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As of 4 p.m. ET

DJIA 21830.31 ▲ 0.15%

NIKKEI 19959.84 ▼ 0.60%

STOXX 600 378.34 ▼ 1.04%

BRENT 52.52 ▲ 2.00%

GOLD 1268.40 ▲ 0.67%

EURO 1.1748 ▲ 0.61%

DLR \$110.87 ▼ 0.35%

What's News

Business & Finance

Profits at S&P 500 companies are on pace to rise 11% for the second quarter, marking the fourth straight quarter of earnings growth despite Washington's stalled tax and infrastructure initiatives. **A1**

◆ Samsung toppled Intel as the world's largest chip maker by revenue, with second-quarter sales of \$15.7 billion and operating profit of \$7.1 billion. **A1**

◆ Apple has removed software from its app store in China that allowed users to circumvent the country's internet filters. **B1**

◆ Tencent's WeChat app is undermining Apple in China ahead of the 10th-anniversary iPhone launch. **B4**

◆ Four activist investors are challenging plans by Dow Chemical CEO Liveris to break up DowDuPont. **B1**

◆ Toshiba agreed to give Western Digital notice before concluding any deal to sell its interest in the companies' chip venture. **B2**

◆ Tesla's Musk revealed new pricing tiers of the Model 3 sedan that he hopes will help transform company into a more mass-market maker. **B3**

◆ A buyout firm is blaming China-bashing for a stalled semiconductor deal. **B7**

◆ Private-equity firms are being faulted for some of the retail industry woes. **B1**

◆ Canada's tech sector is capitalizing on U.S. immigration curbs to woo talent. **B4**

World-Wide

◆ China unveiled a new, more mobile intercontinental ballistic missile at a parade of advanced weaponry and combat troops. **A1**

◆ Trump's reservations about sending more troops to Afghanistan have triggered a new exploration of an option long considered unlikely: withdrawal. **A1**

◆ South Korea's defense minister said the country would upgrade its Patriot missile system in response to North Korea's second ICBM test-launch. **A3**

◆ Trump signaled chagrin with China's inaction on North Korea's ballistic missile ambitions. **A7**

◆ The ousting of Pakistan's prime minister and the takeover of the position by his brother could hand more power to the country's military establishment. **A4**

◆ Venezuela's Maduro cast his ballot in a controversial national vote he is holding to elect a potent new assembly that will redraft the constitution. **A4**

◆ A voting machine used in a 2014 election was hacked as part of a demonstration on security vulnerabilities in election technology. **A5**

◆ Syria's war economy is in tatters, grappling with inflation, lost production and poverty. **A4**

◆ Heavy rainfall in the Southwest has caused deadly and in some cases historic flooding. **A5**

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People's Liberation Army soldiers get ready for Sunday's military parade, which marked the 90th anniversary of the army's foundation.

China Unveils New ICBM

Military display is latest effort by Xi to improve standing as leadership shuffle looms this fall

By JEREMY PAGE

BEIJING—China unveiled a new, more mobile intercontinental ballistic missile at a parade of advanced weaponry and combat troops, in President Xi Jinping's latest display of military—and political—muscle.

State television showed at least 16 DF-31AG missiles in Sunday's parade at the Zhuozihe combat-training base in northern China, marking the 90th anniversary of the founding of the force that is now

known as the People's Liberation Army.

The DF-31AG is mounted on an all-terrain vehicle so it is harder to track and can be fired from multiple locations, and it could have a longer range than the older DF-31A, which was also displayed and is carried by a vehicle designed mainly for roads, military experts say.

Mr. Xi, wearing combat fatigues and a peaked cap, inspected the troops from an open-top military vehicle before the parade, which featured tanks, helicopters, stealth jet fighters and some 12,000 personnel.

"The world is not peaceful," Mr. Xi said in a speech afterward that invoked his signature political idea of a

"China Dream" to build the country into a global economic and military power. "Today we are closer than any other period in history to the goal of the great rejuvenation of the Chinese nation and we need more than any period in history to build a strong people's military."

Mr. Xi also ordered troops to obey the Communist Party leadership, saying: "Wherever the party points, march there."

It is the first time a parade has been held to mark the anniversary since 1949, according to state media, and is the latest in a series of moves that analysts say are designed to boost Mr. Xi's political standing in the run-up to a reshuffle of the party leadership this year.

The parade was held amid escalating military tensions in the region, with North Korea accelerating its nuclear-weapons program since January through a series of tests, including the launch of an intercontinental ballistic missile on Friday.

U.S. President Donald Trump has warned repeatedly that he is weighing military action to halt North Korea's nuclear program, and in recent weeks has become increasingly critical of China, accusing it of failing to rein in Pyongyang. The U.S. Air Force flew two B-1B bombers over the Korean Peninsula on Saturday in response to North Korea's latest missile test.

"I am very disappointed in Please see CHINA page A3

Profits Overcome Political Gridlock In U.S.

BY THEO FRANCIS
AND THOMAS GRYTA

Washington may be gridlocked but American corporations are doing just fine, posting some of the biggest profit and revenue gains in years.

The political infighting and the failure of the health-law bill have stalled the tax and infrastructure initiatives that many investors and executives expected would spur the U.S. economy.

"We've been growing at 1.5% to 2% in spite of stupidity and political gridlock because the American business sector is powerful and strong and is going to grow regardless," James Dimon, chief executive officer of J.P. Morgan Chase & Co. said on an investor call in mid-July amid other comments about the need for bipartisan policy revamps.

Profits at S&P 500 companies are on pace to rise 11% for the second quarter, marking the fourth straight quarter of overall earnings growth, according to data from Thomson Reuters. Although first-quarter profits rose more rapidly, the second quarter is likely to reflect the biggest increase since mid-2011.

The gains are spread across industries from Wall Street banks to Detroit's car factories to Silicon Valley's software labs. Profits declined only in the utilities sector. Excluding the rebounding energy sector,

Please see PROFIT page A2

◆ GOP senator criticizes Trump health-care threats..... A7

White House Ponders Afghanistan Pullback

By DION NISSENBAUM

WASHINGTON—President Donald Trump's reservations about sending more troops to Afghanistan have triggered a new exploration of an option long considered unlikely: withdrawal. **A1**

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◆ Heavy rainfall in the Southwest has caused deadly and in some cases historic flooding. **A5**

cided to scale back its military presence instead, according to current and former Trump administration officials.

"It's a macro question as to whether the U.S., this administration, and this president are committed to staying," one senior administration official said. "It doesn't work unless we are there for a long time, and if we don't have the appetite to be there a long time, we should just leave. It's an unanswered question."

The exploration is an out-

growth of a deep divide at the White House, where the president and his top advisers are reluctant to send more American troops to Afghanistan without a clear strategy.

There appears to be support in the administration for a modest plan to send a few thousand more U.S. troops to Afghanistan, to put more pressure on Pakistan to crack down on militant sanctuaries, and to seek help from China, India and Pakistan in reaching regional peace deals. But there

is no consensus, said people involved in the debate, making it unlikely that the U.S. would send more forces to help the Afghan government repel Taliban advances this summer.

Administration officials face a conundrum: They want to avoid setting deadlines for pulling out troops, but they are wary of embracing an open-ended commitment that could pull more U.S. forces back into a deadly, 16-year-old conflict.

With discussions bogged down, administration officials

are taking a new look at pulling out most U.S. forces and focusing on a more limited counterterrorism strategy that might allow the U.S. to reduce its military presence by relying more on drone strikes and special forces to target extremists.

"It is becoming clearer and clearer to people that those are the options: go forward with something like the strategy we have developed, or withdraw," said the senior administration official, referring

Please see AFGHAN page A4

Samsung Tops Intel in Chips

Samsung Electronics Co., the South Korean technology company best known for its smartphones and televisions,

By Timothy W. Martin
in Seoul and
Ted Greenwald
in San Francisco

has taken the title of world's largest chip maker by revenue, knocking Intel Corp. from a perch it held for nearly a quarter-century.

Samsung's semiconductor unit, whose fortunes come largely from selling memory chips used in mobile devices, delivered second-quarter sales of \$15.7 billion and operating profit of \$7.1 billion. Intel,

which dominates the calculating engines known as microprocessors, reported quarterly revenue of \$14.8 billion and operating profit of \$3.8 billion.

It marks the first quarter in which Samsung, for years a distant No. 2 to Intel in the roughly \$365 billion semiconductor industry, has topped the Santa Clara, Calif.-based chip pioneer in semiconductor sales, according to IC Insights Inc., a semiconductor-market researcher. It is an advantage industry analysts expect Samsung to maintain at least through the end of this year as a shortage of memory chips persists.

Samsung, which started making chips for wristwatches in the 1970s, has more recently become a dominant player in two major types of memory chips: one for data storage, known as NAND, and another, known as DRAM, which gives devices their multitasking speed by holding data needed in the short term.

A surge in demand for memory has caused prices to soar over the past year, benefiting Samsung. NAND prices rose 50% and DRAM prices jumped 115% on the spot market over the past year, according to DRAMeXchange, which tracks sales and prices. But some predict supply will become replenished.

Please see CHIP page A6

◆ China unleashes a chip war against U.S. A6

At Last, Europe's Banks Are Stabilizing

European bank shares have soared...

Euro Stoxx Bank Index



Sources: WSJ Market Data Group (Euro Stoxx); European Banking Authority (equity)

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...but profits are stagnant. **B8**

European Banking Authority weighted average of return on equity for European banks

10%

140
120
100
80
60
40

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America's Pigs Have a Body-Image Problem: They're Not Fat Enough

* * *

Today's leaner hog breeds won't yield the lardy pork chops, greasy bacon that foodies crave

BY JULIE WERNAU

The day Aaron Foster finally got the full allotment of pork carcasses he'd ordered for his butcher shop in Brooklyn, the anxiety he'd felt during five long months of waiting melted away.

"These pigs had red, red meat," says the 35-year-old shop owner, "and amazing, thick back fat."



For decades, hog farmers have been breeding animals to produce a leaner, pinker, lower-fat variety of meat that would calm their customers' fears of clogged arteries. Lately, however, the strategy has run into an obstacle few people saw coming: a legion of foodies who think skinny pigs make for dry, bland meat.

The growing clamor for greasy bacon, sausages stuffed

with supple lard, and pork chops oozing with deep, scrumptious, oleaginous slab is so strong, in fact, that a problem has developed. America has a shortage of flabby pigs.

After deciding to search for a new local source of pork chops in December, Mr. Foster had to patiently woo an upstate New York farmer just to get his hooks on a single portly Ossipee

Please see PIGS page A7

INSIDE

WORLD NEWS

In EU-Poland Spat, Risks to Bloc's Unity Loom



EUROPE FILE
BY SIMON NIXON

The current standoff between the Polish government and the EU Commission over the rule of law risks becoming a serious threat to EU cohesion. The dispute goes beyond disagreements over policy to the nature of the European project itself.

The Commission insists that the EU is above all a "community of law": The rights that membership confers on its citizens hinge on EU law being enforced in all member states via domestic courts.

This makes the independence and impartiality of national judges a legitimate EU concern. And the Commission believes that recent attempts by the Polish government to overhaul the judiciary—including giving the minister of justice powers to dismiss current judges and appoint new ones—is the culmination of a campaign by Warsaw to bring the courts under political control in what one EU official calls a "systemic" assault on the rule of law and democratic values.

The crisis has hardly been defused by President Andrej Duda's decision last week to veto two of the three proposed laws. The Commission fears that the ruling Law & Justice party might try to push through a similar law again.

Last week, the Commission set out for the first time the red lines which it



ARTUR WIDAK/NURPHOTO/ZUMA PRESS

People gathered in front of Krakow's District Court on Wednesday evening to protests overhauls to the judiciary. The issue has placed a strain on Poland's relationship with the European Union.

says, if crossed, would lead it to launch a formal process that could lead to Poland being stripped of its EU voting rights. In particular, it said that any move by Warsaw to dismiss Supreme Court judges would lead to an immediate launch of this process—an unprecedented move that would pit the Commission directly against a national government and force member states to choose sides.

Of course, Warsaw sees things rather differently. Law & Justice party leader Jaroslaw Kaczynski has long insisted that the judiciary, along with other organs of the Polish state, had remained bas-

tions of the old Communist-era elite, which had hung on to its positions and privileges.

The party believes overhauling the judiciary is vital, not just because it is the only institution that remains unreformed since Communist times, but because it believes the self-selecting judiciary is guilty of dispensing two-tier justice in which access to justice for most people is limited while those with connections are treated leniently.

Besides, the party argues that many democracies, including the U.S. and Germany, hand politicians a key role in selecting senior judges.

Mr. Duda shares this analysis—and indeed has promised

to come up with his own proposals. The president's decision to use his veto shouldn't be seen as a victory for the Commission, said a person familiar with his thinking. He believes that the Commission has overreached by interfering in a domestic political issue: Under the EU Treaties, the administration of justice is a national competence. Nor does he accept the idea that national judges are EU judges: Since EU law is fully incorporated into Polish law and Polish courts defer to the European Court of Justice on questions of EU law, Mr. Duda believes the Commission's concerns are unwarranted.

Mr. Duda was instead

swayed partly by domestic political concerns, said the person familiar with his thinking: concerns that the government proposals placed too much power in the hands of the minister of justice, who is also the prosecutor general; and over the way they were driven through parliament without consultation, including with Mr. Duda himself, giving rise to public protests that threatened to spill over into wider social unrest.

But also influential in Mr. Duda's thinking was a series of private warnings by Poland's partners in its "Three Seas Initiative" that this crisis risked straining Warsaw's regional relationships. This

loose alliance of all 12 former Communist Central and Eastern European EU members is a personal priority of Mr. Duda, who sees it as a potentially important new platform to project Polish economic and strategic interests. The alliance's recent summit in Warsaw, which was attended by President Donald Trump, was a personal diplomatic triumph.

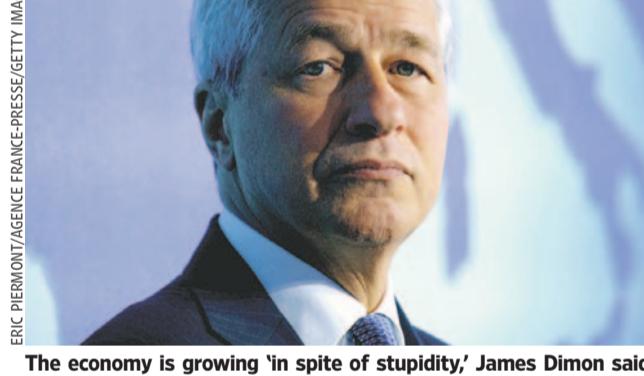
These interventions by Poland's Three Seas partners could yet prove decisive in how this saga plays out.

After all, both Warsaw and the Commission know that while the Commission can launch a process to strip Poland of its EU voting rights, it will never succeed because that requires unanimity among the 27 member states and Hungary has promised to veto. But as Mr. Duda tries to steer a course between satisfying Mr. Kaczynski's demand for a radical overhaul of the judiciary and maintaining public order, he will know that wider Polish interests are also at stake.

Not much unites the members of the Three Seas Initiative but what all of Poland's central and eastern partners agree upon is the strategic threat to the region's security from Russia—and a conviction that one of the most effective ways to stabilize Europe's neighborhood is to hold out the prospect of EU membership to Ukraine and the Western Balkans.

Yet they also know that any prospect of further eastern expansion of the EU is viewed with deep suspicion in Northern and Western Europe, not least because of concerns over the rule of law. Nothing would be more certain to harden that opposition than the perception that the EU is powerless even to defend the rule of law in Poland.

PROFIT



The economy is growing 'in spite of stupidity,' James Dimon said.

Continued from Page One

profits are on track to rise 8.2% in the quarter.

Sales, too, rose in the quarter, by an expected 5%, the second-biggest increase in more than five years. The figures reflect actual results for about half the S&P 500 index, and analysts' estimates for those that had yet to report results as of Friday.

"You could argue that the stock-market investor overestimated Trump but underestimated earnings," said Christopher Probyn, chief economist for State Street Global Advisors.

Even as activity inside the Beltway bogged down, the markets have been on an almost nonstop rally since the election. The S&P 500 is up 16% since early November and 10% this year.

Indeed, the market has largely stopped reacting to blow-by-blow developments in Washington, despite uncertainty over the size, shape and timing of any tax and infrastructure initiatives, said Quincy Crosby, chief market

strategist with Prudential Financial Inc. "When all's said and done, companies have to focus on the top line and bottom line," she said. "The market understands it won't happen right away."

Several factors are at work, analysts and economists say. A weaker dollar has made it easier to sell U.S.-made goods overseas and kept borrowing costs low. U.S. wages have improved enough to help bolster consumer spending without raising employer labor costs

so much that it dents the bottom line.

On Friday, the Commerce Department reported that gross domestic product rose at a 2.6% rate in the second quarter, up from 1.2% in the first quarter.

Companies also continue to reap the fruits of their recent zeal for cutting costs, Mr. Probyn said. "We underestimated some of the cost-cutting and restructuring that has gone on within the various industries; that has permitted

earnings to keep doing well."

As executives discuss results with investors and analysts, events in Washington have faded into the background. S&P 500 companies that mentioned President Donald Trump or his administration during their latest conference calls are down by a third compared with three months ago, according to an analysis by research firm Sentieo.

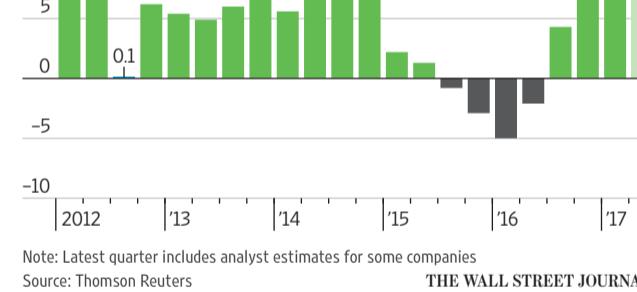
Corning Inc. CEO Wendell Weeks, who was at the White House this month to announce new U.S. investment and hiring, told analysts last week that he still expects Congress to overhaul the tax code—eventually.

"What I am much less confident about is how the political math works in any given year," Mr. Weeks said. "So I think calling timing on that one is above my pay grade."

Honeywell International Inc. CEO Darius Adamczyk

Profits Defy Washington Gridlock

Year-over-year change in S&P 500 earnings



Note: Latest quarter includes analyst estimates for some companies

Source: Thomson Reuters

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Management

Headwinds include modest GDP growth—well below the rates often seen after recessions—as well as low inflation and the overall slow pace of recovery in the U.S. economy. Companies are reporting solid cash flow, but capital spending has been weak until recently.

Uncertainty over tax policy may exacerbate that reluctance to invest, Mr. Aguilar said. "Tax reform is clearly what the future may require for these numbers to continue on the same pace."

Evan Greenberg, CEO of insurer **Chubb** Ltd., told investors last week that the U.S. badly needs a tax-code overhaul and higher government infrastructure spending to remain competitive.

"But an awful lot of this requires legislation, and we need an administration that is focused, that is working with Congress," he said in a conference call. "And we need a Congress that comes together to address these issues of our country."

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ECONOMIC CALENDAR

This week, the eurozone will see inflation and gross domestic product figures, while the U.S. will learn more about the state of consumer spending and inflation in the June personal-income report. The week culminates with the July U.S. jobs report on Friday.

MONDAY: The eurozone's annual rate of inflation has remained well below the European Central Bank's target, even as unemployment has fallen sharply since the central bank launched stimulus programs. Figures to be released by the European Union's statistics agency are expected to show that, while the number of people without work fell again in June, consumer prices rose in the 12 months to July at the same 1.3% pace as in June, which was the lowest in 2017.

TUESDAY: The eurozone has been one of the positive surprises for the global economy this year, having outpaced the U.S. in the three months through March. Eurostat's preliminary estimate of gross domestic product in the second quarter is ex-

pected to show that growth continued at that stronger pace or possibly a little faster.

The U.S. Commerce Department released the June personal-income report. The release includes figures on consumer spending, as well as the Fed's preferred inflation gauge, the price index for personal-consumption expenditures. The 12-month figure is expected to remain weak, restrained by recent price declines for items like wireless telephone services. Economists surveyed by The Wall Street Journal expect consumer spending inched up 0.1% in June from the previous month and core PCE prices nudged up 0.1%.

THURSDAY: The Bank of England announces its latest policy decision, with no change expected despite signs that a number of the Monetary Policy Committee's members would like to see the key rate raised from a record low of 0.25%. But with inflation easing in June, and growth still modest in the second quarter, a majority are likely to oppose a rate increase. The BOE also will publish new fore-

casts for growth and inflation, which will give some guidance as to the future direction of policy.

FRIDAY: The U.S. Labor Department releases the July employment report, after the prior month's report showed employers churning out jobs without generating robust wage growth. U.S. employers added a seasonally adjusted 222,000 jobs in June, and the unemployment rate rose slightly to 4.4% as more people joined the labor force. Economists surveyed by The Wall Street Journal forecast the economy added 180,000 jobs in July, while the unemployment rate ticked down to 4.3%.

The U.S. Commerce Department releases the June international trade report. The U.S. trade deficit narrowed in May on a swift rise in exports, and Friday's gross domestic product report showed trade providing a boost to the economy in the second quarter, suggesting any headwinds from strong U.S. dollar might be subsiding. Economists surveyed by The Wall Street Journal expect the trade deficit was \$44.4 billion in June.

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WORLD NEWS

In Shift, South Korea Beef Up Defenses

Seoul government to upgrade Patriot missile system in response to North Korea tensions

By JONATHAN CHENG

SEOUL—South Korean President Moon Jae-in was elected in part on promises to extend an olive branch to North Korea and put the brakes on the installation of a controversial U.S. missile-defense system.

But less than three months into office, Mr. Moon has been forced to rethink that approach after North Korea test-launched its first two intercontinental ballistic missiles.

On Sunday, South Korea's defense minister said the country would upgrade its Patriot missile system in response to North Korea's second ICBM test-launch late Friday.

That decision came a day after Mr. Moon said he would weigh further deployment of a separate longer-range missile-defense system, called Terminal High-Altitude Area Defense, or Thaad, in South Korea.

Mr. Moon had suspended Thaad's deployment earlier this year as one of his first acts in office on concerns that it had been pushed through by his unpopular predecessor without proper public consultation.



A mobile air-defense-radar station at a base southwest of Seoul.

located at Pacific Spaceport Complex Alaska in Kodiak, Alaska, detected, tracked and intercepted the target," it said.

North Korea's latest test launch could add momentum to Japan's push for greater missile-defense capabilities of its own, including a possible Thaad battery or the Aegis Ashore missile-defense system, which would enhance its ability to defend itself against a North Korean attack.

Even in Seoul, where Mr. Moon leads a more-dovish administration than the conservative government in Tokyo, North Korea's increasing threat to American cities appears to have tipped the political calculus in favor of seeking more domestic military muscle—particularly as concerns rise that the U.S. may put defending its territory ahead of the interests of its allies.

Just hours after North Korea's most-recent launch, at about 3 a.m. Saturday in Seoul, Mr. Moon instructed his top security aide to call his U.S. counterpart, Lt. Gen. H.R. McMaster, to seek the revision of an agreement that caps the size and range of South Korea's missiles. The U.S. assented to the request to revise the pact, according to the spokesman for South Korea's presidential Blue House.

Under the bilateral agreement with Washington, Seoul is blocked from putting pay-

loads larger than 500 kilograms (about half a ton) on any missiles capable of flying further than 800 kilometers (about 500 miles), part of an effort to stem a regional arms race.

The moves to bolster South Korea's military capabilities come even as Mr. Moon's administration continues to leave the door open for more dialogue with North Korea.

Just days after the North's first ICBM launch earlier this month, Mr. Moon used a high-profile speech in Berlin to propose a meeting with North Korean leader Kim Jong Un—a meeting that he said could happen "at any time, at any place," if the conditions were right.

He reached out again to North Korea two weeks ago, proposing reunions of families separated by the Korean War, while also urging North Korea to work with the South ahead of the Winter Olympics next year, which South Korea will host. North Korea hasn't responded to any of Mr. Moon's invitations.

Mr. Moon has long sought ways to improve relations with North Korea, arguing that closer economic bonds between the two Koreas would pave the way for closer ties. But North Korea's aggressive pursuit of a long-range nuclear-armed missile has pushed Mr. Moon to tougher action.

As he did after the North's first ICBM test-launch, timed to coincide with Independence Day festivities in the U.S., Mr. Moon ordered a joint U.S.-South Korean missile-firing drill off the country's east coast on Saturday, and sent jet fighters to join a pair of U.S. B-1B bombers that flew to the Korean Peninsula for a show of force.

On Thaad, Mr. Moon's call for a redeployment was something of a surprise, coming just weeks after a suspension of Thaad's deployment pending an environmental assessment that was expected to take a year or more.

After initially saying that Seoul would first weigh further deployment of the Thaad battery, officials later clarified that South Korea would immediately install four Thaad launchers that had been at the center of a flap between Mr. Moon and his Defense Ministry in May.

The four launchers had already arrived in South Korea but hadn't been deployed. A Thaad battery typically contains six launchers. Two have already been in place since May.

Officials said that the installation of the four additional Thaad launchers would be a temporary measure, and that their long-term status would be determined by the outcome of the environment assessment.

CHINA

Continued from Page One

China. Our foolish past leaders have allowed them to make hundreds of billions of dollars a year in trade, yet they do NOTHING for us with North Korea, just talk," Mr. Trump wrote in a pair of posts on his Twitter account. "We will no longer allow this to continue. China could easily solve this problem!"

China's parade would have been planned months in advance, analysts said, and wasn't a direct response to Pyongyang or Washington, but it demonstrated Mr. Xi's efforts to build a military that can respond to external challenges—including on the Korean Peninsula.

Last year, the Chinese leader launched sweeping military reforms—including cutting 300,000 troops—that are designed to overhaul Soviet-modeled command structures and better prepare the armed forces for combat, at home and abroad if needed.

The People's Liberation Army is training for scenarios that include a conflict over the disputed South China Sea, a blockade of China's oil supplies through the Indian Ocean, and operations to protect its citizens and investments in Africa and the Middle East.

Mr. Xi has also sought to assert his authority over the PLA through an anticorruption campaign that ensnared several current and retired generals, and by assuming the new title of "commander-in-



China rolled out new intercontinental ballistic missiles, stealth jet fighters and antiship ballistic missiles, which experts say are designed to hit U.S. aircraft carriers in a conflict.

chief" last year.

In June, he inspected PLA troops stationed in Hong Kong in another move to boost his political stature ahead of this fall's 19th Party Congress, where he's expected to try to promote allies to the top leadership.

"By presiding over a landmark parade for a party-loyal PLA growing leaner and meaner by his orders, Xi shows that he is large and in charge in the run-up to the 19th Congress," said Andrew

Erickson, an expert on China's military at the U.S. Naval War College. "Debuting publicly such a powerful, penetrating deterrent weapon as the DF-31AG ICBM seeks to demonstrate that China commands heightened respect abroad even as it maintains order at home—both central components of Xi's China Dream."

China hasn't provided any details about the DF-31AG, but a model was displayed for the first time this month in an exhibition at Beijing's Military

Museum. Analysts say the missile's design and name suggest it is an improved version of the DF-31A, but beyond its improved survivability and possibly longer range, it remains unclear what the enhancements are.

China has an estimated 75 to 100 intercontinental ballistic missiles, including the solid-fueled DF-31A, which has a range of more than 7,000 miles and can reach most locations in the continental U.S., according to the Pentagon.

Other equipment in the parade included five J-20 stealth jet fighters and several DF-21D antiship ballistic missiles, which experts say are designed to hit approaching U.S. aircraft carriers in a potential conflict.

Chinese state television said more than 40 percent of the equipment in the parade was being displayed for the first time, but didn't provide details of every piece of new weaponry.

Troops in the parade came

from the army, navy and air force but also from two new services created about 18 months ago—the rocket force, which controls conventional and nuclear missiles, and the strategic support force, which handles electronic warfare.

Electronic weaponry on display included equipment designed for electromagnetic countermeasures and aerial drones that can be used for radar-jamming, state television said, without providing details.

WORLD WATCH

IRAN

U.S., Guard Ships In Gulf Confrontation

The U.S. and Iran on Saturday reported their second confrontation this week in the Persian Gulf, as political tensions between the rivals flare.

The U.S. Navy said vessels operated by Iran's powerful Islamic Revolutionary Guard Corps in the Gulf approached American ships at high speed on Friday.

After failing to contact the ships by radio, a Navy helicopter fired warning flares at a safe distance, according to the U.S. Naval Forces Central Command.

The IRGC accused the American forces of firing "provocative and unprofessional" warnings on its vessels before leaving the area. The vessels continued on their mission, the IRGC said.

On Tuesday, the U.S. Navy said it fired warning shots at an Iranian patrol boat that came within 150 yards of ships conducting an exercise in the Gulf.

—Asa Fitch

and Dion Nissenbaum



GERMANY

Two Dead in Gunfire In Southwestern City

A shooting in a discothèque claimed two lives Sunday, including that of the gunman, and wounded four people, three of them seriously, police said.

A tweet by police in the town of Konstanz in Germany's southwestern Baden-Württemberg state said one person was killed and three were seriously wounded in the early-morning shooting. A subsequent exchange of fire on the street with the gunman left a policeman with non-life-threatening wounds and the gunman in critical condition. The gunman died later in the hospital.

The DPA news agency cited an unnamed police official as saying investigators have turned up no evidence of terrorism as a motive and believe the suspect was acting alone. Police identified him as an Iraqi citizen, 37, who had lived in Konstanz for some time.

—Associated Press

PHILIPPINES

Mayor Tied to Drugs, 14 Others Die in Raids

Police in the southern part of the country said they fatally shot 15 people, including a city mayor who was among the politicians President Rodrigo Duterte publicly linked to illegal drugs, in the bloodiest assault of Mr. Duterte's antidrug crackdown.

Officers were to serve warrants to Ozamiz Mayor Reynaldo Parojing Sr. to search his houses for the suspected presence of unlicensed firearms when gunmen opened fire on the police, sparking clashes that killed the mayor and at least 14 other people, Ozamiz police chief Jovie Espenido said.

At least five people, including Mr. Parojing's daughter, who serves as vice mayor of Ozamiz, a port city, were arrested during the raids. Policemen were approaching the mayor's house when his bodyguards opened fire and hit a police car and wounded a police officer, sparking a firefight amid a power outage, Mr. Espenido said.

—Associated Press

UNITED KINGDOM

III Child Dies Week Before 1st Birthday

Charlie Gard, the British infant at the center of a thorny international debate about who

has the power to decide the fate of a terminally ill child, died Friday, his mother said, one week before his first birthday.

"Our beautiful little boy has gone," Connie Yates said in a statement. "We're so proud of him."

Ms. Yates and Chris Gard, Charlie's father, this week gave up their legal effort to take their child abroad for an experimental treatment doctors in Britain had said was futile and agreed to let him die in hospice care.

—Amanda Coletta

—Associated Press

WORLD NEWS

Venezuelans Vote On New Assembly

President says group will help bring order to country amid protests; Opposition boycotts

CARACAS, Venezuela—Wearing the bright red of the ruling party, President Nicolás Maduro cast his ballot Sunday in a controversial national

By Juan Forero,
Ryan Dube and
Anatoly Kurmanov

vote he is holding to elect a potent new assembly that will redraft the constitution and, opponents say, stamp out democracy in this tumultuous country.

The new constitution will permit the government to bring order to Venezuela, convulsed by unrest and a devastating economic crisis, Mr. Maduro said. "I wanted to be the first to vote for peace, for sovereignty and the independence of Venezuela," the president said. "Today is a historic day."

Mr. Maduro's adversaries, who have led four months of

protests that have cost at least 113 lives, say that the assembly the president wants would lead to the dissolution of the opposition-controlled congress and an end to the few democratic levers still available to them. Mr. Maduro and other aides have warned that, with the assembly, they would arrest key opponents and dismiss Attorney General Luisa Ortega, a former government stalwart who recently broke with the government.

"There is a privileged group that wants to do away with the constitution and the country," said Julio Borges, president of the congress and a sharp critic of the government.

"That violent minority has aggravated the moral and social crisis of the Venezuelan family.

Today Venezuela is the poorest (country) in the region, with 82% of Venezuelans below the poverty line."

The Trump administration moved against Mr. Maduro last week, sanctioning 13 high officials in the Venezuelan government, resulting in their U.S. assets ordered frozen and visas revoked. American citizens

and institutions are prohibited from doing business with them.

And the U.S. may increase the cost on the Maduro administration, U.S. officials have said in recent days, with officials in Washington saying they would take swift action if Sunday's election were staged.

The Trump administration has been considering a range of economic sanctions, including restrictions on oil imports from Venezuela, though such a move would worsen a humanitarian crisis here and raise gasoline prices.

The government has responded defiantly, with Mr. Maduro and his top aides saying the sanctions and warnings from Washington and elsewhere would only compel them to move forward with the convening of the assembly in the days ahead.

On Sunday, pro-government voters gathered at polling stations where they were asked to elect 545 delegates for the constituent assembly from some 6,000 handpicked ruling party officials and allies. The government's state television



Venezuelan President Nicolás Maduro votes at a polling station in Caracas on Sunday.

MIRAFLORES PALACE/REUTERS

apparatus covered speeches by government officials and interviewed voters pleased they were voting for an assembly that they said would bring calm.

The government is hoping that millions of voters support the election and lend the process more legitimacy and support than the opposition, which organized an unauthorized referendum on July 16. Academics that oversaw the vote said more than 7.5 million of Venezuela's 19 million voters voted against the constitu-

ent assembly. To urge voters to the polls, top Maduro administration aides have publicly warned state workers—who number nearly 3 million—that the government will keep tabs on whether they voted.

"We hope that there is change for the better," said Roselys Guerra, a 51-year-old who sells earrings, necklaces and other jewelry at a stand and blamed the private sector and international forces for Venezuela's troubles.

Polls, though, show that 7 in 10 Venezuelans oppose Mr.

Maduro's plans to redraft a constitution that he until recently held up as the world's most progressive. The opposition boycotted the vote on Sunday, instead pledging to continue the protests.

The threat of losing her job didn't thwart María Fernanda Jiménez, 28, who works for a state entity and said the constituent assembly would have too much power. "We are going to be under a dictatorship," she said.

—Kejal Vyas
contributed to this article.

AFGHAN

Continued from Page One
to the modest plan.

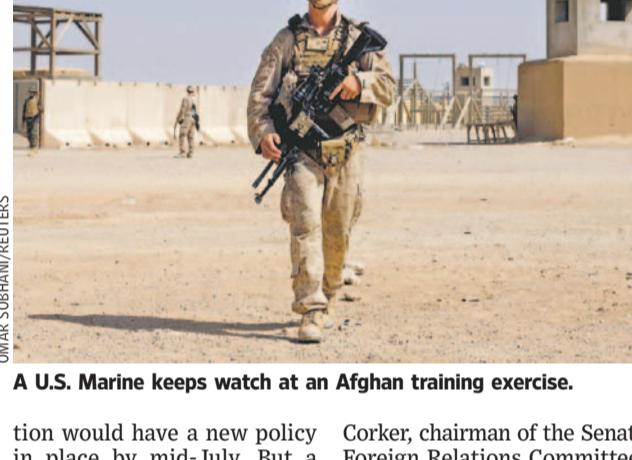
But the idea is anathema to U.S. military leaders who have argued that the U.S. needs to send more troops to halt Taliban gains on the battlefield.

"At best, that is a very low minority view," one senior U.S. military official said of withdrawing U.S. troops. "It's flawed because it doesn't address the primary concerns of getting to a point where Afghanistan is able to secure itself."

In many ways, the Trump administration finds itself wrestling with the same issues that dogged the previous president. Early in his first term, President Barack Obama approved a troop surge that raised the U.S. military presence in Afghanistan to 100,000. At the time, Vice President Joe Biden argued for a limited U.S. military presence that would rely more on drone strikes and small numbers of special forces meant to prevent Afghanistan from becoming a planning hub for attacks against the U.S.

The Biden idea was rejected as the U.S. opted to keep advising and training Afghan forces. There now are more than 8,400 U.S. troops in Afghanistan, where Afghan security forces are struggling to keep the Taliban from expanding their control.

Defense Secretary Jim Mattis has acknowledged that the U.S. is "not winning" and had predicted that the administra-



OMAR SOBHANI/REUTERS
A U.S. Marine keeps watch at an Afghan training exercise.

tion would have a new policy in place by mid-July. But a string of high-level meetings this month has yet to produce a consensus. Now, it isn't clear when the administration will agree on a way forward.

The indecision has given more time for skeptics of a modest increase, like White House chief strategist Steve Bannon, to explore unconventional alternatives. One such proposal offered by former Blackwater founder Erik Prince would rely on contractors instead of U.S. troops to work with Afghan security forces.

Mr. Prince has briefed key officials at the White House, Mr. Mattis, Central Intelligence Agency Director Mike Pompeo and various lawmakers, including Sen. Bob Corker (R., Tenn.), according to people familiar with the meetings.

"I'm all for continuing to try to come to a conclusion that is something that will change the trajectory there," said Mr.

Corker, chairman of the Senate Foreign Relations Committee.

White House interest in Mr. Prince's plan was piqued by his Wall Street Journal op-ed in May that called for creation of an American viceroy who would have expansive power to push reforms in Afghanistan.

The proposal, seen by The Wall Street Journal, outlines ways for the U.S. to quickly replace most U.S. troops with contractors who would help carry out airstrikes and work side by side with Afghan forces across the country.

"The goal is to provide a clear exit lane and provide a clear end to the longest war in U.S. history," Mr. Prince said in an interview.

So far, Mr. Prince has yet to generate enough interest among key officials, who view his plan with skepticism. The ideas have been dismissed by military officials as impractical, according to administration officials.

Markets for used goods, which many once viewed with a measure of shame, have prospered. "There's no security in Syria so why buy new if it could all be destroyed?" said Khalid al-Najjar, who owns a used-car dealership in rebel-held territory in northwest Syria.

The regime banned the use of foreign currencies in 2013, but that hasn't stopped people from doing business in dollars because of the volatility of the Syrian pound. Yet uttering the word "dollar" in public can lead to trouble.

The Syrian economy relies on foreign assistance, including wheat from Russia and fuel from Iran. Both countries are major allies of the regime. Many Syrians receive remittances from family members who live elsewhere.

Between four million and five million Syrians receive food aid from the World Food Program each month. Another million or so receive other food aid, according to the World Bank. Many end up selling some of it to buy other necessities.

—Nikhil Lohadein Dubai
and a special correspondent in Syria
contributed to this article.

Pakistan Leadership Shift Seen Boosting Military

BY SAEED SHAH

ISLAMABAD—The removal of Nawaz Sharif as Pakistan's prime minister by the courts and the takeover of the position by his younger brother Shehbaz Sharif could hand more power to the country's military establishment, political experts said Sunday.

Shehbaz Sharif has a history of being less confrontational with armed forces, and he will be focused on delivering economic projects ahead of elections next year, giving even greater leeway to the military, experts said.

This could affect the American search for a solution to the conflict in Afghanistan, as it blames the Pakistani military for supporting the Taliban insurgency there—a charge that has been denied.

Washington is weighing sending thousands more troops to Afghanistan and Pakistan's help is considered vital to ending America's longest-running war.

Shehbaz Sharif will become prime minister in the coming weeks, the ruling party announced over the weekend, with a former petroleum minister serving as interim leader.

A special session of Parliament, where the ruling party enjoys a majority, has been

called for Tuesday. It is expected to confirm Shahid Khaqan Abbasi as the interim prime minister.

Shehbaz Sharif, 65 years old, up to now had been the junior political partner to his brother, serving as chief minister of Punjab province.

"Public welfare and the country's development is our agenda," Shehbaz Sharif said Sunday. "We need to take Pakistan forward with strength through unity, not disorder."

Shehbaz Sharif believes in finding ways to work with Pakistan's armed forces, while his ousted elder brother Nawaz Sharif tried to assert civilian supremacy over them, an approach that led to near constant friction, officials said. In particular, the military seeks to retain control over foreign and security policies, officials and analysts said.

"I think Shehbaz will avoid the land mines," said Arif Nizami, editor of Pakistan Today, a daily newspaper. "Shehbaz is very cautious and careful. He'll try to have a more cordial relationship with the military."

Pakistan's Supreme Court on Friday disqualified Nawaz Sharif from office for dishonesty, and sent allegations of corruption for an expedited trial. He has denied any wrongdoing.

Shehbaz Sharif, a workaholic known for his hands-on management style, will need to concentrate preparing for the next election, specifically completing some \$21 billion of electricity projects before the 2018 poll to fulfill his party's key promise for this term of

Syria's War Economy Torn By Inflation and Poverty

BY RAJA ABDULRAHIM

After the Syrian government recently introduced a 2,000-pound bank note—the largest denomination it has ever issued—a satirical obituary circulated online for a currency that has lost 90% of its value over more than six years of war.

"The Central Bank of Syria is accepting condolences," it announced.

The introduction of the note, worth less than \$4, comes as Syria's economy is in tatters, grappling with inflation, lost production and poverty that could threaten stability even in regime-held areas.

Syria's consumer-price index soared more than 500% between 2010 and 2016, according to Syrian economists and local news reports that cited the government's Central Bureau of Statistics.

Incomes haven't kept pace. The average civil servant's salary was worth at least \$200 a month before the conflict; now, even with raises, it is worth less than \$60, because of the falling currency.

The World Bank estimates that Syria's gross domestic product has fallen by more

than half this decade. That has cost at least two million people their jobs, and left about 60% of Syrians unable to buy food and essential nonfood items, according to the Bank.

"It's going to be a pretty nightmarish economic situation for a long time to come," said David Butter, an economic analyst at U.K.-based think tank Chatham House.

Syria has been divided, in effect, by the fighting. The regime of President Bashar al-Assad, antigovernment rebels, U.S.-backed Kurds and the militant group Islamic State all control parts of the country.

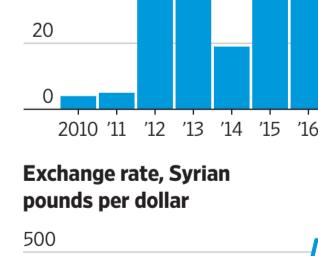
But the faltering economy spans those areas, and the war has altered consumer behavior. Fuel subsidies in government-held areas have plummeted, leading more middle-class Syrians, even women, to ride bicycles—rarely seen before the war. Panhandlers, many of them children, crowd the streets. In some parts of the country, the marriage dowry has almost disappeared.

"The fabric of society has been destroyed," said Jihad Yazigi, Beirut-based editor of an economic trade publication, The Syria Report.

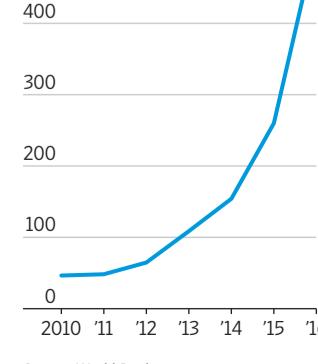
The Cost of War

The Syrian economy has suffered during the more than six-year conflict in the country, as prices have climbed, oil production has fallen and government finances have weakened.

Annual inflation, as measured by percentage change in Syria's consumer-price index

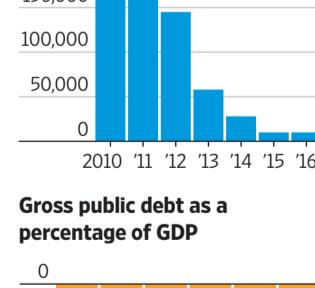


Exchange rate, Syrian pounds per dollar

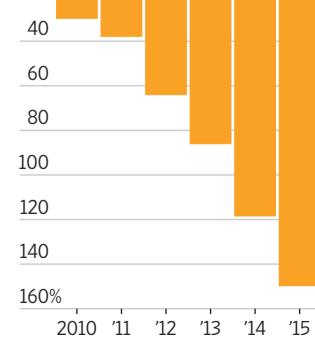


Source: World Bank

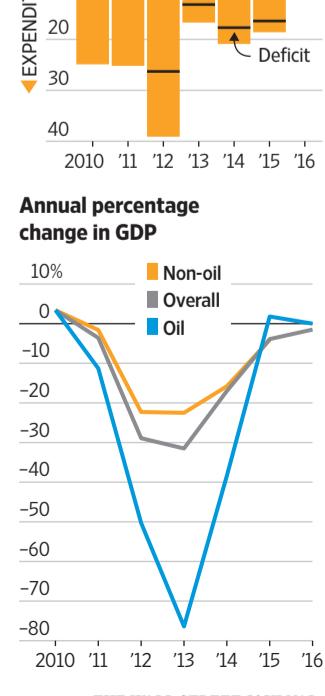
Oil production in government-controlled areas



Gross public debt as a percentage of GDP



Fiscal balance as a percentage of GDP



THE WALL STREET JOURNAL.

U.S. NEWS

Voting Machine Flaw Is Exposed

Hacker demonstrates vulnerability in election technology at security conference

By ROBERT McMILLAN
AND BYRON TAU

LAS VEGAS—A touch-screen voting machine used in a 2014 election in Virginia was hacked in about 100 minutes by exploiting a Windows XP flaw that was more than a decade old as part of a demonstration on security vulnerabilities in election technology.

The hacker was Carsten Schürmann, an associate professor with IT University of Copenhagen. He was one of the computer hackers invited to the Defcon convention in Las Vegas to test the security and integrity of common pieces of voting technology, many of which were purchased more than a decade ago and are rapidly becoming obsolete.

Within hours of the doors opening Friday at the Voting Machine Hacking Village, hackers penetrated the WinVote voting machine and gained access to an electronic poll book, the kind used to check in voters at thousands of polling places across the country. Microsoft Corp., which made the Windows XP operating system, declined to comment.

They also penetrated the hardware and firmware of a kind of touch-screen voting machine used in hundreds of jurisdictions across the country.

Hackers were invited to "do the things that if you did on Election Day, they would arrest you," said Matt Blaze, a computer science professor at the University of Pennsylvania and election security specialist who helped organize the event.

Fears have mounted among U.S. officials over the security of the voting system following widespread hacking during the



Hackers look over real voting machines at the Defcon convention in Las Vegas on Saturday.

2016 presidential election.

Last month, Jeanette Manfra, the acting deputy undersecretary for cybersecurity and communications at Department of Homeland Security, told the Senate Intelligence Committee that election-related systems such as voter registration databases in 21 states were targeted last year as part of a Russian government campaign of hacking and disinformation. In that same hearing, former DHS Secretary Jeh Johnson said the hacking, aimed at boosting President Donald Trump at the expense of his Democratic rival Hillary Clinton, was directed by "Vladimir Putin himself."

According to a January report from U.S. intelligence agencies, Russia's tactics included infiltrating and leaking information from party committees and political strategists, and disseminating through social media and other outlets negative stories about Mrs. Clinton and positive ones about Mr. Trump. Russia has denied the report, and Mr. Trump has called the investigation into Russia's alleged inter-

ference a witch hunt.

U.S. officials have said that no evidence has been uncovered that systems involved in vote casting or counting were hacked, though no audits or analyses have yet been performed on the machines used in last year's presidential election. But researchers say that tampering with touch-screen machines, such as the one Mr. Schürmann hacked, wouldn't be detectable. The WinVote machine was decertified and not used in last year's election, Mr. Schürmann said.

"All of these touch-screen machines are unauditible," said Harri Hursti, another one of the event's organizers and a specialist in the small field of election technology security. "You should have paper ballots and there should be an audit process."

After the disputed 2000 presidential election, when a hand recount of Florida's paper ballots produced weeks of uncertainty about the outcome and criticism of the standards used to count ballots, a new law awarded more than \$3 bil-

lion to state and local governments to help them replace aging mechanical voting machines that were widespread at the time.

By and large, those governments bought touch-screen electronic voting machines that started to come into service in advance of the 2004 presidential election. But what was once state-of-the-art technology is now antiquated. Many voting systems run on technology that is rarely seen by modern consumers and which hasn't seen a software update in years.

While there was a great deal of research done into the security of voting machines a decade ago, such as California's top-to-bottom review of its own voting systems, the pace of research slowed down after 2008, said Mr. Hursti.

The WinVote system hacked at Defcon was likely vulnerable to a wireless attack for years, Mr. Schürmann said. WinVote's manufacturer, Advanced Voting Solutions Inc., is no longer in business.

The display on the WinVote machine at Defcon indicated

that it was used during Fairfax County, Va.'s, Aug. 19, 2014, special election. Attempts to reach Fairfax County after business hours Friday were unsuccessful. The county's Office of Elections overhauled its voting system in 2014, according to a post on the county's website.

The Defcon organizers, with a budget of about \$20,000, purchased about 30 decommissioned voting machines, including the WinVote, from eBay Inc., several of which had election results stored in the computers.

To hack the WinVote machine, Mr. Schürmann used a pair of widely used hacking tools. First, he connected wirelessly with the machine, a rectangular keyboardless computer that is a little larger than a laptop. Then, taking advantage of a flaw in the voting machine's Windows XP operating system, he gained administrative control of the system. Microsoft released a software patch for this issue in 2003, but it hadn't been applied to the voting machine, Mr. Schürmann said.

That allowed him unfettered access to the machine and the ability to manipulate vote results, he said. During the interview, he remotely shut down the voting machine, baffling other conference attendees who hadn't realized that he had seized control of the system.

Activists for more secure voting are advocating paper ballots, which are more resistant to remote tampering and technology failures and offer a way to manually recount. While many computerized electronic voting machines now have paper backups, few states audit the results.

"My hope is that there will be momentum for repairing our broken voting systems," said Barbara Simons, president of Verified Voting, a nonpartisan, nonprofit advocacy group that pushes for paper backups and random audits in voting technology.

"There is a solution, and it's not rocket science."

After Fires, Western States Fear Flooding

By DAN FROSCH

As wildfires have quieted in some parts of the U.S., Western states have turned their focus toward another problem this summer: floods.

While heavy rainfall in recent weeks was a welcome respite for the typically parched Southwest, it has also caused deadly and in some cases historic flooding in Arizona and Utah, while portions of New Mexico have been under a flash flood watch.

As pockets of rain are expected to continue, state emergency officials say they are keeping a close eye on areas scorched by fires in summers past, now barren of vegetation and prone to flooding. The wildfires increase the dangers of flash floods due to the now exposed, unfettered land that seeps runoff and water flow.

A flash flood tore through a portion of Salt Lake City on Wednesday, flooding several schools, a public library and parts of the transit system. The storm was the equivalent of a 200-year event, according to Laura Briefer, director of the Salt Lake City public utilities department, noting that 2.5 inches of rain drenched the area in about 40 minutes.

Arizona has been hit particularly hard by flooding this month. On July 15, 10 people died after a flash flood swept through a popular swimming hole in the Tonto National Forest, about 90 miles north of Phoenix.

Bill Boyd, spokesman for the Arizona Department of Forestry and Fire Management, said two wildfires that had charred the area this year contributed to the flood, as burned terrain allowed floodwaters to roll downhill unobstructed.

States Bridge Differences

By KRIS MAHER

A new bridge connecting Minnesota and Wisconsin is set to open Wednesday in a rare win for cooperation in the often-contentious realm of cross-border infrastructure.

For years, environmentalists and others, most notably former Vice President Walter Mondale, strongly opposed building a new bridge over the St. Croix River. The Mississippi River tributary is protected by the Wild and Scenic Rivers Act, a 1968 federal law aimed at preserving 12,734 miles of 208 rivers in the U.S.

But after a decadeslong effort by state officials to build consensus—preliminary planning for a new four-lane bridge in the region began in the late 1960s—many are now welcoming the opening of the St. Croix Crossing.

The new bridge, which will replace a nearby two-lane bridge built in 1931, is expected to give an economic boost to local communities by rerouting traffic and cutting out the delays and congestion that have plagued the old crossing.

"There has been so much pent-up anxiety and emotion. Now, there is a sense of relief that it is finally opening," said Bill Rubin, executive director of the St. Croix Economic Development Corporation, in St. Croix County, Wis.

The nearly milelong crossing, which will connect the towns of Oak Park Heights, Minn., just east of the Twin Cities, and St. Joseph in rural Wisconsin, is projected to cost \$646 million. Minnesota will spend about \$367 million, which includes

60% federal funding; Wisconsin is projected to spend about \$279 million, with 5% coming from federal funds. States can choose different funding sources for projects.

At a time of increased attention on upgrading the nation's bridges, roads and other infrastructure, the St. Croix Crossing stands as an example of how to avoid the pitfalls that often beset such projects involving multiple states with competing interests.

"Bridge projects in particular have some of the toughest times moving from blueprint to final construction," said Adie Tomer, a fellow at the Brookings Institution who focuses on infrastructure policy.

Funding challenges across states and differing voter priorities often undermine projects, he said.

But it isn't just bridges. Minnesota is fighting with North Dakota over the location of key parts of a major project to divert floodwaters from the Red River of the North, around Fargo. Disagreements between Kentucky and Ohio have long delayed repairs and upgrades to the 53-year-old Brent Spence Bridge, one of about 84,000 U.S. bridges that the Federal Highway Administration considers functionally obsolete.

Four years ago, Washington state lawmakers withdrew funding from a proposal that was being developed in conjunction with Oregon to build a new bridge connecting Vancouver and Portland, to replace the Columbia River Interstate Bridge, which first opened in 1917. In May, Washington Gov. Jay Inslee signed a bill allocat-

ing \$350,000 to restart the planning process.

The St. Croix Crossing has had its share of disputes. The Minnesota Chapter of the Sierra Club twice sued to block the project in federal court. The environmental group argued that making an exception to the Wild and Scenic Rivers Act would set a precedent that could put other rivers at risk.

Ultimately congressional lawmakers from Minnesota and Wisconsin sponsored a bill to exempt the project. President Barack Obama signed it in 2012, paving the way for construction to begin a year later.

"This is going to happen. We don't like it, but that's a fact," Mathews Hollinshead, the Sierra Club chapter's conservation chair, said of the bridge's opening this week.

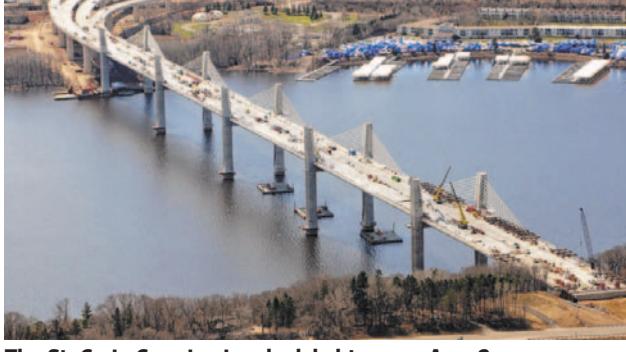
Despite the opposition, officials in Minnesota and Wisconsin earned the support of 28 citizen and other groups and leveraged their past cooperation on other bridges joining the two states. In this case, Minnesota took the lead on the bridge project, which was the largest in the state's history and required highway work as well.

"We work together all the time because we have a lot of border bridges," said Diana Maas, a spokeswoman for the Wisconsin Department of Transportation.

The new bridge, built using a slim design with low towers to reduce its visual and environmental impact, will help ease congestion in Stillwater, Minn., a popular tourist destination and site of the 1931 Stillwater Lift Bridge.

Currently, 18,000 vehicles a day travel over the two-lane crossing. Raising the bridge for boat traffic causes frequent delays, and crash rates on both sides of the old bridge are higher than state averages for similar roads.

Stillwater business owners see a coming business boom when the traffic jams disappear and the old bridge is open to only pedestrians and bicycles. "It's taken a long time to get here," said Chris Kohitz, owner of the Wedge & Wheel cheese shop. "But we're going to have a much more positive space right in front of our shop."



The St. Croix Crossing is scheduled to open Aug. 2.

MN. DEPARTMENT OF TRANSPORTATION

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IN DEPTH

China Unleashes a Chip War Against U.S.

The global semiconductor industry is succumbing to fierce nationalistic competition as Beijing aims to dominate the market

By BOB DAVIS AND EVA DOU

WUHAN, China—At a muddy construction site the size of 12 baseball stadiums, globalization is turning into nationalism. Truck after truck delivers steel rods to China's Tsinghua Unigroup Ltd., a state-owned firm that's spending \$24 billion to build the country's first advanced memory-chip factories.

It's part of the Chinese government's plan to become a major player in the global chip market and the move is setting off alarms in Washington.

When Unigroup tried to buy U.S. semiconductor firms in 2015 and 2016, Washington shot down the bids. It is considering other moves to counter Beijing's push.

China is aiming "to take over more and more segments of the semiconductor market," says White House trade adviser Peter Navarro, who fears Beijing will flood the market with inexpensive products and bankrupt U.S. companies.

Unigroup's CEO Zhao Weiguo says he is only building his own factories due to Washington's refusal to let him invest in the U.S. "Chinese companies have faced discrimination in many areas," of technology, he says. "Abnormal discrimination."

Semiconductors—the computer chips that enabled the digital age and power the international economy—have long been among the most globalized of industries, with design and manufacturing spread across dozens of countries.

Today, the industry is riven by a nationalist battle between China and the U.S., one that reflects broad currents reshaping the path of globalization. Washington accuses Beijing of using government financing and subsidies to try to dominate semiconductors as it did earlier with steel, aluminum, and solar power. China claims U.S. complaints are a poorly disguised attempt to hobble China's development. Big U.S. players like Intel Corp. and Micron Technology Inc. find themselves in a bind—eager to expand in China but wary of losing out to state-sponsored rivals.

For decades, Western firms worked in the developing world to develop advanced technology by harnessing cheap labor to spread iPhones and laptops globally. The new semiconductor battle marks a shift toward nationalism, trade battles and protected markets.

Behind the rivalry are different views of how technology should advance. The U.S. has long bet on markets and private sector-led development. China uses government financing and planning to create domestic champions. The U.S. estimates China will eventually spend \$150 billion on the project, a figure equal to about half of global semiconductor sales annually.

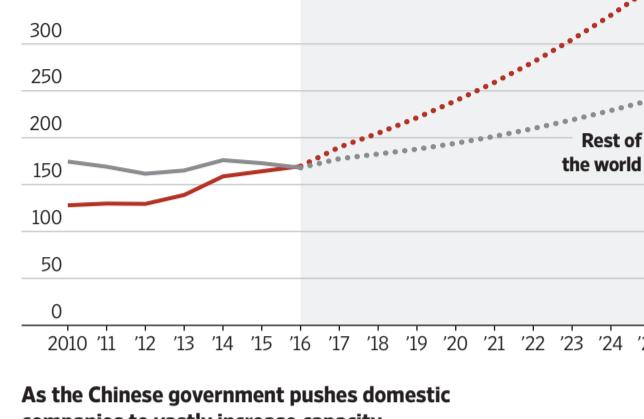
Though Republicans and Democrats are at odds on many economic policy issues, they're unified on this. An interagency working group on semiconductors, started by the Obama administration in 2015, has continued meeting under President Donald Trump.

The group is weighing policies to make it more difficult for China to scoop up U.S. technology, according to people involved in the discussions.

China Decides to Cash In on Chips

China, where factories and consumers use more semiconductors than the rest of the world combined, is expected to widen its lead...

Semiconductor market



As the Chinese government pushes domestic companies to vastly increase capacity...

New fabs or semiconductor production lines under construction



Sources: International Business Strategies (China market and market share); Sanford C. Bernstein & Co. (revenue); SEMI (fabs)

Trade sanctions

One idea is tightening the rules covering U.S. approval of foreign investments to make it tougher for Chinese firms seen as security risks. Other options include trade sanctions, stricter export controls and added federal research spending.

The general principle, say those involved, is reciprocity: treating Chinese investment in the U.S. like Beijing treats U.S. firms. If Beijing discriminates against U.S. firms, the U.S. would limit Chinese investment in the U.S.

"If [the Chinese] become a very big and fully competitive technological competitor, then what does that do to our industry?" said Commerce Secretary Wilbur Ross in an interview. "Does it destroy our semiconductor industry economically?"

The U.S. views China as its biggest semiconductor challenge since Japan in the late 1980s. The U.S. triumphed then through trade sanctions and technological advances. Japanese firms couldn't match U.S. microprocessor technology, which powered the personal computer revolution, and fell behind South Korea in

low-margin memory chips.

China has advantages Japan didn't. It is the world's biggest chip market, consuming 58.5% of the global \$354 billion semiconductor sales in 2015 according to PricewaterhouseCoopers LLP. That gives Beijing power to discriminate, if it wants, against overseas suppliers.

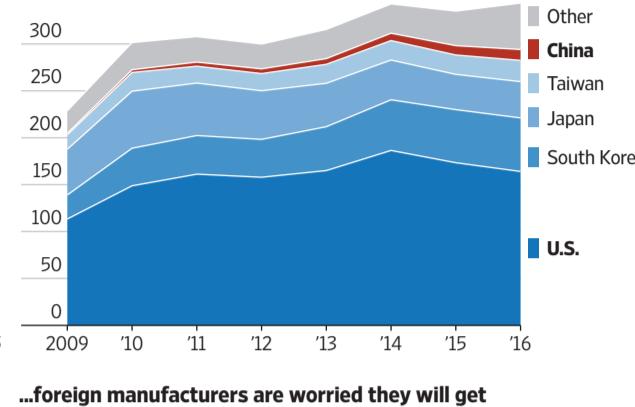
China's tech ministry has dismissed such concerns, saying in an interview with The Wall Street Journal that the electronics industry is too globally competitive for any company to survive if it chooses its components based on anything but price and quality.

Beijing's semiconductor program shifted into high gear in 2012, when the value of its chip imports surged past its bill for crude oil for the first time, says Wei Shaojun, a Tsinghua University electronics expert who advises the Chinese government.

Nearly 90% of the \$190 billion worth of chips used in China are imported or produced in China by foreign-owned firms, estimates International Business Strategies Inc., a research firm. Many chips are assembled in Chinese factories into mobile phones

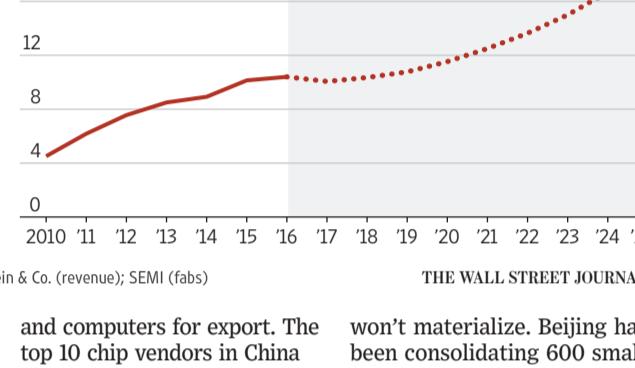
...and is thus key to the success of U.S.-based chip makers, which are already losing global market share.

Semiconductor revenue, by location of headquarters



...foreign manufacturers are worried they will get crowded out.

China's share of its domestic semiconductor market



THE WALL STREET JOURNAL.

ment officials joked the Chinese were willing to pay an "espionage premium."

After a Chinese plan to buy a Royal Philips NV semiconductor-material unit fell apart, Phillips sold the unit to a U.S. private-equity group for about half the earlier price. Phillips declined to comment.

The bids spooked Washington and the industry. In private meetings, Micron, Intel and others warned they faced an "existential threat" from China, say industry and government officials. The companies feared they were trapped in a prisoner's dilemma. Each company was under pressure to sell to China for fear its competitors would sell if it didn't.

"U.S. semiconductor leadership is facing major challenges," said an Intel spokesman. Micron declined to comment.

In July, Germany approved restrictions on foreign technology purchases, aimed at China, and the European Union also is considering barriers.

President Barack Obama raised U.S. concerns about Chinese technology plans with Mr. Xi in a 2016 meeting, according to Obama aides. The U.S. Committee on Foreign Investment in the U.S., an interagency review group, made clear most proposed acquisitions wouldn't pass muster.

According to Rhodium Group, only about \$4.4 billion in Chinese semiconductor acquisitions were completed since 2015. Unigroup's bid for Micron fell apart. South Korea, Taiwan and Japan also blocked Chinese acquisition bids.

Shortly before Mr. Obama left office, a White House semiconductors panel warned the Chinese effort "threatens the competitiveness of U.S. industry" and proposed a boost in basic U.S. research and restrictions on Chinese investment if Beijing's policies harmed U.S. firms. Mr. Trump proposed a 13% decrease in federal funding for basic research to \$28.9 billion in fiscal year 2018, but semiconductor lobbyists say they hope to eke out an increase for chip-related research.

Bigger threat?

At a global semiconductor trade group meeting in Arizona in February, Chinese delegates complained the U.S. unfairly blamed them. They counted the number of times China was listed in the Obama report—55—to underscore their displeasure, say U.S. attendees. Chinese chip executives argue South Korea is a bigger threat to the U.S. chip industry due to its advanced technology.

Blocked from buying their way into the market, China is recruiting talent from foreign firms, licensing technology, or perhaps stealing it, says Mr. Ernst, the technology analyst. Unigroup and other Chinese executives deny they steal technology.

After Unigroup's plan to acquire Micron fell apart, it hired Charles Kau, the former head of Micron's Taiwan joint-venture, and other experts from the island. It announced it would build its own memory chip facility—the mammoth Wuhan factories—at about the same price it would have paid for Micron.

—Yang Jie in Wuhan, China, contributed to this article.



Workers at a Tsinghua Unigroup facility in Wuhan, China, where the company has expansion plans.

ADAM DEAN FOR THE WALL STREET JOURNAL

"This isn't just a one-shot deal for Samsung," said Tobey Gonneman, executive vice president at Fusion Worldwide, an electronic-components distributor. "Technology won't take a leap backwards or become less mobile, so this won't be an anomaly for them."

Samsung's leap ahead of Intel in semiconductor sales also reflects a fundamental difference in the two companies. Samsung's chip unit focuses on memory chips, traditionally a lower-margin commodity product with volatile price swings. But Samsung has invested tens of billions of dollars to place itself at the forefront of new advances that cram more memory, either storage or multitasking ability,

onto small-size chips. Analysts agree it is several years ahead of rivals, particularly in terms of its large-scale production ability as an explosion in internet-connected devices brings unprecedented levels of demand.

Intel, on the other hand, concentrates on highly differentiated processing chips for computers—and dominates its key markets of PCs and the servers that drive corporate operations, cloud computing, and communications networks. Those products have brought high margins, but revenue growth has been increasingly hard to come by. Demand for PCs has slowed in recent years as consumers move from PCs to smartphones, and data-

center customers have found ways to make fewer chips do more work, even as large cloud providers are spending tens of billions annually to expand their facilities. Samsung surpassing Intel as No. 1 has more to do with Samsung gaining market share than Intel losing," said Bill McClean, president of IC Insights, underscoring the industry's overall strength.

A year ago, Intel's full-year semiconductor sales were nearly 25% higher than Samsung's. Samsung Electronics shares have risen about 55% over the past year, while Intel's stock price has remained flat. The world's largest smartphone maker, Samsung is also in position to top Apple Inc. in

quarterly profits during what is traditionally a weaker three-month period for the iPhone maker. Apple reports earnings on Tuesday.

55%

Increase in Samsung Electronics' shares over the past year

A Samsung spokesman declined to comment. An Intel spokeswoman emphasized the company's strong second-quarter performance and expressed confidence in its product road map, saying, "We feel

very good about our strategy and our results."

Intel is making moves to push outside its core strengths and into higher-growth areas, including NAND memory, where it is investing heavily to compete with Samsung and others.

Samsung's advantage may be fleeting as other memory-chip manufacturers jump in, bringing an oversupply that causes prices to fall. "I wouldn't be surprised if, when the next turn happens, Samsung's revenue plummets below Intel's, possibly for a very long time," said Jim Handy, a memory-chip analyst with Objective Analysis, who predicts oversupply by the middle of next year.

CHIP

Continued from Page One
ished by next year, dragging on Samsung's revenue.

Samsung has ascended during a turbulent year for the South Korean giant, whose de facto leader, Lee Jae-yong, was arrested in February and is on trial on corruption allegations that he denies. Samsung's rise reflects the trend toward putting digital horsepower in a widening range of items, from smartphones to automobiles, and the ambitions of tech companies to use those products to accumulate data on customer behavior to sell more products and related services.

U.S. NEWS

Senator Criticizes President On Health

By THOMAS M. BURTON

Sen. Susan Collins, one of three Republican senators who blocked the GOP's health-care bill last week, on Sunday said President Donald Trump's threatened cuts in payments to insurers would be "detrimental" to America's poor.

At issue are millions of dollars under the Affordable Care Act that the federal government pays in order to lower deductibles and out-of-pocket costs for the poorest health enrollees.

"It really would be detrimental to some of the most vulnerable citizens if those payments were cut off," Ms. Collins, of Maine, said in a CNN interview. "They're paid to the insurance companies, but the people that they benefit are people who make between 100% and 250% of the poverty rate."

"So we're talking about low-income Americans who would be devastated if those payments were cut off," she said, adding that "the threat to cut off those payments has

Replicans are leaving town for an August recess after a failed attempt to repeal the Affordable Care Act. When they return in September, they'll have just 12 working days to avert another big problem.

In a letter to lawmakers Friday, U.S. Treasury Secretary Steven Mnuchin said the federal borrowing limit, or debt ceiling, needed to be raised by Sept. 29 or the government risked running out of money to pay its bills.

The Treasury Department has been employing cash-conservation measures since March, when borrowing hit the formal ceiling of nearly \$20 trillion. Those measures are expected to run out in early to mid-October. When they do, the government won't have money to pay interest on debt, write Social Security checks or make millions of other routine payments, unless it can tap credit markets for borrowing to raise additional cash. Missing payments could send financial markets in a tailspin.

Lawmakers have managed to resolve bitter feuds over the debt limit before. But markets are starting to reflect angst about Washington's ability to navigate a new showdown given the challenges Republicans have had reaching common ground on issues like health care. Lawmakers leave town with no clear strategy for managing the complex politics around raising the limit when they return.

"We just don't know what the process is going to look like this time," said Goldman Sachs political economist Alec Phillips.

This will be the first time Republicans will control both chambers of Congress and the White House while navigating a debt ceiling in-



ZACH GIBSON/BLOOMBERG NEWS

Treasury Secretary Steven Mnuchin has made clear the administration wants the debt limit raised.

Debt Ceiling Crises Can Be Costly

Rise in government borrowing costs during debt ceiling spats.

Percentage-point change in average yield of Treasury securities of all maturities attributable to ...

... to a possible Aug. 2, 2011, debt-ceiling breach ...



Note: Only trading days are shown. Series start at July 14, 2011 and Sept. 25, 2013.

Source: Cashin, Ferris, Klee and Stevens (2017)

THE WALL STREET JOURNAL

crease. They face resistance within their own party.

In the past, conservative Republicans sought to pair increases in the borrowing limit with steep spending cuts. Some argued against raising the limit at all. This time the GOP will have to own the consequences if the

government defaults on debt or fails to make other payments.

Mr. Mnuchin has made clear the administration wants to see the debt limit increased, with no strings attached. But GOP leaders will almost

certainly need to rely on Democratic support to get any type of increase to the president's desk, something Democrats might be reluctant to provide without something in return. They have been unified in opposition to Republicans on other issues.

The path to raising the debt limit will be the first major political test for Mr. Mnuchin, a Washington novice who has been intensely focused on the Trump administration's forthcoming tax overhaul proposal.

It is going to be a tight squeeze. Treasury's cash balance is expected to drop to near \$25 billion in September—a precariously low level, especially in the event of some unforeseen shock, such as a severe natural disaster, global crisis or unexpected drop in revenue.

Strategic challenges hang over Mr. Mnuchin's options. When President Barack Obama was in power, some Republicans challenged the White House to allow cash to run down and prioritize some payments, such as interest on debt, over others, such as discretionary spending. That idea could return.

Transcripts from a 2011 meeting of the Federal Reserve showed the central bank, as the Treasury's financial agent, was prepared to continue making payments to bondholders, while potentially delaying other payments, if Congress failed to raise the borrowing limit back then.

Mr. Mnuchin told lawmakers on Capitol Hill this week he had "no intent" to prioritize payments, which would put him in the uncomfortable position of choosing whether to pay foreign bondholders ahead of retirees or government workers.

"I think that doesn't make sense," he said. "The government should honor all of its obligations and the

debt limit should be raised." Complicating matters, the debt limit isn't the only fiscal fight lawmakers are bracing for when they return from the August recess.

The showdown will coincide with the end of the fiscal year on Sept. 30, and the prospect of a government shutdown if Congress fails to authorize new spending for 2018. That could make the debt limit increase more difficult to address, if lawmakers get bogged down in a fight over spending.

Adding to the political muddle, some lawmakers want to relax spending caps set into law six years ago as part of a compromise reached between Mr. Obama and congressional Republicans to end an earlier debt-limit standoff.

"They'll put this one big, nasty bill together that gets passed with a majority of Democrats and less than a majority of Republicans," said Rep. Mark Meadows (R., N.C.), chairman of the House Freedom Caucus, a group of roughly three dozen conservative House Republicans.

The costs from delaying action on the debt ceiling are already mounting, Mr. Mnuchin warned lawmakers last week.

Two recent debt-limit fights on Capitol Hill, in 2011 and 2013, raised yields on Treasury securities ahead of the expected date of default, ultimately boosting Treasury's borrowing costs by about \$260 million in 2011 and \$230 million in 2013, according to research released by the Federal Reserve this year.

"Right now effectively, as opposed to borrowing in the market at lower rates, we're borrowing and making our trust funds whole at slightly higher rates," Mr. Mnuchin said. "There is a real cost to doing that."

Sen. Susan Collins (R., Maine)

contributed to the instability in the insurance market."

Mr. Trump made one of his most explicit threats to cut off the payments in a tweet over the weekend, saying, "If a new Healthcare Bill is not approved quickly, BAILOUTS for Insurance Companies and BAILOUTS for members of Congress will end very soon!"

The president has made such threats for months, and the next set of payments is scheduled in three weeks. This issue is especially critical now because deadlines for insurers to decide whether to participate in health-insurance marketplaces are also looming. Insurance companies have been expressing their uncertainty about what to do and about their concerns over the chaotic state of the insurance-exchange markets in many states.

These payments are under legal challenge by Republicans in the House, who say the money never was authorized by Congress. A federal judge has sided with the House but is allowing the funds to continue during the litigation.

The Trump administration's efforts to kill off the 2010 health-care law came to a crashing end last week, at least for now. Various strategies, ranging from a replacement plan, to a simple repeal, to what was termed a "skinny repeal," were tried and failed.

Still, Mr. Trump on Sunday returned to Twitter and declared, "Don't give up Republicans, the World is watching: Repeal & replace..."

He also has called for letting the health-care law "implode." In February, he said, "From a purely political standpoint, the single best thing we can do is nothing. Let it implode completely. But it's not the right thing to do for the American people."

The Trump administration's secretary of health and human services, Tom Price, was non-committal about the payments in appearances on Sunday television talk shows.

He also declined to say whether the administration would enforce the portion of the ACA, widely known as Obamacare, that generally requires individuals to carry health insurance. That "individual mandate" is widely considered essentially to bolster the nation's health-insurance markets, because without it, mostly only the sick and elderly would carry insurance, and health coverage would become prohibitively expensive.

"No decision's been made," said Mr. Price on ABC.



ALEX BRANDON/ASSOCIATED PRESS

Trump Tweets Warning To China on North Korea

By REBECCA BALHAUS

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

"As the principal economic enablers of North Korea's nuclear-weapons and ballistic-missile development program, China and Russia bear unique and special responsibility for this growing threat to regional and global stability," he said.

A spokesman for China's Foreign Ministry said Beijing was opposed to any further North Korean missile launches and urged all sides to "act cautiously" to avoid further inflaming tensions on the peninsula.

On Friday, North Korea test-fired a ballistic missile that experts said put the continental U.S. in range of a strike, illustrating rapid advancements in technology and intensifying Pyongyang's standoff with Washington.

Following the launch, Secretary of State Rex Tillerson urged world leaders to tighten United Nations sanctions on North Korea and singled out Russia and China for not doing

ing enough to contain Pyongyang's nuclear ambitions.

"While I greatly appreciate the efforts of President Xi & China to help with North Korea, it has not worked out," Mr. Trump said in a Twitter post on June 20. "At least I know China tried."

The Trump administration's efforts to recast trade ties with Beijing also suffered a setback earlier this month when high-level economic talks between the two nations ended without any concrete agreement or future agenda.

After a full day of bilateral meetings, the U.S. side issued a terse statement saying that "China acknowledged our shared objective to reduce the trade deficit which both sides will work cooperatively to achieve."

The statement from Commerce Secretary Wilbur Ross and Treasury Secretary Steven Mnuchin didn't provide further details on just how much the two sides could agree on, or when they would resume talks.

PIGS

Continued from Page One

baw Island hog. "He sent us a pig. Then two pigs," Mr. Foster says of the courtship. "It was 'Let's feel this out.' Finally, in May, the farmer agreed Mr. Foster was worthy of the four a week he wanted. The regular supply "has been a huge, huge weight off my mind," he says.

"People are taking a good hard look at their pork chops," says farmer Mike Yezzi, 49, whose Flying Pigs Farm supplies Mr. Foster, "and realizing there's no way to cook this pork chop and not wind up without it being tough."

More back fat is what discriminating pork lovers want, inches of it, along with redder meat. That's the attraction of fatty "heritage" breeds that can be hard to come by.

Penn TenEyck, a restaurant owner in tony Dataw Island, S.C., two years ago wanted to add pork chops to his menu but says "99% of the time they are dry."

He found the breed of his desire—huge Tamworth hogs—at a farm an hour from Charleston.

But "they had more chefs than hogs," says Mr. TenEyck, 34. "To get in the doors was a little bit of a struggle."

He persuaded another chef to put in a good word with the farmer, Marc Filion. After six months of Mr. TenEyck's wooing, Mr. Filion agreed to sell him a pig. Mr. TenEyck's restaurant now trims the fat before serving \$25 pork chops, using the lard in chicken pâté.

Mr. Filion, 61, began raising Tamworths—nicknamed "bacon pigs"—at the urging of a local chef. "What really surprised me was when we started getting calls from chefs that were not

in Charleston," he says. "These chefs were in Columbia, Atlanta, Charlotte."

For millennia, farmers bred pigs to be fat, prized partly for the lard used for meals and lubricants. Then synthetic oils and competition from leaner meats had many American hog farmers avoiding the fattiest breeds.

By 2000, the number of stubby-legged Berkshire pigs registered in the National Swine Registry had dramatically declined. Some lardier hogs have gone extinct, says the Livestock Conservancy, a nonprofit that aims to conserve endangered farm-animal breeds.

With the rise of low-carb high-protein diets, chefs began to cook with oilier pork. Among breeds making a comeback are the compact-sized guinea hog, known for its generous back fat. In 1990, conservationists located just 50 guineas in the U.S., says the Livestock Conservancy. Over 3,000 have been registered since 2007.

In Fort Collins, Colo., Harvey Blackburn, coordinator for the U.S. Agriculture Department's National Animal Germplasm Program, oversees a facility preserving the frozen semen, embryos, oocytes and ovaries of 1,500 different pigs. He says the expansion of farmers markets is creating a fatty-hog semen revival. One farmer, 48-year-old Gra' Moore of Carolina Heritage Farms in South Carolina is working with USDA sperm to bring back the fatty American Spot pig.

The rare floppy-eared Large Black and the Gloucestershire Old Spots are so desired in America that in 2015 a U.S. group imported semen from the U.K., says Professor Tim Safranski at University of Missouri-Columbia, who helped with the project.



MEGAN HALEY FOR THE WALL STREET JOURNAL

Gloucestershire Old Spots pigs are prized for their fat.

LIFE & ARTS

ANALYSIS | By Ben Fritz

Who Decides What You Watch?

Streaming services such as Netflix and Spotify can steer audiences to particular music, movies and series

BY BEN FRITZ

IN ANCIENT TIMES, when readers bought actual books in outposts known as stores, one always had to be a little skeptical of the titles stacked on tables by the front door.

Some were the newest and most popular reads. Others were there because publishers had made deals with the biggest retailers to put their books front and center, grabbing the attention of browsers who weren't sure what they wanted.

In the on-demand entertainment world, where companies that began as neutral distribution platforms have become multi-headed media giants, we need a similar dose of skepticism when we walk in the digital front door.

The first time you use Spotify or **Netflix**, the experience is astounding. Want to drive cross-country to early '90s hip-hop that reminds you of middle-school dances? Feeling blue and want to bury your sorrows in old episodes of "Cheers?" They're just a search and a click away. (All examples are hypothetical, of course, based on people with lower-brow taste than mine.)

After a while, though, you don't always know what you want to listen to or watch when you log on. That's where the content highlighted by these streaming services starts to matter and the behind-the-scenes deals they strike may influence your choices.

Such deals have given rise to a debate about "fake artists on Spotify" reported earlier on the website Music Business Worldwide. The artists aren't "fake," but rather real, low-profile individuals who are commissioned to create certain types of popular music and sometimes use pseudonyms. Their music, all instrumental, fills massively popular playlists with titles such as "Sleep," "Peaceful Piano" and "Yoga and Meditation."

As anyone who has used Spotify knows, popular playlists are often featured when you open the app, above recommendations based on what you've listened to.

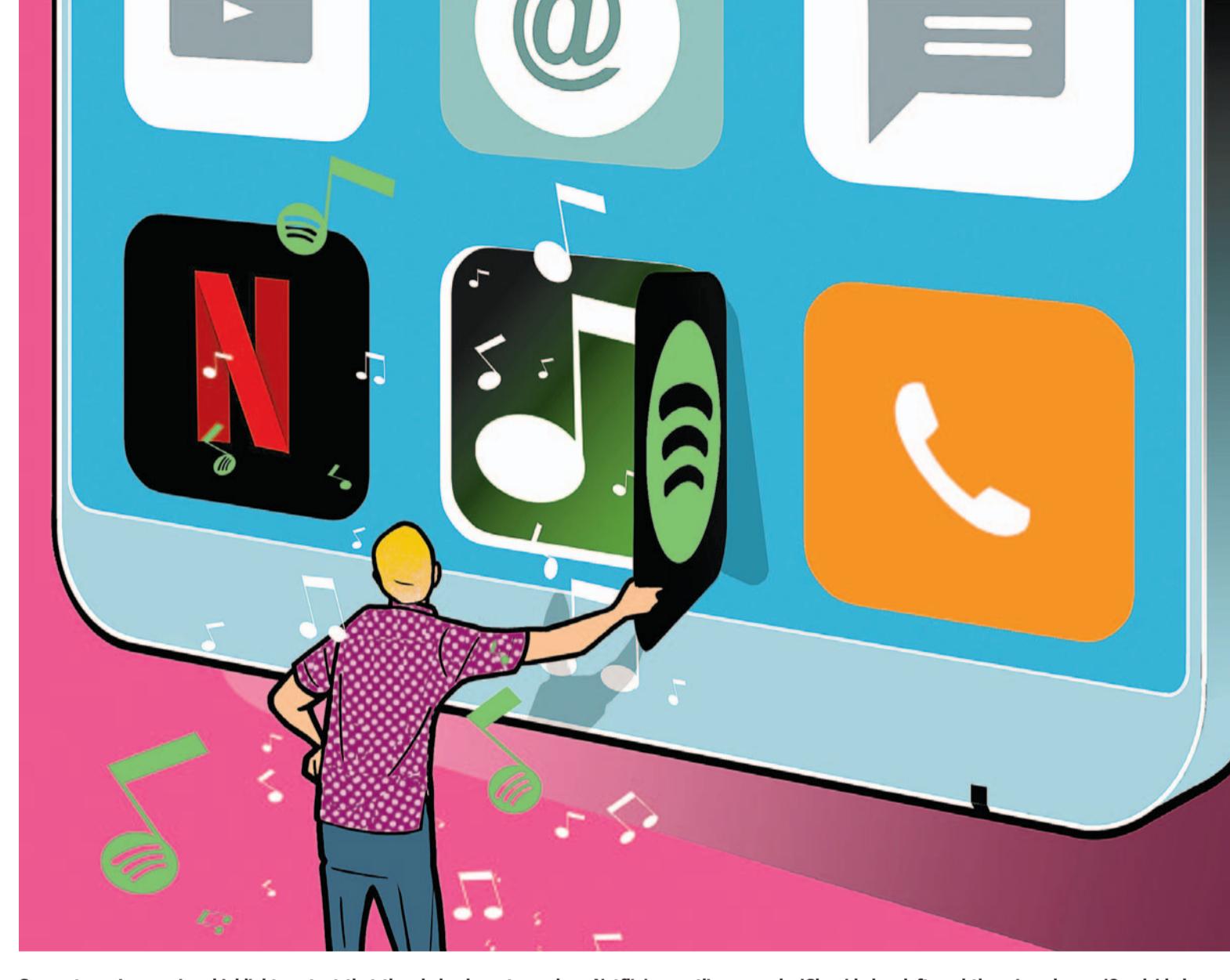
So what's the problem? Reports in the New York Times and elsewhere suggest that Spotify may have special deals with so-called "fake artists," paying them less than the standard share of its revenue that goes to Arcade Fire or Beyoncé for each play.

Thus, Spotify might prefer that you listen to these tracks rather than others. Listen to whatever you want, in other words, but might we suggest these appetizing options that carry a better profit margin for us?

A Spotify spokesman says, "We have never programmed a playlist due to cost. Playlists are programmed based on how each track performs and connects with listeners."

Spotify isn't the only digital powerhouse with reasons to steer users to certain content.

Last time I opened Netflix, I had to scroll down two screens to find my list of the programming I had indicated I wanted to watch, skipping past seemingly every re-



Some streaming services highlight content that they helped create, such as Netflix's wrestling comedy, 'Glow,' below left, and the crime drama, 'Ozark,' below.



cent series, movie and stand-up special Netflix has made, including "Ozark" and "Glow."

The more that people watch Netflix originals, of course, the more the company can control its own destiny rather than engaging in sometimes-difficult negotiations to buy content from other studios and networks. (Don't worry, I scrolled all the way down to find that episode of "Star Trek:

"The Next Generation" I've been jonesing to rewatch).

Nothing ever stopped us from combing a bookstore for an obscure poetry anthology and nothing is stopping us today from clicking, searching or setting the DVR to record exactly what we want to hear or watch, regardless of what's presented to us.

But humans are fundamentally lazy, as illustrated by the sky-high



ratings for all those unfunny sitcoms that used to air between "Friends" and "Seinfeld." When something that looks reasonably appealing is presented to us, we may not bother to search for something else or wonder why it has the marquee spot on the home page.

You probably don't care about "fake artists" on Spotify for the same reason other recording artists and record labels do: Because they

worry they'll make less money.

But just as it's important to know who owns your favorite newspaper or who contributes money to your elected officials, you should care about what Spotify and other streaming services would like you to hear or watch. Because it may be the songs and videos that make them more money, not the ones you're most likely to enjoy.

PLAYLIST | Linda Fairstein

FIRE, RAIN AND A MUSTANG

Linda Fairstein, 70, is a former prosecutor in the Manhattan district attorney's office and the author of 19 crime novels, including "Deadfall" (Dutton). She spoke with Marc Myers.

In the spring of 1970, my boyfriend and I took turns driving my 1965 Mustang convertible from New York to Charlottesville, Va. I had gone up to New York to visit him, and he was accompanying me back to the University of Virginia, where I was studying law. James Taylor's "**FIRE AND RAIN**" came on the radio several times during our seven-hour trip.

I loved "Fire and Rain" the moment I heard it, especially the song's soft sadness. Though the single had come out a month or so earlier, I heard it for the first time

while heading south in the Mustang.

After my boyfriend returned to New York, I went out and bought "Sweet Baby James," the album on which the song appears. One of my closest friends at law school was a guy named Geoff. I adored and admired him, and we spent a lot of time talking, studying and hanging out together.

Two years later, I was working in the Manhattan district attorney's office when a friend from law school called. She asked if I was alone. Then she told me that Geoff was dead, that he had taken his own life.

I went to pieces. I retreated to my mother's house in the suburbs of New York and was inconsolable for days. I had never lost a friend to suicide before, and "Fire and Rain" helped me get through it.

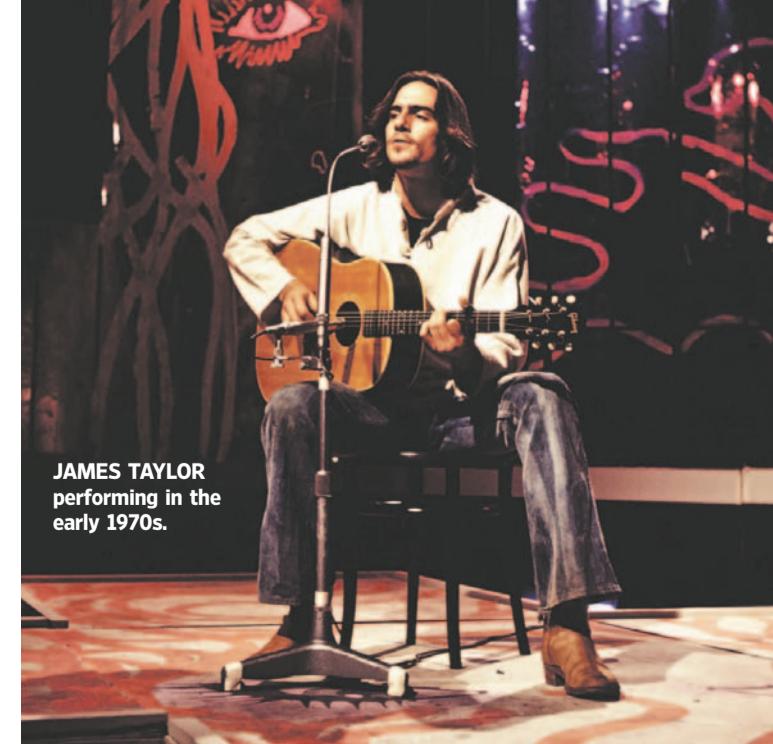
The song opens with JT's beau-

tiful and melancholy acoustic guitar. Then he begins to sing about a woman named Suzanne and how her suicide affected him:

"Just yesterday morning, they let me know you were gone / Suzanne, the plans they made put an end to you...I've seen lonely times when I could not find a friend, / But I always thought that I'd see you again."

I listened often to the song following Geoff's death. Over the years, I've lost other friends to tragic deaths. Sometimes when I'm driving near my home on Martha's Vineyard, I'll hear the song on the radio and cry. But it's a good cry and cathartic.

"Fire and Rain" lets me remember the people who left me too soon and makes me think how much I miss them.



JAMES TAYLOR performing in the early 1970s.

LIFE & ARTS

ART REVIEW

Painting the Bible In New Spain

A colossal depiction of Old and New Testament scenes reveals how the European Baroque influenced colonial Mexican art

BY WILLARD SPIEGELMAN

New York

WITH THE EXCEPTION of the 20th-century paintings of Frida Kahlo and the murals of Rivera, Orozco and Siqueiros, "Mexican art" used to mean pre-colonial. Modernist tastes preferred the "primitive," especially the pre-Columbian. Historians, intellectuals and painters ignored or demoted most work from the post-contact days as manifestations of Spanish imperialism and conquest. In the past quarter-century, the art of New Spain in the period we think of as the Baroque has gained new respect.

As both consequence and proof of this upward revaluation, consider the stunning small exhibition "Cristóbal de Villalpando: Mexican Painter of the Baroque" at the Met Fifth Avenue. Villalpando (c. 1649-1714) was born and probably trained in Mexico City. Through prints, he knew the work of major European predecessors, especially Peter Paul Rubens, a name synonymous with the Baroque. Most of his art came through religious commissions.

With 11 pictures, the Met show gives a North American audience a sample of New Spain's greatest painter at the turn of the 18th century. (It was curated by Ronda Kasl, curator of Latin American Art at the Met; Jonathan Brown, professor of fine arts at New York University; and Clara Bargellini, professor at the National Autonomous University of Mexico.) It is actually anything but small, especially because its centerpiece is the staggering 14-by-28-foot oil from Puebla Cathedral called "Moses and the Brazen Serpent and the Transfiguration of Jesus" (1683) on view for the first time outside Mexico. It occupies the atrium of the Met's Robert Lehman Wing, and viewers can see it as no one in Mexico has. At home, it hangs on a chapel wall. You look up at it. In New York, you see it from the floor and, even more stunningly, from the entry to the Lehman wing above, where you come upon it from a higher angle, virtually head-on.

Extraordinary in conception and execution, the two-part picture is unprecedented in the history of art. The idea was probably suggested by Manuel Fernández de Santa Cruz, the bishop of Puebla. The picture has two halves, two subjects. It combines scenes from the Old Testament (below) and the New (above): the desert in Numbers, and Mounts Tabor and Calvary in the Gospels.

There is separation and continuity between the parts, as in the Old and New Testaments themselves. The scene from Numbers was thought to prefigure the Transfiguration. Below, we see Moses and the brazen serpent he brings forth to save those Israelites who can be healed from the plague of deadly snakes visited upon



Clockwise from above: Cristóbal de Villalpando's 'Moses and the Brazen Serpent and the Transfiguration of Jesus' (1683), 'The Adoration of the Magi' (1683) and 'The Deluge' (1689)

them for speaking out against God. Above, we see the Transfiguration of Jesus, witnessed by the apostles Peter, James and John.

The eye wanders up and down, seeing differences, making connections. Below, all is crowded darkness. Some figures are almost cartoonish in their agony. At the top, with only seven figures, all is purity and light: clouds, luminous clothing, rays of sun.

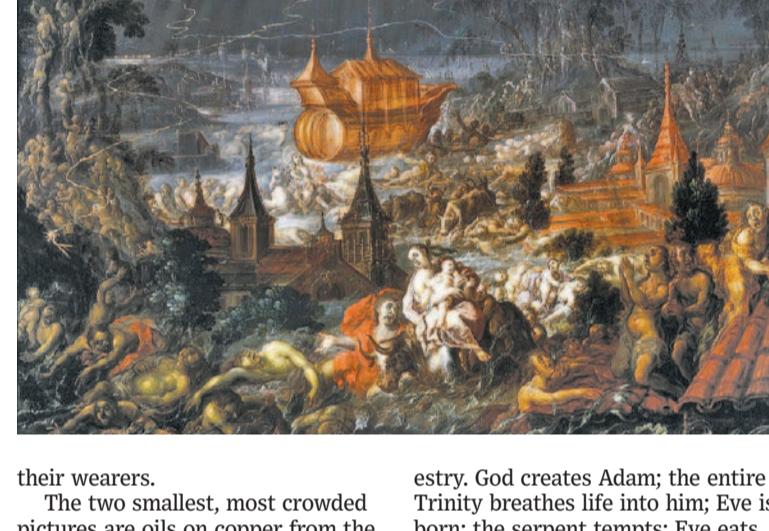
With its two scenes, the picture is divided horizontally but united vertically. A torrent of water flows from above into the bottom scene. On high, God the father points to Jesus, who points to Moses and Elijah, and at whose feet sit the three apostles overwhelmed by his transfiguration into light.

Beneath, we see the brazen serpent on its pole, an anticipation of Christ's cross, pictured above. God and Jesus look down; the Old Testament figures are looking up. Mo-

ses appears in both halves, clothed in glistening armor that makes him, especially at the bottom, into something like a Spanish conquistador, with heavily muscled calves.

One could keep looking, but other pictures beckon from one of the Lehman's anterooms. These demonstrate their maker's strengths and weaknesses. Villalpando had dynamic brushwork but lacked excellence in drawing. His art is intense and sumptuous, everything we think of as baroque. His people's faces are often unprepossessing, doughy and puffy (an ugly, roly-poly little Jesus, a chinless Virgin Mary). He is more committed to the swirling, dynamic flow of drapery and clouds than to finely chiseled, realistic human features.

In an "Adoration of the Magi" (1683), the most conventional of the pictures, Balthazar has an over-the-top headdress with plumes, and a long pearl pendant earring. The costumes often get more attention than



their wearers.

The two smallest, most crowded pictures are oils on copper from the Chavaco chapel in the Puebla Cathedral. "The Deluge" (1689) is all darkness broken by lightning flashes.

Noah's ark is like no boat you've ever seen, floating as if through the air. In front, a woman on a bull (did Europa and Zeus wander in here?) holds a child. Villalpando could powerfully fashion the world's end.

And also its beginning. Villalpando signed "The Deluge" and "Adam and Eve in Paradise" (1689) with his name and then "Inventor" to signal his role as a God-like creator. The second picture compresses eight episodes from Genesis into a space as packed as a medieval tap-

stry. God creates Adam; the entire Trinity breathes life into him; Eve is born; the serpent tempts; Eve eats, then Adam. You know the rest. A rising sun is on the upper left, darkness on the upper right.

Villalpando worked big even when working small. Excess in miniature: that's the Baroque, Old World and New.

Cristóbal de Villalpando:
Mexican Painter of the Baroque

The Metropolitan Museum, through Oct. 15

Mr. Spiegelman's most recent book is "Senior Moments: Looking Back, Looking Ahead" (Farrar Straus Giroux).

FILM REVIEW | By Joe Morgenstern

COLD REALITIES OF GLOBAL WARMING

CONSIDERING the potential for incandescent polemics, "An Inconvenient Sequel: Truth to Power" is relatively restrained. Al Gore paraphrases Mike Tyson's deathless maxim that "everyone has a plan until they get punched in the mouth." That's by way of noting how the political climate has changed with the rise of Donald Trump, who had previously referred to climate change as a hoax and called for Mr. Gore's Nobel Peace Prize to be rescinded. Yet the film doesn't dwell on the Trump administration's hostility to climate science, and, because of the production's release date, it includes only an end-title mention of last month's announcement that the U.S. would withdraw from the Paris climate accords. Rather, the emphasis is on the intensifying impact of global warming caused by human activity, on heartening signs of progress in renewable energy, and on the need for sustaining hope that brighter days will come.

Eleven years after "An Inconvenient Truth" Mr. Gore remains a prodigy of hope, with energy that seems endlessly renewable. During much of the intervening time he continued to travel the beleaguered globe with the slide show that became the core content of the first film, though the campaign against carbon emissions sometimes seemed doomed. "If I said there weren't times I considered this a

personal failure I'd be lying," he says at one point in this new documentary feature, which was directed by Bonni Cohen and Jon Shenk.

At another he says: "There came a time for me when I thought, wow, we could really lose the struggle. We need to recruit more people." The results of that recruiting effort provide many of the settings for "An Inconvenient Sequel"—climate leadership training sessions where the former vice president exhorts eager recruits to action.

Sequels are, by definition, more of the similar, if not the same, and this one covers some familiar ground. It also spends an inordinate amount of time at the 2015 Paris conference where the climate agreement was negotiated. But the world—the physical world—has changed dramatically since the first film was released, and "An Inconvenient Sequel" reflects those changes with startling visuals. In Greenland, glaciers have been exploding from within because of rising temperatures. In Miami, roads and sidewalks have been raised in response to rising sea levels. Some of the videos are so familiar—lapping storms, widespread floods, raging fires, droughts associated with political upheavals and refugee crises—that the mind glazes over, and Mr. Gore acknowledges the problem: "Every night on the evening news is like a nature walk through the Book of Revelation."



Al Gore in the Philippines, above, and Greenland, right, in 'An Inconvenient Sequel: Truth to Power'

But the man who was often faulted for dispassion during his long political career unleashes the wrath of a country preacher at certain moments here. "What were you thinking?" he imagines future generations wondering about us. "Couldn't you hear what the scientists were saying? Couldn't you hear what Mother Nature was screaming at you?" And he brings good news along with the litany of tempests and record temps—the growth of wind and solar power on exponential curves that were unimaginable a decade ago. No more tilting against windmills when the world is tilting for them.



OPINION

REVIEW & OUTLOOK

The Republican ObamaCare Crack Up

After promising Americans for seven years that it would fix the Affordable Care Act, the Republican Party failed. This is a historic debacle that will echo politically for years.

A divided GOP Senate could not muster a majority even for a simple bill repealing the individual and employer mandates they had long opposed. Nor were they able to repeal the medical-device tax that some 70 Senators had gone on record wanting to repeal in previous Congresses.

The so-called skinny bill that failed in the Senate would have gone to a conference with the House, which had signaled its willingness to work out a compromise. That arduous process is the way the American legislative system works. A strong majority of the GOP caucuses on both chambers supported the effort to repeal and replace ObamaCare, but that was undone by an intransigent and petulant minority.

Where to begin in comprehending John McCain's last-minute defection? Early Friday morning Senator McCain turned his thumb down on the bill, which doomed this long effort. Explaining that vote, Mr. McCain said the bill "offered no replacement to actually reform our health-care system and deliver affordable, quality health care to our citizens." This is hard to credit, because his "no" has left the American people with ObamaCare in toto.

On Thursday, with three other Senators, Mr. McCain said he wanted assurances that House Speaker Paul Ryan would negotiate in conference. Mr. Ryan said he would, and the other three voted yes. Senator McCain nonetheless chose to cast the decisive vote that broke the GOP promise.

The Arizona Senator's politics has always been more personal than ideological. His baffling, 11th-hour vote makes us recall Donald Trump's infamous campaign slight about Mr. McCain's war imprisonment. Whatever his motives, the greater shame is that his vote keeps the edifice of ObamaCare in place with all of its harm to patients, the health-care system and the national fisc.

There were many other contributors to this debacle. The Freedom Caucus dragged out the process in the House, which created time for opposition to build. Alaska Senator Lisa Murkowski betrayed her many previous votes and public statements. Two GOP Governors, Ohio's John Kasich and Nevada's Brian Sandoval, grandiloquently assaulted the bill for their own political gain, which made life difficult for their states' Senators, Rob Portman and Dean Heller.

The Senate's GOP moderates conspired to kill both a historic Medicaid reform and repeal of ObamaCare's myriad taxes. Senators Rand

Paul and Mike Lee worked to defeat Majority Leader Mitch McConnell's compromise draft to no good end. We cannot recall a similar effort by so many to subject their own party to such an abject public humiliation.

Mr. Trump in a tweet blamed the three GOP Senators who voted no, but he was also an architect of his own defeat. Mr. Trump was elected in no small part on his promise to do big deals like this one. In the end he couldn't close. He never tried to sell the policy to the American public, in part because he knows nothing about health care and couldn't bother to learn.

His chaos theory of White House management, on morbid public display last week (see nearby), also means no one on Capitol Hill knows who is in charge. As his approval rating sinks below 40%, few in politics fear him and increasingly few will step forward to defend him.

What next? The Senate failure has burned the reconciliation process available from last year and thus the ability to pass anything with 50 votes. The next reconciliation bill is earmarked for tax reform, if the hapless GOP can first pass a budget outline. Meanwhile, the ObamaCare exchanges will continue to deteriorate. This means the Trump Administration will face a choice of how much money to spend to keep some of them from collapsing. HHS Secretary Tom Price can give insurers more flexibility, but premiums will keep rising while choices for consumers decline.

The Republicans who did so much to kill repeal and replace will now clamor for bipartisan action. And it would be nice to think Democrats would meet Mr. McConnell halfway. But Democratic leader Chuck Schumer knows he has Republicans on the run, and his price for 60 votes will be a costly bailout of ObamaCare, which liberal health-care academics are already proposing. Good luck repealing the law's mandates and taxes, or deregulating insurance markets.

Mr. Schumer knows that a "bipartisan" Senate insurance bailout will further divide the GOP and put the House on the spot if it fails to go along. With the House majority in jeopardy in 2018, Speaker Ryan could face an excruciating choice: Attempt to save the seats of his party's moderates by voting with Democrats to bail out the exchanges, or get blamed by Democrats and the press for all of ObamaCare's ills.

Republicans will now try to salvage what is left of this Congress with tax reform. But the tragedy remains: Republicans in their selfish political and personal interests squandered a once-in-a-generation chance to show that their principles can make life better for Americans.

Reince Priebus Wasn't the Problem

President Trump announced late Friday on Twitter—how else?—that he is replacing White House chief of staff Reince Priebus with Homeland Security secretary John Kelly. The decision was probably inevitable given how the President publicly humiliated Mr. Priebus in recent days, but this shuffling of the staff furniture won't matter unless Mr. Trump accepts that the White House problem isn't Mr. Priebus. It's him.

Presidents get the White House operations they want, and Mr. Trump has a chaotic mess because he seems to like it. He likes pitting faction against faction, as if his advisers are competing casino operators from his Atlantic City days. But a presidential Administration is a larger undertaking than a family business, and the infighting and competing leaks have created a dysfunctional White House.

The GOP restrains Trump, unlike Democrats on Obama and Iran.

Perhaps Mr. Kelly, a retired Marine general, can impose some order on the staff. But then that's what Anthony Scaramucci was supposed to do for the communications team, only to blow up in adolescent fashion last week by trashing Mr. Priebus and others in public. White House leakers then let it be known that Mr. Trump liked Mr. Scaramucci's X-rated rant.

The reason Mr. Priebus wasn't as effective as he could have been is because Mr. Trump wouldn't listen to him and wouldn't let him establish a normal decision-making process. Mr. Trump has a soft spot for military men so perhaps he'll listen more to Mr. Kelly. He'd better, because on present course his Presidency is careening toward a historic reputation where names like Jimmy Carter and Richard Nixon reside.

Russia Sanctions Breakthrough

The U.S. Senate Thursday followed the House in voting overwhelmingly for a much-improved bill imposing sanctions on Russia, Iran and North Korea. Even before the bill could reach President Trump's desk, Vladimir Putin vowed he wouldn't tolerate such "insolence." On Friday the Russian Foreign Ministry retaliated by closing down a recreational retreat on the outskirts of Moscow used by American Embassy staff and ordered the U.S. to cut its diplomatic presence. All the more reason for Mr. Trump to sign.

The bill passed with huge, veto-proof majorities in the House (419-3) and Senate (98-2) in a rare show of bipartisanship. The legislation raps a broad array of Russian entities as punishment for U.S. election interference, military activity in eastern Ukraine, annexation of Crimea, support for Bashar Assad in Syria and global cyberattacks.

The bills also levies sanctions on Iran for terrorism funding and its efforts to destabilize the Middle East. As part of a compromise between the House and Senate, it also incorporates North Korea sanctions, taking aim at Kim Jong Un's nuclear program.

The big change is a compromise over how Congress holds the Trump Administration to account on implementing these penalties. House Democrats wanted the power to introduce legislation to block the President if he removed sanctions—a significant break with traditional House minority rights. Negotiators instead crafted a deal by which any Senator can introduce a resolution of disapproval against the Administration if it lifts sanctions. If that resolution passes the Senate, it is then heard in expedited fashion in the House.

The final bill fixes Senate language that threatened to undermine U.S. oil and gas companies. The bill now counts for sanctions purposes only those global energy projects in which Russia has a 33% or greater stake. This change is vital to U.S. firms that work in deepwater oil fields where host countries require all leaseholders to jointly develop such infrastructure as pipelines. This modest ownership threshold stops Moscow from strategically buying leases to force U.S. companies out of projects.

The White House announced late Friday that Mr. Trump will sign the bill, despite its restraints on executive power. New communications director Anthony Scaramucci had said before the Senate vote that Mr. Trump might veto the bill. It would still become law one way or another—with the President's signature or a veto override. By signing, Mr. Trump will at least share in the credit and send a message to Mr. Putin.

Republicans in Congress deserve credit for holding a GOP President to greater scrutiny than Democrats were ever willing to impose on Barack Obama. The Congressional liberals who are now crowing about this executive check blocked Republicans from oversight over Mr. Obama's Iranian sanctions. They also let Mr. Obama avoid submitting the Iran deal to the Senate as the treaty it was, where it would have needed 67 votes.

We generally support presidential flexibility on sanctions, but Mr. Trump's flirtation with Mr. Putin has brought this bill's limitation on himself. Russia needs to see that there is a political consensus in the U.S. that won't tolerate meddling in U.S. elections.

Who Paid for the 'Trump Dossier'?



POTOMAC WATCH
By Kimberly A. Strassel

It has been almost two weeks since Democrats received the glorious news Senate Judiciary Chairman Chuck Grassley would require Donald Trump Jr. and Paul Manafort to explain their meeting with Russian operators at Trump Tower last year. The left was salivating at the prospect of watching two Trump insiders being grilled about Russian "collusion" under the klieg lights.

Yet Democrats now have meekly and noiselessly retreated, agreeing to let both men speak to the committee in private. Why would they so suddenly be willing to let go of this moment of political opportunity?

Fusion GPS. That's the oppo-research outfit behind the infamous and discredited "Trump dossier," ginned up by a former British spook. Fusion co-founder Glenn Simpson also was supposed to testify at the Grassley hearing, where he might have been asked in public to reveal who hired him to put together the hit job on Mr. Trump, which was based largely on anonymous Russian sources. Turns out Democrats are willing to give up just about anything—including their Manafort moment—to protect Mr. Simpson from having to answer that question.

What if Washington and the media have had the Russia collusion story backward? What if it wasn't the Trump campaign playing footsie with the Vladimir Putin regime, but Democrats? The more we learn about Fusion, the more this seems a possibility.

We know Fusion is a for-hire political outfit, paid to dig up dirt on targets. This column first outed Fusion in 2012, detailing its efforts to tar a Mitt Romney donor. At the time Fusion insisted that the donor was "a legitimate subject of public records research."

Mr. Grassley's call for testimony has uncovered more such stories. Thor Halvorssen, a prominent human-rights activist, has submitted sworn testimony outlining a Fusion attempt to undercut his investigation of Venezuelan corruption. Mr. Halvorssen claims Fusion "devised smear campaigns, prepared dossiers containing false information," and "carefully placed slanderous news items" to malign him and his activity.

William Browder, a banker who has worked to expose Mr. Putin's crimes, testified to the Grassley committee on Thursday that he was the target of a similar campaign, saying that Fusion "spread false information" about him and his efforts. Fusion has admitted it was hired by a law firm representing a Russian company called Prevezon.

Prevezon employed one of the Russian operators who were at Trump Tower last year. The other Russian at that meeting, Rinat Akhmetshin, is a former Soviet counterintelligence officer. He has acknowledged

edged that he makes his career out of opposition research, the same work Fusion does. And that he's often hired by Kremlin-connected Russians to smear opponents.

We know that at the exact time Fusion was working with the Russians, the firm had also hired a former British spy, Christopher Steele, to dig up dirt on Mr. Trump. Mr. Steele compiled his material, according to his memos, based on allegations from unnamed Kremlin insiders and other Russians. Many of the claims sound eerily similar to the sort of "oppo" Mr. Akhmetshin peddled.

We know that Mr. Simpson is tight with Democrats. His current attorney, Joshua Levy, used to work in Congress as counsel to Chuck Schumer. We know from a Grassley letter that Fusion has in the past sheltered its clients' true identities by filtering money through law firms or shell companies.

Democrats don't want you to know—and that ought to be a scandal of its own.

Word is Mr. Simpson has made clear he will appear for a voluntary committee interview only if he isn't specifically asked who hired him to dig dirt on Mr. Trump. Democrats are going to the mat for him over that demand. Those on the Judiciary Committee pointedly didn't sign letters in which Mr. Grassley demanded that Fusion reveal who hired it.

What if it was the Democratic National Committee or Hillary Clinton's campaign? What if that money flowed from a political entity on the left, to a private law firm, to Fusion, to a British spook, and then to Russian sources? What if those Kremlin-tied sources already knew about this dirt-digging, tipped off by Mr. Akhmetshin? What if they specifically made up claims to dupe Mr. Steele, to trick him into writing this dossier?

Fusion GPS, in an email, said that it "did not spread false information about William Browder." The firm said it is cooperating with Congress and that "the president and his allies are desperately trying to smear Fusion GPS because it investigated Donald Trump's ties to Russia."

If the Russian intention was to sow chaos in the American political system, few things could have been more effective than that dossier, which ramped up an FBI investigation and sparked congressional probes and a special counsel, deeply wounding the president. This is all to Mr. Putin's benefit, and the question is whether Russia engineered it.

If Special Counsel Robert Mueller, Democrats and the media really want answers about Russian meddling, this is a far deeper well than the so-far scant case against Mr. Trump. If they refuse to dive into the story, we'll know that the truth about Russia and the election was never what they were after.

LETTERS TO THE EDITOR

Electric Cars Help America Depend Less on Oil

Regarding "Electric Cars Are the Future? Not So Fast" (World News, July 13): Low oil prices are no excuse to lose sight of the potential for electric vehicles to help the U.S. overcome the influence of petrostates, OPEC, oil-funded terror, resource conflicts and the other consequences of America's dependence on an opaque global oil market. This unfree market undermines America's interests, as the actions of states that don't share our strategic priorities can influence the price of a commodity we rely on. Government policies should be enacted to support this national security imperative.

If America is to remain prosperous and secure in the 21st century, we must reduce our oil dependence by ensuring fuel diversity. Electric vehicles running on diverse and domestic fuels like nuclear, natural gas, coal or renewables are our opportunity to break oil's monopoly.

Unless we act, 90% of our transportation network will remain oil-dependent through 2030, and oil will

BOB DEVANEY
Dell Rapids, S.D.

continue to reorder our national security priorities.

GEN. CHARLES F. WALD, USAF (RET.)
McLean, Va.

Gen. Wald is a member of Securing America's Future Energy.

Weight is what wears out roads and bridges. Vehicles of equal weight, whether powered by internal combustion engines (ICEs) or by electric batteries, cause the same wear and tear on roads and bridges. Gas and diesel-fuel taxes are an equitable and easy-to-administer method of obtaining funds to finance road and bridge maintenance. What metric is to be used to obtain funds from the owners of EVs so that they pay their fair share? Owners of ICEs pay gas taxes and are subsidizing the owners of EVs in this matter. How long will the owners of ICEs tolerate this inequity? When will legislators address the fuel-tax issue or, more specifically, the lack of taxes from EVs?

BOB DEVANEY
Dell Rapids, S.D.

Jeffrey Sonnenfeld offers a solid contrarian view on the growing tendency for corporate boards to oust CEOs ("The CEOs Who Didn't Deserve the Boot," op-ed, July 14). But one of his sharpest observations concerns a disturbing trend that receives too little notice. An activist investor, who may represent 4% or less in total company ownership, nevertheless negotiates to replace a third or more of the total board with his own slate. As corporate boards are increasingly expected to take on the characteristics of an elected parliament, this power seems like the opposite of representative democracy.

RALPH WARD
Editor, *Boardroom Insider*
Riverdale, Mich.

I'm not sure there's a better example than Philip J. Purcell, the former chairman of Morgan Stanley (1997-2005) who engineered Dean Witter, Discover & Co.'s acquisition of

Morgan Stanley and made it a dominant banker. Morgan Stanley outperformed the S&P by more than 300% during Mr. Purcell's tenure. But in late 2005 he was ousted because he refused to let Morgan Stanley take huge risk positions, dramatically increase leverage and get involved in the sub-prime mortgage fiasco.

Looking at the market collapse two-plus years later, Mr. Purcell was a sage unappreciated in his time.

ROGER A. KEATS

Morgan Stanley Branch Manager
(1998-2005)

Dripping Springs, Texas

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OPINION

Trump Is Woody Allen Without the Humor



DECLARATIONS
By Peggy Noonan

President Trump's primary problem as a leader isn't that he is impetuous, brash or naive. It's not that he is inexperienced, crude, an outsider. It is that he is weak and sniveling. It is that he undermines himself almost daily by ignoring traditional norms and forms of American masculinity.

He's not strong and self-controlled, not cool and tough, not low-key and determined; he's whiny, weepy and self-pitying. He throws himself, sobbing, on the body politic. He's a drama queen.

Half his tweets show utter weakness. They are plaintive, shrill little cries, usually just after dawn.

It was once said, sarcastically, of George H.W. Bush that he reminded everyone of her first husband. Trump must remind people of their first wife. Actually his wife, Melania, is tougher than he is with her stoicism and grace, her self-discipline and desire to show the world respect by presenting herself with dignity.

Half the president's tweets show utter weakness. They are plaintive, shrill little cries, usually just after dawn. "It's very sad that Republicans, even some that were carried over the line on my back, do very little to protect their president." The brutes.

Actually they've been laboring to be loyal to him since Inauguration Day. "The Republicans never discuss how good their health care bill

is." True, but neither does Mr. Trump, who seems unsure of its content.

In just the past two weeks, of the press, he complained: "Every story/opinion, even if it should be positive, is bad!" Journalists produce "highly slanted & even fraudulent reporting." They are "DISTORTING DEMOCRACY." They "fabricate the facts."

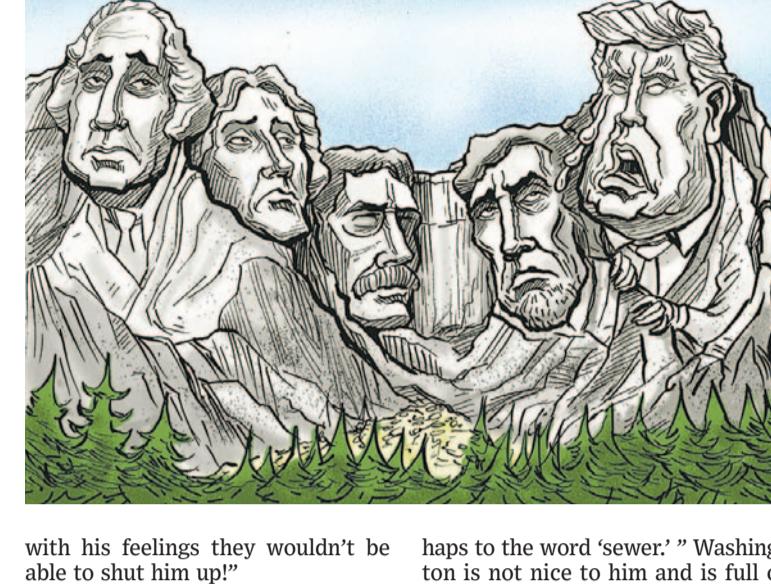
It's all whimpering accusation and finger-pointing: *Nobody's nice to me. Why don't they appreciate me?*

His public brutalizing of Attorney General Jeff Sessions isn't strong, cool and deadly; it's limp, lame and blubbery. "Sessions has taken a VERY weak position on Hillary Clinton crimes," he tweeted. Talk about projection.

He told the Journal's Michael C. Bender he is disappointed in Mr. Sessions and doesn't feel any particular loyalty toward him. "He was a senator, he looks at 40,000 people and he probably says, 'What do I have to lose?' And he endorsed me. So it's not like a great loyal thing about the endorsement."

Actually, Mr. Sessions supported him early and put his personal credibility on the line. In Politico, John J. Pitney Jr. of Claremont McKenna College writes: "Loyalty is about strength. It is about sticking with a person, a cause, an idea or a country even when it is costly, difficult or unpopular." A strong man does that. A weak one would unleash his resentments and derive sadistic pleasure from their unleashing.

The way American men used to like seeing themselves, the template they most admired, was the strong silent type celebrated in classic mid-20th century films—Gary Cooper, Henry Fonda, John Wayne. In time the style shifted, and we wound up with the nervous and chatty. More than a decade ago the producer and writer David Chase had his Tony Soprano mourn the disappearance of the old style: "What they didn't know is once they got Gary Cooper in touch



CHAD CROWE

with his feelings they wouldn't be able to shut him up!"

The new style was more like that of Woody Allen. His characters couldn't stop talking about their emotions, their resentments and needs. They were self-justifying as they acted out their cowardice and anger.

But he was a comic. It was funny. He wasn't putting it out as a new template for maleness. Donald Trump now is like an unfunny Woody Allen.

Who needs a template for how to be a man? A lot of boys and young men, who've grown up in a culture confused about what men are and do. Who teaches them the real dignity and meaning of being a man? Mostly good fathers and teachers.

Luckily Mr. Trump last week addressed the Boy Scout Jamboree in West Virginia, where he represented to them masculinity and the moral life. "Who the hell wants to speak about politics when I'm in front of the Boy Scouts, right?"

But he overcame his natural reticence. We should change how we refer to Washington, he said: "We ought to change it from the word 'swamp' to perhaps 'cesspool' or per-

haps to the word 'sewer.' Washington is not nice to him and is full of bad people.

"As the Scout Law says, 'A Scout is trustworthy, loyal—we could use some more loyalty, I will tell you that.' He then told them the apparently tragic story of a man who was once successful. "And in the end he failed, and he failed badly."

Why should he inspire them, show personal height, weight and dignity, support America's frail institutions? He has needs and wants—he is angry—which supersedes pesky, long-term objectives. Why put the amorphous hopes of the audience ahead of his own, more urgent needs?

His inability—not his refusal, but his inability—to embrace the public and rhetorical role of the presidency consistently and constructively is weak.

"It's so easy to act presidential but that's not gonna get it done," Mr. Trump said the other night at a rally in Youngstown, Ohio.

That is the opposite of the truth. The truth, six months in, is that he is not presidential and is not getting it done. His mad, blubbery petulance isn't working for him but against

him. If he were presidential he'd be getting it done—building momentum, gaining support. He'd be over 50%, not under 40%. He'd have health care, and more.

We close with the observation that it's all nonstop drama and queen-for-a-day inside this hothouse of a White House. Staffers speak in their common yet somehow colorful language of their wants, their complaints. The new communications chief, Anthony Scaramucci, who in his debut came across as affable and in control of himself, went on CNN Thursday to show he'll fit right in. He's surrounded by "nefarious, backstabbing" leakers. "The fish stinks from the head down. But I can tell you two fish that don't stink, and that's me and the president."

He's strong and well connected: "I've got buddies of mine in the FBI"; "Sean Hannity is one of my closest friends." He is constantly with the president; at dinner, on the phone, in the sauna snapping towels. I made that up. "The president and I would like to tell everybody we have a very, very good idea of who the leakers are." Chief of Staff Reince Priebus better watch it.

There are people in the White House who "think it is their job to save America from this president, okay?" So they leak. But we know who they are.

He seemed to think this diarrheic diatribe was professional, the kind of thing the big boys do with their media bros. But he came across as just another drama queen for this warring, riven, incontinent White House. As Mr. Scaramucci spoke, the historian Joshua Zeitz observed wonderfully, on Twitter: "It's Team of Rivals but for morons."

It is. And it stinks from the top.

Meanwhile the whole world is watching, a world that contains predators. How could they not be seeing this weakness, confusion and chaos and thinking it's a good time to cause some trouble?

With Sharif's Ouster, Pakistan Takes a Step Backward

By Sadanand Dhume

As Pakistan approaches the 70th anniversary of its founding next month, it just presented the world with an oddly familiar sight: a civilian prime minister dismissed before the end of his term.

On Friday, the Supreme Court disqualified Prime Minister Nawaz Sharif from his position for not meeting the constitutional requirement of being *sadiq* and *ameen*, Islamic terms that roughly translate as "truthful" and "trustworthy." Mr. Sharif has announced that his younger brother, Punjab province Chief Minister Shehbaz Sharif, will be his successor.

For Nawaz Sharif's many foes, including those in the all-powerful army and its historical ally, the judiciary, the dismissal represents the triumph of rule of law over corruption in public life.

Last year, the so-called Panama papers—leaked documents that focused on a shadowy law firm that provides financial services to some of the world's ultrawealthy—revealed that three of Mr. Sharif's children owned offshore assets that the prime minister hadn't disclosed on a written statement. These included apartments in London's upmarket Mayfair area.

Mr. Sharif hasn't been convicted of corruption. The immediate grounds for his dismissal lie in not reporting income he allegedly received from a family firm in the United Arab Emirates. But in popular perception his dismissal is linked to the alleged corruption suggested by the Panama revelations. Mr. Sharif and his family strongly deny all such charges.

Despite being cloaked in the rule of law, Mr. Sharif's disqualification marks a setback for Pakistan's shaky democracy. A tweet by the country's former ambassador to the U.S., Hussain Haqqani, summed up the problem: "Pakistan stays faithful to its 70-

year tradition: No PM ever removed by voters; only by judges, generals, bureaucrats or assassins."

The Supreme Court's order represents an aspect of Pakistan that sets it apart from most of its South

Unlike most countries in South Asia, the Islamic republic won't allow democracy to take root.

Asian peers. Pakistani elites appear unwilling to put up with flawed leaders as the cost of democracy. Bangladesh, India, Nepal and Sri Lanka have also had their share of less-than-perfect leaders. Unlike Pakistan, they have all allowed voters to punish poor rulers by turfing them out, and to reward relatively good ones with re-election.

The exit of Mr. Sharif, elected (and dismissed) three times since 1990, also signals a setback for the long-term U.S. goal of encouraging civilian supremacy over the military. No other Pakistani politician has the heft to claw back power over national security and foreign policy from unelected generals who traditionally call the shots.

As long as the army dominates Pakistan, claiming a large chunk of the national budget and ensuring lavish lifestyles for its officers, the country will remain unable to make the investments in health and education it needs to catch up with its peers in Asia. Without civilian oversight, the army's deeply ingrained hostility toward India, suspicion of the U.S., fealty toward China and support for terrorist proxies in Afghanistan and India are unlikely to end.

Mr. Sharif's well-publicized desire to normalize relations with India placed him at odds with the army. Those celebrating his exit most gleefully

fully include the former military dictator Pervez Musharraf (1999–2008) and the cricketer-turned-politician Imran Khan, who is widely regarded as a potential prime minister more palatable to the generals in Rawalpindi. Many analysts expect Mr. Khan to be the primary beneficiary of the Sharif family's troubles in elections due next year.

Historical patterns notwithstanding, this was not how things were meant to turn out in Pakistan. Mr. Sharif's election four years ago marked a hopeful turn for the country's democracy. Thanks in large part to a strong showing in Punjab, the country's most populous province, the Sharifs' right-of-center Pakistan Muslim League comfortably ousted the left-of-center Pakistan Peoples

Party, which is closely associated with the family of former prime minister Benazir Bhutto.

With the business-friendly Mr. Sharif in power for the third time, and his brother in charge of Punjab, it looked like the civilian government in Islamabad stood a reasonable chance of wresting authority from the generals in nearby Rawalpindi.

Four years later those hopes lie in tatters. Though the army hasn't formally seized power, its fingerprints are all over Mr. Sharif's disqualification. Of the six-member team set up after the Panama scandal broke, two investigators were army officers nominated by military intelligence agencies. Both the speed of the inquiry and the judiciary's willingness to evict an elected prime

minister on what amounts to a technicality suggest at least a green light from the army.

Even if the army didn't orchestrate Mr. Sharif's ouster, it will be the major beneficiary. The prime minister's departure sends a clear signal to politicians that they wrestle with the men in khaki at their own peril. With no domestic pressure on the generals to reform, Pakistan will remain what the Singaporean scholar Tan Tai Yong calls a garrison state dominated by the army. For the nuclear-armed Islamic republic's 190 million people, dreams of a stable democracy will have to wait.

Mr. Dhume is a resident fellow at the American Enterprise Institute and a columnist for WSJ.com.

Al Gore Misses a Few Inconvenient Facts

By Bjorn Lomborg

They say the sequel is always worse than the original, but Al Gore's first film set the bar pretty low. Eleven years ago, "An Inconvenient Truth" hyped global warming by relying more on scare tactics than science. This weekend Mr. Gore is back with "An Inconvenient Sequel: Truth to Power."

The former vice president has a poor record. Over the past 11 years Mr. Gore has suggested that global warming had caused an increase in tornadoes, that Mount Kilimanjaro's glacier would disappear by 2016, and that the Arctic summers could be ice-free as soon as 2014. These predictions and claims all proved wrong.

"An Inconvenient Truth" promoted the frightening narrative that higher temperatures mean more extreme weather, especially hurricanes. The movie poster showed a hurricane emerging from a smokestack. Mr. Gore appears to double down on this by declaring, "Storms get stronger and more destructive. Watch the water splash off the city. This is global warming."

This is misleading. The Intergovernmental Panel on Climate Change—in its Fifth Assessment Report, published in 2013—found "low confidence" of increased hurricane activity to date because of global warming. Storms are causing more damage, but primarily because more wealthy people choose to live on the coast, not because of rising temperatures.

Even if tropical storms strengthen by 2100, their relative cost likely will decrease. In a 2012 article for the journal *Nature Climate Change*, researchers showed that hurricane damage now costs 0.04% of global gross domestic product. If climate change makes hurricanes stronger, absolute costs will double by 2100. But the world will also be much wealthier and less vulnerable, so the total damage is estimated at only 0.02% of global GDP.

In the new film, Mr. Gore addresses "the most criticized scene" of his previous documentary, which suggested that "the combination of sea-level rise and storm surge would flood the 9/11 Memorial site." Then viewers are shown footage of Manhattan taking on water in 2012 after superstorm Sandy, apparently vindicating Mr. Gore's claims. Never mind that what he actually predicted was flooding caused by melting ice in Greenland.

Eleven years after his first climate-change film, he's still trying to scare you into saving the world.

More important is that Mr. Gore's prescriptions—for New York and the globe—won't work. He claims the answer to warming lies in agreements to cut carbon that would cost trillions of dollars. That wouldn't have stopped Sandy. What New York really needs is better infrastructure: sea walls, storm doors for the subway, porous pavement. These fixes could cost around \$100 million a year, a bargain compared with the price of international climate treaties.

Mr. Gore helped negotiate the first major global agreement on climate, the Kyoto Protocol. It did nothing to reduce emissions (and therefore to rein in temperatures), according to a March 2017 article in the *Journal of Environmental Economics and Management*. Undaunted, Mr. Gore still endorses the same solution, and the new documentary depicts him roaming the halls of the Paris climate conference.

By 2030 the Paris climate accord will cost the world up to \$2 trillion a year, mostly in lost economic growth, according to the best peer-reviewed energy-economic models. It will remain that expensive for the rest of

the century. This would make it the most expensive treaty in history.

And for what? Just ahead of the Paris conference, the United Nations Framework Convention on Climate Change estimated that if every country fulfills every promised Paris carbon cut between 2016 and 2030, carbon-dioxide emissions will drop by only 60 gigatons over that time frame. To keep the temperature rise below 2 degrees Celsius, the world must reduce such emissions nearly 6,000 gigatons over this century, according to the IPCC. A "successful" Paris agreement wouldn't even come close to solving the problem.

Mr. Gore argues that the Paris approach pushes nations and businesses toward green energy. Perhaps, but the global economy is far from ready to replace fossil fuels with solar and wind. The International Energy Agency, in its 2016 World Energy Outlook, found that 0.6% of the world's energy is supplied by solar and wind. Even with the Paris accord fully implemented, that number would rise only to 3% in a quarter-century.

In part because of activists like Mr. Gore, the world remains focused on subsidizing inefficient, unreliable technology, rather than investing in research to push down the price of green energy.

Real progress in Paris could be found on the sidelines, where philanthropist Bill Gates and others, including political leaders, agreed to increase spending on research and development. This is an important start, but much more funding is needed.

Mr. Gore declares in his new film that "it is right to save humanity." No argument here. But is using scare tactics really the best way to go about it?

Mr. Lomborg is the president of the Copenhagen Consensus Center and the author of "The Skeptical Environmentalist" and "Cool It."

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Yen vs. Dollar 110.8670 ▼ 0.35% Hang Seng 26979.39 ▼ 0.56% Gold 1268.40 ▲ 0.67% WTI crude 49.71 ▲ 1.37% 10-Year JGB yield 0.078% 10-Year Treasury yield 2.291%



The average price that U.S. consumers paid for a dozen eggs last month was \$1.33, down 48% from two years ago.

Cheap Eggs Flood U.S. Stores

Poultry farmers and suppliers are struggling to win back customers after an avian-flu outbreak

BY JESSE NEWMAN
AND JACOB BUNGE

A glut of eggs is putting pressure on suppliers and farmers who are struggling to win back business two years after the worst bout of avian influenza in U.S. history devastated egg-laying flocks.

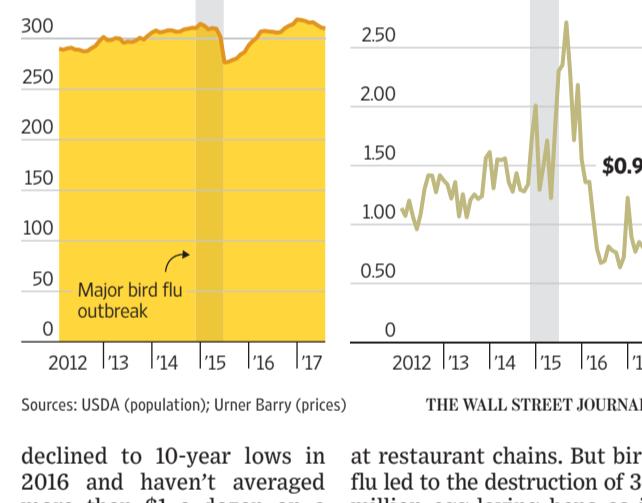
Poultry farms in the U.S. have fully restocked and rebuilt egg supplies since the outbreak but demand hasn't kept up. Some buyers who found alternatives during the outbreak haven't returned. Egg prices are near a decade low, a situation that cheers shoppers in grocery aisles but is spurring losses for industry giants and farmers alike.

"We do not expect to see any meaningful improvement until there is a better balance of supply and demand," said Dolph Baker, the chief executive of **Cal-Maine Foods** Inc., the largest U.S. egg supplier by sales. The company on Monday blamed the egg glut for its first annual loss in more than a decade, adding that the average price of eggs sold to its customers dropped 42% over the past year.

Large shell eggs, the type sold at the grocery store, cost 98 cents a dozen at wholesale in the U.S. Midwest, a 62% drop over the past two years, according to market-research firm Urner Barry. Wholesale prices reported by the firm

Egg Drop

As egg-laying hen populations have rebounded from an historic avian-influenza outbreak, egg prices have plunged.



Sources: USDA (population); Urner Barry (prices)

declined to 10-year lows in 2016 and haven't averaged more than \$1 a dozen on a weekly basis all this year. The average price U.S. consumers paid for a dozen eggs last month was \$1.33, down 48% from two years ago, according to federal data.

"This is historic," said Brian Moscogiuri, an analyst who tracks the egg market for Urner Barry.

Earlier in the decade, the egg market enjoyed a strong run thanks to consumers' growing appetite for protein and all-day breakfast offerings

late last year.

Demand for U.S. eggs hasn't rebounded nearly as quickly.

U.S. egg exports have picked up this year, but they remain below levels seen before the onset of bird flu as buyers such as Mexico and Canada import eggs from alternative suppliers or produce more themselves. According to the USDA, the U.S. exported the equivalent of 170 million dozen eggs last year, or 55% less than the 375 million dozen shipped overseas in 2014.

Some U.S. food makers like bakeries and other companies that use egg products also have been slow to embrace eggs again. High prices compelled some to reformulate their recipes, substituting ingredients such as soy or whey protein or simply making do with fewer eggs.

The resulting egg shortfalls and record high prices drove producers to quickly refill their barns, bringing the nation's egg-laying hen population to a record high of 319 million in December 2016, according to the U.S. Department of Agriculture. The U.S. flock overall has shrunk since then, but egg production in June still totaled about 7.5 billion, close to the monthly record of eight billion reached

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Barry Rosenstein, the founder of activist investor Jana Partners.

DEAL

Continued from the prior page
will be poised for growth and innovation.

"I've spent a decade re-jigging the company's portfolio for the future," he said. "I will tell you that I see nothing sacred in the portfolio, ever."

Both Dow and DuPont say everything is on the table during the breakup review, and people familiar with the matter say there are likely to be changes to the original plan.

Without naming anyone, Mr. Liveris said "noisy" investors who don't understand the chemicals business are trying to push him to create value in a spreadsheet.

He said he wouldn't judge the review until it is finished but added that any changes must take into account how employees would be affected.

The business at the nexus of the dispute is Dow Corning, a pioneer in silicones used in

The original breakup plan can be revised if 11 members of the board agree.

products from laundry detergent to building insulation. Dow Chemical took full ownership of the longtime joint venture with Corning Inc. in a deal announced the same day as the DowDuPont merger.

The activist investors want Dow Corning's assets to go to the specialty-products company carved out of DowDuPont, not the materials firm.

The activists view the new Dow as a commodity company and think more value would be created if silicones were grouped with other high-margin businesses.

Dow Chemical executives have emphasized that Dow Corning fits "hand-in-glove" with traditional chemicals. Executives say having both silicones and commodity chemicals together has helped grow sales. Dow Corning's earnings before interest, taxes, depreciation and amortization have doubled since the takeover after years of stagnant growth.

Executives now expect silicones to generate \$2 billion in additional Ebitda, double the

original goal.

On top of that, researchers are experimenting with mixing silicone with chemicals Dow has long manufactured, hoping to discover new materials.

"From a customer perspective, we're in front of more people in more geographies, and they can come to us with a problem and we can find the solution," Chief Financial Officer Howard Ungerleider said.

The original breakup plan can be revised if 11 members of the DowDuPont board agree. The 16-member board is composed of eight directors from each company.

Days after the review was announced in May, Third Point released a proposal it said would add \$20 billion in market value when compared with the original plan. In its quarterly letter to investors, Glenview said it largely backed Third Point's proposal and raised the prospect of calling a special meeting to replace directors. Trian and Jana have both privately pushed changes, according to people familiar with the matter.

In one of its points in the proposal, Third Point estimated that Dow Corning would be worth \$20.4 billion based on current valuations of specialty-chemical firms, compared with \$11.9 billion as part of a larger materials company.

Other activists say the materials company should focus on commodity chemicals with low costs and little research, and silicones would complicate that. Analysts and other investors also have said the benefits to be gained by keeping Dow Corning within Dow Chemical could be replicated if Dow Corning was placed in the specialty-products company.

Third Point is among the biggest holders in Dow Chemical. Even after selling some of its stake, it still owns \$1 billion. It, Glenview and Jana together hold 2.5%. Trian owns 1.1% of DuPont.

The activists say DuPont and its chief executive, Edward Breen, appear more receptive to their ideas than Mr. Liveris is. Mr. Breen told analysts last week the review aimed to "ensure maximum shareholder value is created" and the work was being done as fast as it could be.

Mr. Liveris says he is aligned with Mr. Breen and in close contact, even briefly taking a call from him during an interview for this article.

Continued from the prior page
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BUSINESS & FINANCE

Shale Gets Investor Scrutiny

BY LYNN COOK
AND ALISON SIDER

Some American oil producers may be pumping the brakes on new drilling, but as the leading shale players get set to report earnings this week, investors will be watching closely to see how much the industry is really slowing its ambitious plans for growth.

Investors and analysts are eager to hear management teams at Pioneer Natural Resources Co., EOG Resources Inc. and other shale companies detail their plans for the second half of 2017.

Anadarko Petroleum Corp. and ConocoPhillips already reported and could serve as bellwethers for this earnings season. They lost more than expected in the second quarter as crude languished under \$50 a barrel for most of the period, prompting them to announce plans to rein in spending. Together, they shaved a combined \$500 million out of their \$9.2 billion budgets.

Investors, initially skeptical, came around to the idea of belt tightening—when they learned where it was happening. Anadarko's stock dropped 3% in overnight trade last Monday after its cuts were announced. But the stock rallied back Tuesday morning when Chief Executive Al Walker and other executives explained that the preponderance of cuts would come from international and deep-water divisions, not U.S. shale operations.



Machinery used to fracture shale formations at a Royal Dutch Shell site near Mentone, Texas.

In fact, Anadarko is in the process of restarting 3,000 wells in Colorado shale country that shut in the wake of a deadly home explosion in the spring.

"We're going to continue to watch the market, see what oil prices do, try to pace our spending this year and next year," Mr. Walker said.

ConocoPhillips said it is now on track to end the year with less than \$20 billion in debt, thanks to extensive oil-and-gas field sales in Canada and the natural-gas-rich Barnett Shale near Fort Worth, Texas. The company is dialing down spending for the rest of this year by \$200 million, but continues to ramp up in oily areas like the Eagle Ford shale of South Texas. Conoco shares rose 6% last week.

While enthusiasm for shale hasn't waned, investors are more wary of companies that want to increase production at any cost, said Dan Pickering, head of the asset-management arm of investment bank Tudor, Pickering Holt & Co.

"The market is signaling spending less is OK," he said. "The market is very afraid of U.S. oversupply."

U.S. oil drillers have redeployed more than 240 rigs since the start of the year, but those increases are slowing substantially. The second-quarter rig count was only 23% higher than the first quarter, and so far in July it is up just 5% over the second quarter, according to a report from RigData.

Even if U.S. energy outfits take a break from drilling, oil

production is likely to keep rising. That is because many producers in the Permian Basin of West Texas and New Mexico have hedging contracts on 65% of their production for the rest of this year at \$50 a barrel, ensuring they will get that price even if crude trades lower, according to a new analysis from IHS Markit Ltd.

Also, many wells around Texas have been drilled but not yet fracked, the so-called completion stage that unlocks fuel from the ground. According to the latest federal estimate, the number of drilled-but-uncompleted wells is now over 6,000—a backlog that could take the next 18 months to work off as wells are hooked up to pipelines, analyst James West of Evercore ISI said.

Toshiba, Western Digital Set Partial Truce

BY PETER LANDERS

Toshiba Corp. and Western Digital Corp. reached a partial truce in their dispute over their memory-chip joint venture in Japan, with Toshiba agreeing to provide notice before it concludes any deal to sell its interest in the venture.

Toshiba has said it plans to sell its memory-chip unit, including its joint-venture interests, to raise funds after its U.S. nuclear unit, Westinghouse Electric Co., filed for bankruptcy protection in March. Western Digital says it has the right to veto any sale under its contracts with Toshiba, while Toshiba says no such right exists. Western Dig-

ital filed suit in California state court to block sale plans from proceeding.

In Friday's agreement, entered as an order by the Superior Court of California in San Francisco, both sides retained the right to make their arguments at an international arbitration proceeding brought by Western Digital. The two sides agreed that Toshiba would notify Western Digital two weeks before any closing of a deal to sell Toshiba's chip unit. They also agreed that Toshiba would publicly announce within 24 hours the signing of any deal that contemplates a closing.

Toshiba said on June 21 that it had selected a consor-

tium led by a Japanese government-backed fund as its preferred bidder for the chip unit, and it said it aimed to seal a deal by June 28, but the talks bogged down and no deal has been announced.

A Toshiba senior executive vice president, Yasuo Naruke, said the partial truce with Western Digital would allow Toshiba to move ahead with sale talks. "Closing a transaction of this magnitude would require many months—well beyond the limited time frame specified in the ruling," he said.

He said Toshiba would make its arguments in its dispute with Western Digital in the International Chamber of

Commerce arbitration process. An arbitration tribunal is likely to be formed within the next month or so, he said.

In a statement, Western Digital said the agreement protects its joint-venture interests and what it sees as its consent rights over any sale of Toshiba's interests in the joint venture.

"Our goal has always been to protect and preserve the health and future of our successful joint ventures. Our ongoing discussions with Toshiba and its stakeholders have been constructive, and we will continue to work to seek a solution that is in the best interests of all parties," the Western Digital statement said.

DEBT

Continued from the prior page
closer to exiting bankruptcy this month, lenders owed a majority of its debts will take control of the company.

The retailers' woes broadly show a downside of the private-equity investing model. Financiers sometimes load companies with debt to improve the investors' returns. But if business conditions worsen, it can become difficult for the companies to make interest payments and pay off the debt.

"A large number of private-equity takeovers of public retailers occurred in the 2011 to 2013 time frame, when money was cheap and interest rates were low," said restructuring attorney Walter Curchack of Loebs LLP. "Retail is a cyclical business and there's little room for error, which puts an overleveraged retailer particularly at high risk."

Since 2010, more than \$90

billion in leveraged loans and high-yield bonds were raised for private-equity-owned retail borrowers to make dividend payouts to their investors, according to LCD, a part of S&P Global Market Intelligence.

That is on top of the leverage often assumed in the buyout itself.

Gymboree's June bankruptcy filing occurred days after it couldn't make a semiannual interest payment on debt dating back to Bain Capital's \$1.8 billion 2010 buyout. Public filings show Bain also received fees from Gymboree in the years after the buyout.

Earlier this month, Gymboree's unsecured creditors, including vendors and landlords, owed an estimated \$220 million, said in court papers they have been investigating potential claims against Bain and other insiders. The creditors, which are slated to receive nothing, point to dividends and fees received by Bain and its affiliates. Representatives for Gymboree and Bain declined to comment.

True Religion filed for chapter 11 protection in early July. Shortly after, a junior debt lender, Ares Management LP, raised concerns about the proposed restructuring, which will leave the creditor with a slim recovery while private-equity backer TowerBrook Capital Partners LP is slated to receive the same or higher return as Ares. Typically in bankruptcy, lenders expect to be paid before equity owners.

TowerBrook Capital took

the denim retailer private in a \$838 million buyout four years ago. During the first-day hearing, an attorney for Ares said the firm didn't support the plan and an investigation may be needed to better understand TowerBrook's role. A TowerBrook spokeswoman declined to comment, while a

True Religion representative didn't respond to requests for comment.

In 2011, a trustee recovering cash for creditors of catalog retailer Orchard Brands Inc. sued Golden Gate, alleging the firm profited from a roughly \$310 million payout in 2007, loading the company with debt and putting it on "an inevitable and foreseeable path to bankruptcy," according to court papers. Golden Gate and the creditors later reached a settlement, people involved in the case say.

In Payless's case, creditors argued that hundreds of millions of dollars in debt put on the retailer due to Golden Gate and Blum ultimately led to the retailer's financial collapse. Since the 2012 buyout, Payless took on more than \$700 million in debt to support the leveraged buyout, dividend re-

payments related to a so-called advisory agreement, court papers show.

During that time, Payless was also grappling with issues such as dwindling mall foot traffic and consumers shifting to spending online. Since the bankruptcy filing, hundreds of Payless stores have been closed.

For Payless' creditors, the tactic of raising their voice in court paid off, to an extent. Following heated exchanges in filings and in the courtroom, as well as private negotiations, the private-equity backers and lenders have agreed to give more than \$20 million to the company, which will be used toward beefing up the creditors' recoveries. Meanwhile, the creditors have agreed not to bring any legal claims against the backers following the bankruptcy filing.

Paying the Boss

BUSINESS NEWS

Studio Bets Big to Compete in Hollywood

BY BEN FRITZ

Hollywood's newest studio doesn't operate out of a majestic multi-acre lot or a sleek office tower but an unmarked former art gallery whose lobby is decorated with thousands of VHS tapes arranged in a giant "A."

Megan Ellison's Annapurna Pictures has a distinct vibe that isn't imposing like Twentieth Century Fox or Universal Pictures, nor high-tech like Netflix Inc. or Amazon.com Inc. Like its social-media-savvy millennial founder, Annapurna projects an image that is retro, artistic and bespoke, even as it is investing hundreds of millions of dollars to compete directly against those giant companies and others that dominate Hollywood.

Personally wealthy thanks to her father, billionaire Oracle Corp. co-founder Larry Ellison, the 31-year-old Ms. Ellison has produced and financed several Oscar-nominated pictures in the past five years, including mid-budget adult dramas "Zero Dark Thirty," "Her" and "Foxcatcher."

Until now, though, An-



Megan Ellison has tripled Annapurna Pictures staff to nearly 120.

annapurna has been a small company whose movies are released by other studios, such as Sony Pictures Entertainment and Viacom Inc.'s Paramount Pictures.

Last year, Ms. Ellison decided she wanted more control over how her movies are released and full credit, as well

as full profits, when they succeed, according to people familiar with her thinking. She tripled Annapurna's staff to nearly 120 so it could release and market its own movies, and produce television shows and videogames. The release this past weekend of "Detroit," a historical drama from

"Zero Dark Thirty" director Kathryn Bigelow, marked the first time Annapurna has distributed and marketed a film itself.

Annapurna's expansion comes as the original, mid-budget movies Ms. Ellison favors are struggling for attention against major studios'

superheroes and reboots. At the same time, deep-pocketed Amazon and Netflix have aggressively moved onto Annapurna's turf, raising prices for the hottest indie movie ideas and increasing competition for consumers.

"The fact that Megan is building an independent outfit and taking the risks she is taking puts her in a pretty singular space," said Dede Gardner, a partner in Brad Pitt's production company, Plan B, that has signed a deal to work on several projects with Annapurna.

Ms. Ellison, who never gives interviews, declined to comment through a spokeswoman.

Privately held Annapurna doesn't share financial results, but it has had a mixed record at the box office. Along with such hits as "Sausage Party" and "American Hustle" have been flops including "Her" and "The Master."

Ms. Ellison has been frustrated working with other studios that controlled when her movies were released and how they were advertised, leading her to build those capabilities in-house, said the people close to her.

With "Detroit," Annapurna is using a particularly risky movie to make that leap, and not only because so few adult dramas have succeeded at the box office recently. The \$35 million picture about the killing of three African-Americans by police during riots in 1967 is opening near the end of a summer packed with big budget "event" films, known in the industry as "tentpoles." After playing in 20 theaters this past weekend, it will be released nationwide Friday against an adaptation of the popular Stephen King book "The Dark Tower."

Annapurna didn't initially intend to release "Detroit" itself. After financing the movie, the company late last year offered it to other Hollywood studios, but was unable to strike a deal.

Early reviews for "Detroit" have been positive.

"This is the kind of movie Hollywood used to make on a regular basis, but the industry [now] relies on mega-megatentpoles that sell in China," said "Detroit" writer and producer Mark Boal. "Megan has a different business model."

Tesla Rolls Out New Model 3 Sedan

BY TIM HIGGINS

FREMONT, Calif.—Tesla Inc. Chief Executive Elon Musk on Friday disclosed new pricing tiers, battery range and other details of the all-electric Model 3 sedan that he hopes will help transform the Silicon Valley niche-car maker into a more mass-market company.

The four-door sedan will start at \$35,000, as promised, but will also be offered in a \$44,000 version that has a range of up to 310 miles between charges, 90 miles more than the base model and higher than the all-electric Chevrolet Bolt's 238-mile range. The prices exclude any

federal tax credits.

Tesla has received more than 500,000 reservations for the Model 3, Mr. Musk told reporters at the auto maker's factory in Fremont.

He reiterated that he believes the company can build 10,000 vehicles a week, or 500,000 a year, by the end of next year and cautioned that the next few months could be bumpy as the car maker ramps up production. Production of the Model 3 began earlier this month.

"It's an amazing car, but we're going to go through at least six months of manufacturing hell," Mr. Musk said.

He stressed that any trouble with getting parts from

suppliers could delay his plans. Tesla has a history of missing production goals.

Later in the evening, during a live-streamed event outside the Fremont factory, Mr. Musk showcased the first deliveries of the sedan to employee customers, who will help identify any glitches as they drive the automobile. Deliveries of the first vehicles to nonemployee buyers may begin in September or October, according to Tesla.

Tesla revealed that the base Model 3 has a 220-mile range and can accelerate from zero to 60 miles an hour in 5.6 seconds, according to Tesla. The more expensive version can reach 60 mph in 5.1 seconds.

For an additional \$5,000, customers can add premium features including a nicer interior, a glass roof and a more powerful speaker system.

Excitement for the car and for Mr. Musk's vision of personal transportation has helped Tesla shares soar more than 50% this year, lifting its market value past that of Ford Motor Co., and Friday is "key to maintaining hype," Colin Langan, an analyst for UBS, told investors this week in a note.

"Expectations are high; therefore positive media reaction to the production vehicle is important," he said.

But Mr. Musk must walk a fine line in marketing the



A first production unit of Tesla's Model 3 in Fremont, Calif.

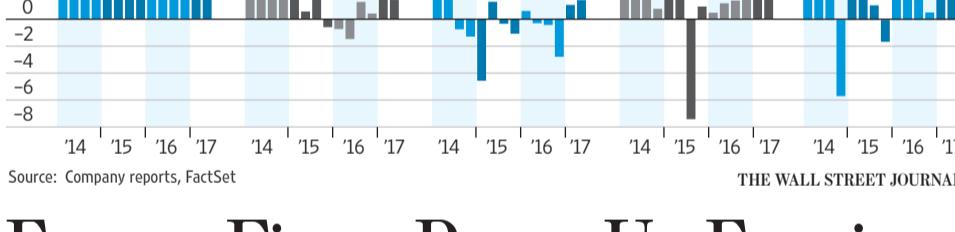
was softening.

The Model 3's arrival represents a potential inflection point for the automotive industry. Car makers long have talked about electrification but haven't captured the popular attention of customers as Tesla has in 14 years.

Bouncing Back

Big energy companies earnings are up after a rough couple of years.

Net income



Source: Company reports, FactSet

Energy Firms Pump Up Earnings

BY BRADLEY OLSON

The largest U.S. energy companies reported robust earnings on Friday, continuing a quarter in which the world's big oil firms have posted some of their strongest gains since a pronounced price crash began in 2014.

Exxon Mobil Corp. nearly doubled its second-quarter profit compared with a year ago, to \$3.35 billion, and **Chevron** Corp. jacked up its bottom line to \$1.45 billion.

The gains came even as oil prices fell again in the quarter, dipping below \$50 a barrel, and questions about future demand continue to weigh on producers, underscoring the transition underway in the industry to curb ambitions, cut costs and focus on smaller-scale opportunities.

Friday's tallies echoed results at **Royal Dutch Shell** PLC, Norway's **Statoil** ASA and France's **Total** SA. Collectively, the five energy companies this year are off to their best start

since 2014, generating excess cash and profits that outstrip any two consecutive quarters in the past two years.

They generated more than \$30 billion in cash and managed to avoid sliding deeper into debt, an increasingly important barometer of an oil producer's ability to survive the crisis.

In addition to cutting costs, many energy companies have reoriented their businesses toward projects that can be completed quickly and produce profits within a few years rather than after more than a decade of upfront, billion-dollar spending.

While the sector's improved performance doesn't match precrash levels, it does back up executives who have told investors in the downturn that the largest Western producers can thrive in a lower-price era.

"The companies are at different stages of learning how to deal with this low-price environment," said Brian Youngberg, an energy analyst at Ed-

ward Jones. "They will need to remain disciplined with their spending or investors will shun them."

Oil prices have risen recently to two-month highs on momentum furthered by recent inventory declines. Market observers have long said a sustained reduction in the amount of oil being stored would point to a partial price recovery as it would indicate greater demand. U.S. prices this week settled above the \$49 mark for the first time since May 30.

The push to a "short cycle" strategy has helped companies such as Exxon, Chevron and Shell prepare for a world in which prices don't return to \$100 a barrel for many years, if ever.

Shell Chief Executive Ben van Beurden said Thursday that the company had adjusted to a climate in which prices could remain "lower forever" due to the potential for declining demand.

While Exxon and Chevron don't share the view that falling oil demand is a threat to their business before 2040, the companies have nonetheless pivoted toward investments that pay off quickly, especially in the U.S.

Through 2020, the U.S. units of big oil companies are expected to grow by about 7% a year, adding about 800,000 barrels a day of oil and gas production, largely from fracking operations in West Texas and deep-water drilling in the Gulf of Mexico, according to Tudor Pickering Holt & Co.

—Ezequiel Minaya

contributed to this article.



An Exxon oil-refining and storage facility in the U.K. The company nearly doubled its second-quarter profit to \$3.35 billion.

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JUNE 2017

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A pan-Asian core-plus private equity real estate fund managed by SC Capital Partners Pte. Ltd., a 100% employee-owned sponsor

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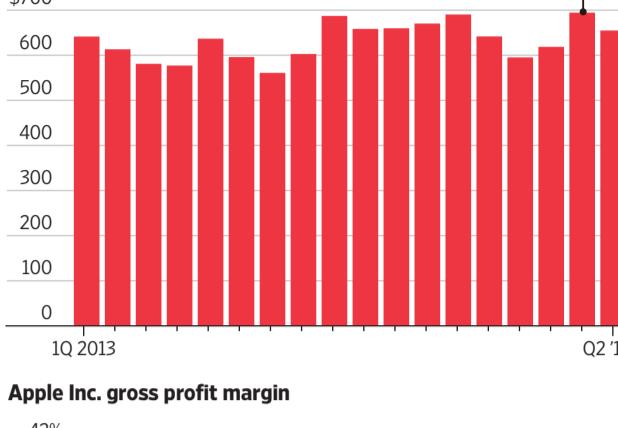
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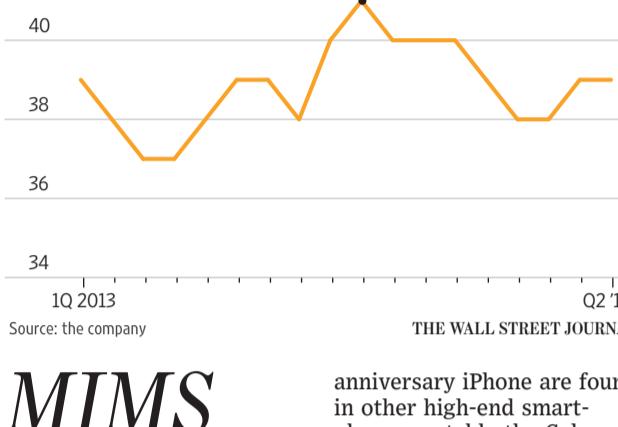
Cash Cow

The iPhone's average selling prices peak over the holidays, with the new phones. iPhone sales drive Apple's gross profit margin, which is off its March 2015 high.

iPhone's average selling price



Apple Inc. gross profit margin



Source: the company

MIMS

Continued from page B1
tem of apps and third-party services. But the same forces that made the iPhone ubiquitous and reliable have also made it about as exciting as a Toyota Corolla.

The next iPhone has the potential to upend that stodgy image by being a "halo device," says Janell Townsend, a professor of marketing at Oakland University in Rochester Hills, Mich., and a visiting professor at the University of Zurich. Halo devices have exceptional features representing key attributes of a brand and serve to influence consumers' perceptions of all products in the line, she says.

Take the Dodge Challenger SRT Demon. It has an 840-horsepower engine, making it the world's fastest production car. Not many people will shell out \$85,000 for one, but it can draw them to its lesser siblings, which start at \$27,000.

Crazy New Tech

A big reason companies have halo products is that they give them a way to test new technologies, says Dr. Townsend. While many of the potential features of the

anniversary iPhone are found in other high-end smartphones, notably the Galaxy S8, Apple is said to be cooking up other technologies, such as an advanced 3-D sensor array.

If crammed into a conventional iPhone, all the new hardware might take too big of a bite of Apple's margins. Yet Apple has a history of spreading its high-tech components across entire product lines once their costs come down.

Supplies Are Limited

Cutting-edge products often can't be made in quantities Apple demands. During its last holiday quarter, Apple sold nine iPhones a second. Apple faced supply shortfalls for the iPhone 7 Plus, and before that for the iPhone 6, and analysts are saying the 10th-anniversary iPhone may face delays. The solution, as Apple watcher John Gruber observed, is simply to charge more.

If Apple's high-end iPhone is aimed at a new segment—people willing to pay more than \$1,000 for a phone—Apple can charge whatever it likes to balance supply and demand for the device, rather than worrying about whether increasing the price will hurt its overall market share. And even if the high-end iPhone's list price were

"just" \$1,000, Apple could get people to pay more—as it always does—by offering a small amount of storage on the base model, and then charging \$100 to \$200 for more.

All About the ASP

With a phone priced upward of \$1,400, Apple would have the opportunity to move the single most important metric on its balance sheet: the average selling price of a new iPhone. This number, which hit a record of \$695 in the fiscal quarter ended December 2016, is the most important driver of Apple's gross profit margin.

In technology, prices usually decline over time, but Apple bucks that trend by upping the feature set of each subsequent phone. Since it discontinued the cheaper iPhone 5C, average selling price has been rising.

High Cost = Desire

The final reason a pricey iPhone makes sense is that, paradoxically, the more expensive Apple makes the device, the more people will lust after it.

Conspicuous consumption was first described in "The Theory of the Leisure Class" by the economist and sociologist Thorstein Veblen, who singled out products that, contrary to logic, sold better when their prices went up.

When the iPhone came out in 2007, it was the epitome of a "Veblen good"—rare and, at \$599 with a two-year contract, expensive.

For the same reasons, an expensive anniversary version could once again make the iPhone a Veblen good, says M. Berk Talay, professor of marketing at the University of Massachusetts Lowell.

This could be helpful to Apple in China. The company has been hurt lately by double-digit decreases in sales there, but Chinese consumers have a history of gravitating toward luxury goods. A higher-priced iPhone could convey status, something that's been harder and harder to do since 2014, when Apple last changed the look of its handsets.

If Apple releases an iPhone at such a lofty price, expect reviewers to make unfavorable comparisons with devices like Samsung's Galaxy S8, which packs in many advanced features for about \$750. But if the analysts are right, we can also expect that, by the end of 2017, Apple may report record-setting numbers in the most important area of its business.

BIGGEST THREAT TO iPhone IN CHINA IS WeChat APP

Popularity of WeChat undermines the need to choose an iPhone over cheaper options

When Wang Tingting, a Shanghai sales assistant, ditched her iPhone 5 last year for a Huawei P9 Plus, she noticed little difference: Both phones run WeChat, the app she and millions of other Chinese consumers use the most.

By Tripp Mickle in San Francisco and Alyssa Abkowitz in Beijing

"I don't miss the iPhone at all," said Ms. Wang, 24 years old.

That sentiment undermines Apple Inc.'s efforts in its largest market outside the U.S., just as it is expected to launch its much anticipated 10th-anniversary iPhone this fall.

The WeChat app from Tencent Holdings Ltd., with nearly one billion monthly active users, alone has captured nearly 35% of China's smartphone users' entire monthly time on mobile apps, according to data from QuestMobile.

Fans like Ms. Wang use WeChat to message friends, pay restaurant bills, hail cabs, play games and stream videos. This year, WeChat added "mini programs." This feature allows users to access apps stored in the cloud, so the apps can be used without being downloaded or stored on a device, giving users one fewer reason to buy an iPhone instead of cheaper domestic brands.

Skeptical investors are asking whether consumers in China will pay \$1,000 for a new iPhone when they spend more than 60% of their phone time inside a system from Tencent or from rivals Baidu Inc. and Alibaba Group Holding Ltd.

"That's the question: Is Apple losing its edge?" said Katy Huberty of Morgan Stanley, who remains optimistic about Apple's prospects in China.

Apple declined to comment.

Once the No. 3 player in China, Apple's iPhone is now the No. 4 smartphone brand by market share behind local rivals Oppo and Vivo, from BBK Electronics Corp., and Huawei Technologies Co., according to JL Warren Capital, a market research firm focused on China. The iPhone's market share has fallen below 10% in China from a peak of 13% in 2015.

Because of WeChat, in part, 50% of iPhone owners stayed with Apple when buying a new phone, according to independent analyst Ben Thompson of Stratechery, who highlighted the WeChat threat in a recent note. The figure is 80% for the rest of the world. That has turned Apple into just another vendor in China, Mr. Thompson wrote recently—"a hazardous place to be."

Other surveys show Apple has stronger brand loyalty than competitors. A Morgan Stanley study found 74% of China's iPhone owners would stay with Apple, compared with retention rates of 24% for Oppo and 19% for Vivo.

The iPhone maintains a 70% share of the high-priced smartphone market, according to Morgan Stanley, and Apple reported a 90% year-over-year increase in app store sales in 2016. "We continue to be very enthusiastic about our oppor-

tive with oversight of its China business, Isabel Ge Mahe. Her job includes keeping close to the market and ensuring Apple has the right features to appeal to Chinese buyers.

On Saturday, Apple removed apps that help users circumvent China's internet censorship, a move that may help the firm win some favor with Chinese authorities.

Apple has made changes to iOS 11, its coming operating system, to improve the QR code functionality popularized by WeChat and other Chinese apps. It also has developed features that enable iPhone owners to use their phone number as an Apple ID and to filter out text-message scams that inundate many smartphone users in China.

Tailoring software for the market could be critical to keeping the iPhone competitive. Otherwise, Mr. Thompson wrote, Apple runs the risk that



Chinese use WeChat for many applications including payments.

tunity in China," Apple Chief Executive Tim Cook told analysts in May.

Still, iPhone troubles have contributed to a steep sales drop for Apple in its Greater China market, which includes Hong Kong and Taiwan. It was the company's only market to report a sales decline in the first half of the fiscal year.

Revenue fell 13% in the period, after a 6.4% drop in the same period a year ago.

Analysts expect Apple to release a 10th-anniversary iPhone this fall with a new design and features like wireless charging and facial recognition. They say its success largely depends on sales in China.

As an indication of the market's importance, Apple recently named its first execu-

the phone's appearance becomes the only thing that matters when Chinese consumers buy a new device.

Such a shift potentially would force Apple to overhaul its entire business model, moving to a system in which it releases a new-looking phone annually rather than every other year, as it does currently.

Apple has long had a certain cachet with consumers who value style and brand as much as function. That distinction is losing its edge. Ren Yanmei, 56, of Zhengzhou, recently switched from an iPhone to a Xiaomi phone, using it to read news, send texts and chat by video with her daughter. "If a phone has WeChat, I don't care about the brand," she says.

—Junya Qian in Shanghai contributed to this article.

BUSINESS WATCH

CK HUTCHISON

I Squared to Acquire Fixed-Line Business

The conglomerate owned by Hong Kong's richest man is selling its fixed-line telecommunications business for \$1.86 billion.

CK Hutchison Holdings Ltd. is selling the telecom business to the New York-based private-equity firm **I Squared Capital**. The business, called Hutchison Global Communications Investment Holdings Ltd., provides services to carriers and other businesses in Hong Kong.

It is the latest deal for Hong Kong billionaire Li Ka-shing, CK Hutchison's owner. Last week, a joint venture backed by the tycoon agreed to acquire Germany's Ista International GmbH, a maker of metering equipment. A sale price wasn't disclosed but the deal valued Ista at €4.5 billion (\$5.3 billion).

—Dan Strumpf

TOBACCO

U.S. Raises Pressure On Cigarette Makers

U.S. health officials said Friday they want tobacco companies to make all cigarettes with such low levels of nicotine that they are no longer addictive, part of a regulatory overhaul that threatens Big Tobacco's main moneymaker.

The Food and Drug Administration also said it would encourage smokers to switch to products such as e-cigarettes that are less dangerous than cigarettes. The harm-reduction strategy is a break by the U.S. government from an abstinence-only approach to fighting tobacco-related diseases and deaths.

—Jennifer Maloney

Can't Immigrate to Silicon Valley? Try Canada

By DAVID GEORGE-COSH AND JACQUIE McNISH

TORONTO—Canada's technology sector, which has long struggled to compete with sunny Silicon Valley, is seizing on the U.S.'s hardening stance on immigration in a bid to lure top talent.

The pitch: Come to Canada, where there are cosmopolitan cities, affordable health care and, most importantly, more certainty around work permits and entrance requirements that many executives feel is lacking under the Trump administration.

Ben Ziffkin, chief executive of **Hubba** Inc., tells potential employees currently in the U.S.: "You don't have to stay in Canada forever, just the current presidential term." The company, based in Toronto, helps online retailers manage product information.

Mr. Ziffkin says he is only half-joking. But his message is part of a coordinated push for talent by Canadian executives, government officials and venture capitalists to pounce on what they see as a rare opportunity for the nation's maturing tech sector.



Canada is trying to lure talent to its tech startups such as Shopify as the U.S. curbs immigration.

The effort comes as the Trump administration in April launched a review aimed at stricter enforcement of immigration rules and other laws governing entry of workers into the U.S.

Any changes could affect thousands of foreigners on H-1B visas, widely used to employ high-skilled workers in

the U.S. tech and other white-collar sectors.

"You're running a startup. You're involved in one of the most uncertain businesses of all time," Ray Sharma, CEO of Extreme Venture Partners, says he tells tech founders who aren't U.S. citizens but are living in the U.S. or considering it. "Now you're introducing

your residency as part of that uncertainty? That's crazy."

Extreme Venture, based in Toronto, helps relocate startups based in the U.S. and elsewhere to Canada and assists in securing Canadian citizenship for employees.

"It's such an easy sell sometimes," said Mr. Sharma. "It's

like, 'You had me at Canada.' "

It can still be difficult to poach engineers and programmers from Silicon Valley, where large tech firms such as Alphabet Inc.'s Google and Facebook Inc. reign. There, the salaries are higher, the venture-capital sector bigger and the winters warmer.

Until recently, it could take as much as a year for foreigners offered a job in Canada to receive a work permit, which immigration lawyer Joel Guberman said was "unworkable."

But last month, the Canadian government announced a pilot program aimed at cutting this kind of wait and the red tape involved. Under the program, work permits and temporary resident visas are issued in two weeks instead of one year.

Canada's stepped-up recruitment effort is getting underway at a time of expansion in its tech industry. Several startups such as Shopify Inc., which develops software for online retailers, and **Real Matters** Inc., a real-estate data and software firm, have launched initial public offerings in recent years.

China's internet against outside threats by exerting more control over flows of data.

As part of that push, China's Ministry of Industry and Information Technology issued a notice in January of plans to "clean up" the internet-services market, including a crackdown on the use of unapproved VPNs in cross-border business activities, by March of next year.

APPLE

Continued from page B1
its Chinese customers' data on servers operated by a government-controlled company.

In the past, Apple has removed individual apps from the Chinese App Store that ran afoul of China's censors, but it is rare for the company to

eliminate several at once. Chinese authorities have moved aggressively in recent weeks to tighten controls over VPNs, which are used by everyone from political activists to scientists to multinational enterprises to access uncensored internet content beyond China's borders.

A southern China data-services company with more than 160 clients said it received or-

ders last week from the Ministry of Public Security, which runs China's police forces, to cut off access to foreign providers of VPNs. Those orders came days after

FINANCE & MARKETS

Trump's Pick to Shake Up the Fed

Randal Quarles is expected to try to reduce central bank's influence on lenders

BY RYAN TRACY

Randal Quarles became skeptical of government intervention during decades of work in the financial world. Now he is set to take the lead in shaping oversight at one of the greatest interveners of all: the Federal Reserve.

Mr. Quarles, who would be President Donald Trump's first appointee to the central bank, is expected to be confirmed in coming months for a four-year term as Fed vice chairman for supervision. That would both make him the most influential U.S. financial regulator and give him a voice on monetary policy.

His de facto predecessor, former Fed governor Daniel Tarullo, engineered broad new curbs on risk-taking by the largest U.S. banks. Mr. Quarles, a former government official who has made millions advising and investing in banks, has a record that suggests he will seek to reduce the Fed's influence on bankers' decisions rather than expand it.

"Some refinements will undoubtedly be in order," Mr. Quarles told the Senate Banking Committee on Thursday, referring to the U.S. regulatory regime. "The key question will be ensuring that...we do so while maintaining the robust resilience of the system to



ANDREW HARRER/BLOOMBERG NEWS

Mr. Quarles could become the most influential U.S. financial regulator if confirmed to the Fed.

shocks."

Mr. Quarles's approach may conflict with that of Fed Chairwoman Janet Yellen, who supported Mr. Tarullo's agenda. Her term as chairwoman ends in February. Mr. Quarles has separately advocated that the Fed articulate a more rigid formula for setting monetary policy, an idea Ms. Yellen has criticized.

Friends and former colleagues said that if Mr. Quarles does try to change direction at the Fed, they expect him to move slowly and methodically, and to seek consensus. Cerebral with a wry wit, Mr. Quarles spent nights as a young lawyer at Davis Polk & Wardwell LLP reading the firm's files on railroad reorga-

nizations of the late 19th century.

Mr. Tarullo, who left the Fed in April, cracked the whip on the largest U.S. banks in part by employing the element of surprise. In "stress tests" and "living wills" examining how banks plan for the worst scenarios, he and other regulators ratcheted up their expectations over time and publicly rebuked bankers for perceived failings—scoldings that the regulators said were necessary to clean up what they saw as woeful risk management.

Bankers have called for years for more predictability in the exams. At his confirmation hearing Thursday, Mr. Quarles said the Fed should publish more information about the

stress tests. "The benefits of the transparency outweigh any of the theoretical costs," he said.

Mr. Quarles also said he would review rules about banks' capital levels as well as the Volcker rule, which restricts banks from trading unless it is on customers' behalf. He avoided specifics: "I don't have a view as to whether [capital requirements] should be higher or lower," he said.

During his career, Mr. Quarles has repeatedly criticized unpredictable policy-making. "When governments have discretion, markets and citizens cannot be sure how the government will act, and that uncertainty results in inefficiency, delay and

politicization," he wrote in the 2010 paper.

He said in 2015 that regulatory policy since the 2008 financial crisis "tended to make the government a player" in the financial sector when "it should be a referee."

At the same time, Mr. Quarles has separated himself from others who claim the "free market" mantle. As a senior Treasury official in the 2000s, he advocated allowing foreign governments to have more wiggle room in dealing with bond investors—a policy opposed by some Wall Street money managers. He once called Timothy Geithner, President Barack Obama's first Treasury secretary and an architect of the 2008 bailouts, "a very strong choice" for the cabinet position.

Ravi Menon, a Singaporean official who engaged in last-minute talks with Mr. Quarles on a U.S.-Singapore trade deal, wrote in 2004, "Right from the start, we took a problem-solving approach aimed at finding middle ground rather than trying to convert each other on ideological arguments."

Still, Mr. Quarles's background has raised concerns among Democrats. As a banking lawyer at Davis Polk in the 1990s, he helped banks such as **J.P. Morgan Chase & Co.** navigate regulatory limits to expand their securities businesses.

Despite Democrats' concerns, Republicans alone have the votes to confirm Mr. Quarles for the job, and none criticized him Thursday.

U.S. Bank Tees Up Auto-Loan Refunds

BY EMILY GLAZER

Wells Fargo & Co. said it plans to make refunds to certain auto-loan customers who may have been improperly charged for auto insurance.

Late last week, the bank said it found 570,000 customers who may have been affected from policies placed between 2012 and 2017, and that they will get refunds or account adjustments totaling around \$80 million.

Franklin Codel, head of Wells Fargo consumer lending, said the bank takes responsibility for failing to manage the insurance program and apologized to customers.

The problems come on the heels of Wells Fargo's sales-practices scandal last year, in which employees opened as many as 2.1 million accounts using fictitious or unauthorized customer information.

Regarding the auto loans, Wells Fargo said customers' contracts require them to maintain collateral-protection insurance on behalf of the lender throughout the term of the loan. Wells Fargo purchased that insurance from a vendor on a customer's behalf if there was no evidence the customer already had the insurance, the bank said.

The vendor is **National General Insurance**, a company the bank had joined with for years, a person familiar with the matter said.

A spokeswoman for National General, Christine Worley, said it "feels confident with its compliance in this highly regulated industry."

Wells Fargo said that, in response to customer complaints in July 2016, it began a review of the program and third-party vendor practices. Based on that review, it discontinued the program that September.

One result of the program was that customers may have been charged premiums for this insurance even if they were paying for their own vehicle insurance. In some cases, those premiums could have contributed to a default that led to the vehicle's repossession.

The New York Times earlier reported the problems with Wells Fargo's auto insurance, citing a report from consultant Oliver Wyman prepared for the bank examining National General insurance policies sold to Wells Fargo customers from January 2012 through July 2016. It found the insurance was often more expensive than auto-insurance customers had already obtained on their own.

Marquee Card Less Rewarding for J.P. Morgan

BY EMILY GLAZER

J.P. Morgan Chase & Co.'s Sapphire Reserve credit card has been popular with consumers—maybe too popular.

Some at J.P. Morgan are raising concerns that Sapphire Reserve won't make money for the bank, due in part to high demand and the card's generous rewards. Meanwhile, the lender is pushing for about \$200 million in fresh cost cuts in the retail-banking unit that oversees the card, people familiar with the matter say.

Gordon Smith, head of J.P. Morgan's retail-banking business, this month ordered up cost trims at the unit overseeing cards, the people familiar with the matter said. A bank spokeswoman, Trish Wexler, said any midyear cuts would take into account overall expense targets regardless of specific products.

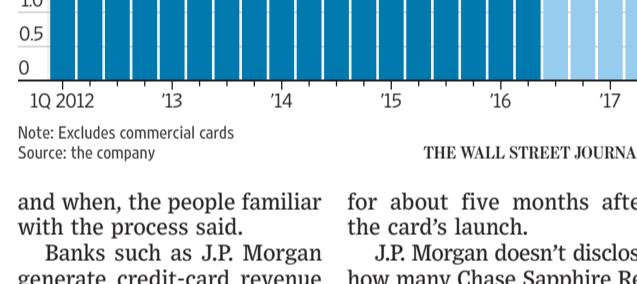
"As part of any planning process you're always looking for ways to eliminate waste," she said.

Still, internal concerns about the card are on the rise, surprising for what has been seen as a blockbuster at the nation's largest bank by assets. At recent meetings, senior J.P. Morgan employees reviewed models questioning whether the card would make money

The bank offered the bonus

Pushing Plastic

J.P. Morgan Chase new credit-card accounts opened, quarterly



Note: Excludes commercial cards

Source: the company

and when, the people familiar with the process said.

Banks such as J.P. Morgan generate credit-card revenue from the annual fees customers pay, the interest charged on their balances and the fees merchants pay when the card is used at their businesses. The bank pays out when it offers rewards, such as the 100,000-point sign-up bonus that J.P. Morgan initially offered on Sapphire Reserve.

The bank offered the bonus

for about five months after the card's launch.

J.P. Morgan doesn't disclose how many Chase Sapphire Reserve cards it has issued. The bank said it exceeded its 12-month sales target in two weeks and temporarily ran out of the metal used to make the cards.

J.P. Morgan's second-quarter card income, as reported, fell 15% from the year-earlier period to \$1.06 billion. Credit-card account openings, exclud-

ing commercial cards, totaled 2.1 million, down 22% from the year-earlier quarter.

J.P. Morgan executives acknowledge the bank doesn't immediately make money on each new card and customer. "You expense the acquisition costs over 12 months. The benefit comes over seven years," Chairman and Chief Executive James Dimon said on a conference call this month.

"These are the customers that everybody wants to acquire," Marianne Lake, the bank's chief financial officer, said on the call. "We now have them, and we intend to deepen relationships with them."

The big question is whether the consumers want to stay in this relationship. Customer renewal rates for premium credit cards can range from 60% to 90%, said Robert Hammer, founder and CEO of credit-card industry consultant R.K. Hammer.

—AnnaMaria Andriots

contributed to this article.

FINANCE WATCH

SEC

Columbia Professor Is Weighed for Slot

The White House is preparing to nominate Columbia University law professor Robert Jackson to a Democratic slot on the **Securities and Exchange Commission**, according to people familiar with the matter.

The White House is currently vetting Mr. Jackson after he was recommended by Senate Minority Leader Chuck Schumer (D., N.Y.), these people said.

The selection process isn't complete and could still change, one of the people said.

A White House spokeswoman and Mr. Jackson didn't respond to requests for comment. A spokesman for Mr. Schumer declined to comment.

The five-seat commission is required to have a partisan balance.

If Mr. Jackson is nominated, Senate lawmakers would likely seek to speed up his confirmation by pairing him with Hester Peirce, a Republican tapped earlier this month to fill another SEC vacancy.

Both would join an SEC down to just three members: Democrat Kara Stein, Republican Michael Piwowar, and Jay Clayton, the chairman, who is an independent. —Andrew Ackerman

PAYMENTS

Uber, Lyft Move Into Credit Cards

Ride-sharing rivals **Uber Technologies Inc.** and **Lyft Inc.** may soon take their fight to

your wallet.

Uber is rolling out a credit card for its U.S. customers, choosing Barclaycard, a unit of Barclays, as the issuer, the companies said Friday. The card will be available in the fall, according to a Barclaycard spokeswoman.

Visa is expected to be the network for the card, according to a person familiar with the deal.

Uber would be the first major ride-sharing company to launch a credit card. It could help the firm lock in more customer relationships, a crucial goal as it faces an invigorated Lyft, which recently raised fresh funds and has been expanding into new U.S. markets. Lyft is also working on rolling out a credit card, according to people familiar with their plans.

Uber meanwhile has been grappling with a series of scandals, including charges it tolerated chauvinism, a lawsuit over trade secrets and a depleted executive suite. It is nearing a decision on a new chief executive after the surprise resignation of co-founder Travis Kalanick in June.

Ride-sharing is a relatively new sector in the credit-card market, where partnerships with banks in the travel sector have been mostly dominated by airlines and hotels.

"This partnership represents a unique opportunity for Barclaycard to work with a globally recognized disruptor," said a spokeswoman for Barclaycard.

—AnnaMaria Andriots, Greg Bensinger



Uber said it is rolling out a credit card for its U.S. customers. Barclaycard will be the issuer.

DAVID J. PHILLIP/APASSOCIATED PRESS

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FUND NAME GF AT LB DATE CR NAV YTD 12-MO 2-YR

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8865, Website: www.cam.com.sg CAM-CF Limited OT AT MUS 07/21 USD 308395.12 2.1 3.3 0.3

Value Partners Investing through discipline

Website: www.valuepartners-group.com Tel (852) 2143 0688

China A-Share Fund Cls A AUD H OT HKG 07/27 AUD 13.54 14.8 16.3 4.4

China A-Share Fund Cls A CAD H OT HKG 07/27 CAD 12.08 10.5 11.6 -1.0

China A-Share Fund Cls A EUR H OT HKG 07/27 EUR 14.11 14.8 2.9

China A-Share Fund Cls A GBP H OT HKG 07/27 GBP 12.26 12.0 12.5 0.7

China A-Share Fund Cls A NZD H OT HKG 07/27 NZD 13.29 13.9 14.7 3.0

China A-Share Fund Cls A USD H OT HKG 07/27 USD 13.59 21.9 18.7 5

China A-Share Fund Cls A NZD H OT HKG 07/27 NZD 11.29 13.4 11.8 -2.5

China A-Share Fund Cls A RMB (CNY) OT HKG 07/27 CNY 14.63 16.7 18.8 6.8

China A-Share Fund Cls A USD OT HKG 07/27 USD 13.49 21.2 18.0 3.3

China A-Share Fund Cls A USD H OT HKG 07/27 USD 13.28 14.3 15.4 3.5

China Greenchip-A Units AS EQ CYM 07/27 HKD 13.49 24.8 24.2 3.9

China Greenchip-A Units AUD H AS EQ CYM 07/27 AUD 10.77 25.4

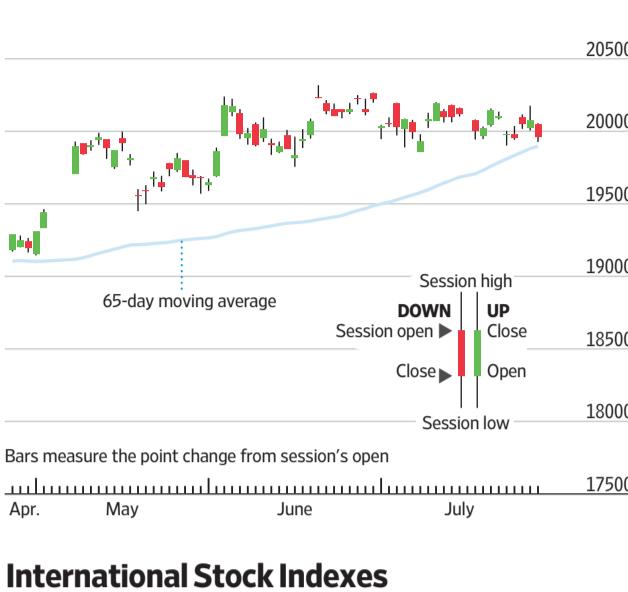
MARKETS DIGEST

Data as of Friday, July 28, 2017

Nikkei 225 Index

19959.84 ▼119.80, or 0.60%

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



Bars measure the point change from session's open

Apr. May June July

17500 18000 18500 19000 19500 20000 20500

STOXX 600 Index

378.34 ▼3.98, or 1.04%

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



Data as of 4 p.m. New York time

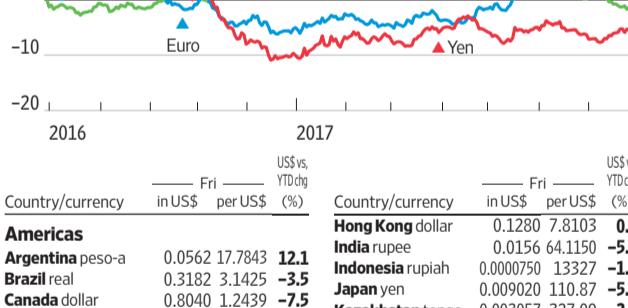
International Stock Indexes

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2848.22	-2.86	-0.10	2384.42	2851.08	12.5		
	MSCI EAFE	1931.73	-4.32	-0.22	1614.17	1944.18	14.7		
	MSCI EM USD	1062.97	-3.09	-0.29	838.96	1067.03	23.3		
Americas	DJ Americas	595.33	-0.65	-0.11	503.67	596.96	10.2		
Brazil	Sao Paulo Bovespa	65497.13	219.74	0.34	56162.38	69052.03	8.7		
Canada	S&P/TSX Comp	15128.65	-62.71	-0.41	14349.10	15922.37	-1.0		
Mexico	IPC All-Share	51213.60	-43.76	-0.09	44364.17	51713.38	12.2		
Chile	Santiago IPSA	3856.62	20.25	0.53	3127.54	3856.62	19.7		
U.S.	DJIA	21830.31	33.76	0.15	17888.28	21830.31	10.5		
	Nasdaq Composite	6374.68	-7.51	-0.12	5046.37	6422.75	18.4		
	S&P 500	2472.10	-3.32	-0.13	2085.18	2477.83	10.4		
	CBOE Volatility	10.29	0.18	1.78	9.36	22.51	-26.7		
EMEA	Stoxx Europe 600	378.34	-3.98	-1.04	328.80	396.45	4.7		
	Stoxx Europe 50	3086.75	-37.38	-1.20	2730.05	3276.11	2.5		
France	CAC 40	5131.39	-55.56	-1.07	4321.08	5342.40	5.5		
Germany	DAX	12162.70	-49.34	-0.40	10144.34	12888.95	5.9		
Israel	Tel Aviv	1451.48	...	Closed	1378.66	1478.96	-1.3		
Italy	FTSE MIB	21430.36	-204.36	-0.94	16098.37	21787.90	11.4		
Netherlands	AEX	525.53	-4.82	-0.91	438.61	536.26	8.8		
Russia	RTS Index	1014.44	-16.51	-1.60	903.04	1195.61	-12.0		
Spain	IBEX 35	10536.10	-67.30	-0.63	8263.50	11135.40	12.7		
Switzerland	Swiss Market	9019.31	1.52	0.02	7593.20	9127.61	9.7		
South Africa	Johannesburg All Share	54883.21	-5.68	-0.01	48935.90	54888.89	8.4		
Turkey	BIST 100	107699.72	-691.99	-0.64	72519.85	108391.71	37.8		
U.K.	FTSE 100	7368.37	-74.64	-1.00	6634.40	7547.63	3.2		
Asia-Pacific	DJ Asia-Pacific TSM	1674.76	-6.09	-0.36	1407.97	1680.85	17.7		
Australia	S&P/ASX 200	5702.80	-82.20	-1.42	5156.60	5956.50	0.7		
China	Shanghai Composite	3253.24	3.46	0.11	2953.39	3288.97	4.8		
Hong Kong	Hang Seng	26979.39	-151.78	-0.56	21574.76	27131.17	22.6		
India	S&P BSE Sensex	32309.88	-73.42	-0.23	25765.14	32383.30	21.3		
Indonesia	Jakarta Composite	5831.03	11.28	0.19	5027.70	5910.24	10.1		
Japan	Nikkei Stock Avg	19959.84	-119.80	-0.60	16083.11	20230.41	4.4		
Malaysia	Kuala Lumpur Composite	1767.08	-2.99	-0.17	1616.64	1792.35	7.6		
New Zealand	S&P/NZX 50	7639.51	-72.21	-0.94	6664.21	7732.75	11.0		
Pakistan	KSE 100	45912.03	6.27	0.01	39278.11	52876.46	-4.0		
Philippines	PSEI	8071.47	25.69	0.32	6563.67	8071.47	18.0		
Singapore	Straits Times	3330.75	-23.96	-0.71	2787.27	3354.71	15.6		
South Korea	Kospi	2400.99	-42.25	-1.73	1958.38	2451.53	18.5		
Taiwan	Weighted	10423.05	-85.32	-0.81	8902.30	10513.96	12.6		
Thailand	SET	1581.06	...	Closed	1406.18	1591.00	2.5		

Source: SIX Financial Information/WSJ Market Data Group

Currencies

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



London close on July 28

Country/currency	Fri	US\$ vs. per US\$ (%)	Fri	US\$ vs. per US\$ (%)	Fri	US\$ vs. per US\$ (%)	
Argentina peso-a	0.0562	17.7043	12.1	Hong Kong dollar	0.1280	7.8103	0.7
Brazil real	0.3182	3.1425	-3.5	India rupee	0.0156	64.1150	-5.2
Canada dollar	0.8040	1.2439	-7.5	Indonesia rupiah	0.000750	13327	-1.5
Chile peso	0.001536	651.20	-2.8	Kazakhstan tenge	0.003057	327.09	-2.0
Ecuador US dollar-f	1	1	unch	Macau pataca	0.1242	8.0540	1.7
Mexico peso-a	0.0563	17.7562	-14.4	Malaysia ringgit-c	0.2336	4.2815	-4.7
Peru so	0.3082	3.2446	-3.2	New Zealand dollar	0.7506	1.3323	-7.7
Uruguay peso-e	0.0352	28.380	-3.3	Pakistan rupee	0.0095	105.355	0.9
Venezuela bolivar	0.098911	10.11	1.2	Philippines peso	0.0198	50.548	1.9
Australia dollar	0.7989	1.2517	-9.9	Singapore dollar	0.7368	1.3572	0.2
China yuan	0.1484	6.7374	-3.0	South Korea won	0.0008904	112.87	-7.0

Source: Tullett Prebon, WSJ Market Data Group

US\$ vs. Fri YTD chg

Country/currency Fri YTD chg

FINANCE & MARKETS

Buyer Blames China Bashing as Deal Stalls

A China-backed firm whose deal to buy an American semiconductor company has stalled before a U.S. government panel

By Eva Dou in Beijing
and Kate O'Keeffe in
Washington

is taking the unusual step of going public with its frustrations, saying China-bashing in the U.S. is holding up the acquisition.

Principals with Canyon Bridge Capital Partners Inc. said their interest in Portland, Ore.-based Lattice Semiconductor Corp. is purely commercial and that they have tried to address the national-security concerns of the Committee on Foreign Investment in the U.S. Still, nine months after Canyon Bridge said it first approached the panel, the \$1.3 billion deal remains stuck, a delay the partners said is chiefly political.

Since the presidential campaign, "the concerns about all things China has been put under a very harsh light and emphasized in a very unfortunate way," Canyon Bridge partner Ray Bingham said in an interview. He said politics "more than anything" accounted for the scrutiny the deal is facing.

Mr. Bingham's willingness and that of his fellow partners

China Goes Semiconductor Shopping

Chinese companies are seeking to buy microchip assets, but some deals have fallen through because of political pushback.

China's top outbound deals in the semiconductor sector since 2010 COMPLETED

Announced	Target (Location)	Acquirer	Deal value
June 13, 2016	Nexperia (Netherlands)	China Investment Corp., Wise Road Capital	\$2.8 billion
Jan. 6, 2015	Tatung (Taiwan)	Haocan (Shanghai) Equity Share Investment Fund	\$1.9
Aug. 14, 2014	OmniVision Technologies (U.S.)	Hua Capital Management, Citic Capital, Citic Securities	\$1.9

WITHDRAWN

Announced	Target (Location)	Acquirer	Deal value
Dec. 8, 2015	Fairchild Semiconductor International (U.S.)	Hua Capital Management, China Resources National	\$2.5 billion
Dec. 11, 2015	Siliconware Precision Industries (Taiwan)	Tsinghua University	\$1.7
May 23, 2016	Aixtron (Germany)	Fujian Grand Chip Investment Fund, Xiamen Bohao Investment	\$0.8

Source: Dealogic

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to talk about their deal's troubled review is unusual. Companies rarely discuss dealings with CFIUS, the secretive multilateral committee that screens foreign investments for national security risks.

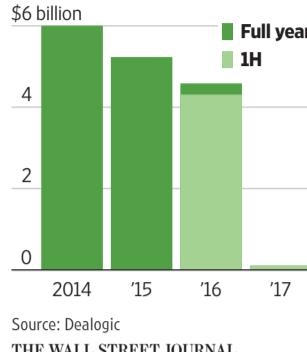
The Canyon Bridge-Lattice tie-up has been a lightning rod

in a struggle between the U.S. and China over semiconductors—the chip technology that powers computers, mobile phones and much military hardware.

Washington grew wary last year following repeated attempts by Chinese companies

Slowing Spree

China's outbound, completed deals in the semiconductor sector



Source: Dealogic

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the Treasury Department and includes representatives from the Defense, State, Justice and Commerce departments, among others. "Protecting our national security is the primary focus of CFIUS, and we take that responsibility very seriously," a Treasury spokesman said.

Canyon Bridge managing partner Ben Chow said he and his partners were always transparent with CFIUS about the source of their funding, which he said is 99% from China Reform Holdings Corp., a state-owned investment company funded by China's national government. "We have never hidden anything," he said.

Lattice Chief Executive Darin Billerbeck said in a separate interview that the companies have offered to tighten safeguards on intellectual property to prevent it from being transferred to China and that in an initial meeting with CFIUS, the panel "gave zero indication" of any problems. "They said, 'Looking at the data you're presenting, that shouldn't be a big deal,'" he said.

CFIUS has since communicated to the companies that it doesn't intend to grant approval due to what it said were unresolved national-security concerns, according to people familiar with the matter.

onshore market," he added.

Interest from foreign governments in China's bond market can be politically motivated, too, meant to improve relations with the world's second-largest economy, according to bankers and investors.

"If it proves a success, they open up another channel for their government to tap at any time," said Sean Chang, head of Asian debt investment at Baring Asset Management in Hong Kong, who owns Hungarian dim-sum bonds, which are yuan-denominated bonds sold outside China. "There is a lot of appetite [for bonds] in the

Regulator In Beijing Fines Banks

BEIJING—China's foreign-exchange regulator, in a rare move, accused several banks of negligence or violations of rules amid its efforts to stem outflows of capital.

The State Administration of Foreign Exchange said it found irregularities in local branches of nine banks when handling foreign-exchange transactions.

The regulator has penalized non-financial firms and individuals for moving funds offshore by faking deals or through underground banks before, but it is the first time the regulator has exposed banks' alleged wrongdoing.

A local branch of the Industrial Bank Co. failed to conduct due diligence in checking the documentation of 15 trade deals valued at \$162 million, the regulator said. Those deals turned out to be fake, and the regulator slapped a fine of 900,000 yuan (\$133,470) on that branch, the agency said.

More than a dozen employees at a branch of China Minsheng Bank purchased foreign exchange for an executive at the branch and friends of that executive through the employees' own annual quotas for foreign exchange, the regulator said.

Other banks penalized include local branches of Bank of Ningbo Co. and Agricultural Bank of China Ltd.

The notice of the actions was released late Friday in Beijing, and the banks couldn't be reached for comment.

Beijing has been ramping up efforts to halt a flood of money leaving the country in response to an economic slowdown and a depreciation in the yuan since the second half of 2015. The regulator has had an easier time controlling outflows this year, given U.S. dollar weakness. The yuan has risen against the U.S. dollar by about 3% this year after dropping more than 7% last year.

—Liyan Qi

Hungary Sells 'Panda' Debt; More Offerings Expected

By SAUMYA VAISHAMPAYAN

China's bond market is opening up—to the government of Hungary.

The European country last week raised 1 billion yuan (\$148 million) by selling bonds in the onshore Chinese market. Hungary's sale of these so-called panda bonds—yuan-denominated debt issued by foreign governments or companies in China's domestic market—was the first by a country since Poland last year, according to Dealogic.

The bonds were priced to yield 4.85%.

There are rumblings of

more sales. Portugal has started discussions with Chinese authorities about a bond issue, though the size and timing aren't yet settled, according to Portugal's Ministry of Finance. The Philippines plans to issue panda bonds this year, according to local media reports. The Bureau of the Treasury in the Philippines didn't respond to requests for comment.

Why the interest, given that the flow of money out of China is restricted by capital controls? For starters, the bond sales are largely symbolic. The \$148 million raised

by Hungary in China is a drop in its planned total gross bond issuance of €26.2 billion (\$30.6 billion) for 2017.

Like most countries that raise funds overseas, Hungary plans to repatriate the proceeds of its panda-bond sale. In China, that is less of a problem for countries than for companies, according to experts, who say such plans are typically disclosed to regulators before the deal is completed.

Emerging-market countries, seeking cheap and diversified sources of cash, often issue debt in a number of currencies. China's bond market is the

third-largest in the world, so it makes sense for some countries to try it out, especially as Chinese bonds are eventually expected to be included in major bond indexes. That would bring in index funds and other passive investors.

"If it proves a success, they open up another channel for their government to tap at any time," said Sean Chang, head of Asian debt investment at Baring Asset Management in Hong Kong, who owns Hungarian dim-sum bonds, which are yuan-denominated bonds sold outside China. "There is a lot of appetite [for bonds] in the

onshore market," he added.

Interest from foreign governments in China's bond market can be politically motivated, too, meant to improve relations with the world's second-largest economy, according to bankers and investors.

China is working to attract foreigners to its bond market. Trading began earlier this month through a program that enables global investors with trading accounts in Hong Kong to access the interbank bond market. Last year, China opened its interbank bond market to foreigners with trading accounts in China.



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MARKETS

European Lenders Find Their Feet Again

Restructuring and rising fee income have aided recovery, but profitability is an issue

LONDON—After years of crisis Europe's banks are finally stabilizing.

By Max Colchester,
Jeannette Neumann
and Patricia
Kowsmann

On Friday, several of Europe's largest lenders reported solid if uninspiring results, a welcome change that shows the sector's grinding restructuring is starting to pay off.

Not long ago, investors fretted about whether European banks had enough capital to survive downturns and whether they would be able to level their mountains of bad loans. Many problems remain, but investors now have more-mundane worries, such as profitability and margins. European banks still badly lag behind their U.S. peers in profits and dividends.

On Friday, **UBS Group AG** and **Credit Suisse Group AG** posted better-than-expected profits; both have thrown more effort into their wealth-management businesses. French bank **BNP Paribas SA** saw its second-quarter profit contract but still beat analysts' expectations. **Barclays PLC** posted a loss, but that came from charges linked to its retreat from Africa.

"The capital question is now done," said Barclays Chief Executive Jes Staley. "Now the final thing is earnings."

European bank shares have shot up 50% over the past year as investors bet on lenders riding a European economic recovery and a lightening of regulations. European fund managers are still piling into the sector and see banks in the European Union as the



The continent's banks are at a turning point, according to Frédéric Oudéa, CEO of Société Générale.

most undervalued stocks, according to a survey this month by Bank of America. A newfound optimism has permeated once-gloomy bank boardrooms.

"I think European banks are at a turning point," Frédéric Oudéa, CEO of France's Société Générale SA said recently.

Now the test is whether European banks can live up to the hype. The main problem: Interest rates are still at rock bottom levels. "After a long, long deleveraging process we are entering into a phase where we can show some growth" in Spanish loan volume, Santander CEO José Antonio Álvarez told analysts.

But with interest rates so low, it is hard to make significant profits on those loans. The benchmark rate that underpins most Spanish mortgage loans, on which rates typically float, is eventually expected to rise "but nothing spectacular," Mr. Álvarez said.

Currently, it is still slipping. In other countries, the pain could be prolonged because customers have locked in long-term, low-interest loans; even if rates do go up it could take time for banks to see profits. In Germany, for example, 85% of mortgages are fixed-rate, according to Deutsche Bank.

To counter this, lenders have been slashing costs and shutting businesses. In Italy alone, banks are planning to cut at least 17,500 jobs this year, according to a trade union. Barclays has cut 60,000 people from its payroll over the past year. Banks have also moved away from making loans to selling products not linked to interest rates, such as insurance or investment advice.

The number of big European banks with noninterest revenue accounting for over 40% of their operating income rose to 54 from 49 in the past year, according to the European Central Bank. Spanish

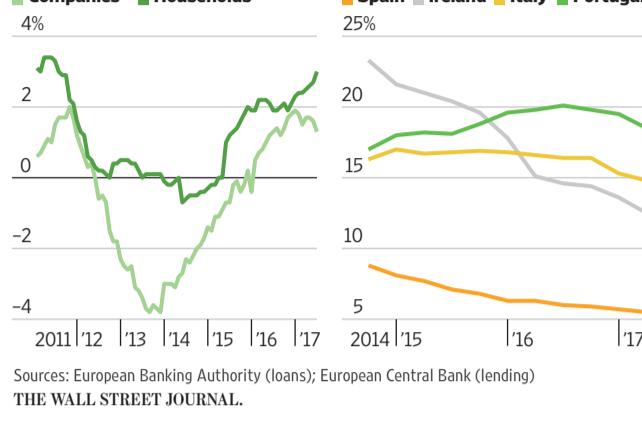
banks CaixaBank SA and Banco de Sabadell SA beat analysts' forecasts on Friday as higher fees helped boost profit. The sudden jump in bank fee income since the start of the year "was like someone flipped a switch," said Kinner Lakhani, an analyst at Deutsche Bank.

European banks moved at a glacial pace to restructure after the financial crisis, but have acted faster over the past year. A handful of teetering banks in Italy and Spain have been wound down, merged or bailed out. In June, Spain's Banco Popular Español SA was rescued and sold to Santander. Earlier this month, the Italian government took control of long-troubled Banca Monte dei Paschi di Siena SpA. Meanwhile big lenders have tapped shareholders to fund extensive restructuring. UniCredit SpA, Deutsche Bank and Credit Suisse raised a total of nearly \$30 billion of fresh equity

Signs of Health

Lending in the eurozone has slowly picked up.

Annual percent changes



Sources: European Banking Authority (loans); European Central Bank (lending)

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from shareholders.

Some of the overhauls are starting to work. On Friday, **Bank of Ireland PLC** announced it will pay its first dividend since the country was mauled by the financial crisis. The once-limping Banco Comercial Português SA announced it is raising salaries to precrisis levels after an average 6% cut since 2014. The CEO, Nuno Amado, said "it is a sign of normalization for BCP, both internally and for the outside."

This is feeding back into the European economy. Bank-lending volumes have been gradually recovering since early 2014. Small and medium-size businesses in the eurozone have said there is an increase in the availability of bank loans over the past six months, according to a recent survey by the ECB.

Still, hurdles remain. First, there are too many banks. ECB officials have repeatedly said that the sector needs to consolidate, but bank executives remain wary of doing deals. Second, €1 trillion (\$1.18 trillion) of bad loans continues to sit on balance sheets. While the amount of bad loans is

starting to ease, clearing them could be a slow process. Italy's bad loans could take a decade to work through before coming in line with wider European levels, according to an analysis by Morgan Stanley. And a crash in shipping lending continues to pinch German banks. A restructuring of Deutsche Bank is far from complete.

Tougher regulations could also be on the horizon. The ECB is reviewing how the banks model risk. In January, new accounting rules will start to be phased in that force European banks to cover for potential losses on loans in real time, which is expected to add billions to their loan provisions. The global Basel rules are still being hammered out, which could result in banks having to change how they calculate risk. European bank executives are in the dark over how onerous those changes will be.

"It could get worse before it gets better," said Filippo Alloatti, senior credit analyst at Hermès Investment Management.

—Giovanni Legorano contributed to this article

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

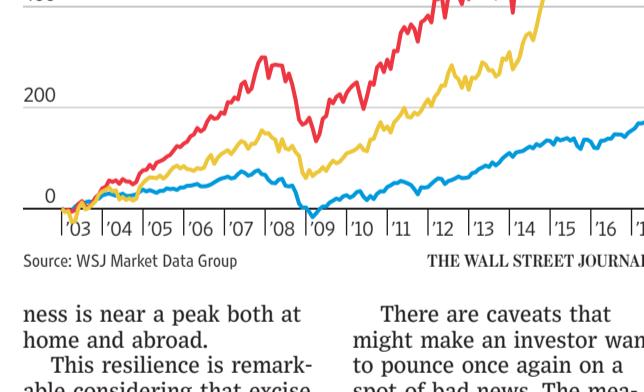
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A New Fire for Tobacco Stocks

Nicotine High

Share-price and index performance since 2002, monthly



ness is near a peak both at home and abroad.

This resilience is remarkable considering that excise taxes and other cost pressures have pushed the price per pack to about four times what it was in cigarette smoking's U.S. heyday. An economist would say the "price elasticity of demand" is low for tobacco, a trait usually shared by essential products, not discretionary ones. Addictiveness is key.

Perhaps, some users simply like the image cigarettes project, but nicotine's addictiveness is a big part of the appeal for a product that can cost upward of \$12 a pack, faces sharp advertising restrictions and carries warnings of its deadly effects on each pack.

Fretting about tobacco companies such as **Altria Group**, **Philip Morris International** and **British American Tobacco** has proved costly in the past. The decadeslong public health battle against smoking has reduced per-capita consumption of cigarettes in the U.S. by about 80%, but the profitability of the busi-

nity for reduced risk products," which can be quite profitable, too.

Curb your enthusiasm, though. Newer products introduced after August 2016 face scrutiny. Furthermore, back in 2003 when regulatory worries were last so acute about plain old cigarettes, Altria sported a dividend yield of over 5% and traded at less than six times trailing earnings. It recently sported a yield of barely 3% and a trailing P/E ratio about 28 times. Furthermore, 14 years ago, domestic leader Altria had big exposure to international tobacco sales and to food. Those businesses now reside in Philip Morris International, **Kraft Heinz** and **Mondelez International**.

Famed value investor Warren Buffett often spoke of "cigar butt" stocks that looked bad due to a declining or threatened business but still had a few puffs left in them. Tobacco stocks might fit the bill if it weren't for their rich valuations.

—Spencer Jakab

OVERHEARD

Online shoppers can commiserate with **Jeff Bezos**.

Those who prefer to comparison shop, rather than using **Amazon.com's** "Buy now with 1-click" feature, put items they want to buy in their virtual carts. Sometimes, though, so-called dynamic pricing gives them a rude surprise as a price rises before they can return to complete their order.

There is no place with prices quite as dynamic as the stock market, of course, and Mr. Bezos learned that the hard way last week.

While he probably didn't have a shiny plaque that reads "World's Richest Person" in his virtual shopping cart, he got the accolade on Thursday after Amazon's share price gave him a net worth on paper of around \$92 billion, overtaking **Microsoft** co-founder **Bill Gates**.

But then the shares of Amazon dipped in late trading and fell even more on Friday in reaction to disappointing results. Another item for the wish list.

Baidu Still On the Hunt For Revenue

China's search giant **Baidu** has bounced back after a tumultuous year. Yet it still needs to attract eyeballs.

Baidu in the second quarter delivered its best quarterly revenue ever, with a 14% increase. Its net profit jumped 83%, thanks to less spending on marketing.

That is a welcome turnaround from last year, when the company's advertising revenue was badly hit following the death of a student after using alternative treatments found on the search engine.

Yet the anemic growth in Baidu's core advertising revenue, which rose just 5.6%, indicates it hasn't solved its deeper problem: People just aren't spending much time on its apps, which provide things like search, news and video.

The company's revenue growth pales in comparison to that of its two biggest domestic rivals, **Alibaba** and **Tencent**, which are both expected to report more than 40% growth in revenue for the June quarter, according to S&P Global Market Intelligence estimates.

Their relative success reflects the fact that mobile users spend most of their time on social media and games, areas both dominated by Tencent in China. Meanwhile, Alibaba reigns supreme in e-commerce, which accounts for the lion's share of mobile advertising.

The more time people spend on Alibaba or Tencent apps, the more data those companies can gather on user behavior, helping them to show more relevant ads and charge advertisers more.

Baidu has stemmed last year's bleeding. But it still needs better ways to glue people to its apps.

—Jacky Wong

European Investment Banks Fall Behind Their U.S. Rivals

Life isn't getting any easier for Europe's investment banks.

A string of results on Friday showed they are falling further behind their U.S. counterparts in the business of trading bonds and currencies, although some are doing better in equities. Low volatility at home and a lack of scale in the more active and profitable U.S. market are taking their toll.

Investment banking, advising on deals and capital raising, Europeans are performing worse, too, with only UBS Group getting close to the revenue gains reported by U.S. banks.

The trouble for the Euro-

peans is that the more money U.S. banks make in their domestic market, the more firepower they will have to deploy on winning business elsewhere. As banks like Morgan Stanley and Citigroup return to strength, the White House's deregulatory agenda for banks might give this extra impetus.

Credit Suisse Group stood out as having a particularly rough second quarter, mainly due to a much worse performance in both equity and bond trading in Asia, a market on which it is pinning its turnaround story.

Low volatility in currencies and weak activity among clients in interest-

rate-related trading hurt all banks. Only Deutsche Bank, which reported Thursday, did marginally better than the U.S. average, although the German bank fell down on its equities business, which saw the biggest revenue drop among its peers.

One bright spot for several banks was the business of funding equities trades for hedge funds, which makes Deutsche's major loss of ground there look doubly painful. BNP Paribas appeared to benefit most from Deutsche's woes, with its equities revenue up 24% from the second quarter of 2016 in dollar terms, although it said strong equity-deriva-

Falling Down

Change in second-quarter fixed-income revenue from prior year in dollar terms

-36%	UBS
-25	Credit Suisse
-21	Barclays
-17	BNP Paribas
-14	Deutsche Bank
-16	U.S. average

Source: the companies

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tives results were also a big part of that.

BNP's revenue gains were far ahead of the pack. Barclays and UBS both managed to do a little better than the

U.S. average of a 1% increase. Barclays's equity revenue rose 4% in dollar terms and UBS's was up 3%.

There is a further threat to European banks in the form of planned changes to global capital rules that could increase equity requirements. This has become somewhat less of a concern since rule makers said banks are likely to have up to 10 years to comply with updated rules.

Meanwhile, European banks' best hope is that U.S. regulators don't loosen the leash on American banks too much. Otherwise, the Europeans will have little chance of recovering lost ground.

—Paul J. Davies