

# THE WALL STREET JOURNAL.

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WSJ.com EUROPE EDITION

DJIA 21830.31 ▲ 0.15%

NASDAQ 6374.68 ▼ 0.12%

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%

## What's News

Business & Finance

U.S. corporations are posting some of their biggest profit and revenue gains in years despite gridlock in Washington. A1

◆ European banks are stabilizing after years of crisis, but rock-bottom interest rates continue to weigh on profitability. A1

◆ Samsung has surpassed Intel to become the world's largest chip maker by revenue, amid a surge in demand for memory chips. B1

◆ Cheap egg prices are pressuring U.S. suppliers and farmers, who are struggling to rebound two years after an avian-flu outbreak. B1

◆ Activist investors are challenging plans to break up DowDuPont, which is set to be created in August. B1

◆ Private-equity firms are blamed by creditor lawyers for speeding the collapse of some retail chains. B1

◆ Exxon and Chevron reported robust earnings, despite lower oil prices and questions about demand. B3

◆ Wells Fargo plans to make refunds to certain auto-loan customers who may have been improperly charged for car insurance. B5

◆ Beijing accused several banks of negligence or rules violations amid its efforts to stem capital outflows. B7

◆ Apple removed apps in China that let users circumvent internet filters. B4

◆ Warner Bros.' "Dunkirk" held on to the top box-office spot, fending off rivals. B3

World-Wide

◆ The White House is exploring the option of a pullout from Afghanistan amid a deep divide over deploying more troops. A1

◆ China unveiled a new, more mobile ICBM in Xi's latest display of military and political muscle. A3

◆ Seoul plans to upgrade its Patriot missile system in response to North Korea's ICBM test-launch Friday. A3

◆ Trump tweeted a warning to China over what he described as Beijing's inaction on North Korea. A7

◆ U.S. officials are considering stepping up sanctions against Venezuela by targeting its oil industry. A4

◆ Putin said 755 U.S. diplomats would be forced to leave Russia in retaliation for impending U.S. sanctions against Moscow. A3

◆ Sen. Collins, who helped block the GOP health-care bill, said Trump's threatened cut in payments to insurers would hurt the poor. A7

◆ Some White House aides said they expected further administration changes after Trump's ouster of Priebus as his chief of staff. A7

◆ Hackers penetrated a voting machine used in a Virginia election to demonstrate security flaws. A5

◆ Western U.S. states have turned their focus toward potential flooding after wildfires increased the risk. A5

◆ Al-Shabaab fighters ambushed an African Union convoy in Somalia and killed at least eight soldiers. A3

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## China Displays Its Military Might



WARNING TO RIVALS: Beijing unveiled a more mobile intercontinental ballistic missile at a military parade Sunday. The event came amid escalating military tensions in the region. 'The world is not peaceful,' said Chinese President Xi Jinping, who wore combat fatigues. A3

## Europe's Banks Find Footing

Restructuring and rising fee income have aided recovery, but profitability is an issue

the sector's grinding restructuring is starting to pay off.

By Max Colchester,  
Jeannette Neumann  
and Patricia Kowsmann

and margins. European banks still badly lag behind their U.S. peers in profits

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 Please see BANKS page A2

◆ Heard: European banks suffer from American envy..... B8

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 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

LONDON—After years of crisis Europe's banks are finally stabilizing.

On Friday, several of Europe's largest lenders reported solid if uninspiring results, a welcome change that shows

why its members can't stop pumping, months after a landmark deal to cut oil output to force prices up; big budget obligations

pledged to cut appear to be producing more oil than promised.

Crude prices have actually fallen, by 7.6% to \$52.52 a barrel, since the

members have ramped up government spending to keep populations happy and cover military expenses, and don't have a cushion to let oil revenue slip. Their strained budgets can be covered only through increasingly high prices per barrel, and if prices are low they

By Benoit Faucon in London,  
Lynn Cook in Houston,  
Summer Said in Cairo and  
Georgi Kantchev in St.  
Petersburg

need to produce more.

The inability to control output poses a potentially existential threat to OPEC's influence. The longer

Previously, low production costs meant OPEC members profited even when oil prices fell. These days,

prices remain low, said Helima Croft, the global head of commodity strategy at RBC Capital Markets and a longtime watcher of the cartel, "the harder it is to make the case to the most cash-strapped producers that they are 'better together.'

Tensions were laid bare last week in St. Petersburg, where OPEC and its non-OPEC allies discussed why output was going in the wrong direction.

Russia aimed to boost camaraderie with a visit to the Hermitage

Please see OPEC page A6

## OPEC HAS A CRIPPLING PROBLEM

Its members can't stop pumping, months after a landmark deal to cut oil output to force prices up; big budget obligations

OPEC, the once powerful oil cartel, is struggling to hold the line in a make-or-break fight to limit oil production, prop up crippling low prices and prove its relevance.

Why? Its members are addicted to oil.

Eight months after the Organization of the Petroleum Exporting Countries announced a plan for its 14 members and 10 allied countries to withhold almost 2% of the world's oil every day to boost prices, seven of the 11 OPEC members that

pledged to cut appear to be producing more oil than promised.

Crude prices have actually fallen, by 7.6% to \$52.52 a barrel, since the beginning of the year—half what the cartel called a fair price just three years ago and a level that some say is here for the long term.

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prices remain low, said Helima Croft, the global head of commodity strategy at RBC Capital Markets and a longtime watcher of the cartel, "the harder it is to make the case to the most cash-strapped producers that they are 'better together.'

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Please see OPEC page A6

## Trump Administration Weighs Pullback From Afghanistan

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.

Unable to agree on a plan to send up to 3,900 more American forces to help turn back Taliban advances in Afghanistan, the White House is taking a new look at what would happen if the U.S. decided to scale back its military presence instead, according to current and former Trump ad-

ministration 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 outgrowth 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

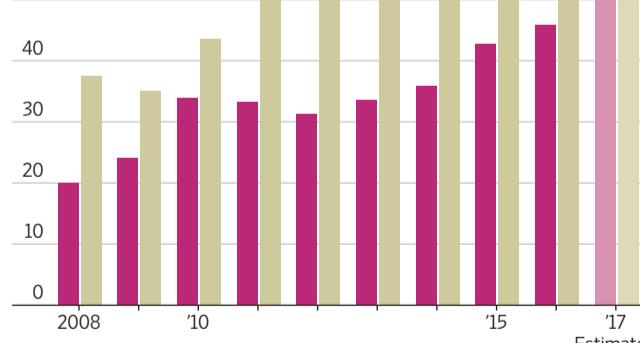
Please see AFGHAN page A4

## Samsung Tops Intel in Chips

Revenue of world's top two chip makers

Samsung Intel

\$60 billion



Note: Samsung figures converted from won (July 26)

Sources: S&P Global Market Intelligence (Intel); Nomura (Samsung) THE WALL STREET JOURNAL.

The title of largest chip maker by revenue has changed hands. B1

## INSIDE



WHO DECIDES  
WHAT YOU  
WATCH



A \$1,400  
IPHONE  
ISN'T CRAZY

ADRIAN ABIDI/REUTERS

KEYWORDS, B1

## Purple Craze: Lavender Lures Crowds, Baffling Town

\* \* \*

New York farm gets 1,000 weekend visitors who frolic in the crop

By CORINNE RAMEY

EAST MARION, N.Y.—During some July weekends the past few years, traffic on the two-lane country road passing through the hamlet of East Marion, population 926, has been backed up for miles.

Townspeople, unaccustomed to such things, initially found tour buses parked in front of their homes and wayward picnickers on their lawns. "When it was a quiet place that nobody came to, it

was great," said Anne Murray, president of the East Marion Community Association. "Now it's kind of a nightmare."

Long Island's North Fork isn't immune to seasonal overcrowding. Weekenders flock here to visit wineries in the summer, pick pumpkins in the fall, and saw down Christmas trees in the winter.

East Marion, which lacks such attractions, had largely



Lavender bunch

avoided the crowds. The source of this particular mass contagion, however, came on so suddenly that it left everybody in a state of bafflement. People had gone absolutely loony for lavender.

At a 17-acre farm here, Lavender by the Bay, more than 1,000 visitors descend each weekend when the fragrant flower is in bloom. The farm

Please see FLOWER page A6

## 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.

**T**he crisis has hardly been defused by President Andrzej 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 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 bastions 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 unrefined 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.



People gathered in front of Krakow's District Court on Wednesday to protest overhauls to the judiciary.

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.

## BANKS

*Continued from Page One*  
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 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 struggling 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 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

## Finally a European Banking Recovery?

## European bank shares have soared...

Euro Stoxx Bank Index



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

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 Allocco, senior credit analyst at Hermès Investment Management.

—Giovanni Legorano contributed to this article

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

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## 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

## PROFIT

*Continued from Page One*

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.

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

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

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.

As executives discuss results with investors and analysts, events in Washington have faded into the background. S&P 500 companies that mentioned Mr. 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.

The market has also 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.**

**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 said he hopes lawmakers will advance plans for revamping

the tax code as soon as the current quarter. Still, he isn't counting on it.

"I think there's more uncertainty in that now than maybe even before, so I can't let that sort of rule the business," Mr. Adamczyk said.

Even rapid progress on a tax rewrite or an infrastructure bill is unlikely to drive profits soon.

"We're halfway through the year, and they haven't done it," said Christopher Nassetta, CEO of **Hilton Worldwide Holdings Inc.** "We're not going to have enough time for it to trickle through and really benefit this year."

That could make it difficult for companies to sustain robust earnings growth, said Omar

Aguilar, chief investment officer of equities for Charles Schwab Investment Management.

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

"But an awful lot of this requires legislation, and we need

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## WORLD NEWS

## China Unveils New, More Mobile 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 Zhurihe 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.



A parade was held Sunday at the Zhurihe military base in northern China to mark the founding of what is now known as the People's Liberation Army 90 years ago.

"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 shuffle 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 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 and a blockade of China's oil supplies through the Indian Ocean.

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-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 is 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."

## In Shift, South Korea Beefed Up Its Missile Defenses

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 this year as one of his first acts in of-



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

fice on concerns that it had been pushed through by his unpopular predecessor without proper public consultation.

While Thaad is meant to defend the Korean Peninsula from shorter-range missiles—not an ICBM that would be capable of reaching the continental U.S.—Mr. Moon's pursuit of beefed-up military capacities reflects broader regional concerns about Washington's commitment to defending its regional allies as the U.S. homeland comes under threat.

China, which strongly opposes the Thaad deployment,

warned on Saturday that the deployment of further Thaad components "gravely damages strategic balance in the region and harms the national security interests of countries in the area, including China's."

On Sunday, the U.S. Defense Department said it had conducted a successful Thaad missile-interception test over the Pacific Ocean.

"A medium-range target ballistic missile (MRBM) was air-launched by a U.S. Air Force C-17" on Sunday, a Pentagon news release said.

"The Thaad weapon system 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, the spokesman for South Korea's presidential Blue House said.

Under the bilateral agreement with Washington, Seoul is blocked from putting payloads 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.

## Putin Says Russia to Expel 755 Americans

BY THOMAS GROVE

**MOSCOW**—President Vladimir Putin said 755 U.S. diplomats would be forced to leave Russia by September in retaliation for impending U.S. sanctions against Moscow.

In an interview with state television, Mr. Putin said the U.S. diplomatic presence in Russia would be cut by more than half, following the passage of new sanctions legislation by Congress that has further frayed ties between Moscow and Washington.

"We had hoped that the situation would somehow change," Mr. Putin said on state television.

"But judging by everything, if it changes, it won't happen fast," he said.

Mr. Putin said slightly more than 1,000 U.S. diplomatic and technical staff currently work in Russia.

His remarks offered high-level confirmation of a Russian move to retaliate against the U.S. for sanctions it passed last week.

## WORLD WATCH



A Somali soldier secured the site of a blast in Mogadishu, the country's capital, on Sunday.

## 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 war-

rants to Ozamiz Mayor Reynaldo Parojinog 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.

"He's a high-value target on illegal drugs," said Mr. Espenido, who oversaw the simultaneous, post-midnight raids on the mayor's residence and three other houses, said at a news conference.

"We enforce the law to protect the people who want peace in this country," he said. "How can we enforce the law if ... we're scared of the drug lords? That cannot be, they should be afraid of people who do good for all."

At least five people, including Mr. Parojinog's daughter, who serves as vice mayor of Ozamiz, were arrested during the raids.

Mr. Parojinog had denied any links to illegal drugs.

—Associated Press

## PAKISTAN

## Transition May Hand Military More Power

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

Shehzad Sharif has a history of being less confrontational with the 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—an allegation Pakistan denies.

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

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

A special session of Parliament, where the ruling party en-

joys a majority, has been called for Tuesday. It is expected to confirm Shahid Khaqan Abbasi as the interim prime minister.

Shehzad 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," Shehzad Sharif said Sunday. "We need to take Pakistan forward with strength through unity, not disorder."

—Saeed Shah

## SOMALIA

## Islamist Fighters Kill Soldiers in Ambush

Fighters with the al-Shabaab extremist group ambushed an African Union convoy in southern Somalia and killed at least eight soldiers on Sunday, a Somalian military officer said. The attack came hours after a car bomb in the capital killed at least five people, most of them civilians, shattering a month of relative calm in Mogadishu.

The al Qaeda-linked al-Shabaab fighters attacked the convoy near Bulo-Mareer town in Lower Shabelle region, Col. Muhyadin Yasin said.

The extremist group claimed that the attack killed 39 soldiers.

—Associated Press

## WORLD NEWS

# U.S. Targets Oil Industry In Venezuela

Government weighs new sanctions, but ban on oil imports is off table for now

BY CHRISTOPHER M. MATTHEWS AND JOSÉ DE CÓRDOBA

U.S. government officials are considering stepping up sanctions against Venezuela by targeting its vital oil industry, although an embargo against Venezuelan crude oil imports into the U.S. is off the table for now, people familiar with the deliberations say.

The measures could be announced as early as Monday, the people say, after a vote Sunday pushed by embattled Venezuelan President Nicolás Maduro to elect a special assembly that will rewrite the constitution. Venezuela's opposition is boycotting the vote, fearing the assembly could dissolve the opposition-controlled congress or postpone elections.

The U.S. Treasury Department didn't immediately respond to a request for comment on the potential sanctions. The U.S. government levied sanctions on 13 high-ranking Venezuelan officials Wednesday for alleged corruption, human-rights violations and undermining democracy in the South American country. While more sanctions against other individuals are also under consideration, on Friday, Vice President Mike Pence vowed "strong and swift economic actions" if the vote goes ahead.

The Venezuelan government has responded defiantly, dismissing sanctions and warnings from Washington. Mr. Maduro and his top aides have insisted the government would notch a triumph in Sunday's vote.

Observers say broader sanctions against Venezuela could accelerate an economic melt-

down and push the cash-strapped country to the brink of default on its debts.

The toughest of possible sanctions—an embargo on imports of Venezuelan oil—isn't on the table right now, these people said, but could be considered later. Options being considered include a ban on sales of U.S. oil and refined products to Venezuela, and financial restrictions on the country's state oil firm, they said. Those measures are seen as potentially crippling for the Venezuelan government without being too disruptive for the U.S. economy. No final decision has been made, the people said.

"Even limited new US-imposed sanctions or discussions of broader sanctions could be a catalyst for Venezuela defaulting on its upcoming debt payments," Barclays said in a recent note to investors. Venezuela's oil industry supplies 95% of the country's hard currency.

"The dollars aren't there to pay for the food and medicine Venezuelans need," said Moisés Naim, a former trade and economy minister in Venezuela. He fears broad economic sanctions could trigger a humanitarian crisis.

U.S. refiners, including Valero Energy Corp., Phillips 66 and Chevron Corp., have lobbied strongly against a ban on Venezuelan oil imports, because refiners on the U.S. Gulf Coast rely on Venezuela for heavier grades of crude oil to convert into fuel.

Venezuela sells about 750,000 barrels a day to the U.S., mostly to Gulf Coast refineries.

The most likely option, say the people familiar with U.S. discussions, is a ban on exports to Venezuela of refined petroleum products and lighter crude grades that Venezuela mixes with the heavy crude it then sells to the U.S. That could force Venezuela to import light crude at higher prices from distant places like Algeria or



Security forces faced off against demonstrators as violent opposition to Sunday's vote to revise the constitution surged.

## Maduro Holds Vote On New Assembly

Election comes amid protests as opposition vows boycott

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

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.

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 apparatus covered speeches by gov-

ernment 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 than the opposition, which organized an unauthorized referendum on July 16. Academics that oversaw the vote said more than 7.5 million voted against the constituent assembly. Top Maduro administration aides have publicly warned state workers that the government will keep tabs on whether they voted.

—Juan Forero and Ryan Dube

Nigeria, and deepen its steady oil output decline, says Francisco Monaldi, a Venezuela expert at Rice University.

Another option is to ban state oil company Petróleos de Venezuela from using the U.S. banking system and U.S. currency, the people say. Rep. Ileana Ros-Lehtinen, (R., Fla.), a senior Republican on the

House Foreign Affairs Committee, urged the Trump administration on Sunday to levy sanctions against Venezuela's state oil company and prevent Mr. Maduro's government from being able to tap the U.S. financial system as an economic lifeline.

Such sanctions would stop U.S. firms from buying Venezu-

elan oil and make it difficult for any oil trader or firm to do so, pushing Venezuela into default, said Russ Dallen, a managing partner at investment bank Ca-

racas Capital.

The U.S. could also ban U.S. companies from investing in Venezuela's energy sector, these people said.

U.S. refiners have warned an

embargo would be disastrous. In a letter Thursday to President Donald Trump, the industry's top trade group said limits on U.S. imports of Venezuelan crude would destabilize oil markets and drive up the cost of gasoline for U.S. consumers.

—Ian Tally contributed to this article.

# Inflation and Poverty Tear at Syria

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, valued at 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. The sharp fall in economic activity has cost at least two million people their jobs and about 60% of Syrians are 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.

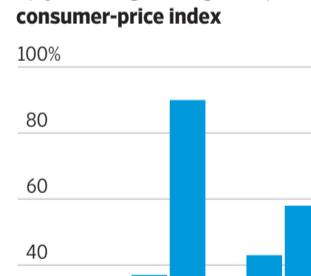
Syria has been divided, in effect, by the fighting. The regime of President Bashar al-Assad, antigovernment rebels, U.S.-backed Kurds and the militant group Islamic State all control parts of the country.

But the faltering economy spans those areas, and the war has altered consumer behavior. Subsidies for fuel in government-held areas have

## 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

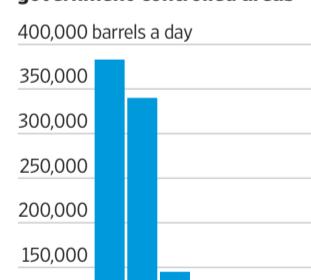
plummeted, leading more middle-class Syrians, even women, to ride bicycles—rarely seen before the war. Panhandlers—many of them children—crowd the streets.

In some parts of the country, the marriage dowry, paid to the bride as a gift, has almost disappeared.

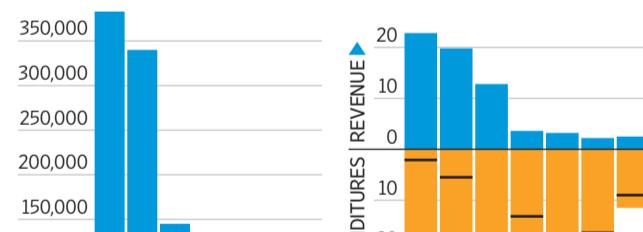
"The fabric of society has been destroyed," said Jihad Yazigi, Beirut-based editor of an economic trade publication, The Syria Report.

Markets for used goods,

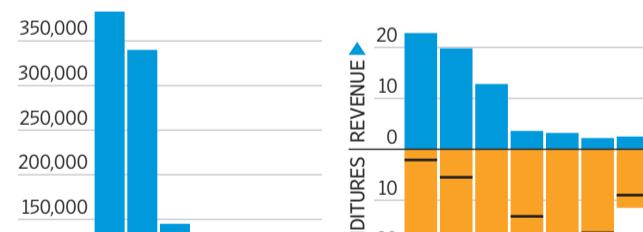
### Oil production in government-controlled areas



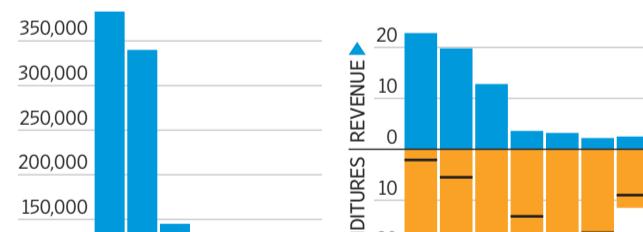
### Fiscal balance as a percentage of GDP



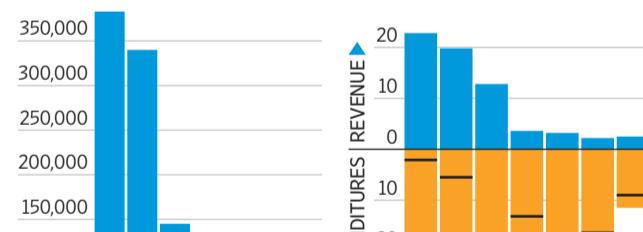
### Gross public debt as a percentage of GDP



### Annual percentage change in GDP



### Non-oil, Overall, Oil



which many Syrians 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. Some landlords demand rent in dollars. Even

# AFGHAN

Continued from Page One

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 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 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 administration 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.

# 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 spreads 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

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 bridge. 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

## OPEC

*Continued from Page One*  
museum and a picturesque evening cruise on the Neva River, where ministers donned matching hoodies bearing the logo of the city's soccer team, FC Zenit.

But during the weekend, Saudi Arabia's energy minister, Khalid al-Falih, and other oil officials holed up in a hotel conference room at the Four Seasons calling other OPEC ministers—including those in Iraq and the United Arab Emirates—demanding to know why they weren't cutting production as much as promised, according to people familiar with the matter.

"Some have underperformed. We have talked to them," Mr. Falih told reporters, adding he didn't "mince words."

Iraq denied it wasn't meeting targets and said OPEC was getting bad information.

OPEC has been under pressure from U.S. shale producers, who since about 2008 have helped to nearly double U.S. oil production.

The output has stolen market share from the cartel's members and pushed prices lower. OPEC's share of the global oil market has shrunk to 40% today from 55% in the early 1970s, when its embargo on sales to the West quadrupled oil prices in six months.

The dynamic working against OPEC is that, collectively, its members need the highest oil prices of any industry player—more than companies such as Exxon Mobil Corp., Royal Dutch Shell PLC and most U.S. shale producers, according to Goldman Sachs.

For decades, OPEC was the low-cost producer of oil. During the boom years of 2011 through 2014, OPEC members, which largely fund national spending with oil revenue, could balance their budgets with oil prices \$10 to \$40 a barrel less than most oil companies needed to fund their spending and pay dividends. Today, OPEC needs \$10 to \$20 a barrel more than Big Oil and U.S. exploration and production outfits, the investment bank said in a report to clients.

OPEC members once drew their power from the giant reserves of what is known as "easy oil"—conventional crude that costs as little as \$3 per barrel to pump. That cost guaranteed both fat profit when prices were high and the ability to hunker down when the market tanked.

Several years of \$100-a-barrel oil prices lasting until 2014 coincided with big military, security and domestic spending to pacify restive populations during the Arab Spring, hold back the tide of Islamic State and influence the Syrian civil war. Those spending obligations meant OPEC was fundamentally unprepared for the oil-price crash that followed.

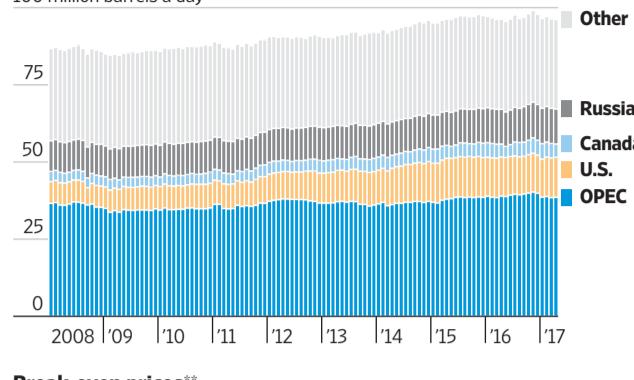
The U.A.E. spends only \$12 to pump a barrel of oil but needs oil to sell at \$67 to cover its government expenditures, according to the International Monetary Fund. Its national budget has quadrupled to over \$114 billion over the past 15 years.

The social spending helps regular Emiratis with housing costs, water bills and cheap electricity—subsidies that the U.A.E. government has been unwilling to significantly cut for fear of street protests.

## Producers Under Pressure

OPEC has lost market share as shale drillers expand U.S. output. The cartel members need higher prices per barrel to cover national budgets swollen with new social, security and military spending.

## World oil production



## Break-even prices\*\*

Price per barrel needed by OPEC members to balance national budgets.

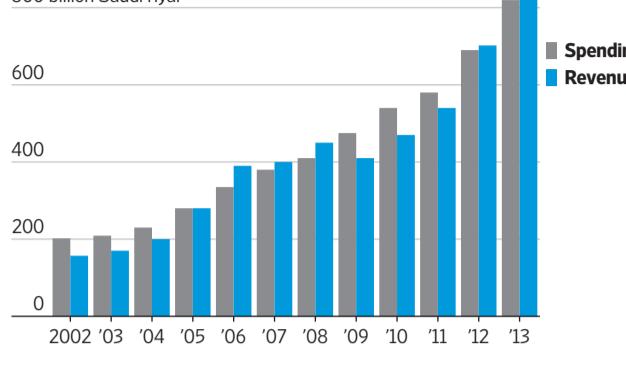


\*3.75 riyal = \$1 at the current exchange rate \*\*Figures for Equatorial Guinea not available

Sources: International Energy Agency (production); Saudi Arabian Ministry of Finance (revenue, spending); Fitch, Highmark Capital, International Monetary Fund (breakevens)

Friday's close: \$52.63 a barrel

## Saudi government spending vs. revenue



THE WALL STREET JOURNAL.

ment, with output averaging more than one million barrels a day less this year compared with October 2016, helped by larger-than-agreed cuts by Saudi Arabia.

But monthly figures show output recently has moved higher, the IEA and other observers said.

OPEC has a long history of fractious relations among its members, a collection of regimes from the Middle East, Africa and South America.

Even the cartel's most powerful moment, the 1973 oil embargo, divided the group, with only its Arab members taking part in cutting off crude to Western nations that supported Israel.

In 1986, Saudi Arabia was so upset about OPEC members flouting production agreements that unleashed a flood of oil that sank prices long-term, a period known as the "Lost Decade."

When oil prices began falling in July 2014, then-Saudi oil minister Ali al-Naimi said OPEC no longer had the power—or will—to cut production and save the market. U.S. shale producers were too powerful.

But Mr. Naimi said he believed OPEC members' still had essential advantages, such as the ability to produce at extremely low cost.

Mr. Naimi was replaced in May 2016 by Mr. Falih, a Western-educated oilman with long experience at Aramco. Mr. Falih has said Saudi Arabia and even OPEC couldn't make a difference by cutting production on its own.

He reached out to Alexander Novak, energy minister in Russia, where low oil prices were creating a budget crunch for President Vladimir Putin just as he was escalating his country's military support of Syrian President Bashar al-Assad.

"We both had an extended crisis," Mr. Novak said in an interview. "We both wanted results."

OPEC's agreement last year with Russia and other big producers gave the cartel a coalition that controlled about 55% of global oil output, its earlier level of dominance. Knowing that OPEC members cheated on production pledges in the past, the cartel created a compliance committee to monitor production and scold members who pumped more.

In April, Mr. Falih was upset after reading a news article about Iraq pumping over its limit and stealing market share from Saudi Arabia. The kingdom had been cutting more than it pledged to make up for reported laggards like Iraq.

"See, they are laughing at us," Mr. Falih wrote in a WhatsApp message to a group of peers, according to people familiar with the exchange.

In Iraq, there is a strong feeling that the country should be exempt from cutting production because of the war against Islamic State, said Luay al-Khatteeb, an adviser to the Iraqi parliament.

He pointed to an issue of lingering resentment in OPEC: "The Saudis are only cutting because they want better prices for the Aramco IPO," he said, a notion Mr. Falih denied.

OPEC members said they are trying now to negotiate a way to quit the production cuts early next year without sending the market into another downturn.

—Nathan Hodge contributed to this article.

PETER J. SMITH FOR THE WALL STREET JOURNAL



OPEC ministers last week in St. Petersburg. Clockwise from bottom left: Kuwait's Issam Almarzooq, Secretary General Mohammad Barkindo, Saudi Arabia's Khalid al-Falih and Russia's Alexander Novak.

**FLOWER**

*Continued from Page One*

sells lavender in sachets, essential oils and bath salts. It sells culinary lavender for use in baking and tea, and lavender pillow mist that, according to the farm's website, will "transport you to our fields" and "bring the spa home to you."

To cope with the crowds and soothe cranky neighbors, the farm began charging admission when the lavender bloomed (\$8 on weekends, \$5 during the week), prohibited tour buses, trucked in portable toilets (stocked with lavender-scented wipes) and—at the town's request—removed more than an acre of lavender this year to add about 100 parking spots. The farm has made money off admissions, offset by expenses to accommodate visitors.

There is no doubt that lavender-peeping, here and elsewhere, has become a bona fide

thing. One obvious question has proven more difficult to answer: Why?

Serge Rozenbaum, who said he did nothing to cultivate his crop's newfound fan base, bought Lavender by the Bay in 2002 with one goal—to grow lavender, and nothing else. He said he first fell in love with lavender when, as a child, he met a man on a donkey selling it in a market in his native Paris.

While driving his golf cart around his fields this summer, the 66-year-old pointed to his beehives (painted lavender), shipping containers (painted lavender) and Adirondack chairs (also lavender). He plucked sprigs of lavender from his meticulous fields, rubbing them between his fingers and describing their "fineness" as if he were a sommelier.

"I'm French," said Mr. Rozenbaum, who was wearing a lavender polo. "I don't like mediocrity."

In France, lavender farms are a popular tourist attraction. That, at least to some ex-

tent, seems to explain why some of the new arrivals are making pilgrimages here. "It's a substitute for Provence," said Johnny Guan, 39 years old, who was posing for selfies with his girlfriend.

One aspect of the lavender craze, according to the farmers and locals, is that the majority of the new visitors are of Asian descent. On a recent day at the farm, many visitors were born in a swath of Asian countries: China, Vietnam, Japan and Korea. Many first- and second-generation Asian-Americans, and young Asian students studying in the U.S., also trek to the farm, about 100 miles from New York City.

Some carry parasols and wear white or purple dresses, spending hours shooting photos in the fields. Others bring young children, or are accompanied by small dogs. Almost everybody comes with a cellphone or camera.

Hoang Dinh, 25, who lives in Manhattan, said he was lured out to East Marion in

part by stories he had heard of the lavender fields in France. But he also came with another mission, he said: "Instagram picture, man!" Photos with lavender are all over social media, he said.

A glance at WeChat, the powerful Chinese social network with nearly a billion monthly active users—and a history of driving huge num-

bers of visitors to obscure places—shows that lavender has indeed become a popular topic. More than 20 official accounts, not affiliated with the farm, promote it in Chinese.

"If you want to look at lavender you don't have to go to France!" reads one posting. "New York Long Island's Provence will satisfy you!"

Lavender hasn't always

been a tourist attraction, or even particularly beloved. For Victorians who ascribed meaning to flowers, there was nothing romantic about it. "One of the things it signified was distrust," said Diane Miske, former head horticulturist of the Robison York State Herb Garden at Cornell University's botanic gardens. "They thought a poisonous snake would hide under the lavender bushes."

Some suggest that a source of the craze is a 2000 romantic film from Hong Kong that includes a scene shot in a lavender field in France.

For now, East Marion has reverted to its traditional bucolic state. Mr. Rozenbaum and his family have cut their crop, which they sell at New York City farmers markets.

How does he explain the Long Island lavender craze? "It's one of the few essences that goes straight to your brain," he said. "There's no filter."

—Esther Fung contributed to this article.

PETER J. SMITH FOR THE WALL STREET JOURNAL

Visitors like taking selfies in fields of lavender on Long Island.

# 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.

The secretary of health and human services, meanwhile, was noncommittal about the payments and also declined to say whether the Trump administration would enforce the portion of the Affordable Care Act that generally requires individuals to carry health insurance.

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%



Sen. Susan Collins (R, Maine)

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 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, when he also floated the idea of cutting off lawmakers' own health benefits. "If a new Healthcare Bill is not approved quickly, BAILOUTS for Insurance Companies and BAILOUTS for members of Congress will end very soon!" Mr. Trump said on Twitter.

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 several 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 Republican Senators, the World is watching: Repeal & replace..."

He also has called for taking steps to ensure the law doesn't work as intended. 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."

During appearances on Sunday talk shows, Tom Price, the secretary of health and human services, said "no decision's been made" on whether the administration would enforce the ACA's "individual mandate." That 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.

THE OUTLOOK | By Kate Davidson

# GOP's Next Task: Raising Debt Limit



Republicans 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-



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

ZACH GIBSON/BLOOMBERG NEWS

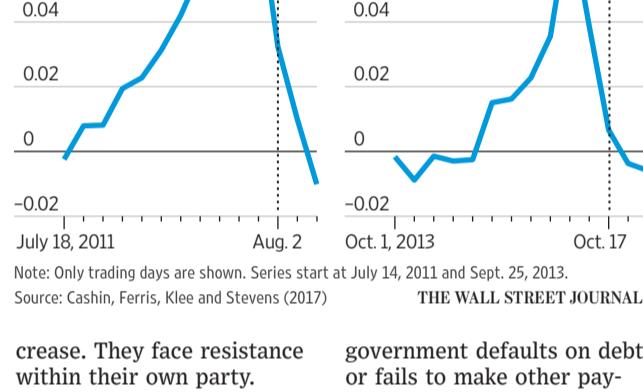
## Debt Ceiling Crises Can Be Costly

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 ...**

**... or to a possible Oct. 17, 2013, debt-ceiling breach.**



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.

**A**dding 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."



Donald Trump, left, talked with Xi Jinping in April about addressing North Korea's weapons programs.

# Key Aide's Firing Has White House on Alert

BY REBECCA BALLHAUS

WASHINGTON—Two hours after President Donald Trump tweeted Friday he was replacing Chief of Staff Reince Priebus with his homeland security secretary, Mr. Priebus's colleagues filed into the White House's Roosevelt Room to watch their former boss film an exit interview on CNN. The question on many of their minds, according to administration officials: Who would be next?

Mr. Priebus's departure came a week after Sean Spicer—who was among the group watching the CNN interview—resigned in protest as press secretary over the president's hiring of a new communications director. The latest move left West Wing officials wondering over the weekend about other changes to come in a White House coming off of one of the most turbulent weeks for any administration in recent memory.

Several officials, some of whom had left the building on Friday when Mr. Trump made his announcement, said they expected further shuffling in coming weeks as new Chief of Staff John Kelly sets up shop.

Anthony Scaramucci, the newly installed communications director, had already spent the past several days threatening to fire officials caught leaking information to the news media.

The departure of Mr. Priebus, a former chairman of the Republican National Committee, also prompted concerns from some Republicans about the administration's relationship with the party, which has shouldered much of the communications work for the White House in recent months.

Mr. Scaramucci sought to ease those concerns on Sunday, tweeting that he had spoken to RNC Chairwoman Ronna Romney McDaniel and looked forward to "building [an] even stronger relationship."

White House officials over the weekend said they hoped

Mr. Kelly, a retired Marine Corps general, would command the president's respect and attention in a way that Mr. Priebus appeared unable to do. "If he says you should stop, he might actually think twice about sending that tweet," one official said of Mr. Trump, whose top advisers have proved unable to curb his penchant for bombastic social-media posts.

For many White House aides, Mr. Priebus's departure was sealed after the demise of the Republican health-care bill in the Senate early Friday and when Mr. Priebus declined to respond to a profanity-riddled rant by Mr. Scaramucci in an interview with the New Yorker on Wednesday in which he disparaged the chief of staff as a "paranoid schizophrenic, a paranoiac."

Mr. Priebus's relationships with the Republican Party's top donors—many of whom had resisted Mr. Trump's campaign—were instrumental in Mr. Trump's fundraising efforts last year and led in part

*Several officials said they expected further shuffling in coming weeks.*

to his appointment. In the 2016 election, the RNC ran Mr. Trump's large-dollar fundraising operation, helping it raise more than \$100 million in a joint fundraising vehicle with the campaign.

But several top Republican donors said they didn't expect Mr. Priebus's departure to affect the administration's relationship with the party committee. The White House has also grown in some ways dependent on the RNC's communications staff, which has taken on much of the administration's rapid response and surrogate efforts.

—Peter Nicholas contributed to this article.

# Trump Tweets Warning To China on North Korea

BY REBECCA BALLHAUS

ing enough to contain Pyongyang's nuclear 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 Saturday, two U.S. bombers performed a flyover of the Korean Peninsula in what the U.S. Air Force said was a response to Pyongyang's Friday missile test.

Earlier in the year, Mr. Trump had touted his relationship with Chinese President Xi Jinping, who visited Mr. Trump at his Florida resort in April, where the two agreed to work together to address North Korea's nuclear-weapons and missile programs.

But in June, Mr. Trump suggested the joint effort had proved unsuccessful.

"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.

# 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.

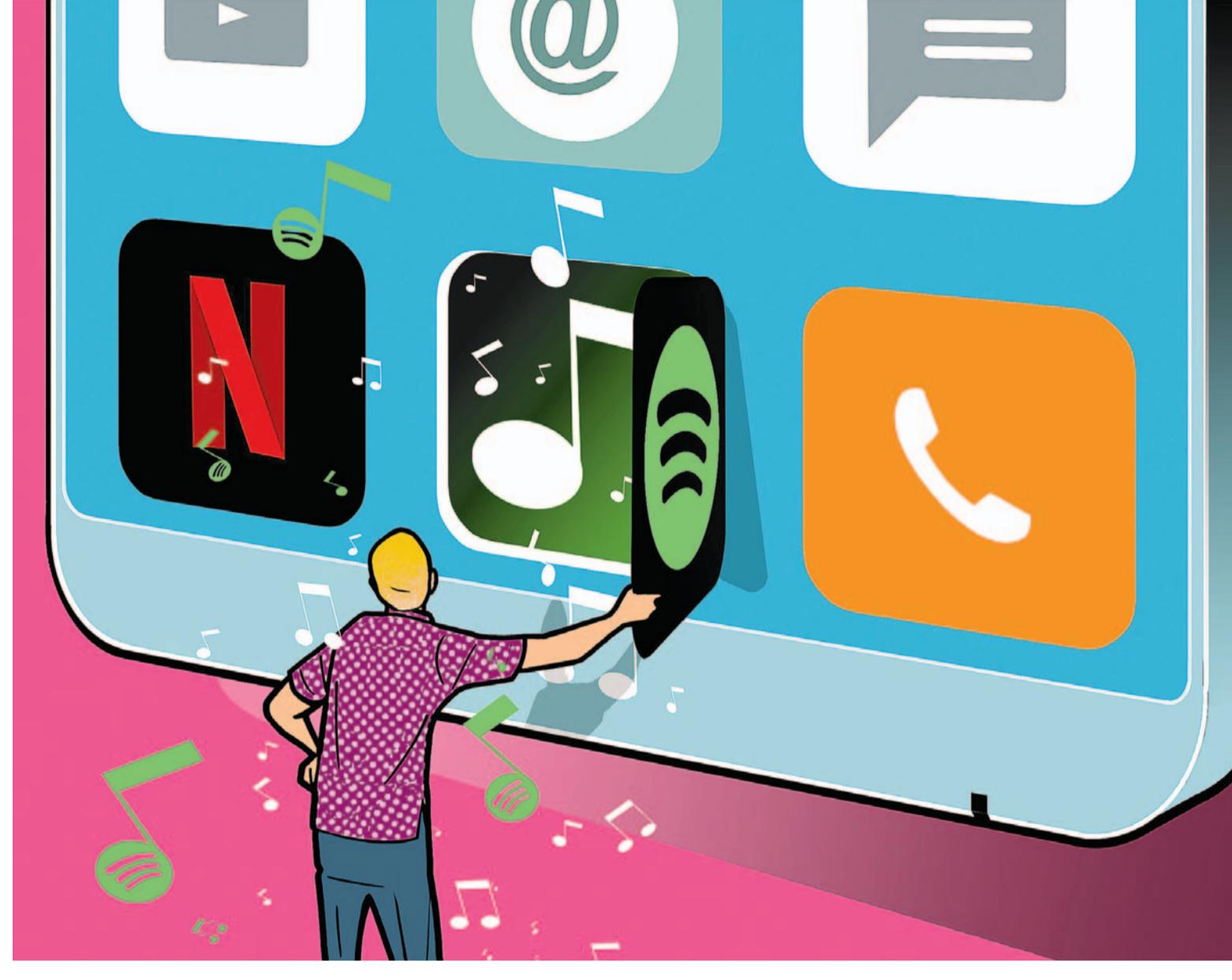
So what's the problem? Reports in the New York Times and elsewhere suggest that Spotify may have special deals with so-called "fake artists," paying them less than the standard share of its revenue that goes to Arcade Fire or Beyoncé for each play.

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.



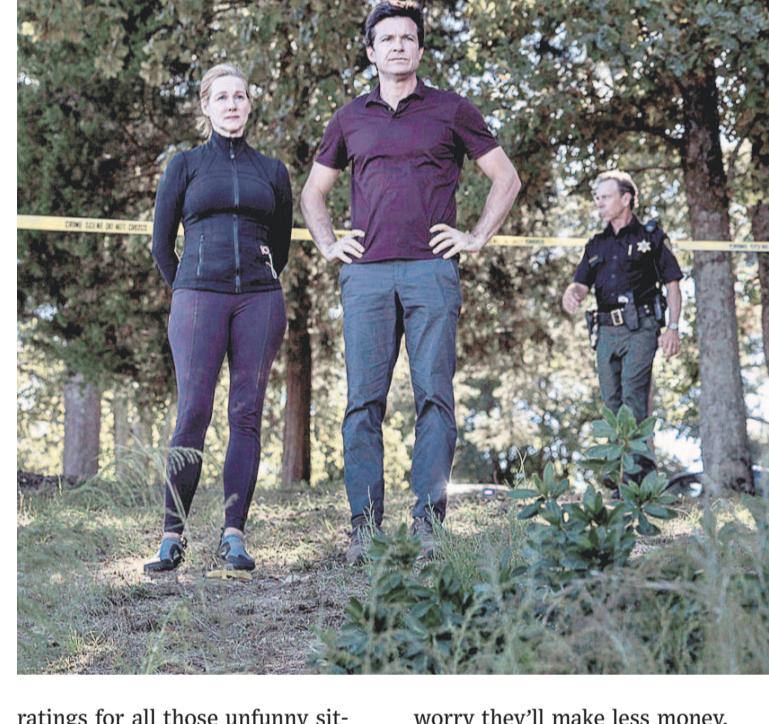
cent series, movie and stand-up special Netflix has made, including "Ozark" and "Glow."

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.

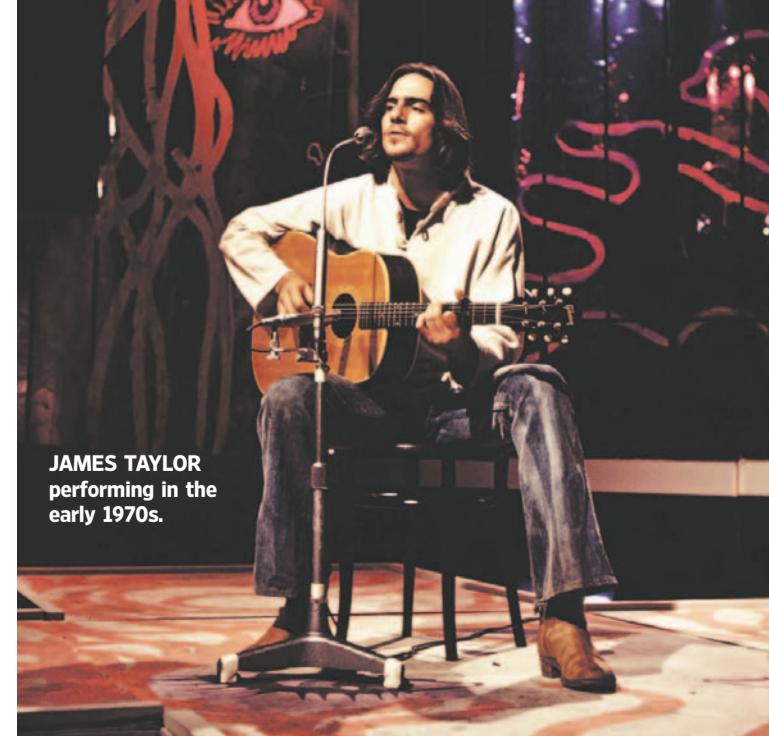
The song opens with JT's beau-

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 &amp; 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.

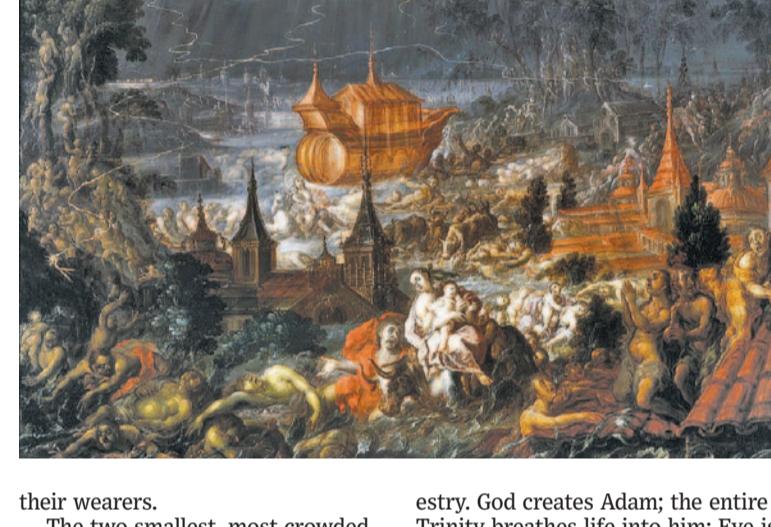
The eye wanders up and down, seeing differences, making connections. Below, all is crowded darkness. Some figures are almost cartoonish in their agony. At the top, with only seven figures, all is purity and light: clouds, luminous clothing, rays of sun.

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 &amp; OUTLOOK

## The Republican ObamaCare Crack Up

**A**fter 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

**P**resident 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.

**R**ussia Sanctions Breakthrough

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.

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.

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## 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.

## Activist Investors Aren't All That Democratic

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

**P**resident 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."

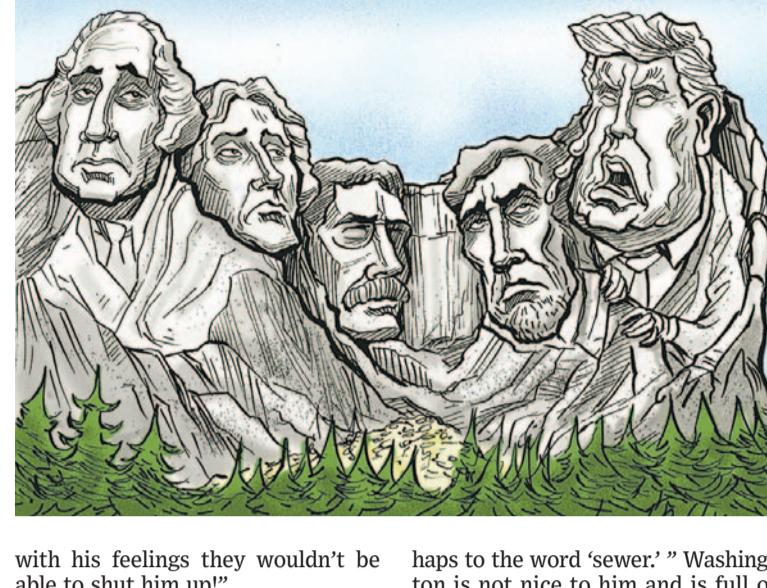
It's all whimpering accusation and finger-pointing: *Nobody's nice to me. Why don't they appreciate me?*

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

**A**s 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 legal 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

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

**T**hey 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."*

## THE WALL STREET JOURNAL.

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OPINION

## LIFE &amp; ARTS

WHAT'S YOUR WORKOUT? | By Jen Murphy

# Leaving Runners in the Dust

A globally competitive race walker smokes rivals on the track; a low-key approach to gear and diet

**IF RICHARD LUETTCHAU II** wore a Fitbit, it might melt down. As a competitive race walker, he clocks steps at a faster pace than the average adult runs. "The movement looks like a wonky tango, so it's easy to mock," he says. "But it's incredibly difficult."

Mr. Luettchau, a geographic information specialist at Mott MacDonald, an engineering consultancy in Iselin, N.J., is a runner at heart. After a successful high school cross-country career, he went on to race cross-country and track at **Stockton University** in Galloway, N.J. But he struggled with injuries. "By sophomore year I wasn't fast enough to score at the conference meets," he says. "So my coach asked if I wanted to try race walking." Skeptical but wanting to contribute to the team, Mr. Luettchau gave it a try. He was a natural.

"There were some jokes when I started training, but once I proved I was good, the teasing ended," he says. "None of my friends will race me. No one wants to get beat by a walker."

Race walking requires the walker to be in contact with the ground at all times. Only when the front foot's heel touches down can the back foot's toe lift off. And the race walker's knee must stay straight through the leg swing. "It sounds easy," he says. "But it definitely limits your speed. When you run, you can float."

Mr. Luettchau, 32, says he still prefers running. But he's internationally competitive at race walking, so he keeps at it. He was the **USA Track & Field** national champion in the 10,000-meter race walk in 2013 and qualified for Olympic trials in the 20-kilometer race in 2012 and 2016. He will compete July 30 at the USATF 10,000-meter Race Walk Championships in Manalapan, N.J.

He race walks January through August and devotes fall to running, racing 5K, 10K and half-marathon distances. "I think alternating both sports has helped limit injuries in

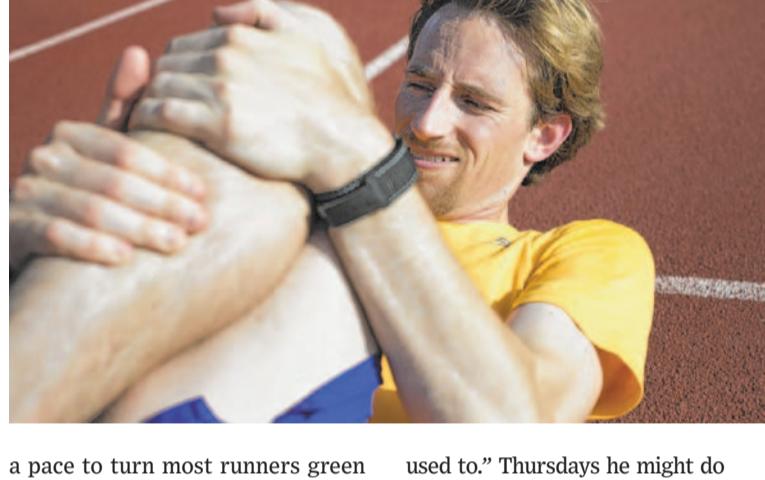


Richard Luettchau II stretches, right, and sets his watch, above, before a race-walking training session at a park in Edison, N.J., top.

my body," he says. Mr. Luettchau and his wife live in Bridgewater, N.J.

## The Workout

Mr. Luettchau does a 45-minute workout after work Monday through Thursday. He alternates race walking at a park and a high school track. Monday he might build up to his threshold pace, about seven minutes a mile. That's



ADRIENNE GRUNWALD FOR THE WALL STREET JOURNAL

a pace to turn most runners green with envy. Tuesday he does  $\frac{1}{4}$ -mile repeats, with 30 seconds of recovery, for 3,000 meters. Wednesdays he works out at a lighter pace.

"As I've gotten older, the rest days have become important," he says. "I used to go hard every day, but my legs don't bounce back like they

used to." Thursdays he might do 200-meter repeats with 30 seconds of recovery, but not as intensely as on Tuesdays. Fridays he walks for 20 to 30 minutes for recovery. He goes long on the weekends, usually walking 75 to 90 minutes, alternating between pavement and dirt trails.

Mr. Luettchau also focuses on

his shoulders and upper back. Every morning he turns on ESPN in his living room and spends 10 to 15 minutes performing 100 push-ups, 200 sit-ups and a set of forward and lateral raises with 10-pound dumbbells.

## The Diet

Mr. Luettchau is the first to admit he has terrible eating habits. "I'm 148 pounds soaking wet and 5 feet, 10 inches," he says. "I eat whatever I want, whenever I want." He averages breakfast three mornings a week: apple juice and a bowl of Rice Krispies with 2% milk. He packs a lunch of pretzels, Gatorade and a turkey sandwich with cheese and mayo on white bread. Mr. Luettchau avoids whole grain bread. "I think it tastes like cardboard," he says. He has pasta for dinner at least twice a week. "A go-to is poor man's chicken parm," he says. "I dump a box of frozen Perdue chicken nuggets into my pasta and sauce." He has a weakness for brownies.

## The Gear & Cost

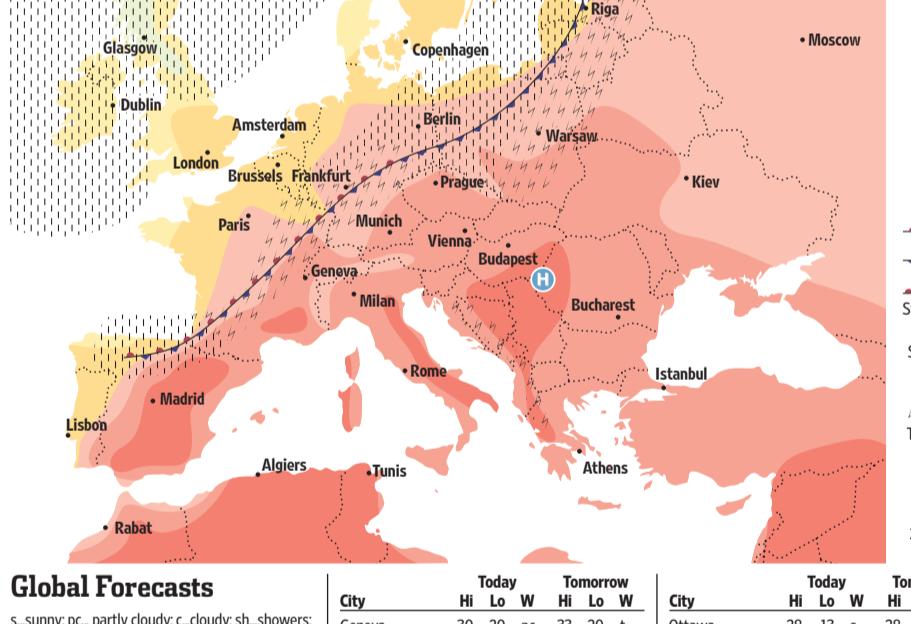
Mr. Luettchau is a minimalist when it comes to gear. "I don't use GPS or anything fancy," he says. "I bought my basic Coleman watch for \$20 off of Amazon." He typically goes through three to five pairs of sneakers a year, at roughly \$65 per pair. He runs in Asics-Gel Cumulus and race walks in Asics GT-1000s.

"I look for clearance deals at the outlet stores or coupons from retailers like Kohl's and they end up being a pretty decent price," he says. He spends \$85 to \$100 on his racing sneakers, Asics Gel-Ds Racer, but says they last all year. "Clothing is always tough for me, since I have longer legs and a short torso," he says. "I find myself wearing the C9 brand from Target."

## The Playlist

"I tried running with music in ninth grade and realized I changed my pace based on what beat I was listening to, so I stopped," he says.

## Weather



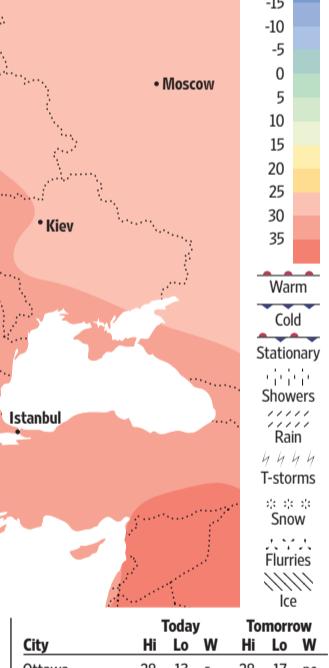
AccuWeather.com

## Global Forecasts

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

Today Hi Lo W Tomorrow Hi Lo W

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	22	14	pc	23	15	pc
Anchorage	18	13	c	18	13	pc
Athens	32	24	s	31	24	s
Atlanta	31	19	s	30	21	s
Bahrain	46	29	s	48	31	t
Baltimore	31	18	s	32	20	s
Bangkok	36	27	pc	34	27	t
Beijing	32	23	s	30	24	c
Berlin	26	19	t	29	20	t
Bogota	18	9	c	19	9	r
Boise	38	20	s	39	20	s
Boston	28	19	s	28	20	s
Brussels	24	15	pc	24	14	pc
Buenos Aires	15	11	sh	15	10	r
Cairo	36	25	s	37	26	s
Calgary	25	13	pc	20	11	c
Caracas	32	26	t	32	26	pc
Charlotte	30	16	s	31	19	s
Chicago	30	19	s	31	20	pc
Dallas	34	24	pc	31	23	pc
Denver	29	15	t	30	13	t
Detroit	31	20	pc	32	20	pc
Dubai	42	35	s	43	36	c
Dublin	18	10	t	19	12	pc
Edinburgh	17	11	t	17	10	t
Frankfurt	27	20	t	31	20	t



The WSJ Daily Crossword | Edited by Mike Shenk



HOT STUFF | By Aaron L. Peterson

Across		
1	Church law	26 Negating word
6	"Thrilla in Manila" winner	49 Bus. letter accompanier
9	Fishhook feature	50 For each
13	Love, to Luciano	51 So far
14	Play the ponies	52 They're hot
15	Houston footballer until 1996	56 Find darling
16	They're hot	57 It's hot
18	Nick of "The Prince of Tides"	58 Down
21	Victim of a patio zapper	63 Striker's demand
24	Shapely leg, in slang	64 Conks out
25	"My country, ___ of thee..."	65 Forerunner of
		66 Involuntary jerk
		Down
1	Church law	1 Baseball's Ripken
6	"Thrilla in Manila" winner	2 Bordeaux buddy
9	Fishhook feature	
13	Love, to Luciano	
14	Play the ponies	
15	Houston footballer until 1996	
16	They're hot	
18	Nick of "The Prince of Tides"	
21	Victim of a patio zapper	
24	Shapely leg, in slang	
25	"My country, ___ of thee..."	

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

3 Veterans Day mo. 33 Shaw with a clarinet

4 Bonanza finds 34 Plus column entry

5 Music for meditation 36 Harry Potter and Lord Voldemort, e.g.

6 James Garfield's middle name 37 Caterer's job

7 Lustful look 38 Gives an opinion on, e.g.

8 "Stop! They set us up!" 39 Buddy

9 Playbill write-ups 40 Lee or Grant: Abbr.

10 "Sleeper" director 41 Quaintly stylish

11 Quarterback Favre 42 Quarterback Favre

15 Quick ballroom dance 43 Make amends

47 Circle spokes 50 Lowly workers

48 Minions follow them 51 Son of Aphrodite

54 Hwys. 52 Find darling

55 Rice Krispies sound 53 Minions follow them

58 U.S. spy org. 54 Hwys.

59 Pack animal 55 Rice Krispies sound

60 "Shiny Happy People" band 56 Find darling

Previous Puzzle's Solution



The contest answer is BADGE. Each of the five theme answers begins with a homophone of a musical note (ti for TEA, la for LAUGH, re for RAY, sol for SOUL and mi for ME). Converting the notes to their letter equivalents (in the fixed-do system, where do is D, re is E, etc.) yields the contest answer.

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THE WALL STREET JOURNAL.

Monday, July 31, 2017 | B1

Euro vs. Dollar 1.1748 ▲ 0.61%

FTSE 100 7368.37 ▼ 1.00%

Gold 1268.40 ▲ 0.67%

WTI crude 49.71 ▲ 1.37%

German Bund yield 0.544%

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.

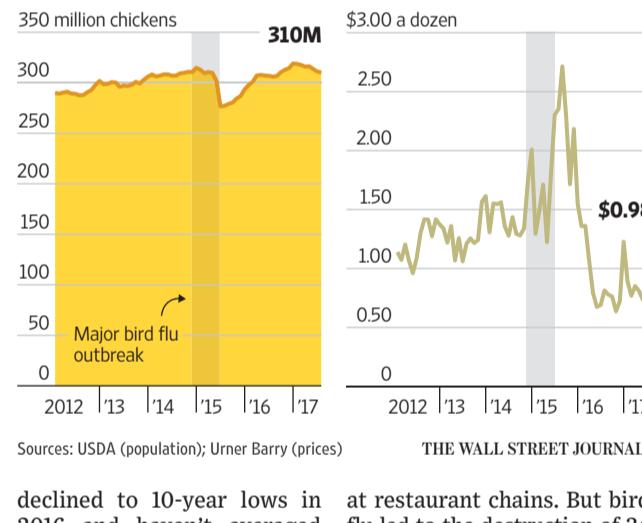
Poultry farms in the U.S. have fully restocked and rebuilt egg supplies since the outbreak but demand hasn't kept up. Some buyers who found alternatives during the outbreak haven't returned. Egg prices are near a decade low, a situation that cheers shoppers in grocery aisles but is spurring losses for 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 last 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 at restaurant chains. But bird flu led to the destruction of 34 million egg-laying hens as it struck farms in 2015.

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

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.

Recent bird-flu outbreaks on farms across Europe and Asia have given food companies further cause to stick with egg alternatives rather than risking another supply disruption, industry officials say. Another deterrent is the time and expense of changing their labels back to include eggs.

Stockpiles of dried eggs, an egg product used in goods such as cake mixes, topped 30 million pounds earlier this year, the highest level in a decade, according to Urner Barry's Mr. Moscogiuri.

## Samsung Topples Intel In Chip Sales

**Samsung Electronics Co.**, the South Korean technology company best known for its smartphones and television sets, has taken the title of

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

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 in

dustry 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, that gives devices their multitasking speed by holding data needed in the short term.

*South Korean firm is expected to keep its lead this year amid a memory-chip shortage.*

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 re-

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**KEYWORDS** | By Christopher Mims

## Why an iPhone Priced At \$1,400 Isn't Crazy



How much would you pay for an iPhone?

This September, Apple will unveil not

just the usual two new iPhones, but also an ultra-deluxe 10th-anniversary model, according to reports from multiple analysts. They

expect this device to include premium features such as an OLED screen, 3-D imaging and a retina scanner, and they expect it to command a premium price, between \$1,000 and \$1,400, depending on whom you ask.

The speculation has met with howls of protest from some Apple watchers. At \$1,400, it would cost twice what an entry-level iPhone 7 does—and nearly twice what the potentially comparable Samsung Galaxy S8 now costs.

Yet there is plenty of evidence that those who say that price is untenable will be eating crow come fall.

The launch of a pricey new iPhone would have big implications for Apple's financials, and it would bode well for Apple's continued dominance in mobile phones. Here are five reasons for Apple to go big, pricewise:

### Boosting the Brand

An ultraluxurious edition of the iPhone makes sense as a shot in the arm for the whole brand. Apple's slow and steady approach to adding new features and incrementally refining its gadgets has given us a powerful device with a thriving ecosystem.

Please see MIMS page B4

◆ Apple removes apps in nod to China's censors..... B4

## Private-Equity Firms Faulted for Retail Woes

BY LILLIAN RIZZO

The retail industry's woes are often blamed on e-commerce and an excessive number of brick-and-mortar stores. Here's another potential culprit: private-equity investors.

Some of these investors took over retailers including **Payless ShoeSource** Inc., **Gymboree Corp.**, **rue21 Inc.**, and **True Religion Apparel Inc.** during the last decade. The deals not only loaded debt onto the companies, but, in some instances after the initial takeovers, the owners had the companies borrow more money to pay themselves dividends. Now, creditor lawyers are investigating whether private-equity firms accelerated the financial collapse of some of these companies.

In the case of Payless, investors **Golden Gate Capital** and **Blum Capital**, after a leveraged buyout in 2012, over the next two years paid themselves \$350 million in dividends—in total putting more than \$700 million in debt on the company. In

Bankruptcy cases are messy by nature, and creditors—typically facing losses—are often determined to minimize them. In the case of Payless, which

Please see DEBT page B2

## Activists Challenge Plan for DowDuPont

BY DAVID BENOIT

MIDLAND, Mich.—Andrew Liveris is days away from what was supposed to be his crowning achievement: merging **Dow Chemical Co.** with longtime rival **DuPont Co.**

But instead of celebrating his legacy, Mr. Liveris is fighting for it. A quartet of well-known activist investors, including **Jana Partners LLC** and **Trian Fund Management LP**, has lined up to challenge the plans taking shape to break apart DowDuPont. The \$150 billion company is set to be created in August upon the deal's close.

The investors' unrest could spur an unprecedented, multi-pronged attack on Mr. Liveris, who has led Dow Chemical for 13 years and whom the activists view as a roadblock. An escalating dispute could further complicate the daunting task of splintering DowDuPont into three companies within the 18-month timeline executives have set.

As the companies review the exact details of the breakup, these investors are concerned the final plan won't



Andrew Liveris, Dow Chemical's CEO, is fighting for the deal.

deviate much from the original one outlined when the deal was announced in December 2015. Their main complaint: The materials company expected to emerge from the breakup, the new version of Dow Chemical, looks too much like the current Dow and needs to shrink.

Dow shareholder **Third Point LLC** has publicly called for changes to the original breakup plan. Fellow Dow

holders **Jana** and **Glenview Capital Management LLC** and DuPont investor **Trian** have privately made their own cases, according to people familiar with the matter.

A war on multiple fronts would be the clearest test yet of whether activists' campaigns, brought to companies such as General Electric Co. and Kraft Foods Inc., can keep slimming down companies. The outcome could shed light

on whether corporate defenders have regained ground in arguing that breadth of business is needed to ensure stability and spur innovation and gains over the long term.

A review of the original breakup plan—which called for DowDuPont to be broken up into three firms focused on materials, agriculture and specialty chemicals—was launched in May and is expected to be completed before the deal closes. Dow Chemical has said Mr. Liveris, 63 years old, will remain another year as DowDuPont's executive chairman instead of retiring this year as planned.

The sole focus should be on creating the right number of spinoff entities and stocking them with the right assets to position each to create maximum long-term shareholder value, and not on empire-building or ego-massaging by Mr. Liveris or anyone else,” Jana founder Barry Rosenstein said in an email.

In an interview from his office, Mr. Liveris called such assumptions “BS.” He said the next iteration of Dow Chemical

Please see DEAL page B2

## INDEX TO BUSINESSES

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

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Barry Rosenstein, 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 products from laundry detergent to building insulation.

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

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.

## BUSINESS & FINANCE

# Shale Gets Investor Scrutiny

BY LYNN COOK  
AND ALISON SIDER

Some American oil producers might 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.

In fact, Anadarko is in the process of restarting 3,000 wells



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

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 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.

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.

Pioneer, which reports Tuesday, expects to drill its 1,000th well in the Permian later this year as it charts a path to pump one million barrels a day in a decade, up from a little more than 235,000 barrels a day in 2016.

—Bradley Olson contributed to this article.

## DEBT

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

The retailers' woes 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 Loeb & Loeb 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 investors, according to LCD, 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.

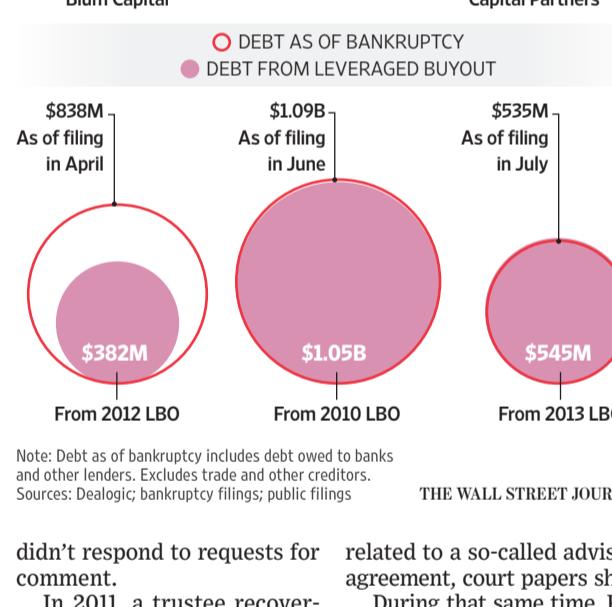
Earlier this month, Gymboree's unsecured creditors, including vendors and landlords, owed an estimated \$220 million, said in court papers they have been investigating potential claims against Bain and other insiders. The creditors, which are slated to receive nothing, point to dividends and fees received 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 plan, 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 \$835 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

## Dealing With Debt

Three private-equity-backed retailers in bankruptcy, by the numbers



Note: Debt as of bankruptcy includes debt owed to banks and other lenders. Excludes trade and other creditors.

Sources: Dealogic; bankruptcy filings; public filings

THE WALL STREET JOURNAL.

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 recaps and payments

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

During that same 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, and employees have been laid off.

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.

## BUSINESS WATCH

### TOSHIBA

#### Partial Truce Is Set With Western Digital

**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 Digital 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.

—Peter Land

## 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, Annapurna has been a small company whose movies are re-



Megan Ellison has tripled Annapurna's staff to nearly 120.

leased 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

## Hits and Misses

Domestic box office totals of previous Annapurna movies released by other studios

Year	Movie	Gross (\$M)	Rating
2012	The Master	\$16M	15
	Killing Them Softly	15	96
2013	Zero Dark Thirty	150	
	American Hustle	26	
2014	Her	12	
	Foxcatcher	56	
2015	Joy	3.4	
	Everybody Wants Some	98	
2016	Sausage Party	5.7	
	20th Century Women		

Source: Box Office Mojo

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"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 Af-

ican-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 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. At least two companies passed after concluding its commercial prospects were small, according to people at studios who evaluated the film.

Early reviews for "Detroit" have been positive. It garnered a solid \$365,455 at the box office in 20 theaters this weekend.

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

## 'Dunkirk' Fends Off Rivals

BY ERICH SCHWARTZEL

A pair of new releases failed to unseat the World War II drama "Dunkirk" from its top spot at the box office this weekend.

"The Emoji Movie" and "Atomic Blonde" both arrived with decent debuts, while second-week grosses for "Dunkirk" declined 44% to an estimated \$28.1 million in the U.S. and Canada.

Christopher Nolan's acclaimed war drama, released by Time Warner Inc.'s Warner Bros., has been a hit, with \$102.8 million so far.

"The Emoji Movie," a criti-

cally panned animated movie starring the smiley faces and icons that populate smartphones, grossed \$25.7 million in second place. That is a fine start for the film, released by Sony Corp.'s Sony Pictures Entertainment, considering it cost a modest \$50 million to produce.

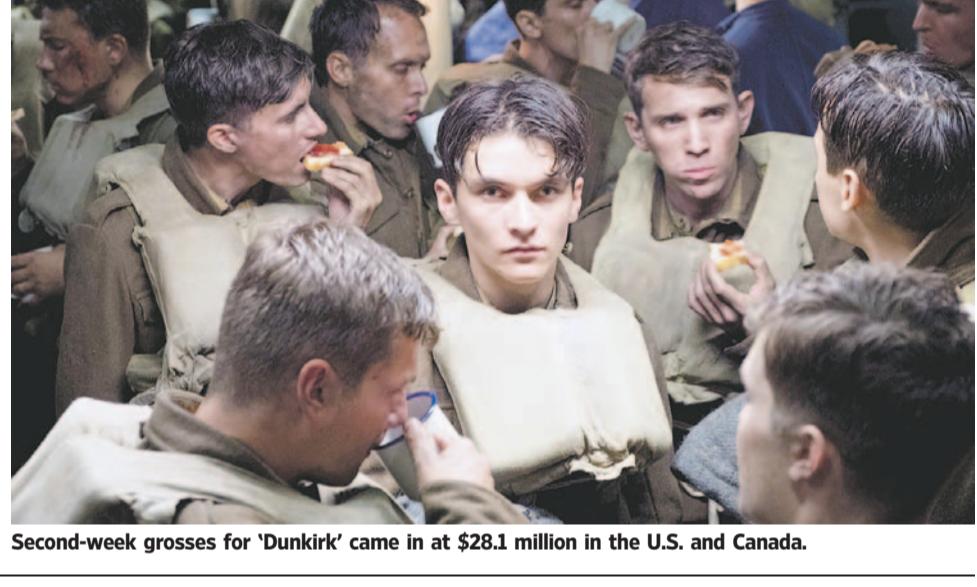
"We're thrilled with it," said Adrian Smith, Sony's president of domestic distribution. "There's still a month of prime summer moviegoing left."

"Atomic Blonde," an R-rated action film starring Charlize Theron released by the Focus Features division of Comcast Corp.'s Universal Pictures, grossed a fair \$18.6 million in

fourth place. Taking the No. 3 spot was Universal's own "Girls Trip," now the highest-grossing live-action comedy of the year with \$65.5 million.

Both "Atomic Blonde" and "The Emoji Movie" were given "B" grades by opening-weekend audiences, according to the CinemaScore market-research firm.

In other box-office news, "An Inconvenient Sequel," the follow-up to former Vice President Al Gore's 2006 documentary on climate change, opened in four locations and collected \$130,000. It will expand to more theaters in the coming week.



Second-week grosses for 'Dunkirk' came in at \$28.1 million in the U.S. and Canada.

MELINDA SUE GORDON/WARNER BROS./EVERETT COLLECTION

## Energy Firms Pump Up Results

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 under way 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.

"For us to compete and win," Exxon Vice President Jeff Woodbury told analysts on a call, "we have got to be the lowest cost-of-supply producer out there."

While the sector's improved performance doesn't yet 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 en-

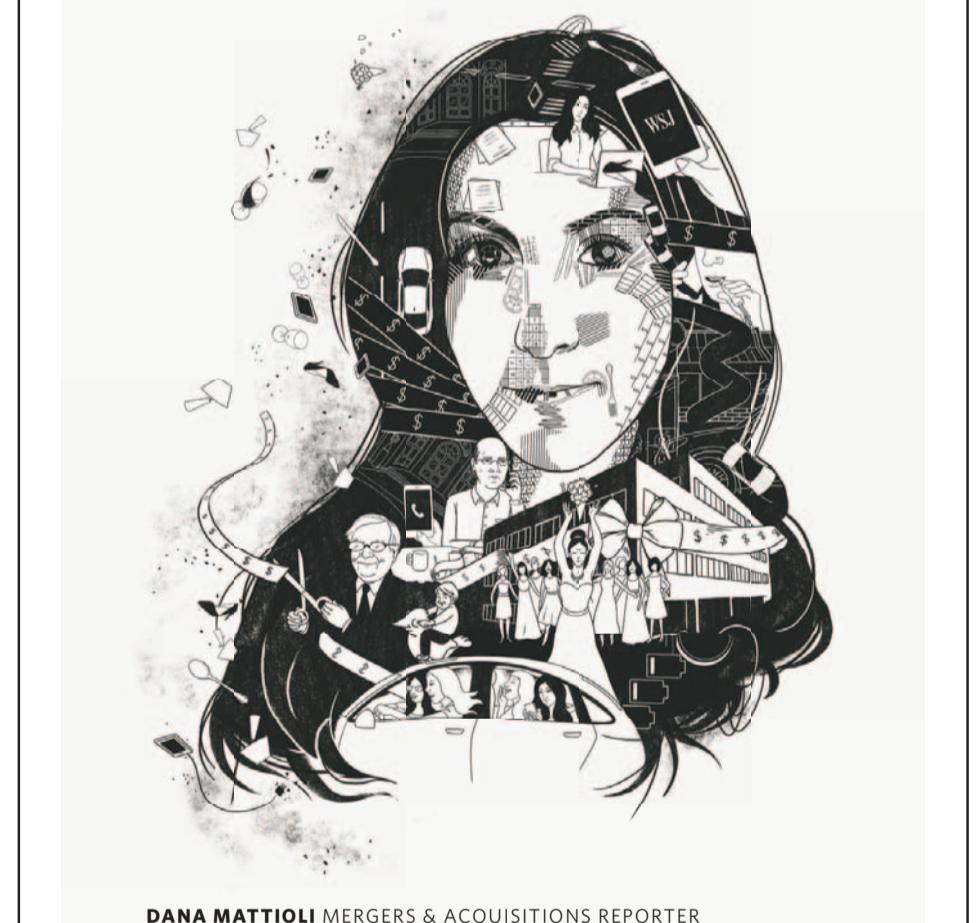
vironment," said Brian Youngberg, an energy analyst at Edward Jones. "They will need to remain disciplined with their spending or investors will shun them."

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 the company had adjusted to a climate in which prices could stay "lower forever" because of the potential for declining demand.

—Ezequiel Minaya

contributed to this article.



DANA MATTIOLI MERGERS & ACQUISITIONS REPORTER

## 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 as much as 500 kilometers between charges, 145 kilometers more than the base model and higher than the all-electric Chevrolet Bolt's 383-kilometer range.

The prices exclude any federal tax credits in the U.S.

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



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

lieves 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 this month.

Mr. Musk said any trouble with getting parts from suppliers could delay his plans. Tesla

has a history of missing production goals.

Later, during a live-streamed event outside the 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 might begin in September or October, according to Tesla.

## The Face of Real News

Dana Mattioli's unrivaled access to the business world helped break the story of Berkshire Hathaway's 2015 agreement to acquire Precision Castparts—the largest such deal in Warren Buffett's storied career. The timely, accurate reporting from Dana and her colleagues delivered scoop after scoop, including 8 out of the 10 biggest M&A deals that year.

Real journalists and real news from America's most trusted newspaper.

WATCH HER STORY AT WSJ.COM/DANA

Source: Pew Research Center, Political Polarization & Media Habits, 2014

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Read ambitiously

## TECHNOLOGY

WSJ.com/Tech

# Canada Touts Tech Jobs as U.S. Bars Door

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 Zifkin, 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. Zifkin 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.

"A year ago, the only people I could talk to were ex-Canadians who missed home, but the talent was lacking," said Mr.



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

Zifkin, who returned last month from a recruiting trip in the San Francisco Bay Area. There, he met with 20 candidates for senior management positions. "This time it's much better."

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.'"

One taker was **fulfil.io**, a cloud-based software platform that aids companies in their supply-chain operations. Two of the company's founders decided to come to Canada in

May from their native India after they had to leave the U.S. when their H-1B visas expired and renewal proved difficult. They closed their first sales deal a month later.

"Canada looks like the right place to grow," said one, Sharon Thomas, fulfil.io CEO. "I'm just surprised that we didn't think of it first."

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

Meredith Trotter, a data scientist at **Lumiata Inc.**, an artificial-intelligence analytics firm in San Mateo, Calif., said she has plans to return to her native Canada but hasn't found anything superior to her current job that would compel her to make the move now.

"Even when those jobs start becoming real, I'm not sure I'll be ready to go home," Ms. Trotter said.

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 Cana-

dian 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.

**Platterz Inc.**, an online-catering platform, has already used the government program for three new hires, two of whom arrived in Canada last week. "When we started, we had someone from the government call us every day to walk us through the process," said Eran Henig, CEO of the Toronto startup. "I never would have expected that kind of attention from the government."

Canada's stepped-up recruitment effort is getting underway at a time of expansion in its tech industry. 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. The country is becoming a hub for artificial intelligence. Venture-capital investment hit a record in 2016, with \$3.2 billion Canadian dollars (US\$2.6 billion) invested in 530 deals, up 41% from the previous year, according to the Canadian Venture Capital and Private Equity Association.

## Apple Drops Apps in China

By JOSH CHIN

BEIJING—Apple Inc. has removed software from its app store in China that allowed users to circumvent the country's vast system of internet filters.

Several popular apps giving users access to virtual private networks, or VPNs, that tunnel through China's sophisticated system of internet filters disappeared from the mainland China version of Apple's App Store on Saturday.

One service, **ExpressVPN**, said in a blog post that Apple had notified it that its iOS app was removed from the Chinese App Store.

ExpressVPN published a copy of the notice, which said the app included content that was illegal

in China.

Another company, **Star VPN**, said on its Twitter account that it, too, had received the notice. Searches in the China App store for a number of popular VPN apps turned up no results Saturday evening.

"We're disappointed in this development, as it represents the most drastic measure the Chinese government has taken to block the use of VPNs to date, and we are troubled to see Apple aiding China's censorship efforts," the ExpressVPN blog post said.

Apple later confirmed the removals in a written statement, citing new rules that require VPN providers to obtain licenses from regulators.

"We have been required to

remove some VPN apps in China that do not meet the new regulations. These apps remain available in all other markets where they do business," it said.

China's internet regulators haven't responded to multiple requests for comment about their regulation of VPNs.

Apple's move is aimed at helping the company stay on the safe side of a raft of tough new cybersecurity regulations designed to solidify Beijing's grip on the Chinese internet. Earlier this month, the Cupertino, Calif., technology giant said that, because of the new rules, it planned to store all of its Chinese customers' data on servers operated by a government-controlled 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 while Dodge is unlikely to put an 840-horsepower engine into the company's family-friendly crossover sport-utility vehicle, 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 most recent 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 might 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

### 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



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 in December 2016, is the most important driver of Apple's gross profit margin.

This could be particularly 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 has been harder and harder to do since 2014, when Apple last changed the look of its handsets.

If Apple releases a new iPhone at such a lofty price, expect reviewers to make unfavorable comparisons with devices such as 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 might report record-setting numbers in the most important area of its business.

### The more expensive Apple makes the high-end device, the more people will lust after it.

clearly telegraphs how much the buyer paid, the new iPhone lineup could boost the Apple brand's ability to signal wealth, he says.

In technology, prices usually decline over time, but Apple bucks that trend by increasing the feature set of each subsequent phone. Since the company 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.

## CHIPS

*Continued from page B1*  
planned by next year, dragging on Samsung's revenue.

Samsung has ascended during a turbulent year for the South Korean company. Its 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 items as diverse as smartphones and automobiles, as well as the ambitions of tech companies to use

those products to accumulate data on customer behavior to sell more products and related services.

"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 backward 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.

Intel concentrates on highly differentiated processing chips for computers—and dominates its key markets of personal computers 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.

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### BANKRUPTCIES

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UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

In re CGG HOLDING (U.S.) INC., et al. (Case No. 17-11637 (MG))

(Jointly Administered)

NOTICE OF HEARING TO CONSIDER APPROVAL OF DISCLOSURE STATEMENT FOR JOINT CHAPTER 11 PLAN OF REORGANIZATION OF CGG HOLDING (U.S.) INC. AND CERTAIN AFFILIATES

PLEASE TAKE NOTICE OF THE FOLLOWING:

1. Chapter 11 Cases. On June 14, 2017, the Debtors filed the "Joint Chapter 11 Plan of Reorganization of CGG Holding (U.S.) Inc. and Certain Affiliates" [ECF No. 127] (as may be amended from time to time, the "Plan") with the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") thereby commencing the instant cases (the "Chapter 11 Cases").

The Debtors continue to manage and operate their businesses as debtors in possession under sections 1107 and 1108 of the Bankruptcy Code. The Chapter 11 Cases are being jointly administered for procedural purposes only pursuant to Rule 1015(b) of the Bankruptcy Rules under Case No. 17-11637.

2. Plan and Disclosure Statement. On July 24, 2017, the Debtors filed the "Joint Chapter 11 Plan of Reorganization of CGG Holding (U.S.) Inc. and Certain Affiliates" [ECF No. 127] (as may be amended from time to time, the "Plan" and related disclosure statement [ECF No. 127], the "Disclosure Statement").

3. Disclosure Statement Hearing. A hearing (the "Hearing") will be held before the Honorable Judge Martin Glenn, United States Bankruptcy Judge for the Southern District of New York, in the Bankruptcy Court, One Bowling Green, Courtroom 523, New York, New York 10004, on August 28, 2017 at 10:00 a.m. (prevailing Eastern time), or as soon thereafter as counsel may be heard, to consider the entry of an order finding, among other things, that the Disclosure Statement contains "adequate information within the meaning of section 1125 of the Bankruptcy Code and approving the Disclosure Statement and certain materials related thereto." The Disclosure Statement and certain materials related thereto will be filed with the Clerk of the Bankruptcy Court, together with the Plan and the Disclosure Statement Order.

4. Objections to Disclosure Statement or Motion. Any objections to the adequacy of the Disclosure Statement or the relief requested in the Motion must (a) be in writing; (b) comply with the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, the Local Bankruptcy Rules for the Southern District of New York, and other case management rules and orders of this Bankruptcy Court; and (c) state the name and address of the responding or objecting party and the nature and amount of the claim against in the estates or property of the Debtors; (d) state with particularity the legal and factual basis for such response or objection and, if practicable, a proposed modification that would resolve such objection; (e) be filed with the Clerk of the Bankruptcy Court, together with the

## FINANCE &amp; 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 its failure 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 bank 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 bought that insurance, known as CPI, 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, 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 last September.

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.

Wells Fargo said it has "gone through a comprehensive review using independent consultants" that determined certain external vendor processes and internal controls were inadequate.

—Ryan Tracy contributed to this article.

## 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.

The scrutiny inside the bank reflects changing economics of the competitive premium-card market. Rewards for consumers—paid for by the bank—have gotten sweeter. Spenders are becoming savvier about maximizing benefits and avoiding balances that pad banks' profits.

J.P. Morgan says it is making a long-term bet on the millennial customers who favor the card. Prospects will become clearer in August, one

year after its launch, when the first Sapphire Reserve customers will decide whether they want to spend another \$450 on the card's annual renewal fee, without the generous sign-up rewards. If many flee, it would add to the anxiety.

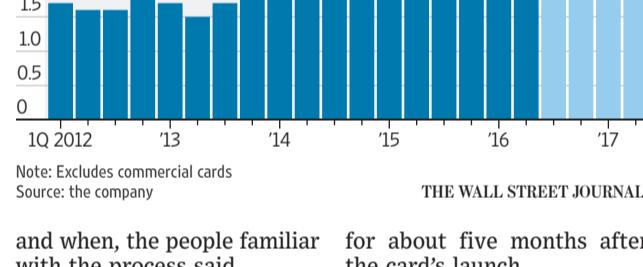
Gordon Smith, head of J.P. Morgan's retail-banking business, this month ordered up cost trims at the unit overseeing cards, the people familiar with the matter said. A bank spokeswoman, Trish Wexler, said any midyear cuts would take into account overall expense targets regardless of specific products.

"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 U.S.'s largest bank by assets. At recent meetings, senior J.P. Morgan employees reviewed models questioning whether the card would make money

### Pushing Plastic

J.P. Morgan Chase new credit-card accounts opened, quarterly



Note: Excludes commercial cards  
Source: the company

THE WALL STREET JOURNAL.

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," J.P. Morgan 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 consumers' wallets.

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.

San Francisco-based 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 disrupter," 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

program, joining with professors at several large universities and executives at asset-management firms.

Following this four-week education program, where these college students receive what Ms. Hingorani calls a "crash-course M.B.A.," the

*The number of female asset managers is shrinking, according to Morningstar.*

students embark on six-week paid internships at companies such as Bank of America Corp., Oaktree Capital Group LLC and Wellington Management Co.

This summer, about 60 women are taking part in the program, which began on the campus of the University of Pennsylvania. Next year, the group hopes to have about 100

women at Penn and the University of Notre Dame.

Ms. Hingorani said when she had asked most investment executives why they don't have more women, the most common answer was they don't get resumes from women.

Within the asset-management industry, alternative assets—which includes private equity, real estate and hedge funds—has the lowest percentage of female representation. Adding a few more women to these areas, which run large pools of money, could help Girls Who Invest reach its goal of having 30% of the world's investible capital managed by women by 2030, Ms. Hingorani says.

The issue of women in management was in focus last week after index-fund giant State Street said it voted against the re-election of directors at 400 companies this year on grounds they failed to take steps to add women to their boards.

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## 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.

Year-to-date  
52-wk high/low  
All-time high20230.41  
16083.11  
38915.87 12/29/89**STOXX 600 Index****378.34** ▼3.98, or 1.04%

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

Session high  
Session open ►Close  
Session lowClose ►  
Open

Session low

65-day moving average

19000  
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17500

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Bars measure the point change from session's open

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## FINANCE &amp; 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

THE WALL STREET JOURNAL.

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 an intensifying 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

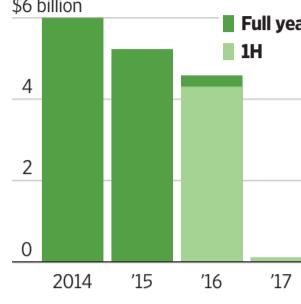
to buy U.S. semiconductor makers. Canyon Bridge's structure—a Palo Alto, Calif.-registered private-equity firm funded by the Chinese government—raised red flags among members of Congress. Then came the presidential campaign when Donald Trump portrayed China as a trading predator, further souring the atmosphere for Chinese deals, which have been facing more scrutiny from CFIUS in recent months.

Canyon Bridge is now on its third attempt to get approval from CFIUS, after twice failing to win it within the review period, each roughly 2½ months long. The committee is led by 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 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 government. "We have never hidden anything," Mr. Chow said in the interview.

## Slowing Spree

China's outbound, completed deals in the semiconductor sector



Source: Dealogic

THE WALL STREET JOURNAL.

# Beijing Goes After Banks On Currency

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** on Friday said that it found irregularities in local branches of nine banks when handling foreign-exchange transactions.

The regulator has penalized nonfinancial 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.

Notice of the actions was released late Friday in Beijing. 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 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 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 a deal is completed.

Emerging countries, seeking cheap 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.

"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, yuan bonds sold outside China.

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, accord-

ing 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.

Foreign companies and governments have been able to tap the panda-bond market since 2005. Chinese authorities broadened access in late 2015, and foreign companies took advantage of that last year.

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# MARKETS

THE DAILY SHOT By Lev Borodovsky and Colin Barr

## Why the Consumer Keeps Chugging Along

Questions about the health of the U.S. consumer have ticked up in recent weeks, with another tepid GDP reading on Friday and earnings reports from major credit-card lenders showing rising delinquencies. For some investors, those signals amplified concerns about the spending outlook at a time of soft wage growth, stalling car sales and a growing overhang of auto and student-loan debt.

But some key measures of consumer health show why many investors remain upbeat: Consumer leverage and monthly obligations remain far below the levels they reached on the eve of the Great Recession.

Consumers have been cautious on revolving debt, such as credit cards and home-equity loans—where they got hit hard during the recession. The mortgage market remains tight and homes are expensive (bigger down payments are required), which is keeping a lid on home-loan growth.

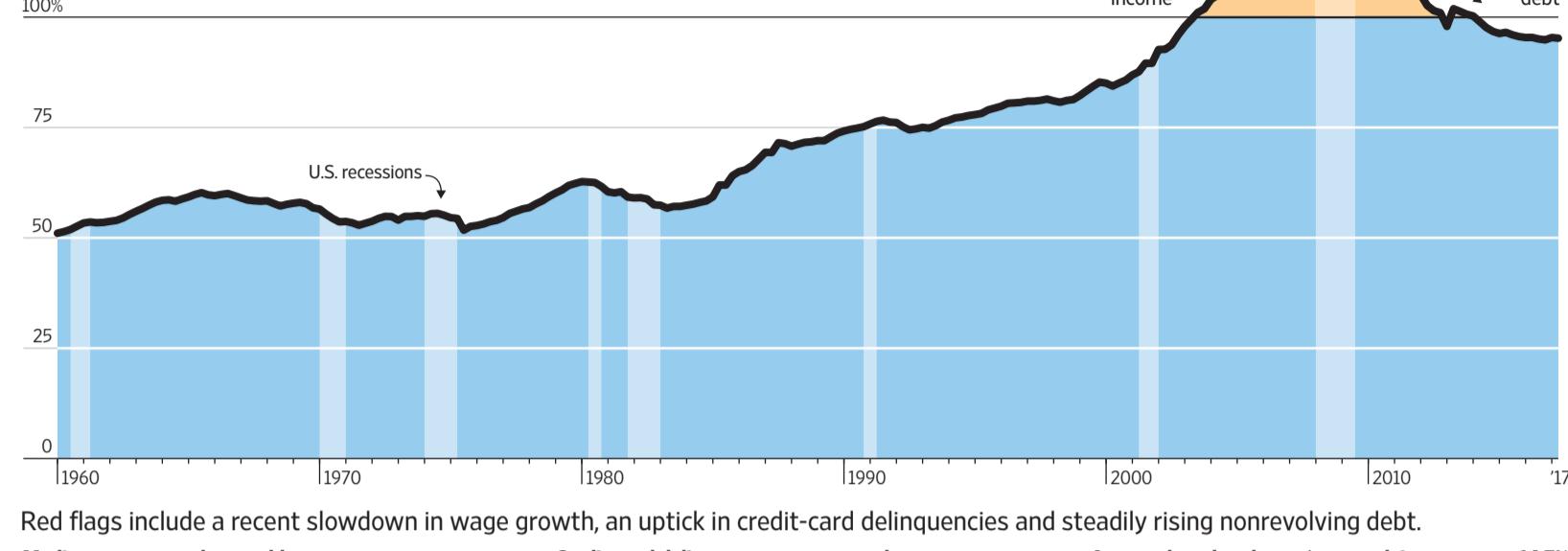
While consumer credit excluding mortgages is hitting new highs, reflecting the spike in student debt and auto loans since the crisis, total household leverage is not rising and debt service ratios have fallen. The consumer picture isn't a uniformly happy one, but for now the outlook appears relatively upbeat.

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Overall household leverage remains well below peak levels, one positive sign for the U.S. consumer.

### Total debt as a share of household disposable income, quarterly

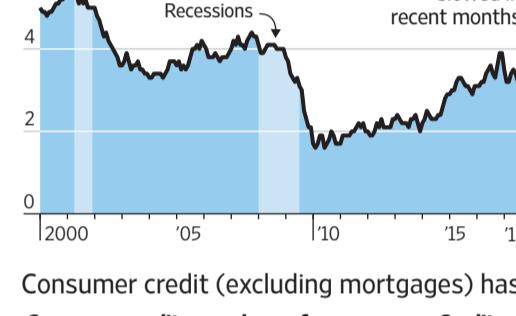
Consumer credit plus mortgage debt



Red flags include a recent slowdown in wage growth, an uptick in credit-card delinquencies and steadily rising nonrevolving debt.

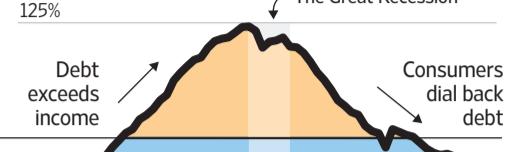
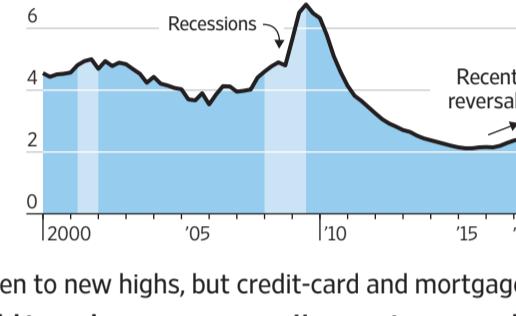
### Median wage growth, monthly

Change from a year earlier, three-month rolling average



### Credit-card delinquency rate, quarterly

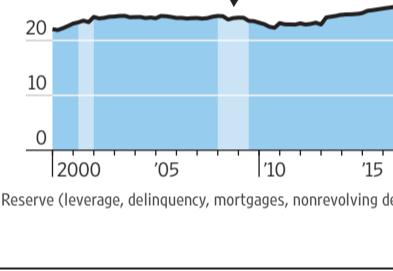
Recessions



Consumer credit (excluding mortgages) has risen to new highs, but credit-card and mortgage debt are down from a decade ago.

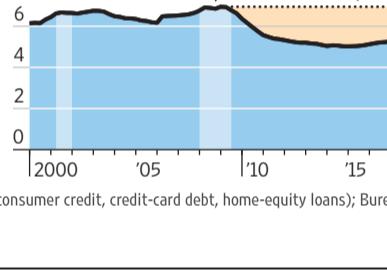
### Consumer credit as a share of disposable income, quarterly

Excluding mortgages



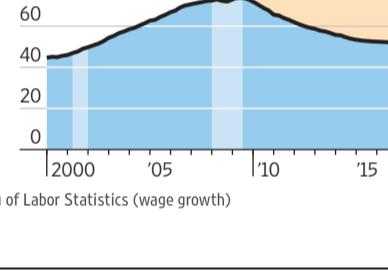
### Credit-card debt as a share of GDP, quarterly\*

Recessions



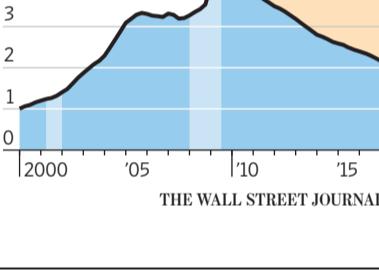
### Home mortgages as a share of GDP, quarterly\*

Recessions



### Home-equity loans as a share of GDP, quarterly\*

Recessions



\*Annualized quarterly GDP Sources: Federal Reserve (leverage, delinquency, mortgages, nonrevolving debt, consumer credit, credit-card debt, home-equity loans); Bureau of Labor Statistics (wage growth)

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## HEARD ON THE STREET

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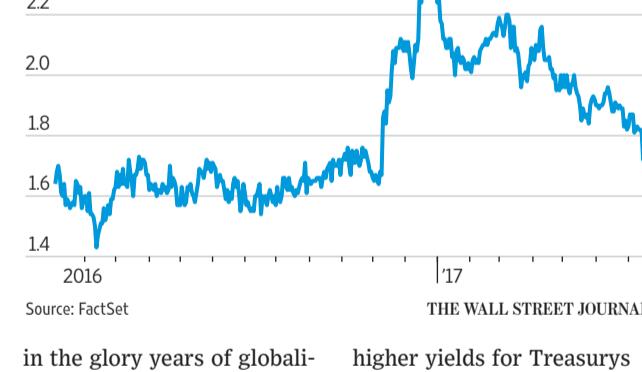
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## German, U.S. Yields Differ Less

### Continental Drift

Yield spread between 10-year U.S. Treasurys and German bunds

2.4 percentage points



in Germany, with the central bank exerting less influence over longer-term interest rates.

An important constraint on the ECB's continuing bond purchases is in Germany; even though the ECB is talking about the flexibility of the program, any tweaks seem unlikely to result in larger purchases of bonds. Meanwhile, the eurozone economy is growing strongly, reducing the allure of German debt as a haven. The rise in the euro this year suggests that faith in the currency bloc is recovering. German yields still look out of sync with economic good news such as the record high in the influential Ifo business climate index.

The spotlight moves to ECB President Mario Draghi's speech at the Fed's Jackson Hole conference in August. His last appearance there in 2014 foreshadowed eurozone QE, sending the U.S.-German spread wider. This summer's visit could bring the two sides closer again.

—Richard Barley

in the glory years of globalization. Relatively synchronized monetary policy meant yields fell together on both sides of the Atlantic.

Where policy goes now is key. Markets doubt how far the Federal Reserve might get with its tightening, and seem unflustered by the prospect of the central bank shrinking its balance sheet.

Investors may be too relaxed, but in the absence of fiscal stimulus and inflation, much

higher yields for Treasurys might be hard to achieve in the near term.

The European Central Bank, meanwhile, is set to move out of emergency-policy territory. Support for low yields on German bonds is likely to diminish as the ECB starts to move gently toward an exit from its bond purchases. While policy rates are likely to remain ultralow for a long time to come, that implies a steeper yield curve

### OVERHEARD

Online shoppers can commiserate with Jeff Bezos.

Those who prefer to comparison-shop and eschew Amazon.com's "Buy now with 1-click" feature put items they want to buy in their carts. Sometimes, though, so-called dynamic pricing gives them a rude surprise as the 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.

## U.S. Growth Is in a Rut, But Not Bad

The U.S. economy has been far from inspiring, but, hey, it could be worse.

The Commerce Department on Friday reported that gross domestic product expanded at a 2.6% annual rate in the second quarter, after increasing (a downwardly revised) 1.2% in the first quarter. With the rebound in growth owing more to temporary factors and measurement issues than anything fundamental, the average of the two figures of 1.9% is probably the better reflection of GDP's underlying trend.

Since the recession ended, GDP has expanded at a 2.1% annual rate. Everybody would have liked, and many people expected, growth to be stronger. Then again, the economy weathered a lot during those years. Sometimes being stuck in a rut isn't such a bad thing.

Moreover, as slow as growth has been, it has been sufficient for the economy to keep adding jobs. Even though wage growth has been lackluster, the pace of hiring has bolstered household income. Next Friday's jobs report will likely show that hiring remains strong.

Half of the message for investors is that they shouldn't expect the economy to suddenly shift into higher gear, particularly with the stimulus hopes that accompanied President Donald Trump's move to the White House looking doubtful.

But the other half of the message is that the economy can absorb a lot, and despite all of the political uncertainties the U.S. faces, the risk of recession—typically the stock market's biggest danger—remains low. That counts for a lot.

—Justin Lahart

## European Investment Banks Suffer From American Envy

Life isn't getting any easier for Europe's investment banks.

A string of results on Friday showed they are falling further behind U.S. rivals 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.

In 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 Europeans 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-derivatives results were also a big

### 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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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