

# THE WALL STREET JOURNAL.

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## What's News

Business & Finance

Chinese stocks tumbled and the central bank made a large-scale injection of liquidity after officials signaled the country's campaign against runaway debt and speculation remains a priority. **B1**

◆ Beijing is putting the brakes on Dalian Wanda's overseas transactions, clouding its ambitions to become a global powerhouse in entertainment. **A1**

◆ KKR promoted two senior executives to run its day-to-day operations, a step in planning for the succession of co-founders Kravis and Roberts. **A1**

◆ Copper prices hit a four-month high after upbeat economic data damped fears of a slowdown in the Chinese market. **B1**

◆ IBM unveiled its next generation of mainframe computers. **B4**

◆ Uber is suspending its operations in Macau, the firm's latest retreat as it continues to face regulatory pressure overseas. **B1**

◆ Bank of New York Mellon named former Visa and J.P. Morgan executive Charles Scharf as its chairman and CEO. **B1**

◆ Dow Jones subscriber data was exposed due to an error in configuring a cloud-computing service. **B4**

◆ BlackRock said second-quarter earnings and sales increased as investors sought larger returns on their assets. **B5**

### World-Wide

◆ South Korea made a formal offer to start talks with North Korea, following through on a policy plank of Seoul's first left-leaning president in nearly a decade. **A1**

◆ Trump's lawyer said no laws were broken when the president's son agreed to a meeting with a Russian lawyer. **A6**

◆ Venezuelans voting in an unauthorized referendum rejected Maduro's bid to rewrite the nation's constitution. **A5**

◆ Republican efforts to pass a health-care bill have revealed a party fissure on tax policy with potentially far-reaching repercussions. **A6**

◆ The extradition of Mexico's long-dominant drug lord has led to an explosion of violence in his home state of Sinaloa. **A3**

◆ South Korea said it would boost its minimum wage by 16.4%. **A4**

◆ The new director of the CDC said she will prioritize fighting infectious disease and strengthening early childhood development. **A6**

◆ The U.S. Homeland Security agency said it would make 15,000 more visas available for seasonal workers. **A6**

◆ California lawmakers are considering \$3 billion in rebates for buyers of electric cars. **A7**

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## WORLD NEWS

# Republicans Hope Tax Cuts Will Unite Party



### CAPITAL JOURNAL

By Gerald F. Seib

There are lots of reasons the Trump White House will be glad when it can finally get past the tortured debate over health care and move on to

tax reform, but a principal one is this: Health care is pulling apart the various strands of the Republican coalition. Tax

cuts could unite them.

Today's Republican coalition weaves together three distinct philosophical strands: the populists/nationalists, the movement conservatives and the Wall Street/establishment conservatives. All three are well represented within the Trump administration—in-

deed, within the White House itself—which is one reason it has had a hard time projecting ideological coherence.

The health-care debate has been a seven-month migraine that pulls apart those strands of the Republican coalition.

The populists/nationalists are troubled by the idea of rolling back the Affordable Care Act's taxes on the wealthy while cutting Medicaid funding and insurance subsidies that benefit some core elements of President Donald Trump's 2016 constituency.

Movement conservatives want a complete uprooting of Obamacare and far more reliance on market forces in the health sector. The party's establishment wing, meantime, could live with some kind of compromise, if there were one that could satisfy the others.

That problem has been made worse by the fact that the Trump White House has been left either defending or trying to sell somebody else's idea of a repeal-and-re-

place plan, because it doesn't have one of its own. That has produced the spectacle of the president occasionally championing and then criticizing the very same proposal; supporting competing ideas; and backing plans that would hurt many Trump voters.

Mr. Trump has never offered a sustained public defense of any of the various approaches Republicans have tried. He owns none of them, and has left the impression than any will do.

### The Trump White House will be glad to get past the tortured debate over health care.

Unfortunately for the GOP, the magic compromise that skirts past these differences has proven elusive. And now it appears the agonizing search for one is going to drag on. Republicans' margin for error in the Senate is so small that they are putting off debate and a vote on a health bill while Sen. John

McCain of Arizona recovers from unexpected surgery.

Tax reform holds out the prospect of something different. For starters, the administration will be selling a plan of its own, and, with luck, one pre-cooked with congressional leaders, rather than hoping somebody else presents one that is acceptable. That alone is that acceptable. That alone would change the dynamic.

More broadly, the belief that it is essential to revamp the tax system to lower tax rates, especially corporate

rates, is as close to gospel as you can reach in today's Republican Party. Nothing unifies Republicans like cutting taxes.

Even the populist/nationalist wing agrees with the Wall Street/establishment wing on that notion. And that's especially true if, as the administration has promised, lower

corporate rates can be married to a broad-based tax cut that will help the middle class, financed by closing tax breaks for businesses and at the top end of the income ladder.

That isn't to say changing the tax code is simple—not by a long shot. There certainly are intra-Republican differences.

Most notably, House Speaker Paul Ryan and Ways and Means Chairman Kevin Brady have long been pushing the idea of building a new tax system around a border-adjustable tax—a tax that essentially imposes a levy on imports while letting exports leave the country tax-free. The idea is to both build domestic industries and supply chains while also raising a big chunk of revenue to finance tax cuts elsewhere.

That idea does, in fact, split the GOP coalition. Parts of the establishment wing hate it because it would hurt industries that rely on imported goods; the populist/nationalist wing likes the way it could promote American manufacturing, but is leery of how

it would drive up costs for products that working-class America buys at Wal-Mart; and the Trump White House thinks it's too complicated.

But the reality is that, because of such misgivings, the border tax probably has been a dead letter for months now, though its proponents haven't given up. The Trump team will try to steer the conversation in a different direction.

There are other complications. If tax reform were simple, three decades wouldn't have passed since the last significant one. And the prospect of finding Democratic support is nearly as bleak as it has been on health care.

Still, the basic idea of lowering rates and simplifying the tax code is one Republicans are almost desperate to rally around. If that holds true, we'll be left to ponder how different the story of Mr. Trump's first year might have been if Republicans had been able to start with an idea that united them rather than one that divided them.

## WANDA

Continued from Page One  
making since then.

"Cross-border movement of funds is the background of this," said Keith Pogson, a senior partner for financial services at Ernst & Young. Regulators "are sending a clear message to the market that they're going to make it difficult for companies to finance overseas deals."

Wanda, controlled by Wang Jianlin, started as a property developer but moved into entertainment to diversify and expand its holdings. It owns the world's largest cinema chain, AMC Entertainment Holdings Inc., as well as Legendary Entertainment, a Hollywood film producer and financier.

It struck a \$1 billion deal to buy Golden Globes producer Dick Clark Productions last year, but later dropped those plans amid escalating Chinese government concerns over capital outflows that put pressure on its currency.

Wanda can't use its own funds in China to pay for those overseas deals should the acquired assets run into any financing difficulties, the document shows. Wanda also is banned from injecting those foreign assets into its listed company in China, according to the document.

Some Chinese banking officials say the new rules effectively cut off another method for paying for overseas acquisitions by using assets onshore as collateral to borrow overseas funds.

Wanda used that method to help finance two of its largest cross-border deals last year. The company paid \$3.5 billion to buy Legendary Entertainment and paid shareholders \$4.4 billion to delist its main property unit from the Hong Kong stock exchange. In both cases, Wanda promised investors equity stakes in return for their funds once the assets were listed in China.

The document, a portion of which was reviewed by the Journal, refers to four completed and two pending foreign deals.

The other two deals involved are possible multibillion-dollar investments by Wanda in property developments in Indonesia and Malaysia, the person said. Chinese authorities won't give Wanda regulatory approvals for the two pending deals, according to the person and the document. A person close to the company said those deals never moved beyond preliminary talks.

The fact that Chinese regulators are retroactively going back to old deals is unusual, Mr. Pogson said.

The directive would appear to block Wanda from getting new financing in connection with past and future deals from Chinese banks. In addition, it clouds financing for the two pending deals.

Last week, Dalian Wanda said it would sell most of its theme parks and hotels to Sunac China Holdings Ltd. for \$9.28 billion. Regulatory filings showed Wanda will lend \$4.35 billion to Sunac, using a bank as an intermediary, to help Sunac pay for the theme-park business.

## Afghanistan's All-Girl Team Competes in Robot Olympics



YURI GRIPAS/REUTERS

**GAME ON:** Six Afghan girls prepare in Washington for the FIRST Global Challenge, a competition designed to encourage youths to pursue careers in math and science. Twice rejected for visas, the team from Herat arrived after President Donald Trump intervened.

## P&G

Continued from Page One  
the Company's strategy, plans, and management."

P&G's sales growth has been lackluster amid a sluggish global economy, pricing pressure and competition from well-funded startups. It faced an earlier activist approach from William Ackman and has cycled through leaders as the stock price has lagged behind.

P&G shares have underperformed the S&P 500 and the consumer-staples group for the past 10 years. They have returned about 4% to investors over the past 12 months, including dividends, compared with a 16% return for the S&P 500.

Trian and P&G agree on some steps the company needs to take, such as cutting costs and restructuring management, and the investor supports Chief Executive David Taylor and the company's 11-person board. It isn't seeking a breakup as some analysts have speculated since the investment was disclosed in February.

Trian has told P&G if it were to win a seat at the annual meeting, it would seek to nominate whoever lost, the firm said, expanding the board by one seat.

Still, Trian believes P&G has failed to move fast enough to arrest its market-share losses and convert cost cuts into profit, questioning the credibility of the company when it comes to carrying out promises.

"We need a game-changing attitude at P&G," Mr. Peltz said in an interview. "We just can't keep going along the same path," he said, adding that he sees the board as well-intentioned.

Since Mr. Taylor took over in November 2015, P&G has moved to restructure manage-

ment responsibilities, bring in outside talent, drop brands and cut some \$10 billion in annual expenses by 2021. That is on top of the \$10 billion the company says it already eliminated since 2012—by cutting 24,000 jobs globally, shedding 14 factories and more than 100 brands to refocus on its most lucrative businesses.

Yet sales and profit growth have remained elusive.

The company reported earnings of \$13.4 billion for fiscal 2016, slightly less than the \$13.8 billion it notched five years earlier. Organic sales growth, a closely watched metric that excludes acquisitions or divestments as well as currency swings, has been stuck between 1% and 3% in recent years, well below prerecession levels. In the March-ended quarter, organic sales rose just 1%.

Mr. Taylor has said the company was failing to deliver and "we need to bring our standards up."

Trian will need to garner widespread investor support

to succeed. Even though the investment is its largest ever and the fifth-biggest P&G holding overall, it still amounts to only about 1.5% of the company's market value.

Trian will have to convince investors that Mr. Peltz's experience—and stock gains—at consumer giants like Mondelez International Inc. and H.J. Heinz Co.—qualify him for a board stacked with well-known business leaders.

Those arguments didn't persuade P&G's board in private discussions. Over roughly half-a-dozen meetings and conversations, Trian laid out its concerns while P&G detailed its own views, but the sides didn't come to an agreement, Trian said.

On July 11, in a meeting with several directors and Mr. Peltz, P&G said that it wouldn't give him a seat and that it wanted time to prove management could boost results, people familiar with the matter said. The board also refused to commit publicly to adding Mr. Peltz if the com-

pany missed its targets this year, they said.

The activist is focused on the structure of P&G's leadership. Historically, there have been executives who run business units and others who are in control of sales and marketing, which Trian argues clouds who has ultimate responsibility for profits.

Mr. Taylor has looked to address this concern already. Regional units have been handed more autonomy in bringing their products to market and executives say profit-and-loss responsibility now lies at the feet of category leaders.

Trian also zeroed in on P&G's costs, questioning how a market powerhouse that commands prices far exceeding those of rivals, on average, doesn't have the best profit margins.

P&G has increased operating profit margins, to 20.6% last year from 19.1% in 2011, and says it ranks third in the industry—behind competitors that also charge high premiums. It has said the \$10 billion it will cut by 2021 will come from reducing billions in spending on packaging, supply-chain costs and marketing.

Trian says the previous \$10 billion in cost cuts didn't translate into profit growth even after taking into account surging foreign-currency costs and it wants to ensure the current plan increases the bottom line.

"We can't have what happened last time happen again," Trian co-founder and Chief Investment Officer Ed Garden said in an interview.

—Sharon Terlep  
contributed to this article.



NIKKI RITCHIE FOR THE WALL STREET JOURNAL

## KKR

Continued from Page One  
to major asset managers. Many of the largest such firms are still led by the men who started them.

Messrs. Kravis and Roberts will retain their roles as co-CEOs and co-chairmen at KKR.

The top private-equity firms rely on the track records, influence and mystique of their founders to raise money and land deals.

Messrs. Kravis and Roberts formed KKR with Jerome Kohlberg, their colleague in the corporate-finance division of Bear Stearns, with \$120,000 in capital, according to "Merchants of Debt: KKR and the Mortgaging of American Business," by ex-Wall Street Journal reporter George Anders. In the ensuing years, they traced the rise of private equity and other so-called alternative investments, growing to manage \$138 billion as of March 31.

Private-equity firms' growth has made them major players. The portfolio firms of KKR alone employed 995,000 people at year-end, according to the firm's website.

Mr. Nutall, 44, most recently served as the head of KKR's global capital and asset-management group. In that capacity, he helped oversee the firm's debt-investing and capital-markets divisions, among others, and represented the firm to shareholders.

Mr. Bae, 45, led KKR's Asia business as well as its investing in infrastructure, real estate and energy. Last month, KKR finished raising a \$9.3 billion buyout fund dedicated to deals in Asia, the largest-ever such investment product.

Both men joined the firm in 1996. In recent years, they have been seen as potential candidates to one day lead it.

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Dow Jones Publishing Company (Asia)

25/F, Central Plaza, 18 Harbour Road,

Hong Kong

Tel: 852 2573 7121 Fax 852 2834 5291

Andrew Dowell, Asia Editor

Troy McCullough, Senior News Editor, Asia

Daren Everson, International Editions Editor

Hugo Restall, Editorial Page Editor

Mark Rogers, Advertising Sales

Jacky Lo, Circulation Sales

Toby Doman, Communications

Simon Wan, Technology

Jonathan Wright,  
Managing Director Asia & Publisher

Advertising through Dow Jones Advertising

Sales: Hong Kong: 852-2831 2504; Singapore: 65-6415 4300; Tokyo: 81-3 269-2701;

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Or email: Mark.Rogers@wsj.com

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# WORLD NEWS



ENRIC MARTI/ASSOCIATED PRESS

A police investigator walking past one of three bodies found on a road late last month in Navolato in the state of Sinaloa, where violence has increased as drug cartels splinter and battle for control.

## Deadly Gang Rivalry Heats Up in Mexico

**Surge in killings follows extradition to U.S. of druglord 'El Chapo' months ago**

BY JOSÉ DE CÓRDOBA

CULIACÁN, Mexico—The extradition of Joaquín "El Chapo" Guzmán, Mexico's long-dominant druglord, has led to an explosion of violence in his home state of Sinaloa, the birthplace of the country's narcotics industry.

Rival factions are fighting over Mr. Guzmán's billion-dollar empire as he awaits trial in solitary confinement inside a high-security prison in New York. He was extradited to the U.S. in January on drug-trafficking and murder charges, to which he has pleaded not guilty.

Close to 900 people have been murdered in Sinaloa over the first six months of 2017, almost twice the number of homicides over the same period last year, according to the Sinaloa Attorney General's Office. Most of the increase was due to drug-related killings.

In one outburst of violence late last month, 19 people were killed in an incident that ended with gunmen battling police a short distance from the Pacific beach resort of Mazatlán, Sinaloa officials said. Five police officers were also wounded.

"It's a war between two groups fighting for drug markets and routes," said Genaro Robles, a retired Mexican army

general who was named Sinaloa's secretary of public safety in December.

The war of succession has also sowed violence elsewhere in Mexico, as rival groups take advantage of a weaker Sinaloa cartel to try to poach turf from the gang, which has been the top dog in the Mexican underworld for the past two decades.

This month, 14 people were killed in a gunbattle in neighboring Chihuahua state between alleged gunmen from a faction of the Sinaloa cartel and members of La Línea, a dominant faction of the Juarez cartel, Chihuahua state officials said.

Mexico's Jalisco New Generation cartel, a powerful organized crime gang in the nearby Pacific coast state of Jalisco, also has been emboldened and is expanding in Sinaloa and elsewhere, officials and analysts say.

The violence underscores the drawbacks of a longstanding U.S. and Mexican government strategy to capture and kill narcotics kingpins.

"The kingpin strategy doesn't work," said Guadalupe Correa-Cabrera, a professor at the University of Texas Rio Grande Valley, who has written a book on the Zetas cartel. "When a kingpin is removed, he is replaced by somebody else, violence increases, and there is more diversification of criminal activities."

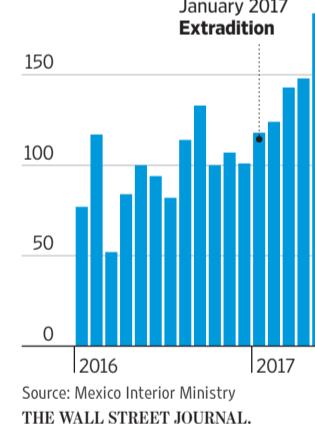
When a kingpin is captured or killed, he is often replaced by a member of a younger, blood-

thirstier generation, analysts say. In Sinaloa, for the most part, old-time drug traffickers like Mr. Guzmán maintained a rough sort of law and order in places like Culiacán, the state capital. Some types of crimes, such as burglaries and street holdups, were rare. The old capos concentrated on exporting drugs to the U.S.

For that reason, many Sinaloa residents pray for the good health of 69-year-old Ismael "El Mayo" Zambada, the last of the old-time bosses still at large, who has a reputation as a conciliator among the warring groups. "El Mayo is the best of the bad ones," a longtime Culiacán businessman said. "When he goes, there will be a bigger bloodbath."

### Violent Aftermath

Killings have soared in Sinaloa since 'El Chapo' was sent to U.S.



Source: Mexico Interior Ministry

THE WALL STREET JOURNAL.

Much of today's violence is driven by competition for local drug sales—especially methamphetamines, officials and analysts say.

"The domestic market produces a lot of money, especially for meth," said Ismael Bojórquez, the publisher of Riodoce, a weekly newspaper whose co-founder, Javier Valdez, was gunned down in May in Culiacán.

Tensions within the Sinaloa cartel had been simmering since Mr. Guzmán's recapture in 2016, but they burst into open warfare in February following his extradition. Hostilities were set off when Dámaso López, described by the U.S. Treasury in 2013 as Mr. Guzman's right-hand man responsible for mul-

titon shipments of cocaine, made a play for control of the cartel. Mr. López's gunmen took on the Chapos, those loyal to Mr. Guzmán's two sons, Iván Archibaldo Guzmán and Jesús Alfredo Guzmán, officials and local residents say.

The arrest of Mr. López and half a dozen bodyguards in Mexico City in May has only increased the pace of killings; his son, also named Dámaso López,

has now taken over that faction, officials say. Attempts to reach either Mr. López were unsuccessful. The father was indicted on a charge of drug smuggling in 2011 by federal prosecutors in Virginia. The U.S. has requested his extradition, Mexican officials say.

Many of the recent killings

in Sinaloa have taken place in the dusty farm town of Villa Juárez, where the two sides have been fighting for control of the local methamphetamine market, officials say. The battle began in early February as rival gunmen riding SUVs—including one with a mounted machine gun—engaged in a running fire-fight at a traffic circle at the entrance of town. Two uninvolved pedestrians were killed in front of a nearby restaurant, and a woman was gunned down a block away.

"I thought they were shooting at me, but they are fighting for control of the town," the restaurant's cook said, adding that she dived to the floor with her young son when the shooting started.

The town feels like a war zone, with Mexican army armored personnel carrier parked at its entrance. On a recent day, middle-school art teacher Idilia Ceniceros supervised a dozen students as they painted cheery murals of doves and children shaking hands on the school's cinder-block walls. Ms. Ceniceros said it was her way of countering the violence her students are living through.

"We are trying to teach values, because we get along like dogs and cats," she said.

One student recounted how one of his neighbors was snatched from his house and killed. Another, holding a paint can, said her cousin was recently killed. "He was with the wrong person, and they killed him," she said.



FERNANDO BRIOT/AGENCE FRANCE PRESSE/GETTY IMAGES



INSTRUMENTS FOR PROFESSIONALS™

The advertisement features a Breitling Avenger Hurricane watch with a black dial and a black leather strap. The dial has white and yellow markings, including a 24-hour military-style display at the top. The watch is shown against a dark background with the words 'AVIENGIER' and 'HURRICANE' in large, stylized letters. The Breitling logo is at the bottom left, and the brand name 'BREITLING' is at the bottom right.

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

## WORLD NEWS

# China's Growth Masks Signs of Trouble

Data show heavy reliance on real estate, little progress toward cutting country's debt

BY LINGLING WEI

BEIJING—China touted its buoyant economic expansion this year as evidence it can reduce debt without harming growth. But the outlook appears hazier when considering the property market's outsized role in the economy, jittery consumers and signs that significant deleveraging hasn't fully set in.

Beijing said domestic demand fueled 6.9% growth in the second quarter, a result that matched the first-quarter growth rate and beat economists' forecasts. However, economists and analysts say the result has to be measured against a continued reliance on problematic sectors such as real estate and a lack of meaningful progress toward cutting the country's debt.

Meanwhile, Chinese consumers aren't spending as fast as their wages rise, suggesting many have become more financially strapped because of high property prices.

The latest data is "a blip amid a growth deceleration," said China economist Larry Hu at Macquarie Securities in Hong Kong.

Armed with a more stable yuan and reduced capital outflows, Beijing has been able to



High-rise towers in Tianjin, China. Property, construction and home furnishings contribute to a third of the country's overall economy.

CHINA STRANGER NETWORK/REUTERS

tighten credit without causing market panic or affecting headline growth. That effort has forced banks and other financial institutions to cut back on borrowing from each other. But it hasn't led to significant debt reduction in the economy.

"There hasn't been too much deleveraging going on," said Zhu Chaoping, a Shanghai-based economist at UOB Kay Hian.

In June, Chinese banks issued a higher-than-expected

1.54 trillion yuan in new loans, or roughly \$227 billion, compared with 1.1 trillion yuan in May.

More than a third of that amount went to home lending. Indeed, a resilient property market is the most important driver of China's growth so far, according to economists including Messrs. Zhu and Hu.

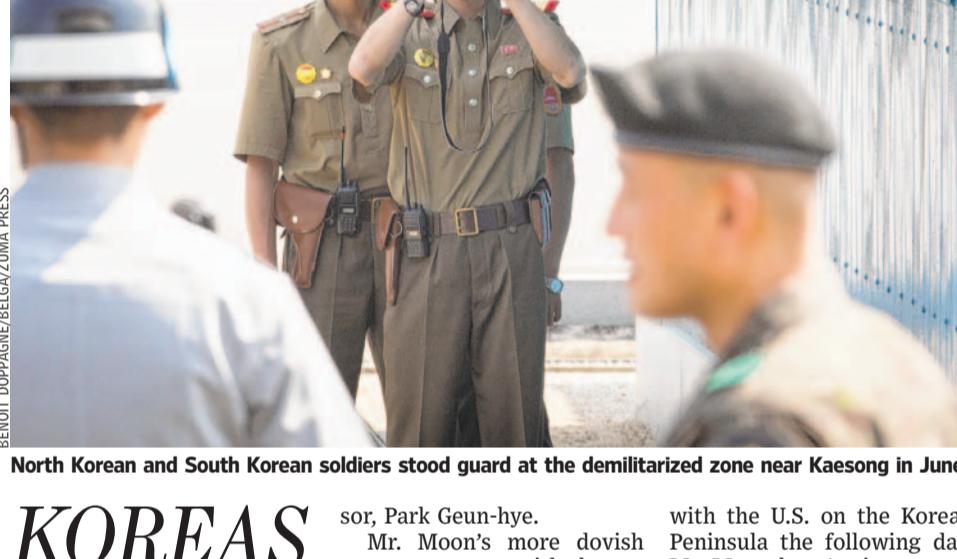
The results mean that in a year that will see a twice-a-decade leadership transition, Beijing will have little problem

reaching its full-year growth target of about 6.5%.

But Beijing has to continue to clamp down on credit to shift to a more sustainable growth model, leaders say. If growth slows in the coming months, that clampdown could become more difficult. "We shouldn't be too optimistic about the economic picture in the second half of the year," said Sheng Songcheng, a senior adviser at the People's Bank of China.

Should growth weaken, Mr. Sheng said, the PBOC likely will gradually guide down the short-term interest rates used to price bonds and bank-to-bank loans and ease the liquidity constraints on the financial system to help the economy.

That would mark a shift in strategy since late last year, when the PBOC embarked on an untraditional tightening path by pushing up the short-term rates while leaving unchanged the benchmark rates.



North Korean and South Korean soldiers stood guard at the demilitarized zone near Kaesong in June.

## KOREAS

Continued from Page One  
the Koreas and easing regional tensions.

"We hope the two sides will move in a positive direction to create the conditions to break the stalemate and relaunch dialogue and negotiations," the spokesman, Lu Kang, said in Beijing.

The dual proposals on Monday underscored Mr. Moon's commitment to seeking engagement with Pyongyang as a way to lower tensions on the Korean Peninsula. Mr. Moon, a liberal who favors dialogue with North Korea, was sworn into office in May following the impeachment and removal of his conservative predeces-

sor, Park Geun-hye. Mr. Moon's more dovish stance contrasts with the approach of U.S. President Donald Trump, who has ramped up tough language against North Korea since coming to office and threatened "some pretty severe things" in response to the regime's weapons tests.

A U.S. Embassy official on Monday said the U.S. continues to coordinate closely with Seoul on North Korea.

Since Mr. Moon's inauguration, North Korea has tested a series of missiles with new capabilities and this month test-launched its first intercontinental ballistic missile capable of reaching parts of the U.S.

Even while condemning the North's missile test and ordering a joint missile-launch drill

with the U.S. on the Korean Peninsula the following day, Mr. Moon hasn't given up on dialogue.

Days after North Korea's July 4 ICBM test-launch, Mr. Moon delivered a speech in Berlin calling for greater rapprochement with North Korea, including the proposals that were formally made on Monday.

In the speech, Mr. Moon also called for a summit meeting with North Korean leader Kim Jong Un "at any time, at any place," providing certain conditions were met. He has also called for cooperation between the two Koreas at the Winter Olympics next year, which will be hosted by South Korea.

During the Berlin speech, Mr. Moon said he had secured Mr. Trump's support for Seoul to take the initiative in reopening inter-Korean dialogue following their White House summit meeting in late June.

Over the weekend, North Korea's Rodong Sinmun newspaper dismissed Mr. Moon's Berlin speech as "nonsensical sophism putting a brake on the efforts for achieving peace on the Korean Peninsula."

The speech's "overall contents are run through with an ill intention to escalate confrontation with the compatriots in the north and stifle them with the backing of outsiders," the Rodong Sinmun said in a commentary, the state-run Korean Central News Agency reported.

This month, North Korea chastised Mr. Moon for condemning, rather than celebrating, Pyongyang's ICBM test-launch.

North Korea also rejected an earlier offer by the Moon administration to restart family reunions, demanding that the South first agree to turn over a group of North Korean restaurant workers who defected to Seoul last year. Pyongyang says they were kidnapped by the South.

—Min Sun Lee and Charles Hutzler contributed to this article.

EU officials say Brussels may be considered a relatively neutral party by all sides, as 26 of its member states have formal diplomatic relations with Pyongyang and seven maintain embassies there. The EU has no formal role in the United Nations-backed six-party talks, which are charged with ending the nuclear standoff.

Others EU countries, including large members such as Britain, France and Germany, are wary of allowing North Korea to use talks to divide the international community. They believe stepped-up pressure on Pyongyang and China, at least for now, is the best route back to serious discussions.

Monday's EU talks were held amid mounting tensions over North Korea's nuclear program, following a string of missile tests in recent months that showed new capabilities.

The Wall Street Journal reported last month that the EU had reached out to senior South Korean and Chinese officials, saying it was willing to play some kind of broker role if it could help. Officials have insisted, however, they would only act at South Korea's request.

—Laurence Norman

Beijing faces a policy dilemma in its battle to tame the property market, which, together with construction and home furnishings, now contributes to a third of the overall economy. It doesn't want home prices to soar for fear of destabilizing bubbles; on the other hand, it needs to prevent a property crash that could torpedo the economy.

Since late last year, a series of measures intended to curb home buying has helped slow the run-up in home prices in megacities such as Beijing, Shanghai and Shenzhen. Yet those measures have done little to deter potential buyers. Many of them have simply flocked to smaller cities.

Nationwide, property sales jumped 16% from a year earlier in the second quarter, primarily driven by the gains in medium-size and small cities. Property investment continued to accelerate in the first half. Still, there were signs that developers tempered investment toward the end of the period, expecting buyers to scale back amid purchasing restrictions.

In addition, the rising property prices are causing many consumers to tighten their purse strings. In the first six months, wages earned by urban residents increased 6.5%, on average, according to official data. By comparison, their consumption picked up at a slower pace of 5.1%. Property-related expenses represented the second-largest share of consumption after food and alcohol.

## South Korea to Raise Minimum Wage by 16.4%

BY MIN SUN LEE  
AND KWANWOO JUN

SEOUL—South Korea said it would boost its minimum wage by 16.4%, a sharp rise compared with recent increases in other developed economies, drawing criticism from small businesses as the country's new left-leaning administration implements its policy agenda.

President Moon Jae-in, who took office in May, is pushing for a greater role for the government in creating jobs and spurring domestic demand, and had called for a substantial increase in the minimum wage to address income inequality.

"It's not just an hourly wage but it symbolizes the right to live as a human," Mr. Moon said Monday.

The Minimum Wage Commission said it had decided it would raise the benchmark to the equivalent of \$6.67 an hour effective Jan. 1. The increase is the largest annual rise since 2001, and follows a 7.3% rise this year and an 8.1% increase in 2016.

The size of the increase raised concerns among businesses. The Korea Federation of Micro Enterprise, which is mostly made up of small-business

owners, said its members were "worried about a sudden decline in employment, decline in service quality and possible closure due to worsened business environment."

The government is preparing financial-aid package for small companies to offset any negative effects. The finance ministry said it decided to spend some \$2.66 billion to help smaller businesses cover

Small businesses have criticized the rise to the equivalent of \$6.67 an hour.

a likely heavier financial burden and maintain employment. It also plans to offer companies more financial aid in the form of tax breaks or reducing credit-card transaction fees in the coming year.

As many as 4.63 million employees, or about 24% of the salaried population—including part-timers and contract workers in lower-income brackets—will see their pay rise as a result of the decision, according to the commission.

The 27-member indepen-

dent commission, which is affiliated with the labor ministry, said it reached the decision after three months of discussions among union leaders, management representatives and academics.

"It's good news for part-timers. But I don't expect it will make too much difference since overall prices will also go up," said Jang Eun-min, a 23-year-old college graduate who works at a drugstore in the South Korean capital. "Even with the increased minimum wage, it's still difficult to buy a meal in downtown Seoul."

The wage increase could also add inflationary pressure, analysts say, which in turn could damp the effect of higher pay on consumption.

In the U.S., minimum-wage increases of varying degrees—mostly less than \$1 an hour—took effect in 19 states this year. The country's federal minimum wage hasn't changed since 2009. Britain's minimum wage rose by £0.30, to £7.50 (\$9.80) an hour, in April.

South Korea's president has pledged to increase the minimum wage to 10,000 won, or about \$8.86, by 2020. Doing so would require annual increases of at least 15% in coming years.



A customer browses the shelves at an E-Mart store in the city of Hanam, South Korea.

SEONGJOOON CHO/BLOOMBERG NEWS

## WORLD NEWS

# Venezuelans Vote to Defy President

CARACAS—Millions of Venezuelans at home and abroad voted in an unauthorized referendum staged by government opponents to defy President Nicolás Maduro and his plans to rewrite the country's constitution.

By Anatoly Kurmanov, Kejal Vyas and Juan Forero

Of the nearly 6.5 million who voted inside of Venezuela on Sunday, 98% rejected the government's proposal. Nearly 7.2 million voted in all, but ballots cast abroad had yet to be counted by early Monday.

Organizers said the torrent of voters, accounting for a third of those eligible, served as a mass repudiation of Mr. Maduro's planned national election on July 30 to pick a 545-member special assembly that would have the power to draw up a new constitution. That body is widely expected to remake the political system, giving what critics call an increasingly authoritarian president more power while possibly dissolving the opposition-controlled congress, the National Assembly.

"This result is without precedent in Venezuela," said opposition lawmaker Americo de Grazia. "Now the ball is in our court. In the coming days, we have to propose concrete measures to honor the people's will."

The government didn't have

an immediate response to the results, but Mr. Maduro's government had said it wouldn't recognize the referendum, saying it isn't sanctioned by electoral officials. Mr. Maduro had characterized it as an internal consultation by the opposition, while other aides like Caracas Mayor Jorge Rodríguez tried to discredit it, alleging fraudulent voting.

The poll came in the midst of more than three months of unrest in Venezuela in which nearly 100 people have been killed, the vast majority of them young antigovernment demonstrators. With Venezuelans enraged about a deep economic crisis and the government's plans for a new constitution, opposition leaders had been hoping that upward of 10 million Venezuelans would vote against the government on Sunday.

Violence broke out outside one voting station in the poor west side of Caracas when a pro-government mob opened fire, killing a 61-year-old woman and wounding four others, the Attorney General's office said. The bloodshed marred a day of largely orderly voting across several time zones and underscored the country's deep polarization.

While Mr. Maduro has said the new assembly to rewrite the constitution would help resolve the country's deepening political and economic crisis by giving him the powers to take decisive action, the opposition fears it would instead



Opposition supporters celebrated in Caracas after an unauthorized referendum on President Maduro's plan to rewrite the constitution.

expand his power and bypass elections. Polls show Mr. Maduro and the ruling party would lose an election.

"If the government can't see that we the poor are tired of living lives that are worsening each day, it's better they just get out," 56-year-old phone-company worker Luis Oliveros said at a voting center in the western Venezuelan city of Maracaibo.

The symbolic referendum was open to Venezuelans inside and outside the country, taking in a large community of exiles who have in recent years fled the violence and economic chaos of their homeland for the U.S., Spain, Colombia and other countries.

"This is a proud moment for those of us who had to flee the country," said Edward Triana, a 31-year-old engineer who

worked on an oil refinery in Venezuela until arriving in Colombia three months ago. "We want this disaster to end as quickly as possible," he said after he cast his vote in a tent in front of Colombia's congress.

The coordinators of the referendum said Venezuelans voted in hundreds of cities across dozens of countries, with churches, stores, parking lots and schools used as voting centers. Eighty thousand volunteers worked to stage the vote, they said.

"The message that we're sending is that we're the majority," said Beatriz Olavarria, who has lived in Miami for 17 years and was among the organizers in that city. "The people are doing this as a form of protest."

In Spain, William Cardenas, a former Venezuelan diplomat, said Venezuelans were voting

in two large plazas in Madrid, as well as several other cities across the country. "The people see this as civil disobedience," he said.

With polls showing that four of five Venezuelans oppose rewriting the constitution, Sunday's outcome wasn't in dispute. The question now is what tangible impact it would have.

Casting paper ballots in boxes, voters were asked to reject the so-called constituent assembly Mr. Maduro would use to rewrite the constitution. They also responded to two more questions: whether they wanted presidential elections now and to call on the armed forces, which are seen as oppressive by many Venezuelans, to adhere to the current constitution. The results, though incomplete, showed only a few

thousand voted against the opposition's proposals.

"While Maduro's government uses violence, the opposition uses democracy," said former Colombian President Andres Pastrana, one of five ex-heads of state from around the region who traveled to Caracas to show support for the opposition initiative.

As sky-high inflation and chronic food shortages weigh on society, protests have flared in working class neighborhoods that were once strongholds of the ruling Socialist Party, like La Pastora in Caracas. "We want liberty!" shouted more than 100 opposition supporters who lined up there Sunday, near the Miraflores presidential palace.

—Mayela Armas and Sheyla Urdaneta contributed to this article.



Riot police arrested opposition demonstrators during a protest in the Venezuelan capital of Caracas last month.

## Detentions Recall an Earlier Era

By Ryan Dube and Mayela Armas

CARACAS—To young Venezuelan activists imprisoned by the government, Lisbeth Añez was a saint, delivering food, clothing and medicine while they were detained at a prison run by the spy agency.

Now, the 51-year-old known as "Mamá Lis" is also jailed there, charged in May by a military court with treason and rebellion, her lawyers and relatives say. "I'm not alone," Ms. Añez wrote in a letter she recently released to relatives and supporters. "The love of Venezuela, together with God, accompany me."

While the recent transfer of opposition leader Leopoldo López to house arrest from a military stockade has received world-wide attention, Venezuela's jails now hold more political prisoners than at any time in 18 years of rule by the self-declared leftist Bolivarian Revolution, human-rights groups say.

The trend harks back to an era in Latin America when dictatorships from Nicaragua to Argentina jailed thousands of dissidents. With the exception of Cuba, the spread of democracy since the 1980s changed all that, but now Venezuela's government has revived the practice, rights groups say.

Foro Penal, a Caracas group

whose lawyers represent many detainees, counts about 440 political prisoners, up from 117 before large antigovernment demonstrations began on April 1. Many recent detainees—including university students, professors and a prominent electoral expert—face the threat of years in prison, their lawyers and relatives say.

In all, 3,500 people have been detained since the protests began, most for short periods, more people even than

Rights groups say Venezuela has revived the practice of jailing dissidents.

when Venezuela was shaken by sustained street unrest in 2014. Most aren't charged; others face charges including treason and inciting violence.

"We've never seen this rate of detentions before," said Nizar El Fakih, a lawyer who leads the rights group Poriuris.

Calls and emails to government officials weren't returned. President Nicolás Maduro and other top officials deny the existence of political prisoners in Venezuela and de-

scribe demonstrators as "terrorists" and part of a conspiracy to topple the state.

Mr. Maduro's crackdown has recently taken a more sinister turn with his government's use of military tribunals to try civilians critical of his administration, say activists, opposition members and families of detainees. The policy has gathered momentum since the attorney general broke with Mr. Maduro's administration and voiced concerns over prisoners of conscience.

Prisoners are regularly denied access to lawyers and their relatives, these people say. Defense attorneys say they often don't know when hearings have been scheduled, until last-minute notifications are issued. When lawyers arrive at court—often improvised tribunals at a military facility—they are given only a few minutes to confer with their clients.

"This is systematic persecution," said Lilia Camejo, a lawyer for several prisoners.

Opposition politician Wilmer Azuaje, who was detained by intelligence agents, according to Human Rights Watch, after alleging corruption among government officials, has been held without access to his family and lawyers, said Kelly Garcia, his wife. She said she only re-

ceives occasional photos of her husband, the latest one showing him chained to a metal tube.

"For us, this is very hard," she said. "We have children, ages 1 and 3. The 3-year-old asks for her father."

Pressure to release prisoners has come from the streets, where protests continue, and from foreign capitals, including Washington, calling on Mr. Maduro to open the jail cells.

The country's most prominent prisoner, Mr. López, who leads the Popular Will party, was transferred home came after mediators led by former Spanish Prime Minister José Luis Rodríguez Zapatero met with top Maduro aides.

Mr. López received the attention of U.S. President Donald Trump after his wife, Lilian Tintori, went on a global tour to condemn Mr. Maduro's government. Others, however, like Ms. Añez, are barely known outside of Venezuela.

The imprisoned activist has hepatitis and back problems and hasn't received any treatment while in jail, said her son, Luis Fernando González. But Mr. López's release has given her some hope, her son said.

"She thinks this can have an effect on the rest of the political prisoners," he said.

—Kejal Vyas in Bogotá contributed to this article.

est in a string of such cases against foreigners that have raised alarm in the U.S. and Europe.

News agency Mizan Online on Sunday cited Gholam Hosseini Mohseni Ejehi, a spokesman for Iran's judiciary, as saying an American had entered the country at the direction of the U.S. and was identified and arrested.

"It has been confirmed and verified that this individual has come to Iran for infiltration," Mr. Ejehi was quoted as saying. Mr. Ejehi said the person, whom he didn't identify by name, was appealing an Iranian court's initial sentence.

Mizan identified Mr. Wang, a doctoral candidate at Princeton University, as the person, citing an "informed source."

The agency said Mr. Wang is 37 and was born in Beijing.

—Aresu Eqbali

## EUROPEAN UNION

### Trade Relegated as Brexit Talks Resume

The U.K. and the EU began Brexit talks in earnest Monday, with a four-day negotiating session on a set of thorny issues the EU wants largely resolved before discussions turn to a future trade deal.

U.K. Brexit Secretary David Davis and the EU's top negotiator, Michel Barnier, returned to the negotiating table in Brussels for the first time since the official opening of talks on June 19, with the focus on U.K. and EU citizens' rights after Brexit and how much London must pay to cover the U.K.'s outstanding financial commitments to the bloc.

—Jason Douglas and Laurence Norman

The U.N. Assistance Mission to Afghanistan documented 5,243 civilian casualties across the country, including 1,662 dead and 3,581 wounded, a decrease of less than 1% from last year, the report that was released Monday said.

—Jessica Donati

## IRAN

### U.S. Academic Given 10-Year Jail Sentence

Iran handed American researcher Xiyue Wang a 10-year prison sentence on spying charges, the news agency for Iran's judiciary reported, the lat-



A soldier searches a man in Nangarhar province, Afghanistan.

## U.S. NEWS

# Health-Law Taxes Divide the GOP

A decision to maintain taxes that affect high-income earners has angered conservatives

By RICHARD RUBIN

WASHINGTON—Republican efforts to pass a health-care bill have revealed a party fissure on health-related taxes with potentially far-reaching repercussions.

In his latest attempt to rewrite President Barack Obama's signature health-care law, Senate Majority Leader Mitch McConnell (R., Ky.) retained a 3.8% investment-income tax and a 0.9% payroll tax that apply to individuals earning more than \$200,000 and married couples earning more than \$250,000.

The decision to keep the taxes instead of repealing them satisfied senators such as Mike Rounds of South Dakota and Bob Corker of Tennessee, both Republicans, who were worried about losing revenue sources and about the optics of reducing taxes on high-income households. But it infuriated conservatives who see the taxes as a drag on economic growth and view removing them as an important part of repealing the 2010 Affordable Care Act.

"They're all wusses," said Larry Kudlow, the CNBC economic commentator. "How is it possible after all these years of studying the capital-gains tax? How is it possible that they don't know that [cutting] it promotes growth?"

The party's longstanding focus on lowering marginal tax rates to spur investment and growth is colliding with some members' concerns about the merits and politics of cutting taxes for businesses and high-income households while proposing other policies, in this case on health care, that could place a greater financial burden on low-income households.

The challenge could re-emerge when the party moves on later this year to an effort to rewrite U.S. tax law.

"I thought it important that we recognize that if we're offering the benefit that we should also try to offer a rever-



Sen. Bob Corker (R., Tenn.) was one of the lawmakers pleased by a decision to keep taxes that affect high-income earners.

nue source and that's part of the responsibility that we've got," Mr. Rounds said. "I know it's still a burden on them, but it's not near the burden on [high-income households] as would be to individuals in that \$0-to-\$36,000 pay range."

Independent estimates of the blueprints from House Republicans and President Donald Trump's administration show the bulk of benefits from their plans accrue to the top of the income ladder, though no plans are final and the GOP president has promised a middle-class tax cut.

At some level, health care may be a unique case, with policy boundaries set by the Affordable Care Act, widely known as Obamacare, and the potentially visceral reaction to tax cuts twinned with coverage losses.

But the retention of the 2010 law's taxes may indicate the emergence of a Republicanism that, while not favoring tax increases, is less comfortable with focusing tax cuts on high-income households. Mr.

Trump has occasionally flirted with populist rhetoric on tax policy, and his campaign last year resonated in some areas of the country struggling with economic decline.

The past week shows "the waning power of the supply side, pro-growth antitax wing of the Republican Party," said James Pethokoukis, a columnist and blogger at the conservative American Enterprise Institute. It is "a moving away from the more extreme tax-cut positions."

The two ACA taxes in question each affect fewer than 3% of households. Republicans opposed the taxes along with the rest of the health law, but the law's core structure—tax increases at the top used to pay for broader health-insurance coverage—meant that undoing the taxes would lead to the reverse.

To most House Republicans, that wasn't a problem. The tax increases, they argued, were holding the economy back, so repeal would be an economic boon. Their bill repealed the

investment tax retroactively for 2017 and ended the 0.9% payroll tax in 2023.

"I'm much more concerned about us keeping our word, and we said we were going to get rid of Obamacare," said Rep. Jim Jordan (R., Ohio).

That idea fell flat in the Senate for several reasons. One is the slim margin, where any three Republican senators can band together to kill an idea, assuming there is no Democratic support. A second is the rule allowing unlimited amendments on reconciliation bills that avoid a filibuster. That means Democrats could force politically tough votes, such as retaining the investment tax and using the money to help near-retirees afford health care.

"It shows how incredibly unpopular cutting taxes for the wealthy is and how powerfully that criticism has broken through and I think affected how some senators seem to be viewing this bill," said Harry Stein, director of fiscal policy at the Center for American

Progress, a think tank aligned with Democrats.

Few, if any, House Republicans have ruled out voting for the Senate bill because it doesn't repeal the taxes.

Instead, the pressure would transfer to the tax bill. Republicans had assumed they would have already accomplished a big piece of their tax-cutting agenda in the health bill. Now, that task is harder. Removing the Obamacare taxes could require finding money elsewhere, or the taxes could just remain in place.

"We'd have to find the offsets in another place, be flexible and try to find another place," said Rep. Kenny Marchant (R., Texas). "And the people in the other place might not be happy about it."

House Republicans have said repeatedly that they aren't particularly concerned about how their plan changes the tax burden for different income groups, saying their main aim is to generate broad economic growth.

## New Head Of CDC Lays Out Her Goals

By BETSY MCKAY

The new director of the Centers for Disease Control and Prevention said she will prioritize a wide range of public-health issues, from fighting infectious diseases to strengthening early childhood development, as the federal agency faces potentially substantial budget cuts.

In an interview at the end of her first week on the job, Brenda Fitzgerald said she would make a strong case for public-health spending should the agency fall on tough times.

"When there are austere times, the most important factor is that you have to know what your mission is," Dr. Fitzgerald said. "You make sure what you're doing is indeed fulfilling that role, because there are certain things that I believe only public health can do," she said.

The Trump administration has proposed a \$1.22 billion, or 17%, cut to the CDC's budget for fiscal 2018, including reductions in chronic-disease prevention and epidemic preparedness.

Many public-health experts welcomed Dr. Fitzgerald's July 7 appointment because she is a public-health advocate and leader. But she has been criticized for a Georgia childhood-obesity program that accepted funds from Coca-Cola Co.'s foundation.



New CDC head Brenda Fitzgerald was previously Georgia's public-health commissioner.

Dr. Fitzgerald, 71 years old, grew up in Middlesboro, Ky., a town in coal-mining country. She was Georgia's public-health commissioner from 2011 until she was named to her CDC post.

She calls herself a "strong advocate for vaccines" and says she supports making reliable contraception available, two issues that have been scrutinized by the new administration.

Rates of premature births can be brought down by spacing births, saving on health-care costs, she said, an approach that generally requires contraception.

Dr. Fitzgerald said that preventing the spread of infectious diseases will remain a priority for the agency.

Battling the U.S.'s biggest killers will also be a focus for the CDC under her leadership, she said, though she didn't cite specifics. Fighting opioid addiction is a priority for the administration, her spokeswoman said.

Mr. Sekulow was asked whether agreeing to the meeting with a lawyer described as a representative of a foreign government was a mistake, even if it wasn't illegal. "It's easy to do that in 20-20 hindsight, but not when you're in the middle of a campaign," said Mr. Sekulow on CNN. Of the younger Mr. Trump, he said on CBS, "If he had to do it all over again, there are things he would do differently."

Mr. Sekulow also said the meeting amounted to routine opposition research by political candidates in both parties.

Campaign veterans of both parties have said it isn't normal for candidates to accept or seek political assistance from foreign governments.

"I think if you're going to solve a big problem, you've got to have a public-private partnership," she said.

## Lawyer Backs Handling of Russian Meeting

By NICK TIMIRAO

WASHINGTON—A lawyer for President Donald Trump said that no laws were broken when the president's eldest son agreed to a meeting in June 2016 to hear what was described as a Russian government offer of allegedly damaging information about Democrat Hillary Clinton.

Jay Sekulow appeared on Sunday morning news programs to defend the president following a week in which Mr. Trump's eldest son, Donald Trump Jr., offered varying accounts of the meeting.

The meeting included a Russian lawyer, Natalia Veselnitskaya, and a U.S. lobbyist who had served in the Soviet military, Rinat Akhmetshin. Others attending included the Trump campaign manager at the time, Paul Manafort, and Mr. Trump's son-in-law, Jared Kushner, who is now a senior White House adviser.

Democrats and some Republicans have said the meeting showed that the Trump campaign knew about the Russian government's desire



to influence the election on Mr. Trump's behalf. Mr. Trump and his son have said the meeting was short and that nothing came of it.

"The meeting itself and those proposed discussions would not have been violations of the law," said Mr. Sekulow in an appearance on CBS.

Fox. "The president was not aware about this meeting, did not participate in this meeting," said Mr. Sekulow on CBS.

While some U.S. lawmakers sought even more visas, DHS officials said this amount would cover the number of companies that meet this criteria.

Businesses seeking additional visas can expect to wait 30 to 60 days for the petitions to be approved, senior DHS of-

ficials said. The officials encouraged companies to seek "premium processing" for their petitions, which costs about \$1,200 but can shorten the wait time to about two weeks.

Legislation authorizing the visas was approved in the spring, officials said. Similar legislation is normally passed in the fall, said David Lapan, a spokesman for the Department of Homeland Security.

"We understand that is late in the season," Mr. Lapan said. "We're working as hard as we can."

By law, the number of H-2B visas, which are available for

temporary, nonagricultural jobs, is capped at 66,000, divided between the summer and winter seasons. This year, the summer allotment was exhausted in March.

In past years, Congress has exempted returning workers from the cap, enabling many additional foreigners to participate in the program, but lawmakers didn't renew that exception for this year. Instead, on April 30, Congress gave DHS authority to add additional visas if Homeland Security Secretary John Kelly found businesses that were at risk without them. It took DHS until now to use the authority granted.

In statements on Twitter on Sunday morning, Mr. Trump expressed unhappiness over the continued focus on the Russia investigation. He asked why there wasn't more attention on his defeated opponent, Mrs. Clinton, and why instead "my son Don is being scorned by the Fake News Media."

Mr. Sekulow was asked whether agreeing to the meeting with a lawyer described as a representative of a foreign government was a mistake, even if it wasn't illegal. "It's easy to do that in 20-20 hindsight, but not when you're in the middle of a campaign," said Mr. Sekulow on CNN. Of the younger Mr. Trump, he said on CBS, "If he had to do it all over again, there are things he would do differently."

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Campaign veterans of both parties have said it isn't normal for candidates to accept or seek political assistance from foreign governments.

## More Visas for Temporary Seasonal Workers to be Offered

By LAURA MECKLER

AND MICHAEL C. BENDER

WASHINGTON—The Department of Homeland Security said Monday it would make 15,000 more visas available for seasonal workers, increasing by nearly 50% the number of foreigners able to work in the U.S. this summer.

The decision responds to complaints from businesses and members of Congress about a significant shortfall in H-2B visas that left hotels, restaurants and other businesses that see a surge of demand in the summer scrambling.

While some U.S. lawmakers sought even more visas, DHS officials said this amount would cover the number of companies that meet this criteria.

Businesses seeking additional visas can expect to wait 30 to 60 days for the petitions to be approved, senior DHS of-

ficials said. The officials encouraged companies to seek "premium processing" for their petitions, which costs about \$1,200 but can shorten the wait time to about two weeks.

Legislation authorizing the visas was approved in the spring, officials said. Similar legislation is normally passed in the fall, said David Lapan, a spokesman for the Department of Homeland Security.

"We understand that is late in the season," Mr. Lapan said. "We're working as hard as we can."

By law, the number of H-2B visas, which are available for

temporary, nonagricultural jobs, is capped at 66,000, divided between the summer and winter seasons. This year, the summer allotment was exhausted in March.

In past years, Congress has exempted returning workers from the cap, enabling many additional foreigners to participate in the program, but lawmakers didn't renew that exception for this year. Instead, on April 30, Congress gave DHS authority to add additional visas if Homeland Security Secretary John Kelly found businesses that were at risk without them. It took DHS until now to use the authority granted.

An immigrant worker at Churchill Downs in Louisville, Ky.

TIMOTHY D. EASLEY/ASSOCIATED PRESS

## U.S. NEWS

# Electric-Car Push Mulled In California

BY ALEJANDRO LAZO  
AND TIM HIGGINS

SAN FRANCISCO—California lawmakers are considering \$3 billion in rebates for buyers of electric cars in an effort to power an industry that relies heavily on public subsidies.

The bill has passed the state Assembly and is advancing in the Senate, which is expected to take up the bill once it clears a final committee next month. Gov. Jerry Brown has set ambitious goals for zero-emissions vehicles, though he hasn't said whether he would sign the bill.

**Critics say the program would be a giveaway to a struggling industry.**

California has long been a leader on environmental, clean air and climate policies with its large size, geography and heavy reliance on cars. The state has more than 250,000 zero-emission vehicles on its roads, including electric cars, accounting for about half the U.S. market, says the California Air Resources Board.

California has had a tax re-

bate of \$2,500 on fully electric vehicles since 2010, but the program was scaled back this summer based on a buyer's income as the program awaits new funding, according to Chuck Colgan, a spokesman at the Center for Sustainable Energy.

The per-vehicle value of the new rebate hasn't been set. It is expected to vary based on the customer's income and other factors such as how much a similar gasoline-powered model costs.

Similar incentives aided electric car sales elsewhere.

A \$5,000 tax credit in Georgia helped the state become the second-largest electric vehicle market in the U.S. after California until the credit was eliminated in July 2015, according to Edmunds, a website that tracks car sales. After the change, sales in Georgia fell to 2% of all U.S. electric vehicles sold in 2016 from 17% in 2014, according to the site. Georgia sales of Tesla, luxury electric vehicles that typically sell for about \$100,000, initially fell but bounced back, according to Edmunds.

Electric cars are priced far higher than those that run on gasoline, making sales challenging when gas prices are as low as they are now.

Auto executives talk about a "tipping point" when the



Interstate 405 in Los Angeles, which has pioneered clean-air controls for decades, wants 1.5 million zero-emissions vehicles on its roads by 2025.

costs of some electric models fall below the cost of the conventional version of the same vehicle type.

Industry analysts estimate that rising costs of developing combustion engines that meet ever-stricter emissions regulations could make some electrics reach that level as soon as 2025.

In California, electric cars made up just 2.7% of the new-car market in this year's first quarter, according to a report by the California New Dealers Association. During the first three months of 2017, the Honda Civic was the most popular selling new model in the state.

But to meet aggressive mandates for statewide reductions in greenhouse gas emis-

sions, California aims to have 1.5 million zero-emissions vehicles on its roads by 2025 and five million by 2030. The car industry needs an "aggressive boost" to get there, said Assemblyman Phil Ting, a San Francisco Democrat who wrote the new rebate bill.

"We have pushed and adopted very aggressive climate change policies," Mr. Ting said. "There is no way we are going to get there if we don't put more clean vehicles, or clean cars, on the road."

Funds for the proposed rebate will come from existing programs, Mr. Ting said, with one source being the state's cap-and-trade program, which requires California industry to pay for greenhouse gas emissions. That program faces a

key test Monday, with state lawmakers set to vote on whether to extend the program from 2020 through 2030.

Some cap-and-trade revenue helps fund the existing, limited electric car rebates, in which a buyer has to apply for one after purchasing a car. Mr. Ting's bill would offer buyers rebates at dealerships, with bigger discounts for lower-income buyers.

Critics say the program would be a giveaway to an industry that has struggled to survive without government funding. "The legislature is once again picking winners and losers in what is supposed to be a free market," said state Senator Andy Vidak, a Republican from Hanford, Calif.

Jessica Caldwell, an auto industry analyst for Edmunds, said the new California program should boost sales, particularly given that new electric models such as the Chevrolet Bolt and Tesla Model 3 can go further on a charge.

"In major cities like San Francisco and Los Angeles, the infrastructure is growing, which has been a major barrier for widespread adoption," she said. "One can argue whether or not this proposal is an efficient use of state funds but if California politicians decide that, yes, increased EV ownership is a priority for the state, then providing more incentives is surely a way to achieve this goal."

## Loan Program for Historically Black Colleges Struggles

BY MELISSA KORN

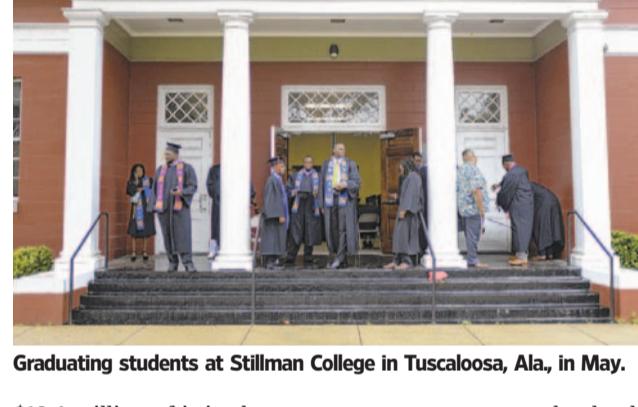
The federal government has lent out nearly \$2 billion over the past two decades to help dozens of historically black colleges and universities upgrade their campuses or refinance existing debt.

But a small fraction of the money has been repaid, oversight is limited and the lifeline promised to the schools, which have played a key role in educating African-Americans since the Civil War, has become more of an albatross for some.

Officials at Stillman College in Tuscaloosa, Ala., are lobbying the Education Department to have their \$40 million loan modified or forgiven, arguing that the funds it got through the Historically Black College and University Capital Financing Program in 2012 were secured with overly optimistic enrollment projections.

Barber-Scotia College in Concord, N.C., defaulted on its loan in 2005 after it lost its accreditation.

And four schools ravaged by Hurricane Katrina and Rita, which in 2007 took out a combined \$361 million in loans capped at 1% interest over 30 years, have paid back roughly



Graduating students at Stillman College in Tuscaloosa, Ala., in May.

\$12.4 million of it in the past decade and were granted a five-year forbearance period in 2013 when enrollment didn't rebound quickly.

"We've got to have much stricter underwriting requirements" to ensure that schools can handle the new debt, said Johnny C. Taylor Jr., president and chief executive of the Thurgood Marshall College Fund, which represents publicly supported HBCUs, and a member of the loan program's federal advisory board.

Created by Congress in 1992, the capital-financing

program encouraged schools to participate "as a coalition, as a collective, being willing to help other institutions," said Brian Johnson, who until last month was president of Tuskegee University. But as a pooled escrow system, schools were also on the hook when institutions with questionable credit couldn't pay back their debt.

The program got off to a slow start: By summer 2006, it had approved just \$218 million in loans to 14 schools. A Government Accountability Office report that year encouraged more aggressive marketing to

potential borrower institutions. Over the next 10 years, the program approved \$1.75 billion in loans, including 11 for more than \$50 million each.

Many of the schools have used funds to build or refurbish student housing and dining facilities, and they generated enough revenue to pay off the loan if enrollments remain stable or increase.

But enrollment hasn't been growing at many of the schools in recent years, partly because the Education Department tightened borrowing requirements for a parent loan program popular at HBCUs. Historically black colleges enrolled 294,316 students in fall 2014, down from a peak of 326,614 in 2010.

The program has long faced high delinquency rates.

The Education Department's fiscal 2017 budget request shows that the program had a target delinquency rate of 14%. Its actual delinquency rate—reflecting payments that were between 11 and 59 days late—was 19% in fiscal 2012, and 36% in fiscal 2013.

The Education Department said there are eight HBCU loan applications now under review.

### A School Defaults, For-Sale Sign Goes Up, but No One Bites

The campus of Barber-Scotia College in Concord, N.C., has been available for five years.

As long as it is on the market, other schools that have borrowed through the HBCU Capital Financing Program are responsible for paying down Barber-Scotia's past-due loan.

Barber-Scotia took out a \$7 million loan in 2000 to renovate a student housing facility. The school lost its accreditation in 2004 after awarding a number of unearned degrees, and with students cut off from federal financial aid programs, enrollment plummeted to fewer than 100 from more than 700 in two years, according to local media and Education Department data. It defaulted in 2005.

Through a pooled escrow fund, into which borrower institutions deposit 5% of their total loan amount, other schools have been picking up the tab.

They have covered more than \$5 million in payments, according to emailed responses from

loan program director Donald Watson.

As of May 2015, the last time the program's advisory board met, members estimated that there was roughly \$45 million remaining in the escrow account.

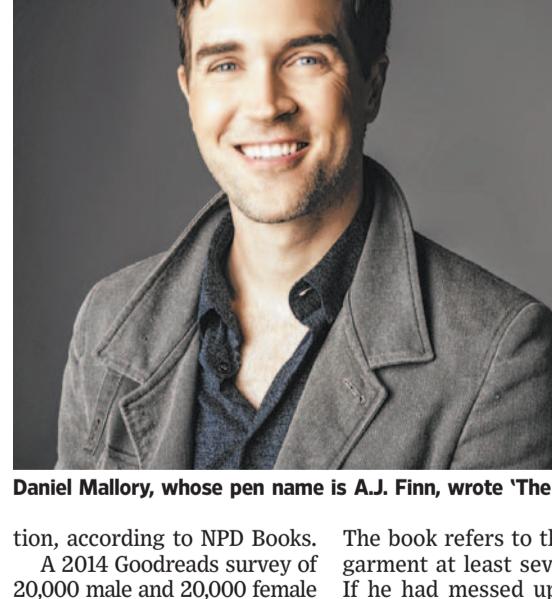
"At some point, justice would demand other institutions not to pay to carry that burden, and I think that time may be coming to an end or may have ended some time ago," said Norman Francis, then-president of Xavier University of Louisiana, at a 2008 meeting of the program's advisory board.

Minutes from advisory board meetings show that while Barber-Scotia's campus had been put up for collateral against the loan, officials didn't foreclose on it. And a decade after the default, they were still in the process of marketing it for sale.

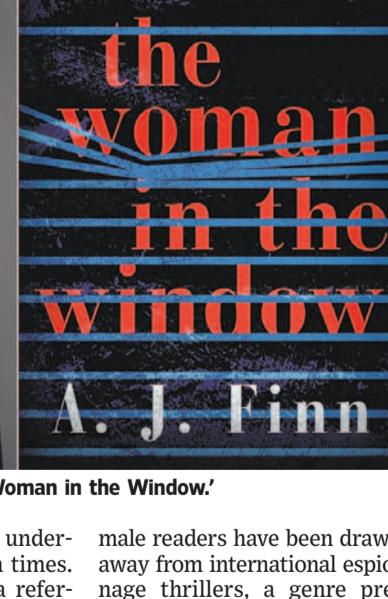
Barber-Scotia is still in default, and the campus hasn't been sold, the Education Department said.

Representatives from Barber-Scotia didn't respond to repeated requests for comment.

—Melissa Korn



Daniel Mallory, whose pen name is A.J. Finn, wrote 'The Woman in the Window.'



are the ones powering these books," said Daniel Mallory, 37, whose thriller "The Woman in the Window" comes out in January under the name A.J. Finn.

Mr. Mallory, vice president and executive editor at William Morrow, constructed the pseudonym using initials, like other male authors do, with help from his cousin's French bulldog, Finn. He used the name for his debut novel to steer clear of his ties in publishing and appeal to a broad audience as possible.

Authors who use pseudonyms argue that a good writer can be genuine in the voice of the opposite gender—or a dog or a space creature, for that matter. And they accept that nothing stays a secret for long in the age of the internet.

A Google search linked Tony Strong to his pen name, JP Delaney, even before his 2017 best seller "The Girl Before" hit shelves. Publisher Ballantine Books identified JP Delaney as a pseudonym in the book-jacket bio but didn't use telltale pronouns like "he" or "she."

If readers assume he's a woman, Mr. Strong said, it signals to him that he wrote a believable female narrator. "At almost every event, someone will say, 'Oh, I didn't realize you weren't a woman,' and I'm always pleased."

Last year, Amy Feld referred to author S.K. Tremayne as a woman in an online post about the 2015 thriller "The Ice Twins." Ms. Feld, 53, a child psychologist from Conshohocken, Penn., said she is more likely to pick up a first-person female narrative written by a woman. When she finds authors she likes, she reads all their books, follows them on social media and tries to develop a feel for them. When informed of S.K. Tremayne's actual gender recently, she balked. "It leads me to be suspicious of the writer," she said.

"I just feel a little bit lied to."

Sean Thomas, 53, the Londoner who is S.K. Tremayne, had been toiling for years as Tom Knox, a pen name that distanced his fiction from his work as a journalist but never delivered literary stardom. When he took on S.K. Tremayne, with what he called its "slight feminine feel," his luck changed. "The Ice Twins" was a 2015 international best seller printed in 30 languages and optioned for a movie.

Mr. Thomas adopted the pen name on the advice of his all-female publishing team but he didn't set up social media accounts for it because he didn't want to flesh out the fake identity. "We didn't overtly lie," he said. "It's a cutthroat industry."

## WRITER

Continued from Page One

Lee Curtis from the 1978 horror movie "Halloween.") The first Riley Sager novel is one of five Book of the Month Club picks for July. Despite the excitement, Mr. Ritter isn't doing a book tour. Some online posts have referred to him as a woman, a mistake he sometimes ignores. He won't lie about his identity, created with help from a list of gender-neutral baby names, but he isn't trumpeting the truth, either.

"I didn't want there to be people thinking I was trying to deceive them in any way, but at the same time I think it's cool to have a little mystery," said Mr. Ritter, a 43-year-old author from Princeton, N.J. He said he chose the pseudonym partly because this book was unlike any other he had written and thrillers published under his real name hadn't sold.

The world has changed since the Brontë sisters and the woman born Mary Ann Evans, writing as George Eliot, had to disguise themselves with masculine-sounding pen names to be taken seriously. Women hold a large share of the power in the reading public. Last year, women bought 59% of all fic-

tion, according to NPD Books. A 2014 Goodreads survey of 20,000 male and 20,000 female participants on the site found that of the 50 books published that year that were most read by women, 46 were written by women. (One of those was by J.K. Rowling under the pen name Robert Galbraith.)

The stakes are high for male writers not to make mistakes that female readers would catch. S.J. Watson—Steve Watson—tried on a bra in his office while writing his 2011 best seller "Before I Go to Sleep."

In recent years, many fe-

male readers have been drawn away from international espionage thrillers, a genre predominantly written by men, in favor of suspense novels told through the point of view of female characters, often compared with the 2012 juggernaut "Gone Girl." Since then, certainly, men have written psychological thrillers under their own names and women have used pen names. But once a formula is successful, publishers try to replicate it.

"I'd be totally disingenuous if I said I haven't noticed women

## IN DEPTH

# DRONES

Continued from Page One

For the U.S., that is a strategic and commercial blow.

The U.S. has long refused to sell the most powerful U.S.-made drones to most countries, fearing they might fall into hostile hands, be used to suppress civil unrest or, in the Mideast, erode Israel's military dominance. The U.K. is the only foreign country that has operated armed Predators and Reapers, the most potent U.S. systems for offensive drone strikes, according to people familiar with U.S. sales.

The Obama administration, while seeking to facilitate exports under close regulation, led efforts to forge a global "drone code" that would curb proliferation and keep the weapons from misuse.

But China is filling the void. State companies are selling aircraft resembling General Atomics' Predator and Reaper drones at a fraction of the cost to U.S. allies and partners, and to other buyers.

China's sales have enabled multiple countries—including some with weak legal systems and scant public oversight of the military—to use unmanned aerial vehicles to spy and kill remotely as the U.S. has done on a large scale since 9/11.

Among the Pentagon's concerns is that advanced drones could be used against American forces. In Syria, U.S. pilots have shot down two Iranian-made armed drones threatening members of the U.S.-led coalition.

U.S. export policy that is driving partners to buy Chinese "hurts U.S. strategic interests in so many ways," said Paul Scharre, a former Pentagon official at the nonpartisan Center for a New American Security. "It damages the U.S. relationship with a close partner. It increases that partner's relationship with a competitor nation, China. It hurts U.S. companies trying to compete."

China's drone exports are now starting to influence U.S. policy, as American manufacturers and politicians lobby the Trump administration to relax export controls to stop China from expanding market share and undermining U.S. alliances.

The White House National Security Council is reviewing the drone-export process with



China's Wing Loong drones were on display in a 2015 parade in Beijing. 'Our main competitors? The Americans, of course,' said the aircraft's chief designer, Li Yidong.

Chinese laser-guided missiles. "Our main competitors?"

The Americans, of course," Li Yidong, chief designer of the

Wing Loong, which is built by Chengdu Aircraft Industry Group, said in November at China's biggest air and defense show, in Zhuhai.

Behind him, a video screen played animated clips depicting a drone strike on a terrorist base, set to a thumping soundtrack. Nearby, miniskirted models posed with laser-guided missiles.

China's government and drone manufacturers declined to reveal who bought the aircraft. The foreign ministry said Beijing requires strict user agreements—offering no details—and ensures that its arms sales do no harm to regional peace and stability.

"China is paying high attention to the question of the use and export of armed drones," it said. Authorities from Saudi Arabia, Egypt, the U.A.E. and Jordan declined to comment.

China began exporting strike-enabled drones around 2014-15, heralding a new phase in its arms industry as a

system's range and how much it can carry—putting tight restrictions on the most powerful American drones.

In 2015, the Obama administration issued new export rules that tried to enable drone exports if buyers agreed to use them in line with international human-rights law.

The rules grew in part from the administration's expansion of drone operations in places such as Afghanistan. The growth spurred concerns about the lawfulness of killings outside combat areas and the ethics of remote-control warfare—including the targeting of Americans, such as al Qaeda's Anwar al-Awlaki in Yemen in 2011.

In an effort to address legal uncertainty and the global precedent it was setting, the Obama administration sought to develop a framework for how governments use such weapons.

In October, after months of U.S. lobbying, 45 countries signed the world's first joint declaration on the export and use of armed or strike-enabled aerial drones. The declaration said misuse of such drones could "fuel conflict and instability" and urged exporters to be transparent about sales and ensure buyers observed laws of war.

In the Mideast, only Jordan and Iraq endorsed the statement.

China didn't sign. Its foreign ministry said the issue was "complicated" and related to "cross-border strikes" as well as exports. It noted that other drone producers didn't sign last year's declaration and deeper talks were needed.

Some of the declaration's proponents worry that several states could relax export rules to compete with China. "This would be a drone-against-drone world driven by profits, not protection of civilians," said Wim Zwijnenburg, a disarmament campaigner for the Dutch group PAX who participated in negotiations on enhancing the declaration. He said China's sales could fuel regional tensions as states act across borders—which can be done with drones at lower cost and less risk to personnel.

The Pentagon estimates China could produce almost 42,000 aerial drones—sales value more than \$10 billion in the decade up to 2023.

Beijing's drone program began with old Soviet designs; more recently, U.S. officials say, China used espionage and open-source material to reverse-engineer U.S. drones. Beijing denies that.

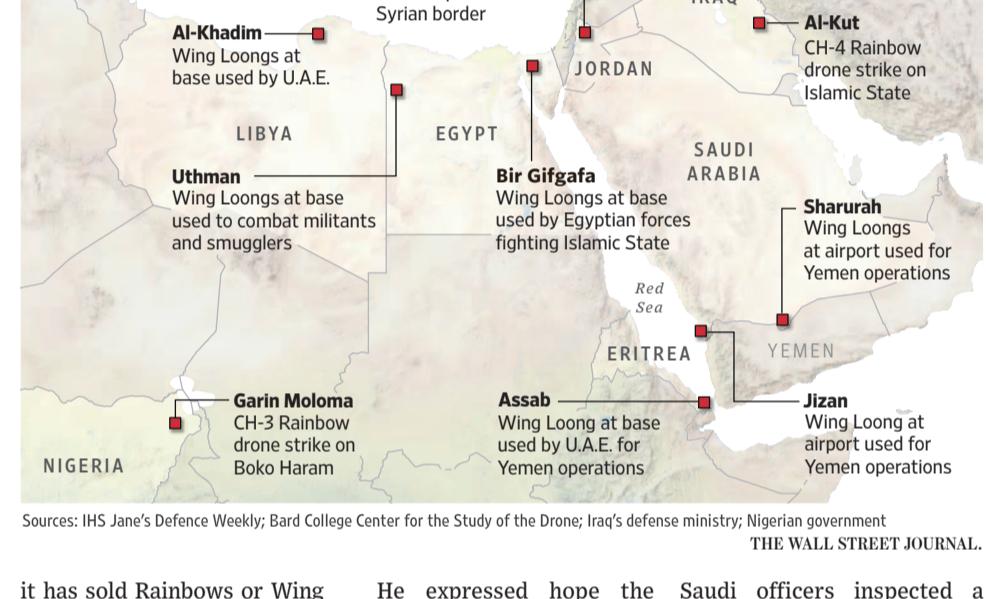
U.S. armed drones are still overwhelmingly considered the most capable, in part because the U.S. satellite infrastructure that controls them is superior. Israel has been the top military-drone exporter for years, according to SIPRI. But Israel has largely avoided selling them in its own Mideast neighborhood.

A Wing Loong, meanwhile, costs about \$1 million compared with about \$5 million for its U.S.-made counterpart, the Predator, and about \$15 million for a Reaper, whose Chinese competition is the CH-5.

Buyers welcome the chance to buy relatively cheap weapons that they say come with fewer restrictions than Western equivalents. Promotional materials from China suggest

### Remote Access

Sightings and official reports of Chinese-made Wing Loong and Rainbow drones in the Mideast and Africa, 2016-17



Sources: IHS Jane's Defence Weekly; Bard College Center for the Study of the Drone; Iraq's defense ministry; Nigerian government

THE WALL STREET JOURNAL.

it has sold Rainbows or Wing Loongs to at least 10 countries.

Satellite imagery viewed by The Wall Street Journal shows Chinese strike and surveillance drones have been used by Saudi Arabia and the U.A.E. in the Saudi-led military intervention in Yemen.

After the Obama administration rebuffed a request from the U.A.E. for shoot-to-kill drones, the Emiratis bought Chinese surveillance drones and equipped them with South African laser targeting systems, according to Danny Sebright, a former Pentagon official and president of the U.S.-U.A.E. Business Council. The U.A.E. has used them to guide missiles from planes for strikes in Yemen, he said.

In Libya, the U.A.E. is using Chinese drones to help support a general who opposes the United Nations-backed government in Tripoli, satellite images indicate. They also show that Egypt's military is deploying Chinese drones in the Sinai Peninsula in its campaign against Islamist militants.

Iraq last year published video of its missile attacks on Islamic State from a Chinese drone, and Nigeria issued footage of a strike by a Chinese drone on the Boko Haram insurgency. An official with Iraq's Joint Operations Command said Iraq has used the Chinese-made CH-4 Rainbow.

A Nigerian Air Force spokesman said Nigeria was using CH-3 Rainbows procured from China.

He expressed hope the Trump administration would revise policy to better promote U.S. industry.

In recent months, China has unveiled larger, longer-range drones and tested radar-evading stealth models, according to state media. It has also expanded its marketing, displaying its drones for the first time in Mexico in April and in France in June.

At the Chinese air show in November, two uniformed

Saudi officers inspected a CH-5 Rainbow—the model most similar to the Reaper—displayed publicly for the first time. "It's amazing," said one. "This thing can stay up for more than 24 hours."

The CH-5 can in fact operate for up to 40 hours, its manufacturer says—about 50% longer than its American competitor.

Asa Fitch in Dubai and Yang Jie in Beijing contributed to this article.

### Who's Buying

China's military drones have recently appeared in Mideast war zones, but it's also been selling them in Asia and Africa, from surveillance models like the ASN-209 to the strike-enabled Wing Loong.

#### Egypt



18 units of ASN-209 between 2012 and 2014

#### Iraq



4 units of Rainbow CH-4 in 2015

#### Jordan



2 units of Rainbow CH-4 in 2016

#### Kazakhstan



2 units of Wing Loong 1 in 2016

#### Myanmar



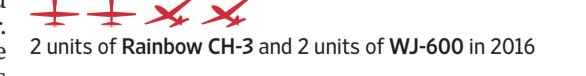
12 units of Rainbow CH-3 between 2014 and 2015

#### Nigeria



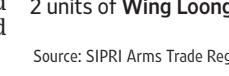
5 units of Rainbow CH-3 delivered in 2014

#### Pakistan



20 units of Rainbow CH-3 between 2013 and 2016

#### Saudi Arabia



2 units of Rainbow CH-4 and 2 units of Wing Loong 1 in 2015

#### Turkmenistan



2 units of Rainbow CH-3 and 2 units of WJ-600 in 2016

#### United Arab Emirates



2 units of Wing Loong 1 in 2013

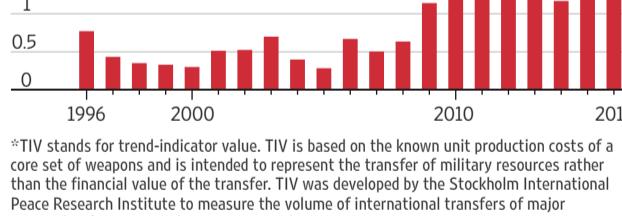
Source: SIPRI Arms Trade Registers

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### Budding Business

China's arms sales have evolved from mainly low-tech arms to more sophisticated items, making Beijing the world's #3 arms seller by value.

### Weapons exports from China



\*TIV stands for trend-indicator value. TIV is based on the known unit production costs of a core set of weapons and is intended to represent the transfer of military resources rather than the financial value of the transfer. TIV was developed by the Stockholm International Peace Research Institute to measure the volume of international transfers of major conventional weapons using a common unit.

Source: SIPRI Arms Transfers Database

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the goal to "wherever possible" remove obstacles to American companies' ability to compete, a senior Trump administration official said.

"We are attuned to what China is doing," the official said.

Thomas Bossert, assistant to the president for homeland security and counterterrorism, emphasized the effort to balance economics and security.

The administration seeks to help U.S. industry while advancing strategic objectives, he said, including "a deliberate approach to our technology sales policy and the protections we put in place to avoid imperiling innocent lives."

### A Saudi Deal

China, meanwhile, has its sights on another milestone: building military drones in the Mideast. In March, Chinese and Saudi officials agreed to jointly produce as many as 100 Rainbow drones in Saudi Arabia, including a larger, longer-range version called the CH-5, according to people involved.

Shi Wen, the chief designer of China Aerospace Science and Technology Corp.'s Rainbow, said earlier versions of the aircraft had been exported to the Mideast, Africa and Asia and were proved "on the battlefield," hitting 300 targets in the previous year or so with

global competitor that can influence conflicts and alliances worldwide.

Beijing used to sell mainly low-tech arms to poorer countries; now it is marketing sophisticated items including stealth fighters, and targeting markets once dominated by Russia and the U.S.

Sales help Beijing gain leverage in areas where its economic interests are expanding, adding muscle to President Xi Jinping's drive to establish his country as a global power.

China is now the world's third-biggest arms seller by value, behind the U.S. at No. 1 and Russia, according to the Stockholm International Peace Research Institute, or SIPRI.

Maintaining such a ranking depends in large part on demand for China's armed drones, which China has sold to countries including Iraq, Saudi Arabia, Egypt and the U.A.E., the Pentagon said in a report in June.

"China faces little competition for sale of such systems, as most countries that produce them are restricted in selling the technology" by international agreements, it said.

Key among those agreements limiting American sales is the 1987 Missile Technology Control Regime, signed by 35 nations including the U.S., but not China. The MTCR limits exports based on an unmanned

global competitor that can influence conflicts and alliances worldwide.

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Buyers welcome the chance to buy relatively cheap weapons that they say come with fewer restrictions than Western equivalents. Promotional materials from China suggest

### Sales Pitch

U.S. manufacturers, and their political backers, argue that Washington can no longer prevent drone proliferation.

Weapons makers have been buoyed by President Donald Trump's statements of support for U.S. manufacturing and for a \$110 billion arms sale to Saudi Arabia that includes some items that were blocked by the Obama administration.

The administration in June approved the sale to India of 22 Guardian drones, an unarmed maritime version of the Reaper. Bart Roper, executive vice president of General Atomics Aeronautical Systems Inc., said the U.S. is ceding the drone market to Chinese and others "due to obsolete and arbitrary restrictions."

Buyers welcome the chance to buy relatively cheap weapons that they say come with fewer restrictions than Western equivalents. Promotional materials from China suggest

# LIFE & ARTS

ANATOMY OF A SONG | By Marc Myers

## Writing Alice Cooper's 'Eighteen'

**THREE MONTHS AFTER** the release of Alice Cooper's "Eighteen" in 1970, the shock-rock single about teenage self-doubt became the band's first hit, reaching #21 on Billboard's pop chart. Recently, lead singer Alice Cooper, guitarist Michael Bruce, bassist Dennis Dunaway, manager Shep Gordon and producer Bob Ezrin talked about the song's evolution. Currently touring, Alice Cooper will release "Paranormal" (earMusic) July 28. Edited from interviews.

**Alice Cooper:** After our first two albums came out in 1969 and early '70, they bombed. We lived in Los Angeles then and were running out of cash. We never considered quitting, but we started to worry. Shep Gordon, our manager, suggested we relocate to the Midwest, where we had a larger fan base.

**MICHAEL BRUCE:** Touring in the Midwest in early '70, we stayed at motels. During our down time, I came up with songs on my guitar. One of them was called "I Wish I Was 18 Again." I hadn't been home in a couple of years and I missed Phoenix.

I had the song's three-chord riff—E minor, C major and D major—but my lyric was a little silly (he sings): "Be my high school girl / be the only one / I wish I was 18 again." I knew that wasn't going to last (laughs).

I used the song to warm up in dressing rooms before shows. Eventually the band began using my riff as an eight-minute sound-check jam.

**DENNIS DUNAWAY:** In the early spring of '70, we were in New York. At the Gorham Hotel, I looked across West 55th St. at the City Center theater. All the posters outside were for the Joffrey Ballet's spring season.

On the poster was a scary white-faced clown with thick makeup around his eyes and squiggly lines coming out like spokes.

I told Alice he should do his eyes that way. At first he wasn't into it but he was open. We bought eyeliner at a nearby cosmetics store and applied it at the hotel. That was the start of Alice's spider eyes.

**MR. BRUCE:** Back in the Midwest, the band wanted to start performing our sound-check jam for audiences. But my original lyric was too cumbersome. Alice rewrote it.

**MR. COOPER:** My lyric was about coming of age, confusion and frustration. It became an angst song, like The Who's "My Generation." In some ways it's bleak: "I got a baby's brain and an old man's heart / Took eighteen years to get this far."

When I wrote the lyric, I was 22, so I had to think back to what



A poster, left, for the Joffrey Ballet's 1970 season inspired Alice Cooper's spider-eye makeup. Above, from left, Michael Bruce, Bob Ezrin, Alice Cooper, Neal Smith, Glen Buxton and Dennis Dunaway at work near Pontiac, Mich., in 1970.

**BOB EZRIN:** Jack didn't want to have anything to do with Alice Cooper. He didn't like their albums. To keep Shep happy, though, Jack told me to go to New York to hear the band and let them down easy.

In early September of '70, I sat down at a table right in front of the stage at Max's Kansas City. At times, the music was powerful, what people called hard rock then. At other times it was whimsical and focused on theatrics. I loved it.

After, I went upstairs and bounded into their dressing room. I said, "We're going to produce your next album." I also said their song, "I'm Edgy," could be a hit. Drummer Neal Smith said Alice was actually singing, "I'm eighteen."

When I finally left at 3 a.m., I realized Jack was going to fire me for committing to produce a band he wanted me to blow off.

In the morning, when I called him, Jack wasn't happy. But he said, "If you like the band that much, you produce them."

Jack wanted me to start by recording just four songs. I went up to the band's Pontiac ranch to get the music in shape. The first one we tackled was "Eighteen."

**MR. COOPER:** Bob was brilliant. He kept telling us to dumb it down so we could shorten it. He wanted the listener to get it immediately. We had been intent on being the Yardbirds and showing off our guitars. Bob said absolutely not. Glen Buxton's lead guitar needed to come at the right time and then drop out.

The guitar couldn't interfere with the melody line or bass and drums. Bob stripped us down to what the Beatles had done. Bob was our George Martin.

**MR. EZRIN:** After we had "Eighteen" set, the band played it live at a Detroit gig. The audience went nuts.

**MR. COOPER:** In the fall, we recorded "Eighteen" and three other songs at RCA's Mid-American Recording Center in Chicago. Elvis had recorded there.

**MR. DUNAWAY:** Jack Richardson was there by then. At some point he turned over a metal ashtray and taped it to the console. Then he tapped the beat on the tray with a drumstick like a metronome so we'd hear it in our headphones. It kept us from speeding up.

**MR. BRUCE:** When the single came out in November, Shep had everyone constantly call radio station CKLW in Windsor, Canada, to request it. CKLW's signal reached into the Midwest. As the single gained traction, we recorded our third album, "Love It to Death," which was a hit after it came out in March '71.

**MR. COOPER:** The last line of my lyric to "Eighteen" was supposed to be "I'm 18 and I hate it." But as I neared the end of my vocal in the studio, I decided to flip it to "I'm 18 and I like it." I wanted to turn the teenage angst around.

That was a surprise to everyone in the control booth. With my earlier lyric, the song was a good hard rocker. But by flipping the line, the song became a statement.

BONDS: ON RELATIONSHIPS | By Elizabeth Bernstein

## TACKLE TOUGH CONVERSATIONS

### SAY WHAT YOU need to say.

Easier said than done, right?

Difficult conversations come in many forms: "Shall we commit?" "I am worried about your health."

"You hurt me." "This isn't working." Communication researchers call them consequential unscripted interactions because there are no rules or guidelines for them.

Health, work, finances, relationships, sex, religion, politics are common topics.

Many tough conversations contain bad news, but not all. (Consider: "I think I love you.") And they can be difficult for many reasons: We may not have had this type of talk before, so have no experience to learn from. We are worried about how we come across. We don't want to hurt the other person, or get hurt ourselves. The receiver may not want to hear what we have to say.

A study by researchers at Hope College, in Holland, Mich., and the University of Hawaii at Manoa, published in March in the journal *Communication Quarterly*, found that people are more reluctant to share bad news in a conversation when they are the cause of it—and they worried more about how they came across in the conversation than sparing the

other person's feelings.

The researchers asked 330 people to answer questions about a time when they had to tell someone bad news, and then coded them for the reasons and concerns the person had for sharing, the source of the news and how reluctant they were to talk about it. People reported they worried more about themselves if they caused the bad news and more about the other person when they didn't.

"This idea of 'don't shoot the messenger' was very active in their minds, especially when they were the locus of the event," says Jayson Dibble, an associate professor in the department of communication at Hope College and lead researcher on the study.

Two more studies by Dr. Dibble and researchers at the University of Hawaii, published together in the journal *Communication Research* in March, 2015, found that people will pause in a tough conversation right before they have to deliver bad news.

The researchers brought 275 people into the lab, told them they would be paired with another participant who had taken an IQ test, and that they would need to score this test and share

the results with the test-taker. In reality, the test taker was an actor and a computer program produced false results—some were high, some average, some very low. Some of the participants were given a script to use when delivering the news and some had to improvise. Script or not, the participants who had to tell the test taker that he or she had failed, hesitated for a few seconds right before doing so. Participants who had to deliver good news, of

a high score, didn't hesitate.

"It might be a communication signal that you are meant to pick up on as a receiver, a way of firing a warning shot," says Dr. Dibble. "I am giving you a chance to prepare yourself mentally for what is to come."

My dad had a sort of warning shot he used when I was a child and he wanted to have a serious talk: He'd suggest we take a walk around our block, which was large and lined with oak trees and Vic-



## OPINION

### REVIEW & OUTLOOK

## U.S. Prosecutors and Political Corruption

**H**as the Supreme Court handed corrupt politicians a free pass? That's the taunting question following an appellate court's decision last week to toss the conviction of former New York Assembly Speaker Sheldon Silver in the wake of the High Court's landmark 2016 *McDonnell* ruling. We think the answer is no, but prosecutors will have to follow the law better than former U.S. Attorney Preet Bharara did.

Readers may recall that a unanimous Supreme Court overturned the conviction of former Virginia Governor Bob McDonnell because prosecutors had too broadly interpreted the meaning of a corrupt "official act." The act couldn't merely be setting up a meeting or hosting an event, even if the politician had received personal gifts from the person who benefitted from the meeting, as Mr. McDonnell had. It must involve a formal exercise of government power and the public official must make the corrupt decision or take the action.

The ruling is an important check on prosecutors who have pursued corruption cases with too little evidence and for routine constituent service. But some prosecutors warned that politicians could get away with anything short of extorting a direct bribe. They're now pointing to Silver's appellate victory as proof.

Not so fast. The Second Circuit Court of Appeals didn't vacate Silver's conviction on grounds that the evidence was insufficient. Judge José Cabranes, one of the country's most distinguished appellate judges, explicitly wrote for the court that "the evidence presented by the Government was sufficient to prove" the extortion, honest-services fraud and money-laundering counts against Silver.

The evidence at trial showed that Silver had used his political influence to set up schemes to enrich himself. The most egregious involved steering mesothelioma cases to the Weitz & Luxenberg law firm for which he did little work, in return for some \$3 million in referral fees. He also cadged nearly \$1 million in a real-estate referral scheme. The evidence was clear and convincing, as the jury concluded.

Judge Cabranes and two colleagues overturned the verdict because the instructions to

the jury in the case did not "comport with *McDonnell* and are therefore in error." Specifically, wrote the judge, "the instructions did not convey to the jury that an official action must be a decision or action on a matter involving the formal exercise of government power akin to a lawsuit, hearing, or agency determination."

This may sound like a technicality, but accurate jury instructions are fundamental to a fair trial. And here is where Mr. Bharara's dereliction comes in. He denied responsibility for the Silver reversal because the trial occurred before *McDonnell*. But he knew the highly publicized *McDonnell* appeal was in progress, and that the Supreme Court had already targeted overbroad honest-services indictments in its 2010 *Skilling* decision.

As Judge Cabranes writes, "The Government expressly urged the jury to convict because an official act *is not limited* to voting on a bill, making a speech, passing legislation, *it is not limited to that*, but rather, includes *'any action* taken or to be taken under color of official authority.' The Government thus directly argued that the District Court's instruction defining an official act was broader than the formal exercise of government power described in *McDonnell*." (The italics are Judge Cabranes's.)

Our guess is that Mr. Bharara was only too happy to overlook a faulty jury instruction if he could get a high-profile conviction. He took a similar risk when he exceeded the limits of insider-trading law before he was slapped down by the Second Circuit in the *Newman* case. This is often the habit of prosecutors who want to make a political name for themselves and are celebrated in the press. See James Comey and Rudy Giuliani.

Mr. Bharara's successor is vowing to retry Silver, but other corruption convictions may also be in jeopardy on appeal after the Second Circuit ruling. The lesson is that prosecutors have to follow the law even when their targets are unsavory politicians. As for reducing corruption, voters can help by refusing to tolerate the kind of political self-dealing that George Washington Plunkitt of Tammany Hall famously called "honest graft." They can do that at the ballot box.

## The U.N. Bans Nuclear Weapons

**T**he United Nations banned nuclear weapons this month, in case you hadn't heard, and all the children of the world joined hands and sang together in the spirit of harmony and peace, as Steve Martin once put it.

Ok, not that last part. But 122 nonnuclear U.N. member states—two-thirds of the total—did adopt the 10-page Treaty on the Prohibition of Nuclear Weapons this month. Nations that sign the treaty at the U.N. General Assembly in September will be committing not to "develop, test, produce, manufacture, otherwise acquire, possess or stockpile nuclear weapons or other nuclear explosive devices." The treaty takes effect when 50 countries sign it.

Kim Jong Un's North Korea hasn't declared where it stands on the treaty, perhaps because it's too busy building more nuclear weapons

and missiles to deploy them. But you'll be pleased to know Iran is on board. This may have something to do with the treaty's provision that allows "research, production and use of nuclear energy for peaceful purposes," without defining what "peaceful" means.

The world's nine nuclear powers boycotted the treaty vote, the Netherlands voted no and Singapore abstained. In a joint statement the U.S., Britain and France denounced the ban, saying it "clearly disregards the realities of the international security environment" that "continue to make nuclear deterrence necessary" and recommitted to the Nuclear Nonproliferation Treaty that hasn't stopped nuclear proliferation.

If the U.N.'s record holds, this new treaty will take effect right about the time Kim Jong Un launches a nuclear attack.

## The D.C. Circuit vs. Deregulation

**H**arry Reid may have left Washington, but the former Senate Majority Leader's legacy abides in a D.C. Circuit Court of Appeals stacked with progressives ready to defend the Obama Administration's agenda. One of those judges joined a Bill Clinton appointee this month to salvage President Obama's methane rule with an extraordinary display of raw judicial power.

Barack Obama's Environmental Protection Agency imposed the controversial rule forcing oil and gas drillers to slash methane emissions—never mind that such emissions are already falling. Scott Pruitt, the new EPA Administrator, announced in April that the agency would reconsider the rule.

One reason is that the Obama EPA included provisions in the final rule that weren't in the proposed version and thus weren't open to public comment. Mr. Pruitt also issued a 90-day stay of the rule's June 3 compliance date, and such a stay is clearly within his powers under the Clean Air Act.

Six environmental groups quickly filed an emergency lawsuit with the D.C. Circuit, which Mr. Reid packed with liberal jurists after killing the Senate filibuster for appellate-court nominees. One of those judges, Robert Wilkins, joined Judge David Tatel in a 2-1 ruling that blocked the Pruitt stay with the effect of imposing the Obama policy (*Clean Air Council v. Pruitt*).

The opinion is extraordinary for taking such action despite its acknowledgment that the court can only review "final agency actions" and that the EPA's decision to reconsider the rule isn't final. The two judges nonetheless contort themselves to explain why a stay is really the same as "revoking a rule"—and thus is final and so the court has jurisdiction.

Two judges say the EPA can't stay its own rule pending review.

when a federal agency can stay its own rules pending reconsideration. This has implications for other Obama regulations that the Trump Administration is now reviewing—such as net neutrality at the Federal Communications Commission or the Education Department's gainful-employment rule for colleges.

This is a sweeping new claim of judicial powers of administrative review, and it follows the pattern set by the Fourth and Ninth Circuits in their rulings blocking President Trump's immigration order. The Supreme Court unanimously rebuked those courts before it left town by allowing the order to proceed in nearly all cases until it can hear the merits in October.

Mr. Pruitt can appeal to the Supreme Court, but that means waiting into next year for a ruling. He can continue his review with an eye toward reissuing a new, less-onerous methane rule, but in the interim the EPA may be obliged to enforce the Obama version. This means imposing new costs and uncertainty on businesses that would have to comply even if the rule is ultimately withdrawn.

Look for a deluge of such lawsuits as progressives resort to the courts to compensate for their defeat in 2016. The D.C. Circuit's affluence also underscores the stakes in judicial nominations and why even appellate courts have become political battlegrounds. We're in dangerous political territory when judges appear to join the anti-Trump resistance on such flimsy legal grounds.

## Learn a Language, But Not a Human One

By Andy Kessler

**D**onald Trump, whose wife speaks five languages, just wrapped up a pair of trips to Europe during which he spoke only English. Good for him. If Mr. Trump studied a language in college or high school, as most of us were required to, it was a complete waste of his time. I took five years of French and can't even talk to a French poodle.

Maybe there's a better way for students to spend their time. Last month Apple CEO Tim Cook urged the president: "Coding should be a requirement in every public school." I propose we do a swap.

Why do American schools still require foreign languages? Translating at the United Nations is not a growth industry. In the 1960s and '70s everyone suggested studying German, as most scientific papers were in that language. Or at least that's what they told me.

In the '80s it was Japanese, since they ruled manufacturing and would soon rule computers. In the '90s a fountain of wealth was supposed to spout from postcommunist Moscow, so we all needed to learn Russian.

Now parents elbow each other getting their children into immersive Mandarin programs starting in kindergarten.

Don't they know that the Tower of Babel has been torn down? On your average smartphone, apps like Google Translate can do real-time voice translation. No one ever has to say worthless phrases like *la plume de ma tante* anymore. The app Waygo lets you point your phone at signs in Chinese, Japanese or Korean and get translations in English. Sometime in the next few years you'll be able to buy a Bluetooth-based universal translator for your ear.

Yet students still need to take at least two years of foreign-language classes in high school to attend most four-year colleges. Three if they want to impress the admissions officer. Four if they're masochists. Then they need to show language competency to graduate most liberal-arts programs.

We tried to get my son out of a college language requirement. He pointed to his computer skills and argued that the internet is in English. (It's true. As of March, 51.6% of websites were in English. Just 2% were Chinese.) We lost the argument. He took Japanese and has fun ordering sushi.

It's not as if learning another language comes with a big payday. In 2002 the Federal Reserve and Harvard put out a study showing those who speak a foreign language earn 2% more than those who don't.

High schools tend to follow colleges' lead, but maybe that's beginning to change. I read through all 50 states' language requirements and only one requires

either two years of a foreign language or two years of "computer technology approved for college admission requirements." Wow. Is that California? No. New York? No. Would you believe Oklahoma?

South Dakota and Maryland also have flexible language skill laws. Foolishly, the Common Core state standards are silent on coding.

The U.S. is falling behind. In 2014 England made computing a part of its national primary curriculum. Estonia had already started coding in its schools as early as first grade. Belgium, Finland and the Netherlands also have national programs.

**F**luency in coding is a more useful skill than French, Russian or Spanish.

Maybe the U.S. can start the ball rolling by requiring colleges and high schools to allow computer languages to count as foreign languages. A handful of high schools already teach Java using a free tool called BlueJ. Nonprofit Code.org exposes students to a visual programming language called Blockly. To compete in this dog-eat-dog world, America should offer Python and Ruby on Rails instead of French and Spanish.

Knowledge is good. Great literature reshuffles the mind. Tough trigonometry problems provide puzzles for the brain. Yet there is no better challenge than writing code that teaches a machine to do exactly what you want.

Some will respond, "So you want us to do vocational education?" As if computer programming is akin to auto shop and plumbing. Sorry, that's a *faux* argument. Even I remember the French word for bogus.

Let's face it, the world is headed toward one language anyway. The American-based Germanic-named Uber was *originato* at the Le Web conference in Paris. In Shanghai, I've seen ads on trains and storefronts signs that read "Learn Wall Street English."

Mr. Cook is right to want more coders, though a tad self-serving as Apple basically sells software wrapped in glass and metal. Same with Code.org, supported by Google and Microsoft. But every company requires coders. Even the formerly blue-collar job of operating machine tools now requires expertise in programming to control them. This will be increasingly true in workerless retail, doctorless medicine and even teacherless education. Time to modernize the dated curriculum—*pronto*.

*Mr. Kessler writes on technology and markets for the Journal.*

## LETTERS TO THE EDITOR

### Who Decides How the Terminally Ill May Die?

J.J. Hanson is entitled to oppose physician-assisted suicide (PAS) based on his own experience with incurable cancer. He isn't entitled to fudge facts in an attempt to impose his beliefs on others ("I Want My Doctors to Help Me Live, Not Die," op-ed, July 10).

Mr. Hanson writes: "A study conducted in Oregon in 2006 found 25% of patients requesting assisted suicide were depressed, and several of them went on to receive the lethal medication." In fact, that study (Battin et al.) found that 20% of such patients were clinically depressed, and that none of them progressed to physician-assisted suicide. None.

That very statistic indicates that the vast majority of those choosing PAS aren't suffering from clinical depression, but instead are making a clear-minded choice for reasons that have nothing to do with the other factors Mr. Hanson claims for PAS—finances, hopelessness, expense or insurance profits. Instead, the most recent Oregon study (Blanken 2017) confirms that most patients cite decreased quality of life or loss of dignity as the reasons for considering PAS. Too many patients cite unbearable pain, which points to the continuing need for medical professionals to more successfully treat pain issues, but the study indicates that PAS laws continue to work as intended.

Like Mr. Hanson, I have incurable cancer but am doing unexpectedly well. I will not live in a state that doesn't allow physician-assisted suicide because if at some point my disease devastates my personal dignity, before it takes my life I intend to exercise my freedom to choose the option to die as myself, rather than as a drugged-up, hooked-up shell of myself.

MIKE GAYNES  
Brookings, Ore.

Mr. Hanson should consider having his advance directive or living will updated while he is not depressed and is of sound mind, so he can prepare for the end of life as he sees fit. In this document he might advise that he opposes assisted suicide for himself under any circumstance. Don't deny choice to those who may feel PAS is appropriate for them.

MICHAEL P. CARTER, M.D.  
Savannah, Ga.

I agree wholeheartedly with Mr. Hanson that doctors should help people live. That is part of our Hippocratic Oath. None of us relish the opportunity to help someone die, but sometimes it might be true that living well includes dying well.

MARVIN H. THOMAS, M.D.  
Columbus, Ohio

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to [wsj.ltrs@wsj.com](mailto:wsj.ltrs@wsj.com). Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

## OPINION

# Republicans Aren't Team Players

By Fred Barnes

**P**olitics is a team sport, and U.S. Republicans are playing it poorly. They have one more chance in the Senate to repeal and replace ObamaCare—possibly their last hope for a victory.

Democrats are performing like a well-coached team. Minority Leader Chuck Schumer has all 48 members of his caucus on board with saving ObamaCare at all cost. It's been a successful strategy.

It works for one reason: Republicans are divided. Their 52-48 majority in the Senate means they can lose two votes and still prevail, since Vice President Mike Pence is the tiebreaker. After promising to get rid of ObamaCare for the past seven years, it shouldn't be difficult.

But as many as eight Republican senators opposed the first GOP bill, forcing Majority Leader Mitch

**GOP Senators who defect from ObamaCare repeal will hurt themselves, their party and the country.**

McConnell to come up with a revised version. While an improvement, it has encountered opposition too.

Mr. McConnell is skillful in bringing senators together. But here his task is more difficult than usual because the dissidents don't all agree on what's wrong with the bill. Appeasing one senator may alienate another.

This is an example of why legislative success depends on operating as a team. You don't abandon your team just because you don't get everything you want (or want



ASSOCIATED PRESS

Sens. Dean Heller (R., Nev.) and Susan Collins (R., Maine).

left out). You hold your nose and vote for an imperfect measure, sometimes merely because it's potentially beneficial and better than the alternative.

This is especially true in dumping ObamaCare. The Republican alternative is a more free-market health-care system in which people can buy the insurance they want, not what government requires.

Sticking with the team makes that possible. But too many Republicans aren't comfortable as team players. To them, it's shady and unprincipled to vote for something about which you have serious doubts. Democrats are more realistic and less persnickety, so they're better at uniting.

The political consequences of failing to eliminate ObamaCare would be disastrous for Republicans next year. Midterm elections are always tough for the party that holds the White House. But reneging on the promise to "repeal and replace" would put Republican control of the House and even the Senate at risk.

Worse, ObamaCare would be further entrenched with Republican

help. If repeal fails, Mr. McConnell's Plan B is to compromise with Democrats to stabilize the health-insurance marketplace and keep ObamaCare alive and kicking. He would have no other choice.

When the voting begins, Republican senators need to ask themselves three questions: How would the result affect you? How would it affect your party? How would it affect the country?

On the first question, if any Republican senator sees voting to uphold ObamaCare as politically safer, think again. Trying to reach across the aisle to protect Medicaid's rate of growth won't win you any new Democratic votes.

But if you desert the GOP, the base won't forget or forgive. Republicans care passionately about ending ObamaCare. If you cross them on this vote, large numbers will cut you loose. There's private polling on this, by the way.

The House Freedom Caucus learned this the hard way. In May, when its members blocked the first House health-care bill from going forward, they expected to be hailed

as heroes. They weren't. When a second bill was offered, they did nothing to stop it. They got behind the team and it passed.

If the Republican Party fumbles the Senate vote, it will suffer—and will deserve to. Having made the death of ObamaCare its overriding concern, a GOP that fails to deliver would shatter its credibility.

An important element of the Republican brand is its identity as the conservative party. Fewer would see it that way if ObamaCare survives. GOP voter turnout would fall, and the party's candidates would feel the difference.

What about the country? It wouldn't benefit from making ObamaCare permanent. Health care would cost more and heal less. A political comeback by Democrats could lead to a single-payer system. Anyone who has experienced medical treatment at a Veterans Administration hospital would find the new system quite familiar.

Sen. Rand Paul of Kentucky opposes the Senate bill because it leaves too much of ObamaCare in place. But the alternative is to leave all of it in place.

Sen. Dean Heller of Nevada feels the bill's Medicaid reforms would hurt thousands of his state's residents and jeopardize his re-election in 2018. But preserving ObamaCare would hurt millions nationwide and his prospects for winning a second term.

Sen. Susan Collins of Maine says the bill won't "fix the flaws" in ObamaCare. But the alternative would lock those flaws in place, probably forever.

Messrs. Paul and Heller and Ms. Collins are playing politics as if it's an individual sport, like golf, boxing or gymnastics. In the Senate, only a team can win.

*Mr. Barnes is an executive editor of the Weekly Standard.*

# A Terrorist's Big Payday, Courtesy Of Canada

By Peter Kent

Omar Khadr pulled the pin from a grenade and tossed it at Sgt. First Class Christopher Speer, a U.S. Army Delta Force medic, on July 27, 2002. Those are the facts to which Mr. Khadr, a Canadian citizen, confessed when he pleaded guilty before a Guantanamo Bay war-crimes commission.

For several years Mr. Khadr had been living and training with al Qaeda in Afghanistan under the tutelage of his father, Ahmed. The Khadrs reportedly lived in Osama bin Laden's Kandahar-area compound.

Speer died of his wounds 1½ weeks after the attack, which left another soldier, Sgt. First Class Layne Morris, partly blind. Mr. Khadr, badly wounded, was treated and transferred to the Cuba base. In 2012 the U.S. returned him to Canada to serve the remainder of his eight-year sentence.

## Prime Minister Trudeau hands millions to Omar Khadr, whose victims may not be able to collect.

Mr. Khadr was just shy of his 16th birthday at the time of the attack. In 2010 Canada's Supreme Court held that the interrogation of Mr. Khadr at Guantanamo Bay by Canadians in 2003–04 violated Canadian standards for the treatment of detained youths. These violations occurred during the mandates of Liberal Prime Ministers Jean Chrétien and Paul Martin. The Supreme Court left it to the government, then headed by Conservative Stephen Harper, to determine an appropriate remedy, and to the civil courts to rule on any damages.

A few months later Mr. Khadr entered his guilty plea on five war-crimes charges. He was sentenced to 40 years in prison, reduced by pretrial agreement to eight years. The Harper government determined that returning Mr. Khadr to Canada would be the appropriate remedy. In 2012 he was repatriated to serve the remaining years of his sentence. He was released on bail in 2015.

Mr. Khadr wasn't satisfied. He sued the Canadian government for 20 million Canadian dollars (\$15.8 million).

Meanwhile in Utah, Sgt. Speer's widow, Tabitha, his two young children and Mr. Morris sued Mr. Khadr and received a judgment for \$134.1 million in damages. Their goal was to preserve possible future action against Mr. Khadr's assets—at the time a remote possibility.

But last week Liberal Prime Minister Justin Trudeau issued a formal apology to Mr. Khadr and a massive cash settlement, though no court had ordered him to do so. Mr. Trudeau refuses to disclose the amount of the settlement, but leaked reports peg it at C\$10.5 million. That's an extravagant sum in the Canadian justice system, which is much more restrained in awarding damages than U.S. courts.

Mr. Trudeau knew there was an outstanding judgment against Mr. Khadr in Utah. An insider told the Canadian Press wire service that Ottawa rushed the payment to Mr. Khadr to dodge compliance with the Utah judgment. The Speer family and Mr. Morris had filed for an injunction June 8 to enforce the Utah judgment in Canada. The Trudeau government had the money out the door before their petition could be heard in court.

Last week the Speer family filed an emergency injunction to freeze Mr. Khadr's assets. On Thursday an Ontario judge denied the request, describing it as "extraordinary." Had Mr. Trudeau waited for a court ruling, the Speers' claims could have been adjudicated without extraordinary measures. The prime minister's choice thus undermined the Speer family's legal options.

Mr. Trudeau's actions are an affront to the memory of Christopher Speer, to Tabitha Speer and her children, to Layne Morris, to our U.S. allies, and to all men and women in uniform. This payout was a cynical subversion of Canadian principles. Mr. Trudeau made Omar Khadr a millionaire, and he didn't have to.

*Mr. Kent is a member of the Canadian Parliament and official opposition critic for foreign affairs.*

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, July 18, 2017 | B1

**Yen vs. Dollar** 112.7440 ▲ 0.19%

**Hang Seng** 26470.58 ▲ 0.31%

**Gold** 1232.00 ▲ 0.44%

**WTI crude** 46.15 ▼ 0.84%

**10-Year JGB yield** 0.080%

**10-Year Treasury yield** 2.317%

## Beijing Spooks Stock Investors

By SHEN HONG

SHANGHAI—Chinese stocks tumbled Monday and the central bank made a large-scale injection of cash into the financial system, after top officials signaled over the weekend that the country's campaign against runaway debt and speculation remains a priority.

At a high-level meeting that ended Saturday and is seen as setting the direction of Chinese financial policy for the next five years, President Xi Jinping stressed the importance of reining in high debt levels in the world's No. 2 economy and announced the formation of a new committee to coordinate financial regulation. That was in stark con-

trast to the last meeting of the National Financial Work Conference five years ago, which advocated reforms that would bring China's markets more in line with global peers.

Chinese investors interpreted the stern tone as signaling that a regulatory push in recent months to reduce risk and leverage in financial markets will continue full force, prompting the selloff in the country's equity markets, particularly the Shenzhen Stock Exchange, which is known for its smaller, more speculation-prone stocks.

The Nasdaq-style ChiNext startup board finished the day down 5.1%, and the Shenzhen Composite Index closed down 4.3%. The bigger Shanghai market, where large state-run

companies are listed, narrowed its loss to 1.4% after falling as much as 2.5% shortly after the opening bell.

All three indexes posted the sharpest drops since Dec. 12, 2016, FactSet data showed.

*President Xi's stress on the importance of reining in debt levels caused a selloff.*

The selloff came despite data showing faster-than-expected growth in the Chinese economy in the second quarter. Investors said the strong economic performance would

give Beijing more leeway to tighten policies.

Meanwhile, the People's Bank of China injected a net 140 billion yuan (\$20.64 billion) into the financial system on Monday morning, the largest such supply of cash in nearly six weeks. Analysts said the move appeared to be aimed at pre-empting panic among investors.

The big injection "suggests that the PBOC was in a way prepared for such market volatility and it was trying to manage people's expectations," said Zang Min, senior fixed-income analyst at Hongxin Securities.

The injection may have helped fend off jitters in China's bond market, which has seen yields spike briefly in

recent months during Beijing's crackdown on leveraged investment. Yields rise as bond prices fall. On Monday, the yield on the benchmark 10-year Chinese government bond fell 0.01 percentage point to 3.56%.

A steady Chinese yuan also helped calm some investors, analysts said. The PBOC set its daily "fix"—or reference rate for the band in which the yuan can trade—on Monday at 6.7562 per dollar, its highest level against the U.S. dollar since early November.

"The yuan's fix is near the high end of our expectations, which also shows the PBOC's intention to stabilize markets," said a Shanghai-based senior currency trader at a Chinese

Please see STOCKS page B2



The withdrawal is another setback for Uber overseas.

## Uber Retreats From Macau

By DAN STRUMPF

HONG KONG—Uber Technologies Inc. said it is suspending its operations in the Chinese gambling hub of Macau, the latest retreat for the ride-sharing giant as it continues to face regulatory pressure from many overseas markets.

On its website, Uber said it is temporarily halting ride sharing in the partly autonomous southern Chinese city near Hong Kong. The company said it was "not able to secure a business environment" to continue operating. Though the city has a population of less than 650,000, the gambling and entertainment hub is a magnet for tourists from mainland China and elsewhere, with tourist arrivals topping 30 million last year.

The withdrawal, even from a small market, is another setback for Uber overseas, where it has faced regulatory headwinds from local governments and fierce competition from homegrown ride-sharing startups. The company is also seeking to right itself after the resignation of CEO Travis Kalanick last month amid a wave of controversies about its work culture.

Last week, Uber announced it was pulling out of Russia, saying it was combining operations with Yandex.Taxi, the most popular ride-hailing service there. And earlier this year it appeared ready to withdraw from Taiwan amid a dispute over the legality of its services, though it resumed ride sharing after reaching an agreement with the government.

In 2016 Uber retreated from mainland China by giving up its operations there in exchange for a minority stake in the country's homegrown ride-hailing service Didi Chuxing Technology Co.

Uber's suspension in Macau is the latest twist for the ride-sharing company in the former Portuguese colony. Last year, it also announced plans to withdraw, only to scrap the exit plan a short time later citing support from local residents.

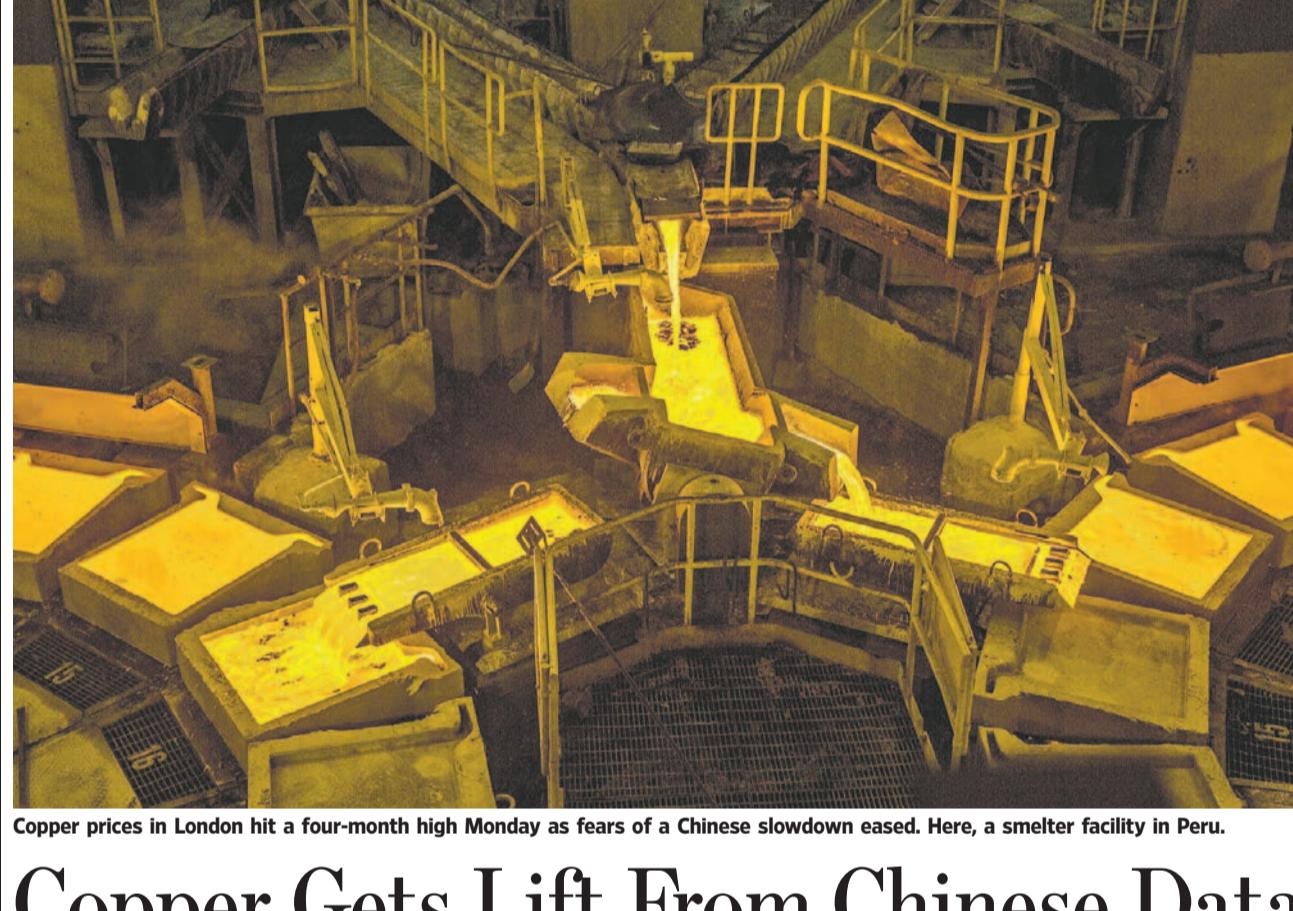
San Francisco-based Uber appeared to keep the door open to a future presence in Macau, saying that it is exploring ways to serve the city again and that it has had initial discussions with potential business partners such as transport operators and hotels.

## INSIDE



WELLS FARGO BROKERS ARE JUMPING SHIP

FINANCE, B5



Copper prices in London hit a four-month high Monday as fears of a Chinese slowdown eased. Here, a smelter facility in Peru.

## Copper Gets Lift From Chinese Data

Global metals prices rise after country's economic-growth, production figures top expectations

By DAVID HODARI

The price of copper hit a four-month high on Monday after upbeat Chinese economic data damped fears of a slowdown in the metal's largest market.

Copper prices were up 1% at \$5,986.50 a metric ton in midmorning trade in London, the highest price since the first days of March.

Gold prices were also higher, up 0.13% at \$1,230.57 a troy ounce, hanging onto the gains made on the back of weaker-than-expected U.S. economic data, released Friday.

But renting the Buffett name isn't cheap.

When Berkshire invested \$3 billion to help finance Burger King's purchase of Tim Hortons in 2014, it got preferred shares with a 9%

Please see HEARD page B2

Copper investors were reassured when the Chinese government released gross-domestic-product and industrial production data early Monday. Both metrics outperformed consensus expectations, with industrial production at 7.6% growth beating the FX-Street.com forecast of 6.5% growth.

However, Commerzbank warned in its morning note against moving into copper too quickly.

"[We] do not believe the momentum will be maintained throughout the second half year," the bank said.

Government-mediated wage negotiations were continuing between Antofagasta PLC and workers at its Chilean Zaldivar

Copper investors will be scrutinizing Chinese house-price index data, expected Tuesday, for any signs of market softness.

Looking further ahead, market observers are likely to focus on the meetings of the Japanese and European central banks, said Nitesh Shah, ETF Securities' commodities strategist. Information on European Central Bank balance-sheet tightening would be of particular interest, he said.

Government-mediated wage negotiations were continuing between Antofagasta PLC and workers at its Chilean Zaldivar

copper mine, after similar discussions averted a strike at the neighboring Centinela mine.

Among base metals, aluminum was up 0.7% at \$1,939.50 a metric ton, zinc rose 1.76% to \$2,840 a metric ton, lead rose 0.54% to \$2,330.50 a metric ton, tin was up 0.25% at \$20,000 a metric ton and nickel was up 0.89% at \$9,620 a metric ton.

Among precious metals, platinum was up 0.52% at \$925.25 a troy ounce, palladium lost 0.31% to \$858.28 a troy ounce and silver rose 0.31% to \$16.04 a troy ounce.

By JUSTIN BAER

Bank of New York Mellon Corp. named former Visa Inc. and J.P. Morgan Chase & Co. executive Charles Scharf as its chairman and chief executive, as the trust bank looks to jump-start growth and embrace the technological changes sweeping through the financial-services industry.

Mr. Scharf, 52 years old, succeeds Gerald Hassell. The 65-year-old Mr. Hassell will remain chairman at BNY Mellon until Dec. 31, when he will hand the title to Mr. Scharf, whose appointment as CEO is effective immediately.

Mr. Scharf is among the cadre of deputies who followed James Dimon from Citigroup Inc. to Bank One Corp. to J.P. Morgan. Mr. Scharf rose to run the latter firm's retail-banking business. He joined San Francisco-based Visa in 2012 and ran the payments network until last year, when he resigned to be closer to his family in New York.

Mr. Hassell has spent his en-



Charles Scharf left San Francisco-based Visa last year to be closer to his family in New York.

tire career at BNY Mellon, which grew to become one of the largest custodians and money managers in the world. The bank now has more than

\$30 trillion in assets under custody and runs a collection of investment managers that oversee a combined \$1.7 trillion.

Promoted to chairman and

CEO in 2011, Mr. Hassell inherited a firm still coming to terms with the lasting effects of a financial downturn. Low interest rates crimped profits, and the

bank's margins lagged behind those of rivals State Street Corp. and Northern Trust Corp.

Trian Fund Management LP, the activist investor, took a stake in BNY Mellon in June 2014 and sought cost cuts. In October 2014, BNY Mellon executives unveiled plans to shed \$500 million in expenses through 2017. That December, the company added Trian's Ed Garden to its board.

"As CEO, [Mr. Hassell] refreshed the company's strategy and successfully executed against a publicly stated 2014-to-2017, three-year Investor Day plan designed to create value for the firm's clients, investors and employees," said Joseph Echevarria, BNY Mellon's lead director.

BNY Mellon's shares have climbed 32% in the past year, underperforming the benchmark KBW Bank Index's 43% gain.

Last month, the trust bank replaced Suresh Kumar, its chief information officer, with former Bank of America Corp. executive Bridget Engle.

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## HEARD

Continued from the prior page  
coupon and warrants that convert into 1.75% of the company. The year before, when it put up \$8 billion to join with private-equity firm 3G to take Heinz private, it likewise got preferred shares with 9% coupon.

For companies more desperate for Mr. Buffett's cash and reputation, the price could be steeper. Berkshire earned 10% per annum on its postmerger investment in

Goldman Sachs and also got warrants that allow it to buy shares at a discount.

Ultimately, what is most important for Mr. Son is that any investment allow SoftBank to shrug off its Sprint burden, which could free it to focus on its \$93 billion Vision Fund, the world's largest technology fund. Taking Berkshire money in exchange for high-yielding preferred shares could make that difficult.

An investment from Mr. Buffett is a double-edged sword. Mr. Son should be careful playing with it.

that the influx of new listings is depressing the markets, particularly in Shenzhen where new listings have been concentrated in recent years.

"This means the speed of approval for initial public offerings won't slow," said Amy Lin, senior analyst at Capital Securities.

In the first half of this year, 237 companies listed in China's domestic stock markets, raising a combined 116.6 billion yuan (\$17.19 billion), nearly triple the amount raised a year earlier, according to China's securities regulator.

—Yifan Xie in Shanghai and Gregor Stuart Hunter in Hong Kong contributed to this article.

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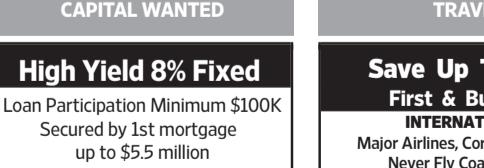
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## BUSINESS NEWS

# CSX Boss Bans Crew Naps

New CEO Harrison's prohibition on sleep puts railroad at odds with other rail carriers

By PAUL ZIOBRO

**CSX** Corp.'s new boss has mixed naptime.

Hunter Harrison joined the railway as chief executive in March, promising to quickly jolt the company's culture and bring on tighter schedules, faster trains and less downtime.

One casualty of the new plan: napping breaks, which train conductors and engineers were allowed for as long as 45 minutes under a strict protocol when trains were stopped. Now, any on-the-job shut-eye is forbidden. "We had a rule that said you could take a nap while you worked," Mr. Harrison said in a recent interview. "We don't have that now."

The change, instituted by the 72-year-old railroad veteran in a half-page bulletin in April, eliminated more than two decades of allowable naps on CSX trains. It also put CSX at odds with its U.S. rivals. **BNSF Railway Co., Kansas City Southern Corp., Norfolk Southern Corp. and Union Pacific Corp.**, allow napping under certain conditions, as do hundreds of other smaller railroads. The two other railroads that Mr. Harrison ran—**Canadian National Railway** and **Canadian Pacific**—don't allow napping.

"We think it's pertinent and appropriate in certain circumstances to enable an employee to nap," said Union Pacific CEO Lance Fritz. The railway has allowed naps since 1999 and has even built "nap rooms" at various sites to facilitate rest.

The various changes that Mr. Harrison is implementing are meant to give employees less variability in their schedules, allowing them to plan their sleep better, CSX spokesman Rob Doolittle said. CSX believes employees are safer



CSX employees were previously allowed to nap under a strict protocol while trains were stopped.

"when they are fully engaged in the activity around them at all times when they are on duty," he said, adding that worker safety hasn't slipped since the rule changed in April.

Frequent delays hauling freight provide plenty of opportunities for napping. On long routes, a train may be shunted to a "siding" to allow another to pass from the opposite direction. With dozens of kilometers between sidings and long trains chugging along at 40 kilometers an hour, such delays can easily last more than an hour. Track repairs, derailments and congestion can also lead to long waits.

Fatigue is an issue, too, in what is a 24/7 operation in which engineers can be called into work in the middle of the night. Federal laws regulate railroad shifts, including a maximum of 12 hours worked in a 24-hour period and 10 hours off before resuming work. Still, the National Transportation Safety Board says nearly 20% of investigations of railway accidents between 2001 and 2012 identified fatigue as a cause or contributing factor.

A Union Pacific spokeswoman cited a National Aeronautics and Space Administra-

tion study of airline pilots that showed a planned, 40-minute nap taken in-flight made them 34% more aware and 100% more alert.

Fatigue is a common issue in other industries—such as aviation and medicine—that are staffed round the clock, and often workers are encouraged to nap to keep alert. **United Parcel Service Inc.**, for one, has 125 sleep rooms at its main hub in Louisville, Ky., where pilots can recharge between flights.

"If there was an opportunity to take a nap, 90% of the time someone in the cab was going to want to do it," said John Paul Wright, a retired CSX locomotive engineer who currently organizes for Railroad Workers United, a coalition of unions. He recalls spending three hours waiting outside terminals in Nashville, Tenn., without moving. "It doesn't matter if it's 12 noon or 12 midnight, someone is going to kick their feet up and nap for a minute."

John Risch, national legislative director for the International Association of Sheet Metal, Air, Rail and Transportation Workers, a union that represents CSX conductors, said that napping is a key way

to deal with fatigue. "Eliminating napping is a real disappointment and the wrong way to go," he said.

While union contracts govern pay, benefits and other quality-of-life issues, rules on operational procedures remain within the purview of railway management.

Waiting is anathema to Mr. Harrison, who is busy at CSX implementing an approach he calls precision railroading. The goal is running trains on a tighter schedule and keeping them moving along. Less than four months into his tenure, CSX's trains are moving 10% faster and spending 7% less time in terminals.

Some staff view the nap prohibition as another way for CSX management to put the screws on workers, who are monitored constantly on inward-facing cameras in cabs. "If you're sitting in a siding somewhere and you fall asleep out in the middle of nowhere, what's the issue with that?" a current CSX employee said.

CSX says it uses a progressive scale to address noncompliant behavior, "ranging from informal coaching to termination."

—David George-Cosh contributed to this article.

## Emirates, Flydubai Strike Airline Alliance

By NICOLAS PARASIE

**DUBAI**—**Emirates** Airline and budget carrier **Flydubai** said they are going to work more closely together through a wide-ranging tie-up, in the latest sign that intensifying political and economic pressures are making Middle East carriers rethink their business plans.

The carriers, both owned by Dubai's government, announced a partnership that includes collaborating on routes and scheduling, an agreement on code sharing—in which airlines list each other's flights on their reservation systems—and the alignment of their frequent-flier programs.

Emirates Airline, the world's largest carrier by international traffic, flies **Airbus** SE A380 superjumbos and **Boeing** Co. 777 long-range jets worldwide, offering ample amenities. In contrast, Flydubai offers a no-frills service that connects cities using smaller planes. More closely integrating its schedule with Flydubai would allow Emirates to offer access to cities that don't warrant use of big planes, feeding passengers to and from those destinations to long-haul flights via its Dubai hub to help fill the large planes flying to the U.S., Europe and Asia.

Emirates and Flydubai said the partnership should allow them to "leverage each other's network to scale up their operations and accelerate growth." Jointly, the two airlines aim to offer 240 destina-

tions by 2022, up from 216 now, using a combined fleet of 380 aircraft.

The Emirates-Flydubai partnership agreement comes at a difficult time for the Middle Eastern carriers.

After a period of rapid growth, Emirates and its two major regional rivals, Etihad Airways and Qatar Airways, are facing a prolonged period of challenges. Low oil prices have hit business travel to and from their home bases while an oversupply of seats has put downward pressure on ticket prices.

Tougher travel-security measures in response to the threat of terror attacks and uncertainty surrounding travel to the U.S. have also weakened demand. More recently, a diplomatic standoff between Qatar and its neighbors including Saudi Arabia and the United Arab Emirates—Dubai is one of the U.A.E.'s seven emirates—has added extra uncertainty to the region's aviation sector.

The disruption was visible in the latest results from Emirates. The carrier reported an 82% drop in net profit to \$340 million for the fiscal year ended in March compared with the previous 12 months.

Though Emirates and Flydubai are owned by Dubai's sovereign-wealth fund and operate from the same international airport, they have functioned independently and will continue to do so.

—Robert Wall in London contributed to this article.



LI ZHEN/XINHUA/ZUMA PRESS

## BUSINESS WATCH

**H&M** Fashion Retailer Gets Solid Growth in Sales

Swedish fashion retailer **Hennes & Mauritz AB** said its June sales rose 7% in local currencies compared with the same month last year, marking a final monthly sales report before switching to quarterly reporting.

Converted into Swedish kronor, H&M said its June sales increased 10%. In June 2016, the company's sales rose 8%.

The retailer said it would no longer publish monthly sales data, and instead report quarterly data ahead of its interim reports to align itself more with how other fashion retailers report sales figures.

"The reasoning is that a month is far too short a period over which to assess how sales are developing; in fact, a single month's sales can actually be misleading, since calendar and weather effects—among other things—may significantly affect the outcome," the company said.

H&M also said it would start to brief investors by holding capital-markets days at which it would provide more in-depth information about the business. It said more information on the capital-markets days will be provided at a later date.

The company is scheduled to report its third-quarter sales on Sept. 15.

H&M had 4,517 stores as of June 30.

—Dominic Chopping

**RENAULT**

### Emerging Markets Supply Lift to Sales

**Renault SA** said its worldwide vehicle sales rose 10% in the first half, far outstripping the wider market, as the French auto maker benefited from the introduction of revamped models and booked strong growth in many emerging markets.

Renault sold 1.88 million vehicles in the first six months of the year, compared with 1.70 million in the year-earlier period. The wider market advanced 2.6% in the first half, it said.

Sales in the Americas rose 15% following market recoveries in Brazil and Argentina. In the Asia-Pacific region, sales jumped 51% and in Russia Renault experienced its first increase in volume in four years.

In France, the company's largest single market, sales rose 1.8%. However, it was Renault's best first-half showing in its home country in six years.

The auto maker said it expects the global car market to grow between 1.5% and 2.5% this year, with a 2% increase expected in the European market.

Growth is expected to be 5% in Russia, Brazil and China.

—Eric Sylvers

**FEDEX**

### Company Struggles After Cyberattack

Customers waiting for packages abroad are experiencing significant delays as U.S.-based **FedEx Corp.** continues to reel from the effects of a June 27 cyberattack.

The logistics company said in a securities filing on Monday that the global cyberattack known as Petya significantly affected the operations of its TNT Express business, which has delivery operations in the Middle East and Africa, Asia-Pacific, Europe and South America.

FedEx said while TNT depots, hubs and facilities are operational, it has resorted to manual processes to facilitate a significant portion of operations and customer-service functions.

"We cannot estimate when TNT services will be fully restored," the company said.

FedEx said the cyberattack will have a "material" financial impact on its operations. The company said it doesn't have cyber insurance or any other insurance to cover the attack.

Last year FedEx acquired TNT Express BV for \$4.8 billion, with the deal being the largest acquisition in FedEx's history. Ukraine-based TNT contributed 12% to FedEx's top line in the prior fiscal year.

—Imani Moise

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Fashion retailer H&M plans to stop publishing monthly sales data in favor of quarterly reports.

## TECHNOLOGY

WSJ.com/Tech

# IBM Upgrades Data Protection

Latest mainframes feature more muscle for encryption efforts; a crucial profit source

BY TED GREENWALD

International Business Machines Corp. on Monday unveiled its next generation of mainframes, the industrial-strength computers that underpin industries such as banking and insurance, highlighting an old product category that still drives much of its profit.

The new line of mainframe computers pairs what IBM claimed is the industry's fastest processor with additional resources in a package designed to handle large-scale, continuing tasks such as processing credit-card transactions.

In addition to increased speed, the company says the new systems, branded IBM Z and priced starting at \$500,000, offer extra horsepower for encrypting data at all times throughout the system and automating compliance with international data regulations.

IBM said it expects the new units to be widely available in September.

Mainframes, which date to the 1950s, in recent decades have been overshadowed by networks of smaller computers and, more recently, cloud computing. But their extraordinary reliability, security and ability to move data in and out means they continue to crunch numbers in the back offices of many large organizations.

IBM has continued to update its mainframes over nearly seven decades through successive waves of computer design, and now holds more than 90% of the market, according to analyst Peter Rutten at International Data Corp. Global sales of these powerful machines last year totaled \$3.5 billion, according to market-research firm Gartner Inc.



An IBM mainframe computer in 2015. IBM has updated its mainframes over nearly seven decades, and holds over 90% of the market.

Mainframe revenue last year accounted for a small slice of IBM's total, but those sales combined with related support, software, storage and financing brought in 24% of revenue and 41% of operating profit, analyst Toni Sacconaghi of Bernstein Research wrote in a recent report. Mainframe sales are especially valuable to IBM as they support long-term customer relationships that drive further sales, especially software subscriptions that bring in stable recurring revenue, he said.

IBM has mentioned the new mainframes as a factor in its 2017 results that will accelerate profit in the second half of the year as investment falls and sales kick in. The company's financial forecast anticipates that IBM will generate 63% of its total annual ad-

justed earnings per share in the third and fourth quarters. That would make the rest of this year one of IBM's two highest-earning second halves in the past 20 years, according to Mr. Sacconaghi—an ambitious goal in his view.

capacity in the process.

By offering the option to protect data systemwide, IBM Z would help thwart such threats, according to Patrick Moorhead of Moor Insights & Strategy, a market-research firm. "They're definitely fo-

vanced Micro Devices Inc. in June started selling its Epyc server-chip line, which encrypts data in memory. Equipment vendors such as Hewlett Packard Enterprise Co. are beefing up security in other ways.

ADP LLC has been using IBM mainframes since 1957 to run its payroll-processing and human-resources businesses. Stuart Sackman, vice president of global products and technology at ADP, looks forward to using IBM Z's new data-protection features to lock down personal information it maintains on some 30 million people.

"Our global security office—and our board—would be happy if we encrypted 100% of everything 100% of the time," he said. "Historically that has been hard to do."

### Mainframe sales drive software subscriptions that bring IBM stable recurring revenue.

IBM is expected on Tuesday to release its second-quarter results.

Users of conventional systems tend to perform encryption on limited portions of data at specific points in their use, leaving opportunities to copy unprotected data and consuming general computing

cusing on the right thing," he said.

IBM isn't the only maker of business hardware emphasizing data protection. Intel Corp. this past Tuesday launched its Xeon Scalable server chips, which accelerate encryption of data as it is being transferred to storage. Ad-

# Google Takes Aim at Physics Riddle

BY SARA CASTELLANOS

A research scientist at Alphabet Inc.'s Google is working to solve two of the most pressing challenges of quantum computing, a field that is making rapid advances and could soon begin solving problems that are currently out of reach.

John Martinis, a physics professor at University of California, Santa Barbara, joined Google in 2014 to help build a quantum computer that eventually might be able to sort through a vast number of variables—more than the number of atoms in the universe—to come up with a probable solution within a fraction of a second.

"The real excitement is, if you can do it efficiently, you can start solving problems that you couldn't even dream of solving on a classical computer," said Dr. Martinis, speaking last week to CIO Journal from Russia, where on Friday he addressed the International Conference on Quantum Technologies in Moscow. He was expected to speak to a crowd of about 2,500 people from around the globe, including researchers, company executives and Russian government officials about the technology, Google's role in it and its business applications.

This year, the conference is being held at a significant turning point for the quantum-computing field. Technology executives in sectors such as biotechnology and automotive and materials manufacturing have announced partnerships this year with technology vendors



John Martinis joined Google to help build a quantum computer.

## Subscriber Data At Dow Jones Exposed on Cloud

BY ROBERT McMILLAN

An error by Dow Jones & Co. in configuring a cloud-computing service left addresses and other information about subscribers to some of its products, including The Wall Street Journal, exposed to possible unauthorized access.

About 2.2 million subscribers' records were affected, a Dow Jones spokesman said. Some of the records included customer names, usernames, email and physical addresses, and the last four digits of credit-card numbers, although some records were missing parts of that information, the spokesman said.

The episode is one of a series of inadvertent leaks on cloud-computing systems.

The exposed data were discovered by UpGuard Inc., a cybersecurity firm, which said it notified Dow Jones of the leak on June 5.

"We immediately remedied the situation and have no reason to believe that any data was taken," said the Dow Jones spokesman, who said the exposed data didn't include passwords. He declined to say whether the company planned to notify affected customers.

The data "did not include full credit-card or account-login information that could pose a significant risk for consumers or require notification," he said.

In addition to the subscriber information, the data also included information relating to Dow Jones's Risk & Compliance service, which helps companies follow inter-

national regulations, the spokesman said. According to UpGuard, this database contained information on 1.6 million people and entities.

Dow Jones said that these data are taken from publicly available sources but didn't confirm the number of entries in the database.

The episode is one of a series of inadvertent leaks on cloud-computing systems by companies as they move more of their data from servers that they operate themselves to those managed by Amazon.com Inc. and others.

On Wednesday, for example, Verizon Communications Inc. said one of its vendors had inadvertently exposed data on about six million customers under circumstances similar to the Dow Jones incident.

In a statement, Verizon said that it had confirmed that there was "no loss or theft of Verizon or Veriizon customer information" as a result of the incident. In both the Dow Jones and Verizon cases, administrators had misconfigured their Amazon cloud storage servers, UpGuard said.

In Dow Jones's case, the data were visible to anyone with an Amazon Web Services account, said Chris Vickery, a researcher with UpGuard, which also discovered the Verizon incident.

UpGuard uses software tools that guess the internet addresses of exposed data to raise awareness about cyber-risk issues, the company said.

The company sells software and services that help companies detect this type of configuration problem. A spokeswoman for Amazon said that its cloud-storage service is configured by default to only be accessible to the account owners.

"Well over a million customers continue to use Amazon S3 safely and securely," she said.

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## FINANCE & MARKETS

# Wells Fargo Hit by Broker Exodus

More than 500 have left the lender since the settlement of its cross-selling scandal

BY MICHAEL WURSTHORN

**Wells Fargo & Co.** has lost more than 500 brokers since it agreed to a multimillion-dollar settlement last year of its cross-selling scandal, a level of attrition that outstrips the pace at the other three big U.S. brokerages.

The San Francisco bank has largely played down the scandal's impact on its brokerage arm, saying the multiquarter decline has been due, in part, to brokers retiring.

But some who feel burned by the allegations from the cross-selling scandal say otherwise.

Dustin Granger, who left Wells Fargo's brokerage arm in March to launch his own firm with brokerage **LPL Financial Holdings Inc.**, said: "I was getting sick of people thinking I worked at the bank. It was a big hindrance to us and our growth."

Mr. Granger, who works in Lake Charles, La., had managed more than \$100 million in client assets at Wells Fargo, where he had worked for nine years.

In its second-quarter earnings release Friday, Wells Fargo said its total number of brokers had fallen by 1%, or 130, to 14,527 as of June 30 from the previous quarter. Wells Fargo's broker count had been stagnant since 2014 through early last year. Since the third quarter of last year, when the bank announced its sales-practice settlement, the attrition picked up.

From the second quarter in 2014 through the second quar-



RICHARD DREW/ASSOCIATED PRESS

**CEO Timothy Sloan says Wells Fargo undertook a companywide 'culture assessment' recently.**

ter of last year, Wells Fargo's overall broker force fell slightly less than 1% to 15,042. But since the third quarter of 2016, its total number of brokers has fallen by nearly 4%, or 559 brokers. Because the bank reports net totals each quarter, it wasn't clear how many brokers left Wells Fargo.

A Wells Fargo spokeswoman attributed the declining head count to "recent demographic and regulatory shifts [that] have resulted in some retirements across the industry." She said that Wells Fargo had a strong pipeline of experienced recruits and trainees ready to join the firm.

Analysts said the head-count decline isn't surprising.

"It's hard to market to new clients as you have that [issue] as an overhang," said Brian Kleinhanzl, a banking analyst with Keefe, Bruyette & Woods Inc. "It's going to be a challenge for a time period, and it's hard to say how long that will be."

The industry is dealing with a graying broker population, with researchers saying the average age of a broker these days is in the mid-50s. Besides that, analysts say the Labor Department's fiduciary rule requiring brokers to act in the best interest of retirement savers has caused some to retire sooner than they otherwise would have.

Still, Wells Fargo's broker-

age departures have been outpacing those of rivals. Other brokerage-owning banks haven't reported second-quarter results yet, but both **Bank of America Corp.'s Merrill Lynch** and **Morgan Stanley** said broker forces declined by half a percent from the third quarter of 2016 through the first quarter of this year, while **UBS Group AG** lost slightly more, with its total number of brokers falling 1.7%.

While Wells Fargo's broker count has fallen since the sales scandal, referrals from the bank's community-banking arm to the wealth unit jumped 12% from the previous quarter. Two of the months during the quarter had \$1 billion in

monthly referred investment assets; in the first quarter, Wells Fargo said it had only one month in which it reached \$1 billion in monthly referred investment assets.

Wells Fargo's Chief Financial Officer John Shrewsberry said those referrals were the result of "effective partnering between our bankers and financial advisers."

Total assets within Wells Fargo's wealth arm reached \$1.8 trillion, up 8% from the year-earlier period, on higher market valuations and customers entrusting more cash with the bank's financial advisers.

Wells Fargo is trying to turn around its head-count fortunes with more-aggressive broker recruiting at a time when many rivals have temporarily stopped doing so. Merrill Lynch, Morgan Stanley and UBS have said they would curtail their recruitment efforts at least temporarily to save costs and shift spending elsewhere, such as on broker technology. Wells Fargo, meanwhile, sweetened its pitch in May, saying it would offer some brokers a recruitment bonus of as much as three times the annual fees and commissions they generate.

The bank has also put more emphasis on attracting younger brokers to its ranks. Chief Executive Timothy Sloan told analysts on a conference call Friday that the bank has directed significant resources toward repairing its relations with consumers and has undertaken a companywide "culture assessment" in recent months.

"We are processing these results and the goal is to identify both positive attributes and potential weaknesses we can take actions that will strengthen our culture," Mr. Sloan said.

# BlackRock Declines As Results Fall Short

BY IMANI MOISE

**BlackRock Inc.**, the world's largest money manager, said its second-quarter earnings and sales rose as investors sought larger returns on their assets.

Shares fell 3.1% to \$424.57 in late morning trading in New York. The firm's adjusted earnings per shares came in 17 cents lower than analysts' expectations, and sales came up short as well.

BlackRock's assets under management rose 16% to \$5.69 trillion from a year ago, boosted by \$103.62 billion in net inflows.

"While significant cash remains on the sidelines, investors have begun to put more of their assets to work," said Chief Executive Laurence Fink.

Flows of money into BlackRock's actively managed products turned positive. During the quarter, investors added \$8 billion to the company's actively managed products while investing \$73.8 billion in iShares and indexed funds.

The flow of money seen at BlackRock reinforces the continuing shift in investor taste for lower-cost passive funds that track the performance of indexes.

Assets under management at the iShares exchange-traded fund business crossed \$1.5 trillion during the second quarter.

Index trackers have boosted BlackRock's earnings in recent quarters, but the firm said that going forward, it will look to its technology business for growth.

BlackRock's technology and risk-management revenue grew 12% year over year. Still, at \$164 million, the business makes up little more than half of 1% of total revenue.

The company also saw positive inflows in the rest of its business segments. Retail long-term inflows were \$6.5 billion, institutional active inflows were \$4.6 billion and long-term inflows for its institutional index business were \$8.7 billion.

In all, BlackRock reported a profit of \$857 million, or \$5.22 a share, in its second quarter, up from \$789 million, or \$4.73 a share, a year earlier. Excluding certain items, BlackRock earned an adjusted \$5.24 a share, up from \$4.78 in the year prior.

Revenue rose 5.7% to \$2.97 billion. Analysts polled by Thomson Reuters had projected \$5.39 a share in adjusted earnings, with \$3.02 billion in revenue.

# Citigroup to Overhaul Its Premium Card

BY ANNAMARIA ANDRIOTIS

The rewards war in the premium-card market isn't subsiding.

**Citigroup Inc.** is revamping some of the benefits on its Prestige card in an effort to sweeten the deal for coveted affluent consumers who exceed high spending thresholds.

The bank was expected to announce Monday that it will raise the sign-up bonus on the high-end card to 75,000 points from 40,000. It also is raising the minimum amount that card holders must spend in the first three months to earn the reward to \$7,500 from \$4,000. Both changes take effect July 23.

Points have become a valued currency for many con-

sumers, especially in the travel sector, where they can be redeemed for airfare and hotel stays.

Premium cards geared to big spenders in particular have taken off because consumers who put most of their expenses on cards view them as a way to get discounts or free travel worth hundreds or thousands of dollars.

Citigroup's is the latest shot in an increasingly competitive market for high spenders. **American Express Co.** dominated the segment for decades, but that started to change in recent years. Citi jumped into the market in 2013 with Prestige, and competition intensified last summer when **J.P. Morgan Chase & Co.** launched the Sapphire Reserve card.

"The market has many options, though, with these annual fees, many eligible consumers will not be taking multiple cards," said Brian

*Citigroup's is the latest shot in a competitive market for high spenders.*

Riley, director of the credit advisory service at Mercator Advisory Group Inc. He said he expects other lenders to quickly react to Citi's latest changes.

The bank's executives, led by Chief Executive Officer Mi-

chael Corbat, are making the credit-card moves as the overall business becomes more important to the company.

Citigroup's revenue for the second quarter beat analysts' expectations, rising 2% from a year prior, helped in part by credit cards. Revenue for Citi-branded North America cards increased 10% to \$2.1 billion, though the bank's credit costs continue to rise as it expands its card portfolio.

Citigroup is also beefing up the Prestige card's hotel benefit. Under the changes, Citi will allow card holders to get their fourth night in a hotel free, regardless of whether they paid for the first three with dollars or points.

The sign-up bonus for Prestige, which carries a \$450 an-

nual fee, doesn't rival the 100,000 points that J.P. Morgan used to offer on the Sapphire Reserve card in exchange for spending \$4,000 in the first three months. That came to an end in March.

J.P. Morgan has been looking at ways to use Sapphire Reserve to get consumers to sign up for other products. In May, it began offering the 100,000 points for people who apply for a new mortgage from the bank through Aug. 6 and receive one.

Citi's changes aren't all upgrades. Under another one going into effect July 23, Prestige card holders who use their points to book airfare will see the value of each point drop to 1.25 cents from a range of 1.33 cents to 1.6 cents.

## FINANCE WATCH

### UNICREDIT

#### Lender Makes Deal To Sell Bad Loans

Italian bank **UniCredit SpA** said it has signed a definitive agreement with **Pacific Investment Management Co.**, or Pimco, and **Fortress Investment Group** for the sale of €17.7 billion (\$20.3 billion) of bad loans.

The transaction is part of a strategic plan the bank unveiled last year, which included cutting thousands of jobs and selling €13 billion in new shares. Earlier this year, the bank completed the capital increase.

The deal with Pimco and Fortress allows the bank to shed the large portfolio of bad loans by bundling them into securities to be sold to investors.

To that end, the bank has agreed to transfer one portfolio of bad loans to a newly created firm controlled by Fortress Investment Group and another to a firm controlled by Pimco.

UniCredit will own a minority stake in the two companies.

—Giovanni Legorano

### CHINA

#### People's Bank Sells Foreign Exchange

China's central bank sold a net 34.32 billion yuan (\$5.06 billion) of foreign currency in June, according to calculations made by The Wall Street Journal based on central-bank data released Monday.

The bank is unloading €17.7 billion (\$20.3 billion) of bad debt.

The figure came in higher than a net foreign-exchange sale of 29.33 billion yuan in May, according to the latest data from the People's Bank of China.

The central bank's total foreign-exchange purchase position stood at 21.515 trillion yuan at the end of June, down from 21.550 trillion yuan a month before, the PBOC said.

The purchase position has been falling for 20 consecutive months, indicating continued capital-outflow pressure.

—Liyan Qi

### CANADA

#### Housing Sales Fall

A cool-down in Canadian housing now appears well underway, with last week's rate rise from the Bank of Canada expected to prolong the slowing trend.

National resale figures for June from the Canadian Real Estate Association indicate sales fell a seasonally adjusted 6.7% from May, the steepest decline in seven years. This marked the third straight month-over-month drop in sales, and the second consecutive month transactions declined by more than 6%.

On an actual, rather than seasonally adjusted basis, sales fell 11.4% year over year in June.

Meanwhile, growth in the association's index measuring house prices slowed for a third straight month, climbing 15.8% in June from a year ago, down from an advance of nearly 20% in April.

The association said the results reflect the impact of measures that the province of Ontario introduced in April to end speculative real-estate activity in Toronto and the surrounding area.

—Paul Vieira

—Paul Vieira

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China A-Share Fund C USD A H OT HKG 07/14 AUD 13.66 15.9 16.1 2.4

China A-Share Fund C USD A H OT HKG 07/14 AUD 12.48 14.2 16.6 -0.9

China A-Share Fund C USD A H OT HKG 07/14 CAD 12.59 15.3 14.7 1.1

China A-Share Fund C USD A H OT HKG 07/14 EUR 13.22 15.1 13.9 0.9

China A-Share Fund C USD A H OT HKG 07/14 GBP 12.87 11.6 13.9 NS

China A-Share Fund C USD A H OT HKG 07/14 HKD 13.20 14.6 13.2 2.4

China A-Share Fund C USD A H OT HKG 07/14 SGD 15.20 16.0 16.0 9.8

China A-Share Fund C USD A H OT HKG 07/14 NZD 13.42 15.0 14.5 1.2

China A-Share Fund C USD A H OT HKG 07/14 USD 13.61 22.1 18.0 1.2

China A-Share Fund C USD A H OT HKG 07/14 NZD 11.66 17.1 17.7 -2.6

China A-Share Fund C USD A H OT HKG 07/14 CHN 14.76 17.7 18.6 4.8

China A-Share Fund C USD A H OT HKG 07/14 USD 13.52 21.5 17.5 1.1

China A-Share Fund C USD A H OT HKG 07/14 USD 13.41 15.4 15.2 1.6

China Greenchip-A Units AS EQ CYM 07/14 HKD 13.37 24.6 26.3 0.6

China Greenchip-A Units AS EQ CYM 07/14 AUD 10.75 25.1 27.4 1.1

China Greenchip-A Units AS EQ CYM 07/14 CAD 10.46 25.1 26.5 0.1

China Greenchip-A Units AS EQ CYM 07/14 NZD 11.00 24.7 27.5 1.7

China Greenchip-A Units AS EQ CYM

## MARKETS DIGEST

### Nikkei 225 Index

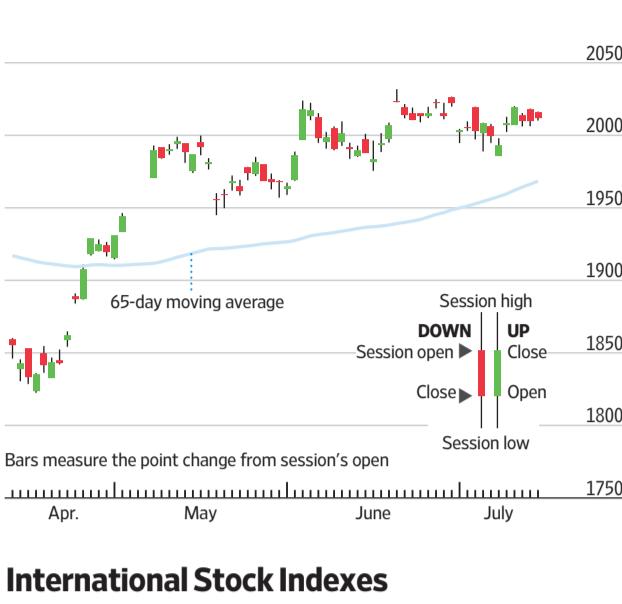
**2018.86** Market Closed

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

Year-to-date  
52-wk high/low  
All-time high

20230.41 16083.11  
38915.87 12/29/89

▲ 5.26%



Bars measure the point change from session's open

### STOXX 600 Index

**386.86** ▲ 0.02, or 0.01%

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

Year-to-date  
52-wk high/low  
All-time high

396.45 328.80  
414.06 4/15/15

▲ 7.04%



### S&P 500 Index

Data as of 12 p.m. New York time

Last: 2460.50, P/E ratio: 24.29, Trailing P/E ratio: 24.29

Year ago: 24.85, P/E estimate: 18.80, Dividend yield: 1.99

All-time high: 2459.27, 07/14/17

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



### International Stock Indexes

Data as of 12 p.m. New York time

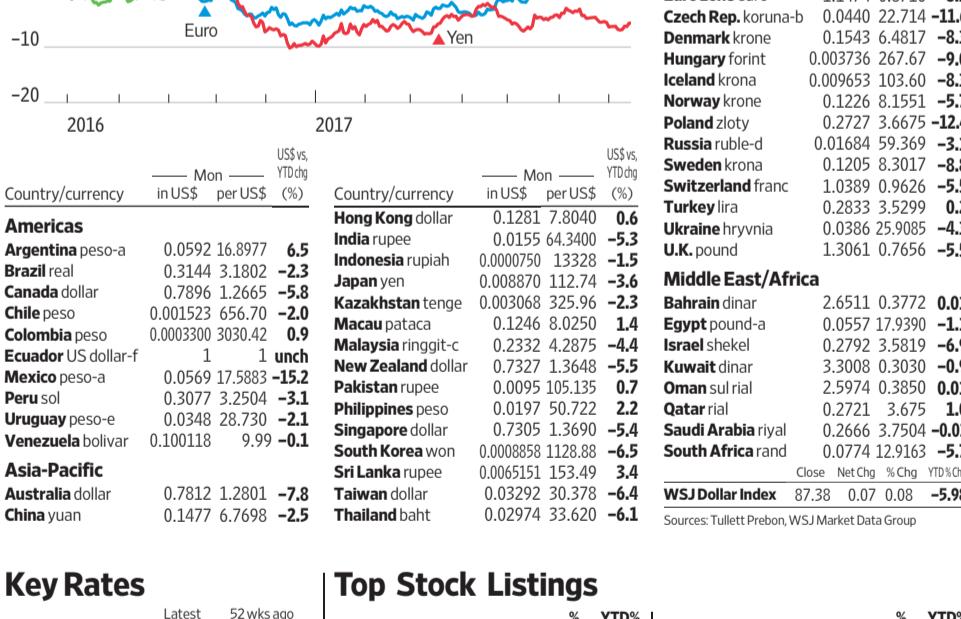
Region/Country	Index	Close	NetChg	% chg	52-Week Range	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2832.16	2.72	▲ 0.10	2383.44	2834.30	12.0	
	<b>MSCI EAFE</b>	1920.69	1.95	▲ 0.10	1471.88	1956.39	11.9	
	<b>MSCI EM USD</b>	1051.24	4.19	▲ 0.40	691.21	1053.07	32.4	
<b>Americas</b>	<b>DJ Americas</b>	592.31	0.31	▲ 0.05	503.44	592.85	9.6	
Brazil	Sao Paulo Bovespa	65313.59	-122.58	-0.19	55355.07	69487.58	8.4	
Canada	S&P/TSX Comp	15182.25	7.44	▲ 0.05	14319.11	15943.09	-0.7	
Mexico	IPC All-Share	51078.27	-83.96	-0.16	43998.98	51298.10	11.9	
Chile	Santiago IPSA	3818.88	19.75	▲ 0.52	3120.87	3821.97	18.5	
<b>U.S.</b>	<b>DJIA</b>	21643.05	5.31	▲ 0.02	17883.56	21681.53	9.5	
	Nasdaq Composite	6315.13	2.66	▲ 0.04	5028.24	6341.70	17.3	
	<b>S&amp;P 500</b>	2460.50	1.23	▲ 0.05	2083.79	2463.54	9.9	
	CBOE Volatility	9.85	0.34	▲ 3.58	9.37	23.01	-29.8	
<b>EMEA</b>	<b>Stoxx Europe 600</b>	386.86	0.02	▲ 0.01	328.80	396.45	7.0	
	<b>Stoxx Europe 50</b>	3164.53	-3.75	-0.12	2720.66	3279.71	5.1	
France	CAC 40	5230.17	-5.14	-0.10	4293.34	5442.10	7.6	
Germany	DAX	12587.16	-44.56	-0.35	9923.64	12951.54	9.6	
Israel	Tel Aviv	1456.86	-3.13	-0.21	1372.23	1490.23	-0.9	
Italy	FTSE MIB	21484.84	-7.45	-0.03	15923.11	21828.77	11.7	
Netherlands	AEX	521.50	0.43	▲ 0.08	436.28	537.84	7.9	
Russia	RTS Index	1039.34	-4.93	-0.47	898.05	1196.99	-9.8	
Spain	IBEX 35	10651.20	-3.90	-0.04	8229.40	11184.40	13.9	
Switzerland	Swiss Market	9038.65	4.08	▲ 0.05	7585.56	9148.61	10.0	
South Africa	Johannesburg All Share	53827.41	229.45	▲ 0.43	48935.90	54716.53	6.3	
Turkey	BIST 100	106217.00	1041.27	▲ 0.99	70426.16	106402.15	35.9	
U.K.	FTSE 100	7404.13	25.74	▲ 0.35	6615.83	7598.99	3.7	
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1652.57	1.70	▲ 0.10	1405.52	1656.74	16.2	
Australia	S&P/ASX 200	5755.50	-9.60	-0.17	5156.60	5956.50	1.6	
China	Shanghai Composite	3176.46	-45.95	-1.43	2953.39	3288.97	2.3	
Hong Kong	Hang Seng	26470.58	81.35	▲ 0.31	21574.76	26470.58	20.3	
India	S&P BSE Sensex	32074.78	54.03	▲ 0.17	25765.14	32074.78	20.5	
Indonesia	Jakarta Composite	5841.28	9.48	▲ 0.16	5027.70	5910.24	10.3	
Japan	Nikkei Stock Avg	20118.86	...	Closed	16083.11	20230.41	5.3	
Malaysia	Kuala Lumpur Composite	1755.19	0.19	▲ 0.01	1616.64	1792.35	6.9	
New Zealand	S&P/NZX 50	7699.57	49.80	▲ 0.65	6664.21	7699.57	11.9	
Pakistan	KSE 100	44523.21	185.77	▲ 0.42	39017.32	52876.46	-6.9	
Philippines	PSEI	7934.50	48.60	▲ 0.62	6563.67	8102.30	16.0	
Singapore	Straits Times	3298.24	10.81	▲ 0.33	2787.27	3298.24	14.5	
South Korea	Kospi	2425.10	10.47	▲ 0.43	1958.38	2425.10	19.7	
Taiwan	Weighted	10457.54	13.63	▲ 0.13	8902.30	10513.96	13.0	
Thailand	SET	1574.09	-3.70	-0.23	1406.18	1591.00	2.0	

Source: SIX Financial Information/WSJ Market Data Group

### Currencies

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

London close on July 17



### Key Rates

Latest 52 wks ago

Liber

One month 122833% 0.48655%

Three month 130611 0.69560

Six month 145322 100280

One year 173289 132640

EuroLibor

One month -0.40000% -0.37000%

Three month -0.37157 -0.30643

Six month -0.30471 -0.19271

One year -0.18343 -0.06729

Euribor

One month -0.37300% -0.37100%

Three month -0.33000% -0.29500

Six month -0.27400% -0.19100

One year -0.15100 -0.06100

Yen Libor

One month -0.02914% -0.07929%

Three month -0.00757 -0.03971

Six month 0.01129 -0.03379

One year 0.01786 -0.06393

Offer Bid

Europollars

One month 1.31000% 1.21000%

Three month 1.35000 1.25000

Six month 1.50000 1.40000

One year 1.77000 1.67000

Latest 52 wks ago

### Top Stock Listings

Latest 52 wks ago

Cur Stock Sym Last Chg % YTD% Chg

**Asia Titans**

HKS ALAGroup ICB 1299 58.25 0.26 33.14

Indonesia rupiah 0.000750 13238 -1.5

Japan yen 0.008870 112.74 -3.6

Kazakhstan tenge 0.003068 325.96 -3.6

Macau pataca 0.1246 8.0250 1.4

Malaysia ringgit-c 0.2332 4.2875 -4.4

New Zealand dollar 0.7327 1.3648 -5.4

Pakistan rupee 0.0095 105.15 0.7

Philippines peso 0.0197 50.722 2.2

Singapore dollar 0.7305 1.3690 -5.4

South Korea won 0.0008858 1128.88 -6.5

## FINANCE & MARKETS

# Oil Swings as Market Eyes Supply News

BY STEPHANIE YANG  
AND JENNY W. HSU

Oil prices fluctuated between gains and losses on Monday, as investors weighed signs of strong demand against a global glut that's proven difficult to reduce.

Near midday in New York, light sweet crude for August delivery was down 11 cents, or 0.1%, at \$46.48 a barrel on the New York Mercantile Exchange, paring gains after trading as high as \$46.88 earlier in the session. Brent, the global benchmark, was near flat at \$48.92 a barrel.

While recent data has indicated increasing consumption of crude oil, market participants have grown wary of high levels of stockpiles in the wake of increasing production around the world.

U.S. production rose near a two-year high in the week ended July 7, according to data from the U.S. Energy Information Administration last week. Meanwhile, attempts by the Organization of the Petroleum Exporting Countries to limit supply have



REUTERS

Excess supplies of oil continue to weigh on prices, but encouraging news from China supported the market on Monday.

been undermined by growing output by members such as Libya and Nigeria, which are exempt from the deal to curb production.

The International Energy Agency reported Thursday that global oil supplies in June rose by 720,000 barrels a day to 97.46 million a day, on pro-

duction from both OPEC and non-OPEC members.

"The supply story here just continues to weigh," said John Kilduff, founding partner at

Again Capital. "It gets pushed off the main stage at times, but it's still lurking and ready to hit prices again."

Analysts said data showing

positive oil demand in China provided some support for prices. On Monday, the country said its domestic daily crude production was down 5.1% in the first half of the year compared to the previous year and imports rose 14%. The IEA also recently raised its 2017 demand forecast by 100,000 barrels a day.

"There's just a lot of pushing and pulling on the market here today," Mr. Kilduff said.

U.S. crude stockpiles have also fallen by more than expected in the past week, reigniting some hopes that the rebalancing of the oil market is starting to take off. Jim Ritterbusch, president of energy-advisory firm Ritterbusch & Associates, noted that demand for products like gasoline helped the market as well.

"We are emphasizing a surprising improvement in U.S. product demand since late spring as a significant driver of higher...prices," Mr. Ritterbusch said in a Monday note.

Gasoline futures rose 0.7% to \$1.5715 a gallon and diesel futures rose 0.1% to \$1.5158 a gallon.

## A Note for Advisers on Direct Real-Estate Investing

**Alexander Philips** is chief executive of **TwinRock Partners**, a California real-estate investment firm that works with investment advisers. Voices is an occasional feature of edited excerpts in which wealth managers address issues of interest to the advisory community. As told to Alex Coppola.

Real estate can be a valuable alternative investment in a diversified portfolio, but access to direct investment opportunities traditionally has been restricted to accredited and institutional clients. Non-accredited individual, or retail, investors have had access to

real-estate opportunities principally through real-estate investment trusts.

That is beginning to change. The Securities and Exchange Commission recently opened to retail investors access to direct investments in real estate through crowdfunding platforms. The SEC's amended Tier 1 Regulation A offering, also known as Regulation A+, allows developers to raise capital through crowdfunding—making public offerings to accredited and nonaccredited investors alike. The offerings must be approved by the SEC before sales are made.

Because the size of the offerings are capped at \$20 million—or \$50 million for Tier 2 projects—borrowers pay sig-

nificantly lower legal and regulatory costs than they would on an S-1 filing that is used by companies that are going public. The result: Retail investors can purchase shares in specific

projects for around \$1,000, a price that is similar to what they would pay for shares of a mutual fund.

Investments may include real-estate projects from self-storage units and retail properties to residential developments and office space. While REITs allow clients to invest in the ownership of different properties, direct investment gives them ownership in the assets themselves or in debt collateralized by those properties. That structure, as well as the ability to select particular real-estate opportunities, can be appealing for many clients.

There are some caveats, however. Unlike REITs, which can be traded daily like a stock, direct investments are

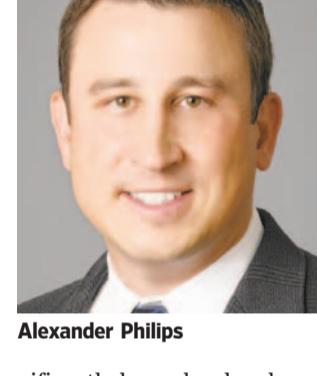
less liquid. Depending upon the structure of the project, clients can expect to have their money tied up in an investment anywhere from one to seven years.

Despite that illiquidity, an advantage of direct investments over REITs is cost. In addition to commissions, or loads, charged on REITs, the operational costs of managing a large pool of investments can quickly erode returns. While some direct investments do charge fees, most don't include upfront fees or commissions.

Navigating this relatively new process can be a challenge for advisers interested in using these investments with clients. You're looking at

different fundamentals when evaluating real-estate opportunities than you are with traditional securities.

But being unfamiliar shouldn't be a deterrent to exploring the opportunity. The sponsors are required to operate with full transparency, providing financials as well as information on the condition of the property, its manager, the tenants and the operating performance of ownership. Ask for investor referrals and spend time conducting due diligence on sponsors and meeting with them. They should be interested in you as well—any legitimate sponsor will be looking to form a long-term relationship with you and your client.



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# MARKETS

## U.S. Firms Sweeten 401(k) Plans

Some companies lift contributions to lure talent, ease way for older workers to retire

By SARAH KROUSE

Some employees who haven't saved enough for retirement are getting more money from an unlikely source: their employers.

Companies from Microsoft Corp. to Host Hotels & Resorts Inc. are boosting contributions to their workers' 401(k) plans, a move many firms have long resisted because of the costs.

The average company contribution to 401(k) plans rose to an estimated 4.7% of employee salaries in 2016, up from 3.9% in 2015, according to data on 1,900 workplace retirement savings plans run by mutual-fund company Vanguard Group. It was the highest percentage and biggest year-to-year jump since at least 2007.

"It's a no-brainer to try and max that out as much as possible," said Francois Burianek, a 43-year-old senior software engineer for Microsoft's Xbox gaming unit, who raised his 401(k) contributions by more than 70% after the technology company increased what it was prepared to match.

Some companies in certain industries say they need to spend more to retain the best employees and motivate staff. They also need to ensure that older, relatively expensive workers can afford to retire on time and make way for younger staff, retirement specialists said. Employees who don't have adequate nest eggs will stay in their jobs longer and add to a company's overall health-care costs.

The boost in contributions represents a policy shift for American companies that embraced tax-deferred 401(k) plans partly because the sav-

ings tool allowed them to shift the burden of paying for retirement to employees. Many shed more expensive defined-benefit pension plans that guaranteed employees a certain percentage of their salary in retirement.

Companies tried to encourage more 401(k) savings over the past decade by automatically enrolling workers in the plans and boosting the amount employees set aside each year unless they opted out.

But many U.S. workers still aren't saving enough on their own. The average percentage they set aside among Vanguard-run retirement accounts has dropped since 2007 largely because more new 401(k) savers were enrolled at lower initial savings rates. The average total employee and company contributions to workplace savings plans among workers who participate, as a result, haven't moved above 11% of salaries for at least a decade.

Many retirement plan advisers say employees need to save about 15% of their salaries each year.

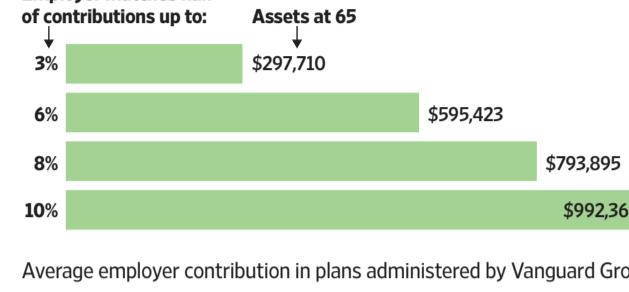
"If you want people to retire at a certain time they need to have acquired sufficient assets," said Jean Young, a senior research analyst at the Vanguard Center for Investor Research. "There's a growing interest among some employers in supporting that dynamic," with more money, she said.

The added contributions by some companies are a change from the depths of the financial crisis when many employers suspended or pared back contributions. The prolonged economic recovery in the years since has put many companies on more stable footing.

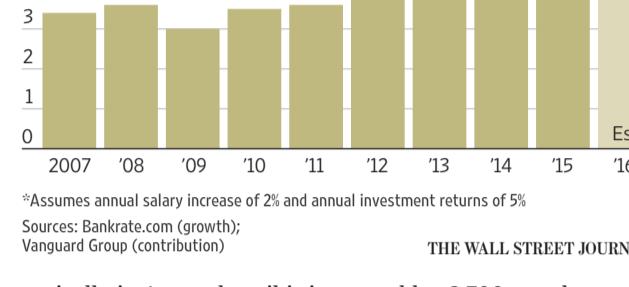
A 401(k) is an employer-sponsored plan that allows workers to contribute part of their pretax pay up to certain federal limits. That money

### Match Stash

Growth of assets for a 25-year-old worker who starts saving for retirement making \$40,000 per year and contributes the maximum matched by employer\*



Average employer contribution in plans administered by Vanguard Group



\*Assumes annual salary increase of 2% and annual investment returns of 5%.

Sources: Bankrate.com (growth); Vanguard Group (contribution)

THE WALL STREET JOURNAL.

typically isn't taxed until it is withdrawn, and participants generally pick from a list of funds and investment options. Companies aren't required to make their own contributions to employee accounts, but some companies agree to match a portion of what workers chip in. These accounts rise and fall with financial markets.

Some firms, particularly in the technology industry, are using more generous 401(k) contributions to help attract and retain talent, said Aimee DeCamillo, head of retirement plan services at T. Rowe Price Group Inc. Ultimate Software Group Inc. steadily increased the company match for its \$281 million 401(k) plan in recent years as it met new revenue targets. In January 2016, the Weston, Fla.-based company pushed its match to 40% of any employee contribution up to federal limits for its

So in April Host increased its company match and now chips in 50 cents of every dollar its 220 employees invest in its 401(k) plan, up to 8% of their salary, an increase from the previous 6% limit.

Host also has a discretionary system that matches as much as an additional 4% of

roughly 3,700 workers, up from 35%.

Another company that recently contributed more of its own money, Host Hotels, said it hadn't done enough to get employees closer to the savings rate many retirement advisers recommended.

"We weren't getting people to the 15%" contribution level retirement advisers recommend, said Karen Montague, director of total rewards at Host Hotels, a real-estate investment trust that owns properties run by big hotel chains such as Hilton Worldwide and Marriott International Inc.

After one year of the increased match, 52% of Microsoft workers had maximized the amount of pretax money they contributed to the plan, up from 36% in 2015, the company said. That was half the time the company's research suggested it could take to get 50% of its employees to maximize the amount they contributed.

"It's blowing my budgets," said Fred Thiele, general manager, global benefits at Microsoft.

But the move encouraged more workers to save additional money for retirement, particularly those with lower incomes, which was the company's intent.

salary each year, up from 3% before the change.

The change to Host's matches means the company is likely to contribute an additional \$250,000 to the plan, based on 2016 contribution data. Increasing the discretionary component could result in another \$300,000 a year, the plan's administrator said.

In Seattle, Microsoft tried to change employee behavior before increasing its own contributions. Roughly three years ago it increased the salary amounts workers pick to contribute when they sign up for a 401(k). Workers now choose from the options of 8%, 10% or 12%, as compared with 6%, 8% or 10%.

Last year Microsoft offered more money to the more than 60,000 current employees in its 401(k) plan. Instead of chipping in half of up to 6% of each worker's salary, the firm started matching half of all employee contributions up to federal limits.

The government limits employee contributions and sets an overall limit on the amount channeled into an individual's plan.

As a result of that change the company contributed roughly \$150 million more to its \$17 billion retirement savings plan last year.

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## Stocks Add To Gains In the U.S.

By RIVA GOLD AND ESE ERHIERIENE

U.S. stocks inched higher, building on gains last week, as investors looked ahead to a busy week of corporate earnings reports.

Of the 6% of S&P 500 companies that had reported second-quarter earnings as of Friday, 80% have beaten analysts' earnings estimates, according to FactSet.

**EQUITIES** The Dow Jones Industrial Average and S&P 500 ended last week at records. By midday Monday in New York, the Dow was up 11 points, or 0.1%, to 21649. The S&P 500 and the Nasdaq Composite also gained 0.1%.

The Nasdaq hovered within a few points of its closing record after posting its biggest one-week gain in more than six months on Friday as the tech sector continued to rebound from a spate of declines that began June 9.

The S&P 500 technology sector has risen more than 4% so far this month after declining 2.7% in June.

Netflix was scheduled to report results after the close, followed later in the week by other tech firms such as Microsoft and eBay and banks such as Goldman Sachs Group, Bank of America and Morgan Stanley.

Friday's records for the Dow and S&P 500 followed softer-than-expected U.S. economic data, which damped expectations of further Federal Reserve interest-rate increases.

The Stoxx Europe 600 rose less than 0.1% Monday. Investors were awaiting a meeting of the European Central Bank on Thursday to see whether an improving economy prompts the bank to shift its tone.

—Alexander Osipovich contributed to this article.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

## Beijing's Crackdown Could Bite

Beijing is contending with a web of financial risks. Markets are jittery about which part of the system regulators will go after.

Chinese authorities spent the weekend at the National Financial Work Conference considering risks plaguing the financial system. Fear permeated markets, which tumbled Monday after President Xi Jinping gave a speech that supported efforts to tamp down complicated lending.

At hand is an ever-growing asset-management industry—now around 60 trillion yuan (\$8.8 trillion.) The central bank elaborated on the linkages it uncovered in the asset-management industry in its recently published financial-stability report. That is likely telling of where regulators will go digging.

Untangling the asset-management industry's ties will be painful. Banks have sold more than one-third of the wealth-management-product assets. These products are then further packaged and sold off to trusts, brokers and funds to be managed.

If regulators do take on the asset-management business, it could spell trouble for corporate borrowers. Corporate bonds account for more than 40% of underlying assets in wealth-management products sold by banks. Asset managers have been the only active buyers of these bonds so far this year. These bonds are already primed for a sell-off. The leverage ratio in asset managers' bond-market positions has risen to 1.4 times in the past month from 1.25.

Given the complexity of the system, regulatory disruption is likely to be painful.

—Anjani Trivedi

## The Four Stocks You Can't Skip

### Value Trap

Cumulative return



growing sales and earnings, and the greatest price momentum, has returned 15.1%.

Amazon, Apple, Alphabet and Facebook count for nearly one-fifth of its weight. The S&P 500 Value index—the yin to growth's yang—has underperformed.

Of the four behemoths, only Apple has a dividend, and a rather scant one.

No surprise, then, that the S&P High Yield Dividend Aristocrats index, which screens for companies that have consistently increased their dividends, has done poorly.

The S&P 500 Equal Weight Index (which puts every stock on an equal footing rather than weighting by market size) has over time

tended to outperform the S&P 500.

But not this year. Midsize-and small-company shares, in both the growth and value categories, have also underperformed.

So for almost any investors who adhered to any particular style, 2017 probably hasn't been so good. And unless they loaded up on the four stocks that happened to power the market higher, it hasn't been much of a year for stock pickers. The plain-vanilla strategy of just buying the S&P 500 has so far been the right one.

But when the stock market is driven by just a handful of stocks, each of which is substantially more expensive on a price-earnings basis than they were at the start of the year, it can be setting itself up for trouble. It might not take much for investors to suddenly pine for all the stocks and styles they have abandoned.

—Justin Lahart

## OVERHEARD

There are plenty of people who would like to give the Internal Revenue Service the finger, and many feel like the tax-collecting agency is extracting its pound of flesh. Both of those feelings are figurative, of course, but apparently not for everyone.

The Seattle Post-Intelligencer reported that a 68-year-old Tacoma, Wash., man, frustrated with the IRS, sent them his severed finger in the mail.

He also sent them a marijuana cigarette, a bullet and, most recently, a device that appeared to be a bomb but turned out to be fake.

The threats to a federal agency earned him federal charges.

The man, who has been aggrieved since losing a civilian job with the Navy in the 1990s, didn't rule out more actions, according to investigators, telling them: "I'm not going to tip my hand."

Please don't.

## Chinese Economic Growth Continues on Borrowed Time

China's economy performed unexpectedly well in the first half—growth from a year earlier was steady at 6.9%, while most economists expected a slowdown.

That has prompted surprisingly little celebration. Markets tanked. Shares in Shenzhen were down nearly 5% in early trading as investors worried that better growth also meant a continuing crackdown on debt—which roiled markets this spring—would intensify.

President Xi Jinping added fuel to the fire with tough comments over the weekend.

And the clock is ticking for China to tackle its dangerous debt overhang before slowing growth makes it too difficult. Rebounding trade tensions or U.S. inflation

could spell trouble in the months ahead.

China's official GDP figures should always be taken with a grain of salt, but in this case there are good reasons to think growth has held up well. The best evidence comes from the housing sector: Steel prices have been on a tear in recent weeks, and housing-investment growth ticked up again to 7.9% in June, the fastest pace since April.

Moreover, the uptick is coming from medium-size cities in the interior, rather than the highly speculative coastal markets. Housing inventories nationwide peaked at 30 months of sales in early 2015 and have since fallen to around 20 months, estimates Rosealea Yao, se-

nior analyst at Gavekal Dragonomics in Beijing, a level last seen in early 2011.

The other reason to give some credence to the uptick is trade. Chinese export growth hit a four-month high in June and its trade surplus rebounded sharply. June data also showed growth in the IT and metal manufacturing sectors—good indicators for exports and housing, respectively—rising sharply.

As speculators know well, however, past performance is no guarantee of future results. Much of the new housing strength has been driven by rising mortgage debt—consumer loans outstanding in China were nearly one-third higher in May than a year earlier. Two other big problems could take China off the glide path in late 2017. The first is Donald Trump: A so-called 100-day action plan on trade is about to expire with few tangible results and rising Chinese trade with North Korea will be difficult for Mr. Trump to ignore. Trade restrictions could knock one leg out from Chinese growth later this year.

The second is the Federal Reserve. Chinese regulators will find it far easier to deal with their domestic leverage problem—without sparking a real financial crisis—if capital outflows remain weak, as they have been in recent months. If U.S. inflation surprises on the upside and the Fed moves more aggressively to tighten, however, money will begin to leak out of China again. Good growth last quarter gives Chinese regulators more time to right the ship; investors should welcome the reprieve but realize the waters ahead still look choppy. —Nathaniel Taplin