessee border—are setting up campsites, ordering thousands of bottles of water, calling for extra food and launching products such as “Total Eclipse Moonshine” (with the slogan “Lights out!”).

But “there is no handbook in preparing for an eclipse,” said Brooke Jung, the city and county eclipse coordinator, who some refer to as “the princess of darkness.”

While businesses hope to capitalize on the rare event, the eclipse also is bringing anxiety to this normally serene community. Farmers worry about people damaging their fields. Amish and Mennonites are nervous about the safety of their horse-drawn buggies.

Local and state officials, as well as representatives from the U.S. Army’s nearby Fort Campbell, have been meeting regularly to plan for crowd



Solar eclipse viewing stations with parking and green space have been set up for the influx of people expected in Hopkinsville, Ky., for the event.

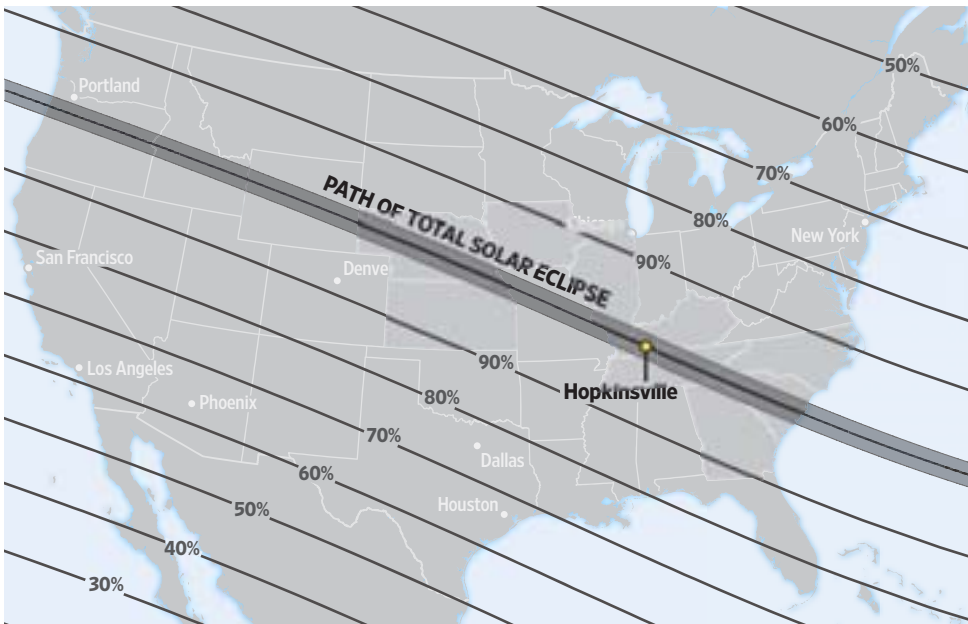
control, safety and supplies. They have studied other major events to get ready. One cautionary tale: Woodstock, the 1969 rock festival in a rural New York town that was woefully unprepared for the enormous throng.

On their to-do list: making sure septic tanks are emptied in advance and ordering temporary cellphone towers.

The city and county have requested extra state police and national guard to handle traffic, and asked Fort Campbell to send volunteer troops. They have requested that hospitals be fully staffed. Officials

## The 2017 Solar Eclipse

Hopkinsville, Ky., will have one of the nation’s longest periods of darkness during the Aug. 21 eclipse. If skies are clear, the entire U.S. will be able to see at least partial obscuration. Percentage of the sun’s area that will be covered by the moon during the event:



Source: NASA

THE WALL STREET JOURNAL.

are also warning banks to stock more cash and gas stations to have more gas.

Despite the preparations, some residents are worried. “I’m highly concerned,” said Renee Jessup, who lives on a road directly in the path of the eclipse. “We’re just country people.”

Ms. Jung, the coordinator, said she initially estimated 50,000 visitors, but experts told her she should double the figure. She said the number could be even higher if the sky is clear and people from around the country flock to see what for many will be a once-in-a-lifetime event.

Solar eclipses occur when the orbit of the moon aligns exactly in front of the sun to block its light, shrouding sections of the earth in complete darkness for several minutes during what should be daytime. By studying celestial orbits scientists can predict with precision where and when eclipses will take place. This eclipse, the Hopkinsville area will be the place where scientists calculate the axis of the Moon’s shadow will pass closest to the center of the earth.

In past ages, many people feared eclipses were signs of supernatural displeasure or

approaching disaster. In modern times, eclipse tourism “has skyrocketed,” said Alex Filippenko, an astrophysicist at the University of California, Berkeley, who has been traveling to see eclipses for years.

The August eclipse will take about 90 minutes to pass from Oregon to South Carolina. Communities across its path are preparing for crowds, from Madras, Ore., to Charleston, S.C.

While scientists pinpoint the point of greatest eclipse, they also calculate the point of the eclipse’s longest duration, which can be slightly different, in part because of the irregu-

# Foreign Airports Must Get Scanners

By SUSAN CAREY AND ROBERT WALL

The 280 foreign airports that send direct flights to the U.S. must have explosives-detecting scanners within 21 days, one step the Department of Homeland Security has mandated to avoid a broader ban on laptops aboard flights.

U.S. officials are giving 180 affected domestic and international airlines four months to make other security enhancements, including more intensive passenger screening and monitoring of planes on the ground, according to a memo the International Air Transport Association sent to its member carriers after the DHS announced new security measures on Wednesday.

The memo, which hasn’t been made public, was reviewed by The Wall Street Journal and earlier reported by the New York Times.

In a related development, the U.S. partly rescinded a ban on the use of laptops on some U.S.-bound international flights as Abu Dhabi-based Etihad Airways was cleared Sunday to allow passengers flying to the U.S. to again use the devices, along with tablets and other electronics, in the cabin, the airline and DHS said.

The Abu Dhabi airport was one of 10 in the Middle East and North Africa affected in March by a U.S. ban on using certain electronic gadgets while in flight.

The ban remains in place at the other airports, including Dubai, home of Emirates Airline, the world’s largest by international traffic, and Qatar Airways. Emirates Airline and Qatar Airways are rivals with Etihad for the business of connecting passengers via their Mideast hubs between destinations around the world.

The International Air Transport Association memo also said foreign airports failing to install explosives-detecting scanners along with procedures to use them to



A federal security officer scans baggage at John F. Kennedy International Airport in New York.

scan carry-on bags at random could face a ban on carrying laptops in the cabin or a suspension of flights to the U.S.

An IATA spokesman declined to comment. The trade body’s leader, Alexandre de Juniac, said last week that the “aggressive-implementation timeline will...be challenging.” Homeland Security Secretary John Kelly has warned for months that terrorists are aiming to take down a plane with explosives hidden in a laptop. In March, he banned personal electronic devices in the cabins of planes flying to the U.S. from 10 airports in the Middle East and North Africa. That prohibition could be lifted if those airports and airlines meet the new edicts.

Mr. Kelly later suggested widening the limited laptop ban as drastically as to cover all foreign flights in and out of the U.S. After consulting with airlines and foreign aviation officials, he settled on the mandates laid out on Wednesday, which affect about 325,000 passengers a day flying from airports in 105 nations.

A DHS official declined to confirm the timeline laid out in the IATA memo, saying that

doing so could compromise aviation security.

The official confirmed that DHS intends to work with airlines that may not be able to install the machines promptly. Interim steps could shore up security while airlines works toward compliance, the official said. “We’re going to be reasonable with them,” he said.

The global airports trade group couldn’t be immediately reached for comment.

The Association of Asia Pacific Airlines trade group, in a statement, said implementation of the new security directives will require a number of procedural and operational changes by airlines and airports. They and the relevant government authorities will need to work together closely “to avoid unnecessary disruptions to the traveling public,” said Andrew Herdman, director general of the group.

The DHS official said many of the affected airports already have the scanners, which measure for traces of explosives by analyzing a swab taken from a flier’s luggage or hand. Such machines also are used to check for narcotics.

Manufacturers say the test

takes about 30 seconds and that the machines cost between \$25,000 and \$50,000.

The DHS required U.S. airports and airlines to use the scanners in 2010. The European Union mandated them in 2014, but allowed the industry more than a year to comply. Some Asian nations also are widely using the technology, said Norbert Kloepper, chief of the explosive-trace detection unit of Bruker Corp., the smallest of the four global manufacturers of the machines.

Mr. Kloepper estimated 3,000 to 5,000 new machines will be needed to meet the DHS rules. His company sells up to 400 a year. He said more machines would need to be produced and operators would need to be trained to meet the tight deadline.

Stephen Esposito, a vice president at U.K.-based market leader Smiths Detection, anticipated a surge in orders because of the new requirement. He said the company, part of Smiths Group PLC, has 10,000 scanners deployed world-wide today and would be able to meet demand from the new mandate.

# ‘El Chapo’ Struggles To Pay for a Lawyer

By NICOLE HONG

Joaquín “El Chapo” Guzmán is accused of amassing billions of dollars as the leader of the world’s biggest drug-trafficking organization.

Now he is struggling to pay for a private lawyer.

It’s not that he can’t afford one. But Mr. Guzmán, from his detention facility in lower Manhattan, has to first figure out how to get hold of money to pay his legal fees.

The U.S. government wants to seize \$14 billion of Mr. Guzmán’s alleged drug profits if he is convicted, which could make his payments to lawyers vulnerable to forfeiture.

Before agreeing to represent Mr. Guzmán, any defense lawyer will likely demand an upfront fee and seek assurance from prosecutors that the government won’t block the payment or indict the lawyer later for money laundering.

Mr. Guzmán has pleaded not guilty to 17 criminal charges, including drug trafficking, money laundering and murder conspiracy. His trial is scheduled to begin in Brooklyn federal court on April 16, 2018.

Since his extradition to New York in January, Mr. Guzmán has interviewed at least 16 defense lawyers, according to court filings.

Jeffrey Lichtman, a seasoned criminal-defense attorney in New York, is the front-runner to become Mr. Guzmán’s lawyer, according to people familiar with the matter. Mr. Lichtman, who famously secured an acquittal for John A. Gotti, son of the notorious mob boss, has been engaged in discussions with the government about his possible representation of Mr. Guzmán, the people say.

A spokesman for the Brooklyn U.S. attorney’s office, which is leading the prosecution against Mr. Guzmán, declined to comment. Mr. Lichtman said, “I’m not in a

lar shape of the earth and the latitude at which the shadow falls. For this eclipse, scientists estimate the longest duration—0.13 seconds longer than in Hopkinsville—will hit about 90 miles to the northwest near Makanda, Ill.

Makanda, with about 550 people, no police and no stop lights, isn’t planning a major event, but it will have some portable toilets and bottled water, said Mayor Tina Shingleton. “We’re just not big enough,” she said.

With the Hopkinsville area embracing the mantle of Eclipseville, its businesses are preparing for outside crowds.

Peg Hays, co-owner with her husband of Casey Jones Distillery, which makes the moonshine, has ordered portable toilets, hand-washing stations, an ice truck, a hot-air balloon and off-duty police for security for the long weekend on her 73-acre property outside of town. She estimated she has spent about \$60,000 so far in hopes of a financial boon. “I want it to be eclipse-stock out here,” said Ms. Hays, 62.

Other business owners are less enthused. Johnny Hale, general manager of a Builders FirstSource Inc. store selling supplies to commercial builders, said the city created campsites in a field next to his store, then suggested he close down that day. That could cost him between \$30,000 and \$100,000 in lost sales, he said. City officials suggested he close the store but sell snacks and drinks instead. “Do you have any idea how many chips I would have to sell to make up for that loss?” he said.

position to comment at this time.”

Meanwhile, Mr. Guzmán has been represented by court-appointed federal defenders, who are funded by taxpayer dollars and intended for low-income defendants. The government has opposed his use of federal defenders, calling him a billionaire who can afford his own lawyer.

However, Mr. Guzmán’s federal defenders said he “has no ability to access funds himself” and needs to determine if a relative or friend can help pay the legal fees, according to a court filing from March.

The process has been prolonged because the government monitors his communications and has severely restricted his ability to contact his family, court documents say.

Lawyers must have a good-faith basis for believing the money they are receiving from clients isn’t the product of criminal proceeds, according to Stephen Gillers, a legal ethics expert at New York University School of Law. If the money is later found to be “dirty,” the government can force the lawyer to forfeit the fee.

For Mr. Guzmán’s defense team, there are obstacles beyond getting paid.

Obtaining a favorable outcome at trial or sentencing will be a major challenge. The evidence against Mr. Guzmán, often called the most notorious drug trafficker in the world, covers nearly 30 years of alleged criminal activity, and there are more than 40 witnesses ready to testify against him, according to prosecutors.

If Mr. Guzmán is convicted on the first count alone of “continuing criminal enterprise,” he faces mandatory life imprisonment. Mexico agreed to extradite Mr. Guzmán after the U.S. promised not to seek the death penalty against him.



Joaquín Guzmán, center, has interviewed at least 16 lawyers since his extradition to New York in January, according to court filings.

## WASHINGTON

### President Knocks CNN in Fake Video

President Donald Trump kept his public confrontation with the media front and center over the weekend, on Sunday tweeting a short doctored video of himself tackling and punching a person at the side of a wrestling ring who was meant to represent

television network CNN.

Mr. Trump also made more extensive remarks criticizing news outlets for their coverage of him at a “Celebrate Freedom” concert Saturday in Washington. “The fake media tried to stop us from going to the White House, but I’m president and they’re not,” he said, in what has been a recurring theme in his speeches since he took office.

—Louise Radnofsky

## ECONOMY

### Factory Activity Accelerated in June

U.S. factory activity picked up in June, a sign of strong momentum in the manufacturing sector and the latest suggestion of health in the broader economy.

The Institute for Supply Management on Monday said its index of U.S. manufacturing

activity rose to 57.8 in June, its highest level since August 2014, from 54.9 in May. A number above 50 indicates expansion; economists surveyed by The Wall Street Journal had expected a June reading of 55.5.

Monday’s report “provides further evidence that the prospects for the manufacturing sector remain bright,” said Andrew Hunter of Capital Economics, in a note to clients.

—Ben Leubsdorf

## U.S. WATCH



SPORTS

TOUR DE FRANCE | By Jason Gay

# The Simon & Garfunkel of the Tour

Every July, I invite a pair of polite English gentlemen into my home, where they stay for three weeks, and talk soothingly to me almost every morning about the sport of cycling, France, and on occasion, farm animals in the countryside.

One's named Phil Liggett. The other's Paul Sherwen.

But everyone knows them as Paul & Phil. Or Phil & Paul, if you prefer.

For more than three decades, the two Brits have been calling the Tour de France and other races for television audiences in the U.S. (on NBC Sports Network) and around the world. This year's Tour, which began Saturday, is Liggett's 45th in a row without interruption. For Sherwen, it is his 39th Tour—he missed one in 1983. But seven of those 39 Tours Sherwen started as a pro racer, so there's that.

There's no tandem quite like Paul & Phil in sports TV, especially in the U.S., where even the best commentators stick closely to the action. By contrast, Liggett and Sherwen are on the air live for three weeks straight, for several hours per day, and while there's excitement, there's plenty of tedium, too. So in addition to the race leaders, Paul & Phil might take a moment to discuss a castle, a church, herd of cows, or the abundant gorgeousness of the French countryside. (Imagine Al Michaels and Cris Collinsworth talking lyrically and knowledgeably about the flora and fauna in the Meadowslands, and you get the idea.)

Meanwhile, the Tour TV audience ranges from legit racers (who may know everything) to weekend warriors (who think they know everything) to newcomers who are watching their first bike race, ever.

"It's amazing the number of people who come up to us who are not cyclists, and really enjoy the Tour de France," says Sherwen. "It's almost like a soap. It's something people get hooked onto."

Cycling has endured plenty of crises along with its high points, and Liggett and Sherwen have carried on through it all. They have their critics, including those who feel they've been too cozy and too soft on drug scandalized competitors like Lance Armstrong. Among certain cycling crowds, it is cool to say you don't tune to Paul & Phil anymore, and prefer an outlet, like, say, Eurosport.

But their place is undeniable. Liggett and Sherwen are an institution. For many, the mellifluous melody and harmony of Paul & Phil is the soundtrack of cycling.

"People will come up and say, 'You've been commentating since my son was 11 years of age—he's now 51,'" says Liggett. "I'll go, 'Thanks a lot. I feel great now.'"

Over the years, some of Liggett and Sherwen's poetic commentary have become



Above, Phil Liggett, left, and Paul Sherwen, who have covered the Tour for more than three decades. Below, Chris Froome running with his bike after crashing last year.

part of the sport's vernacular, catchphrases used by recreational riders out on weekend spins. Some of Liggett's most famous "Liggetisms" include:

*"He's dancing on the pedals!"* (When a cyclist is riding almost effortlessly.)

*"He's digging deep into his suitcase of courage!"* (When a rider is showing great effort, especially in the mountains.)

*"The elastic is about to snap!"* (When a pack of riders are on the verge of being torn apart by a difficult section.)

Liggett and Sherwen were first paired in 1986—before that, Liggett's partners included John Tesh, the musician and former host of Entertainment Tonight. They've worked together for so long, they joke they're like an old married couple. ("We'd have made a perfect man and wife, really, but that wasn't to be," says Liggett.) Both men hail from northwest England—Liggett a young racer who migrated into sports journalism; Sherwen a professional who raced with teams including Raleigh—and they share a droll sense of humor. "People from the northwest, and especially Liverpool, have a very quick humor," says Sherwen. "It's something that probably brought us together quite quickly." They each keep homes in Africa (Sherwen resides in Kampala, Uganda; Liggett is primarily in the U.K. but also has a home not far from South Africa's Kruger National Park). When they're not calling races, they're often advocating for environmental and animal causes, like rhinoceros preservation.

During the Tour, Paul & Phil are basically together for all of their waking hours. The race is an endurance grind even for journalists; there are long, winding drives between stages almost every night. Proud Brits, Paul & Phil drive a car with the steering wheel on the right side, even if the French road system is in the opposite orientation. (Paul actually does all of the driv-



ing; pre-GPS, Phil navigated with a stack of maps.) In 1992, they were among a handful of Tour journalists who lost their cars in an explosion police attributed to an incendiary device they suspected was placed by Basque separatists.

"Phil was quite happy, be-

ing the bird as you fly by them at 180 kilometers per hour."

By the time Paul & Phil pull in, the hotel restaurant is almost always closed for the night. "If they leave us out a cold plate of food, brilliant," says Liggett. "And a bottle of wine, in my case." (Phil likes

fans, attributes much of his cycling notoriety to the way Liggett and Sherwen would rhapsodize about his efforts during races. During his career, Voigt was known as a daring breakaway artist who would often launch valiant if doomed attacks. He quickly became a Paul & Phil favorite.

"I believe half of my popularity is thanks to them," says Voigt.

A particular challenge to televising a bike race is that the commentators are almost never in the same location as the race itself. While the peloton is snaking through the Alps, Liggett and Sherwen will be in a booth at the finish line—they won't see the riders in person until the end. Instead, they're calling the action off a video feed they can't control. It requires dexterity—as Liggett speaks, the French-speaking Sherwen will monitor the official race radio. There are invariably technical difficulties and confusion, riders who get misidentified and so on—but it's impressive how generally seamless a duo they are.

"I can't think of a more difficult sport to call minute-by-minute than a bicycle race," says David Michaels, a coordinating producer for the NBC Sports Group who oversees Tour coverage. His NBC producing colleague, Joel Felicio, says Paul & Phil are recognized everywhere on the route: "They're rock stars."

By now, of course, much of cycling's history has been rewritten by scandal. Many of the champions Paul & Phil once hailed on live TV were later exposed for doping, none bigger than Armstrong. Liggett describes this as cycling's "dark period," but says he won't totally decry Armstrong, maintaining that drugs were rife during the period, and pointing out that none of Armstrong's stripped Tour yellow jerseys have been awarded to a runner-up. He still sounds torn between the image of Armstrong the champion—an image TV

helped burnish—and the Armstrong since humbled by a fall from grace.

"I presented him with many awards, and I saw how people idolized him," Liggett says. "Some feel cheated, for sure."

While they believe it's cleaned up a lot, Paul & Phil sound conflicted about bike racing today. They're thrilled by the Slovak world champion Peter Sagan, calling him a throwback to the charismatic, impulsive riding style of legend Eddy Merckx. They're less enthused by the rise of data-driven strategy in races like the Tour, where riders will rely on-board numbers like wattage (which measures how much effort a rider is putting out) to plan their attacks and responses. "A lot of the guys nowadays are very much like metronomes, or robots," says Sherwen.

"For me, I can't get any excitement at all in knowing this guy can pump 600 watts," says Liggett. "It doesn't mean a thing to me. I just want to see him win this race, and use his heart and his courage to do it."

Then again, cycling is cycling, and crazy always happens, as it did last year, when eventual race winner Chris Froome crashed his bike and wound up trying to run up the mountain to a stage finish in a madcap scene that resembled a Will Ferrell movie.

"That's why the Tour is such a special thing," says Sherwen. "It's not sterile, and it's not in a stadium, or a tennis court. You're always likely to get something strange. Froome running up Mont Ventoux with his cycling shoes on—neither of us had seen that before."

The 104th Tour de France is here, and crazy is bound to occur. That's why I watch. If not, there's always the beautiful French countryside, those castles, those churches, those farm animals, and, as always, Paul & Phil.

## U.K.'s Murray Draws a Crowd at Start of Wimbledon



OVERFLOW SEATING: Fans watched Andy Murray on a giant screen during the first day of Wimbledon. The top-seeded defending champion, who has had hip trouble, beat Alexander Bublik, 6-1, 6-4, 6-2.



# LIFE & ARTS

**WEEKEND CONFIDENTIAL** | Alexandra Wolfe

## Bob Roth Believes in a Quiet Mind

The nonprofit executive is working to bring transcendental meditation to all

**Bob Roth is chief executive of the David Lynch Foundation, a nonprofit focused on meditation.**

lem either took a transcendental meditation program through the foundation or did nothing outside their usual routine. The researchers found greater reductions in anxiety, depression and trauma symptoms in the group that had taken meditation.

Mr. Roth finds an analogy in the sea. “The ocean can be active and turbulent on the surface, sometimes with tsunami-like 30-foot waves, but is, by its nature, silent at its depth,” he says. “The surface of the mind is the active, noisy, thinking mind—often racing, noisy, hyperactive, turbulent. But like the ocean, the mind of everyone is quiet, calm, silent at its depth.”

T.M. was developed in India by Maharishi Mahesh Yogi, a physicist turned meditation teacher, in the 1950s; it gained popularity in the 1960s when he worked with the Beatles and other celebrities.

The son of a doctor and a teacher, Mr. Roth dreamed of being a senator when he was young. He started meditating in college at the University of California, Berkeley, after a friend suggested it as a way to relax amid the student riots on campus.

He was skeptical at first but soon became hooked. After he graduated in 1972, he started teaching meditation to children in inner-city schools in San Francisco. A few years later, he traveled to Europe to study under Maharishi Mahesh Yogi before returning to California to continue teaching over the next decade. In 1982, he moved to Washington, D.C., where he eventually met Mr. Lynch, the director of “Blue Velvet” and “Twin Peaks,” who had taken up the practice in the 1970s. “If you are a human being,

[transcendental meditation] works,” says Mr. Lynch.

His students range from children to celebrities.

Contrary to what you might expect for a meditation teacher, Mr. Roth often wears a suit with a crisp white shirt. (More predictably, he has a serene

demeanor.) He lives alone in New York, and in his downtime enjoys trying new Asian fusion and Italian restaurants and watching sports, especially baseball. “I grew up with Willie Mays, who was my first hero,” he says.

He spends half his time teaching and the other half running the organization. For all of his new students, instruction is the same. He conducts a short ceremony in which he acknowledges past teachers and gives each student a mantra—a sound or word that has no meaning and is to be repeated silently during the meditation. (The student keeps that mantra forever.) After that, the student closes his or her eyes for 20 minutes and silently recites the mantra while sitting in a comfortable position.

In follow-up sessions, Mr. Roth discusses the benefits of the practice, refreshes students’ techniques and answers any questions they have, often meditating alongside them. Critics have said that the practice isn’t any better than therapy, exercise or medication at reducing stress, but Mr. Roth points to studies that have shown it to be effective, including in reducing high blood pressure. “It’s not a matter of ‘either or,’ ” he says. “It’s a wiser matter of ‘and also.’ ”

The foundation is now participating in a study with the University of Chicago’s Crime Lab to research whether T.M. can reduce violence and improve scores in a trial with 2,000 children in five Chicago public schools. Next year, the research will expand to 800 students in two public schools in New York.

Mr. Seinfeld has been working with Mr. Roth for the past eight years and has performed at some of the foundation’s benefits. “It completely changed my ability to do work and be active and do the things I want to do,” he says. “Wives like to go out to dinner and husbands just want to lie there, but now I find I can do anything, with the T.M. to restore me,” he adds with a laugh.

founder and co-chairman Ray Dalio, a student of Mr. Roth’s for more than a decade and a donor to the foundation, is a believer. The practice has been “integral to whatever success I’ve had in life,” he says. “It makes one feel like...a ninja in a movie, like you’re doing everything calmly and in slow motion.”

Mr. Roth, 66, is chief executive of the David Lynch Foundation, a nonprofit he co-founded with the film director in 2005 that is dedicated to teaching transcendental meditation, particularly to at-risk populations, “to improve their health, cognitive capabilities and performance in life,” as the foundation’s website

says. Some of its funds come from teaching courses to companies and individuals; a four-day training course costs up to \$960 a person. The foundation has 60 employees in the U.S. as well as partners in 35 countries.

In early June, Mr. Roth opened the nonprofit’s first office in Washington, D.C., where he says he is currently teaching a dozen members of Congress. His organization has also been participating in studies in prisons recently. In a study published last year in the *Permanente Journal*, 181 male inmates at the Oregon State Correctional Institute and the Oregon State Penitentiary in Sa-

**PLAYLIST: MIKE TYSON**

## A HEAVYWEIGHT TITLE



MFSB performing in Philadelphia circa 1978.



Mike Tyson, 51, is a former professional boxer who simultaneously held the WBC, WBA and IBF heavyweight titles. He is the author, with Larry Sloman, of “Iron Ambition: My Life With Cus D’Amato” (Blue Rider). He spoke with Marc Myers.

When I was 10, I was living on the streets of the Brownsville section of Brooklyn, N.Y. I was running wild, without adult supervision and getting into trouble. That’s where I first heard MFSB’s “LOVE IS THE MESSAGE.”

My father had been a regular street guy who abandoned my mother and me when I was born. Alone, my mother couldn’t control me.

One day in 1976, I was at a party at a neighborhood center. A guy spinning records put on “Love Is the Message.” It had come out in 1973, but I hadn’t heard it before. To extend the record, he used two copies of the record, switching back and forth when the other was ending.

The instrumental grabbed me instantly. The song’s intro was gen-

tle, with electric bass and strings and then electric piano. The buildup was fantastic. Then the saxophone came in backed by a huge crew in the orchestra.

After a long section with strings, the sax began to solo. I later learned it was Zach Zachary. He sounded like he was singing the song through his instrument. And the drums by Earl Young were crazy. He put down this skippy dance beat. I was a horrible dancer, but that beat moved me.

Philly’s MFSB (Mother, Father Sister, Brother), this big orchestra of studio musicians, also recorded a vocal version of the song with The Three Degrees, but the words didn’t really mean anything to me: “Love is, love is the message that I sing to you / Love is the message that I bring to you.”

The instrumental was better. Eventually a friend recorded a cassette tape for me of the instrumental version playing over and over. It was the sound of success.

When I became a boxer, I never listened to “Love Is the Message” when training. It wasn’t a battle song. It was for showing off at parties.

Today, I live with my wife and our two children in Las Vegas. Now the song takes me back to a time when it didn’t take much to make people happy. I was one of those people.



OPINION

REVIEW & OUTLOOK

The U.S. Senate’s Tax Panic

On the dishonest left and the timid right, the Senate health-care bill boils down to “benefit cuts for the poor to pay for tax cuts for the rich.” Some centrist Republicans are spooked and want their colleagues to keep ObamaCare’s enormous tax increase on investment income. The pity is that the losers of this political retreat would be American workers with stagnant wages.

ObamaCare created a 3.8-percentage-point surtax on capital gains, dividends, interest and other forms of so-called “unearned income.” This tax increase on capital was sold as hitting the rich, but note that it brought the top rate to 23.8% for singles earning as little as \$200,000 and couples \$250,000. That’s a middle-class couple. Democrats are weaponizing the income-distribution tables as they always do, because most of the \$172.2 billion in lost revenue over a decade on a static basis would flow to the top 20% of taxpayers.

Support is growing to leave the surtax in place and spend the money on more insurance subsidies for low-income people or something else. Others want to delay repeal, or else defer the debate and deal with the surtax in tax reform. The conceit seems to be that Democrats and the media will give Republicans credit for surrendering, the controversy will melt away, and everyone will repair to the ideological conformity of the Aspen Ideas Festival.

Best of luck with that one. Democrats will pocket the concession and continue demagoguing tax cuts for the wealthy as the tax debate begins—only more emboldened for having tasted blood. The details are irrelevant to their opposition. GOP Senators also ought to understand that the goal of this left-right assault isn’t simply to defeat the health-care bill but to sink pro-growth tax reform too.

Most immediately, delay makes tax reform \$172.2 billion harder, because Republicans would have to find the money in other budget offsets—assuming they really do want to repeal the tax. But in that case, why not do so now? Republicans won’t be in a stronger position after they’ve shown they can’t win the class-warfare argument.

The larger progressive ambition is to make it too much trouble to ever again cut marginal tax rates for individuals or businesses to grow the economy, and some conservatives are joining them. They want the GOP to surrender to the neo-Keynesian view that tax rates don’t matter to economic growth or individual behavior. A coterie of Beltway conservatives wants Republicans to repudiate their post-Reagan economic principles and return to their former status as tax collectors

for the entitlement state while embracing right-wing income redistribution with child tax credits and family-leave subsidies.

The economic merits don’t seem to count in this political fantasia. The reason to repeal the surtax isn’t to shower dollars on the affluent, as if anyone truly believes that is the intent. The reason is to increase the stock of capital and improve the incentives for capital formation, which in turn increases labor productivity, wages and job creation.

Cutting the rate on capital income to 20%—it was 15% as recently as 2012—is a major increase in the return on investment and 3.8 points is close to half of the eight-point cut in the Bill Clinton-Newt Gingrich budget deal of 1997. That reform helped propel the 1990s boom, especially in a surge of venture capital in tech and other business startups.

The Tax Foundation estimates that repealing the surtax would increase employment over the decade by 133,000 jobs and increase the size of the economy by 0.7%. After-tax earnings across the bottom 60% of the income distribution would be about 0.65% higher than they would otherwise be. Combined with a successful tax reform, workers could see a big pay raise for the first time in years, which was President Trump’s foundational campaign promise.

The economic literature is extensive that investors are highly sensitive to marginal tax rates, and they decide when to realize capital gains. Tax receipts for the first eight months of fiscal year 2017 are 3% off projections. The Congressional Budget Office attributes this slowdown to taxpayers who “may have shifted more income than projected from 2016 to later years, expecting legislation to reduce tax rates to be enacted this year.”

This “lock-in effect” reduces economic efficiency and therefore growth because capital isn’t being cashed out to find its highest return. An economic expansion that is already long in the tooth at eight years can’t afford a Republican tax rout.

\* \* \*

When Republicans campaigned to “repeal and replace” ObamaCare, we don’t recall hearing that they meant only some of its tax increases. If they panic on the ObamaCare surtax, they’ll give Democrats a major policy victory without having provided a single vote to pass it. Talk about bad politics. Messy compromises are necessary to pass the health bill, but the Senate shouldn’t further damage reform with anti-growth political patent medicine.

Some conservatives in the Senate and the House are despondent because neither bill repeals the federal rules related to pre-existing conditions

known as guaranteed issue and community rating. They’re right that these mandates are destructive. Community rating, which limits how much premiums can vary among people with different health status and

risks, tends to blow up insurance markets, as ObamaCare is now showing.

But at least for now, conservatives have lost this political debate. There’s no Senate majority for catching the pre-existing conditions grenade, Governors aren’t hot on the idea either, and even insurers don’t want to return to the days of medical underwriting.

The Senate bet is that the 1332 waivers can help create enough of a recovery in insurance markets to overcome the distortions of these rules and bring down rates. The bill also relaxes ObamaCare’s age bands to a 5 to 1 ratio from a 3 to 1 ratio, meaning insurance for the oldest beneficiaries can be priced five times as high as for the youngest. Since age is a proxy for health risks and expenses, and a 5 to 1 ratio is close to the true actuarial cost of care, the policy result in practice is a wash.

The other objection is that leaving ObamaCare regulations in law creates the risk that a future Democratic President could revoke the 1332 waivers to restore the ObamaCare status quo. But the bill includes a provision that legally bars the Health and Human Services Secretary from cancelling an approved waiver for eight years, and they can be automatically renewed. A Democratic Congress could change the law, but then a new Congress always can, and in any case successful state projects will be hard to overturn.

ObamaCare’s failures have created an appetite for new alternatives. If Senate Republicans can get to 50 votes, they’ll unleash the states to build post-ObamaCare options.

Thirty-one states sued the feds for violating the Administrative Procedure Act, and the Sixth Circuit Court of Appeals enjoined the rule nationwide. Now Administrator Scott Pruitt is putting the rule on ice while the EPA works up a replacement. Supreme Court Justice Anthony Kennedy muddled the waters with his controlling opinion in the 2006 *Rapanos v. U.S.* case that conceived the new “significant nexus” standard, which the Obama EPA used as a pretext to pursue its water land grab.

Mr. Pruitt said the EPA will propose a new rule “in accordance with Supreme Court decisions, agency guidance, and longstanding practice” that would “return power to the states and provide regulatory certainty.” Consider it another lesson in the limits of pen-and-phone rule by decree.

When Workers Become Collateral Damage



BUSINESS WORLD  
By Holman W. Jenkins, Jr.

By now you have read 15 articles on the Seattle minimum-wage fiasco. Since the city boosted its local minimum to \$13 last year (on its way to \$15) from \$9.47 in 2014, a detailed investigation by University of Washington economists finds that beneficiaries actually saw their incomes fall by a net \$125 a month because employers cut their hours.

When the price of something goes up, buyers demand less of it. This law of economics, like any law, some will always find inconvenient. But here’s the rest of the story.

The impetus came from people who don’t actually earn the minimum wage—labor-union leaders and think-tankers and activist organizations. The Service Employees International Union, as it has been happy to tell anyone, including a writer for the Atlantic Monthly two years ago, was already plowing \$30 million into the “fight for \$15” even though virtually all the hoped-for benefits would go to nonmembers.

There was even pushback from various union locals. Was this really a good use of our dues when most members already earn well above the minimum and have other priorities?

As the union also wasn’t shy about noting, the real target was a very specific company, McDonald’s, which SEIU dreams of organizing despite the historically unwelcoming nature of franchise-based industries.

How a \$15 minimum leads toward this halcyon day was never exactly spelled out, but here’s the answer: \$15 would be used to change the basic labor-market bargain implied between the fast-food industry and its workers. Fifteen dollars an hour amounts to \$31,200 a year and hardly a princely living. But you start adding mandated benefits and think about two-income households, and now you’re talking about a job that will sustain a different kind of life strategy than a Golden Arches job will today.

Organizers look fondly to Denmark, where a McDonald’s line worker receives \$41,000 a year and five weeks of paid vacation. As the Atlantic put it two years ago, “Unionizing workers at McDonald’s and other fast-food chains might be a long shot, but if it succeeds, it might help lift a million or more workers into the middle class (or at least into the lower middle class) and create a model for low-wage workers in other industries.”

This sounds pretty but is misleading in a fundamental way. The workers a McDonald’s franchise would hire at \$15 an hour are *different* from those it would hire at \$8.29, the average earned by a fast-food worker today.

Costs would go up. The industry would likely shrink, it would likely replace workers with automation, but it would still create jobs at \$15 an hour for

people whose productivity can justify \$15 an hour. The people who work at McDonald’s today, typically, would already be earning \$15 an hour somewhere else if their productivity could justify \$15 an hour.

Everybody needs to start somewhere, including the unskilled and those who lack a work history. Some need a job that doesn’t demand much of them. They have other obligations. They accept less pay to maximize flexibility and freedom from responsibility. They don’t plan to make a career of it. The fast-food industry in America is built on such people.

Proponents like to argue that employers, especially in the fast-food business, actually benefit from an increased minimum. It enables them to attract a more dedicated, productive employee. But why shouldn’t employers be left to make this trade-off themselves? And what about the people who won’t get hired at \$15 and lose the benefit of a fast-food opportunity that is one of the easiest, quickest jobs to land in America?

A minimum-wage battle in Seattle was a union’s way of targeting McDonald’s. Never mind how it hurt employees.

When President Obama joined the fight in 2015, he argued that a full-time job should be able to support a family. This sounded pretty too, but was a way of saying that jobs that won’t support a family shouldn’t exist, and people whose productivity won’t support a family shouldn’t have jobs.

This is curious. Many countries that set a minimum wage, including the U.S., also set subminimum wages for teenagers, trainees, probationary hires, certain categories of disabled persons, etc. Having both a minimum and subminimum is hard to reconcile logically: Low-paying jobs shouldn’t exist, except some people need low-paying jobs, so they should exist. This concession to reality, in fact, shows not all minimum-wage advocates are economic scowflaws.

SEIU signed off on the “fight for \$15” as part of a convoluted scheme to bring unionization to McDonald’s. As all would admit privately, the idea was always pie in the sky. But union leaders have to spend their members’ dues on something, or members might get the idea they don’t need to keep paying dues.

Now SEIU’s spending priorities have been changing again. Lately the leadership has arguably rediscovered its first love, electoral politics, not organizing. The union has let it be known that the “fight for \$15” will be scaled back to free up funds to fight the 2018 congressional elections and 2020 presidential race. No doubt the Seattle study and all the attention it’s getting in the media make the decision even easier.

LETTERS TO THE EDITOR

Decline of the U.S. Military Precedes Obama

In “Congress and Obama Depleted the Military” (op-ed, June 22), Dick Cheney and Liz Cheney neglect to include vital information. There is no discussion or acknowledgment of the impact that the longest wars in U.S. history (that began on Mr. Cheney’s watch) have had on that depletion. Further, that depletion was made worse by fighting two major conflicts, one of which was a discretionary war, as well as responding to other threats such as North Korea. Let us also not forget the impact of stop-loss (aka the backdoor draft) on retention and readiness as well as PTSD and TBI (traumatic brain injuries).

If the trillions spent on Iraq had been invested in new ships, aircraft, spare parts, munitions, training and personnel, America’s armed forces would be in tiptop shape today.

The headline should read: “The Bush Administration Started the Depletion; Congress and Obama Finished the Job.”

GEORGE HARRIS  
Atlanta

Texting Fails Many Tasks, Including Job Interviews

As a millennial who is in the midst of a career change, I feel that text-based interviews aren’t only impersonal but oddly generic and merely enable otherwise uninterested candidates (“Texting Might Help Land You a Job,” Management, June 21).

I question the quality and competency of interviewees who feel they may respond to texted questions whenever they wish. Pondering questions over a weekend demonstrates a genuine lack of ability to think swiftly and further erodes the idea of working under pressure, especially in a results-driven environment.

It’s difficult to label such recruiting efforts as “hip” or “innovative” when career success requires proficiency in all methods of communication.

ALEXANDER J. BORTONE  
Pensacola, Fla.

Mr. Cheney and Ms. Cheney make a compelling argument for increasing spending throughout the U.S. military to help offset the world’s rising dangers. However, as a conservative who prefers his bills paid for, I am perplexed how they can ignore any mention of how this will be funded. Republicans cannot continue to talk about tax cuts and increased military spending without offering a blueprint for where the money will come from. Some of us conservatives view our country’s debt as a real security threat.

And why stop with defense? We should build more bridges and cure cancer too while we’re at it. The trillion dollars Mr. Cheney spent in Iraq and Afghanistan would have made a nice down payment on his proposed wish list.

JOHN A. GRUBER  
Itasca, Ill.

U.S. Congress has abdicated its authority in not updating the 2001 authorization to use military force, an authorization that has been grotesquely stretched far beyond its original intent.

Absent a real crisis, the chances of Congress approving the necessary defense funding to sustain the current force are nil. The grim conclusion is that unless dramatic change in strategy, employment or funding occurs, America is headed to a hollow force reminiscent of what followed the Vietnam War.

This is the point the Cheneys and others must make, and demand that the U.S. government addresses defense in a more serious manner.

HARLAN ULLMAN  
Washington

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The ObamaCare Waiver Breakthrough

Senate conservatives in America wish the health-care bill was more ambitious on de-regulation, and so do we, though the benefits of its state waiver feature are underappreciated and worth more explanation. This booster shot of federalism could become the greatest devolution of federal power to the states in the modern era.

One of ObamaCare’s most destructive legacies is a vast expansion of federal control over insurance and medicine—industries that didn’t exactly lack supervision before 2010. This included annexing powers that traditionally belonged to states. The Obama Administration then used regulation to standardize insurers as public utilities and accelerate a wave of provider consolidation that has created hospital and physician oligopolies across the country.

Once in command, government rarely eases off or returns control, but the Senate bill does. The Affordable Care Act included a process in which states could apply for permission to be exempted from some rules, but conditions are so onerous that these 1332 waivers have been mostly notional. The Senate Republican draft bill makes this process quicker, more flexible and broader, which could launch a burst of state innovation.

Introducing many competing health-care models across the country would be healthy. California and South Carolina don’t—and shouldn’t—have to follow one uniform prototype designed in Washington, and even a state as large as California doesn’t have the same needs from region to region.

If nothing else the repeal and replace debate has shown that liberals, conservatives and centrists have different health-care priorities, and allowing different approaches and experimentation would be politically therapeutic. The more innovative can become examples to those that stay heavily regulated.

The Senate health bill has an important way to reduce premiums.

The EPA’s Clean Water Break

President Trump is having a hard time getting legislation through Congress, but his Administration is moving fast to roll back Barack Obama’s pen- and-a-phone law-making. The latest example, which barely registered in the press, is the Environmental Protection Agency’s decision last week to rescind the unilateral rewrite of the Clean Water Act.

The Obama EPA in 2015 redefined “waters of the United States” under the Clean Water Act to include any land with a “significant nexus” to a navigable waterway. Several arbitrary thresholds were used to determine significance, such as land within a 100-year floodplain and 1,500 feet of the high-water mark of waters under government jurisdiction. The rule extended the government’s writ to prairie potholes, vernal pools and backyard creeks.



OPINION

# On Health Care, a Promise, Not a Threat



**DECLARATIONS**

By Peggy Noonan

Today we celebrate a great American holiday. In the U.S. there will be fireworks and children frolicking in pools; there will be baseball games, cookouts and flags. America will be looking and acting like America. So this is no time for gloom.

This moment in fact may be, perversely, promising. The failure so far of Senate Republicans to agree on a health-care bill provides an opening. Whatever happens the next few days, moderates and centrists on both sides can and should rise, name themselves and start storming through.

## Republican senators may end up having to work with the Democrats.

The difficulties the Republicans have faced were inevitable. They are divided; they don't have the will or the base. The party is undergoing a populist realignment, with party donors, think-tankers and ideologues seeing things more or less one way, and the Trump base, including many Democrats, seeing them another. The long-stable ground under Republican senators has been shifting, and they're not sure where or how to stand.

The president, philosophically unmoored and operating without a firm grasp of the legislation he promotes, is little help. He has impulses and sentiments but is not, as the French used to say, a serious man. He just wants a deal and a win, and there's something almost refreshing in this, in the lack of tangled and complicated personal and political motives. It makes so much possible.

Many Republican senators see that the American people aren't in the mood for tax cuts to the comfortable and coverage limits on the distressed. Democratic senators, on the other hand, are increasingly aware that ObamaCare isn't viable, and in some respects is on the verge of collapse.

This gives both parties motives to join together and make things better.

Republicans believe they must repeal ObamaCare because they've long promised to do so. Keeping promises, especially in our untrusting political climate, is a good thing.

But polling suggests America isn't eager that promise be wholly kept. The Senate's repeal-and-replace bill is deeply underwater in most polls, barely above water even with Republicans. If you campaign promising mayonnaise but once you're in office voters start saying they prefer mustard, Politics 101 says, at least for now, hold the mayo.

Here again is our big wish: that both parties join together and produce a fix. It would no doubt be ungainly and imperfect, but it would be better than the failing thing we have. And Americans, being practical, will settle, for now, for better.

The GOP's donor class would likely hate the eventual bill, as the Democratic Party's nihilist left, which wants no compromise, would hate it. But their opposition would suggest to everyone else the bill must be pretty good.

There is the beginning of a movement in the Senate for a bipartisan approach. Republican Susan Collins of Maine has it exactly right: Asked if she thinks it necessary for both parties to work together, she said: "That's what we should have done from the beginning." Republican Shelley Moore Capito of West Virginia said on Fox News Wednesday night: "I'm ready to roll up my sleeves and work with the Democrats." Republican



Sens. Joe Manchin (D., W.Va.) and Susan Collins (R., Maine).

Ron Johnson of Wisconsin says it's a 'mistake' to attempt a partisan fix. Democrat Joe Manchin, also of West Virginia, says he's "ready" for a bipartisan effort.

The New York Times reports senators from both parties met privately weeks ago to discuss core issues. Mr. Manchin was there along with Democrats Joe Donnelly of Indiana and Heidi Heitkamp of North Dakota. Among the Republicans were Sens. Capito and Collins, Bill Cassidy of Louisiana and Lindsey Graham of South Carolina.

That's a good start. Majority Leader Mitch McConnell, disappointed in the GOP failure earlier in the week to get to yes, told his own members, in front of the press, that if they can't get it together, they'll have to work with the Democrats. It sounded like a threat, not an invitation; he seemed to be saying Republican voters wouldn't like it. Many wouldn't, but the polling suggests many would.

This column respects history and tradition. I've banged away on the fact that any big legislative change that affects how America lives, especially on something so intimate

and immediate as health care, has to receive support from both parties or it will never work.

Franklin D. Roosevelt, in creating Social Security in 1935, knew he had to get Republicans behind it and owning it, or America would see it as a Democratic project, not an American institution. In the end he persuaded 81 Republicans to join 284 Democrats in the House. So too with the creation of Medicare in 1965: Lyndon Johnson wrestled and cajoled Republicans and got a majority of their votes.

Every president until Barack Obama knew this. He bullied through ObamaCare with no Republican support, and he did it devilishly, too, in that he created a bill so deal-laden, so intricate, so embedding-of-its-tentacles into the insurance and health systems, that it would be almost impossible to undo. He was maximalist. His party got a maximal black eye, losing the House and eventually the Senate over the bill, which also contributed to its loss of the presidency.

Is it fair that both parties must fix a problem created by one party? No. But it would be wise and would work.

# An American in Paris? *Non*, It's the French President

By Eliora Katz

Seeking the American Macron!" the Weekly Standard's Bill Kristol tweeted the other day, expressing his disdain for Republicans and Democrats. To hear the French philosopher Alain Finkielkraut tell it, Mr. Kristol should look in Paris.

Like the anti-Trump Mr. Kristol, Mr. Finkielkraut didn't care for either choice in his country's recent presidential election. He has no truck with the xenophobic nationalism of Marine Le Pen's National Front. As for President Emmanuel Macron, he is far too American for Mr. Finkielkraut's taste.

The new leader's official presidential portrait photo was unveiled last week, and the French media noted its striking resemblance to Barack Obama from 2012. Mr. Macron sent supporters to knock on voters' doors, a campaign practice that is familiar to Americans but was unheard of

here. When the president sings "La Marseillaise," the French national anthem, he closes his eyes and holds his hand over his heart. "This is not our tradition," Mr. Finkielkraut, 67, told me in a recent interview at his book-lined apartment near Jardin du Luxembourg.

Mr. Finkielkraut himself is a distinctly French type, a celebrity intellectual à la Régis Debray, Pascal Bruckner or Bernard-Henri Lévy. His complaints about Mr. Macron—and America—run deeper than political symbolism and ritual.

He argues that France faces a "civilizational" crisis, a degeneration of social bonds whose symptoms include a decaying language, an inability to integrate immigrants, a contempt for French history, and a rise in terrorism, which he calls "the new ambient music of Europe."

Much of this he blames on multiculturalism, which he sees as a worldview made in America. "France is an old civilization; it has the right to preserve itself," he says. "The

multicultural society is a multicultural society."

In particular, large waves of Muslim immigrants have failed to adopt the values of the secular republic,

## 'Entrepreneurship is the new France,' says Emmanuel Macron. One philosopher is skeptical.

known as *laïcité*. Candidate Macron celebrated France's cultural disunity, proclaiming: "There is no such thing as a single French culture."

To Mr. Finkielkraut, multiculturalism is a form of American "imperialism"—one that, by denying a country like France its right to maintain its particular identity, belies its claim to celebrate diverse cultures.

"We willingly accept the replacement of the French language by 'Globalish,'" Mr. Finkielkraut laments. To

illustrate, he cites the English-language slogan of Paris's 2024 Olympic bid: "Made for sharing." Originally used in a Cadbury chocolate commercial, the slogan was later adapted by Burger King for its wedge-sliced Pizza Burger.

Then there is the new president's economic program. "Emmanuel Macron's philosophy is that of *homo economicus*," Mr. Finkielkraut explains, referring to the theory that man's motivations come down to rational self-interest.

Mr. Macron, a former investment banker, often sounds less like de Gaulle than Zuckerberg. Last month he proclaimed in English: "I want France to be a nation that thinks and moves like a startup." He promised the French state would be a "platform and not a constraint" and added: "Entrepreneurship is the new France."

The new France sounds a lot like the old America, but Mr. Finkielkraut isn't alone in thinking the country already resembles the U.S. in its social problems. One of the most popular

Here is a thing that would help: a little humility from the Democrats, and a little humanity.

It would be powerful if a Democratic senator would say something like this: "Republicans have proved they can't make progress. They're failing in their efforts, and I'm not sad about it, because their bill is a bad one. But I'm not going to lie to you, ObamaCare has big flaws—always did. It was an imperfect piece of legislation and it's done some things my party said wouldn't happen, such as lost coverage and hiked deductibles. The American people know this because they live with it. The answer is to do what we should have done in the past, and that is joining with Republicans to hammer out changes that will make things better, that we all can live with, at least for now. We'll make it better only by working together. I'm asking to work with them."

That person would be a hero in the Beltway, which prizes compromise and constructiveness, and admired outside it. "My God, it isn't all just partisan for her."

The Democratic Party made this mess. It's on them to help dig out of it. If they show some humility, Republicans would look pretty poor in not responding with their own olive branch.

Show some class, help the country. When it's over, use whatever words you want: "We forced Democrats to admit the bill was flawed and dying." "We forced Republicans to back down."

America won't mind the propaganda, they're used to it. Just make a bad thing better.

Don't give what you produce a grandiose name. Call it the Health Reform Act of 2017. There will be more. Wait till we're debating single payer in 2020.

But move now. Do the work, break Capitol Hill out of its shirts-and-skins stasis. Solve this thing.

A happy 241st anniversary to America, the great and fabled nation that is still, this day, the hope of the world.



**AMERICAS**  
By Mary Anastasia O'Grady

have overwhelmed government institutions. The instability has cost the region economically, feeding a vicious circle of poverty and violence with spillover effects for Mexico and the U.S.

The "Northern Triangle" of Central America—Guatemala, Honduras and El Salvador—is one of the world's most dangerous regions. Drug trafficking and a weak rule of law have spawned powerful organized-crime networks that

The Trump administration recognizes that faster economic growth is part of what's needed for the region and is looking beyond simply throwing money at the problem. To succeed, it will have to break with the State Department's conventional wisdom that underdevelopment is caused by a paucity of taxes and regulation. It will also have to climb down from its view that trade is a zero-sum game.

Policy makers might start by reading a new report on micro, small and medium-size businesses in Guatemala by the Kirzner Center for Entrepreneurship at Francisco Marroquin University in Guatemala

City. It measures—by way of household surveys in 179 municipalities and interviews with industry experts—"attitudes, activities and aspirations of the entrepreneur." The work is part of the Global Entrepreneurship Monitor study for 2016-17, which covers 65 countries.

At a June meeting in Miami with officials from the three Northern Triangle countries and Mexico, Secretary of State Rex Tillerson spoke of the need to "improve the overall economic competitiveness" of the region and "boost the willingness of private companies to invest in Central America."

That had to be music to the ears of most Guatemalans since the GEM study ranks Guatemala No. 1 for its positive view of entrepreneurship as a career choice. Guatemala also ranks high (No. 9) for the percentage of the population engaged in new businesses, defined as less than 3½ years old. And it ranks 12th in terms of the percentage of the population who "are latent entrepreneurs and who intend to start a business within three years." Guatemalan early-stage entrepreneurs see themselves as innovative, ranking seventh in the perception that they offer a product that has a unique, competitive edge.

Yet Guatemalan eagerness to run a business hasn't translated into prosperity for the nation, and therein lies the lesson for Mr. Tillerson and friends. The country ranks a lowly 59th in entrepreneurs' expectations that they will create six or more jobs in five years. It also sinks to near the bottom of the

pack (62nd) in creating business-service companies. More than 76% of businesses are consumption-oriented. Service businesses make up only 3.4% of all companies.

Failure to create jobs and grow, and the heavy concentration of businesses in the consumer sector,

## A new report suggests reducing barriers to entrepreneurship.

reflects the difficulty Guatemalan entrepreneurs have in getting credit. That's not unusual in an economy in which more than 72% of businesses operate underground and therefore cannot access the formal banking system. Those businesses generate income but they aren't able to make investments for future growth.

The World Bank's 2017 Doing Business survey provides many clues about why the informal economy is so large. Guatemala ranks 88th out of 190 countries worldwide for ease of running an enterprise, but in key categories that make up the index it performs much worse.

The survey finds that it takes 256 hours to comply with the tax code. The total tax take is 35.2% of profits. It takes almost 20 days to start a legal enterprise and costs 24% of per capita income. To enforce a contract it takes more than 1,400 days and costs more than 26% of the claim.

Guatemalan migrants who make it to the U.S. are famously entrepreneurial and send home more in remittances every year than the total value of apparel, sugar and coffee exports. But at home the state is hostile to business and disrespectful of property rights. As a result, most new ventures see the cost of formality as outweighing the benefits.

The obvious solution is an overhaul of the tax, regulatory and legal systems in order to increase economic freedom. A lower tax rate and a simpler code would give companies an incentive to operate legally, thereby broadening the base and improving access to credit.

Instead the Guatemalan authorities—encouraged by the U.S. State Department and the International Monetary Fund—spend their resources trying to impose a complex, costly system in an economy of mostly informal businesses with a much-smaller number of legal, productive entrepreneurs. Recently the United Nations International Commission against Impunity in Guatemala recommended a new tax to fight "impunity."

This is no way to attract capital or raise revenue. Nor is Trump protectionism going to help Mr. Tillerson turn Central America around. Companies won't want to manufacture in the region if they don't have access to the U.S. market.

If the U.S. wants to see an economic recovery in the Northern Triangle, it has to recognize the reality of the market.

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

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LIFE & ARTS

ART & ARCHITECTURE

# Plywood’s Star Turn

BY J.S. MARCUS

**SOME OF THE 20TH CENTURY’S** most influential furniture designers had a soft spot for plywood, the highly durable, lightweight wood product lurking beneath the surface of much of modern life and often dismissed as “real” wood’s poor relation.

To illustrate just how much can be done with it, London’s Victoria and Albert Museum has put together “Plywood: Material of Modern Life,” a new 147-work exhibition that shows the material in forms ranging from high-modernist chairs to mid-Cold War fallout shelters.

The technique of creating plywood—thin layers of wood, glued together with their grain running in alternate directions—dates back at least to ancient Egypt, says co-curator Christopher Wilk.

Plywood came into its own starting in the mid-19th century, when mechanized saws started to create thinner, less expensive and more-regular wood layers. The exhibition, which opens July 15 and runs into the fall, seeks to credit modern plywood’s industrial-age innovators—above all, Singer Manufacturing.

Singer sold not only plywood stands for its sewing machines but also other plywood furniture, even felling trees from company-owned forests to make the material. From the 1880s to the 1950s, Singer was probably the world’s largest plywood furniture manufacturer, Mr. Wilk says. Meanwhile, plywood tea chests—cases used for shipping—kept the British Empire’s critical teatime going, while the Edwardian Ernest Shackleton adapted the chests’ forms for his Antarctic explorations.

Among the earliest works in the roughly chronological display are designs by German-American John Henry Belter, the master of ornate Victorian furniture, who took advantage of plywood’s lightness to produce his otherwise weighty, neo-rococo pieces. The V&A is exhibiting a curved-back chair from around 1860, for which Belter turned to rosewood-veneer plywood because solid rosewood was both too expensive and too heavy to shape into a curve.

By the 1930s, plywood was turning into a favorite material for some of the world’s top designers. Finnish architect Alvar Aalto won a commission to design a sanatorium for tuberculosis patients outside Turku, in the southwest of the country. Inspired by Bauhaus-era Germany’s tubular steel furniture, Aalto reinterpreted their curves and angles in plywood, coming up with a building full of such pieces.



ice-skating shelters, above, built by Patkau Architects in Winnipeg, Canada, in 2012; below, a plywood chair designed by Grete Jalk, 1963.

terpreted their curves and angles in plywood, coming up with a building full of such pieces.

One of the German-based masters of the tubular steel furniture that inspired Aalto, Marcel Breuer, turned to plywood himself after fleeing Nazi Germany for London, creating plywood classics for the furniture maker Isokon. The pieces are now valued for their comfort as well as their flowing lines. The show includes a Breuer prototype dining table, made of five-ply molded birch plywood.

In America, Charles and Ray Eames advanced their plywood prowess with a waterproof plywood splint, created as medical gear for the Navy during World War II. Their DCM chair of 1946, with a molded-plywood



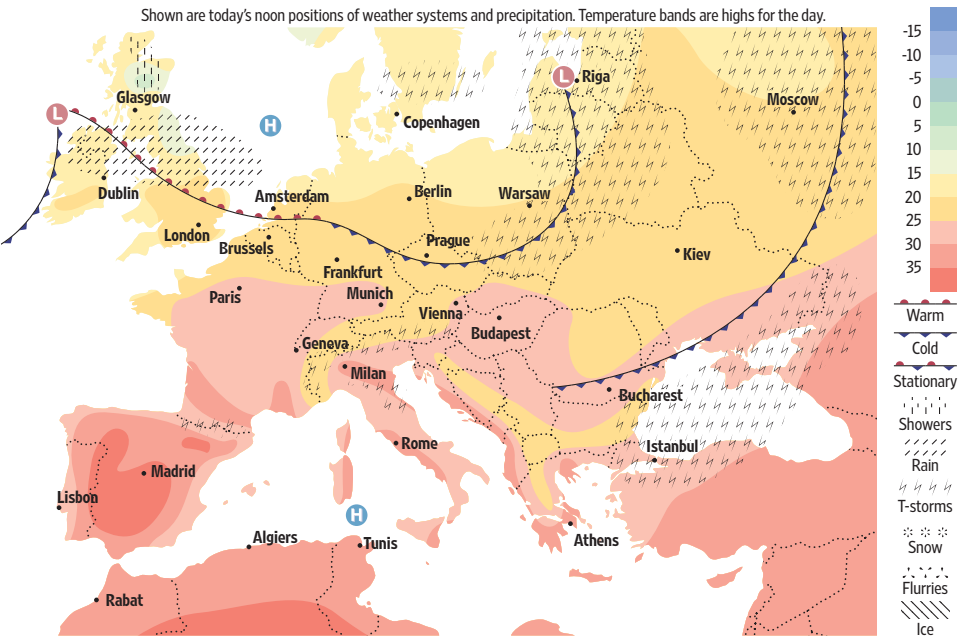
seat and back, managed to be ergonomic before the term became widely used and spawned many homages—some of which are in the new V&A show, along with one of the originals. “Plywood” might seem to be a departure from the V&A’s newfound penchant for shows with a higher glamour quotient, often emphasizing fashion or popular culture. Museum Director Tristram Hunt disagrees. “There is something sexy and groovy

about plywood,” he says, citing “the unexpected” nature of objects like the displayed 1967 British Formula Two racing car, with critical components of birch plywood.

Today, certain plywood works can get high prices at auction. In 2015, a Breuer Isokon plywood chaise lounge from 1936 sold for \$81,250 at a 2015 sale at Wright, the design auction house. A year later, a circa 1950 Aalto plywood table sold for €375,900, or about \$425,000 today, overshooting a presale estimate of €1,000–€1,500 at a Paris auction.

As for those Eames plywood splints, the Navy bought something like 150,000 of them. But far from being treated as antique medical supplies, they have become “extraordinary art objects,” says Robert McCarter, a professor of architecture at St. Louis’s Washington University and the author of a recent book about Breuer. “I have a friend who has one, and I’m quite jealous.”

## Weather

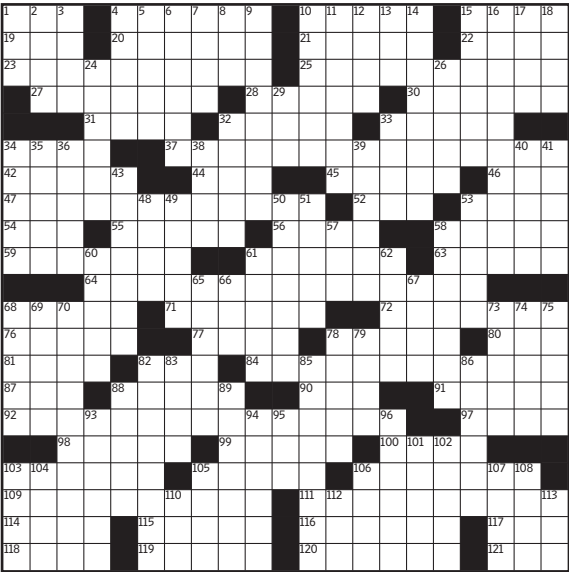


## Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	21	13	pc	23	14	pc
Anchorage	17	11	c	20	13	pc
Athens	30	23	s	31	23	s
Atlanta	31	22	t	31	23	t
Baghdad	49	33	s	49	32	s
Baltimore	32	21	pc	31	18	pc
Bangkok	31	25	c	31	25	t
Beijing	30	23	t	31	23	sh
Berlin	19	11	pc	20	12	pc
Bogota	19	10	c	19	10	c
Boise	38	20	s	38	21	s
Boston	27	17	s	26	17	s
Brussels	23	14	pc	26	15	pc
Buenos Aires	20	12	s	18	11	sh
Cairo	39	25	s	37	25	s
Calgary	27	13	pc	28	13	s
Caracas	31	25	pc	31	25	pc
Charlotte	32	22	t	31	21	t
Chicago	29	18	c	30	20	t
Dallas	35	26	pc	34	26	pc
Denver	33	16	pc	34	18	s
Detroit	28	16	s	30	19	pc
Dubai	42	31	s	41	32	s
Dublin	19	12	r	20	13	c
Edinburgh	14	9	sh	17	12	c
Frankfurt	25	14	pc	27	16	pc
Geneva	28	15	pc	31	16	s
Hanoi	30	25	t	31	25	t
Havana	32	23	pc	32	23	pc
Hong Kong	31	27	sh	32	27	c
Honolulu	29	24	pc	30	24	s
Houston	34	25	pc	34	24	pc
Istanbul	25	22	pc	28	22	pc
Jakarta	33	23	t	32	24	pc
Johannesburg	17	5	pc	19	3	s
Kansas City	29	20	t	30	19	pc
Las Vegas	43	29	s	43	30	pc
Lima	22	16	pc	22	16	pc
London	24	15	pc	27	17	pc
Los Angeles	28	17	pc	29	19	pc
Madrid	36	20	s	35	18	pc
Manila	33	26	t	33	26	t
Melbourne	15	9	sh	14	6	c
Mexico City	23	12	pc	22	12	pc
Miami	32	27	sh	33	27	pc
Milan	31	18	s	32	18	pc
Minneapolis	27	20	t	30	21	pc
Montreal	38	21	pc	37	21	pc
Montreal	24	14	pc	27	16	s
Moscow	20	11	r	18	11	r
Mumbai	31	27	sh	31	26	sh
Nashville	27	21	t	32	23	pc
New Delhi	35	27	pc	34	26	pc
New Orleans	32	24	pc	33	24	pc
New York City	29	21	s	28	18	s
Omaha	31	21	t	34	20	pc
Orlando	32	23	t	33	23	t
Ottawa	24	11	pc	26	14	s
Paris	26	16	pc	30	18	pc
Philadelphia	32	21	pc	30	19	pc
Phoenix	44	31	s	45	33	s
Pittsburgh	29	16	pc	31	20	pc
Port-au-Prince	35	23	pc	35	24	pc
Portland, Ore.	30	14	s	32	16	s
Rio de Janeiro	23	18	pc	24	18	pc
Riyadh	46	28	s	46	30	s
Rome	30	19	s	31	19	s
Salt Lake City	39	23	s	40	24	s
San Diego	23	18	pc	24	18	pc
San Francisco	21	14	pc	20	13	pc
San Juan	31	26	pc	32	26	sh
Santiago	11	1	c	14	4	pc
Santo Domingo	33	23	pc	31	23	pc
Sao Paulo	18	11	pc	19	11	s
Seattle	26	12	pc	29	14	s
Seoul	31	23	t	32	23	pc
Shanghai	33	26	t	32	27	t
Singapore	31	25	t	30	26	c
Stockholm	16	8	pc	18	8	c
Sydney	20	10	pc	19	9	s
Taipei	33	26	pc	33	26	t
Tehran	38	25	s	39	25	s
Tel Aviv	33	26	s	31	25	s
Tokyo	30	24	c	28	23	t
Toronto	25	14	s	26	16	pc
Vancouver	22	12	s	23	13	s
Washington, D.C.	34	23	pc	31	22	c
Zurich	26	13	pc	30	15	t

## The WSJ Daily Crossword | Edited by Mike Shenk



## Puzzle 1000 | by Harold Jones

Across			Down		
1	Floppy topper	46	"..... a lender be"	84	Sockeye that's a knockout?
4	Put-down artist	47	Diapers printed with jokes?	87	G.P.'s gp.
10	Prickly flora	52	Brother of 76-Across	88	Cockatoo feature
15	"The Immoralist" author	53	"Give it ____"	90	Wall St. maneuver
19	Plaza de Toros cry	54	Half of hex-	91	Popular health info source
20	Safe from hackers	55	Gives a hoot	92	Miniature albino citrus fruit?
21	Milwaukee Braves rookie of 1954	56	The Beatles' "____ Love Her"	97	Drag club accessories
22	____ impulse	58	Drive-thru side	98	Friendly talks
23	Foe in the NCAA basketball tourney?	59	Metal marble	99	"Veni, vidi, vici," for one
25	Committee in charge of plans to fight Gargamel?	61	Foe of M16 in Bond novels	100	Co-star of Bolger and Haley
27	Diatribes	63	Mock tribute	103	Sad news
28	Shaw with a clarinet	64	Fishing in Falmouth and transpotting in Truro?	105	"Cool!"
30	Hasidic leaders	68	Particle composed of a quark and an antiquark	106	Like argon
31	Piedmont wine region	71	National Railroad Passenger Corporation, familiarly	109	Highlight of a zoo's Instagram page?
32	Hooch producer	76	Brother of 52-Across	111	Troubadour by the side of a highway exit?
33	Expedia listing	72	Virtual directory	114	Lion's pride
34	Take in	77	Promote	115	Pull gently
42	Topped with volutes	78	Docket makeup	116	Debate premises
44	Martinmas mo.	80	You may be followed by it	117	Summer sign
45	Gutters' spots	81	Like four-leaf clovers	118	Diner menu section
		82	Penultimate letter	119	Hardhearted
				120	Most sound
				121	Mamie's mate

Down			Across		
1	Mix in the movies	57	MRI orderers	83	Debunked?
2	"Sad to say..."	58	Aid for intricate cutting	84	Maitre's domain
3	Soldier of fortune	59	Myrtle or mock orange	85	Tantrum
4	Arson aftermath	60	Mischiefous	86	Letters on Cardinal caps, e.g.
5	Floppy topper	61	Ludwig van der Rohe	87	Work on a wall
6	Sharp, in a way	62	As a friend, in French	88	Purpose of a pet post
7	Santa Fe and Tahoe, e.g.	63	"Dirty Dancing" dance	89	"King James"
8	Ace's stat	64	Bakery come-on	90	Remains unresolved
9	Not absolute	65	Measure for Noah	91	Mighty bit
10	Keep house?	66	Some academic diagnostics	92	Makes duds
11	"When We Were Very Young" writer	67	83 Makes duds	93	Licorice candies
12	Metal's Motley ____	68	85 Licorice candies	94	Basketball's "King James"
13	Mountain crag	69	86 Basketball's "King James"	95	Surgical tool
14	Between visible and microwave	70	87 Surgical tool	96	Like prayer wheels
15	Peanut, informally	71	88 Like prayer wheels	97	It's held in London banks
16	One way to graduate or to be convicted	72	89 Like prayer wheels	98	Comfortably warm
17	Exhibit audacity	73	90 Some Mother's command	99	Wear on
18	Möbius strip's lack	74	101 Mules' fathers	100	Bank job
24	Pack tightly	75	102 Mountain's goal	101	Mass of tangled hair
26	Highway shoulders	76	103 Mass of tangled hair	102	Scrubbed launch
29	Ahmed of "Rogue One"	77	104 Mass of tangled hair	103	Mafioso foes
32	Cuts off	78	105 Scrubbed launch	104	Misshapen citrus fruit
33	Bean variety	79	106 Mafioso foes	105	Apply for
34	Makes finer	80	107 Misshapen citrus fruit	106	Makeshift housing
35	Magic workplace	81	108 Moment of realization	107	Pricey cracker topper
36	Miss Hannigan's spunky charge	82	109 Pricey cracker topper		
38	Tim McGraw's "The Cowboy ____"				
39	Cruel fellow				
40	Sensitive spots				
41	Motel meeting				
43	Coney Island coaster				
48	Match				
49	Main event setting				
50	Run amok				
51	Underhanded schemer				

## Previous Puzzle's Solution

FLAG	ONEND	FBI
LIBYA	SEGUE	REF
AMENS	CROSS	EYES
MEATH	HEAD	KRIS
EST	TARS	STAN
PI	ROT	BIO
PALIN	WALL	PAPER
EROS	PINTO	PAWN
WINEL	ISTS	RENTS
SAG	INK	VEX
BUT	OPEC	MDS
BOISH	NOTE	BOOK
CRAB	GRAIS	DEBUT
AIR	OASES	ELIOT
RED	WHITE	BLUE

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, July 4, 2017 | B1

Euro vs. Dollar 1.1366 ▼ 0.53%

FTSE100 7377.09 ▲ 0.88%

Gold 1217.90 ▼ 1.84%

WTI crude 47.07 ▲ 2.24%

German Bund yield 0.477%

10-Year Treasury yield 2.352%

## Auto Sales in U.S. Skid Lower

June's decline reflects drop in deliveries to rental-car companies; higher prices also cited

By Mike Colias  
and Adrienne Roberts

Auto sales continued to slide in June, as car buyers reacted to higher vehicle prices and Detroit backed away from dumping unwanted inventory into rental-car lots.

**General Motors Co., Ford Motor Co. and Fiat Chrysler Automobiles** NV reported steep monthly sales declines compared with the same period in 2016. While retail demand is losing steam, each of Detroit's players also reported significant reductions in deliveries to daily-rental companies, long the Motor City's biggest customers.

Sales to **Enterprise Holdings Inc.'s Enterprise Rent-A-Car** or **Hertz Global Holdings**

Inc. traditionally were a way for auto makers to keep factories rolling even as dealership traffic slowed. But that business has traditionally dented profits and soiled brand reputation.

The move away from rental sales reinforces a newfound discipline for domestic players that have been riding a seven-year growth streak since GM and Chrysler sought bankruptcy protection in 2009. The Detroit 3 reported tens of billions in profits during that span, bolstered by tailwinds from falling gas prices and surging demand for profit-rich trucks and SUVs.

Overall industry demand softened over the first half of 2017, however, falling about 2% through six months, according to J.D. Power. The development ushers in an expected plateau for auto sales, an important driver for the broader U.S. economy.

The fleet-sales pullback is having a disproportionate im-



Overall industry demand softened over the first half of 2017.

pact on wider volumes. Sales to retail customers at dealerships are down less than 1%, but sales to nonretail customers such as government fleets, commercial buyers and rental-car companies are off 7.8%, according to J.D. Power.

A rental-car reduction "is not something normally seen"

at the start of a cyclical sales downturn, R.W. Baird analyst David Leiker said in a research note. The reversal of that trend could ease concerns that profit margins will erode as auto makers chase less lucrative business or resort to price wars.

Even as auto makers ramp

up incentive spending to improve dealer traffic, transaction prices are rising as cars are loaded with more safety gear and connectivity features. A consumer shift away from sedans and toward pricier sport-utility vehicles also aided the trend.

Edmunds.com reported that the average monthly payment on a car or truck has soared above \$500, forcing buyers to stretch more than ever to obtain a new set of wheels. The firm estimates the average auto-loan length reached a record 69.3 months in June, with the average amount of financing reaching \$30,945, up \$631 from May.

GM's sales fell 5% to 243,155 vehicles in June, while Ford's sales totaled 227,979 vehicles, down 5.1%. Fiat Chrysler's sales slumped 7% to 187,348 vehicles.

*Please see CARS page B2*

◆ Production shortfalls hindered Tesla's quarterly sales..... B2

## Investor In EQT Opposes Rice Deal

By David Benoit

**Jana Partners** LLC has taken a roughly 5% stake in **EQT** Corp. and is seeking to scuttle the energy company's proposed \$6.7 billion acquisition of **Rice Energy** Inc.

Instead of buying Rice, Jana wants EQT to fully separate its pipeline operations, according to a securities filing and people familiar with the matter. The goal would be to make EQT a pure exploration-and-production company. While that could happen after a Rice deal, tax rules mean it could take years.

Jana questions the benefits of the deal and believes the price is too high, the people said.

In a statement, EQT said the deal would further its efforts to improve operations and tap the value of its natural-gas resources. Responding to the split suggestion, the company said it has acknowledged the market is missing value between its pipeline operations and exploration business and that "management has committed to evaluating options and devising a plan to address this discount by the end of 2018."

Rice declined to comment.

The activist hedge fund had been buying the stock before EQT announced the deal two weeks ago and was blindsided by the announcement, the people said. It is working with executives who built and sold various iterations of shale pioneer **Atlas Energy**.

EQT is based in Pittsburgh and operates largely in the Marcellus Shale formation, which spreads from New York to Virginia. Rice is also an Appalachian-focused energy company. The combination would create the largest natural-gas producer in the country by volume, the companies say. Their large adjacent acreage and pipelines is part of the appeal of the deal.

If Jana succeeded in getting other EQT holders to vote down the deal, it could trigger a \$67 million payment to Rice.

Instead of doing the deal, Jana wants EQT to fully list its pipelines, which already trade publicly. They are run by EQT Midstream Partners LP, which is more than 26%-owned by a third entity, EQT GP Holdings LP, that is 90%-owned by EQT.

## How the iPhone Built a New City in China

By Eva Dou

**ZHENGZHOU**, China—Farmer Zhang Hailin remembers the day in 2010 when he watched as helicopters flew in over fields of corn and wheat here, hovering in spots to drop balloon-shaped markers.

"Three days later, a hundred bulldozers were here," Mr. Zhang said.

The iPhone was coming, and it wouldn't be long before a new industrial town on the edge of Zhengzhou would be known as iPhone City.

Within months, boxy beige factory buildings appeared, power lines were connected and buses packed with workers began rolling up to Foxconn Technology Group, which assembles most of **Apple** Inc.'s smartphones.

A year later, Foxconn's billionaire Chairman Terry Gou said the iPhone factory complex had 100,000 workers. Today, Foxconn says it employs about 250,000, roughly the population of Madison, Wis.

Analysts estimate that Foxconn, formally known as **Hon Hai Precision Industry Co.**, makes 150 million iPhones each year, along with 20 million iPads and other electronics. Foxconn said it employs 1 million people across China and elsewhere, including southern Shenzhen, where it began manufacturing the first iPhone amid great secrecy.

With Apple embracing outsourced manufacturing in Chinese cities, the iPhone's suc-



Workers from Foxconn's iPhone division walk between factories in Zhengzhou. The company assembles most of Apple's smartphones.

cess in the decade since it launched has fueled China's rise at the center of the global electronics supply chain.

The explosion of high-tech manufacturing was encouraged by Beijing as leaders sought to move factories up the value chain from making

plastic toys and clothes. That shift transformed the lives of millions of Chinese, bringing welcome jobs but also leading to complaints from some workers of repetitive labor, restrictive work rules and crowded living conditions in company housing.

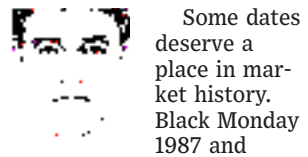
The iPhone's global success has increased scrutiny of Apple and its suppliers. The Cupertino, Calif., company said it holds Foxconn and others "to the strictest standards in the industry." It said it has educated 12 million workers on their rights, ensured work-

weeks don't exceed 48 hours, and offered career- and personal-development courses. "We hold our suppliers to the standard we hold ourselves: They must treat everyone with dignity and respect," a spokesman said in a statement. Apple

*Please see IPHONE page B4*

STREETWISE | By James Mackintosh

## Volatility in Fear Gauge Should Set Off Alarms



Some dates deserve a place in market history. Black Monday 1987 and Black Thursday 1929 occurred before the VIX fear gauge was created, but the volatility index's three biggest intraday rises also resonate: August 2015's China fears. May 2010's flash crash. February 2007's subprime concerns mixed with another China panic.

Last Thursday shouldn't merit being on the list. Central bankers kind of maybe indicated that just possibly they might do what they previously said they would do, and tighten monetary policy if the economy improves. Yet the VIX, a measure of the volatility expected over the next 30 days, had its fourth-biggest ever rise of 55% from open to peak, before recording its eighth-biggest fall from peak to close. By its low on Friday it was back in the lowest 1%

of VIX readings ever. The VIX was created in 1993.

The outsize reaction to so little news tells us three things, all worrying.

First, investors are very concerned about any signs that central banks might pull back from super-easy monetary policies. Second, when volatility starts to go up it can go up a lot faster than anyone thought. And third, complacency still rules, with "buy the dip" firmly embedded in investor psychology after an eight-year bull market.

The second of these is the biggest danger to the growing group of investors who have been betting on low volatility. They are convinced it is safe because in the past the markets have given plenty of warning before a spike. When low-volatility regimes have ended in the past, they have typically trended higher before turning really nasty, giving investors time to get out. If vola-

*Please see STREET page B2*

## Total's Iran Push Leaves Rivals on Sidelines

By Benoit Faucon  
and Sarah Kent

The \$1 billion pledged Monday by French oil giant **Total** SA in an Iranian gas field is a breakthrough for the resource-rich country, but it is unlikely to unleash the flood of foreign energy-industry investment that Tehran is seeking.

Total executives signed a contract Monday to press ahead with developing the country's massive South Pars gas field, in which the company holds a 50% operating stake. The contract is the first Iranian exploration and production project awarded to a major European company in 10 years, after a deal with global powers last year ended Western sanctions on Tehran over its nuclear program.

To make it happen, the Paris-based company spent years maintaining relationships in Iran even after Western sanctions were tightened in 2012, and then took months to negotiate the details after announcing a preliminary agreement last year.

"We were here 20 years ago. We've come back today," Total Chief Executive Patrick Pouyanné said at a Tehran



Total's Patrick Pouyanné, left, with Ezzatollah Akbari of Iran's Petropars after Monday's contract signing.

news conference. "And again it's a long history for the company."

Total was in a stronger position to make a deal than competitors like **Royal Dutch**

**Shell** PLC, which has long eyed going back into Iran. **BP** PLC, which helped build the Iranian oil industry, remains on the sidelines.

Those companies do more

business in the U.S., where President Donald Trump has said he would re-examine the deal that lifted Western sanctions on Iran last year, said

*Please see TOTAL page B2*



## INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

A		N
Alibaba Group.....	B8	Neptune Orient Lines.B4
Apple.....	B1	Nissan Motor.....B2
B		
Baker Hughes.....	B3	Novatech Industries...B4
Banca Monte dei Paschi di Siena.....	A1	P
Banca Popolare di Vicenza.....	A2	Pfizer.....B4
Bankrate.....	B5	Pola Orbis Holdings...A2
Barclays.....	B7	R
BP.....	B1	Red Ventures.....B5
C		Rice Energy.....B1
Caterpillar.....	B3	Royal Dutch Shell.....B1
Chevron.....	B5	S
CMA CGM.....	B4	Samsung Electronics..A1
Comcast.....	B4	Schlumberger.....B3
D		Schnuck Markets.....A2
Daiwa Securities Group.....	A2	SK Hynix.....B4
Danone.....	B3	T
Dean Foods.....	B3	Toshiba.....B4
E		Total.....B1
Enterprise Holdings....B1		Toyota Motor.....B2
EQT.....	B1	V
Exxon Mobil.....	B5	Veneto Banca.....A2
F		W
Fairfax Media.....	B4	Western Digital.....B4
		WhiteWave.....B3
		Y
		Yakult Honsha.....A2

## INDEX TO PEOPLE

B		G		L
Batey, Alan.....	B2	Gou, Terry.....	B1	LaNeve, Mark.....B2
Boath, Richard.....	B7	J		Leiker, David.....B1
F		Jenkins, Roger.....	B7	M
Falakshahi, Homayoun.....	B1	K		Musk, Elon.....B2
		Kalaris, Thomas.....	B7	V
		Kohler, Kurt.....	B2	Varley, John.....B7

# TOTAL

*Continued from the prior page*  
Homayoun Falakshahi, a research analyst at energy consultancy Wood Mackenzie.

Mr. Falakshahi said he didn't expect the deal to open a floodgate of contracts with other foreign oil giants.

"It's an exceptional situation, by a long stretch," he said of Total's contract.

Iran's oil output has jumped 1.2 million barrels a day to 3.9 million barrels a day since sanctions were lifted. But it still needs \$100 billion of investment in its oil and gas fields to reach a goal of 5.7 million barrels a day the end of 2020.

Shell signed a preliminary agreement to explore opportunities in Iranian oil fields late last year. The Anglo-Dutch company held meetings in Tehran and Dubai in the two past months with the **National Iranian Oil Co.** and Chinese state-run Sinopec to work together on an oil field called Yadavar, according to a person familiar with the discussions. But people who work with the company said it is concerned about its exposure to the U.S. and is more selective in the choice of its banks than Total.

A Shell spokeswoman said the company remained "interested in exploring the role it can play in developing Iran's energy potential. We have been engaging with Iranian officials but it is still too early to discuss potential Shell investment in any project."

U.S. sanctions remain on Iran over terrorism, weapons and human rights, prohibiting deals with American companies like Exxon Mobil Corp. and Chevron Corp., but European companies can still try to

make a deal work. Total said it was in compliance with all sanctions.

A diplomatic crisis in the Persian Gulf is adding another level of uncertainty for big oil companies looking to invest in Iran. Saudi Arabia and its Arab allies have mounted a campaign to isolate their neighbor Qatar, partly because of its rapprochement with regional rival Iran.

"The landscape of political risk in the region is changing profoundly," said Neil Quilliam, the European head at consultancy the Rapidan Group.

Total built Monday's deal out of a longstanding knowledge of and commitment to Iran. Back in the 1990s, Total signed a deal to work on the South Pars—the massive sub-Persian Gulf field shared with Qatar. Total was the first Western company to load an Iranian oil cargo in February 2016 after sanctions lifted.

According to people familiar with the matter, Total's decision to enlist **China Petroleum National Corp.** as a 30% partner enables the easy transfer of money in and out of Iran. CNPC owns its own financial institution, Kunlun, one of the few sizable banks that work with Tehran.

This first contract is also less politically sensitive than most, Mr. Falakshahi said, because it is for natural-gas production headed to the domestic Iranian market along with condensates and liquefied-petroleum-gas.

It will be harder for big energy companies, including Total, to make deals for the country's crude-oil fields, which generate export revenues and are caught up in Iran's political push and pull between outward-facing moderates and religious hard-liners wary of foreign influence.

# Tesla Production Falls Short

By TIM HIGGINS

**Tesla Inc.** on Monday said production shortfalls hindered sales during the second quarter, hours after Chief Executive Elon Musk signaled an even tighter timetable for the auto maker's ambitious plans to produce its new Model 3 sedans.

The Silicon Valley auto maker said it sold about 22,000 Model S and Model X sport-utility vehicles during the period ended in June, up about 53% from a year earlier. With 47,100 vehicles delivered in the first half, Tesla just met its goal of delivering 47,000 to 50,000 vehicles. But the quarterly results were short of the average estimate of 23,655 deliveries, according to four analysts surveyed by The Wall Street Journal.

Tesla said sales could have been stronger if not for a "severe production shortfall" of battery packs, which until early June caused production to average about 40% below demand. "Once this was resolved, June orders and deliveries were strong, ranking as one of the best in Tesla history," the company said.

The company said it expects to deliver more Model S and Model X vehicles in the second half than in the first six months, "provided global economic conditions do not worsen considerably."

Tesla's jump in second-quarter sales bucks the trend among auto makers such as



The company signaled a slower timetable for ramping up production of its new Model 3 sedan.

**General Motors Co.**, **Ford Motor Co.** and **Fiat Chrysler Automobiles NV**, which earlier Monday reported steep sales declines in June compared with a year earlier.

Tesla is far smaller than those auto makers by sales, but it aims to become more of a mainstream player with the rollout of its newest car, the Model 3, which at \$35,000 is far less expensive than its two existing models and is central to the company's plans to sharply increase total sales.

On Sunday night Pacific time, Mr. Musk tweeted that he aims to have 30 vehicles

ness Media, a publisher of trade magazines.

Detroit's sales declines, meanwhile, are fueled by lower fleet sales.

GM sold 15% fewer cars to rental fleets in the first five months of the year, compared with a year earlier. The auto maker said Monday that when June figures were added, the decline came to 21%. Rentals accounted for 8% of total sales in the first half, compared with 9% in the first five months and less than half the level from a few years ago.

Ford said rentals accounted for 13.2% of overall sales in June, down from 15% for the first five months of the year and from 15.6% in June 2016.

"We try to keep our overall daily rentals within a reasonable number," Ford's U.S. sales chief, Mark LaNeve, said Monday. Rental-car companies are "becoming a little more cautious given the uncertainty in

ready to hand over to customers on July 28, followed by 100 cars in August and 1,500 in September.

That initial plan appears slower than one Mr. Musk laid out in February, when he revealed he was pushing suppliers to be ready for a weekly run rate of 1,000 vehicles in July to 2,000 in August and 4,000 in September.

However, Mr. Musk's tweet, sent shortly after 11 p.m. PDT Sunday, said Tesla plans to hit a rate of 20,000 Model 3s a month in December, in line with his previous pledge of having 5,000 vehicles a week

residual values," he added. Rental-car companies keep a close eye on the resale value of cars and trucks; a glut in used cars can lead to unexpected losses.

Fiat Chrysler's fleet sales sank 15% in June, with rental

*GM sold 15% fewer cars to rental fleets in the first five months of the year.*

deliveries at its flagship Jeep brand down by almost half.

Enterprise, one of the leading car-rental firms, reduced its vehicle purchases in the first half of the year compared with 2016, said Kurt Kohler, a senior executive in charge of the rental company's fleet acquisition. He said signs of de-

by year's end.

In February, Mr. Musk suggested the targets were set for suppliers, knowing they could slip. "These are parts orders and the parts need to arrive, then you can turn into a car and the car needs to be delivered to customers," he said in February on an earnings conference call. "None of these things occur instantaneously."

"This is definitely scaling back," said Rebecca Lindland, an analyst for the automotive researcher Kelley Blue Book. She likened Mr. Musk's early statements about production to stretch goals instead of plans.

clining used-vehicle prices heading into the year prompted Enterprise to narrow its shopping list.

"The market started to move on us, so we pulled back a bit," Mr. Kohler said. "The car segment already had been declining, but we also saw pricing coming down on SUVs and trucks. That affected how much we wanted to buy."

Alan Batey, president of GM's North America region, said an unexpectedly severe downturn in consumer demand for sedans has made it more difficult to ease rental sales, because the rental business would typically help make up the shortfall. "It has tested our commitment" to the strategy, he said, forcing GM to make "tough decisions" to reduce passenger-car production this year, which led to thousands of layoffs at its factories.

# CARS

*Continued from the prior page*  
Japan's top sellers fared better during the period.

**Honda Motor Co.** reported a 1% increase compared with the previous June, with 139,793 vehicles sold, aided by gains at its Acura luxury division, while **Nissan Motor Co.** sold 143,328 vehicles, or 2% more than the prior year, as it ramps up its reliance on trucks. **Toyota Motor Corp.** notched a 2.1% gain, with 202,376 vehicles sold.

Certain Asian auto makers, including Korea's Hyundai Motor, have fueled sales with rental-car sales. At Nissan, rental sales surged 37% in 2016 and were up 9% this year through May, making Nissan the only major auto maker to boost rental deliveries, according to data from Bobit Busi-

# STREET

*Continued from the prior page*  
tility is no longer predictable, the "short-vol" strategies used by hedge funds, pension funds and institutional investors—and available through exchange-traded products, too—are riskier than their advocates suggest.

Just how risky was evident last week. The VelocityShares Daily Inverse VIX exchange-traded note, known by its ticker XIV, tumbled 15% intraday on Thursday. Investors must decide if this is advance warning of danger ahead, or merely a move to be expected after gains of 263% in the previous 12 months.

In some ways, this is the same assessment investors always have to make. Is the market signaling complacency, or is volatility low—and stock and bond prices high—for a good reason: Because profits are strong, inflation low and the economic outlook sunny? Christian Mueller-Glissmann, a strategist at **Goldman Sachs**, says in past periods of low-inflationary growth such as the 1960s and 1990s, volatility stayed low.

But in another way the decision is specific to volatility. It is one thing to put money on volatility staying low as a high-risk, high-reward bet that nothing upsets the calm in the next 30 days. It is quite another to do it on the basis that when markets start to become more volatile there will be a shift to a higher volatility regime before a major VIX spike.

The losses to the strategy when the VIX does jump can be torture.

The August 2015 panic meant those who had contin-

ued selling volatility—despite a warning from a smaller VIX rise earlier that summer—lost more than half their money. The XIV exchange-traded note took until January 2017 to recover all its losses.

There are two causal stories to tell behind these concerns. One is that *explicit* bets against volatility are crowded, so when volatility starts rising, the rush for the exit drives it up further. Anecdotal this feels right, and open interest in VIX futures is close to record levels. Against that, Goldman analysts point out that across all VIX-related exchange-traded products, overall bets are still on higher volatility—so still more could go in before short vol positions are as extended as in 2015.

The second story is that *implicit* bets against volatility such as equities or emerging-market debt are crowded. Investors who have been persuaded by calm markets to move out of their comfort zone to buy riskier assets are very sensitive to any sign that the market or economic cycles might be ending.

Accept either of these stories, and you will want to avoid bets against volatility and have a more balanced portfolio. Unless, that is, you buy into a radical explanation for low volatility: Perhaps the market is finally approaching efficiency.

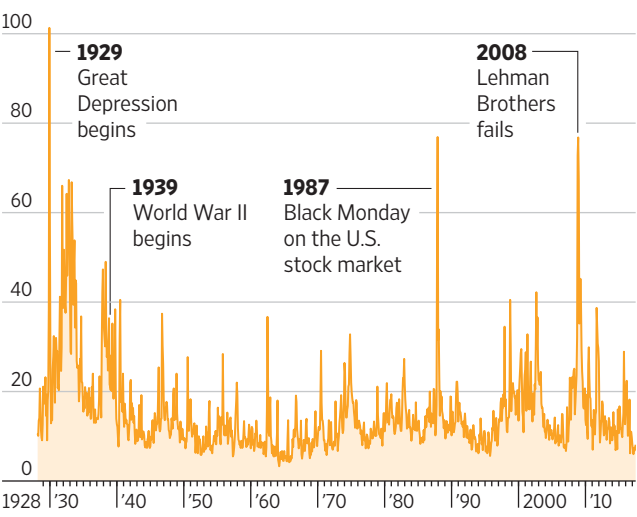
The efficient-market hypothesis has been roundly ridiculed since the Lehman crash, and for good reason.

But one of the academic arguments against is that if markets were truly efficient, they would be much less volatile than they actually are, as Robert Shiller, now at Yale, set out in a 1981 paper. Investors should trade less and shares move around

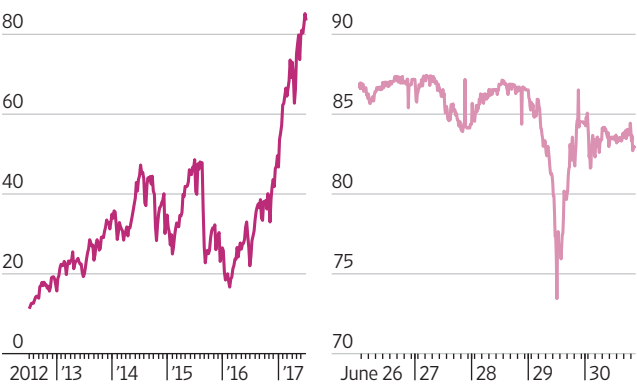
## The Calm Before...

U.S. stock volatility is close to the lowest in history. Ways to bet on volatility staying low, such as the XIV exchange-traded note, were hit when volatility briefly spiked last week.

**S&P 500 one-month realized volatility**  
Monthly data



**XIV: VelocityShares Daily Inverse VIX Short-term ETN**  
Weekly data



\*Through June 30  
Sources: Bloomberg, Goldman Sachs Global Investment Research (S&P); Thomson Reuters Datastream (XIV); Thomson Reuters (XIV intraday)

THE WALL STREET JOURNAL.

much less. Active management would probably be less popular, too, as a more efficient market is harder to beat.

Well, volatility has collapsed, money has flooded into passive funds and trading is increasingly done by dispassionate algorithms.

Prof. Shiller even accepts that the market is in some ways more efficient than it used to be.

But has the market actually become efficient? No. "It has to do with mass psychology," Prof. Shiller told me. "Maybe in the next 200 years it will happen."

### ADVERTISEMENT

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### BUSINESS OPPORTUNITY

#### Notice of invitation to the international public tender - acquisition of the bankrupt SLOVAKIA STEEL MILLS

Slovenska spracovnska a restrukuralizacna, k.s., (the "Bankruptcy Trustee"), as the Bankruptcy Trustee of the bankrupt SLOVAKIA STEEL MILLS, a.s. v konkurze, registered office at Priemyselna 720, 072 22 Strazske, the Slovak Republic (the "SSM"), announces the invitation to the international public tender for the selection of the applicants interested in the acquisition of the part of the SSM (the "Tender").

The SSM facility is located in Eastern Slovakia, a region with an imbedded chemical and steel-industry culture supported by a developed road and rail infrastructure and a skilled workforce. The total investment in SSM was more than EUR 220 million.

SSM was designed as a 'top notch' mini-mill with the most modern technology and a yearly production capacity of 600,000 tonnes (steel billets/long steel products). The key supplier of the technology was Germany's SMS Group, one of the 'steel-world's' most significant and renowned players. All of the steel-making and steel-rolling equipment was mothballed when the insolvency process began.

The subject of the sale is comprised of (i) the key equipment, (ii) buildings and (iii) other operating assets related to the mini-mill and rolling mill production. The conditions, timelines and guidelines for participation in the Tender are described in the binding conditions (the "Binding Conditions"). The Binding Conditions, other related documents and any additional information is available on <http://ssm.ssr.sk>.

Any additional questions or requests related to participation in the Tender should be directed to [ssm@ssr.sk](mailto:ssm@ssr.sk).

### BUSINESS OPPORTUNITY

◆ As with all investments, appropriate advice should be obtained prior to entering into any binding contract. ◆

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BUSINESS NEWS

# Caterpillar Faces New Questions

By Andrew Tangel  
And Aruna Viswanatha

Federal investigators believe **Caterpillar Inc.** failed to submit numerous required export filings with the government in recent years, adding to questions facing the manufacturing giant, people familiar with the matter said.

The findings are preliminary, these people said, but offer an avenue for investigators to examine whether missing export submissions were part of a possible effort by the Peoria, Ill.-based maker of yellow bulldozers, mining trucks and other heavy equipment to avoid paying taxes.

The possible missing export filings were discovered as part of a continuing criminal probe into potential export and tax violations at Caterpillar, according to the people familiar with the matter. The probe is the latest in a series of inquiries centered largely on a Swiss subsidiary that U.S. Senate investigators have found was part of a long-time Caterpillar strategy to lower its U.S. tax bill. The Swiss unit has been involved in overseas sales of Caterpillar replacement parts. While the tax-angle of the probe is in its very early stages, investigators believe it could be the beginning of a yearslong investigation, people familiar with the matter say.

Caterpillar hasn't been accused of any wrongdoing.

"Caterpillar believes its tax position is right," a spokeswoman said. "We are in the process of responding to the government's concerns, and hope to be in a position to bring this matter to resolution within a reasonable time frame."

As part of the criminal probe, federal agents from three agencies raided the manufacturing giant's headquarters and two nearby facilities in early March.



RON JOHNSON/ASSOCIATED PRESS

March raids by the IRS and other agencies puzzled analysts, investors and Caterpillar employees.

A prime focus of the searches was information related to Caterpillar's export submissions, according to previously disclosed search warrants, but the people familiar with the matter said the government has yet to determine whether there are potential tax implications related to those filings.

Investigators have identified discrepancies between what Caterpillar turned over to authorities in response to subpoenas before the raids and the company's regular filings with the U.S. Department of Commerce's Automated Export System, the people familiar with the matter said.

The export system provides government researchers with U.S. trade data and includes information such as the valuations of products shipped abroad.

It also allows law-enforcement agencies to track U.S. ex-

ports and monitor shipments to countries facing sanctions. Exporters could face civil or criminal penalties if they fail to file export information or if they submit misleading information.

A former senior U.S. Commerce Department official said irregularities in the export system, which receives hundreds of thousands of filings every week, may have a benign explanation, such as a technical mishap in filing electronic paperwork.

"It could be something, it could be nothing," said this former official, who isn't involved in the Caterpillar case.

The March raids puzzled Wall Street analysts, investors and Caterpillar employees. "Everyone was legitimately caught off guard," said one person who has been in touch with current Caterpillar employees.

Days after the March raids,

Caterpillar Chief Executive Jim Umpleby said the searches came as a surprise "because we have been cooperating with requests for information from authorities."

"We are cooperating and will continue to act in good faith, and as a good corporate citizen," Mr. Umpleby added.

The Caterpillar search warrants were executed by agents from the Internal Revenue Service's criminal division, the U.S. Department of Commerce's Office of Export Enforcement, and Federal Deposit Insurance Corp.'s inspector general.

The investigation is being managed by the U.S. attorney's office for the Central District of Illinois in Springfield. A spokeswoman for the office declined to comment.

Representatives of the IRS and Commerce Department declined to comment, while a spokesman for the FDIC didn't

immediately respond to a request for comment Sunday.

The March raids and the early findings on the export reports are the latest in a series of inquiries at Caterpillar and its Swiss unit.

The company faced public scrutiny about its Swiss unit in 2014, when a report by the U.S. Senate Permanent Subcommittee on Investigations described how Caterpillar's U.S. operation effectively removed itself from the business of selling replacement parts to overseas dealers by assigning the profit to the Swiss subsidiary, lowering its U.S. tax bill. Caterpillar told the panel it pays what it owes in taxes.

That year, the subsidiary also was the subject of a civil probe by the Securities and Exchange Commission.

The SEC ended its inquiry in 2015, saying it didn't intend to recommend enforcement action, Caterpillar said in filings. An SEC spokesman declined to comment.

In its latest annual securities filing, the company said it has been "vigorously contesting" an approximately \$2 billion bill from the IRS related to transactions by the Swiss unit.

As part of its investigation, the government also commissioned a report by a professor at Dartmouth's Tuck School of Business that claims Caterpillar engaged in tax and accounting fraud, according to a person familiar with its contents.

Caterpillar has declined to address the report publicly, but the company has privately been critical of its findings, questioning its assumptions and conclusions, people familiar with the matter said.

The Caterpillar spokeswoman said the company wouldn't comment on the report.



RICHARD B. LEVINE/LEVINE ROBERTS/NEWS.COM/ZUMA PRESS

Stonyfield is based in the U.S.

## Danone Will Sell Stonyfield To Lactalis

By Nick Kostov

PARIS—French dairy company **Danone SA** said Monday that it entered a binding agreement to sell its U.S. dairy business, Stonyfield, to **Lactalis** for \$875 million to address U.S. competition concerns.

The sale of Stonyfield is part of an agreement reached with the U.S. Department of Justice in connection with Danone's recent acquisition of **WhiteWave**. Danone and WhiteWave together have big chunks of the yogurt market with brands including Dannon, Oikos, Actimel, Silk, Wallaby and Horizon Organic, which led to concerns from the Justice Department about concentration in the dairy sector.

Danone said that the sale price represented a multiple of about 20 times the 2016 earnings before interest, tax, depreciation and amortization for Stonyfield.

Lactalis, based in the town of Laval, about 175 miles southwest of Paris, is a family-owned company whose cheese, milk and other dairy products are sold under well-known brands such as President and Bridel. It said it has 75,000 employees spread across 85 countries.

*The \$875 million deal addresses U.S. antitrust concerns in the dairy sector.*

Its agreement to buy Stonyfield comes as the French company faces increasing pressure to offer healthier foods as consumer tastes change.

Lactalis generates half its sales from milk, butter, creams, yogurt and desserts, while an additional 36% of its sales come from cheese.

It is the first time it has bought a company that is dedicated mainly to making organic products. A deal would also help Lactalis achieve its goal of expanding further into the U.S., where it has factories in Belmont, Wis., and Nampa, Idaho.

Other bidders for the asset included big dairy processor **Dean Foods Co.**, Mexico's **Grupo Lala** and China's largest dairy company **Inner Mongolia Yili Industrial Group Co.**, according to a person familiar with the matter.

A Yili spokesman declined to comment. Representatives for Dean Foods and Grupo Lala didn't immediately respond to requests for comment.

Founded in 1983, Stonyfield, which was one of the pioneers in tapping consumers' growing desire for simpler, more natural products, grew to yearly revenue of about \$370 million last year.

Danone purchased a 40% stake in the company in 2001, and raised its share to 80% in 2004, which strengthened its position in the U.S. against Minneapolis-based competitor General Mills Inc., maker of Yoplait yogurt. Since 2014, Danone has fully owned Stonyfield.

Closing of the sale of Stonyfield is subject to final approval by the Justice Department and is expected in the third quarter of this year. Danone's \$10.4 billion purchase of WhiteWave, agreed in July 2016, closed on April 12 this year.



AKOS STILLER/BLOOMBERG NEWS

The deal with Baker Hughes gives GE a larger footprint in the oil-field services industry.

## GE Adds to Energy Stake

By Thomas Gryta  
And Christopher M. Matthews

**General Electric Co.** closed its deal to combine its long-suffering energy business with **Baker Hughes Inc.** on Monday, creating one of the largest companies in the oil-field services industry.

The new publicly traded company, which will retain the Baker Hughes name, will pursue further cost cuts as it awaits an elusive recovery in oil prices. Majority-owned by Boston-based GE, it will trade on the New York Stock Exchange under the symbol BHGE, with dual headquarters in Houston and London.

While oil services wasn't a core part of GE's industrials business, the new Baker Hughes could be better equipped to compete with industry leaders **Halliburton Co.** and **Schlumberger Ltd.** in providing equipment and services to major oil producers.

"We are really filling one of the gaps that GE oil and gas had with oil-field services," said Lorenzo Simonelli, who is CEO of the new company after having run GE's oil and gas operations. "It evens out the total exposure in the portfolio."

GE has been cutting costs for years but plans to trim an additional \$1.2 billion from the combined company by 2020. It has declined to say how many employees could lose their jobs as a result of the merger.

The deal gives GE a larger footprint in an industry that

has been decimated since 2014 as oil prices fell from over \$100 a barrel to less than \$30. The industry shed more than 160,000 jobs over the last three years and was forced to accept pricing cuts—sometimes more than 50%—from its customers. More than 200 oil-field-service companies went bankrupt.

The industry's outlook rebounded earlier this year as oil prices stabilized around \$50 per barrel, but optimism has fizzled with another drop in prices in June. Barclays predicts the U.S. rig count, a widely used measure for drilling activity, to decline by the end of the year, after adding 270 rigs earlier this year.

Reduced drilling could make one of Baker Hughes's key businesses even more lucrative: artificial lift, a technology used to force oil out of older wells as they run dry. Baker Hughes owns about 18% of the global market for artificial lift, second only to Schlumberger, while GE controls about 11%, according to 2016 data from Spears & Associates.

GE's core business is making jet engines, turbines, MRI machines and other heavy-duty industrial equipment, and its oil and gas operations have long weighed on financial results. Baker Hughes is focused on oil-field services, helping producers drill and frack their wells. The deal will double GE's exposure to the exploration-and-production side of the industry.

Baker Hughes, formed in a 1987 merger of **Baker International** and Hughes Tool, dates back to Howard Hughes Sr.'s revolutionary drillbit invention in the early 20th century.

Halliburton attempted to buy the company in 2014 in a \$28 billion deal that was scuttled in 2016 amid regulatory objections. During those negotiations, the companies held talks with GE to sell off more than \$7 billion in assets to help win federal approval.

Today, oil and gas extraction are increasingly technically sophisticated, and GE plans to make a push into sensors and data that can boost oil-field profitability. Some analysts believe the shifts in the industry have created openings for leaner, more efficient and digitally minded service providers to gain market share.

"We continue to view [the merger] as one of the most transformative deals to take place in the oil-service space in decades," Evercore ISI analyst James West wrote in a note to investors. "The new entity should be considered an industry powerhouse with a full cycle portfolio of products and services...and a leading position at the forefront of the digital revolution."

The new structure could also allow GE to exit from the sector entirely, analysts have noted. When GE's new chief executive, John Flannery, takes the helm in August, he is expected to review the conglomerate's entire portfolio.

## Dubai Fund Buys Kenya Coffee Chain

By Matina Stevis

NAIROBI, Kenya—Dubai-based private-equity fund **Abraaj Group** said Monday that it has acquired East Africa's most prominent upmarket coffee and casual-dining chain, Java House Group, in a landmark deal in the African consumer market.

The deal gives Abraaj, which has \$10 billion under management, a foothold in Kenya, one of the most mature and fastest-growing economies on the continent, allowing it to tap a growing middle class. All regulatory clearances have been granted for the transaction, which is expected to be completed in three months.

Abraaj didn't disclose how much it paid for Java House Group, but previous reports indicate that the seller, **Emerging Capital Partners**, was looking for about \$100 million for its 90% stake in the group.

While the value of the deal is relatively low, it marks the first serious investment in an African casual-dining chain. Abraaj Group is one of the most important investors in the Middle East and Africa, and its choice to invest in Java House Group at this time, when African economies have lost some of their shine because of the commodities crash, marks a reboot of investor interest for the broader region. This is the first major secondary exit for a private-equity fund in Kenya, creating a benchmark for future deals.

The fund has several businesses in Kenya ranging from a steel factory to a dairy firm. It has joined with French food and dairy giant **Danone SA** in

**Brookside Dairy Limited**, a firm partly owned by the family of Kenyan President Uhuru Kenyatta. Sub-Saharan Africa has grown in importance for Abraaj in recent years. Until a few years ago the fund was mostly focused on the Middle East but has increasingly positioned itself as an emerging-markets specialist.

Abraaj bought the chain from private-equity firm ECP, which had in turn bought it from its founder in 2012. The founder, American Kevin Ashley, had retained 10% in the group, which he is also selling to Abraaj, but he will stay on as adviser or board member, Abraaj said.

Abraaj plans to grow Java House Group in "multiple avenues," Ashish Patel, the fund's Nairobi-based managing director, said.

"There are themes that can be introduced on the Java platform, and geographic expansion further into Uganda and Rwanda plus other East African countries," Mr. Patel said. He said that Tanzania would be the most obvious next country to take Java to because of geographical proximity, but he will also be looking to take the brand across the continent to Ghana and Nigeria. He added that Java could also interest international franchise owners looking for a reliable partner in sub-Saharan Africa.

Java House Group includes 60 coffee and fast-food shops in 10 cities across Kenya, Uganda and Rwanda, the frozen-yogurt chain Planet Yogurt and the upmarket pizzeria called 360 Pizza.

—Nicolas Parasie in Dubai contributed to this article.



NOOR KHANIS/REUTERS

A cappuccino is prepared at a Java House outlet in Nairobi in 2012.



TECHNOLOGY

WSJ.com/Tech

# SK Hynix Could Get Toshiba Unit Stake

Japanese government is concerned about leakage of sensitive technology to rivals

A plan for the sale of Toshiba Corp.'s semiconductor unit includes an option for SK Hynix Inc. to eventually take a minority stake in the business, people involved in the proposed deal say, contradicting Toshiba's pub-

By Takashi Mochizuki and Kosaku Narioka in Tokyo and Eun-Young Jeong in Seoul

lic statements. SK Hynix's potential partial ownership of Toshiba's chip business could escalate opposition from Western Digital Corp., which currently has a stake in Toshiba's semiconductor operations and competes with SK Hynix, a South Korean chip maker. Western Digital, based in San Jose, Calif., has filed lawsuits to try to block the sale. The arrangement would also appear to run counter to concerns raised by Japanese government officials about the potential leakage of sensitive technology to foreign competitors. Toshiba says it is nearing an agreement with a consortium led by state-backed fund Innovation Network Corp. of



Japan's Toshiba and SK Hynix, of South Korea, had previous disputes over alleged technology leaks.

Japan, to sell its crown jewel semiconductor business, which makes NAND flash memory chips, for about \$18 billion. INCJ and 100% government-owned Development Bank of Japan plan to acquire 66% of the unit, while the rest would go to U.S. private-equity firm Bain Capital, according to the people involved in the deal. Contracts between Bain and SK Hynix will allow SK Hynix to acquire some or all of the stake initially held by Bain at a later date, these people say. SK Hynix's name isn't in-

cluded in Toshiba's public documents about the consortium but it has been described by Toshiba Chief Executive Satoshi Tsunakawa as only providing financing for the deal. "There won't be any technology leaks because SK Hynix won't take any voting rights in the chip unit," Mr. Tsunakawa said at a news conference on June 23. A Toshiba spokesman said he couldn't comment on details of the planned sale and declined to make Mr. Tsu-

nakawa available for comment. In explaining SK Hynix's role, one of the people involved in the deal said: "SK Hynix isn't a bank that profits from lending money." The INCJ and DBJ declined to comment. An SK Hynix spokesman declined to comment on whether the South Korean company is looking to acquire a stake in Toshiba. Western Digital has already expressed concerns about SK Hynix's inclusion in the consortium. "SK Hynix's participation

increases the likelihood of technology leakage and harm to the joint venture," Western Digital Chief Executive Steve Milligan wrote in a letter sent to Toshiba on June 25, which was provided to the media. Japan's Ministry of Economy, Trade and Industry couldn't immediately comment. Toshiba is rushing to raise capital after its U.S. nuclear subsidiary Westinghouse Electric Co. filed for chapter 11 bankruptcy protection in March, saddling Toshiba with billions of dollars in losses. In April, Toshiba warned investors that it might be unable to stay in business. SK Hynix was invited to join the consortium after INCJ failed to attract Japanese electronics companies, the people involved in the process say. The addition of SK Hynix was needed to raise the size of the offer, the people involved in the deal said. Japanese government officials have raised concerns about technology leakage, but that was primarily regarding Chinese bidders as Beijing spends tens of billions of dollars to buy semiconductor technology overseas and develop it domestically. Toshiba and SK Hynix have fallen out in the past over alleged technology leakage. In 2014, Toshiba alleged that SK Hynix illegally obtained semiconductor re-

search data from a former employee of a Toshiba joint-venture partner that was acquired by Western Digital last year. SK Hynix agreed to pay Toshiba \$278 million to settle a lawsuit in the dispute. The two companies extended a license-sharing agreement shortly after resolving the dispute. A stake in the Toshiba unit would help give SK Hynix a bigger presence in the NAND chip market, where it lags behind in technology and market share. Thanks to high demand from smartphone and computer server makers, sales of NAND flash memory chips totaled \$11.7 billion during the first quarter of this year, headed by Samsung Electronics Co. and Toshiba and followed by Western Digital and SK Hynix, according to research firm IHS Markit. SK Hynix says it is currently investing billions of dollars to beef up its NAND production capacity. SK Hynix's potential stake in Toshiba's chip unit could also raise antitrust challenges that would slow the sale. Toshiba rejected Western Digital's offers to take over the operations due partly to concerns that authorities, especially in China, would block the deal on antitrust objections, people involved in the deal said.

## IPHONE

Continued from page B1 said wages and working conditions at its suppliers have improved significantly in the past five years. The move to Zhengzhou followed a spate of suicides in 2010 at Foxconn's other primary iPhone production facility in Shenzhen, along the coast where wages were higher. Foxconn said in response to questions from The Wall Street Journal that many factors were behind choosing Zhengzhou, including the proximity to workers' hometowns, and suitable infrastructure and transportation. "Zhengzhou's pro-business policies and the investment the government continues to make to build strong infrastructure to support manufacturing make the province an attractive location for our operations," Foxconn said in a statement. Like American company towns a century ago—Pullman, Ill., Hershey, Pa., and Henry Ford's Detroit—iPhone City revolves mainly around a single product, and it largely depends on that product for its

wealth. In iPhone City, shopping malls, restaurants and karaoke parlors, some started by former Foxconn workers, sprouted to cater to the Foxconn workforce. Government statistics indicate that exports of electronics have skyrocketed from Henan, a poor province of 94 million people with Zhengzhou at its heart. Officials had welcomed the iPhone: China's top leaders greenlighted a national-level special trade zone, and the province threw its resources into constructing and populating what would become iPhone City. During last fall's rush to make the iPhone 7, when Foxconn was short-handed, state-owned coal companies lent workers to Foxconn. In past years, according to government notices online, the province issued quotas to local authorities stating how many workers they needed to produce for Foxconn. Ready for a production surge to make the next iPhone model, due this fall, recruiters recently visited villages to put up posters and find workers. "While the government has provided assistance in helping us with our recruitment re-

quirements, the costs associated with hiring and training new workers are all covered by Foxconn," the company said. On a recent June day, a speaker blared outside the factory gate: "We're recruiting the cream of society. Your personality must be optimistic, your work diligent." Foxconn workers earn some 1,900 yuan (\$278) in quiet months to more than 4,000 yuan with overtime when production ramps up. Their income isn't high, but many are better off than they were as rural villagers. For the workers, the iPhone is an expensive choice, and many say they buy cheaper, Chinese-branded smartphones instead. Yuan Yanling, 28 years old, said she has worked three stints on iPhone assembly lines, quitting each time better-paid or more fun jobs appeared. Last November she traded in her Foxconn uniform for heels and began selling cosmetics in a nearby mall. "Our customers are virtually all Foxconn workers," said Ms. Yuan, who lives with her husband, a Foxconn employee, and two children in a rented one-room apartment. Some of Ms. Yuan's neigh-



Yuan Yanling has worked several stints on iPhone assembly lines.

bors in the apartment complex are less content than she, with some who relocated during development complaining about inadequate land compensation. Zhengzhou authorities said their land compensation was based on national standards. In 2013, one farmer, Xiao Malai, rankled local government officials by protesting his home's demolition for a development inside the industrial park anchored by Foxconn's factories, according to court documents from the trial of an official who allegedly

paid an industrial park employee and other villagers to beat the farmer. Mr. Xiao died as a result of the beating, and the official, the industrial park employee and others were jailed over his death. "We were not aware of the tragic death of Xiao Malai or the circumstances of his death," an Apple spokesman said. Other local farmers say the compensation paid for their land was more than they could ever earn in a lifetime cultivating wheat and corn. Mr. Zhang, who saw the markers

drop from the helicopters in 2010, used part of his payout to buy two apartments. He said he earned more as a street sweeper than he did on the farm. His wife works at Foxconn, and their son also has. Yet unease abounds in Zhengzhou over how long Foxconn—or Apple—will need iPhone City. Sales of the iPhone declined last year for the first time since its debut in 2007. During last year's production downturn, Chinese Premier Li Keqiang asked Mr. Gou whether iPhone production would rise or fall this year, according to people present at the meeting. Foxconn said it has acquired 80% of the buildings it uses in Zhengzhou, leasing the remainder, and will continue to invest there. Regardless, Chinese officials see the iPhone factory as a worthwhile investment, said Shi Pu, an economics professor in Henan. "Foxconn has helped train hundreds of thousands of Henan's people," he said. "They can use those skills to go on to other jobs." —Kersten Zhang and Yang Jie in Beijing and Tripp Mickie in San Francisco contributed to this article.

## BUSINESS NEWS

# Lack of Simple Drugs Complicates Care

By Peter Loftus

The scarcity of a simple medicine is complicating treatment for patients with a serious lung problem, one example among dozens showing how shortages of low-cost, essential medical products are causing problems in the U.S. The medicine, sterile talc powder, is used to treat malignant pleural effusion, a disease affecting about 150,000 Americans that involves excessive fluid buildup around the lungs and can cause shortness of breath and chest pain. The condition is often triggered by lung or breast cancer. Talc isn't a cure, but an injection of a talc-containing solution can adhere the lungs to the chest wall and prevent the buildup of fluids for months. The talc costs hospitals about \$120 per 30-gram container. Chronic drug shortages have burdened U.S. medical care for several years. Studies have estimated drug shortages add more than \$400 million in annual U.S. health-care costs because hospitals and doctors are forced to seek more expensive alternatives, and health-care workers must spend extra time managing shortages. The shortages of low-cost medicines have been caused by a decline in the number of suppliers for certain products and failures by companies to build enough production capacity or



Sterile talc comes from open pits, like this one in southern France. The medicine can help treat a serious lung problem.

meet manufacturing-quality standards, according to a 2016 report from the U.S. Government Accountability Office. Experts also say thinner profit margins for many older drugs reduce incentives for companies to invest in them. The number of continuing drug shortages in the U.S. was 176 as of March 31, according to the University of Utah Drug Information Service, down from 320 in 2014. U.S. Food and Drug Administration steps to ward off new shortages, like trying to line up other manufacturers when one has a supply problem, have helped. But shortages remain a concern for doctors and hospitals. In the case of sterile talc, supplies have dwindled be-

cause of a production problem, said Areta Kupchyk, an attorney for the substance's only U.S. supplier, Lymol Medical. The family-run, closely held company in Woburn, Mass., relies on a contract manufacturer, she said, and production was suspended due to a "manufacturing issue" involving a change in a product component. Ms. Kupchyk declined to identify the contract manufacturer and said she didn't know when production would resume. Sterile talc is derived from white rock typically mined from open pits. The shortage is the type that doctors and pharmacists find particularly frustrating because it involves a basic ingredient that can also be found in nondrug prod-

ucts. It doesn't have extra ingredients such as perfume that are found in consumer talcum-powder products, which are used for cosmetics and to absorb moisture. As a result of the shortage, doctors and hospitals are resorting to riskier and sometimes costlier treatments. Keith Naunheim, a thoracic surgeon and professor at St. Louis University School of Medicine, said he recently had to install a special catheter that continually drains fluid from a patient's chest because the talc was unavailable. Such alternatives have "less proven effectiveness or more side effects," said C. Michael White, professor at the University of Connecticut School of Pharmacy. Other low-cost treatments in short supply include dextrose, a sugar paramedics and hospital emergency rooms use to help stabilize patients with low blood-sugar levels, and sodium bicarbonate, a sterile form of baking soda that is injected to treat excessive acid buildup in patients. The FDA has approved a marketing application for a foreign-made talc product to mitigate the shortage, but it won't be available in the U.S. until August at the earliest, according to a spokeswoman for its manufacturer, Novatech SA of France. An FDA spokeswoman said the agency works closely with

manufacturers of drugs in short supply to help restore stocks, and asks other companies to increase production if they manufacture the same drug. The FDA says such efforts have helped cut the number of new shortages but can't prevent all of them. Troubles with Lymol's talc supply surfaced in April 2016, when the company recalled more than 25,000 canisters of an aerosolized version because a defective stem valve was hindering delivery of sufficient amounts of the substance, according to the FDA. FDA inspectors found a series of manufacturing-quality problems during several visits to Lymol between April and June 2016, according to a 15-page FDA inspection report obtained by The Wall Street Journal under the Freedom of Information Act. Among them: shipping talc to customers before getting the results of sterility tests, inadequate training of staff on drug quality and failing to sufficiently investigate 86 customer complaints about defects in talc containers. Ms. Kupchyk, the Lymol attorney, declined to comment on the report. After the recall of aerosolized talc, Lymol continued to sell sterile talc powder. But the talc powder has been in short supply since February, according to the FDA.

## BUSINESS WATCH

SHIPPING INDUSTRY

### Firm Sells Terminal in Los Angeles

French containers-ship operator CMA CGM SA said it has reached a deal to sell a 90% stake in its Los Angeles container terminal to two Swedish infrastructure firms for \$817 million in cash. The deal ends CMA CGM's quest to sell the port assets of Singapore's Neptune Orient Lines after the French company bought the business for \$2.4 billion in December 2015. CMA CGM will retain a 10% stake in the Global Gateway South Terminal, after the sale to EQT Infrastructure and its partner, P5 Infrastructure. —Costas Paris

MICROSOFT

### Company Revamps Global Sales Team

Microsoft Corp. reorganized its global sales group Monday to focus on cloud services, and a person familiar with the plans confirmed the move will lead to layoffs in the thousands. The company will target its sales efforts in two areas: large enterprise customers and small and medium businesses, according to an email sent to employees. The email didn't mention layoffs. No notifications have gone out to employees, the person familiar with the plans said. The exact number of layoffs is unclear, this person said. —Jay Greene



FINANCE & MARKETS



The U.S. Energy Information Administration said Friday that U.S. oil production fell in April, contrary to what many expected.

Crude’s Win Streak Hits 8

String of gains for U.S. oil is longest since ‘10; last week’s data raised investors’ hopes

By ALISON SIDER

U.S. crude futures climbed Monday, marking their longest stretch of daily gains in nearly eight years amid indications that U.S. oil output may not be as resilient as many anticipated in the face of lower prices.

U.S. crude futures gained \$1.03 a barrel, or 2.2%, to \$47.07 on the New York Mercantile Exchange. Brent, the global benchmark, rose 91 cents, or 1.9%, to \$49.68 a barrel on ICE Futures Europe.

It was the eighth straight session of gains for both U.S. crude and Brent. That is the longest streak for West Texas Intermediate, the U.S. benchmark, since a 10-day rally in late 2009 and early 2010. Brent hasn’t experienced such a winning streak since 2012.

The move higher is a sharp turnaround from last month, when U.S. crude prices hit a 10-month low and Brent fell to its lowest level since Novem-

ber. Oil slid into bear-market territory in June, down more than 20% from highs hit in February.

But fresh U.S. data late last week has raised some investors’ hopes that the resurgence of U.S. crude production may not be unstoppable. Growth in U.S. output has been hampering efforts led by the Organization of the Petroleum Exporting Countries to reduce global oil inventories.

The U.S. Energy Information Administration said Friday that U.S. oil production fell in April, contrary to what many expected based on preliminary weekly figures. And oil-field services firm Baker Hughes Inc. reported a surprise drop in the number of oil rigs at work in the U.S.

Investors are wondering “did we fall too far, too fast? Is the market starting to react to the low-price environment?” said John Kilduff, founding partner at Again Capital. “We may be seeing these market forces act more quickly upon U.S. production.”

Last week’s two-rig decline in a weekly count of U.S. rigs by Baker Hughes came after a record 23-straight weeks of increases. That helped support

the argument that U.S. drillers are reacting to low prices and curtailing production.

“The decline signals that U.S. oil supply struggles to remain profitable between \$40 and \$45 a barrel,” said Vivek Dhar, a commodities strategist at Commonwealth Bank of Australia.

But some analysts say last week’s data didn’t necessarily mark a change in direction. The number of rigs working in the Permian Basin, a prolific

*Some analysts say the rig data didn’t necessarily mark a change in direction.*

shale formation in Texas, rose by one last week.

“The bulls will hype up the data for sure, but the market fundamental hasn’t changed,” said Gao Jian, an energy analyst at SCI International. The market “is still very oversupplied.”

Analysts at JBC Energy said reduced output from oil fields undergoing maintenance in

the Gulf of Mexico was responsible for the pullback in crude production in April.

“Therefore, this data still has very limited implications for U.S. production this year,” they wrote in a note Monday.

And rising output from Nigeria and Libya is also undermining OPEC’s efforts to work off the supply glut that has weighed on the oil market for three years, analysts at Commerzbank said.

“At current output levels, OPEC will not succeed in eliminating the inventory overhang completely by year’s end,” the analysts said. “The market ignored this, reacting instead to the slight decline in drilling activity in the U.S. reported by Baker Hughes....All the same, it is still too early to see this as any kind of trend reversal.”

Analysts and investors also said that light trading volumes ahead of the Fourth of July holiday in the U.S. could be affecting prices.

Gasoline futures rose 1.6 cents, or 1.06%, to \$1.5297 a gallon. Diesel futures rose 2.2 cents, or 1.48%, to \$1.5051 a gallon.

—Jenny W. Hsu and Justin Yang contributed to this article

Banks, Oil Firms Lead Dow Higher

By RIVA GOLD AND AKANE OTANI

Gains in energy and financial stocks lifted the Dow Jones Industrial Average on the first day of the third quarter.

Trading was quiet in Monday’s session, which was shortened ahead of the July 4 holiday. Just 3.8 billion shares changed hands, marking the lowest volume day of the year.

The Dow industrials jumped 129.64 points, or 0.6%, to 21479.27. The S&P 500 rose 5.60 points, or 0.2%, to 2429.01, and the Nasdaq Composite lost 30.36 points, or 0.5%, to 6110.06, weighed down by losses in technology stocks.

Energy shares led gains in the S&P 500 as oil prices rebounded. Dow component **Chevron** rose 1.9%, and **Exxon Mobil** added 1.7%, while U.S. crude jumped 2.2% to \$47.07 a barrel, notching its eighth consecutive session of gains.

Stocks climbed to records in the first half of the year, but many investors and analysts expect muted gains over the next several months. Recent weakness in inflation data, higher-than-average stock valuations and volatile commodity prices threaten to stall the stock rally in the second half of 2017, many say.

The pace of earnings growth is also expected to moderate in the second quar-

ter after companies posted their best results in nearly six years earlier this year.

“The big question for markets is now: Is this soft patch in the U.S. behind us?” said Michael Herzum, head of multiasset strategy at Union Investment, whose firm has taken a more cautious stance heading into the second half of the year. “We think the bulk of the earnings upgrades are now done,” Mr. Herzum said.

Financial stocks advanced with government bond yields, sending **Goldman Sachs Group** and **J.P. Morgan Chase** up more than 2% apiece. The yield on the 10-year U.S. Treasury note rose to 2.352% from 2.298% on Friday. Higher rates typically support banks’ net-interest margins, a key measure of lending profitability.

A flurry of manufacturing readings added to confidence in the health of the world economy, putting pressure on government bonds.

The Stoxx Europe 600 rose 1.1%, snapping a four-session losing streak.

Earlier, stocks in Asia mostly edged higher.

Hong Kong’s Hang Seng added 0.1%, while Japan’s Nikkei Stock Average added 0.1% after a central-bank survey showed business confidence among the nation’s large manufacturers strengthened to its highest level in more than three years in the second quarter.

Data Firm Agrees To Buy Bankrate

By ALI STRATTON

**Red Ventures** LLC said Monday it had agreed to buy personal-finance website operator **Bankrate** Inc. in a \$1.24 billion all-cash deal as it seeks to expand its presence in the financial-services industry.

Red Ventures, a Fort Mill, S.C., data company that connects financial services, home services and health-care businesses to consumers, plans to pay Bankrate shareholders \$14 a share, an 8.9% premium to Friday’s closing price. Bankrate shares were up 16% this year through Friday.

Red Ventures said it plans to leverage Bankrate’s “millions of users across multiple brands” to deepen its footprint in the industry.

The deal, already approved

by Bankrate’s board of directors, still needs approval from Bankrate shareholders. The companies said they expect the deal to close later this year.

Bankrate’s flagship sites include CreditCards.com, Bankrate.com and Caring.com. The company also owns and operates other specialist sites, apps and social platforms including NextAdvisor.com and Interest.com. In addition, it provides content, tools and services to more than 100 online partners and licenses editorial content to major news organizations.

Shares in Bankrate, founded as a financial and market-data research business and launched as Bankrate.com in 1996, were up 8.8% to \$13.95 in afternoon trading Monday.

Treasury Prices Weaken Further

By MIN ZENG

The U.S. government bond market on Monday extended last week’s selloff, sending the yield on the two-year Treasury note to the highest level in more than eight years.

The yield on the benchmark 10-year note rose above 2.3% and settled at the highest level since May 11. Yields rise as bond prices fall.

Demand for haven bonds pulled back after a report showed that U.S. manufacturing activity expanded last month at the fastest pace in nearly three years. Analysts say the results lift optimism about economic growth picking up after a soft patch during the first quarter, which bolsters the Federal Reserve’s case to raise interest rates one more time before the end of this year.

The report “confirms the Fed’s general view that any softness in the U.S. economy will work itself out,” said Jim Vogel, market strategist at FTN Financial.

Bond yields jumped last week after months of slides, as hawkish comments from policy makers at the European Central Bank, the Bank of England and the Bank of Canada fueled bond investors’ worries about a pivot toward tightening monetary policy in the developed world.

Mr. Vogel said that for the higher yield momentum to continue, coming data need to show stronger growth and higher inflation.

Reports on U.S. private-sector employment and the health of the service industry are both due Thursday, while the monthly U.S. nonfarm employment report is released Friday morning. Investors not only zero in on the job-growth figure in nonfarm payrolls, but



Federal Reserve Chairwoman Janet Yellen.

also on a gauge of wage inflation in the report.

The yield on the two-year Treasury note settled at 1.414% on Monday, compared with 1.385% Friday. It was the yield’s highest close since November 2008.

Yields on short-term Treasuries are highly sensitive to the Fed’s interest-rate policy. The two-year yield has more than doubled the level it traded at a year ago as the Fed has raised short-term interest rates three times since last December.

The yield on the benchmark 10-year Treasury note settled at 2.352%, compared with 2.298% Friday.

The U.S. bond market closed at 2 p.m. Monday and remains shut on Tuesday in observance of Independence Day. Some traders said trading was thinner than usual before the holiday, which may have exaggerated part of the bond-price slides. The Dow Jones Industrial Average hit a fresh intraday record on Monday, a sign of greater appetite for riskier assets.

U.S. bank shares were

among the winners on Monday, boosted partly by a rise in the 10-year Treasury note’s yield premium relative to that on the two-year note.

The premium was 0.938 percentage point Monday, the highest since May 26. A higher premium is known as a steepening yield curve, a trend that tends to be good for banks, which borrow short-term money and lend cash longer term. The wider the yield spread, the stronger the profit margin outlook for banks.

A steepening curve also would be welcomed by Fed policy makers because it is typically interpreted as a sign of rising optimism about stronger growth and higher inflation. A falling premium is known as a flattening yield curve which tends to flag worrisome signals about growth. The curve had flattened earlier this year and remains close to the flattest level since 2007.

Manufacturing data released Monday from China, the eurozone and the U.S. pointed to an improving global economic outlook and sup-

ported some central bankers’ view to normalize their interest-rate policy.

A gauge of manufacturing in China beat market expectations and a similar gauge in the eurozone reached the highest level since 2011. In the U.S., the monthly manufacturing reading from the Institute for Supply Management rose to 57.8 last month from 54.9 in May, the highest level since August 2014.

Last week, the 10-year Treasury yield rose by 0.15 percentage point, though it is still below the 2.446% traded at the end of last year.

Large and unconventional monetary stimulus via asset purchases by the ECB and the Bank of Japan have played a big role in driving global government-bond yields to historically low levels in recent years. Bond investors are concerned that the value of their holdings could fall as central banks reduce their support for the bond markets.

“I think the central banks are very cognizant of the fact that they have forced investors into very low yields and they want to do all they can to avoid a sloppy selloff that will create big losses,” said Thomas Roth, executive director in the rates trading group at MUFG Securities Americas Inc.

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FUND NAME	NAV				—%RETURN—			
	GF	AT	LB	DATE	CR	NAV	YTD	12-MO
■ Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866								
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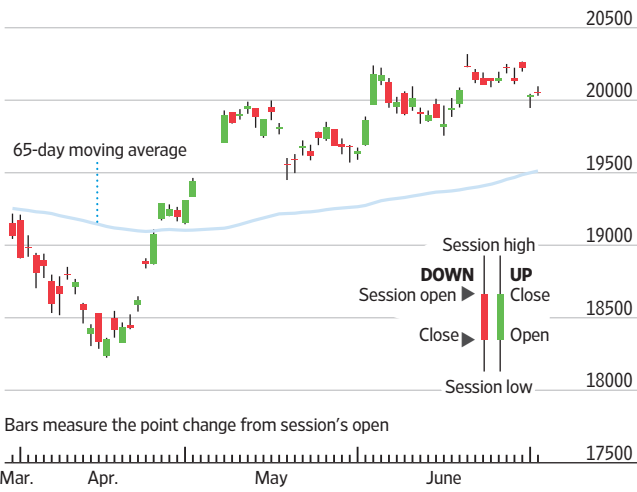
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MARKETS DIGEST

Nikkei 225 Index

**20055.80** ▲22.37, or 0.11%  
High, low, open and close for each trading day of the past three months.



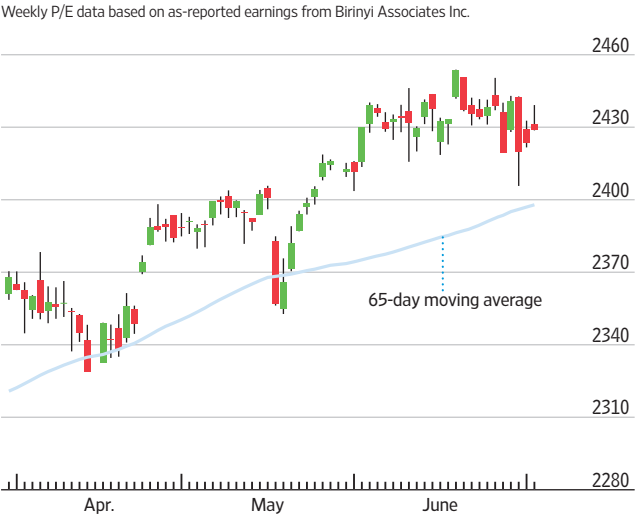
STOXX 600 Index

**383.41** ▲4.04, or 1.06%  
High, low, open and close for each trading day of the past three months.



S&P 500 Index

**2429.01** ▲5.60, or 0.23%  
High, low, open and close for each trading day of the past three months.



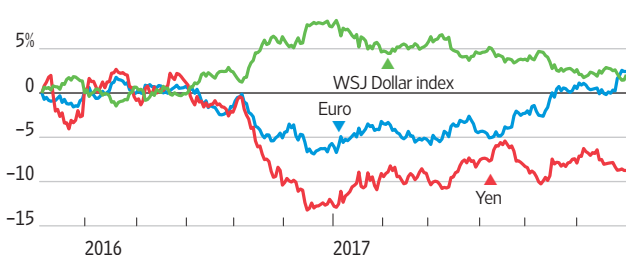
International Stock Indexes

Region/Country	Index	Close	Latest NetChg	% chg	Low	52-Week Range	High	YTD % chg
World	The Global Dow	2783.51	14.12	▲0.51	2285.55		2792.77	10.1
	MSCI EAFE	1886.95	3.76	▲0.20	1471.88		1956.39	9.9
	MSCI EM USD	1013.21	2.41	▲0.24	691.21		1044.05	27.6
Americas	DJ Americas	584.06	1.43	▲0.25	502.42		588.61	8.1
	Sao Paulo Bovespa	63108.02	208.05	▲0.33	50824.99		69487.58	4.8
	S&P/TSX Comp	15182.19	...	Closed	14080.24		15943.09	-0.7
	IPC All-Share	50032.75	175.26	▲0.35	43998.98		50312.02	9.6
	Santiago IPSA	3627.28	20.49	▲0.57	3111.53		3786.05	12.5
U.S.	DJIA	21479.27	129.64	▲0.61	17713.45		21562.75	8.7
	Nasdaq Composite	6110.06	-30.36	-0.49	4786.01		6341.70	13.5
	S&P 500	2429.01	5.60	▲0.23	2074.02		2453.82	8.5
	CBOE Volatility	11.22	0.04	▲0.36	9.37		23.01	-20.1
EMEA	Stoxx Europe 600	383.41	4.04	▲1.06	318.76		396.45	6.1
	Stoxx Europe 50	3159.45	37.28	▲1.19	2720.66		3279.71	4.9
	ATX	3138.17	31.51	▲1.01	1997.21		3212.50	19.8
	Bel-20	3839.91	46.29	▲1.22	3211.08		4055.96	6.5
	CAC 40	5195.72	75.04	▲1.47	4062.07		5442.10	6.9
	DAX	12475.31	150.19	▲1.22	9304.01		12951.54	8.7
	ATG	827.65	3.91	▲0.47	520.40		829.56	28.6
	BUX	34780.88	-424.54	-1.21	26133.23		36168.63	8.7
	Tel Aviv	1436.29	1.85	▲0.13	1372.23		1490.23	-2.3
	FTSE MIB	21013.14	428.91	▲2.08	15293.10		21828.77	9.2
	AEX	513.12	5.97	▲1.18	419.45		537.84	6.2
	WIG	61392.77	374.41	▲0.61	43534.02		62666.49	18.6
	RTS Index	1009.42	8.46	▲0.85	898.05		1196.99	-12.4
	IBEX 35	10604.20	159.70	▲1.53	7857.80		11184.40	13.4
	SX All Share	583.37	6.46	▲1.12	457.08		598.42	9.1
	Swiss Market	9009.81	102.92	▲1.16	7585.56		9148.61	9.6
	Johannesburg All Share	52163.80	552.79	▲1.07	48935.90		54716.53	3.0
Asia-Pacific	BIST 100	100522.30	81.91	▲0.08	70426.16		100990.54	28.6
	FTSE 100	7377.09	64.37	▲0.88	6432.47		7598.99	3.3

Source: SIX Financial Information;WSJ Market Data Group

Currencies

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



Country/currency	Mon in US\$	per US\$	US\$ vs. YTD chg (%)
Americas	Argentina peso-a	0.0602 16.6210	4.7
	Brazil real	0.3029 3.3012	-3.2
	Canada dollar	0.7689 1.3006	-1.4
	Chile peso	0.001511 661.90	-1.2
	Colombia peso	0.0003283 3046.00	1.5
	Ecuador US dollar-f	1 1	unch
	Mexico peso-a	0.0548 18.2465	-12.0
	Peru sol	0.3075 3.2516	-3.0
	Uruguay peso-e	0.0351 28.520	-2.8
	Venezuela bolivar	0.099340 10.07	0.7
Asia-Pacific	Australia dollar	0.7650 1.3072	-5.9
	China yuan	0.1470 6.8007	-2.1

Key Rates

	Latest	52 wks ago
Libor		
	One month	1.22689% 0.46955%
	Three month	1.30072 0.65635
	Six month	1.45600 0.92815
Euro Libor		
	One month	1.74844 1.23500
	One month	-0.40071% -0.35743%
	Three month	-0.37200 -0.29800
Euribor		
	One month	-0.37300% -0.36300%
	Three month	-0.31100 -0.29100
	Six month	-0.27100 -0.18500
Yen Libor		
	One month	-0.01586% -0.04714%
	Three month	0.00057 -0.02100
	Six month	0.02143 -0.01536
Eurodollars		
	One month	1.3200% 1.2200%
	Three month	1.3700 1.2700
	Six month	1.5100 1.4100
Prime rates		
	Canada	4.25% 3.50%
	United States	2.70 2.70
	Japan	1.475 1.475
	Hong Kong	5.00 5.00
Policy rates		
	ECB	0.00% 0.00%
	Britain	0.25 0.50
	Switzerland	0.50 0.50
	Australia	1.50 1.75
Fed-funds target		
	U.S. discount	1.75 1.00
	Cash money	1.00-1.25 0.25-0.50
	Overnight repurchase rates	3.00 2.25
U.S.		
	U.S.	1.23% 1.03%
	Euro zone	n.a. n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

Top Stock Listings

Cur Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans				
HK\$ AIA Group	1299	56.25	-1.40	28.57
¥ AstellasPharma	4503	3794.00	-0.62	-14.81
AUS AusNZBK	ANZ	28.65	-0.24	-5.82
AUS BHP	BHP	23.23	-0.21	-7.30
HK\$ Bank of China	3988	3.87	1.04	12.50
HK\$ CK Hutchison	0001	97.45	-0.56	10.86
HK\$ CNOOC	0883	8.53	-0.23	-12.06
AUS CSL	CSL	135.27	-0.20	34.72
¥ Canon	7751	3794.00	-0.58	15.14
¥ Central Japan Ry	9022	1828.05	-0.14	-4.91
HK\$ China Construct	0939	6.08	0.50	1.84
HK\$ China Life Insurance	2628	24.10	1.05	19.31
HK\$ China Mobile	0941	82.85	...	0.79
HK\$ China Petrochem	0386	6.11	0.33	11.09
AUS Cmwth Bk Aust	CBA	82.44	-0.45	0.04
¥ East Japan Railway	9020	1092.5	1.68	8.17
¥ Fintec	6954	216.75	0.09	9.39
¥ Hitachi	6501	693.70	0.62	9.76
TW\$ Hon Hai Precisin	2317	116.50	-0.43	38.36
¥ Honda Motor	7267	3067.00	-0.10	-10.19
KRW Hyundai Mtr	005380	163500	2.51	11.99
HK\$ IndComml	1398	5.03	0.60	8.17
¥ Japan Tobacco	2914	3950.00	0.08	2.76
¥ KDDI	9433	2981.00	0.20	0.73
¥ Mitsubishi	8058	2373.00	0.72	-0.74
¥ Mitsubishi Electric	6503	1630.50	0.93	0.06
¥ Mitsubishi UFJ Fin	8306	757.10	0.30	5.12
¥ Mitsui	8031	1601.50	-0.25	-0.34
¥ Mizuho Fin	8411	205.30	-0.05	-2.14
¥ NTT DoCoMo	9437	2645.50	-0.25	-0.66
AUS NatAustBnk	NAB	29.52	-0.24	-3.75
¥ Nippon Telegr	9432	5317.00	1.13	8.25
¥ Nissan Motor	7201	1117.00	-0.09	-49.08
¥ Panasonic	6752	1534.50	0.69	2.98
HK\$ PingAnIns of China	2318	52.65	2.33	35.70
¥ Reliance Inds RIGD	8316	4388.00	0.21	-1.61
HK\$ Samsung Electronics	005930	236100	-0.67	31.02
¥ Sanyo	3382	4619.00	-0.19	37.33
¥ SoftBank Group	9984	9111.00	-0.15	17.33
¥ Sony	6758	4310.00	0.56	31.60
¥ Sumitomo Mitsui	8316	4388.00	0.21	-1.61
HK\$ SunHing Kai Prg	0016	115.50	0.70	17.86
TW\$ Taiwan SemiMfg	2330	209.00	0.24	15.15

Cur Stock	Sym	Last	% Chg	YTD% Chg
¥ TakedaPharm	4502	5704.00	-0.09	17.97
HK\$ Tencent Holdings	0700	280.80	-0.07	48.02
¥ Tokio Marine Hldg	8766	4651.00	...	-3.02
¥ Toyota Mtr	7203	5950.00	0.97	-13.49
AUS Wesfarmers	WES	40.17	0.12	-4.67
AUS Westpac Banking	WBC	30.39	-0.39	-6.78
AUS Woolworths	WOW	25.22	-1.25	4.65
Stoxx 50				
CHF ABB	ABBN	23.96	1.18	11.55
¥ ASML Holding	ASML	114.65	0.48	7.50
¥ AXA	CS	24.57	2.57	2.42
¥ Air Liquide	AI	110.05	1.71	4.16
¥ Allianz	ALV	175.90	2.03	12.04
¥ AB InBev	ABI	97.30	0.61	-3.23
¥ AstraZeneca	AZN	5163.00	0.55	16.35
¥ BASF	BAS	82.57	1.83	-6.50
¥ BNP Paribas	BNP	64.94	2.98	7.25
¥ BT Group	BTA	291.95	-0.95	-20.43
¥ Banco Bilvitz Ar	BVIA	7.51	3.36	18.24
¥ Banco Santander	SAN	6.00	3.63	21.03
¥ Barclays	BARC	207.05	2.12	-7.34
¥ Bayer	BAYN	113.40	0.18	14.40
¥ BP	BP	451.30	1.92	-11.44
¥ British Am Tob	BATS	5236.00	0.04	13.30
¥ Daimler	DAI	64.08	1.12	-9.39
¥ Deutsche Telekom	DTE	15.82	0.67	-2.27
¥ Diageo	DGE	2273.00	0.20	7.73
¥ ENI	ENI	13.32	1.22	-13.90
¥ GlaxoSmithKline	GSK	1630.00	-0.34	4.35
¥ Glencore	GLEN	301.60	5.01	8.74
¥ HSBC Hldgs	HSBA	729.80	2.54	11.10
¥ ING Group	INGA	15.47	2.48	15.74
¥ Imperial Brands	IMB	3458.50	0.29	-3.37
¥ Intesa Sanpaolo	ISP	2.85	2.67	17.48
¥ LVMH Moet Hennessy	MC	220.95	1.21	21.80
¥ Lloyds Banking Group	LLOY	66.71	0.85	6.72
¥ L'Oréal	OR	182.95	0.30	5.51
¥ National Grid	NG	954.00	0.23	-8.10
CHF Nestle	NEST	83.70	0.30	14.58
CHF Novartis	NOVN	80.60	1.00	8.77
DKK Novo Nordisk B	NOVO-B	279.00	0.07	9.54
¥ Prudential	PRU	1791.00	1.70	10.05
¥ Rectitt Benckiser	RIB	7781.00	-0.04	13.00
¥ Rio Tinto	RIO	3374.50	4.09	6.84

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasuries on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasuries, in basis points				Yield		
			Latest	Previous	Month Ago	Year ago	Previous	Month ago	Year ago
5.250	Australia 2	1.731	32.0	35.1	29.3	97.9	1.737	1.587	1.576
4.750	10	2.618	26.8	30.6	26.3	52.1	2.608	2.423	1.964
3.000	Belgium 2	-0.483	-189.3	-185.5	-189.2	-116.5	-0.469	-0.598	-0.568
0.800	10	0.809	-154.2	-150.2	-152.3	-138.8	0.800	0.637	0.055
0.000	France 2	-0.398	-180.8	-174.9	-182.7	-114.7	-0.364	-0.533	-0.550
1.000	10	0.832	-151.8	-148.1	-145.2	-128.1	0.821	0.708	0.162
0.000	Germany 2	-0.595	-200.6	-197.9	-204.4	-124.2	-0.594	-0.750	-0.645
0.250	10	0.477	-187.4	-183.5	-188.4	-156.4	0.467	0.276	-0.121
0.300	Italy 2	-0.318	-172.8	-169.3	-149.1	-71.7	-0.307	-0.197	-0.120
2.200	10	2.138	-21.2	-14.7	10.1	-30.6	2.155	2.261	1.137
0.100	Japan 2	-0.120	-153.0	-150.1	-144.8	-92.6	-0.116	-0.154	-0.328
0.100	10	0.086	-226.4	-221.4	-210.6	-169.7	0.088	0.054	-0.254
4.000	Netherlands 2	-0.566	-197.6	-195.4	-198.2	-120.8	-0.569	-0.688	-0.611
0.750	10	0.668	-168.2	-164.2	-167.2	-150.3	0.660	0.488	-0.060
4.750	Portugal 2	0.058	-135.3	-130.4	-106.4	-37.6	0.082	0.230	0.222
4.125	10	2.983	63.3	71.8	85.2	155.8	3.020	3.012	3.001
2.750	Spain 2	-0.262	-167.2	-164.0	-157.3	-80.2	-0.255	-0.279	-0.205
1.500	10	1.513	-83.8	-77.0	-59.3	-29.9	1.532	1.567	1.144
4.250	Sweden 2	-0.648	-205.8	-200.3	-201.2	-127.0	-0.617	-0.718	-0.673
1.000	10	0.643	-170.7	-164.3	-174.3	-119.8	0.659	0.417	0.245
1.750	U.K. 2	0.342	-106.8	-101.4	-117.4	-40.1	0.372	0.120	0.196
4.250	10	1.262	-108.8	-104.3	-112.0	-57.8	1.259	1.040	0.865
1.250	U.S. 2	1.410	...	...	...	...	1.386	1.294	0.597
2.375	10	2.350	...	...	...	...	2.302	2.160	1.443



FINANCE & MARKETS

# China Bond Link Gets Off to Quiet Start

By SHEN HONG

SHANGHAI—China’s bond market showed little reaction as Beijing and Hong Kong opened a trading link giving global investors additional access to the world’s third-largest debt market.

Despite fanfare at the opening ceremony in Hong Kong for the so-called Bond Connect link, Chinese bond prices were mostly steady throughout the trading day. The yield on China’s benchmark 10-year government bond slipped 0.04 percentage point to 3.53%, while on the one-year it was down 0.005 percentage point at 3.46%. Yields fall as bond prices rise.

“I am sure there’s champagne and balloons at the ceremony in Hong Kong, but here in Shanghai it’s just another trading day. I don’t feel a thing,” said a Shanghai-based senior bond trader at an Asian bank.

The link allows investors based in Hong Kong to trade directly in China’s \$9 trillion market. Its launch follows last year’s landmark opening of the bond market to global investors with trading accounts inside China, and is modeled in part on the stock-market links between Hong Kong and Chi-



Officials celebrate the launch of the China bond link on Monday at the Hong Kong exchange.

nese exchanges in Shanghai and Shenzhen.

Unlike the stock-market links, the bond-trading connection is one-way: Foreigners can buy bonds in the mainland market, but mainland Chinese investors can’t do likewise in Hong Kong. China has been fighting to stem capital out-

flows and reduce downward pressure on its currency.

Few expect a huge rush of foreign money into Chinese bonds as a result of the new trading link, given that investors can already buy bonds in China. Chinese bonds aren’t yet included in major bond indexes, so the many investment

funds that track those indexes don’t have to enter the market. And analysts say concerns about frequent bouts of volatility and the reliability of local credit ratings could keep investors away.

“The bond connect will at best serve to improve investor sentiment now, but given the

less-than-convenient arrangements regarding clearing and so on, its positive impact will only become material in the medium to long run,” said Tang Yue, an analyst at Industrial Securities.

Market participants say that in addition to the paperwork, there are also concerns about currency conversion and hedging to offset exchange-rate risks.

Asked at the opening ceremony whether Beijing will make the link two-way, the deputy governor of China’s central bank, Pan Gongsheng, said “not at the moment.” He said it would depend on the amount of trading activity and initial demand from the market.

To showcase the new trading link, one of China’s biggest banks, **Agricultural Development Bank of China**, on Monday issued 15 billion yuan (\$2.21 billion) worth of bonds that will be available to both domestic and global investors. **China Development Bank** will follow with 20 billion yuan worth of bonds Tuesday.

International banks including **Citigroup Inc.** and **HSBC Holdings PLC** said Monday they had concluded their first deals as market makers for trading via Bond Connect.

Chinese bond investors are

preoccupied less with the link than with what the **People’s Bank of China** will do next in the money market and how the economy will perform in the coming months, said the Shanghai trader.

After injecting a large amount of funds into the financial system in mid-June to meet a seasonal surge of cash demand, the PBOC hasn’t used its money-market liquidity operation during the past seven business days. The inaction is widely interpreted as a signal from policy makers in Beijing that they wish to continue their campaign to reduce debt and leverage in China’s financial markets.

Foreign investors’ share of China’s interbank bond market remains low. At the end of March, the total amount of Chinese domestic bonds they held was around 830 billion yuan, or around 1.4% of the market, according to **Goldman Sachs**.

“Foreign money accounts for very little in our market, and it won’t change much just because of the Bond Connect,” the Shanghai trader said. “The local players will continue with their own game.”

—Gregor Stuart Hunter in Hong Kong contributed to this article.

## Ex-Executives of Barclays in Court

By MAX COLCHESTER

LONDON—Former **Barclays PLC** Chief Executive John Varley and three other former executives appeared in a West London court Monday to face fraud charges over deals struck to secure emergency Mideast funding during the financial crisis.

Lawyers representing Mr. Varley and Roger Jenkins, a former senior Barclays investment banker, said their clients intended to plead not guilty to the charges. A lawyer representing Barclays, which was

also charged, said the bank hadn’t yet come to a decision on its own position.

Britain’s Serious Fraud Office has spent five years investigating how Barclays wooed Qatari investors to prop up the bank. In total, Barclays raised £11.8 billion (\$15.4 billion) from investors through two emergency cash calls in June and October 2008. Its examination has focused on £322 million in “advisory services” that were paid to Qatari investors as part of the cash injection, an agreement that wasn’t initially disclosed to share-

holders.

The SFO also scrutinized a \$3 billion loan facility to the state of Qatar made by Barclays just weeks after the October equity raise.

On Monday, a judge said Mr. Jenkins and Thomas Kalaris, a former Barclays executive who worked alongside him on the Qatari capital injections, would have to post £500,000 bail. Mr. Varley and Richard Boath, who headed the bank’s European financial institutions group, were granted unconditional bail. The trial will be heard in a

South London court starting July 17.

The Serious Fraud Office charged the four men and Barclays with conspiracy to commit fraud. Messrs. Varley and Jenkins, along with the bank, were charged with providing unlawful financial assistance in connection with the \$3 billion loan. English law forbids a company from giving someone money to buy its shares.

Mr. Boath has previously said he would fight the charges. Mr. Kalaris’s lawyer previously declined to comment.



Former Barclays CEO John Varley faces fraud charges.

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MARKETS

Four Losers Bucked Upbeat Global Trend

Most of the biggest stock markets fared well in the first half. These indexes didn't

By Steven Russillo

Stock markets around the world collectively had their best first half in years, but not everyone was a winner. Just four prominent stock-market indexes fell through the first six months of the year. Benchmarks tracking Russia, China, Israel and Canada were the rare losers in an environment where nearly everything else rallied. In the past 20 years, there have only been four other instances in which such a small number of indexes started off the year in the red. Analysts cite a confluence of reasons for why those four indexes declined, including exposure to falling oil prices and so-called mean reversion—the idea that a pullback in those markets was inevitable following sharp rallies in 2016. Here is a look at the countries that are lagging and what could be in store for the rest of the year. **Russia** Russia's RTS Index sank 13% in the first half, the worst performer of the 30 indexes tracked by The Wall Street Journal. While the drop looks severe, it follows a 52% surge in 2016 and heightened volatility for much of the past decade. The index lost four-fifths of its value peak to trough during the financial crisis. It then nearly recovered through 2011 before falling another 70% over the ensuing five years. Oil prices are down 14% this year and in June entered a bear market. Oil's decline and the possibility of tighter sanctions on Russia have hit the country's stock market, whose heavy weightings include resource giants such as Rosneft

Oil Co. and Gazprom PJSC. "You've seen a 180-degree turn on sentiment around Russia," said Geoffrey Wong, head of global emerging-markets and Asia-Pacific equities at UBS Asset Management. "Any stabilization in oil prices should be good for equities going forward." Politics have played a part in diminishing Russian stocks' appeal, too, thanks to the continuing probes into Russia's alleged influence over the U.S. presidential election last year. **China** While most barometers of Chinese equities have done well this year, Shenzhen-listed stocks have lagged behind. The Shenzhen Composite Index dropped 3.6% in the first half, while its Shanghai counterpart rose 2.9%. And the MSCI China Index, which includes mostly Chinese companies listed in Hong Kong and the U.S., surged 24%. Shenzhen's weakness is a surprise. The market is home to many companies that should benefit as China's economy shifts to being driven more by consumer demand. Around a fifth of the market is made up of tech stocks, a sector that has enjoyed a stellar start to the year in other countries. Foreign investors late last year gained access to Shenzhen-listed stocks through a new trading link with Hong Kong, although demand from them has been underwhelming. Shenzhen-listed companies tend to be smaller and more volatile than those listed in Shanghai. Slowing economic growth and a crackdown on speculative investing driven by leverage could hurt Shenzhen-listed equities in the second half of the year, analysts warn. Another consideration is valuation. The Shenzhen Composite Index trades at 25 times projected earnings over the next 12 months, compared with only 15 times for the



Not bullish: The plaza outside the Shenzhen Stock Exchange, whose composite index dropped 3.6% in the first six months of 2017.

Shanghai Composite Index, according to HSBC. "Valuations make a big difference," said Grace Tam, senior market specialist at HSBC Global Asset Management. "People are worried about Shenzhen stocks being too expensive." Meanwhile, indexes like the MSCI China have benefited from China tech giants Tencent Holdings Ltd. and Alibaba Group Holding Ltd., which surged in the first half of the year. Tencent is listed in Hong Kong and Alibaba trades on the New York Stock Exchange. **Israel** Here the market's weighting toward tech stocks ought to have given it an advantage, but Tel Aviv's flagship TA-35 Index slipped 3.1% in the first half. Three of the index's top five constituents are in the pharmaceuticals sector, which has struggled during the first half of the year. Teva Pharmaceutical Industries Ltd., the world's biggest seller of low-price generic drugs and Tel Aviv's biggest listing by market cap, slumped 16%, hurt by an increasingly difficult pricing en-

vironment. The debt-laden company's chief executive stepped down in February. Another generic-drug maker, Perrigo Co., slumped 9.3%, while shares in EpiPen maker Mylan NV, which has lost almost half its value over the past two years, were up slightly. **Canada** The Toronto exchange's benchmark S&P TSX waffled between small gains and losses in the first half before finishing down 0.7%, with companies like Suncor Energy Inc. hurt by falling oil prices. Canada's housing market has also shown signs of strain. In April, Canadian authorities accused lender Home Capital Group Inc. of misleading investors about mortgage-application fraud. The company soon afterward tapped an emergency line of credit. Moody's Investors Service also downgraded the Canadian banking sector in May, citing high private-sector debt levels. The S&P TSX gained 18% last year, so the index's slow start this year might also be a partial swing back from last year's rally.

Not So Hot

Markets in Russia, Shenzhen, Israel and Canada fell in the first half, the only four prominent stock indexes globally to post declines.



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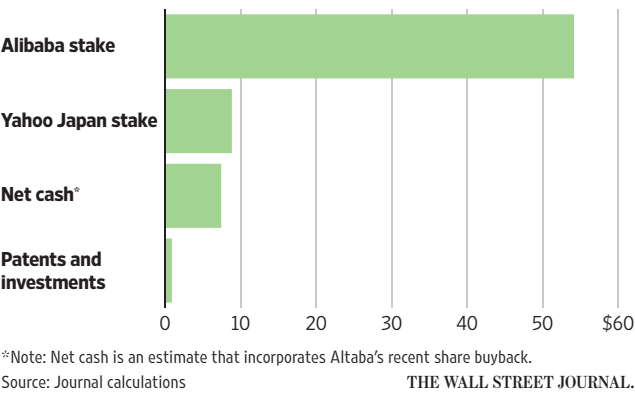
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Finally, Good News From Yahoo

The selloff in tech stocks is raising the appeal of the two-week-old Yahoo off-spring that gives investors slices of two big companies at a 30% discount. The company, dubbed Altaba, holds the assets that Yahoo didn't sell to Verizon Communications, including a 15% stake in **Alibaba Group Holding**, a 35.5% stake in popular Japanese internet portal Yahoo Japan, and some patents once held by Yahoo, as well as smaller investments in companies including Snap and Hortonworks. It also includes an estimated \$8.7 billion of cash. The bet is that the discount will close as Altaba's management executes its promise to return cash to investors and simplify the fund's structure. To do that the company needs to figure out how to sell the stakes in Alibaba and Yahoo Japan while limiting the big tax bill it would incur. That bill is the primary reason for the discount. Altaba shares traded 30% below their un-

Life After Yahoo

Components of Altaba's pretax net asset value, in billions



\*Note: Net cash is an estimate that incorporates Altaba's recent share buyback. Source: Journal calculations

taxed net asset value as of Friday's close—a gap that has remained fairly consistent through its first two weeks of trading. The downside is relatively limited. The first assumption is Alibaba and Yahoo Japan, which is 72% controlled by Altaba and SoftBank, hold up reasonably well. They did last week and Altaba itself fell less than the market. The second is that Altaba can avoid paying the full tax

bill. If Altaba does pay a full rate—36.5% for Alibaba and 38% for Yahoo Japan, according to UBS—and investors apply an additional 10% discount to account for expenses such as management fees and transaction costs, as is common with closed-end funds, its assets were worth \$49.16 a share as of the market close Friday. That is 9.8% below where its shares were trading, implying investors are already giv-

ing Altaba some credit for tax efficiency or are applying an additional discount of less than 10%. Many hedge funds have decided Altaba's management will figure out something. They are further protecting themselves by shorting shares of Alibaba. Meanwhile, Altaba's management has a simpler lever than tax savings for narrowing the fund's discount to net asset value: stock buybacks. At the current discount to net asset value, Altaba can effectively use buybacks to get \$1 of assets for 70 cents. Altaba bought back 64.5 million shares for \$3.4 billion through a modified Dutch auction that ended June 16, helping to absorb the negative effect of the company's shares being dropped from indexes after the sale of Yahoo's core business. More stock buybacks should be on the horizon. That alone could be reason to own Altaba. —Miriam Gottfried

OVERHEARD

The last week of June seems to be lucky for bond traders. After Britain's "yes" referendum on leaving the European Union—held on June 23 last year—currency and bond markets around the world gyrated wildly. The sudden volatility unnerved many, but it was pleasant for the people who make a living trading fixed income and currencies at major banks. Those same bankers got another summer surprise last week, as comments by central bankers in the U.K. and Europe triggered a sudden surge in interest rates and currencies. While smaller than last year's, the bump still makes for a refreshing reprise at the end of a weak quarter for trading. As U.S. traders head off for the Independence Day holiday, they may be tempted to toast their old colonial masters for delivering yet another last-minute second-quarter boost.

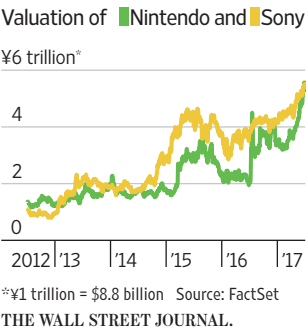
Dismal Math Of Investing In Bonds

Tiny hints from central banks about policy normalization shook markets up last week. They were also a reminder of the highly abnormal situation bond markets find themselves in, with little or no cushion for investors against rising yields. It is too easy to lose money in bonds. Returns on bonds come from two sources: the interest income that accrues to holders and changes in bond prices. Years of zero-interest-rate policy have drastically reduced the former, making the latter far more important. That shift has changed the way normally reliable bonds behave. Take Germany, which was at the center of last week's repricing. The country's benchmark 10-year bond pays a coupon of 0.25%, and at the start of last week was priced nearly close to par, with a yield of 0.25%. By the end of the week, it yielded 0.47%, but the bond's price had dropped by around 2%, data from Tradeweb show. In other words, the price move in one week was equivalent to eight years of income: the 0.25% yield on offer at the start of the week was no protection against losses. The U.S. is faring a bit better, and higher bond yields give a little more room for maneuver. But last week's swing still reduced year-to-date returns to 1.9% from 2.7% a week earlier on BAML's index. Even if yields don't surge higher from here—with forces like demographics, regulation and still-soft inflation weighing on the fixed-income market—the outlook for returns is hardly inspiring. Bond investors face thin times. —Richard Barley

Nintendo's Price Surge Can't Mask Sony's Greater Allure

Whether the Nintendo Switch or Sony's PlayStation 4 is a better videogame console is a matter of debate. When it comes to their Japanese makers' share prices, Sony is clearly the better bet. Nintendo has staged a remarkable share-price rally of late, gaining 50% this year and briefly taking over its rival's market value. At Monday's prices, both are valued at nearly \$50 billion. That looks like an anomaly. Revenue at Sony's games and network division alone is more than three times that of Nintendo, and it enjoys better operating margins. Add in Sony's other

Game On



\*¥1 trillion = \$8.8 billion Source: FactSet

businesses in areas such as image sensors and music and financial services, and its operating profit is almost 10 times that of Nintendo's. True, Nintendo is sitting

on \$8.4 billion of net cash. But while it trades at an enterprise value of 27 times its forward earnings before interest, taxes, depreciation and amortization, Sony trades at six times its Ebitda. The difference reflects the market's blind optimism that Nintendo can pull off stunning growth. Analysts estimate its operating profit will increase nearly eightfold in the next two years, according to S&P Global Market Intelligence. Sure, the Switch console has been selling like hot cakes, contrary to prelaunch predictions. Yet it is still too early to tell if that enthusi-

asm will last beyond the initial craze. Some investors clearly hope Nintendo will adapt more of its valuable franchises such as Pokémon and Super Mario to be used on mobile devices. The opportunity there is great for Nintendo, but its past mobile rollouts have been flawed and it isn't clear how committed the company is to this platform. Sony offers a more reliable growth prospect. Operating profit at its game segment grew 53% last year, mostly because of a one-third increase in revenue from its high-margin subscription-based business, which allows users to play

against other gamers, download goodies and stream movies, among other things. With a 60 million user base for PlayStation 4, Sony could pull in more of such revenue. Sony's other businesses are also improving. Strong demand for dual-lens smartphones has buoyed its image-sensors business, while its music division is riding the boom for subscription services. Analysts reckon Sony's operating profit could nearly double this fiscal year. Investors looking for high scores could have an easier time with Sony than Nintendo. —Jacky Wong