

# THE WALL STREET JOURNAL.

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WSJ.com EUROPE EDITION

DJIA 21478.17 ▼ 0.01%

NASDAQ 6150.86 ▲ 0.67%

NIKKEI 20081.63 ▲ 0.25%

STOXX 600 382.99 ▲ 0.18%

BRENT 47.79 ▼ 3.67%

GOLD 1220.40 ▲ 0.21%

EURO 1.1333 ▼ 0.12%

## What's News

Business & Finance

Volvo plans to abandon the internal combustion engine, saying new models from 2019 would be either fully electric or hybrid. A1

♦ Fed officials in June readied plans to start shrinking the central bank's portfolio of bonds and other assets in the next few months, according to meeting minutes. A1

♦ Vantiv has made an offer valuing the U.K.'s Worldpay at \$10 billion, warding off a potential rival bid from J.P. Morgan. B1

♦ Tesla's shares slid after analysts questioned whether demand for its two electric vehicles is waning as the firm begins producing a cheaper sedan. B1

♦ Emirates Airline and Turkish Airlines said their passengers were cleared to again use laptops on U.S.-bound flights. B3

♦ Lloyds promoted several executives in a bid to appease investors concerned that the bank had too few potential internal replacements for its CEO. B7

♦ The job of CEO is becoming tougher, as 13 firms with market values of more than \$40 billion installed new chiefs in the first five months of 2017. B1

♦ True Religion Apparel is the latest California garment seller to file for bankruptcy protection. B3

World-Wide

♦ The U.S. warned North Korea that it is ready to fight if provoked, as Pyongyang claimed another weapons-development breakthrough following its latest missile launch. A1, A2

♦ Thousands of Iraqi civilians have emerged thirsty and starving from Mosul's Old City, as the battle to remove Islamic State nears its end. A4

♦ Poland is preparing to welcome Trump, who is set to visit and give a speech in Warsaw this week. A3

♦ Merkel and Xi pledged to boost economic cooperation between Germany and China as they met ahead of the G-20 summit. A3

♦ Qatar and the four Arab nations seeking to isolate it exchanged bitter recriminations, with Doha accusing the bloc of waging a smear campaign. A4

♦ The pound's sharp slide since the Brexit vote could pose difficulties for Britain's defense budget. A4

♦ Illinois's legislature appears to have forged a budget deal that will stave off a junk rating, but the plan likely will do little to solve the state's long-term woes. A6

♦ Two new California gun-control laws are on hold after challenges by the National Rifle Association. A7

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## WORLD NEWS

CAPITAL ACCOUNT | By Greg Ip

# Economic Conditions Signal Recession Risk

If you drew up a list of preconditions for recession, it would include the following: a labor market at full strength, frothy asset prices, tightening central banks, and a pervasive sense of calm.

In other words, it would look a lot like the present.

Those of us who have lived through economic mayhem before feel our muscle memory twitch at times like this. Consider the worrisome absence of worry. "Implied volatility" measures the cost of hedging against big market moves via options. When fear is pervasive, options are expensive so implied volatility is high. At present, implied volatility in bonds, stocks, currencies and gold sits near its lowest since mid-2007, the eve of the financial crisis, according to a composite measure maintained by Variant Perception, a London-based investment advisory.

The economic expansion is now entering its ninth year and in two years will be the longest on record. The unemployment rate sits at 4.3%, the lowest in 16 years, suggesting the economy has reached, or nearly reached, full capacity.

Expansions don't die of

old age, economists like to say. On the other hand, should we really assume this one will be a record breaker? From a level this low, unemployment has more room to go up than down. Another ominous sign: Central banks are tightening monetary policy, which has preceded every recession. The Fed has raised rates three times since December and last week central banks in Britain, the eurozone and Canada hinted that years of easy money were coming to an end.

Still, the presence of recession preconditions isn't enough to say one is imminent. To understand implied volatility, think of hurricane insurance. Right after a storm, homeowners are more anxious to have coverage, even as insurers withdraw, which of course means premiums spike. As years go by without another hurricane, homeowners let their coverage lapse, insurers return and premiums drop. Similarly, implied volatility is low today because years without a financial calamity have sapped demand for hedging while enticing sellers with the prospect of steady income in exchange for potentially huge losses. But just as hurricane premiums don't predict the next hurricane, low implied volatility tells us nothing about

### Calm Prevails, but Should It?

Implied volatility, which measures the cost of insurance against big market moves, is at rock-bottom even as business borrowing climbs.



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whether or when a down-draft will actually come.

Similarly, when unemployment got nearly this low in 1989 and again in 2006, a recession was about a year away; but in 1998, it was three years away, and in 1965, four years. A narrowing spread between short-term interest rates and long-term rates comparable to the present has happened 12 times since 1962, and only five times did recession follow within two years.

But if today's conditions don't dictate a recession or a

American cities. Real estate has scaled even greater heights in Australia, Canada and parts of China, which exhibit some of the same lax lending and wishful thinking that underlay the U.S. housing bubble a decade ago.

Companies meanwhile have responded to slow, stable growth and low rates by borrowing heavily, often to buy back stock or pay dividends. Corporate debt as a share of economic output is at levels last seen just before the past two recessions.

When everyone acts as if steady growth and low volatility will last forever, it guarantees they won't. Once asset prices fall, the flow of credit that sustained them dries up, aggravating the correction. Corporate leverage is at levels that in the past led to weakening corporate bond prices and greater equity volatility, says Jonathan Tepper, founder of Variant. "A high proportion of companies won't be able to pay back debt." A sell-off in corporate bonds and stocks could become self-reinforcing as those who insured against such a move sell into it to limit their own losses.

Of course, some things are different this time. The post-crisis regulatory crackdown means if asset prices fall, they probably won't take banks down with them. Last

week Janet Yellen, the Fed chairwoman, said she thought there wouldn't be another financial crisis "in our lifetimes." Fair enough: crises as catastrophic as the last happen twice a century. But small crises are inevitable as risk migrates to financial players who haven't drawn the attention of regulators. "Elevated asset valuation pressures today may be indicative of rising vulnerabilities tomorrow," Fed vice chairman Stanley Fischer warned last week.

Inflation is uncomfortably low rather than too high as in previous cycles, which makes it less likely central banks will have to raise interest rates sharply or rapidly. But in a world with permanently lower inflation and growth, businesses will struggle to earn their way out of debt, and interest rates will be at lower levels than before. This confronts the Fed with a dilemma. If bond yields remain around 2% to 2.5%, the Fed may be playing with fire by pushing rates to 3%, as planned. If it backs off those plans, it could egg on excesses that make any reversal more violent.

Ms. Yellen and Mr. Fischer, both veterans of past mayhem, need to be on guard for a repeat. So should everyone else.

# Pyongyang Could Take Several Roads to Nuclear ICBM

BY JONATHAN CHENG

vance warning.

All told, the North Koreans now have roughly a dozen different types of missiles that have been displayed—an impressive feat for an isolated country with a population that is roughly a third the size of Iran, said Uzi Rubin, an Israeli missile-defense engineer and former head of the country's Missile Defense Organization.

"I thought the Iranians had the most advanced missile program in what used to be called the Third World," he said, calling the North's progress "amazing"—and in particular its successful launch on Tuesday of its Hwasong-14, which Mr. Rubin classified as an intercontinental ballistic missile.

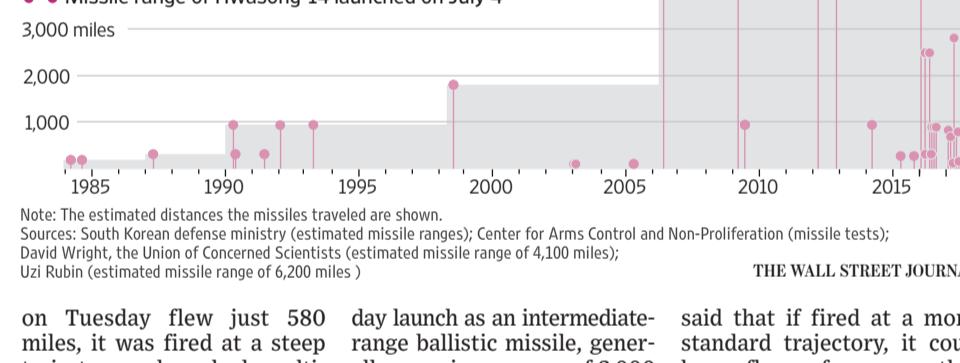
"These are not stage props—these are missiles that are working," he said.

While the missile launched

### The Missile Push

North Korea said it launched a missile on Tuesday capable of reaching the U.S., capping years of technical effort by the regime to develop ballistic missiles of greater and greater range.

#### Estimated range of North Korean missile tests



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on Tuesday flew just 580 miles, it was fired at a steep trajectory and reached an altitude of roughly 1,740 miles.

The U.S. Pacific Command in Hawaii identified the Tues-

day launch as an intermediate-range ballistic missile, generally meaning a range of 3,000 to 5,500 kilometers. But David Wright, a physicist at the Union of Concerned Scientists,

said that if fired at a more-standard trajectory, it could have flown for more than 4,160 miles, and Mr. Rubin said it could have flown nearly 6,200 miles.

That is more than enough to qualify as an ICBM.

The distinction between an intermediate-range and intercontinental ballistic missile is important: The U.S. has forbidden ICBM tests by North Korea, though it is unclear how it will respond to Pyongyang's claim that it has carried one out.

Pyongyang's claim that it has a viable intercontinental ballistic missile could pressure the U.S. to bolster missile defenses. In May, the U.S. said it shot down a mock ICBM that was meant to simulate one of the potential threats that the U.S. faces.

The successful test, which officials called the first live-fire test on a dummy ICBM, was the 17th test of the U.S.'s ground-based missile defense system. Nine of them have succeeded, according to the Missile Defense Agency.

big threat to global peace."

The U.S. has been making shows of force in recent months in response to perceived increases in tension on the Korean Peninsula. In April, it said it was sending the USS Carl Vinson carrier strike group to the western Pacific to underscore Washington's commitment to the region. In that case, the announcement instead raised questions about U.S. credibility after it came to light that the aircraft carrier was thousands of miles away.

And twice in May, the U.S. sent B-1B bombers on flyovers near the Korean Peninsula. Each came shortly after a North Korean missile test.

He was speaking during joint statements in Berlin with Chancellor Angela Merkel, who said North Korea "poses a

big threat to global peace."

The United Nations Security Council began an emergency session on North Korea on Wednesday, with U.S. Ambassador Nikki Haley saying the U.S. planned to propose new steps that all countries must follow as a response to the latest test launch.

South Korean President Moon Jae-in, who has called for more dialogue and closer economic ties with North Korea, on Wednesday called on global leaders to step up sanctions against North Korea, urging a peaceful resolution to the conflict.

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Jeremy Page in Beijing contributed to this article.

Continued from Page One

# KOREA

Continued from Page One

city of 10 million, sits just 35 miles from the North Korean border, where Pyongyang has assembled artillery that could inflict devastating damage on the densely populated South Korean capital.

"A single volley could deliver more than 350 metric tons of explosives across the South Korean capital, roughly the same amount of ordnance dropped by 11 B-52 bombers," said a report published last year by Austin, Texas-based geopolitical consultancy Stratfor.

If attacked by the U.S., North Korea would also likely fire on U.S. ally Japan, which is within range of many of Pyongyang's missiles. During one launch in March the North

fired four missiles at once toward Japan, which some analysts interpreted as a warning that it could overwhelm any Japanese missile defense.

Meredith Sumpter, director of Asia for Eurasia Group, wrote in a note to clients Tuesday that the odds of a U.S. military strike on North Korea remain low—about a 10% probability—adding it would probably be well-signaled by the U.S. and "clear to outside observers in advance of any military move."

A report published Wednesday in North Korea's official state media said the warhead of its missile carried Tuesday maintained a steady temperature and held its structure even "during the harshest atmospheric re-entry environment."

For a missile to cross the Pacific Ocean, it must exit and then re-enter the atmosphere. Re-entry puts incredible stress on the warhead.

The U.S. had sought Beijing's help in pressuring North Korea, but recently President Donald Trump indicated that route had been fruitless. "Trade between China and North Korea grew almost 40% in the first quarter. So much for China working with us—but we had to give it a try!" he said in a tweet on Wednesday.

A Chinese customs official told a news conference in April that China's bilateral trade with North Korea in the first quarter had increased by 37.4% to 8.4 billion yuan (about \$1.2 billion). He didn't specify if that was a year-on-

year comparison.

Chinese customs figures show that bilateral trade continued to expand in April and May on a year-on-year basis, but that doesn't mean more revenue for North Korea: The second-quarter increase was

The drill and tough language appeared meant to reassure South Korea.

driven by China's exports. Its imports from its neighbor declined in April and May, compared to those months last year, due in large part to Bei-

jing enforcing a ban on North Korean coal.

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## CORRECTIONS & AMPLIFICATIONS

Banca Monte dei Paschi di Siena SpA is Italy's fourth-largest lender by assets. A Page One article Tuesday about the bank incorrectly said it was the country's biggest lender.

Philippine troops have been fighting Islamic State-aligned militants in a predominantly Muslim area of Mindanao, an island with a majority Roman Catholic population. World News articles about the conflict on June 12, 22 and 30 incorrectly described the island as predominantly Muslim.

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com.



South Korean and U.S. missile systems conducted a joint drill Wednesday to counter North Korea's ICBM test on Tuesday.

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# WORLD NEWS

## Poland Prepares ‘Huge’ Trump Welcome

Nationalist government hopes Mr. Trump will see it as an ideological kindred spirit

By ANTON TROIANOVSKI

WARSAW—Like many of his fellow Polish pro-government lawmakers, Dominik Tarczynski is sending a busload of constituents to Warsaw on Thursday to cheer for U.S. President Donald Trump. The buses are being provided by a foundation close to the governing party.

“It’s going to be huge—absolutely huge,” Mr. Tarczynski said of the coming welcome for Mr. Trump. “They just love him, the people in Poland—they just really love him.”

Poland is working to put on a hero’s welcome for Mr. Trump as he prepares to give a speech in a Warsaw square. Behind that effort is a recognition across the continent that Mr. Trump has the potential to change the balance of power in Europe.

Former U.S. President Barack Obama formed a close bond with Chancellor Angela Merkel of Germany and backed her liberal worldview, her acceptance of immigrants and her support for a deeply integrated European Union. Now it is nationalist governments such as Poland’s that hope Mr. Trump will see them as ideological kindred spirits and back their push to loosen the European Union and rebalance it away from Berlin.

“There’s this new success—Trump’s visit,” Jaroslaw Kaczynski, chairman of the ruling Law and Justice Party, said at a party congress over the weekend. Tweaking Europeans who are nervous that Mr. Trump’s



Posters note President Trump’s speech in Poland, where the government is locked in a feud with the EU.

visit could deepen the divide on the continent, Mr. Kaczynski went on: “They’re envious of it.”

Poland, where the conservative Law and Justice government took over in 2015, is locked in an escalating feud with the EU’s executive body in Brussels and with Western European capitals.

The European Commission has said the government’s changes to the Polish judicial system, including appointing its own judges to the Constitutional Court, undermine the rule of law.

President Emmanuel Macron of France suggested Poland was rejecting democratic principles and treating the bloc like “a supermarket,” implying it is taking advantage of the EU without following all of its norms.

German politicians often slam Poland for failing to take in refugees and for reducing press freedoms.

In Mr. Trump, some Polish politicians and commentators see a leader who has campaigned against accepting refugees and criticized the EU and Germany’s influence in the bloc.

Regarding refugees, the Polish government has the same position as Americans—we want strict restrictions on refugees,” said Krzysztof Mróz, a Law and Justice lawmaker who plans to dispatch two buses full of Trump fans—98 people—from his district at 2 a.m. on Thursday for the 300-mile drive to Warsaw.

In lobbying for Mr. Trump’s visit in recent months, Polish officials made a promise of a positive reception for the president part of their pitch. Foreign Minister Witold Waszczykowski said Wednesday that he told Mr. Trump, on the sidelines of the North Atlantic Treaty Organization summit in Brussels in May: “Please visit us, your

soldiers are already here, you can follow and you can visit a country which is friendly.”

Some critics of Poland’s government are wary of Mr. Trump’s trip. Bartosz Wielinski, foreign editor of the liberal Gazeta Wyborcza newspaper, said the government appeared to be turning Mr. Trump’s speech into a “partisan spectacle” and that his public reception would amount to a “Potemkin village.”

In Western Europe, some officials worry Mr. Trump will fan the flames of anti-immigrant, anti-European Union sentiment just like he endorsed Brexit ahead of the British referendum on leaving the EU last summer.

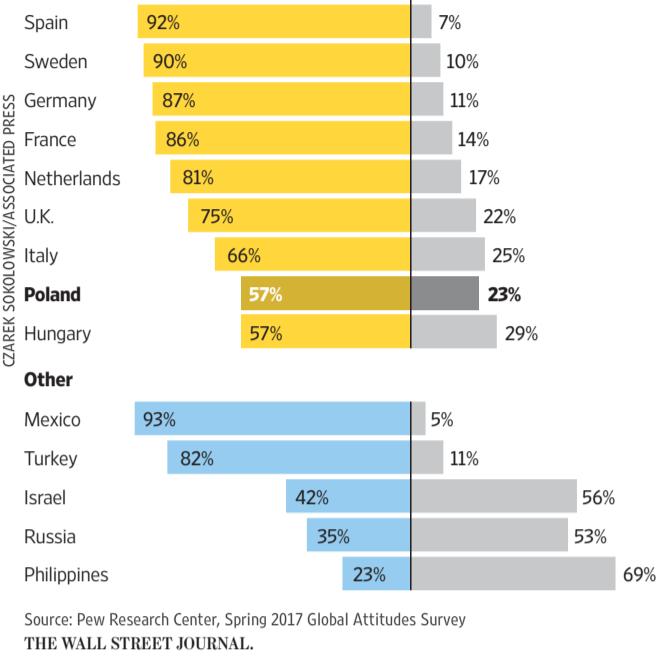
“It’s clear that what the Poles want is to turn their back on France and Germany,” a senior EU official said. “Trump is surely not helping.”

Polish officials said Mr. Trump’s visit isn’t about deep-

### Mixed Standing

Europeans are among the most skeptical about U.S. President Donald Trump, and only in a handful of countries do positive opinions outweigh negative ones.

**How much confidence do you have in U.S. President Donald Trump to do the right thing regarding world affairs?**



Source: Pew Research Center, Spring 2017 Global Attitudes Survey

THE WALL STREET JOURNAL.

ening the east-west gulf in the EU, but about backing Poland on issues including countering Russia and on energy security.

Several organizations close to the Law and Justice Party are drumming up supporters to cheer for Mr. Trump. One of them, the nationalist Gazeta Polska Clubs, is touting Mr. Trump’s address in Warsaw on Thursday as comparable to John F. Kennedy’s “Ich bin ein Berliner” speech of 1963.

Mr. Kaczynski, Poland’s most powerful politician, even posed in a red “Make America Great Again” baseball cap in April, a

Trump trademark. He did so in a meeting with Matthew Tyrmand, a Polish-American journalist who has written about Poland for the conservative U.S. outlet Breitbart News.

“You’re dealing with a political dynamic in Poland on the ground that understands Trumpian populism,” Mr. Tyrmand said. Mr. Trump’s trip, Mr. Tyrmand said, “has huge implications for reshaping the geopolitics in a new presidential era.”

—Valentina Pop in Brussels and Martin Sobczyk in Warsaw contributed to this article.

## Trump-Tower Push Stalled in Germany

By NINA ADAM

FRANKFURT, Germany—When President Donald Trump travels to Germany this week to attend the Group of 20 summit, there won’t be a Trump property where he can hang his hat.

That’s not for lack of trying. The real-estate magnate once planned to bring his business empire to the country of his forefathers, where tall buildings have sprouted in recent years in Berlin, Frankfurt and elsewhere.

A push by Mr. Trump to enter the market stalled about 15 years ago, derailed by red tape, site constraints and business disputes, according to a former business partner and public records.

Mr. Trump’s German project—to bring Trump towers to Europe’s largest economy—was conceived as a branding partnership in which he provided his name, while local partners secured financing, according to his German ex-partner.

Around 2000, Mr. Trump, whose paternal grandfather was born and raised in the southern German town of Kallstadt, teamed up with Ulrich Marseille, a one-time Hamburg politician and founder of a nursing-home business.

The two met a few times in New York before setting up TD Trump Deutschland AG in 2000 with the goal of building and promoting Trump towers in Germany, Mr. Marseille said.

More prominent deal makers joined the company, among them Hans-Hermann Tiedje, former editor in chief at Germany’s mass-market Bild tabloid and adviser to the late Chancellor Helmut Kohl. Mr. Tiedje didn’t respond to a request to comment.

The Trump Organization didn’t answer questions related to TD Trump Deutschland. A spokeswoman confirmed that Mr. Trump’s organization had explored opportunities in “various markets” but has no properties in Germany.

In Germany, Mr. Trump wanted to build “as high as possible,” said Petra Roth, mayor of Frankfurt from 1995 to 2012. A few months after they met in New York in 2000, Mr. Trump flew to Frankfurt to request permission to build on a prime riverside plot, she said.

However, some residents were concerned the building would dwarf everything else in the city, where the tallest buildings stand around 250 feet. Also, some city officials doubted the tower would find enough tenants, according to the minutes.

The council in early 2003 voted to end discussion, pulling the plug on the project, the minutes showed. The decision was partly motivated by the failure of TD Trump Deutschland to present a reliable financing plan, according to another council document.

Another plan for a Trump Tower at Berlin’s busy Alexanderplatz square also stalled. Mr. Marseille said ground conditions were mainly to blame—Berlin’s wet, sandy ground and the square’s dense subway network make erecting a skyscraper there particularly challenging.

In 2001, Schweger & Partner architects won a design competition with a sketch of a 200-meter high tower with a “transparent crown at the top,” according to the architect’s website.

Mr. Trump showed little patience with the German planning process, a mayor said.

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## Berlin Bolsters Ties With Beijing

By ANDREA THOMAS

BERLIN—German Chancellor Angela Merkel and China’s President Xi Jinping pledged to boost economic cooperation between their countries as they met ahead of what is expected to be an unusually tense international summit.

“We are very happy to see that thanks to efforts from both sides, Chinese-German relations have entered a new phase,” Mr. Xi said Wednesday, according to a German translation of his remarks.

President Donald Trump’s “America First” policies, his threats to crack down on abuse of free trade, and his withdrawal from the Paris climate accord have brought Germany and China—two of the world’s largest exporters and both defenders of the climate agreement—closer together.

“Economic relations between China and Germany are of course very important,” Ms. Merkel told a joint press conference with Mr. Xi. “We don’t only exchange goods, but we’re also cooperating more and more in technological areas.”

In value of exports and imports combined, China beat the U.S. and France to become Germany’s leading trading partner for the first time last year.

The two-day G-20 summit starts Friday in Hamburg. Eu-



China’s President Xi Jinping and German Chancellor Angela Merkel at a news conference Wednesday.

ropean delegates have said they would confront Mr. Trump on his trade stance and on his decision to withdraw from the Paris accord.

Ms. Merkel said she expected difficult negotiations.

“It’s not easy to bring together all 20 countries with all their developments and positions,” she said. “I don’t know yet what the final result will look like.”

Apart from conflicting views on free trade, climate protection is seen as the main stumbling block at the G-20 meeting. China has said it would stick to its commit-

ments under the Paris deal, which saw more than 190 countries pledge to cut greenhouse-gas emissions.

In separate comments published Wednesday, Ms. Merkel also took direct aim at Mr. Trump’s trade policy.

The U.S. view of globalization, she told the Die Zeit weekly, was “not about a win-win situation but about winners and losers...Not just the few should benefit from economic progress. Everybody should participate.”

Several commercial deals were signed on Wednesday, timed to the meeting between

Ms. Merkel and Mr. Xi. These included an agreement between car maker Daimler AG and BAIC Motor Corp. to develop electric cars; strategic partnerships between industrial conglomerate Siemens AG and Chinese companies; and a Chinese order for 140 aircraft from Airbus SE.

Ms. Merkel also pledged that Germany would participate in China’s planned revival of ancient Silk Road trading routes from China to Europe if the tendering process was transparent. She didn’t elaborate on what form this participation would take.

### WORLD WATCH

CHINA

#### Doctors Are Invited To Treat Dissident

Beijing responded to international calls to let cancer-stricken Nobel Peace Prize laureate Liu Xiaobo seek treatment abroad by inviting foreign doctors to come treat him in China.

China has attempted to head off any criticism around the treatment of Mr. Liu, a central pro-democracy figure who was serving an 11-year prison sentence for subversion. According to his lawyers and the Shenyang Bureau of Justice, he was released from jail to a hospital on June 7 after being diagnosed with late-stage liver cancer.

China’s government has released several high-profile dissidents from prison to seek medical attention abroad, but has resisted increasing pressure to



A Hong Kong man protests China’s detention of cancer-stricken dissident Liu Xiaobo, who was recently transferred to a hospital from jail, where he was serving an 11-year sentence for subversion.

let the 61-year-old Mr. Liu leave.

Doctors recently told Mr. Liu’s family members that the cancer was getting worse and that his condition was too delicate for him to be transported out of the country, said one of the Liu family’s lawyers, Shang Baojun.

—Josh Chin

troops are deployed to train local forces and back them in the fight against the country’s Taliban-led insurgency, the U.S. military said.

The 19-year-old soldier died on Monday in an incident the military said was caused by “indirect fire,” a term often used to describe rocket attacks.

“At a time when we remember the patriots who founded our nation in freedom, we are saddened by the loss of one of our comrades who was here protecting our freedom at home,” said Gen. John Nicholson, the top U.S. military commander in Afghanistan.

Seven U.S. soldiers have been killed in action this year in Afghanistan. The majority have died in the eastern part of the country, where the U.S. military has stepped up the fight against the local Islamic State branch, which has a foothold near the Pakistani border.

—Jessica Donati

#### Insurgent Attack Kills U.S. Soldier

An insurgent attack left one U.S. soldier dead and two others wounded in southern Helmand province, where hundreds of U.S.

## WORLD NEWS

# Mosul Civilians Endure as Battle Wanes

By ASA FITCH  
AND ALI A. NABHAN

MOSUL, Iraq—Thousands of Iraqi civilians have emerged thirsty and starving from Mosul's Old City in recent days, many after hiding out in basements, as the eight-month battle to remove Islamic State from Iraq's second-largest city nears its end.

Backed by a U.S.-led coalition carrying out airstrikes, government forces have cornered what Iraqi military officials say are about 200 Islamic State fighters remaining in the city, now hemmed into a tiny patch of territory on the western bank of the Tigris River.

The doomed Islamic State militants are mostly foreigners refusing to surrender, Sabah al-Numan, a spokesman for Iraqi counterterrorism forces, told state television. They have turned to last-gasp measures—including the use of women as suicide bombers—as Iraqi forces close in.

"This is evidence that the terrorists are desperate now," he said. "The ideology of such foreign [fighters] is well-known to us. They fight until the end, until they get killed."

Islamic State has held Mosul since June 2014, when its forces swept across large swaths of Iraq and Syria. Since then, government forces and their allies militias, backed by the U.S.-led coalition fighting Islamic State, have whittled down the territory controlled by the jihadist group to less than 40% of what it presided over at its peak, according to an estimate by IHS Markit.



A woman fleeing clashes between the U.S.-led coalition and Islamic State walked through Mosul's Old City with a child on Wednesday.

The Iraqi army seized eastern Mosul in January, and is now battling to complete its takeover of the west of the city, whose total prewar population numbered about 1.8 million people. An assault on the Syrian city of Raqqqa, Islamic State's de facto capital, is also under way.

Islamic State militants have trapped thousands of civilians to the labyrinthine neighborhoods of Mosul's Old City, using them as human shields in an attempt to discourage arti-

lery shelling and bombing.

As Iraqi forces closed in on Islamic State holdouts this week, civilians poured out of hiding and fled west out of Mosul, joining what the International Organization for Migration estimates are 818,000 Iraqis—or nearly half of the city's prewar population—already uprooted by the fighting.

Many of those escaping carried suitcases full of clothes and what little food they had left. Some were wounded,

while others walked barefoot in midday heat that reached almost 120 degrees Fahrenheit, their faces dirty and lined with exhaustion.

Reaching government checkpoints on the outskirts of the Old City after trekking down dusty streets lined with destroyed buildings, they asked for food and water.

"We haven't had food or water for four days," said Zahra Ali, who traveled with two of her girls, Zainab, 6, and

Zahra, 5. "There were three to five [Islamic State] members in the area [in which we live]. They threatened that if we left they would shoot us in the legs, and told us that all the roads were planted with [improvised explosive devices] so we stayed in a small basement."

Other families were separated amid the confusion and chaos of flight.

Umeir Yousif, 17, and his brother Urwa, 16, arrived at one

checkpoint barefoot and shirtless, calling for their mother. They said their home had been surrounded by Islamic State fighters for four days before they escaped the Old City through small alleyways.

"We were starving," Umeir said. "We hope to go to the east side of the city. We have relatives there."

Military forces are monitoring the fleeing civilians for suspected Islamic State members attempting to blend in among them. Men are often asked to remove their shirts as they approach government checkpoints to demonstrate that they aren't carrying weapons or encased in an explosives belt.

After they are screened by the military, the ill and the injured are sent to get medical treatment. Many will eventually go to live with relatives elsewhere in the country or find refuge in a tent in one of the sprawling temporary encampments near Mosul.

The fighting has become more difficult as the battle for Mosul nears an end, partly because of the concentration of civilians in the area, said Lt. Gen. Abdul Ghani al-Asadi, the general commander of Iraq's counterterrorism forces who on Monday put the number of Islamic State fighters left in Mosul at some 200.

The casualty toll among civilians, government forces and Islamic State fighters in the battle for the city isn't entirely known.

The government of Prime Minister Haider al-Abadi hasn't recently released such figures for civilians and government forces.

## Qatar, 4 Neighbors Escalate Hostility

Qatar and the four Arab nations seeking to isolate it exchanged bitter recriminations, with Doha accusing the Saudi Arabian-led bloc of waging a smear campaign and Cairo declaring its energy-rich neighbor isn't serious about resolving the worst diplomatic crisis in the Persian Gulf in decades.

By Sarah Kent in London and Dahlia Kholai in Cairo

Meeting in Cairo on Wednesday, the foreign ministers of Saudi Arabia, Egypt, Bahrain and the United Arab Emirates discussed Qatar's latest response to their 13-point list of demands, which include curbing diplomatic ties with Iran, severing links with the Muslim Brotherhood, and closing the Al Jazeera television network.

Egyptian Foreign Minister Sameh Shukri said after the gathering that Qatar's reply had been "negative," adding that it "reflects negligence and lack of seriousness in dealing with the origins of the problem as well as unawareness of the gravity of the situation."

Qatar is facing a potential volley of new punitive measures from the four nations after signaling its rejection of the demands.

Saudi Arabian Foreign Minister Adel al-Jubeir told reporters in Cairo that further measures against Qatar will be

taken as needed. The "political and economic blockade will continue until Qatar revises its policies," he said.

Accusing Qatar of supporting extremists and meddling in their domestic affairs, the four states severed diplomatic relations on June 5 and imposed a transport ban on the nation.

Qatari officials have consistently denied the allegations.

On Wednesday, Qatar's foreign minister, Sheikh Mohammed bin Abdulrahman Al-Thani, lashed back, saying in London that the allegations by Saudi Arabia and its allies were "clearly designed to generate anti-Qatar sentiment in the West" and that their demands didn't represent "reasonable and actionable grievances."

"Qatar continues to call for dialogue despite the siege that is a clear aggression and an insult to all international treaties bodies and organizations," Mr. Al-Thani told a gathering at the London-based think tank Chatham House. He said his country is more progressive and open than are others in the region, and its principles have made it a target.

U.A.E. Minister of State for Foreign Affairs Anwar Gargash has said Qatar could be expelled from the Gulf Cooperation Council, a six-member political and economic bloc that includes Saudi Arabia, the U.A.E., Bahrain, Qatar, Kuwait and Oman.

## Weaker Pound Tests U.K. Military

By JENNY GROSS  
AND STEPHEN FIDLER

LONDON—The sharp slide in the British pound's value against the dollar since the U.K. voted to leave the European Union could pose difficulties for Britain's defense budget, British Defense Secretary Michael Fallon said.

"If that lower rate persists, then obviously that is a challenge," Mr. Fallon said in an interview.

"I don't know how permanent that is, but that is clearly a change" since Britain last reset its defense strategy in 2015, he added.

His comments came ahead of a trip to Washington, where he will meet with Defense Secretary Jim Mattis to discuss improving collaboration between the U.S. and the U.K. and also promote Britain as America's most dependable and highest-spending defense partner in Europe.

As the U.K. prepares to leave the EU, it has sought to strengthen ties with the U.S. in areas including defense, security and trade. While the slump in sterling since June 2016 has boosted exporters, it has also increased the cost of imports, such as dollar-denominated arms purchases from the U.S.

Britain has bought billions of dollars of equipment from U.S. manufacturers, including F-35 Joint Strike Fighters from Lockheed Martin Corp. and P-8 maritime patrol planes and AH-64E Apache attack hel-



Lockheed Martin Corp.'s F-35A fighter jet on a demonstration flight in England last year.

icopters from Boeing Co.

The pound has slumped 14% against the dollar since June 2016, when the U.K. voted to leave the EU amid uncertainty about the effect of Brexit on trade and investment. The U.K. defense ministry has in the past said it hedged in the short term against the weakness in sterling ahead of the vote, but the currency's decline in sterling has put new projects in question.

A report published this week by the Royal United Services Institute, an independent think tank on defense and security, said the British military is facing an estimated £20 billion (\$26 billion) "black hole" to plug, or about 5% of pro-

jected spending commitments over the next 10 years. The defense ministry will need more cash from the Treasury or will have to significantly curtail spending programs or forces, the report said.

Underscoring the close ties the U.K. government seeks to foster with the Trump administration, Mr. Fallon defended Washington's decision to add troops in Afghanistan. He said former President Barack Obama's plan to cut troops there was wrong and praised the approach of President Donald Trump's administration.

Mr. Fallon said local forces needed the support of troops from the U.S. and the U.K., which will boost its troop

numbers in Afghanistan to 550 troops over the summer. The U.S. currently has more than 8,500 troops in the country.

"It would've been a mistake to cut numbers as Obama was threatening last summer," Mr. Fallon said. "We've increased last summer, and we've increased again."

The U.K. remains committed to the defense of Europe and won't try to use security as a bargaining chip in Brexit negotiations with the EU, Mr. Fallon said.

"This is our continent. We're going to go on defending it," Mr. Fallon said. "It just won't be in the EU context."

—Robert Wall contributed to this article.

## Auto Makers Veer Toward Electric

For decades, American car buyers have sifted through a catalog of options when acquiring a new set of wheels. Paint colors, connectivity gizmos, upholstery and wheel sizes commonly top that list.

But a big change is coming under the hood, with U.S. and state regulators requiring vehicle makers to get far cleaner by 2025. That means in coming years, shoppers for everything from sporty Aston Martins to rugged Jeep Wranglers to Ford F-150 pickups will choose between a gasoline engine or a system that incorporates battery technology.

On Wednesday, China-owned Volvo Car Corp. signaled an aggressive shift to electric and hybrid vehicles. Toyota Motor Corp., Volkswagen AG and Daimler AG also have made bold commitments re-

cently to move away from gas and diesel engines.

U.S. car makers are making similar claims, pressured by Obama-administration rules mandating a steep increase in miles-per-gallon performance over the next eight years. Auto executives say a broad shift toward electrification will be needed to meet those demands.

Ford Motor Co., for instance, is spending \$4.5 billion to revamp its U.S. portfolio with hybrid pickup trucks and electric sport utilities. Fiat Chrysler Automobiles NV's rugged Jeep lineup will soon rely increasingly on battery power to tackle off-road challenges.

The Trump administration is reviewing federal emissions rules, but any rollback could take several years and may not address mandates at the state level. California, and several states that subscribe to the Golden State's clean-air rules, demand that 15% of vehicle sales by 2025 be zero-emission cars.

Less than 1% of the record

17.5 million-plus vehicles sold in the U.S. in 2016 put out zero emissions, according to Ward'sAuto.com. But sales of partial-electric vehicles and EVs are on the rise, according to the University of Michigan, as subsidies, model availability and refueling infrastructure increase.

In a report published earlier in this year, McKinsey & Co. noted that "auto makers face a difficult challenge" when it comes to how quickly to move away from internal combustion engines. The consulting firm estimates 30% of U.S. buyers would consider an EV purchase today, but car companies must boost consumer-education initiatives and marketing campaigns at a time when overall demand for automobiles is slipping.

Adding pressure on auto makers is Tesla Inc., a Silicon Valley electric-car company plans to start delivering its more affordable Model 3 later this month.

—John D. Stoll

## VOLVO

Continued from Page One

could help it in light of a potential stock listing. Volvo, a Swedish luxury car maker that was founded in 1927, was bought by Ford Motor Co. in 1999. Ford sold the company to Geely Holding Group, a Chinese investment company, in 2010.

Under Chinese ownership, Volvo has achieved a significant turnaround.

Struggling when Geely acquired it, Volvo has achieved a significant turnaround and is building its first manufacturing plant in the U.S.

Geely's wager is paying off. Volvo reported a 67% increase in net profit to 7.5 billion Swedish kronor (\$880 million) in 2016 on revenue of 180.7 billion kronor, up 10% from the previous year.

The Swedish company's

global sales grew 6% to 534,332 vehicles last year. That put it on track to achieving its sales target of 800,000 vehicles by 2020.

The U.S. was Volvo's fastest-growing market last year, posting an 18% increase in sales to 82,726 vehicles, driven by the popular XC90 luxury sport-utility vehicle.

Volvo declined to comment on speculation about an initial public offering, saying a listing was an option.

European auto makers that have relied on diesel engines because of their fuel economy and low carbon dioxide emissions have seen their stock prices discounted as investors worry about the growing number of municipal authorities that threaten to ban diesel vehicles from driving in their cities.

By contrast, Tesla, which only makes electric cars, sold around 84,000 cars last year, but its market value has surpassed those of Ford, General Motors Corp and BMW, which sell millions of cars each year.

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Coordinating Board

## INDONESIA'S ECONOMIC REFORMS GATHER PACE

A campaign of deregulation has dramatically improved the business environment in Indonesia, but the country is not resting on its laurels



Bali, Indonesia

Indonesia has set its sights on rising further up the World Bank's Ease of Doing Business Index after being identified as one of the fastest-improving countries of 2017. Not content with leaping 15 places to 91 out of 137 countries, making it one of the top 10 movers from 2016, President Joko Widodo has targeted reaching the top 40 as his drive to streamline business processes and cut red tape gathers pace.

In 2015 and 2016, no fewer than 14 deregulation packages were rolled out, with small and medium-sized enterprises, regional trade, and tourism among the key beneficiaries. Now Indonesia is embarking on the second phase of reforms, heralded by the 15<sup>th</sup> Economic Policy Package, which targets logistics.

Indonesia's recognition by the World Bank's benchmark Ease of Doing Business study is considered vital for attracting foreign direct investment, especially at a time of slowing global growth and competition from elsewhere in the ASEAN Economic Community. This comes against a backdrop of Indonesia's steady economic growth, forecast at 5.20% in 2017, from 4.79% in 2015 and 5.02% in 2016, indicating stability and solid growth prospects for the future.

In another endorsement, in May 2017 Standard & Poor's raised Indonesia's credit rating to investment grade, becoming the third ratings agency to do so after Moody's and Fitch. "We will continue our efforts to open the economy through reforming and simplifying our laws and regulations," President Widodo told the nation in May 2016. So far his pledge is bearing fruit.

### World Bank recognition

Indonesia was a standout performer in the World Bank's Ease of Doing Business report for 2017, rising 15 places from 106 in 2016 to be named as one of the top 10 fastest climbers after adopting a series of reforms. The government cut the number of procedures required to fully establish a business by nearly 50%, to 49 from 94 previously, while the time to complete all the necessary formalities plummeted from 1,566 days to just 132 days.

Among the key initiatives, Indonesia scrapped the paid-in minimum capital requirement to open a small and medium-sized enterprise (SME) and launched an online system for applications. In Jakarta, applicants now need only fill in one form for business registration certificates and trading licenses, cutting the administrative turnaround from 47 days to 10 days.

In addition, IT systems have made it easier to register business collateral, streamlining the process of applying for loans, while the Indonesia National Single Window (INSW) portal backs up customs services and facilitates cross-border trade. Companies can also file their tax returns online, using the same system that deals with payments for worker healthcare contributions. In another boost for efficiency, tax payment transfers have been reduced from 54 a year to 10.

Property registration is now easier, too, thanks to the digitization of geographical records. The World Bank also praised Indonesia's moves to speed

up legal disputes by issuing a new rule that says simple claims must be settled within 28 days, with a maximum of 10 days for appeals.

Importantly, structural changes to the energy sector have eased problems related to power cuts and electricity expenses. Less than 1% of companies in Indonesia consider electricity their "biggest obstacle" to business, according to the World Bank, much lower than the 10% of firms worldwide. In Jakarta, it now takes an average of 59 days for a company to get a new electrical connection, down from 101 days in 2009.

### Investment and competitiveness

President Widodo made improving the investment climate a top priority when he came to power, hammering the message home when he visited the BKPM (Indonesia Investment Coordinating Board) just three days after his inauguration in October 2014. The result was a one-stop solution that combines online services with a rapid, three-hour investment processing time, a welcome boost for investors.

The new system makes it much quicker to obtain key paperwork such as an investment license, tax identification number, and company registration number. Import and customs identity numbers, plans to hire expats, and licenses to employ them are also included, meaning a process that could take up to 23 working days can now be completed in just three hours. The service has facilitated more than US\$16 billion in investments since it began in January 2016.

Other reforms are aimed squarely at raising Indonesia's industrial competitiveness, with the goal of becoming a significant global and regional player. Costs of fuel and electricity have been brought down, and SMEs now have easier access to commercial loans. Measures have been introduced to adapt the minimum wage to appropriate levels in different sectors of the economy. The response has been positive, with 14 of Indonesia's 34 provinces implementing the minimum wage policy.

### Tourism and 'new Bali' campaigns

Indonesia has earmarked 10 sites to take part in "new Bali" campaigns, aimed at drawing large numbers of visitors to other parts of the archipelago. These include the stunning Lake Toba, which sits in a volcano caldera in North Sumatra, the Tanjung Kelayang beach area in the Bangka Belitung Islands, and Central Java's Borobudur Temple, the world's largest Buddhist temple.

Building on the global reputation of Bali, which draws millions of tourist visitors each year, Indonesia aims to develop several destinations of a similar standing, luring a growing number of visitors from around the world, and in particular from the country's increasingly affluent Asian neighbors.

Indonesia's tourist industry has grown by 10.3% annually, compared to around 5% overall in the ASEAN region, and the country has identified it as a key sector for development as it is seen as highly attractive for domestic and foreign investors. Work is currently underway between the BKPM and the Ministry of Tourism to improve infrastructure.

### Logistics and stimulating exports

Logistics is a major component of Indonesia's reforms, with the government focusing its efforts on developing the capabilities of its special economic zones and setting up 12 bonded logistics centers. These centers simplify customs clearance, with paperwork for both exports and imports processed directly – making it cheaper, quicker and smoother to bring goods in and out of the country. One example is the bonded logistics center in Cikarang, West Java, which is mainly concerned with importing and storing cotton for Cikarang's thriving textiles industry.

Separately, Indonesia has moved to improve logistics for the shipping industry, mainly by reducing the time spent waiting for cargo to be unloaded. In major seaports like Tanjung Priok and Tanjung Perak, the 'dwell time' has been slashed by more than 50%, from 6.5 days to 2.8-2.9 days. However, President Widodo is not yet satisfied, targeting a maximum of two days' dwell time by the end of 2017.

Exports, another key driver of Indonesia's economy, received a boost when the government introduced credit incentives for exporters. One success story was the export of 150 passenger trains to Bangladesh, valued at US\$72.3 million. Another came from North Sulawesi, where an SME exported 167 tons of coconut flour. Indonesia aims to increase the capabilities of domestic and foreign-invested producers to export their goods, providing a multiplier effect that will ripple through the economy.

Other measures have simplified rules for importing raw materials for the pharmaceutical industry, a move aimed at stimulating the local production of medicines – and eventually exporting them at competitive prices. This will allow Indonesia to spend less on importing expensive medicines from overseas, and boost revenues from non-oil-and-gas exports.

In addition to these initiatives, the government has also recognized that Indonesia's rapid growth, and the influx of foreign funds, can come at a cost: a widening wealth gap. The effect on people's purchasing power has not gone unnoticed and is one of the key considerations as Indonesia strives to create a welcoming business environment.

### The next phase

Two years of reforms have brought about quick improvements, as acknowledged by the World Bank, but this could be just the start for Indonesia. The next step, starting with the 15<sup>th</sup> Economic Policy Package, will zero in on improvements in Indonesia's 34 provinces, taking in the more than 17,000 islands that form the country of approximately 258 million people. Eliminating red tape will be in sharp focus, as will a crackdown on extortion by criminal gangs and excessive taxation.

As President Widodo told the World Economic Forum in 2015: "The world is in a fundamental transition, for us in Indonesia, and for all emerging markets the condition is suddenly very challenging. But where we see challenges, I see opportunity. In fact: our challenges are your opportunities."

## U.S. NEWS

# Illinois Budget Looks Set to Take Effect

Override of governor's veto would end impasse, but other challenges remain

By QUINT FORGEY  
AND HEATHER GILLERS

The Democratic legislature in Illinois seems to have forged a budget deal that would stave off a junk credit rating and resolve a two-year fiscal standoff, but the plan appears to do little to solve the state's long-term problems.

On Thursday, the Illinois House is expected to join the Senate in overriding a veto by Republican Gov. Bruce Rauner, a defeat for the billionaire first-term governor who vowed to break the status quo in the state.

Democratic House Speaker Michael Madigan, the governor's chief political opponent, passed the revenue measure over the weekend with 72 votes, surpassing the three-fifths-majority threshold of 71 votes required to override a gubernatorial veto.

Ahead of Thursday's vote, the focus remains on 15 House Republicans who voted Sunday to approve a \$5 billion permanent income-tax increase to fund a more than \$36 billion spending bill.

The state brings in roughly \$32 billion a year.

Mr. Rauner, who vetoed the measure because he opposed making the tax increase permanent, is still seeking concessions from the legislature, including a property-tax freeze and a revamp of the state's



Illinois Republican Gov. Bruce Rauner objects to a permanent income-tax increase in the state legislature's budget plan.

G-JUN YAM/ASSOCIATED PRESS

worker-compensation system.

"Do not push for a tax hike with no fundamental reforms. Don't do it," the governor said at a news conference Wednesday. "This income-tax hike is booby-trapped. It's got land mines all over it."

A budget wouldn't be a panacea.

Illinois is struggling under the weight of \$250 billion in

pension debt, according to an estimate by Moody's Investors Service, a liability far greater than any other state's. The state's own estimate is about \$126.5 billion, based on more optimistic investment assumptions.

A burdensome backlog of nearly \$15 billion in bills left over from two years without a budget will likely leave Illinois

"vulnerable to unanticipated economic stress," S&P Global Inc. noted Monday. Last week, a federal judge found Illinois noncompliant with its Medicaid payments, with the state owing \$3 billion to health-care providers.

"One budget is not going to fix their pension liabilities," said Keith Brainard, research director at the National Association of State Retirement Administrators. "The pension hole that the state has dug itself took decades, and it's going to take a long time to get out of that hole."

Laurence Msall, president of the Civic Federation, a nonpartisan, Chicago-based government-watchdog group backed by business leaders, said there are really only a few

ways for the state to solve its pension problems. Illinois would need a constitutional amendment that would allow it to reduce the liability or a means of bringing in enough revenue to cover state operations and pay off pension debts over time.

"It would be a great improvement to have any type of budget framework," Mr. Msall said. "However, that will not be the end of Illinois's financial crisis."

Don Rose, a political consultant, said the General Assembly must continue to pursue pension reform and explore the possibility of changes to the state's constitution.

"It's going to be a slow process," Mr. Rose said. "This [budget] is not a cure-all. We've got to find longer-term solutions, revenue-based."

But if Thursday's House vote to override the governor is successful, Mr. Rauner will have been dealt a legislative rebuke ahead of a planned reelection race in 2018.

"This presents a unique opportunity for the governor because either he can mobilize all of the angst among taxpayers...and that could potentially propel him to re-election," said Diana Rickert, vice president of communications for the Illinois Policy Institute, a conservative-leaning think tank.

"Or he's going to be meek and not say anything and be like, 'I tried, I failed, they're blocking me.' This is really a defining moment in the governor's political career," Ms. Rickert added.

## FED

Continued from page A1

interpreted as signifying that the committee had shifted toward a less gradual approach to overall policy normalization."

Some officials have indicated since the meeting they would start the process as soon as September, while deferring any more rate increases until December.

The debate over the future policy path has been complicated by two puzzles for the Fed: Inflation has weakened, justifying some officials' call for a slower pace of rate increases, but financial conditions have grown easier, giving resolve to those who support steadily increasing rates.

Officials raised rates to a range between 1% and 1.25% at the June meeting, their third quarter-point rate increase in as many quarters, and they penciled in one more increase this year. They also reached consensus on how they will gradually reduce their \$4.5 trillion asset portfolio, also known as their balance sheet, which could lead long-term rates to rise.

Because the Fed is prepared to gradually shrink those holdings in a predictable manner, officials last month said they expected initiating those plans would have a limited impact



ANDREW CABALLERO-REYNOLDS/AGENCE FRANCE PRESSE/GTY IMAGES

The Fed wants to shrink its \$4.5 trillion asset portfolio gradually to limit the impact on markets.

on markets, according to the account published Wednesday.

The next Fed policy meeting is July 25-26. Fed Chairwoman Janet Yellen will have an opportunity to elaborate publicly on her outlook when she testifies before Congress next week to deliver the central bank's semiannual monetary-policy report.

The central bank's discussion around the balance sheet picked up this year because officials have grown more comfortable with the eco-

nomic outlook. Officials stopped adding to the balance sheet in 2014, but they have been reinvesting the proceeds of maturing assets to keep their holdings steady.

The Fed said last month when it starts allowing the holdings to decline, it will do so gradually by allowing a small amount of bonds to mature every month without any reinvestment.

It would start by allowing up to \$6 billion in Treasury securities and \$4 billion in

mortgage bonds to roll off without reinvestment, and let those amounts rise each quarter, essentially setting a speed limit for the wind-down.

The limits would ultimately rise to a maximum of \$30 billion a month for Treasurys and \$20 billion a month for mortgage-backed securities.

Fed officials want the balance-sheet wind-down to run quietly in the background, meaning they are unlikely to adjust it from one meeting to the next, barring a shock to

the economy.

Officials raised rates last month despite some concern over declines in inflation gauges that they have largely attributed to one-off factors such as big discounts on wireless phone plans.

The Fed's preferred inflation gauge, the price index for personal-consumption expenditures, briefly surpassed the Fed's annual 2% target in February but posted greater-than-expected drops since then, rising just 1.4% on the year ended May.

"Most participants viewed the recent softness in these price data as largely reflecting idiosyncratic factors," the minutes said. "However, several participants expressed concern that progress toward the committee's 2% longer-run inflation objective might have slowed and that the recent softness in inflation might persist."

Officials will receive two more monthly inflation readings before their September meeting and are likely to study those reports closely to confirm their latest forecasts.

Before Wednesday's release of the account of June's meeting, traders in futures markets placed a 19% probability on a Fed rate increase by September, and nearly a 60% probability of at least one rate increase by year-end, according to CME Group.

Despite the Fed's interest-rate increases, financial conditions have mostly eased, with stock markets running to new highs and the dollar falling. Yields on the 10-year Treasury were at 2.33% in midday trading Wednesday, up from recent lows but below the 2.64% annual high set in March.

At the June meeting, Fed officials discussed reasons why financial conditions haven't tightened, including strong corporate earnings growth and growing risk tolerance among investors.

"In the assessment of a few participants, equity prices were high when judged against standard valuation measures," the minutes said.

A few officials also "expressed concern that subdued market volatility, coupled with a low equity premium, could lead to a buildup of risks to financial stability."

The pace of hiring has slowed a touch in recent months, though the average pace of hiring over the past three months—more than 120,000 jobs a month—still exceeds the levels economists say are needed to absorb demand from a growing labor force.

The unemployment rate, at 4.3%, has fallen steadily in recent months to its lowest level in 16 years, forcing Fed officials to cut their projections of the unemployment rate.

## U.S. WATCH

### Senate

#### Panel Sets Hearing Date for FBI Pick

The confirmation hearing for Christopher Wray, President Donald Trump's choice for FBI director, will be held July 12.

Sen. Chuck Grassley, chairman of the Judiciary Committee, announced Wednesday that his panel will hold the hearing next week for Mr. Wray, a white-collar defense lawyer with a strong law enforcement background.

If confirmed by the Senate, Mr. Wray would replace James Comey. Mr. Trump fired Mr. Comey on May 9, touching off an outcry.

Mr. Wray was a high-ranking official in George W. Bush's Justice Department and later represented New Jersey Gov. Chris Christie in the Bridgegate scandal. He rose to head the Justice Department's criminal division in the Bush administration and oversaw investigations into corporate fraud.

—Associated Press



BARN FIRE: Horse owners tend to the animals that survived a massive stable fire Wednesday in Plainfield, Ill. Authorities say 18 horses died and two people were hurt after the morning blaze struck a horse-boarding barn. The cause of the blaze is under investigation.

MONTANA

#### Weapons Is Seized At Suspect's Home

FBI agents seized bomb-making materials, seven guns and ammunition from the Montana home of a man they suspect of carrying out bank robberies in

five states, according to an inventory list filed with a federal court.

The property seized from Richard Gathercole's home in Roundup shows that agents also found sheriff's badges and patches, a sheriff's vest, an ammunition vest, a military-style helmet, an organic chemistry

book and material to make identification badges.

Authorities believe Mr. Gathercole, 39, is the man they call "the AK-47 bandit" who held up at least six banks since 2012 in California, Washington, Idaho, Nebraska and Iowa. The suspect typically wore a mask with only his nose and eyes showing and

carried an AK-47 rifle with a drum magazine.

Mr. Gathercole is being held in Lexington, Neb., where he is accused of stealing a truck and guns and firing on a Kansas state trooper who was trying to pull him over for a traffic stop last month.

Mr. Gathercole is scheduled

to appear in court in Nebraska on Thursday on both a fugitive from justice charge related to the attempted shooting of the Kansas trooper and on the theft charges.

FBI spokeswoman Laura Eimiller didn't have an immediate comment.

—Associated Press

SOUTH DAKOTA

#### Tribes Seek to Keep Protection for Bear

Tribal leaders from the Great Plains and across Canada have come together in opposition to removal of the Yellowstone Grizzly Bear from the Endangered Species Act protection.

The animal was removed from protected status last month, the Rapid City Journal reported. U.S. Secretary of the Interior Ryan Zinke said the population has rebounded from as few as nearly 140 bears in 1975 to an estimated 700 today.

More than 128 tribal nations have signed a "Reclamation of Independence" treaty of cooperation in the wake of the removal.

—Associated Press

## U.S. NEWS

# Aging Infrastructure: More Jams at Critical Bottleneck

By CAMERON MCWHIRTER  
AND SHANE SHIFFLETT

The worst is yet to come for one of America's nastiest highway logjams.

The Brent Spence Bridge that connects Cincinnati to northern Kentucky is often notoriously jammed with miles-long backups. Now, for two months this summer the eight-lane bridge that carries Interstates 71 and 75 across the Ohio River will be down to half that many lanes as it undergoes repairs.

"Your knuckles turn white going over that thing," said David Noell, a commercial contractor and president of the Queensgate Business Alliance, a group of area businesses. "Everything bottlenecks over that bridge."

The 53-year-old Brent Spence Bridge is just one of about 84,000 U.S. bridges that the Federal Highway Administration considers functionally obsolete. That means they no longer serve their intended use

because the lanes are too narrow or there aren't emergency shoulders, among other factors. An additional 56,000 bridges are deemed structurally deficient by the agency.

The American Society of Civil Engineers estimates it would cost \$123 billion to repair all of the nation's bridges. One reason for the cost is the age of the structures: About 40% of the U.S.'s approximately 614,000 bridges are older than their average design life of about 50 years.

Aging bridges are "going to be a growing problem because the mathematics are against the available money to stay current with repairs on good bridges, let alone failing bridges," said Barry LePatner, a construction-industry lawyer who wrote "Too Big to Fall: America's Failing Infrastructure and the Way Forward."

Most of the funds for highways and bridges come from the federal gasoline tax, which hasn't been increased since 1993. That prompted about 25

states in recent years to boost their own pump taxes or recalculate formulas to generate funds for upgrades.

President Donald Trump has promised \$1 trillion of investments in infrastructure, much of which would be funded by private sources. He pointed to the Brent Spence Bridge to illustrate America's infrastructure challenges.

**Area business leaders say talks with the Trump administration are giving them hope.**

This summer's repairs on the Brent Spence cost \$38 million for repaving, updating lighting and other improvements. But it won't solve the problem that has had Kentucky and Ohio lawmakers at loggerheads for years: how to pay for a major overhaul of the dou-

ble-decker span that carries as many as 180,000 vehicles a day, including an estimated \$1 billion worth of freight daily, according to the Ohio-Kentucky-Indiana Regional Council of Governments.

A plan to build a companion bridge to handle much of the traffic is estimated to cost \$2.6 billion—funds the two states lack.

Impasses over fixing infrastructure often revolve around philosophical differences over whether drivers, taxpayers or investors should foot the bill. That's true with the Spence: Ohio thinks tolls are unavoidable, while Kentucky has been hellbent on not letting that happen.

And so, the bridge—vital to a region of 2.1 million people that is home to the headquarters of Procter & Gamble Co. and Macy's Inc., and soon to be a world-wide cargo hub for Amazon.com Inc.—remains jammed.

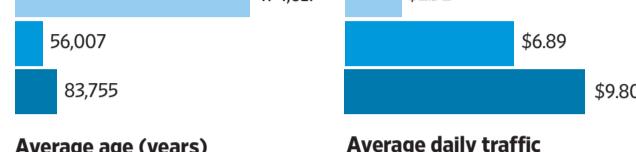
Kentucky opened the cantilevered truss bridge in November 1963 to improve traffic and

### Tread Lightly

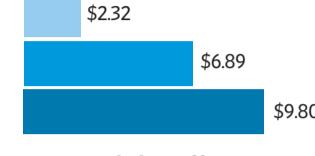
Last year, drivers took nearly 1.2 billion trips across bridges considered structurally deficient or functionally obsolete. Still, governments across the country cut the share of deficient structures to 9.1% of all bridges from 15% in 2001.

■ Not deficient ■ Structurally deficient ■ Functionally obsolete

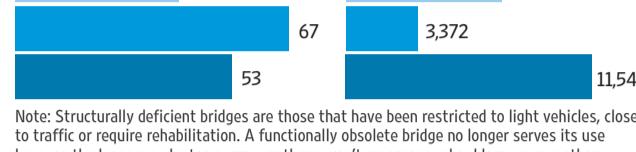
#### Total bridges



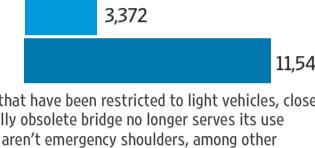
#### Average improvement cost per bridge (millions)



#### Average age (years)



#### Average daily traffic



Note: Structurally deficient bridges are those that have been restricted to light vehicles, closed to traffic or require rehabilitation. A functionally obsolete bridge no longer serves its use because the lanes may be too narrow or there aren't emergency shoulders, among other conditions.

Source: Federal Highway Administration

THE WALL STREET JOURNAL.

move trucks along the two interstates. The bridge was built to handle about 80,000 vehicles a day, but now handles at least twice as many.

The American Transportation Research Institute, a research organization funded by the trucking industry, has ranked the bridge the fifth worst choke point for freight traffic in the nation.

The bridge is in no danger

of collapse, Kentucky transportation officials say, though debris have tumbled from it in recent years. In 2014, falling concrete crushed a parked car in Ohio. Nobody was injured.

Area business leaders say conversations with the Trump administration and Kentucky state officials are giving them hope that a deal could be in the offing for a solution, perhaps as soon as this fall.



The bridge that takes Interstates 71 and 75 across the Ohio River at Cincinnati carries more than twice the traffic it was designed for, and needs major repairs.

# Gun-Rights Advocates Score Wins in California

By JOE PALAZZOLO

some "ordinary" military weapons.

"We had to shift our tactics to be more heavily focused on litigation," said Jennifer Baker, a spokeswoman for the NRA. California is home of some of the strictest gun laws in the nation and is often seen as an incubator for measures elsewhere in the nation.

The ballot measure, which passed last year with 63% of the vote, prohibited possession of magazines that hold more than 10 rounds and required background checks for ammunition purchases. U.S. District Judge Roger Benitez in San Diego blocked the magazine restrictions in a ruling on Thursday, while the lawsuit filed by the gun-rights groups moves forward.

The law, scheduled to go into effect July 1, would force Californians to surrender any

ammunition magazine exceeding the limit or face criminal penalty of up to a year in jail and a fine of \$100 per magazine, or both.

Separately last week, a California administrative agency denied proposed regulations for implementing a 2016 law that expanded the state's ban on the sale of military-style weapons. The California State Legislature, dominated by Democrats, last year expanded the definition of prohibited "assault weapons" to include firearms with detachable magazines.

The U.S. Supreme Court ruled in 2008 that the Second Amendment protects an individual right to own a gun for self-defense. Since then, courts have appraised gun-control laws for their burden on the right to self-defense.

Judge Benitez, dusting off a Supreme Court case from

1939, said in his ruling that guns that "could be part of the ordinary military equipment for a militia member, or that would contribute to the common defense," also enjoy constitutional protection.

"The right to bear arms includes the right to keep and carry ammunition and magazines holding more than 10 rounds for those arms, for

both self-defense and to be ready to serve in a militia," Judge Benitez wrote.

Four federal appeals courts across the country have upheld restrictions on high-capacity magazines, said Hannah Shearer, a staff attorney at the Law Center to Prevent Gun Violence, which filed a brief in the case in support of the law.

Ms. Shearer said no court has held that the Second Amendment creates an individual "militia right" to keep and bear certain arms.

Chuck Michel, a lawyer who represents the NRA in the case, said Judge Benitez correctly found that the state had overstated the public-safety risk of high-capacity magazines, which were involved in two mass killings in California in recent years, according to one survey.

Those included a 2013

shooting in Santa Monica that left six dead and a 2009 Oakland shooting in which four police officers and the shooter perished. The survey by Mayors Against Illegal Guns, now known as Everytown for Gun Safety, defined a mass shooting as one in which four or more people are killed.

On the same day as Judge Benitez's ruling, a senior U.S. District judge in Sacramento declined to block the high-capacity magazine law in a separate lawsuit, saying the state was likely to win.

California Attorney General Xavier Becerra said in a statement that he would continue to defend the law. California law already makes it illegal to buy or sell such magazines. A spokeswoman for Mr. Becerra, a Democratic former member of Congress, declined to comment on Monday.

# New York City Police Officer Is Fatally Shot in Vehicle

By ZOLAN KANNO-YOUNGS  
AND MIKE VILENSKY

A New York Police Department officer was shot and killed in her vehicle in the Bronx early Wednesday morning in what Commissioner James O'Neill called an "unprovoked attack."

The officer, Miosotis Familia, 48 years old, was a 12-year veteran of the department and a mother of twins and a 20-year-old son, law-enforcement officials said. She was assigned to the 46th Precinct in the Bronx.

The officer was sitting in a police vehicle on East 183rd Street near Creston and Morris avenues at about 12:30 a.m. in Fordham Heights when she was shot in the head. Law-enforcement officials identified the suspect as Alexander Bonds.

Mr. Bonds was seen on video walking toward the vehicle and tightening his hood before firing one shot at the officer from a silver revolver, a senior law-enforcement official said.

Officer Familia died at St. Barnabas Hospital early Wednesday, officials said.

An officer and a sergeant shot and killed the suspect one block away after Mr. Bonds drew the revolver, the officials said.

A bystander also was hit during the encounter with the suspect and is in stable condition.

Officer Familia was in an NYPD mobile-command post when she was struck, police said. The NYPD deploys the large vehicles to locations that have recurring crime throughout the city. They usually are

staffed 24 hours a day.

Commissioner O'Neill and New York City Mayor Bill de Blasio appeared at a news conference at about 3:30 a.m. Wednesday at St. Barnabas Hospital after meeting with Officer Familia's family.

"It's such a painful reality at just the end of a very, very good thing," Mr. de Blasio said hours after the city's July Fourth celebration. "A female police officer attacked out of nowhere."

New York Gov. Andrew Cuomo said in a written statement: "This horrific and senseless assassination is a devastating reminder of the risks these brave men and women face each day."

This incident was similar to the shooting of two police officers in December 2014, when Rafael Ramos and Wenjian Liu,

were killed while in their patrol car in Brooklyn.

The last member of the NYPD shot and killed in the

line of duty was in November 2016, when Sgt. Paul Tuozzolo, 41, was shot in the head during a gunbattle with a heavily

armed suspect in the Bronx.

Mr. Bonds previously had been arrested in January 2001 for assaulting a police officer in Queens with brass knuckles, a senior law-enforcement official said.

According to the senior official, Mr. Bond's other arrests include narcotics-related crimes in 2001 and 2002; subway fare evasion in 2005; and robbery in 2005.

Mr. Bonds violated his parole in 2006 and was in prison until 2013 when he was released, the senior official said.

Mr. Bonds was set to be on parole until 2018, officials noted.

"This kind of violence against police officers cannot stand," said Patrick Lynch, president of the Patrolmen's Benevolent Association. "We need the public's help."



The scene of Officer Miosotis Familia's shooting in the Bronx.

## IN DEPTH

# MEXICO

Continued from Page One

2015. "It's hardly in the interest of the U.S. to have this violence going on near our borders, both for the effect it could have on U.S. citizens in those areas and for the effect it could have on commerce."

Many of the causes of the resurgence are longstanding, including the growing market for opioids in the U.S. and a bloody competition among rival trafficking groups touched off by the death or arrest of senior leaders.

There is also a counterintuitive dynamic at work, say scholars of the drug trade: In recent months, voters have thrown out of office allegedly corrupt state and local leaders of President Peña Nieto's ruling Institutional Revolutionary Party, or PRI. That, in turn, has led to the breakdown of unofficial alliances between drug gangs and politicians—what some are calling a *pax mafiosa*—that had kept the killings in check.

"The local and state governments of the PRI controlled the violence and crime using informal rules," said Jorge Chabat, a professor who focuses on security issues and international relations at Mexico City's nonpartisan CIDE research center. "They would say, 'You can traffic drugs, as long as you don't kill too many people.'"

Mexico's earlier peak in violence started in 2006, when rival cartels began turf wars that eventually claimed more than 100,000 lives. Then-President Felipe Calderón of the National Action Party, or PAN, deployed the armed forces against powerful drug lords who had grown influential enough to challenge government power and control large swaths of the country.

The troops managed to cut some cartels down to size, but homicides continued to rise, and the military drew accusations of human-rights abuses, including the killing of innocent civilians and summary execution of suspected gang associates.

Six years later, Mr. Peña Nieto's PRI returned to power by branding itself as the party of efficiency. Rather than emphasizing drugs—and risking the parade of horrific headlines

that swamped his predecessor—Mr. Peña Nieto focused instead on revamping education policy and the energy and telecommunications industries.

At a dinner with reporters during the 2012 campaign, Aurelio Nuño, who would go on to become Mr. Peña Nieto's chief of staff and education minister, said that the new government would "change the narrative."

One of Mr. Peña Nieto's first acts as president was to eliminate Mexico's Public Security Ministry, an agency founded in 2000 by a PAN president to create a more professional federal police force to crack down on drug-related crime. Mr. Peña Nieto folded its responsibilities into the Interior Ministry.

The PRI has been plagued by corruption scandals since Mr. Peña Nieto took office. Nearly a dozen former PRI governors in Mexico are under investigation, serving time or being prosecuted for corruption, and three fled the country to escape prosecution. Two have since been captured in recent months. All deny the charges against them.

In late March, Edgar Veytia, the top prosecutor in the Pacific coast state of Nayarit and a close ally of its PRI governor, was arrested at the U.S. border on drug-trafficking charges. He has pleaded not guilty.

Alejandro Hope, a prominent Mexico City security expert, predicted in an April newspaper column that murders could approach a record 30,000 by the end of 2017, based on the fact that initial numbers tend to be revised upward by Mexican government statisticians.

Mr. Peña Nieto "thought that Mexico did not have a structural problem that needed to be tackled," Mr. Hope said. "They tried to change the narrative," he said. "But they didn't try to change the reality."

In a lengthy response to a list of questions from The Wall Street Journal, Mr. Peña Nieto's office acknowledged an uptick in murders beginning in 2015 that has continued into this year, and said the government has implemented a new, long-term anticrime strategy as one of its top priorities. It said the new program includes a broad overhaul of Mexico's justice system and moves to strengthen national-security institutions.

It blamed Mexico's local law enforcement for failing to do its



Above, a man holds a portrait of slain Mexican journalist Miroslava Breach, one of 11,155 people murdered in Mexico in the first five months of 2017. Below, state police officers stop a suspected member of the Los Aztecas gang in a neighborhood in Ciudad Juárez.

job. "The lack of professional, trustworthy and efficient institutions at the local level has opened up spaces for organized crime to operate with impunity," the statement said.

Here in Chihuahua—Mexico's largest state by area, which borders Texas and New Mexico—the killing of Ms. Breach took place in an atmosphere of mounting violence and political intrigue.

In October, voters elected Javier Corral, a former journalist who had been friends with Ms. Breach for more than 25 years, as Chihuahua's new governor. Chihuahua was one of seven states where PAN governors swept to victory last year, including some of the country's most violent, such as Tamaulipas, Veracruz and Quintana Roo.

Late last year, Chihuahua's former governor, César Duarte, fled to El Paso, Texas, not long before an arrest order was issued in Mexico alleging that he had embezzled hundreds of millions of dollars from the state. The new governor has declared Mr. Duarte a fugitive from justice. Mr. Duarte's attorney didn't return calls seeking comment.

Chihuahua has long been a coveted territory for drug traffickers. The state's largest city, Ciudad Juárez, was ground zero for cartel violence during the last drug war, suffering one of the highest murder rates in the world.

Joaquín "El Chapo" Guzmán, leader of the Sinaloa Cartel, sent gunmen to try to take over the city's drug trade from the powerful Juárez Cartel and its armed wing, known as La Linea. Mr. Guzmán recruited two street gangs, the Artistic Assassins and the Mexicles, to help. More than 9,000 people were killed there between 2007 and 2011.

Today, Mr. Guzmán is in jail in Manhattan, facing federal drug charges. In Ciudad Juárez, the atmosphere is tense. On Monday, the army deployed soldiers to carry out regular patrols of the city alongside state and local police for the first time in five



JULIAN CARONA FOR THE WALL STREET JOURNAL

years, after a paroxysm of violence killed 29 people over the course of five days.

Across the state, violence has become more diffuse and unpredictable as smaller gangs compete for influence and control of the drug trade, according to the state attorney general's office, the governor's office and security experts.

"No one person has established himself as the outright leader of La Linea or the Juárez Cartel," said Will R. Glaspy, a special agent in charge of the U.S. Drug Enforcement Administration's El Paso division.

Soon after, Ms. Breach began receiving death threats, according to her family. When she was killed, the hand-scrubbed message next to her body was signed "El 80."

One person rattled by Ms. Breach's murder was Mr. Corral.

In her hometown of Chihuahua, the nephew of two alleged former lieutenants to Mr. Guzmán registered in PRI party primaries to run for mayor. After Ms. Breach's articles were published, the PRI renounced both candidates. Neither candidate could be reached to comment.

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One person rattled by Ms. Breach's murder was Mr. Corral.

**President Peña Nieto wanted to 'change the narrative' of the fight against traffickers.**

Ms. Breach often wrote about the growing links between politics and the drug trade in the area where she grew up, in the rugged hills of the Sierra de Chihuahua.

In March of last year, Ms. Breach wrote a series of articles about alleged family connections between organized crime and candidates for local political office. In one article, she revealed that the mother-in-law of Carlos Arturo Quintana, an alleged gang leader

also known as "El 80," had registered with the PRI as a primary candidate to be municipal president of the town of Bachiniva.

Mr. Quintana was found in a cooler by the side of the road in the city of Álvaro Obregón.

"In the whole territory," Mr. Corral said.

A spokesman for the PRI's state committee in Chihuahua didn't respond to multiple requests to comment.

César Peniche, a former federal security official appointed by Mr. Corral to be the state's top prosecutor, has pledged to rebuild his office and solve Ms. Breach's murder. Police say they have identified two suspects but have yet to make any arrests.

In March, a human head, believed by law-enforcement officials to belong to one of the bodyguards of Mr. Quintana, the purported La Línea capo, was found in a cooler by the side of the road in the city of Álvaro Obregón.

A day later, police killed another purported cartel gunman, a rival of El 80, believed to be responsible for the decapitation. On a recent Saturday night, gunmen killed six people and injured 22 in a bar in the semirural town of Ciudad Cuauhtémoc.

In late May, state police officer Jesús Pérez was on patrol in Ciudad Juárez with a reporter and photographer from The Wall Street Journal when a distress call blared out from shortwave radio: Gunmen had attacked a state police command post in the rural town of Villa Ahumada, about 90 minutes' drive away.

The gunmen strafed the local police post with hundreds of .50 caliber rounds using a military-grade machine gun, killing one officer and critically injuring three more, before fleeing to the countryside.

A spokesman for the state prosecutor's office identified the suspected gunmen as members of La Linea, and later said that the shooting was retaliation for an investigation the state police were carrying out into cattle theft and extortion by organized crime groups in the area. Days later, two local police commanders were arrested on suspicion of collaborating with the attackers.

—José de Córdoba and Dudley Althaus in Mexico City contributed to this article.

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# LIFE & ARTS

FASHION |

## How to Do Without a Tie

As men seek out a less-formal look, shirtmakers devise collars that are up to the job

BY RAY A. SMITH

**MEN LOOK COOLER** without a tie—both in temperature and style. But, getting it right takes more than just unbuttoning.

There is a lot to consider. The collar shouldn't droop. Placement of the top and second button shouldn't be so spaced apart that it exposes man cleavage when the first button is undone. The lapel on the suit jacket or sport coat shouldn't swallow the ends of the collar.

"Difficult," is how Andrew Downing, of Columbus, Ohio, recently described figuring out how to wear a suit without a tie. The 23-year-old was set on wearing the look to a high-school sports award show. "I wanted to try something a little more casual and be confident with it," said Mr. Downing, creative director of Varsity Magazine, which chronicles high-school athletics.

After conducting some tryouts with a bunch of shirts in front of the mirror, he "was running into trouble," he said. "Some of them, the collar is a little too flimsy. The collar can't be too flimsy. But It can't be too stiff either because you're going for a casual look." Ultimately unsatisfied with his collars, he gave up and went with a V-neck T-shirt instead.

Some shirt makers are helping men nail down the open-collar look. Eton, a nearly 90-year old Swedish company whose shirts are sold at **Bloomingdale's**, **Nordstrom** and **Saks Fifth Avenue**, plans to debut next month a shirt line where collars come with buttons hidden underneath to help keep the collar from drooping, flapping or otherwise losing its place, especially when worn without a tie. "Instead of a button-down, you have a button-under," said creative director Sebastian Dollinger.

Thomas Pink, the upscale British shirtmaker, carries a line of shirts with a "specially engineered independent collar, designed to be worn independent of a tie," the company says. The collar was designed to support itself and be

more stiff than traditional collars, so that it rests perfectly under a jacket, according to the company.

Specialty retailer Sid Mashburn calls out which collar works best for the no-tie look in the options menu for its new made-to-measurement shirt program. "Hands-down our most versatile collar... a spread [collar] can go as dressy as black-tie and as casual as no-tie," a description reads online.

The store, with locations in Dallas, Houston, Los Angeles, Washington, D.C. in addition to its original Atlanta flagship, also developed a taller collar for its ready-to-wear dress shirt line so the shirt "stands above the collar line of the suit jacket or the sport coat," said Sid Mashburn, the retailer's founder and designer. "It's even better without a tie. It gives it a little more prominence," Mr. Mashburn said. An extra piece of interlining where the collar band meets the collar also gives it shape and "a little lift," he said.

Without the proper collar, the no-tie, unbuttoned shirt look can come off as slovenly rather than stylish.

Julie Rath, a men's image and style consultant directs men she helps to shirts with a medium-to-full spread collars, "which will sit nicely" under a lapel, she said.

A spread collar refers to its width, specifically to how far the ends are spread from each other. The collar extends out rather than down. The wider the spread is, the more formal the shirt is considered, making a tie less optional since there is so much open space about the neck. A moderate spread collar is viewed as borderline formal and casual, making it work better with an open collar than most others.

A straight or point collar is narrower with longer ends and is considered more formal, almost always worn with a tie. "Open collar can look really awkward with a straight or point collar," Ms. Rath said.



Shirt-makers have devised strategies—and collars—to keep the tie-less look crisp and put together. Among the offerings are Eton's collar with hidden buttons, above and below left, and the English spread collar from Brooks Brothers, below center. Other options are from Turnbull & Asser, below right, and the 'Independent' collar by Thomas Pink, at bottom.



said. Even if men can get part of the long point collar to sit flat under the lapel, "inevitably as you move throughout the day, one side, and sometimes both, end up winging up and out while the other side stays down," Ms. Rath said.

The decline in tie wearing over the years has prompted shirt mak-

ers to put more thought into men's bare necks. "When looking at introducing new collar shapes into the ready to wear collection we now always consider what it looks like without a tie as importantly as it does with one," said Dean Gomilsek-Cole, head designer at high-end British clothier Turnbull & Asser,

which now offers many collars that can be worn with or without a tie. Its most popular is the Classic T&A collar, which is shaped to sit over a wearer's collarbone without needing a tie to maintain its shape.

Men also have to think about how high the second and third button are so that when the top button is undone, the collar looks relaxed and fits neatly under a jacket, without spreading so open as to expose too much chest.

"Depending on the client's height and torso length, one button undone can hit too high on the chest and read as stuffy, whereas two buttons undone can hit too low and read as trying too hard to look swanky," said Ms. Rath, who is also the founder of NextLevelStyle.com, an online style course for men.

Eton relaunched a higher collar on its shirts last year. The extra 1 centimeter in height makes the collar stand up more while the strategic higher placement of the second button from the top keeps an open collar from veering too low.

For an extra guarantee that the collar won't droop or flap, hang on to those plastic or metal collar stays that come with new shirts. Take them out when getting shirts laundered and pop them back in when you're ready to wear.

### EXHIBITION REVIEW

## THE ARCHITECTURAL PRINCE OF PORTLAND

BY JULIE V. IOVINE

*Portland, Ore.*  
**UNLESS YOU HAIL** from Oregon, chances are you have never heard of John Yeon (1910-1994). And that's for the best possible reason. He focused on improving the local.

As a self-taught architect, conservationist and art collector, Yeon had wide-ranging aesthetic interests—from dynastic Chinese porcelain, to Robert Moses' parkways. The son of a lumber baron and real-estate developer, he also had the means to indulge them. He chose to give shape to buildings and landscapes personally and physically close to him.

Heralded in his own day as the dean of Northwest regional modernism, Yeon is not so e

asily pinned down—as an expansive exhibition at the Portland Art Museum, "Quest for Beauty: The Architecture, Landscapes, and Collections of John Yeon," adroitly shows. It is an intriguing and timely introduction to an idiosyncratic connoisseur and activist who brought a multidisciplinary approach to design before it became fashionable and understood the need to protect natural assets before it became urgent.

Yeon's ideas about the relationship between the natural and the human-made came early—when he accompanied his father, who oversaw the construction of the Columbia River Highway. It turned driving into a romantic adventure rather than merely efficient transport. For the rest of his life, Yeon also saw building as an opportunity to beautify the experience of the land, once



The Watzek House, designed in 1937 by John Yeon

describing his approach to architecture as "a landscape painter imagining what would look good in his landscape painting."

Yeon's formal education consisted of a short apprenticeship with an architect in Portland, less than a semester at Stanford University, and extension courses in architecture at Columbia University during a brief stint in New York.

Architecture was never his main objective. One of his earliest jobs was on Oregon's first parks advisory commission. Early on, as a designer, he contributed to a show at the Portland Art Museum, where he paired images of paintings by Albrecht Dürer, Pieter Brueghel the El-

der, Claude Lorrain and classic Asian artists with photos of landscapes in Oregon. Exhibition design remained a passion, and his galleries for Japanese screen paintings at the Nelson-Atkins Museum of Art in Kansas City, Mo., still stand.

How to interpret a talent that pursued with equal ardor planning lodges for Mount Hood, acquiring an 18th-century chinoiserie door from a Grand Canal palazzo, and pioneering an innovative plywood building system?

"Quest for Beauty" takes a comprehensive approach with presentations of his architecture, art acquisitions and land conservation. A collaboration of the museum and

the University of Oregon's John Yeon Center for Architecture and the Landscape, it was curated by Randy Gragg, the center's executive director.

From the 1930s on, the Museum of Modern Art took a more selective approach to Yeon, focusing on a single house—Yeon's first, designed in 1937—and championing it in multiple exhibitions to promote American regional modernism. The crusade was taken up by House Beautiful and other design magazines eager to promote a homegrown modern style over the dominant internationalism of Europeans like Mies van der Rohe and Walter Gropius.

Featured in the Portland museum

show, the Watzek House (the client was Aubrey Watzek, a close friend, fellow parks commissioner and lumber baron) fits the bill only to a point. Its rooms are enfolded around a lushly planted courtyard dripping in wisteria and decorated with a small stone pool. Rooms pinwheel off this central opening, each one timbered, clad, coffered or paneled in some local wood and detailed with the meticulous craft of a Japanese tea house, a far cry from modernism's utilitarian open plan.

Yeon completed only 18 buildings, mostly homes, the last one in 1955. His less ambitious houses are the most successful, distinguished more by their unpretentious but beautiful woodwork than by their ranch-house-flavored elevations. His greater legacy was in preserving scenic landscapes along the Columbia River Gorge. Among his accomplishments in local conservation, Yeon campaigned for decades to protect Olympic National Park, and saved wave-slashed Chapman Point from development by buying it, and from erosion by planting it with grasses and trees. It's called the John Yeon State Natural Area.

Yeon's architecture may not be the keystone of an American regional modernism, as it was once pitched, but his keen understanding that beauty in any guise can be transformative is always relevant.

**Quest for Beauty: The Architecture, Landscapes, and Collections of John Yeon**

Portland Art Museum, through Sept. 3

**Ms. Iovine reviews architecture for the Journal.**

## OPINION

## REVIEW &amp; OUTLOOK

## Merkel's Stingy Tax Reform

**A**ngela Merkel on Monday set out her case for re-election to German voters in a manifesto that promises more of the same, for better and worse.

In the better column, the program from Mrs. Merkel's center-right Christian Democratic Union (CDU) and its Bavarian sister party, the CSU, fleshes out some tax reforms. Berlin is running record fiscal surpluses—€54 billion (\$61.33 billion) last year—and CDU/CSU leaders have dragged Mrs. Merkel into supporting €15 billion in annual tax cuts.

This will focus on the personal-income tax. The party would increase to €60,000 from €54,000 the level at which the second-highest 42% tax rate kicks in, and it will readjust the complex tax calculations for income up to that level to reduce the marginal rate for each additional euro of income.

This is long overdue, but it's remarkably stingy and far from a knock-out punch against the tax plan released last month by Mrs. Merkel's opponents in the center-left Social Democratic Party (SPD). The SPD plan also promises only €15 billion in tax relief, but it would increase the threshold for the second-highest rate to €76,000 and then make up the difference by increasing the highest and second-highest tax rates, to a maximum of 48%. The current top individual rate is 45%.

Mrs. Merkel's plan is better in not punishing higher earners to "pay for" middle-class



Angela Merkel

**She offers a tax cut less than one-third the size of Germany's surplus.**

relief. But she missed an opportunity to break free of the €15 billion tyranny afflicting Germany's political class. Berlin can afford to cut taxes more than that, including cuts in individual tax rates. Berlin can afford to cut the 33% corporate tax rate, too.

The main weakness is that Mrs. Merkel's platform fails to do much more to help the economy beyond the labor-market reforms enacted 15 years ago by her SPD predecessor, Gerhard Schröder. Those crucial reforms reduced unemployment benefits and made it easier to hire and fire some workers. They produced a more resilient economy that has weathered the eurozone crisis and now benefits from reviving global growth and demand for German exports.

Mrs. Merkel has lived off that inheritance while hurting the economy with green-energy costs and the introduction of a costly minimum wage. Underemployment is a growing problem as tax and regulatory policies make it difficult for those in entry-level jobs to advance up the income ladder. Private investment remains weak, especially as Germany's labor laws and tax policies fall behind reforming European competitors such as the Netherlands, Spain and even potentially France.

Mrs. Merkel's manifesto nods to these problems, but aside from the modest tax cut the plan consists of populist crowd-pleasers such as R&D spending and increased child allowances. Mrs. Merkel's steady-as-she-goes message may work against the SPD in an election when times are modestly good. It leaves for another day the debate over how Germany will respond in the next downturn.

## Democratic Budget Breakdowns

**B**udget showdowns cast a pall over the weekend in Connecticut, Illinois and New Jersey, and it couldn't happen to a nicer group of politicians. While all dysfunctional governments are dysfunctional in their own way, the three liberal-leaning states are hitting the same progressive dead end.

In Illinois, Democrats spent the weekend coaxing Republican legislators to join their suicide pact to raise taxes to plug a \$6 billion deficit and pay down a \$15 billion backlog of bills. And don't forget the \$130 billion unfunded pension liability—none of which will be solved by the \$5 billion tax hike. GOP Governor Bruce Rauner vetoed the bill on Tuesday but may be overridden.

After credit-rating agencies threatened to downgrade the state debt to junk, Mr. Rauner proposed raising the state's income tax to 4.95% from 3.75% and the corporate-income rate to 9.5% from 7.75% for four years.

In return he asked for a property-tax freeze and modest reforms to workers' compensation. Yet Mr. Rauner already signed off on a huge property-tax hike in Chicago—homeowner bills have increased by a quarter in two years—to pay for teachers' pensions.

The state legislature is controlled by public unions that refuse to compromise. But the budget crisis became more urgent after a federal judge on Friday ordered the state to make long-overdue Medicaid payments, which had been subordinated to pensions and worker pay. While states can't go bankrupt, Illinois is showing they can default—and that they will prioritize public workers over other creditors.

Pensions will consume about a quarter of Illinois's general fund this year. Nearly 40% of state education dollars go toward teachers' pensions, and the state paid nearly as much into the State Universities Retirement System last year as it spent on higher education.

Anemic revenue and economic growth can't keep up with entitlement spending. The state's gross domestic product has ticked up by a mere 0.8% annually over the past four years, compared to 2% nationwide and 1.4% in the Great Lakes region. Since 2010 more than 520,000 Illinois residents on net have fled to other states. (See the nearby chart for some state comparisons.)

Democrats held veto-proof supermajorities in the legislature during Mr. Rauner's first two years. But House Speaker Michael Madigan wants to force the Governor to repudiate his campaign promise not to raise taxes and make Republicans share political responsibility for the state's economic failures.

Amid deteriorating public services, Mr. Madigan persuaded 15 House Republicans to back Mr. Rauner's tax hike à la carte, which spared 11 Democrats in conservative districts from having to take a tough vote. The state Senate followed Monday.

If Republicans override Mr. Rauner's veto without insisting on substantive reforms, they'll repeat the mistake of Connecticut's former Republican Governor Jodi Rell who in 2009 raised the state's top rate to 6.5% from

5% while doing little to rationalize spending or fix the state's bankrupt political culture. See how well that turned out.

**Public-union politics hits the wall in several American states.**

Democrats have since raised Connecticut's top rate to 6.99%. Revenue and economic growth have slumped as high-earning residents have decamped for lower-tax climates. Hedge-fund managers

are struggling to sell their palaces in Greenwich. The legislature's Office of Fiscal Analysis downgraded income-tax revenues this year by \$1.1 billion, and sales and corporate taxes are projected to fall by \$450 million.

Meanwhile, pension contributions have doubled since 2010 and along with retiree health care—most pay no deductible and a maximum \$15 copay—make up 20% of the budget. Democratic Governor Dannel Malloy has ordered cuts to local aid while legislators debate how to close a \$5.1 billion budget gap.

Mr. Malloy wants to shift some of the teachers' pension costs to cities, but Democratic legislators howl that this will further drive up the state's astronomical property taxes. The tax bill on a \$300,000 home in Hartford is \$22,287.

Many Democrats would prefer to raise sales taxes, which shows that liberals will eventually come after everyone else after they tap out the wealthy.

For another example, see New Jersey, where lame-duck Republican Governor Chris Christie has raided the not-for-profit health insurer Horizon Blue Cross Blue Shield to finance rising state healthcare costs. State residents were taken hostage this weekend when Mr. Christie ordered a shutdown of state beaches and parks until Democrats passed a budget that requires Horizon to spend some \$300 million in "excess" reserves on expanded opioid treatment, among other public health services.

Democratic Assembly Speaker Vincent Prieto resisted this tax on Horizon policy holders if only because they include state workers, but then compromised with Mr. Christie to return "surplus" funds to enrollees.

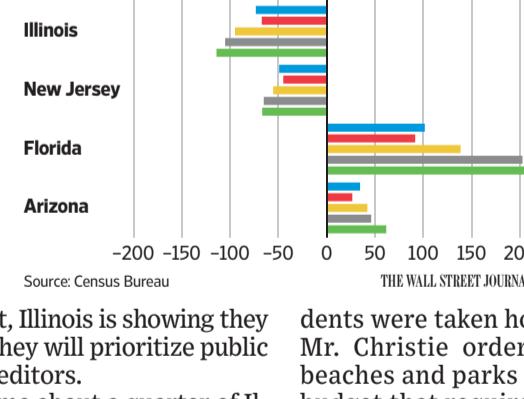
The shakedown is a warning to New Jersey taxpayers. Pension payments have doubled over the past two years and will triple over the next five. To pay the state's bills, Democratic gubernatorial candidate Phil Murphy has promised to soak the rich—then rinse and repeat. The state's top income-tax rate is already 8.97% and the Tax Foundation says its property taxes are the highest in the land.

Amid these meltdowns, Maine's Republican Governor Paul LePage suspended nonemergency government functions to impel his legislature to drop a lodging-tax hike and roll back a voter initiative backed by the teachers' union that increased the state's income tax this year by three percentage points to 10.15%, the highest in the Northeast. Temporarily closing the Department of Motor Vehicles was a small price to pay for preventing the kind of fiscal collapses that are occurring in Connecticut, Illinois and New Jersey.

To adapt Margaret Thatcher, the problem with progressive governance is you eventually run out of other people's money.

## Flight From Tax and Spend

Net migration into and out of certain states, 2012-2016, in thousands of people



## OPINION

## The Next Battle in the Broadband Revolution



BUSINESS WORLD  
By Holman W. Jenkins, Jr.

Nobody doubts that a dramatic competitive restructuring of America's cable and mobile broadband industries is getting ready to unfold.

The reasons are twofold. As superfast 5G wireless comes off

the drawing board, wireless will be able to compete with cable in delivering lightning-speed broadband and high-def television to the home.

At the same time, cable operators own the extensive wired networks to provide the "backhaul" connections that proliferating, "densified" cell 5G networks will require.

The players also know something else: The cable guys will be the buyers in this coming consolidation wave; the wireless industry, its finances weakened by the "unlimited data" wars, will be the sellers.

Which brings us to Comcast's latest machinations. In May, it announced a partnership with America's No. 2 cable giant, Charter Communications, to cooperate on their wireless offerings. They also placed a one-year moratorium on either making a solo bid for a wireless carrier such as T-Mobile or Sprint.

In other words: Let's not compete to drive up the acquisition price of a wireless carrier when the economics of the wireless marketplace are driving the value of such businesses down.

Then came a Journal report last week that cable giants were specifically talking about a joint deal to buy wireless capacity from Sprint to resell it to their own customers.

In other words: Let's work together to drive down the cost of buying and reselling wireless capacity from the struggling wireless industry.

These proceedings might seem to test the principle that, for antitrust purposes, cable giants are free to cooperate because local franchise regulation means they really aren't competitors. Nor would it be the first time Comcast used its deal-making clout to slow a lurch toward industry consolidation. That's what Comcast chief Brian Roberts cleverly did by tying up the regulatory establishment in vetting his ultimately failed 2014 bid for Time Warner Cable.

Should these machinations worry consumers? Not a bit. Think about the 25-year history of the consumer internet. First it was a business of the Baby Bells, delivering dial-up. Then it became a business of the cable operators, who turned one-way TV distribution systems into two-way broadband networks. With the arrival of the iPhone, it became a business of the wireless carriers.

Through all these corporate upheavals, the speeds delivered to consumers steadily increased. Last year speeds were up 74% as cable carriers anticipate a new

competitive onslaught. Indeed, some might even accuse Comcast's Mr. Roberts of being a tempering force in an industry otherwise prone to bouts of irrational exuberance and capital wastage.

Besides, there's always AT&T. It's the one wireless giant arguably with all the assets, once it completes its pending acquisition of HBO and other Time Warner entertainment properties, to compete in the new world order without knuckling under to a cable partner like Charter or Comcast. So pull up a chair. The broadband revolution is about to get interesting again.

Naturally all this competitive ferment is also ignored by those desperately trying to preserve one of the most shortsighted, retrograde twitches of the Obama administration, its effort, in the name of "net neutrality," to impose 1934-style utility regulation on the consumer broadband business.

### A dramatic competitive restructuring of America's telecommunications industry is getting ready to unfold.

As sure as the sun rises, that creature of credentialism, Susan Crawford, first of the Obama White House, now of the Harvard faculty, supplies a New York Times op-ed that pretends consumers inhabit a world in which broadband only comes from a local cable monopolist. Mobile doesn't exist. Consumers don't tap the internet at work, at the local coffee shop, at countless public Wi-Fi hot spots. They are but helpless patsies of any local cable operator's desire to slow, filter or bias their web access.

But then the "net neutrality" debate has always been remarkable for proceeding without reference to the real world. Only one question has really interested the professional net-neut activists: Do our efforts advance the rent-seeking, parasite economy that sustains all who inhabit the greater D.C. area?

Ajit Pai, America's new Federal Communications Commission chief, has a lot on his hands to help bring the revolution forward. Like retiring the nation's traditional copper phone system without leaving its most laggard customers in the lurch. Like easing local overhead and regulatory obstacles to laying new fiber. Like opening up public and private premises for the installation of the small cells that will drive the coming era of ubiquitous high-speed wireless data access.

Mr. Pai will have some interesting telecommunications mergers to vet too, and all the while will be fighting off net-neut activists shrieking their well-tried nonsense about a pending "media monopoly" and the "death of the internet." But have faith: Technology, especially the technology of superfast wireless, will triumph in the end.

## LETTERS TO THE EDITOR

## Paid Family Leave Is a Good National Policy

In a rejoinder to your May 26 editorial "The Ivanka Entitlement" on President Trump's family-leave proposal, Stephen Schwarzman lays out the robust business case for paid-leave policy (Letters, June 19). The Journal then uses Mr. Schwarzman's response as a platform to make a policy distinction, to recognize the inherent value of paid leave while opposing the government's role in administering it: "[O]ur point wasn't to oppose family leave. The editorial opposed a government plan ("The Blackstone Entitlement," Review & Outlook, June 26; all of the above are available to read on WSJ.com).

By now, many are familiar with the benefits of paid family leave: Healthier children and parents in more tightly bonded families, greater financial stability and stronger attachment to the labor force are among the most important. Unfortunately, those who need these benefits the most aren't getting them; the poorest, most vulnerable workers in our society get left behind. Currently, only 6% of American workers in the bottom income quartile have access to paid family leave. Studies show that these individuals—particularly women without a college degree—are far more likely to lose or quit their jobs in the event of childbirth, resulting in a far greater cost to society over the long term.

The policy outlined in the administration's recent budget proposal emphasizes the need for mothers and fathers to have access to paid leave to encourage both parents to share parenting responsibilities and to strive toward minimizing hiring biases. While this policy will benefit all working parents, it will have an especially positive effect on women, who are far more likely than men to leave the workforce to provide unpaid care for a child.

A 2012 study found that women who took paid family leave were more likely to be working a year after their child's birth than those who didn't take leave, and that women who took leave and returned to work were 39% less likely to report receiving public assistance than those who didn't. Additionally, making it easier for new parents to re-

turn to work after the arrival of a new baby is a critical part of solving the persistent gender and minority pay gap that exists in part because of prolonged periods away from the workforce and challenges with re-entry.

As the Journal also so aptly points out, "a growing economy is the best antidote to inequality." I agree. Women's increased participation in the workforce in recent decades has been an important driver of middle-class incomes. In fact, research by the Council of Economic Advisers suggests that the vast majority of middle-income growth since 1970 is the result of increased female labor-force participation and education.

Meanwhile, we agree wholeheartedly that government benefits should not be a substitute for private-sector investment. We see a national paid-leave benefit as the necessary floor from which private sector companies and state governments can build.

A recent poll by the National Partnership for Women and Families found that 82% of voters think it is important for Congress to consider a paid-leave program. To this end, we are working with lawmakers on both sides of the aisle to design a paid-leave policy that provides a targeted benefit to help the people who need it the most and are least likely to receive it from their employer, without discouraging larger companies from developing more generous policies.

The reality is that in 63% of American homes with children, all parents work. Providing a national guaranteed paid-leave program—with a reasonable time limit and benefit cap—isn't an entitlement, it's an investment in America's working families.

IVANKA TRUMP

Washington

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## OPINION

# Confront Iran the Reagan Way

By Mark Dubowitz

**O**ne message of President Trump's is popular at home with his political base and embraced abroad by key Middle Eastern allies: The Islamic Republic of Iran is imperialist, repressive and—unless we adopt a new strategy—on its way toward possessing nuclear weapons. To keep the threat at bay, Mr. Trump should take a page from the playbook Ronald Reagan used against the Soviet Union.

**In 1983 he abandoned 'containment' and adopted a plan to roll back Soviet expansionism. It worked.**

In the early 1980s, President Reagan shifted away from his predecessors' strategy of containment and toward a new plan of rolling back Soviet expansionism. The cornerstone of his strategy was the recognition that the Soviet Union was an aggressive and revolutionary yet internally fragile regime that had to be defeated.

Reagan's policy was outlined in 1983 in National Security Decision Directive 75, a comprehensive strategy that called for the use of all instruments of American overt and covert power. The plan included a massive defense buildup, economic warfare, support for anti-Soviet

proxy forces and dissidents, and an all-out offensive against the regime's ideological legitimacy.

Mr. Trump should call for a new version of NSDD-75 and go on offense against the Iranian regime. The administration would be wise to address every aspect of the Iranian menace, not merely the nuclear program. President Obama's myopic focus on disarmament paralyzed American policy.

Under Mr. Obama's deeply flawed nuclear accord, Tehran doesn't need to cheat to reach threshold nuclear-weapons capabilities. Merely by waiting for key constraints to sunset, the regime can emerge over the next decade with an industrial-size enrichment program, a near-zero breakout time, an easier clandestine path to a nuclear warhead, long-range ballistic missiles, access to advanced conventional weaponry, greater regional dominance, and a more powerful economy, increasingly immunized against Western sanctions. You could call this scenario the lethal Iranian end-state.

A new national-security directive must systematically dismantle Iranian power country by country in the Middle East. The Europeans, traumatized by foreign fighters returning from Syria and massive refugee flows, may support a tougher Iran policy if it means Washington finally gets serious about Syria.

The early signs of the return of American power are promising: 59 Tomahawk missiles launched in response to the Assad regime's most recent chemical attack, military



ASSOCIATED PRESS

A long-range S-200 missile launching in Bushehr, Iran, on Dec. 29, 2016.

strikes at Iran-backed militias in southern Syria, the downing of a Syrian fighter plane and Iranian-made drones, and 281 Syria-related sanctions in five months.

Washington should demolish the Iranian regime's terrorist networks and influence operations, including their presence in Europe and the U.S. That means working closely with allied Sunni governments against Iranian subversion of their societies. The American offensive has already begun: CIA Director Mike Pompeo is putting the agency on an aggressive footing against these global networks with the development of a more muscular covert-action program.

All of Washington's actions to push back against Tehran hinge on severely weakening the Iranian regime's finances. Robust measures

should target the regime's praetorians, the Iran's Revolutionary Guard Corps, a dominant force in Iran's economy. New sanctions legislation designating the IRGC for terrorism—which the Senate recently passed with 98 votes—and the more than 40 Iran-related sanctions imposed this year are a good start.

But much more is still needed: The IRGC's transfer to Hezbollah of industrial-size missile production capability based on Lebanon soil could trigger the next Israel-Hezbollah war. Massive economic sanctions on Iran to stop these transfers may be the only way to head off this war.

Last but not least, the American pressure campaign should seek to undermine Iran's rulers by strengthening the pro-democracy forces that erupted in Iran in 2009, nearly toppling the re-

gime. Target the regime's soft underbelly: its massive corruption and human-rights abuses. Conventional wisdom assumes that Iran has a stable government with a public united behind President Hassan Rouhani's vision of incremental reform. In reality, the gap between the ruled and their Islamist rulers is expanding.

The odds that a moderate government will emerge in Tehran before the nuclear deal's restrictions expire are poor. Washington needs to block the Islamic Republic's pathways to gaining nuclear-tipped missiles. While aggressively enforcing the nuclear agreement, the administration should present revised terms for a follow-on deal. These must address the current accord's fundamental flaws, including the sunset provisions that give Tehran a clear pathway to nuclear weapons and the missiles to deliver them, and the inadequate access to Iranian military sites that blocks effective verification.

The administration should present Iran the choice between a new agreement and an unrelenting American pressure campaign while signaling that it is unilaterally prepared to cancel the existing deal if Tehran doesn't play ball.

Only six years after Ronald Reagan adopted his pressure strategy, the Soviet bloc collapsed. Washington must intensify the pressure on the mullahs as Reagan did on the communists. Otherwise, a lethal nuclear Iran is less than a decade away.

*Mr. Dubowitz is chief executive of the Foundation for Defense of Democracies.*

By Piotr Wilczek

**P**resident George H.W. Bush once said: "Poland should be strong and prosperous and independent and play its proper role as a great nation in the heart of Europe."

Poland has lived up to those words. On Thursday, as an active member of NATO and the European Union, Poland hosts President Trump on his second international trip.

This visit will demonstrate the unbreakable bonds between Poland and the U.S. and address the challenges facing our neighborhood and the broader Euro-Atlantic community.

Polish-American relations are thriving, and for good reason. Poland has been a reliable partner to the U.S. since our democratic transformation. In the Middle East we an-

## LIFE &amp; ARTS

## TELEVISION

# The Super Bowl of Nature Shows

Capitalizing on the live-programming trend, National Geographic plans a two-hour special featuring wildlife in action

BY JOHN JURGENSEN

**BATS, BULL SHARKS,** lions and langurs are getting roped into the quest to create live television events.

While other TV networks have used live musicals and sports events to try to harness mass audiences, the National Geographic channel is luring viewers with a two-hour special starring animals around the world filmed in real time. "Earth Live," airing Sunday night, will cut among camera feeds from wildlife cinematographers in 16 countries across 12 time zones.

Unlike typical wildlife programs where crews spend months in the field capturing animal highlights, "Earth Live" will rely on raw footage of creatures in the moment. Producers zeroed in on shooting locations and date with a full moon to maximize their chances for drama. If weather, technology and the wildlife itself cooperate, viewers will see lion prides in Kenya hunting by moonlight during a wildebeest migration, and macaque monkeys in Thailand smashing mussels on the beach for their breakfast.

The animals "are our superstars, but like any talent you hope they perform on the day you need them to," says Tim Pastore, National Geographic's president of original programming and production.

To combat overcrowded TV schedules, audience indifference and the ratings-deflating force of DVRs, TV networks continue to invest in live programming. NBC, which kicked things off in 2013 with "Sound of Music Live," scheduled "Jesus Christ Superstar" for next Easter (though it postponed a production of "Bye Bye Birdie"). Fox will stage live versions of "Rent" and "A Christmas Story" next season. ABC is planning an adaptation of Disney's "The Little Mermaid."

National Geographic channel



'Earth Live' will attempt live footage of animals such as the humpback whale, above. Filming under a night sky, right.

has dabbled in its own version of such stunts, airing live footage of a brain surgery and astronauts on the International Space Station. "Earth Live," however, is a bigger bet in terms of budget and logistical challenges. It brings a commensurate risk of giving viewers a lackluster day in the (wild) life of the planet, or the cringe-worthy experience of watching a high-wire act gone wrong.

After years of reality shows about survivalists and other rugged characters, the channel has been launching more ambitious shows to steer its programming back into sync with National Geographic's 129-year-old brand. They include the channel's first fully

scripted series, "Genius" (about the life of Albert Einstein), and "Mars," a documentary-drama hybrid.

The channel is part of a joint venture between the National Geographic Society and 21st Century Fox. 21st Century Fox and News Corp., parent company of The Wall Street Journal, share common ownership.

As the director of many live awards shows, including Oscars, Emmys and Tonys broadcasts, "Earth Live" director Glenn Weiss is more accustomed to corralling footage of celebrities than animals. He'll orchestrate feeds coming in from the field to a studio in midtown Manhattan. There, naturalist Chris

Pakham will provide on-camera commentary, along with hosts Phil Keoghan and Jane Lynch, who says her role as host is to "stand there in amazement and say 'Wow!'"

National Geographic has deployed wildlife cinematographers who specialize in the species and locations they'll be shooting. They include Sophie Darlington, tracking lions in the Maasai Mara game reserve in Kenya; Bob Poole, looking out for hyenas that come into Ethiopian villages for food by night; and Andy Casagrande, sending underwater images of bull sharks on the prowl in Fiji. Producers in New York will keep an eye on social media so if any specific animals emerge as stars, they

can respond with more footage.

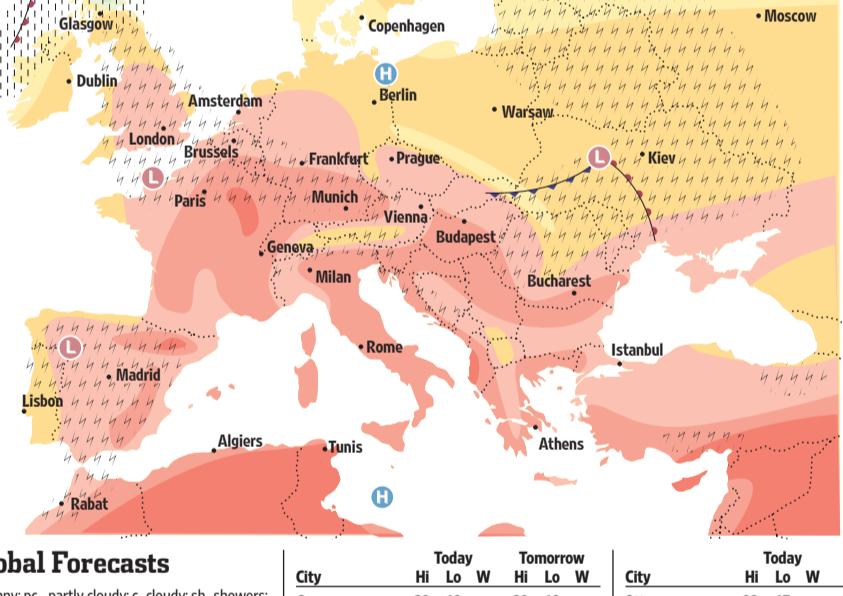
New technology, including a camera with capability of capturing images in color of animals under moonlight, made it more feasible to tape animal nightlife.

"Earth Live" locations include a cave near San Antonio, Texas, where millions of Mexican free-tailed bats should emerge at dusk, and in Finland, near the Arctic Circle, where there's some sunlight in the sky at 3 a.m. when wolverines are expected to be on the move.

Plans for the special started two years ago when executive producer Al Berman pitched the concept to National Geographic. That began the process of narrowing down more than 100 potential shooting locations, and dates with a full moon that would bring heightened tides and animal activity. "We looked right across the calendar, in both Northern and Southern hemispheres. If you want to choose one night to look at animals, this is the night," says executive producer Andrew Jackson.

In the run-up to July 9, researchers and camera crews have been keeping tabs on members of the wildlife cast to make sure they're behaving as expected and in their places for several weekend rehearsals before the big show.

## Weather



## Global Forecasts

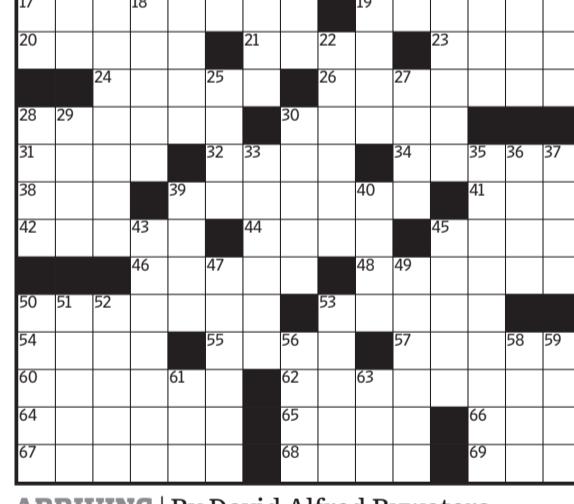
s=sunny; pc=partly cloudy; c=cloudy; sh=showers; t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	26	17	t	25	15	t
Anchorage	20	13	pc	18	11	pc
Athens	32	23	s	33	23	s
Atlanta	33	23	pc	31	23	pc
Baghdad	48	32	s	49	32	s
Baltimore	27	21	r	29	21	t
Bangkok	32	24	t	32	26	t
Beijing	24	20	t	31	22	pc
Berlin	22	14	pc	24	14	t
Bogota	20	10	c	20	10	c
Boise	39	21	pc	39	21	s
Boston	26	18	pc	25	20	r
Brussels	27	17	t	27	16	s
Buenos Aires	13	9	sh	15	11	r
Cairo	35	25	s	36	25	s
Calgary	29	14	pc	31	16	s
Caracas	30	25	pc	31	26	pc
Charlotte	35	24	pc	33	22	pc
Chicago	33	21	pc	28	17	pc
Dallas	34	25	t	35	25	pc
Denver	36	16	pc	32	15	pc
Detroit	31	21	pc	29	15	t
Dubai	42	32	s	44	32	s
Dublin	20	13	c	19	13	c
Edinburgh	20	14	c	19	11	c
Frankfurt	31	19	t	31	18	t

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	32	19	pc	32	19	pc
Hanoi	33	27	t	33	27	t
Havana	31	23	pc	32	23	pc
Hong Kong	31	26	t	30	27	t
Honolulu	30	24	pc	30	23	s
Houston	35	24	t	34	24	t
Istanbul	29	21	s	29	22	s
Jakarta	31	24	c	32	24	c
Johannesburg	20	4	s	17	5	s
Kansas City	32	21	s	31	18	t
Kansas City	44	32	s	45	32	s
Kiev	22	16	pc	21	16	pc
Lima	22	16	pc	21	16	pc
London	28	18	t	28	17	t
Los Angeles	31	20	s	35	22	s
Madrid	27	18	t	27	16	t
Manila	34	26	t	33	25	t
Melbourne	14	7	s	13	7	pc
Mexico City	22	12	pc	21	14	t
Miami	33	27	sh	32	27	pc
Milan	33	20	p	34	20	pc
Minneapolis	33	19	t	28	15	s
Montevideo	38	21	pc	36	21	pc
Montreal	29	20	pc	27	17	t
Moscow	18	9	r	15	9	r
Mumbai	31	27	sh	31	26	sh
Nashville	29	22	t	31	22	pc
New Delhi	34	27	pc	33	27	pc
New Orleans	32	25	pc	32	25	t
New York City	25	20	p	27	22	t
Orlando	33	23	t	33	23	t
Zurich	32	17	pc	31	17	pc

## AccuWeather.com

## The WSJ Daily Crossword | Edited by Mike Shenk



## ARRIVING | By David Alfred Bywaters

- |                              |  |   |
|------------------------------|--|---|
| Across                       | 26 *Bellicose speech?                        | 46 Wows 'em at Caroline's                                 |
| 1 Falstaff's young friend    | 28 *Undercarriage rust?                      | 48 *Coat closet array?                                    |
| 4 Domestic disturbance       | 30 Mesoamerican group                        | 50 *Bill from a kennel?                                   |
| 8 Book containing 150 poems  | 31 Some flow into el mar                     | 53 It can give you an edge                                |
| 14 It takes hops             | 32 Object of Lady Macbeth's hygienic efforts | 54 Floor space, e.g.                                      |
| 15 Norman native, informally | 34 Place to get clean                        | 55 Viscous stuff  |
| 16 Equally profound          | 38 Fuss                                      | 57 Expedition VIP   |
| 17 *Chair or stool, say?     | 39 *Cause of some drunken brawls?            | 60 Reach, as an age                                       |
| 19 Denounce abusively        | 41 Without exception                         | 62 Boundaries, and a hint to the puzzle's starred answers |
| 20 Tea variety               | 42 Don's dominion                            | 64 Ruffian  |
| 21 Detail                    | 44 No pro                                    | 65 Hibernia   |
| 23 Bus. sch. course          | 45 Water bearer                              | 66 Balinese or Burmese                                    |
| 24 Chanel's home             |  |   |

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

- |                                  |                                  |
|----------------------------------|----------------------------------|
| 67 Aussie gal                    | 28 Bone up                       |
| 68 Without a partner             | 29 Opera set in Egypt            |
| 69 Diva's hallmark               | 30 Eves' opposite                |
| <b>Down</b>                      | 33 Seek help from, in a way      |
| 1 Irish euro coin image          | 35 Rug, so to speak              |
| 2 Off the wind                   | 36 Brand for boxers              |
| 3 Like a good travel mug         | 37 Recklessly paid out           |
| 4 Ring star                      | 39 Seat at a hootenanny          |
| 5 1979 Robert Duvall miniseries  | 40 Shower package                |
| 6 Punch ingredients?             | 43 Begin, e.g.                   |
| 7 Tiropita ingredient            | 45 Like a new dad                |
| 8 "The flavor says butter" brand | 47 Silky goat                    |
| 9 Sacramento-to-L.A. heading     | 49 Persuasion                    |
| 10 Unfavorable                   | 50 Pacifies                      |
| 11 Big name in lenses            | 51 Heep of fiction               |
| 12 Pinkish Crayola color         | 52 Song-and-dance show           |
| 13 Paid out                      | 53 Circumvent                    |
| 18 Dins from dens                | 56 They're often dedicated       |
| 22 Try to hit                    | 58 Pass slowly                   |
| 25 __ deal!"                     | 59 "____ perpetua" (Idaho motto) |
| 27 Remarkable                    | 61 Business card abbr.           |
|                                  | 63 Through                       |

## Previous Puzzle's Solution



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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, July 6, 2017 | B1

Euro vs. Dollar 1.1333 ▼ 0.12%

FTSE 100 7367.60 ▲ 0.14%

Gold 1220.40 ▲ 0.21%

WTI crude 45.13 ▼ 4.12%

German Bund yield 0.470%

10-Year Treasury yield 2.334%

## Vantiv Makes Offer for Worldpay

The \$10 billion deal would create a giant payments processor; J.P. Morgan bows out

BY BEN DUMMETT  
AND MAX COLCHESTER

**Vantiv Inc.**, a major U.S. credit-card processor, has made an offer valuing U.K. payments group **Worldpay Group PLC** at \$10 billion, warding off a potential rival bid from global banking giant **J.P. Morgan Chase & Co.**

Worldpay and Vantiv said in a joint statement Wednesday that they had agreed to a deal in principle. J.P. Morgan, which had been looking at Worldpay, said it was "at a very early stage in considering" a bid following an invitation from the U.K. firm but decided against the move



BRENDAN McDERMID/REUTERS

**Payments businesses are under pressure to join forces. Vantiv, of the U.S., has until August to make a firm offer for U.K.'s Worldpay.**

without providing a reason.

The proposed Vantiv-Worldpay combination, if successful, would create a trans-Atlantic payments processing giant with a combined market value of more than \$20 billion.

Vantiv has until Aug. 1 to make a firm offer.

Payments businesses are under pressure to join forces in part to cut costs as greater regulatory scrutiny and rising competition from technology

startups squeeze the fees of incumbents. Worldpay rival **Nets AS** said last week it had been approached by suitors. In April, **Mastercard Inc.** received regulatory approval to acquire payment-technology firm **VocaLink Holdings Ltd.** for about \$920 million.

Vantiv helps merchants, banks and credit unions accept credit- and debit-card payments, as well as gift cards and online payments mainly in the U.S. By acquiring Worldpay, Vantiv would bolster its U.S. position and gain access to the U.K., markets where Worldpay processes millions of payments daily in stores, online and on mobile phones.

Vantiv and Worldpay said they have identified "substantial" opportunities for cost reductions, without disclosing how much or where they are.

They added that their talks remain ongoing, and cautioned

that there was no certainty any deal will be reached.

Vantiv is offering a share and cash deal that would value Worldpay at about 19% above its closing share price before Worldpay said Tuesday that it had received preliminary approaches from Vantiv and J.P. Morgan. In London trading Wednesday, Worldpay was down 8.8% at £3.72 (\$4.81).

Under the terms of the possible deal, accepting Worldpay shareholders would get 55 pence in cash and 0.0672 of a Vantiv share for each share held—giving them 41% of the combined group. Shareholders would also receive a cash dividend of 5 pence a share giving an overall value of £3.85 for each share held.

—Emily Glazer  
contributed to this article.

◆ Heard: Payments business receives \$10 billion jolt ..... B8

## CEO Job Isn't So Secure Anymore

BY VANESSA FUHRMANS  
AND JOANN S. LUBLIN

The bosses of America's biggest and best-known companies are learning a common lesson this year: The pay is great, but job security has rarely been shakier.

In June alone, the chief executives of General Electric Co., Uber Technologies Inc., Whirlpool Corp., Buffalo Wild Wings Inc., Perrigo Co. and Pandora Media Inc. resigned or announced their departures.

Among those, only Whirlpool's Jeff Fettig didn't have to confront investor pressure in the months before announcing he will step down.

Their exits follow an especially busy season of upheaval in corner offices. In the first five months of 2017, 13 companies with market values of more than \$40 billion installed new CEOs—including American International Group Inc., Ford Motor Co. and Caterpillar Inc.—according to an analysis for The Wall Street Journal by executive-recruitment firm Crist/Kolder Associates. That is more than double the CEO changes at mega-corporations in the same period last year.

*Increasing investor impatience is one reason the top job has become tougher.*

This chief executive churn reflects a broader reality for the country's business elite: An array of challenges—from increasing impatience on Wall Street and in boardrooms to a corporate landscape rapidly transformed by new technologies and rival upstarts—have made the top job tougher and more precarious than just a few years ago, top executives say. Even the biggest companies are vulnerable to shareholder disapproval and competitive forces that their size and stature once helped them fend off.

The typical CEO of a major company a decade ago resembled a ship captain "who could rally a group of people with a lot of process and procedures," said Deborah Rubin, a senior partner at RHR International, a leadership-development firm. "Today's CEO has to be much more like a race car driver," she added. "You have to do the sharp maneuvers."

Flush with more cash than ever, activist investors are pursuing bigger corporate prey. This year, they have helped push out the leaders of AIG, railroad operator CSX Corp. and aluminum-parts manufacturer Arconic Inc. Indeed, one-third of the 42 S&P 500 and Fortune 500 companies that replaced a CEO through May this year grappled with the demands of activist shareholders during the prior chief's tenure, Crist/Kolder's analysis found.

Through June 23, activists had launched nine campaigns targeting top management at U.S. companies this year—and the fastest pace since 2014, according to FactSet, a research firm.

Even GE CEO Jeff Immelt's disclosure that he would depart this summer came amid brewing tensions with activist investor Nelson Peltz over the conglomerate's languishing stock price.

Though the move was part of a long-in-the-works transition, Mr. Peltz's Trian Fund Management LP had recently stepped up pressure on GE to cut costs more aggressively and boost profits, setting off speculation about when the

Please see CEO page B2



JIM URQUHART/REUTERS

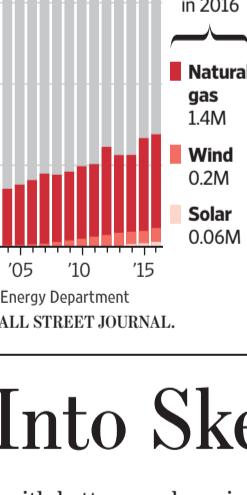
**Coal is giving way to natural gas and renewables for electricity generation. A coal-fired plant in Wyoming operated by PacifiCorp.**

## U.S. Power Feels Winds of Change

### Shifting Grid

Electricity from natural gas, wind and solar is becoming a larger share of the power-generation mix in the U.S.

5 million megawatt hours



BY RUSSELL GOLD

Not long ago, coal provided 98% of the electricity for the pulp-and-paper mills and ironore producers around the western edge of Lake Superior, as well as the port city of Duluth, Minn. That was 2005. Today, coal use is plunging, and by 2025 is expected to power just one-third of this region.

This is all part of a plan released last month by the local utility, **Minnesota Power**, to generate 44% of its electric power from renewable sources like wind farms. It also plans to build a new high-efficiency natural-gas power plant and has already shut down six of its eight coal-fired units.

This is an extreme example of the transition happening across the U.S. power grid. Natural gas, wind and solar power are expanding rap-

idly, while electricity generation from coal and nuclear reactors is shrinking.

The transition in the grid comes as the Trump administration has signaled it would like to help coal make a comeback, and last week President Donald Trump said he wanted to "revive and expand our nuclear-energy sector" and announced a policy review.

Because U.S. power demand isn't growing, promoting coal and nuclear would come at the expense of gas and renewables—and vice versa. This has set up a power-grid showdown: Will new federal policies bring back coal and nukes, or will gas and renewables continue to grab market share?

It isn't just small utilities like Minnesota Power that are changing their generating mix.

Duke Energy Corp., a large utility based in Charlotte, N.C.,

with power plants in five states, generated 7% of its power from gas and renewables in 2005. Last year, Duke got 32% from those new sources, and it expects the portion to hit 44% by 2026.

Last week, Oregon utility PacifiCorp, which is owned by Warren Buffett's Berkshire Hathaway Energy, filed plans to spend \$1.6 billion on wind and solar generation. These renewable projects are "the most cost-effective option to meet customers' energy needs over the next 20 years," the company said.

Overall, gas, wind and solar now meet 40% of U.S. power needs, up from 22% a decade ago, according to the U.S. Energy Information Administration.

As gas and renewables have grown, coal, the mainstay of

Please see POWER page B2

## Tesla Runs Into Skepticism About Its Targets

BY TIM HIGGINS

Tesla Inc. shares took a beating on Wednesday after several analysts questioned whether customer demand for the company's two electric vehicles is waning as it begins producing a cheaper sedan.

The Silicon Valley auto maker's shares were off 7.3% at \$327.00 in afternoon trading. Through last week, they had gained about 69% for the year on enthusiasm for the coming Model 3 sedan, which is central to Tesla's plan to sharply increase overall sales.

Tesla on Monday reported sales of its Model S cars and Model X sport-utility vehicles were lower than analysts expected because of a supply

issue with battery packs, raising new fears the company will have trouble meeting ambitious production targets for the Model 3.

Goldman Sachs analyst David Tamberrino reiterated a sell rating on Tesla's stock, writing in a note to clients that demand for the Model S and Model X vehicles appears to be plateauing after production exceeded second-quarter sales. "We see potential for downside as the Model 3 launch curve undershoots the company's production targets," he said.

Toni Sacconaghi, an analyst for Sanford C. Bernstein, said Tesla's sales report "raised more questions than answers" and asked why investors weren't told sooner about the

"severe production shortfall" of battery packs, which Tesla said caused production to average about 40% below demand.

"If production was so poor in April and May for its 100 kWh battery, why didn't Tesla executives discuss the issue on the company's Q1 earnings call on May 3?" Mr. Sacconaghi said in a note to investors.

Tesla spokeswoman Sarah O'Brien didn't respond to a request for comment.

Tesla said it sold about 22,000 Model S and Model X vehicles in the second quarter, up about 53% but short of the

Please see TESLA page B2

◆ Heard: Reality bites for Tesla shares. .... B8



Analysts are questioning Tesla's sales and production goals.

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## POWER

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American electricity generation for decades, the past few years have been a bloodbath. Three of every 10 coal generators has closed permanently in the past five years.

Nukes, another mainstay for decades, are imperiled, too. By 2023, there may be 54 nuclear-power plants, down from 65 a decade earlier. Only new state subsidies can keep more from closing, plant operators argue.

Coal and nuclear plants have provided so-called base-load power for decades, running around the clock, to ensure a reliable stream of electricity. But as those sources of power lose ground to gas and renewables, some worry the grid could become unstable.

Natural gas has been the main agent of change, mostly because the advent of hydraulic fracturing unlocked vast new natural gas reserves in the U.S., creating very low prices for the fuel.

"That is what is making coal go away," said Pat Vincent-Collawn, chairman and chief executive of PNM Resources Inc., a New Mexico utility. It expects coal to drop from 51% of its generation last year to 41% next year.

In addition to inexpensive and abundant gas, new power plants are much more efficient than they were even five years ago.

"Not only have we gotten better at getting the natural gas molecule out of the ground, but we have gotten much better at getting as much electricity out of that molecule as possible," said Josh Rhodes, a research fellow at the University of Texas Energy Institute.

Until a few years ago, gas

plants typically operated about 30% of the time, turning on and off as the grid needed power. Today, they run more than half the time. Many are on virtually nonstop, taking over the role once played by coal and nuclear.

Ben Fowke, chairman and chief executive of Xcel Energy Inc., a large utility that covers parts of Colorado, Minnesota and six other states, says wind and solar aren't responsible for the demise of coal and nuclear plants.

"I hope it doesn't come out that renewables are to blame," Mr. Fowke said. "Wind is saving our customers money." For now, renewable energy enjoys a federal tax subsidy.

Few utilities chiefs agree the administration should step in to prop up coal. There is more agreement that nuclear power plants should be saved from premature retirement.

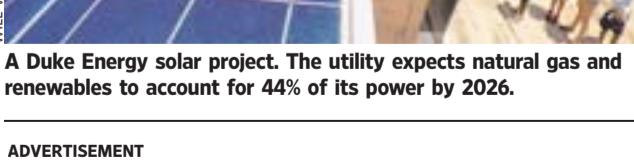
Nukes, which have no carbon emissions, are struggling to compete with low wholesale power prices brought on by inexpensive natural gas and renewable generation. Low power prices are great until baseload assets are on the line, said Joe Dominguez, executive vice president of governmental and regulatory affairs for Exelon Corp.

"Policy makers need to step in and address that," he said.

For Minnesota Power, a mixture of a lot of wind, some solar, hydro power from Canadian dams and a state-of-the-art gas plant will make it easier to provide reliable electricity, even with the loss of so much coal.

"The combination of flexible natural gas and renewables really work well together," said Julie Pierce, Minnesota Power's vice president of strategy and planning.

—Dan Molinski contributed to this article.



A Duke Energy solar project. The utility expects natural gas and renewables to account for 44% of its power by 2026.

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## BUSINESS & FINANCE

# Tech Gets Taught Diversity

BY KELSEY GEE

As a slew of Silicon Valley companies confront accusations of unfair treatment of women and minorities, Stanford University's Graduate School of Business is trying to help would-be entrepreneurs create more conscientious companies.

The 10-week course is the first of its kind at the nation's

most selective

BUSINESS EDUCATION

M.B.A. program

and prime breeding

ground for tech startups.

Students enrolled in "Building Diverse and Inclusive Organizations,"

slated to launch this spring,

will examine research on how

to prevent bias from creeping

into job descriptions and managers' feedback—and how to

promote stronger feelings of belonging, which can enhance employee performance and retention of women and underrepresented minorities.

Students will also review case studies of companies' efforts to improve diversity with expanded parental leave and job promotion policies and critique recruitment and retention reports from firms like Facebook Inc., Apple Inc. and Procter & Gamble Co.

"We're at a tipping point, as people begin to realize that inclusion has to be built into the fabric of the company," says Fern Mandelbaum, a Silicon Valley venture capitalist leading the course.

Though other courses at Stanford touch on how diversity impacts a company's business performance, this is the first specifically evaluating the policies of startups and early-



Venture capitalist Fern Mandelbaum is leading a 10-week course at Stanford's business school.

stage companies.

Gender and racial inclusivity has become one of Silicon Valley's most intractable challenges. Facebook and Alphabet Inc.'s Google have been locked in public battles over allegations of discriminatory pay practices, which the companies dispute. The sector's treatment of women has attracted more scrutiny in recent weeks, as big investors in

Uber Technologies Inc. demanded the resignation of Chief Executive Travis Kalanick following allegations he presided over a workplace permissive of sexism.

Although companies have committed to stronger recruitment and retention efforts, the annual data that firms like Twitter Inc. and Apple share about the gender and racial makeup of their workforces suggest slow progress.

Sluggish improvement and

the string of recent scandals have prompted executives and aspiring founders to seek out new strategies to diversify workforces. Stanford business school's associate dean for academic affairs, Sarah Soule, says students have also been asking for more guidance on the issue in recent years.

"There's been a lot of focus on the numbers by companies that say they care about diversity, without those numbers changing," Ms. Mandelbaum says.

She has been on the front lines of Silicon Valley's efforts to change. In the past few years, she has spent less time in the office of Vista Venture Partners, the Palo Alto, Calif., firm she co-founded, as her role has grown as a corporate diversity coach. She also teaches other classes at Stanford, including "Entrepreneurship from Diverse Perspectives."

tives" and conducts workshops on creating supportive work environments.

During a two-week pilot of the new course in May, speakers like Pat Wadors, LinkedIn Corp.'s chief human resources officer, and Rachel Williams, Yelp Inc.'s head of corporate recruiting, led case study discussions. Co-teacher Joelle Emerson, founder of diversity consultancy Paradigm, invited Candice Morgan, the head of diversity at Pinterest Inc. and a current client, to speak about how the company trains managers to minimize implicit biases about job candidates and employees.

The course comes as Stanford—which enrolled 41% women and 29% minorities in the M.B.A. class last year—and other top business schools take steps to diversify the makeup of their own programs, administrators say.

## CEO

Continued from the prior page  
longtime CEO might leave.

Mr. Immelt said he decided in 2013 that he would step aside sometime this year after 16 years at the helm, and GE board officials have said Trian played no role in the leadership change. "My predecessor did it for 20 years—it's not a 20-year job today," the 61-year-old Mr. Immelt said last week at the Aspen Ideas Festival in Colorado.

J. Crew Group Inc. and Macy's Inc., two such retailers that have struggled to adapt to consumer shifts created by online shopping and upstarts with more nimble supply chains, have recently appointed new CEOs. Both of their predecessors, J. Crew's Mickey Drexler and Macy's Terry Lundgren, are remaining chairmen of their companies.

Likewise, Ford's ouster of Mark Fields after less than three years in its highest job was the starker sign yet of



Travis Kalanick resigned as chief executive of Uber last month.

how tech players such as electric-car maker Tesla Inc. and Alphabet Inc.'s autonomous-car unit Waymo threaten the traditional auto sector. Mr. Fields had been groomed for years to take Ford's helm, but his fellow board members swiftly replaced him after he failed to persuade Wall Street he was reinventing the car maker quickly enough. Ford said Mr. Fields, who retires in August, wasn't available to comment.

"That's just not enough time to do that kind of job" required at Ford, said Bill George, former chief executive of Medtronic PLC who is now a professor at Harvard Business School. Some CEOs Mr. George speaks with, he said, are asking themselves "How much time do I have?"

Corporate boards increasingly reply: Not much.

"In boardrooms, sentimentality is officially dead," said Constantine Alexandrakis,

maker to abandon the conventional car engine, in a challenge to Tesla.

Tesla made about 84,000 fully electric cars last year, and Chief Executive Officer Elon Musk is depending on the Model 3, which will sell for about \$35,000, to help bolster annual production to 500,000 next year. The target seemed to assume combined production of 100,000 Model S and Model

X vehicles.

The Model S, which typically sells for \$100,000, went into production in 2012. Model X went on sale in 2015 and was plagued by problems, which Tesla addressed on Monday. "It should also be noted that production quality and field reliability of the Model X, for which Tesla has been fairly criticized, have improved dramatically," the company said.

Continued from the prior page  
salary negotiations executives discount the value of uncertain future awards they barely understand.

Royal Bank of Scotland is one reformist. In May it introduced a new compensation plan that required its bosses to hold a lot more shares and keep stock awards for a minimum of four years.

The move at the bank, still controlled by the U.K. government after a financial-crisis bailout, opened up a trans-Atlantic battleground over the philosophy of executive pay. U.S. governance adviser Institutional Shareholder Services recommended shareholders vote against the new plan on the basis that it created "greater certainty of outcome." Stock awards were easier to get, even if the maximum payout was reduced.

Norges Bank Investment

Management countered with a statement of support for the policy. The manager of the world's largest sovereign-wealth fund said in April that requiring bosses to be long-term shareholders was an "underutilized strategy."

The RBS proposal eventually passed with 96% of votes cast.

Payment in shares held in trust for many years makes the performance of long-term stockholdings, rather than stock awards or options, the key form of variable compensation for bosses. Share prices can't, over a period of years, be gamed in the way the metrics that trigger LTIP payouts can.

They can go down as well as up, introducing a symmetric variability that gives executives with big shareholdings a powerful incentive to succeed. And they encompass the other performance metrics that currently trigger LTIP payouts: cost-cut-

ting, top-line growth and other targets will all eventually be reflected in the share price.

Not all reforms have been successful: Last year Weir Group, a Scotland-based pump maker that suffered in the mining downturn, tried to introduce smaller but more-certain pay packages. Shareholders voted down the change, which some felt

were opportunistic: Executives' stock awards hadn't paid out in prior years. Companies need to be sensitive about introducing reforms after a pay slump.

In general, however, the fad for stock awards with complex performance triggers has gone far too far. Executive pay should be structured to turn bosses into long-term investors.

## Breakdown

Composition of executive pay for S&P 500 companies



## BUSINESS NEWS

# Drugmakers Rethink China

Western companies turn to treatments for deadly diseases prevalent in country

BY PREETIKA RANA

SHANGHAI—Big Pharma is investing billions of dollars to tackle deadly diseases prevalent in China, developing new drugs to combat a lineup of top killers that differs from that in the West.

Swiss drugmaker Novartis AG is testing a molecule to combat a rare head and neck cancer widespread in southern China. American rival Johnson & Johnson is creating innovative drugs to tackle lung cancer and hepatitis B, endemic in China. And France's Sanofi SA is researching a new way to treat liver cancer—one of the most common forms of cancer here—despite early setbacks.

The move is a switch from a decades-old strategy of selling existing drugs to China's billion-plus people, and is aimed at strengthening a foothold in the world's second-largest drug market, which has long thwarted Western companies.

Lung, liver and stomach cancers are among China's top killers, according to the World Health Organization, accounting for more than a million deaths every year. Those diseases kill hundreds of thousands of people in countries like Japan and South Korea too, offering an opportunity for drugmakers to sell China-tailored treatments in neighboring markets. Alzheimer's and other forms of dementia are among the top causes of deaths in the U.S. in comparison.

Large unmet needs aren't alone in driving companies to discover new therapies here. Regulatory hurdles have made it tough for foreign firms to quickly launch their newest treatments in China, largely



Global pharmaceutical firms are investing more in China-based research. A Novartis lab in Shanghai.

because they are discovered overseas.

Recent corruption scandals also have made it harder for companies to market older drugs that are approved for sale here. A Chinese court fined GlaxoSmithKline PLC nearly \$500 million in 2014 after it found the U.K.-based company's local unit guilty of bribing doctors. Novartis last year agreed to pay \$25 million to settle a U.S. Securities and Exchange Commission investigation into bribery allegations in China.

Western firms found China's lucrative market slipping away, and in recent years many began shifting from bringing in existing drugs to discovering new cures here. J&J in 2012 opened a discovery lab in Shanghai, and is now working on new medicines for lung cancer, blood cancers and hepatitis B. Hepatitis C is more common in the U.S. The lab is planning to test its first breakthrough on patients over the next year, and expects the compound to emerge from its lung cancer or hepatitis B programs.

Novartis injected \$1 billion between 2009 and 2014 to convert an existing Shanghai

facility into a new discovery center. In October, it began testing its first China discovery—a molecule to treat nasopharyngeal cancer—on Chinese, Korean and Taiwanese patients.

En Li, Novartis's research head in China, said the company would soon test another compound, to treat liver fibrosis. His team of 600 scientists is running at least a dozen other projects aimed at finding new treatments for diseases such as lung and stomach cancer.

Until a few years ago, China lacked the manpower needed for drug discovery, a process that involves searching for compounds with medicinal potential. But a government program encouraged thousands of Western-trained Chinese scientists to return over the past decade, prompting Big Pharma to deepen research.

Western firms have long contracted Chinese factories to manufacture their drugs inexpensively. Likewise, the cost of drug discovery is cheaper in China, meaning companies will increasingly use labs here to advance their global pipeline, according to Vikram Kapur, who leads Bain & Co.'s

health-care practice in Asia.

J&J and Novartis say their discoveries, while targeted at China's needs, will also be tested on patients in the West so they could be sold there if needed. Lung cancer, for example, is widespread in the U.S. and the U.K.

Not every project will produce a new discovery. Sanofi was preparing to test a new molecule to treat liver cancer some three years ago, but the program was shelved before it could be tried on patients, said Alex Zhang, who oversees the company's research activities in China.

Instead of developing new molecules in its own lab, Sanofi is striking partnerships with academia in China. Mr. Zhang said the company is running roughly 10 projects with Chinese universities, focused on finding treatments for liver cancer, hepatitis B and diabetes.

The collaborations are still in early stages, and he doesn't expect to see results before two years. The U.K.'s AstraZeneca PLC has also joined with universities in China, and is creating new drugs for stomach cancer and chronic kidney disease, among others.

## Chapter 11 for Jeans Maker

BY PATRICK FITZGERALD

Jeans maker True Religion Apparel Inc. filed for bankruptcy protection on Wednesday, the latest in a string of Southern California garment sellers to succumb to changing consumer shopping habits that are transforming the retail industry.

Los Angeles-based True Religion filed for chapter 11 protection after its private-equity owner, TowerBrook Capital Partners, struck a deal with lenders on the terms of a debt-for-equity swap that will erase \$350 million in debt from the company's books.

Chief Executive John Ermatinger said the restructuring deal will allow True Religion to keep its doors open while spreading its digital footprint as the brand looks to survive in a challenging retail environment.

In addition to cutting three-quarters of its debt of \$535 million, the company said it would use bankruptcy laws to close or consolidate underperforming stores and, where possible, renegotiate leases.

Under the terms of a restructuring agreement filed with the court, lenders including funds managed by Goldman Sachs Group, Waddell & Reed Financial Inc., Farmstead Capital Management

LLC and others will swap \$386 million in top-ranking loans for about 90% of new equity in a reorganized True Religion. Junior creditors and existing shareholders are eligible for small distributions of equity in the reorganized company, provided they vote for the plan.

Founded in 2002, True Religion sells designer jeans and other apparel at 140 True Religion and Last Stitch retail

stores. For its most recent fiscal year, the company generated \$369.5 million in revenue.

But True Religion's sales have been declining for several years, according to court papers, as customers moved online and away from physical stores. Premium denim sellers such as True Religion have been losing ground to fast-fashion and low-price apparel retailers as the company's new product designs failed to resonate with consumers.

The company took steps to stanch the red ink, closing 30 stores and cutting its work-

force in recent years while redirecting resources to its online channel. But it hasn't been enough, as the business posted a \$78.5 million loss last year.

Southern California garment sellers and manufacturers, which employ more people making and designing jeans and jackets than other pockets of the country, have been hit hard as retailers shutter stores at a record pace.

In the past two years, American Apparel Inc., surfwear pioneer Quiksilver Inc. and teen-friendly retailers Wet Seal LLC, Nasty Gal Inc. and Pacific Sunwear of California Inc. have filed for bankruptcy. In recent months, Los Angeles-based teen retailer Papaya Clothing and menswear business Bachrach have sought chapter 11 protection.

True Religion has lined up a \$60 million bankruptcy loan to fund its business while under chapter 11 protection, which will allow the company to continue to pay its vendors and a workforce of approximately 1,900 employees.

The company's legal advisers include Wachtell, Lipton, Rosen & Katz and Pachulski Stang Ziehl & Jones. The company's financial adviser is MAEVA Group LLC. Judge Christopher Sontchi has been assigned the case, number 17-11460.

*The swap will erase \$350 million in debt from True Religion Apparel's books.*



True Religion Apparel's owner has agreed with creditors on the terms of a debt-for-equity swap.

# U.S. Laptop Ban Lifted for 2 More Foreign Airlines

BY ROBERT WALL

LONDON—Emirates Airline and Turkish Airlines said their passengers were cleared to again use laptops and other electronics on U.S.-bound flights, further scaling back a ban Washington put in place on some flights over concerns about terrorism.

Emirates Airline, the world's largest international carrier by traffic, said on Wednesday that the restrictions on the use of laptops, tablets and other devices that had been in place since March were lifted "effective immediately."

The U.S. government Sunday began rolling back the ban when it cleared passengers at Etihad Airways to use electronic gadgets again on U.S.-bound flights after it audited security procedures at the carrier's Abu Dhabi hub.

The U.S. Department of Homeland Security in March had imposed restrictions on 10 airports across the Middle East and Africa and had threatened to roll them out more widely unless airports improved security checks.

Washington imposed the ban amid concerns terrorists were trying to smuggle explosives inside a laptop or tablet to get past security and set off an explosion once a plane was aloft. The department required passengers to either check in their devices or leave them at home.

Last week, Homeland Security Secretary John Kelly said the ban could be widened to airports that fail to adopt more stringent security, including enhanced passenger screening.

Airports already subject to

the restrictions could see those lifted in return for closer checks.

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.

Opponents of widening the restrictions, including the International Air Transport Association that represents more than 200 airlines and the European Union, were concerned it could dent demand for travel and that storing a large number of electronic devices in the cargo area of planes posed safety concerns. Lithium batteries used in many of the devices pose a fire risk.

Emirates Airline said it had "been working hard in coordination with various aviation stakeholders and the local authorities to implement heightened security measures and protocols that meet the requirements of the U.S. Department of Homeland Security's new security guidelines for all U.S.-bound flights."

Emirates Airline, like rivals Etihad and Qatar Airways, focus much of their activity on ferrying passengers via their Persian Gulf state gateways between cities in Europe and the U.S. and Asia, the Middle East and Africa.

The electronics ban hit their business as lucrative business travelers considered defecting from the airline, flying via other hubs to avoid having to check in their gadgets.

Turkish Airlines on Wednesday also allowed passengers again to use electronics on its U.S.-bound flights.



## Judge Warns Shkreli on Speaking About Trial

BY REBECCA DAVIS O'BRIEN

with reporters about witnesses and evidence presented so far.

A federal judge in Brooklyn told Martin Shkreli Wednesday to stop speaking about his ongoing securities-fraud trial in the vicinity of the courthouse after prosecutors sought a gag order to stop what they called a "campaign of disruption" by the former pharmaceutical executive.

The judge's directive came in court, without the jury present, after prosecutors from the Brooklyn U.S. attorney's office revealed that the government and lawyers for Mr. Shkreli had been in plea discussions up until weeks before the trial began on June 29.

A formal plea deal expired in April, Assistant U.S. Attorney Jacqueline Kasulis told the court. Mr. Shkreli's lawyer, Ben Brafman, said he was "ethically obligated" as a lawyer to seek a resolution, but that his client wasn't interested in a plea.

Mr. Shkreli is on trial facing charges of conspiracy and securities and wire fraud stemming from his management of two hedge funds and a publicly traded pharmaceutical company. He has pleaded not guilty and denied wrongdoing.

In a motion for a gag order filed Monday, prosecutors cited the activity of a Twitter account that appeared to be run by Mr. Shkreli, as well as an unsupervised visit Mr. Shkreli made Friday to an overflow viewing room in the courthouse, where he spoke

to the first witnesses.



While the charges against Mr. Shkreli aren't related to his most notorious actions—jacking up the price of a drug used to treat AIDS patients and spending \$2 million on a Wu-Tang Clan album—his public persona has informed nearly every aspect of the trial, from jury selection to the first witnesses.

## TECHNOLOGY

WSJ.com/Tech

PERSONAL TECHNOLOGY | By Geoffrey A. Fowler

# The iPad Gets Serious About Work



What my iPad could use is a good mouse.

I'm only half joking.

With a big iOS software update now in public beta test, the iPad is at long last capable of doing serious work. In iOS 11, you'll be able to run multiple windows, drag and drop from one app to another, and browse your files in one place. You can do things that used to require a laptop.

You can also expect to get confused. Like a guy taking his first yoga class, my fingers twisted and wobbled into this new way to work. Over a week, my arm got tired of reaching over to the screen of my 10.5-inch iPad Pro to use all the new finger-operated tricks. More than once, I gazed longingly over at my Apple mouse.

Ever since Steve Jobs said the iPad would usher in the "post-PC era," the question that has dogged the iPad is: Can it replace a laptop? Today, as iPads outsell Macs in units, I think the better questions are: What is an iPad good for? And when are you still better off using a laptop?

Apple causes confusion by blending some, but not all, laptop and tablet capabilities. You operate a Mac with a horizontal keyboard, a mouse and a trackpad—but never fingers on the upright screen. The iPad now comes with a \$160 keyboard that makes the touch screen sit up like a laptop—but there's no horizontal mouse or trackpad to save your hands from constantly reaching up. Microsoft's rival Surface Pro machines have their own compromises but do it all, with touch screens and trackpads, plus software that can run tablet and laptop apps alike.

The iPad's slim hardware



A big iOS software update now in public beta test allows the iPad to do laptop-like things.

has some clear advantages for people on the move. It's always on, no waiting around for boot-up. The battery generally outlasts ultraportable laptops, and now its processors can even handle complicated tasks like photo editing. The 10.5-inch iPad Pro, which starts at \$650, gets closer to an ideal balance of portability and screen real estate, and leaves space for a less-cramped keyboard.

What's really held back the iPad is its software, which has worked mostly like a stretched-out iPhone. iOS 11, coming this fall to most iPhones and iPads purchased in 2013 or later, strikes its own path for the iPad. It finally allows Apple and app makers to explore the productivity potential of the iPad's big touch screen.

Some new iPad gestures in iOS 11 become less annoying when the iPad is lying flat or held in your hands, instead of connected to the keyboard. And Apple can still change

iOS 11 a bit based on feedback from users of the beta version. Here's a tour of the iPad's new skills—and where it still struggles to work fast.

The Dock is where you keep your most important apps on a Mac, and now there's one on the iPad. Swipe up from the bottom of the screen to pull it up and over whatever app you've got open. You can keep adding apps—I squeezed in 16!

What's useful is that you no longer have to keep going back to the home screen to open apps. But when you're using the iPad with a keyboard, it still involves a lot of reaching up to the screen. Your best bet is to learn a keyboard shortcut: Cmd+opt+.

The iPad now gets closer to dashboard experience of laptops, with the ability to make multiple apps fully functional at the same time—if you can figure out how.

The most basic way to multitask is Split View:

Launch one app, then pick another out of the dock and move its icon toward the edge of the screen. You have to hit just the right spot—not far enough, and it won't stick. This mode requires participation by app makers, which is limited today.

Another option, called Slide Over, lets one app hover over another. Launch an app, then pick another out of the dock, dropping it not quite so close to the edge. This took practice, and I never found a convenient way to make the floating app go away.

There isn't a way to turn an incoming notification—say, an email from your boss—into a Slide Over app. And with the exception of Safari windows, you can't run two of the same app side by side. Little stuff like that means more finger yoga to accomplish tasks that take only a slight hand movement on a Mac.

This may be the most useful iPad skill yet: Now you

can move things from one app to the next. Say you want to email a photo: Tap the image you want to send, then drag it over to your email app and drop it in a new message. It also works with text and files.

You can drag multiple things at once: Tap one photo, then use a different finger to tap on another, and they make a stack that you can drop as one.

Is this easier than holding command and selecting multiple things with a mouse or trackpad? No. But it is a clever use for the iPad's multi-touch screen.

On a laptop, you know where all your stuff is. But it was a big mystery on the iPad until now. iOS 11's Files app shows you what you've got stored locally, as well as in the cloud.

Combined with drag and drop, this lets you organize your stuff into nested folders and even tag it.

Apple says even third-party services like Dropbox will be coming to this app. So your iPad could actually become the easiest way to search, tag and browse files if you've got them spread all over the place.

Apple has given its apps a boost, and the best example is Notes. Now if you tap the lock screen with an iPad Pro pencil, up pops the Notes app for taking your big ideas and doodles.

Another trick: tap an icon in the lower right corner to take photos of paper documents.

Notes will act like a scanner app and fix lighting and stretch them out to look great.

Is this easier than taking a photo on your phone and sending it to your computer? Actually, yes! And that's still where the iPad shines most: doing things you just can't on a laptop.

## Baidu's CEO Goes Driverless In Beijing

By ALYSSA ABKOWITZ

BEIJING—Self-driving cars may be the future of personal transportation, but they are still forbidden on the streets of China's capital—as Baidu Inc. Chief Executive Robin Li was reminded Wednesday.

The tech executive took a ride in one of his company's self-driving prototypes to Baidu's artificial-intelligence developer conference at the National Convention Center. Chinese news organizations and social-media commentators quickly pointed out that driverless cars aren't allowed to operate on public streets.

Baidu, which operates China's most popular internet search engine, is hoping to leverage its technology in mapping and artificial intelligence into an autonomous vehicle capable of navigating city roads and highways by 2020.

At the developer conference on Wednesday, Baidu opened its Apollo open-source platform for self-driving software so developers can begin downloading source code.

"Apollo can be the Android in the car industry," Baidu President Qi Lu said. "In the long term, our innovation, capability and speed will be better than a closed system."

Mr. Qi also said the self-driving-vehicle platform now has partnerships with more than 50 entities, including chip maker Nvidia Corp., Dutch navigation maker TomTom, Intel Corp., Microsoft Corp. and Ford Motor Co.

Baidu's move to open-sourcing its software and forging partnerships might help it catch up to its competitors, analysts said. "It definitely gives Baidu more of a chance to succeed," said Kitty Fok, managing director of research firm IDC.

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## FINANCE & MARKETS

# U.S. Stocks Steady After Fed Minutes

By RIVA GOLD  
AND AMRITH RAMKUMAR

U.S. stocks and bonds were little changed Wednesday following the release of minutes from the Federal Reserve's June meeting that showed officials readying plans to start gradually shrinking the Fed's balance sheet in coming months.

**WEDNESDAY'S MARKETS** The Dow Jones Industrial Average fell 1.10 points, or less than 0.1%, to 21478.17. The S&P 500 rose 0.15% and the Nasdaq Composite added 0.7%. The yield on the benchmark 10-year Treasury note ended at 2.334%, little changed from where it was

before the Fed minutes release and below Monday's 2.352% closing level. Yields fall as prices rise.

In Europe, the Stoxx Europe 600 rose 0.2% to 382.99.

Investors have focused on global central-bank signals in recent trading sessions, as some officials signal they might be ready to ease off on massive stimulus programs.

Wednesday's minutes showed that the Fed is divided on when to start shrinking its \$4.5 trillion portfolio of assets. Some officials preferred to announce the beginning of the process within the next few months, while others urged more patience.

Technology firms gained Wednesday after coming un-

der pressure in recent weeks. Many investors are worried that its outperformance has left it susceptible to a sell-off. The S&P 500's tech sector has been the index's best performer this year and was up 1.1% Wednesday.

Semiconductor stocks led the sector higher after chip maker **Nvidia** announced an artificial-intelligence technology partnership with Chinese internet giant **Baidu**. Nvidia added 2.7%, while **Advanced Micro Devices** rose 8.5% and **Micron Technology** gained 4.7%. On Monday, the Semiconductor Industry Association said chip sales grew 22.6% in May compared with the same month a year prior, the largest such increase since

September 2010.

With investors piling into and out of some of the biggest U.S. tech stocks recently, they will likely continue favoring companies with good cash flow, said Laurie Kamhi, managing director and partner of LCK Wealth Management at HighTower.

"There's going to be a huge disparity in the winners and losers," she said.

Analysts expect tech companies will help lead earnings growth in the S&P 500 for the second quarter, according to FactSet. Reporting season picks up in the coming weeks.

Falling oil prices weighed on energy stocks. U.S. crude-oil prices ended an eight-session winning streak, the lon-

gest rally since 2010, settling down \$1.94 a barrel, or 4.1%, to \$45.13. The S&P 500 energy sector was the index's worst performer, down 1.3% in late trading. Oil entered into a bear market June 20 amid oversupply concerns, before prices rallied at the end of the month.

Business surveys in the eurozone released Wednesday showed the bloc's economic recovery likely accelerated in the second quarter of 2017, adding to expectations for the European Central Bank to wind down its massive bond-purchase program.

Benoit Coeuré, an ECB executive board member, said Wednesday the central bank hadn't yet discussed making changes to its policy.

But many investors continue to bet on tighter policy ahead.

"We've seen decent improvement across the bloc," said Alan Wilson, investment manager at State StreetGlobal Advisors. "The ECB are tiptoeing toward the edge of their position," he added, saying he expects sovereign-bond yields to continue to edge higher across Europe and the U.S. as central bankers align their policies with a brightening global economy.

Earlier, Asian markets mostly climbed following a bruising Tuesday session. Japan's Nikkei Stock Average ended up 0.2%, while South Korea's Kospi rose 0.3% and Hong Kong's Hang Seng Index rose 0.5%.

## China Firm Hits Bumps in Buying Spree

By CAROLYN CUI  
AND ESTHER FUNG

Chinese conglomerate **HNA Group** Co. purchased a fledgling San Francisco-based online travel firm in late 2015, part of a multibillion-dollar buying spree that earned it a reputation as one of China's most aggressive overseas acquirers.

Just over a year later, that travel firm, Travana Inc., has filed for bankruptcy amid a raft of litigation—a sign of HNA's broader struggles managing its acquisition spree.

Travana, in which HNA invested \$27.5 million, faced "insurmountable obstacles" and "the decision to cease operations was in the best interests of all stakeholders," according to an HNA statement. Travana's technology didn't provide the expected competitive edge, its former chief executive overspent and the company faced lawsuits from a rival alleging it had stolen intellectual property, Travana's board said in court filings.

Travana has denied stealing the rival's intellectual property. The former CEO, Jason Chen, denied that he overspent.

A group of Travana creditors led by its former chief executive claim the firm's failure is the fault of HNA, and are petitioning a San Francisco court to order an investigation of the circumstances leading to its bankruptcy. The creditors allege HNA and one of its appointees to Travana's board had engaged in "self-dealing, corruption, wrongdoing and bad faith" that caused the business to fail, and that HNA shut down Travana to hide that wrongdoing, according to the June 15 petition. Travana at one point had about 140 employees globally including half of that in the U.S.

"HNA stands to gain nothing from the liquidation process, which is being conducted in an orderly fashion for the benefit of Travana's creditors," HNA said in a statement.

Charles B. Mobus, a different HNA appointee to Travana's board who is a managing partner at New York banking firm Benedetto, Gartland & Co., said the allegations in the petition are without merit. Mr. Mobus sits on the board of several other companies acquired by HNA and says he has worked with HNA for more than 20 years. Benedetto, Gartland & Co. specializes in raising capital for private-equity firms and providing other investment banking services.

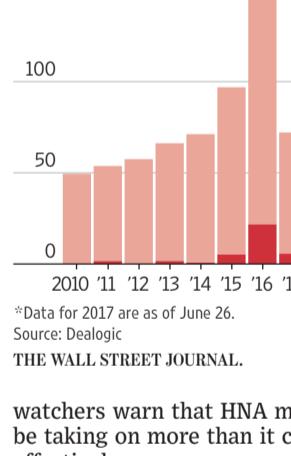
Closely held HNA Group had humble beginnings as an airline in China's southern Hainan province, and once attracted billionaire George Soros as an investor. In recent years it has been on an acquisition tear. Largely via overseas acquisitions, its assets have more than quadrupled since 2010 to about \$146 billion, according to HNA's website. It has announced about \$33 billion in foreign acquisitions since 2015, according to Dealogic, including a \$6.5 billion purchase of 25% of **Hilton Worldwide Holdings** Inc. and a \$6 billion deal for electronics distributor **Ingram Micro** Inc.

But Chinese regulators have recently started to probe the high debt levels of HNA—which had about \$104 billion in debt at the end of 2016—as well as other aggressive overseas investors. Some industry



HNA, which had humble beginnings as an airline in Hainan, now has about \$146 billion in assets. Chief Executive Adam Tan.

### Buying Spree



\*Data for 2017 are as of June 26.

Source: Dealogic

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watchers warn that HNA may be taking on more than it can effectively manage.

"It's stretching their management bandwidth," said Edward Tse, chief executive of Gao Feng Advisory Co., a Shanghai-based consulting firm.

"They are dabbling in financials and logistics. It's getting farther from what they are familiar with."

In previous statements, HNA said it "has built up a strong global business with world class tourism, logistics and financial services assets. The Company is in a sound financial and operational situation." HNA declined to comment beyond the statement.

Another one of HNA's earlier investments in the U.S. also appears to be struggling. At Nicklaus Club, a Monterey, Calif.-based golf club that HNA took over in 2015, the Chinese company insisted on approving all expenses, according to a person who worked there.

HNA took seven months to approve a \$150,000 bill to fix a broken well on the course, causing the grounds to dry and many members to leave, according to a member and a former manager.

Some Nicklaus employees' insurance plans were canceled after HNA stopped contributing to premiums, helping spur several labor complaints against HNA, according to the former manager of the club.

HNA also was delinquent on a \$15,000 payment to the homeowners' association that the golf club shared with a residential compound, according

to minutes of the HOA's April meeting.

HNA declined to comment on the Nicklaus disputes.

HNA's involvement with Travana started in early 2015, when HNA Chief Executive Adam Tan was introduced to an entrepreneur, Mr. Chen, according to a person familiar with the situation. Mr. Chen, who is a grandson of Chen Cheng, a late top politician in Taiwan, was seeking funds to help rescue the assets from a bankrupt online travel firm that he had invested in, according to the creditors' court petition to launch an investigation into Travana's bankruptcy.

He proposed to start a new company, which became Travana, using the assets from his previous bankrupt firm, according to the filings and the creditors' court petition.

Messrs. Tan and Chen met at HNA's headquarters in Beijing in May, and later that month, Mr. Chen went to Hangzhou and met with HNA's chairman Wang Jian and Mr. Tan at Shangri-La Hotel near the scenic West Lake in the city, according to the person familiar with the matter.

HNA agreed to invest as much as \$200 million in the venture, acquiring a 90% ownership interest, according to the June 15 creditors' petition.

Mr. Chen was appointed CEO and represented minority shareholders on the board, while HNA tapped four other directors, the petition said.

One of HNA's appointees was Shi Lei, then a 29-year-old executive in one of its invest-

ment units, according to the petition and Mr. Shi's LinkedIn profile. Mr. Shi was also present in the two meetings in Beijing and Hangzhou, and had met Mr. Chen before these two meetings, according to the person familiar with the matter.

Mr. Shi, who also became Travana's president, "attempted to extract an unearned and illegitimate percentage of Travana shares from Chen and the non-HNA investors as a 'token of appreciation'" and "was thoroughly unqualified and unsuited for any executive management role at a U.S. based venture," according to the petition.

Mr. Tan agreed to grant Mr. Shi around half the amount of stock he wanted, the petition said. Mr. Shi then sabotaged Mr. Chen's attempts to build the business and curtailed spending on marketing, according to the petition. Mr. Chen complained to the board in a letter. But soon after, Mr. Tan fired Mr. Chen, cut off funding and said Travana needed to be completely restructured, according to the petition.

The Travana board disputes accusations of sabotage and pointed out that the decision to shut down the firm was largely because it had lost confidence in Mr. Chen. Mr. Chen "led a team that squandered HNA's initial investment of approximately \$27.5 million, reducing Travana's cash balances down to a critical level without significantly developing Travana's business or meeting required business milestones," the board said.

The board also alleged that Mr. Chen had engaged in misconduct after Travana was sued by a rival online travel firm last year for allegedly using misappropriated technology.

Mr. Chen denied these allegations.

"We made tremendous efforts to build a good company the right way," said Mr. Chen in a statement. "In an instant, everything we worked so hard to build was wiped away. Although a Chinese company is the controlling stockholder, I firmly believe that this is no excuse to disregard legal and ethical standards in the U.S. What happened to Travana should be a cautionary tale. My question is—who will be the next victim?"

HNA declined to comment and didn't make Mr. Shi available for comment. Attempts to reach Mr. Shi were unsuccessful.

Mr. Mobus said Mr. Shi was instrumental in persuading HNA Group to invest in Travana, and was seeking his fair

## Oil Slides As Worry Over Glut Returns

BY ALISON SIDER

Oil's rally came to a halt Wednesday as worries about the persistent global oil glut came back into focus.

U.S. crude futures tumbled \$1.94, or 4.1%, to \$45.13 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, fell \$1.82, or 3.7%, to \$47.79 on ICE Futures Europe.

The sell-off was the volatile market's latest about-face. It eroded U.S. oil's nearly 11% gain in the previous eight sessions, the longest winning streak since 2010.

"The market is coming back and facing the reality that [the Organization of the Petroleum Exporting Countries] and non-OPEC producers are, on the whole, putting more oil on the market," said Andy Lipow, president of Lipow Oil Associates in Houston. "The road to OPEC's success in achieving higher prices is still under construction."

A Bloomberg report that Russia wouldn't support a further extension or deepening of ongoing production cuts with OPEC spooked many investors Wednesday. Russia agreed late last year to join with OPEC and other major producers to cut output, and its cooperation was seen as a major milestone and a key component of the deal's potential to help reduce a supply glut.

Many investors have become convinced that the cuts aren't working quickly enough. Global stockpiles are still high, and the threat of new U.S. oil flooding into already brimming storage tanks pushed the market into a steep decline in June. Libya and Nigeria, OPEC members that were exempt from production quotas, have been also been ramping up, threatening to blunt the impact of the output reductions.

Also Wednesday, Saudi Arabia reduced the official selling price it charges customers in Asia, which some took as a sign that the kingdom will defend its market share against rising competition from rival producers.

Oil's rally in recent weeks was spurred in part by early signs that U.S. production may not be as resilient in the face of low prices as many believed. But that rally was always tentative and fueled largely by investors trying to cover short positions, rather than a real shift in sentiment, said Michael Hiley, a trader at LPS Futures LLC.

Tariq Zahir, managing member of Tyche Capital Advisors, said OPEC's deal may be starting to fray. "I do think we're going to start seeing some cheating going forward," he said. "That eight-day rally was definitely overdone. I shorted the heck out of it."

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## MARKETS DIGEST

### Nikkei 225 Index

**20081.63** **▲ 49.28, or 0.25%**

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

**382.99** **▲ 0.69, or 0.18%**

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

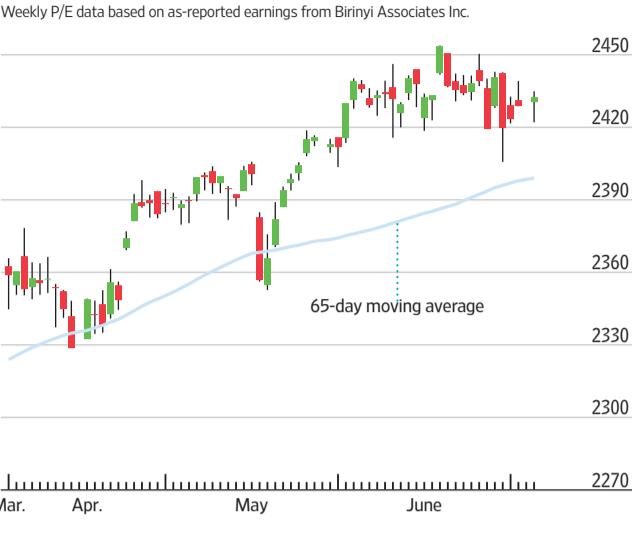


Mar. Apr. May June

### S&P 500 Index

**2432.54** **▲ 3.53, or 0.15%**

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



Mar. Apr. May June

### International Stock Indexes

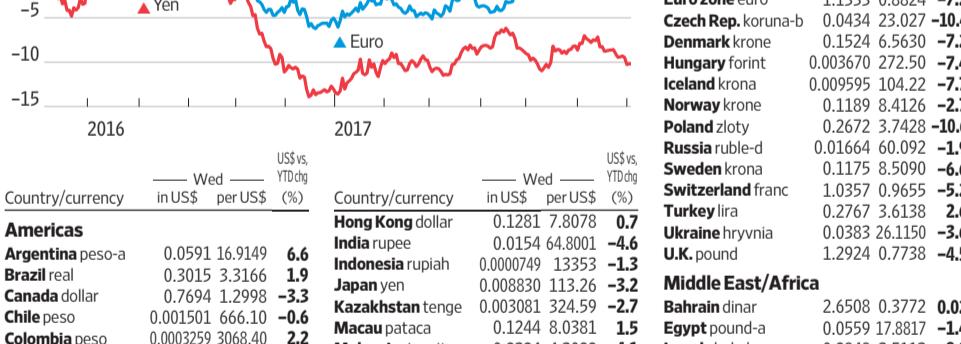
Data as of 4 p.m. New York time

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Low	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	<b>2784.59</b>	<b>3.16</b>	<b>▲ 0.11</b>	2285.55	2792.77	2784.59	2792.77	10.1
	<b>MSCI EAFE</b>	<b>1885.56</b>	<b>2.93</b>	<b>▲ 0.16</b>	1471.88	1956.39	1885.56	1956.39	9.9
	<b>MSCI EM USD</b>	<b>1010.26</b>	<b>3.54</b>	<b>▲ 0.35</b>	691.21	1044.05	1010.26	1044.05	27.2
<b>Americas</b>	<b>DJ Americas</b>	<b>584.55</b>	<b>0.36</b>	<b>▲ 0.06</b>	502.42	588.61	584.55	588.61	0.3
Brazil	<b>Sao Paulo Bovespa</b>	<b>63142.76</b>	<b>-88.83</b>	<b>-0.14</b>	50824.99	69487.58	63142.76	69487.58	4.8
Canada	<b>S&amp;P/TSX Comp</b>	<b>15155.98</b>	<b>25.37</b>	<b>▲ 0.17</b>	14080.24	15943.09	15155.98	15943.09	-0.9
Mexico	<b>IPC All-Share</b>	<b>50327.84</b>	<b>286.26</b>	<b>▲ 0.57</b>	43998.98	50339.63	50327.84	50339.63	10.3
Chile	<b>Santiago IPSA</b>	<b>3681.27</b>	<b>6.66</b>	<b>▲ 0.18</b>	3111.53	3786.05	3681.27	3786.05	14.2
<b>U.S.</b>	<b>DJIA</b>	<b>21478.17</b>	<b>-1.10</b>	<b>-0.01</b>	17713.45	21562.75	21478.17	21562.75	8.7
	<b>Nasdaq Composite</b>	<b>6150.86</b>	<b>40.80</b>	<b>▲ 0.67</b>	4786.01	6341.70	6150.86	6341.70	14.3
	<b>S&amp;P 500</b>	<b>2432.54</b>	<b>3.53</b>	<b>▲ 0.15</b>	2074.02	2453.82	2432.54	2453.82	8.7
	<b>CBOE Volatility</b>	<b>10.92</b>	<b>-0.30</b>	<b>-2.67</b>	9.37	23.01	10.92	23.01	-22.2
<b>EMEA</b>	<b>Stoxx Europe 600</b>	<b>382.99</b>	<b>0.69</b>	<b>▲ 0.18</b>	318.76	396.45	382.99	396.45	6.0
	<b>Stoxx Europe 50</b>	<b>3143.04</b>	<b>-1.42</b>	<b>-0.05</b>	2720.66	3279.71	3143.04	3279.71	4.4
Austria	<b>ATX</b>	<b>3144.12</b>	<b>-3.54</b>	<b>-0.11</b>	1997.21	3212.50	3144.12	3212.50	20.1
Belgium	<b>Bel-20</b>	<b>3838.97</b>	<b>4.00</b>	<b>▲ 0.10</b>	3211.08	4055.96	3838.97	4055.96	6.4
France	<b>CAC 40</b>	<b>5180.10</b>	<b>5.20</b>	<b>▲ 0.10</b>	4062.07	5442.10	5180.10	5442.10	6.5
Germany	<b>DAX</b>	<b>12453.68</b>	<b>16.55</b>	<b>▲ 0.13</b>	9304.01	12951.54	12453.68	12951.54	8.5
Greece	<b>ATG</b>	<b>841.34</b>	<b>15.45</b>	<b>▲ 1.87</b>	520.40	841.69	841.34	841.69	30.7
Hungary	<b>BUX</b>	<b>35298.14</b>	<b>408.58</b>	<b>▲ 1.17</b>	26185.65	36168.63	35298.14	36168.63	10.3
Israel	<b>Tel Aviv</b>	<b>1433.19</b>	<b>-2.49</b>	<b>-0.17</b>	1372.23	1490.23	1433.19	1490.23	-2.6
Italy	<b>FTSE MIB</b>	<b>20939.39</b>	<b>-91.66</b>	<b>-0.44</b>	15293.10	21828.77	20939.39	21828.77	8.9
Netherlands	<b>AEX</b>	<b>511.35</b>	<b>-0.38</b>	<b>-0.07</b>	419.45	537.84	511.35	537.84	5.8
Poland	<b>WIG</b>	<b>60936.64</b>	<b>208.52</b>	<b>▲ 0.34</b>	43534.02	62666.49	60936.64	62666.49	17.7
Russia	<b>RTS Index</b>	<b>1007.88</b>	<b>-9.71</b>	<b>-0.95</b>	898.05	1196.99	1007.88	1196.99	-12.5
Spain	<b>IBEX 35</b>	<b>10523.60</b>	<b>-43.10</b>	<b>-0.41</b>	7857.80	11184.40	10523.60	11184.40	12.5
Sweden	<b>SX All Share</b>	<b>582.95</b>	<b>2.10</b>	<b>▲ 0.36</b>	457.08	598.42	582.95	598.42	9.1
Switzerland	<b>Swiss Market</b>	<b>8954.10</b>	<b>-17.30</b>	<b>-0.19</b>	7585.56	9148.61	8954.10	9148.61	8.9
South Africa	<b>Johannesburg All Share</b>	<b>52483.90</b>	<b>434.65</b>	<b>▲ 0.84</b>	48935.90	54716.53	52483.90	54716.53	3.6
Turkey	<b>BIST 100</b>	<b>100744.45</b>	<b>-463.34</b>	<b>-0.46</b>	70426.16	101456.88	100744.45	101456.88	28.9
U.K.	<b>FTSE 100</b>	<b>7367.60</b>	<b>10.37</b>	<b>▲ 0.14</b>	6432.47	7598.99	7367.60	7598.99	3.1
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	<b>1620.08</b>	<b>6.25</b>	<b>▲ 0.39</b>	1351.93	1643.59	1620.08	1643.59	13.9
Australia	<b>S&amp;P/ASX 200</b>	<b>5763.30</b>	<b>-20.50</b>	<b>-0.35</b>	5156.60	5956.50	5763.30	5956.50	1.7
China	<b>Shanghai Composite</b>	<b>3207.13</b>	<b>24.33</b>	<b>▲ 0.76</b>	2953.39	3288.97	3207.13	3288.97	3.3
Hong Kong	<b>Hang Seng</b>	<b>25521.97</b>	<b>132.96</b>	<b>▲ 0.52</b>	20495.29	26063.06	25521.97	26063.06	16.0
India	<b>S&amp;P BSE Sensex</b>	<b>31245.56</b>	<b>35.77</b>	<b>▲ 0.11</b>	25765.14	31311.57	31245.56	31311.57	17.3
Japan	<b>Nikkei Stock Avg</b>	<b>20081.63</b>	<b>49.28</b>	<b>▲ 0.25</b>	15106.98	20230.41	20081.63	20230.41	5.1
Singapore	<b>Straits Times</b>	<b>3248.71</b>	<b>37.54</b>	<b>▲ 1.17</b>	2787.27	3271.11	3248.71	3271.11	12.8
South Korea	<b>Kospi</b>	<b>2388.35</b>	<b>7.83</b>	<b>▲ 0.33</b>	1953.12	2395.66	2388.35	2395.66	17.9
Taiwan	<b>Weighted</b>	<b>10404.79</b>	<b>57.01</b>	<b>▲ 0.55</b>	8575.75	10513.96	10404.79	10513.96	12.4

Source: SIX Financial Information; WSJ Market Data Group

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency      Wed      YTD chg (%)

Country/currency	in US\$	per US\$	(%)
<b>Hong Kong dollar</b>	0.1281	7.8708	0.7
<b>India rupee</b>	0.0154	64.8001	-4.6
<b>Indonesia rupiah</b>	0.000749	1325.93	-1.3
<b>Japan yen</b>	0.008830	113.26	-3.2
<b>Kazakhstan tenge</b>	0.030831	324.59	-3.2
<b>Macau pataca</b>	0.1244	8.0381	1.5
<b>Malaysia ringgit-c</b>	0.2324	4.3022	-4.7
<b>New Zealand dollar</b>	0.7270	1.3755	-4.7
<b>Pakistan rupee</b>	0.009510	104.750	0.4
<b>Philippines peso</b>	0.0197	50.634	2.1
<b>Singapore dollar</b>	0.7234	1.3824	-4.5
<b>South Korea won</b> </			

## FINANCE & MARKETS

# Big Holdouts as IPOs Rise

By CORRIE DRIEBUSCH

Initial public offerings in the U.S. have rebounded this year, but that strength hinges on reducing the backlog of private companies valued at \$1 billion or more, bankers and fund managers say.

Companies making their stock-market debuts in the first half of 2017 have raised roughly \$28 billion, above the first-half average going back the last two decades, according to data provider Dealogic. Given a strong stock market, historically low volatility and scores of private companies that could be ready for initial offerings, the IPO market should be even busier, some fund managers and bankers say.

"The new-issue market is healthy, so I would have expected we'd have more IPOs given the market environment matched against this backlog of private companies," said Anthony Kontoleon, the global head of equity syndicate at Credit Suisse Group AG.

More than 160 private companies are valued at \$1 billion or more, including ride-hailing company Uber Technologies Inc. and Airbnb Inc., according to data from Dow Jones VentureSource. In June 2014, there were about 60.

Some of these companies are likely to go public in the second half of this year, but few big-name startups are expected, some bankers and stock-exchange officials say.

"There are a lot of private companies I would assess as ready to go public. Whether they choose to go public or not, I'm not sure," said Gavin Baker, manager of the Fidelity OTC Portfolio. His firm invests in still-private companies as well as publicly traded firms, and while he said it doesn't matter to him when companies choose to make their stock-market debuts, he does believe companies benefit from being publicly traded.

"It forces a level of discipline and transparency," he



Blue Apron had a particularly disappointing stock-market debut in the last week of June.

said.

IPOs have generally encountered solid interest from investors this year.

Companies that listed on U.S. exchanges in 2017 have risen an average 10% from their IPO prices, according to Dealogic data through Friday. The S&P 500 rose more than 8% in the first six months of the year.

Part of what has fueled demand for new offerings, some fund managers say, is that these outsize gains offer actively managed funds a way to beat their benchmarks at a time when passive investment strategies are growing more popular and stock indexes such as the S&P 500 have performed well.

Newly listed technology companies have had a particularly strong showing, echoing broader gains in technology stocks around the world. Tech IPOs in 2017 are up an average 19% from their offer price, according to Dealogic. Among the best performers are enterprise software companies, in-

cluding MuleSoft Inc. and Okta Inc., which have gained more than 45% and more than 30%, respectively, since their IPOs.

In a sign of the breadth of the rebound, one of the best performing IPOs in the first half of the year was construction company Jeld-Wen Holding Inc., which rose 40% from its IPO price through Friday's close.

Still, some of the most highly anticipated IPOs of 2017 have struggled recently. Snap Inc. shares soared in their first day of trading in early March, rising 44% after pricing at \$17 a share, a dollar above expectations, but in recent weeks the Snapchat parent has fallen. On Wednesday afternoon, shares were down 1.1% at \$17.40.

Blue Apron Holdings Inc. suffered a particularly disappointing stock-market debut in the last week of June. The meal-kit maker offered shares at the bottom of its lowered target range, and the stock closed below its IPO price on its second day of trading.

Some fund managers and

bankers said Blue Apron's difficult path to public markets was likely to come up in conversations as other private companies decide whether to list shares. However, many are treating the company as an outlier. In the first half of the year, 22% of companies priced their U.S.-listed IPO below their initial pricing range, on track for the smallest percentage of companies to do so since 2007, according to Dealogic.

Fear of potentially market-moving events, such as the U.K. referendum on leaving the European Union and the U.S. presidential election, deterred many companies from going public in 2016, but expectations of volatility have been muted so far this year, which bodes well for offerings in the second half of 2017.

"From a macro point of view, there are more reasons to go public in the current environment than there are to wait," said Paul Donahue, head of Equity Capital Markets Americas at Morgan Stanley.

# Lloyds Shuffles Top Executives

By MAX COLCHESTER

Lloyds Banking Group PLC promoted several executives Wednesday, ahead of a strategy revamp and in a bid to appease investors concerned that the bank had too few potential internal replacements for Chief Executive António Horta-Osório.

The shuffle announced by the bank also sees key lieutenants to Mr. Horta-Osório handed extra responsibilities, evidence of the Portuguese financier's desire to tighten his grip at the lender's helm.

Executive director Juan Colomé will take the additional role of chief operating officer, while Chief Financial Officer George Culmer will also oversee strategy. Andrew Bester, head of commercial banking and one of the few Lloyds executives once touted as a potential replacement to Mr. Horta-Osório, is leaving the company.

The moves follow months of speculation that Mr. Horta-Osório, having overseen the successful privatization of Lloyds, would leave the bank to join a rival or pursue a career outside finance. Mr. Horta-Osório has repeatedly said he was happy at Lloyds.

However, one major criticism from investors was that

the bench of potential internal replacements for Mr. Horta-Osório was too small. Wednesday's moves were in part to address this, according to a person familiar with the matter.

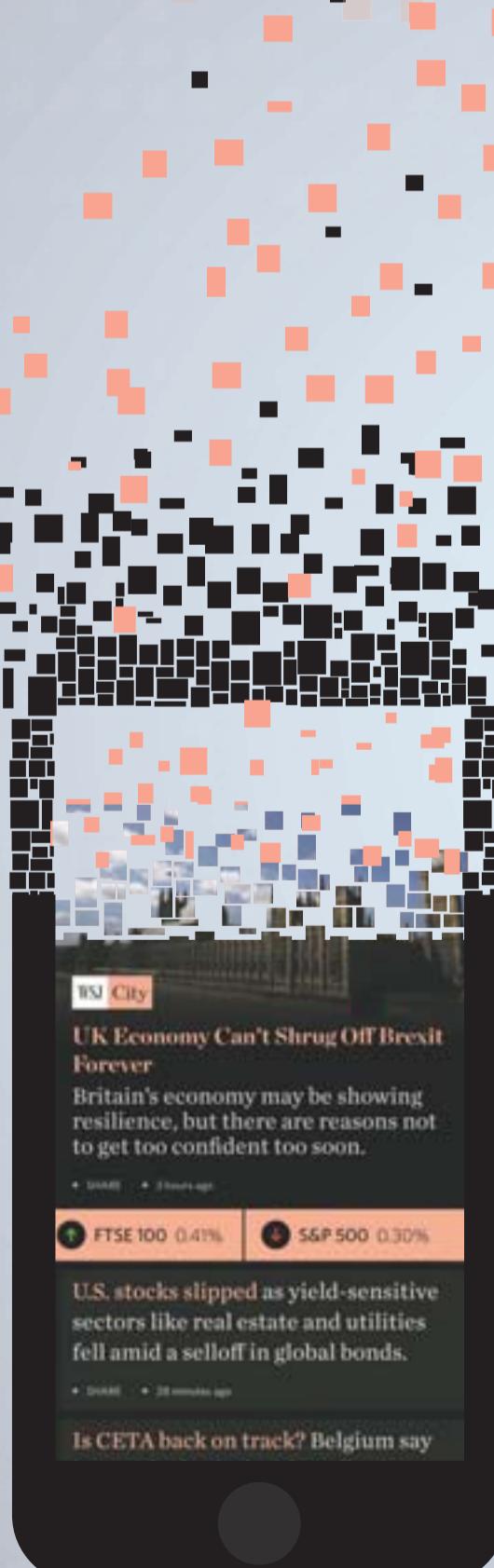
A handful of executives were promoted including Vim Maru, who will oversee the bank's vast retail business. David Oldfield will run the bank's commercial business. The changes are still subject to regulatory approval, according to the bank.

Lloyds will outline its next strategic plan in February, following years of reshaping after its taxpayer bailout in 2009. Earlier this year the government finally shed the remnants of its investment in the bank.

Lloyds will now focus on continuing to reshape itself into one of the lowest-cost retail banks in Europe. The new plan is likely to see more focus on cost-cutting and refocusing on digital products as the bank wrestles with low interest rates and the threat of disruption by technology giants like Amazon.com Inc. or Alphabet Inc.'s Google, according to a person familiar with the matter. The management shuffle will allow executives to be in place and put the plan into action once it is completed.



António Horta-Osório, chief executive of Lloyds Banking Group



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# MARKETS

## U.S. Travel Stocks Are Having Nice Ride

BY AMRITH RAMKUMAR

Hotels, cruise lines and casinos are some of the best-performing stocks in the U.S. so far this year, reflecting solid demand for travel and leisure despite industry concerns that President Donald Trump's policies could hurt foreign tourism.

**Wynn Resorts** Ltd. was one of the top five best-performing stocks in the S&P 500 in the first six months of the year, rising 55%. **Royal Caribbean Cruises** Ltd. and **Wyndham Worldwide** Corp., a hospitality-service company, were among the index's 35 best performers.

Some travel organizations, including the World Travel & Tourism Council and travel consultant ForwardKeys, have said that they expected some of Mr. Trump's policies to dampen appetite for tourism to the U.S.

The administration started to implement its temporary travel ban that affects visitors from six Muslim-majority nations last week, and has pushed to restrict some visas and issued new security measures for airlines flying to the U.S.

"We are watching it like a hawk," said **Marriott International** Inc. Chief Executive Arne Sorenson, when asked at an analyst meeting in March about travel challenges relating to the travel ban, currency difficulties and nationalist sentiment in the U.S. and abroad. "To state the obvious, the language around these issues and the sentiment around these issues is not a positive thing."

Mr. Sorenson is one of several executives who have publicly voiced concerns that Mr. Trump's policies could hurt the travel industry.

So far, some analysts say that anxiety hasn't hurt their shares. Travel and leisure shares are benefiting from improved consumer confidence and tourism-related spending,

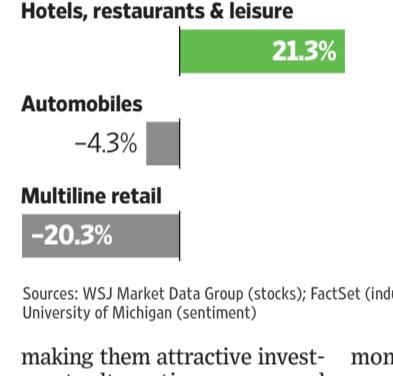
### Sailing

U.S. travel and leisure stocks are benefiting as consumers spend on tourism, even as some in the industry have expressed concerns that U.S. policies could weigh on demand.

#### Performance since 2016



#### Year-to-date performance for some industry groups in the S&P 500 consumer-discretionary sector



Sources: WSJ Market Data Group (stocks); FactSet (industry group performance); Macau Gaming Inspection and Coordination Bureau (gaming revenue); University of Michigan (sentiment)

making them attractive investment alternatives compared with other stocks in the so-called consumer-discretionary sector, they say. The S&P 500 grouping also includes traditional retailers, many of which have been hammered by lower foot traffic and internet competition from e-commerce giants like Amazon.com Inc.

"Consumer-discretionary

money needs to be invested somewhere, and the gaming and lodging spaces have benefited from some of the Amazon-driven disruption in some of the other subsectors," Deutsche Bank analyst Carlo Santarelli said.

The U.S. Travel Association said in early June that international travel to the U.S. grew in April compared with the same

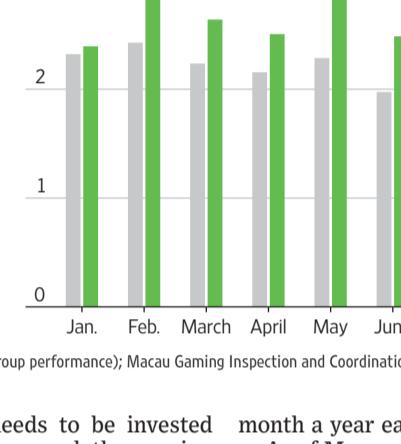
month a year earlier.

As of May, spending on hotels, leisure and travel has increased every month except for two since the start of 2015 compared with a year earlier, according to First Data Corp. Data tracking sales at four million merchant locations across the U.S. show monthly travel expenditures increased almost 6% on average year over year,

hotel expenditures rose 4.4% and leisure spending increased 2.8% over that period.

Aside from leisure-linked shares in the consumer-discretionary sector, "you're looking at retail or restaurants, where every day, same-store sales are down," and store closures and fears of competitive encroachment weigh on investors, said Rachael Rothman, a Susque-

#### Macau gaming revenue



#### Index of Consumer Sentiment



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## HEARD ON THE STREET

Trump Won't Make Russia Great Again

Ever since the fall of the Soviet Union, the hope for investors on Russia has always been around change. Donald Trump's election raised expectations that a reset in relations could boost Russian assets. But as Mr. Trump prepares for his first face-to-face meeting with Russian President Vladimir Putin this week, change seems in short supply.

Instead of an easing in relations, the talk is of increased sanctions on Russia against a backdrop of continued allegations about interference by Moscow in politics in the U.S.

Meanwhile, the picture from Russia itself is little changed. Overreliance on commodities and poor demographics continue to dog the outlook.

But Russia does offer a curious kind of sclerotic stability that is great for fixed-income investors.

Underpinned by relatively orthodox monetary and fiscal policy and easing inflation, ruble-denominated government bonds have returned 9.4% this year, a Bloomberg Barclays index shows. Government debt is extremely low at 16% of gross domestic product, according to Moody's; sanctions have helped to support dollar-denominated Russian bonds by making them a scarcer asset.

Equities, meanwhile, suffer under this stasis. Take the list of the biggest companies by market capitalization. Six of the 10 biggest in Russia 10 years ago still make the list today, versus just two in the U.S., Renaissance Capital notes.

That big picture seems unlikely to be changed by any meeting between Messrs. Trump and Putin.

—Richard Barley

## Reality Bites for Shares of Tesla

Investors started to lose patience with Tesla Motors this week after another unkept promise.

The jolt from Volvo that all its cars would be electric or hybrid by 2019 casts serious doubt on Tesla's ability to live up to its long-term expectations.

The electric-car maker's shares are down nearly 10% this week through midday Wednesday, in roughly just a full day of trading because of the holiday.

The belief that Tesla would generate hefty profits in the coming years led investors to forgive the company's long history of missing its own deadlines.

In the latest example, CEO Elon Musk promised earlier this week that Tesla would be able to build 20,000 of its mass-market Model 3s a month by December. Last year, he told analysts that Tesla was aiming to build at least 100,000 Model 3s in 2017.

The new timeline, which calls for 100 vehicles manu-

#### Pump the Brakes

Total Model S and X deliveries



Sources: the company; Reuters (photo)

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factured in August and more than 1,500 in September, would fall well short of the earlier forecast.

But fresh competition means patient attitudes won't last forever.

In addition to Volvo, Volkswagen has promised several new electric cars by 2020. And General Motors has begun selling the all-electric Chevrolet Bolt.

The Model 3 will launch

as U.S. auto sales are slowing dramatically. And sales of Tesla's two high-end models haven't grown meaningfully in a year. The company blames this in part on production issues, but Tesla produced more vehicles than it sold for the past six quarters.

Tesla said Model S and X deliveries in the second half of the year would likely be higher than in the first,

though it added the caveat: "provided global economic conditions do not worsen considerably."

Analysts are seemingly bracing for that possibility. They forecast an adjusted loss of \$5.81 per share this year on average, according to FactSet.

A year ago they predicted \$2.62 a share in adjusted profit.

Analysts still expect big profits by 2020, predicting \$11.93 a share, on average. But those estimates were also much higher a year ago.

Meanwhile, Tesla's stock has surged more than 50% this year, and trades at more than 28 times that 2020 earnings forecast. Rival auto makers trade for a fraction of that multiple.

Investors' expectations for Tesla have gotten so disconnected from reality that even if the Model 3 succeeds and growth resumes for its other two models, the company's shares could perform terribly.

—Charley Grant

## OVERHEARD

Nearly every brand has tried to figure out social media. Many have failed, according to their customers.

In a quest to appear hip and relevant, brands post funny videos, comments, critiques and pipe up in conversations. The customer reviews are pretty poor, according to an April survey by social media analytics and monitoring service Sprout Social and cited by eMarketer.

Among the things those surveyed didn't like: Brands using slang, disliked by 69% of respondents; brands making fun of competitors, 71%. Not surprisingly, the biggest loser for companies was making fun of their customers, of which 88% disapproved.

What few things do brands do right? The survey showed 83% of respondents thought it was cool when brands used video clips and when they used social media to respond to customer questions.

## Bid for Worldpay Is \$10 Billion Jolt to Payments Business

A proposed \$10 billion cross-border consolidation play illustrates how payment services have come from a dusty banking backroom to the front lines of financial activity.

**Worldpay**, once the in-house processor for Royal Bank of Scotland in the U.K., has agreed in principle to a cash-and-shares takeover proposal from **Vantiv**, a former joint venture between Fifth Third Bank and a private-equity group.

The reasons for the deal, announced Wednesday, are simple: Retailers want to be able to accept payments in many more forms than in the past, while customers and international tourists in-

creasingly expect to be able to use whatever form of payment they wish. This is a technological headache that payment companies have been investing heavily to solve.

Vantiv already is the leading processor of card transactions in the U.S., ahead of First Data, according to the Nilson Report, an industry research firm. Worldpay is the leading U.K. processor.

But it isn't the U.K. business that Vantiv is really after: It is the U.K. company's global e-commerce offering, which focuses on serving online businesses and provides 46% of Worldpay's earnings before interest, taxes, depreciation and amortization.

#### Capturing Cards

Share of U.S. card payments by number of transactions in 2016



Source: The Nilson Report

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Wednesday, Worldpay was trading just 0.5% below the value of Vantiv's potential offer.

Payments consolidation will continue because retailers and consumers want to be able to accept and spend money anywhere. When Worldpay first listed on the U.K. stock market in 2015, it had just turned down a takeover offer from Ingenico, a French payments group. Another payments company could yet be tempted to jump in with a competing bid.

Worldpay investors can wait to see what the details of a Vantiv takeover really promise.

—Paul J. Davies