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ASIA EDITION

What's News

Business & Finance

The trial over Lee Jae-yong's role in a corruption scandal has turned its focus to an \$18.6 million agreement Samsung signed two years ago to fund a company in Germany. **A1**

U.S. auto sales continued to slide in June, as car buyers react to higher vehicle prices and Detroit backs away from rental-car lots. **A1**

Elon Musk signaled an even tighter timetable for Tesla's plans to ramp up production on its new Model 3 sedans. **B1**

Fears of sluggish Chinese economic growth and the end of supply disruptions loom over the copper market, analysts say. **B1**

GE closed its deal to combine its long-suffering energy business with Baker Hughes. **B2**

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

Total signed a contract pledging \$1 billion to the development of the company's Iranian gas field. **B2**

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

Jana has taken a roughly 5% stake in EQT and is looking to withdraw the company's proposed \$6.7 billion acquisition of Rice Energy. **B5**

World-Wide

Singapore's prime minister denied allegations by his siblings that he abused state powers in a feud over the last wishes of their late father Lee Kuan Yew. **A1**

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

A bill that would make it tougher for Trump to ease sanctions on Russia now faces obstacles in the House of Representatives. **A5**

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As of 12 p.m. ET DJIA 21528.03 ▲ 0.84% NIKKEI 20055.80 ▲ 0.11% STOXX 600 383.41 ▲ 1.06% BRENT 49.41 ▲ 1.31% GOLD 1221.70 ▼ 1.53% EURO 1.1366 ▼ 0.53% DLR \$113.31 ▲ 0.82%

Singapore's Ruling Family Feuds

Prime minister rejects claims he misused state powers in dispute over patriarch's house

By CHUN HAN WONG

SINGAPORE—Prime Minister Lee Hsien Loong rejected allegations by his siblings that he abused state powers in a bitter family feud over the last wishes of their late father,

Singapore's founding premier, Lee Kuan Yew.

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

Lee Kuan Yew, who died in 2015, had repeatedly said his house should be demolished to

prevent it from engendering a personality cult. His two youngest children last month accused their elder brother—the current prime minister—of misusing state powers to frustrate their father's wishes.

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

my government."

The rupture in the Lee family has set off a political firestorm in a city-state that prides itself on its orderly meritocracy, and sparked debate about government integrity in a country where public criticism of leaders is rare and can result in jail.

Lee Kuan Yew first moved into his Oxley Road home at the end of World War II and held weekly political discussions there that led to the 1954

founding of the People's Action Party, which took power five years later when Singapore became self-governing.

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

Please see FEUD page A6

French President Spells Out His Next Steps



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

IRAQ'S ISIS GAINS ELEVATE ABADI

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

By BEN KESLING

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

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

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

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

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

Today, Iraq's security forces are on the verge of defeating Islamic State,

Please see IRAQ page A6

♦ Iraq, militias duel over next big battle... A3

Funds Don't Buy European Recovery

By CHRISTOPHER WHITTALL AND GEORGI KANTCHEV

LONDON—How long Europe's stock and bond rally lasts may depend on U.S. investors like Eric Stein.

International funds, such as Mr. Stein's Eaton Vance, had withdrawn billions of dollars from the eurozone for large parts of the past decade, amid a sovereign-debt crisis and weak growth.

But even as the region's economy and markets rebound and political risks appear to clear, Mr. Stein—like many big foreign-based investors—is

still cautious amid lingering concerns over political and financial instability.

An analysis of the holdings of the 29 largest active equity mutual funds with global mandates—which control close to \$500 billion in assets and are predominantly U.S.-based—shows that major active investors outside of Europe, as a group, haven't added eurozone shares this year, according to J.P. Morgan Chase & Co.

While local funds can help the upward momentum, and some U.S. hedge funds are waging on Europe, the large

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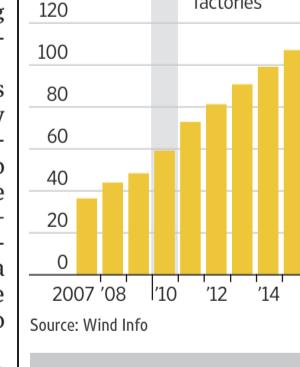
LEADERS TO TALK AMID BROADER RUSSIAN MISCHIEF

CAPITAL JOURNAL, A2

China's iPhone City

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

GDP



\$140 billion

120

100

80

60

40

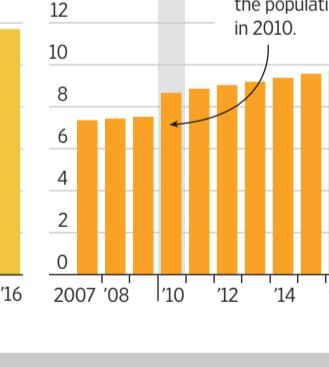
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2007 '08 '10 '12 '14 '16

Source: Wind Info

Population



14 million

12

10

8

6

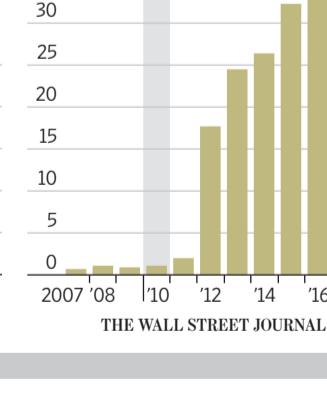
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2

0

2007 '08 '10 '12 '14 '16

Total exports



30

25

20

15

10

5

0

2007 '08 '10 '12 '14 '16

THE WALL STREET JOURNAL.

Samsung Heir's Trial Rides On Allegation of Horse Deal

By EUN-YOUNG JEONG

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

Samsung heir Lee Jae-yong was arrested in February, and is on trial over his alleged role in a corruption scandal that led to former South Korean President Park Geun-hye's impeachment. Three

months into the trial, the prosecutors' criminal case is

riding on what they describe as a form of horse-trading: an effort by Samsung to channel money for political favors by funding the equestrian aspirations of the daughter of a close friend of the country's former president.

The prosecution's case centers on the funding of Core Sports International GmbH, a small German sports-consulting company prosecutors say was controlled by Ms. Park's close friend, Choi Soon-sil. Core Sports had just one client:

Ms. Choi's daughter, Chung Yoo-ra, an equestrian athlete.

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

Prosecutors say they believe they have enough evidence.

Please see TRIAL page A4

WORLD NEWS

Backdrop of Russian Mischief Clouds Meeting



CAPITAL JOURNAL

By Gerald F. Seib

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

That much is obvious. Less obvious, but more important, is how any Russian meddling in the American presidential-election season—whatever form it may have taken—fits into a much larger tale. This is the tale of a systematic Russian effort to disrupt democratic and capitalist systems internationally, using an updated version of tactics Mr. Putin learned in

WORLD NEWS

Iraq, Militias Duel Over Next Big Battle

Baghdad says it will steer ISIS offensive, but Iran-backed Shiite fighters want that role

BY TAMER EL-GHOBASHY
AND ALI A. NABHAN

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

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

But the Iraqi government says the military will be in charge of the Tal Afar campaign. The military is currently fighting Islamic State in Mosul, a much larger city about 75 miles to the east. The extremist fighters are cornered in Mosul's Old City and expected to lose there within weeks.

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

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

Tal Afar had a population of about 200,000 before Islamic State took over, but the town



Irqi troops hold the Islamic State flag upside-down outside the Nouri mosque in Mosul's Old City on Friday, a day after its recapture.

has outsize importance because of its proximity to Syria and Turkey. The U.S. and Turkey worry that Tehran wants its militia allies to take Tal Afar to help secure a land corridor by which Iran could move fighters and resources through Iraq into Syria, a longtime Iranian ally, and on to Lebanon, where Iran's Hezbollah proxy is based.

Maj. Gen. Joseph Martin, the commander of U.S. ground forces in Iraq, said that he expects the Iraqi military to lead the fight for Tal Afar and added that U.S. advisers "will be right there with them." The U.S. won't work with the Shiite militias, he said.

Turkey has threatened to send in its own troops if the Shiite militias lead the fight for



Tal Afar, once part of the Ottoman Empire.

The jockeying for battlefield influence is taking place amid rising tension between the U.S. and Iran-backed forces seeking to buttress the Damascus regime. In recent weeks, U.S.

forces have shot down a Syrian regime warplane and two Iranian-made drones viewed as threats to the U.S. and allied fighters in the campaign against Islamic State in Syria, and carried out airstrikes on Syrian government forces and

their Iranian-backed allies in southern Syria.

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

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

No regular Iraqi military units have yet been assigned the task of entering the town.

Iraqi officials say forces will enter the town soon after Mosul is declared liberated. The U.S.-led coalition fighting Islamic State has been coordinating airstrikes in Tal Afar for about eight months with the Iraqi military, which is stationed outside the town.

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

On one hand, the militias are credited with helping protect Baghdad during Islamic State's sweep through Iraq in 2014 that saw one-third of the country fall to the extremists, and later with helping win back important cities like Tikrit and Fallujah. But the militias have also been dogged by accusations of killing Sunnis they suspect of sympathizing with Islamic State, a Sunni-led group.

The militias have said that the abuses are isolated and that the militias have become more disciplined. The militias say their sacrifices in the fight to surround Tal Afar give them the right to lead the battle for the town itself.

The U.S. is opposed to that possibility. A senior U.S. official pointed to the issue of who would hold ground in Tal Afar recaptured from Islamic State. "We don't want those vacuums filled by Shiite militias," the official said.

Sunni tribal fighters from Tal Afar, armed and trained since last year by U.S. military advisers, say they have already been marginalized and, in some cases, abused by the Shiite militias.

—Ghassan Adnan in Baghdad contributed to this article.

Merkel Sets Out Economic Policies

BY ANDREA THOMAS

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

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

The center-left Social Democrats have also promised tax cuts as well as substantial increases in welfare benefits, in a departure from recent elections that were dominated by the need for budget cuts and austerity measures.

"Our plan for the future is prosperity and security for ev-



CSU leader Horst Seehofer and Angela Merkel in Berlin on Monday

erybody," said Ms. Merkel, who according to opinion polls is the front-runner. In their platform, the conservatives pledged to bring unemploy-

ment down from 5.5% to below 3%, which economists consider full employment.

The health of the German economy—with its strong jobs

market, budget surplus and declining public debt—is one of Ms. Merkel's assets in the campaign, though most economists credit Gerhard Schröder, her predecessor as chancellor, for turning the country around with painful and unpopular economic reforms.

Families are likely to be among the main beneficiaries of the conservatives' planned largesse.

Ms. Merkel's rivals for the chancellorship in September's election have already lined up spending proposals that include higher unemployment benefits and infrastructure investment, as well as tax cuts.

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

JAPAN

Manufacturers Report A Gain in Confidence

Business confidence among Japan's large manufacturers strengthened to its highest level in more than three years in the second quarter, as a pickup in the global economy brightened the outlook for corporate Japan.

The main index measuring large manufacturers' confidence rose to plus 17 in the April-June period from plus 12 previously, according to the Bank of Japan's quarterly tankan survey. The index represents the percentage of companies saying business conditions are favorable minus those saying conditions are unfavorable.

The news adds to recent encouraging data for Prime Minister Shinzo Abe's administration.

—Megumi Fujikawa

EGYPT

Death Sentences In Police Killings

An Egyptian court sentenced 20 people to death for their part in the August 2013 massacre of more than a dozen police in a village west of Cairo.

The ruling caps three years of legal proceedings. In 2015, another court had sentenced 186 people to death in connection with the case. After an appeal, a retrial was ordered.

The assault on the police was believed to be revenge for the deadly breakup by security forces in August 2013 of protests in Cairo by supporters of President Mohammed Morsi, who had been ousted a month earlier by the military. At least 600 Morsi supporters were killed.

—Associated Press

A large advertisement for the Breitling Avenger Hurricane watch. The watch is shown in the foreground, featuring a black dial with white and yellow markings, a black bezel with a tachymeter scale, and a black rubber strap. The background is dark with the words 'AVIENGER HURRICANE' in large, stylized letters. The Breitling logo is in the top right corner, and the tagline 'INSTRUMENTS FOR PROFESSIONALS™' is at the bottom right.

The superlative-charged chronograph. 50 mm case in Breitlight®. Exclusive Manufacture
Breitling Caliber B12 with 24-hour military-style display. Officially chronometer-certified.

WORLD NEWS

Party Turmoil Looms Again in Australia

By ROB TAYLOR

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

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

"I can assure you I will be prime minister for many, many years to come," Mr. Turnbull

told reporters Monday. "I will be running at the 2019 election and will win."

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

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

Labor leader Bill Shorten, a former union official, has proved a more durable oppo-

nent for Mr. Turnbull than many expected, positioning his party as most-trusted on education and health care.

Prime Minister Malcolm Turnbull comes under criticism for leftward drift.

Mr. Turnbull in turn has borrowed from populist measures that propelled U.S. President Donald Trump's victory, such as tightening immigration rules and increasing military spending.

He has also courted left-

leaning and centrist voters with a multibillion-dollar tax increase on banks—a popular target. And seeking to ease household-energy costs in cities like Sydney, the government has restricted exports of liquefied natural gas exports by Royal Dutch Shell, Exxon Mobil and others.

But partisan rancor spilled over last month after a senior member of Mr. Turnbull's cabinet, Christopher Pyne, said moderate lawmakers in the government are now politically ascendant and could drive social changes such as legalizing same-sex marriage.

The combative Mr. Abbott, a former seminarian from the right wing of the Liberal Party, said Mr. Turnbull had aban-

doned traditional supporters by backing gay marriage and climate-change action, increasing government borrowing and pushing for Australia to become a republic.

"There's a fight for the kind of policy which a Liberal-National government should be on about," Mr. Abbott said Monday. "Now, traditionally what we've been on about is lower taxes, smaller government, greater freedom."

The leadership "soap opera" is distracting from necessary reforms, said Deputy Prime Minister Barnaby Joyce. One newspaper complained of a "decade of major-party tomfoolery"—with leadership battles that undermined not just Mr. Abbott, but previous Labor

administrations of Kevin Rudd and Julia Gillard—and compared Australia with postwar Italy for instability.

Mr. Turnbull does have one advantage over his ousted predecessors: There isn't an obvious challenger within his party, said Jill Sheppard, a political analyst at the Australian National University.

Some of Mr. Turnbull's woes are due to the same forces seen in Europe and the U.S., Dr. Sheppard said: the rise of anti-elites voters disenchanted by globalization, rising joblessness outside cities, the decline of manufacturing, and competition from migrants.

"It's just déjà vu in Australian politics," she said.

Japan's Older Workers Aren't Shy About Not Retiring

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

By MEGUMI FUJIKAWA

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

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

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

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

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



MIHO INADA/THE WALL STREET JOURNAL

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

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

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

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

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

Daiwa Securities Group

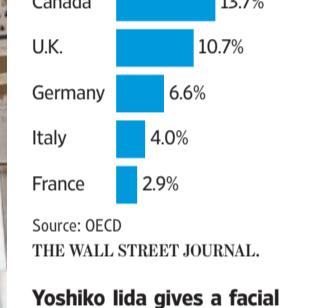
Inc. used to set an age limit of 70 for veteran salespeople working under contract. It recently scrapped the limit.

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

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

Staying Active

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



Source: OECD

THE WALL STREET JOURNAL.

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

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

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

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

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

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

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

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

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

South Korean officials tied to NPS each with a 2½ year prison term for abuse of power and embezzlement in connection with the merger. The two officials have appealed the verdict to a higher court.

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

Weeks later, on Aug. 26, Samsung Electronics officials met with Core Sports employees at Frankfurt's Intercontinental Hotel to sign a contract promising the consulting company \$18.6 million over a three-year period to train South Korean athletes for the 2018 Asian Games and the World Equestrian Games, according to witnesses questioned during the trial. Ms. Choi was in the lobby of the hotel during the signing, witnesses said.

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

But Core Sports was ill-equipped to carry out conditions of the deal at the time. The company was registered only a day before its deal with Samsung, according to a German commercial registration document presented by prosecutors in court.

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

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

TRIAL

Continued from Page One dence to show Samsung's equestrian sponsorship constitutes bribery. "The equestrian support was for one person, Chung Yoo-ra," said special prosecutor Park Young-soo, at April's opening hearing.

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

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

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

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

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

Ms. Choi was arrested last

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

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

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

The younger Mr. Lee is in custody and has been absent

from his role as the vice chairman of Samsung Electronics since February, when he was arrested. Under South Korean law, he can be detained until the end of August without a verdict, which can be extended. If convicted,

he can face at least five years in prison.

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

The prosecutors' case

stretches back to August 2015, shortly after South Korea's National Pension Service—then the biggest shareholder in Samsung C&T Corp., one of the Samsung affiliates in the 2015 merger—cast a decisive vote in favor of the merger, ensuring its approval.

That deal, which strengthened Mr. Lee's control over Samsung Electronics, was opposed by many foreign investors and proxy advisory firms Glass Lewis & Co. and Institutional Shareholder Services Inc., which regarded it as detrimental to Samsung C&T shareholders. Last month, the court sentenced two former

prosecutors to 10 years in prison.

Lee Sang-hak/ASSOCIATED PRESS

he can face at least five years in prison.

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The prosecutors' case

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U.S. NEWS



Russian President Vladimir Putin is set to meet this week with President Donald Trump at the G-20 summit in Hamburg, Germany.

Russia Bill Faces Hurdles

Some lawmakers balk at proposal that would hurt president's ability to ease sanctions

BY PETER NICHOLAS AND BYRON TAU

WASHINGTON—A bill that would make it tougher for President Donald Trump to ease sanctions on Russia appeared headed for speedy approval but now faces obstacles in the House of Representatives, with the White House not ruling out a veto and some Republican lawmakers objecting that the measure would harm U.S. companies.

The bill cleared the Senate in June by a 98-2 vote, a rare show of bipartisan unity in favor of legislation that would slap Russia with new sanctions partly because of the U.S. intelligence community's assessment that Russia interfered in the 2016 U.S. presidential election.

After the House raised parliamentary objections to the bill, the Senate made technical fixes and sent it back to the House for a vote.

For Mr. Trump, the bill presents a dilemma. If it passes as is, White House officials say, the measure would erode the president's power to conduct diplomacy.

But if he works to scuttle the bill, Mr. Trump may open himself to criticism that he isn't holding Russia accountable for its actions in the

election.

The House is on recess until next week, and no timetable has been set for considering the bill, which also carries sanctions against Iran.

Supporters of the measure from both parties worry that a delay gives opponents more time to soften it.

"Does it give an opening for people to water it down? Absolutely. There are people who would love to see this not happen," Senate Foreign Relations Committee Chairman Bob Corker (R., Tenn.) recently told reporters.

Mr. Trump is set to meet with Russian President Vladimir Putin for the first time in his presidency later this week at the Group of 20 summit of world leaders in Germany. It isn't clear whether the sanctions bill will come up in conversation.

As it stands, the bill would limit the White House's power to act on sanctions without congressional authorization, requiring the president to seek Congress's permission to relax the present set of sanctions against Russia.

The measure would enshrine into law Russia sanctions that former President Barack Obama imposed. It would target Russian actors linked to human-rights abuses, arms sales and malicious cyberattacks.

The bill also would strengthen existing sanctions on the Russian energy sector, while adding new sanctions to industries like mining, metals,

shipping and railways.

The White House says its concern is that the bill restricts the president's flexibility to carry out diplomacy, ceding more power to Congress.

The administration hasn't yet decided whether it would veto the bill if it passes the House unchanged, officials said.

"It's important to note that no administration—not just the Trump administration—but no administration would

Mr. Trump has voiced skepticism over Russian interference in the election.

accept the way Congress is looking to shackle the executive branch," White House Legislative Affairs Director Marc Short said in an interview.

Bound up in the issue, some Democrats contend, are Mr. Trump's own misgivings about U.S. intelligence officials' verdict that Russia interfered in the election to help him and damage his rival, Hillary Clinton.

Rep. Eliot Engel of New York, top Democrat on the House Foreign Affairs Committee, said in an interview: "The president and his administration go very soft on Russia."

A White House official disputed that assessment, saying

the Trump administration "is not opposed to being tough on Russia" and is committed to keeping "existing sanctions programs" intact until the Kremlin "moderates its anti-U.S. activities."

Mr. Trump, on the campaign trail and as president, has frequently voiced skepticism over Russian interference in the election.

Pointing to the cybertheft of emails from the Democratic National Committee that were leaked last summer, Mr. Trump said at a candidate debate in September that the perpetrator could have been Russia, China or possibly "somebody sitting on their bed who weighs 400 pounds."

Later, as president, Mr. Trump told CBS News that it was difficult to identify a hacker unless the person is caught "in the act."

He continued: "I'll go along with Russia. It could have been China. It could have been a lot of different groups."

Some House Republicans are raising other objections to the bill. Rep. Pete Sessions, a Texas Republican who chairs the House Rules committee, said he worries that, if the bill were to pass, energy companies may have to reveal "proprietary" information that could weaken their competitive standing.

"We need to change this bill," Mr. Sessions said. He added: "You would expect that a Texas member would understand the needs of companies in Texas."

President Knocks CNN In Fake Video

BY LOUISE RADNOFSKY

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

Mr. Trump also made more extensive remarks criticizing news outlets for their coverage of him at a "Celebrate Freedom" concert Saturday night organized by the First Baptist Church of Dallas and held at the Kennedy Center in Washington ahead of the July 4 holiday.

"The fake media tried to stop us from going to the White House, but I'm president and they're not," he said, in what has been a recurring theme in his speeches since he took office.

"The fact is the press destroyed themselves because they went too far. Instead of being subtle and smart, they used the hatchet and the people saw it right from the beginning."

In recent days, the Republican can has seized on CNN's retraction of a story, and the ensuing resignation of three journalists, to taunt the outlet as "Fraud News." CNN says the story was removed from the network's website because it hadn't been through the organization's vetting standards.

A separate fight between Mr. Trump and MSNBC hosts Mika Brzezinski and Joe Scarborough triggered rebukes from GOP lawmakers as well

as Democrats after the president criticized Ms. Brzezinski's appearance.

The president and his aides say that his outspoken social-media approach was what his backers voted for, and his use of Twitter allows him to circumvent, or respond to, the reporters he believes aren't accurately conveying his message.

"My use of social media is not Presidential—it's MODERN DAY PRESIDENTIAL. Make America Great Again!" Mr. Trump wrote Saturday evening.

After Sunday's short video of Mr. Trump tackling a man with the CNN logo superimposed over his face, a CNN representative said in a statement it was "a sad day when the president of the United States encourages violence against reporters."

It added: "Instead of preparing for his overseas trip, his first meeting with Vladimir Putin, dealing with North Korea and working on his health care bill, he is involved in juvenile behavior far below the dignity of his office."

Mr. Trump has faced criticism from lawmakers and officials in both parties over his tweets about the media.

"The coarseness is not acceptable," said Ohio Gov. John Kasich, a Republican rival of Mr. Trump's in the presidential election, in an ABC interview on Sunday.

"Everything I was trained as a leader, this man is none of those things," said Sen. Tom Carper (D., Del.) on NBC. "Leaders don't build themselves up by pushing other people down."



Mr. Trump at the 'Celebrate Freedom' concert Saturday in Washington.

THE OUTLOOK | By Ben Leubsdorf

When Women Boost the Workforce

During the decades after World War II, a growing share of U.S. and Canadian women participated in the workforce, boosting household incomes and national production, while opening new opportunities for women themselves.

Then in the late 1990s, something changed. Female workforce participation began slipping in the U.S. while it kept marching higher in Canada. By 2016, 74.3% of U.S. women between the ages of 25 and 54 were

working or looking for work, compared with 82.2% in Canada, according to Organization for Economic Cooperation and Development data.

Both were near 76% two decades earlier. The participation gap between men and women also narrowed more in Canada than in the U.S.

Understanding the divergence could help fix America's growth problem. President Donald Trump has pledged to boost annual increases in U.S. output from around 2% to above 3%.

Achieving that ambitious goal would likely require, among other things, boosting labor-force participation.

Many women choose to remain outside the labor force or spend time away from work, often to care for children. But women who want to work, but don't or can't, represent untapped economic potential. Enabling

them to join the job market over time could generate stronger labor-force growth, offsetting drags from an aging population and other forces, and in turn boost the economy's growth trajectory.

Canada's economic growth has edged past that of the U.S. since 1997, averaging 2.5% a year versus 2.3%. Unlike the U.S., Canada avoided a recession in 2001 and also avoided a severe financial crisis last decade.

Canada's federal government encouraged more two-working-parent households in the late 1990s and early 2000s by cutting tax rates, adding support for child care and expanding paid parental leave. Quebec's government introduced universal day care.

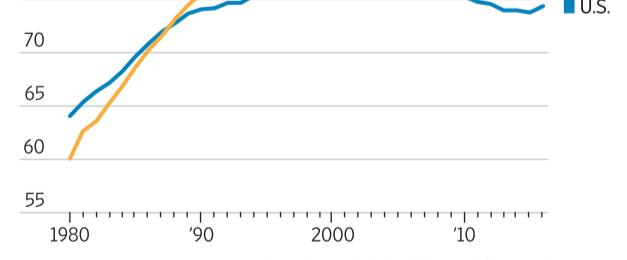
The U.S. government spends relatively little to subsidize child care and has no national paid family-leave program, though employers are required to grant up to 12 weeks of unpaid leave.

Canada's rapid progress in female labor-force participation was no accident; it reflects deliberate and targeted policy measures," Christine Lagarde, managing director of the International Monetary Fund, said last year.

Extended leave didn't seem to have much immediate effect on how many Canadian mothers returned to

Alternate Paths

Labor force participation among women in Canada has advanced, while it recedes in the U.S.



Note: Women ages 25 to 54; U.S. and Canada use slightly different definitions for participation. Source: Organization for Economic Cooperation and Development

THE WALL STREET JOURNAL.

work after giving birth. But there was evidence that subsidized child care boosted the number of Quebecois mothers who worked.

An IMF study found Canada's tax- and benefit-system changes helped boost female participation.

Federal Reserve Chairwoman Janet Yellen, in a May speech, highlighted research concluding that "policy differences—in particular the expansion of paid leave following childbirth, steps to improve the availability and affordability of child care and increased availability of part-time work—go a long way toward explaining the divergence between advanced

economies" in women's workforce participation.

If the U.S. "had policies in place such as those employed in many European countries," she said, the participation rate for prime-age women could reach 82%—roughly Canada's level.

One study, released in 2013 by Cornell University economists Francine Blau and Lawrence Kahn, concluded that almost 30% of the decline in U.S. women's participation relative to other advanced economies between 1990 and 2010 could be traced to those countries pursuing policies such as those Ms. Yellen mentioned.

The U.S. isn't the only country where officials are looking to women as a source of stronger economic growth. Leaders from the Group of 20 nations pledged in 2014 to reduce gender participation gaps 25% by 2025. The International Labor Organization in June said achieving that goal would boost global output by 3.9%.

Still, there are reasons to proceed carefully in crafting new policies that could ripple through the U.S. economy and society.

The White House recently proposed a six-week paid parental leave program. It's unclear whether paid leave is significantly more effective than unpaid leave in boosting long-term participation; both allow workers to keep their jobs and so ease the eventual return to work.

Requiring employers to grant new mothers' requests for reduced hours or flexible schedules could lead some companies to avoid hiring women for full-time positions, despite laws barring such discrimination.

More women might end up in part-time jobs, with limited chances for career advancement; Ms. Blau's study noted U.S. women are less likely to work part time and more likely to hold high-level jobs than women in other advanced economies.

Budget Feuds Tie Up States

BY KATE KING

State government remained closed in New Jersey on Sunday, with Republican Gov. Chris Christie and Democratic lawmakers seemingly no closer to reaching a budget deal that would reopen state parks and beaches for the remainder of the July 4 holiday weekend.

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

New Jersey is one of several states across the country mired in budget disputes. In Maine, Republican Gov. Paul LePage implemented a partial shutdown until Monday. Connecticut Gov. Dannel P. Malloy on Friday signed an executive order that sharply curtailed state spending after the Legislature failed to approve a budget plan to close a two-year deficit of \$5.1 billion. In Illinois, lawmakers worked through the weekend to try to pass a spending plan.

New Jersey lawmakers missed Friday's midnight deadline to pass a balanced budget, prompting Mr. Christie to close state government.

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

IN DEPTH

IRAQ

Continued from Page One

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

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

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

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

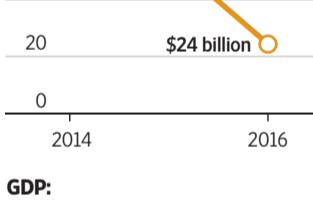
When the festering Syrian civil war next door bled across the border, Iraq's military crumbled. In June of 2014, militants exploited Iraq's problems to blitz into Mosul—grabbing nearby land, stores of weapons and oil fields. In Islamic State's advance, millions of civilians came to live

Iraq Today

Oil revenues and GDP have fallen and millions of people have been displaced since ISIS swept into power in Iraqi territory.

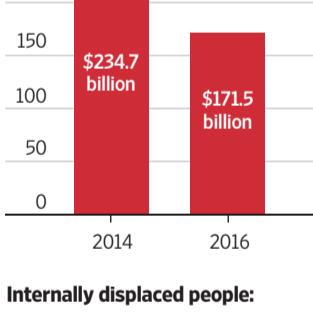
Oil revenues:

\$100 billion



GDP:

\$250 billion



Internally displaced people:



Source: Extractive Industries Transparency Initiative (Oil revenues) World Bank (GDP); International Organization for Migration (Internally displaced people).

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under the Sunni extremist group's rule.

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

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

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

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

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

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

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

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

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

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

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

Some Iran-friendly Shiite forces, meanwhile, became openly hostile to U.S. troops. In late 2015, multiple militias



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

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

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

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

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

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

Renad Mansour, a fellow at Chatham House, a London-

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

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

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

In marshaling foreign and domestic support, Mr. Abadi's government began racking up

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

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

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

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

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

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

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

tolerate any human-rights abuses by troops.

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

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

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

Iraqi officials recently released a 10-year \$100 billion reconstruction plan. The government doesn't have the money, and the World Bank and the International Monetary Fund haven't come forward with funds. Last year, the IMF provided a \$5.3 billion dollar emergency loan to help stabilize the country—a sizable contribution at the time but a fraction of what is needed now.

Large sections of major cities like Ramadi and Mosul have been destroyed, with buildings, bridges and water mains turned to rubble.

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

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

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

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

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

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

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

On the same day, though, brownouts in Baghdad left millions without power, showing the government's limited capacity to provide public services to its people. Four improvised bombs, meanwhile, detonated in different areas of Baghdad, killing a handful of people.

Such attacks are a reminder that the war against Islamic State is moving beyond the battlefield and into the daily lives of Iraqis, something they had hoped a prime minister would prevent.

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

FEUD

Continued from Page One

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

Lee Kuan Yew's will stated his wish to tear down the house, but also stated that if changes to laws and regulations prevent his house from being demolished, then access to the premises should be granted only to his children, as well as their family members and descendants. Prime Minister Lee said in parliament Monday his siblings seem to assert that their father wanted nothing short of demolition of the house, a claim that the siblings have denied.

Some Singaporeans have called for the house to be pre-



Prime Minister Lee Hsien Loong speaks in parliament on Monday.

served as a monument or heritage site. Singapore's government has the power to acquire property for purposes of heritage preservation.

The dispute over the house burst into the open on June 14, when Lee Kuan Yew's daughter Lee Wei Ling and younger son Lee Hsien Yang published a six-page statement alleging that their brother had

misused his "position and influence over the Singapore government" to try to preserve the Oxley Road home.

A key part of their claims centers on a ministerial committee that the government says was set up to consider options for the Oxley Road house. The siblings allege that Prime Minister Lee was making use of the committee to

question the validity of their father's will. They also allege that the four-member panel isn't impartial as it comprises the prime minister's subordinates, and was dealing with a private dispute that should be heard in court.

Prime Minister Lee on Monday denied these allegations, saying he has recused himself from any government decision related to the house. "I had nothing to do with the decision to set up the ministerial committee," and "do not give any instructions" to the panel or its members, he said.

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

The prime minister said he prefers not to take his siblings to court over their allegations, even though in "normal circumstances" he would have "immediately" sued people

making similar claims. Singapore's leaders, from Lee Kuan Yew to Lee Hsien Loong, have successfully sued some of their critics for defamation.

"I believe I have a strong case," the prime minister told parliament. "But suing my own brother and sister in court would further besmirch my parents' names."

"It would also drag out the process for years, and cause more distraction and distress to Singaporeans," he said.

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

Prime Minister Lee on Monday defended the process, saying he expected all lawmakers to engage in a "full airing and

accounting of the public issues and allegations."

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

Workers' Party chief Low Thia Khiang, speaking in response to Prime Minister Lee, said the Lee family dispute ought to be dealt with in court and resolved as soon as possible. He urged the government to ensure that officials adhere to clear distinctions between their public and private lives.

Other Workers' Party lawmakers said a parliamentary debate won't resolve the dispute, and called for an independent fact-finding process to look into the allegations made by the prime minister's siblings.

The parliamentary session is due to end Tuesday.

THE WALL STREET JOURNAL.

U.S. NEWS

Kentucky City Readies for 'Eclipse-Stock'

BY CAMERON MCWHIRTER

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

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

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

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

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

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

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



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

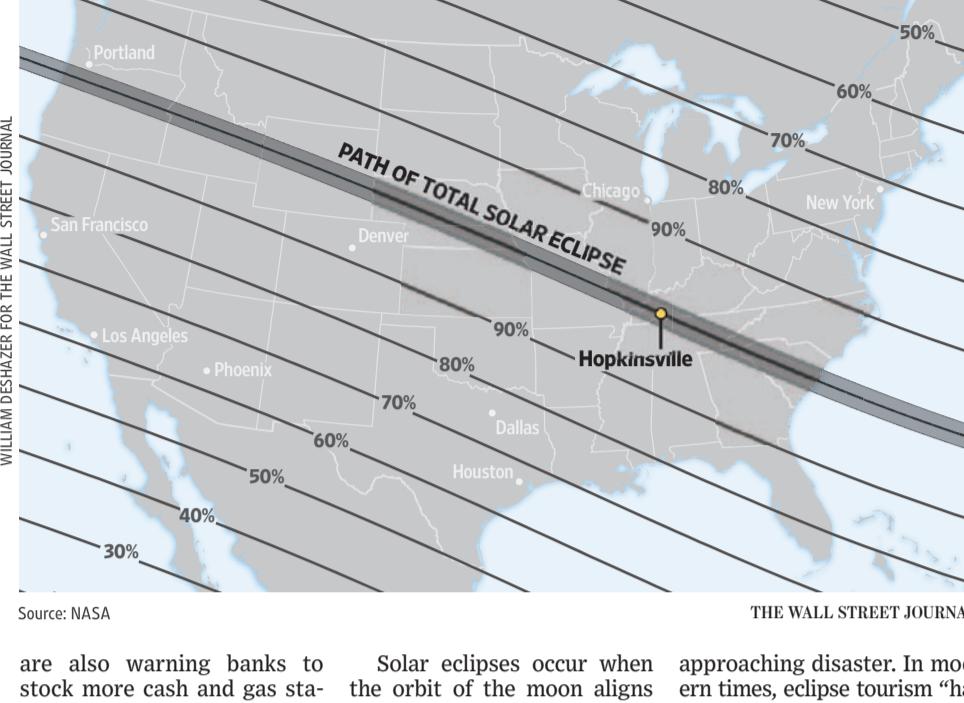
control, safety and supplies. They have studied other major events to get ready. One cautionary tale: Woodstock, the 1969 rock festival in a rural New York town that was woefully unprepared for the enormous throng.

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

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

The 2017 Solar Eclipse

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



Source: NASA

THE WALL STREET JOURNAL.

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

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

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

Solar eclipses occur when the orbit of the moon aligns exactly in front of the sun to block its light, shrouding sections of the earth in complete darkness for several minutes during what should be daytime.

By studying celestial orbits scientists can predict with precision where and when eclipses will take place. This eclipse, the Hopkinsville area will be the place where scientists calculate the axis of the Moon's shadow will pass closest to the center of the earth.

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

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

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

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

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

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

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

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

Other business owners are less enthused. Johnny Hale, general manager of a Builders FirstSource Inc. store selling supplies to commercial builders, said the city created campsites in a field next to his store, then suggested he close down that day. That could cost him between \$30,000 and \$100,000 in lost sales, he said.

City officials suggested he close the store but sell snacks and drinks instead. "Do you have any idea how many chips I would have to sell to make up for that loss?" he said.

Foreign Airports Must Get Scanners

BY SUSAN CAREY
AND ROBERT WALL

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

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

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

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

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

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

The International Air Transport Association memo also said foreign airports failing to install explosives-detecting scanners along with procedures to use them to scan carry-on bags at random



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

could face a ban on carrying laptops in the cabin or a suspension of flights to the U.S.

An IATA spokesman declined to comment. The trade body's leader, Alexandre de Juniac, said last week that the "aggressive-implementation timeline will...be challenging."

Homeland Security Secretary John Kelly has warned for months that terrorists are aiming to take down a plane with explosives hidden in a laptop. In March, he banned personal electronic devices in the cabins of planes flying to the U.S. from 10 airports in the Middle East and North Africa. That prohibition could be lifted if those airports and airlines meet the new edicts.

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

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

doing so could compromise aviation security.

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

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

The Association of Asia Pacific Airlines trade group, in a statement, said implementation of the new security directives will require a number of procedural and operational changes by airlines and airports.

They and the relevant government authorities will need to work together closely "to avoid unnecessary disruptions to the traveling public," said Andrew Herdman, director general of the group.

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

Manufacturers say the test

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

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

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

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

'El Chapo' Struggles To Pay for a Lawyer

BY NICOLE HONG

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

Now he is struggling to pay for a private lawyer.

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

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

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

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

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

Jeffrey Lichtman, a seasoned criminal-defense attorney in New York, is the frontrunner to become Mr. Guzmán's lawyer, according to people familiar with the matter.

Mr. Lichtman, who famously secured an acquittal for John A. Gotti, son of the notorious mob boss, has been engaged in discussions with the government about his possible representation of Mr. Guzmán, the people say.

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

position to comment at this time."

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

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

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

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

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

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

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

U.S. WATCH

ECONOMY

Factory Activity Accelerated in June

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

The Institute for Supply

Management on Monday said its index of U.S. manufacturing

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

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

—Ben Leubsdorf

COLLEGE BOARD

Table Lengths Result In Test Invalidation

Roughly 500 students from San Diego high school had their Advanced Placement test scores invalidated last week because they sat too close together while taking the exams.

Many students at Scripps Ranch High School took the

tests in May while sitting at 6-foot-long tables with partitions, rather than at 8-foot tables where they could spread out more. The College Board, which oversees the Advanced Placement program, bars partitions and mandates that students be sitting at least 5 feet apart, at longer tables, to minimize the chance of any student having an "unfair advantage."

—Melissa Korn



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

SPORTS

TOUR DE FRANCE | By Jason Gay

The Simon & Garfunkel of the Tour

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

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

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

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

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

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

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

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

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

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

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



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



BERNARD PAPON/AGENCE FRANCE PRESSE/GTY IMAGES

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

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

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

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

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

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

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

"There's nothing like flipping the elders the bird as you fly by them at 180 kilometers per hour."

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

'I believe half of my popularity is thanks to them,' says retired racer Jens Voigt.

"Phil was quite happy, because my CD collection got blown up," says Sherwen.

That long nighttime drive serves as Paul & Phil's pre-production meeting for the next day's stage. Perhaps unbeknownst to them, it's also race itself. Christian Vande Velde, an American rider who now partners with them in the booth, says that he and his fellow NBC colleague Bob Roll's only goal through the Tour is to beat Paul & Phil on the drive to the hotel, even when Paul & Phil leave early.

"It fills us with everlasting joy," Vande Velde says.

wine, in my case." (Phil likes a good French red, plus Montrachets and Sancerres.)

When the sun rises, Phil will knock on Paul's door for a morning cup. "He makes the coffee," he says, "because he brings it from Uganda."

Jens Voigt, the retired racer from Germany who is now part of NBC's team, marvels at the stamina of Paul & Phil. "When I turn over to the other side of the bed and fall asleep again, they're already up," says a man who not long ago held cycling's hour record.

Voigt, who is wildly popu-

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

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

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

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

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

strong the champion—an image TV helped burnish—and the Armstrong since humbled by a fall from grace.

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

While they believe it's cleaned up a lot, Paul & Phil sound conflicted about bike racing today. They're thrilled by the Slovak world champion Peter Sagan, calling him a throwback to the charismatic, impulsive riding style of legend Eddy Merckx.

They're less enthused by the rise of data-driven strategy in races like the Tour, where riders will rely on-board numbers like wattage (which measures how much effort a rider is putting out) to plan their attacks and responses. "A lot of the guys nowadays are very much like metronomes, or robots," says Sherwen.

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

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

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

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

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



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

LIFE & ARTS



WEEKEND CONFIDENTIAL | Alexandra Wolfe

Bob Roth Believes in a Quiet Mind

The nonprofit executive is working to bring transcendental meditation to all

CHRIS SORENSEN FOR THE WALL STREET JOURNAL

BOB ROTH knows his field sounds a little like "woowoo" spirituality, as he says. But as a teacher of transcendental meditation, he now works with a wide-ranging clientele that includes celebrities such as Katy Perry and Jerry Seinfeld, hedge-fund managers, inner-city students, prisoners and veterans. He has the same goal for everyone: to teach them the virtues of T.M., as it's called—a practice that involves silently reciting a mantra over and over for 15 to 20 minutes twice a day.

Proponents say that the practice reduces stress and raises self-awareness. Bridgewater

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

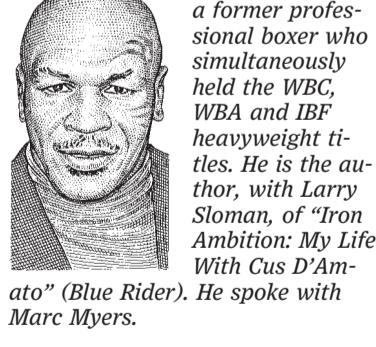
Mr. Seinfeld has been working with Mr. Roth for the past eight years and has performed at some of the foundation's benefits. "It completely changed my ability to do work and be active and do the things I want to do," he says. "Wives like to go out to dinner and husbands just want to lie there, but now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

PLAYLIST: MIKE TYSON

A HEAVYWEIGHT TITLE



MFSB performing in Philadelphia circa 1978.



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

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

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

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

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

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

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

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

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

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

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

OPINION

REVIEW & OUTLOOK

The U.S. Senate's Tax Panic

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

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

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

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

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

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

Republicans are now afraid to repeal ObamaCare's taxes.

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

The economic merits don't seem to count in this political fantasia. The reason to repeal the surtax isn't to shower dollars on the affluent, as if anyone truly believes that is the intent.

The reason is to increase the stock of capital and improve the incentives for capital formation, which in turn increases labor productivity, wages and job creation.

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

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

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

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

* * *

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

The ObamaCare Waiver Breakthrough

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

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

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

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

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

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

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

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

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

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

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

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

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

The EPA's Clean Water Break

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

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

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

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

When Workers Become Collateral Damage



BUSINESS WORLD
By Holman W. Jenkins, Jr.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LETTERS TO THE EDITOR

Decline of the U.S. Military Precedes Obama

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

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

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

GEORGE HARRIS
Atlanta

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

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

JOHN A. GRUBER
Itasca, Ill.

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

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

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

HARLAN ULLMAN
Washington

Texting Fails Many Tasks, Including Job Interviews

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

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

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

ALEXANDER J. BORTONE
Pensacola, Fla.

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OPINION

On Health Care, a Promise, Not a Threat



DECLARATIONS
By Peggy Noonan

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

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

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

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

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

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

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

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

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

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

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

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



GETTY IMAGES/OC ROLL CALL

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

Democrat Joe Manchin, also of West Virginia, says he's "ready" for a bipartisan effort.

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

That's a good start.

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

This column respects history and tradition. I've banged away on the fact that any big legislative change that affects how America lives, especially on something so intimate and immediate as health care, has to re-

ceive support from both parties or it will never work.

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

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

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

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

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

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

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

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

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

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

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

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

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

By Eliora Katz

Paris

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

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

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

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

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

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

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

"The multicultural society is a multiconflicted society."

In particular, large waves of Muslim immigrants have failed to adopt the values of the secular republic, known as *laïcité*. Candidate Macron

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

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

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

"We willingly accept the replacement of the French language by 'Globish,'" Mr. Finkielkraut laments. To illustrate, he cites the English-

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

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

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

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

Christophe Guilluy's "The Peripheral France," which cites growing inequality between big cities like Paris and Lyon, which benefit from globalization, and the left-behind rest of the country.

Never known as a cheery people, the French are now the most pessimistic on earth. One 2016 global poll found 88% of Frenchmen felt their country was heading in the wrong direction—the highest rate of gloom among all nations surveyed.

To be sure, France's sclerotic welfare and regulatory state has stymied growth. But Mr. Finkielkraut argues that what his country needs isn't a Silicon Valley on the Seine, but a *raison d'être*—a sense of confidence in its purpose and way of life.

Mr. Macron ran on the slogan, "En Marche!"—"Forward!" or "On the Move!" That's also the name of his new party. It begs the question: *En marche où?* Where to?

Ms. Katz is a Robert L. Bartley Fellow at The Wall Street Journal.

How to Revive Central America

AMERICAS
By Mary Anastasia O'Grady

The "Northern Triangle" of Central America—Guatemala, Honduras and El Salvador—is one of the world's most dangerous regions. Drug trafficking and a weak rule of law have spawned powerful organized-crime networks that have overwhelmed government institutions. The instability has cost the region economically, feeding a vicious circle of poverty and violence with spillover effects for Mexico and the U.S.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Write to O'Grady@wsj.com.

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LIFE & ARTS

ART & ARCHITECTURE

Plywood's Star Turn

BY J.S. MARCUS

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

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

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

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

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

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

By the 1930s, plywood was turning into a favorite material for some of the world's top designers. Finnish architect Alvar Aalto won a commission to design a sanatorium for tuberculosis patients outside Turku, in the southwest of the country. Inspired by Bauhaus-era Germany's tubular steel furniture, Aalto rein-



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

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

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

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



seat and back, managed to be ergonomic before the term became widely used and spawned many homages—some of which are in the new V&A show, along with one of the originals.

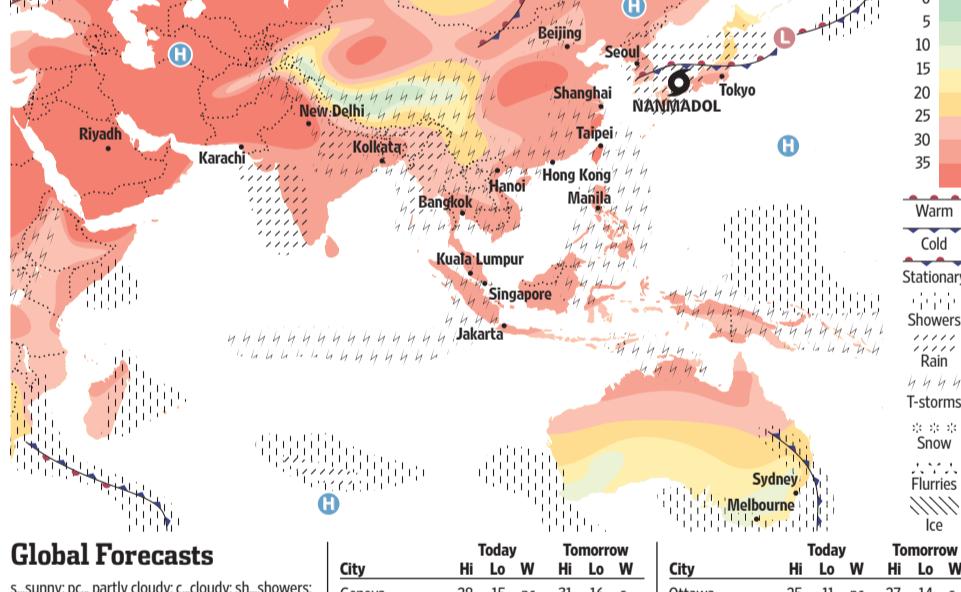
"Plywood" might seem to be a departure from the V&A's newfound penchant for shows with a higher glamour quotient, often emphasizing fashion or popular culture. Museum Director Tristram Hunt disagrees. "There is something sexy and groovy

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

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

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

Weather



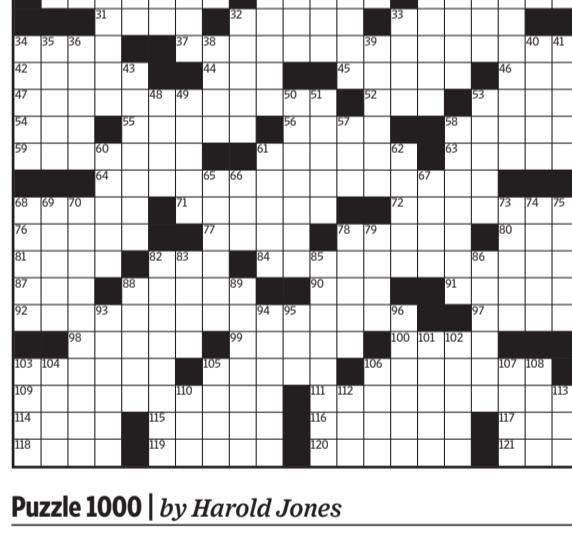
Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	21	13	pc	23	14	pc
Anchorage	17	11	c	21	13	pc
Athens	30	23	s	31	23	s
Atlanta	32	23	t	33	22	t
Bahrain	49	33	s	48	33	s
Baltimore	32	21	pc	29	21	pc
Bangkok	31	25	c	31	25	t
Beijing	30	23	t	31	23	sh
Berlin	19	11	pc	20	12	pc
Bogota	19	10	c	19	10	c
Boise	38	21	s	37	21	s
Boston	27	17	s	26	17	s
Brussels	23	14	pc	26	15	pc
Buenos Aires	20	14	s	18	11	sh
Cairo	39	24	s	36	25	s
Calgary	27	12	pc	29	13	s
Caracas	31	25	pc	31	25	pc
Charlotte	33	22	t	32	20	t
Chicago	29	19	c	31	21	t
Dallas	35	26	pc	33	26	pc
Denver	33	16	pc	35	18	s
Detroit	28	16	s	30	17	pc
Dubai	41	30	s	41	32	s
Dublin	19	12	r	20	13	c
Edinburgh	14	9	sh	17	12	c
Frankfurt	25	14	pc	27	16	pc

AccuWeather.com

The WSJ Daily Crossword | Edited by Mike Shenk



Puzzle 1000 | by Harold Jones

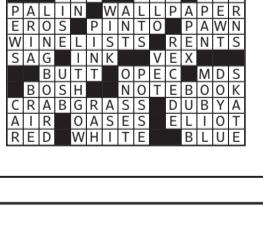
Across

- 1 Floppy topper
4 Put-down artist
10 Prickly flora
15 "The Immortalist" author
19 Plaza de Toros cry
20 Safe from hackers
21 Milwaukee Braves rookie of 1954
22 ___ impulse
23 Foe in the NCAA basketball tourney?
25 Committee in charge of plans to fight Gargamel?
27 Diatribes
28 Shaw with a clarinet
30 Hasidic leaders
31 Piedmont wine region
32 Hoch producer
33 Expedia listing
34 Take in
37 Plane seat part for use only by passport holders?
42 Topped with volutes
44 Martinmas mo.
46 "... a lender be"
47 Diapers printed with jokes?
52 Brother of 76-Across
53 "Give it ___!"
54 Half of hex.
55 Gives a hoot
56 The Beatles' "Love Her"
57 Milwaukee Braves rookie of 1954
58 Drive-thru side
59 Metal marble
60 Foe of Mi6 in Bond novels
61 Miniature albino citrus fruit?
62 Foe of Mi6 in Bond novels
63 Mock tribute
64 Fishing in Falmouth and trainspotting in Truro?
65 Highlight of a zoo's Instagram page?
66 Troubadour by the side of a highway exit?
67 Lion's pride
68 Particle composed of a quark and an antiquark
69 National Railroad Passenger Corporation, familiarly
70 Popular health info source
71 National Railroad Passenger Corporation, familiarly
72 Virtual directory
73 Expedited listing
74 Take in
75 Plane seat part for use only by passport holders?
76 Brother of 52-Across
77 Promote
78 Docket makeup
79 You may be followed by it
80 Like four-leaf clovers
81 Like gutters' spots
84 Sockeye that's a knockout?
87 G.P.'s gp.
88 Cockatoo feature
90 Wall St. maneuver
91 Popular health info source
92 Miniature albino citrus fruit?
93 Drab club accessories
94 Friendly talks
95 "Veni, vidi, vici," for one
96 Co-star of Bolger and Haley
97 Sad news
98 Like argon
99 Highlight of a zoo's Instagram page?
100 Co-star of Bolger and Haley
101 Mostakin
102 Like prayer wheels
103 Moment of realization
104 Mass of tangled hair
105 "Cool!"
106 Like argon
107 Misshapen citrus fruit
108 Apply for
109 Mostakin
110 Moment of realization
111 Mamie's mate

Down

- 1 Mix in the movies
2 "Sad to say..."
3 Soldier of fortune
4 Arson aftermath
5 Floppy topper
6 Sharp, in a way
7 Santa Fe and Tahoe, e.g.
8 Ace's stat
9 Not absolute
10 Keep house?
11 "When We Were Very Young" writer
12 Metal's Mötley
13 Mountain crag
14 Between visible and microwave
15 Peanut, informally
16 One way to graduate or to be convicted
17 Exhibit audacity
18 Möbius strip's lack
19 Pack tightly
20 Highway shoulders
21 Ahmed of "Rogue One"
22 Cuts off
23 Bean variety
24 Makes finer
25 Magic workplace
26 Miss Hannigan's spunk charge
27 Tim McGraw's "The Cowboy" ___
28 Cruel fellow
29 Sensitive spots
30 Motel meeting
31 Coney Island coaster
32 Match
33 Peanut
34 Main event setting
35 Makes duds
36 Licorice candies
37 Basketball's "King James"
38 Surgical tool
39 Like prayer wheels
40 It's held in London banks
41 Comfortably warm
42 Mother's command
43 Wear on
44 Mules' fathers
45 Bank job
46 Mass of tangled hair
47 Scrubbed launch
48 Mafia foes
49 Misshapen citrus fruit
50 Run amok
51 Underhanded schemer
52 Debunked?
53 MRI orderers
54 Aid for intricate cutting
55 Maître's domain
56 Myrtle or mock orange
57 Tantrum
58 Mischievous
59 Letters on Cardinal caps
60 Ludwig van der Rohe
61 Work on a wall
62 Friend, in French
63 Purpose of a pet post
64 "Dirty Dancing" dance
65 Bakery come-on
66 Remains unresolved
67 Measure for Noah
68 Mighty bit
69 Some academic diagnostics
70 Peanut, informally
71 Peanut, informally
72 One way to graduate or to be convicted
73 Exhibit audacity
74 Mass of tangled hair
75 Scrubbed launch
76 Mafia foes
77 Misshapen citrus fruit
78 Measure for Noah
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Previous Puzzle's Solution



Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	28	15	pc	31	16	s
Paris	30	25	t	31	25	t
Hanoi	32	24	pc	32	24	pc
Hong Kong	31	27	sh	32	27	c
Honolulu	30	24	pc	30	24	t
Istanbul	26	21	c	28	22	pc
Jakarta	33	23	t	32	24	c
Johannesburg	18	5	pc	19	4	s
Kansas City	29	20	t	30	19	t
Las Vegas	43	29	s	43	31	pc
Lima	22	16	pc	22	16	pc
London	24	15	pc	27	17	pc
Los Angeles	28	18	pc	28	19	pc
Manila	36	20	s	35	18	pc
Manila	33	26	t	33	26	s
Melbourne	15	9	sh	14	6	c
Mexico City	23	13	pc	22	12	pc
Miami	32	27	sh	33	27	pc
Milan	31	18	s	32	18	pc
Minneapolis	24	20	t	29	21	t
Monterey	38	20	pc	37	21	pc
Montreal	24	14	pc	27	16	s
Moscow	20	11	r	18	11	r
New Delhi	35	27	sh	31	26	sh
New Orleans	33	24	pc	33	24	pc
New York City	28	20	s	27	19	s

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, July 4, 2017 | B1

Yen vs. Dollar 113.3080 ▲ 0.82% **Hang Seng** 25784.17 ▲ 0.08% **Gold** 1221.70 ▼ 1.53% **WTI crude** 46.76 ▲ 1.56% **10-Year JGB yield** 0.086% **10-Year Treasury yield** 2.338%

Tesla Gives Timetable for Model 3

Production goals for \$35,000 sedan tighten as first cars are slated for July 28 delivery

By TIM HIGGINS

Tesla Inc. Chief Executive Elon Musk signaled an even tighter timetable for the auto maker's ambitious plans to ramp up production on its new Model 3 sedans.

In a late-night missive on Twitter, Mr. Musk said he aims to have 30 vehicles ready to hand over to customers July 28, followed by 100 cars in August and 1,500 in September. The \$35,000 sedan is far less expensive than Tesla's two existing models, and is central to the com-

pany's plans to sharply increase total sales.

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

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

In February, Mr. Musk suggested the targets were set for suppliers, knowing they could slip. "These are parts orders and the parts need to arrive, then you can turn into a car and the car needs to be deliv-



TROY HARVEY/BLOOMBERG NEWS

Tesla's Model 3 vehicle at the company's Nevada factory last July.

ered to customers," he said in February on an earnings conference call. "None of these things occur instantaneously."

"This is definitely scaling back," said Rebecca Lindland, an analyst for the automotive researcher Kelley Blue Book. She likened Mr. Musk's early

statements about production to stretch goals instead of plans.

Also Sunday, Mr. Musk said on Twitter he expects the first production version of the Model 3 to come off the line Friday.

Tesla was expected to disclose global vehicle sales for the second quarter Monday.

The company is projected to have sold 23,655 vehicles during the three-month period, according to the average estimate of four analysts surveyed by The Wall Street Journal.

The Model 3 is part of Mr. Musk's strategy to boost production next year to 500,000 from about 84,000 last year, turning the auto maker into a more mainstream player from a niche luxury brand. General Motors Co., for example, sold 10 million vehicles last year.

Enthusiasm for Tesla and its new model has helped push the company's shares to record highs, giving the Silicon Valley auto maker a market capitalization higher than GM and Ford Motor Co. By midday Monday, Tesla shares were down 1.3% to \$357.

Copper Prices At Risk For Fall

By DAVID HODARI AND JUSTIN YANG

Fears of sluggish Chinese economic growth and the end of supply disruptions loom over the copper market, threatening to take 10% or more off prices in the coming months,

The base metal's price is up more than 7% this year through Friday, pushed higher by optimism surrounding President Donald Trump's promises of infrastructure spending and a stimulus-driven uptick in the Chinese economy in late 2016.

Now, though, with investors increasingly fearful of a Chinese economic slowdown and Mr. Trump's investment pledges looking increasingly unlikely to bear fruit, those purchases look "overexuberant," according to Caroline Bain, chief commodities economist at Capital Economics.

"We expect several of the recent drivers of industrial metals—especially stronger economic growth in China—to slow going into the second half of the year," Seth Rosenfeld, senior research analyst at Jef-feries, said.

A "relatively benign outlook suggests there will be little to bolster prices over the course of this year, as optimism about [industrial metals] demand continues to fade," said Capital Economics's Ms. Bain in a note, adding that prices could slip as low as \$5,200 a metric ton by the end of the year. London Metal Exchange copper futures were trading Monday at \$5,917 a metric ton.

China's desire to rein in public credit growth could hamper industrial metals demand from its property and infrastructure sectors, underpinning a slowdown in broader demand. On top of this, Chinese auto-sales growth is ex-pected to fall to 3%, down from 13.7% last year, putting more pressure on metals demand, J.P. Morgan said.

The world's biggest copper customer has seen demand growth slow for some time now.

"China's copper demand growth is no longer 5 to 10%, it's now 3%, and in the past year or so, it's struggled to get to 2%," said Tom Price, a commodities analyst at Morgan Stanley.

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How the iPhone Built a New City in China

By EVA DOU

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

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

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

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

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

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

With Apple embracing out-sourced manufacturing in Chinese cities, the iPhone's success in the decade since it launched has fueled China's rise at the center of the global electronics supply chain.

The explosion of higher-tech manufacturing was en-



ADAM DEAN/FOR THE WALL STREET JOURNAL

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

couraged by Beijing as leaders sought to move factories up the value chain from making plastic toys and clothes. That shift transformed the lives of millions of Chinese, bringing welcome jobs but also leading to complaints from some workers of repetitive labor, restrictive work rules and crowded living conditions in company housing.

The iPhone's global success has increased scrutiny of Apple and its suppliers. The Cu-

pertino, Calif., company said it holds Foxconn and others "to the strictest standards in the industry." It said it has educated 12 million workers on their rights, ensured work-weeks don't exceed 48 hours, and offered career- and personal-development courses.

"We hold our suppliers to the standard we hold ourselves: They must treat everyone with dignity and respect," a spokesman said in a statement. Apple said wages and working condi-

tions at its suppliers have improved significantly in the past five years.

The move to Zhengzhou followed a spate of suicides in 2010 at Foxconn's other primary iPhone production facility in Shenzhen, along the coast where wages were higher. Foxconn said in response to questions from The Wall Street Journal that many factors were behind choosing Zhengzhou, including the proximity to workers' home-

towns, and suitable infrastructure and transportation.

"Zhengzhou's pro-business policies and the investment the government continues to make to build strong infrastructure to support manufacturing make the province an attractive location for our operations," Foxconn said in a statement.

Like American company towns a century ago—Pullman, Ill., Hershey, Pa., and Henry

Please see IPHONE page B4

Please see METALS page B2

HEARD ON THE STREET | By Anjani Trivedi

Chinese Bond Market Is Attractive for the Wary

The opening up of China's financial markets is gathering pace. A bond trading

link between the mainland and Hong Kong launched Monday, which should make it easier for foreign investors to access the country's \$8.5 trillion bond market. Pockets of opportunity exist there, but only for those with their eyes wide open.

China's bond market is the world's third largest, but there is scope for it to grow. At current levels, it is only equivalent to around three-quarters of the country's GDP: by contrast, the U.S. bond market is twice the size of the economy. While the market largely consists of government bonds, Beijing is keen for Chinese firms to become less reliant on bank funding and tap bond buyers more.

For the yield-hungry global investor, there are already decent returns on of-

fer, thanks in part to the yuan's recent strength and higher rates. A one-year yuan-denominated Chinese government bond currently has a total return close to 5%, for example, in dollar terms. A five-year Chinese government bond or a bond issued by a state-owned Chinese policy bank yields around 1.5 percentage points more than the equivalent U.S. Treasury. Both of these bond types have almost nonexistent default risk and are actively traded.

The biggest challenge has been mispriced credit. More than 90% of Chinese bonds have some sort of government backing, skewing perceptions of risk.

Intangible risks abound. Bond issuers that are assumed to have the implicit backing of Beijing can suddenly lose support. Pricing remains tricky for even the best credit analysts.

◆ China bond link gets off to quiet start..... B7

Lack of Simple Drugs Complicates Care

By PETER LOFTUS

The scarcity of a simple medicine is complicating treatment for patients with a serious lung problem, one example among dozens showing how shortages of low-cost, essential medical products are causing problems in the U.S.

The medicine, sterile talc powder, is used to treat malignant pleural effusion, a disease affecting about 150,000 Americans that involves excessive fluid buildup around the lungs and can cause shortness of breath and chest pain. The condition is often triggered by lung or breast cancer. Talc isn't a cure, but an injection of a talc-containing solution can adhere the lungs to the chest wall and prevent the buildup of fluids for months. The talc costs hospitals about \$120 per 30-gram container.

Chronic drug shortages have burdened U.S. medical care for several years. Studies have estimated drug shortages add more than \$400 million in annual U.S. health-care costs because hospitals and doctors are forced to seek more expensive alternatives, and health-care workers must spend extra time managing shortages.

The shortages of low-cost medicines have been caused by a decline in the number of suppliers for certain products and failures by companies to build enough production capacity or meet manufacturing-quality standards, according to a 2016 report from the U.S. Government Accountability Office. Experts also say thinner profit margins for many older drugs reduce incentives for companies to invest in them.

The number of continuing drug shortages in the U.S. was 176 as of March 31, according to the University of Utah Drug

Information Service, down from 320 in 2014.

Food and Drug Administration steps to ward off new shortages, like trying to line up other manufacturers when one has a supply problem, have helped. But shortages remain a concern for doctors and hospitals.

In the case of sterile talc, supplies have dwindled because of a production problem, said Areta Kupchyk, an attorney for the substance's only U.S. supplier, Lymol Medical. The family-run, closely held company in Woburn, Mass., re-

lies on a contract manufacturer, she said, and production was suspended due to a "manufacturing issue" involving a change in a product component. She declined to identify the contract manufacturer and said she didn't know when production would resume.

Sterile talc is derived from white rock typically mined from open pits. The shortage is the type that doctors and pharmacists find particularly frustrating because it involves a basic ingredient that can also be found in nondrug products. It doesn't have extra ingredients such as perfume that are found in consumer talcum-powder products.

As a result of the shortage, doctors and hospitals are resorting to riskier and sometimes costlier treatments. David Cziperle, a thoracic surgeon who performs operations at hospitals in the Chicago area, said he learned of the talc shortage when he was told none was available for a recent procedure. He used an alternative procedure.

Keith Naunheim, a thoracic surgeon and professor at St. Louis University School of Medicine, said he recently had

Please see TALC page B2



ERIC CABANIS/GETTY IMAGES

Sterile talc, a low-cost medicine, comes from open pits, like this one in southern France. Doctors find its shortage frustrating.

For the yield-hungry global investor, there are already decent returns on of-

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1

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

GE Deepens Energy Stake

BY THOMAS GRYTA
AND CHRISTOPHER M. MATTHEWS

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

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

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

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

lio."

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

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

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

Reduced drilling could make one of Baker Hughes's key businesses even more lucrative: artificial lift, a technology used to force oil out of older wells as they run dry.

Baker Hughes owns about 18% of the global market for artificial lift, second only to Schlumberger, while GE controls about 11%, according to 2016 data from Spears & Associates.

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

Baker Hughes, formed in a

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

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

Today, oil and gas extraction are increasingly techni-

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

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

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

"It remains to be seen if oil and gas is a keeper," said Deane Dray, an analyst at **RBC Capital Markets**, adding, "If GE hadn't done this deal, they would be in a worse situation."

Oil Giant Total Plows Into Iran

BY BENOIT FAUCON
AND SARAH KENT

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

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

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

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

it's a long history for the company."

Total was in a stronger position to make a deal than competitors like **Royal Dutch Shell** PLC, which has long eyed going back into Iran. **BP** PLC, which helped build the Iranian oil industry, remains on the sidelines.

Those companies do more business in the U.S., where President Donald Trump has

said he would re-examine the deal that lifted Western sanctions on Iran last year, said Homayoun Falakshahi, a research analyst at energy consultancy Wood Mackenzie.

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

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

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

Total signed a preliminary agreement to explore opportunities in Iranian oil fields late last year. The Anglo-Dutch company held meetings in Teh-

ran and Dubai in the two past months with the **National Iranian Oil** Co. and Chinese state-run Sinopec to work together on an oil field called Yadavar.

But people who work with the company said it is concerned about its exposure to the U.S. and is more selective in the choice of its banks than Total.

The French company was in a stronger position to make a deal than Shell, BP.

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

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



Copper prices rose over 7% in the first half. Here, tubes in China.

METALS

Continued from the prior page

In the medium term, a Chinese slowdown would push copper prices toward \$5,000 a metric ton, J.P. Morgan said in a note.

Those forecasts of a drop in prices might have come sooner in the year if copper hadn't found support from supply-side problems. Prices were bolstered in the first months of 2017 by disruptions at the world's two largest copper mines, BHP Billiton's Chilean Escondida operation and Freeport McMoRan's mine at Grasberg in Indonesia.

"Those supply disruptions kept prices higher than we had initially thought," said Carsten Menke, a commodity research analyst at **Julius Baer**.

The effects of those supply

interferences are now played out. "The first quarter was a world of pain for copper, but now we've seen supply normalize. Plus, trade tends to be weaker in the second half of the year than in the first half anyway," Morgan Stanley's Mr. Price said.

With China's ruling Communist Party due to hold its 19th National Congress and switch its current Politburo committee in October, demand growth for the broad industrial metals complex will likely be under close scrutiny, particularly when held against increasingly tough comparatives, Jefferies's Mr. Rosenfeld said.

"While there is a limited risk of the economy sharply slowing through the party congress, strong demand growth in the second half of 2016 and the first half of 2017 will see relative growth slow," Mr. Rosenfeld added.

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BUSINESS OPPORTUNITY

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

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

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

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

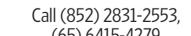
The subject of the sale is comprised of (i) the key equipment, (ii) buildings and (iii) other operating assets related to the mini-mill and rolling mill production. The conditions, timelines and guidelines for participation in the Tender are described in the binding conditions (the "Binding Conditions").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

Any additional questions or requests related to participation in the Tender should be directed to ssm.ssr.sk.

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THE WALL STREET JOURNAL

BUSINESS NEWS

Caterpillar Faces New Questions

By ANDREW TANGEL
AND ARUNA VISWANATHA

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

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

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

Caterpillar hasn't been accused of any wrongdoing.

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

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



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

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

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

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

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

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

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

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

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

Days after the March raids,

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

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

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

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

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

respond to a request for comment Sunday.

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

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

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

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

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

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

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

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



Stonyfield was organic pioneer.

Danone Will Sell Stonyfield To Lactalis

By NICK KOSTOV

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

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

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

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

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

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

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

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

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

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

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

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

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

Dubai Fund Buys Kenya Coffee Chain

By MATINA STEVIS

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

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

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

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

This is the first major secondary exit for a private-equity fund in Kenya, creating a benchmark for future deals.

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

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

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

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

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

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

—Nicolas Parasie in Dubai contributed to this article.



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



A U.S.-European report on aircraft icing technology is due in August. A plane being deiced.

Jet Ice-Alert Systems Hit

By ANDY PASZTOR

Current aircraft technology to warn pilots they are flying toward potentially hazardous icing conditions is inadequate, a study says, dealing a setback to years of efforts to find new ways to prevent ice crystals from clogging airliner engines and speed sensors.

Summaries of some of the findings already have circulated among industry technical groups and air-safety authorities on both sides of the Atlantic. But earlier this year, members of the study group said they saw little industry interest in continuing to develop performance standards for radar detection of ice crystals.

Ice accumulation can wreak havoc inside modern jet engines or on the tips of air-speed-measuring devices extending from the noses of jets, called Pitot tubes. Such incidents are infrequent, but they have caused numerous emergencies in the past two decades and contributed to at least two high-profile commercial airliner crashes.

Speed sensors on an Air France jet headed to Paris from Rio de Janeiro in 2009 iced up and malfunctioned while flying through an area known for strong, high-altitude storms, confusing the cockpit crew.

Responding improperly to unreliable airspeed readings, the pilots allowed the plane to slow too much and mistakenly continued to pull up the nose at a sharp angle, resulting in a stall that killed all 228 people on board.

When airspeed indicators malfunction, autopilots typically kick off and pilots are then forced, at least temporarily, to manually fly the plane.

The Air France crash prompted an industrywide reassessment of pitot-tube designs and pilot training to cope with high-altitude aircraft upsets.

Depending on the circumstances, ice buildup also can suddenly shut down engines or reduce their thrust without warning.

Powerful thunderstorms can push smaller-than-normal ice particles into the red-hot bowels of engines, where they can accumulate until shedding ice damages rapidly spinning turbine blades or douses ignition sources.

A different type of icing problem—associated with gradual ice accumulation inside fuel systems stemming from flights through particularly cold regions—has been shown to unexpectedly restrict engine power.

That is what happened to a British Airways Boeing Co. 777 powered by a pair of Rolls-Royce Holdings PLC engines as it was descending toward London's Heathrow Airport in 2008.

With the runway in sight, the crew couldn't rev up the engines as required and the plane pancaked into the ground about 1,000 feet short of the strip. The aircraft was destroyed and there were dozens of injuries, but no fatalities.

The icing-related problems during high-altitude flight have prompted numerous safety directives over the years by the Federal Aviation Administration and its European counterpart.

TECHNOLOGY

WSJ.com/Tech

Korea Chip Firm Could Get Stake In Toshiba Unit

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

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

SK Hynix's potential partial ownership of Toshiba's chip business could escalate opposition from **Western Digital** Corp., which currently has a stake in Toshiba's semiconductor operations and competes with SK Hynix, a South Korean chip maker. Western Digital, based in San Jose, Calif., has filed lawsuits to try to block the sale.

The arrangement would also appear to run counter to concerns raised by Japanese government officials about the potential leakage of sensitive technology to foreign competitors.

Toshiba says it is nearing an agreement with a consortium led by state-backed fund **Innovation Network Corp. of Japan**, to sell its crown jewel semiconductor business, which makes NAND flash memory chips, for about \$18 billion.

INCJ and 100% government-owned Development Bank of Japan plan to acquire 66% of the unit, while the rest would go to U.S. private-equity firm Bain Capital, according to the people involved in the deal.

Contracts between Bain and SK Hynix will allow SK Hynix to acquire some or all of the stake initially held by Bain at a later date, these people say.

SK Hynix's name isn't included in Toshiba's public documents about the consortium but it has been described by Toshiba Chief Executive Satoshi Tsunakawa as only providing financing for the deal.

"There won't be any technology leaks because SK Hynix won't take any voting rights in the chip unit," Mr. Tsunakawa said at a news conference on June 23.

A Toshiba spokesman said he couldn't comment on details of the planned sale and declined to make Mr. Tsunakawa available for comment.

In explaining SK Hynix's role, one of the people involved in the deal said: "SK Hynix isn't a bank that profits from lending money."

The INCJ and DBJ declined to comment. An SK Hynix spokesman declined to comment on whether the South Korean company is looking to acquire a stake in Toshiba.

Western Digital has already expressed concerns about SK Hynix's inclusion in the consortium.

"SK Hynix's participation increases the likelihood of

technology leakage and harm to the joint venture," Western Digital Chief Executive Steve Milligan wrote in a letter sent to Toshiba on June 25, which was provided to the media.

Japan's Ministry of Economy, Trade and Industry couldn't immediately comment.

Toshiba is rushing to raise capital after its U.S. nuclear subsidiary Westinghouse Electric Co. filed for chapter 11 bankruptcy protection in March, saddling Toshiba with billions of dollars in losses. In April, Toshiba warned investors that it might be unable to stay in business.

SK Hynix was invited to join the consortium after INCJ failed to attract Japanese electronics companies, the people involved in the process say. The addition of SK Hynix was needed to raise the size of the offer, the people involved in the deal said.

Japanese government officials have raised concerns about technology leakage, but that was primarily regarding Chinese bidders as Beijing spends tens of billions of dollars to buy semiconductor technology overseas and develop it domestically.

Plans include an option for SK Hynix to potentially have partial ownership.

Toshiba and SK Hynix have fallen out in the past over alleged technology leakage.

In 2014, Toshiba alleged that SK Hynix illegally obtained semiconductor research data from a former employee of a Toshiba joint-venture partner that was acquired by Western Digital last year. SK Hynix agreed to pay Toshiba \$278 million to settle a lawsuit in the dispute. The two companies extended a license-sharing agreement shortly after resolving the dispute.

A stake in the Toshiba unit would help give SK Hynix a bigger presence in the NAND chip market, where it lags behind in technology and market share. Thanks to high demand from smartphone and computer server makers, sales of NAND flash memory chips totalled \$11.7 billion during the first quarter of this year, headed by Samsung Electronics Co. and Toshiba and followed by Western Digital and SK Hynix, according to research firm IHS Markit.

SK Hynix says it is currently investing billions of dollars to beef up its NAND production capacity.

SK Hynix's potential stake in Toshiba's chip unit could also raise antitrust challenges that would slow the sale.

A Toshiba spokesman said he couldn't comment on details of the planned sale and declined to make Mr. Tsunakawa available for comment.

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"SK Hynix's participation increases the likelihood of

\$2.4 billion in December 2015.

CMA CGM, the world's third-largest container operator by capacity, will retain a 10% stake in the Global Gateway South Terminal, after the sale to EQT Infrastructure and its partner, P5 Infrastructure. The Global Gateway South is one of the biggest box terminals in the West Coast, the main entry point for sea-borne Asian imports.

The French operator also struck a deal to remain a major customer of the terminal, and its ships will get priority.

—Costas Paris

KIM L HONG-JI/REUTERS

Toshiba and SK Hynix had disputes over alleged technology leaks.



Saavn offers its mostly South Asian customer base tunes from Indian films. It spends about 40% of its revenue on licensing music.

Streaming Service Hits Note

BY ETHAN SMITH

Streaming services like **Spotify** and Apple Music have helped to revitalize record labels while outpacing downloads and physical sales as the most popular way consumers obtain music.

But there's one thing apparently none has yet achieved: profits.

That could soon change, courtesy of an unlikely competitor, **Saavn** LLC, which operates a niche music service it says is on track to turn a quarterly profit by the end of next year.

Streaming subscription companies delivered robust revenue growth to the music industry last year for the first time in well over a decade, after online piracy and other forces pushed sales down 60% from their peak in 2000.

Saavn is a relative minnow among them, with 22 million monthly active users who are predominantly in India and seven nearby nations. To them it offers a free service with unlimited access to 30 million songs—both Indian and Western—in exchange for enduring ads. Charts and playlists spotlight music from various regions, eras and artists, such as Bollywood star Shah Rukh Khan.

Outside South Asia, Saavn is

subscription-only. For around \$5 a month, users in the U.S., U.K. and about 200 other countries gain access to 11 million songs, most of them Bollywood tunes and other Indian music. Users in India can pay 99 rupees (about \$1.54) a month for an ad-free "pro" option.

The service also offers music from 10 artists it has signed directly to record label-style deals, along with 30 talk shows.

The co-founder and chief executive of New York-based Saavn, Rishi Malhotra, said the company is on track this year for revenue of \$18 million to \$20 million—four times what it garnered three years ago—with 70% coming from subscription fees. Three million of its users are in subscription-only markets.

Those numbers are tiny compared to industry leader Spotify AB, which recently said it had 140 million active users, 50 million of them paying subscribers, and reported more than \$3.3 billion in revenue for 2016, on which it lost nearly \$612 million. Internet-radio giant Pandora Media Inc. has been awash in red ink since its debut as a public company six years ago.

Most other major subscription services are part of tech giants including Apple Inc., Al-

phabet Inc. and Amazon.com Inc., which don't break out financials for their subscription services. But many people in the music industry believe they also lose money, since their business models tend to resemble Spotify's, including high costs for licensing, marketing, data hosting and streaming.

Mr. Malhotra, a former HBO executive, said Saavn's specialized focus and the unusual financial arrangements that come with it are vital to its relatively rapid path to profits. The company spends only about 40% of revenue on licensing music, compared to about 70% paid by bigger services.

Apple Music and Google Music both have presences in India, but Spotify doesn't.

With a vast population and a highly fragmented music industry, India represents both a challenge and opportunity for music companies trying to figure out how to do business there.

Guy Oseary, the manager for Madonna and U2 and an investor in Saavn, said he has long had his eye on the nation but never booked a show there. Until he met Mr. Malhotra, Mr. Oseary recalls, "I hadn't met anyone who could actually help me figure out

how to do any work there."

Marc Geiger, an investor in Saavn who separately heads the music department at the WME talent agency, said, "These guys are incredibly well positioned because they're a market leader in a ginormous market."

The company, which began as South Asian Audio Video Network, has been streaming music for six years. It has about 190 employees, in the U.S. and India.

Spotify's future also could include black ink.

Ahead of a planned public stock offering late this year or early next year, the company recently negotiated new licensing deals with two major music suppliers—Vivendi SA's Universal Music Group and Merlin, a trade group for independent labels—on terms music industry experts believe will improve its operating margins by, among other things, lowering royalty rates.

Spotify is pursuing similar terms with Sony Corp.'s Sony Music and Access Industries' Warner Music Group, say people familiar with the matter.

As the biggest services gain subscribers, Mr. Geiger is bullish on streaming in general. "People see a path to profitability," he said. "It was always about gaining users."

for heels and began selling cosmetics in a nearby mall.

"Our customers are virtually all Foxconn workers," said Ms. Yuan, who lives with her husband, a Foxconn employee, and two children in a rented one-room apartment.

Some of Ms. Yuan's neighbors in the apartment complex are less content than she, with some who relocated during development complaining about inadequate land compensation. Zhengzhou authorities said their land compensation was based on national standards.

Unease abounds in Zhengzhou over how long Foxconn—or Apple—will need iPhone City. Sales of the iPhone declined last year for the first time since its debut in 2007. During last year's production downturn, Chinese Premier Li Keqiang asked Mr. Gou whether iPhone production would rise or fall this year, according to people present at the meeting.

Foxconn said it has acquired 80% of the buildings it uses in Zhengzhou, leasing the remainder, and will continue to invest there.

—Kersten Zhang and Yang Jie in Beijing and Tripp Mickle in San Francisco contributed to this article.

IPHONE

Continued from page B1
Ford's Detroit—iPhone City revolves mainly around a single product, and it largely depends on that product for its wealth.

In iPhone City, shopping malls, restaurants and karaoke parlors, some started by former Foxconn workers, sprouted to cater to the Foxconn workforce. Government statistics indicate that exports of electronics have skyrocketed from Henan, a poor province of 94 million people with Zhengzhou at its heart.

Officials had welcomed the iPhone: China's top leaders greenlighted a national-level special trade zone, and the province threw its resources into constructing and populating what would become iPhone City.

During last fall's rush to make the iPhone 7, when Foxconn was short-handed, state-owned coal companies lent workers to Foxconn. In past years, according to government notices online, the province issued quotas to local authorities stating how many workers they needed to produce for Foxconn.

During last fall's rush to make the iPhone 7, when Foxconn was short-handed, state-owned coal companies lent workers to Foxconn. In past years, according to government notices online, the province issued quotas to local authorities stating how many workers they needed to produce for Foxconn.

Readying for a production surge to make the next iPhone model, due this fall, recruiters recently visited villages to put up posters and find workers.

"While the government has provided assistance in helping us with our recruitment requirements, the costs associated with hiring and training new workers are all covered by Foxconn," the company said.

On a recent June day, a speaker blared outside the factory gate: "We're recruiting the cream of society. Your personality must be optimistic, your work diligent."

Foxconn workers earn some 1,900 yuan (\$278) in quiet months to more than 4,000 yuan with overtime when production ramps up. Their income isn't high, but many are better off than they were as rural villagers. For the workers, the iPhone is an expensive choice, and many say they buy cheaper, Chinese-branded smartphones instead.

Yuan Yanling, 28 years old, said she has worked three stints on iPhone assembly lines, quitting each time better-paid or more fun jobs appeared. Last November she traded in her Foxconn uniform

for heels and began selling cosmetics in a nearby mall.

"Our customers are virtually all Foxconn workers," said Ms. Yuan, who lives with her husband, a Foxconn employee, and two children in a rented one-room apartment.

Some of Ms. Yuan's neighbors in the apartment complex are less content than she, with some who relocated during development complaining about inadequate land compensation. Zhengzhou authorities said their land compensation was based on national standards.

Unease abounds in Zhengzhou over how long Foxconn—or Apple—will need iPhone City. Sales of the iPhone declined last year for the first time since its debut in 2007. During last year's production downturn, Chinese Premier Li Keqiang asked Mr. Gou whether iPhone production would rise or fall this year, according to people present at the meeting.

Foxconn said it has acquired 80% of the buildings it uses in Zhengzhou, leasing the remainder, and will continue to invest there.

—Kersten Zhang and Yang Jie in Beijing and Tripp Mickle in San Francisco contributed to this article.

BUSINESS WATCH

MOVIES

'Despicable Me 3' Tops U.S. Box Office

The Fourth of July box office got started over the weekend without any true fireworks.

"Despicable Me 3" took the No. 1 spot with an estimated \$75.4 million in the U.S. and Canada, a good debut for the animated movie but nonetheless the lowest opening in the Minions franchise since the original premiered in 2010.

"Baby Driver" cruised to a re-

FAIRFAX MEDIA

Australian Publisher Ends Sale Talks

Australian newspaper pub-

lisher Fairfax Media Ltd. said on Monday that it won't pursue a sale of the company following a failed bidding war by two U.S. private-equity firms, and would instead proceed with a spinoff of its Domain real-estate classifieds unit.

Fairfax, which publishes Aus-

tralian newspaper titles such as the Sydney Morning Herald, re-

ceived competing bids in May from Hellman & Friedman LLC and a consortium led by TPG Group. Both bids valued Fairfax at roughly 2.8 billion Australian dollars, or about US\$2.2 billion.

Fairfax said both bidders were granted due diligence, but neither one submitted a binding offer.

Analysts said both bidders were really after Domain, which publishes property listings online.

—Mike Cherney

SHIPPING INDUSTRY

Firm Sells Terminal In Los Angeles

French container-ship operator **CMA CGM** SA said on Monday that it has reached a deal to sell a 90% stake in its Los Angeles container terminal to two Swedish infrastructure firms for \$817 million in cash.

The deal ends CMA CGM's long quest to sell the port assets of Singapore's **Neptune Orient Lines** after the French company bought the business for

KIM L HONG-JI/REUTERS

Toshiba and SK Hynix had disputes over alleged technology leaks.

FINANCE & MARKETS

Investors Lose Faith in OPEC's Cutbacks

Market went into bear territory in June as U.S. oil production beat expectations

By ALISON SIDER

Oil prices tumbled in the second quarter, swinging into a bear market as many investors who at the start of the year clung to hopes of rapidly shrinking stockpiles finally cut their losses.

Crude ended the quarter 9% lower and sank as much as 21.9% in June from highs set in February. A loss of 20% or more typically signals the start of a bear market.

It is a sharp shift from the first months of 2017, when investors had been divided over whether members of the Organization of the Petroleum Exporting Countries would stick to pledges to cut output but generally believed those cuts would help ease the global supply glut and lift prices.

For a time, it seemed almost nothing could shake oil investors out of their malaise. Prices fell even after OPEC announced it would extend its cuts into next year and the U.S. Energy Information Administration reported that U.S. stockpiles fell nearly every week during the quarter.

At the same time, U.S. output has risen more quickly than many predicted: The EIA is now forecasting that it will average a record of 10 million barrels a day next year. Output from Libya and Nigeria, OPEC members exempt from the production-cut agreements, has



Khalid al-Falih, Saudi Arabia's energy minister and president of OPEC, at a Vienna meeting in May.

ramped up as well.

Bullish investors "are burned, they are tired and they are surly. Now they're starting to go short," said Robert McNally, president of Rapidan Group. "Hell hath no fury like a hedge fund scorned."

Hedge funds and other speculative investors have piled into bets on falling oil prices. Bullish bets still outnumber bearish ones but by the slimmest margin since August, according to data from the Commodity Futures Trading Commission.

Prices ended the quarter on a high note, rising 2.47% Friday, after oil-field services firm Baker Hughes Inc. reported that the number of rigs drilling for oil in the U.S. edged lower

by two, the first weekly decline since January, raising hopes that U.S. drillers are responding to lower prices by pulling back. During the last week of the quarter, prices of U.S. crude futures rose 7%—the largest weekly increase since Dec. 2, the week OPEC struck its deal to cut output. The seven-session streak of gains assuaged worries that prices were on course to fall below \$40 a barrel. During Monday trading, U.S. crude was up another 1.7% to \$46.84 a barrel.

But the world is still awash in oil.

"All the bearish things are kind of still in play" said David Leben, director of commodity derivatives at BNP Paribas.

Even though many analysts

still say that crude inventories are falling and that OPEC's efforts will work, many investors are no longer buying it. Increasingly, the market is divided between those who believe that OPEC's efforts are paying off and those who don't.

"It's alarming to people because this cycle has played out very fast," said Robin Wehbé, managing director of Boston Co., who runs the Dreyfus Natural Resources Fund. "The oil market has gone from a cartel-managed business to an open-market-driven business."

Saudi Arabia, OPEC's de facto leader, has a lot riding on higher oil prices. The country is targeting oil prices of \$60 a barrel to smooth the way for

the initial public offering of Saudi Aramco, its national oil company. That is one reason some investors still hope that OPEC will make deeper cuts.

Citigroup Inc. is among the firms that believe the market is actually getting tighter, but the firm's analysts say for now, negative sentiment could be hard to shake.

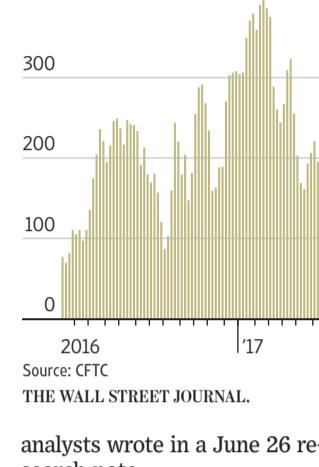
Citigroup analysts say the chances that Brent crude futures will climb to \$60 by the end of the year are less than 50%, down from their previous estimate of a 65% chance. Brent settled at \$47.92 Friday.

"The fund community has been burned so badly as to reduce the likelihood of them jumping back in no matter what the fundamentals," the

Falling Fast

Investors have all but given up on OPEC's efforts to rebalance the oil market. Money managers' net bullish position on U.S. oil prices has fallen to its lowest level since August.

Contracts of 1,000 crude barrels



Source: CFTC

THE WALL STREET JOURNAL.

analysts wrote in a June 26 research note.

Goldman Sachs Group Inc. on Wednesday also cut its three-month forecast for West Texas Intermediate, the U.S. benchmark for crude, to \$47.50 a barrel from \$55.

Investors are increasingly turning their attention to 2018, where the outlook is murky.

Many wonder whether OPEC producers will unleash a flood of oil once their agreement ends. The Goldman Sachs analysts said there is a "shrinking window of time" for global oil supplies to fall before OPEC is tempted to start churning out more oil. That leaves the analysts "cautious of calling for a sharp bounce in prices here," they said.

Jana Buys Roughly 5% of EQT, Seeks to Stop Rice Deal

By DAVID BENOIT

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

Instead of buying Rice, Jana wants EQT to fully separate its pipeline operations, according to a securities filing and people familiar with the matter.

The goal would be to make EQT a pure exploration-and-production company. While that could happen after a Rice deal, tax rules mean it could take years.

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

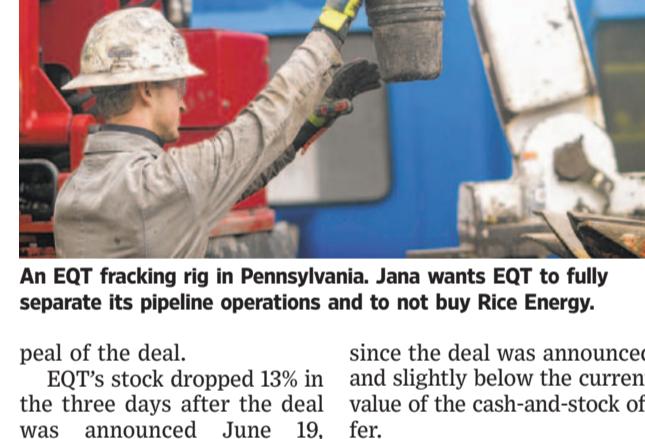
EQT said the deal would further its efforts to improve operations and tap the value of its natural-gas resources. Responding to the split suggestion, the company said it has acknowledged the market

is missing value between its pipeline operations and exploration business and that "management has committed to evaluating options and devising a plan to address this disconnect by the end of 2018."

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

EQT is based in Pittsburgh and operates largely in the Marcellus Shale formation, which spreads from New York to Virginia. Rice is also an Appalachian-focused energy company.

The combination would create the largest natural-gas producer in the country by volume, the companies say. Their large adjacent acreage and pipelines is part of the ap-



An EQT fracking rig in Pennsylvania. Jana wants EQT to fully separate its pipeline operations and to not buy Rice Energy.

peal of the deal.

EQT's stock dropped 13% in the three days after the deal was announced June 19, though it mostly recovered last week.

The shares closed Friday at \$58.59, giving EQT a market capitalization of \$10.2 billion. Rice closed at \$26.63, up 35%

since the deal was announced and slightly below the current value of the cash-and-stock offer.

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

Instead of doing the deal, Jana wants EQT to fully list

its pipelines, which already trade publicly. They are run by EQT Midstream Partners LP, which is more than 26%-owned by a third entity, EQT GP Holdings LP, that is 90%-owned by EQT.

As allies, Jana had signed up three well-known executives who ran the corporate family tree of Atlas Energy. Most of Atlas was sold to Chevron Corp. for more than \$3 billion in 2011, before the executives took a remaining operation, built it into a new version of Atlas and sold it again in 2015.

Jonathan Cohen, executive chairman of the current version of Atlas, and Daniel Herz, president, are potential board nominees.

Jana is also working with Edward Cohen, Jonathan's father, who led the original Atlas. All three have bought EQT shares.

Oil-and-gas exploration companies frequently shift as-

sets around and build pipelines that then are housed in separate publicly traded operations with tax-efficient structures.

The possibility for such moves often draws activists, who take stakes and push for changes that will drive up stock prices.

Jana has a history of energy campaigns, including calling for a similar split at El Paso Corp. But as energy prices plunged, many activists, including Jana, lost money on some big bets and have slowed down their activity in the sector.

This year, there has been a resurgence that is coinciding with a pickup in deals among shale companies. Elliott Management Corp. is urging mining giant BHP Billiton PLC to shed its U.S. shale assets, and Corvex Management LP is pushing Energen Corp. to sell itself. Both companies have rebuffed the suggestions.

Virtual Currencies' Wild Ride

By PAUL VIGNA

Even for an investment as volatile as bitcoin, the second quarter was wild.

The cryptocurrency stood at \$1,079 on April 1. Over the next two months, it nearly tripled in price, driven in part by a surge of interest coming from Japan and South Korea. Bitcoin hit a record of \$3,019 on June 11, and then fell 27% in the days after.

It closed the quarter at \$2,557.39, more than doubling its price during the three months. On March 31, it was at \$1,079.75.

Ether, a less mature digital currency, traded as high as \$395 on June 12, up nearly 50-fold on the year, before suffering a sharp one-day flash crash and settling the quarter at \$304.24.

For bitcoin, ethereum and dozens of other smaller virtual currencies, questions abound in the second half. The bitcoin community, nearly a decade old, is still fighting over how best to expand network capacity. The current limit of seven transactions per second has slowed trading and led to higher fees. Some predict the stalemate could be settled this summer though, perhaps through splitting the currency in two.

Ethereum, the platform that supports ether, has its own capacity issues: The ether sell-off was accompanied by a surge in demand that overwhelmed the nascent network's ability to

Where the Volatility Went

Virtual currency ether has surged this year, handily beating bitcoin and the S&P 500.

Year-to-date percentage change through Friday



process trades. There were delays of hours and even days. On one exchange, GDAX, a multimillion-dollar sell order sparked a cascade of stop-loss orders that created a flash crash and forced the exchange to credit some investor accounts. At one brief point, ether traded for 10 cents.

Both currencies will likely be driven in coming months by so-called initial coin offerings, or ICOs. A cross between crowdfunding and a securities offering, ICOs have become a way for startups in the sector to bypass venture-capital funding and raise millions, virtually instantly.

Some of these startups have working products. Others have

nothing beyond a white paper. There are no standards or regulations around these ICOs, and the quality of the offerings varies greatly.

Many of the ICOs are using Ethereum's platform. A software standard within Ethereum's protocol made it relatively easy for firms to create digital tokens, and these entrepreneurs have taken advantage of it. In May, startup prediction market Gnosis raised \$12.5 million. In early June, a startup called Civic, which is building digital identity products, raised \$33 million. Later in June, another startup, called Bancor, building a trading platform for all these ICOs, raised \$150 million.

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CAM-GTF Limited OT MUS 06/30 USD 12 7.3 -1.8

FUND NAME	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR	%RETURN
VP Class-Q Units	AS	EQ	HKG	06/30	AUD	143.15	24.9	32.6	-0.1	
VP Class-C Units	AS	EQ	HKG	06/30	USD	10.04	24.8	32.5	-0.5	
VP Class-C Units AUD H	AS	EQ	HKG	06/30	AUD	148.83	24.2	31.8	-0.4	
VP Class-C Units CAD H	AS	EQ	HKG	06/30	CAD	14.35	23.9	30.1	-1.3	
VP Class-H Units HKD H	AS	EQ	HKG	06/30	HKD	12.16	23.5	30.6	-0.5	
VP Class-C Units NZD H	AS	EQ	HKG	06/30	NZD	14.80	22.7	30.9	-0.5	
VP Class-C Units RMB H	AS	EQ	HKG	06/30	CNH	12.02	15.4	27.9	NS	
VP Multi-Asset Fund Cls A HKD	AS	EQ	HKG	06/30	CNH	12.13	26.2	34.8	NS	
VP Multi-Asset Fund Cls A USD	OT	OT	HKG	06/30	USD	10.39	8.0	NS	NS	
VP Multi-Asset Fund Cls A USD	OT	OT	HKG	06/30	USD	10.48	7.3	7.6	NS	
VP Taiwan Fund	AS	EQ	CNY	06/30	USD	19.48	16.3	23.7	10.2	

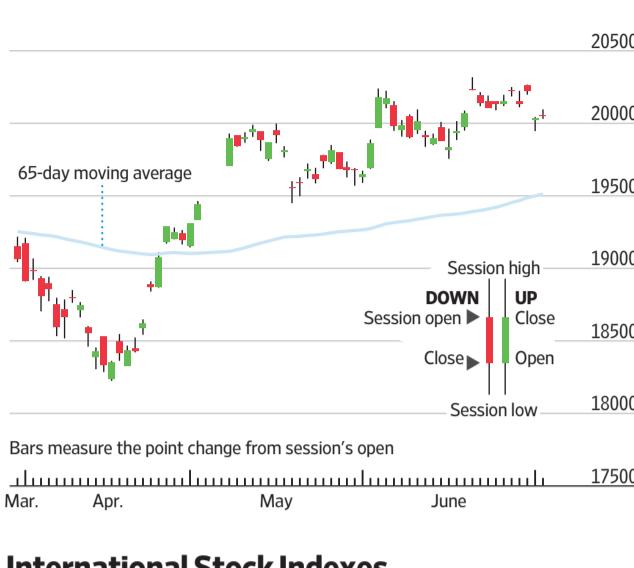
For information about listing your funds,
please contact: Freda Fung tel: +852 2504;
email: freda.fung@wsj.com

MARKETS DIGEST

Nikkei 225 Index

20055.80 ▲ 22.37, or 0.11%

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



Bars measure the point change from session's open

Mar. Apr. May June

STOXX 600 Index

383.41 ▲ 4.04, or 1.06%

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



Mar. Apr. May June

S&P 500 Index

Data as of 12 p.m. New York time

Last 23.87, Year ago 24.22

Trailing P/E ratio 23.87, P/E estimate 18.72, Dividend yield 1.96

All-time high 2453.46, 06/19/17

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



Mar. Apr. May June

International Stock Indexes

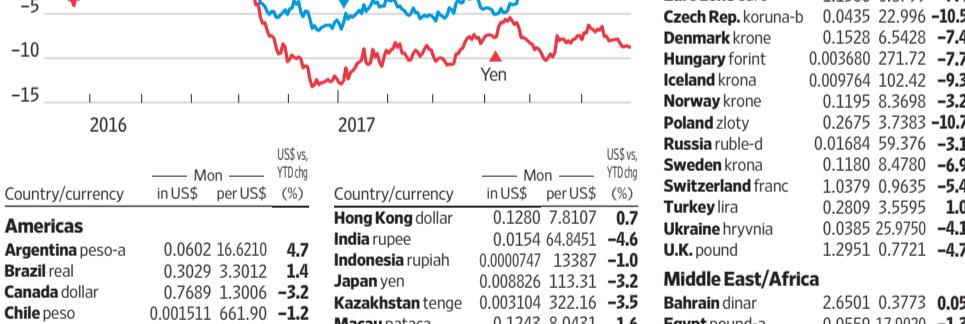
Data as of 12 p.m. New York time

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2787.73	18.34	0.66	2285.55	2285.55	2792.77	2792.77	10.3
	MSCI EAFE	1887.89	4.70	0.25	1471.88	1471.88	1956.39	1956.39	10.0
	MSCI EM USD	1012.96	2.16	0.21	691.21	691.21	1044.05	1044.05	27.5
Americas	DJ Americas	585.28	2.65	0.45	502.42	502.42	588.61	588.61	8.3
Brazil	Sao Paulo Bovespa	63170.33	270.36	0.43	50824.99	50824.99	69487.58	69487.58	4.9
Canada	S&P/TSX Comp	15182.19	...	Closed	14080.24	14080.24	15943.09	15943.09	-0.7
Mexico	IPC All-Share	50052.23	194.74	0.39	43998.98	43998.98	50312.02	50312.02	9.7
Chile	Santiago IPSA	3605.47	-1.31	-0.04	3111.53	3111.53	3786.05	3786.05	11.9
U.S.	DJIA	21528.03	178.40	0.84	17713.45	17713.45	21562.75	21562.75	8.9
	Nasdaq Composite	6127.91	-12.51	-0.20	4786.01	4786.01	6341.70	6341.70	13.8
	S&P 500	2434.75	11.34	0.47	2074.02	2074.02	2453.82	2453.82	8.8
	CBOE Volatility	10.46	-0.72	-6.44	9.37	9.37	23.01	23.01	-25.5
EMEA	Stoxx Europe 600	383.41	4.04	1.06	318.76	318.76	396.45	396.45	6.1
	Stoxx Europe 50	3159.45	37.28	1.19	2720.66	2720.66	3279.71	3279.71	4.9
France	CAC 40	5195.72	75.04	1.47	4062.07	4062.07	5442.10	5442.10	6.9
Germany	DAX	12475.31	150.19	1.22	9304.01	9304.01	12951.54	12951.54	8.7
Israel	Tel Aviv	1436.29	1.85	0.13	1372.23	1372.23	1490.23	1490.23	-2.3
Italy	FTSE MIB	21013.14	428.91	2.08	15293.10	15293.10	21828.77	21828.77	9.2
Netherlands	AEX	513.12	5.97	1.18	419.45	419.45	537.84	537.84	6.2
Russia	RTS Index	1009.42	8.46	0.85	898.05	898.05	1196.99	1196.99	-12.4
Spain	IBEX 35	10604.20	159.70	1.53	7857.80	7857.80	11184.40	11184.40	13.4
Switzerland	Swiss Market	9009.81	102.92	1.16	7585.56	7585.56	9148.61	9148.61	9.6
South Africa	Johannesburg All Share	52163.80	552.79	1.07	48935.90	48935.90	54716.53	54716.53	3.0
Turkey	BIST 100	100522.30	81.91	0.08	70426.16	70426.16	100990.54	100990.54	28.6
U.K.	FTSE 100	7377.09	64.37	0.88	6432.47	6432.47	7598.99	7598.99	3.3
Asia-Pacific	DJ Asia-Pacific TSM	1618.76	-6.05	-0.37	1351.93	1351.93	1643.59	1643.59	13.8
Australia	S&P/ASX 200	5684.50	-37.00	-0.65	5156.60	5156.60	5956.50	5956.50	0.3
China	Shanghai Composite	3195.91	3.48	0.11	2953.39	2953.39	3288.97	3288.97	3.0
Hong Kong	Hang Seng	25784.17	19.59	0.08	20495.29	20495.29	26063.06	26063.06	17.2
India	S&P BSE Sensex	31221.62	300.01	0.97	25765.14	25765.14	31311.57	31311.57	17.3
Indonesia	Jakarta Composite	5910.24	80.53	1.38	4971.58	4971.58	5910.24	5910.24	11.6
Japan	Nikkei Stock Avg	20055.80	22.37	0.11	15106.98	15106.98	20304.41	20304.41	4.9
Malaysia	Kuala Lumpur Composite	1768.67	5.00	0.28	1616.64	1616.64	1792.35	1792.35	7.7
New Zealand	S&P/NZX 50	7588.43	-23.01	-0.30	6664.21	6664.21	7685.45	7685.45	10.3
Pakistan	KSE 100	44665.41	-1899.88	-4.08	37966.76	37966.76	52876.46	52876.46	-6.6
Philippines	PSEI	7866.52	23.36	0.30	6563.67	6563.67	8102.30	8102.30	15.0
Singapore	Straits Times	3223.46	-3.02	-0.09	2787.27	2787.27	3271.11	3271.11	11.9
South Korea	Kospi	2394.48	2.69	0.11	1953.12	1953.12	2395.66	2395.66	18.2
Taiwan	Weighted	10412.79	17.72	0.17	8575.75	8575.75	10513.96	10513.96	12.5
Thailand	SET	1579.41	4.67	0.30	1406.18	1406.18	1591.00	1591.00	2.4

Sources: SIX Financial Information; WSJ Market Data Group

Currencies

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



Country/currency	Mon. in US\$	YTD% (%)	Mon. in US\$	YTD% (%)	Country/currency	Mon. in US\$	YTD% (%)
Americas					Europe		
Argentina peso-a	0.0602	16.6210	4.7		Bulgaria leva	0.5810	1.7211
Brazil real	0.3029	3.3012	1.4		Croatia kuna	0.1531	6.531
Canada dollar	0.7689	1.3006	-3.2		Euro zone euro	1.1366	0.8799
Chile peso	0.001511	661.90</td					

FINANCE & MARKETS

China Bond Link Gets Off to Quiet Start

By SHEN HONG

SHANGHAI—China's bond market showed little reaction as Beijing and Hong Kong opened a trading link giving global investors additional access to the world's third-largest debt market.

Despite fanfare at the opening ceremony in Hong Kong for the so-called Bond Connect link, Chinese bond prices were mostly steady throughout the trading day. The yield on China's benchmark 10-year government bond slipped 0.04 percentage point to 3.53%, while on the one-year it was down 0.005 percentage point at 3.46%. Yields fall as bond prices rise.

"I am sure there's champagne and balloons at the ceremony in Hong Kong, but here in Shanghai it's just another trading day. I don't feel a thing," said a Shanghai-based senior bond trader at an Asian bank.

The link allows investors based in Hong Kong to trade directly in China's \$9 trillion market. Its launch follows last year's landmark opening of the bond market to global investors with trading accounts in-



Officials celebrate the launch of the China bond link on Monday at the Hong Kong exchange.

side China, and is modeled in part on the stock-market links between Hong Kong and Chinese exchanges in Shanghai and Shenzhen.

Unlike the stock-market links, the bond-trading connection is one-way: Foreigners can buy bonds in the mainland market, but mainland Chinese investors can't do likewise in

Hong Kong. China has been fighting to stem capital outflows and reduce downward pressure on its currency.

Few expect a huge rush of foreign money into Chinese bonds as a result of the new trading link, given that investors can already buy bonds in China. Chinese bonds aren't yet included in major bond in-

dexes, so the many investment funds that track those indexes don't have to enter the market. And analysts say concerns about frequent bouts of volatility and the reliability of local credit ratings could keep investors away.

"The bond connect will at best serve to improve investor sentiment now, but given the

less-than-convenient arrangements regarding clearing and so on, its positive impact will only become material in the medium to long run," said Tang Yue, an analyst at Industrial Securities.

Market participants say that in addition to the paperwork, there are also concerns about currency conversion and hedging to offset exchange-rate risks.

Asked at the opening ceremony whether Beijing will make the link two-way, the deputy governor of China's central bank, Pan Gongsheng, said "not at the moment." He said it would depend on the amount of trading activity and initial demand from the market.

To showcase the new trading link, one of China's biggest banks, **Agricultural Development Bank of China**, on Monday issued 15 billion yuan (\$2.21 billion) worth of bonds that will be available to both domestic and global investors. **China Development Bank** will follow with 20 billion yuan worth of bonds Tuesday.

International banks including **Citigroup Inc.** and **HSBC Holdings PLC** said Monday

they had concluded their first deals as market makers for trading via Bond Connect.

Chinese bond investors are preoccupied less with the link than with what the **People's Bank of China** will do next in the money market and how the economy will perform in the coming months, said the Shanghai trader.

After injecting a large amount of funds into the financial system in mid-June to meet a seasonal surge of cash demand, the PBOC hasn't used its money-market liquidity operation during the past seven business days. The inaction is widely interpreted as a signal from policy makers in Beijing that they wish to continue their campaign to reduce debt and leverage in China's financial markets.

Foreign investors' share of China's interbank bond market remains low. At the end of March, the total amount of Chinese domestic bonds they held was around 830 billion yuan, or around 1.4% of the market, according to **Goldman Sachs**.

—Gregor Stuart Hunter
in Hong Kong contributed
to this article.

Dow Climbs, Led by Gains in Banks and Oil Firms

By RIVA GOLD AND AKANE OTANI

Gains in the shares of energy and financial firms lifted the Dow Jones Industrial Average on the first day of the third quarter.

The blue-chip index jumped 158 points, or 0.7%, to 21,507 by midday in **MONDAY'S** New York. The **MARKETS** S&P 500 rose 0.3% and the Nasdaq Composite declined 0.4%.

U.S. stocks climbed to fresh highs in the first half of the year, propelled by strong corporate earnings and an improving global economic picture. Yet many investors and

analysts expect stock gains to slow the rest of the year, citing recent weakness in inflation data, higher-than-average stock valuations and a recent slide in commodity prices.

The pace of earnings growth is also expected to moderate in the second quarter of 2017 after companies posted their best profit growth in nearly six years.

"The big question for markets is now: Is this soft patch in the U.S. behind us?" said Michael Herzum, head of multiasset strategy at Union Investment, whose firm has taken a more cautious stance heading into the second half of the year. "We think the bulk of

the earnings upgrades are now done," he said.

Stock gains were broad Monday, pushing 9 of 11 sectors in the S&P 500 higher. Dow component Chevron rose 2.3% and Exxon Mobil added 1.8%, while U.S. crude was up 1.3% at \$46.62, on course for its eighth consecutive session of gains.

Financial shares climbed with government-bond yields, sending Goldman Sachs Group and J.P. Morgan Chase up more than 2% apiece. The yield on the 10-year U.S. Treasury note rose to 2.345%, according to Tradeweb, from 2.298% on Friday. Higher rates typically support banks' net-

interest margins, a key measure of lending profitability.

Bond yields have risen sharply in recent sessions on growing expectations that global central banks, including the European Central Bank and the Bank of England, could move away from ultra-accommodative monetary policy.

"Our perspective is we're going to have pretty modest growth and modest inflation" in the second half of the year, said Greg Woodard, who directs portfolio strategies at Manning & Napier. "We see rates grinding a bit higher but [monetary] conditions are going to remain fairly accommodative around the world," Mr.

Woodard said.

A flurry of manufacturing readings added to confidence in the health of the world economy, lifting stocks and government-bond yields.

U.S. Treasurys extended losses after the Institute for Supply Management said U.S. factory activity picked up in June. Earlier, data also showed eurozone factories posting their busiest month in more than six years in June, and signs of momentum in Japan and China.

The Stoxx Europe 600 rose 1.1%, snapping a four-session losing streak. Shares of banks, energy companies and miners led gains in Europe, which

typically indicates confidence in the strength of the global economy and the outlook for commodities.

As investors favored risk assets, gold fell 1.2% to \$1,227.10 an ounce, around its lowest since May, while the dollar rose 0.6% against the yen.

Earlier, stocks in Asia mostly edged higher. Hong Kong's Hang Seng Index added 0.1%, while Japan's Nikkei Stock Average was also 0.1% higher as a central-bank survey showed business confidence among the nation's large manufacturers strengthened to its highest level in more than three years in the second quarter.



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MARKETS

Four Losers Bucked Upbeat Global Trend

Most of the biggest stock markets fared well in the first half. These indexes didn't

By STEVEN RUSSOLILLO

Stock markets around the world collectively had their best first half in years, but not everyone was a winner.

Just four prominent stock-market indexes fell through the first six months of the year. Benchmarks tracking Russia, China, Israel and Canada were the rare losers in an environment where nearly everything else rallied. In the past 20 years, there have only been four other instances in which such a small number of indexes started off the year in the red.

Analysts cite a confluence of reasons for why those four indexes declined, including exposure to falling oil prices and so-called mean reversion—the idea that a pullback in those markets was inevitable following sharp rallies in 2016.

Here is a look at the countries that are lagging and what could be in store for the rest of the year.

Russia

Russia's RTS Index sank 13% in the first half, the worst performer of the 30 indexes tracked by The Wall Street Journal. While the drop looks severe, it follows a 52% surge in 2016.

The index lost four-fifths of its value peak to trough during the financial crisis. It then nearly recovered through 2011 before falling another 70% over the ensuing five years.

Oil prices are down 14% this year and in June entered a bear market. Oil's decline and the possibility of tighter sanctions on Russia have hit the country's stock market, whose heavy weightings include resource giants such as Rosneft Oil Co. and Gazprom PJSC.

"You've seen a 180-degree

turn on sentiment around Russia," said Geoffrey Wong, head of global emerging-markets and Asia-Pacific equities at UBS Asset Management. "Any stabilization in oil prices should be good for equities going forward."

Politics have played a part in diminishing Russian stocks' appeal, too, thanks to the continuing probes into Russia's alleged influence over the U.S. presidential election last year.

China

While most barometers of Chinese equities have done well this year, Shenzhen-listed stocks have lagged behind. The Shenzhen Composite Index dropped 3.6% in the first half, while its Shanghai counterpart rose 2.9%. And the MSCI China Index, which includes mostly Chinese companies listed in Hong Kong and the U.S., surged 24%.

Shenzhen's weakness is a surprise. The market is home to many companies that should benefit as China's economy shifts to being driven more by consumer demand. Around a fifth of the market is made up of tech stocks, a sector that has enjoyed a stellar start to the year in other countries. Foreign investors late last year gained access to Shenzhen-listed stocks through a new trading link with Hong Kong, although demand from them has been un-

derwhelming.

Shenzhen-listed companies tend to be smaller and more volatile than those listed in Shanghai. Slowing economic growth and a crackdown on speculative investing driven by leverage could hurt Shenzhen-listed equities in the second half of the year, analysts warn.

Another consideration is valuation. The Shenzhen Composite Index trades at 25 times projected earnings over the next 12 months, compared with only 15 times for the Shanghai Composite Index, according to HSBC.



Not bullish: The plaza outside the Shenzhen Stock Exchange, whose composite index dropped 3.6% in the first six months of 2017.

"Valuations make a big difference," said Grace Tam, senior market specialist at HSBC Global Asset Management. "People are worried about Shenzhen stocks being too expensive."

Meanwhile, indexes like the MSCI China have benefited from China tech giants Tencent Holdings Ltd. and Alibaba Group Holding Ltd., which surged in the first half of the year. Tencent is listed in Hong Kong and Alibaba trades on the New York Stock Exchange.

Israel

Here the market's weighting toward tech stocks ought to have given it an advantage, but Tel Aviv's flagship TA-35 Index slipped 3.1% in the first half.

Three of the index's top five constituents are in the pharmaceuticals sector, which has struggled during the first half of the year. Teva Pharmaceutical Industries Ltd., the world's biggest seller of low-price generic drugs and Tel Aviv's biggest listing by market cap, slumped 16%, hurt by an increasingly difficult pricing environment. The debt-laden company's chief executive

stepped down in February.

Another generic-drug maker, Perrigo Co., slumped 9.3%, while shares in EpiPen maker Mylan NV, which has lost almost half its value over the past two years, were up slightly.

Canada

The Toronto exchange's benchmark S&P TSX waffled between small gains and losses in the first half before finishing down 0.7%, with companies like Suncor Energy Inc. weighed down by falling oil prices.

Canada's robust housing market has also shown signs of strain. In April, Canadian authorities accused lender Home Capital Group Inc. of misleading investors about mortgage-application fraud. The company soon afterward tapped an emergency line of credit. Moody's Investors Service also downgraded the Canadian banking sector in May, citing high private-sector debt levels.

The S&P TSX gained 18% last year, so the index's slow start this year might also be a partial swing back from last year's rally.

Not So Hot

Markets in Russia, Shenzhen, Israel and Canada fell in the first half, the only four prominent stock indexes globally to post declines.

Russia's RTS Index

1300



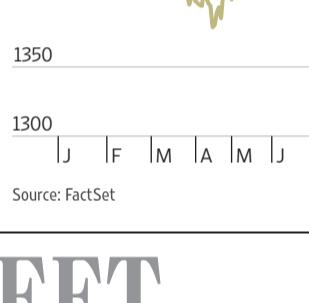
Shenzhen Composite Index

2100



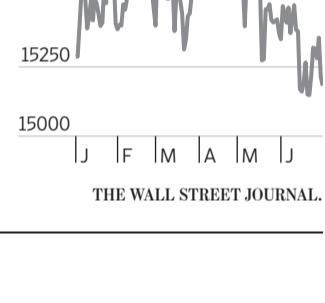
Israel's TA-35

1500



Canada's S&P TSX

16000



Source: FactSet

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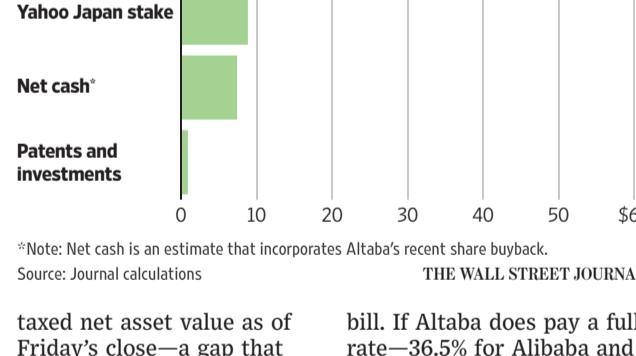
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Components of Altaba's pretax net asset value, in billions



*Note: Net cash is an estimate that incorporates Altaba's recent share buyback.

Source: Journal calculations

ing Altaba some credit for tax efficiency or are applying an additional discount of less than 10%.

Many hedge funds have decided Altaba's management will figure out something. They are further protecting themselves by shorting shares of Alibaba.

Meanwhile, Altaba's management has a simpler lever than tax savings for narrowing the fund's discount to net asset value: stock buybacks. At the current discount to net asset value, Altaba can effectively use buybacks to get \$1 of assets for 70 cents.

Altaba bought back 64.5 million shares for \$3.4 billion through a modified Dutch auction that ended June 16, helping to absorb the negative effect of the company's shares being dropped from indexes after the sale of Yahoo's core business.

More stock buybacks should be on the horizon. That alone could be reason to own Altaba.

—Miriam Gottfried

OVERHEARD

The last week of June seems to be a lucky one for bond traders.

After Britain's "yes" referendum on leaving the European Union—held on June 23 last year—global bond and currency markets gyrated wildly.

The sudden volatility unnerved many, but was quite pleasant for people who make a living trading fixed-income and currencies at major banks.

Those same bankers got another summer surprise last week as comments by central bankers in the U.K. and Europe triggered a sudden surge in interest rates and currencies.

While smaller than last year, the bump still makes for a refreshing reprise at the end of a weak quarter for trading.

As U.S. traders head off for the Independence Day holiday they may be tempted to toast their old colonial masters for delivering yet another last-minute second-quarter boost.

Dismal Math Of Investing In Bonds

Tiny hints from central banks about policy normalization shook markets up last week. They were also a reminder of the highly abnormal situation bond markets find themselves in, with little or no cushion for investors against rising yields. It is too easy to lose money in bonds.

Returns on bonds come from two sources: the interest income that accrues to holders and changes in bond prices. Years of zero-interest-rate policy have drastically reduced the former, making the latter far more important. That shift has changed the way normally reliable bonds behave.

Take Germany, which was at the center of last week's repricing. The country's benchmark 10-year bond pays a coupon of 0.25%, and at the start of last week was priced nearly close to par, with a yield of 0.25%. By the end of the week, it yielded 0.47%, but the bond's price had dropped by around 2%, data from Tradeweb show. In other words, the price move in one week was equivalent to eight years of income: the 0.25% yield on offer at the start of the week was no protection against losses.

The U.S. is faring a bit better, and higher bond yields give a little more room for maneuver. But last week's swing still reduced year-to-date returns to 1.9% from 2.7% a week earlier on BAML's index.

Even if yields don't surge higher from here—with forces like demographics, regulation and still-soft inflation weighing on the fixed-income market—the outlook for returns is hardly inspiring. Bond investors face thin times.

—Richard Barley

Nintendo's Price Surge Can't Mask Sony's Greater Allure

Game On

Valuation of Nintendo and Sony

\$6 trillion*

4

2

0

2012/13 14 15 16 17

*\$1 trillion = \$8.8 billion Source: FactSet

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on \$8.4 billion of net cash. But while it trades at an enterprise value of 27 times its forward earnings before interest, taxes, depreciation and amortization, Sony trades at six times its Ebitda.

The difference reflects the market's blind optimism that Nintendo can pull off stunning growth. Analysts estimate its operating profit will increase nearly eightfold in the next two years, according to S&P Global Market Intelligence.

Sure, the Switch console has been selling like hot cakes, contrary to prelaunch predictions. Yet it is still too early to tell if that enthusiasm

will last beyond the initial craze. Some investors clearly hope Nintendo will adapt more of its valuable franchises such as Pokémon and Super Mario to be used on mobile devices. The opportunity there is great for Nintendo, but its past mobile rollouts have been flawed and it isn't clear how committed the company is to this platform.

Sony offers a more reliable growth prospect. Operating profit at its game segment grew 53% last year, mostly because of a one-third increase in revenue from its high-margin subscription-based business, which allows users to play

against other gamers, download goodies and stream movies, among other things. With a 60 million user base for PlayStation 4, Sony could pull in more of such revenue.

Sony's other businesses are also improving. Strong demand for dual-lens smartphones has buoyed its image-sensors business, while its music division is riding the boom for subscription services. Analysts reckon Sony's operating profit could nearly double this fiscal year.

Investors looking for high scores could have an easier time with Sony than Nintendo.

—Jacky Wong

Whether the Nintendo Switch or Sony's PlayStation 4 is a better videogame console is a matter of debate.

When it comes to their Japanese makers' share prices, Sony is clearly the better bet.

Nintendo has staged a remarkable share-price rally of late, gaining 50% this year and briefly taking over its rival's market value. At Monday's prices, both are valued at nearly \$50 billion.

That looks like an anomaly. Revenue at Sony's games and network division alone is more than three times that of Nintendo, and it enjoys better operating margins. Add in Sony's other