

# THE WALL STREET JOURNAL.

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ASIA EDITION

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STOXX 600 380.18 ▼ 0.07%

BRENT 46.71 ▼ 2.91%

GOLD 1208.60 ▼ 1.11%

EURO 1.1400 ▼ 0.21%

DLR \$114.09 ▲ 0.77%

## What's News

Business & Finance

**A**pple's iTunes is losing the battle for video viewers as market share for renting and selling movies has tumbled, and Amazon and Comcast grab a bigger chunk of the digital-movie business. **A1, A2**

◆ **China's Cosco agreed to buy a majority stake in Orient Overseas in a \$6.3 billion deal that would create the world's third-biggest container carrier. **B1****

◆ **Tesla sales in Hong Kong plummeted after the government slashed a tax break for electric vehicles. **B1****

◆ **Big banks have started to roll out ATMs that could be accessed with customers' biometric data via a smartphone. **B1****

◆ **U.S. shale companies are expanding drilling despite falling oil prices, thanks to easy Wall Street cash. **B1****

◆ **Tesla's Musk has agreed to build the world's largest lithium-ion battery system in Australia. **B2****

◆ **Samsung is forecasting its second-quarter operating profit will easily be the company's highest ever. **B4****

◆ **Fundraising through a new, unregulated method based in the world of cryptocurrencies are on the rise. **B5****

◆ **Singapore's sovereign wealth fund has reduced its exposure to riskier assets, citing Trump and Brexit. **B5****

◆ **The BOJ punched down a rise in Japanese government-bond yields. **B7****

### World-Wide

◆ **Trump didn't budge at the G-20 summit from his nationalist principles, suggesting the America First doctrine underpinning his foreign policy is more durable than some European counterparts had hoped. **A1****

◆ **Germany scrambled to explain how G-20 riots that had long been predicted spiraled out of control, leaving hundreds of officers and protesters injured. **A4****

◆ **Trump said in tweets Sunday that he pressed Putin twice on Russian meddling in the election. **A4****

◆ **The GOP health-care push got trickier as lawmakers faced at least one more defection and negotiations sputtered between conservatives and centrists. **A1, A7****

◆ **Liu was cleared to travel by foreign doctors, contradicting China's assessment of the long-imprisoned dissident's health. **A3****

◆ **Pyongyang denounced U.S. bombers' practice drill on the Korean Peninsula Friday, the U.S. military's latest show of force. **A3****

◆ **Two House Republicans proposed residency for a sick U.K. baby boy so he can travel for experimental therapy in the U.S. **A5****

◆ **Tillerson told Poroshenko the Trump administration is committed to restoring Ukraine's territorial sovereignty. **A4****

◆ **FBI nominee Wray is known as a workhorse who eschews the spotlight. **A5****

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# Trump Doesn't Budge at Summit

G-20 leaders fail to change the U.S. president's mind on most key issues

By PETER NICHOLAS

HAMBURG—Through marathon meetings and dinners at the Group of 20 summit, various world leaders sought to coax America's new president to accept core tenets of the in-

ternationalist order they embrace, including commitment to free trade and tough environmental regulation.

He barely budged. In his second foreign trip, President Donald Trump largely held firm to the nationalist principles that were central to his campaign identity, suggesting that the America First doctrine that underpins his foreign policy is more durable than some of his European counterparts had hoped.

German Chancellor Angela Merkel, speaking Saturday at the close of the summit, said the ideological gulf has proved tough to bridge. Talking about the back-and-forth with the Trump administration over the summit's joint statement, the German chancellor said: "The negotiations on the climate issue reflected dissent—everyone against the United States of America. And that the negotiations on the trade issue were espe-

cially tough was also a result of the United States taking certain positions."

Still bristling over Mr. Trump's decision to withdraw from the Paris climate accord, one French official said that an aim in drafting the joint statement was to ensure that the U.S. "is clearly identified as being alone."

If anything, Mr. Trump's two forays overseas have shown that some leaders are bending toward his positions,

not the reverse.

The statement, for example, carried language about America helping other countries use "fossil fuels more cleanly and efficiently." A European Union official conceded the reference to "these kind of energy sources is not something we like."

But the White House liked

Please see TRUMP page A4

◆ **Germany scrambles to explain G-20 riots** ..... A4

## Iraq Senses Victory Is Near in Mosul



**OVERVIEW:** Iraqi Prime Minister Haider al-Abadi went to Mosul on Sunday as the regime sought to finish retaking the city from Islamic State. Troops have been fighting to clear the final extremist-occupied pockets of Mosul's old city. An Iraqi forces sniper following an airstrike, above.

# Apple's iTunes Falls Short in Video

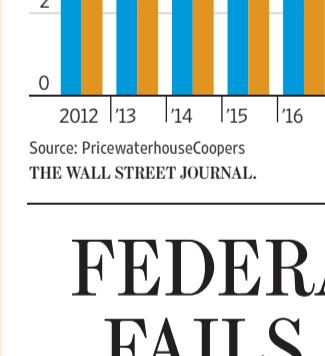
### Rising Competition

Subscription services are overtaking video-on-demand rentals and movie purchases.

■ Video-on-Demand rental/purchase

■ Subscription video-on-demand

\$8 billion



Source: PricewaterhouseCoopers

THE WALL STREET JOURNAL

BY BEN FRITZ  
AND TRIPPIE MICKLE

Apple Inc.'s iTunes Store—already struggling against rising competition for music listeners—is losing the battle for video viewers as well.

The company's market share for renting and selling movies has been falling for several years, tumbling to between 20% and 35% from well over 50% as recently as 2012, according to people with knowledge of the matter.

No third parties track market share in the digital-movie business, making exact figures impossible to obtain. Different Hollywood studios do different amounts of business with Apple, but several of them report a marked decline in iTunes' leadership position.

An Apple spokeswoman,

who didn't dispute the market-share estimates, said Apple is focused on providing customers with video content across subscription services such as Netflix and HBO, as well as iTunes, where she said movie purchases and rentals have increased over the past year and hit their highest level in more than a decade.

Apple's growth appears to be a consequence of overall industry increases, despite its market-share losses. Last year, total U.S. digital-movie sales and rentals rose a combined 12% to \$5.3 billion in the U.S., according to PricewaterhouseCoopers.

Apple's challenges in video come as the company looks to double by 2020 its \$24 billion services business, which includes App Store sales, Apple Pay and Apple Music. iTunes, where Apple sells and rents

films, has served as the foundation of that services business since 2003 when it made its debut as a digital store for music downloads before expanding to include TV shows and movies. Services, the company's second-largest business, have taken on increasing importance as Apple seeks to reduce its dependency on the iPhone, which accounts for two-thirds of annual sales.

iTunes video, music, book and magazine sales last year accounted for an estimated \$4.1 billion in revenue, making it the second-largest services business behind App Store sales, which were nearly twice as large, according to estimates by Bernstein Research.

Apple's iTunes has faced a Please see ITUNES page A2

◆ **Apple's new bet on privacy...** B4

Please see HEALTH page A7

# FEDERAL CARE FAILS TRIBES

U.S. health system for Native Americans is on the brink due to neglect and underfunding

BY DAN FROSCH  
AND CHRISTOPHER WEAVER

At the Indian Health Service hospital in Pine Ridge, S.D., a 57-year-old man was sent home with a bronchitis diagnosis—only to die five hours later of heart failure. When a patient at the federal agency's Winnebago, Neb., facility stopped breathing, nurses responding to the "code blue" found the emergency supply cart was empty, and the man died. In Sisseton, S.D., a high school prom queen was coughing up blood. An IHS doctor gave her cough syrup and anti-anxiety medication; within days she died of a blood clot in her lung.

In some of the nation's poorest places, the government health service charged with treating Native Americans failed to meet minimum

U.S. standards for medical facilities, turned away gravely ill patients and caused unnecessary deaths, according to federal regulators, agency documents and interviews.

The IHS, a unit of the Department of Health and Human Services, operates a network of hospitals and clinics, much like the Veterans Health Administration. Under U.S. treaties that date back generations, the service is legally responsible for providing medical care to about 2.2 million tribal members.

But that system has collapsed in the often-remote corners of Indian Country, where patients live hours from other medical providers, often have no insurance and depend on the federal service.

"We've lost faith in the IHS, but we have no alternatives to go anywhere else,"

Please see IHS page A6

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Please see IHS page A6

# INSIDE



## MEN ARE DONE WITH TRENDS

FASHION, A8



## CAREER OF THE FUTURE: ROBOT PSYCHOLOGIST

KEYWORDS, B1

# What's a Wedding Without 18,000 Cookies?

Thumbnails and Italian butterballs are her specialty.

The bride's Palestinian father drove to Dearborn, Mich., to pick up 500 Middle Eastern sweets.

Ms. Creatore borrowed neighbors' freezer space and needed three pickup trucks and three cars to collect and deliver

cookies to the hall the night before the wedding.

"My goal was to have a spectacular cookie table for him," says Ms. Creatore, who began serious cookie planning eight months before the wedding, which had 360 guests.

She made 4,000 of the cookie total, inviting friends over for nights of wine and dough rolling. They burned Please see BAKE page A6

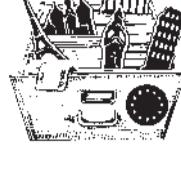


Wedding cookies

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## WORLD NEWS

# A Wary Eye Returns to Italy's Debt Markets



### EUROPE FILE

By Simon Nixon

The recent volatility in bond markets has stirred up old fears in Europe. Investors have long been concerned about the possible impact of the end of the European Central Bank's quantitative easing program on the eurozone's periphery, not least Italy—the country long-regarded as too big to save. Now with markets abuzz with talk of central bank monetary policy "normalization," those concerns are once again front of mind: Without the fire blanket of ECB government bond-buying, will Italian borrowing costs soar once again, plunging the eurozone back into crisis?

For the moment, there is no sign of any panic—or any immediate cause for alarm. Italian 10-year government bond yields have risen sharply in the past two weeks to just over 2.2% in tandem with other eurozone government bond markets. But the spread between German and Italian bond yields—a measure of the perceived riskiness of Italian bonds—has widened only modestly to 1.7 percentage points, well below the recent peak of 2.2 percentage points ahead of May's French presi-



ANDREA RONCHI/WIREIMAGE/PACIFIC PRESS/ZUMA PRESS

Protesters gathered in Rome this month amid rising concern over political risks in the run-up to a November constitutional referendum.

dential election though still above the 1.3 percentage points a year ago before fears about Italian political risks started rising in the run-up to a November constitutional referendum.

Nonetheless, investors are wary because at some point rising Italian government bond yields run the risk of creating negative feedback loops into the real economy via higher domestic borrowing costs. With the trifecta of Italian government debt equivalent to 132% of gross domestic product, growth not expected to exceed 1.4% this year, and inflation still below 1%, any sharp rise in borrowing costs risks reviving questions over the sustainability of Italian debt.

Italy can cope with bond yields rising above 2%, but what if they rise above 3% or 4%? asks Marcel Alexan-drovich, European economist at Jefferies International.

These concerns are shared by policy makers, though ECB officials say they won't allow this to influence its decision-making: the ECB's task is to set monetary policy conditions for the whole eurozone, not an individual country. Besides, there is no reason why any ECB decision to taper its purchases of government bonds should trigger a crisis. After all, the Italian government benefits from a deep and liquid domestic market for its bonds: the Italian household sector holds €3 trillion worth of liquid assets and is currently adding to

those savings at an annualized rate equivalent to more than 8% of GDP.

At the same time, the government is running a primary budget surplus which means that Rome only needs to issue new debt to roll over existing debt and cover its interest expense—a task made easier by the Treasury's efforts to lock in current low-interest rates and extend the maturity profile of its debts. Policy makers also note that a rise in interest rates may not be as damaging as investors fear since higher household investment income could boost spending and growth.

The real short-term risk is that ECB tapering might crystallize existing fears about Italian political risks

ahead of the general election that must be held by the end of February. If the outcome was a populist 5 Star Movement committed to taking Italy out of the euro, the eurozone would be plunged into crisis from which there is no obvious escape. Under such circumstances, Rome is unlikely to request the kind of bailout program needed to unlock further ECB assistance.

Yet even if the eurozone survives this test—continuing this year's pattern of market-friendly political surprises—policy makers fear that long-term political risks will continue to hang over the government debt market. True, Italy is currently enjoying a cyclical upswing, helped by a buoyant global economy.

It should also reap some benefits from the recent, belated efforts finally to clean up its banking system and tackle the legacy of bad debts. Other recent overhauls should also contribute to stronger growth including reforms of the labor market, judiciary and new incentives to encourage equity investment which should help unlock access to capital markets.

But these reforms are unlikely to lift Italy's long-term growth prospects to levels that would remove concerns about its long-term debt sustainability. In a recent speech, ECB executive director Benoît Cœuré drew attention to the striking correlation between the quality of a country's institutions as measured by the World Bank's Worldwide Governance Index and its GDP/capita. Italy's position at the bottom of the eurozone governance league, ahead of only Greece, may partly explain why Italy's GDP/capita growth performance has also languished at the bottom of the European league, having remained stagnant for the best part of two decades.

This suggests that the key to sustainably boosting Italy's long-term performance lies in deeper institutional overhauls that will speed up the reallocation of resources to the most productive sectors of the economy and discourage the kind of rent-seeking that continues to drag on productivity and GDP/capita. For that, Italy needs a stable government committed to delivering reforms. Without one, the specter of crisis will continue to stalk Italy—and the eurozone.

## A (Relatively) Calm Running of the Bulls



GETAWAY: The third day of bull runs in Pamplona, Spain, resulted in only minor injuries, officials said, after five gorings on the first two.

## ITUNES

Continued from Page One  
host of rising competitors in recent years in the market for renting and buying new movies online, which typically cost about \$6 and \$15 each, respectively.

One that has had a big impact is Amazon.com Inc., which in addition to its Prime subscription service rents and sells movies on a "transactional" basis. Its market share in that business has recently risen to around 20%, studio executives who are involved in home-entertainment sales say, as it has been highlighting its entertainment offerings.

Another is Comcast Corp., the nation's largest cable provider by subscribers, which

has long rented movies on its set-top boxes and in late 2013 began selling digital copies as well. It now has about 15% of the combined market, according to people involved in digital movie sales.

"Comcast and Amazon have been quite aggressive of late and taken quite a lot of the business," said Dennis McGuire, a former president of home entertainment for Viacom Inc.'s Paramount Pictures.

In addition to steeper competition, Apple faces broader changes in the movie rental and sales market as consumers increasingly watch movies and TV shows offered through streaming-subscription services from Amazon, Netflix Inc. and others.

Their popularity is a big reason why video-on-demand movie rental revenue in the U.S. declined 4% to \$1.8 billion

last year, the first year it has dropped in recent memory, according to PricewaterhouseCoopers. Digital movie purchase revenue grew 21% to \$3.5 billion, compared with a 29% increase the prior year.

"That's a challenge for the whole industry," said Bruce Leichtman, president of Leichtman Research Group, which analyzes the media industry.

Apple's market share declines are independent from the broader slowdown in the business, but both affect the company.

The transition mirrors what happened to iTunes' music business after Spotify AB began offering a subscription service in 2011. Just as Apple responded by launching a \$10 music-streaming service in 2015, it is moving to beef up its video offerings in a sub-

scription service. To help make such a service more appealing, Apple recently hired the former chiefs of television for Sony Pictures Entertainment to spearhead a move into original video and has released its first program, "Planet of the Apps," which is available along with some other video content to Apple Music subscribers.

The company also has tried to capitalize on the broader shift to subscription streaming services by selling subscriptions to Netflix, HBO and others through its app stores, including an Apple TV app store and operating system introduced in 2015. It takes a 15% cut of the subscriptions it sells. The Apple TV app store offers more than 1,300 video channels and 6,000 video, gaming and other apps, which Apple calls the future of TV.

launched movies, other companies offering transactional video-on-demand and movie purchases, in which consumers pay for each piece of content (as opposed to all-you-can-eat subscriptions), have increased the quality of their offerings. Comcast has invested heavily in its X1 set-top box that offers the ability to search on-demand content by voice and Amazon has beefed up its entertainment business.

Apple's loss of market share in the digital movie business isn't uniform across genres, people who work with the company say. It has promoted independent films and signed deals for exclusive rights to some produced outside the major studio system.



A scene from 'Power Rangers.' Apple is facing a slowdown in the movie rental and sales market amid rising competition.

### Apple Was Leader In Movies for Years

Apple's iTunes struggles come following years of steady growth in the business. After launching iTunes movies in 2006, the company quickly took a dominant position in movie sales and rentals largely because of the success it was already enjoying in digital music sales. No other competitors had as sophisticated an online store or a suite of devices to play its content, like the iPod and Mac. Netflix was still relying on the U.S. Postal Service to mail DVDs to subscribers and entertainment was a tiny business for Amazon.

In the decade since iTunes

launched movies, other companies offering transactional video-on-demand and movie purchases, in which consumers pay for each piece of content (as opposed to all-you-can-eat subscriptions), have increased the quality of their offerings. Comcast has invested heavily in its X1 set-top box that offers the ability to search on-demand content by voice and Amazon has beefed up its entertainment business.

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## ECONOMIC CALENDAR

This week, trade data from China and industrial production from the European Union are expected to show strength, while in the U.S., reports on retail sales, consumer prices and industrial production will offer clues on how the world's largest economy is faring.

**MONDAY:** China's inflation should have held steady in June, reflecting stable demand for consumer and industrial products. Economists expect the **consumer-price index** to rise 1.5% from a year earlier and the **producer-price index** to increase 5.5%, both maintaining the same pace as May. (Data will be released Sunday evening U.S. time.)

**WEDNESDAY:** Business surveys suggest the eurozone's economic recovery gathered pace in the second quarter, and official figures on activity are starting to support that evidence. Figures from the European Union's statistics agency are expected to show a 0.8% rise in **industrial production** in May from the previous month, which would be the largest increase since November 2016. However, there are few signs that more rapid growth is lifting inflation, and the European Central Bank is therefore likely to proceed cautiously when considering a withdrawal of stimulus.

Federal Reserve Chairwoman Janet Yellen will deliver her semiannual monetary policy report to Congress on Wednesday and Thursday. Ms. Yellen has said job growth in recent months has been well above the pace necessary to absorb new entrants to the labor force and that weak inflation numbers largely reflect transitory factors.

**THURSDAY:** China's foreign trade, a bright spot in the world's second-largest economy this year, probably remained strong last month. Economists expect **exports** grew 9% from a year earlier, accelerating from May's 8.7% rise. Growth in im-

ports probably moderated to 12.4% from 14.8%, widening the trade surplus to \$44.2 billion in June, from May's \$40.81 billion.

**FRIDAY:** The Commerce Department releases U.S. **retail sales** data for June, after sales in the struggling sector fell 0.3% in May, driven by a decline in car purchases and less spending at service stations. Economists surveyed by The Wall Street Journal expect sales ticked up 0.1% in June.

Economists will watch the U.S. Labor Department's June **consumer-price index** for any indication of whether recent weakness in inflation might be transitory, after May's report showed consumer prices fell slightly. Economists surveyed by The Wall Street Journal expect CPI increased 0.1% in June.

Later in the morning, the Federal Reserve releases U.S. **industrial production** data. This measure of output at factories, mines and utilities was unchanged in May from the prior month. Manufacturing, which accounts for the bulk of industrial production, has shaped up as a bright spot in the economy so far this year. Economists surveyed by The Wall Street Journal forecast industrial production grew 0.3% in June.

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## CORRECTIONS & AMPLIFICATIONS

**Oregon utility PacifiCorp** has filed plans with state regulators to spend \$3.5 billion on wind and transmission projects. A *Business & Finance* article Thursday incorrectly said it had filed plans to spend \$13.6 billion.

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com).

# WORLD NEWS

## Foreign Doctors Clear Dissident to Travel

U.S., German physicians visit ailing Liu Xiaobo, China's most prominent political prisoner

By JOSH CHIN

BEIJING—The U.S. and German doctors who examined cancer-stricken Nobel Peace Prize laureate Liu Xiaobo say he's strong enough to leave China, contradicting Chinese authorities' assessment of the long-imprisoned dissident's health.

With Beijing under pressure to let Mr. Liu travel abroad for treatment of late-stage liver cancer, hospital authorities announced last week that foreign specialists would be brought in. The physicians, Joseph Herman of the University of Texas MD Anderson Cancer Center and Markus Büchler of the University of Heidelberg, met Mr. Liu and his Chinese medical team over the weekend at a hospital in the northeastern city of Shenyang.

The foreign doctors said in a statement Sunday that "both physicians believe Mr. Liu can be safely transported with appropriate medical evacuation care and support." The evacuation, their statement said,

"would have to take place as quickly as possible."

The First Hospital of Chinese Medical University, where Mr. Liu is being treated, said Saturday that it was "unsafe" for him to travel. In recent days, the hospital said, Mr. Liu had accumulated a large amount of fluid in his abdomen and was having difficulty eating.

The foreign physicians' statement—which was emailed to reporters and posted on both their universities' websites—marks a surprise break in Chinese authorities' tight control over information about Mr. Liu.

China's most prominent political prisoner, Mr. Liu, has been in custody since late 2008 for authoring and organizing a signature drive for a manifesto calling for peaceful political change. Rigorous government censorship has kept his name out of the media and off the internet in China ever since, and his wife has lived under house arrest since he was awarded the Nobel Peace Prize in 2010.

Mr. Liu was diagnosed with late-stage liver cancer in May and granted medical parole in early June, though news of his illness wasn't confirmed by the government until June 26. Hospital authorities have released little information about Mr. Liu



Liu Xiaobo is shown receiving treatment for late-stage liver cancer at a Beijing hospital in June.

and kept him under police guard on an isolated floor, requiring doctors to hand over their smartphones to prevent unauthorized photos, according to a family friend who said he spoke with a member of the Chinese medical team.

Beijing extended invitations to Dr. Herman, an oncologist, and Dr. Büchler, a surgeon, to come to China as it faced

mounting pressure from the U.S. and European Union to let Mr. Liu seek treatment abroad. On Friday, the office of the United Nations High Commissioner for Human Rights also demanded access to the political activist, according to a spokeswoman.

China's Ministry of Foreign Affairs didn't immediately respond to a request for comment. A woman answering the

phone Sunday evening at the First Hospital said no one was available to comment. A statement posted to the hospital's website Saturday quoted the foreign physicians as saying they couldn't do more for Mr. Liu than the Chinese team had.

In their statement, Drs. Herman and Büchler acknowledged "the quality of care" provided to Mr. Liu so far. They recom-

mended he receive palliative care and said "interventional procedures" and other options might be possible.

Both the University of Heidelberg and MD Anderson "are prepared to offer Mr. Liu the best care possible," they said.

The invitation presents Beijing with a dilemma. The Chinese leadership has sought to deny Mr. Liu any public platform for his views. Refusing to let him go risks making Beijing only the second government to have a Nobel Peace laureate die in custody after Nazi Germany, which saw journalist and Hitler-critic Carl von Ossietzky succumb to tuberculosis in a prison hospital in 1938.

"If Beijing refuses to allow them to go wherever they wish to seek treatment, all it will have done is ratcheted up its own culpability in the torment of a Nobel Peace Prize winner who never should have spent a day in jail," said Sophie Richardson, China director for Human Rights Watch.

It is difficult to say how the Chinese government will react, said one Western diplomat, who expressed skepticism Mr. Liu would be allowed to leave. "At this point, it would be a huge climbdown" for China, the diplomat said.

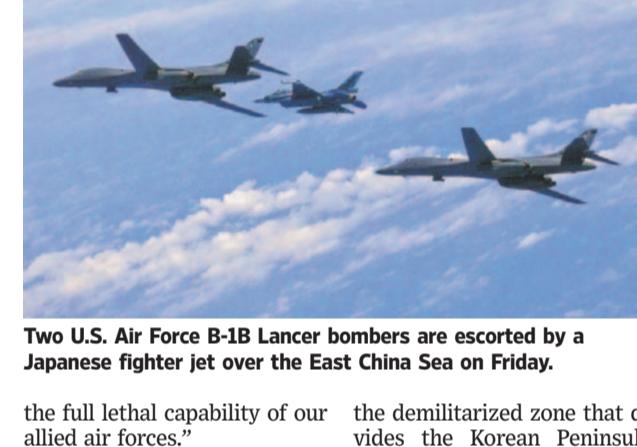
## U.S. Bombers Fly to Korean Peninsula in Show of Force

By JONATHAN CHENG

SEOUL—The U.S. sent two B-1B bombers to the Korean Peninsula to practice "attack capabilities" with South Korean jet fighters Friday, the latest show of force by the U.S. military following North Korea's first-ever intercontinental ballistic-missile test launch last week.

The joint exercise, which included U.S. F-16 fighter jets as well as fighter planes from the South Korean and Japanese air forces, came a day after U.S. President Donald Trump said in Warsaw on Thursday that he was considering "some pretty severe things" in response to North Korea's latest actions.

Friday's flyover also followed a joint missile drill by the U.S. and South Korean armies on Korea's east coast Wednesday. It was met with a sharp denunciation from Pyongyang, which called the B-1B drill "a



Two U.S. Air Force B-1B Lancer bombers are escorted by a Japanese fighter jet over the East China Sea on Friday.

JAPAN AIR SELF-DEFENSE FORCE/USAF/REUTERS

dangerous military move of the war maniacs to ignite a nuclear war on the Korean peninsula."

"The danger of a nuclear war on the Korean peninsula is reaching an extreme pitch owing to the reckless military provocations of the U.S. imperialists," North Korea's Rodong Sinmun newspaper said in a commentary Sunday, according to the state-run Korean Central News Agency.

The U.S. Pacific Air Forces said in a statement late Friday that its 10-hour flight drill was conducted "in response to a series of increasingly escalatory actions by North Korea," the U.S. Pacific Air Forces said in a statement late Friday.

"North Korea's actions are a threat to our allies, partners and homeland," Gen. Terrence O' Shaughnessy, Pacific Air Forces commander, said in a statement. "Let me be clear, if called upon we are trained, equipped and ready to unleash

the full lethal capability of our allied air forces."

During the drill, two B-1B bombers flew from Andersen Air Force Base in Guam to the Korean Peninsula where they released inert weapons on an air force training range in South Korea, about 90 miles south of

the demilitarized zone that divides the Korean Peninsula.

They were joined by South Korean and U.S. F-16 jet fighters during the mission.

The B-1Bs then flew with Japanese F-2 jet fighters over the East China Sea before returning to Guam.

The U.S. has been making shows of force in recent months in response to perceived increases in tension on the Korean Peninsula.

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

In April, the U.S. said it was sending the USS Carl Vinson carrier strike group to the western Pacific to underscore Washington's commitment to the region. In that case, the announcement instead raised questions about U.S. credibility after it came to light that the aircraft carrier was thousands of miles away.

On Thursday, U.S. Secretary of Defense Jim Mattis told reporters in an impromptu briefing at the Pentagon that "we are leading with diplomatic and economic efforts."

But he also called North Korea's ICBM launch on Tuesday

last week a "very serious escalation" and warned the North that any effort to start a war "would lead to severe consequences."

Separately on Thursday, South Korean President Moon Jae-in said in a speech in Berlin that he was seeking more engagement with North Korea, and would be willing to meet with North Korean leader Kim Jong Un "at any time, at any place," provided certain conditions were met.

In its statement following Friday's air force exercise, the U.S. said that it "maintains flexible bomber and jet fighter capabilities" in the region and could "quickly respond to any regional threat."

The U.S. bombers and South Korean fighters "are just two of many lethal military options at our disposal," said Lt. Gen. Thomas Bergeson, deputy commander of the U.S. military in South Korea.

## A Year After Turkey Coup, a Search for Justice

By NED LEVIN  
AND MARGARET COKER

MALTEPE, Turkey—As Turkey prepares nationwide commemorations marking last year's failed military coup, the country is divided over a single word—justice—and where to find it.

For nearly a month, Kemal Kilicdaroglu, leader of the main opposition Republican People's Party, or CHP, has been seeking justice along State Road D100. His protest march from the capital Ankara, which ended Sunday in an Istanbul suburb, was intended to highlight what many see as a sharp undemocratic tilt in their nation.

"Do we have a republic? No. We have one man on a hill who gives all the orders," said Mr. Kilicdaroglu in a recent interview along the 260-mile march, which some liken to Mahatma Gandhi's Salt March of civil disobedience in part because of the two men's physical likeness.

Officials in Turkey's ruling party say Mr. Kilicdaroglu is looking in the wrong place. "You don't seek justice in the streets," Prime Minister Binali Yildirim said shortly after his political opponent started the march on June 15. He chided Mr. Kilicdaroglu for not working through parliament.

The thousands of Justice Marchers who joined Mr. Kilicdaroglu along one of Turkey's main highways brought public attention on a topic that is hard for the ruling party to ignore. The protest also threatens to dim the spotlight on a week of events led by President Recep Tayyip Erdogan's government to mark the uprising, in which at least 270 people died. The CHP opposed last year's coup.

—Reuters

SYRIA

### Truce Brokered by U.S., Russia Begins

A U.S.-Russian brokered cease fire for southwest Syria was holding hours after it took effect on Sunday, a monitor and two rebel officials said, in the latest international attempt at peace-making in the six-year war.

The United States, Russia and Jordan reached a cease fire and "de-escalation agreement" this week with the aim of paving the way for a broader, more robust truce.

The announcement came after a meeting between U.S. President Donald Trump and Russian President Vladimir Putin at the G-20 summit of major economies in Germany.

The Syrian Observatory for Human Rights, a Britain-based war-monitoring group, said "calm was prevailing" with no air-strikes or clashes in the southwest since the truce began at noon on Sunday.

—Reuters

VENEZUELA

### Opposition Leader's Jail Term Commuted

Jailed opposition leader Leopoldo López was moved from a military prison to house arrest in a surprise decision ahead of a government plan to rewrite the constitution in what its foes say will be a power grab.

The supreme court said it had commuted the sentence because of unspecified mistakes in judicial proceedings and health concerns. One of the country's most popular government adversaries and head of a major opposition party, Popular Will, Mr. López was serving a nearly 14-year sentence for allegedly instigating violence at protests in 2014 that left 43 people dead.

—Anatoly Kurmanov

The government plans to unveil monuments across the country, including a nearly 100-foot-tall sculpture depicting heroic citizens raising the Turkish star-and-crescent across from the presidential palace in Ankara. The government also will hold a series of "democracy watches," echoing the mass rallies it held in the immediate aftermath of the coup attempt, as well as official visits to graveyards.

Mr. Erdogan will address the nation early on July 16, marking the time a year earlier when the tide turned against the coup.

On that day, military jets bombed parliament and tanks opened fire on the streets of Istanbul and Ankara. Millions of citizens from across Turkey's deeply divided political landscape mobilized overnight in a show of nonpartisan people power.

But that surge of national

unity quickly fizzled as the government used the state of emergency imposed after the coup to purge tens of thousands of civil servants and arrest tens of thousands more.

The purges predominantly targeted people in the political opposition, not members of Mr. Erdogan's ruling Justice and Development Party party, despite their once close political alliance with the cleric Fethullah Gulen, whom the government blames for the coup. Mr. Gulen, who lives in the U.S., has denied any role in it.

At least a dozen trials are under way of military officials and civilians accused of treason and murder for their alleged roles in the coup—as well as alleged ties with Mr. Gulen.

The main trial of senior military officers alleged to be among the "Peace at Home Council" that was purported

edly to take charge of the country in the event of a successful coup is set to wrap up this month in a specially built courthouse attached to the Sincan prison outside Ankara.

The trials have become morality plays about contemporary Turkey, with AKP officials urging citizens to attend as an act of patriotism and newspapers deriding arguments offered by the defense, reflecting broad national sentiment against the defendants.

The centrist Posta newspaper headline about a trial that opened in May was "Traitors' day of account" while the pro-government Yeni Safak's headline was "You are all murderers."

Mr. Yildirim, the prime minister, has expressed impatience with the slow progress of the trials and defendants' expressions of innocence.

"It is certain who dropped the bomb, who gave them per-

mission, who killed people, who drove the tanks and who flew the planes. What are we waiting for?" Mr. Yildirim told journalists last month.

Mr. Kilicdaroglu, a mild-mannered former bureaucrat, feels a similar impatience. He decided to protest after one of his CHP lawmakers, a former journalist, was convicted of spying. That followed Erdogan-backed constitutional changes which narrowly passed in an April referendum the CHP says was fraudulent.

Mr. Kilicdaroglu said he has given up on Turkey's judicial system, turning to a march for justice for all those who stand against what they perceive as creeping authoritarianism in government and in the judiciary. Some opposition leaders with the CHP have participated, but it is unclear whether Mr. Kilicdaroglu has attracted broad support beyond his party.



Opposition supporters gathered in force in Istanbul on Sunday to mark the end of the 260-mile 'justice march' from Ankara.

## WORLD NEWS

# Germany Scrambles to Explain G-20 Riots

Hundreds of officers and protesters injured in violence; 265 are detained by police

BY ANTON TROIANOVSKI AND ANDREA THOMAS

HAMBURG—A riot that raged for hours just a mile from the Group of 20 meeting site left German officials struggling to explain how protests that had long been predicted spiraled out of control.

Only after SWAT teams, riot police and water cannons swept block by block were authorities able to end the overnight riots Saturday in the left-leaning Schanzenviertel neighborhood, a 20-minute walk from the venue where leaders of the world's 20 largest economies continued their two-day meeting Saturday.

Stores were looted, barricades and cars set on fire, and officers attacked with rocks, bottles and slingshots, Hamburg police said. Authorities moved to quell the riots only after they had raged for hours, according to several shopkeepers in one of the hardest-hit streets.

A police spokesman said intelligence suggesting some of the roughly 1,500 rioters were preparing to pelt authorities from buildings with cobblestones and Molotov cocktails had caused the delay. "We had prepared for the G-20 summit to be attacked, not the people of Hamburg," Hamburg police spokesman Timo Zill told ZDF public television.



A riot police officer aims a tear gas gun at protesters during riots against the G-20 summit in Hamburg on Saturday.

ing property or police. German Interior Minister Thomas de Maizière described them as "anarchists" from across Europe. "What we're seeing here is the opposite of democratic protest," he said. "These were wanton, extreme acts of violence out of lust for destruction and brutality."

Cord Wöhleke, co-head of Hamburg's Budnikowsky drug-store chain, arrived in the Schanzenviertel about 9 p.m. Friday to see one of his shops being looted. Rioters shattered the windows and tossed items into the street to be burned, he said.

The plunder lasted several hours, Mr. Wöhleke said, before the police moved in. Few of the rioters spoke German, he said, and Spanish-language graffiti saying "social war" was left behind. "We were all worried, but no one expected this level of violence," he said.

While world leaders were able to hold their talks on Hamburg's elaborately secured convention center sealed off from the commotion outside, the riots cast a shadow on the summit.

On Saturday, French President Emmanuel Macron urged leaders to heed the protesters' concerns.

"We've been living in a town for two days that is attacked by hooligans to whom I will give no ground," Mr. Macron said. But, he added, Hamburg also showed "an expression of civil society that is beginning to doubt our ability to regulate globalization."

—Peter Nicholas contributed to this article.

The riot in the Schanzenviertel appeared to be the most violent flare-up as tens of thousands of people protested across the city. By Saturday morning, 265 people had been detained and 213 officers injured, according to the police. An unspecified number of protesters were also injured.

Hamburg's Interior minister, Andy Grote, on Saturday said the riot had been long-planned—to a degree "we have never witnessed before"—and that many of the perpetrators were still in the city.

German politicians had warned of possible violence for months, in part because the summit was held near two of the more radical neighborhoods in a city long a hub of anarchist protest.

Officials from the host government have said they needed to hold the annual summit in a metropolitan area to ensure there were enough hotel rooms, and that they wanted to show off one of Germany's most international cities.

But critics claiming the

government had miscalculated intensified their attacks Saturday. The conservative opposition leader in the Hamburg legislature, André Trepoll, slammed center-left Mayor Olaf Scholz for going easy on left-wing extremism. The Bild tabloid, Germany's top-selling paper, said both Mr. Scholz and German Chancellor Angela Merkel—who is up for re-election in September—bore responsibility for the events.

"The feeling of general security, which the state must guarantee, has ceased to exist

in Hamburg in the last 48 hours," Julian Reichelt, a top Bild editor, wrote in Saturday's edition. "The horrific message of Hamburg is: if the mob wants to rule, it will rule."

After the summit ended Mr. Scholz and Ms. Merkel together met with several dozen police officers and thanked them for their work.

It wasn't immediately clear who the black-clad rioters were. They sometimes marched alongside peaceful demonstrators before attack-

vantageous trade."

The White House was happy with it. When the subject of trade came up a few months ago at a meeting of finance officials from the 20 leading countries, "it was kind of 19-1—me being the one," Treasury Secretary Steven Mnuchin recalled.

Far from showing that his views have shifted, Mr. Trump used the three-day trip to deliver the clearest vision he's offered to date of his world view: a commitment to preserving western civilization. He held up the West as the standard all should reach.

The location he chose for that message was Poland, home to a socially conservative government that has at times antagonized European partners. "The fundamental question

of our time is whether the West has the will to survive," Mr. Trump said. "Do we have the confidence in our values to defend them at any cost? Do we have enough respect for our citizens to protect our borders?"

As he did in Belgium in his first foreign trip in May, Mr. Trump called on NATO countries to pay their share of maintaining the alliance.

Thousands of Poles cheered him: "Donald Trump! Donald Trump!"

It made an impression. "Poland was so terrific to me," he said at an event Saturday showcasing a women's entrepreneurial fund that was his daughter Ivanka's brainchild. Mr. Trump did give a long-sought endorsement of NATO mutual defense measures in his Poland speech, but he also

showed in his meeting with Vladimir Putin that he is intent on finding ways to work with Russia, as he has vowed to do since early in his campaign.

If Europe is wary of Mr. Trump, his core voters are likely to be reassured, analysts said. The Donald Trump speaking at Warsaw's Krasinski Square was the one they remember from red-state rallies.

"He wants to show at least his domestic base that he's true to all of the principles that he enunciated during the election campaign," said Angela Stent, a government professor at Georgetown University.

Still, European leaders aren't giving up on the idea that they can bring Mr. Trump around to their views.

One diplomat at the summit said Mr. Trump is something of a "work in progress" and that officials need to exercise patience in dealing with him.

As president, Mr. Trump is getting more of a firsthand look at how his international counterparts actually work.

The women's fund championed by his daughter might be one example. It is run by the World Bank, a symbol of the sort of multilateral institution Mr. Trump has at times scorned. Different countries are ponying up millions of dollars to get the fund up and running—to Ivanka Trump's delight.

Mr. Trump heaped praise on World Bank President Jim Yong Kim at an event formally rolling out the fund on Saturday.

—Emre Peker, William Horobin, and Anton Troianovski contributed to this article.

## Tillerson Offers Backing To Ukraine's President

BY THOMAS GROVE

prompting U.S. sanctions on Russia.

Mr. Poroshenko thanked Mr. Tillerson for the expression of U.S. support. He told journalists after the meeting that Washington said it had no intention of lifting sanctions on Russia until Ukrainian territory is "freed"—a reference to Crimea—and the Minsk agreements are fulfilled.

Mr. Trump's meeting with Mr. Putin on the sidelines of the Group of 20 meeting in Hamburg, Germany, had raised anxieties in Kiev about how the new U.S. administration plans to handle the cri-

*The U.S. is seeking a fresh solution to Ukraine's crisis, Mr. Tillerson said.*

sis. Shortly after the meeting Sunday between Messrs. Tillerson and Poroshenko, Mr. Trump said he didn't discuss U.S. sanctions in his meeting with Mr. Putin.

"Nothing will be done until the Ukrainian and Syrian problems are solved," he said on Twitter.

Mr. Tillerson also reiterated U.S. support for sanctions. "The U.S. and the EU sanctions on Russia will remain in place until Moscow reverses the actions that triggered these particular sanctions," Mr. Tillerson said.

Ukraine's economy has been battered by the crisis, and Mr. Tillerson also re-emphasized the importance of anticorruption efforts and judiciary reform to encourage more foreign direct investment in the country.



U.S. Secretary of State Rex Tillerson and Ukraine's Petro Poroshenko.



Donald Trump and Angela Merkel attend a panel discussion at the G-20 summit on Saturday.

## Trump 'Pressed' Putin on Hacking

BY REBECCA BALLHAUS

President Donald Trump in an early-morning round of tweets on Sunday said he had pressed Russian President Vladimir Putin about the nation's meddling in the 2016 U.S. election in their meeting on Friday, but called for relations between the two countries to move forward "constructively."

"I strongly pressed President

Putin twice about Russian meddling in our election. He vehemently denied it. I've already given my opinion..." tweeted Mr. Trump, who late Saturday returned from a four-day overseas trip that concluded in Hamburg, where he was attending the Group of 20 leading nations summit. "We negotiated a cease-fire in parts of Syria which will save lives. Now it is time to move forward in working constructively with Russia!"

The U.S. intelligence community has concluded that Mr.

Putin ordered a campaign to influence the outcome of the 2016 U.S. presidential election in Mr. Trump's favor, and a special counsel appointed by the Justice Department this year is investigating whether Trump campaign aides colluded with Russia in that effort. Mr. Trump has denied there was any collusion and said he doubts the intelligence community's assessment.

On Friday, Mr. Trump met with Mr. Putin at the G-20 summit, where he told him Americans are upset about Russia's actions and want them to stop, according to Secretary of State Rex Tillerson. Mr. Putin denied Russia played a role, and the leaders opted not to "relitigate" the past, Mr. Tillerson said.

Russia's account of the exchange differed from the American one. Russian Foreign Minister Sergei Lavrov, who was also in the meeting in Ham-

burg, said Mr. Trump accepted Mr. Putin's contention that Russia didn't interfere in the campaign.

While the Trump-Putin meeting was under way, officials confirmed that the U.S. and Russia had agreed on a cease-fire in southwest Syria, a limited deal they said was designed to show the two nations are able to find ways to cooperate.

Mr. Trump also said Sunday that the two leaders discussed forming a joint unit between their two nations to guard against cyberattacks. "Putin & I discussed forming an impenetrable Cyber Security unit so that election hacking, & many other negative things, will be guarded and safe," he tweeted.

Mr. Tillerson told reporters following the Trump-Putin meeting that the two nations had agreed to create a unit, run out of the State Department and the national security adviser's office on the U.S. side, to "ex-

plore this framework agreement around the cyber issue and this issue of noninterference."

On Sunday, Mr. Tillerson told reporters in Kiev that the unit would be part of the administration's effort to address election interference attempts. "It's not going to be only about Russia," he said. "It's going to be about international engagement as well."

That idea has come under criticism from lawmakers in both parties, who question why the U.S. would cooperate on cybersecurity with a nation that sought to interfere in its election and, according to U.S. officials' testimony before Congress, continues to do so ahead of the 2018 elections.

Sen. Marco Rubio (R., Fla.), a member of the Senate Intelligence Committee, likened working with Russia on a cybersecurity unit to "partnering with Assad on a 'Chemical Weapons Unit.'"

Russia then annexed the Black Sea peninsula of Crimea from Ukraine and has backed separatists in eastern Ukraine,

## U.S. NEWS

# FBI Nominee Known to Eschew Politics

BY ARUNA VISWANATHA  
AND DEL QUENTIN WILBER

If fireworks erupt at Wednesday's confirmation hearing for President Donald Trump's pick to be the next director of the Federal Bureau of Investigation, they aren't likely to be sparked by the nominee, Christopher Wray, a former Justice Department official known as a workhorse who eschews the spotlight.

Many current and former FBI agents say that is exactly what the agency needs—someone who focuses on running investigations while leaving politics to others—as the FBI navigates turbulence following the firing of former Director James Comey. Other agents and legal observers wonder if Mr. Wray, who has spent a decade as a defense lawyer, has the gravitas to buck political pressure and chart an independent course for the nation's premier law-enforcement agency.

The public will hear from Mr. Wray on Wednesday for the first time since his selection, as the Senate Judiciary Committee weighs his nomination to lead the FBI and its 13,000 agents. If confirmed, the 50-year-old Mr.

Wray would take over one of the most challenging jobs in law enforcement, charged with impartially overseeing investigations while weathering political storms.

"Chris looks for the way that creates the least drama," said John Richter, an attorney who worked with Mr. Wray at the Justice Department and at his law firm, King & Spalding.

Few would say that about Mr. Comey, a larger-than-life figure at 6-foot-8 who was known for his dramatically timed news conferences, his performances before Congress and, by his own account, information leaks to the press. Mr. Comey was beloved by many agents for standing up for them, but he also attracted sometimes-unwelcome attention to the agency.

The FBI in recent months has been criticized for its handling of the investigation into former Secretary of State Hillary Clinton's use of a private email server, buffeted by Mr. Comey's firing, and stung by Mr. Trump's allegations that its agents are on a "witch hunt."

Democrats plan to press Mr. Wray on whether he could stand up to White House pres-



Christopher Wray's confirmation hearing is set to start Wednesday.

sure if necessary. Mr. Comey told Congress Mr. Trump demanded his loyalty and pressured him to drop an investigation of a former top aide, allegations the White House has denied.

Mr. Comey's dismissal remains a sore point in the Bureau. At a "Family Day" event last week at headquarters, some agents wore T-shirts reading "Comey Is My Homey," as have others at field offices around the country, according to photos and people at the events.

"They are still ticked off," said Frank Montoya Jr., a long-time FBI agent and supervisor who retired last year. Mr. Wray is "going to be viewed first and foremost as a political appointment by a president who demanded loyalty from the last director and didn't get it, so he fired him," Mr. Montoya said.

A big test for Mr. Wray would come the next time Mr. Trump tweeted criticism of the FBI, Mr. Montoya said. "Is he going to apologize for the tweet or is he going to speak out

forcefully and say that's not the way it is?" he said.

Mr. Wray appears to be reaching out to agents, meeting with the FBI Agents Association at his request, according to the group's president, Thomas O'Connor. Mr. O'Connor said he was impressed by Mr. Wray's understanding of how agents do their job. "It was a positive meeting," he said, adding that agents are looking for someone who is "ruled by what is the right thing to do."

Mr. Wray's associates said he would walk away from the job if put in a compromising situation. They cited his threat to resign in 2004 along with Mr. Comey, then deputy attorney general, because the two believed a domestic surveillance program up for reauthorization was unconstitutional.

"He's very good at convincing people of a wiser course, but he's highly principled, and if he can't stop the train, he'll find a way to blow the whistle and get off," Mr. Richter said.

Mr. Wray spent several years near the top of the Justice Department hierarchy in the aftermath of the Sept. 11, 2001, attacks, routinely working 15-hour days that began at 6:30 a.m.

Mr. Wray also ran the department's criminal division between 2003 and 2005.

He comes from a storied New York family. Mr. Wray's mother, Gilda Wray, is a descendant of Revolutionary War Gen. Horatio Gates, and his father and grandfather were partners at a top Wall Street law firm, Debevoise & Plimpton. His uncle, Edwin Williamson, was legal adviser to the State Department.

The question is whether his reserved demeanor is the right medicine for an agency that has faced harsh scrutiny in recent months. Some agents felt Mr. Comey should have let the Justice Department make all public statements in the case.

Agents said they hoped Mr. Wray would seek a lower profile than Mr. Comey while continuing his efforts to modernize the bureau and combat the fast-evolving threats of terrorism and cybercrime.

"If he can do an effective job without being in the spotlight, he would prefer it that way, and the bureau really needs that," said Joe Robuck, a former FBI agent who worked with Mr. Wray on a 2000 major corruption case in Atlanta.

## Residency Proposed For Sick U.K. Baby

BY JOANNA SUGDEN

Two House Republicans plan to propose legislation in the next week that they say would give terminally ill British baby boy Charlie Gard permanent residency in the U.S. so he can travel for experimental therapy in America, after U.K. courts ruled doctors should discontinue his life support.

The case has been the focus of international attention in recent days, with President Donald Trump offering unspecified assistance to Charlie's family and Pope Francis voicing his support for them. It has also drawn attention to the role of British and European courts in end-of-life decisions for the very young.

Brad Wenstrup (R., Ohio) and Trent Franks (R., Ariz.), said in a joint statement Friday that their bill would "support Charlie's parents' right to choose what is best for their son" and enable him to "receive treatments that could save his life."

**Donald Trump has offered to aid the family and the pope has voiced support.**

The 11-month-old's parents, Chris Gard and Connie Yates, lost a legal battle against London's Great Ormond Street Hospital in June to continue his artificial ventilation and travel to the U.S. for a therapy that hasn't been tested on humans or mice with Charlie's condition. His parents later that month asked the European Court of Human Rights to overturn the ruling, but it declined to intervene.

The rare genetic disorder, which affects brain, breathing and muscles, has left the boy so brain-damaged, the courts said, that any treatment would be futile and keeping him on artificial ventilation wasn't in his best interests.

On Friday, the London hospital said fresh evidence about a potential treatment from researchers at two international hospitals had prompted it to apply to the U.K. High Court for a new hearing. The hospital's view on Charlie's condition hadn't changed, it said in a statement, but it agreed with the boy's parents that fresh evidence should be examined.

It wasn't immediately possible to reach lawyers for the boy's parents Sunday.

Reps. Wenstrup and Franks added in their statement that, "When government is able to overrule a parent or guardian in determining a patient's best interest, every vulnerable patient is put at risk."

## RETAINING FOREIGN INVESTMENT A NEW PRIORITY FOR INDONESIA

A renewed program of investment aftercare broadens Indonesia's appeal to foreign investors by streamlining regulatory practices



As Indonesia continues to solidify its status as a global business and manufacturing hub, the country's leading investment agency BKPM (Indonesia Investment Coordinating Board) has adopted a hands-on approach to mitigate obstacles faced by foreign companies involved in the process of investing in Indonesia.

Following a raft of bold economic policy reforms introduced by President Joko Widodo since 2014 to drive foreign direct investment (FDI), Indonesia has enacted measures to improve bureaucratic efficiency and deregulate licensing systems. This has been done in a bid to widen and boost the overseas appeal of Southeast Asia's largest economy.

BKPM has implemented a strategic debottlenecking program alongside a series of dedicated aftercare services to ensure that foreign businesses have the support they need to establish or expand their presence in Indonesia. By engaging directly with companies, problems and concerns can be identified and handled in a more streamlined manner, clearing the way for foreign investors to realize investment commitments.

### Pragmatic problem solving

Previously, the need for foreign businesses to clear logistical and fiscal hurdles such as slow license processing, excessive permit regulation, poor tax incentives, lack of access to materials and labor, as well as security concerns, had served to inhibit the confidence of foreign investors in Indonesia's economic stability.

Conducted and led by the Deputy Chairman of Investment Control and Implementation at BKPM Azhar Lubis, a government debottlenecking taskforce has so far completed visits and on-site observations at 132 out of 140 sites where issues were reported. Of these, 71 cases were flagged for follow-up by technical ministries, and 49 cases were concluded.

By taking this pragmatic approach, the government is improving market perception and encouraging sustainable economic growth: between 2015 and 2016, BKPM oversaw the implementation of 95 investment projects. Of these, 19 were PPP (public-private partnerships), 44 have been finalized with an investment value of IDR278.5 trillion (about US\$20.9 billion), and 32 are under process, with a total investment value of IDR142.7 trillion.

### Encouraging growth prospects

First quarter data from BKPM reveals combined FDI and domestic direct investment (DDI) reached IDR165.8 trillion, a year-on-year increase of 13.2% and a quarter of the annual target.

In May 2017, Indonesia's sovereign bond rating was raised to BBB- from BB+ with a stable outlook by Standard & Poor's, bringing the country's credit rating up to investment grade according to the top three global ratings agencies.

Positive international perception is fundamental in attracting FDI, a fact evidenced by several other emerging economies in the past. Following a comprehensive and far-reaching policy reform over the last three decades, aimed specifically at liberalization with a view to attracting FDI, the South Korean Ministry of Trade, Energy and Industry reports that FDI pledged to South Korea reached a record high of US\$21.3 billion in 2016. Indonesia is hoping to replicate this pattern with its new approach to attracting FDI.

As Indonesia begins to see the effects of its economic reforms, its global standing is on an upward trajectory. In June 2017, the United Nations Conference on Trade and Development (UNCTAD) published its annual World Competitiveness Report, placing Indonesia fourth in its ranking of Top Prospective Host Economies, below only the US, China and India; an increase from eighth position in 2016. Indonesia has also increased its standing in the International Institute for Management Development (IMD) Global Competitiveness Report, from 48<sup>th</sup> in 2016 to 42<sup>nd</sup> in 2017.

In another significant indicator of progress, Indonesia climbed 15 places on the World Bank's Ease of Doing Business index 2017 and is now ranked in 91<sup>st</sup> position, a jump that places the country among the top 10 climbers globally since last year's report.

### The importance of aftercare

Two years after the introduction of the policy reforms, President Widodo has paid close attention to the importance of attracting and retaining FDI using an active approach to aftercare. "We will continue to solve any problem appears and perform debottlenecking," he said. "I urge related ministers and ministries to take an active approach."

BKPM Chairman Thomas Lembong concurs. "It will be pointless to promote all the opportunities in Indonesia if we fail existing investors in solving their investment problems," he said. "One of the main concerns of investors is the stability of regulations. BKPM will continue to voice the economic reforms and assist with investor problems."

The Indonesian government launched its 15<sup>th</sup> Economic Policy Package in mid-June 2017, the latest in a series of measures unveiled since 2015 aimed at boosting employment, driving competitiveness, and stimulating investment. The recently announced package focuses specifically on improving key aspects of logistics within the country. Its aims include boosting competitiveness and overall macroeconomic growth, improving purchasing power, and reducing costs for service providers.

With both the vision and will to elicit change effectively, Indonesia has established itself firmly among the major players on the FDI world stage. A constantly developing program of investment aftercare will now serve to nurture and boost the funds that are already flowing in from overseas investors, positioning Indonesia as a highly favorable international business hub.

## IN DEPTH

# IHS

*Continued from Page One*  
said Lisa White Pipe, a tribal council member for the Rosebud Sioux, whose father died last year after a delay in cancer treatment that she blames on the agency.

The problems have come to a head in recent months after IHS hospitals repeatedly failed inspections, shut down services or lost access to crucial federal funds. Such failures have prompted new calls for broader oversight of the IHS by Congress. The Rosebud tribe, whose reservation stretches across a rural swath of South Dakota, is also now suing the agency, alleging that the IHS has failed to fulfill its treaty responsibility to care for tribal members.

"People are dying here as a result of the care they are not receiving, or the care they are receiving," said U.S. Sen. John Barrasso, (R., Wyo.), who until January chaired Congress's Indian Affairs Committee, in an interview.

The latest crisis has arisen after the IHS and the Health Department failed to address a chorus of warnings over many years about neglect at the facilities. The warnings came from lawmakers in both parties, internal whistleblowers and the families of patients who died. Over and over, they reported that IHS hospitals were plagued by inadequate supplies, poor training, overwhelmed staff and critical positions left unfilled.

The agency has lacked a permanent director since 2015. People familiar with the matter said they expect a nominee for that post to be announced soon.

Rear Adm. Michael D. Weahkee, the agency's current acting director, said in a statement after this article was published

**'We've lost faith in the IHS, but we have no alternatives,' said Lisa White Pipe.**

online, "IHS is committed to improving patient safety and the quality of health care across the agency. We are faced with many challenges, but that is no excuse for substandard care." He said the agency is "holding all employees fully accountable and working to improve the systems that recruit, retain, and support those employees to meet standards."

Adm. Weahkee, a member of the U.S. Public Health Service Commissioned Corps, which provides medical staff to federal agencies, was appointed to temporarily lead IHS in June.

Back in 2010, a commission chaired by then-Sen. Byron Dorgan, (D., N.D.), found improperly credentialed medical staff were treating patients at some remote hospitals and employees accused of misconduct—even crimes, including stealing drugs from hospital pharmacies—weren't disciplined.

The agency promised changes, but the situation has only disintegrated since, according to interviews with tribal officials, civil and criminal court records, and a raft of federal inspection reports.

Wilmer Spotted Wood hobbled into the IHS hospital in



KRISTINA BARKER

**Oliver Semans, a member of the Rosebud Sioux tribal health board, at a cemetery on the South Dakota reservation. Tori Kitcheyan, below, said her aunt, Debra Free, died at the Indian Health Service hospital in Winnebago, Neb., after being oversedated.**

Winnebago but was sent home without treatment despite medical staff documenting his severe back pain—10 on a scale of 10—and ashen skin color, according to one of those reports.

Hours later, a nurse read a test result that showed his kidneys were shutting down. The finding would normally lead to hospitalization, doctors say. Instead, the nurse left a phone message telling Mr. Spotted Wood to avoid calcium products like the antacid Tums and come back in two days, a federal inspection report said.

One of his sisters, Betsy Spotted Wood, herself an IHS nurse who was at the hospital that day, said "his skin coloring was way off. You could tell something was seriously wrong."

Mr. Spotted Wood didn't make it to his follow-up appointment. He died in his bed of kidney failure on Jan. 1, 2015, the day he had planned to return to the hospital.

An IHS spokeswoman, Jennifer Buschick, provided a statement saying the agency wouldn't comment on specific medical cases, lawsuits or regulatory findings. Officials at the IHS's Maryland headquarters fielded queries from The Wall Street Journal related to the agency's individual hospitals and clinics.

Following Mr. Spotted Wood's death, U.S. hospital regulators found the Winnebago facility failed to meet basic standards in 11 of 30 random cases they reviewed, including his case, during a routine inspection.

Winnebago is one of seven IHS hospitals that the regulator, the Centers for Medicare and Medicaid Services, said had put patients in danger since 2010—more than a quarter of the 26 hospitals the IHS manages around the country.

The IHS and tribal health advocates say Congress underfunds the agency, and the Trump administration's 2018 budget proposes cutting about \$300 million, a roughly 6% decrease from its 2017 level.

The IHS spent \$3,688 on care for the average patient in 2015, according to an agency document. The Veterans Health Administration, for comparison,



BENJAMIN RASMUSSEN FOR THE WALL STREET JOURNAL

### Missed symptoms, and a tragic death

Some of the families of patients who died unexpectedly under the IHS's care said the toll extends beyond the hospitals that have been sanctioned. Among them, is Wakanda Gonsalves, a high school senior and prom queen, who went to an IHS clinic in Sisseton, S.D., on May 4, 2012, because she was coughing up blood. She was sent home that same day, with cough syrup, an inhaler and antianxiety medication. Two nights later, her parents woke to Ms. Gonsalves's screams, her mother, Lisa, recalled. They found her convulsing

spent an average of \$11,056 on medical services for each veteran receiving VA health care in 2015, that agency's records show. The agencies count users of their services differently, and their populations vary.

Obesity and diabetes on the Rosebud and Pine Ridge reservations are more than 40% higher than nationwide, according to a Journal analysis of data

in bed before she went limp.

"My husband kept doing CPR and chest compressions. Over and over," Lisa Gonsalves said. "But she had no pulse."

An autopsy showed Ms. Gonsalves suffered a blood clot in her lung. The IHS-contracted doctor who treated her said in a court deposition he didn't review an X-ray showing a lung abnormality, or follow up after an irregular blood test. The staffing agency that employed the doctor settled a lawsuit with Ms. Gonsalves's family for an undisclosed sum in 2015.

In court filings, both the doctor and the contractor denied any wrongdoing. Lawyers for both didn't respond to requests for comment.

from the University of Wisconsin. At least 50% of residents of those two reservations, as well as a third of those served by the Winnebago hospital, earned less than the federal poverty line, 2015 data show.

Such factors, coupled with remoteness—Rosebud is more than 100 miles from the nearest Wal-Mart—make recruitment difficult. The IHS said

U.S. during the Depression. Families couldn't afford wedding cakes and made their best pastries instead, with neighbors pitching in, says Jacqueline Marino, co-editor of *Car Bombs to Cookie Tables*, a book of essays about Youngstown. For her wedding, Ms. Marino learned to make apple strudel, using a recipe from an old Slovak cookbook, which belonged to her husband's great-aunt.

Mary Beth McKnight Potts, of Youngstown, loaded about 3,000 cookies in coolers destined for her niece's 2015 wedding in North Carolina. She baked eight varieties, including pecan tarts, her specialty. Ms. Potts, a seasoned baker, is often asked to help with cookie tables and will interview the couple beforehand. "What do you want this cookie table to say? Where do you want the 'Wow' factor?"

She posts recipes on the Youngstown Cookie Table Facebook page, which has more than 4,500 members around the country. Cookie tables have shown up at weddings in Florida, Arizona and Texas. Linda Sproul, who created the page in 2009, has since moved to Missouri but remains its administrator to screen members. "I

didn't want it to be commercialized, or too exclusive," she says.

They post photos and recipes and discuss cookie-to-guest ratios, 12-to-1 being the consensus if you want guests to take some home, which most agree you do and suggest decorative bags or Chinese takeout containers.

They ask what cookies freeze well and whether the proper name of the Eastern European pastry is kolache, or kolachi, and best filled with nuts or cheese or apricot preserves.

Another question is when to open cookie tables, says planner Anna Serrano, of Your Event, Your Way in Youngstown. When guests arrive, or after dinner? Do you drape tulle over them so people can see but not touch, or keep them in a separate room for a big reveal? "Whatever the client wants, I try to make happen," she says.

Newer cookies like vegan chocolate, rosemary shortbread and Twix cookies are showing up on tables, says Johanna Pro, who organized the Traditional Pittsburgh Wedding Cookie Table when the city hosted the National Main Street Now Conference this spring. There were 319 dozen cookies in 39 varieties, says Ms. Pro, who works

requirements for hospitals participating in federal programs, a punishment given to just five general hospitals in the U.S. that year, federal data show.

When confronted with regulatory failures, top IHS officials prioritized other matters, and Health Department leadership brushed aside warnings, records and interviews show.

After a 2010 Senate hearing on Sen. Dorgan's probe outlining serious deficiencies in care and training, then-IHS director Yvette Roubideaux emailed agency employees, acknowledging problems and saying fixes "cannot happen overnight." She asked staff to, among other things, "put a story in the local newspaper about all the good things you are doing," according to a 2010 email reviewed by the Journal.

In 2014, despite complaints of understaffing, Dr. Roubideaux dispatched 21 IHS medical staffers to West Africa to aid the response to Ebola, over protests of tribal health officials.

Dr. Roubideaux argued the outbreak was an unprecedented epidemic. The agency statement to the Journal said the staff was needed to help prevent a potential U.S. outbreak.

Dr. Roubideaux, a Rosebud tribal member and Harvard-trained doctor who left the agency in 2015, referred inquiries from the Journal to the IHS about what she called "longstanding" problems.

Then-U.S. Sen. Mark Begich, an Alaska Democrat, said he met with former Health and Human Services Secretary Kathleen Sebelius in 2012 to discuss IHS concerns. He said it was clear from the conversation that implementing the Affordable Care Act "eclipsed things."

Ms. Sebelius said in an interview "it's totally appropriate for him to say, 'they just didn't do enough,'" referring to her own department. She said she took the IHS's failures seriously and tried to address them by seeking more funds and improving communication with tribes.

The current Health Department secretary, Tom Price, said during his confirmation hearing in January he was committed to turning the IHS around.

Some people who rely on the troubled hospitals said they are afraid to seek treatment there.

Among them is the family of Tonya Drapeau, a 39-year-old mother of five from the Omaha reservation, who died suddenly in March 2016 after a visit to the Winnebago hospital. Days later, a government doctor wrote in a letter to an IHS official that Ms. Drapeau's treatment "was below the standard of care."

Her family filed a legal claim alleging negligence in February with the Health Department, their lawyer said, the first step in filing a lawsuit against the U.S. government.

Medical records show Ms. Drapeau went to Winnebago because she was having trouble breathing.

The agency's records of her past care, which medical staff reviewed that morning, showed she had diabetes and a history of respiratory complications. A doctor didn't check her blood sugar and sent her home later that day with antianxiety pills.

In many cases, the hospitals haven't fixed their problems, according to regulatory documents. In April, inspectors cited ongoing failures at the Rosebud hospital for at least the third time in a row; in 2015 and 2016, its emergency room was closed for seven months. In May, inspectors found the Pine Ridge facility had failed U.S. hospital requirements for the second time in five months. The Winnebago hospital has been barred since 2015 from billing Medicare because it failed to meet

the standard of care.

Hours later, Ms. Drapeau's teenage son found her unconscious. The records show she died, after being airlifted to a private hospital, of diabetic shock.



**Michal Naffah, owner of Embassy Banquet Centre in Ohio, had an elaborate cookie table display when her daughter married in 2015.**

tarts, doughnuts, pies and pastries, brownies and blondies. S'mores bars are big, too.

The appeal of the cookie table is that it is a tradition handed down through generations—at least in areas such as Youngstown and Pittsburgh, which both claim to be its birthplace. As children move on, the idea has spread. Cookie tables have been reported in 17 states and Canada, according to the Mahoning Valley Historical Society in Youngstown and postings on the Youngstown Cookie Table Facebook page.

Don Warg assumes every reception at Mr. Anthony's Banquet Center, the Youngstown-area hall where he is assistant manager, will have a cookie table. One recent Saturday, when they had two 6 p.m. receptions, staff had to begin at about 11 a.m. to get the cookies out.

These days, couples looking to add something different to their receptions are trying non-wedding-cake options, ordering

for the Pennsylvania Department of Community and Economic Development.

She usually makes 10 dozen lady locks for weddings, but only a few dozen Pesche Con Crema, special cookies that look like peaches. Those are reserved for dear friends and relatives. "I'm personally a cookie snob," Ms. Pro says. "I would never put a chocolate chip cookie on a cookie table."

Rachel Sheller has been dreaming of her cookie table since she was a little girl and attended her first wedding. "There was something magical about them," she says. "I wanted the biggest."

She and her fiancé, Chris Hitchings, both from the Youngstown area, have invited 500 people to their July 22 wedding. They recently sat at the kitchen table deciding on which cookies they want, remembering ones from friends' weddings and their own favorites: buckeyes and chocolate macadamia nut. So far, she has 25 types of cookies pledged by friends and family.

"Years from now, I want people to remember my wedding and say, 'Rachel's cookie table was immaculate,'" she says.

## U.S. NEWS

# McConnell Weathers Health Fight

Senate majority leader is known for his tenacious strategizing, distaste for losing

By SIOBHAN HUGHES

LOUISVILLE, Ky.—President Donald Trump's ability to land his first major legislative achievement, on health care, now rests with a Republican who kept a studied distance from the party's nominee during the campaign and since: Senate Majority Leader Mitch McConnell.

The Kentuckian didn't campaign with the president and rarely mentioned him. Shortly before the 2016 election, Mr. McConnell told businesspeople in his state that if they expected him to talk about the presidential race, they "might as well go ahead and leave." Since the election, his most public engagement with the president has come in his admonitions to lay off Twitter.

Now, Mr. McConnell's role in steering legislation through the Senate that largely guts the Affordable Care Act will link the fortunes of both men. It will also determine whether Republicans are able to deliver on a seven-year-old campaign promise to repeal the law.

It is a bedeviling assignment, made harder after Mr. Trump

recently suggested in a tweet they could repeal the 2010 health law and replace it later. The majority leader can lose only two Republican votes and still drive the GOP health bill through the Senate, and he has threatened to cut a final deal with Democrats if his caucus doesn't get in line.

"No action is not an alternative," Mr. McConnell said at a Rotary Club lunch in Kentucky last week.

Few people are willing to write Mr. McConnell's threats off, given his credentials as a smart, tenacious strategist who hates losing.

"Never underestimate Mitch McConnell," Sen. Heidi Heitkamp (D., N.D.) said.

In his effort to assemble the votes to pass a bill before an August recess, Mr. McConnell, 75 years old, will rely on skills he has honed since childhood, including keeping his cards close, using every tool to build a coalition and moving decisively when the moment is right.

The distance he has kept from Mr. Trump, whose approval rating is about 40%, reflects the way Mr. McConnell has sought political safety—and leaving his options open—by keeping his head down and his circle of confidants tight. The Kentucky senator is renowned for avoiding small-talk with fellow lawmakers on long over-



Sen. McConnell is steering contentious legislation through the Senate that largely guts the Affordable Care Act.

seas flights by keeping his nose buried in history books. Some congressional aides refer to Mr. McConnell as "the lockbox."

Democrats and some Republicans complain that he is taking the same approach to writing a health-care bill, which featured no public hearings and no input from the other party.

"If you at least have open committee hearings and hear from both sides, I think that's better," said fellow Kentucky Republican Sen. Rand Paul in late June.

Mr. McConnell, who declined to be interviewed, operates on the assumption that

sharing too much information can be damaging.

"Most campaigns err, he believes, by talking too freely with media about matters they should be keeping confidential, or under more calculated control," conservative lawyer John Dyche wrote in a book about the majority leader.

A son of a midlevel manager, Mr. McConnell has spent a lifetime studying the elements of power. He believes not in the power of personal relationships but in the power of political leverage—and a lightning-sharp willingness to dress down those who don't bend his way.

Mr. McConnell didn't hesi-

tate to tell White House chief of staff Reince Priebus that it was "incredibly stupid" for a Trump-aligned group to run ads pressuring Sen. Dean Heller (R., Nev.) into backing the health bill, according to a GOP operative with knowledge of the conversation. The outside group pulled the advertisement.

Mr. McConnell is also willing to do a bit of horse trading to line up votes.

To advance the GOP health bill, Mr. McConnell has floated adding \$45 billion to the bill to combat opioid addiction and to expand health-savings accounts so that the tax-advantaged funds can be used to pay

health-insurance premiums, according to outside groups and Republican aides who have followed the negotiations.

That opioid provision is aimed at winning over Mr. Portman and Sen. Shelley Moore Capito from West Virginia, whose states have been beset with drug overdoses, and conservatives like Sen. Ted Cruz of Texas, who has pushed the health-savings-account idea.

If he can package together an acceptable bill, Mr. McConnell is expected to push to get the legislation through as soon as possible.

—Jim Oberman contributed to this article.

## HEALTH

Continued from Page One according to a presentation by GOP leaders. Then a vote was planned for just before the recess, but Mr. McConnell, of Kentucky, was forced to postpone it.

Now a vote, if one occurs, would likely come in mid-to-late July, with Congress's August recess serving as the next deadline. If that fails, the legislative calendar would only get more difficult.

While the ACA funds expansions in health coverage with taxes on health industries and high-income households, the GOP bill does the reverse. It would repeal taxes and lower projected government spending toward Americans' health coverage while phasing out the ACA's Medicaid expansion and cutting Medicaid more broadly. It would reduce the ACA's tax credits for low-income consumers and would let states get waivers from some insurance regulations. It also



Lawmakers return from their recess to a raging health-care debate.

would scale back ACA requirements imposed on employer-based health plans.

The most conservative senators say the bill doesn't go far enough toward repealing the ACA, while more centrist lawmakers such as Sen. Susan Collins of Maine worry that it guts too much of the current law and takes coverage from too many people.

The legislation would leave 22 million more people uninsured in a decade compared

with the ACA, according to the nonpartisan Congressional Budget Office.

As Republicans struggled to unite behind a bill, Mr. Trump said in late June that if they can't, they should pass a bill repealing the ACA, sometimes called Obamacare, and then work on a replacement. Mr. McConnell has shown little enthusiasm for that idea, and some Capitol Hill aides say Mr. Trump's suggestion has complicated the ability to get leg-

islation passed.

The majority leader, who presides over a narrow 52-48 majority, can only afford to lose two GOP votes and still pass the bill, with Vice President Mike Pence breaking a potential 50-50 tie.

Mr. McConnell hoped to assemble a revised bill over the recess, but publicly at least, Senate Republicans seem at least as polarized as before.

Mr. Hoeven said he is concerned the bill doesn't do enough to help low-income people in his state and those with pre-existing conditions.

Still, he said he hopes health-care legislation, possibly composed of multiple bills instead of one, would pass.

"I think there's a number of ways to do it, but we're going to have to make sure that between Medicaid and the refundable tax credit that we have a good option for low-income individuals," he said in an interview last week.

Conservatives responded sharply to Mr. McConnell's suggestion that Republicans, presumably working with

Democrats, would have to pass a measure to stabilize the insurance markets if they couldn't agree on their own health bill. Such efforts could include continuing billions of dollars in payments to insurers to offset their costs for providing subsidies that lower out-of-pocket costs for low-income consumers. Mr. Trump has threatened to stop those payments.

"If the Republican Party wants to work with Democrats to bail out Obamacare, the results will be catastrophic for the party," said Michael Needham, CEO of Heritage Action. "For seven years it has pledged it is the party of repeal, and now is the time to work toward that goal."

A recent proposal from Sen. Ted Cruz (R., Texas) has also provoked divisions. It would let insurers that sell plans complying with ACA regulations to also sell health policies that don't.

Health analysts say that would likely cut premiums for younger, healthier people, who would buy more limited poli-

cies, while causing premiums to rise for people with pre-existing conditions who would buy the more comprehensive plans that comply with the ACA.

Conservative groups are insisting the Cruz proposal be a part of the Senate legislation. Mr. Cruz's plan has been sent to CBO, which is expected to provide an analysis of its financial and coverage impact as early as this week, according to a person familiar with the talks.

Mr. Cruz has said that providing additional choices would lower premiums for many, and that sicker people would still have options. "Under this amendment, the protections for pre-existing conditions remain there," Mr. Cruz told a Dallas television station.

But Democrats said the plan would create a bifurcated system with insurance becoming increasingly expensive for older, less-healthy individuals. "This is nothing more than a two-track system for making Trumpcare even meaner," said Sen. Patty Murray (D., Wash.).

THE OUTLOOK | By Paul Hannon and David Harrison

# Persistent Weak Inflation Is a Quandary for Central Banks

Leading central banks plan to withdraw some of the stimulus measures they have put in place since the financial crisis. But their timing seems a little puzzling: Inflation, which is already below their targets, is falling world-wide.

The decline in inflation is a mystery since the global economy appears to be growing at a faster pace than during recent years, while unemployment rates continue to edge lower.

According to central bankers, inflation is generated by the gap between the demand for goods and services and the economy's ability to supply them. When that output gap is wide, inflation is lower, and when it is narrow, prices grow more quickly. Low inflation is a symptom of a weak economy, something they want to avoid as much as high inflation, a sign of an overheated economy.

To boost inflation, central banks stimulate demand by lowering interest rates, encouraging households and businesses to borrow and spend. As the volume of goods and services that people want to buy nears the limit of the economy's capacity to supply them, wages

rise, as do prices, generating inflation.

But try as they might, central banks have been unable to reach their inflation targets over recent years, despite their success boosting growth and lowering jobless numbers. That has raised questions about the reliability of the traditional link between the output gap and prices.

"Central banks across the Western world are struggling to define that relationship," said Bert Colijn, an economist at ING Bank.

Across the Group of 20 largest economies, which account for most of the world's economic activity, annual inflation slumped in May to its lowest level since August 2016, according to the Organization for Economic Cooperation and Development.

Much of that decline was due to easing energy prices. But even excluding that volatile item, and similarly choppy food prices, "core" inflation is slowing in many places.

That isn't a recent phenomenon. Core inflation in developed economies hasn't changed much in the years since the financial crisis, never reaching the 2.5% rate

it stood at in September 2008, when Lehman Brothers collapsed, or going below the 1.1% rate it hit in December 2010.

Central bankers are struggling to explain why inflation isn't responding the way the textbooks say it should to an improving global economy and falling jobless rates. According to the OECD, the unemployment rate in developed economies fell to 5.9% in May from

6.3% a year earlier.

In the U.S., Federal Reserve Chairwoman Janet Yellen has shrugged off the past few months of low inflation numbers, saying they were caused by temporary domestic factors, such as cheaper new cellphone plans. But the global inflation slowdown calls that thesis into question.

Chicago Fed President Charles Evans suggested last month that poorly understood technological advances or aging populations could

also be holding down inflation around the world.

"I sometimes wonder if there isn't something more global, more technological that's taking place that we don't quite have our arms around very well," he said.

Federal officials devoted part of their June 13-14 meeting to debating inflation's surprising weakness. Some argued the link between the output gap and inflation had weakened over the past few years. Others worried letting the economy grow too fast would bring about a sudden burst of inflation that would be hard to control.

The picture is just as confusing in Europe.

In a June 27 speech that was widely viewed by investors as signaling a readiness to remove some stimulus later this year or early next, European Central Bank President Mario Draghi said inflation has been weaker "than one would expect on the basis of output gap estimates and historical patterns."

Mr. Draghi concluded that a narrowing output gap would eventually have its usual effect on prices. It would just take longer.

Other global factors may be at play. Because so many

companies compete around the world, weaker economic growth and sluggish inflation in one country could keep a lid on prices in other countries, propagating low inflation across continents.

Another explanation could be lower inflation expectations around the world. After years of tepid price growth, workers may not push that hard for a raise and companies may not feel compelled to increase prices despite signs of improvement in the economy.

Whatever the cause, central bankers appear willing for now to look beyond the past few months of weak inflation numbers as they shift away from easy money policies. Faith in output gap theory is one driver. Some also are growing worried about other problems. For example, recent speeches from Fed officials and the minutes of the last meeting suggest a growing concern about financial stability as asset prices rise.

If consumer price trends don't turn soon, however, central bank officials could find they have undermined the inflation mission they've established as their core objective.

## That Sinking Feeling

Though unemployment is falling globally, consumer prices haven't gained traction in the world's largest economies. Change from a year earlier in CPI:



Source: Organization for Economic Cooperation and Development

THE WALL STREET JOURNAL

# LIFE & ARTS

FASHION WEEK

## Men Are Done With Trends

As fashion week gets underway in New York, a new consumer gravitates toward independent labels that specialize in classics

BY RAY A. SMITH

**AS THE FASHION** industry gets ready for men's fashion week in New York starting Monday, retailers and style arbiters are focusing on a new type of male customer: Call him post-trend.

After several years when many fashionable men impulsively chased popular runway fads, the industry is now recognizing a new breed of consumer who gravitates toward independent labels that specialize in classics, craftsmanship and quality.

"There was a time when guys didn't really want to talk about their clothes and then we got way past that," says Will Welch, the editor of the quarterly magazine GQ Style, and a proponent of the new look. The new consumer is "a guy who already knows a lot about fashion and has a pretty dialed-in personal style."

Mr. Welch and retailer Josh Peskowitz are two leading promoters of the post-trend aesthetic. Although they don't work together, their shared sensibility is having a major influence on the industry. Both have worked in the business for many years: Mr. Peskowitz is a former Bloomingdale's men's fashion director and co-founder of Magasin, an eclectic menswear boutique in Culver City, Calif. He has a large social media following with 16,300 Instagram followers.

Mr. Peskowitz likens the post-trend customer to the type of person who buys organic, farm-raised, fair-trade, or locally-sourced food. A consumer "who cares how their clothes are made and the meaning behind these clothes."

Such a consumer is interested in high-end Italian fashion brands, not only the usual suspects such as Gucci and Prada, but obscure ones like Massimo Piombo and Salvatore Piccolo. He's likely to visit a cool, niche specialty store like Noah in New York or RTH in West Hollywood, Calif., more than a Neiman Marcus or Saks Fifth Avenue.

Mr. Welch and Mr. Peskowitz have introduced many of their respective acolytes and customers to idiosyncratic brands, such as Needles of Japan and Massimo Alba of Italy.

"We wanted to have interesting stuff, one or two standard deviations away from normal," said Mr. Peskowitz about his store. Magasin carries independent, under-the-radar Italian and Japanese labels mixed with some pieces from indi-



CLOCKWISE FROM TOP: ADAM BIRKAN FOR GQ STYLE; MP MASSIMO PIOMBO; MISSONI; EPA/GETTY IMAGES

The GQ Style staff are proponents of the post-trend fashion movement, above from left, Will Welch, Mobolaji Dawodu, Noah Johnson. Below left, Josh Peskowitz; runway looks from Dries Van Noten, Missoni and MP Massimo Piombo.



erheads; and fashion-trend daredevils early to adopt crazes like Adidas Yeezy Boost sneakers and ankle-baring trousers.

"I hope that we've got the machetes out and are hacking down a different path [for men to follow]", Mr. Welch said.

Andrew Gura, a 45-year-old filmmaker who lives in Silver Lake, Calif., is the type of customer Messrs. Peskowitz and Welch are describing. He "bought really heavily into the shrunken preppy thing" that has been a trend for a few years but started going for a different look last year. He likes independent, artisanal stories like Magasin because they are "for people who have an inkling for something different. The creativity is what attracts me. A lot of the lines [they carry] are so unique and specialized." He now prides himself on not wearing "what everyone else has" and rarely shops at mainstream department stores, choosing Magasin, RTH and Mohawk General Store and select others instead.

Brendon Babenzien, the former design director at the popular Supreme streetwear brand, started his clothing label Noah in 2015 with the goal of getting more men to shop for better quality over trends. "People are taught to buy things based on a very surface level but a lot of the quality has gone away completely," he said. The Noah label

supplies information to customers on everything from how garments are made to how much it costs to make and eschews trends.



PLAYLIST: CHRISTOPHER BROOKMYRE

## HIT OF THE HIGHLANDS



Christopher Brookmyre, 48, is an author and winner of the 2016 McIlvanney Prize for Best Scottish Crime Novel of the Year. His latest thriller is "The Last Hack" (Atlantic Monthly Press). He spoke with Marc Myers.

I first heard Big Country's "IN A BIG COUNTRY" in 1983, just after the song was released. I was 15 and reading in my parents' living room in Glasgow, Scotland, with "Top of the Pops" on TV. As soon as I heard Stuart Adamson's guitar evoking the sound of the bagpipes, my head snapped up.

At the time, everyone I knew was into the new romantics and synth-pop bands, which I found a bit vapid. I also detested the bagpipes, which sounded like a tour-

ist-shop notion of Scottishness. But Adamson's guitar captured the pipes in a way that was just Scottish enough.

His chords were reminiscent of a soaring Celtic folk song and awakened in me a sense of Scotland as a place both ancient and modern. Scotland's countryside has an epic landscape that inspires optimism and storytelling. The song lifted me up the same way.

"In a Big Country" is about hope and defiance: "Pull up your head off the floor, come up screaming / Cry out for everything you ever might have wanted."

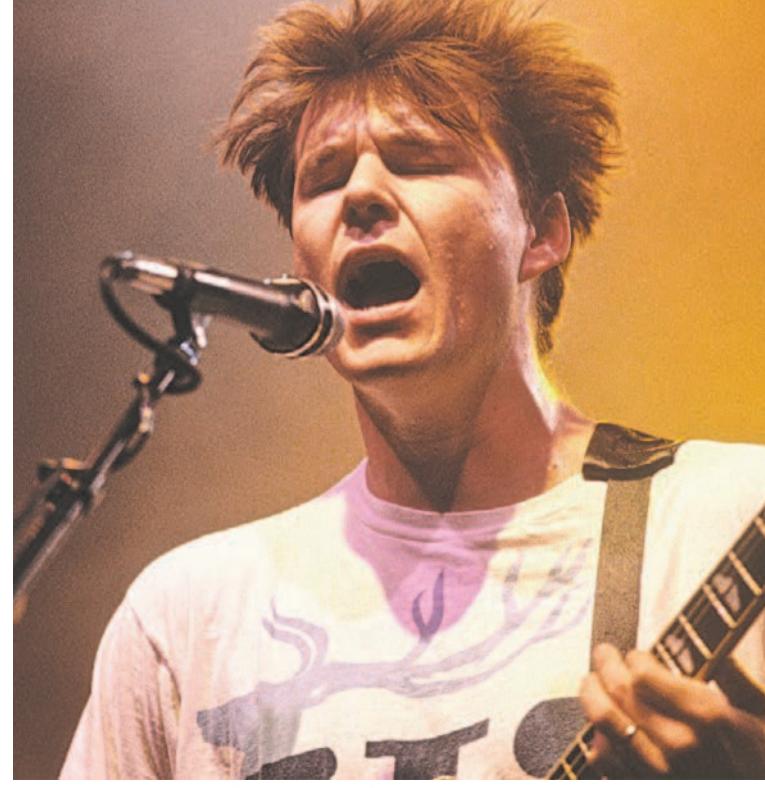
Two years later, when I was 17, I was at a Glasgow University orientation retreat, just before starting

my first year. I was helping to clean up after dinner when I made a silly joke and watched as a woman walked out of the room.

When I caught up with her later at the pub, it turned out she hadn't even heard me. We got to talking about music. The first band she mentioned was Big Country, and we talked about what "In a Big Country" meant to us. Marisa and I began dating, and we married in 1991.

Several years ago, we were on a drive up through Glencoe in the Scottish Highlands. The region offers some of the most beautiful, dramatic views of imposing, jagged mountains and dark streams, with the sun sliding in and out from behind the clouds.

As we drove along the winding roads, I put on "In a Big Country." Marisa and I looked at each other. It was an amazing feeling. There could be no better combination of Scottish song and landscape.



Big Country's Stuart Adamson around 1984.

## LIFE & ARTS

**WEEKEND CONFIDENTIAL** | By Alexandra Wolfe

# On the Road With a Slew of Soundtrack Hits

**WHEN OSCAR-WINNING** composer Hans Zimmer stepped on stage last year, he almost ran right off again. He was performing in public for the first time in 40 years, and as he sat down at the piano to play the introductory song for "Driving Miss Daisy," a 1989 film whose score he wrote, stage fright overwhelmed him. "I thought I should apologize to everyone and tell them that I made a terrible mistake," he says. Sensing Mr. Zimmer's anxiety, one of the musicians on stage accompanying him told him to smile. "You can't quite retain the angst and all that Germanicness if you have a little bit of a smile on your face," he says.

Mr. Zimmer, 59, has composed more than 100 original film scores, earning nine Academy Award nominations and one win for best music, original score for "The Lion King" (1994). Other films include the "Pirates of the Caribbean" and "The Dark Knight" series, "Gladiator" (2000) and "Interstellar" (2014). Now he's about to embark on the U.S. leg of his show, "Hans Zimmer Live," playing songs from his films. It kicks off in Dallas on July 13 and runs through mid-August.

"This is the opposite of my normal life, where I'm thinking about long, dramatic arcs" in movies, he says. On tour, he has to be in the moment. "If I even try to think 30 seconds ahead, I will play badly," he says. "It's quite a learning curve for me, actually."

His goal when writing a score is to make both audiences and himself happy. The latter isn't easy. "Nothing leaves my studio unless I'm happy with it," he says. He quickly adds, "'Happy' is a big word. Let's say 'slightly less unhappy.'"

Mr. Zimmer started playing piano when he was a child in Frankfurt. His mother was a classical pianist, and his father, an engineer, died when he was young. Mr. Zimmer preferred composing his own music to learning to play others' songs. As a teenager, he moved to London to play keyboard and synthesizers in a band. He went on to produce music for groups such as the Buggles, who released the 1979 hit song "Video Killed the Radio Star."

He took up film composing in the early 1980s because he thought that staying in a band would confine him to making the same kind of music. In London, he began apprenticing for the composer Stanley Myers, whose scores featured in films such as "The Deer Hunter" (1978) and "My Beautiful Laundrette" (1985).

Mr. Zimmer was soon working on his own. He got his first Oscar nomination for the 1988 Dustin Hoffman-Tom Cruise film "Rain Man." After working on the movie in Los Angeles, he decided to stay there. As he says, "I sort of got



Hans Zimmer, a composer with nine Academy Award nominations, is touring the U.S. with a full orchestra in July and August.

PAL HANSEN FOR THE WALL STREET JOURNAL

stuck."

When developing a score, Mr. Zimmer begins by asking the director to tell him the story of the movie. "A good director is by nature a great storyteller," he says. "I actually get far more than I would get from the script." When he started to work on "Interstellar," director Christopher Nolan didn't tell him the story; instead, Mr. Nolan gave him a page-long fable about what it meant to be a father. Mr. Zimmer came up with a fragile, intimate tune based on the fable and was surprised when he found out that the movie was an epic space odyssey (though it did have two narratives about father-daughter relationships).

On any movie, Mr. Zimmer's goal is to add to the story: "Your job is

to invent, and your job is not to be a slave to the movie but to elevate it somehow and bring your own personality into it."

He says that he has an easier time expressing himself in music than in English or even in his native German. When he records a score, he often works with musicians from other countries. He remembers working with one musician on "Gladiator" who barely spoke English. "I think the most conversation we ever had was 'hello,' 'good night,' and a raised eyebrow when you played the wrong note," he says with a laugh.

Mr. Zimmer lives in Los Angeles with his second wife, Suzanne. They have three teenage children together, and he has a 29-year-old daughter from a previous marriage.

He spends most days in his studio in Santa Monica. "I force myself to sit on my hands and not touch the keyboard until I have actually an idea in my head, because otherwise it's just muscle memory," he says. "I'm just playing stuff from the last movie."

He's in his studio on weekends, too. "Weekends for me are the most perfect time because nobody phones and you can get more writing done," he says. He sometimes sees friends. "They put up with [the fact] that we start a thought three years...before we get to finish it because I got sidetracked into a piece of music," he says.

He generally doesn't listen to other music. "It just sort of confuses me because when you're writing, you're trying to sneak up on an idea, and they have a habit

of being elusive and disappearing too quickly," he says. "You want as much silence around you as possible."

One of his next scores will appear in "Dunkirk," a World War II thriller directed by Mr. Nolan that will be released later this month. The score, he says, is based on long conversations that he had with the director.

"I usually start hearing musical ideas in my head while he discusses his story with me," he says.

He is driven by his love of coming up with sounds and melodies. "Deadlines are great motivators," he says, but what really excites him is the point when a tune suddenly comes to him and he starts seeing one note after another in his head. "That moment is so delicious that nothing can quite beat it."

### EXHIBITION REVIEW

## AN ODE TO THE QUEEN OF MISCHIEF

BY EDWARD ROTHSTEIN

New York  
**GROUCHO MARX**, who knew something about anarchic comedy, once said he was glad he was not Eloise's father, which is fine, because in Kay Thompson's "Eloise" (1955), with illustrations by Hilary Knight, no father is mentioned. Even the 30-year-old mother, who has a charge account at Bergdorf's, never appears, having zero interest in her 6-year-old daughter, whom she has deposited at the Plaza Hotel with an English nanny.

It isn't the most promising background for a heroine who has charmed readers for over 60 years, selling more than two million books. Nor does Eloise provide much of a behavioral model. She bangs on walls, harasses guests and staff, and boasts of being a nuisance. But she has immunity: Her mother, she tells us, knows the "Owner."

Yet, somehow, this spoiled, self-created, self-celebrating child works her charms. And now that she has taken over galleries of the New-York Historical Society in "Eloise at the Museum," under the guidance of curator Jane Bayard Curley, we begin to understand this book's place in American culture.

The designers have imported Mr. Knight's deft illustrative style. Old hotel phones here offer Bernadette Peters reciting excerpts from "Eloise" and lesser-known sequels—"Eloise in Paris" (1957), "El-

oise at Christmastime" (1958) and "Eloise in Moscow" (1959). One gallery includes a life-size replica of the Plaza's elevator man worriedly looking as if a crew of Eloise wannabes is about to invade.

A reading area is stocked with Eloise books and others Mr. Knight illustrated, along with Eloisian artifacts: a one-eyed doll that she sawed in two and an empty bottle of gin. Mr. Knight's trial drawings of Eloise suggest her knowing smile and overactive imagination in a half-dozen pencil strokes. He was born in New York to equally talented parents: His mother, Katherine Sturges Knight, displays a "vibrant decorative sensibility"; his father, Clayton Knight, specialized in aviation art.

We see too, how close Eloise is to Ms. Thompson, who is called here "a multi-talented boundary pusher." A piano prodigy who performed with the St. Louis Symphony, she became mentor to Judy Garland, and was vocal coach to both Lena Horne and Frank Sinatra. She had five nose jobs and (not unjustly) still thought she looked like Basil Rathbone. In the early 1950s she was the highest paid cabaret singer around. She appeared in "Funny Face" (1957)—a clip is shown here.

Eloise was part of her personality. Through much of her own self-created life—she was born Catherine Fink to a Jewish pawnbroker in St. Louis in 1909—she regularly channeled the voice of that 6-year-old when she wanted to break



Painting of 'Eloise' (1956), by Hilary Knight

down opposition. When "Eloise" was adapted for television in 1956, Ms. Thompson resented the child actress and insisted on being her dubbed-in voice—a grotesque arrangement ultimately discarded.

One attraction here is Mr. Knight's 1956 painting of Eloise, mounted at the Plaza Hotel until, in 1960, it vanished; it turned up two

years later, in a dumpster and was restored for this show. Thompson's biographer, Sam Irvin, suggests it was all a stunt cooked up by Thompson, getting Eloise into the news as Dr. Seuss books and Barbie dolls were eclipsing her.

Thompson's petulance is as clear as her gifts. Mr. Knight was not permitted to re-create images until

after Thompson's death in 1998. (She also pulled the three sequels out of circulation and never completed the fourth, published posthumously as "Eloise Takes a Bath.") Such are Eloise's progenitors.

Ms. Thompson must have also been aware of at least one other: Ludwig Bemelmans's "Madeline" (1939), the subject of another show curated by Ms. Curley in 2014. Both books led to sequels; both inspired merchandising (this exhibition ends in a gift shop); and both celebrated girls who would never consent to walking in two straight lines, in rain or shine. Bemelmans, like Thompson, was also enticed by hotels—designing for the Waldorf-Astoria, creating murals for the Carlyle Hotel.

In writing "Madeline" a German-born American immigrant chose an Old World setting for his tales of iconoclastic mischief; in creating "Eloise," a St. Louis-born lower-class child, later an emigrant into the upper-class social world, gives us a French chateau-like setting also ripe for disruption. Eloise calls herself a "city child," but what we see is the American child rebelling against the Old World: self-created, self-governed—ready for encounters with cats in hats and Sendakian wild things. Eloise celebrates autonomy, now often given a feminist twist—one reason, perhaps, why Lena Dunham has Eloise tattooed on the small of her back.

Those who grew up with Eloise at large, or those who live in a world she helped shape, should—to use her favorite words—sklank, slomp, skitter, skibble and scurry to see this show.

### Eloise at the Museum

New-York Historical Society, through Oct. 9

Mr. Rothstein is the Journal's Critic at Large.

## OPINION

### REVIEW & OUTLOOK

## Trump's Defining Speech

The White House description of Donald Trump's speech Thursday in Warsaw was simply, "Remarks by President Trump to the People of Poland." In truth, Mr. Trump's remarks were directed at the people of the world. Six months into his first term of office, Mr. Trump finally offered the core of what could become a governing philosophy. It is a determined and affirmative defense of the Western tradition.

To be sure, Mr. Trump's speech also contained several pointed and welcome foreign-policy statements. He assured Poland it would not be held hostage to a single supplier of energy, meaning Russia. He exhorted Russia to stop destabilizing Ukraine "and elsewhere," to stop supporting Syria and Iran and "instead join the community of responsible nations." He explicitly committed to NATO's Article 5 on mutual defense.

But—and this shocked Washington—the speech aimed higher. Like the best presidential speeches, it contained affirmations of ideas and principles and related them to the current political moment. "Americans, Poles and the nations of Europe value individual freedom and sovereignty," he said. This was more than a speech, though. It was an argument. One might even call it an *apologia* for the West.

Mr. Trump built his argument out of Poland's place in the history of the West, both as a source of its culture—Chopin, Copernicus—and as a physical and spiritual battlefield, especially during World War II. The word Mr. Trump came back to repeatedly to define this experience was "threat."

During and after the war, Poland survived threats to its existence from Nazi Germany and the Soviet Union. Mr. Trump believes that the West today confronts threats of a different sort, threats both physical and cultural. "This continent," said Mr. Trump, "no longer confronts the specter of communism. But today we're in the West, and we have to say there are dire threats to our security and to our way of life."

He identified the most immediate security threat as an "oppressive ideology." He was talking about radical Islam, but it is worth noting that he never mentioned radical Islam or Islamic State. Instead, he described the re-

cent commitment by Saudi Arabia and other Muslim nations to combat an ideological menace that threatens the world with terrorism.

He compared this idea of mutual defense to the alliance of free nations that defeated Nazism and communism.

But the speech's most provocative argument was about our way of life. It came when he described how a million Poles stood with Pope John Paul II in Victory Square in 1979 to resist Soviet rule by chanting, "We want God!"

"With that powerful declaration of who you are," Mr. Trump said, "you came to understand what to do and how to live."

This is a warning to the West and a call to action. By remembering the Poles' invocation of God, Mr. Trump is clearly aligning himself with the same warning issued to Europe some years ago by Cardinal Joseph Ratzinger, who became Pope Benedict.

Cardinal Ratzinger's argument was that Europe needed to recognize that its turn toward aggressive secularism posed a real threat to its survival. In Mr. Trump's formulation of that threat, we are obliged to "confront forces, whether they come from inside or out, from the South or the East, that threaten over time to undermine these values and to erase the bonds of culture, faith and tradition that make us who we are." He warned about a "lack of pride and confidence in our values."

Mr. Trump is taking a clear stand against the kind of gauzy globalism and vague multiculturalism represented by the worldview of, say, Barack Obama and most contemporary Western intellectuals, who are willing, even eager, to concede the argument to critics of the West's traditions.

This is the speech Mr. Trump should have given to introduce himself to the world at his Inauguration. In place of that speech's resentments, his Warsaw talk offered a better form of nationalism. It is a nationalism rooted in values and beliefs—the rule of law, freedom of expression, religious faith and freedom from oppressive government—that let Europe and then America rise to prominence. This, Mr. Trump is saying, is worth whatever it takes to preserve and protect.

It was an important and, we hope, a defining speech—for the Trump Presidency and for Donald Trump himself.

## When Donald Met Vlad

By the time President Trump sat down in Hamburg, Germany, with Russia's Vladimir Putin, the media hype had built the meeting into virtually the second coming of the Reykjavik Summit. The agreement that fell out of the Hamburg bilateral was the announcement of a cease-fire in southwestern Syria.

Any cessation of hostilities in Syria is welcome, and we can hope it will become the basis for similar agreements on the country's more complex northern war fronts. But that would require Mr. Putin to abandon his grand strategy for re-establishing Russian influence across the Middle East, in partnership with Iran and Syria. That would take a real summit and more planning than went into the Hamburg sit-down.

Messrs. Trump and Putin brought only their foreign ministers into the meeting, suggesting that the primary goal here was to take each other's measure. Both men famously pride themselves in their ability to size up adversaries—Mr. Trump as a negotiator of real-estate deals and Mr. Putin as a former KGB recruiter of foreign agents.

The American and Russian sides also bring distinctly different intentions into meetings like this one. For the American side, prodded by an insistent media narrative, the goal is to

We'll learn what Putin thinks of Trump by what he tries to get away with.

discover areas of possible "cooperation." In Mr. Putin's world, such a meeting has one purpose: to discover if he will be able to press Russian interests forward without significant pushback from the U.S. President. Mr. Putin concluded that Barack Obama would pose minimal resistance, and so he seized Crimea, invaded eastern Ukraine

and adopted Syria's Bashar Assad. He's still in all three places.

We can't guess what Mr. Putin made of Donald Trump. Secretary of State Rex Tillerson said Mr. Trump pressed Mr. Putin on Russia's efforts to disrupt the U.S. presidential election, which was encouraging. Mr. Putin denied any meddling and said Mr. Trump accepted that denial. The failure of Messrs. Trump or Tillerson to push back publicly against that Russian claim of acquiescence is discouraging.

On Sunday Mr. Trump tweeted that he and Mr. Putin discussed "forming an impenetrable Cyber Security unit" to prevent "election hacking" and other "negative things," but that puts too much trust in the former KGB man. Mr. Putin is a hard man who responds only to hard incentives, and Mr. Trump will get better results than his predecessors only if he makes the Russian pay a price for his hostile actions in Syria, Ukraine and elsewhere.

## Saving Charlie Gard

Charlie Gard, an 11-month-old British child with a rare genetic disease, is today the most famous baby in the world. For all the wrong reasons.

Even as he remains on life support at a British hospital, he has attracted the attention of the President of the United States, the pope, the British courts and the European Court of Human Rights. All because his government has backed medical experts who say the experimental treatment offered by hospitals abroad—treatments his family hopes to try and is willing to pay for themselves—would only prolong his suffering.

On Friday came news that the hospital asked for a new court hearing after researchers at two hospitals abroad offered "fresh evidence" on experimental treatments for the baby's condition. Over the weekend, New York-Presbyterian Hospital and Columbia University Irving Medical Center said they're willing to treat Charlie.

U.S. Congressmen Brad Wenstrup and Trent Franks announced plans to introduce a bill to give Charlie U.S. residency to facilitate his travel for treatment. Their statement said, "Should this little boy to be ordered to die—because a third party, overriding the wishes of his parents, believes it can conclusively determine that immediate death is what is best for him?"

Why should technical expertise be elevated over parental love?

It may be that the experts the British and European courts invoke are right that even with treatment Charlie won't live much longer than he might with new interventions. But it's not their decision to make. Or shouldn't be.

Charlie's mother says the hospital won't allow her and her husband to bring their boy home, meaning that if he is to die, it will be with the hospital and not at home with those who love him. Which raises a question: Whose baby is Charlie, anyway—his parents' or the state's? In this delicate case, Britain's government national health-care system has elevated technical expertise over parental love.

Europe is much further along than America in its aggressive secularization and single-payer health-care control. Those values and priorities are on prominent display here, with an infant's court-ordered guardian invoking "quality of life" as a reason for not allowing his parents to try experimental treatment.

Precedents matter when a society is confronted with these dilemmas. If the courts prevail in Charlie's case, it isn't so difficult to imagine another court ruling that a child with severe Down syndrome or some other genetic disease also doesn't have the right quality of life. Who decides? Our vote remains with the parents.

## Volvo Discovers the Electric-Vehicle Hype



BUSINESS WORLD  
By Holman W. Jenkins, Jr.

If your mother says she loves you, check it out. The most popular article on the Journal's website on Wednesday was headlined "Volvo to Switch to Electric, in First for Major Auto Firm." On its front page the next morning, the New York

Times declared Volvo "the first mainstream automaker to sound the death knell of the internal combustion engine."

Well, not exactly. By 2019, Volvo said all its cars would be hybrids or gas-electric hybrids or "mild" gas-electric hybrids—i.e., most will continue to have internal combustion engines.

"This announcement marks the end of the *solely* combustion engine-powered car," is how Volvo chief executive Håkan Samuelsson actually put it (emphasis added).

Volvo, unlike just about every major car maker, doesn't even have an electric car in the market today. Its big winner is a luxury SUV, a gasoline-powered vehicle whose top-of-the-line model is further enhanced, yes, by a supplemental electric drive.

The hybrid version of the XC90 comes with a \$75,000 price tag: A customer who wants a hybrid is also presumed to want the 19-speaker, 1,400-watt sound system, the self-parking package and every other option Volvo can stuff into a \$75,000 SUV.

Therein lies the real point. Volvo's announcement signals nothing about the electric-car future and everything about Volvo's niche marketing.

Not even Volvo could have expected the bounty of free media it won last week. The Swedish company clearly left more impression on American psyches than it ever did on American pocketbooks. In its best years in the 1980s and the mid-2000s, it never broke 0.8% of the U.S. market.

Its brand image as a virtuous innovator survives from the day when it heavily promoted Volvo safety. But Volvo-like safety has long since become the price of admission in the car business, so Volvo has been deliberately rebranding its niche—and its ambitions are entirely wrapped up in being a niche player—as a technology icon.

"It is not just bundling a lot of technology together to have a lot of gadgets in the car. It is important to deliver smart functionality and connectivity," Mr. Samuelsson explained back in 2014.

Something else is also going on. Volvo is still run out of Sweden. Its chief is Swedish. But the Volvo car business has been owned by China's Geely since 2010.

Volvo's biggest market now is China. Starting in 18 months, China's auto makers will be subject to an increasingly onerous California-style "zero-emission vehicle" mandate.

In fact, only through the intervention of Angela Merkel, the German

leader who knows a thing or two about green excess, was the timeline delayed from 2018. Companies will have to build and sell electric cars in growing numbers (starting with 8% of total output) in order to be free to sell the vehicles Chinese customers are most likely to buy.

To repeat a sore point, if the goal is to reduce greenhouse gases, passenger cars aren't the place to aim. Electricity production is.

China's real goal here is to reduce its strategic vulnerability to imported oil. By mandating a switch to electric cars, it's essentially mandating a switch to a domestic fuel in plentiful supply, coal. An eager convert is the city of Taiyuan, capital of China's coal belt, which enacted a rule requiring local taxis to be all-electric by 2021.

The Swedish car maker isn't giving up on gasoline. It's redefining its niche.

As part of declaring its energy independence, especially its independence from the U.S. Navy, guardian of the Middle East oil routes, China also is seeking to capture world leadership in lithium-ion technology. Its electric-vehicle mandate includes a requirement that manufacturers use only locally made batteries.

This is the China, by the way, that the media has been trying to turn into the world's conscience on global warming since Donald Trump removed the U.S. from the Paris climate agreement.

OK, China's government can do pretty much as it wants. It can order domestic car makers, protected by a 25% import tariff, to make and sell electric cars using local batteries, likely at a loss. But even Beijing has run into political, i.e., democratic, opposition to piling on a European-style gas tax. After several attempts at raising it, gasoline remains a middle-of-the-road \$4 a gallon.

France's new president called last week for a ban on new petrol-fueled cars by 2040. Good luck with that, even in a country where taxes make gasoline \$6.50 a gallon. In the U.S., Tesla, whose stock price has been plummeting in recent days, will be delivering its new Model 3 at a time of \$2.24 gas, amid a complex thicket of pro-electric-car mandates that end up doing Tesla as much harm as good.

Not even China, by central command, will be able to make mass adoption of electric cars economically viable, at least not without resort to massive mandates, subsidies and other distortions that bring their own problems.

None of which is a problem for Volvo. Volvo isn't anticipating mass adoption of electric cars. Volvo is anticipating only that its affluent audience will associate Volvo with whatever is cool and cutting-edge in automotive technology at the moment.

## My Doctors Should Help Me Live, Not Die

By J.J. Hanson

Aggresive brain cancer is trying to end my life. The best doctors in the world are racing to find a cure. Meanwhile, legislation promoting assisted suicide all over America would dismantle essential protections and care on which I, and so many others, depend as we fight terminal illnesses. Bills that would legalize or expand assisted suicide have been introduced in 29 states.

Three years ago, I was living the American dream. I was happily married, our son had just turned 1, and I had a job I loved. My life changed in an instant. I had a grand mal seizure at work and went to the hospital. Doctors ran tests, including a CT scan, but couldn't find anything wrong. As they were preparing to send me home, my wife demanded an MRI.

That's when they found the cancer—grade 4 glioblastoma multiforme. The neurosurgeon told me it was inoperable; my prognosis was four months to live. Three doctors told me there was nothing they could do. Surgery, chemotherapy and radiation rarely work on this type of brain cancer.

I'm a U.S. Marine Corps veteran of Iraq. I've been through a lot in my life and always resolved never to give up, but there was a moment after my diagnosis when I felt despair. In that moment, had assisted suicide been an option, I might have taken it. With my family's support, I came through that depression. But not everyone is lucky enough to have that kind of support.

So despite the doctors' pessimistic prognosis, I pursued standard and experimental treatments. I knew doctors weren't always right and I was going to fight for every moment of

life I had left. That was three years ago. Today our second child is on the way.

Sadly, too many others—thrown into clinical depression by a grim prognosis, illness-induced disability or fears of being a burden—lose hope and become willing to take their own lives. A study conducted in Oregon in 2006 found 25% of patients request-

## Assisted suicide and the temptation of despair.

ing assisted suicide were depressed, and several of them went on to receive the lethal medication.

Legislation being pushed throughout the U.S. promotes assisted suicide for cases like mine. Instead of providing support and working to make life more comfortable, this legislation would encourage victims to choose the least-expensive option—death. We cannot trust insurance companies, which are profit-driven businesses, to continue offering quality care to terminally ill patients. They will choose the cheaper option every time.

I've seen the danger of assisted suicide, and that is what moved me to dedicate the past year and a half to fighting assisted-suicide legislation across the country with the Patients Rights Action Fund. If suicide becomes a normal medical treatment for terminally ill patients, lives will be tragically shortened, as patients who might have outlived their prognoses by months or even years kill themselves prematurely.

Mr. Hanson is president of the Patients Rights Action Fund.

## OPINION

# The Gene Editors Are Only Getting Started

By Kyle Peterson

**R**ewriting the code of life has never been so easy. In 2012 scientists demonstrated a new DNA-editing technique called Crispr. Five years later it is being used to cure mice with HIV and hemophilia. Geneticists are engineering pigs to make them suitable as human-organ donors. Bill Gates is spending \$75 million to endow a few *Anopheles* mosquitoes, which spread malaria, with a sort of genetic time bomb that could wipe out the species. A team at Harvard plans to edit 1.5 million letters of elephant DNA to resurrect the woolly mammoth.

"I frankly have been flabbergasted at the pace of the field," says Jennifer Doudna, a Crispr pioneer who runs a lab at the University of California, Berkeley. "We're barely five years out, and it's already in early clinical trials for cancer. It's unbelievable."

The thing to understand about Crispr isn't its acronym—for the record, it stands for Clustered Regularly Interspaced Short Palindromic Repeats—but that it makes editing DNA easy, cheap and precise.

**Would you eradicate malaria-carrying insects? Change your baby's DNA? Scientists soon may have the power to do both.**

Scientists have fiddled with genes for decades, but in clumsy ways. They zapped plants with radiation to flip letters of DNA at random, then looked for useful mutations. They hijacked the infection mechanisms of viruses and bacteria to deliver beneficial payloads. They shot cells with "gene guns," which are pretty much what they sound like. The first one, invented in the 1980s, was an air pistol modified to fire particles coated with genetic material.

Crispr is much more precise, as Ms. Doudna explains in her new book, "A Crack in Creation." It works like this: An enzyme called Cas9 can be programmed to latch onto any 20-letter sequence of DNA. Once there, the enzyme cuts the double helix, splitting the DNA strand in two. Scientists supply a snippet of genetic material they want to insert, making sure its ends match up with the cut strands. When the cell's repair mechanism kicks in to fix the cut, it pastes in the new DNA.

It's so exact that Crispr blurs the meaning of "genetically modified organism." The activists yelling about "frankenfish" are generally upset about transgenic plants and animals—those with DNA inserted from other species. But what about using Crispr to alter only a few letters of an organism's own genome, the kind of mutation that could happen naturally?

Last year a professor at Penn State created blemish-resistant mushrooms by knocking out a gene that causes them to turn brown when handled. "It attracted attention

tion," Ms. Doudna says, "because the U.S. Department of Agriculture ruled that that type of plant product would not be regulated as a genetically modified organism."

Ms. Doudna welcomes this kind of streamlining as the Food and Drug Administration considers its own approach to Crispr crops. "It's crazy. It takes years and years and years to bring a plant to market," she says. "I'm all for safety of course and that has to come first. But I think it has to be done with knowledge of the science that makes sense."

Medical labs are also putting Crispr to work, since it is potentially meticulous enough for routine use on people. The human genome is 3.2 billion letters, and in the wrong place a single typo—a dozen or so misplaced atoms—can create misery. For patients with disorders like cystic fibrosis, the obstacles to fixing the genetic glitch with Crispr seem mostly practical.

First, there's delivery: A human body contains some 50 trillion cells. How do you get Crispr to the affected ones, and what percentage need to be edited successfully to matter?

Ms. Doudna says injecting Crispr-laden viruses into animal tissues has resulted in rates of editing on the order of 70%—enough to have a therapeutic benefit: "In muscular dystrophy, for example, it looks like you only need to have somewhere between 10% to 20%."

Second, there's the risk: Although Crispr aims at a 20-letter DNA sequence, occasionally it can hit a partial match and make an unintended edit. "For any drug that we're developing for treatment, you're going to have some kind of risk factors," Ms. Doudna says. "In this case it might be changes to DNA, and you have to decide what's the right level that you would tolerate."

There are ways to minimize the mistakes, and some studies show so few off-target edits "that it's difficult to distinguish them from just errors in DNA sequencing."

What seems to merit the risk today? "Sickle-cell disease," Ms. Doudna says: "Well-known mutation. Single gene is involved. No treatments right now for people. They have these horrible crises where they're in terrible pain." Moreover, the faulty red blood cells can be drawn from a vein and isolated. "The actual DNA editing can be done outside the body," she says, "validated first, and then the cells implanted and allowed to repopulate the blood supply."

The approach may work for cancer, too: A Crispr clinical trial awaiting FDA approval would pull white blood cells, give them tumor-killing superpowers, and then put them back into action.

It would be technically simpler, rather than working in fully grown patients, to fix genetic disorders early, in human eggs, sperm or embryos. But this raises thorny moral questions, since edits made to these cells would pass down to future generations, who can't consent to having their genes tweaked. In debates about this, the word "eugenics" comes up.

At first, Ms. Doudna was reflexively opposed. "I'm not a religious



KEN FALIN

person," she says, "but it's more, just—I don't know—sort of an intrinsic reaction, that it feels like a realm where maybe we shouldn't be messing around."

Her position softened, somewhat to her own surprise, as she heard from hundreds of people facing horrific genetic diseases. "They're reaching out because they're desperate," she says. "A lot of them are asking me the questions you're asking about: How soon? How long will it be? Is there hope for my child?"

Ms. Doudna recalls an email from a 26-year-old woman who'd found out she carried a mutation in the gene *BRCA1* that is associated with a 60% risk of breast cancer by age 70: "She said, 'Should I have a mastectomy?'"—this was right after Angelina Jolie, worried about a similar mutation, did the same—"Or do you think that gene-editing is going to come along in time for me? Or if not for me, at least so that I can get rid of this mutation in my eggs?"

There was a man who watched his father die of Huntington's disease and had three sisters diagnosed. There was a woman whose daughter had given birth to a child with Fragile X syndrome, which causes intellectual disability, but deeply wanted to conceive again. "She was very emotional," Ms. Doudna recounts. "She said, 'If there were a way to use this, and if I could use it in embryos or germ cells, I would have absolutely no hesitation about doing it.'"

A few bioethicists have even argued that research on editing human embryos is a "moral imperative," since roughly 6% of all babies have "serious birth defects." As for the risk of "off target" edits, merely smoking cigarettes can create mutations in a man's sperm. One academic joked that if old-fashioned sex were up for regulatory review, the FDA would never sign off.

Not everyone has the same reaction. A reporter interviewing Ms. Doudna once revealed she had a son with Down syndrome. "She said, 'I just want you to know that he's perfect just the way he is.' It was very touching," Ms. Doudna recalls, her voice flickering with emotion.

Even if Crispr could have fixed that genetic defect, the woman said she wouldn't change it. Some people in the deaf community feel the same way, and Ms. Doudna respects that. "Everyone's feeling about DNA and about their inheritance and their children is going to be different," she says. "It has to be a choice. People can decide what they want to do."

Ms. Doudna remains opposed to nontherapeutic editing, often characterized as "designer babies," and she says regulators won't allow it, at least in the U.S. But other countries are less stringent.

Is news of the first Crispr baby simply going to break one day? "It would be naive to think that that won't happen at some point," she says. Pressure to push forward will come not only from desperate people but also clinics abroad that may drum up business by saying: "We'll do things here that will be advantageous for your children that are not allowed elsewhere."

That's why Ms. Doudna sees the ethical debate as vital. "It's very hard to enforce any kind of global regulations on anything, but certainly on science," she says. "So I think the next best thing is to try to encourage a global consensus that is strong enough that people feel some pressure to conform to it."

The plan to eradicate the *Anopheles* mosquito presents a similar problem of collective decision-making. One iteration would involve a version of the insect edited to carry DNA that creates sterile females. That trait could then be forced into the wild population using a "gene drive."

Recall the basic rules of heredity—think back to that Punnett

square from high school. Normally, an edited male in the wild would pass on the sterility gene to only half its offspring. Over many generations, the edited DNA would be diluted into oblivion.

That's where the gene drive comes in. Scientists using Crispr in the lab have given the mosquito DNA that causes its cells to create Crispr. The result is a recursive, self-propagating gene that slices its reproductive competition. The edited mosquito passes on the sterility gene to nearly 100% of its offspring—which in turn do the same. Theoretically, releasing a single gene-drive insect, or letting one escape out an air-conditioning vent, could spread the edited DNA to the entire species.

Theoretically. "Although we understand that these gene drives can work in a laboratory setting efficiently in fruit flies and things like that, how well would they really work environmentally?" Ms. Doudna asks. "Evolution is a very strong force. If you put a species in a wild setting where they have to compete with other species, if they have a disadvantage reproductively, even if it's a small disadvantage, they're going to lose out."

Ms. Doudna still needs to be convinced, too, of the wisdom of letting loose a gene drive. She cites her native Hawaii. "Species were introduced to that environment that ended up having large unintended consequences," she says. Seeing that made her "very respectful of nature and very cautious about human beings' thinking they have the knowledge to predict what will happen."

A final Crispr worry is that it makes DNA editing so easy anybody can do it. Simple hobby kits sell online for \$150, and a community biotech lab in Brooklyn offers a class for \$400. Jennifer Lopez is reportedly working on a television drama called "C.R.I.S.P.R." that, according to the Hollywood Reporter, "explores the next generation of terror: DNA hacking."

Ms. Doudna provides a bit of assurance. "Genetics is complicated. You have to have quite a bit of knowledge, I think, to be able to do anything that's truly dangerous," she says. "There's been a little bit of hype, in my opinion, about DIY kits and are we going to have rogue scientists—or even nonscientists—randomly doing crazy stuff. I think that's not too likely."

Still, a couple of years ago Ms. Doudna had a dream in which a colleague asked her to explain gene-editing to someone very important. Turns out it was Hitler, except with the face of a pig. This, she says now, was her awakening to Crispr's potential.

"Try to imagine: We're biochemists here, we're futzing around with bacteria, just fartin' around the lab, and students are doing experiments," she says. "Then suddenly you have this discovery that you realize can be harnessed in a very different way."

A few moments later she adds: "It was just this growing realization that this is no joke. This is a really seriously powerful technology."

*Mr. Peterson is the Journal's deputy editorial features editor.*

## Big Foundations Double Down on Government Mistakes

By James Piereson  
And Naomi Schaefer Riley

**T**he Ford Foundation is putting its money where its mouth is.

That seems to be the message from its president, Darren Walker, and his colleagues. Ford, the third-largest foundation in the U.S., recently announced that over the next 10 years it will put \$1 billion of its \$12 billion endowment into "mission-related investments."

Until recently, foundations generally invested the way everyone else did—to get the most bang for the buck. The difference was that foun-

dations sought returns so as to have more money to give away.

But now nonprofit leaders such as Clara Miller of the F.B. Heron Foundation have decided to go instead for social-impact investing, with the goal of generating a social or environmental effect alongside a financial return. "If we were just doing good work for a limited number of people, we would never eliminate poverty," Ms. Miller told Crain's last month. "We wanted to be influential beyond our own giving. We wanted to get others into this mindset."

Yet mission-based investing also

can create serious distortions in the market. For foundations such as Ford, whose mission has long been entangled with encouraging more federal spending on a variety of programs, the potential for harm is significant.

Fifteen years ago, for example, the foundation invested \$2 million in the Bay Area Equity Fund, a backer of the electric-car company Tesla, according to a recent article in the Chronicle of Philanthropy. "The foundation declined to provide details," the article continues, "but estimates suggest the fund's value grew 24 percent, while its investment in Tesla alone increased more than tenfold."

What's odd about this is that Tesla is still not selling cars at a profit, but it has received billions of dollars in state and federal subsidies, as well as payments from other car companies buying "zero-emissions vehicle" credits. The Ford Foundation has reaped its returns in part thanks to subsidies and regulations.

Both politicians and the Ford Foundation are picking winners and losers—favoring what they see as more environmentally sound cars over traditional ones. Generous government subsidies also create distortions within the electric-vehicle market itself.

As Adam Andrzejewski of OpenTheBooks.com notes, Zero Motorcycles has received millions in credit from the Export-Import Bank, subsidies from the state of California and even grants from the

city of Santa Cruz. It could hardly have been a surprise when Zero's biggest competitors, Brammo and Mission Motorcycles, exited the business in 2015.

If the subsidies go away at some point, Ford may lose a significant chunk of money—a risk it has presumably decided is worth taking.

### The trouble with 'mission-related investments' is who gets to define the mission.

But the foundation is also putting its pretty big thumb on the scale.

Traditionally, foundations were supposed to be independent—needing to worry about neither financial returns nor voters' demands. But these days it seems philanthropic money simply follows government money.

The Rockefeller Foundation is investing part of its endowment to launch a clean Energy Investment Trust that will "support institutional investments into renewable energy." In other words, it will pour money into solar and wind power, where government is already deeply involved.

Similarly, Ford has announced it will invest in affordable housing in the U.S. This is an area where government regulations and subsidies have already distorted the market significantly, creating shortages in cities and constructing public housing with terrible living conditions.

Nonprofits often see government as leading private investment. A post earlier this year on the blog Broadway Journal explained that when a theater receives a grant from the National Endowment for the Arts, it "confers a stamp of approval for a project, which is appealing to other donors."

But it's not as if government gets out of the way once private money starts flowing. Many nonprofits take taxpayer money even when they don't need it. As of June 2016, New York's Metropolitan Museum of Art had \$3.82 billion in total assets and annual revenue and support of \$379 million. But last year it got a \$50,000 NEA grant for its "Age of Empires" exhibit.

One problem with public-private partnerships is that the private partner often ends up covering the public partner's mistakes. So much of foundation giving these days seems aimed at trying to fix public institutions. Yet this money—hundreds of millions of dollars for large public-school systems, affordable housing or AmeriCorps and the World Bank—seems simply to fall into the abyss.

With mission-driven investing the opportunities for private philanthropy to follow government will only grow, leaving foundations like Ford, more than ever, throwing good money after bad.

*Mr. Piereson is president of the William E. Simon Foundation. Ms. Riley is a senior fellow at the Independent Women's Forum.*

## THE WALL STREET JOURNAL.

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Monday, July 10, 2017 | B1

Yen vs. Dollar 114.0920 ▲ 0.77% Hang Seng 25340.85 ▼ 0.49% Gold 1208.60 ▼ 1.11% WTI crude 44.23 ▼ 2.83% 10-Year JGB yield 0.088% 10-Year Treasury yield 2.393%

## Tesla Sales Plunge in Hong Kong

By TIM HIGGINS  
AND CHARLES ROLLET

Tesla Inc.'s sales in Hong Kong plummeted after authorities slashed a tax break for electric vehicles on April 1, demonstrating how sensitive the company's performance can be to government incentive programs.

Official data from Hong Kong's Transportation Department, analyzed by The Wall Street Journal, show that no newly purchased Tesla Model S sedans or Model X sport-utility vehicles were registered in April in the Chinese territory, and only five privately owned electric vehicles were registered in May.

The collapse followed a surge just before the tax change, which had been announced in February, with new registrations of almost 3,700 Tesla vehicles in the first quarter—including 2,939 in

March alone—compared with 1,506 vehicles in the entire second half of 2016.

The swing was significant for Tesla, which reported that its vehicle deliveries globally topped 25,000 in the first three months of the year, the auto maker's best sales quarter ever, but fell to just over 22,000 in the second quarter.

The more recent total put Tesla within its first-half target range but below analysts' expectations for the quarter, and fueled concerns among analysts and investors that demand for Tesla's current two models is weakening ahead of the launch of the Model 3, a \$35,000 sedan that begins production this month.

The concerns helped push Tesla's share price down over the past week, after a surge earlier this year that pushed its value above that of Ford Motor Co. and **General Motors** Co.

"Tesla welcomes govern-



BOBBY YIP/REUTERS

Authorities reduced a tax break for electric vehicles on April 1.

ment policies that support our mission and make it easier for more people to buy electric vehicles; however, our business does not rely on it," Tesla said in a statement. The company said its sales revenue in China, where it faces large tariffs, has

risen without government incentives. "At the end of the day, when people love something, they buy it," it said.

Buyers of Teslas and other electric vehicles in many markets benefit from government incentives. Tesla notes on its

website that U.S. purchasers are eligible for a \$7,500 federal income-tax credit, plus additional incentives in some states.

The company also sells state zero-emissions vehicle credits to auto makers that don't reach government fuel-efficiency standards.

Tesla warns investors in securities filings that such incentives can change and says that "could have some impact on demand for our products and services." Last year in Denmark, an incentive program expired and was replaced with a less generous one.

The incentive policies can be controversial. During the Obama administration, Tesla received loans to encourage electric-vehicle development.

Though it ultimately paid them back, critics have cited

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## Cosco Agrees To Buy Shipper

By COSTAS PARIS  
AND JOANNE CHIU

**Cosco Shipping Holdings** Co., China's biggest shipping company, agreed to buy smaller rival **Orient Overseas (International)** Ltd. Co. for \$6.3 billion, establishing an Asian container giant at a time when the industry struggles to emerge from a multi-year down cycle.

The move will see a half dozen supercarriers grouped into three alliances moving about three-quarters of all seaborne trade after a wave of consolidation among the world's top 20 carriers over the past year.

The Chinese conglomerate joined **Shanghai International Port (Group)** Co., one of the world's biggest port operators, to buy a combined 68.7% stake from Orient Overseas's controlling shareholder, the companies said Sunday in a joint statement.

The offer price of 78.67 Hong Kong dollars per share (about \$10.07) represents a 31% premium over Orient Overseas's Friday closing price.

The deal is subject to approval by global regulators, which is expected in the next six to eight months.

The Journal reported the deal on Saturday.

Orient Overseas is controlled by the family of former Hong Kong Chief Executive Tung Chee-hwa.

The two sides had been in talks for months but were stuck over the price.

"The Tungs did not want to sell," said a person involved in the deal. "But there was a lot of political pressure from Beijing to make it happen and at the end they gave in with a fair price at hand."

Cosco hasn't hidden its ambition to become one of the world's dominant carriers. The deal would make it the third-biggest container operator in terms of capacity, behind Denmark's Maersk Line and Switzerland-based Mediterranean Shipping Co.

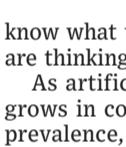
It will also create the second-biggest mover of U.S. imports with a 10.8% market share, and the third largest in terms of exports with an 8.5% share, according to the Journal of Commerce.

"With the acquisition, Cosco effectively doubles its share in the U.S. market, which puts it at par with the other big players," said Basil Karatzas, chief executive of New York-based Karatzas Marine Advisors & Co. "It took Maersk decades to develop this market, but with the Orient Overseas deal, Cosco did it overnight."

### KEYWORDS

By Christopher Mims

## Scientists Go Inside The Minds Of Robots



Artificial-intelligence engineers have a problem: They often don't know what their creations are thinking.

As artificial intelligence grows in complexity and prevalence, it also grows more powerful. AI already has factored into decisions about who goes to jail and who receives a loan. There are suggestions AI should determine who gets the best chance to live when a self-driving car faces an unavoidable crash.

Defining AI is slippery and growing more so, as startups slather the buzzword over whatever they are doing. It is generally accepted as any attempt to ape human intelligence and abilities.

One subset that has taken off is neural networks, systems that "learn" as humans do through training, turning experience into networks of simulated neurons. The result isn't code, but an unreadable, tangled mass of millions—in some cases billions—of artificial neurons, which explains why those who create modern AIs can be befuddled as to how they solve tasks.

Most researchers agree the challenge of understanding AI is pressing. If we don't know how an artificial mind works, how can we ascertain its biases or predict its mistakes?

We won't know in advance if an AI is racist, or what unexpected thought patterns it might have that would make it crash an autonomous vehicle. We might not know about an AI's biases until long after it has made a decision.

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MATTHEW BUSCH/BLOOMBERG NEWS

A gas flare at a shale drilling site near Mentone, Texas. Wall Street money is fueling a run toward an all-time U.S. oil-production record.

Thanks to Wall Street, U.S. shale companies have more capital to continue drilling

By BRADLEY OLSON  
AND ALISON SIDER

Easy Wall Street cash is leading U.S. shale companies to expand drilling, even as most lose money on every barrel of oil they bring to the surface.

Despite a 17% plunge in prices since April, drillers are on pace to set an all-time U.S. oil-production record, topping 10 million barrels a day by early next year if not sooner, according to government officials and analysts.

U.S. crude fell again on Friday, dropping 2.8% to \$44.23 a barrel on the New York Mercantile Exchange.

Flush with cash, virtually all

of them launched campaigns to boost drilling at the start of 2017 in the hope that oil prices would rebound.

The new wave of crude has again glutted the market. The shale companies are edged even further from profitability, and a few voices have begun to question the wisdom of Wall Street financing the industry's addiction to growth.

"The biggest problem our industry faces today is you guys," Al Walker, chief executive of **Anadarko Petroleum** Corp., told investors at a conference last month.

Wall Street has become an

enabler pushing companies to expand production at any cost, while punishing those that try to live within their means, Mr. Walker said, adding, "It's kind of like going to AA. You know, we need a partner. We really need the investment community to show discipline."

Even if companies cut back drilling now, it wouldn't stop a new wave of oil from hitting the market in the second half of the year: U.S. shale output typically lags behind new drilling by four to six months, analysts say. "There's been insufficient discrimination on the

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## Phones, Fingerprints Are New ATM Links

By TELIS DEMOS

In 2015, **Citigroup** Inc. began testing an ATM that would scan a customer's iris and make four-digit access codes obsolete. Two years on, Citi has shelved the project.

Among the reasons: the cost and complexity of collecting and managing millions of customers' biometric data. A large database of biometric data is also a particularly juicy target for hackers.

"If I steal your password, you make a new password," said George Avetisov, chief executive of HYPR Corp., a banking-technology startup. "But how do you make a new fingerprint?"

Perhaps as a response to that issue, banks are taking a different tack on collecting biometric data. They aim to use

the information to replace personal-identification numbers and passwords, but are relying on customers to store and safeguard it themselves—via their own smartphones.

Over the past year, lenders such as **Wells Fargo** & Co., **J.P. Morgan Chase** & Co. and **Bank of America** Corp. have started to roll out new ATMs that can link to customers' mobile devices. Customers will sign in through their phones, potentially using a fingerprint, and then transmit a code to the ATM.

Though this adds a step to the identification process, customers are nonetheless eager to ditch the numerous PINs and passwords needed for transactions. Mobile phones are also one device on which biometrics has worked, as about two billion units glob-



Wells Fargo and other lenders have introduced ATMs that can link to customers' mobile devices.

ally can use fingerprints, pictures of eyes and faces, and voice recognition, according to HYPR. Those tools are already widely used for signing in to

mobile-banking applications.

Citigroup's apps, for example, use voice, face and finger-

print recognition, although the bank has yet to roll out card-

less ATMs. As for the iris-reading ATMs, Citigroup has "reasons ranging from logistical to operational" for not

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## BUSINESS NEWS

# Plans for U.S. Wind Farms Hit Headwinds

Over a dozen offshore projects are in the works, but high costs, logistical issues remain

BY ERIN AILWORTH

After two decades spinning power from the gusts that sweep Europe's North Sea, the offshore wind industry is finally turning to the U.S. A big hurdle: getting its giant turbines to American waters.

No one in the U.S. currently makes turbine towers sizable enough for use in deep waters—one of the many challenges impeding the buildup of offshore wind on the other side of the Atlantic Ocean.

The first offshore wind installation in the U.S., a \$300 million, 30-megawatt project off Rhode Island, began turning six months ago. Companies including Denmark's **Dong Energy AS**, Norway's **Statoil ASA** and Spain's **Iberdrola SA** are now pursuing more than a dozen projects that would dwarf it.

But the Block Island wind farm in the U.S. currently generates power for 24.4 cents per kilowatt-hour, while offshore wind projects in Europe can come in well under 10 cents per kilowatt-hour. Developers are optimistic that, as occurred in Europe, prices will go down as more projects begin and a supplier network takes shape in the U.S.

"They are really viewing this as a real market if you are attracting players like Dong and Iberdrola and Statoil," said Maxwell Cohen, a senior research analyst at IHS Markit. "I've heard some pretty major companies that are not in offshore at least be-



SCOTT EISEN/GETTY IMAGES

**The Block Island wind farm, a \$300 million, 30-megawatt project off Rhode Island, is the first offshore wind installation in the U.S.**

ing asked, 'Why not?'"

If all 17 of the proposed farms are built, the wave of U.S. offshore wind projects, primarily concentrated in the Northeast, would add 9.1 gigawatts of generating capacity, according to the American Wind Energy Association. That is enough to power 3 million homes.

Offshore wind farms require hundreds of millions to billions of dollars to construct, depending on their scale, and analysts say not all of the proposed U.S. farms will be built. But state-level policies that promote renewable energy are providing momentum.

Earlier this year, New York Gov. Andrew Cuomo, a Democrat, called for 2.4 gigawatts of offshore wind to be developed by 2030. Massachusetts Gov. Charlie Baker, a Republican, signed legislation last year to have the state add 1.6 gigawatts of wind power offshore by June 2027.

Statoil won an auction late last year for the right to build a wind farm 14 miles off the New York coastline. Dong, meanwhile, has two proposed U.S. projects: one about 15 miles off Martha's Vineyard that it has teamed with Eversource Energy, a Northeast

utility, to build; and another off the coast of New Jersey.

"I can really feel the appetite and the interest in the market now," said Thomas Brostrom, president of North American operations at Dong, which has built 22 offshore wind farms in Europe. "This is the moment."

Avangrid Renewables, an Iberdrola subsidiary, has joined with developer Copenhagen Infrastructure Partners to build a separate wind farm off Martha's Vineyard.

Most of the 17 proposed projects are in federally designated wind energy areas. Such zones were created to help cut

through some of the red tape and community opposition that for more than a decade has blocked Cape Wind, a more than 400-megawatt project proposed for federal waters off Martha's Vineyard.

Jim Gordon, the man behind Cape Wind, is unwilling to concede defeat, saying the wind farm's lease is still active and that he hopes to see it built one day.

Block Island didn't have the same troubles, in part because it was much smaller and developer Deepwater Wind built it in state waters, which required fewer federal permits.

## Big Bets on Landlines Unravel for Frontier

BY DREW FITZGERALD

network humming.

"Cable companies are beating the pants off Frontier," said Jonathan Chaplin, an analyst for New Street Research, noting that companies like Charter Communications Inc. have invested more heavily in marketing, network equipment and customer service in the past three years.

The stiffened competition came just as Frontier faced pressure to cut costs, partly so it could pay for the networks it bought. The result was a series of network failures and complaints about customer service.

Compounding that challenge, Frontier said Verizon stopped writing off overdue accounts before the deal closed, saddling the acquirer with thousands of subscribers unlikely to pay their outstanding bills.

"Verizon is notorious for being very good sellers of assets," said Moody's Investors Service analyst Mark Stodden. The bond-rating firm recently downgraded Frontier's credit to B2, five steps below investment grade, citing "sharp subscriber losses" since the latest acquisition.

Verizon spokesman Bob Varettoni said the company's "objective was to concentrate landline operations in contiguous northeast markets to enhance operational efficiency, and to sharpen our strategic focus on wireless."

Verizon wasn't an unfamiliar business partner to Frontier, which paid \$8.6 billion in 2010 to acquire the wireless carrier's landlines in 14 states.

Frontier's profits were barely growing in the years leading up to its latest deal, but its performance took a turn for the worse after the deal closed. It was the Fios business that undershot executives' rosy expectations the most as cancellations climbed.

Departing customers remain one of the company's most daunting challenges. Frontier must reverse its subscriber trends to demonstrate sustainability to the bond market or it will face growing refinance risk" as it approaches \$2.4 billion in debt payments due in 2020, Moody's wrote in a May 24 research report.

Frontier's executives say the business is trending in the right direction. Customer losses, excluding canceled past-due accounts, have eased. New managers include a former executive of Alphabet Inc.'s **Google Fiber** hired to improve network performance.

**Frontier has been losing customers and scrambling to cover looming debt payments.**

Frontier's troubles multiplied in spring 2016 after it closed a \$10.5 billion deal for phone and internet lines from Verizon. The Norwalk, Conn., company recently slashed its dividend, and its shares have tumbled 69% so far this year. It plans a 1-for-15 reverse stock split on Monday, a move designed to keep its Nasdaq listing.

"This last acquisition was largely about acquiring fiber," a strategy the company still supports, Frontier finance chief Perley McBride said. "It's just integration that didn't go well. When you double in size and you don't do it well, it's sort of up front and center."

Mr. McBride said he doesn't expect revenue growth anytime soon from the consumer markets acquired from Verizon last year. That is a reversal from the forecast of his predecessor, John Jureller, who in 2015 called the revenue trends "very positive."

Revenue has instead declined companywide for the past year. Frontier's 2016 loss widened to \$373 million from \$196 million a year earlier.

The company plans to devote at least \$1 billion this year on capital spending to keep its

## Elliott Weighs Rival Bid for Oncor

BY PEG BRICKLEY AND SOMA BISWAS

Hedge fund **Elliott Management Corp.**, dissatisfied with **Berkshire Hathaway Inc.**'s \$9 billion deal to buy electricity-transmission business **Oncor**, is considering making a competing bid, according to people familiar with the matter.

Elliott is the biggest bondholder of bankrupt **Energy Future Holdings Corp.**, which owns an 80% stake in Oncor and agreed to sell itself to Warren Buffett's Berkshire on Friday. Court papers indicate that Elliott, a \$33 billion hedge fund run by billionaire Paul Singer, is in position potentially to bottle up Berkshire's deal in bankruptcy court or put together a better offer.

The hedge fund ran up a big stake in Energy Future's debt in recent months, as others funds retreated in the face of failed efforts to sell Oncor, but it isn't known what Elliott paid for the debt holdings.

Trading in Energy Future bonds was mixed Friday in an early reaction to the Berkshire offer. The price of a level of junior debt dubbed pay-in-kind notes, or PIKs, fell, while a senior tranche of bonds—the so-called second liens—rose. Elliott is a big holder of both types of debt.

Berkshire's deal is for \$9 billion in cash in exchange for Energy Future, including its stake in Oncor, the largest electric utility in Texas and one of the biggest power-transmission systems in the county.

That is less than Energy Fu-

### Fund Seeks Removal Of Akzo Chairman

Activist investor **Elliott Management Corp.** said Friday it was seeking to remove **Akzo Nobel** Chairman Antony Burgmans because of the board's handling of the failed \$27.6 billion bid from **PPG Industries Inc.**

Citing shareholder dissatisfaction, a unit of Elliott has filed a joint petition to the Interim Relief Court in the Netherlands to convene a meeting of shareholders to vote on the dismissal of Mr. Burgmans.

Elliott owns 9.5% of the Dutch paint-and-chemical giant's issued share capital. It said a recent survey that it requested showed that shareholders holding 21% of shares didn't have confidence in the management board, compared with 4% that do.

It also said shareholders holding 32% of shares weren't satisfied with the way Akzo's boards conducted themselves over the PPG approach, com-

pared with 0.2% who were happy. The survey was conducted by proxy advisory firm Georgeson.

For its part, Elliott said it had lost confidence in the ability of the chairman to guide Akzo in a manner that benefits all of its stakeholders.

Elliott was a key player in trying to end a standoff between Akzo and PPG. As one of Akzo's largest investors, Elliott mounted a bold public-relations and legal campaign to try to force the Amsterdam-based company into sale talks with U.S. peer PPG.

The New York hedge fund has a history of agitating for European mergers and its London office has taken stakes in several companies and either pushed them to agree to a sale or forced a bidder to pay more.

In May, Elliott lost an earlier legal battle to remove Mr. Burgmans. The hedge fund claimed the chairman had failed in his duties by rejecting a sweetened offer from PPG without attempting to negotiate a better deal.

—Ian Walker

ture needs to pay off creditors and end the massive bankruptcy that is now in its fourth year. The company has already seen the collapse of two previous efforts to sell the Oncor transmissions business, its crown jewel.

Reuters first reported Elliott was considering a bid for Oncor.

Unless the Berkshire offer is improved or bested, Elliott could be looking at significant losses, according to other peo-

ple familiar with the matter. An analysis issued Friday from Cowen Credit Research and Trading suggests that may not be the case, however.

A successful offer by Elliott would be a tall task: It has never done a deal of the size and scope of the Oncor buyout and it would need allies. It also faces regulatory risks that Berkshire is unlikely to encounter. And it would have to outbid Mr. Buffett, a prolific investor with \$96.5 billion in



**Crews subcontracted by Oncor replaced a broken utility pole in Odessa, Texas, last month.**

But hurdles remain for large offshore wind projects in the U.S., including how to build out a supply chain that can regularly ship giant turbine towers from Europe.

Components like the enormous stands that anchor offshore turbines will have to be brought up from places like the Gulf Coast. That is because many U.S. Atlantic ports are small, and large vessels need to navigate busy shipping lanes, hurricane barriers and bridges.

This proved a challenge for the Block Island farm, said Meaghan Wims, a spokeswoman for Deepwater Wind. Its stands were brought up on barges from the Gulf Coast. The turbine towers and blades were shipped from France.

A Norwegian ship carrying the nacelles—the housing that holds the main generating machinery—couldn't fit under the Newport Pell Bridge that spans Narragansett Bay in Rhode Island, so it skipped coming into port and went straight to the construction site offshore.

It can also still take considerable time to get the necessary permits and approvals for offshore wind farms from state and federal regulators. Mr. Cohen of IHS Markit said he doesn't expect to see the industry really ramp up in the U.S. until the mid-2020s.

Still, developers are confident that manufacturers and other suppliers will set up shop in the U.S., and costs will come down, once sizable projects are built.

"We've done this in Europe and we have absolutely the same opportunity in the U.S.," said Stephen Bull, Statoil's senior vice president for offshore wind.

cash on Berkshire's balance sheet to spend.

Still, as the largest creditor in Energy Future's case, Elliott has considerable leverage. The hedge fund owns a "blocking" position in the two major debt classes, the second-lien notes and the PIKs, making it the swing vote on a chapter 11 reorganization plan for Energy Future that would be part of the Berkshire takeover.

Energy Future could try to force Elliott to go along with the Berkshire deal, through what is known as a "cram-down" fight in bankruptcy court. A cram-down battle against Elliott would be tough to win, however, if Elliott musters the backers to top Berkshire's offer for Oncor.

Elliott's bankruptcy court prowess, however, won't matter if a deal it puts together is scuttled by the Public Utility Commission of Texas. The state PUC has proven a formidable testing ground for Oncor suitors.

Berkshire, in contrast, has already won over key Texas regulatory stakeholders.

On Friday, Brian Lloyd, executive director of the Texas PUC, said Berkshire had already sketched out a preliminary case for a takeover, and the commission staff and powerful groups of cities and big industrial energy consumers liked what they saw. The commissioners themselves have yet to weigh in, but Mr. Lloyd's statement was a strong signal that influential stakeholders that opposed earlier deals are happy with Berkshire.

Oncor, a solid company with reliable cash flow, has been difficult to sell because Texas regulators have insisted on protections that kept Oncor out of Energy Future's chapter 11 case and blocked deals that would expose a crucial piece of the Texas electricity infrastructure to risk.

A number of distressed-debt investors say the rough math indicates Berkshire's money would fall short of what it takes to cover Energy Future's remaining debts.

A \$6.1 billion bankruptcy loan would be paid in full, Berkshire said Friday in a regulatory filing.

But there is still \$4 billion or more in debt to pay off, including high-priority liabilities such as fees for the army of lawyers, bankers and financial advisers shepherding Energy Future through bankruptcy.

The company's chapter 11 proceeding, which began in April 2014, could run into 2018.

MARK STERELLOPES/AMERICAN ASSOCIATED PRESS

## TECHNOLOGY

WSJ.com/Tech

# 'Honor of Kings' To Come to the U.S.

BY ALYSSA ABKOWITZ

BEIJING—Look out, America, here comes "Honor of Kings," the Chinese videogame so addictive that its maker imposed a curfew on the youngest enthusiasts and daily playing-time limits on all players through age 18.

An English-language version is being developed by producer **Tencent Holdings** Ltd. for U.S. release as early as this fall, according to people familiar with the matter. Tencent is also looking to expand the game to Europe, they said.

Released in 2015, the role-playing fantasy game for smartphones has more than 50 million daily active users, according to Tencent. Players log in through the company's popular WeChat or QQ social-network platforms.

The game, which includes characters from Chinese history, was designed with maps and graphics sized for phone screens and easy-to-maneuver controls.

The design is part of the appeal; another is that it is easy for players to set up competitions at their schools, workplaces or other group settings. There is even an "auto battle" setting that allows play to continue if an internet connection is briefly lost—a potential "lifesaver in poor-signal areas," gaming consultancy Niko Partners wrote in an analysis.

The game's addictive qualities have created some fallout for Tencent, however. Parents and teachers grumble that students are falling asleep in

class because they played "Honor of Kings" late into the night, according to Chinese state media.

In response, Tencent recently announced that players 12 and under would be limited to one hour of play daily and would be cut off at 9 p.m. Players aged 13 to 18 get two hours a day, with no cutoff time. Players register using their national identification information, which includes birth date.

There were already reports in the Chinese news media this week of a black market in fake or manipulated data for underage players.

Tencent doesn't break out revenue for specific games, but analysts at Deutsche Bank estimate "Honor of Kings" accounts for more than 40% of the company's mobile-gaming revenue, which makes up about 30% of revenue overall.

Tencent's first-quarter revenue hit \$7.18 billion, up 55% from a year earlier, with mobile gaming one of the growth drivers.

The stock fell 4% the first day of the playing-time limits, though the company said in a statement that it doesn't expect them to have material impact on overall financial results. "Honor of Kings" is free to download; users pay for special powers and advanced weapons.

After announcing the limits on play, Tencent saw a dramatic increase in the number of parents linking their accounts to their children's to monitor playtime, according to a person familiar with the situation.

**GETTY IMAGES**  
The videogame has become so popular in China that its maker recently imposed curfews and time limits on young players.

# Apple's New Bet on Privacy

Company's challenge is to make products that learn about users without snooping

BY ROBERT MCMILLAN

Last year, Apple Inc. kicked off a massive experiment with new privacy technology aimed at solving an increasingly thorny problem: how to build products that understand users without snooping on their activities.

Its answer is differential privacy, a term virtually unknown outside of academic circles until a year ago. Today, other companies such as **Microsoft Corp.** and **Uber Technologies Inc.** are experimenting with the technology.

The problem differential privacy tries to tackle stems from the fact that modern data-analysis tools are capable of finding links between large databases. Privacy experts worry these tools could be used to identify people in otherwise anonymous data sets.

Two years ago, researchers at the Massachusetts Institute of Technology discovered shoppers could be identified by linking social-media accounts to anonymous credit-card records and bits of secondary information, such as the location or timing of purchases.

"I don't think people are aware of how easy it is getting to de-anonymize data," said Ishaan Nerurkar, whose startup **LeapYear Technologies Inc.** sells software for leveraging machine learning while using differential privacy to keep user data anonymous.

Differentially private algorithms blur the data being analyzed by adding a measurable amount of statistical noise. This could be done, for example, by swapping out one question (have you ever committed a violent crime?) with a question that has a statistically known response rate (were you born in February?). Someone trying to find links in the data would never be sure which question a particular person was asked. That lets researchers analyze sensitive data such as medical records without being able to tie the data back to specific people.

Analysts predict that sales from Samsung's semiconductor business will help Samsung surpass Intel Corp. this year as the world's largest chip maker.

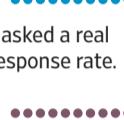
On Tuesday, Samsung said



Apple's privacy policies have been cited as a reason it has been a laggard in AI-driven products.

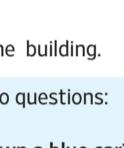
## How Differential Privacy Works

A survey company queries 100 residents of a building, using differential privacy to keep respondents anonymous.



Questionnaires are jumbled so respondents could be asked a real survey question, or another question with a known response rate. Only the respondent knows which question is asked.

90 versions of the survey ask:  
**Do you smoke marijuana?**



10 versions of the survey ask:  
**Flip a coin. Answer yes if the result is heads.**

Using statistical techniques, the survey's authors can still get an accurate picture of marijuana use in the building.

Survey results show **one person** answered yes to two questions:

**Do you smoke marijuana? —**  **— Do you own a blue car?** 

A car owner's database shows that there is only one blue car owner in the building: John Doe in Apartment 137. 

So do we now know that John Doe smokes marijuana?

**No.** He may have simply flipped a coin, answering yes to the question.

Source: Staff reports

THE WALL STREET JOURNAL.

ple.

Differential privacy is key to Apple's artificial intelligence efforts, said Abhradeep Guha Thakurta, an assistant professor at University of California, Santa Cruz.

Mr. Thakurta worked on Apple's differential-privacy systems until January of this year.

Apple has faced criticism for not keeping pace with rivals such as **Alphabet Inc.'s Google** in developing AI tech-

nologies, as they have made giant leaps in image and language-recognition software that powers virtual assistants and self-driving cars.

While companies such as Google have access to massive volumes of data required to improve artificial intelligence, Apple's privacy policies have been a hindrance, blamed by some for turning the company into a laggard when it comes to AI-driven products such as Siri.

"Apple has tried to stay away from collecting data from users until now, but to succeed in the AI era they have to collect information about the user," Mr. Thakurta said.

Apple began rolling out the differential-privacy software in September, he said.

Users must elect to share analytics data with Apple before it is used.

Originally used to understand how customers are using emojis or new slang expressions on the phone, Apple is now expanding its use of differential privacy to cover its collection and analysis of web browsing and health-related data, Katie Skinner, an Apple software engineer, said at the company's annual developer's conference in June.

The company is now receiving millions of pieces of information daily—all protected via this technique—from Macs, iPhones and iPads running the latest operating systems, she said.

"Apple believes that great features and privacy go hand in hand," an Apple spokesman said via email.

Researchers are coming up with "surprisingly powerful" uses of differential privacy, but the technology is only about a decade old, said Benjamin Pierce, a computer science professor at the University of Pennsylvania. "We're really far from understanding what the limits are," he said.

# Samsung Expects Record Earnings in Latest Quarter

BY TIMOTHY W. MARTIN  
AND EUN-YOUNG JEONG

SEOUL—Samsung Electronics Co., riding hot demand for its components, is forecasting its second-quarter operating profit will easily be the company's highest ever, a sign the South Korean technology giant's business is thriving even after a year of political and product stumbles.

Samsung on Friday said it expects second-quarter operating profit of about 14 trillion South Korean won (\$12.1 billion), a 72% increase from 8.14 trillion won a year earlier.

Samsung estimates revenue will be 60 trillion won from April to June, a sharp rise from the prior year's second quarter of 50.94 trillion won.

Samsung's previous operating-profit record came in the third quarter of 2013 when it posted 10.2 trillion won. Friday's estimate for the second quarter was 37% higher. Final earnings results will be released later this month.

Samsung, the world's largest smartphone maker, derives the lion's share of its profit from semiconductors and display panels, a shift from early last year when handheld de-

vices raked in most of the company's earnings.

Samsung has succeeded through consistent aggressive investments around the globe. For years, it has pumped tens of billions of dollars into manufacturing the core components that its technology rivals need to make their own devices, helping Samsung emerge as a front-runner in semiconductors and display panels.

Analysts predict that sales from Samsung's semiconductor business will help Samsung surpass Intel Corp. this year as the world's largest chip maker.

On Tuesday, Samsung said

it would invest an additional 20 trillion won, or more than \$17 billion, in its South Korea semiconductor facilities.

Samsung's financial performance comes after a rocky year for the South Korean conglomerate. Last year's embarrassing recall of Galaxy Note 7 devices cost the company at least \$5 billion and eroded trust with consumers.

Meanwhile, Samsung's de facto leader, Lee Jae-yong, is standing trial over his alleged role in a bribery scandal that has roiled South Korea. Mr. Lee, who has denied wrongdoing, has been absent from his

role as the vice chairman of Samsung Electronics since February.

Samsung on Friday didn't provide a breakdown of mobile-phone sales. But the firm's latest flagship device, the Galaxy S8, received positive reviews after its April 21 debut, and some analysts believe robust sales of the handset also helped to fuel earnings.

Galaxy S8 shipments could top 15 million units this quarter, Tim Long, an analyst at BMO Capital Markets, told clients in a note Friday.

—Timothy W. Martin  
and Eun-Young Jeong

# Qualcomm Steps Up Apple Fight

BY TED GREENWALD  
AND TRIPP MICKLE

Qualcomm Inc. is asking federal trade authorities to block imports of some iPhones and iPads, opening a new front in its dispute with **Apple Inc.** and exposing both companies to further risks to their most profitable businesses.

Qualcomm filed a complaint Friday with the U.S. International Trade Commission to halt imports of Apple handsets and tablets that don't include Qualcomm chips and to bar sales of those products already in the U.S.

Qualcomm said the iPhone maker has been infringing several of its patents on wireless technology in iPhones and iPads generally.

Qualcomm said it separately filed similar patent-infringement claims Thursday against Apple in federal district court in Southern California.

The moves escalate a legal feud Apple initiated with a federal lawsuit in January accusing Qualcomm of abusing its dominance in cellular chips to thwart competitors and extract high patent royalties.

Apple in its suit says Qualcomm's royalty rewards the chip maker unfairly when Apple charges higher prices for capabilities that aren't based on Qualcomm patents.

An Apple spokesman said Thursday the company stands by its previous statement that Qualcomm is seeking payments on innovations it didn't make.

Apple has launched international legal actions and supported regulatory proceedings against Qualcomm in multiple countries, threatening the San Diego-based company's patent-licensing business, which in 2016 accounted for roughly 80% of its pretax profit.

# MIMS

Continued from page B1  
less decisions. It's important to know when an AI will fail or behave unexpectedly.

"A big problem is people treat AI or machine learning as being very neutral," said Tracy Chou, a software engineer who worked with machine learning at Pinterest Inc. "And a lot of that is people not understanding that it's humans who design these models and humans who choose the data they are trained on."

An example can be found on Google Translate. Ask it to translate "doctor" to Portuguese, and it always returns the male form of the noun, *médico*, over the female, *médica*. Type in "nurse" and you get *enfermeira* (female)—never *enfermeiro* (male).

Conspiracy? No, it is a natural consequence of biases inherent in literature used to train translation systems. Something similar happens in data when researchers eliminate the category of race: Other data, such as where a person lives, correlate so strongly with race that they

become proxies for it.

Unlike with humans, we can't just ask a robot why it does what it does. Artificial intelligences can excel at narrow tasks, but even those that talk have introspective powers about on par with a cockroach.

It is a difficult enough problem to crack that the Defense Advanced Research Projects Agency, better known as Darpa, is funding researchers working on "explainable artificial intelligence."

Here's why we're in this pickle: A good way to solve problems in computer science is for engineers to code a neural network—essentially a primitive brain—and train it by feeding it enormous piles of data. Once the AI has had enough time to chew through a bunch of images labeled "cat," for example, it can reliably pick out pictures of a cat.

The tricky bit is that neural networks learn by altering their own innards. This is basically how your brain works, too. And like the connections between the 86 billion or so neurons in your brain, the precise way an AI "thinks" is incomprehensible.

Researchers at DeepMind Technologies Ltd., a subsidiary of Alphabet Inc., announced a novel way to get inside the minds of machines: Treat them like human children.

To say engineers are using the techniques of cognitive psychology on AI isn't an analogy. The team at DeepMind used exactly the same tests and materials psychologists use on children to tease out how their AI thinks, says David Barrett, a DeepMind research scientist.

Decades of research on unpacking the human brain through cognitive science

may now be applied to machines, potentially unlocking an avenue for understanding AI and making it accountable, he said.

A result of DeepMind's research: We now know at least one of its AIs—a model designed to learn words after being exposed to them only once—is, surprisingly, solving problems the same way humans do. Like humans, it is identifying objects by shape, even though it wasn't taught to, and even though there are other ways to identify random objects, such as color.

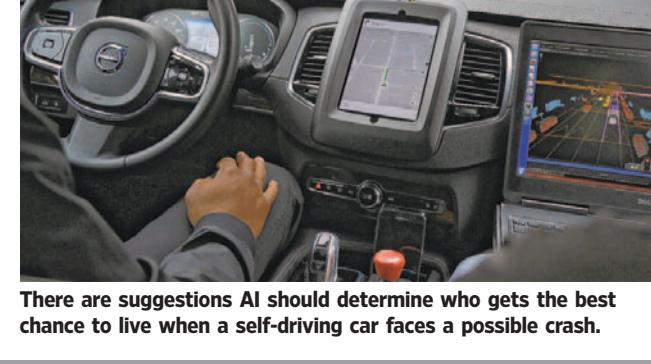
Understanding is just the

beginning of how we interact with artificial intelligences. The other half of robot psychology is what might be described as therapy—that is, changing an AI's mind.

Because engineers typically create many versions of an AI when trying to discover the best one, the use of cognitive psychology could give engineers more power to choose the ones that "think" the way we want them to, Mr. Barrett said. Alternatively, we might find it's better when AIs don't think like us: We might learn something new about how to solve problems.

The upshot is that when we replace human decision-makers with artificial intelligences, AIs have the potential to be better, with fewer mistakes and more accountability, because their output is measurable and we might be able to trace exactly how they make decisions.

We ask humans to do this all the time—in a court of law, when dissecting a business decision—but humans are unreliable narrators. With machines, we could have decision-makers whose every bias and impulse can be inspected and potentially altered.



ERIC RISBERG/ASSOCIATED PRESS

There are suggestions AI should determine who gets the best chance to live when a self-driving car faces a possible crash.

## FINANCE & MARKETS

# Singapore Fund Reduces Its Risk Profile

By GAURAV RAGHUVANSHI  
AND JAKE MAXWELL WATTS

**SINGAPORE**—Singapore's sovereign-wealth fund has cut its exposure to riskier assets against a backdrop of global economic imbalances and policy risks, including concern over whether President Donald Trump will follow through with promised economic overhauls.

GIC Pte. Ltd., which oversees more than \$350 billion in assets and is the world's eighth-largest sovereign-wealth fund, said Mr. Trump's economic record was likely to be a significant risk factor for markets in coming years.

Mr. Trump has said he plans to implement a program of deregulation, corporate-tax overhauls and infrastructure spending, but his economic-policy agenda has been held up by foreign-policy chal-

lenges and an investigation into alleged links between members of the president's campaign and suspected Russian meddling in the 2016 election.

However, despite this and other risk factors—including the U.K.'s planned exit from the European Union and the slow normalization of interest rates in the U.S.—market volatility remains low and valuations are high, GIC said at a briefing on its annual performance. Accordingly, "there may be investor complacency in the market," said Lim Chow Kiat, GIC's chief executive. In a statement, he said that "at today's market valuations, the universe of high-return opportunities has shrunk significantly."

GIC, which manages Singapore's foreign-exchange reserves, said in its annual report the annualized nominal



GIC CEO Lim Chow Kiat warns that investors may be complacent. BRYAN VAN DER BEEK/BLOOMBERG NEWS

rate of return from its investments for the 20 years through March was 5.7%, consistent with the figures from last year.

For the five years ended in March, GIC said it had an annualized nominal rate of return of 5.1%, compared with

3.7% in the five years ended in March 2016.

Its allocations to different asset classes, such as equities, bonds and private equity, remained little changed in the past year but over the past few years it has increased its holdings of cash and nominal

bonds and reduced exposure to more-volatile assets, such as some riskier equity markets.

GIC, which owns large stakes in Citigroup Inc. and UBS Group AG doesn't disclose the size of its assets under management. The fund, which says it takes a long-term view of investing, also doesn't publish single-year results. The Sovereign Wealth Center estimates its assets at \$353.6 billion.

A U.S.-led recovery from the 2008 global financial crisis remains fragile, GIC executives said in a briefing. Corporate profits in the U.S. peaked about two years ago and some interest-rate-sensitive sectors such as automobiles are already facing credit-related problems while rates are still relatively low, they said.

"In many senses that is not priced in by the markets—the U.S. market continues to be

very close to its highs," said Jeffrey Jaensubhakij, GIC's chief investment officer. Mr. Trump's proposed economic revamps will need to "come into play" for the markets to continue to do well, he said.

The value of the holdings of many sovereign-wealth funds, including GIC, has risen since the global financial crisis as central banks have pursued cheap-money policies that buoyed asset prices. However, the funds are now warning of lower returns in the longer term, with bond yields low and equity markets expensive.

Mr. Lim said GIC was prepared for protracted uncertainty and low returns. The fund recognizes that to generate a good return, "we have to be prepared for periods of underperformance relative to the market indices, some even for a stretch of several years," he said.

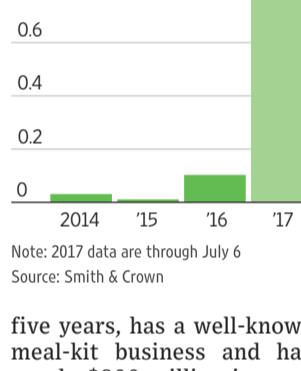
## Forget IPOs: Startups Use Coin Offerings to Get Cash

By PAUL VIGNA

### Virtual Bonanza

Cryptocurrency-related startups have raised more than \$1 billion so far this year through a new fundraising method called an initial coin offering.

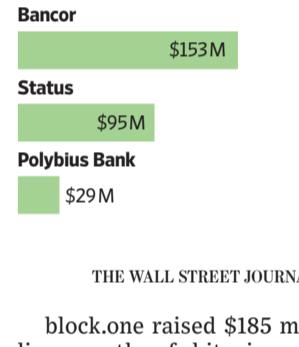
#### Proceeds of initial coin offerings



Note: 2017 data are through July 6

Source: Smith & Crown

#### Biggest initial coin offerings of 2017, by amount raised



THE WALL STREET JOURNAL.

five years, has a well-known meal-kit business and had nearly \$800 million in revenue last year.

Coin offerings are more like crowdfunding campaigns than a traditional securities offering. Most offerings don't have a detailed prospectus, rather companies typically publish a so-called white paper outlining their project or idea.

Sometimes the offerings are handled through a nonprofit foundation—such as the Zug, Switzerland-based Tezos Foundation—to further distance them from the characteristics of a securi-

ty.动态 Ledger's Tezos topped that, raising about \$212 million worth of bitcoin and ether last week.

The projects being pursued by these two companies aim to create new types of digital platforms, akin to mini versions of the internet, that use a communication language called the blockchain. This is the technology that underpins bitcoin.

Dynamic Ledger's Tezos digital platform is the older of the two projects and is the brainchild of Arthur and Kathleen Breitman, a husband-and-wife team in their late 20s. He had worked at Goldman Sachs Group Inc. and Morgan Stanley, while she did stints at hedge-fund manager Bridgewater Associates and consulting firm Accenture.

The Breitmans have been working on Tezos for three years, mostly in anonymity.

Tezos, Mrs. Breitman said in an interview, was "dead in the water in 2015." The couple released a test version of their product, but it didn't receive any attention from developers.

It became something more as the coin-offering market developed through 2016. Investors were looking for places to deploy their capital and Tezos started gaining attention.

They were also helped by having one prominent backer: Tim Draper, a founder of the Silicon Valley venture-capital firm Draper Fisher Jurvetson.

Mr. Draper's small undisclosed personal investment in the firm, and his public

pledge to buy into the initial coin offering, significantly raised Tezos's profile.

Mr. Draper said he believed in Tezos, as well as another token in which he had invested for the startup Bancor, and the companies' potential to bring about "a sea change as big as the internet."

Even so, the recent offering outdid the couple's expectations. "In December, I had a dream that we raised \$40 million," Mrs. Breitman said, "and I thought, 'That's impossible.'

If the play isn't produced, though, or if it turns out to be a flop, the ticket would be worthless. The same could prove true for some coin offerings.

—Paul Vigna

One risk for coin sales: There are no rules or legal standards around such offerings.

Buying into a coin offering is like purchasing a ticket to a Broadway show months or even years before a performance hits the stage. If the production is the next "Hamilton," the ticket, or in this case the coin, could later be sold for multiples of its initial purchase price.

The coins usually don't confer any ownership in a company. Rather, investors hope they will rise in value over time if a company's product or service is popular.

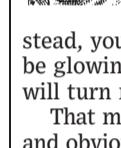
In a coin offering, the coins being sold are similar to cryptocurrencies bitcoin and ether. Investors purchase a coin, or digital token, that they can use in the future to buy a product or service a company plans to offer.

The coins usually don't confer any ownership in a company. Rather, investors hope they will rise in value over time if a company's product or service is popular.

—Paul Vigna

INTELLIGENT INVESTOR | By Jason Zweig

## How Red Messes With Your Head



When, after more than eight years of gains, the stock market finally falls instead, your portfolio won't be glowing green anymore. It will turn red.

That might seem trivial and obvious. Showing losses in red ink (or pixels) and gains in green is just an arbitrary convention. It's the size, not the color, of your changes in wealth that should matter. But new research shows that color is another of the many intangible forces that can have a powerful influence on investors' behavior.

In a series of experiments, finance scholars William Bazzley and Henrik Cronqvist of the University of Miami, along with marketing professor Milica Mormann of Southern Methodist University, have found that seeing red has a drastic effect on how people view investments.

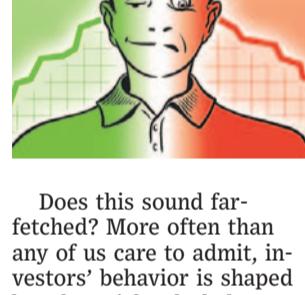
The researchers offered basic choices like these: Would you rather have a 70% chance of winning \$2 and a 30% chance of losing \$1.50, or a 70% chance of winning \$4 and a 30% chance of losing \$5? Merely by displaying the potential losses in red rather than black, the researchers could make people about 25% more risk averse (preferring the first gamble to the second, even though the latter has a higher expected value).

Likewise, investors viewed charts of stocks in the S&P 500 index with falling prices and predicted how the shares would perform in the

next six months. Those who saw charts in red, rather than black, projected significantly lower returns.

A loss displayed in red feels hotter and more painful than a loss of the identical amount shown in black. It also alters your view of the future. "Simply seeing a stock's price shown in red," says Prof. Cronqvist, "can make you think it will go down and keep going down."

He and his colleagues found one group of people who don't turn pessimistic and risk averse when losses are shown in red: those who are colorblind.



CHRISTOPHE VORLET

Does this sound far-fetched? More often than any of us care to admit, investors' behavior is shaped by what Richard Thaler, an economist at the University of Chicago Booth School of Business, calls SIFs, "supposedly irrelevant factors"

rooted in mood and emotion.

How much risk you are willing to take can depend on such SIFs as how an investment is described; whether you are feeling happy, hungry, sad or angry; how sunny it is; the time of day and the time

of year; whether your favorite sports team won or lost; whether you recently saw news of a tragedy, and so on. These are all what psychologists call "unconscious biases"—forces that sway your decisions even though you may not be aware of them.

Color is in the same family of insidious influences.

Red stands for anger and danger, stoplights and stop signs, hot stoves, firetrucks, warning lights and panic buttons. We have red alerts, red flags and red devils. Imagine how you would react if you walked outside and saw the green grass turn suddenly scarlet.

Red isn't always negative, of course. It's also the color of love and warmth, roses, strawberries and other nice things. But, at least in the U.S., red generally conveys risk just as green evokes safety. Americans have used "in the red" to signify financial losses since at least the 1920s, says etymologist Barry Popik.

Now consider that the websites and apps of many U.S. brokerages and investment firms show losses in hot red (and gains in green).

It might feel good nowadays to look at your accounts online and see nothing but green. That will change when the stock market starts going down. Looking at your losses then, if they are displayed in red, will make them burn.

Apps and websites don't offer the option to view portfolios in black and white. Maybe they should.

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FUND NAME GF AT LB DATE CR NAV YTD 2-YR %RETURN-  
FUND NAME GF AT LB DATE CR NAV YTD 2-YR %RETURN-

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866  
Fax No: 65-6835-8865, Website: [www.cam.com.sg](http://www.cam.com.sg), Email: [cam@cam.com.sg](mailto:cam@cam.com.sg)

CAM-GTF Limited OT MUS 06/30 USD 304488.93 0.8 5.9 -1.5

FUND NAME GF AT LB DATE CR NAV YTD 2-YR %RETURN-

VP Class-Q Units AS EQ HKG 07/06 USD 143.25 25.0 33.2 4.1

VP Class-Q Units AS EQ HKG 07/06 USD 10.05 24.9 33.1 3.9

VP Class-C Units AUD H AS EQ HKG 07/06 AUD 14.84 24.3 32.2 4.1

VP Class-C Units CAD H AS EQ HKG 07/06 CAD 14.35 23.9 31.5 3.2

VP Class-H Units HKD H AS EQ HKG 07/06 HKD 12.17 23.6 31.3 NS

VP Class-H Units NZD H AS EQ HKG 07/06 NZD 14.70 21.9 30.4 3.6

VP Class-C Units RMB H AS EQ HKG 07/06 CNY 12.01 25.7 32.5 NS

VP Class-C Units RMB H AS EQ HKG 07/06 CNY 12.16 26.5 35.6 NS

VP Multi-Asset Fund Cls A HKD OT OT HKG 07/06 HKD 10.38 7.9 NS NS

VP Multi-Asset Fund Cls A USD OT OT HKG 07/06 USD 10.47 7.2 6.9 NS

VP Multi-Asset Fund Cls A USD OT OT HKG 07/06 USD 19.44 16.1 24.2 10.5

VP Taiwan Fund AS EQ CNY 07/06 USD

For information about listing your funds, please contact: Freda Fung tel: +852 2731 2504; email: [red.fung@wsj.com](mailto:red.fung@wsj.com)

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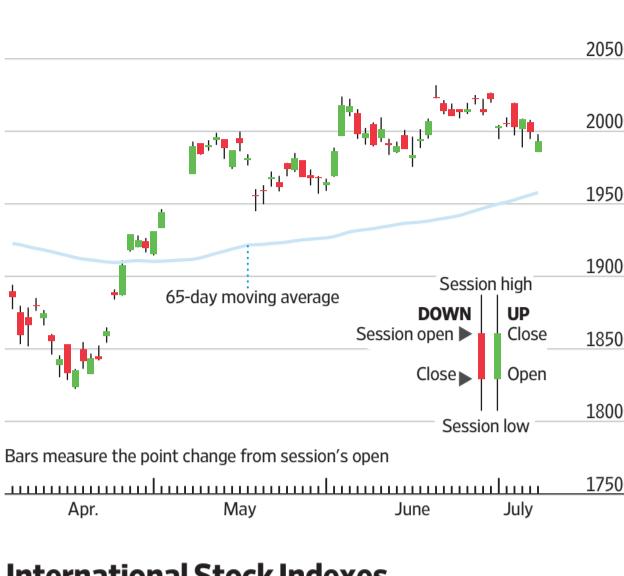
## MARKETS DIGEST

Data as of Friday, July 7, 2017

### Nikkei 225 Index

**19929.09** ▼ 64.97, or 0.32%

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



Bars measure the point change from session's open

Apr. May June July

### STOXX 600 Index

**380.18** ▼ 0.25, or 0.07%

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



Apr. May June July

### S&P 500 Index

4 p.m. New York time

Last 23.77 24.07

P/E estimate \* 21.44 17.94

Dividend yield 2.01 2.17

All-time high: 2453.46, 06/19/17

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

Year-to-date

52-wk high/low

All-time high

4/15/15

396.45 322.12

414.06

4/15/15

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06/19/17

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## FINANCE & MARKETS

# BOJ Punches Down Bond Yields

By SURYATAPA BHATTACHARYA

TOKYO—Japan's central bank stepped in to tame a rise in government-bond yields on Friday, signaling its determination to stick to its current policy mix, even as the recent selloff in global bond markets intensifies.

The Bank of Japan's increased intervention in the markets came after the yield on the country's benchmark 10-year government bond rose earlier in the day to 0.105%, its highest since Feb. 3. The central bank's target is 0%. Bond yields rise as their prices fall.

The yield on the 10-year government bond later slipped back to 0.085%, after the BOJ said it would buy an unlimited amount of government bonds maturing in five to 10 years at a yield equivalent to 0.110% and raised the amount of bonds it said it would buy at a regularly scheduled auction.

The Japanese central bank's

display of determination to prop up domestic bond prices came after the yield on benchmark German government bonds, known as bunds, rose overnight to its highest level in 18 months, 0.57%, and U.S. Treasury yields continued their recent climb. The bond

*Japan's central bank has said little about giving up on its huge debt purchases.*

selloff spilled into Asia Pacific on Friday, with yields on benchmark 10-year government bonds rising in Korea, Australia and Indonesia.

The trigger for government-bond-market declines has been talk among leading central bankers suggesting that years of easy monetary policy de-

signed to stimulate struggling economies may be coming to an end. The Federal Reserve is considering further interest-rate increases this year and the European Central Bank has been signaling that it is getting ready to wind down its stimulus efforts after years of huge bond buying.

The situation in Japan is different. While the U.S. has been recording solid growth and European officials appear ever more confident that economic recovery there is taking root, Japan's central bank has remained cautious. That is despite some encouraging signs: Japanese base wages grew at their fastest pace in more than 17 years in May, rising by 0.9% on-year. If the Bank of Japan keeps to its inflation target, the market "cannot expect it to exit its stimulus program anytime soon," said Shuichi Ohsaki, rates strategist at Bank of America Merrill Lynch in Tokyo.

Even so, the central bank has eased its bond buying in recent months, leading some analysts to say it is "techni-

cally tapering." At the current rate of purchases, it may only buy around ¥55 trillion worth this year, according to J.P. Morgan estimates. The reduction had led some observers to suggest the BOJ might soon raise its target yield for 10-year government bonds to as high as 0.2%, meaning that it would be able to reduce its bond purchases further.

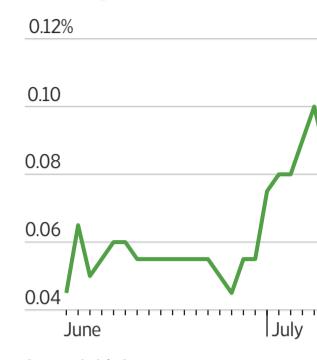
Yet the Bank of Japan's decision on Friday to buy unlimited amounts of government bonds to keep yields from rising too far suggests analysts may have been getting ahead of themselves.

"They sent a clear message that they are still going to stick to this range target of 0.1% and they will do whatever they can do to keep it," said Naka Matsuzawa, Japan rates strategist with Nomura Securities.

Some analysts say that by keeping yields around zero, the central bank risks driving

### Unyielding

The Bank of Japan jumped in with both feet to bring down the 10-year government-bond yield.



Source: Quick Corp.

THE WALL STREET JOURNAL.

bond prices higher than they otherwise would be. In turn, that could lead to losses for the central bank when it looks to exit its stimulus program.

"This makes them vulnerable to criticism about, 'Why are you doing this?' and 'It is costing the nation,'" Nomura's Mr. Matsuzawa said.

—Saumya Vaishampayan and Yoko Kubota contributed to this article.

# With Few Markers, Investors Brace for an ECB Tapering

By JON SINDREU

Investors are dumping government bonds, certain that the European Central Bank will soon start dialing back the massive stimulus that has buoyed markets.

They are less sure what that tapering will look like—a key question as the ECB becomes the main focus for spooked investors around the world.

Many market participants are betting that officials will reduce bond purchases from €60 billion (\$69 billion) to €40 billion during the first half of next year and then cut them to €20 billion in the second half. But there are other options investors are considering, from tapering less to following the Federal Reserve's model of reducing the buying on a monthly basis.

Whatever the ECB does, investors expect volatility.

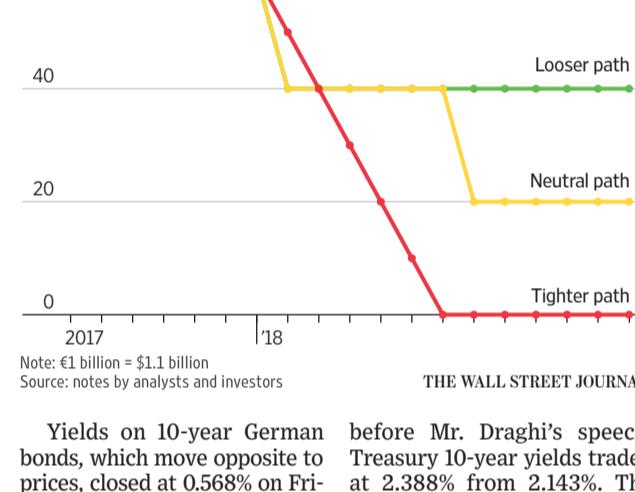
In the wake of the financial crisis, central banks cut interest rates to record lows and bought billions of dollars of assets, pushing up bond prices and sending investors chasing returns into equity and emerging markets. Because such monetary policy was so experimental in its implementation, there is little precedent for what to expect in the retreat.

"When we are in the territory of unconventional monetary policy, expectations of what the central bank will do in the future have no anchor," said Willem Verhagen, a senior economist at NN Investment Partners, which has about €200 billion under management.

ECB President Mario Draghi sparked the bond selloff in late June with bullish comments about the eurozone economy that investors saw as heralding tighter monetary policy.

### How the ECB Could Take the Foot Off the Pedal

Forecasts for the monthly rate of asset purchases of the European Central Bank



Note: €1 billion = \$1.1 billion  
Source: notes by analysts and investors

before Mr. Draghi's speech.

Yields on 10-year German bonds, which move opposite to prices, closed at 0.568% on Friday, the highest in 18 months, compared with 0.247% the day

before Mr. Draghi's speech. Treasury 10-year yields traded at 2.388% from 2.143%. The euro has gained more than 2% over this period.

Yet markets were broadly unchanged by Fed minutes on Wednesday that showed no clear consensus on how the central bank should unwind a portfolio of bonds that has been unchanged since 2014.

Most investors expect the ECB to announce the future of its bond buying as soon as September.

Aside from recent selling, another clue to what investors expect lies in derivatives markets that currently predict the ECB's first interest-rate rise will be in December next year. The ECB has said it would raise rates, currently at minus 0.4%, only once it had stopped buying bonds, suggesting that investors believe that time will be before next December.

Buying less than €40 billion of bonds a month would be seen as a tightening of policy, said Thomas Page-Lecuyer, a

strategist at CPR Asset Management, leading to a larger selloff in eurozone bonds and a further rally in the euro.

There are other alternatives. The ECB could also follow in the Fed's footsteps and announce that purchases will be smaller each successive month, reaching zero at the end of the year. That would likely boost bonds and depress the currency, investors say.

"If they were to give a clear date for the end of purchases, that would be a hawkish surprise for us and many in the market," said Iain Stealey, a fund manager at J.P. Morgan Asset Management.

Many investors think this is unlikely, however, because ECB officials will want flexibility. They see the Fed as a cautionary tale, after it triggered a big bond selloff when announcing in 2013 that it would taper asset purchases.

# THE FUTURE OF EVERYTHING

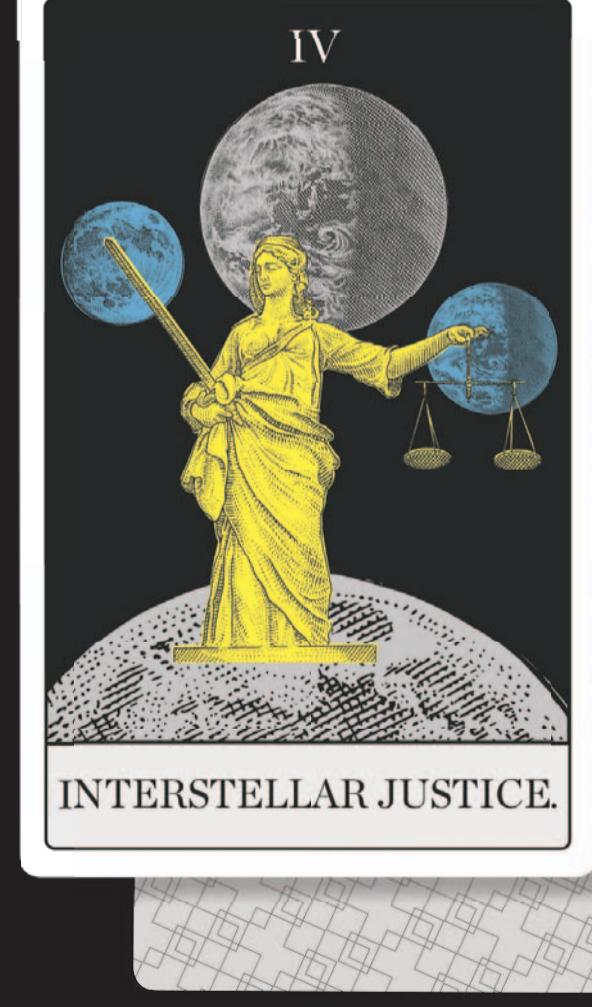
## What Laws Will Rule the Final Frontier?

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# MARKETS

THE DAILY SHOT | By Lev Borodovsky

## Ripples Spread in a Global Bond Selloff

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The global bond rout deepened last week, spilling over into the equity markets. Fixed-income investors have become jittery about major central banks sounding increasingly hawkish. The moves in German bonds were especially of note.

The Federal Reserve may announce its balance-sheet reduction schedule as soon

as September. The Bank of Canada and the Bank of England are hinting at near-term rate increases, while the European Central Bank may soon accelerate its tapering.

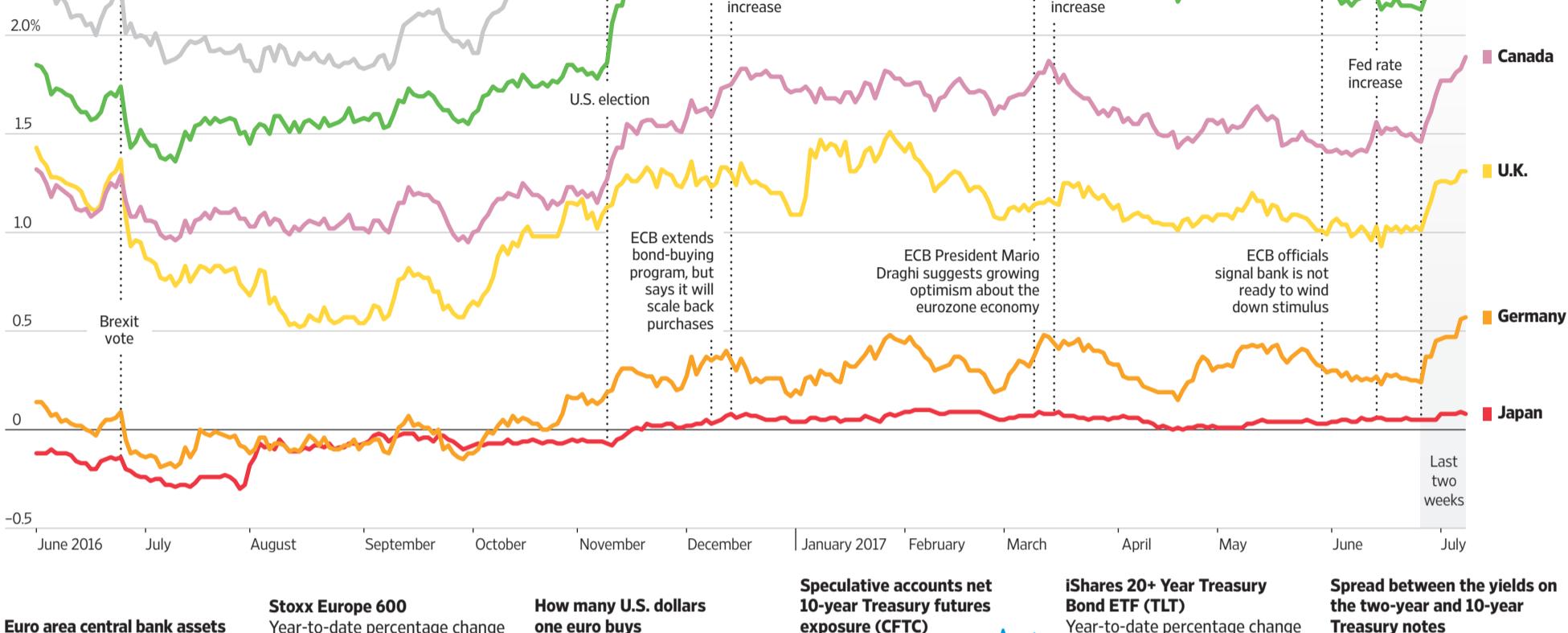
Last Thursday's French bond auction showed a

marked decline in demand, triggering the bond selloff around the world.

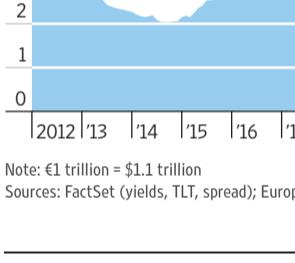
Some hedge funds have been net long Treasurys as well as other long-dated government bonds and are now forced to unwind.

Several bond analysts (including DoubleLine Capital's Jeffrey Gundlach) suggest that this is only the beginning, with the 10-year Treasury moving toward 3% this year and mortgage rates also rising sharply.

### Yield on 10-year government bonds

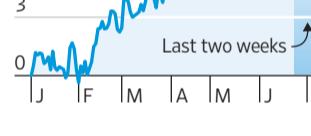


### Euro area central bank assets



### Stoxx Europe 600

Year-to-date percentage change



### How many U.S. dollars one euro buys

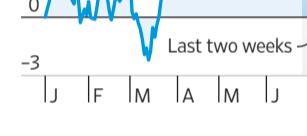


### Speculative accounts net 10-year Treasury futures exposure (CFTC)

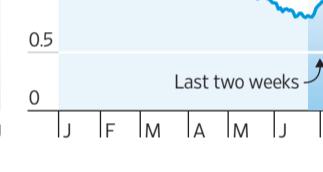


### iShares 20+ Year Treasury Bond ETF (TLT)

Year-to-date percentage change



### Spread between the yields on the two-year and 10-year Treasury notes



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Note: €1 trillion = \$1.1 trillion

Sources: FactSet (yields, TLT, spread); European Central Bank via Federal Reserve Bank of St. Louis (assets); WSJ Market Data Group (Stoxx Europe 600; euro); Commodity Futures Trading Commission (positions)

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## HEARD ON THE STREET

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FINANCIAL ANALYSIS & COMMENTARY

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## Markets Not Ready for Jobs Boost

### Getting Rich

S&P 500 forward price/earnings ratio



about 121,000 jobs. The economy needs to generate fewer than 100,000 jobs to keep up with population growth.

If the current trend continues, we will have gone from an employment market that was tightening only slightly to one that could change the dynamic of wage increases, inflation and bond yields. The unemployment rate could drop below 4% by early next year.

In these circumstances, the Federal Reserve will almost definitely follow through with its plans to start shrinking its balance sheet this fall and raise rates again in December.

Indeed, if the recent pace of hiring holds, the Fed might set aside its worries about low inflation, and lean toward tightening faster to keep the job market from overheating.

That would hurt bond in-

vestors who have bet that interest rates will hardly move in the coming months.

Stocks, too, are priced for low rates. With the price/earnings ratio on the S&P 500 near its highest level in more than a decade, investors would have to rethink whether stocks deserve such high valuations.

Markets largely ignored the jobs report Friday, but if stocks and bonds fall in anticipation of higher rates, that could tighten financial conditions more than the Fed would want, damaging the economy. But with jobs growth this strong, the Fed can't risk underreacting either, even with inflation well below its 2% target.

As far as the Fed is concerned, the best thing would be for the job market to slow to a sustainable pace, with inflation drifting up toward its target as it gradually reduced its balance sheet and raised rates. Investors might like to dream of such an outcome, too, but reality is apt to be messier.

—Justin Lahart

### OVERHEARD

Bad news, Starbucks—your labor supply may be shrinking.

On the bright side, more young people can now afford your fancy drinks.

Humanities Indicators, a long-running report by the American Academy of Arts and Sciences, says that the number of bachelor's degrees in the humanities dropped by 5% in 2015 and by nearly 10% since 2012.

By one measure, the share of U.S. college degrees in the common liberal-arts majors is at its lowest recorded and is less than a third of its late-1960s peak.

While overeducated baristas are to some extent a stereotype, economists Jason Aibel and Richard Dietz wrote last year that about half of recent liberal-arts graduates are "underemployed," while the share is far lower for majors related to STEM or health care.

Engineering majors had the lowest underemployment rates. There was no word on their coffee preferences.

## Samsung Steps Ahead Of Apple

Samsung Electronics likely edged past Apple to become the world's most-profitable technology company last quarter. But to continue the strong run, it may hope the iPhone maker does better as well.

The South Korean tech giant said Friday it expects its operating profit for the quarter ended June to be a record 14 trillion won (\$12.1 billion)—a 72% jump from a year earlier. Apple will likely report an operating profit of \$10.6 billion for its latest quarter when it announces results next month, according to estimates from S&P Global Market Intelligence.

Rising memory-chip prices, driven by strong demand from servers and mobile, have likely contributed to Samsung's strong results. About 60% of its operating profit comes from the semiconductor business, according to Morgan Stanley. The March launch of its new flagship phone, the Galaxy S8, also helped.

Strong sales of the newest iPhone model, expected later this year, could actually benefit Samsung. The Korean company will supply flexible displays, called organic light-emitting diodes, to at least one version of the new phone.

The Wall Street Journal has reported.

Even though Samsung supplies memory chips to Apple as well, the business accounts for less than 5% of the company's operating profit, Credit Suisse estimated. The greater effect of the so-called iPhone supercycle is that it will likely keep memory-chip prices buoyant.

While Samsung and Apple are sometimes depicted as rivals, their relationship is actually one of mutual benefit right now. —Jacky Wong

## Tesla Stock's Skid Couldn't Have Come at a Worse Time

When the story of Tesla is finally written, last week will be seen as a crucial juncture. The electric-car company started production on its highly anticipated Model 3 on Friday, one day after its stock briefly fell into a bear market.

The slump brings the company's financial position into fresh focus given its historic reliance on the equity market. At first glance, it has plenty of cash on hand—more than \$4 billion as of March 31. But that is likely to go quickly.

Tesla's free cash outflow was \$622 million in the first quarter. Since Tesla delivered fewer cars in the sec-

### Expensive Cars

Tesla's quarterly free cash flow



ond quarter than in the first, there is a decent chance that number will worsen. Accounts payable have risen and Tesla has \$7 billion in long-term debt.

The Model 3 isn't likely to improve matters, at least in the short term. Tesla said in the first quarter that it expected to have an additional \$1.5 billion in capital spending before the Model 3 began production.

Analysts at Guggenheim Securities predict that gross margins on the Model 3 will be negative 15% at the start of the launch and won't turn positive until the middle of next year.

Tesla's automotive gross margin was 27.4% in the first quarter.

The company could forgo some of its planned capital spending if it chose to do so. But that might slow the

Model 3 rollout amid increasing competition, denting the stock.

The good news is that CEO Elon Musk should have other options.

The company has issued equity or convertible debt in every year since its 2010 initial public offering, most recently in March. And despite a bad week, the shares are up more than 40% this year.

Meanwhile, Tesla may need to raise nearly \$3 billion over the next year. At current prices, that amounts to roughly 6% of the total equity value. The more the shares slip, the greater the potential dilution of existing owners.

Chinese technology company Tencent's recent investment in Tesla stock is an encouraging sign that there is appetite for large chunks of equity.

While that deal didn't involve fresh cash, it points to other potential options besides a traditional secondary-market issuance.

So the past would suggest that the recent selloff won't be much of a long-term problem for Tesla shareholders.

Yet Tesla's balance sheet and the increasingly crowded electric-car field have created a moment the company can't risk squandering.

—Charley Grant