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What's News

Business & Finance

British prosecutors charged Barclays, its ex-CEO Varley and three other former executives with conspiracy to commit fraud during the 2008 financial crisis. **A1**

◆ **Billionaire** Li Ka-shing has told associates that he plans to step down as chairman of CK Hutchison by next year. **A1**

◆ **Rio Tinto rebuffed** a $2.5 billion offer by Glencore for its Australian coal assets and recommended shareholders approve a Chinese company's bid. **B1**

◆ **Ford will begin** importing Focus compact cars from China in the second half of 2019, scrapping plans to build the car in Mexico. **A1**

◆ **Citigroup's Corbat** faces a growing consensus that now is the time for the bank to change its narrative. **B6**

◆ **Apple argued** in a court filing that some of Qualcomm's patents were invalid and that its business model violates patent law. **B4**

◆ **Brazilian meatpacker** JBS said it aims to sell $1.8 billion of assets in a bid to shore up its cash position. **B3**

◆ **France's Total said** it is planning to push forward with a $1 billion investment in a giant Iranian gas field. **B3**

◆ **Goldman Sachs** is hiring two Credit Suisse bankers to win business from corporate service providers. **B6**

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◆ **The U.S. will** press China to ramp up pressure on North Korea so that its weapons program is curtailed, while China would prefer to talk trade. **A3**

◆ **Otto Warmbier**, the American student who was detained by North Korea and released with a severe brain, has died at 22. **A3**

◆ **The tour company** that arranged Warmbier's trip to North Korea said it would no longer accept bookings from American citizens. **A3**

◆ **Senate GOP leaders** have set a timeline to vote next week on legislation to repeal large parts of the Affordable Care Act. **A6**

◆ **Australia has** suspended air operations in Syria amid escalating tensions between the U.S. and Moscow. **A6**

◆ **Iraqi forces are using** small, off-the-shelf drones to target Islamic State in the streets of Mosul's Old City. **A4**

◆ **A French journalist** and his Iraqi colleague, who were covering counterterrorism efforts, died in a mine blast in Mosul. **A4**

◆ **Merkel for the** first time sketched out the outlines of a deal with France on fixing the governance of Europe's currency. **A5**

◆ **Paul Ryan in a speech** will express confidence that Republicans can make a significant set of tax-policy changes this year. **A6**

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Ukraine Looks to U.S. for Support Against Russia

EVAN VUCCI/ASSOCIATED PRESS

WELCOME: In a meeting with President Donald Trump at the White House, Ukrainian President Petro Poroshenko, left, was expected to push for more pressure on Moscow to stop its support for separatists. **A5**

Tycoon Era Is Fading in Part of Asia

The curtain is falling on a generation of Asia's tycoons who forged vast fortunes in the fires of the region's political and economic upheaval of the past half-century.

By Wayne Ma in Hong Kong and Jake Maxwell Watts in Singapore

Hong Kong billionaire Li Ka-shing, for decades one of the world's richest people, has told associates that he plans to step down as chairman of his flagship conglomerate, CK Hutchison Holdings Ltd., by next year, when he turns 90, according to people briefed by Mr. Li.

A Chinese-born, Hong Kong-made billionaire, Mr. Li built a plastic-flower manufacturer into a global empire spanning property, energy, ports, telecoms and retail.

Passing the baton to his previously anointed successor, his eldest son, Victor Li, would represent the most significant corporate abdication yet among an elite of aging billionaires in Hong Kong and Southeast Asia. These tycoons combined business savvy and carefully cultivated political connections—often with authoritarian governments—to prosper in Asia's

JUSTIN CHIN/BLOOMBERG NEWS

Li Ka-shing turns 90 next year.

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Fraud Charges in Barclays Bailout

By Max Colchester And Margot Patrick

British prosecutors charged the former chief executive of Barclays PLC with fraud and illegal payments, the most prominent and most senior banker to be charged with crimes relating to the global financial crisis.

John Varley, Barclays chief from 2004 to 2011 and a longtime member of London's financial firmament, was charged Tuesday alongside three other former Barclays executives and the bank itself over a cash infusion that rescued Barclays at the peak of the financial crisis. The men face jail time if convicted, and Barclays could be fined.

Britain's Serious Fraud Office has spent five years probing how Barclays wooed rich investors to prop up the bank during the 2008 financial market meltdown. In total, Barclays raised £11.8 billion ($15 billion) from investors through two emergency cash calls, in June and October 2008.

To seal the latter of those transactions, Barclays said in filings it paid £322 million in "advisory services" to Qatari investors—an agreement that wasn't initially disclosed to shareholders, Barclays has acknowledged in filings. In November 2008, the bank provided a $3 billion loan facility to the State of Qatar, according to the Serious Fraud Office. The charges filed on Tuesday relate to the payment and the loan, the fraud office said.

The Serious Fraud Office charged the bank, the former chief executive John Varley, former senior investment-bank executive Roger Jenkins and two other former executives

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CHINA STARS IN NEW FILM ROLE: THE INVESTOR

U.S. studios pursuing the world's hottest movie market vie for Chinese partners

By Erich Schwartzel and Ben Fritz

"The Lego Batman Movie," by appearances, should have crushed its rival, "A Dog's Purpose," when the two U.S.-made films opened March 3 in China.

"Lego Batman," already a world-wide hit, paired a universally known superhero with the popular building-block toy. Its competition was a sentimental reincarnation drama about a dog.

Yet weeks later, "Lego Batman" grossed $6 million in China, while "A Dog's Purpose" took in $88 million—a tally that likely owed less to cast or script than to the aggressive marketing and distribution of the dog drama's Chinese investor.

Alibaba Pictures, a wing of Alibaba, the Chinese internet giant, owns a stake in Steven Spielberg's Amblin Partners, the studio that made "A Dog's Purpose." Alibaba's work behind the scenes helped propel ticket sales in China well past its U.S. totals. "We want to help our partner maximize their potential in China," said Wei Zhang, president of Alibaba Pictures.

"Lego Batman," which collected $175 million in the U.S., left frustrated studio executives wondering why they didn't have their own Chinese partners.

The question is echoing across board-

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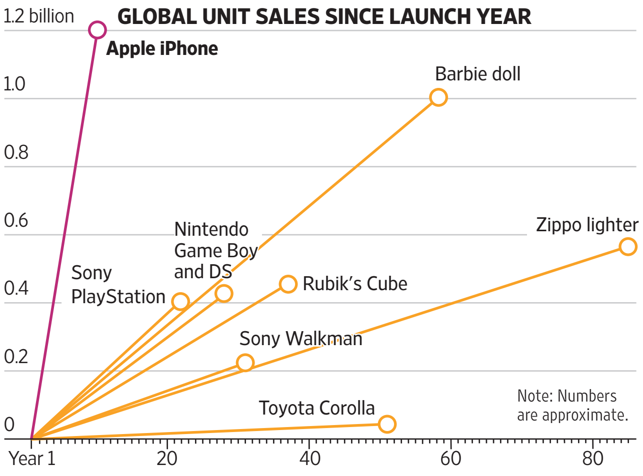
The iPhone Decade

Apple's iPhone, now 10 years old, has outshone other iconic products. **B1**



Source: the manufacturers

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FALLOUT FROM EX-DETAINEE'S DEATH

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Come Back! Gorillas at This Park See Tourists and Run

* * *

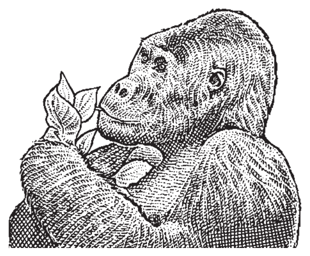
Rangers at preserve must teach the world's largest subspecies to relax

By Michael M. Phillips

KAHUZI-BIEGA NATIONAL PARK, Congo—It wouldn't be fair to accuse Mpungwe of racism.

But the first time the 500-pound gorilla saw a white man, he did flee into the forest and succumb to an urgent bout of stress-induced diarrhea. And chief gorilla habituator Robert Mulimbi did have to slog through the heavy undergrowth in a makeshift white-guy mask cut from a manila envelope to bring Mpungwe around.

"When we got this idea, it seemed like a joke," giggled one of Mr. Mulimbi's assistants, ranger Sandro Masumbuko. "But it got a good result."



Mpungwe

Such is the curious life of the man charged with acclimating Kahuzi-Biega's gorillas to tourists. Park officials here are eager to attract well-heeled Europeans and Americans for gorilla trekking vacations, and it is Mr. Mulimbi's job to make sure the gorillas are on board.

Kahuzi-Biega is the wild frontier of gorilla tourism. The eastern edge of the Democratic Republic of Congo has been beset by on-and-off war and roving militias since the Rwandan genocide spilled across the border in the mid-1990s.

The park, however, is the only place in the wild where visitors can see the world's largest gorillas, the Grauer's subspecies, and Congo's park

Please see CONGO page A8

Ford to Import Focus From China to U.S.

By Christina Rogers And Mike Colias

Ford Motor Co. said it plans to start importing its compact Focus from China instead of Mexico, reflecting a wider industry trend that gives auto makers more flexibility but threatens automotive jobs in the U.S.

The move, announced Tuesday, is a retrenchment from the U.S. car market. It is also the latest shift in Ford's struggling small-car market. It is also the latest shift in Ford's approach to the source of production for its once-hot Focus, a small car the company started building in Michigan earlier in the decade. Ford had initially planned to move the Focus to a new factory in Mexico but then scrapped that plant in favor of using an existing production space in Mexico.

The move to Chinese factories, slated for mid-2019, has broad implications for the U.S. auto industry. Although Ford won't be the first Detroit company to import cars into the U.S. from China, it will be by far the highest volume of vehicles to come from Chinese factories to American dealerships. In 2016, Ford sold 170,000 Focuses in the U.S.

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What Are the Chances of a U.S.-China War?

CHINA'S WORLD
By Andrew Browne

SHANGHAI—Two fiery nationalists—Xi Jinping and Donald Trump—now occupy the seats of power in Beijing and Washington.

In their mission to make their countries great again, one pursues the "China Dream," one "America First." Both see the other as the chief obstacle to their ambition; they're locked into a zero-sum competition.

Halting efforts to cooperate on North Korea have papered over deep tensions on a range of issues including the South China Sea.

Are the U.S. and China headed for war? That has been the recent hot question in China circles, spurred by a deluge of books that handicap the chances.

Graham Allison, the Harvard professor who popularized the term "Thucydides Trap" to describe the risk of conflict when a rising power challenges the incumbent, isn't optimistic.

Thucydides, the Athenian historian and general, summarized the causes of the Peloponnesian War (431-404 B.C.) in a single line of a monumental history: It was the rise of Athens and the fear that this inspired in Sparta, he wrote, that made conflict inevitable.

War has resulted in 12 out of 16 similar setups over the past 500 years, Mr. Allison asserts, including Germany's challenge to Britain that led to World War I. In a new book that bears the ominous title "Destined for War: Can America and China Escape Thucydides's Trap?" he lays out how conflicts over trade, the South China Sea or cyberspace could all spin out of control.

It is "frighteningly easy to develop scenarios in which American and Chinese soldiers are killing each other," he writes.

Nonsense, responds the noted Sinologist Arthur Waldron, a history professor at the University of Pennsylvania. War is by no means ordained.

In a caustic review of Mr. Allison's book, he declares that the Thucydides Trap is a fallacy. Dig deeper into Thucydides's text, he argues, and it becomes clear that Sparta, though warlike, tried to head off confrontation with Athens, at one point suggesting a simple compromise.

There's much more here than an academic dispute over classical history. The two professors disagree in their estimates of China's rise, and thus the severity of the challenge it represents to the U.S.-led order that has kept the peace since World War II.

Mr. Allison focuses on data showing China's wealth and power soaring ever up.

Mr. Waldron dwells on figures that indicate China's crippling vulnerabilities. He mentions chronic water shortages and energy wastage. Others point to an alarming surge in corporate debt and an aging population that could stall, or even reverse, growth.

Those who live in China juggle both perspectives daily. Inhale the toxic air in almost any city and it's clear why wealthy Chinese are fleeing.

The topic has become the recent hot question in China circles.

Yet, testifying to China's creative energy are the fleets of emerald, blue and fluorescent orange bicycles that have overrun the same cities in a matter of months as multiple startups have jumped into a bike-sharing business powered by smartphone apps.

China is choking to death; China is vibrant. Both are true. The U.S.'s challenge is to make sense of these contradictions, and steer a course that avoids the extremes of capitulation and reckless belligerence.

The Obama administration was timid; Beijing seized the opportunity to start turning the South China Sea into a Chinese lake.

To the extent that the Trump administration has a China policy, it's on hold due to North Korea.

Mr. Trump has suspended the verbal hostilities he unleashed on the campaign trail in hopes that his Chinese counterpart will use his influence to halt Pyongyang's nuclear program. If, as seems likely, Mr. Xi can't, or won't, deliver a solution this truce could quickly crumble.

Influential voices are urging a hard line. Ely Ratner, a senior fellow at the U.S. Council on Foreign Relations, recommended last week the U.S. should consider basing troops on disputed South China Sea islands. Whether the White House takes that inflammatory suggestion, once its disillusion with Beijing's North Korea efforts sets in, expect renewed bellicosity on issues from trade to Taiwan.

There's little doubt about Chinese intentions. As the journalist Howard French points out in his erudite book "Everything Under the Heavens: How the Past Helps Shape China's Push for Global Power," China aspires to restore its position at the pinnacle of East Asia.

The coming decades, he writes, will involve "a certain amount of yielding to China."

How much will depend on a fine understanding of Chinese capabilities. While China has made giant leaps in military technology—enough to strike U.S. aircraft carriers—it will become harder and more expensive to advance further.

In a speech two years ago, Mr. Xi insisted that "there is no such thing as the so-called Thucydides trap." But he went on to warn against strategic miscalculations by unnamed "major countries" that "might create such traps."

The next few years will be perilous: The risks of conflict can't simply be dismissed. Mr. Waldron, though, is confident that Chinese leaders would quickly smother any unintended conflict rather than escalate and risk their country's ruin. "They are, after all, not idiots," he writes.

TYCOON

Continued from Page One

postcolonial economies and, more recently, from China's economic opening.

With an average age of 80, the current 10 wealthiest tycoons in Hong Kong and Southeast Asia are collectively the world's oldest, according to an analysis of data from Forbes' 2017 billionaires list.

They include sugar-to-palm-oil and hotel baron Robert Kuok, 93, of Malaysia; Thailand's chicken-and-pork king, Dhanin Chearavanont, 78; and Philippines shoe seller-turned mall developer Henry Sy, 92. All are from Chinese emigrant families and became the richest men in their countries.

Mr. Kuok hasn't announced succession plans, but his eldest son is now chairman of the family's main private company. Mr. Chearavanont handed the reins earlier this year to his sons, appointing his eldest as chairman. Mr. Sy has made his six children heirs to his company.

As these men face succession, some investors question whether their privileged, mostly Western-educated heirs can steer their corporate juggernauts as effectively as their self-made fathers did. Many lack the political ties and hard-scrabble upbringing of the patriarchs. They also have less access to easy opportunities.

These 10 families remain a formidable force, with a combined wealth of almost $160 billion, according to an analysis of Forbes data. They wield huge power at home and increasingly seek foreign acquisitions. Between them, they have spent almost $200 billion on acquisitions over the past decade, according to Dealogic.

Mr. Li, known for his horn-rimmed glasses and iron grip on his companies, rode China's economic boom, and extended his reach into U.K. mobile networks, Australian utilities and Canadian air-conditioning firms. A spokesman for CK Hutchison said the chairman "has from time to time talked about his retirement and his confidence in Victor to lead the company." Mr. Li, through a company spokesman, declined to be interviewed.

Even so, the stepping back of Mr. Li—who is worth $33 billion, according to the latest data from Forbes—may create uncertainty among shareholders over CK Hutchison's direction. The company has recently failed with separate bids of more than $10 billion for mobile phone and energy assets in the U.K. and Australia, while homegrown Chinese billionaires are challenging its real-estate and ports businesses.

While the elder Mr. Li is known as a charismatic, politically savvy deal maker, his Stanford-educated son Victor is viewed as a more dour, details-oriented businessman who has spent more than three decades shadowing his father. Victor Li, through a company spokesman, declined to comment.

Companies the world over struggle with how best to preserve a founder's legacy. In much of Asia, the issue is acute because tycoons have outsize influence on their domestic economies, and tend to be intensely insular decision makers.

Passing the Buck

The 10 richest tycoons in Hong Kong and Southeast Asia, according to Forbes' 2017 Billionaires list, are worth nearly $160 billion combined and face handing over their empires to the next generation.

Name	Global rank	Net worth	Age	Headquarters	Main sources
Li Ka-shing	19	$31.2 billion	88	Hong Kong	Real estate, telecoms, ports
Lee Shau Kee	32	24.4	88	Hong Kong	Real estate
Charoen Sirivadhanabhakdi	62	15.8	73	Thailand	Drinks, real estate
Thomas & Raymond Kwok	69	15.0	65*	Hong Kong	Real estate
Joseph Lau	69	15.0	65	Hong Kong	Real estate
Henry Sy	94	12.7	92	Philippines	Real estate, retail
Lui Che Woo	109	12.1	88	Hong Kong	Casinos
Robert Kuok	115	11.4	93	Malaysia	Palm oil, shipping, real estate
Peter Woo	126	10.5	70	Hong Kong	Real estate
Dhanin Chearavanont	132	9.7	78	Thailand	Agriculture, retail

*Thomas Kwok is 65 and Raymond Kwok was born in 1952.
Sources: Forbes (wealth, age)
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When successions go poorly, the cost to stakeholders can be enormous. A study of around 200 family-run companies in Hong Kong, Singapore and Taiwan by Joseph Fan, a finance professor at the Chinese University of Hong Kong, found that they lost 60% of their value on average during the years around the transfer of power.

Meanwhile, Asia's economic landscape is shifting rapidly. Families that built their fortunes on property, power and commodities have seen their status eroded as Chinese entrepreneurs and tech titans have supplanted them as the world's wealthiest citizens.

As recently as 1996, tycoons from Hong Kong and Southeast Asia made up eight of the 25 richest people on Forbes' global rich list. Mr. Li is the only one who remains: He has lately been vying for the title of Asia's richest man with internet titan Jack Ma of Alibaba Group Holding Ltd. and property magnate Wang Jianlin of Dalian Wanda Group.

Of all the scions, Victor Li, 52, appears among the best prepared. He joined his father's company in 1985 after studying in the U.S.

Still, many parts of Mr. Li's empire are run by lieutenants who hold considerable power. Victor Li, as well, doesn't have his father's history of relations with China's leaders and experience navigating the factional and complex politics and bureaucracy of China.

"Li Ka-shing's key asset is his outstanding relationships and those relationships aren't easily transferred," said Mr. Fan, who has studied Mr. Li's career. "His son may not inherit this from his father and be able to make friends with Chinese politicians."

The elder Mr. Li's ties to Beijing have waned under President Xi Jinping. Chinese ports are sucking up business from Mr. Li's Hong Kong terminals, while homegrown property developers are increasingly moving in on his home turf. Victor is likely to inherit the business empire at a challenging time.

People familiar with the family say Mr. Li's younger son, 50-year-old Richard, has more of Mr. Li's deal-making skills and charismatic traits. However, Richard early on chose to branch out on his own, using family money to buy and run media and telecoms companies, with varying success.

Victor Li still lives in the shadow of his celebrity father. A few years ago, when the elder Mr. Li and Victor attended the Queen Elizabeth II's birthday party at the British consulate in Hong Kong, diplomats lined up in droves to take selfies with the tycoon while Victor stood to the side unnoticed, according to a person at the event.

Protocol dictates that Mr. Li speaks first during business meetings, attendees say. The elder Mr. Li will first hold court, sharing his "big-picture" views on world affairs and the future of China and his concerns and deep affection for Hong Kong, attendees have said. Victor, on the other hand, tends to speak at length about ideas as if he were brainstorming out loud, people familiar with the family say.

Mr. Li relies on his personal touch to charm associates. At CK Hutchison's high-rise headquarters, he takes an elevator down to the basement to greet important guests as their cars pull up. In meetings, he asks personal questions about visitors' families and hobbies.

Friends of the Li family say Victor leads an insular life in Hong Kong. He has resided for years in the same mansion with his father, and his wife and children, and limits his socializing mostly to when he goes to Canada, where he has citizenship. Part of Victor's reticence stems from a traumatizing ordeal in 1996, when he was kidnapped by an armed Chinese gang and held overnight. He was gagged and badly treated, people familiar with the matter say.

Mr. Li paid 1 billion Hong Kong dollars ($134 million) to secure Victor's release. The gang leader was later convicted and executed in mainland China.

—Trefor Moss in Shanghai contributed to this article.

BANK

Continued from Page One

with conspiracy to commit fraud. Messrs. Varley and Jenkins, along with the bank, were charged with providing unlawful financial assistance in connection with the $3 billion loan. English law forbids a company from giving someone money to buy its shares.

Barclays said in a statement it is "considering its position in relation to these developments." It has previously denied that the $3 billion loan was for the purpose of buying shares and previously said the advisory-services payments were for legitimate business purposes.

Unlike its peers Royal Bank of Scotland Group PLC and Lloyds Banking Group PLC, Barclays was able to avoid a bailout by British taxpayers as a result of the Qatari equity injections.

The case involves a cadre of top executives at Barclays who steered the bank at the time, including Mr. Varley, the CEO, and Mr. Jenkins, who had a central role in orchestrating the raising of capital. The two others charged with fraud are Thomas Kalaris, who used to run the bank's wealth division, and Richard Boath, who headed the bank's European financial institutions group.

A law firm representing Mr. Varley said it couldn't immediately comment. Mr. Jenkins intends to vigorously defend against the charges, his lawyer, Brad Kaufman at Greenberg Traurig said, adding Mr. Jenkins had received internal and external legal advice on all the matters covered in the Serious Fraud Office's case. A spokesman for Mr. Boath said he would vigorously contest the charges. Separately, Mr. Boath has filed a lawsuit against Barclays contending that he was wrongfully fired because he blew the whistle on the Qatar deal.

Mr. Kalaris's lawyer said he couldn't comment.

Under U.K. law, when the men appear at the magistrate's court, they will have the option to enter a plea. Any bail conditions will be set and prosecutors will give a brief synopsis of their case. Magistrates then decide which court will hear it. They are set to appear before a court in London on July 3.

The Barclays case is a major test for the Serious Fraud Office, which has in recent years failed to successfully prosecute a number of high-profile bribery and corruption cases. U.K. Prime Minister Theresa May recently pledged to fold it into another crime-fighting agency.

Barclays is facing other legal problems linked to the Qatar capital raisings. In a separate probe, the U.K.'s Financial Conduct Authority imposed a £50 million ($63 million) fine over the disclosure failures. The authority said earlier this year it was reviewing the case after being handed new evidence. Barclays is contesting the fine.

The U.S. Justice Department and the Securities and Exchange Commission are also investigating the payments made to Middle Eastern officials, according to Barclays filings. Barclays disclosed the U.S. investigations without comment.

Separately, PCP Capital Partners, a private-equity group, is suing Barclays for $1 billion alleging the bank made "sham payments" to the Qataris and disadvantaged PCP's client, the Abu Dhabi sovereign wealth fund, which also participated in the 2008 fundraising. Barclays is defending itself against the claim, according to a filing.

The Serious Fraud Office case is another distraction for Barclays's current chief executive, Jes Staley. Mr. Staley is himself currently under investigation by U.K. regulators for trying to identify a whistleblower at the bank, according to Barclays. Mr. Staley has apologized for his actions.

Fires Rage On as Portugal Seeks Answers

RAFAEL MARCHANTE/REUTERS

ONGOING BATTLE: Firefighters near the central Portuguese town of Gois. Prime Minister António Costa sought explanations why a road where many of the recent forest-fire victims died wasn't blocked off.

CORRECTIONS & AMPLIFICATIONS

Venezuela is set to hold voting for a new constituent assembly in July. A Business & Finance article Monday about Venezuelan bonds incorrectly said voting was delayed for years.

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

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U.S. Pressed to Act After Detainee's Death

Family blames death of U.S. student on 'torturous' treatment by North Korea captors

By Felicia Schwartz And Jon Kamp

Otto Warmbier, the American college student imprisoned in North Korea for more than a year before returning home with a severe brain injury last week, died Monday, adding to pressure for more strenuous action against Pyongyang.

The death of Mr. Warmbier, who was 22 years old, came as U.S. and Chinese officials were set to meet in Washington on Wednesday to discuss security and diplomatic matters.

Mr. Warmbier died Monday surrounded by his family, according to a statement. Doctors at the Cincinnati hospital who began treating Mr. Warmbier six days earlier, said he suffered extensive loss of brain tissue and was in a state of "unresponsive wakefulness."

"Unfortunately, the awful torturous mistreatment our son received at the hands of the North Koreans ensured that no other outcome was possible beyond the sad one we experienced today," his family said in the statement, released by the University of Cincinnati Medical Center.

"We hold North Korea accountable for Otto Warmbier's unjust imprisonment, and demand the release of three other Americans who have been illegally detained," Secretary of State Rex Tillerson said in a statement Monday.

North Korea's office at the United Nations didn't respond to a request to comment. North Korea said through its state media that it released Mr. Warmbier on humanitarian grounds. A North Korean official said last week that he was punished because he sought to overthrow the regime.

South Korean President Moon Jae-in, who took office last month, is set to visit the White House next week. He and President Donald Trump are expected to discuss economic issues and "coordinate on North Korea-related issues, including countering the growing North Korean nuclear and missile threats," the White House said last week.

Mr. Trump, who condemned North Korea on Monday, said Tuesday that Mr. Warmbier's death was "a total disgrace" and "should never, ever be allowed to happen."

"Frankly, if he were brought home sooner, I think the result would have been a lot different," Mr. Trump said.

The U.S. has few new options, but officials have said it could turn to so-called secondary sanctions, which would target companies that do business with North Korea in a no-holds-barred effort to economically isolate the country. Washington often has warned it could take such steps, but has held back in the face of Chinese opposition.

While U.S. laws block virtually all trade with North Korea, United Nations resolutions don't go nearly as far. China, which is North Korea's largest trading partner, has said it would follow only these international statutes.

Another last-resort move would be to eliminate travel by Americans to North Korea, a step U.S. officials previously have considered but set aside, although the State Department strongly discourages people from traveling there. A bipartisan bill in the House of Representatives would block U.S. citizens from traveling to North Korea for tourism, and Rep. Ed Royce (R., Calif.), the chairman of the House Committee on Foreign Affairs, called for the ban to be enacted.

Mr. Tillerson told lawmakers last week that the State Department is examining such a ban, a rare measure, but hasn't made a final decision.

The North Koreans detained the University of Virginia student at the Pyongyang airport in January 2016 as he was preparing to leave, and sentenced him to 15 years of hard labor for allegedly defacing a political poster while on tour there.

Mr. Warmbier's family had no information about their son for over a year until learning this month that he was in a coma, his father, Fred Warmbier, said last week. At a secret meeting, North Koreans told U.S. officials that Mr. Warmbier lost consciousness after contracting botulism and taking a sleeping pill, U.S. officials and family members have said.

Sen. Ed Markey (D., Mass.), a member of the Senate Foreign Relations Committee, said "the North Korean authorities must account for exactly what happened to Mr. Warmbier while he was in their custody and ensure that anyone who is responsible for his death is brought to justice."

Doctors treating Mr. Warmbier said they couldn't firmly say what caused Mr. Warmbier's brain injury, citing the limited information about his condition from North Korea. Speaking at a press conference last week, his physicians said it appeared he suffered the brain injury at least 14 months ago, and that the damage was consistent with cardiopulmonary arrest. Intoxication or trauma might cause cardiopulmonary arrest in someone as young as the University of Virginia student, his doctors said.

Mr. Warmbier's family said that when their son returned to Cincinnati he was unable to speak, see or react to verbal commands.

"He looked very uncomfortable—almost anguished," the family said. "Although we would never hear his voice again, within a day the countenance of his face changed—he was at peace. He was home and we believe he could sense that."

—Jonathan Cheng contributed to this article.

SIDOROV YURI/TASS/ZUMA PRESS

Otto Warmbier apologizing to North Korea last year for allegedly defacing a political poster.

WONG MAYE-E/ASSOCIATED PRESS

Passengers boarding an Air Koryo plane at North Korea's Pyongyang International Airport in June 2015.

Tour Group Stops Taking Americans

By Jonathan Cheng

SEOUL—Three of the biggest tour agencies that take Americans to North Korea reviewed their policies on bookings by U.S. citizens following the death of Otto Warmbier, the University of Virginia student imprisoned for 17 months by Kim Jong Un's regime.

Travel agencies in several countries arrange trips to North Korea, despite wide-ranging sanctions and the risks involved in visiting, especially for Americans.

Mr. Warmbier had joined a New Year's tour to Pyongyang organized by Young Pioneer Tours, an agency based in Xi'an, China, that says it has been arranging trips to North Korea since 2008.

He was arrested at Pyongyang's airport in January 2016 as he attempted to leave the country. Accused of trying to steal a propaganda poster, he was sentenced to 15 years of hard labor. Mr. Warmbier died Monday, six days after being returned to the U.S. in a coma.

"The way his detention was handled was appalling, and a tragedy like this must never be repeated," Young Pioneer Tours said in a statement posted on its website Tuesday. "Considering these facts and this tragic outcome, we will no longer be organizing tours for U.S. citizens to North Korea."

Young Pioneer arranges "budget travel to destinations your mother would rather you stayed away from," according to its website, which promotes tours to Afghanistan, Iran, North Korea and Turkmenistan, among other places.

Koryo Tours, a U.K.-registered travel agency based in Beijing, is the largest and longest-running Western operator of North Korea tours. The company said it was discussing the matter with its Korean travel partners and foreign organizations in Pyongyang. Simon Cockerell, Koryo's general manager, declined to comment further.

Uri Tours, which bills itself as the largest U.S. provider of North Korea travel, organized a tour for Matthew Miller, an American who was sentenced to six years of forced labor in 2014 before being freed later that year. The tour operator said Mr. Warmbier's case was a "heart-wrenching tragedy that should have been avoided."

The company, based in Kearny, N.J., said it was reviewing its position on travel to North Korea.

Some 5,000 Westerners visit North Korea as tourists each year, including about 1,000 Americans, according to Mr. Cockerell.

Among North Korea tour operators, Young Pioneer stood out for its freewheeling style that emphasized what it called its "fun way of doing things" in forbidding places.

Tourists who have joined Young Pioneer's tours to North Korea describe a heavy emphasis on drinking and carousing that stretched into the early hours.

For several years, Young Pioneer has promoted "ultra-budget" St. Patrick's Day tours to Pyongyang that include a pub crawl.

Adam Pitt, a British national who joined a Young Pioneer tour to North Korea in 2013, described the agency as complacent about the risks. He said while he doesn't drink, the late-night revelry often bled into the next day's activities.

Troy Collings, a director of Young Pioneer, said that while "everyone has different perceptions on things like drinking," the company works "extremely hard to brief our customers and to ensure their safety during their tours."

White House Seeks An Ally in Beijing

By Felicia Schwartz

WASHINGTON—The U.S. will press China to ramp up pressure on North Korea in a round of high-level talks on Wednesday, hoping for action on what Washington sees as a pre-eminent threat, a senior U.S. diplomat said Monday.

The Trump administration is pursuing a strategy of leaning strenuously on Beijing to curtail North Korea's nuclear-weapon and missile programs, but provocations by Pyongyang have continued since President Donald Trump and Chinese President Xi Jinping met in Florida in April.

The State Department's top diplomat for Asia, acting Assistant Secretary Susan Thornton, told reporters on Monday that China is the leading facilitator of North Korea's economic activity, and noted that Beijing's ban on buying North Korean coal has had an effect.

"But we would like to see China do more, and we're going to be talking to them about that this week," Ms. Thornton said, adding that the U.S. is working with China to try to crack down on North Korean entities that go through China to do business.

Chinese officials, meanwhile, are hoping to shift the focus of bilateral discussions to trade, as U.S. optimism for further cooperation over North Korea has dimmed.

Emphasizing how both countries stand to gain from closer trade links, Beijing is pointing to its recently lifted restrictions on imports of American beef, after 14 years, and how the growing appetites of Chinese consumers can benefit the U.S.

"The next step is to import a huge volume of agricultural goods," Wei Jianguo, a former Chinese trade official who is now a senior figure at a state-supported think tank, told foreign reporters in Beijing on Monday. "Ignoring a market this big, how is that going to solve the U.S.'s problems?"

Secretary of State Rex Tillerson and Defense Secretary Jim Mattis will host Chinese State Councilor Yang Jiechi and Gen. Fang Fenghui, chief of the Joint Staff of the People's Liberation Army, at the State Department on Wednesday.

"For North Korea we are...trying to create a global echo chamber," Ms. Thornton said, "where all countries come together behind the U.N. Security Council resolutions that have been developed to address North Korea's illicit weapons programs, and we are trying to get all countries to take actions to increase the pressure on North Korea through sanctions implementation and other measures."

Wednesday's meetings are the latest iteration of bilateral talks between Washington and Beijing that began under the Bush administration. During the Obama administration, economic, diplomatic and security issues were handled on a single track. The Trump administration has altered the format, so that economic ties have their own session. There also are separate tracks for law enforcement and cyber issues, as well as another for cultural exchange.

The U.S. also will urge China to pause in its construction projects on contested islands in the South China Sea, to allow China and other claimants to resolve the disputes through diplomacy and international law.

—Josh Chin in Beijing contributed to this article.

FORD

Continued from Page One

Small cars built by U.S. workers are generally money losers in the American market because buyers won't pay a premium for them. The red ink deepens as gas prices fall and demand for fuel-efficient vehicles fades. Sales of compact cars, such as Honda's Civic or Chevrolet's Cruze, thrive when fuel is pricey and buyers want fuel efficiency, but require hefty discounts when gasoline is cheap.

Companies producing in Mexico been under pressure as the Trump administration renegotiates the North American Free Trade Agreement, a decades-old pact that has led several auto makers to bulk up Mexican head count and production activities. Ford and rivals have already signaled changes in response to President Donald Trump's repeated attacks on companies importing cars from Mexico to the U.S.

Ford's recent decision to offshore the Focus so it could convert the factory back to pickup and SUV plant was a key rallying for Mr. Trump during his presidential campaign even though the move likely preserved thousands of UAW jobs. Critics say moving any product to Mexico is problematic, but Ford says such moves are necessary to preserve the bottom line.

Ford softened the blow in January by saying it would cancel the new plant planned in Mexico and allocate $700 million in savings to create jobs at a separate plant in Michigan slated to make electric cars. Still, the turn to China might not ease White House concerns because vehicles coming from Asia are typically far-less dependent on U.S. parts than those coming from Mexico.

General Motors Co. last year became the first major auto maker to rely on China for significant volumes of vehicles to be sold in the U.S. Buick dealerships have sold more than 30,000 Envision SUVs, built in northeast China, since it went on sale in 2016.

Sourcing vehicles from China allows global auto makers to make better use of capacity in the world's largest car market amid a slowdown in sales growth there. But a combination of factors, including hefty tariffs and lower logistics costs, means U.S. workers have essentially no role in the construction of those vehicles.

Unlike cars built in Mexico, which often carry several components made by U.S. parts suppliers due to the lack of trade barriers, the Buick Envision relies on Chinese sources for 88% of its components, according to the National Highway Traffic Safety Administration. Only 1% is provided by U.S. or Canadian companies, the NHTSA says.

A Ford spokeswoman declined to comment on the potential impact the move will have on supplier jobs in North America. For the current Focus built in Michigan, which is scheduled to end production in 2018, 46% of parts are built by Canadian or U.S. suppliers.

Building the next-generation Focus in China rather than in an existing plant in Hermosillo, Mexico, will save Ford $500 million annually, helping it trim costs amid slowing U.S. volumes and rising expenses related to technology investments.

HAROLD CUNNINGHAM/GETTY IMAGES

Ford will begin importing Focus compact cars from China in the second half of 2019.

WORLD NEWS

ERIK DE CASTRO/REUTERS

A small drone used by the Iraqi army outside a command post in western Mosul earlier this month. Both the military and Islamic State are using the devices to survey the battlefield in Mosul.

Low-Tech Drones Steer Battle for Mosul

Iraqi security forces use quadcopters to supply aircraft with ISIS targets in the city

By Ben Kesling And Ghassan Adnan

BAGHDAD—Iraqi forces are using small, off-the-shelf drones to target Islamic State in the crowded and twisting streets of Mosul's Old City, where the militants are making a last stand.

Iraq's counterterrorism forces on Tuesday said they pushed to within a few hundred yards of the al-Nuri Mosque, where Abu Bakr al-Baghdadi officially announced the creation of the Islamic State caliphate in 2014, and has been a symbol of the militants' power.

The Old City likely has some 100,000 civilians and a dwindling number of extremist fighters packed into about 1½ square miles.

Mosul is Iraq's second-largest city, and Islamic State's last major stronghold in the country.

Iraqi forces worry that this stretch of fighting could be the bloodiest of the battle for Mosul, which began in October, and that it could last for weeks longer.

Iraqi and American forces are looking for any advantage to loosen Islamic State's hold in the Old City, where militants use civilians as human shields and deploy booby traps.

Though troops can see the mosque, they also see civilians fleeing the fighting and that has slowed their advance, counterterrorism officials said.

The latest advance in Mosul was aided in part by the drones, quadcopters that are small enough to carry in a backpack, sell for about $1,500 commercially and are rigged with cameras on the underside.

Iraqi counterterrorism forces have said they used quadcopters to supply aircraft with the U.S.-led coalition with some of their first targets in the Old City.

Iraq's federal police say they do the same.

Islamic State terrorized Iraqi forces earlier in the battle for the city by using their own drones rigged to drop grenades.

Now, Iraq's security forces have turned the technology against the militants.

At a command post near the front lines, American combat advisers huddled days ago around stacks of high-tech communications equipment and screens with feeds from multimillion-dollar aircraft while they waited patiently for an Iraqi quadcopter to give them the battlefield intelligence needed for an airstrike.

"Using the Iraqi drones is something new," said Brigadier Walid Khalifa, deputy commander of the Iraqi Army's 9th Division. "We see the enemy and we decide its location and we give the coordinates of targets. It's faster than before."

Lt. Col. James Browning, a battalion commander with the U.S. Army's 82d Airborne Division, said it can be time-consuming to have Iraqi forces spot a potential target and then pass along the coordinates for an airstrike verbally.

By the time he got the requests translated from Arabic, double-checked the target and approved the strike, the opportunity had sometimes passed in the quick-moving urban warfare.

Weeks ago he realized the Iraqis already had the technology available to cut through such problems.

When Iraqi drone pilots fly a quadcopter over a target—and bring that target up on screen, showing militants fighting Iraqi troops in high definition—Col. Browning said he gets what he needs to authorize a strike in seconds.

"We're able to deliver joint fires essentially at their command," he said, referring to airstrikes, artillery and other weapons.

Iraqi troops have been tinkering with quadcopters to make it possible for them to fly further and still provide real-time video feeds in dense parts of Mosul.

Col. Browning said Iraqi drone technicians had fitted drones with bigger batteries, giving them extended range.

If one falls from the sky or gets shot down, they launch another at little cost, he said.

And if there is no Iraqi drone available, the U.S. is still able to call on its ample arsenal of high-tech drones and aircraft, which are often already in the sky, can fly longer and further and can be equipped with infrared cameras, powerful weapons and other advanced gear.

The U.S. can use those to coordinate strikes, though it may take a few minutes longer, Col. Browning said. "We can still go old-school."

Two Journalists Killed in Mine Blast

PARIS—A French journalist and his Iraqi colleague died in a mine blast in Mosul, where they were covering Iraqi counterterrorism operations against Islamic State for state-owned France Télévisions, the network said on Tuesday.

Stephan Villeneuve, 48 years old, and Bakhtiar Haddad were accompanying Iraqi army forces in areas held by Islamic State in the city's historical center, on the West Bank of the River Tigris, said Reporters Without Borders, a nonprofit media group.

Two other reporters were injured in the blast. Véronique Robert, another video-journalist working with Mr. Villeneuve, and Samuel Forey, on assignment in Mosul for several French media outlets, were also wounded, the international aid organization said.

The group of reporters was transferred to a U.S. military medical unit in Al-Qayyarah, south of Mosul, after the explosion.

Mr. Villeneuve had covered wars all over the world and had received treatment in Lyon last year for a hand injury he sustained when he was shot by a sniper while reporting in the Iraqi city of Fallujah, Reporters Without Borders said.

The battle for Mosul, Iraq's second-largest city and Islamic State's major stronghold in the country, began in October, and could last for weeks longer.

Reporters Without Borders said 28 journalists have been killed in Iraq since the start of 2014, with three of those—including Messrs. Villeneuve and Haddad—killed since the battle to retake Mosul began.

Islamic State fighters in Mosul are holding 10 Iraqi journalists and media workers, the group said.

—Noémie Bisserbe

WORLD WATCH

MEXICO

Finance Chief Waits On U.S. Tax Moves

Finance Minister José Antonio Meade thinks it unlikely that Mexico will need to make changes in its tax code in the event the U.S. Congress passes corporate tax cuts or other measures sought by U.S. President Donald Trump.

Mr. Meade, a 48-year-old Yale-educated economist, said in an interview that it is too early to say for sure how Mexico would respond to U.S. tax changes, since details of the U.S. plans are still scarce.

But he said Mexico, which is seeking to narrow budget deficits after years of spending to support growth, has little room to reduce an already low tax burden. Mexico would have to consider changes only if the U.S. took some innovative action such as enacting a border-adjusted tax—a levy omitted in Mr. Trump's April tax blueprint.

When Mr. Trump was elected on pledges to renegotiate or pull out of the North American Free Trade Agreement, many analysts believed Mexico was heading toward a perfect storm.

Oil prices remained low, hurting public finances, there were fears foreign investment could dry up and that a blowup over Nafta could hurt Mexican trade.

An unpopular 20% jump in local gasoline prices in January announced by Mr. Meade's ministry prompted widespread protests.

But things haven't turned out that badly. The economy grew at an annualized rate of 2.7% in the first quarter, while the peso has recovered around 22% against the U.S. dollar since February and is trading at its highest level in more than a year.

—Juan Montes

UNITED KINGDOM

BOE's Carney Says No Rate Rise at Hand

Bank of England Gov. Mark Carney said that while rate-setters' tolerance for above-target inflation is coming to an end, it is too early to raise the key interest rate for the first time in a decade.

He said weak wage growth raised questions about the strength of domestic inflationary pressures, and he was unsure how the economy would respond to separation talks between the U.K. government and the rest of the European Union.

"From my perspective, given the mixed signals on consumer spending and business investment, and given the still subdued domestic inflationary pressures, in particular anemic wage growth, now is not yet the time to begin that adjustment," he said.

—Paul Hannon

RUSSIA

Rights Court Rules Against Antigay Law

A Russian law that bans gay "propaganda" is discriminatory and encourages antigay views, the European Court of Human Rights said, in a ruling that provoked an angry rebuke from Moscow.

The court, based in Strasbourg, France, ruled in favor of three Russian activists who brought the case over a 2013 law and other legislation that banned the promotion of homosexuality. Lawmakers said the law would protect minors from "propaganda of nontraditional sexual relations," but in practice makes it a crime to hold gay-pride events or to say gay relationships are equal to heterosexual ones.

The Russian Ministry of Justice denied the laws were discriminatory and said it would appeal the ruling within three months.

—Nathan Hodge

WAN XIANG/XINHUA/ZUMA PRESS

CAST OF DOZENS: Fishing boats left a port in Kangshan, eastern China, on Tuesday, marking the end of a three-month ban.

IAN HITCHCOCK/GETTY IMAGES

Australia backed out of the U.S.-led coalition in Syria amid rising tensions between Russia and the U.S. in the long-running conflict.

Australia Suspends Syria Air Operations

By Ben Kesling

BAGHDAD—Australia suspended air operations in Syria amid escalating tensions between Washington and Moscow after Russia threatened to track American and coalition aircraft in the war-torn country as targets.

"As a precautionary measure, Australian Defense Force strike operations into Syria have temporarily ceased," the Defense Ministry said Tuesday.

The American ally's decision to back out of U.S.-led coalition airstrikes in Syria comes hours after the U.S. shifted some of its own flight patterns in the country to minimize risks, following Russia's warning on Monday that it would use air-defense systems or Russian pilots to track flights west of the Euphrates.

The current tensions between the U.S. and Russia, which back opposite sides in the Syrian conflict but are also fighting Islamic State in the country, began on Sunday when an American jet fighter shot down a Syrian regime warplane after it targeted U.S.-backed Syrian fighters who were leading the assault on Islamic State's de facto capital, Raqqa.

Russia, allied with the Syrian regime of Bashar al-Assad, responded to the U.S. strike with threats to cut official lines of communication that are meant to prevent midair mishaps and to treat U.S.-led coalition planes as targets. It, however, stopped short of threatening to shoot them down, giving some U.S. officials hope that the situation won't worsen.

"ADF personnel are closely monitoring the air situation in Syria and a decision on the resumption of ADF air operations in Syria will be made in due course," Australia's Defense Ministry said. It will continue its mission in neighboring Iraq, it added.

—Rob Taylor in Canberra contributed to this article.

Ukraine Leader Meets With Trump, Pence

By Alan Cullison

WASHINGTON—Ukraine's president met with President Donald Trump and Vice President Mike Pence in a U.S. visit that comes as he pushes for more U.S. pressure on Moscow, which backs pro-Russian separatists in eastern Ukraine.

Petro Poroshenko met Tuesday with Mr. Pence and saw Mr. Trump in the Oval Office, the White House said.

Mr. Poroshenko also was expected to meet with Defense Secretary Jim Mattis and Secretary of State Rex Tillerson.

For months, Mr. Poroshenko has been angling for a meeting so he could push the administration for more pressure on Moscow to stop its support for pro-Russian rebels in eastern Ukraine. Before now, the presidents had spoken only by phone.

Mr. Poroshenko wants the U.S. to press Russia to stop backing rebels in Ukraine.

Last month, Mr. Trump hosted Russia's foreign minister and U.S. ambassador in the Oval Office, and officials in Kiev had feared the U.S. leader would meet Russian President Vladimir Putin before Mr. Poroshenko.

Mr. Poroshenko, who made a fortune in a chocolate-making business before going into politics, has hoped his background as an entrepreneur may give him a means to forge ties with Mr. Trump, officials close to the Ukrainian president said.

"This is a good thing that this meeting is taking place before a Trump-Putin meeting," said John Herbst, a former U.S. ambassador to Ukraine who is now at the Atlantic Council think tank in Washington.

"It's important that there be a real exchange between the two presidents," Mr. Herbst said.

The visit is a low-profile event, compared with how Mr. Trump has hosted other world leaders.

On Monday, Mr. Trump personally welcomed the visiting president of Panama, hosted him for an Oval Office meeting that included a photo-op with their wives, and treated him to a luncheon.

Tuesday's meeting comes just weeks before Mr. Trump attends the Group of 20 summit in Germany where he is expected to speak in person with Mr. Putin.

The Trump administration has voiced support for Ukraine, saying the U.S. would maintain sanctions on Russia until it reversed its annexation of Crimea.

But Ukrainian officials have been unsettled by some other signals.

During the presidential campaign last year, Mr. Trump suggested sanctions against Moscow should be eased, and earlier this year Mr. Trump met briefly with a domestic political rival to the Ukrainian president, former Prime Minister Yulia Tymoshenko.

Both U.S. and European officials have expressed frustration over a lack of progress in implementing a peace plan for eastern Ukraine that had been brokered in 2014 and 2015 in the Belarus capital of Minsk with the help of European mediators.

Tenets of the so-called Minsk agreement included holding local elections in Ukraine's breakaway Donbas region and returning the border with Russia to Ukrainian control.

Last week, Mr. Tillerson suggested the U.S. would back an entirely new peace deal, saying it would support efforts of Ukraine and Russia to resolve the conflict outside of the Mink accord.

—Michael C. Bender and Carol E. Lee contributed to this article.

NICHOLAS KAMM/AGENCE FRANCE-PRESSE/GETTY IMAGES

President Donald Trump chats with Ukrainian President Petro Poroshenko before a formal meeting in the Oval Office.

TOBIAS SCHWARZ/AGENCE FRANCE-PRESSE/GETTY IMAGES

German Chancellor Angela Merkel gestures to French President Emmanuel Macron in Berlin on May 15, a day after he took office.

Merkel Shows New Openness To Reforming Eurozone

By Bertrand Benoit And Andrea Thomas

BERLIN—German Chancellor Angela Merkel for the first time sketched out the outlines of a bargain with France on fixing the governance of Europe's single currency, in the clearest sign yet that the two biggest eurozone countries are inching closer toward reconciling sharply different views on the matter.

Germany could support two central French demands—the appointment of a eurozone finance minister and the creation of a common budget—if some conditions were met, Ms. Merkel told business leaders in Berlin on Tuesday.

"We can of course think about a eurozone budget as long as it's clear that this is really strengthening structures and achieving sensible results," she said.

In a striking softening of previous language opposing money transfers and joint liabilities among member states, Ms. Merkel said "we could think about a common finance minister...if we aren't pooling liabilities in the wrong place."

Ms. Merkel's surprise overture, however qualified, and her willingness to discuss issues that have long been taboo in Germany suggest the stalled process of reforming the eurozone could kick back into life sooner than most experts had expected.

The timing of her comments took even some German officials by surprise, coming ahead of a national general election in September. Berlin had refused to engage in detailed talks about the future of the eurozone before the vote, insisting French President Emmanuel Macron had to prove his mettle first by enacting a string of domestic economic measures over the summer.

The crisis that engulfed the eurozone in 2010 and is only beginning to dissipate laid bare deep defects in the currency union's design, including weak central control on public spending and the absence of incentives for countries to harmonize very disparate economies. The eurozone also lacks the ability to raise and spend money in ways that could help buffer downturns.

The severity of the cash crunch forced several member states to seek emergency assistance from their peers and from the International Monetary Fund. It also nearly caused the bloc's weakest member, Greece, which remains under financial tutelage to this day, to drop out of the bloc.

The region has since equipped itself with a banking authority and a rescue fund for states facing liquidity shortages, but most experts agree much is left to be done to make the eurozone a sustainable construction.

Germany so far has focused on tougher central controls on public spending and has long rejected the idea of jointly issued bonds, which Berlin thinks would encourage overspending by economically fragile members.

Under its newly elected president, France has floated the idea of a joint eurozone budget to finance specific areas, such as unemployment insurance and infrastructure investment, across the region—a notion anathema to Berlin until now.

Both countries have at different times suggested the appointment of a finance minister for the eurozone, though France sees that role as overseeing a common budget while Germany envisages a fiscal policeman.

Ms. Merkel's comments, however, suggest these two visions might be reconciled into a common arrangement combining tougher fiscal policing and some fiscal transfers between budget-surplus and deficit countries.

German officials say they have been reluctant to engage with Mr. Macron on eurozone reform ahead of Germany's general election because fiscal transfers are unpopular among the country's voters.

And they say they are still skeptical about the novice president's ability to execute the tough domestic labor market reforms and spending cuts he campaigned on. Fixing France's own economic flaws, they said, would be a prerequisite to any serious talks on overhauling the eurozone.

"We still need to see the evidence," one official said. A joint working group of French and German finance ministry officials has met but has yet to touch on eurozone issues, one person familiar with the agenda said.

French officials in turn say they are reluctant to directly confront Ms. Merkel with specific demands Mr. Macron made in his election manifesto. Instead, officials in Paris say they are working behind the scenes with German counterparts on how to integrate their economies, rather than sealing an agreement on new formal structures or a finance minister post. The topic is expected to be a central theme of a joint Franco-German cabinet meeting mid-July.

France's lackluster economic performance, its failure to unshackle a regimented economy, and repeated breaches of European fiscal rules have dimmed the country's voice in Europe and accelerated Germany's rise as the region's dominant power.

But after last weekend's parliamentary election in France gave Mr. Macron's movement a comfortable majority, recognition is growing in a skeptical Berlin that he may have the seats—and political clout—to deliver on his promises. Mr. Macron says he will move quickly to empower his government to legislate changes to labor laws by the end of September.

German officials also see the appointment of Bruno Le Maire, an expert on Germany and a fiscal conservative, as France's economy minister as a sign that Paris is serious about engaging constructively on eurozone reform.

Since France and Germany have long sat on opposite sides of the spectrum of ideas about how to fix the eurozone, a Franco-German agreement could go a long way toward mapping out reforms acceptable to others.

—William Horobin in Paris contributed to this article.

Chancellor Vows Push for Free Trade

BERLIN—German Chancellor Angela Merkel pledged to strive for a broad, rules-based and fair agreement on global trade at the meeting of Group of 20 leaders in July, aiming to convince the U.S. of the benefits of open markets.

"We will do everything in our power to achieve an agreement as broad as possible in Hamburg," Ms. Merkel said on Tuesday.

The German chancellor warned against the lure of short-lived, short-term gains that more isolationist trade policies might bring to countries that pursue them.

She said countries ignore the longer-term dangers of protectionism at their peril.

Germany holds this year's G-20 presidency.

Leaders from the world's leading 20 industrialized and developing nations will meet in Hamburg on July 7-8.

—Andrea Thomas

NATO Conducts Drill to Bolster Critical Supply Line

By Julian E. Barnes

STAŠĖNAI, Lithuania—The North Atlantic Treaty Organization brought two battle groups together in a drill meant to demonstrate its ability to keep open vital supply lines between Poland and Lithuania, shoring up what military planners have identified as an alliance weakness.

Allied militaries have been conducting a series of exercises in the Baltic region in recent days. The Saber Strike exercise has focused on securing the so-called Suwalki Gap, the border region between Poland and Lithuania.

Military planners believe in the event of a conflict with Russia, its forces in Kaliningrad or Belarus could threaten to cut off the Baltic States from the rest of NATO.

"We are demonstrating our capability to secure our most vulnerable point, the Suwalki Gap," said Lithuanian President Dalia Grybauskaite.

On Tuesday, the U.S.-led NATO battle group in Poland moved into Lithuania, joining up with the German-led battle group, Polish, Lithuanian and other allies. The exercise was the first time NATO has moved one battle group from its base to another country.

Forward-deployed tanks, infantry fighting vehicles and an assortment of weapons systems from the U.S., Poland and other allies drove over a temporary river crossing erected by German and British military engineers.

Overhead, Apache attack helicopters and a U.S. Air Force B-1 bomber flew past. Local Lithuanians watched the exercise from the river banks.

This year, NATO has deployed 4,500 troops to Poland and the Baltic States, a move NATO Secretary-General Jens Stoltenberg has said was a direct reaction to Russia's buildup in the region.

"These NATO battle groups send a clear message: An attack on one ally is an attack on all," Mr. Stoltenberg said.

The battle groups have been touted as a trip-wire force, a small defensive group whose presence would deter any potential conflict because NATO powers would reinforce the region should their forward-positioned troops come under attack.

But NATO military officials are anxious to demonstrate they can move and concentrate forces should a crisis develop.

"The Suwalki gap is geographically important and it is strategically and operationally important," said Lt. Col. Steven Gventer, the commander of the U.S.-led NATO battle group. "Our ability to come through the gap...not only helps with our deterrent capability but also shows we could defend if needed."

Still, Ms. Grybauskaite said the West needs to invest more in air and missile defenses to keep supply lines open between the Baltic States and the rest of the alliance.

The U.S. has been considering a temporary deployment of a Patriot missile-defense system, and U.S. military officials have been urging allies to invest in air-defense systems for the Baltics.

"Air defense is the thing which can break the efforts of Russia to deny access to the Baltic States," Ms. Grybauskaite said in an interview.

VALDA KALNINA/EUROPEAN PRESSPHOTO AGENCY

American soldiers crossed a pontoon bridge during an exercise on Tuesday in Stasenai, Lithuania.

U.S. NEWS

Senate Is Planning Health-Care Vote

By Stephanie Armour And Kristina Peterson

WASHINGTON—Senate GOP leaders have set a timeline to vote next week on legislation to repeal large chunks of the Affordable Care Act, even though they don't yet appear to have secured enough support to pass it.

Majority Leader Mitch McConnell (R., Ky.) is intent on keeping pressure on Senate Republicans to move quickly on the bill rolling back and replacing much of the 2010 health law, lawmakers and GOP aides said. The push for a quick vote before the weeklong July 4 recess could backfire, however, as some conservative and centrist Republicans have expressed concern about the emerging shape of the legislation.

"I expect us to vote on it next week," Sen. Richard Burr (R., N.C.) said Monday evening of the health bill. "I believe the majority leader when he says he's going to take it up."

Mr. McConnell could pull back if he calculates that a little extra time could get him the votes needed to cross the finish line. He can lose no more than two GOP votes for a bill to pass. All Democrats are expected to oppose it.

Still, Mr. McConnell has reasons to try for a quick health-care vote. The pressure could force lawmakers to reach a consensus on sticking points that have divided them. And GOP leaders in both chambers want to move on to other legislative items.

Failure to take a vote before either the July 4 recess or the longer break later in the summer also could open up Republican lawmakers to pressure from constituents either concerned about losing their health coverage or expecting Republicans to follow through on pledges to repeal the law known as Obamacare. Some town-hall meetings during the spring, when the House was considering its legislation, saw lawmakers greeted by boisterous crowds.

The Congressional Budget Office estimated the House bill passed in May would leave 23 million fewer Americans with health coverage in 2026 versus current law.

GOP aides and others familiar with the negotiations said they anticipate the Senate bill's text will be released later this week. The CBO is expected to release its estimate of the federal budget and insurance coverage early next week, and a vote could potentially be held Thursday of next week, before lawmakers scatter.

Democrats and consumer groups have criticized Senate Republicans for crafting the bill in closed-door sessions without any hearings or other input. As a form of protest, Senate Democrats are planning procedural maneuvers to try to delay legislation or nominees.

Democrats are planning to "embarrass the heck out of Republicans, who are as much in the dark as we are about their own leadership's plans on the bill," said Sen. Richard Blumenthal (D., Conn.). "Our tools are limited, but we're going to use every one of them."

For their part, many Senate Republicans have said they have yet to see their bill and want to make sure they are given enough time to review it.

"There isn't a bill yet—nobody has seen any language," Sen. Chuck Grassley (R., Iowa) said Monday. Sen. Dan Sullivan (R., Alaska) said he wanted "significant time" to review the bill—"certainly days" rather than hours, he said.

Mr. McConnell has said all 52 Senate Republicans have been involved in the negotiations on issues the party has been talking about since the ACA passed in 2010.

Meanwhile, provisions in the GOP bill that had proved vexing, including the fate of Medicaid expansion and tax credits to consumers, appear close to being resolved, people familiar with the negotiations said.

Under an option being strongly considered, the bill would exact steeper financial cuts to Medicaid than under the House-passed legislation, the people said, a move likely to draw criticism from a number of Republican governors who want to preserve Medicaid open-entitlement funding and the ACA's expansion of the program.

The entire funding system for the state-federal program for low-income and disabled people would be changed to a per capita cap, which would limit federal spending to states. That is the approach that also passed in the House bill, which would cut federal spending on Medicaid by $834 billion over 10 years.

TOM WILLIAMS/CONGRESSIONAL QUARTERLY/NEWSCOM/ZUMA PRESS

Senate Majority Leader Mitch McConnell, center, with other Republicans on Capitol Hill earlier this month.

White House Makes June ACA Payments

WASHINGTON—The Trump administration made contested payments to health insurers for the month of June, two industry officials said, removing the possibility of an abrupt cutoff just as many insurers make decisions about coverage under the Affordable Care Act in 2018.

The fate of "cost-sharing reduction" payments, which reimburse health plans for lowering copays and deductibles for millions of low-income people who get coverage under the 2010 law, often dubbed Obamacare, has been a running backdrop in the debate over Republicans' bid to scrap that law. Senate GOP leaders intend to vote next week on legislation to repeal portions of the act.

Republicans say the payments are legally tenuous, and a federal court has backed their argument that Democrats failed to make an explicit appropriation for them in passing their health care law in 2010. Democrats counter that Republicans are trying to remove the payments to sabotage the already fragile insurance markets and make a case for their own bill.

President Donald Trump's administration has made the payments, which are sent monthly to health insurers, since taking office. But Mr. Trump also has openly mulled stopping them as a way to force Democrats to bargain with him over spending deals or health care, and Democrats and insurers had grown increasingly concerned that he would do so over the summer.

As late as last week, the White House declined to say whether it would make the payments for June.

Two industry officials said Tuesday that insurers had received their payments. The White House didn't respond to a request to comment.

In the fight over the last spending deal, Democrats backed down from an insistence that the payments be written into the law, and the White House offered no public guarantees it would continue to make them in the meantime.

—Louise Radnofsky

House Speaker Talks Up Likelihood of Tax Overhaul

By Richard Rubin

WASHINGTON—House Speaker Paul Ryan planned Tuesday to express continued confidence that Republicans can deliver a groundbreaking set of tax-policy changes this year, despite a long list of hurdles in front of them.

At a speech to manufacturers in Washington Tuesday afternoon, Mr. Ryan (R., Wis.) wasn't expected to delve into the details that divide Republicans or the negotiations between President Donald Trump's administration and members of Congress.

"We need to get this done in 2017," he is expected to say, according to excerpts distributed by his office. "Transformational tax reform can be done, and we are moving forward."

Republicans can "fix this nation's tax code, once and for all," he plans to say.

Mr. Ryan's speech to the National Association of Manufacturers, sandwiched between cable-news appearances, is meant to build momentum and public support for the party's aims. Republicans face significant obstacles, but many see a tax overhaul as a political necessity that would deliver on one of their core campaign promises.

For now, taxes are secondary to health care and other policy issues. But the GOP is planning a busy fall.

Tax policy would gain momentum if Republicans can pass a health law that repeals parts of former President Barack Obama's Affordable Care Act, known as Obamacare, and cuts hundreds of billions of dollars in taxes that wouldn't have to be addressed as part of a tax plan. Failure on health care would create complications for a tax bill, but it might also create a new sense of urgency.

Among the current challenges facing Republicans:

• The biggest is internal opposition—particularly in the Senate—to Mr. Ryan's plan to add a border adjustment to the corporate tax, which would tax imports and exempt exports. Despite opposition, Mr. Ryan is forging ahead in the absence of an alternative.

The border adjustment, Mr. Ryan has argued, wouldn't just provide an estimated $1 trillion over a decade to pay for lower tax rates. By basing taxes on sales instead of profits, it would also act as a backstop to prevent companies from shifting profits abroad as part of a system in which the U.S. stops taxing companies' foreign income.

"We are actually unique in the world in the way we discourage capital from coming back to America and how we incentivize offshoring jobs," Mr. Ryan plans to say Tuesday. "We must think differently, so that once again we make things here and export them around the world."

• Republicans also have to decide whether they want a tax cut or a revamp of the system that would leave federal-tax collections almost unchanged. Conservatives and some parts of Mr. Trump's administration favor a tax cut. Mr. Ryan and Senate Majority Leader Mitch McConnell (R., Ky.) have said they favor a so-called revenue-neutral approach—meaning that total taxes wouldn't change much while rates get lowered and some breaks vanish—after counting revenue generated by the tax plan's economic effects.

Mr. Ryan plans to say Tuesday that a permanent tax law is important, which means it will likely need to be constructed to avoid increasing budget deficits beyond a 10-year budget-scoring window. He is expected to say that the GOP will use savings from eliminating loopholes to pay for lower tax rates for individuals and businesses.

"Every expert agrees that temporary reforms will only have a negligible impact on wages and economic growth," he plans to say. "Businesses need to have confidence that we will not pull the rug out from under them."

• Intra-Republican disputes threaten the GOP effort with every trade-off. Just this week, seven House Republicans from New York and New Jersey signed a letter asking the administration—and by extension, the speaker—to reconsider a proposal to repeal a deduction for state and local taxes.

• To even get to tax policy, Republicans would have to pass a budget that allows them to use reconciliation, the procedural tool that enables a simple majority vote in the Senate. That would require bridging gaps between Republicans who emphasize spending cuts and those who want to spend more on the military.

• Then there is a pile of narrower issues that are bound to crop up as Republican members find their home-state and home-district industries objecting to pieces of the tax bill.

The result may not be the tax plan Mr. Ryan first presented a year ago. But Republicans say they are determined to do something ahead of next year's primaries and midterm elections.

Lower Tax Intake Isn't a Big Concern, U.S. Official Says

Government has enough cash to pay bills through September

WASHINGTON—Treasury Secretary Steven Mnuchin said Tuesday he isn't concerned about U.S. tax receipts coming in lower than expected in recent months.

If the trend continues, it could shorten the amount of time the government has before it runs out of cash to pay its bills, unless Congress raises the federal borrowing limit. The government hit that limit in mid-March and has been using extraordinary measures since then to meet its obligations, including payments on government debt as well as other programs such as Social Security and veterans benefits.

Mr. Mnuchin told CNBC in an interview Tuesday that the government has enough cash to pay its bills "through the beginning of September." A short time later, in an interview on Bloomberg TV, he said Treasury could meet its obligations "through September" if Congress doesn't raise the debt limit before leaving for a five-week summer recess.

"There are certain individuals and businesses that are pushing off taxes until later in the year, but nothing that we're concerned about," he told CNBC.

Still, Mr. Mnuchin urged Congress to raise the debt limit before lawmakers leave Washington on July 28.

Unlike the Obama administration, the Treasury Department under President Donald Trump hasn't provided a formal forecast of when it expects to exhaust the extraordinary measures and run out of room to pay the government's bills in full and on time.

—Kate Davidson

JEFF MALET/NEWSCOM/ZUMA PRESS

House Speaker Paul Ryan seeks to build momentum for tax plan.

Threats, Violence Against Witnesses Bring Calls for Secrecy

By Jacob Gershman

Deadly attacks on confidential informants are prompting the federal courts to consider injecting more secrecy into the judicial system, drawing the concern of defense lawyers about due-process rights.

Across the U.S., close to 700 witnesses and informants believed to have cooperated with the government have been threatened, wounded or killed over a recent three-year period, including 61 murdered, according to estimates from a recent survey by the federal judiciary's research arm. Some judges suspect those numbers might be low.

The justice system has long been dependent upon tips, recordings and other information from suspected criminals to catch bigger fish in investigations into gangs and drug traffickers. Those who offer substantial assistance to an investigation or prosecution can get more than a third of their prison sentences cut.

But inmates determined to unmask a "snitch" are getting more sophisticated, diving deep into court dockets and decoding sentencing motions filed by prosecutors for clues to who is talking. A proliferation of court records online on PACER—the pay-per-page portal run by the courts—and smartphones have made it easier for criminal gangs to find files that could expose cooperators, according to judges and lawyers.

Federal inmates are restricted from accessing PACER themselves, but it is easy for them to ask people outside the prison to search the online system and report the information back into the prison by phone, according to judges.

Inmates also can ask courts for copies of their own sentencing files, and they often are pressured by other inmates to request the documents—known as paperwork—to prove they kept quiet, the judiciary survey found.

In some prisons, according to judges, inmates are forcing other inmates to post the paperwork in their cells so others can come by and read them. At the moment, only the most confidential case files are treated as prison contraband, but inmates have been permitted to possess copies of other types of sensitive documents, such as sentencing minutes and plea agreements.

The security fears have prompted the federal judiciary to come up with new rules for sealing and sharing evidence.

In a recent three-year period, 61 witnesses or informants were murdered.

One approach is to mask cooperation by changing how dockets are publicly displayed, aiming to make the two types of dockets—ones in which a defendant is a cooperator and ones in which he is not—less distinguishable to outside eyes. The courts also are considering whether to conceal whether a defendant got a reduced sentenced by sealing certain motions filed by prosecutors making formal requests for sentence reductions.

The reliability of informants has long been a point of contention between prosecutors and defense teams. Some lawyers say new layers of secrecy could make it harder to exonerate their clients.

"It hamstrings the defense not being able to understand who the witnesses are against the defendant and what their motivations are," said defense lawyer Barry Pollack, president of the National Association of Criminal Defense Lawyers. He said to make effective sentencing recommendations for convicted clients, lawyers need to be able to compare their case with similarly charged defendants.

Judges say they are mindful that a sweeping sealing policy risks running into the First Amendment and its presumption of open courts. They also acknowledge that there is only so much that can be done through stricter court policies. Prosecutors often must reveal the identity of informants and give a defendant an opportunity to cross-examine. Prison policies may need to change too, say judges who are urging federal prison officials to do more to segregate vulnerable cooperators.

Coal's Decline Goes Beyond Appalachia

Shutdowns of generating units hurt communities that relied on power-plant jobs

By Jon Kamp
And Kris Maher

JON KAMP/THE WALL STREET JOURNAL

Brayton Point, the last coal-fired power plant in Massachusetts, stopped operating three weeks ago. Hundreds of coal-fired generating units have shut down across the U.S.

SOMERSET, Mass.—Far from the mines of Appalachia, the decline of coal is hitting communities that relied on coal-fired power plants for jobs and income.

During the past five years, roughly 350 coal-fired generating units shut down across the U.S., ranging from small units at factories to huge power plants, according to data from the Energy Information Administration. A single power plant could have one or several units.

Many of these plants were built near the source in Appalachia and western states. But generators built in far-away places like New England have also turned off.

The shutdowns can cost communities both high-paying jobs and important sources of tax revenue. Natural-gas-fired plants have quickly mushroomed up across the U.S. to replace the retiring coal generators, but those plants need far fewer workers—one for every five that worked at a coal plant, by some estimates.

A 54-year-old coal-fired plant here stopped operating three weeks ago, and local officials started raising property taxes several years back to compensate for lower revenue from the town's largest taxpayer as production slowed.

In Adams County, Ohio, where Dayton Power & Light has said it will shut two coal-fired plants, county auditor David Gifford sees a host of knock-on effects including layoffs for public employees, program cuts for seniors, libraries and schools, as well as a steep hike in property taxes. The plants contributed more than 30% of the county's $27 million in total tax revenue.

"If the power company shuts their doors, then John Doe on the street is going to have to pay for it," Mr. Gifford said.

A DP&L spokeswoman said the company decided the plants wouldn't be economically viable beyond mid-2018, and "we faced an important and difficult outcome."

It is a scenario being played out elsewhere as more coal-fired power plants retire, squeezed out in part by new, cheaper-to-run natural gas-fired plants.

Two plants in New Jersey also closed in June, and more coal units are scheduled to close in places like Tennessee and Michigan. Carbon County, Utah, is still smarting from the loss of a small coal-fired plant two years ago, said Seth Oveson, the county clerk and auditor.

Cassville, Wis., lost 55% of its tax revenue when two former coal plants on either side of town, including one that was converted to burning biomass, shut within four months of each other in 2015, said Keevin Williams, president of the village of 950 people.

Mr. Williams himself worked at one plant for 31 years before retiring. Others moved away to find work. The village on the Mississippi River has cut staff and put off projects, he said.

"We're a small community. When you lose 90 jobs, that's 10% of your population," Mr. Williams said. "That's made things very tough."

Last year, natural gas surpassed coal for the first time in U.S. electricity generation, providing 34% of the nation's power, versus 30% for coal, according to the EIA. As recently as 2011, coal provided roughly 43% of generation.

In Somerset, Brayton Point was the last coal-fired power plant in Massachusetts, and one of just four left in New England. Prior plant owner Energy Capital Partners decided in 2014 to shut the plant due to competition from cheap gas, and current owner Dynegy Inc. followed through.

The plant paid more than $13 million in taxes as recently as five years ago, but payments have declined alongside power production since then, and the town of about 18,000 people has had to shift the burden to other taxpayers, town Finance Director Joe Bolton said. Somerset already lost a smaller coal-fired plant in 2010.

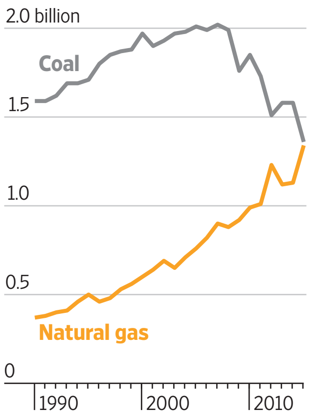
Electrician David Kutz, a 32-year Brayton Point veteran and area homeowner, will receive severance, but said he plans to find new work to help cover medical insurance.

"This plant put so many kids through college, bought so many houses, paid so many taxes," said Mr. Kutz, who is 59 years old. "It's hard now seeing people go."

Power Shift

The shift to natural gas for electricity is impacting communities that rely on coal-fired power plants.

Electricity generation by source
In megawatt hours



Source: Energy Department
THE WALL STREET JOURNAL.

Policies Unlikely To Reverse Trend

The reduction in coal-fired power underscores the challenge for President Donald Trump in fulfilling his promise to aid a flagging coal-mining industry because power plants are by far the main consumers of American coal.

Mr. Trump's moves to undo environmental regulations, and the recent withdrawal from the Paris climate accord, are unlikely to reverse the closure of coal-fired plants, according to Adele Morris, policy director for the Climate and Energy Economics Project at the Brookings Institution. Ms. Morris said their closure is driven mainly by cheap gas and a federal rule limiting mercury and other pollutants.

"There's an increasing awareness that coal will not return to its former glory," said Charles Patton, head of external affairs at American Electric Power Co., a Columbus, Ohio, utility that has shut nine coal-fired power plants since 2011.

Neither the Energy Information Administration nor the Bureau of Labor Statistics track how this shift has affected coal-fired-plant workers. Coal-fired plants require more staff than typically newer and simpler gas-fired units, according to workers and utilities. A spokesman for the Tennessee Valley Authority, which has also been retiring coal units, said a coal plant could employ roughly 150 to 250 while a new gas plant might need 35 workers.

In Ohio's Adams County, where 25% of the 28,000 residents live below the poverty line, the prospect of losing two plants is devastating.

David Gifford, the auditor for the county, said that if the power plants close, the county could be forced to raise the property-tax rate at least 500% to maintain school-district debt payments.

Joel Hanson, a veteran at one plant, said he had thought he would be able to work through to retirement at the power plant. Now he may uproot his wife and two young children from the nearby town of Manchester. "It's like having the rug pulled out from under you," Mr. Hanson, 43 years old, said. The Utility Workers Union of America, which represents workers at the plants, is trying to find investors to buy them, according to the union.

—Jon Kamp and Kris Maher

U.S. WATCH

FEDERAL RESERVE

Official Gives Outlook On Next Rate Rise

Federal Reserve Bank of Chicago President Charles Evans said Tuesday that the U.S. central bank can wait until the end of the year before making the decision to raise rates again, while adding it could start reducing the size of its balance sheet before that.

"We are now at a point where we can afford, having raised the rates twice [in 2017], we can wait a little bit" to see if unexpectedly weak inflation over recent months starts to perk back up, Mr. Evans said. He said it is possible "we could wait until the end of the year" and next move interest rates higher at the December meeting, if that is what the economy's performance calls for.

"We've had too many experiences" of forecasting higher inflation only to see it fall short of expectations, Mr. Evans said as part of his argument that the Fed has time to decide on its next interest rate action.

And even if the Fed holds steady for a while, he observed the central bank's official forecasts "don't say when [increases] are going to take place." A year-end move would still conform to what is the current Fed outlook, he said.

The official was interviewed in the wake of last week's Federal Open Market Committee meeting, when officials boosted their short-term interest rate target range for the second time this year, to 1% and 1.25%, and laid out a plan for reducing their $4.5 trillion balance sheet, most likely later this year. Mr. Evans is an FOMC voting member.

—Michael S. Derby

BITA HONARVAR/REUTERS

GEORGIA VOTE: Supporters of Republican Karen Handel and Democrat Jon Ossoff waved at passing cars as voters went to the polls Tuesday in the U.S. House special election, in a race viewed as the most significant proxy war between the parties since President Donald Trump took office.

NEW YORK

Prison to Capitalize On Notorious Past

Sing Sing Correctional Facility, located 30 miles north of New York City, is known for its cameos in classic films and for infamous inmates. But local officials believe the maximum-security men's prison, which holds about 1,600 inmates, also could attract a different sort of clientele: tourists.

For decades, local officials have sought to build a museum at Sing Sing. They view the prison as a historic landmark that could draw visitors.

Capitalizing on broad interest in incarceration and dark tourism—or visits to historic sites of death and punishment—Sing Sing Prison Museum would tell the story of Sing Sing's past and its present, and host criminal-justice events, officials say.

—Corinne Ramey

SENATE

Free Speech on College Campuses a Concern

Some senators are expressing concern that the cancellation of conservative speeches at some colleges has chilled free speech and created an echo chamber exacerbating the political divide. The Judiciary Committee heard testimony from several witnesses on Tuesday, including students. Republican Sen. Chuck Grassley of Iowa says that on too many campuses, free speech appears to have been "sacrificed at the altar of political correctness." The University of California at Berkeley canceled conservative commentator Ann Coulter's April 27 speech amid threats of violence. Democratic Sen. Dianne Feinstein of California says the threat of violence on campuses often comes from outside groups.

—Associated Press

Labor Board Pick By Trump Starts A Shift in Power

By Eric Morath

President Donald Trump picked attorney Marvin Kaplan to fill a vacant seat on the National Labor Relations Board, taking a first step toward securing Republican control of the agency refereeing disputes between unions and business for the first time in nearly a decade.

The president announced his intent to nominate Mr. Kaplan, counsel at the independent Occupational Safety and Health Review Commission, to one of the five seats on the board on Monday.

If he wins Senate confirmation, Mr. Kaplan would be the second Republican on the panel.

A fifth position remains vacant, but it is expected the White House will name another Republican for that spot.

Democrats control two of the three occupied seats on the board, but Mr. Trump has elevated the sole Republican, Philip Miscimarra, to chairman.

That move slowed issuance of agency decisions, since Mr. Miscimarra can control which cases are decided but lacks the votes to win rulings.

Republicans haven't controlled the board since December 2007, after vacancies late in President George W. Bush's second term went unfilled.

When Republicans regain control of the board, it is expected they will look to undo decisions made during President Barack Obama's tenure that resulted in some big victories for labor, including an easier path for employees at franchise businesses and contractors to organize.

Unions have used those victories to push for organization in the restaurant industry, among other sectors.

National Restaurant Association Executive Vice President Cicely Simpson said the trade group "is very pleased" with Mr. Kaplan's selection.

A Republican board is expected to undo decisions by Obama appointees.

The board "will be deciding a number of important issues, including the joint employer standard and micro-unions, that directly impact small businesses," she said.

The board to could also revisit issues around the timing of union elections, the appropriate size of a bargaining unit, and whether graduate-student instructors can form unions.

Mr. Kaplan has worked for the safety commission since 2015. Previously, he worked as counsel for House Republicans on the Education and the Workforce Committee.

CHINA

Continued from Page One

rooms as Hollywood absorbs a new maxim: For a movie to make money in China, make it worthwhile to someone in China.

Chinese investors are helping expand China's influence on the U.S. film industry, which is eager to tap the country's 1.3 billion consumers but needs local partners to navigate the state-run movie market.

U.S. studios seeking more profits in China—which in a few years could become the No. 1 box-office market in the world—had focused their efforts on shooting scenes there, casting local stars or crafting scripts with Chinese moviegoers in mind. That has turned out to be less reliable than finding the right backers.

Six American movies this year have grossed more in China than they did in the U.S., and four of them had Chinese investors.

In each case, the Hollywood studio enlisted a Chinese company to buy a minority stake in the film or studio in exchange for marketing and distribution help, an overseas box-office strategy used only in China.

Besides "A Dog's Purpose," Chinese investors were involved with the action movies "xXx: The Return of Xander Cage," "Kong: Skull Island," "Fate of the Furious," and "Wonder Woman," which opened June 2.

The coming "Transformers: The Last Knight" secured investment from three Chinese companies, including leading online-ticketing company Weying Technology Co.

Chinese investors have more freedom to market U.S.-made movies in China.

While happy with their success, the U.S. studios aren't sure if Chinese audiences are being drawn by their creative work—or by the lopsided marketing advantage of their Chinese partners.

A Chinese investor has more freedom to market a foreign movie in the country to ensure that trailers play in theaters, posters hang in lobbies and ads blanket smartphones. It also can steer through China's bureaucratic thicket of state censors and permits, and help secure prime release dates.

Hollywood's Chinese backers include some of the country's most powerful internet, entertainment and real-estate companies: Dalian Wanda Group Co., China Film Group Co., Alibaba Group Holding Ltd. and Tencent Holdings Ltd.

These investors have shared high-profile screen credits alongside such studios as Time Warner Inc.'s Warner Bros., Viacom Inc.'s Paramount Pictures, and Comcast Corp.'s Universal Pictures.

For Chinese firms, the deals lend cachet and give firsthand lessons in moviemaking without the expense of buying a studio or production company.

For Hollywood, it is a matter of money. "A Dog's Purpose," which cost $22 million to make, ended up grossing $188 million world-wide, half of that from China alone. "To say we were pleasantly surprised doesn't do it justice," said Jeff Small, president of Amblin Partners.

"A Dog's Purpose" wasn't even going to be released in China, where few American dramas without special effects or A-list stars are successful. But Amblin last fall, seeking a Chinese investor to give its movies better play in China, sold a minority stake in the studio to Alibaba.

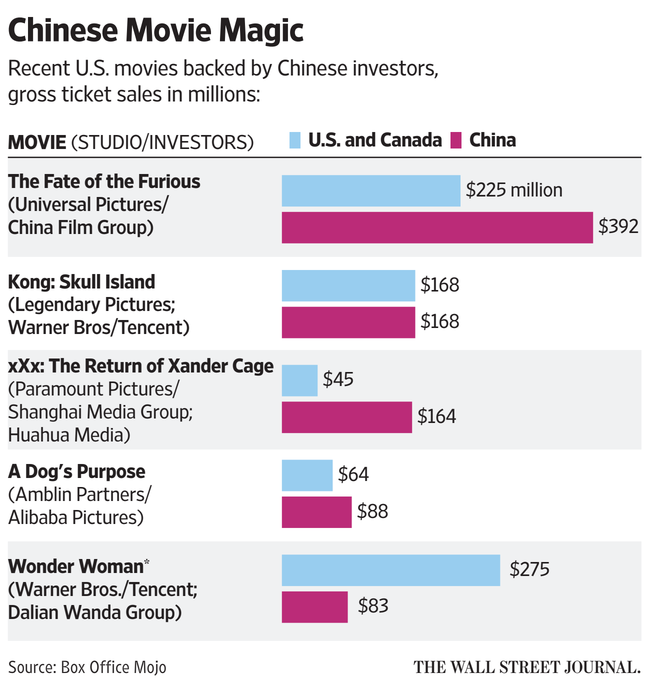
Shortly after, Ms. Wei, of Alibaba Pictures, saw "A Dog's Purpose" and its potential.

She had the online giant use its own customers as a focus group. Growing sales of toys for pets had tracked China's rising middle class and its embrace of pet ownership. And "Dog's Purpose" director Lasse Hallström's earlier movie, "Hachi: A Dog's Tale," was popular with customers of Alibaba's on-demand video service. A strategy soon took shape.

Alibaba promoted the movie alongside pet adoption agencies and held special screenings for people and their dogs, Ms. Wei said. It plumbed its online movie-ticket service to target pet owners, families, women and others it believed would like the movie. Alibaba representatives traveled to theaters to persuade exhibitors to allocate screens, bringing the e-commerce data to support their pitch.


LINTAO ZHANG/GETTY IMAGES

Fans braved the rain to attend the Chinese premiere of 'Transformers: The Last Knight' earlier this month in Guangzhou, China



On its opening weekend in China, "A Dog's Purpose" made $17 million. The following week, it drew even more moviegoers, a rarity in any market. Alibaba lobbied the state-run distributor to extend the movie's run to eight weeks, twice as long as most imported films.

Alibaba's video-on-demand platform now streams "A Dog's Purpose," and the company sells pet merchandise tied to the movie.

The movie's success in China has inspired a sequel, and Amblin is keeping in mind its Chinese audience as it begins work on part two, said Michael Wright, the studio's chief executive.

Small-screen partner

The Chinese investments started two years ago, when Alibaba bought into Paramount's "Mission: Impossible—Rogue Nation," and state-backed China Film Group invested in Universal's "Fast & Furious" series. The 2015 and 2017 installments of the car-race movies grossed $391 million and $392 million in China, respectively—more than either made at U.S. theaters.

The deals were an outgrowth of meetings that Chinese companies were having in Hollywood as they sought partnerships to expand their domestic movie production.

Some meetings led to acquisitions: Wanda, one of China's largest theater owners, bought Legendary Entertainment LLC, the production company behind "Kong: Skull Island," for $3.5 billion in January 2016.

China's movie-theater business recalls the U.S. in the 1950s, executives said, when Hollywood distributors traveled across the U.S. to wine and dine local theater owners. In the case of "Kong," investor Tencent negotiated with more than 700 Chinese theaters.

Theater managers in China have greater flexibility to book movies than in those in the U.S., where large chains often dictate what each location screens.

A combination of Chinese regulations and the unpopularity of state-run television don't allow the kind of large-scale TV ad campaigns used in U.S. marketing. China requires a few million dollars in digital advertising and a local, hands-on touch as simple as lobby displays.

"It really is an enormous market in terms of how much you need to do to reach beyond the biggest cities," said Veronika Kwan Vandenberg, Warner Bros.' head of international distribution. "Having a local partnership is really helpful in maximizing the scale and scope of your campaign."

For "xXx," the movie's Chinese partners, Shanghai Film Group Corp. and Huahua Media, launched a $5 million mobile-oriented campaign that included social-media chats with the stars and a music video.

Shanghai Film Group and Huahua have since announced a $1 billion deal to invest in most of Paramount's future releases over the next few years.

Hollywood studios collect 25% of Chinese box-office grosses, compared with an average of 40% in other foreign markets and 50% in the U.S. Paramount should see about $40 million of its $160 million haul from "xXx" in China, according to a person familiar with the matter.

Paramount and its partners should receive about half of the $45 million the movie grossed in the U.S. and Canada, where the studio spent tens of millions of dollars in advertising.

Thanks to its performance in China, "xXx" went from being a "substantial money loser to at least OK," the person familiar with the matter said. The success has led producers to green-light another "xXx" sequel, producers said Monday, with Chinese partners already on board.

Shanghai Media Group and Huahua have since announced a $1 billion deal to invest in most of Paramount's future releases over the next few years.

Superheroes

Following the failure in China of Warner Bros.' "Lego Batman," the studio decided to bring on both Wanda and Tencent as minority investors in "Wonder Woman," which cost about $150 million to produce.

The studio hadn't before allowed outside firms to co-finance its DC superhero pictures, which were thought too valuable to share. Last year's "Batman v Superman" grossed less than $100 million in China, far less than the studio wanted.

"Wonder Woman" has so far grossed $83 million in China, a solid performance but less than the $275 million it has made in the U.S. and Canada. The movie lags behind "The Mummy," Universal's action-adventure starring Tom Cruise, which had no Chinese investor yet grossed more in China than in the U.S. Its success was likely a measure of Mr. Cruise's popularity there. "Resident Evil: The Final Chapter" also grossed more in China than in the U.S. without Chinese investors, benefiting from the popularity of the zombie videogame that inspired the series.

Some Chinese investments offset production costs before filming begins, while other deals are sometimes struck weeks before movies open. Chinese companies are able to quickly mount campaigns and sign up theater owners.

"Transformers," which opens Wednesday, follows a 2014 installment that collected $245 million in the U.S. and $320 million in China. Its success drew Chinese companies to the sequel. Paramount made deals with Chinese firms for product placement in the movie and merchandise displays in theater lobbies.

More partnerships are expected this year. "We are in talks all the time," said Ms. Wei, of Alibaba.

Some Chinese investors are targeting future Hollywood movies that may not even screen in their country, as they look to expand their reach. Bliss Media, the Shanghai-based company that helped get the war drama "Hacksaw Ridge" into China last year, is financing "Kings," a feature starring Halle Berry about the 1992 Los Angeles riots.

"It's not something I think I would get into China," said Wei Han, Bliss's chief executive. "If it doesn't, I still believe in the movie. We want to be a global player."

—Lilian Lin in Beijing contributed to this article.

CONGO

Continued from Page One

service hopes a period of relative peace will put Kahuzi-Biega on the bucket lists of the adventuresome. Gorilla tourism, they say, serves two purposes: It brings in revenue to protect the park and its wildlife, and it generates income for nearby villagers who might otherwise consider the animals fair game for dinner.

There were some 17,000 Grauer's gorillas—also known as eastern lowland gorillas—in Congo in 1995. Some 77% of them were slaughtered during the fighting and the subspecies is now listed as critically endangered, according to the U.S.-based Wildlife Conservation Society. Among those killed were virtually every member of five families habituated to human presence in the 1.5 million-acre Kahuzi-Biega park, a Unesco World Heritage site.

When poachers approached, the gorillas didn't sense the danger, Mr. Mulimbi said.

With the fighting subsided, park officials believe they can now market Kahuzi-Biega as the best-kept wildlife secret since the mythical elephant graveyard. High-season mountain gorilla-viewing permits go for $600 per person, per day in Uganda's Bwindi Impenetrable National Park. Rwanda recently doubled the price of its mountain-gorilla passes in Volcanoes National Park, to $1,500. Kahuzi-Biega charges $400 to visit the Grauer's gorillas, a per-pound bargain. "I don't know if their gorillas are better than ours or what," said Juvenal Munganga, who is in charge of Kahuzi-Biega. The park logged 1,124 visitors last year.

Park authorities are habituating enough gorillas to attract more ecotourists, while exposing as few animals as necessary to the dangers habituation can entail. Some 200 rangers, armed with AK-47 rifles, defend the park from poachers.

Chimanuka was one of the few habituated gorillas who survived the onslaught of militia fighters, poachers and desperate civilians during the war. Now he is a full-grown silverback, and he, his three wives and 15 children are the park's stars. The adults are largely indifferent to visitors of any race, placidly stripping leaves from vines and loudly passing gas while young gorillas engage in horseplay.

Mpungwe is another story, still tentative in his embrace of tourism. Even when Mr. Mulimbi approaches, Mpungwe keeps to the shadows, glaring through branches, then stages dramatic charges to test the threat level to his seven wives and 12 children.

Mr. Mulimbi, now 52, was giving tours at a local tea plantation when his English skills caught the attention of park officials. He soon found he had a knack for cozying up to gorillas. Each day around 6 p.m., the silverback will beat his chest to signal it is time for the family to make camp for the night. Adults gather leaves and branches to create nests on the ground. Youngsters build theirs in the trees to keep watch.


MICHAEL M. PHILLIPS/THE WALL STREET JOURNAL

Gorilla habituators, disguised as foreign tourists, use GPS to search for Mpungwe, a silverback.

In the morning, each Grauer's gorilla defecates next to the nest—mountain gorillas defecate in their nests— and the family sets off in search of a nice place to spend the day eating bamboo, leaves or sweet myrianthus fruit. A big male, who can stand about 5 feet tall, consumes 70 pounds of food a day.

Trackers, many of them pygmies born to the forest, machete their way through the dense undergrowth, searching for gorilla nests, dung and trails amid the wild celery stalks. "The gorillas put my children in university," said pygmy tracker Antoine Bakongo Lushombo.

When he locates the gorilla family, Mr. Mulimbi pays homage to the silverback. A tip: Don't surprise a gorilla. He won't like it. Mr. Mulimbi routinely coughs or emits a low growl to signal his friendly approach. If the big male is at ease, so are the others.

Mpungwe, however, frequently charges screaming through the underbrush, tearing at the branches before pulling up just short of actual gorilla-human contact. Mr. Mulimbi believes these mock attacks give him a chance to show Mpungwe he isn't a threat. When Mpungwe rushes the rangers, Mr. Mulimbi steps slowly aside and murmurs, "Calm, calm."

Rwandan authorities urge visitors not to make eye contact with a charging gorilla, but Kahuzi-Biega's rangers meet the silverback's gaze. Nobody recommends running away. "It's like a man," said Mr. Mulimbi. "Sometimes he can be angry. Sometimes he can be good."

The bad moments are hard to forget. One time, a silverback named Mubalala grabbed Mr. Mulimbi, squeezed the breath out of him and carried him 15 feet before dropping him unconscious to the ground. Mr. Mulimbi remembers nothing of the incident after the initial contact.

When the race issue surfaced in Kahuzi-Biega, Mr. Mulimbi had been following Mpungwe for a year, hacking his way through steep mountainsides thick with vines. After he won the silverback's grudging trust, he asked park headquarters to dispatch a couple of test tourists. Mpungwe's reaction—escape and incontinence—was not the stuff of tourist brochures.

"When he saw just at the beginning, he saw the white color, he thought maybe it was dangerous for him," said Mr. Mulimbi. Not to be deterred, he cut eye, mouth and nostril holes in a large manila envelope and tied it on with stringy fibers peeled from a green stick. Then he started the habituation process anew.

The Congolese rangers laugh at the envelope masquerade, rendered even more ridiculous because they're required to wear a surgical mask over the envelope to avoid transmitting human diseases to the apes. "This envelope is like a white man," said Mr. Mulimbi. "If you can use this every time you come across gorillas, maybe Mpungwe will enjoy to see white people."

Indeed, after months of tracking Mpungwe in manila-face, Mr. Mulimbi decided to ask headquarters to send him more white tourists. This time Mpungwe took them in stride.

LIFE & ARTS

WORK & FAMILY | By Sue Shellenbarger

Rise Above Your Awful Commute

As mass transit delays and complaints rise in several cities, veteran commuters and other experts have tips for staying calm

DELAYS AND COMMUTER complaints are mounting on many of the nation's largest transit systems, including those in New Jersey, Washington, D.C., and Boston. New York's governor has declared this the "summer of hell" for commuters. San Francisco's rapid-transit system has been plagued by overcrowding and equipment breakdowns.

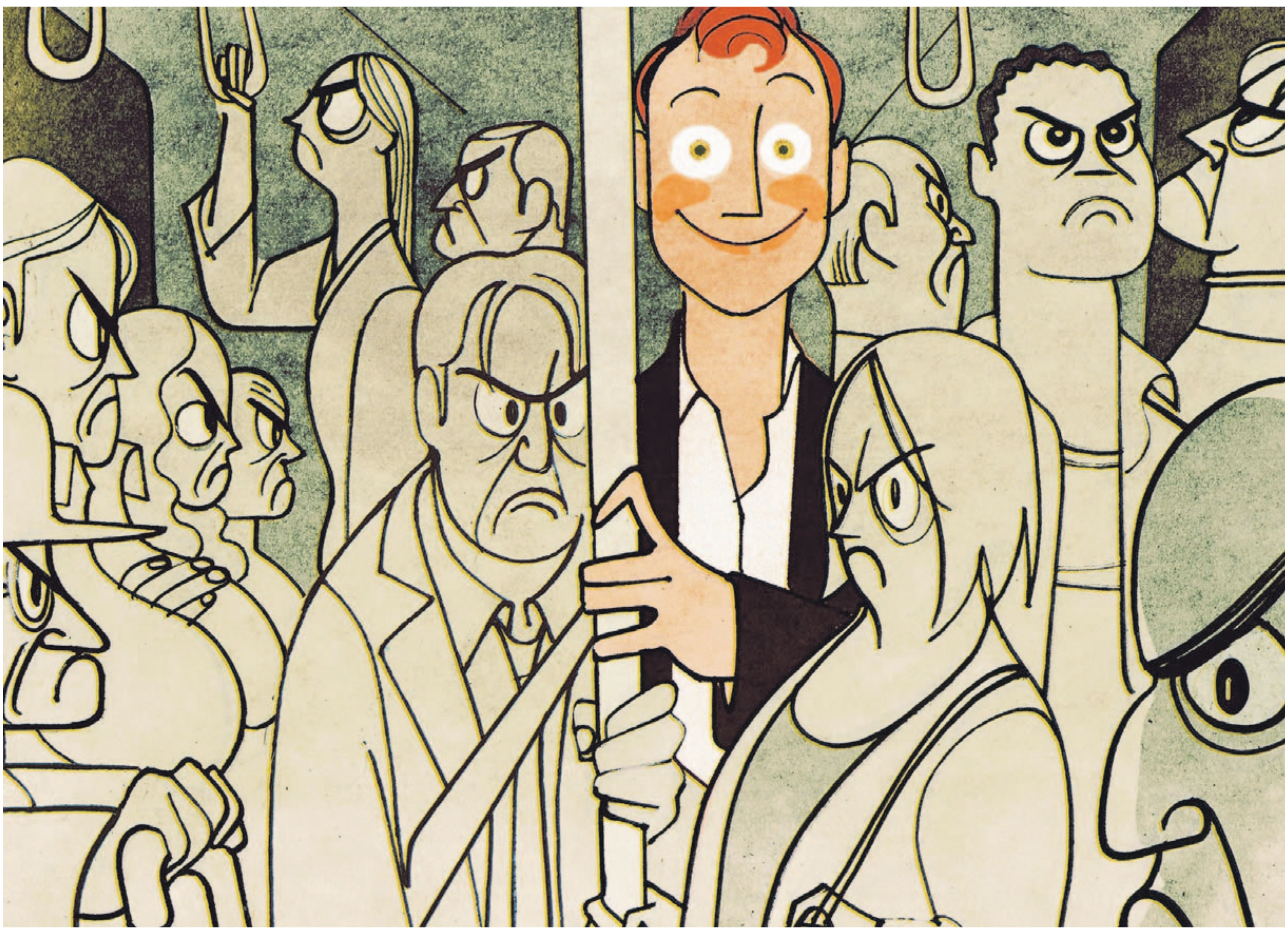
And the Federal Transit Administration says $90 billion in mass-transit repairs are overdue nationwide.

The big question for workers with no alternatives: How to make peace with your commute?

Some New Yorkers recently were stuck on a crowded subway car that stalled between stations without light or air conditioning. Dread of being trapped like that haunts accounting manager Matt Hopkins. He battles claustrophobia while commuting to his job in Manhattan by reading books on his e-reader—if he can find a seat. If not, he dons earbuds, closes his eyes and immerses himself in podcasts or a meditation app on his phone.

He tries not to take it personally when other commuters slam into him while rushing through the subway doors as they close. And the moment he emerges onto the street, Mr. Hopkins says he practices "wiping the entire experience from my mind."

Brad Westley of Silver Spring, Md., builds a buffer into his daily schedule to allow for commuter-train delays en route to his Washington consulting job. Breakdowns on the city's mass-transit system have risen steadily in the past five years, federal data show. Mr. Westley can't predict whether his commute will take the usual 25 minutes or twice that long, so he avoids scheduling any meetings until more than 90 minutes after he expects to arrive.



ERIC PALMA

When a brake fire broke out on his train, he had to wait for the next one on a platform so crowded that he could barely move. "People are literally pushing you onto the train so they can squeeze in behind you," he says.

Having to exercise so much restraint and self-control before you arrive at work can hurt productivity later in the day, says Kathleen Vohs, a marketing professor at the University of Minnesota and author of 180 studies on self-control and related topics.

Employees whose self-control has been depleted by mental strain are less likely to take initiative on the job, she says. Rather than trying new ideas or wrestling with tough choices, they tend to punt and think, "I can't deal with that right now."

"If choosing the status quo is an option, people who are mentally fatigued are likely to choose that," Dr. Vohs says.

Commuters can stay productive by modifying their expectations: Prepare to be delayed, says Cali Yost, a Madison, N.J., consultant who advises employers on flexible workplace strategies. Fully charge your phone, tablet or laptop, carry backup batteries if needed, and download work, podcasts, books or projects you can focus on during the trip, says Ms. Yost, author of "Tweak It," a book on making small changes to feel happier.

Not everyone has the patience to dive into work in crowded conditions. But some commuters use travel time to focus on an absorbing project, such as learning a new language, which helps distract them from the frustrations, says New York stress coach Jordan Friedman.

Another approach is to think of your commute as a buffer period when you can prepare mentally for the workday, then retreat into your thoughts, says Jon M. Jachimowicz, a doctoral candidate at Columbia Business School. Commuters who were assigned to ask themselves, "What steps can I take to accomplish my career and work goals?" and to plan those steps en route to work, handled commuting hassles better, according to a four-week study under academic review of 443 U.S. commuters led by Mr. Jachimowicz.

> Working to keep your cool before you arrive at your job can hurt your productivity later.

Mindfulness training, which includes stopping your mind from wandering and directing your attention to what's happening in the moment, can build resilience and help people get through periods of heavy stress with their cognitive resources intact, according to a 2016 study.

And trying to act compassionately toward others in day-to-day settings can help you feel closer and more relaxed around them, a 2017 study shows.

Susan Arons actively resists lapsing into a dark mood during her daily bus ride from New Jersey to Manhattan, which has been stretching to two hours from the usual 40 minutes. "I do conscious things to get out of that head space," she says. A managing director at a New York public-relations firm, she swipes her transit fare card for fellow commuters whose cards have expired.

And when she walks the final leg of her commute, she smiles and greets shopkeepers out sweeping or hosing down the sidewalk.

"People sometimes think I'm crazy, or a tourist," she says, but she takes comfort in fostering a sense of community. Amid all the stress, "you're still part of a neighborhood."

How to shake off a disastrous commute? A comforting ritual can help. Rick Gould's usual one-hour commute from Long Island to his office near Penn Station is taking up to 2½ hours. Then he's frozen for several more minutes on the steps of his train car by human gridlock on the platform at "Pain Station," as he calls the terminal. "It's so jammed and you're sweating already," says Mr. Gould, managing partner of a Manhattan M&A firm.

He regains energy by downing a large coffee with an espresso shot and humming "God Bless America," Mr. Gould says, with irony. "It reminds me of the freedoms I have," he says, "when I'm not sitting on the Long Island Rail Road."

MUSEUMS

ROCK AND ROLL HALL OF FAME GOES TO TOKYO

BY JOHN JURGENSEN

THE ROCK and Roll Hall of Fame is betting it'll be big in Japan. The rock history repository is gearing up for a permanent presence in Tokyo, marking its first international expansion since opening its headquarters in Cleveland 22 years ago.

The project will start with the opening this September of a short-term exhibition, featuring pieces from the Beatles and other hall of famers, in a retrofitted retail space in central Tokyo, said Greg Harris, president and chief executive of the Rock and Roll Hall of Fame and Museum. With a budget of $24 million, that launch will be followed by construction of a stand-alone museum, including a planned concert space designed to host several thousand people.

The Rock and Roll Hall of Fame Japan is being created through a licensing agreement with a group of Japanese collaborators in music, media and business, some of whom brought the U.S. Rock Hall's splashy induction ceremonies to Japanese TV. They're hoping to build on the buzz for that annual broadcast and Japan's affinity for rock culture, Mr. Harris said. Japan is the world's second biggest market for music sales behind the U.S.

The Tokyo beachhead is the latest in a broader push by the Cleveland institution to turn up the volume. After two decades, the Rock Hall had gone from a maverick startup museum to a tourism mainstay coasting on its reputation. "We settled into maintenance mode" with relatively flat admission and revenue, said Mr. Harris, who became CEO in 2013. "It's essential that we're more than just a shrine to what happened before."

GETTY IMAGES

Beatles' artifacts, shown here at the Rock and Roll Hall of Fame in Cleveland, Ohio, will be displayed in Tokyo.

Audience analysis confirmed the need to diversify the Rock Hall's audience beyond the perceived core of nostalgic baby boomers. A summer concert series (with beer garden and food trucks) is starting its second year on the I.M. Pei-designed pyramid plaza in Cleveland, where a red sign in 6-foot-high block letters—"LONG LIVE ROCK"—offers selfie opportunities. Current traveling exhibits include dives into the culture of music festivals, and the history of rock, politics and protest.

Renovations include the addition of a high-tech theater opening July 1 with a film of induction performances by director Jonathan Demme, who died in April.

Last year, total attendance in Cleveland hit 543,000, the highest since the Rock Hall's opening and an increase of roughly 100,000 since 2014. Operating revenue jumped to $24 million in 2016, up 18% from 2015.

The Rock Hall has explored the possibility of international expansion before, but talks with potential partners in London, Berlin and other cities didn't pan out. In Tokyo, the initial exhibit will launch with artifacts from crowdpleasers such as Madonna, but the planned museum will emphasize music history relevant to Japan.

From an American perspective, Japan can seem like a parallel reality of rock popularity. The phrase "big in Japan" has long applied to Western acts with disproportionate success there. In the mockumentary film "Spinal Tap," the pariah heavy metal band goes out on a high note when it scores a hit in Japan.

For many rockers, however, the phenomenon is real and welcome. Deep Purple, for example, has released several live albums recorded in Japan, most recently 2015's "To the Land of the Rising Sun (In Tokyo)." Artifacts from the "Smoke on the Water" group (and 2016 Hall of Fame inductees) will be featured in the inaugural Tokyo exhibit alongside a guitar from the Talking Heads and a costume worn by Sting.

REVIEW & OUTLOOK

Skirmishing Over Syria

A bipartisan conceit has been that the U.S. can defeat Islamic State by ducking the larger conflict in Syria, and now we're finding out that may not be possible. A U.S. F-18 jet shot down a Syrian bomber on Sunday to protect U.S. allies fighting Islamic State, and on Monday Russia and Iran threatened to target U.S. planes in response.

Putin, Iran and Assad test the Trump Administration.

A U.S. fighter shot down the Syrian SU-22 plane after Syrian aircraft made their second bombing run against Syrian Democratic Forces (SDF) allied with the U.S. near Taqba. The regime was clearly testing whether the U.S. would assist its allies on the ground. The U.S. needed to send a deterrent message or Syrian President Bashar Assad will continue to press his offensive across SDF-held territory.

The risk of escalation is real, but this isn't a skirmish the U.S. can easily avoid. Mr. Assad and his allies in Moscow and Tehran know that Islamic State's days controlling Raqqa in Syria are numbered. They want to assert control over as much territory as possible in the interim, and that means crushing the SDF.

The Russian threat on Monday to target with antiaircraft missiles any U.S. aircraft flying west of the Euphrates River in Syria is part of the same intimidation strategy. Russia also suspended a hotline between the two armed forces designed to reduce the risk of a military mistake. Iran, which arms and assists Mr. Assad on the ground, vowed further Syrian regime attacks against SDF, all but daring U.S. planes to respond amid the Russian threat.

The White House and Pentagon reacted with restraint on Monday, calling for a de-escalation and open lines of communication. But if Syria and its allies are determined to escalate, the U.S. will either have to back down or prepare a more concerted effort to protect its allies and now U.S. aircraft.

This is the predicament President Obama put the U.S. in when his Syrian abdication created an opening for Vladimir Putin to intervene. Had the U.S. established a no-fly or other safe zone to protect refugees, the Kremlin might have been more cautious. Mr. Putin took the measure of Mr. Obama and gambled the former U.S. President would protest and do nothing. He was right. Now the Russian is testing President Trump as everyone maneuvers for post-Islamic State advantage.

As a candidate, Mr. Trump supported "safe zones" for refugees and opposition forces. But he's also shown no interest in a larger strategic goal than defeating Islamic State. Now is the time for thinking through such a strategy because Syria, Iran and Russia know what they want.

Mr. Assad wants to reassert control over all of Syria, not a country divided into Alawite, Sunni and Kurdish parts. Iran wants a Shiite arc of influence from Tehran to Beirut. Mr. Putin will settle for a Mediterranean port and a demonstration that Russia can be trusted to stand by its allies, while America is unreliable. None of this is in the U.S. national interest.

The alternative would be to demonstrate that Mr. Assad, Iran and Russia will pay a higher price for their ambitions. This means refusing to back down from defending U.S. allies on the ground and responding if Russian aircraft or missiles attempt to take down U.S. planes. Our guess is that Russia doesn't want a military engagement with the U.S. any more than the U.S. wants one with Russia, but Russia will keep pressing for advantage unless President Trump shows more firmness than his predecessor.

U.S. Justices Act Like Grown-Ups

Political emotions are high and rising, so be grateful that at least one branch of the U.S. government is keeping its head. On Monday, in a hot case that involved immigration, the U.S. Supreme Court protected the constitutional separation of powers and confirmed that courts are supposed to interpret laws, not make them.

A High Court majority keeps its principles, even in the Trump era.

After the 9/11 attacks, hundreds of illegal aliens were detained and some were held for months without trial while law enforcement investigated their potential terror connections. The confinement conditions were harsh for some of these detainees, such as small cells and little exercise time, and they sued then Attorney General John Ashcroft and other high-ranking federal officials under a 1971 precedent known as *Bivens*.

That opinion allows people who have suffered from unreasonable searches and seizures to sue prosecutors or police for money damages, but it belongs to another judicial era. The Warren Burger Court "inferred" a private cause of action into an 1871 statute—a style of jurisprudence that was already in retreat by the 1980s on both the legal left and right. The High Court has since been more cautious about recognizing such "implied" rights, unless Congress explicitly creates them by passing statutes.

In *Ziglar v. Abbasi*, the detainees asked to expand *Bivens* in order to challenge policy decisions that they claim resulted in violations of their Fifth Amendment due-process rights. The Second Circuit Court of Appeals complied, but the Supreme Court was more modest about judicial power. In a 4-2 decision (with two recusals), the majority held that, absent legislative instruction, the prisoners lack the standing to sue.

The question when applying the *Bivens* relic to new circumstances, wrote Justice Anthony Kennedy, "is 'who should decide' whether to provide for a damages remedy, Congress or the courts? The answer will most often be Congress." The legislature accountable to voters is better positioned than judges to balance the equities and protect the public interest.

This is especially true because the foreign nationals could still have challenged their detention and remedied any constitutional violations under habeas corpus. The real purpose of their suit wasn't financial compensation for injuries but to second-guess the executive branch's response to 9/11 and the national-security choices made by Mr. Ashcroft and others acting in their official capacities amid an emergency.

Justice Stephen Breyer read his overwrought dissent from the bench, invoking Japanese internment in World War II, the Alien and Sedition Acts and even Civil War prison camps. But our guess is that *Ziglar* would be unexceptional in more conventional political times.

The Trump Presidency has inspired some judges to be more confrontational, even if they exceed their Article III powers to send a message to Article II. Mr. Trump's travel ban is in our view legal and constitutional, if unwise, yet two appellate circuits have discovered pretexts to strike it down. The danger is growing of an ends-justify-the-means cascade with the Constitution as an afterthought.

Justice Kennedy ends his opinion with a pledge of fidelity to "the idea of the rule of law that must inspire us even in times of crisis." *Ziglar* is a model for good judicial behavior when a real crisis inevitably arrives.

China's Islamophobia

It's Ramadan, and Beijing is again restricting the peaceful practice of Islam in its western territory of Xinjiang. This year government employees are required to ensure that friends and family aren't fasting or otherwise observing the Muslim holy month. Under the "Together in Five Things" campaign, cadres are even living in the homes of the Uighur minority, according to the World Uyghur Congress.

New repression in Xinjiang risks a Uighur backlash.

This escalation may be due to the arrival of Chen Quanguo, who took over as Xinjiang's Communist Party secretary in August after running Tibet for five years. He has introduced the system of "grid-style social management" he pioneered in Tibet that allows the government to closely monitor households.

According to state media, Xinjiang's security budget increased 19.3% in 2016 to more than $4.4 billion, and 30,000 new officers were hired. In February Mr. Chen described security as "grim" and urged the People's Armed Police to "bury the corpses of terrorists and terror gangs in the vast sea of the people's war." So much for winning hearts and minds.

New "Regulations on Anti-Extremism" that came into effect in April outlawed veils or "abnormal" beards. Parents can't give children "overly religious" names such as Muhammad or encourage them to follow the Muslim faith. All Xinjiang residents were forced to turn in their passports late last year and must give a DNA sample when they apply for a new one.

Other measures include antiterror drills, shows of force by the security services and the installation of satellite tracking devices in cars. Mandatory activities for students are deliberately scheduled on Fridays to prevent them from attending mosque services, and rewards are offered for reporting men who wear a beard or women who wear a veil.

Control over the Uighur population goes far beyond religion. The use of their native language is discouraged in schools, and economic opportunities are limited. The best jobs go to Han Chinese settlers, who are given incentives to move to Xinjiang. Peaceful dissent is not tolerated. The Uighurs' most articulate spokesman, Minzu University Professor Ilham Tohti, was sentenced to life in prison in 2014 for promoting separatism.

Sporadic attacks by Uighurs on Han Chinese have continued since riots in the capital Urumqi killed almost 200 people in 2009. In the city of Hotan, three men ran amok with knives and killed five people in February after a family was punished for praying at home. Most attacks appear to be spontaneous and poorly planned, despite Beijing's claims that overseas terrorist groups are directing the violence.

Yet China's fears of a Uighur terrorist movement may become a self-fulfilling prophecy. As Uighurs flee the country and some become radicalized, Islamic State issued a video in February in which a Uighur fighter threatened China with "rivers of blood." The government's anti-Islamic policies are also causing anger among Muslim nations such as Indonesia.

Chinese officials continue to respond to every outbreak of violence in Xinjiang with greater repression. By restricting even the peaceful practice of Islam by historically moderate Uighurs, Beijing is traveling a dangerous path that threatens domestic stability.

Fear Changed Saudi Arabia

By Walter Russell Mead

Saudi Arabia used to be one of the most cautious players in the world of diplomacy. Not anymore. In the past three weeks, the Saudis have launched a coordinated diplomatic offensive against neighboring Qatar, hinted at new ties with Israel, scolded Pakistan, turned up the heat in their confrontation with Iran and carried on a war of words with Turkey. Meanwhile, they continue to bomb Yemen to support their local allies in that country's increasingly bitter civil war.

The Saudis are also bringing new gusto to domestic policy: The 2030 plan backed by Deputy Crown Prince Mohammed bin Salman is the most far-reaching and ambitious program for Saudi reform and restructuring ever seriously proposed. Privatizing the state oil giant Aramco (or at least part of it) and using the money to diversify the economy is, by Saudi standards, a revolutionary idea.

The jury is out on whether the Saudis' new foreign and domestic policies will work, but no doubt something fundamental has changed in what used to be one of the world's most cautious and slow-moving countries. The question is why. Some look to the deputy crown prince, a 31-year-old reformer elevated to his current role in 2015. But his rise is more a sign of the times than the main force driving change. After all, in the old Saudi Arabia, a mere 30-something never would have been allowed anywhere near the reins of power.

So what is behind the new Saudi activism? Fear. It's an emotion that comes naturally to an oil-rich kingdom with a relatively small population in a neighborhood full of predatory rivals. For years fear made the Saudis cautious, since they felt they could take shelter behind a strong and confident America. Now they aren't so sure.

In Riyadh, the Age of Insecurity began during President Obama's tenure. Mr. Obama's outreach to Iran—and his willingness to overlook its unprecedented regional aggression in his quest for a nuclear deal—left the Saudis feeling isolated and betrayed. As Iranian power spread across Iraq, Lebanon and Syria, the Saudis concluded that the U.S. no longer saw Saudi security as part of its core national interest.

The Trump administration has sought to reassure the Saudis that the "tilt to Iran" has ended, but their insecurity runs deep. From Riyadh, and from many other world capitals, the erratic shifts in American foreign policy—from Bush to Obama to Trump—raise disturbing questions about the future. Who comes after Mr. Trump? Elizabeth Warren? Sean Hannity? As American politics becomes less predictable and more extreme, countries that have grounded their national strategy on the stability of an American alliance must reassess their options.

Then there is oil, an issue on which Saudis and Americans once saw eye to eye. With their enormous reserves, the Saudis believed that they were in the oil business for the long term. Unlike more aggressive players, who wanted to push oil prices as high as possible, the Saudis used their position as a "swing producer" to keep markets reasonably stable—something the U.S. appreciated. The Saudi goal was to keep their customers committed to oil long term and forestall heavy investment in alternative fuels.

Riyadh worries it can no longer depend on the U.S. or oil.

The shale revolution is shifting this balance. The U.S. and Saudi Arabia are no longer allies in the oil market. American frackers, who can quickly increase or decrease output as prices change, are challenging Saudi Arabia's role as the global swing producer.

Worse, from a Saudi point of view, the long-term dynamics of the oil market seem to be changing. There is much less talk of "peak oil" in the sense of peak production, and more talk of "peak demand." Advances in energy efficiency and alternative-power generation are shifting the long-term demand curve for hydrocarbons.

At the same time, Saudi Arabia's rapidly growing population will place increasing demands on its economy. Riyadh worries that if oil becomes less profitable, it will be unable to keep its people happy.

All this suggests that the current turbulence in the Gulf is here to stay. If the Trump administration wants to restore tranquillity, it should think holistically about Saudi Arabia's economic and security problems—and creatively about how this American alliance, a pillar of Middle East stability since World War II, can be renewed.

Mr. Mead is a fellow at the Hudson Institute, a professor of foreign affairs at Bard College, and editor at large of the American Interest.

LETTERS TO THE EDITOR

America Must Punish Those Who Dump Steel

Your editorial "America's Steel-Trapped Minds" (June 13) diminishes the main issue that is the impetus for the administration's investigation into the national-security impact of steel imports: global steel overcapacity.

Today there is more than 700 million metric tons of excess steel capacity globally. Driven by foreign-government interventionist policies, this overcapacity has led to high levels of dumped and subsidized imports and the loss of nearly 14,000 U.S. jobs.

The American steel industry has relied on U.S. trade laws to address the impact of these unfairly traded imports, and that has provided some relief. However, high volumes of steel continue to enter the U.S. from countries that aren't subject to the relief, or where it has been ineffective or from companies that ship their steel through third countries to evade the laws.

The American steel industry is among the most environmentally sustainable and technologically advanced in the world. We have substantially reduced our energy usage and led the development of industry innovations such as advanced high-strength steel. If not countered effectively, the injurious dumping of steel will continue to cost thousands of good paying jobs, discourage new investment in manufacturing and threaten the very viability of an industry that built America and remains the strong backbone of its economy and security.

Thomas J. Gibson
President and CEO
American Iron and Steel Institute
Washington

Is breaking the law justified as long as it benefits consumers? The point of applying tariffs isn't to make foreign steel more expensive to protect a small number of American steelworkers, as your editorial claims. Tariffs are a means of enforcing the rules of international trade for the sake of more than one million American jobs that depend on a viable steel industry.

We would all like a global trading system that is truly free, one in which the theory of comparative advantage is a reality, with each nation exporting what it does best. We're not there yet. Instead, we have managed trade, a system governed by trade agreements and rules that participants agree to follow. The only way we are going to break down trade barriers is by enforcing the rules we already have.

If a company is receiving illegal government subsidies to produce and sell artificially cheap steel, its products are subject to a tariff. That's the law. We welcome the Commerce Department's investigation.

John Ferriola
Chairman, CEO & President
Nucor Corp.
Charlotte, N.C.

Paid Maternity Leave Is Worth Every Penny

In reference to your May 29 editorial "The Ivanka Entitlement" on paid family leave: At Blackstone, contrary to your view, we have found that paid family leave isn't only smart policy, it's good for business.

Two years ago, Blackstone expanded its paid maternity leave to 16 weeks from 12 weeks (as opposed to the six-week leave currently under budget proposals), building on existing benefits (paternity leave, adoption leave, phase-back to work, elder care and more) that acknowledge the many challenges of working families.

While our expanded policy is still relatively new, we made the decision based on the knowledge that it would aid our recruiting and retention efforts, cut down on costs associated with employee turnover and, over time, produce a more diverse and loyal workforce—conditions that lead us to be smarter, better investors.

Our optimism was grounded in compelling research suggesting that women receiving paid leave are 93% more likely to be in the workforce nine to 12 months after a child's birth than women without paid leave (Rutgers, 2012), and that companies like ours would be 80% more likely to experience higher morale and 70% more likely to see increased productivity (EY, 2016).

Anecdotally, we've found that it has been invaluable to our recruiting efforts and helped contribute to Blackstone being named for the third year running a "Best place to work" by vault.com.

Paid leave is worth every penny.

Stephen A. Schwarzman
Founder, Chairman and CEO
Blackstone
New York

Mr. Schwarzman chairs the President's Strategic and Policy Forum.

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

Don't Raise the Debt Limit—Repeal It

By Jason Furman
And Rohit Kumar

Over the past eight years, high-stakes negotiations in Congress over the U.S. federal debt limit have repeatedly brought Washington to the verge of default. We were on opposite sides of these debates, as senior policy advisers to President Obama and Senate Republican Leader Mitch McConnell, and we continue to disagree about taxes and the proper size of government. Yet we both believe that the statutory debt limit has outlived its usefulness as a mechanism for restraining the size of the national debt. Or, put more precisely, we think that whatever residual value the debt limit may have is far outweighed by the risk that a potential U.S. default poses to the global economic order.

Owing tens of trillions is a problem. Default would be a catastrophe. End the continuing crisis.

Now the debate is heating up again: The Treasury Department is already taking "extraordinary measures" to avoid going above the debt ceiling, but that can last only a matter of months. Congress will have to act. But this time instead of merely raising the debt limit, lawmakers should abolish it altogether—for the good of President Trump, all his successors and the American people.

The U.S. Constitution assigns Congress the power to tax and spend, which determines the annual budget deficit and, therefore, the debt. Separately, the Constitution authorizes Congress to "borrow Money on the credit of the United States."

But what if lawmakers approve spending, and then later refuse to borrow the money needed to satisfy the obligation? The result would be a default: Washington either would stop paying bondholders or would fall short on its other commitments—to disabled veterans, for example, or defense contractors or even taxpayers who are owed refunds.

Fortunately, this has never happened. Congress has always met its responsibility to authorize the borrowing needed to pay America's bills. Over the past several decades, however, lawmakers have made an increasingly regular practice of using the debt limit as leverage, flirting with default as a way to get concessions from the other side.

Until World War I, Congress authorized debt on a case-by-case basis, approving individual bond issues or allowing borrowing for a specific purpose. In 1917, in an effort to make the process more efficient, Congress granted the Treasury the authority to borrow up to a certain limit.

For decades, this system worked effectively. But skirmishes over the debt limit began as early as 1953, when President Dwight Eisenhower asked lawmakers to raise the figure. Sen. Harry F. Byrd Sr., a Democrat from Virginia, led the upper chamber's Finance Committee to reject the president's request. Then in 1967 the House, controlled by Democrats, rejected in a floor vote a debt-ceiling increase requested by President Lyndon Johnson.

The challenge of raising the debt limit became even more difficult over the following decades. In 1985 Treasury Secretary James Baker became the first to use "extraordinary measures" to prevent borrowing from hitting the cap. An expanding set of such measures were deployed in 1995-96, 2002, 2003, 2011, 2013, 2015 and 2017. Now that these measures are used almost annually, it is hard to justify calling them "extraordinary."

Sen. Harry F. Byrd Sr., pictured in 1964, refused to raise the debt limit in 1953.

Although the measures mostly involve inconsequential reshuffling in the federal ledger, they can have real-world costs. Treasury Secretary Steven Mnuchin, for example, like several of his predecessors, has suspended the sale of state and local government series bonds. This allows the Treasury to stay below the debt ceiling for longer but can make it more costly for states and cities to manage their finances.

As the debt limit nears, costs mount. In the past, the Treasury has operated with a smaller cash cushion against unforeseen contingencies, has rejiggered bond maturities in ways that interfere with liquidity in the financial system, and has paid higher yields to borrowers worried about timely repayment. At the same time, brinkmanship over the debt limit erodes consumer and business confidence and increases market volatility.

Note that these costs are incurred simply by approaching the debt limit without actually reaching it. In a 1985 letter, President Reagan discussed what would happen if the government did someday teeter over the edge: "The full consequences of a default—or even the serious prospect of default—by the United States are impossible to predict and awesome to contemplate." During the debt negotiations of 2011, President Obama similarly warned that hitting the limit "would risk sparking a deep economic crisis—this one caused almost entirely by Washington."

While many countries have limits on the policies that drive debts and deficits, none of them have a history of using the threat of default as a negotiating tool once spending and taxing decisions have been made. Denmark is the only other country with a debt limit on the books, but it is set so high as to be irrelevant.

To meet the obligations set out by Congress, the U.S. will have to raise the debt limit by about $3 trillion over the next four years—and another projected $1 trillion, give or take, each year thereafter. At this pace, the risk is high that negotiations to raise the debt ceiling may fail, with unimaginably severe consequences.

Lawmakers are right to be concerned about steep increases in the debt. But those worries should be expressed when the policies that actually increase the debt are voted on. Once new policies become law, defaulting on interest payments or veterans' benefits is hardly productive.

A new mechanism is necessary to tackle the debt issue—and it must be one that doesn't prejudge the question of revenue increases versus spending cuts, which is for future Congresses to resolve.

For now, the right move is to eliminate the debt limit permanently. That would let the Treasury focus on the most efficient and effective ways to manage the federal government's cash flow, giving future presidents, both Democratic and Republican, a freer hand. No matter which party holds the White House, all Americans would benefit from taking the threat of a U.S. default off the table.

Mr. Furman, a senior fellow at the Peterson Institute for International Economics, was chairman of the White House Council of Economic Advisers from 2013 to 2017. Mr. Kumar, a principal at PwC, was policy director and deputy chief of staff to Senate Republican Leader Mitch McConnell from 2007j to 2013.

Trump Tarnishes America's Standing Down Under

By Michael Fullilove
And Alex Oliver

Australians have long valued our security alliance with the U.S., a relationship that dates back to World War II. We have been America's most reliable friend, the only country to have fought at its side in every major conflict of the 20th and 21st centuries. Now new polling suggests Donald Trump may be tarnishing that the relationship.

The first contact between President Trump and Australia's Prime Minister Malcolm Turnbull didn't go well. In January the president reportedly cut short a "hostile and charged" phone call, which he later described as "the worst call so far."

The damage was repaired somewhat when the two leaders met in New York in early May. Then last week video emerged from an off-the-record charity dinner showing Mr. Turnbull poking fun at Mr. Trump. As Mr. Trump isn't known for his self-deprecating sense of humor, the next phone call between the two leaders will no doubt be awkward.

Many Australians will have seen the humor in Mr. Turnbull's performance. Lowy Institute polling conducted in the lead up to the 2016 election found that 77% of Australians would have preferred it if Hillary Clinton had won. Only 11% preferred Donald Trump.

Now that Mr. Trump has become president, the 2017 Lowy Institute Poll finds that 60% of Australians say Mr. Trump causes them to have an unfavorable opinion of the U.S. He's particularly unpopular among young adults—with 70% saying he is a negative factor in their opinion of the U.S.—and women, 68% of whom disapprove of the U.S. leader.

There has also been a steep drop in Australians' trust of the U.S.: the number who trust America "a great deal" to act responsibly in the world has halved, to 20% from 40%, since the Lowy Institute last polled this question in 2011. The 61% of Australians who trust the U.S. overall contrasts with the 90% who trust the U.K., 86% who trust Germany and 86% who trust Japan.

The number of Australians who see the U.S. as Australia's "best friend in the world" has also halved, to 17%, from 35% in 2014. Whereas three years ago America shared the top slot on the "best friend" list alongside New Zealand, it has now dropped to second place, far behind New Zealand and tied with the U.K.

The U.S. alliance with Australia remains strong for now, but the strains are starting to show.

There were strong indications before the 2016 U.S. election that Australians might shun the U.S. alliance under a Trump presidency. Nearly half the Australian population, 45%, said in 2016 Lowy Institute polling that "Australia should distance itself from the United States if it elects a president like Donald Trump."

The good news out of the 2017 poll is that Australians are able to separate the Australia-U.S. alliance from the person of Mr. Trump. For the moment, support for the alliance is holding up, and in fact has rebounded after a significant nine-point drop recorded in March 2016 polling during the U.S. presidential primary season.

More than three-quarters of Australians, 77%, still say the alliance is either "very" or "fairly" important for Australia's security. Their overall warmth toward the U.S., as measured on the poll's "thermometer of feelings" toward nations, has stabilized after its record five-point drop last year. Only 29% of Australians now think "Australia should distance itself from the United States under President Donald Trump."

These results probably reflect the pragmatism for which Australians are famous. But it's an open question how long the relationship can prosper under the weight of Mr. Trump's behavior.

Mr. Trump has professed his skepticism about alliances, hostility to free trade and partiality to strongmen. Since taking office he has withdrawn from the Trans-Pacific Partnership, undermining perceptions of American reliability and undercutting America's position in Asia.

Mr. Trump has also refused to endorse the principle of collective defense, which is enshrined in Article 5 of the NATO Treaty and forms the basis of all U.S. alliances. He has been careless with intelligence provided by allies. His most recent move—withdrawing from the Paris climate agreement—will likely further spook Australians, whose concern about climate change has risen in the last few years and who supported a strong commitment to the Paris accord in 2015.

No one likes being taken for granted, not even the oldest and easiest of friends. The 2017 Lowy Institute Poll reveals that fewer Australians than ever see the U.S. as our "best friend." That should be a warning for all of us who support this alliance.

Mr. Fullilove is the executive director of the Lowy Institute in Sydney. Ms. Oliver is the director of the institute's polling program and the author of the 2017 Lowy Institute Poll.

Iran Has Squandered Its Chance to Avoid Sanctions

By Joseph I. Lieberman
And Mark S. Kirk

As the Financial Action Task Force convenes for its annual meeting this week in Spain, it's an opportunity for the international governing body on combating money laundering and terrorism financing to call for a reinstatement of sanctions against Iran.

This year's meeting marks a critical moment for Iran, which along with North Korea are the only two countries in the world identified by the FATF as serious risks to global financial security. Iran received a 12-month reprieve from sanctions at last year's FATF meeting following the nuclear deal. It was an opportunity for Tehran to prove its commitments to fiscal propriety and to distance itself from funding acts of terror.

That reprieve has been for naught. One year later, Iran remains the world's leading state-sponsor of terrorism. It has done little to enact the anti-money laundering policies requested by the FATF. With no proof of tangible results, the FATF must call on its members to bring back the sanctions against Iran.

Iran's duplicity stems from the power dynamic between President Hassan Rouhani and the Supreme Leader Ali Khamenei. Politics and policy are controlled by Ayatollah Khamenei and enforced via the Islamic Revolutionary Guard Corps. Mr. Rouhani doesn't have much of an independent policy legacy to speak of, despite his efforts to project a moderate and more democratic veneer. Even agreeing to the nuclear deal was ultimately Mr. Khamenei's decision.

The powers in control in Tehran loathe what it considers to be the West's meddling in its domestic affairs, and often lashes out in response to external pressure. We see this with every joint Iranian-North Korean missile test that violates United Nations Resolution 2231. And it has been much the same for the FATF, with no change in either Iran's money-laundering policies or in winding down its terror funding over the past year.

Some countries still wish to give Iran a free pass, even though the FATF recommends that "countries should criminalise terrorist financing on the basis of the Terrorist Financing Convention, and should criminalise not only the financing of terrorist acts but also the financing of terrorist organisations and individual terrorists even in the absence of a link to a specific terrorist act or acts."

Over the past year, Iran has continued to provide money, weapons, training and troops to the cause of terrorism throughout the Middle East. From the Houthis in Yemen to propping up Bashar Assad's forces in Syria, Hezbollah in Lebanon and supporting Shiite militias in Iraq, there's no shortage of examples of Iranian influence over some of the most violent groups in the world.

Tehran was given 12 months of relief to distance itself from money laundering and sponsoring terror. That year is up.

When it comes to its role in funding terrorism, Iran has gone so far as to dub organizations such as Hezbollah a "liberation movement" to create a loophole in its 2015 terrorist-financing legislation. This is unacceptable. The FATF should reinstate sanctions against Tehran until it adopts a credible legal architecture to combat the financing of terrorism. Reinstating this global label would warn the financial community to avoid business with Iran.

Money laundering poses its own business risks and is a threat to the safety and soundness of Western financial institutions. The Iranian regime uses its network of ostensibly legitimate business supporters to conceal the origins of illegally obtained money. This potentially makes financial institutions unwitting participants in a money-laundering operation, tarnishing their reputation and increasing their liability for massive fines and penalties.

The FATF is primed to provide a thorough and just assessment of Iran's efforts in the past year. We hope it does so. The nuclear deal provided the space and opportunity for Iran to demonstrate its commitment to stopping the flow of funds to terror groups and rolling back its money-laundering operations. But Iran squandered this opportunity.

We encourage the FATF to not only call on its members to reinstate sanctions against Iran, but that they implement more-stringent resolutions as the organization itself recommends for every jurisdiction that poses a threat to the global financial system.

Mr. Lieberman, the former U.S. senator from Connecticut and 2000 Democratic vice-presidential nominee, is chairman of United Against Nuclear Iran. Mr. Kirk, the former U.S. senator from Illinois, is senior advisor at UANI.

Notable & Quotable: Paglia

Camille Paglia in an interview with the Weekly Standard, June 15:

There seems to be a huge conceptual gap between Trump and his most implacable critics on the left. Many highly educated, upper-middle-class Democrats regard themselves as exemplars of "compassion" (which they have elevated into a supreme political principle) and yet they routinely assail Trump voters as ignorant, callous hate-mongers. These elite Democrats occupy an amorphous meta-realm of subjective emotion, theoretical abstractions, and refined language. But Trump is by trade a builder who deals in the tangible, obdurate, objective world of physical materials, geometry, and construction projects, where communication often reverts to the brusque, coarse, high-impact level of pre-modern working-class life, whose daily locus was the barnyard. It's no accident that bourgeois Victorians of the industrial era tried to purge "barnyard language" out of English.

Last week, that conceptual gap was on prominent display, as the media, consumed with their preposterous Russian fantasies, were fixated on former FBI director James Comey's maudlin testimony before the Senate Intelligence Committee. (Comey is an effete charlatan who should have been fired within 48 hours of either Hillary or Trump taking office.) Meanwhile, Trump was going about his business. The following morning, he made remarks at the Department of Transportation about "regulatory relief," excerpts of which I happened to hear on my car radio that afternoon. His words about iron, aluminum, and steel seemed to cut like a knife through the airwaves.

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TED7 FOR THE WALL STREET JOURNAL

MY RIDE | By A.J. Baime

The Swedish Car Ferrari Owners Envy

Jeffrey Cheng, a private-equity investor from Newport Beach, Calif., on his 2008 Koenigsegg CCX, as told to A.J. Baime.

Years ago, the word supercar came into vogue. A supercar is a rare, expensive performance automobile, like a Ferrari or a Lamborghini. Later, car fans started using the word hypercar. These vehicles are even more exclusive—so rare in fact, you are not likely to ever even catch a glimpse of one. They can cost well over a million dollars, and they pack so much power, they defy the whole idea of what a car is supposed to be.

In my opinion, there are only two real independent hypercar builders today: Koenigsegg of Sweden and Pagani of Italy.

I was lucky enough to see a Koenigsegg at a gas station in 2009. I was already a Ferrari collector, and I knew of this car and its ingenious creator, Christian von Koenigsegg. I was transfixed. The vehicle looked like nothing I had ever seen.

A few years later, I got a call from a specialty car dealer in Seattle saying he had a Koenigsegg CCX for sale. Within 24 hours, I was at his dealership handing him a check. With a car this rare, I feared that I would never have another shot at one.

Koenigsegg was founded in Sweden in 1994 by then-22-year-old Christian von Koenigsegg, and to this day, only 134 cars have been completed. The CCX was the first Koenigsegg imported into the U.S.

The experience of driving it is hard to put into words. The engine puts out 806 horsepower. The vehicle is very lightweight and full of suspension technology, so this power is delivered in a smooth, refined manner. Top speed is over 245 mph.

At the time I bought my CCX, there was no place to service my car, so a Koenigsegg technician flew in to do the work in my garage.

Last summer I drove the CCX to Monterey Car Week, a huge gathering of enthusiasts. A mob crowded around. It was as if a spaceship had landed. Koenigsegg is building a new car called Agera RS. A very few are slated for the U.S. I ordered one and it is scheduled to arrive in July. This new car will put well over 1,000 horsepower to the pavement. I cannot wait to get behind the wheel.

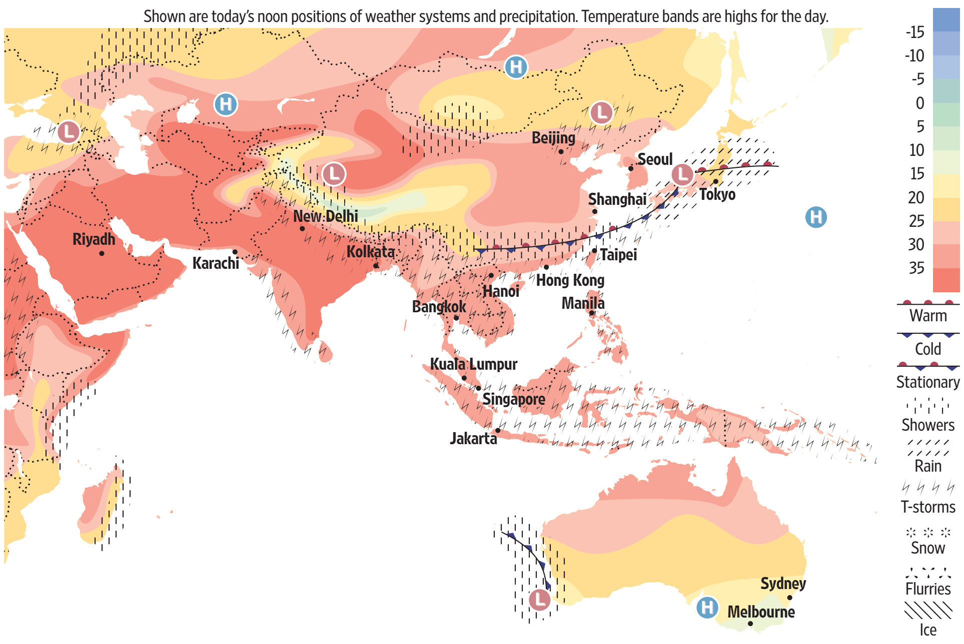
Contact A.J. Baime at Facebook.com/ajbaime.

Newport Beach, Calif., private equity investor Jeffrey Cheng's 2008 Koenigsegg CCX. This Swedish brand of car is so rare, only 134 have been completed since the company was formed in 1994. Top speed is over 245 mph.

Weather

AccuWeather.com

Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.

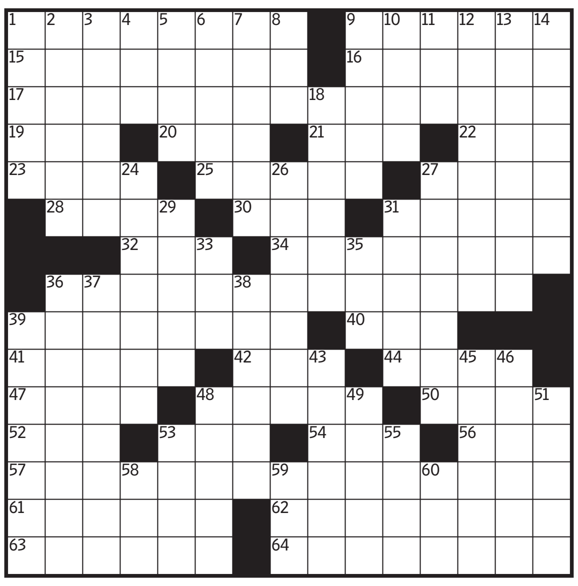


Global Forecasts

s...sunny; pc... partly cloudy; c...cloudy; sh...showers; t...t'storms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	28	19	pc	25	15	t
Anchorage	16	12	c	16	10	c
Athens	29	20	s	31	21	s
Atlanta	26	21	pc	26	23	t
Baghdad	39	24	s	38	24	s
Baltimore	30	19	pc	33	21	pc
Bangkok	35	26	t	34	26	t
Beijing	33	21	t	25	19	t
Berlin	23	12	pc	30	16	pc
Bogota	18	10	c	18	9	r
Boise	31	13	s	28	12	s
Boston	28	17	pc	27	20	pc
Brussels	32	21	t	30	15	t
Buenos Aires	14	9	pc	21	17	c
Cairo	33	22	s	33	22	s
Calgary	17	6	t	13	6	pc
Caracas	30	25	pc	32	26	pc
Charlotte	28	21	pc	28	21	c
Chicago	27	19	pc	32	21	t
Dallas	34	23	s	31	24	sh
Denver	35	17	pc	33	13	s
Detroit	26	17	pc	30	22	t
Dubai	39	31	s	41	32	s
Dublin	25	13	pc	19	12	pc
Edinburgh	22	14	r	19	13	c
Frankfurt	33	20	t	35	18	t
Geneva	30	19	t	32	19	pc
Hanoi	33	26	pc	33	27	t
Havana	32	24	pc	33	23	pc
Hong Kong	31	29	t	33	28	t
Honolulu	30	23	pc	30	23	pc
Houston	31	24	c	29	25	t
Istanbul	26	20	s	27	21	s
Jakarta	32	26	t	32	24	sh
Johannesburg	19	4	s	20	3	s
Kansas City	34	22	s	33	22	s
Las Vegas	46	30	s	46	31	s
Lima	22	16	c	22	16	pc
London	33	18	s	27	14	pc
Los Angeles	31	19	pc	29	18	pc
Madrid	37	21	pc	38	21	s
Manila	33	27	t	34	26	t
Melbourne	13	4	c	14	7	pc
Mexico City	26	12	pc	28	12	pc
Miami	33	27	t	33	27	c
Milan	34	21	pc	35	21	pc
Minneapolis	26	18	t	25	15	pc
Monterrey	38	21	pc	40	21	pc
Montreal	22	12	sh	25	17	pc
Moscow	17	9	pc	18	9	sh
Mumbai	33	28	r	33	28	t
Nashville	32	21	s	28	23	c
New Delhi	37	25	t	37	25	t
New Orleans	29	25	r	30	26	r
New York City	28	20	pc	28	22	pc
Omaha	35	21	pc	33	17	t
Orlando	31	23	t	32	21	t
Ottawa	22	12	sh	24	16	c
Paris	35	20	t	34	16	pc
Philadelphia	30	20	pc	32	22	pc
Phoenix	48	32	s	45	31	s
Pittsburgh	26	15	pc	29	21	t
Port-au-Prince	35	24	pc	35	24	pc
Portland, Ore.	24	11	pc	26	12	s
Rio de Janeiro	25	19	r	25	20	pc
Riyadh	43	27	s	42	27	s
Rome	29	18	s	30	19	s
Salt Lake City	37	20	s	32	16	s
San Diego	26	19	pc	24	19	pc
San Francisco	25	15	pc	28	16	s
San Juan	31	25	sh	31	25	pc
Santiago	14	6	c	11	6	r
Santo Domingo	31	23	t	32	23	pc
Sao Paulo	18	14	pc	21	14	pc
Seattle	21	10	pc	24	11	s
Seoul	30	20	s	28	20	pc
Shanghai	28	23	pc	28	24	r
Singapore	31	26	t	31	26	t
Stockholm	19	9	c	20	10	pc
Sydney	18	12	pc	18	9	pc
Taipei	32	26	c	34	26	t
Tehran	38	24	s	37	23	s
Tel Aviv	27	22	pc	28	20	s
Tokyo	24	22	r	27	21	pc
Toronto	24	11	sh	25	19	sh
Vancouver	19	9	s	20	10	s
Washington, D.C.	32	22	pc	33	24	pc
Zurich	32	17	t	32	17	pc

The WSJ Daily Crossword | Edited by Mike Shenk



MAKING WAVES | By Alice Long

Across

1 Follow-up to "Straight" in some bar orders
9 Relative group
15 Puzzle magazine offering
16 "Jeopardy!" fodder
17 Two favorite things for "Sunshine of Your Love" fans?
19 Hoary
20 Aluminum coin
21 Drink cooler, in Dresden
22 That bloke
23 Gaucho's throwing weapon
25 "Take a chill pill!"
27 Objective, e.g.
28 Glossary entry
30 Twaddle
31 Henry VIII's house
32 Windsurfing spot
34 Jiggly desserts
36 Music to accompany cookouts by the sea?
39 Fern feature
40 Clinic nickname
41 Bounds along
42 Windowsill sunner
44 Vogue rival
47 Astronomer's bear
48 She beat Graf in the 1992 French Open
50 Bring in
52 Car in a 1964 Ronny & the Daytonas song
53 Letters for debtors
54 Greek's X
56 Co. co-founded by Michael Ovitz
57 Heads home after a day by the ocean?
61 Track meet makeup
62 Put beneath for support
63 Ascended again
64 Date, in a way

Down

1 Person of great wealth
2 Spotted prowler of South America
3 Hold protectively
4 Ad ___
5 Grayish
6 Take the helm
7 Former Disney CEO Michael
8 GE purchase of the 1980s
9 Army base about 16 mi. from Trenton
10 Pendulum paths
11 Russian space station
12 Cry of exasperation
13 Intermediaries
14 Whines
18 More shipshape
24 Forested plane in Dungeons & Dragons
26 Like Vulcans, notably
27 Manicurist's target
29 Stallions' mates
31 Resort near Carson City
33 "You bet!"
35 Outpaced
36 Frolicsome
37 Crosses, as "the pond"
38 Like the flop, in Texas hold 'em
39 Plate great
43 Electronic dance music
45 Part of many Mexican restaurant names
46 Removed all evidence of
48 Boozer
49 Loses
51 Smartly dressed
53 Believers
55 "Law & Order: SVU" co-star
58 Brian of ambient music
59 Pull on
60 It may be refined

▶ Solve this puzzle online and discuss it at WSJ.com/Puzzles.

Previous Puzzle's Solution

V	A	T		P	A	C	T			C	O	N	C	H
I	R	A		E	C	R	U		A	U	R	O	R	A
P	I	G	L	A	T	I	N		G	R	E	W	O	N
P	E	T	E			B	E	A	R	D	O	W	N	
A	T	E	A	S	E		D	I	E			H	U	H
S	T	A	R	T	L	E		D	E	V	I	A	T	E
S	A	M		R	E	E	D			A	R	T	S	Y
			D	U	C	K	S	A	U	C	E			
H	I	T	E	M			T	Y	R	A		P	O	W
U	N	R	I	S	E	N		E	N	T	W	I	N	E
M	A	O			L	A	B		S	E	A	T	E	D
	B	U	N	N	Y	H	O	P			D	A	L	I
W	I	N	C	E	S		M	O	U	S	E	P	A	D
I	N	C	A	S	E		B	O	S	E		A	N	I
I	D	E	A	S			S	L	E	W		T	E	T

TECHNOLOGY: LEGAL BATTLE HEATS UP BETWEEN APPLE AND QUALCOMM B4

BUSINESS & FINANCE

THE WALL STREET JOURNAL. | Wednesday, June 21, 2017 | B1

Yen vs. Dollar 111.4940 ▼ 0.03% | Hang Seng 25843.04 ▼ 0.31% | Gold 1242.40 ▼ 0.14% | WTI crude 43.00 ▼ 2.71% | 10-Year JGB yield 0.056% | 10-Year Treasury yield 2.158%

Rio Tinto Dismisses Glencore Bid

British-Australian firm supports smaller offer by Chinese company in sale of coal assets

By Razak Musah Baba And Scott Patterson

LONDON—**Rio Tinto** rebuffed a US$2.5 billion offer by **Glencore** PLC for its Australian coal assets and recommended that shareholders approve a previous bid by a Chinese company.

Rio Tinto said Tuesday that its board considered a number of factors related to both proposals, including the size of both bids, and decided to stick with a $2.45 billion offer that **Yancoal Australia** Ltd. made in January, in part because it expects to complete the deal faster than one with Glencore.

The British-Australian mining company is trying to shed much of its coal assets, especially thermal coal, the type burned to make electricity.

The sale includes Rio's large coal operation in Australia's Hunter Valley, Coal & Allied Industries Ltd., which Rio has been trying to unload for years. Glencore's surprise counteroffer two weeks ago, set to expire next Monday, briefly threw Rio's plans into turmoil. Glencore Chief Executive Ivan Glasenberg has long coveted the Australian coal assets, which sit near large Glencore coal operations.

A spokesman for Glencore said the company is reviewing the announcement and "will respond in due course."

After Glencore's bid, Yancoal revised its offer to make its $2.45 billion payment upfront, rather than in a series of installments. The company is a subsidiary of Chinese coal giant Yanzhou Coal Mining Co.

DAN HIMBRECHTS/EUROPEAN PRESSPHOTO AGENCY

Rio Tinto CEO Jean-Sebastien Jacques favors Yancoal's offer.

"We believe Yancoal's offer to purchase our thermal-coal assets...offers the best value and greater transaction certainty for shareholders," Rio Tinto Chief Executive Jean-Sebastien Jacques said.

Thermal-coal prices plunged in 2015, followed by a rally last year amid signs of solid demand in China. Thermal-coal prices have softened this year, and analysts expect demand to remain subdued as countries switch to cleaner-burning fuels.

Glencore, the world's biggest trader of thermal coal, expects demand for the fossil fuel to remain healthy in Southeast Asia, because thermal coal is one of the cheapest fuels for electricity generation.

Mr. Jacques said Yancoal's revised offer also is more attractive because it is more likely to get regulatory approval, including from the Chinese government. Although the Rio Tinto assets are in Australia, China is a significant coal-consuming country and its regulators often insert themselves into mining deals.

Under U.K. and Australian listing rules, the deal with Yancoal requires the approval of Rio shareholders. London-listed Rio Tinto PLC has called a general meeting for June 27 to vote on the deal. Holders of Rio Tinto Ltd. in Australia are to vote June 29.

YouTube Ad Mess Divides Brands

By Lara O'Reilly And Jack Nicas

Google's YouTube has made strides in bringing advertisers back to the site after a backlash over ads appearing alongside offensive videos. But many prominent holdouts remain, signaling that the crisis isn't over yet.

Wal-Mart Stores Inc., **AT&T** Inc., **J.P. Morgan Chase** & Co., **Starbucks** Corp., **Procter & Gamble** Co. and at least a dozen other major brands or government agencies haven't returned to the site, those institutions and people familiar with the situation say. They pulled their spending after news organizations in March revealed that their ads ran alongside extremist or racist videos.

But some companies have resumed spending on YouTube ads—including General Motors Co., Coca-Cola Co., and McDonald's Corp.'s U.K. unit—after the site improved its technology to screen videos, committed to employing more human reviewers, and gave marketers more control over where their ads appeared. YouTube also issued refunds to some companies.

The mixed response from advertisers shows their "brand safety" concerns are serious and could linger, but also aren't insurmountable, so long as Google continues its efforts to ease marketers' fears.

YouTube said in a statement: "Many advertisers never left and many have decided to come back. While they know that no system can be perfect, they appreciate the actions we've taken and know we are taking this seriously and are committed to getting better and better."

Google on Sunday also announced a series of changes to curb extremist videos on its site, including adding more technology and human reviewers to flag them and making less extreme ones harder to find.

Many of the marketers still on the sidelines say they are waiting for complete reassurance that poor ad placements won't happen again.

A series of news stories about ads running alongside controversial YouTube videos sparked advertisers to pull spending in late March. In the 90 days from March 15 to June 13, digital-ad research firm Pathmatics estimated spending on ads that ran before YouTube videos or displayed on the YouTube site dropped by 50% to $739 million, compared with a year earlier. Pathmatics didn't capture data from YouTube's mobile app.

Other signs look more positive for YouTube. A poll of 316 marketers—including 200 decision makers from the top 200 advertisers in the U.S.—conducted in May by research consultancy Advertiser Perceptions found that 38.5% of

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STREETWISE

By James Mackintosh

Your ETF Isn't What You Might Think It Is

Much of the point of passive investing is to take away the effort and stress required in making investment decisions. It isn't working, at least when it comes to the world's second-biggest equity market, China. **MSCI** was set to decide on Tuesday whether to include Chinese domestic stocks in the benchmark emerging-markets index, a decision that could lead to hundreds of billions of dollars eventually being invested there.

It might seem obvious that the $7.8 trillion of A shares in China ought to be in the benchmark, given they make up more than 10% of the value of the world's stocks and more than 60% of the value of emerging markets.

The difficulty of the decision is due to the conflicting nature of modern indexes as both measures of performance and the basis for investment. A measure of stock prices that excludes China is obviously flawed. Yet, tracking an index that includes China exposes investors to strict capital controls and arbitrary suspensions.

Investors in mutual and exchange-traded funds tracking indexes often think they are making a simple decision to follow what the market is doing. In reality the indexes have mutated from measures of the market into primitive investing algorithms, with sometimes odd effects.

Consider the latest plan by MSCI for China, watered down to cater to the needs of index trackers. China's $7.8 trillion of domestically

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DAVID PAUL MORRIS/GETTY IMAGES

The new iPhone on display in San Francisco in 2007. Apple is now dependent on the product line for about two-thirds of its sales.

How iPhone Decade Reshaped Apple

By Tripp Mickle

SAN FRANCISCO—Since **Apple** Inc. launched the iPhone in June 2007, the smartphone revolution it unleashed has changed the way people work and socialize while reshaping industries from music to hotels.

It also has transformed the company in ways that cofounder Steve Jobs could hardly have foreseen.

Ten years later, the iPhone is one of the best-selling products in history, with about 1.3 billion sold, generating more than $800 billion in revenue. It skyrocketed Apple into the business stratosphere, unlocking new markets, spawning an enormous services business and helping turn Apple into the world's most valuable publicly traded company.

But it also created enormous challenges for Apple, raising the bar for innovation and turning a company that thrived on its self-image as scrappy underdog into an industry leader, with a workforce more than six times what it was.

"The company has grown in every dimension and holding it together is very, very tough," said Horace Dediu, a former **Nokia** executive and technology analyst with Asymco. Apple has to balance sustaining the iPhone business with preserving employees' passion to create new products, he said, and "that's really hard."

The iPhone boom has overshadowed Apple's other products, making the company dependent on one product line for about two-thirds of its sales. That means any big stumble with the iPhone could be calamitous.

The iPhone's success is best reflected in China, where a combination of good timing, smart manufacturing and strong branding have made Apple one of the most successful American companies in the world's most populous country.

The iPhone hit Chinese shelves in 2009 as wages in that country were swelling. Apple—which relies on thousands of Chinese workers to assemble its products—benefited as Chinese consumers embraced the iPhone as a status symbol.

In 2006, all of Asia-Pacific outside of Japan accounted for 7% of Apple's revenue. Last year, greater China alone made up 23% of revenue, and at $48.49 billion, it was greater than Coca-Cola Co.'s total revenue world-wide.

The iPhone's success in China has been so dramatic

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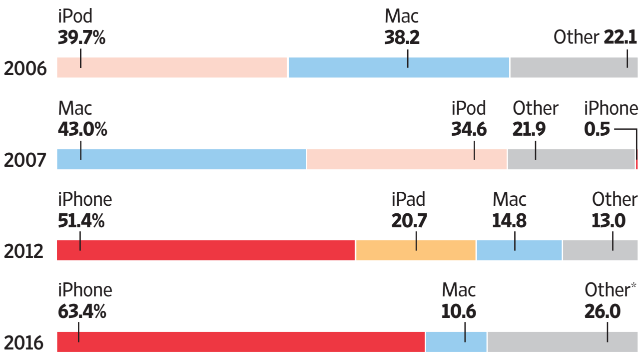
Slice of the Pie

Apple's revenue, by product



Note: Percentages may not add to 100 percent due to rounding.

*"Other" for all years includes iTunes sales, AppleCare and accessories. In 2012 and 2016, it also includes app store sales and Apple TV. In 2016 only, it also includes Apple Watch, Apple Pay and Beats products.

Source: the company

THE WALL STREET JOURNAL.

GENE J. PUSKAR/ASSOCIATED PRESS

A Morgan Stanley survey shows about 62% of Whole Foods shoppers are members of Amazon's Prime service.

Shopper Data Is Big for Amazon

By Laura Stevens And Heather Haddon

Amazon.com Inc. spent two decades hastening the demise of the traditional brick-and-mortar retail industry. So why would the tech giant spend $13.7 billion to acquire an organic-grocery chain with more than 460 stores?

The deal for **Whole Foods Market** Inc., which people familiar with the matter said came together quickly, presents Amazon with several potential gains. It could use the stores as distribution hubs to build out its online grocery-delivery business. Amazon also could stock gadgets such as its Kindle e-readers and Echo speakers, as well as goods from its burgeoning private label.

The bigger opportunity, though, is data.

Amazon for years has been looking for more ways to gather information about how consumers shop. It has long been rumored to be on the prowl for a breakthrough deal, even as it set up its own much smaller Amazon Go and AmazonFresh Pickup stores as experiments.

If the deal goes through, the combination likely will be powerful. Amazon and Whole Foods can join their online and in-store knowledge to better predict what goods to carry in each store, said James Thomson, a former senior manager in business development at Amazon and now partner at the brand consultancy Buy Box Experts.

"They'll build better private labels and squeeze national brands even more," Mr. Thomson said. "There's lots of opportunity to experiment."

The deal came together so rapidly—the companies signed a confidentiality agreement April 27—that Amazon's strategy for the acquisition is still largely in the air, according to people familiar with the matter.

Amazon shed little light on

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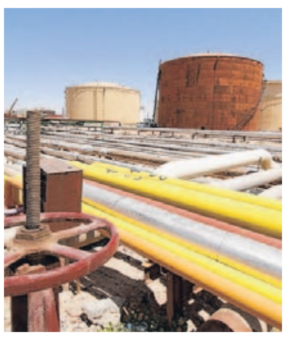
INSIDE



OIL FALLS, DEALING BLOW TO STOCKS

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JENNY TOBIEN/DPA/ZUMA PRESS

Some companies, including Coca-Cola and GM, have resumed spending on YouTube ads, while Wal-Mart and others haven't.

ADS

Continued from the prior page
respondents were likely to spend "a good deal more" with YouTube this year than last. Just 11.9% said they planned to spend less this year and 41.2% said there would be no change. Among the remainder, some weren't YouTube advertisers.

The data suggest that despite advertisers' concerns, YouTube's scale and data make it irresistible for many marketers.

Google parent **Alphabet** Inc. posted a 22% increase in revenue to $24.8 billion in the first quarter, mostly driven by its ad business, but those figures largely preceded the backlash. Investors are watching second-quarter results closely for any impact.

YouTube has refunded money to some of its advertisers.

Many marketers have ramped up oversight of where their ads appear. Audits run by ad agencies have sometimes showed that even YouTube channels the company brands as "Google Preferred"—and charges more for—can include videos advertisers don't consider premium, such as footage of people playing the popular children's game Minecraft. Such videos aren't in bad taste, but their viewers likely include many children, who aren't a priority for most marketers.

YouTube said its Google Preferred channels include many different categories of content, including material aimed at teens, and that it works with marketers to put their ads on the right videos.

Many advertisers are now moving from "blacklisting" videos they wouldn't want to be associated with, to "whitelisting" the channels they deem appropriate. Whitelisting can have the effect of narrowing a company's ad buy.

Enterprise Holdings Inc., owner of Enterprise Rent-a-Car, for example, is working with its media buying agency, Omnicom Media Group, to test a program that scores hundreds of thousands of popular videos each day, based on their suitability for ads.

Marketers have seized on the uproar to press for long-sought changes. After the backlash, Google agreed to let independent measurement firms monitor where marketers' ads appear.

"I think brands like giving Google a bloody nose as they have been so reliant and plowed so much money" into the company, said Ryan Kangisser, founder of ad consulting firm Stack I/O.

YouTube has refunded some advertisers for ads it served next to objectionable content. The amounts returned have been small. In March, Google's top executive in Europe, Matt Brittin, said the matter affected "pennies not pounds" of individual marketers' spending, because advertisers pay per view and few people actually were shown ads next to objectionable videos.

London's transportation agency, Transport for London, said it was satisfied with the refund it received for ads that ran next to extremist videos, but it hasn't resumed spending on YouTube.

However, one media-agency executive said the refunds didn't compensate advertisers for the damage to their brands, including from the news stories showing their ads unwittingly funding hate speech. "The level of money [Google wants] to give back as a sorry is humiliating," the executive said.

Google has met with scores of advertisers and agencies since March to help them ensure their ads only appear next to quality content.

"They've worked harder than we've ever known Google to work to communicate that to advertisers and agencies," said Jenny Biggam, co-founder of U.K. independent media agency The7Stars.

BUSINESS & FINANCE

Frackers, Oil Drillers Collide

'Frack hits' are threatening the peaceful coexistence of new and old wells

By Erin Ailworth

J PAT CARTER/GETTY IMAGES

An oil-well fielder works at a fracking site near Stillwater, Okla. Some owners of older wells complain of damage to their property.

Supersized new oil wells are sometimes running into existing wells, a little-noticed consequence of the shale boom that has started to trigger complaints and lawsuits.

The emerging problem is known as a "frack hit," and it has flared up in Oklahoma, where a group of small oil and gas producers say more than 100 of their wells have been damaged by hydraulic-fracturing jobs done for companies like **Chesapeake Energy Corp.**, **Devon Energy Corp.** and **Newfield Exploration Co.**

In hydraulic fracturing, or "fracking," firms pump sand and water deep underground at high pressure to break oil and gas from rock.

Some owners of older wells have filed reports with state regulators claiming their wells were flooded with water. In some cases, the wells became so full that the water rose to the surface and spilled over. Others have claimed that they had to shut in wells due to the damage. A few cases have ended up in court.

While newer wells damaging older ones is a longstanding problem, the issue is gaining attention as shale companies employ new technologies to drill wells horizontally.

Almont Energy LLC and **TLS Oil & Gas** Inc., vertical-well operators in Oklahoma, sued Newfield last year, claiming that fracking jobs performed by Newfield caused an Almont well to flood with water, "negatively impacting the further development potential" of the well.

A lawyer for Almont and TLS declined to discuss the case, which was filed in federal court. Newfield also declined to discuss the case, but spokeswoman Cindy Hassler said the company tries to be proactive when it learns of possible frack hits and works to negotiate compensation with anyone affected if an inspection shows damage.

"Newfield owns thousands of vertical wells ourselves, so we understand the challenges," Ms. Hassler said.

Chesapeake and Devon, who have also been blamed for frack hits in reports to state regulators, declined to comment.

James West, an analyst with Evercore ISI who has been following frack hits, said they are of special concern in places like Oklahoma and Texas, where those drilling new wells must navigate around older wells drilled over decades.

"It's becoming a pretty sizable issue," Mr. West said, noting that Colorado in 2013 enacted regulations after state engineers had identified frack hits as a potential problem. "I suspect every basin is probably facing the same type of challenge."

In Oklahoma, companies aren't required to report frack hits unless there is a spill. Regulators there have received fewer than 20 confirmed reports of such incidents in the last three years and are currently reviewing several more.

"I know that it's a larger problem than the data we've been given," said Tim Baker, director of the oil and gas division at the Oklahoma Corporation Commission.

Oklahoma last month passed a bill that eases restrictions on where producers can drill horizontal wells more than a mile long. Vertical-well operators now worry their wells are more vulnerable than before.

Joe Warren, a partner with Brown & Borelli Inc., a small oil-and-gas producer, said roughly two dozen of the company's wells have been damaged by frack hits. He believes the problem is particularly acute in Oklahoma's Stack, currently one of the hottest oil regions in the U.S. The Stack has many vertical wells and is now also popular with horizontal drillers.

"Most of the large players in the Stack have hit one or more of our wells," he said.

Chad Warmington, president of the Oklahoma Oil & Gas Association, questioned claims that hundreds of wells have been damaged. In some cases, he and others argue, frack hits can actually boost production from an affected well.

But given the potential for damage, the association supports making reporting frack hits mandatory, Mr. Warmington said, and would be open to having a mediation or arbitration process put in place.

Some experts expect the situation will only get worse.

"We've got bigger fracks, so more chance of them reaching across, well-to-well," said Jennifer Miskimins, an associate professor of petroleum engineering at the Colorado School of Mines. "As we get closer and closer spacing, I think we're going to see the occurrence go up."

Pamplona Seals Parexel Acquisition

By Dana Mattioli

Private-equity firm **Pamplona Capital Management** has reached a deal to buy **Parexel International** Corp. for $4.6 billion, the latest in a series of mergers among drug-research firms.

Pamplona is set to pay $88.10 a share in cash as part of the deal, the companies said Tuesday in a statement, confirming an earlier report by The Wall Street Journal. Parexel shares closed at $83.92 Monday, giving the company a market value of more than $4.2 billion.

Stock in Parexel has risen sharply since the Journal reported in early May that the Waltham, Mass., company was exploring a sale. The price represents a 27.9% premium to where Parexel closed on May 5, the last trading day prior to the Journal report.

Shares in Parexel, which helps drug companies conduct clinical research, rose 4% to $87.24 in midday trading Tuesday.

Pamplona beat rivals including **Laboratory Corp. of America** and **Icon** PLC with a late surge in what turned out to be a spirited auction with multiple bidding rounds, people familiar with the matter said. Pamplona's offer was higher than Icon's and LabCorp's, which both included cash and stock, some of the people said.

Parexel's advisers initially invited only private-equity firms to make offers, but they later opened the bidding to industry players too, some of the people said. There were at least four bidders for the company throughout the process, the people said.

Parexel has offices in 51 countries and recently had about 19,400 employees. It notched $605 million in revenue in the March quarter.

Pamplona is a private-equity firm with headquarters in London and New York. Since its inception in 2005, it has raised five funds with more than €7 billion ($7.8 billion) of capital commitments, according to its website, and has been an active buyer of health-care-services companies.

There has been a flurry of merger activity in that area.

Drug-research firm Pharmaceutical Product Development LLC was recapitalized by its private-equity owners, Hellman & Friedman LLC and Carlyle Group LP, which also brought new investors into the company—a subsidiary of the Abu Dhabi Investment Authority and an affiliate of GIC, Singapore's sovereign-wealth fund. In May, private-equity firm New Mountain Capital LLC agreed to buy laboratory-supply distributor VWR Corp. for nearly $5 billion.

Icon came close to winning the auction, the people said.

The acquisitive company is based in Dublin—where it was founded in 1990—and specializes in product development for drug and medical-device clients. It operates in 87 locations in 38 countries and has about 12,300 employees.

Goldman Sachs & Co. LLC is acting as financial adviser to Parexel, and Goodwin Procter LLP is serving as its legal counsel.

Perella Weinberg Partners LP is acting as financial adviser to Pamplona, and Kirkland & Ellis LLP is serving as legal counsel.

STREET

Continued from the prior page
listed A shares are bigger than London and Frankfurt combined. But MSCI has suggested adding only 169 of China's 3,261 A shares, giving them a weight of just 0.5% of the EM index, in line with the ability of investors to get money in and out of China via Hong Kong's Stock Connect mechanism.

For an investing algo, this makes perfect sense. Computer-driven investing has to follow rules, and has to have some chance of being able to follow the rules. If it is difficult to invest more in China, there is no point in giving China a higher weight, however big the Chinese market may be.

However, the result is that the supposed benchmark is neither a sensible measure of what is happening in emerging markets, because China's weight is too small, nor a useful tool for big investors who have secured preferential access to the market.

Other algos can follow different rules. Vanguard runs $70 billion in the biggest EM ETF following a FTSE index that includes almost 5% in Chinese A shares, 10 times what MSCI is proposing, based on quotas allocated to large foreign investors. They may be simpler than the usual computer-driven trader, but the big decisions still matter: Vanguard's EM ETF is up 14.1% this year against 17.7% for **BlackRock**'s iShares MSCI-driven ETF because of weak A-share performance and MSCI's inclusion of star performer South Korea in EM. Active fund managers often have narrower gaps in performance.

The index's role as an investment tool means something ostensibly designed as a measure can end up with a big influence on the market itself.

Goldman Sachs analysts think including China could prompt $210 billion of index money to flow into the country in the next five years as MSCI increases China's weighting. Such big money flows can lead to strange price outcomes, as Pakistan experienced last month. Its promotion to the EM index led shares to soar, then plummet, as traders bought stocks in the hope of selling them on to index funds forced to buy at any price.

The same conflict between measurement and investing is at work in corporate governance. When measuring stock performance, it doesn't really matter how a company is run. But investors—rightly—care a lot. MSCI is consulting index users on whether to exclude companies such as **Snap** Inc., owner of Snapchat, that issue nonvoting shares.

The FTSE 100, the British benchmark, goes much further, only including London-listed companies incorporated elsewhere if they meet a range of standards.

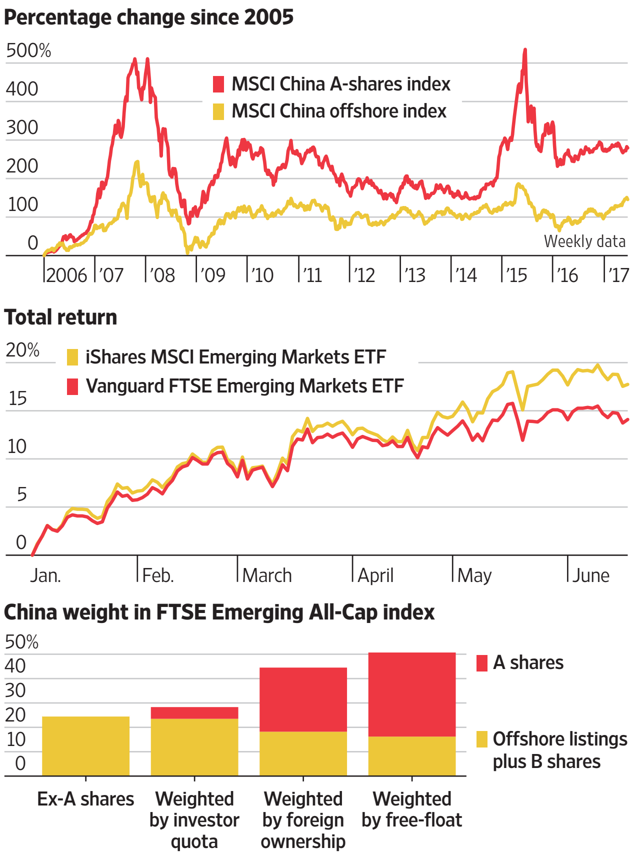
In theory, index investing has three big advantages: It is cheap, it takes away the need to assess the skills of active managers and it is simple, just buying everything in proportion to its value.

In practice, index investing is indeed very cheap, with the iShares Core S&P 500 ETF charging only 0.04% a year. But the plethora of options means investors now need to assess the skills of index designers, while increasingly complex rules take most indexes well away from a simple weighting by market capitalization.

Investors who just want to buy the entire market, or try to measure what is going on with stocks, shouldn't be fooled into thinking these index algos are truly passive.

China Weighting

China's domestic A shares aren't included in the benchmark MSCI Emerging Markets index, but are in the FTSE index used by Vanguard's ETF. The choice of index has affected performance this year, as onshore and offshore stocks diverged.



Source: Thomson Reuters (performance); FTSE Russell (weighting)

THE WALL STREET JOURNAL.

Boeing Offers Bullish Look Ahead

Value of jet deliveries over the next 20 years is expected to surpass $6 trillion industrywide

By Robert Wall

CHRISTOPHE ARCHAMBAULT/AGENCE FRANCE-PRESSE/GETTY IMAGES

A Boeing jet performed at the Paris Air Show on Tuesday. Boeing expects passenger traffic to grow 4.7% over the next two decades.

LE BOURGET, France—**Boeing** Co. has raised its 20-year industry forecast for plane deliveries to 41,030 jetliners, with their value at list prices topping $6 trillion for the first time.

Boeing, the world's No. 1 plane maker, said Tuesday that passenger traffic is poised to grow 4.7% over the next two decades. The outlook is more bullish than one that European rival **Airbus** SE delivered this month, which projected 4.4% growth.

Airbus and Boeing underscored the continued demand strength, principally in the large single-aisle plane sector, with several billion dollars of deals on Tuesday, the second day of the Paris Air Show.

More than half the planes Boeing expects the industry to deliver are intended to help airlines expand. The plane maker said the rest, about 43%, will be used to replace less-efficient planes being phased out. Almost 40% of the planes will go to customers in Asia, driven heavily by booming air traffic in China.

Growth is expected to be strongest in the hotly contested single-aisle segment, where Boeing offers the 737 family of planes and Airbus the A320 variants.

Chicago-based Boeing's 20-year forecast calls for 29,530 new narrowbody planes to make it into customer hands. On Monday it launched its largest single-aisle plane, the 737 Max 10, and said it had more than 10 customers committed to buying it.

In Paris, **United Continental Holdings** Inc. committed to taking 100 of Boeing's Max 10 planes, which are a conversion from an earlier model. United also bought four 777-300ER long-range jets for delivery in the coming two years.

Lessor **Avolon** said it signed an agreement to buy 75 single-aisle planes from the U.S. manufacturer. **China Aircraft Leasing Group** is buying 50 of the U.S. narrowbodies, while Ryanair Holdings PLC, Europe's largest airline by passengers, added 10 commitments for 737s. Boeing also announced more than 30 additional single-aisle and widebody planes.

Airbus signed an agreement with **Delta Air Lines** Inc. for 10 more A321 narrowbodies, while Latin American discount carrier Viva Air committed to take 50 single-aisle jets. **CBD Aviation**, which on Monday bought planes from Boeing, signed for 45 Airbus narrowbodies on Tuesday. **Ethiopian Airlines** also agreed to take 10 more A350-900 long-range planes in a deal valued at more than $3 billion at list price.

Boeing said demand for widebody planes, where the company offers the 787 Dreamliner and 777 models, to reach 9,130 airplanes during the 20-year forecast period.

Order bookings have slowed for big twin-engine planes over recent months, but Boeing said there is "a large wave of potential replacement demand beginning early in the next decade."

Randy Tinseth, vice president of marketing for Boeing's commercial airplanes, said orders for big planes are likely to start picking up next year or in 2019 to meet the need for widebodies from 2021.

The Boeing and Airbus outlooks are broadly similar, though the U.S. manufacturer counts smaller planes not in its rival's outlook.

One segment where the two plane makers differ is in their demand forecast for the biggest passenger planes, where Boeing offers the 747-8 and Airbus its flagship A380 superjumbo.

Boeing said demand for that size plane will be principally in the cargo segment and that fewer than 100 passenger models of that type will be delivered during the coming 20 years. Airbus says that more than 1,400 such planes will be delivered, including cargo models.

Both Airbus and Boeing have been forced to cut production rates of their biggest planes because of demand softness.

Boeing has shifted its focus to big twin-engine planes that can seat more than 400 passengers. By contrast, Airbus officials insist the market for its big, four-engine plane will recover. It used this week's Paris Air Show to unveil plans for enhancements to the plane's sizable wing to help boost fuel efficiency 4%, in the latest in a series of design tweaks to help lure customers. So far, those efforts have yielded no tangible results.

Airbus plane head Fabrice Brégier said the plane maker was in active talks for further A380 deals, though the timing of when they would be completed remained uncertain.

He expressed confidence the A380 would secure further orders once demand for big planes recovers.

Total Plans $1 Billion Iranian Gas Investment

By Sarah Kent

France's **Total** SA said Tuesday it would push forward with a $1 billion investment this summer in a giant Iranian gas field, the first commitment by a Western company to put real money into the Islamic Republic's reemerging energy industry.

The Paris-based oil giant has been at the forefront of Western energy companies looking to return to Iran after sanctions on its energy industry were lifted in January 2016. Total reached a preliminary agreement late last year with **China National Petroleum** Corp. and an Iranian company to invest $4.8 billion to develop parts of a giant gas field in the Persian Gulf, but the deal is still being completed.

In May, Iran's oil minister Bijan Zanganeh told The Wall Street Journal he was "very optimistic" about reaching an agreement with Total "very soon." CNPC didn't respond to requests for comment, and its investment commitment wasn't disclosed Tuesday.

A Total spokeswoman said the $1 billion represented Total's 50.1% share of the joint venture's costs in the $2 billion first phase of development. Total is the project's operator, with CNPC taking a 30% stake and Iranian firm Petropars a 19.9% stake.

The imminent investment decision was first reported by Reuters.

A spokeswoman for Mr. Zanganeh didn't respond to a request for comment.

The completion of the deal would mark a step forward for Iran's oil industry, which the country's oil ministry says needs tens of billions of dollars in foreign investment.

Until now, companies including Total have signed preliminary agreements in Iran and penned memorandums expressing interest but haven't committed because of uncertainty over U.S. sanctions still looming, weak oil prices and uncertain financial terms.

"You can see it as a sign that things are slowly beginning to progress in Iran's upstream, but you can also see it as a sign of just how cautious Western companies are being," said Richard Mallinson, an analyst at consultancy Energy Aspects, of Total's investment figure.

U.S. companies like Exxon Mobil Corp. are essentially prohibited from working in Iran by remaining U.S. sanctions over terrorism, human rights and weapons proliferation concerns. European companies are allowed to work with Iran, but energy firms have moved cautiously.

Royal Dutch Shell PLC agreed to explore future projects with Iran's state oil company last December but hasn't moved forward yet.

Italian oil company Eni SpA said Tuesday it has signed an agreement to study two Iranian oil and gas fields as part of a wider deal to recoup $280 million still owed to the company.

—Benoit Faucon contributed to this article.

Headwinds Slow Printer-Made Jet Parts

By Andy Pasztor

LE BOURGET, France—Some aerospace suppliers are eager to start using 3-D printing technology to turn out large, high-volume structural parts for jetliners, but U.S. safety regulators are taking a go-slow approach toward approving such production.

Three-dimensional printing is a darling of the aerospace industry because it is relatively inexpensive compared with more-prevalent ways of making components. A series of announcements at the Paris Air Show expected in coming days illustrates the immense promise of airliner parts manufactured by 3-D printers—as well as the formidable regulatory challenges confronting their widespread acceptance.

On Tuesday, officials of **Norsk Titanium** AS, a closely held Norwegian company that has developed a novel 3-D printing approach, will unveil a broad partnership with **Spirit AeroSystems Holdings** Inc., a subcontractor for **Boeing** Co. and other industry competitors. Under the arrangement, Spirit sees the potential of eventually using Norsk's technology to produce thousands of different parts at 30% lower cost than traditional milling methods.

However, before that can happen, the U.S. Federal Aviation Administration has to approve the process and certify the cutting-edge, plasma-deposition technology is reliable enough to ensure identical strength and other properties from batch to batch.

FAA officials have said they are moving cautiously, because they want to fully understand the unique technical issues.

In an interview, Warren Boley, president and chief executive of Norsk, agreed that regulators were taking their time and suggested it was likely some of the central questions about the process wouldn't be resolved until 2018.

Norsk, which has been laying the groundwork for the initiative for several years, already has FAA approval to produce a limited category of structural titanium parts for


NORSK TITANIUM AS/REUTERS

A 3-D printer from Norsk Titanium, a Norwegian company.

Boeing's 787 Dreamliner. Now, Mr. Boley said regulatory reviews are under way to expand the number of approved structural parts. Mr. Boley said he doesn't expect certification of any safety-critical parts, the highest level of FAA approval, in the near term.

An FAA official declined to comment.

Norsk also is targeting space and marine applications, unveiling two partnerships for such categories of parts.

By using titanium wire, rather than powder, as the raw material, the company is able to tackle larger parts and churn them out much faster than would be possible otherwise. Mr. Boley said his company's 3-D printed production runs can be 100 times faster than those using powder, meaning some parts could be ready in a matter of hours, instead of days or weeks.

Manufacturing parts from titanium using any process is generally considered more difficult than those involving most other metals. But even as Norsk and Spirit work with FAA experts to open the door to routine uses of 3-D printed parts, Norsk already is ramping up production capacity considerably.

The plan includes joining forces with New York state to set up and operate an extensive 3-D printing complex in Plattsburgh.

There are scores of companies keen to join the 3-D printing trend for aerospace alone. A large jetliner has between 300 and 1,000 structural titanium parts.

Norsk and General Electric Co. are believed to be the only two companies that have received FAA approval to supply any 3-D printed parts for commercial transports.

GE is using a different, more time-consuming process for more intricate parts. It has approval to print thousands of fuel nozzles, for jet engines powering new planes from Boeing and Airbus SE, featuring complex internal structures that would be impossible to produce by traditional methods.

Brazil Meatpacker JBS Plans Asset Sales After Graft Pact

By Paul Kiernan And Luciana Magalhaes

RIO DE JANEIRO—Brazil's **JBS** SA, the world's largest meatpacker, said Tuesday it aims to sell 6 billion Brazilian reais ($1.8 billion) of assets in a bid to shore up its cash position following a corruption settlement signed last month.

Owners of JBS told Brazilian prosecutors in April that they had made illicit payments to politicians for several years in exchange for favors, including easier access to cheaper credit. JBS's parent company, **J&F Investimentos**, has agreed to pay a fine of 10.3 billion reais to settle Brazilian authorities' investigations.

On the block are JBS's 19.2% stake in **Vigor Alimentos** SA, its ownership interest in European poultry brand Moy Park and its U.S.-based Five Rivers Cattle Feeding business, the company said.

Not included in the sales target is the 1 billion reais JBS already raised by selling its operations in Argentina, Uruguay and Paraguay.

JBS owners had admitted to paying politicians for favors over several years.

Shares of JBS, which grew into the world's biggest animal-protein producer through a series of acquisitions that were partly funded with financing from state-controlled banks, were down 2.2% Tuesday morning at 6.21 reais.

JBS was expected to sell assets to help maintain liquidity, and faces more problems, including efforts to boycott its products in Brazil and possible fines from U.S. authorities, according to Pedro Galdi, a São Paulo-based analyst at research firm Upside Investor.

"They might be forced to sell other assets," Mr. Galdi said, adding that JBS's parent company also has assets that could be sold, including lender Banco Original and pulp company Eldorado.

JBS said Tuesday it believes the plan announced is adequate and sufficient to reduce indebtedness and strengthen its financial position.

This month S&P Global lowered its long-term corporate credit rating on Moy Park to B+ and kept it on CreditWatch with negative implications following a similar rating action on its parent.

Apple Pushes Qualcomm Lawsuit

By Tripp Mickle

Apple Inc. broadened its legal offensive against **Qualcomm** Inc. on Tuesday, arguing in a court filing that some of the chip supplier's patents are invalid and that its business model violates patent law.

The filing, to a federal court in the Southern District of California, comes about five months after Apple's opening salvo against Qualcomm, claiming the chip company demanded unfair terms for the use of its technology.

Qualcomm, whose chips and patents are widely used in smartphones, has accused Apple of mischaracterizing its business and has sued four of Apple's contract manufacturers for withholding royalty payments on Qualcomm technology used in iPhones and iPads.

In its response on Tuesday, Apple said that about a dozen Qualcomm patents were invalid because they conflict with already established patents, while others weren't essential for cellular communication.

Qualcomm usually licenses its patents in a bundle that includes both patents deemed essential to cellular communications and others that aren't.

"We have brought this [filing] to highlight the issue that they want to collect patent royalties without identifying patents and the patents we have looked at in their portfolio certainly don't justify the kind of demands they have been making," an Apple executive said.

Qualcomm has said its patents cover cellular communications technology essential to smartphones and that the iPhone wouldn't exist without Qualcomm developing those technologies and agreeing to license them.

Apple updated its arguments against Qualcomm to include the Supreme Court's recent affirmation that patent holders can't keep rights over a product after it is sold.

The ruling came in May after a lawsuit brought by Lexmark International Inc. against printer stores that disabled microchips in its printer cartridges and sold toner refills.

Apple said the Supreme Court ruling showed a patent holder can only demand a single reward for its products and that Qualcomm is going against that principle by requiring anyone who wants to buy its chips to also pay royalties on the technology in them.

Apple's latest filing also asked the court to weigh in on the dispute with its contract manufacturers. Qualcomm has sought a court order to force the four Taiwanese companies to pay royalties on technology used in iPhones and iPads, according to their previous agreements with Qualcomm.

Apple says that it pays the entirety of those royalties for the manufacturers—Compal Electronics Inc., **Foxconn Technology** Group, Pegatron Corp. and Wistron Corp.—and argues that Qualcomm's licensing agreements with them aren't enforceable because the royalties includes invalid patents.

It said it was prepared to pay a fair royalty fee but doesn't believe the current terms are reasonable.

—Ted Greenwald contributed to this article.

A Balkanized Computer System

Visit to White House by tech executives puts focus on need for federal IT overhaul

By John D. McKinnon

President Donald Trump discussed modernizing the government's computer systems on Monday.

CHRIS KLEPONIS/CNP/ZUMA PRESS

WASHINGTON—When Silicon Valley executives arrived at the White House Monday to talk about modernizing federal computer systems, there was plenty of common interest at stake. The administration wants to cut redundancies and modernize the way Americans interact with their government, and tech companies see a $90 billion-a-year business.

But those companies also face a common challenge. The government's sprawling information-technology system is flawed and balky, controlled in agency fiefdoms that will be difficult to break. And much of the spending now goes toward keeping older systems running, limiting the amount the government can invest in new technology.

Critics say the lack of oversight over IT spending and operations is part of the problem, as is a plethora of customized and even duplicative systems within a single agency.

"We have a crazy quilt system of management," said Rep. Gerry Connolly (D., Va.), who has become a leader in Congress on IT issues. "So no clear lines of authority, accountability, responsibility, there's no transparency."

Tech companies such as **Amazon.com** Inc., **Oracle** Corp. and **Microsoft** Corp. hope to provide the government more cloud-computing, software and data services that could help save money as well as improve user experiences and reduce cyberthreats.

Advocates of an overhaul also want to consolidate the current proliferation of email, payroll and other systems, as well as thousands of data centers. David Berteau, a former Defense Department assistant secretary, said he had to carry four separate mobile devices to communicate with all the Pentagon systems he had to access.

"There's a huge chance to save money on shared services and the cloud," said Mr. Berteau, now president of the Professional Services Council, a group that promotes technology to improve government results. "The real value of IT modernization comes as much in breaking down the internal barriers" as in modernized services, he added.

The Monday meeting brought new focus to the issue, even if it shed little new light. Officials promised more action soon.

"We're embracing big change, bold thinking, and outsider perspectives to transform government and make it the way it should be, and at far less cost," President Donald Trump said in concluding remarks.

Amazon's Jeff Bezos talked of using commercial technology wherever possible. He said it was "impossible to overstate" the importance of artificial intelligence, according to a White House pool report

Other topics included analytics, big data, purchasing modernization, government and private sector partnerships and high-skill visas.

But making progress depends on finding political will.

"The real problem is the leadership problem," said Rep. Will Hurd (R., Texas), who is sponsoring a major IT modernization bill in Congress. "We have to make sure we have people in the agencies that recognize the need for modernization, and it starts with the head of the agency."

The White House effort to push IT modernization could be a boon to major tech companies that have moved aggressively into cloud computing and software services. It could hurt some consulting firms that have traditionally focused on the government market.

Mr. Hurd's bill would give agency officials more incentive to save money on IT by allowing them to spend the savings on modernization. The administration also has sought some increased investment in cybersecurity.

IPHONE

Continued from page B1

that analysts now worry Apple is too reliant on sales from the region.

The iPhone also spawned Apple's second-largest business by revenue: apps and other services offerings.

Mr. Jobs didn't plan that. In fact, he opposed it, said Scott Forstall, the company's former head of software. As a result, Apple didn't open the development to application developers until 2008, when it added the App Store and began taking 30% of each app purchase.

Since then, app sales have generated roughly $100 billion in gross revenue as Apple has registered more than 16 million app developers world-wide. The company also has pushed into payments with Apple Pay and a music-subscription service, creating a $24 billion services business that is Apple's second-largest after the iPhone and is growing rapidly.

Now, the iPhone is "the razor and the blades are the software services," said longtime Apple adviser and Steve Jobs confidant Regis McKenna. "It creates this great annuity business."

As sales surged, Apple staffed up. The company hired about 100,000 people in the 10-year span, bringing its global workforce to 116,000 from 18,000 in 2006. New workers were brought on to manage relationships with cellphone carriers, double the number of retail stores and maintain an increasingly complex supply chain.

The employees are spread across more than 100 buildings, creating a disparate workforce Apple has pushed to bring together with a new, $5 billion spaceship-style headquarters in Cupertino, Calif.

Managing that explosive growth fell on the shoulders of Tim Cook. Mr. Cook succeeded Mr. Jobs, who died in 2011. The Duke University business school graduate and supply chain-expert has tried to preserve Apple's unique culture by taking a more inclusive approach than his predecessor, seeking out more opinions from staff, while consistently saying Apple's overriding goal is to make great products, echoing a mantra of Mr. Jobs.

"This is a huge undertaking now and requires a lot of talented people, and Tim's built a team capable of managing a $200 billion company," said Mr. McKenna. "We don't know if Steve could have done that or not."

Still, preserving Apple's culture has been difficult. Before the iPhone, Apple sought to prove itself after nearly going bankrupt in the mid-1990s, said Alan Cannistraro, who worked at Apple from 2000 to 2012 before founding video startup Rheo.

"We felt like: Let's show the world. We were the underdogs," he said. But new hires didn't inherit that attitude and it became "less of a mission-driven" place and "more function driven."

Mr. Cook has committed to maintaining Mr. Jobs's passion for doing the extraordinary as Apple pushed into new devices such as the Apple Watch and software tools for augmented reality.

Meanwhile, pressure intensified to make each iPhone model better than the last. As iPhone revenue fell for the first time in Apple's fiscal 2016, and its market share dropped in China, Mr. Cook told analysts the key to regaining share was "innovating like crazy."

"If we do a really great job of that, which we will, then I'm confident that we'll do well," he said.

Apple fans are waiting for the newest iPhone, the 10th anniversary model expected this fall, to see whether Mr. Cook makes good on that promise.

Questions about innovation have dogged Mr. Cook, whose operational prowess contrasts with Mr. Jobs's talent as a visionary product developer.

The iPhone was so revolutionary it raised expectations that the company would introduce radical new products regularly, said Patrick Moorhead, a technology analyst with Moor Insights & Strategy. "That's what I call the leadership burden," Mr. Moorhead said.

Dramatic Transformation

Apple grew by every dimension after the 2007 launch of the iPhone.

2006		2016
18,000	**Employees***	116,000
6.8 million sq. ft.	**Building space**	29.3 million sq. ft.
$19.32 billion	**Sales**	$215.64 billion
$1.99 billion	**Profit**	$45.69 billion
$6.39 billion	**Cash**	$237.59 billion
$1.35 billion	**Asia Pacific / China sales**	$48.49 billion
39.4 million	**iPod / iPhone units**	211.9 million
29%	**Gross margin**	39.1%
$0.71 billion	**R&D**	$10.04 billion

Photos: Adam Rountree (iPod); Apple *Full-time equivalent employees

Source: the company THE WALL STREET JOURNAL.

DATA

Continued from page B1

its plans for the chain of stores when it announced the deal Friday. A spokesman declined to comment on the company's strategy. Whole Foods also declined to comment.

One enticing aspect of a deal is the significant overlap, analysts say, between the companies' traditionally loyal customer bases.

A Morgan Stanley survey shows about 62% of Whole Foods shoppers are members of Amazon's Prime service, opening the door for cross-sell promotions to entice customers who shop at both to spend more.

Amazon, though, doesn't know how those customers shop in stores—a gaping hole in data about its more than 300 million shoppers.

If the deal goes through, Amazon is likely to put a team of employees to work examining Whole Foods' strategy, cost structures and business practices—as well as their data, according to former Amazon employees.

The online retail giant likely will add new ways to track in-store consumer spending. One option is letting people purchase with Amazon Pay, a PayPal-type solution that lets customers check out with their Amazon account information. Another option is creating a Whole Foods credit card, the former employees say.

"How consumers purchase in stores is drastically different from online," said Kevin Howard, CEO of Adroit Worldwide Media Inc., a retail-technology provider that has worked with companies including Whole Foods.

Primarily, consumers are more likely to browse and make impulse buys in store—driving up the total purchase—whereas shoppers are more targeted online, he said.

Amazon has spent time experimenting with brick-and-mortar already. Its bookstores, of which it now has eight open and another five coming, according to its website, have been used in part to start collecting data on how consumers naturally browse in stores, former employees said.

Amazon will likely put a team together to examine Whole Foods' strategy.

Shoppers typically use their phone app to scan books for prices in the stores, connecting their online profiles with their browsing in the real world—not just online.

Amazon has had a more difficult experiment with Amazon Go, its convenience-style store in which customers scan their phones as they walk in, pick up items to purchase and exit without a traditional checkout. The public opening has been delayed, in part because of technological hurdles and Amazon's limited experience in managing customers and products in a physical space.

Amazon likely will implement changes at Whole Foods based on what it finds out about shoppers, including changing prices and selection—something right now that can vary widely based on the region, according to the former employees.

The data Amazon collects will likely help it decide which of its growing roster of private-label brands to expand and which new ones to launch. Whole Foods already has a large private-label business.

Bringing together online and offline data can help Amazon learn how to entice customers to make more impulse purchases online, according to analysts and retail consultants.

"I don't think it's a coincidence that they're targeting these specific, highly affluent customers," said Mark Elfenbein, chief revenue officer at artificial-intelligence firm Sentient Technologies LLC, which works with retailers to better match the in-store shopping experience online.

"I'm a Whole Foods shopper. I go there for one thing and I come back with eight things and my bill is over $100 almost every time," he said.

—Julie Jargon contributed to this article.

BRUCE BENNETT/GETTY IMAGES

The FTC is expected to be joined by California and the District of Columbia in a suit seeking to block the merger of DraftKings and FanDuel. Above, a DraftKings' NHL event in January.

Fantasy-Sports Merger Is Put on Ice

By Brent Kendall

WASHINGTON—The Federal Trade Commission on Monday said it would file an antitrust lawsuit that seeks to block the proposed merger of fantasy-sports companies **DraftKings** Inc. and **FanDuel** Inc., alleging the deal would harm consumers who play daily fantasy contests.

The rival companies each offer daily games in which consumers pay to assemble virtual sports teams made up of real athletes that do battle against other virtual teams. The "managers" of winning teams that amass the best statistics take home cash prizes. The companies make money through entry fees.

The five-member FTC is currently short-handed, with only two bipartisan sitting commissioners. Both supported the lawsuit. The state of California and District of Columbia are joining with the FTC to challenge the merger.

The commission argues the merger would deprive customers of substantial benefits that are produced by DraftKings and FanDuel competing against one another for business.

"We are disappointed by this decision and continue to believe that a merger is in the best interests of our players, our companies, our employees and the fantasy sports industry," the companies said in a joint statement.

When they announced the merger in November, the CEOs of the privately held companies, DraftKings' Jason Robins and FanDuel's Nigel Eccles, said combining would allow them to innovate by freeing up money. That, they said, would further efforts to entice players of season-long fantasy sports leagues and more fans in general.

A few years ago, daily fantasy sports was one of the country's hottest businesses. It allows players to draft virtual teams that typically compete against one another in a single day. The industry was once forecast to hit $18 billion in revenue by 2021. That forecast has been slashed—as of late last year standing at around $5.3 billion by 2021—reflecting in part the loss of entire markets because of state regulations.

—Alexandra Berzon and Rebecca Davis O'Brien contributed to this article.

Workers' Motivation Is Linked To Family

By Kelsey Gee

For the sake of the children.

That is the answer, according to new research, to the tough question of how workers stay motivated in rote, repetitive jobs. Employees who feel their work helps support their families are more productive and energized about their jobs, even when they stand to gain little for themselves.

"Supporting a family is one of the fundamental reasons why people work, but there's little research on how that motivation affects employees' effort and job performance," said Adam Grant, an organizational psychologist and professor at the **University of Pennsylvania's Wharton School**, who co-wrote the study.

Mr. Grant and his co-authors collected survey and diary data from about 100 women who perform rote accounting tasks in an office that processes coupon payments for merchants, just south of the U.S.-Mexico border. The workers scan bar codes on coupons shipped from American retailers to ensure the products have been accurately counted and categorized by the supplier and seller. The job involves employees manually processing hundreds of coupons each day with little variation.

People with boring jobs remain productive when supporting a household.

Researchers interviewed the women about their motivation and tracked how many coupons each processed. The women also filled out surveys about their stress and energy levels over two weeks.

The study found that workers who reported the most energy and processed the largest number of coupons, despite disliking the work, were those who felt strong commitment to family, which could include spouses, children, parents, cousins or other kin. Those women processed 10% more coupons a week than employees who reported less family-driven motivation.

The increased motivation wasn't a matter of merely collecting a paycheck. In the research paper, which appeared in the April edition of the Academy of Management Journal, the authors note that "from an identity perspective, when employees perform well, they reinforce their self-concepts as responsible breadwinners and good role models."

Mr. Grant, a father of three, said the results square with his experience. "A lot of people mistakenly believe that thinking about family at work is a distraction, when it's becoming clear that much of a person's most intense commitment to their job can come from their desire to support their loved ones," he said.

Texting Might Help Land You a Job

Employers skip phone interviews, turn to instant messaging for early-stage interviews

By Kelsey Gee

Your next job interview might happen via text message. Srsly.

Claiming that prospective hires are too slow to pick up the phone or respond to emails, employers are trying out apps that allow them to screen candidates and conduct early-stage interviews with texts.

"People don't want to have that ten-minute [phone] conversation any more if they could just reply with a quick text," said Kirby Cuniffe, chief executive of staffing firm **Aegis Worldwide** LLC. After Aegis recruiters reported that fewer potential hires were answering their phones, the firm decided to try texting.

Since March, Indianapolis-based Aegis and Priceline Group's restaurant-booking service OpenTable have been using Canvas, a messaging app from **Canvas Talent** Inc. for text-based job interviews.

The app suggests interview questions employers can use, such as: "What motivates you?" Its software analyzes candidates' responses. Interviewers can rate answers with a thumbs-up or thumbs-down visible only to the employer and share transcripts of those text exchanges with co-workers.

Canvas charges employers around $300 per recruiter, and competes with similar apps such as Monster Worldwide Inc.'s Jobr.

The number of smartphone-based tools for job interviews shows how employers are trying to adapt to young workers' communication habits. Some 12% of millennials—defined as those born between 1980 and the early 2000s—prefer the phone for business communication, according to a 2016 report on internet trends from venture-capital firm Kleiner Perkins Caufield & Byers. In contrast, 45% prefer chatting online or exchanging messages by email or text.

At Aegis, recruiters who used to schedule back-to-back phone calls with 30 or more potential hires every day can now juggle many more conversations via texts, which take less time. Mr. Cuniffe says each of his 10 recruiters with the Canvas app can now handle conversations with 90 to 120 candidates at a time.

The firm specializes in recruiting employees of all ages to work in the manufacturing sector. The app is useful for interacting with workers who have narrow windows of free time at odd hours, he said.

Mr. Cuniffe, 48 years old, said millennial employees were far less skeptical than he was about adopting the new technology.

"To them, it was like 'Duh, why wouldn't we use this, since that's how we communicate now,'" he said.

San Francisco-based OpenTable's text-based interviews with engineers and programmers are intended to show prospective hires the 1,100-person company isn't just another boring software firm—important since the firm competes for talent with Facebook Inc. and Alphabet Inc.'s Google, says Scott Day, a human-resources executive.

Etiquette for job-interview texting is a work in progress. When Erin Scott, a recent **Butler University** graduate, received a message from Canvas chief executive Aman Brar about a potential job with the company, she was unsure if she should reply right away. She was cheerleading on the sidelines of a Saturday basketball game, and decided to wait to respond until Monday.

"I just remember thinking okay this is nice to get the questions and be able to sit on them for as long as I want and answer with exactly what I want to say," Ms. Scott said via text.

Emoji, too, are tricky. Mr. Brar included a smiley face with one of his interview messages, which he said was intended to indicate the exchange was "business casual, not buttoned-up."

Ms. Scott didn't reciprocate. "Sometimes things can be interpreted different over text," she said.

RICK WILKING/REUTERS

Many millennials prefer using online chat or text with employers. A Colorado job fair this month.

Want a Job? Text Me

Edited excerpts of a job interview between the CEO of Canvas Talent Inc. and a potential hire.

Hi Candidate Happy Monday...would like to get to know you via text–don't stress if you have delays in your response! :). I know you have a lot on your plate

Are you a competitive person?

Yes, I would consider myself a competitive person when I want to be. When I'm passionate about something and have more desire for it I will strive to reach for it and work as hard as I have to get it. This is also something I really want in a job- I think the only way to be completely successful is when you are truly passionate about what you're doing.

Agree–passion is key! We're very excited about what we're up to and we are a passionate group as well.

What motivates you?

I think the feeling that my work is actually helping someone else motivates me to work harder. Regardless of what I'm doing I think it's always good to know my work is playing a role to better something or someone else.

Source: Canvas

THE WALL STREET JOURNAL.

BUSINESS WATCH

MOBIKE

Bike Startup's Valuation Increases

Beijing Mobike Technology Co.'s recent round of fundraising values the bike-sharing startup at about $3 billion, according to people familiar with the situation.

Mobike, which is backed by investors including internet giant **Tencent Holdings** Ltd. and private-equity firms TPG and **Warburg Pincus** LLC, said last week that it raised $600 million in new funding to expand its operations globally. A spokesman for the bike-sharing startup on Tuesday declined to comment on the company's valuation.

The company, which started its dockless bike-sharing services in Chinese cities in April 2016, is looking to expand overseas. Mobike has said it plans to enter Singapore and the U.K. this year and aims to double the number of cities it operates in to 200 by the end of 2017.

—Julie Steinberg and Liza Lin

MATTEL

A lineup of Ken and Barbie dolls. Mattel is adding new styles and body types for Ken, including seven skin tones.

MATTEL

Barbie's Beau Gets A Full Makeover

Barbie is getting a chubbier boyfriend.

A year after **Mattel** Inc. added new body types of its iconic Barbie doll, her longtime male companion, Ken, is getting his own makeover. Her beau will now come in slim and "broad" body types, as well as his normally chiseled physique. The doll will also come in seven skin tones, nine hairstyles, including man buns and corn rows, and modern looks, from hip hoodie to preppy check.

"We are redefining what a Barbie or Ken doll looks like to this generation," Lisa McKnight, who oversees Mattel's Barbie brand, said on Tuesday.

Mattel will try to recreate some positive buzz that translated into a sales boost for its struggling Barbie doll after it introduced slim, tall and curvy versions a year ago. Retailers placed big orders for the revamped Fashionista line of Barbie, with double-digit-percentage sales increases in the quarters following the release.

Barbie accounted for 16% of Mattel's roughly $6 billion in gross sales last year and has become important since the company lost the rights to produce Walt Disney Co.'s Princess dolls.

Mattel will now have 15 new Ken dolls available. It is also adding another 25 diverse Barbie dolls to its lineup.

—Paul Ziobro

NESTLÉ

Food Giant Invests In Meals Company

Nestlé SA has bought a stake in a subscription meals startup—a small investment in home-delivered food that comes as the Swiss food and drinks giant struggles with slow-growing demand.

The company, which owns KitKat chocolate, Nescafé coffee and Maggi noodles, said Tuesday that it had bought a minority interest in Freshly, as the lead investor in a $77 million funding round. Freshly sells prepared meals to consumers across the U.S. using a subscription-based model.

The move comes as Nestlé and its peers wrestle with fast-changing consumer tastes that are moving away from packaged food to fresher, healthier options that are often bought online.

Freshly was founded in 2015 and employs 400 people. It sells directly to customers through a weekly online service offering a rotating menu that includes gluten-free, high protein, low carbohydrate and vegetarian options.

Nestlé's latest investment gives it a stake in the online prepared meals market that is valued at $10 billion in the U.S. alone.

Overall sales of ready meals increased 1.5% in the U.S. from 2011 to 2016, according to Euromonitor, but sales of frozen meals declined 11%. By contrast, sales of prepared salads jumped 29%.

—Saabira Chaudhuri

Buffett's Scout for German Deals

Zypora Kupferberg is Berkshire Hathaway's 'eyes and ears' in key European economy

By Nicole Friedman

When Zypora Kupferberg was charged with finding buyers for a German motorcycle-apparel company, she placed one name at the top of her list: Warren Buffett.

"I said, 'I am 100% sure I will find a way that my letter will be on his desk,' " Ms. Kupferberg said.

A year later, Mr. Buffett's Berkshire Hathaway Inc. bought the company for more than €400 million ($448 million). The Omaha, Neb., billionaire then asked Ms. Kupferberg to bring him similar deals—the bigger, the better.

Berkshire rarely relies on people outside the company to educate it on potential targets. Yet with that one deal in 2015, Ms. Kupferberg became Mr. Buffett's scout inside Europe's most powerful country.

"It's very helpful for us to have somebody that actually understands us," who can represent Berkshire's interests in Germany, Mr. Buffett said.

Ted Weschler, one of Mr. Buffett's portfolio managers, added: "She's our eyes and ears in Germany."

Ms. Kupferberg's role could become more crucial as Mr. Buffett looks for new targets in unfamiliar markets. Berkshire had $96.5 billion in cash as of March 31, and Mr. Buffett told shareholders in May that he is eager to spend it. The conglomerate owns only a handful of businesses outside the U.S.

The story of this pairing took six years to unfold. It began with Mr. Buffett's tour of Europe in 2008. He was there to drum up deals but was unable to find an immediate target. Though she hadn't met Mr. Buffett, Ms. Kupferberg suspected she could turn that around.

Ms. Kupferberg, 50 years old, was born in Mönchengladbach, Germany, to two Holocaust survivors. Her father cofounded an import-export business in Israel; his work eventually took him to Germany.

"I'm from a family history [where] we are not used to making plans," Ms. Kupferberg said. "My parents educated us, 'Everything can change the next day.' "

After a disease from a tick bite prompted her to quit a job in private equity and venture capital, Ms. Kupferberg opened a consulting firm in Cologne in 1997 and started working with family-owned businesses in Germany. She gained a reputation as a deal maker, but was largely unknown outside of the country.

She knew from experience that German companies, which typically have strong connections to their local communities and savings banks, could be wary of foreign investors. Berkshire, however, could be a good fit for such companies because it tends to seek out firms with strong competitive advantages


ZYPORA KUPFERBERG

Warren Buffett and Zypora Kupferberg are shown in May.

that can be left alone.

In 2014, one of Ms. Kupferberg's clients, Ute Louis, wanted to sell **Detlev Louis Motorrad-Vertriebsgesellschaft** mbH, a motorcycle helmet and equipment retailer. Ms. Louis had some tricky requirements: The management team had to stay in place and the company had to keep its headquarters in Hamburg.

"I thought, this is a perfect match" for Berkshire, Ms. Kupferberg said. "I think we can offer to Berkshire a company, even if it's for [Mr. Buffett] comparably quite small, but a company which exactly fits into his investment strategy," she recalled thinking.

Other advisers thought contacting Mr. Buffett would be a waste of time, she said, but Ms. Louis liked the idea. So Ms. Kupferberg reached out to an Omaha investment banker she met years earlier in a Frankfurt law office: Jim Zipursky.

"Jim told me that he thinks that the company might be too small for Berkshire," she said. "I told him I am convinced that this could work and that I will find a way to contact him."

Mr. Zipursky told Ms. Kupferberg that his father, Morley, also a banker, knew Mr. Buffett through Stan Lipsey, a mutual friend who worked for Mr. Buffett for years. He offered to deliver a letter and a deal proposal straight to the billionaire's desk.

"It was an idea that just came out of our discussion," Mr. Zipursky said. "As we talked about the opportunity, it became clear that Berkshire Hathaway would be the best possible acquirer for that company."

The 1½-page letter, signed by Morley Zipursky, introduced the company, and Mr. Buffett responded within days asking for a price. He then said that he liked the company but the price was too high. A few months later, Ms. Kupferberg and Mr. Zipursky tried again, with a tweaked offer. Mr. Buffett approved the new offer, and Mr. Weschler traveled to Germany to meet Ms. Kupferberg and the company's owner and managers.

At Mr. Weschler's first meeting with Ms. Louis, Ms. Kupferberg helped translate, Mr. Weschler said. The deal closed in 2015. "Halfway through the process, I thought that, really, I'd like to be on the same side of the table as Zypora sometime," Mr. Weschler said.

Last year, Ms. Kupferberg helped arrange a meeting for Mr. Weschler with the heads of the 25 largest German savings banks. He was the first guest to meet with that group of executives, said Karl-Peter Schackmann-Fallis, managing director of the German Savings Bank Association.

In May, Ms. Kupferberg traveled to Omaha for her first meeting with Mr. Buffett. In his office, the two discussed potential investments and the economic situation in Germany and Europe. As they posed for a photo, Mr. Buffett placed his left arm around Ms. Kupferberg's shoulder.

"She has a very good sense of what might fit or not," Mr. Buffett said.

Messaging App Hike Jumps Into Mobile Pay

By Newley Purnell

NEW DELHI—India's biggest domestic messaging app, **Hike** Ltd., has beaten **Facebook** Inc.'s WhatsApp into the country's booming mobile-payments business.

Hike on Tuesday launched free bank-to-bank and mobile-wallet payments for its roughly 100 million users, meaning people can quickly send money to one another via the company's smartphone app.

"We are the first to bring payments to a messaging app in India," Hike's founder and chief executive, Kavin Bharti Mittal, said at an event in New Delhi.

WhatsApp says that some 200 million of its 1.2 billion users are in India, making the South Asian nation its largest market. The company has been exploring adding digital payments in India, which would be its first such offering globally, and could give it a chance to take advantage of a trend in the world's last great untapped internet economy. A WhatsApp spokesman declined to comment on a potential time frame for when such a feature, if incorporated, could launch.

Hike, which last year raised $175 million in a fundraising round led by Chinese internet company **Tencent Holdings** Ltd., is the latest startup to tap into surging demand for cashless payments in India.

This year, millions of Indian consumers, who historically have made most of their purchases in cash, have been leapfrogging credit cards and transacting on their smartphones for the first time. The government in November moved to crack down on tax evasion and corruption by nullifying its largest-denominated bank notes, triggering a crash crunch and the rapid adoption of digital wallets.

To be sure, being the first to offer a new payment option may not be enough to help Hike amid intense competition, analysts say.

Hike is likely to face a battle for new users given WhatsApp's larger base and popular intuitive interface, said Neha Dharia, an analyst who studies messaging trends at telecommunications research firm Ovum.

Hike says its service is meant to appeal to India's younger users with its stickers and a function to improve selfies, saying 90% of those on its platform are between the ages of 15 and 24.

Citigroup Looks to Go on Offense

By Telis Demos

Investors want Michael Corbat to change the narrative at **Citigroup** Inc.

Since taking the bank's helm in October 2012, Mr. Corbat's Citigroup has played defense. It has scaled back businesses, shrunk the firm's global retail-banking footprint and wound down crisis-era assets that dragged on returns.

For shareholders, it has been a slog. Citigroup's total return has underperformed those of its biggest rivals, save for **Wells Fargo** & Co., since Mr. Corbat arrived on the scene. The bank has yet to show it can consistently generate returns that exceed its cost of capital; in the first quarter the bank's return on common equity was a tepid 7.4%. And the stock trades at just 85% of book value, the lowest valuation of the big U.S. banks.

Now, investors, analysts and even top executives within the bank say it is time for Mr. Corbat, a former Harvard football star, to shift to offense. That means boosting growth and profitability in areas such as credit cards, Wall Street stock trading and retail banking.

"What investors want now is to understand what's next in the story," said Conor Muldoon, fundamental portfolio manager at Causeway Capital Management LLC. "What can you do to make the valuation better over time?"

Citigroup is among the largest holdings in the firm's Global Value fund.

The first test comes this week and next with the Federal Reserve's annual bank stress tests.

A key indicator will be the bank's so-called payout ratio under the tests, a measure of whether it is given a green light to return more capital to shareholders than it is expected to earn in coming quarters.

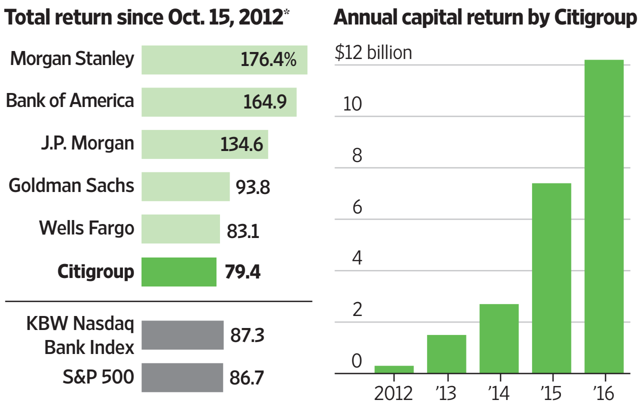
Citigroup shareholders want to see the payout ratio top 100%, meaning the bank would begin drawing down its capital pile rather than continue adding to it. If it can't do this, gains in its business won't accrue to shareholders.

Assuming that won't be the case, investors want Mr. Corbat to boost returns over the long term by generating more profit on lagging businesses, notably the bank's consumer-lending and retail-banking arm.

In anticipation of this, Mr. Corbat has been honing the bank's focus, a notable change for a firm that was once a sprawling global behemoth. He and his veteran management team have done things like exit

Banking on Returns

Citigroup's shares have lagged since Michael Corbat took over. But the bank is boosting capital returns through dividends and share buybacks in the hope of getting ground.



*The day before Michael Corbat was named Citigroup's chief executive
Note: Total returns reflect price changes plus dividend payments. Capital return reflects dividend payments plus share repurchases.
Sources: FactSet (total returns); Citigroup (capital return) THE WALL STREET JOURNAL.


DREW ANGERER/BLOOMBERG NEWS

Investors want CEO Michael Corbat to generate more profit.

nearly two dozen retail markets globally and slash the number of corporate clients to 14,000 from 30,000.

The idea is to emphasize areas with the strongest growth prospects, particularly ones in which Citigroup has a dominant share with multinational consumers and corporations. In this vein, the bank has already said it would invest a further $1 billion to upgrade its Mexican retail bank.

The biggest recent bet, though, is on credit cards, particularly for U.S. shoppers. Over the past two years, Citigroup has taken on more than $10 billion in card loans for Costco Wholesale Corp. and made other investments, such as in Citigroup's proprietary reward-card offerings.

As a result, Citigroup has the biggest global card lending portfolio of any U.S. bank. Card lending now makes up 24% of Citigroup's total loans, nearly double that of rivals such as Bank of America Corp. and J.P. Morgan Chase & Co., according to analysts at Sanford Bernstein.

Underscoring the importance of cards and the Costco business, which the bank took over from American Express Corp., Mr. Corbat personally made surprise trips in December to call centers in Florence, Ky., Jacksonville, Fla., and Tucson, Ariz., according to people familiar with the trips.

A key point was to emphasize how critical customer service will be to get new Costco-card customers, who in many cases were offered introductory rates that would expire, to become loyal users of their cards.

Those rates and other investment in cards were a drag on the bank's retail performance of late. While corporate and investment banking was at or near return targets last year, consumer banking generated a roughly 13% return against a 20% target, Mr. Corbat said recently.

Citigroup is counting on the profitability of the card business to pick up meaningfully in the second half of this year as the initial investment period winds down.

Mr. Corbat and other executives are expected to provide greater detail for these plans when the bank in July holds an investor day—its first in nearly a decade.

At this, he also will have to fight the view among some investors and analysts that Citigroup lacks a unifying strategy.

The bank's consumer and corporate businesses are like "two boats floating in the ocean, not tied to each other," said KBW analyst Brian Kleinhanzl. In the past, he has called for the bank's breakup, though Mr. Kleinhanzl says he is now waiting to see how Citigroup fares amid rising interest rates.

The investor day will give Mr. Corbat "the chance to lay out the new strategy," he added.

Goldman Sachs Poaches Credit Suisse Bankers

By Liz Hoffman

Goldman Sachs Group Inc. is hiring a pair of **Credit Suisse Group** AG bankers, including one at the elite rank of partner, to win business from corporate service providers such as consulting, staffing and security firms.

Jeff Douthit, who runs Credit Suisse's business-services coverage group, will join Goldman as a partner in the same role, according to people familiar with the matter. His deputy, Ali Azim, will join as a managing director. Both will be based in Chicago.

Credit Suisse officials weren't immediately available to comment.

Business services is a grab bag that includes everything from outsourced janitor services to document management. Goldman's group also covers consumer-facing companies like **ServiceMaster Global Holdings** Inc., which provides lawn care and exterminator services to homeowners.

These companies tend to be owned by private-equity firms, which can borrow against the cash flow the businesses produce and bring them into new markets.

Such private-equity-backed businesses are highly sought clients, as they throw off fees when they go private, finance their growth, and go public or sell again. Goldman also has been trying to win more work in raising debt, the lifeblood of such companies.

Goldman rarely hires someone from outside the firm at the rank of partner. But executives and recruiters say the firm is looking to hire in senior positions—even to dangle a coveted slot in its partnership—as it fills out weak spots within the investment-banking division.

Regulator Defends China Insurers

By James T. Areddy

SHANGHAI—A senior regulator on Tuesday offered assurances that China's insurance sector is safe and will continue to expand, more than a week after the disappearance of the chairman of high-flying **Anbang Insurance Group**.

At a Shanghai conference, Huang Hong, vice chairman of the China Insurance Regulatory Commission, said "there are still prominent problems" within the industry, though he said solvency is adequate.

Mr. Huang's comments were the first public statements from a regulatory official since Anbang's chairman, Wu Xiaohui, dropped from view. The government has declined to comment on the status of Mr. Wu, who can't be reached. According to people familiar with the matter, he has been detained.

Last week, Beijing-based Anbang said Mr. Wu was temporarily unable to perform his duties. The company has said it is operating smoothly; a spokesman declined to comment on Mr. Huang's remarks.

Huang Hong acknowledges the industry's recent shortcomings.

QILAI SHEN/BLOOMBERG NEWS

Anbang epitomized a recent rapid expansion by a group of private Chinese insurers, which have marketed newfangled products to younger customers through smartphone apps and become investment powerhouses. Anbang made takeover plays on local stock exchanges and splurged on overseas real estate like the Waldorf Astoria hotel in New York.

This year, some of China's more-aggressive insurance companies including Anbang have faced major setbacks, including new regulatory crimps on their business amid worry that the fast growth, instead of mitigating risk, was adding peril to the financial business.

In the months before Mr. Wu vanished, Mr. Huang's former boss at the Insurance Regulatory Commission was detained by antigraft investigators and the head of one firm was banned from the industry.

Mr. Huang said that since authorities permitted insurers to explore new sales channels, some firms have "rushed for profits" and lied about capital sources, launched poorly designed products and failed to balance assets and liabilities. He didn't name individuals.

He was speaking at Lujiazui Forum, Shanghai's premier financial conference where the cautious theme this year was "Financial Reform and Steady Development from a Global Perspective." Insurers appeared ascendant at the event last year with a special discussion on new risk-management techniques and a keynote address by the since-fired regulator, Xiang Junbo.

This year, concerns about the industry's direction were palpable. On one panel, Zhang Yuanhan, chief actuary of government-controlled China Pacific Insurance Group, criticized the "management model" of insurers he didn't name, saying some of their products have "undermined the interests and rights of people."

Short of a corporate failure, the sector is at risk of disillusioning the Chinese public, turning it away from insurance.

Scott Russell, an insurance analyst at Macquarie Securities in Hong Kong who is critical of Anbang's business model, described that potential reputational risk as "contagion from the irrational space to the rational space."

Mr. Huang described the industry as critical to a well-functioning economy. He said that given the broad needs for insurance in society, China's industry remains too small—6% of financial-sector assets, compared with 90% for banks. But he said expansion has to be paired with risk control.

Since an insurer opened in Guangzhou in 1805, he said, the industry has set a direction for the Chinese economy and will continue to fill increasingly complex needs like mitigating risk in agriculture, health, pensions and President Xi Jinping's global investment initiative One Belt One Road.

"The history of the insurance sector is a history of problem solving," Mr. Huang said.

FINANCE WATCH

EL NIÑO

Forecasters Report Diminished Risk

It is now unlikely that an El Niño weather pattern will return in 2017 as cooling Pacific Ocean temperatures have allayed worries the potentially destructive phenomenon would reappear.

Australia's Bureau of Meteorology said it now expects neutral conditions for the remainder of the year due to a reversal of early-autumn warming in the eastern tropical Pacific Ocean. In April, it said all the models the bureau uses in forecasting El Niño indicated one occurring no later than early 2018.

Japan's weather agency said earlier this month that there was no clear sign the phenomenon was forming.

The phenomenon can lead to drought in parts of Southeast Asia and heavy flooding in parts of North and South America.

The reduced likelihood of an El Niño limits price risks for commodities that historically have been affected by the ensuing droughts or flooding.

—Lucy Craymer

INDIA

New Delhi Raises Rice, Soybean Prices

MUNEEB UL ISLAM/PACIFIC PRESS/ZUMA PRESS

India's government increased its minimum support price for rice.

The Indian government raised its minimum purchase prices for summer crops including rice and soybeans to help farmers through a supply glut.

The government's minimum support price for rice has been increased by 5.4% to 1,550 rupees ($24.03) per 100 kilograms for this year, from 1,470 rupees last year, said a government official. The government increased the price at which it buys soybeans by 9.9%, the official said.

New Delhi is scheduled to announce the new prices this week.

—Vibhuti Agarwal

JEFFERIES GROUP

Net Revenue Grows

Jefferies Group LLC reported higher revenue and profit as the environment for debt and equity issuance improved.

The unit of Leucadia National Corp. earned $69.8 million in its latest quarter, up from $53.9 million a year earlier. Net revenue rose 8.3% to $779.3 million.

An increase in securities issuance helped drive a 39% increase in investment-banking revenue to $351.9 million.

Jefferies' results are viewed by some investors as a preview of earnings for other U.S. banks. Its quarter ended May 31, a month earlier than at other lenders.

—Austen Hufford

MSCI's China Call: Big Effects Long Term

By Gregor Stuart Hunter

Index giant **MSCI** Inc. was poised to reveal late Tuesday whether it would include China's stocks in its benchmarks, a decision that could potentially move the country a major step toward acceptance as a pre-eminent global market.

Adding the stocks to major gauges like MSCI's flagship Emerging Markets Index—after rejections in each of the past three years—wouldn't lead to an immediate torrent of money into China. MSCI has watered down its plans so that, if it said yes, it would initially admit only 169 Chinese companies.

But gaining even a tiny slice of the institutional money that tracks MSCI's indexes—$1.6 trillion for the Emerging Markets Index alone—would be seen as a symbol of China's rise as a global investment destination.

"Our focus is the long-term implication," said Robert Gillam, chief executive officer at Anchorage-based McKinley Capital, which manages $7.6 billion in assets.

China is the biggest market not part of MSCI's major benchmarks: The combined market capitalization of the Shanghai and Shenzhen stock exchanges is $7.5 trillion, according to the World Federation of Exchanges. MSCI indexes do include Chinese companies' shares listed in cities like Hong Kong and New York, but not in Shanghai or Shenzhen.

MSCI's clout has grown with the global rise of passive investing, where investors forgo stock-picking and invest in funds that simply track a benchmark. Assets under management in exchange-traded funds linked to MSCI's indexes totalled $524.1 billion as of March 31.

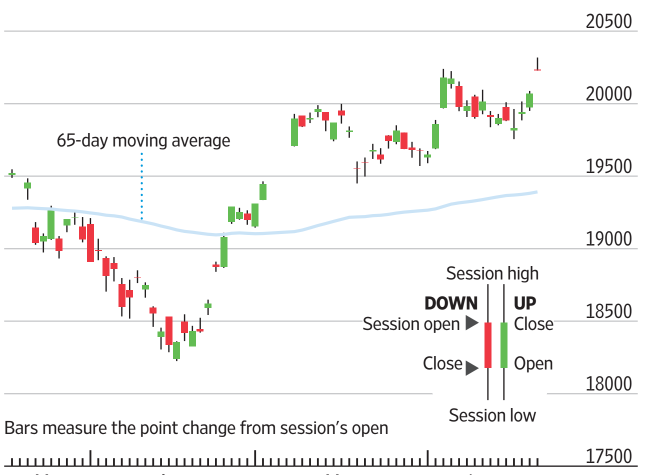
MARKETS DIGEST

Nikkei 225 Index

20230.41 ▲162.66, or 0.81%

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

Year-to-date		▲5.84%
52-wk high/low	20230.41	14952.02
All-time high	38915.87	12/29/89



STOXX 600 Index

389.21 ▼2.73, or 0.70%

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

Year-to-date		▲7.69%
52-wk high/low	396.45	308.75
All-time high	414.06	4/15/15

S&P 500 Index

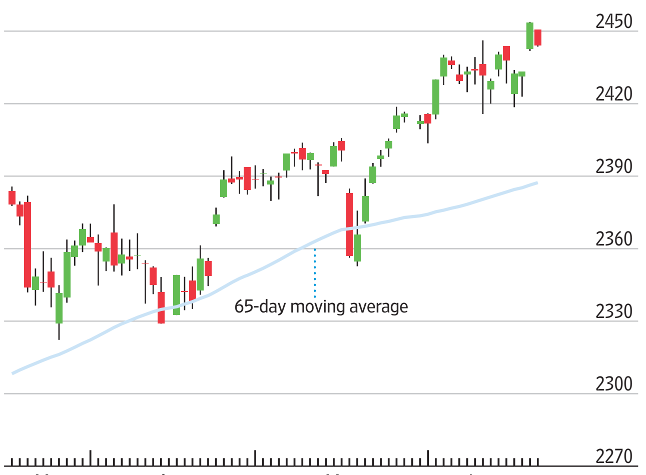
Data as of 12 p.m. New York time

2444.09 ▼9.37, or 0.38%

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

	Last	Year ago
Trailing P/E ratio	24.09	23.85
P/E estimate *	18.75	17.87
Dividend yield	1.95	2.19
All-time high:	2453.46, 06/19/17	

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



International Stock Indexes

Data as of 12 p.m. New York time

Region/Country	Index	Latest Close	NetChg	% chg	52-Week Range Low	Close	High	YTD % chg
World	**The Global Dow**	2770.31	-15.23	**-0.55**	2193.75		2791.48	9.6
	MSCI EAFE	1888.13	-13.67	**-0.72**	1471.88		1956.39	10.0
	MSCI EM USD	1007.49	-5.46	**-0.54**	691.21		1044.05	26.9
Americas	**DJ Americas**	585.43	-3.04	**-0.52**	480.90		588.61	8.3
Brazil	**Sao Paulo Bovespa**	61570.36	-443.67	**-0.72**	48954.41		69487.58	2.2
Canada	**S&P/TSX Comp**	15173.59	-92.45	**-0.61**	13609.58		15943.09	-0.7
Mexico	**IPC All-Share**	48970.19	-199.38	**-0.41**	43902.25		50154.33	7.3
Chile	**Santiago IPSA**	3655.02	-10.40	**-0.28**	3061.18		3786.05	13.4
U.S.	**DJIA**	21513.35	-15.64	**-0.07**	17063.08		21535.03	8.9
	Nasdaq Composite	6214.13	-24.89	**-0.40**	4574.25		6341.70	15.4
	S&P 500	2444.09	-9.37	**-0.38**	1991.68		2453.82	9.2
	CBOE Volatility	10.69	0.32	**3.09**	9.37		26.72	-23.9
EMEA	**Stoxx Europe 600**	389.21	-2.73	**-0.70**	308.75		396.45	7.7
	Stoxx Europe 50	3200.19	-22.90	**-0.71**	2626.52		3279.71	6.3
France	**CAC 40**	5293.65	-17.07	**-0.32**	3955.98		5442.10	8.9
Germany	**DAX**	12814.79	-74.16	**-0.58**	9214.10		12951.54	11.6
Israel	**Tel Aviv**	1436.19	-3.35	**-0.23**	1372.23		1490.23	-2.4
Italy	**FTSE MIB**	20810.02	-204.23	**-0.97**	15017.42		21828.77	8.2
Netherlands	**AEX**	520.88	-4.99	**-0.95**	409.23		537.84	7.8
Russia	**RTS Index**	981.03	-17.31	**-1.73**	885.22		1196.99	-14.9
Spain	**IBEX 35**	10746.10	-102.80	**-0.95**	7579.80		11184.40	14.9
Switzerland	**Swiss Market**	9023.55	-6.75	**-0.07**	7475.54		9136.95	9.8
South Africa	**Johannesburg All Share**	51160.57	-455.33	**-0.88**	48935.90		54716.53	1.0
Turkey	**BIST 100**	99269.27	-62.86	**-0.06**	70426.16		100000.79	27.0
U.K.	**FTSE 100**	7472.71	-51.10	**-0.68**	5788.74		7598.99	4.6
Asia-Pacific	**DJ Asia-Pacific TSM**	1631.92	-0.10	**-0.01**	1308.52		1643.59	14.7
Australia	**S&P/ASX 200**	5757.30	-47.90	**-0.83**	5103.30		5956.50	1.6
China	**Shanghai Composite**	3140.01	-4.36	**-0.14**	2854.29		3288.97	1.2
Hong Kong	**Hang Seng**	25843.04	-81.51	**-0.31**	20172.46		26063.06	17.5
India	**S&P BSE Sensex**	31297.53	-14.04	**-0.04**	25765.14		31311.57	17.5
Indonesia	**Jakarta Composite**	5791.90	50.00	**0.87**	4834.57		5792.90	9.3
Japan	**Nikkei Stock Avg**	20230.41	162.66	**0.81**	14952.02		20230.41	5.8
Malaysia	**Kuala Lumpur Composite**	1780.71	-8.19	**-0.46**	1616.64		1792.35	8.5
New Zealand	**S&P/NZX 50**	7586.53	-5.50	**-0.07**	6664.21		7592.03	10.2
Pakistan	**KSE 100**	44914.44	-1678.90	**-3.60**	37039.57		52876.46	-6.1
Philippines	**PSEi**	7917.86	-25.89	**-0.33**	6563.67		8102.30	15.7
Singapore	**Straits Times**	3230.42	-16.76	**-0.52**	2729.85		3271.11	12.1
South Korea	**Kospi**	2369.23	-1.67	**-0.07**	1925.24		2381.69	16.9
Taiwan	**Weighted**	10324.46	73.86	**0.72**	8458.87		10324.46	11.6
Thailand	**SET**	1578.62	-2.52	**-0.16**	1406.18		1591.00	2.3

Source: SIX Financial Information; WSJ Market Data Group

Global government bonds

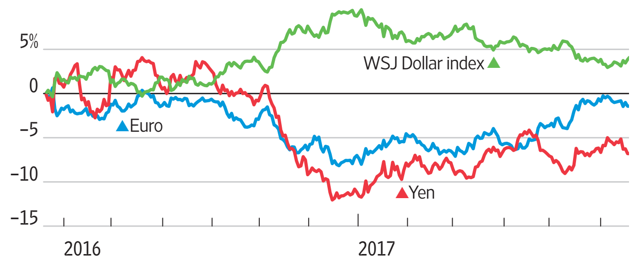
Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 12 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points Latest	Previous	Month Ago	Year ago	Yield Previous	Month ago	Year ago
5.250	**Australia** 2	**1.698**	34.6	32.6	34.8	**90.5**	**1.686**	1.623	**1.642**
4.750	10	**2.428**	26.4	22.5	25.6	**45.8**	**2.417**	2.492	**2.148**
3.000	**Belgium** 2	**-0.559**	-191.1	-192.3	-180.4	**-121.0**	**-0.563**	-0.530	**-0.473**
0.800	10	**0.588**	-157.6	-158.6	-148.5	**-139.3**	**0.605**	0.752	**0.297**
0.000	**France** 2	**-0.483**	-183.5	-184.1	-172.6	**-115.8**	**-0.481**	-0.452	**-0.421**
1.000	10	**0.609**	-155.6	-155.9	-142.8	**-125.9**	**0.633**	0.809	**0.430**
0.000	**Germany** 2	**-0.660**	-201.2	-203.2	-196.4	**-132.0**	**-0.672**	-0.690	**-0.583**
0.250	10	**0.265**	-189.9	-190.9	-186.7	**-163.5**	**0.282**	0.369	**0.055**
0.300	**Italy** 2	**-0.307**	-165.9	-166.8	-152.9	**-75.0**	**-0.308**	-0.254	**-0.013**
2.200	10	**1.914**	-25.0	-23.8	-10.5	**-31.9**	**1.954**	2.131	**1.371**
0.100	**Japan** 2	**-0.111**	-146.3	-147.7	-143.2	**-98.5**	**-0.117**	-0.157	**-0.248**
0.100	10	**0.056**	-210.9	-213.6	-219.5	**-183.3**	**0.056**	0.042	**-0.143**
4.000	**Netherlands** 2	**-0.631**	-198.3	-199.8	-188.8	**-127.6**	**-0.638**	-0.613	**-0.539**
0.750	10	**0.470**	-169.5	-170.6	-166.6	**-152.7**	**0.486**	0.571	**0.162**
4.750	**Portugal** 2	**-0.036**	-138.8	-136.1	-99.9	**-31.0**	**-0.001**	0.275	**0.427**
4.125	10	**2.858**	69.4	66.1	93.6	**144.6**	**2.853**	3.173	**3.135**
2.750	**Spain** 2	**-0.308**	-166.0	-167.5	-157.5	**-76.4**	**-0.315**	-0.300	**-0.027**
1.500	10	**1.382**	-78.3	-74.9	-67.8	**-20.9**	**1.443**	1.559	**1.481**
4.250	**Sweden** 2	**-0.719**	-207.2	-207.1	-197.2	**-132.5**	**-0.711**	-0.698	**-0.588**
1.000	10	**0.448**	-171.6	-173.4	-172.6	**-111.2**	**0.458**	0.511	**0.578**
1.750	**U.K.** 2	**0.136**	-121.7	-117.9	-115.7	**-26.9**	**0.182**	0.117	**0.468**
4.250	10	**1.002**	-116.3	-115.9	-114.2	**-45.0**	**1.033**	1.095	**1.240**
1.250	**U.S.** 2	**1.352**	...	...	...	**...**	**1.360**	1.274	**0.737**
2.375	10	**2.165**	...	...	...	**...**	**2.192**	2.236	**1.690**

Currencies

London close on June 20

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



Country/currency	Tue in US$	Tue per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0620	16.1250	**1.6**
Brazil real	0.2999	3.3347	**2.4**
Canada dollar	0.7535	1.3272	**–1.3**
Chile peso	0.001503	665.40	**–0.7**
Colombia peso	0.0003301	3029.46	**0.9**
Ecuador US dollar-f	1	1	**unch**
Mexico peso-a	0.0551	18.1353	**–12.5**
Peru sol	0.3050	3.2785	**–2.2**
Uruguay peso-e	0.0353	28.300	**–3.6**
Venezuela bolivar	0.099203	10.08	**0.9**
Asia-Pacific			
Australia dollar	0.7572	1.3207	**–4.9**
China yuan	0.1465	6.8274	**–1.7**
Hong Kong dollar	0.1282	7.8010	**0.6**
India rupee	0.0155	64.6400	**–4.9**
Indonesia rupiah	0.0000751	13322	**–1.5**
Japan yen	0.008969	111.49	**–4.7**
Kazakhstan tenge	0.003099	322.64	**–3.3**
Macau pataca	0.1244	8.0354	**1.5**
Malaysia ringgit-c	0.2327	4.2982	**–4.2**
New Zealand dollar	0.7235	1.3822	**–4.3**
Pakistan rupee	0.0095	104.870	**0.5**
Philippines peso	0.0199	50.225	**1.2**
Singapore dollar	0.7191	1.3906	**–3.9**
South Korea won	0.0008749	1142.96	**–5.4**
Sri Lanka rupee	0.0065274	153.20	**3.2**
Taiwan dollar	0.03293	30.369	**–6.4**
Thailand baht	0.02939	34.030	**–5.0**
Europe			
Bulgaria lev	0.5687	1.7585	**–5.4**
Croatia kuna	0.1499	6.669	**–7.0**
Euro zone euro	1.1123	0.8991	**–5.4**
Czech Rep. koruna-b	0.0422	23.683	**–7.8**
Denmark krone	0.1495	6.6888	**–5.4**
Hungary forint	0.003597	278.01	**–5.5**
Iceland krona	0.009630	103.84	**–8.1**
Norway krone	0.1169	8.5536	**–1.0**
Poland zloty	0.2619	3.8182	**–8.8**
Russia ruble-d	0.01678	59.587	**–2.7**
Sweden krona	0.1137	8.7924	**–3.5**
Switzerland franc	1.0242	0.9764	**–4.2**
Turkey lira	0.2819	3.5468	**0.7**
Ukraine hryvnia	0.0384	26.0440	**–3.8**
U.K. pound	1.2619	0.7925	**–2.2**
Middle East/Africa			
Bahrain dinar	2.6511	0.3772	**0.01**
Egypt pound-a	0.0551	18.1435	**0.1**
Israel shekel	0.2821	3.5449	**–7.9**
Kuwait dinar	3.2926	0.3037	**–0.6**
Oman sul rial	2.5972	0.3850	**0.02**
Qatar rial	0.2721	3.675	**1.0**
Saudi Arabia riyal	0.2666	3.7505	**–0.01**
South Africa rand	0.0764	13.0834	**–4.5**

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	89.03	0.28	0.31	**–4.21**

Sources: Tullett Prebon, WSJ Market Data Group

Commodities

Prices of futures contracts with the most open interest — 12 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.; **MDEX:** Bursa Malaysia Derivatives Berhad; **TCE:** Tokyo Commodity Exchange; **COMEX:** Commodity Exchange; **LME:** London Metal Exchange; **NYMEX:** New York Mercantile Exchange; **ICE-EU:** ICE Futures Europe. *Data as of 6/19/2017

Commodity	Exchange	Last price	One-Day Change Net	Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	379.25	-4.00	-1.04%	399.25	368.25
Soybeans (cents/bu.)	CBOT	940.50	-8.00	-0.84	1,034.50	915.50
Wheat (cents/bu.)	CBOT	485.00	2.00	0.41%	502.00	430.75
Live cattle (cents/lb.)	CME	115.250	-0.850	-0.73	127.650	99.400
Cocoa ($/ton)	ICE-US	1,916	-18	-0.93	2,281	1,767
Coffee (cents/lb.)	ICE-US	123.65	-2.95	-2.33	163.75	123.30
Sugar (cents/lb.)	ICE-US	13.80	0.13	0.95	20.50	13.50
Cotton (cents/lb.)	ICE-US	68.97	-0.07	-0.10	75.72	68.51
Robusta coffee ($/ton)	ICE-EU	2063.00	-45.00	-2.13	2,286.00	1,885.00
Copper ($/lb.)	COMEX	2.5700	-0.0360	-1.38	2.8495	2.4850
Gold ($/troy oz.)	COMEX	1244.80	-1.90	-0.15	1,300.30	1,155.00
Silver ($/troy oz.)	COMEX	16.435	-0.067	-0.41	18.725	16.060
Aluminum ($/mt)*	LME	1,876.00	4.50	0.24	1,972.00	1,688.50
Tin ($/mt)*	LME	19,700.00	290.00	1.49	21,225.00	18,760.00
Copper ($/mt)*	LME	5,710.00	31.00	0.55	6,156.00	5,491.00
Lead ($/mt)*	LME	2,137.00	30.00	1.42	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,550.50	21.50	0.85	2,958.50	2,450.50
Nickel ($/mt)*	LME	9,000.00	25.00	0.28	11,095.00	8,780.00
Rubber (¥/0.01ton)	TCE	190.30	-4.90	-2.51	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2460.00	-28.00	-1.13	2966.00	2390.00
Crude oil ($/bbl.)	NYMEX	43.26	-1.17	-2.63	58.30	42.94
NY Harbor ULSD ($/gal.)	NYMEX	1.4013	-0.0173	-1.22	1.7930	1.3897
RBOB gasoline ($/gal.)	NYMEX	1.4185	-0.0261	-1.81	1.8561	1.4112
Natural gas ($/mmBtu)	NYMEX	2.920	0.003	0.10	3.5750	2.9020
Brent crude ($/bbl.)	ICE-EU	46.03	-1.10	-2.33	60.18	45.68
Gas oil ($/ton)	ICE-EU	414.25	-9.75	-2.30	529.00	411.25

Sources: SIX Financial Information; WSJ Market Data Group

Cross rates

London close on Jun 20

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3207	1.6663	1.3528	0.0118	0.1693	1.4688	0.9951	...
Canada	1.3272	1.6744	1.3591	0.0119	0.1701	1.4759	...	1.0049
Euro	0.8991	1.1344	0.9208	0.0081	0.1153	...	0.6775	0.6808
Hong Kong	7.8010	9.8440	7.9895	0.0700	...	8.6766	5.8780	5.9069
Japan	111.4940	140.6800	114.2000	...	14.2920	124.0000	84.0200	84.4200
Switzerland	0.9764	1.2320	...	0.0088	0.1252	1.0861	0.7358	0.7394
U.K.	0.7925	...	0.8117	0.0071	0.1016	0.8816	0.5971	0.6000
U.S.	...	1.2619	1.0242	0.0090	0.1282	1.1123	0.7535	0.7572

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**1.21556%**	0.45080%
Three month	**1.28722**	0.64185
Six month	**1.43961**	0.93115
One year	**1.73594**	1.25250
Euro Libor		
One month	**-0.40429%**	-0.35843%
Three month	**-0.37286**	-0.28357
Six month	**-0.29571**	-0.16600
One year	**-0.18043**	-0.03571
Euribor		
One month	**-0.37200%**	-0.35800%
Three month	**-0.32900**	-0.26600
Six month	**-0.27100**	-0.15900
One year	**-0.15900**	-0.02900
Yen Libor		
One month	**-0.03064%**	-0.06900%
Three month	**-0.00229**	-0.03371
Six month	**0.02171**	-0.01007
One year	**0.12971**	0.08329
	Offer	Bid
Eurodollars		
One month	**1.1000%**	1.0000%
Three month	**1.2000**	1.1000
Six month	**1.3500**	1.2500
One year	**1.6000**	1.5000
	Latest	52 wks ago
Prime rates		
U.S.	**4.25%**	3.50%
Canada	**2.70**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.50
Switzerland	**0.50**	0.50
Australia	**1.50**	1.75
U.S. discount	**1.75**	1.00
Fed-funds target	**1.00-1.25**	0.25-0.50
Call money	**3.00**	2.25
Overnight repurchase rates		
U.S.	**1.10%**	0.50%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

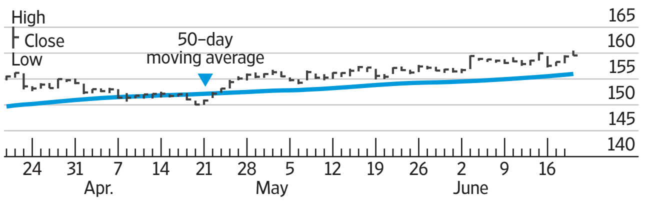
Top Stock Listings

12 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans					
HK$	AIAGroup	**1299**	57.10	0.09	30.51
¥	AstellasPharma	**4503**	1379.00	-0.33	-15.06
AU$	AustNZBk	**ANZ**	28.00	-1.34	-7.96
AU$	BHP	**BHP**	22.96	-0.17	-8.38
HK$	BankofChina	**3988**	3.82	-0.52	11.05
HK$	CKHutchison	**0001**	98.50	-0.20	12.06
HK$	CNOOC	**0883**	8.62	-0.23	-11.13
AU$	CSL	**CSL**	138.56	-0.76	37.99
¥	Canon	**7751**	3941.00	-0.15	19.61
¥	CentralJapanRwy	**9022**	18355	-0.54	-4.55
HK$	ChinaConstructnBk	**0939**	6.46	...	8.21
HK$	ChinaLifeInsurance	**2628**	24.05	-1.03	19.06
HK$	ChinaMobile	**0941**	83.70	-0.42	1.82
HK$	ChinaPetro&Chem	**0386**	6.35	-0.16	15.45
AU$	CmwlthBkAust	**CBA**	82.24	-0.66	-0.21
¥	EastJapanRailway	**9020**	11180	-0.36	10.69
¥	Fanuc	**6954**	21725	0.77	9.64
¥	Hitachi	**6501**	674.20	0.78	6.68
TW$	Hon Hai Precisn	**2317**	114.50	4.57	35.99
¥	HondaMotor	**7267**	3066.00	...	-10.22
KRW	HyundaiMtr	**005380**	166500	-0.30	14.04
HK$	Ind&Comml	**1398**	5.18	-0.96	11.40
¥	JapanTobacco	**2914**	4106.00	-0.07	6.82
¥	KDDI	**9433**	3091.00	0.42	4.44
¥	Mitsubishi	**8058**	2286.50	1.08	-8.17
¥	MitsubishiElectric	**6503**	1621.00	1.82	-0.52
¥	MitsubishiUFJFin	**8306**	729.60	0.61	1.31
¥	Mitsui	**8031**	1556.00	1.01	-3.17
¥	Mizuho Fin	**8411**	198.30	0.30	-5.48
¥	NTTDoCoMo	**9437**	2746.00	0.27	3.12
AU$	NatAustBnk	**NAB**	29.94	-1.09	-2.38
¥	NipponTeleg	**9432**	5448.00	1.06	10.91
¥	NissanMotor	**7201**	1071.50	-0.05	-8.85
¥	Panasonic	**6752**	1511.00	2.16	27.03
HK$	PingAnInsofChina	**2318**	51.90	-0.48	33.76
$	RelianceIndsGDR	**RIGD**	43.40	-0.69	37.56
KRW	SamsungElectronics	**005930**	2407000	3.39	33.57
¥	Seven&I Hldgs	**3382**	4780.00	0.67	7.34
¥	SoftBankGroup	**9984**	9273.00	0.61	19.42
¥	Sony	**6758**	4278.00	-0.28	30.63
¥	Sumitomo Mitsui	**8316**	4262.00	0.88	-4.44
HK$	SunHngKaiPrp	**0016**	118.10	0.08	20.51
TW$	TaiwanSemiMfg	**2330**	216.50	1.64	19.28
¥	TakedaPharm	**4502**	5666.00	-0.26	17.19
HK$	TencentHoldings	**0700**	280.00	0.43	47.60
¥	TokioMarineHldg	**8766**	4854.00	0.19	1.21
¥	ToyotaMtr	**7203**	5809.00	0.38	-15.54
AU$	Wesfarmers	**WES**	40.51	-0.25	-3.87
AU$	WestpacBanking	**WBC**	30.31	-1.85	-7.02
AU$	Woolworths	**WOW**	25.15	-0.71	4.36
Stoxx 50					
CHF	ABB	**ABBN**	24.49	-1.13	14.01
€	ASMLHolding	**ASML**	116.15	-1.11	8.91
€	AXA	**CS**	24.27	-0.10	1.19
€	AirLiquide	**AI**	112.75	0.22	6.72
€	Allianz	**ALV**	175.85	-0.20	12.01
€	AB InBev	**ABI**	102.80	0.64	2.24
£	AstraZeneca	**AZN**	5416.00	1.35	22.05
€	BASF	**BAS**	86.55	-0.65	-1.99
€	BNP Paribas	**BNP**	62.55	-0.81	3.30
£	BT Group	**BT.A**	286.30	-1.17	-21.97
€	BancoBilVizAr	**BBVA**	7.34	-0.92	15.61
€	BancoSantander	**SAN**	5.86	-1.16	18.11
£	Barclays	**BARC**	202.80	-1.91	-9.24
€	Bayer	**BAYN**	121.80	-1.22	22.87
£	BP	**BP.**	460.25	-2.62	-9.68
£	BritishAmTob	**BATS**	5563.00	-0.07	20.37
€	Daimler	**DAI**	65.57	-0.21	-7.28
€	DeutscheTelekom	**DTE**	16.79	-0.09	2.66
£	Diageo	**DGE**	2390.00	0.65	13.27
€	ENI	**ENI**	13.63	-2.01	-11.89
£	GlaxoSmithKline	**GSK**	1693.00	-0.15	8.39
£	Glencore	**GLEN**	276.60	-3.94	-0.27
£	HSBC Hldgs	**HSBA**	688.30	-0.48	4.78
€	INGGroep	**INGA**	15.10	-1.18	12.90
£	ImperialBrands	**IMB**	3571.00	-0.33	0.80
€	IntesaSanpaolo	**ISP**	2.53	-0.39	4.45
€	LVMHMoetHennessy	**MC**	232.40	-0.17	28.11
£	LloydsBankingGroup	**LLOY**	67.01	-2.46	7.20
€	LOreal	**OR**	191.25	0.18	10.29
£	NationalGrid	**NG.**	1018.00	-0.24	-1.94
CHF	Nestle	**NESN**	84.00	0.66	14.99
CHF	Novartis	**NOVN**	79.80	0.76	7.69
DKK	NovoNordiskB	**NOVO-B**	290.50	-0.10	14.06
£	Prudential	**PRU**	1815.00	0.30	11.52
£	ReckittBenckiser	**RB.**	7996.00	0.18	16.12
£	RioTinto	**RIO**	3000.00	-2.85	-5.02
CHF	RocheHldgctf	**ROG**	253.10	-0.94	8.81
£	RoyDtchShell A	**RDSA**	2090.50	-1.88	-6.78
€	SAP	**SAP**	94.85	-0.64	14.54
€	Sanofi	**SAN**	86.82	0.14	12.90
€	SchneiderElectric	**SU**	68.87	-0.48	4.17
€	Siemens	**SIE**	125.15	-1.07	7.15
€	Telefonica	**TEF**	9.59	-1.27	8.67
€	Total	**FP**	44.55	-1.32	-6.71
CHF	UBSGroup	**UBSG**	15.68	-1.07	-1.69
€	Unilever	**UNA**	50.13	-0.14	28.16
£	Unilever	**ULVR**	4317.50	0.15	31.13
€	Vinci	**DG**	79.91	0.14	23.51
£	VodafoneGroup	**VOD**	222.35	-0.20	11.26
CHF	ZurichInsurance	**ZURN**	292.50	0.17	4.32
DJIA					
$	AmericanExpress	**AXP**	82.72	1.03	11.66
$	Apple	**AAPL**	145.37	-0.67	25.51
$	Boeing	**BA**	200.45	0.69	28.76
$	Caterpillar	**CAT**	107.76	0.25	16.20
$	Chevron	**CVX**	106.29	-1.09	-9.69
$	CiscoSystems	**CSCO**	31.98	-0.03	5.82
$	Coca-Cola	**KO**	45.77	0.87	10.41
$	Disney	**DIS**	104.18	-1.13	-0.04
$	DuPont	**DD**	83.50	-0.07	13.76
$	ExxonMobil	**XOM**	82.05	-0.86	-9.10
$	GeneralElec	**GE**	28.14	-2.31	-10.97
$	GoldmanSachs	**GS**	225.12	-0.45	-5.98
$	HomeDepot	**HD**	157.99	-0.52	17.83
$	Intel	**INTC**	34.99	-1.46	-3.53
$	IBM	**IBM**	155.22	0.24	-6.49
$	JPMorganChase	**JPM**	87.72	-0.39	1.66
$	J&J	**JNJ**	134.66	0.44	16.88
$	McDonalds	**MCD**	154.36	0.80	26.82
$	Merck	**MRK**	64.84	1.82	10.14
$	Microsoft	**MSFT**	70.09	-1.10	12.79
$	Nike	**NKE**	51.34	-1.30	1.01
$	Pfizer	**PFE**	33.75	1.60	3.91
$	Procter&Gamble	**PG**	90.03	0.19	7.08
$	3M	**MMM**	213.67	0.15	19.66
$	Travelers	**TRV**	128.97	0.55	5.35
$	UnitedTech	**UTX**	122.20	0.29	11.48
$	UnitedHealth	**UNH**	183.06	0.02	14.38
$	Visa	**V**	94.68	-0.12	21.35
$	Verizon	**VZ**	45.78	-1.70	-14.24
$	Wal-Mart	**WMT**	75.65	0.20	9.45

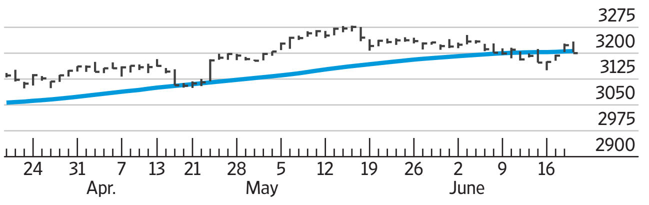
Asia Titans 50

Last: **159.55** ▲ 0.20, or 0.12% — YTD ▲ **13.2%**



Stoxx 50

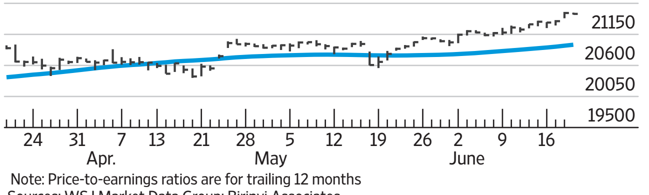
Last: **3200.19** ▼ 22.90, or 0.71% — YTD ▲ **6.3%**



Dow Jones Industrial Average

P/E: 21

Last: **21513.35** ▼ 15.64, or 0.07% — YTD ▲ **8.9%**



Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

THE PROPERTY REPORT

Storage Startups Offer Pickup, Delivery

New firms aim to use logistics and web technology to make sector user friendly

By Peter Grant

Many landlords have learned the hard way how technology upstarts like **WeWork** Cos. and **Airbnb** Inc. can disrupt traditional office-building and hotel businesses.

Now the tech sector is turning its sights on the self-storage sector and its estimated $30 billion in annual revenue.

A handful of startups such as **Clutter** Inc. and **MakeSpace Labs** Inc. are using the latest in logistics and web technology to offer what they say is a more efficient and user-friendly way for people to store furniture, keepsakes, sports equipment and other stuff that has been clogging up their basements and attics.

They work differently from the 40,000 or so traditional self-storage facilities that basically offer garages or sheds for customers to fill up as they please. The new competitors pick up and deliver items instead of forcing customers to schlep items to their facilities like the incumbent firms do. The upstarts also photograph what they store, and customers can view their items online and ask for some or all of them back with a click.

"Imagine Amazon logistics meets Dropbox software," said Ari Mir, co-founder of Clutter, which is two years old and just added Chicago to the eight other markets it serves.

Executives at the big self-storage companies, like Public Storage, CubeSmart and Extra Space Storage Inc., say they aren't worried. They say the startups' costs of transportation and handling will be so high they won't be able to price their service competitively.

Public Storage, the world's largest self-storage business, with a stock-market capitalization of more than $37 billion, lost about $200 million in the early 2000s trying a similar service named Pick-up and Delivery.


MICHAEL BUCHER/THE WALL STREET JOURNAL

Movers from startup Clutter prepare to deliver a couch to a storage facility near New York City.

"It sounds like a great product on paper," said Clem Teng, a Public Storage vice president for investor relations. "But given all the touching involved, it's difficult to price it at a point that consumers are willing to pay so you can make a profit."

Still, the self-storage startups are beginning to get traction with customers and financiers. Last week, Culver City, Calif.-based Clutter said it had raised $64 million in its latest funding round from its existing investor, Sequoia Capital, as well as new investors Atomico, **Fifth Wall Ventures** and Alphabet Inc.'s GV.

MakeSpace, which has 300 employees in four cities, raised $30 million in March for a total of about $60 million to date, with the venture-capital firm 8vc taking the lead. Founder Sam Rosen envisions the firm being in 30 to 50 markets five years from now.

Investors in the big storage companies are taking notice. "They will create major headwinds," said Laurel Durkay, associate portfolio manager of Cohen & Steers, a fund manager with roughly $60 billion in assets that is a big investor in the self-storage sector. "But I do believe it will be more important in dense urban markets than the broader domestic landscape."

Ms. Durkay predicted that the big companies will respond if the startups become more competitive. "To the extent that we have a...revolution in the way people are using storage facilities, the management teams may be able to pivot and modify their strategies."

Mr. Rosen, of MakeSpace, said he isn't surprised Public Storage failed at what he and others are trying to do. "They're a real-estate business," he said. "What do they know about logistics?"

Customers of the new firms include people like Jassim Latif, a 34-year-old employee at a San Francisco software firm, who wanted something more than traditional storage. He became a Clutter customer after a bad experience trying to get his snowboard out of a locker he rented after his twin daughters were born two years ago.

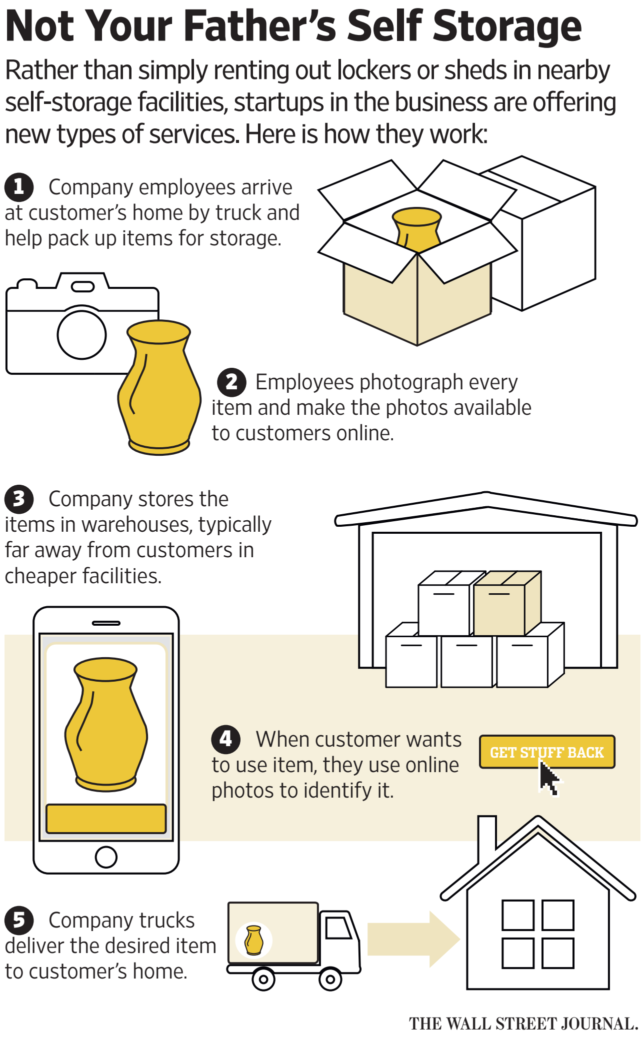
"I had to move everything out to get my stuff, then move it all back in," he recalled. "Then I thought: 'Great. In a few days I have to come back here and do the same thing all over again.' "

The new competition comes at a time when Wall Street has been losing enthusiasm for the big self-storage companies. They were a darling of the real-estate investment trust sector in 2013 to 2015, strongly outperforming other REITs.

But last year, while the broad REIT sector was up about 8.5%, storage was down about 8%, according to Steve Sakwa, head of real-estate research at Evercore ISI. So far this year, the sector is up 3.8%, but storage REITs are down 2.4%, he said.

Rents are still rising but at a slower pace in part because of a glut of new supply, Mr. Sakwa said. Consumers also might be showing resistance to the rapid rent increases of previous years.

Executives at the startups say they can keep prices low partly by locating facilities in cheaper spaces far away from customers. Traditional facilities generally are just a few miles away from customers' homes, and this can drive up costs in high-price real-estate markets like New York and San Francisco.



Moving and handling items clearly drives up prices. For example, Clutter charges about $100 to $110 a month in New York to store a closet worth of stuff, roughly in the range of local self-storage facilities. But Clutter also charges $35 an hour per mover for on-site labor in the packing and moving process in pickups and deliveries. The firm doesn't charge for transportation time.

Traditional storage companies say their business model works better because their customers face a big hassle if they want to close their account and move their stuff out for good. That tendency makes it more likely that customers will stick around, executives say.

"Who wants to spend a Saturday afternoon going to your storage unit?" said Mr. Teng of Public Storage.

Backers of the startups say their growth potential is enormous. They point out they could branch into other businesses like helping people manage their stuff and even sell it on websites such as **eBay**.

Clutter says it also might one day expand its service to allow customers to have their stuff delivered not only to their home but to numerous other locations.

"It would become cloud storage for your things," said Brendan Wallace, co-founder of Fifth Wall.

Co-Working Spreads To New Jersey Suburbs

By Keiko Morris

Communal co-working office spaces such as the ones offered by shared-office giant **WeWork** Cos. are red hot in big U.S. cities like New York. Now they are making inroads in the New Jersey suburbs.

Co-working startup **Vi Coworking** LLC opened a site in June at a redevelopment project at Fort Monmouth, after finding success with a 5,000-square-foot co-working space it launched a little over a year ago at the Bell Works redevelopment in Holmdel.

Hugo Neu Corp., meanwhile, launched a 5,000-square-foot space at its commercial redevelopment project at Kearny Point last summer—and has since doubled the size.

"The demand is stronger than we thought," said Nick Shears, director of leasing at Hugo Neu. "We would get people looking for traditional office space and saw the co-working space and said, 'This is better because I am not ready to commit on a multiyear lease.'"

Co-working spaces, which offer short-term commitments, are often associated with the technology and startup worlds, emphasizing community and a more casual office setting that sometimes comes with free beer and ping pong. Those in the suburbs vary, offering a more subdued décor and setting geared toward somewhat older professionals, but sharing an emphasis on networking.

The rise of the suburban shared-office facility, typically under 15,000 square feet in New Jersey, has been fed by a growing number of independent workers, said co-working operators, real-estate developers and brokers. Many of them are leaving the corporate world to strike out on their own, eliminating a long commute and establishing more of a balance between personal and work life, said the experts.

Larger companies also are fueling demand, using these facilities as spots to allow valued employees a flexible work option close to home. About half of the customers using co-working provider **Serendipty Labs** Inc. work for established companies, said Chief Executive John Arenas. Serendipity, which operates a number of facilities around the U.S., opened locations in Ridgewood, N.J., and Stamford, Conn., last year.

"Workplace strategy at companies has become much more sophisticated in the last three to four years," Mr. Arenas said. "As companies try to retain top talent and support mobility, they have taken a hard look at third-party space providers."

The Sparta, N.J., location of **C3Workplace** LLC, opened in 2013, draws a combination of business owners and commuting professionals who are at a level at their companies to justify having an office near their home, said Donna Miller, president of C3Workplace, which also has a site in Montclair.

"Many of my clients are in the sandwich generation, where they are taking care of children and aging parents," Ms. Miller said. "That's a big load to carry so you have to be close to home and change things up on the fly."

While there is some skepticism that the co-working trend will last, some landlords are embracing it as a way to give life to their buildings and help incubate firms that eventually will lease office space at other of their properties. That was part of Vi Coworking's pitch to Somerset Development LLC, the company behind the Bell Works redevelopment, said Chris Pallé, Vi's co-founder.

In the year since its Bell Works launch, Vi's co-working space has had one of its clients, a video technology startup called Vydia Inc., more than double its workforce and sign a lease for longer-term space in the complex. Vydia Chief Executive Roy LaManna said he credits its co-working for helping it attract technology employees.

Mall Landlords Roll Dice on Tech

By Esther Fung

Mall landlords are investing millions of dollars in technology to help protect them from the changes buffeting the retail sector as internet shopping gains a stronger foothold.

Some of the investments aren't faring so well.

Macerich Co., one of the biggest U.S. mall owners, in the latest quarter wrote off $10 million invested in a startup that purported to help online and European retailers expand their physical store presence in the U.S.

Its investment in WithMe, a firm that designs pop-up stores with interactive features such as responsive display tables, led to store openings in six Macerich shopping centers last year: the Los Cerritos Center, the Oaks and Santa Monica Place in California; Washington Square in Portland, Ore.; Tysons Corner Center in Tysons, Va., and the Shops at North Bridge in Chicago.

But the two companies parted ways soon after. The costs of the build-outs were higher than anticipated, and WithMe said it would be better for Macerich to run the program by itself.

"They really billed themselves as being the bridge between clicks and bricks, which, had it turned out to be that, it would have been a wonderful business," said Art Coppola, chief executive of Macerich, during an April earnings call. "We realize that we've made too big of an investment into one company. But the other takeaway was that we are going to be best served to have us the facilitator for clicks coming to bricks and not think about third parties being the ones to get in the middle of that."

Macerich's decision to pull out "definitely hurt," said Jonathan Jenkins, the founder of WithMe. The split enabled the startup to focus on other opportunities, such as prioritizing building experiences for the brands first, then finding the best location for that, he said.


B8TA

A b8ta store at a Santa Monica, Calif., mall owned by REIT Macerich, which invested in the retailer.

Macerich, a Santa Monica, Calif.-based real-estate investment trust, has invested an additional $8 million in other ventures and retailers that have been more successful, such as b8ta, which sells tech gadgets, and clothes retailer Ministry of Supply.

As changing consumer habits and e-commerce squeeze mall tenants, landlords face growing pressure to remain relevant, and are investing more resources to understand the industry's disrupters. Larger landlords with stronger balance sheets such as **Simon Property Group** and Westfield Corp. have been setting aside millions of dollars for incubators to take on risks similar to venture capitalists.

Doing nothing could prove just as risky at a time when retail property companies face growing threats to their viability from Amazon.com Inc.'s growth and from competing neighboring shopping centers that are innovating.

But getting the technology right has proven to be a challenge.

Consider beacons, which are wireless devices that can be placed anywhere and emit a signal that is picked up by smartphones.

Beacons placed in stores can activate apps on smartphones that offer shoppers personalized coupons or promotions.

Mall landlord CBL & Associates Properties ran a pilot program with beacons at three of its malls in the fourth quarter of 2015 and learned that while the technology is viable, there are challenges in asking consumers to download the app. The Chattanooga, Tenn.-based REIT said it is now focusing on creating an excellent mobile web experience rather than developing apps that provide the same information and utility.

"We want to make sure we're not jumping onto a bandwagon on technology that's going to be obsolete in 18 months," said Jim Ward, vice president of marketing, brand development and digital strategies at CBL.

Other landlords say they get numerous pitches by a range of startups peddling similar services and software that purport to make their jobs easier, and sometimes only belatedly figure out how to separate the wheat from the chaff.

"The real-estate technology industry is heating up, bringing along with it quite a bit of noise," said Hongwei Liu, CEO of MappedIn, a six-year-old Canada-based firm that provides indoor mapping and search software for property owners.

The firm has developed digital maps for more than 300 U.S. malls, including for the top mall REITs.

All of these contracts were switch-outs, in which the previous vendor didn't work out, said Mr. Liu. He said that his firm never had a canceled contract.

MARKETS

Bitcoin Rift Spurs Volatility

Developers and businesses have competing visions for future of currency

By Paul Vigna

A calcifying rift in the bitcoin world is pitting two camps with competing visions for what the virtual currency should be against each other, accentuating the volatility that has come to define this market.

Even for bitcoin, though, last week was a wild ride. It rose to a high of $3,018, only to fall 27%. The currency then recovered somewhat and by Tuesday was trading at $2,650.

The sharp swings followed bitter jousting by bitcoin developers and businesses over how best to expand the currency's processing capacity and could result in it being split into separate, competing coins. On one side: those who want bitcoin to act more like a digital version of gold, a commodity with a limited supply that can be held as a store of value.

The opposing camp wants bitcoin to look more like a currency, a unit that can be used to settle transactions. That faction wants bitcoin to be as fast and easy to trade as a dollar.

The two sides have been at a stalemate, but new proposals coming this summer could provide a breakthrough—either changes in the bitcoin network's processing capacity or a split between a high-speed and slow-speed bitcoin. "You watch a fine marriage that is falling apart," says Emin Gun Sirer, a Cornell professor who studies virtual currencies. "Eventually, you say, I think a divorce is the best thing."

The bickering has hindered interest in the virtual currency, sending some to a newer alternative, ethereum, that has surged more than 40-fold this year and is now valued at only about 20% less than all the traded bitcoin, according to CoinMarketCap.com.

"A lot of my friends are selling their bitcoin and buying ethereum," says Zachary Mallard, who runs a men's grooming-products business in Brooklyn, N.Y. Mr. Mallard bought some ethereum in recent months, passing up on bitcoin in part because he views the potential split in the currency as limiting the potential gains.

The debate between the two sides has intensified in recent weeks, as bitcoin has rallied more than 160% this year—despite the recent swings in the currency's value. Ultimately, how the trading is structured will help determine who controls the currency, and who potentially gets rich from that control.

As it was developed in 2008 by the pseudonymous creator, Satoshi Nakamoto, bitcoin has a limited supply, 21 million coins, that are released on a set schedule and awarded to businesses that confirm transactions in a process known as "mining."

The network it trades on was designed to be fast and cheap, operating without middlemen, with an immutable ledger recording transactions. The ledger, also known as blockchain, is simultaneously transparent to users and protective of the identity of buyers and sellers, some of whom historically used bitcoin for money laundering or other illegal purposes.

Briefly, this is how bitcoin trades: Individual transactions on the network are packed into blocks by companies that specialize in processing the trades, so-called miners. Under its current structure, the size of those blocks is capped, allowing only about seven transactions per second, far below the hundreds of thousands a network like Visa can process.

In bitcoin's early days, the limit wasn't an issue. That has changed as bitcoin transactions have surged and the currency has piqued more widespread curiosity. The result has been bottlenecks and rising transaction fees.

Many investors and processors have pushed to increase the limits in an effort to make bitcoin trade more like a modern-day currency. But purists and some developers have fought back, in part because it could hurt their financial interests, but also because it goes against their libertarian, anti-big-business bent.

With past efforts at compromise between the two sides failing, "we've reached the point now where we accept that it's a possibility" that the factions will go their separate ways, said Eric Lombrozo, one of bitcoin's leading developers.

Last week, a prominent bitcoin mining company, BitMain, released a plan to alter bitcoin's underlying software that would result in two live versions at the same time. There are other proposals as well that would have the same effect. It isn't clear which if any will be adopted.

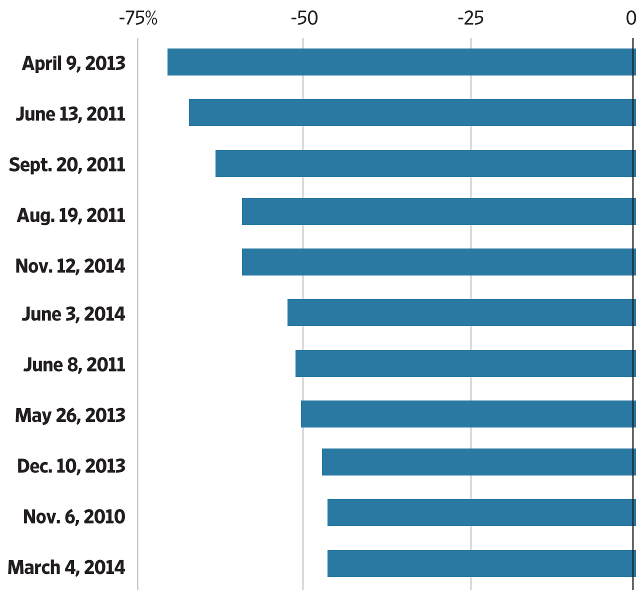
On paper, everybody seems to be in favor of raising the capacity limits. In practice, there are two sides starkly divided over how to do that. One group, led by businesses, wants to raise the size limit for all bitcoin trading. The other, led by developers, wants to create what is essentially another, subordinate network for processing transactions quickly. This option would leave the current main network unchanged.

People involved in the fight say the fate of bitcoin may become clearer in the next two months as owners and miners vote on the various proposals to break the logjam.

—Aaron Lucchetti contributed to this article.

Steep Grade

Bitcoin has declined at least 20% on 35 separate occasions in recent years. Here are the steepest drops and the days they started.



Source: Coindesk

THE WALL STREET JOURNAL.

Stocks Pull Back As Crude Drops

By Akane Otani and Riva Gold

Crude-oil prices slid Tuesday, knocking U.S. and European stock prices lower as energy companies came under pressure.

TUESDAY'S MARKETS

The Dow Jones Industrial Average fell 28 points, or 0.1%, to 21501 around midday. The Nasdaq Composite lost 0.6%, and the S&P 500 was down 0.5%, after a recovery in shares of technology companies sent the broad index to a record close Monday.

In Europe, the Stoxx Europe 600 fell 0.7%, pulled lower by oil and mining companies.

In Asia, Japan's Nikkei Stock Average rose 0.8% to its highest close since August 2015 after the dollar strengthened against the yen, supporting shares of exporters.

In Hong Kong and China, investors were waiting for a decision after the close of U.S. stock trading later Tuesday on whether index firm MSCI will include some shares traded in mainland China in its widely followed emerging-markets index. Hong Kong's **Hang Seng** Index lost 0.3%.

Energy stocks in the S&P 500 fell 1.8% around midday Tuesday, deepening declines for the index's worst-performing sector of the year.

U.S. crude oil lost 2.7% to $43.00 a barrel by midday, falling to around its lowest levels since November, as investors remained skeptical about major producers' efforts to curtail supply around the world. Oil prices have fallen roughly 20% this year—something many analysts attribute to rising production in some countries, including the U.S., offsetting efforts by the **Organization of the Petroleum Exporting Countries** to draw down a glut.

While the energy sector is expected to account for nearly half of the S&P 500's earnings growth for the second quarter, according to FactSet, analysts say broad strength across sectors should help keep stocks climbing.

"I'm not too worried about it yet," said David Lefkowitz, senior equity strategist at **UBS** Wealth Management Americas. "Business confidence is high, bank lending standards are easing and the outlook for stocks looks pretty good."

The WSJ Dollar Index, which measures the dollar against a basket of 16 currencies, climbed 0.3%.

The yield on the 10-year **U.S. Treasury** note fell to 2.158% by midday, from 2.188% Monday. Yields fall as bond prices rise.

ESSAM AL-SUDANI/REUTERS

The Al-Shuaiba refinery in Basra, Iraq, in April. Oil prices slid.

HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY **WSJ.com/Heard**

Barclays Deals With a Criminal Dilemma

When **Barclays** raised £12 billion ($15.2 billion) in emergency capital in the teeth of the financial crisis, the deals were complex, costly and controversial. Nine years later, U.K. fraud investigators finally allege they were partly criminal, too. Whether Barclays fights the charges or pleads guilty will be a complex gamble for current management.

The Serious Fraud Office on Tuesday charged Barclays and some former top executives with conspiracy to commit fraud and unlawful financial assistance. Large fines and jail time could result.

This is an unwanted first for the industry. The chief executive at the time, John Varley is charged on all counts, the first bank CEO to face a crisis-era criminal prosecution. Roger Jenkins, a former investment banker who played a key role in the deals, is charged on all counts. Two other former senior bankers each face one fraud charge.

Barclays turned to Qatar and other investors in June and October 2008 to raise capital and avoid having to take taxpayer funds directly or pay for a government-backed loss-insurance program that cost rivals Lloyds Banking Group and Royal Bank of Scotland £2.5 billion each in fees.

Barclays's fundraising was controversial because it diluted existing shareholders without allowing them normal pre-emption rights. A complicated structure made it costly, too, but then so was the alternative.

The fraud charges relate to side deals with the Qatari investors, including two advisory-services agreements that cost Barclays £322 million in fees, which Barclays didn't initially disclose. The charge of unlawful financial assistance says that Barclays in effect lent the Qataris $3 billion of the money they invested in Barclays. That would mean the bank bailed itself out, playing games with the rules and ultimately undermining its improved capital.

Barclays will wait for further details of the charges before responding. Lawyers for Mr. Jenkins said he would contest the charges; the others are yet to comment. If guilty, the individuals could face significant jail terms and fines, while the bank could face significant fines.

In U.K. courts, judges calculate fines based on the harm done to the victims, the behavior of the company in the investigation and things such as its contribution to the economy. In Barclays's case, not needing taxpayer funds could count in its favor.

If Barclays pleads guilty, it will get a discount on fines. However, a plea could strengthen related civil cases, such as the £1 billion suit bought by a private-equity group, **PCP Capital Partners**, linked to the deals.

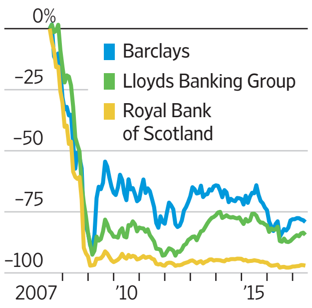
Barclays has shown the will to fight cases it thinks are unfair, such as its continuing battle with the U.S. Justice Department over mortgage bonds. In that case, the proposed settlement was $5 billion.

The ultimate costs of a plea deal in the Qatar case and any related suits are hard to gauge and likely to take years to emerge. Barclays isn't making fresh provisions and investors barely reacted. But make no mistake: This is a very significant case for Barclays and the U.K. authorities, which have a string of failed cases behind them. Both sides have much to lose.

—Paul J. Davies

Crisis Consequences

Stock performance of big U.K. banks over the past decade



Sources: FactSet; PA Wire/ZUMA Press (photo)

THE WALL STREET JOURNAL.

Former Barclays Chief Executive John Varley

OVERHEARD

Does this cheese go with that wine? You may think the best way to figure that out is to ask the local wine shop owner or cheese monger, but why do that when you can rely on the real experts: economists.

Wine-cheese pairing is just one of the heady issues that will be taken up at the annual conference of the American Association of Wine Economists this month in Padua, Italy.

Among the items on the conference menu: a paper on the social and economic impacts of mislabeling bottles and other "wine crimes" and a paper on young Italians' preference for sparkling wine.

Former Federal Reserve Chairman **William McChesney Martin** famously said the central bank's job was "to take away the punch bowl just as the party gets going." He probably didn't foresee what places economics might careen off to.

The Dark Side of Good News in Biotech

Deal making is a staple of the biotech industry, but betting on mergers and acquisitions is much harder than it looks for investors.

Fresh cancer data from **Clovis Oncology** illustrate this point.

The company announced Monday that its late-stage clinical trial for cancer treatment Rubraca was a success in patients with ovarian cancer.

Shares rose more than 46% Monday.

After the trading session, the company announced it would issue about $250 million in shares.

That celebratory mood didn't spread to every corner of the industry, however. Cancer-drug rival **Tesaro**, which received Food and Drug Administration approval in March for a rival treatment in a class of pharmaceuticals known as PARP inhibitors, initially sold off on the news, since a fresh competitor lowers its drug's scarcity value.

Tesaro's drug Zejula has "broadly similar" efficacy to Rubraca, analysts at **Leerink Partners** said Monday.

Tesaro shares reached an all-time high this past winter amid rumors the company could be a buyout target but have dropped by roughly 25% since then.

The Wall Street Journal reported last month that Tesaro was indeed exploring a sale, but that it had attracted lukewarm interest in preliminary stages.

Big pharma needs to find acquisitions to replenish its pipeline regularly.

The rapid pace of innovation makes it tricky for acquirers to place M&A bets, though.

Beyond the clinical data, looming policy uncertainty further complicates the outlook for biotech deals.

Shifting corporate tax rates, health-care policy and the outlook for high prescription-drug prices all should give acquirers pause before doing a splashy acquisition.

It remains possible that both Clovis and Tesaro will be acquired at the prices investors hope for.

But for investors, banking on that possibility is no guarantee of future riches.

—Charley Grant

Don't Bet on Australian Housing Market

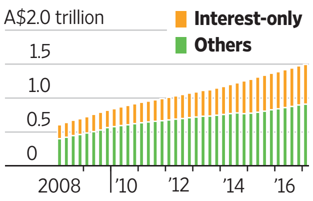
Chinese buyers have been gobbling up houses all over the world. There could be some nasty surprises when the buying stops.

There are already signs of pain for the global property market. Inquiries from China for foreign real estate fell 31% in the first quarter from a year ago, according to Juwai.com, a portal that connects potential Chinese buyers to listings overseas. For some destinations, the drop was bigger—42% for the U.S. and 39% for Australia.

The market Down Under looks vulnerable. China accounts for four in five foreign buyers in Australia, with their interest a reason why homes have surged to unaffordable levels: Prices in Sydney are up 72% since 2012.

Home Run

Australia's household mortgages



Note: A$1 billion = $762 million
Source: Australian Prudential Regulation Authority

THE WALL STREET JOURNAL.

Some are waking up to the potential trouble ahead, with Australia's household debt near 200% of disposable income. Moody's downgraded 12 Australian banks Monday, citing risks associated with housing, following a similar move by Standard & Poor's last month.

Worse still, nearly 40% of home loans now are interest-only. Such loans work fine when prices keep rising. The worry now is prices will fall as Chinese interest wanes: Meanwhile, homeowners who have had to pay only interest on mortgages could see a rise in payments as the interest-only period on their loans expires.

A demographer caused an uproar last year after chastising the country's younger generation for being unable to buy houses because they spent too much on things like avocado toast. Right now, instead of encouraging young people to jump into the housing market, it may be better to just let them eat the toast.

—Jacky Wong