

# THE WALL STREET JOURNAL.

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STOXX 600 385.82 ▼ 0.04%

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## What's News

Business & Finance

Booming demand for passive investments is making ETFs an increasingly crucial driver of share prices, helping to extend the eight-year U.S. stock rally. **A1**

The FCA issued a damning verdict on the \$7 trillion asset-management industry, criticizing weak price competition and bumper profit. **B1**

Market participants are stumped over what triggered the declines of up to 90% for a number of stocks in Hong Kong this week. **B1**

Co-op Bank said bondholders, including some U.S. funds that saved the bank from failure in 2013, are bailing out the bank. **B5**

Blue Apron expects to cut the pricing range for its IPO as it struggles to win over investors. **B5**

Toshiba filed suit to stop a business partner from blocking the sale of its semiconductor business. **B1**

Takata's U.S. units won approval for accords with car makers to help the parts supplier stay in business. **B3**

Alibaba said it is plowing an additional \$1 billion into e-commerce firm Lazada, raising its stake to 83% from 51%. **B3**

## World-Wide

In the 20 years since Britain gave Hong Kong back to China, a wave of immigrants from the mainland have flooded the city and adopted its culture. **A1**

Macron outlined changes to employment regulations in France, hoping to reinvigorate the country's economy. **A1**

India's plan to overhaul the complex tax structure is triggering strikes, protests and delays. **A3**

The newly appointed U.S. ambassador to China emphasized trade as he took the helm of an important diplomatic mission. **A3**

NATO said that allied military spending will rise about \$12 billion this year, moving in a direction pushed by Trump. **A4**

Senate Republican leaders postponed a vote on a health-care bill until after the U.S. Congress's July 4 recess. **A5**

Maduro said a helicopter dropped grenades on Venezuela's Supreme Court in a terror attack, but his claim is disputed. **A4**

Brazil's Temer vowed to remain president and fight the bribery charges filed against him. **A4**

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Health Bill Splits Old, Poor

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## WORLD NEWS

CAPITAL ACCOUNT | By Greg Ip

# Health Bill Draws Line Between Old and Poor



The health-care overhaul that Senate leaders floated this past week does more than roll back an entitlement Republicans have loathed since it was enacted in 2010. It portends a deeper struggle over the safety net that pits the elderly against the poor.

The federal government is now called an insurance company with an army. Thanks to aging and health-care inflation, the cost of that insurance is rising relentlessly. Social Security, Medicare and Medicaid now swallow 58% of tax revenue, and are on track to take 80% by 2047.

Heading off this fiscal collision is a task no politician relishes because of the ugly trade-offs required: whose taxes should rise? And if the answer is nobody's, then whose benefits should be cut?

In that regard, the Senate Republican plan to replace the Affordable Care Act could be a watershed. Not only would it enact among the steepest cuts to a pillar of the safety net in decades; by singling out Medicaid, it would signal that the burden of cost containment will fall largely more on the poor than the elderly.

Of course, this isn't the explicit intent of the Senate draft or the slightly different ACA replacement passed by the House of Representatives last month. Neither deals with Medicare benefits.

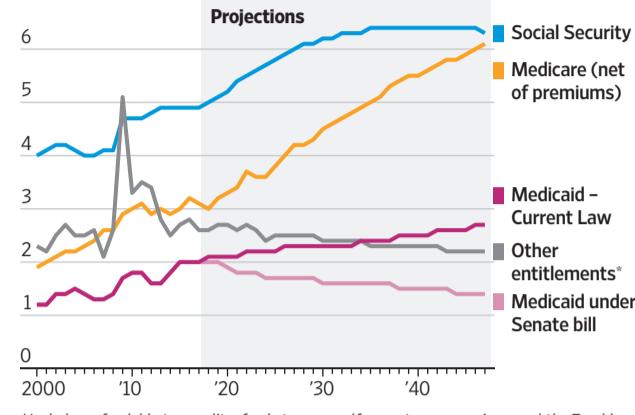
That omission, however, speaks volumes. In 2012, GOP presidential candidate Mitt Romney and running mate Paul Ryan (now speaker of the House) proposed converting Medicare from fee-for-service to vouchers, and federal Medicaid to a block grant. The aim was to arrest the growth of both open-ended federal obligations.

Donald Trump later deduced those promises contributed to the ticket's defeat, and so when he sought the Republican nomination, he promised not to touch Medicare or Social Security. Initially he also promised to spare Medicaid but that gradually receded from his pitch. When Mr. Trump's first budget was unveiled last month, it pledged to curb most safety-net programs including Medicaid and Social Security disability insurance but, at Mr. Trump's insistence, not Medicare or Social Security pensions.

The electoral dividend: the elderly are a growing and highly motivated part of

### Where the Costs Are

Social Security and Medicare as a share of GDP are growing much more rapidly than Medicaid, which would actually fall under the Senate proposal.



\*Includes refundable tax credits, food stamps, welfare, veterans pensions, and the Troubled Asset Relief Program; excludes ACA subsidies and Children's Health Insurance Program  
Sources: Congressional Budget Office; Committee for a Responsible Federal Budget (Medicaid estimates)

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the electorate. Indeed, the ACA was unpopular in part because former President Barack Obama curbed Medicare hospital fees and some Medicare insurance plans to help pay for it. Most workers pay Medicare taxes, and everyone regardless of income becomes eligible at age 65.

Thus, most Americans feel entitled to Medicare, creating an emotional bond that transcends party affiliation and background.

That bond is much weaker with Medicaid. Because touching Medicare is toxic, the entitlements debate has been shunted to Medicaid, "a less vocal more vulnerable population," says Marc Goldwein of the Committee for a Responsible Federal Budget, a fiscal watchdog group.

Still, while singling out the poor and walling off old-age entitlements may be politi-

cally shrewd, it is economically blinkered. Entitlements for the poor such as food stamps and tax credits are hardly out of control. As a share of gross domestic product, their cost has remained broadly stable. (Disability benefits are an exception.)

By contrast Medicare's costs are being pressured by both an aging population and the tendency of health costs to grow faster than general inflation. The Congressional Budget Office estimates federal Medicare spending will soar from 3.1% of GDP this year to 6.1% in 2047.

Roughly 8% of Medicaid's 70 million beneficiaries are elderly and they receive 16% of benefits; the rest are children, working-age adults and the disabled. So while aging contributes to the program's rising costs, the main factor is health-care inflation. Medicaid's costs are projected to rise from 2% of GDP this year to 2.7% in 2047.

The federal government funds about 60% of Medicaid by matching state spending.

Republicans note this reduces the incentive to control costs, since a state shoulders only 40 cents of each dollar of spending. Both the House and Senate health bills would replace the

matching formula with either a block or a per-enrollee grant. The financial impact, however, depends on how the grant is determined.

**S**tarting in 2025 the Senate would index per-enrollee payments to the overall inflation rate, a tougher cap than either Mr. Romney or the House contemplated. If the cap held, federal Medicaid spending in 2047 would fall to 1.4% of GDP, according to the CRFB.

Advocates argue this will encourage states to find more efficient ways to deliver care. Those opportunities, however, are limited. States will either have to replace the missing federal money themselves, or reduce benefits, restrict eligibility, cut fees to providers, or some combination thereof.

Mr. Goldwein says while Medicaid is unsustainable, fixing it will not correct "our structural deficit until we deal with Social Security and Medicare." Those two, he says, can be mended by paring back benefits for middle class and upper-income beneficiaries, which would encourage more to keep working.

Economic reality favors, eventually, just such a fix. But not while today's politics prevail.

## CHINA

Continued from Page One

China seven years ago for Tin Shui Wai, a cluster of apartment towers near Hong Kong's border with China. Ms. Pun, who works at a mall, speaks Cantonese now and uses a Hong Kong-sounding name.

Her experience shows how Hong Kong's identity might persist even as Beijing imposes its will. Preserving values grounded in the rule of law is crucial for the city if it hopes to push back, opposition figures say.

"Hong Kong and China have a divergent history when it comes to culture and values," says Joshua Wong, the 20-year-old activist who helped lead mass pro-democracy protests in 2014. "What makes Hong Kong unique is its rule of law, its Cantonese and other traditions."

Though Hong Kong is technically still a semiautonomous region, China is asserting its sovereignty. A visit by Chinese leader Xi Jinping for the July 1 anniversary of the handover is gearing up to be a celebration of mainland might.

China's one operational aircraft carrier will dock in Victoria Harbour for the first time; fireworks will depict Chinese characters in the streamlined style of the mainland rather than using Hong Kong's more

ornate forms.

Late Wednesday, police detained Mr. Wong and other activists who had been protesting Mr. Xi's arrival with a sit-in at a Hong Kong monument.

Chinese authorities have meddled in elections and use the nation's wealth to influence economic decisions. Chinese agents have secreted Hong Kong residents to mainland detention centers. The pro-democracy movement has been muted by prosecutions.

Hong Kong's incoming leader, Carrie Lam, who takes office during the festivities on Saturday, is under pressure from Beijing to introduce an anti-sedition law and a pro-China school curriculum—initiatives that were dropped in the past after they sparked protests.

But immigrant families leaving the authoritarian mainland can be more protective of Hong Kong's freer ways. At least two leaders of Hong Kong's student protest movement were born north of the border.

"Hong Kong people are not going to accept the values of the Chinese government," said Nathan Law, a 23-year-old activist who helped lead the 2014 democracy protests and whose family moved from the mainland when he was a child. Mr. Law was also among the activists arrested late Wednesday.

Many mainland students at Hong Kong's universities seek

to stay after graduation, students and professors said.

"They arrive in Hong Kong and can't believe the level of freedoms. They see students challenging teachers in the classroom and say, 'I want this for myself,'" said Jason Ng, an author who teaches law at Hong Kong University.

About a million Chinese citizens have moved to Hong Kong since the handover—roughly 13% of the 2016 population—and that inflow is regulated by Beijing. At the current rate, the percentage will be closer to

25% by 2041, according to government estimates.

Hong Kong's pro-democracy politicians want this "one-way permit" program ended. They say it smacks of China's use of migrants to dilute ethnic populations in remote regions like Tibet.

The city's government says these immigrants are needed to rejuvenate an aging workforce. Officials say the program is designed to bring together families, often Hong Kong men who have married mainland brides.

Hong Kongers often vilify mainland arrivals as interlopers who consume public resources and don't know how to behave—pushing in lines, spitting in public and mangling Cantonese are common charges. They blame nouveau-riché apartment buyers from the mainland for driving up property prices.

Videos of mainlanders behaving badly, such as one showing a couple allowing their toddler to urinate in public, often go viral.

Some mainlanders view Hong Kongers as spoiled first cousins who are miffed by the

sudden rise in mainland wealth. Hong Kong's malls often cater to mainland tourists first.

But there are reasons to believe these immigrants will adapt to Hong Kong life, rather than turn it into another Mandarin-speaking Chinese metropolis.

For mainland immigrants such as Ms. Pun, assimilation can mean a better job in a competitive city. Modern Hong Kong is a city of immigrants who left the mainland because they didn't like what was happening there. Its population surged as mainland Chinese fled poverty, famine and persecution under Communist Party rule in the last century.

Pollsters say Hong Kong's identity is getting stronger, not weaker. About 94% of residents between the ages of 18 and 29 say they are "Hong Kongers" rather than "Chinese," compared with 68% at the time of the handover, a Hong Kong University poll released this month showed.

In Tin Shui Wai, a cluster of tall apartment buildings, some new arrivals said they were motivated by wanting a better life rather than identity politics. Fitting in means enjoying the free schools, inexpensive government health care and infrastructure that are often better than what they had.

"It's the quality of life," said recent immigrant Bobo Mok, a 42-year-old mother of two.

## ETF

Continued from Page One

to raise interest rates from historically low levels.

Some also worry that investors are likely to dump ETFs if the market reverses course, and they note that this already has happened in a few instances.

On June 9, for example, when strong-performing technology stocks abruptly suffered their worst declines in nearly a year, trading volume in the PowerShares QQQ ETF—which tracks the Nasdaq-100 Index—surpassed \$15 billion and the ETF fell 2.5%. A day later, the ETF suffered an outflow of \$1.9 billion. Both the trading volume and withdrawal were the biggest moves in nearly a decade, according to FactSet.

ETFs haven't been the only factor pushing share prices higher, but Fed data show that ETFs are taking on a more prominent role as other buyers are showing signs of fading. A surge in corporate share repurchases helped lift the S&P 500 in recent years, analysts say, as many companies used buybacks as a way to boost per-share earnings even when profits weren't rising.

But U.S. corporate demand for stocks in the first quarter was the smallest in a year and a half, at \$136 billion, according to Goldman. A separate reading showed that S&P 500 companies repurchased \$133.1

billion of their own shares in the first three months of the year, down 18% from the year-earlier period, according to S&P Dow Jones Indices.

There are more than 1,800 U.S.-listed ETFs with nearly \$3 trillion in assets under management, offering push-button exposure to everything from 3-D-printing stocks to bonds issued by governments in emerging markets, according to data provider XTF. More than 1,300 funds and \$2.3 trillion are linked to stocks, while an additional 302 funds and \$500 billion are tied to bonds.

Actively managed mutual funds, run by stock pickers who choose shares based on

business prospects and valuations, have become sellers recently to meet redemption requests. These funds suffered \$985 billion in withdrawals since the start of 2009 through May, according to Morningstar.

Mutual-fund ownership of the U.S. equity market in the first quarter fell to 24%, the lowest since 2004, according to Goldman.

The rising popularity of funds that track indexes is providing a broad-based support for the market this year. Investors' preference for ETFs is steadily boosting how much these funds control big U.S. companies. U.S. ETFs held 5.4% of Apple Inc.'s shares as

of May, compared with 3.7% five years ago, according to XTF data. They hold 5.8% of Microsoft Corp.'s shares, up from 4%.

"There's this rising tide of buying that tends to drive the day-to-day action," said Michael O'Rourke, chief market strategist at JonesTrading Institutional Services LLC. "The market structure has definitely changed."

The rise of passive, index-tracking funds has been decades in the making, bolstered by evidence that active stock pickers struggle to beat broad market funds consistently.

Still, some analysts warn that the rise of ETFs threatens

to separate the market from underlying fundamentals because these passive investments buy an index, rather than focusing on stocks that are undervalued or benefiting from faster growth, as active managers do.

"As people pile in, it can make that entire market expensive," said Lance Humphrey, a portfolio manager at USAA Asset Management Co., who has accumulated about \$5.5 billion in ETFs in recent years.

Most investors say the test will come once multiple central banks pare back their stimulus efforts, which have suppressed interest rates to near historic

lows and made stocks more appealing. The worry is policy shifts could trigger bouts of volatility and prompt investors to take money out of ETFs.

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### Increasing Influence

How ETFs are gaining more U.S. equity market ownership

# WORLD NEWS

## India Braces for New Tax System's Rollout

Businesses complain they aren't ready for ambitious overhaul of complex structure

India's ambitious plans to overhaul the complex tax structure are triggering strikes, protests and delays as businesses say they aren't ready for the new system, which is set to start on Saturday.

By Corinne Abrams in Mumbai and Anant Vijay Kala in New Delhi

India has millions of tiny businesses that are going to be caught up in the tax net for the first time under its new goods-and-services tax. Most say they need more help and more time because they don't have the computers, the internet connection or even the basic knowledge of how much they owe.

More than 50,000 textile traders are on strike this week, shutting their shops for three days through Thursday, in Prime Minister Narendra Modi's home state of Gujarat to protest the tax, said Manoj Agarwal, president of the Federation of Surat Textile Traders Association.

"We will spend our time filing the returns instead of doing business," Mr. Agarwal said. "Some of our members even don't know how to operate a computer. How can they even file their returns?"

The Confederation of All India Traders said this week that about a third of the association's 60 million members still don't have a computer to



RUPAK DE CHOWDHURY/REUTERS

Textile merchants and workers in Kolkata on Wednesday protested the coming implementation of the new goods-and-services tax.

register on the government's tax network. It has asked authorities not to act against traders for lapses in compliance until March.

Another national association of businesses, the All India Manufacturers Organization, urged the government to allow small businesses more time to comply. The government has already relaxed the rules for filing returns for two months after implementation.

"This is going to be creating chaos," said K.E. Raghunatha,

than, president of the association.

While the long-delayed implementation of the goods-and-services tax—which different governments have been trying to pass for more than a decade—is seen as a positive step for the economy and a watershed moment for Mr. Modi, how smoothly it goes in the coming months could affect the prime minister's popularity as well as India's position as the world's fastest-growing large economy.

"It seems like a well-formed concept, but there could be lots of problems in implementation," said Bill Adams, an economist at PNC Financial Services Group.

Mr. Modi needs to avoid the kind of market disruption that came with his previous big economic move, the voiding of close to 90% of the country's currency late last year to fight corruption, counterfeiting and other crimes. It was a painful speed bump for growth and Indian citizens, who had to

stand in line for hours to exchange their old notes for new ones.

The government says businesses need to adjust because it plans to go through with the new tax system, which is expected to draw in millions of new taxpayers and provide vital funds for infrastructure, sanitation, education and health.

"The rollout of the Goods and Services Tax on July 1 will, in a single stroke, convert India into a unified, continent-sized

market of 1.3 billion people," Mr. Modi wrote in *The Wall Street Journal* this week.

There is a general consensus among economists, executives and policy makers that the new system will eventually bolster economic expansion, but they warn there will be some short-term pain for that long-term gain.

The government's crackdown on cash in November contributed to a slowdown last quarter, putting India's growth behind China's for the first time in two years.

Growth decelerated sharply to 6.1% in the three months through March, from 7% in the preceding three months. China's economy grew 6.9% last quarter.

The coming quarters could see a similar hit from GST, economists said.

Companies say they will be buying and investing less as they adjust to the new system that will require India Inc. to file billions of documents each month. This will likely hurt growth this year. The extent of damage will be determined by how quickly India's businesses and bureaucrats can adjust.

"It is a mammoth exercise and anybody looking for efficiency gains in the near term is going to be disappointed," said Radhika Rao, India economist at DBS.

Analysts expect the kinks to be worked out and India to be back to normal by the end of this fiscal year. Some economists predict it could eventually add close to 1 percentage point to India's growth.

—Debiprasad Nayak contributed to this article.

## U.S. Envoy Touts Trade With China

By JOSH CHIN

BEIJING—Newly appointed U.S. Ambassador to China Terry Branstad touted trade as he took the helm of an important diplomatic mission that has been mired in uncertainty under the Trump administration.

This month, David Rank, who had headed the embassy's work as chargé d'affaires since the departure of former Ambassador Max Baucus, resigned over the Trump administration's withdrawal from the Paris climate accord. Before that, staffers had complained of a lack of communication from Washington they said made it difficult to do their jobs.

U.S. diplomats have said they hoped Mr. Branstad's arrival would steady the ship. The former six-term Iowa governor, who endorsed Mr. Trump in the election, is one of a relatively small number of ambassadors to be formally nominated and approved under the new president.

Appearing before reporters with family members at the ambassador's residence on Wednesday, Mr. Branstad struck an optimistic tone, saying he hoped to work with China on issues like North Korea and trade.

"We recognize this is an important relationship between the two greatest economic powers in the world," he said. "We want to work together to denuclearize the Korean Peninsula."



THOMAS PETER/REUTERS

Terry Branstad spoke at his Beijing residence on Wednesday.

Mr. Branstad arrives at a time of uncertainty in relations between Washington and Beijing. U.S. President Donald Trump reversed course on earlier threats to launch a trade war with China in exchange for Beijing's help reigning in North Korea's nuclear-weapons program, but in recent tweets appeared undecided about that strategy. Other elements of U.S. policy in China, including human rights, have been left in the air.

In his remarks, which largely echoed a taped message published on Chinese video sites this week, Mr. Branstad said he had traveled to China several times before on trade missions and recalled welcoming Chinese President Xi Jinping on a visit to Iowa in 1985, when Mr. Xi was a local-level Communist Party secretary.

China's Foreign Ministry

refers to Mr. Branstad as an "old friend." Chinese government advisers say Beijing hopes his agricultural background and ties with Mr. Trump will make him a strong voice in favor of trade inside the administration.

Mr. Branstad concentrated most of his brief comments on trade, saying he hoped to help reduce trade barriers in a way that would both benefit Chinese businesses and increase U.S. jobs.

"Being the governor of an agricultural state, we sell a lot of soybeans and pork in China. We're excited about the trade expansion," he said, noting the recent resumption of U.S. beef imports into China. He also flagged a visit to Beijing later this week by U.S. Secretary of Agriculture Sonny Perdue, who he said was eager to work out a deal with China over rice imports.

Mr. Branstad was cautious when asked whether he intended to push China to allow Nobel Peace laureate Liu Xiaobo to seek medical treatment abroad. The dissident writer was diagnosed with late-stage liver cancer in May and recently granted medical parole.

"We Americans would like to see him have the opportunity for treatment if that could be of help," he said. "But it's important that we work together between our two countries to address these important human-rights issues."

Because of his relationship with leaders in both countries, Mr. Branstad said, "I hope I can be a go-between on these important issues."

U.S. ambassadors are closely scrutinized in China. Former President Barack Obama's first envoy, Utah Gov. Jon Huntsman, made waves by having a certain command of Mandarin, and later sparked controversy by showing up at a pro-democracy protest in Beijing. Mr. Huntsman's successor, former Commerce Secretary Gary Locke, was celebrated as a humble public servant after photos surfaced of him buying his own coffee and carrying his own luggage in the airport.

The most recent ambassador, Mr. Baucus, a former Montana senator, had a lower public profile, but was well known in diplomatic circles for dispensing with protocol and going off script in meetings with Chinese officials.

## U.S. Admiral Warns On Jihadists in Asia

By ROB TAYLOR

BRISBANE, Australia—The onslaught by Islamic State-aligned militants in the southern Philippines should be a wake-up call to Asia that battle-hardened jihadis returning from the Middle East are seeking to open new fronts in the region, the commander of U.S. Pacific forces said.

Adm. Harry Harris, in a speech to the Australian Strategic Policy Institute on Wednesday, said Islamic State was a "nemesis to humanity" that threatened to spread as it loses ground in Syria and Iraq.

Philippine troops have been battling insurgents linked to Islamic State for a month in Marawi city on the southern island of Mindanao. The insurgents have been seeking to create a caliphate, and governments across Southeast Asia and Australia have been watching with concern as militants from Indonesia, Malaysia, Yemen and Saudi Arabia join the fight.

"Marawi is a wake-up call for every nation in the Indo-Pacific," Adm. Harris said. "These terrorists are using combat tactics that we've seen in the Middle East to kill in the city of Marawi, in Mindanao, the first time ISIS-inspired forces have banded together to fight on this kind of scale."

Having traveled to Mindanao from Syria and Iraq, these militants are passing re-

sources and Islamist ideology to homegrown radicals, Adm. Harris said, having used another name for the group. He called for closer cooperation among nations in the region, including those with large Muslim populations, to confront the threat.

"The Philippines, Indonesia, Malaysia, Bangladesh, New Zealand, Australia and the United States could be a natural partnership with this purpose in mind," he said. "We

Harry Harris called Islamist radicalism in southern Philippines 'a wake-up call.'

can counter violent extremists organizations like ISIS collaborating with regional allies and partners that may have elements in their countries sympathetic to ISIS's cause."

Adm. Harris, known for his hawkish views on Beijing's muscle-flexing in the South China Sea, urged China to end its militarization of disputed atolls, which in the past he has called a "great wall of sand." He said Beijing was using its military and economic power to erode international stability and rules.

Adm. Harris issued a fresh call for China to do more to rein in North Korea's nuclear-weapons and missile program.

## WORLD WATCH

### SYRIA

#### Mattis Says Warning On Weapons Working

U.S. Secretary of Defense Jim Mattis said the Trump administration's warning to Syrian President Bashar al-Assad's government against using chemical weapons appears to have worked, at least for now.

Mr. Mattis said President Donald Trump's warning issued on Monday showed how seriously the U.S. took the threat of a chemical attack in Syria.

Mr. Mattis was also asked if Syrian forces could restart their preparations for a chemical attack. Mr. Mattis said: "You better ask Assad about that." He declined to say how confident he was that another attack could come, but said the U.S. would continue to monitor the Syrians' activity.

—Julian E. Barnes

### COLOMBIA

#### Rebel Group Gives Up Last of Its Weapons

The FARC rebel force relinquished the last of its weapons of war to United Nations monitors, ending its half-century of armed struggle even as many Colombians remained concerned about the implementation of a complex peace pact.

The Revolutionary Armed Forces of Colombia, or FARC, on Tuesday turned over the final tranche of the 7,132 weapons they agreed to give up under terms of a deal signed last year with President Juan Manuel Santos's government. The group's leader said the FARC would now become a political party.

"Goodbye to weapons, goodbye to war, hello peace," Rodrigo Londoño said.

—Kejal Vyas

### ISRAEL

#### U.S. Jewish Groups Slam Shrine Reversal

American Jewish groups criticized Prime Minister Benjamin Netanyahu's decision to suspend a plan to let nonorthodox Jews help administer Judaism's Western Wall shrine, accusing the leader of putting his political survival over their interests.

The criticism resurfaced long-standing tension between Israel's Orthodox Jewish authority and the Reform and Conservative movements in the U.S. that take a more-progressive approach to interpreting Judaism's laws and want equal standing in administering the faith and its holy shrines.

Rabbi Rick Jacobs, president of the Union for Reform Judaism in North America, canceled a planned Thursday meeting with Mr. Netanyahu.

—Rory Jones



WASHINGTON-BOUND: South Korean President Moon Jae-in, with his wife Kim Jung-sook, prepare to leave Seoul for the U.S., where he will meet with President Donald Trump at the White House.

## WORLD NEWS

# NATO Spending to Rise Further in 2017

BY JULIAN E. BARNES

GARMISCH-PARTENKIRCHEN, Germany—Allied military spending will increase about \$12 billion this year, the North Atlantic Treaty Organization said, moving in a direction pushed by President Donald Trump.

After years of decline, allied spending, excluding the U.S., began to increase slightly in 2015, with a more-substantial gain last year. The latest rise amounts to a 4.3% increase from last year, and military spending is up by \$45.8 billion since 2015, NATO Secretary-General Jens Stoltenberg said.

"We have shifted gears, the trend is up, and we intend to keep it up," Mr. Stoltenberg said Wednesday in Brussels.

The Trump administration has pushed for increased spending as a central part of its agenda, arguing that U.S.

allies aren't paying their fair share, though it isn't clear to what degree the pressure has persuaded Europeans.

Roughly a quarter of the increase this year is due to an 8% increase in military spending by Germany. Berlin announced its budget boost well before Mr. Trump's election, and German officials have said the increase isn't because of the current administration's demands.

Still, other allied pledges for more spending have come since Mr. Trump's call, and the 2017 increase is greater than last year's. In 2016, before Mr. Trump's election but under pressure from the Obama administration, European and Canadian military spending rose by \$10 billion, or 3.8%, from the previous year.

Bruno Lété, a defense expert at the Brussels office of the German Marshall Fund,



NATO chief Jens Stoltenberg in Brussels on Wednesday.

said Europe's defense budgets have been rising in the years after the allies made a 2014 pledge to reverse cuts in military spending.

Mr. Lété noted that as European governments try to boost spending that is below

the NATO goal of 2% of gross domestic product, budgets should rise more quickly.

While the spending agreements were made under the Obama administration, Mr. Lété said the additional spending was "a nice win for

Trump."

"Let's say that Trump perhaps has added a sense of urgency to the whole exercise," Mr. Lété said.

NATO officials have been delivering the message that the U.S. is serious about the need for increased military spending in Europe.

"I welcome the strong focus of President Trump on defense spending," Mr. Stoltenberg said. "It is important we deliver."

Speaking in Germany, U.S. Defense Secretary Jim Mattis said allies would discuss new national spending plans in Brussels on Thursday.

Mr. Mattis delivered a speech commemorating the 70th anniversary of the Marshall Plan, a package of U.S. financial support for Europe after the end of World War II that helped rebuild the continent.

Mr. Mattis said the U.S. commitment to defending Europe was ironclad, noting that Mr. Trump had this month endorsed a core NATO policy that an attack on one member is an attack on all—a tenet he had previously refrained from publicly supporting.

Evoking George Marshall, who was secretary of state under President Harry Truman as the U.S. helped Europe recover from the war, Mr. Mattis used the history lesson to indirectly deliver a message that Europe must help pay for its defense.

"Europe transformed from a security consumer into a security provider, something Marshall ardently desired, for he never envisioned that America would carry this burden alone. He knew from experience it had to be shared, both its benefits and its burdens," Mr. Mattis said.

## FRANCE

Continued from Page One

France's credibility in Europe. Mr. Macron says that unless the country brings its labor laws more in line with its European peers, he will struggle to push Germany and the eurozone's richest members to provide a larger financial backstop for the bloc to cushion against future shocks.

German Chancellor Angela Merkel signaled last week she is open to talking about some of Mr. Macron's more-ambitious demands, such as a eurozone budget and eurozone finance minister. But officials in Berlin still want to see evidence the youngest ever French president is making progress on labor reform.

Making deep changes to French labor laws proved too great a challenge for many of Mr. Macron's predecessor's.

The government of Socialist leader François Hollande, in which Mr. Macron served as economy minister, repeatedly scaled back attempts to change labor laws when faced with organized opposition.

To overcome the opposition, Mr. Macron is moving quickly to capitalize on his popularity among French voters. The National Assembly, where he won a commanding majority in elections this month, is expected next month to give the government the power to change employment regulations by decree, a procedure that reduces the risk of lengthy and divisive parliamentary tussles. The government will then negotiate the details of the decrees with unions over the remainder of

the summer, a period during which unions traditionally struggle to organize large strikes or demonstrations.

The radical leftist union CGT has called for a day of strikes and demonstrations on Sept. 12, but other unions are cautious and haven't yet launched nationwide efforts to oppose Mr. Macron.

"I am neither naive nor suspicious," Jean-Claude Mailly, head of the Force Ouvrière, said Wednesday in an interview with French daily *Le Monde*. "The negotiation isn't useless," he added.

Mr. Macron's wants to allow employers to negotiate deals with employees that would trump sectorwide rules on some working conditions. Other proposed measures include capping fines for unfair dismissals, merging different employee associations and limiting the time for employees to appeal dismissals.

The government also wants to change rules for determining whether an international company can justify layoffs in France. Currently, many companies are barred from laying off employees if a subsidiary in another part of the world is considered in good financial health.

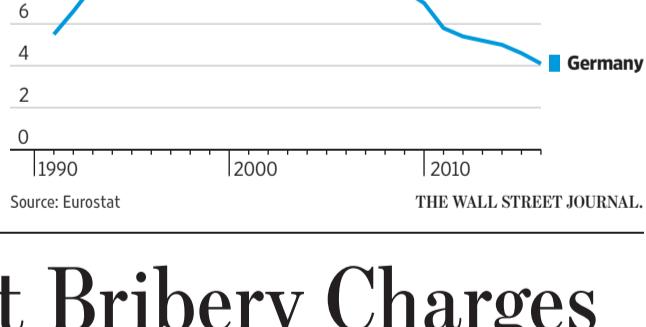
Business associations have saluted Mr. Macron's plans, saying they could encourage foreign investment and hiring at smaller French companies, who are reluctant to recruit because of the financial risks of layoffs and rigid work contracts.

"If Mr. Macron takes this through to the end, it will be a really deep reform of the labor code," said Baudouin de Moucheron, a senior partner specializing in labor law at Gide Loyrette Nouel.

## Lagging Labor Market

French President Emmanuel Macron is proposing changes to labor laws to close the jobs gap behind Germany and other European countries.

### Unemployment



SOURCE: Eurostat

Crowds gathered in the streets of the Venezuelan capital after a helicopter dropped explosives on the city late Tuesday night.

# Caracas Attack Charge Contested

BY ANATOLY KURMANAEV

AND JUAN FORERO

CARACAS, Venezuela—A police commando who is also a part-time film actor hijacked a helicopter from an air base and dropped explosives on this city before landing on the roof of an apartment building and disappearing, officials said.

President Nicolás Maduro called the Tuesday incident—in which there were no reported injuries or damage—a "terror attack" and deployed soldiers to the streets.

Opposition figures accused the president of attempting to divert attention from the government's efforts to weaken state institutions outside its control.

Officials identified the pilot as Oscar Perez, an officer who appeared in a 2015 local action movie "Suspended Death." In the film, Mr. Perez is portrayed flying a police helicopter and performing stunts.

Mr. Maduro said he had activated "the entire armed forces," after announcing on state television that four grenades had been dropped from a small blue helicopter.

The announcement came as

soldiers surrounded the opposition-controlled congress, clashing with lawmakers. The soldiers carried in boxes of equipment, which opposition congressmen said was a prelude to a government takeover of the building ahead of next month's plan to rewrite the constitution.

Opposition lawmakers were defiant, with Julio Borges, among the more prominent of Mr. Maduro's opponents, telling reporters, "Neither bullets, threats or attacks will throw us out of here."

The Supreme Court late Tuesday published a decision that gave investigative powers to the human-rights ombudsman, a close ally of the president. That potentially allows officials to usurp the powers of Attorney General Luisa Ortega, who in recent weeks had grown critical of the government and pledged to investigate corruption.

Mr. Maduro focused on the helicopter incident when he spoke before a group of pro-government journalists at an event carried live on national television.

"It could have caused a tragedy with several dozen

dead and injured," Mr. Maduro said.

The government said Mr. Perez's purported plot was hatched by the U.S. Central Intelligence Agency with the help of a retired Venezuelan general Miguel Rodriguez Torres, a former top ruling-party official who openly broke with Mr. Maduro this year.

**President Maduro calls incident a terrorist attack. The opposition disagrees.**

The government provided no evidence for the assertion and Gen. Rodriguez Torres called the attack "a stupid montage."

The president's many opponents believed the helicopter incident could have been orchestrated by the government to divert attention from Mr. Maduro's plans to rewrite the constitution next month and his attempt to weaken the attorney general.

"The helicopter is a diver-

sion that takes attention away from the Supreme Court decision, and allows the court to go after the attorney general and eliminate her," said Cliver Alcalá, a retired general and critic of Mr. Maduro's government.

The plan for a new constitution, which has helped fuel deepening unrest, is highly unpopular as it would close off the few legal avenues of dissent that remain to the country's opposition.

About 80 people have died in three months of constant protests against the embattled president, who has been unable to stop an economic free fall that has seen the economy nearly collapse, with inflation rising to 700% while food and medicine have become scarce.

The president has called a July 30 vote for a special assembly with powers to redraft the constitution, which opponents say would do away with the last vestiges of Venezuelan democracy.

The opposition and ruling-party dissidents such as Ms. Ortega, the attorney general, have vowed to boycott and fight the elections, which they say are unlawful.

# Brazil's Leader Vows to Stay On, Fight Bribery Charges

BY PAUL KIERNAN

AND PAULO TREVISANI

BRASÍLIA—Brazilian President Michel Temer on Tuesday vowed to stay in power and fight the bribery charges filed against him, inflaming a bitter political divide in a country battered by successive corruption scandals.

Mr. Temer, who was charged by the country's attorney general on Monday with accepting about \$150,000 in bribes and agreeing to take about \$11.5 million more, maintained his innocence and rejected the accusations as "fictitious." He also disparaged the evidence—contained in a plea bargain by Joesley Batista, the former chairman of meatpacking giant JBS SA—saying it came from a "confessed bandit."

"They want to stop the country, stop the government, in a political act, with fragile and precarious charges," Mr. Temer

said in a televised address, apparently referring to Attorney General Rodrigo Janot and his team of prosecutors. "When you're going to attack the institution of the presidency, it's necessary to have the utmost caution and have robust evidence, proof. The charges can't be an insinuation."

The charges and the president's defiant response escalated a conflict that has raged in Brazil's capital since Mr. Batista's allegations became public in May. On one side are Mr. Temer and the mostly conservative career politicians who make up his main support base.

On the other are prosecutors leading the most significant corruption purge in the country's history, allied, at the moment, with opposition legislators seeking to force a Brazilian president from office for the second time in little more than a year.

The two sides will face off over the coming weeks in Con-



President Michel Temer rejected claims as 'fictitious.'

gress, where two-thirds of legislators must vote to allow Mr. Temer to be put on trial before the Supreme Court for the case to go forward. If that happens, the president would be suspended from office for up to 180 days.

Many analysts believe Mr.

Temer currently has the political support he needs to stave off prosecution. "But new facts could emerge and change the scenario," said Thiago Vidal, a political scientist at Brasília's Prospective consulting firm.

Some of Mr. Temer's supporters cast the charges as an antidemocratic push by the attorney general and prosecutors. "It's not those who have voted who are calling the shots anymore," Sen. Jarder Barbalho said on Tuesday.

Opposition politicians seized on the charges, ridiculing Mr. Temer for becoming the first Brazilian president ever charged with a criminal offense while in office.

The distinction may be a fine one, however. President Dilma Rousseff was impeached last year and ousted from office on charges of manipulating the budget—a move she criticized as politically motivated.

"Result of the 2016 coup:

the country is left in the hands of the only [sitting] president charged with corruption," she said in a tweet Tuesday.

Mr. Temer and his staunchest allies rejected calls that he resign and call new elections, saying that would derail economic reforms at a time when Brazil is emerging from its deepest recession on record.

"In the year I've been in office, we've worked to lower inflation, to reduce interest rates, to create jobs...and for the end of the recession," Mr. Temer said. "I don't know how God put me here, you know, facing such a difficult task, but surely it was for me to finish it."

Opposition politicians, and many analysts, argue that a successful pension reform is increasingly unlikely in light of Mr. Temer's legal troubles and 7% approval rating.

"The country won't stabilize without elections. There's no way," said José Guimarães, a

Workers' Party congressman. "You will see when the charges land here, no lawmaker will stand up and make passionate speeches to defend Temer."

The charges against Mr. Temer are based largely on a taped conversation at the president's house in March with Mr. Batista. In it, the businessman is heard telling Mr. Temer of his various attempts to hamper investigations into his company, including by paying hush money to a jailed witness. Prosecutors say the president encouraged Mr. Batista measures and to encourage them to continue.

Federal police subsequently videotaped a close aide of Mr. Temer running out of a São Paulo restaurant with a bag containing about \$150,000 from Mr. Batista's company. Prosecutors say the money was intended for the president. Mr. Temer denied ever receiving illicit money.

## U.S. NEWS

# GOP Postpones Vote On Health-Care Bill

Amid discord in their own party, Republican leaders say more time on legislation is needed

By STEPHANIE ARMOUR AND KRISTINA PETERSON

Senate Republican leaders abruptly postponed a vote Tuesday on a sweeping health-care bill until after Congress's July 4 recess, setting off a high-stakes lobbying sprint that could determine the fate of the GOP's legislation to topple most of the Affordable Care Act.

Senate Majority Leader Mitch McConnell (R., Ky.), who worked for weeks in closed-door sessions to craft a bill, told lawmakers that a vote wouldn't happen until Congress returns from recess the week of July 10.

The delay came after efforts stalled to tweak the legislation and garner support from the nine Republican senators who now oppose the bill. The Republican opposition was significant enough that a routine procedural motion allowing the vote to proceed faced potential defeat.

In a test of his leadership, Mr. McConnell will now need to bridge a divide between conservative Republicans, who said the bill retains too many of the 2010 law's regulations to significantly lower premiums, and GOP centrists, who said the legislation goes too far in cutting funding to Medicaid.

From now until Congress's return from the recess, there is likely to be a run of deal-making, arm-twisting and lobbying, with voters voicing their opin-

ions in town-hall meetings, Republican leaders offering changes and organizations trying to sway senators on all sides.

The delay is a setback for both President Donald Trump and Mr. McConnell, who had promised a vote this week. On Monday, Sen. John Cornyn of Texas, the chamber's second-ranking Republican, tweeted that "I am closing the door" on a delay because "we need to do it this week." On Tuesday, asked if the door was back open, Mr. Cornyn tweeted, "Just a crack."

Still, Senate leaders took comfort from the experience of House Republicans, whose own health bill was initially declared dead. They were then able to regroup, bring it to the floor and pass it in May.

Senate Republicans said they must pass the legislation before Congress's August recess. If that doesn't occur, the path ahead would become more difficult and other parts of the GOP agenda would be at risk. Success, on the other hand, could boost momentum for other Republican priorities, such as a tax overhaul.

Republican senators said the delay had become unavoidable, especially after the nonpartisan Congressional Budget Office found the bill would result in 22 million more people uninsured in 2026, compared with the current law.

"It's the only way forward. People have issues that need to be addressed," said Sen. Bob Corker (R., Tenn.), who has said he has some concerns about the bill but hasn't come out against it. "I read the CBO report this morning at about 4

a.m., and as you go through it, it raises questions and they're legitimate."

GOP leaders will try to hammer out a compromise in the coming days.

"The hope is that we can at least have an agreement on what we can get enough votes on this week and turn to it when we get back," said Sen. Marco Rubio (R., Fla.). "It's possible. I can't tell you if it's likely until we know more about what options are to address people's concerns."

Others were less optimistic. Sen. Shelley Moore Capito (R., W.Va.), who objected to the level of Medicaid cuts in the bill, said senators are "coming at it from all angles." She said she isn't sure "how or if" Republicans can come together behind a final version.

Democrats said Republicans' struggles reflected the bill's underlying problems, particularly the fact that it would reduce health coverage while giving a tax cut to the wealthy.

"While I'm glad that Senate Republicans have delayed the vote on their health plan, this isn't cause for celebration," said Sen. Al Franken (D., Minn.). "This bill, which has been misguided from the start, needs to be thrown out."

Mr. McConnell's challenge is that the bill's GOP opponents come from both wings of his party, and appeasing one faction could harden the other side's resistance.

Conservative Sens. Mike Lee of Utah, Rand Paul of Kentucky, Ted Cruz of Texas and Ron Johnson of Wisconsin are pushing for more deregulation and lower premiums. Sen. Jerry Moran (R., Kan.) also joined the



Senate Majority Leader Mitch McConnell, a Kentucky Republican, said Tuesday he remained hopeful Republicans can reach a consensus on how to overhaul the nation's health system.

bill's opponents on Tuesday, saying the sprint to a vote should be slowed down.

Centrist GOP senators opposing the bill are especially concerned about cuts to the Medicaid program, including Sens. Susan Collins of Maine, Dean Heller of Nevada, Rob

Portman of Ohio and Ms. Capito.

Mr. McConnell can afford to lose two of the 52 Republicans in the chamber, with Vice President Mike Pence able to break a 50-50 tie. No Democrats are expected to support the health-care bill.

Securing the votes would be a major coup for the GOP president, who largely stayed on the sidelines of the Senate discussions until recently.

—Louise Radnofsky, Natalie Andrews, Byron Tau and Michelle Hackman contributed to this article.

## Disputes Stall Republican Agenda

By KRISTINA PETERSON AND RICHARD RUBIN

WASHINGTON—The Republican-controlled Congress is struggling to overcome intra-party fissures that have been expanding since the rise of the tea party in 2010, threatening to derail its legislative ambitions this year.

On Tuesday, Senate GOP leaders opted to delay a vote on their bill that would dismantle and replace much of former President Barack Obama's Affordable Care Act in the face of resistance among Senate Republicans over the bill's policy planks.

Just hours earlier, House Republicans decided to punt until after the July 4 recess on unveiling their budget for fiscal 2018—a necessary prerequisite for their push to overhaul the tax code—to iron out their own differences.

The delays bogging down marquee elements of the GOP agenda left Republicans and President Donald Trump with few legislative achievements after nearly six months in power. Republicans, who control the executive and legislative branches for the first time since early 2007, have dwindling time to make significant policy changes before 2018 midterm-election politics overwhelm the Capitol.

"It's almost like we're serving in the minority right now. We just simply don't know how to govern," said Rep. Steve Womack (R., Ark.).

Democrats, who are united in opposition to GOP plans, said Republicans' stalled agenda reflected GOP leaders' inability to wrest compromise



President Donald Trump, center, met with Senate Republicans in the White House on Tuesday.

from the dueling factions of their party.

"There's virtually nothing to show for six months of so-called Republican leadership" said Sen. Dick Durbin (D., Ill.)

The biggest setback Tuesday came in the Senate, where Majority Leader Mitch McConnell (R., Ky.) said he would move a vote expected this week on the GOP health-care bill until after next week's July 4 recess in the face of continued opposition from both centrist and conservative Republicans.

Lawmakers will now have to face energized opponents of their bill at home, compounding the challenge of securing the support of 50 GOP senators to pass the bill. After its own fits and starts, the House passed its version last month.

Asked about the possibility

that members could bolt over recess under pressure from activists at town halls, Mr. McConnell, emerging from a hastily called meeting at the White House with Senate Republicans, all but shrugged.

"Some members have town halls and some don't, we'll see what happens," he said.

Pushing the Senate health-care vote into July likely moves action on all of the GOP's other legislative priorities to later in the year. Most notably, the effort to revamp the U.S. tax system may slow as a result despite Republicans' insistence they can complete a major tax bill this year.

To get to a tax bill that can

also pass on a party-line vote, Republicans have to finish the health bill and then complete a budget resolution that unlocks

speedier procedures known as reconciliation for the tax bill.

Senate Finance Committee Chairman Orrin Hatch (R., Utah) said the longer the health debate, "the more difficult it is going to be to do true tax reform."

One other roadblock in the tax effort is the intraparty dispute slowing the progress of the House GOP budget.

Although House Republicans have agreed on the overall spending levels for military and nonmilitary spending for fiscal-year 2018, they remain divided over how big a cut to include for mandatory spending on big safety-net programs such as Medicaid, food stamps and welfare.

—Siobhan Hughes and Natalie Andrews contributed to this article.

## Nursing Homes Balk At Senate Measure

By RUTH SIMON

Nursing-home executives are intensifying their opposition to the Senate's health-care overhaul, concerned that the proposed multibillion-dollar cuts to Medicaid would gravely wound the industry.

Before Senate Republicans postponed a vote on the legislation Tuesday, a conference call organized by the American Health Care Association drew nearly 800 participants.

They were asked to contact their senators and representatives to discuss the bill's potential impact and to involve employees and family members of residents in the lobbying effort.

"This is the biggest threat that the sector has faced in at least 20 or 25 years," said Mark Parkinson, the trade group's president.

The call's high turnout is a sign of the concern over how the reforms could hurt the industry.

Medicaid covers expenses of more than 60% of the U.S.'s roughly 1.4 million nursing-home residents, according to the nonprofit Henry J. Kaiser Family Foundation.

At least 21% of Medicaid funding pays for nursing homes and other long-term-care providers. Nursing-home care typically costs \$82,000 a year per resident, according to Kaiser estimates.

LeadingAge, a national association of 5,600 nonprofit

nursing homes and other providers of aging services, planned to alert members on Wednesday to use the July 4 recess to set up meetings with legislators in their district offices and to invite them to communities to speak with residents.

"From our perspective, the recess comes at a great time," said LeadingAge Chief Executive Katie Smith Sloan.

Since January, LeadingAge members have sent more than 18,000 letters to Congress opposing the cuts.

"This is heads and shoulders above anything we have generated on any other issue, probably by a factor of 10," said Ms. Sloan. "The level of intense concern is acute."

The Senate bill would reduce federal spending on Medicaid by \$772 billion over the next decade, according to an analysis released by the nonpartisan Congressional Budget Office on Monday.

"Those are pretty deep reductions," said Barbara Lyons, a senior vice president at Kaiser Foundation.

"As states try to manage the deep reductions in federal Medicaid spending, it's hard to see how nursing-home facilities could escape," Ms. Lyons added.

States may respond by limiting eligibility for people who need long-term care, she said. They may also reduce payments, which could jeopardize efforts to improve care.



Senior citizens in a Cleveland suburb this month expressed opinions on Congress's proposed health-care changes.

By ELI STOKOLS

President Donald Trump's administration is moving ahead with plans to dismantle another piece of the Obama administration's environmental legacy, the rule that sought to protect clean drinking water by expanding Washington's power to regulate major rivers and lakes as well as smaller streams and wetlands.

The Environmental Protection Agency, Department of the Army and U.S. Army Corps of

Engineers are proposing a new rule that would rescind the Obama administration's Waters of the United States, or Wotus, rule and "recodify the identical regulatory text" that existed before its adoption in 2015, according to a press release sent out Tuesday afternoon.

That action, the agencies contend, would "provide certainty in the interim" while a new rule-making process is undertaken.

Coming almost a month after Mr. Trump announced

plans to withdraw the U.S. from the Paris climate accord, Tuesday's move is another sign the new presidential administration and the EPA under administrator Scott Pruitt intend to prioritize the economic concerns of industry and agricultural interests over environmental concerns and, more broadly, to erase significant pieces of former President Barack Obama's legacy.

"We are taking significant action to return power to the states and provide regulatory

certainty to our nation's farmers and businesses," Mr. Pruitt said in a statement.

Aimed at clearing up decades of jurisdictional and legal uncertainty and protecting more Americans' drinking water from contamination, the rule, which was tied to a provision of the Clean Water Act of 1972, greatly expanded the federal government's authority to limit pollution in major bodies of water like Chesapeake Bay and the Mississippi River, as well as in small streams and wetlands.



## U.S. NEWS

# Consensus Marks Supreme Court's Term

Impulse to compromise could wane following restoration of a conservative majority

BY JESS BRAVIN  
AND BRENT KENDALL

WASHINGTON—The Supreme Court term that ended this week was marked by caution emanating from the court's center, a dynamic that saw the justices move in a relatively modest manner as they sought consensus on high-profile cases.

The court's conservatives prevailed in most of the cases during the term, but their liberal colleagues—who lost the chance to direct the court's long-term trajectory following President Donald Trump's election—gave up more ground than they might have preferred, winning some influence over outcomes.

This move toward consensus could be seen in the term's two final opinions, which Chief Justice John Roberts steered in a way that produced decisions viewed as measured, foregoing rulings that conservatives would have championed as total wins.

This week, there were seven

votes to open a state grant program to church-run schools on the same terms as public and private schools; two of the most liberal justices, Ruth Bader Ginsburg and Sonia Sotomayor, dissented, but two other left-leaning justices joined the majority opinion.

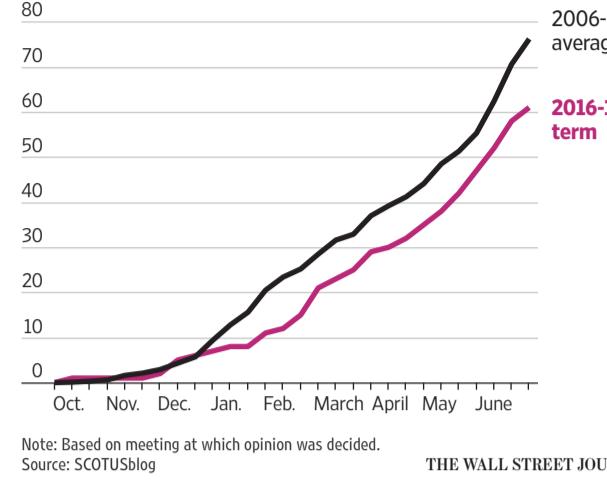
There also were seven votes—and not the same seven—to confine that decision narrowly to programs similar to the playground-resurfacing fund in dispute in the case. The justices left the "religious uses of funding or other forms of discrimination" for another day. Two deeply conservative justices, Clarence Thomas and Neil Gorsuch, dissented from that part, but other conservatives signed the majority opinion.

The same dynamic could be seen in the court's decision on Mr. Trump's temporary travel ban on residents of six predominantly Muslim countries.

Ahead of arguments next term over the ban's legality, the court allowed Mr. Trump to temporarily exclude "foreign nationals who lack any bona fide relationship with a person or entity in the United States." But it left intact lower-court orders blocking the president from categorically banning other foreign

### Behind the Curve

Number of Supreme Court opinions issued



Note: Based on meeting at which opinion was decided.

Source: SCOTUSblog

THE WALL STREET JOURNAL

citizens with qualifying relationships, such as those who have relatives, job offers or invitations to study in the U.S.

The majority opinion was unsigned. Justices Thomas, Gorsuch and Samuel Alito stated that they would let Mr. Trump's administration implement the full ban, making it clear that six other justices chose compromise.

The court's search for consensus on decisions intensified after Justice Antonin Scalia's death in February 2016. That

left the justices divided into four-member conservative and liberal camps for an extended period when Senate Republicans declined to consider then-President Barack Obama's court nominee.

Several justices have publicly said that a 14-month span with no natural majority on divisive issues forced them to search for common—and therefore, narrower—ground on which five or more of the eight could comfortably stand.

The court did find agree-

ment on some rulings that could have a considerable impact on the law, including in a unanimous decision that bolstered the rights of disabled students to expect more than a bare-bones education from public schools.

It also endorsed robust protections for free speech, notably in a case that found the government couldn't refuse to register trademarks that some may deem disparaging or offensive.

On the court's business docket, the justices in several cases tightened rules for where lawsuits can be filed against corporations, with little dissent.

It is unclear, however, whether the court's recent comity will continue when the justices reconvene in October. Mr. Trump's advisers said the president selected Justice Gorsuch because he believed his nominee would stake out sharply conservative positions rather than seek consensus, and so far he has met expectations.

Moreover, as conservatives grow more comfortable in their restored majority, the impulse to compromise on defining issues may fade.

"I think we could get a sense of the character of the court with Justice Gorsuch on

it very soon," said Vikram Amar, dean of the University of Illinois College of Law.

Already, the court has placed on the fall docket cases that trigger deeply held—and conflicting—legal views. The justices are set to decide whether the First Amendment allows a retail business to deny services to gay couples whose marriages offend the owner's faith.

At the center of the court stands Justice Anthony Kennedy, an appointee of former President Ronald Reagan whose maverick views on some issues, including abortion rights, same-sex marriage and capital punishment, have flustered fellow conservatives.

Through the spring, some Republicans hoped that Justice Kennedy, 80 years old, would retire this month, clearing the way for Mr. Trump to fill his seat with a more ideologically consistent conservative. Justice Kennedy hasn't announced plans to retire.

"It's going to be a very illuminating term for getting a sense of what the dividing lines on the court are at this point," said Leonard Leo, executive vice president of the Federalist Society, a conservative-leaning group, and an adviser to Mr. Trump.

## In San Francisco, Home Prices Take a Breather

BY LAURA KUSISTO

San Francisco, once the hottest housing market in the U.S., is now one of the coolest, in a reversal that could presage a broader slowdown if more buyers decide it isn't worth chasing rapidly rising prices.

Home-price growth continues to accelerate in many parts of the country, driven by a lack of supply and rising demand. The S&P CoreLogic Case-Shiller Indices, which cover the entire nation, rose 5.5% in the 12 months ended in April after a revised 5.6% year-over-year increase in March.

Prices in San Francisco increased 5% in April, making the Bay Area one of the slowest-expanding markets in the U.S. and well behind markets such as Atlanta, Boston, San Diego, Las Vegas and Phoenix.

San Francisco's apartment market also is sluggish. Average rents decreased 0.3% in the second quarter from a year earlier, according to data released this week by Reis Inc.

Economists said the weakening is being caused by a confluence of factors: slowing job growth, less demand from new buyers put off by high prices and, on the rental side,

an increase in new-apartment supply as developers try to cash in on a multiyear boom.

"If we had the same level of tech-job growth and this [new] supply, there probably wouldn't be an issue," said Conor Wagner, an analyst at Green Street Advisors, a research firm.

Technology-sector employment is still expanding, but at a much slower rate. Jobs in the technology, media and information sector had increased by about 15% two years ago, but now there is roughly 1% growth, according to an analysis of Bureau of Labor Statistics data by Green Street Advisors.

That means fewer highly paid workers are able to snap up pricey homes and rentals.

"Tech is growing more slowly than the rest of the economy, and tech has been the thing that has been driving the economy forward the last decade," said Ted Egan, chief economist for the city of San Francisco. "We are in the middle of a notable slowdown."

In many ways, San Francisco is a unique market. The average home price has more than doubled since 2009, according to Case-Shiller, mak-



Home prices in San Francisco increased 5% in April, making the Bay Area one of the slowest-growing markets in the U.S.

ing a slowdown virtually inevitable. The economy is overwhelmingly driven by the technology industry, unlike most other big cities.

But there are parallels with the rest of the U.S.

Economists, for instance, said the rate of price growth across the nation is unsustainable, and a significant slowdown in home-price gains or even falling prices in some places is expected, especially

if job growth slows.

The number of home sales in the Bay Area in February sank to its lowest level since 2008, down 3.5% from a year earlier and off 12.5% since 2015, according to PropertyRadar, a real-estate-research firm.

"You're just seeing the grinding higher of prices weighing on sales," said Madeline Schnapp, director of economic research for PropertyRadar.

Nationally, home prices hit

a record in September, and the pace of growth accelerated steadily through March. But in April, just seven of 20 cities reported greater year-over-year price increases than a month earlier.

"The question is not if home prices can climb without any limit; they can't," said David Blitzer, managing director at S&P Dow Jones Indices. "Rather, will home-price gains gently slow or will they crash

and take the economy down with them? For the moment, conditions appear favorable for avoiding a crash."

The price gains across the U.S. in recent years were driven by rising wages, a large demographic of people entering their 30s and looking to buy homes, and limited supply.

Economists have said they are concerned that price growth that continues to outpace income growth isn't sustainable.

## More Work, Less Sleep in the U.S.

BY SARAH CHANEY

Americans spent more time working and less time sleeping in 2016 than the year before, echoes of an improving labor market.

Americans on average spent four hours and 36 minutes working each weekday in 2016, up about eight minutes from a year earlier, according to the American Time Use Survey, released Tuesday by the Labor Department.

The report includes weekday habits of those 15 years old and older who work and those who don't, including aging Americans steadily leaving the labor force.

Despite that demographic pressure, the number of Americans working as a proportion of the overall population has been on the rise in recent years and was 59.7% in December.

Meanwhile, the average amount of time Americans spent sleeping fell by five minutes to eight hours and 30 minutes in 2016.

Some other highlights of how Americans used their time:

♦ Employed women are

working less, and employed men are working more.

Women with jobs spent an average of six hours and 22 minutes a day working in 2016, down nine minutes from 2015.

Employed men spent seven hours and 55 minutes working, a seven-minute increase from the prior year. Men's increased work hours signal that a healthier job market is stemming a tide of labor-force dropouts.

♦ Men who weren't employed spent seven hours and 37 minutes on leisure last year, about two minutes less than in 2015.

Women who weren't employed spent 10 minutes less on leisure in 2016 than a year earlier.

Both groups spent more time on household chores.

♦ Millennials worked more hours last year. In recent years, those born from roughly 1980 to 2000 had worked less and slept more.

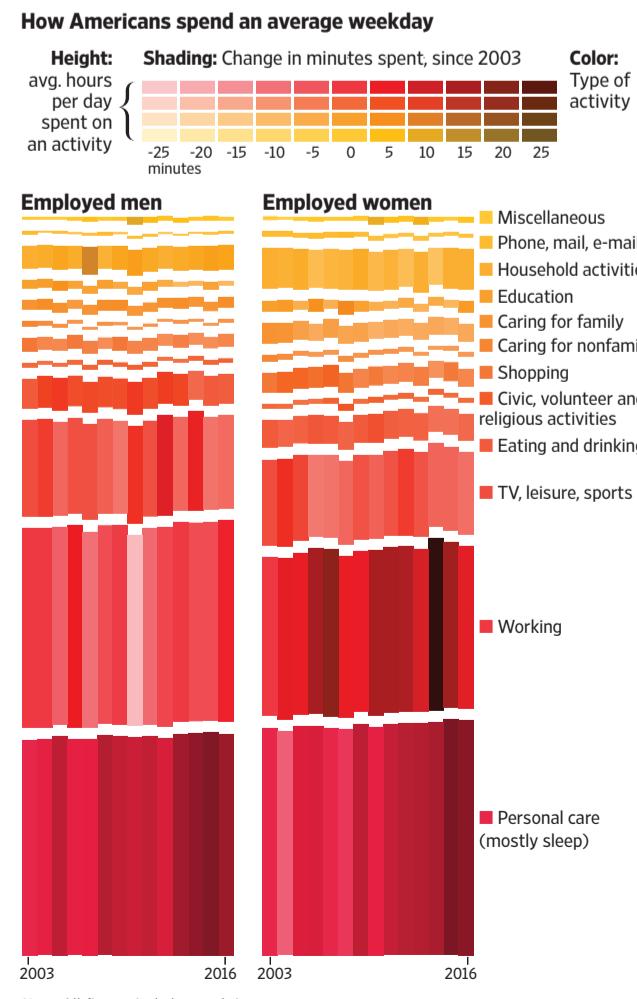
Millennials worked an average of four hours and 53 minutes in 2016 on weekdays, the highest level since 2011.

Nearly 10,500 people were interviewed for the 2016 survey, the Labor Department said.

### Whose Workday Is Changing

Amid overall growth in work hours in 2016, employed men and women saw different trends in how they use their time.

#### How Americans spend an average weekday



Note: All figures include travel time.

Source: Labor Dept. Sarah Chaney and Andrew Van Dam/THE WALL STREET JOURNAL

## U.S. WATCH

WASHINGTON, D.C.

### Two Rail Workers Killed by Amtrak Train

Two CSX Corp. workers died late Tuesday when they were struck by an Amtrak train in Washington, D.C., officials said.

The National Transportation Safety Board is investigating the incident.

Amtrak service between Washington and Philadelphia resumed Wednesday morning, but the national passenger railroad said trains would be operating at restricted speeds and that customers could expect delays.

The two workers were hit after 11 p.m. local time, a CSX spokesman said. The railroad didn't release their names or other details.

A statement from Amtrak said the incident involved Train 175 from Boston and New York. There were no injuries to the train's crew or the 121 passengers, Amtrak said.

The men struck and killed were a conductor and a trainee, according to a railroad-union official briefed on the incident. The men were believed to have stepped off a CSX train to respond to a device that sits alongside the tracks and detects overheating of a train car's axle, the official said.

—Scott Calvert  
and Ted Mann

## THE WEST

### Crews Fight Wildfires Across Several States

A wildfire burning through a dense Arizona forest forced hundreds of people from their homes, closed a major road and created a plume of smoke over the same area devastated by a blaze that killed 19 firefighters four years ago.

The fire near Prescott, fanned by 35 mile-per-hour winds, has charred more than 28 square miles. More than 500 firefighters were battling the blaze.

Elsewhere across the Western U.S., Utah firefighters braced Wednesday for more high winds as they try to slow a wildfire that has burned 13 homes and forced the evacuation of 1,500 people from a ski-resort town.

The Arizona fire forced the evacuation of the town of Mayer along with several other mountain communities in the area, and one of the main roads into Prescott was closed. Mayer has about 1,400 residents. The blaze is burning in chaparral that hadn't had a fire in more than 40 years, helping fuel its growth.

In California, crews were making gains against two new fires that spread quickly. Firefighters in Idaho battled five lightning-sparked wildfires burning in grass and brush.

—Associated Press

# LIFE & ARTS



## FOOD & DRINK

BY ELLEN BYRON

**BEER AND BELGIAN** waffles could be a delicious pair. So could ale and eggs.

So says Anheuser-Busch InBev NV, Harpoon Brewery, Dogfish Head Craft Brewery, Founders Brewery Co. and other brewers, who are rolling out morning-friendly beers and hosting brunches to entice people to consider beer at a new time of day.

Restaurants are finding that beer on morning cocktail menus appeals to diners who crave new flavor pairings or a lower-octane alcoholic beverage early in the day compared with traditional vodka or Champagne-based drinks. Around six in 10 Americans are likely to drink alcohol with their weekend brunch, and 21% say they drink beer at brunch, according to Nielsen CGA.

Pairing beer with food is on the rise, helped by new beer flavors, including fruits, spicy or tart notes and beers blended with juice, tea and soft drinks. In 2017, 26% of total U.S. beer launches were flavored beers, up 31% since 2013, according to Mintel.

"We're looking for occasions that beer isn't already a part of," says Christina Perozzi, education director for Goose Island Beer Co., owned by Anheuser-Busch.

The brewers' efforts to capture new beer drinking moments come as beer volumes are slipping in the U.S. and globally. Beer volumes, measured in 9 liter cases, fell 1.8% around the world last year, according to industry tracker IWSR.

Ms. Perozzi runs a training program with wholesalers to get them to persuade restaurants to offer beer at meals. She hosts a brunch of smoked salmon Benedict, orange French toast, and Greek yogurt with Goose Island's Sofie, a wine-barrel aged beer with orange peel and spicy white-pepper notes.

After biting into an eggs Benedict at a recent breakfast in New York, Ms. Perozzi sipped Sofie from a short stemmed glass. "The tannins of Sofie cleanse the creamy coating on your tongue," she says. "The saltiness of the hollandaise sauce pairs well, too." Ms. Perozzi acknowledges that brunch sweets,

## A New Eye-Opener: Beer for Brunch

Brewers try to break into the brunch game by offering new beer cocktails and flavored drinks; brewmosas and micheladas.



Six in 10 Americans are likely to drink alcohol with their weekend brunch. A recent brunch at Harpoon Brewery, above.

like maple syrup or whipped cream, can be challenging flavors to match with Sofie, but other fruit-flavored beers would work well.

"It's interesting that people ask how can beer pair with breakfast when really the Bloody Mary only pairs well with pulled-pork shoulder," she says.

Felipe Szpigiel, president of Anheuser-Busch's High End business unit, which includes Goose Island and Stella Artois says: "We want to make beer more sophisticated."

Jeanine Chan, a 45-year-old university program representative in San Diego, goes out for brunch

about twice a month, and in recent months started ordering beer instead of a mimosa. "I tend to go more savory with breakfast these days, and beer pairs better," she says. It goes particularly well with her latest favorite dish, chilaquiles, which includes corn tortillas, salsa, eggs, queso fresco, beans and Mexican rice. But beer with waffles, pancakes or cinnamon rolls? "No way," she says. "I would order a mimosa."

Nielsen CGA research shows that 45% of brunch drinkers would often order mimosa; 36% a Bloody Mary and 27% a champagne cocktail.

Andy Husbands, chef and owner of Tremont 647 in Boston, started promoting beer with brunch about four years ago, including a Harpoon IPA with a squeeze of fresh grapefruit juice. His latest cookbook includes a recipe for a michelada. "It's a Bloody Mary with beer," he says. "It's nice, light and refreshing."

Mr. Husbands says his restaurant's beer sales at brunch are on the rise in part because customers appreciate beer's lower alcohol content compared with cocktails made with spirits. "I'm a 47-year-old man—you give me two Bloody Marys and I'm taking a nap," he

says. "You can have a beer and still accomplish the honey-do list."

Last Sunday at 10 a.m., Harpoon Brewery in Boston hosted 130 attendees at a brunch of eggs, home-fries, huckleberry-candied bacon, pretzel bagels, fruit salad and its UFO Huckleberry beer. "You know it's the perfect brunch-time beer," the company says in its promotion for the \$40 ticket.

"I don't think that enough brewers have paid attention to the fact that brunch is now a significant drinking occasion," says Harpoon CEO Dan Kenary. "It's become a ritual where people sit at a table for extended periods, and a flavored beer really complements those brunch foods."

Dogfish Head Craft Brewery in Milton, Del., this year started offering brunch at its Rehoboth Beach pub every weekend after doing so occasionally for the last decade or so. Dogfish Head, long known for culinary-inspired beers, makes several breakfast-inspired versions, including its Beer for Breakfast stout, named after The Replacements song and brewed with maple syrup, roast coffee, and scrapple, a pork-and-spice mash. "That's the piece de résistance," says Sam Calagione, Dogfish Head's founder and chief executive.

On Thursday, Snooze an A.M. Eatery, a 20-restaurant brunch chain based in Denver, plans to introduce the Snooze Shandy, a cocktail of Belgian-style beer, lemonade, lime juice and spicy Ancho Reyes liqueur. The shandy joins beer cocktails including brewmosas and micheladas on Snooze's extensive "morning cocktails" list.

Founders Brewery Co. in Grand Rapids, Mich., makes breakfast stouts including a Kentucky breakfast stout, called KBS, which is brewed with coffee and chocolates and then cave-aged in oak bourbon barrels for a year. The brewery has hosted brunches featuring its breakfast stouts, but Dave Engbers, co-founder and president of Founders, says the beer drinks well any time of day.

"I'd say the vast majority of the beer probably isn't drunk at breakfast," says Mr. Engbers. "If it was, we wouldn't get a whole hell of a lot done in the day."

FROM TOP: F. MARTIN RAMIN/THE WALL STREET JOURNAL (4); SIMON SIMARD FOR THE WALL STREET JOURNAL

## FILM

# THE CURIOUS CASE OF SPIDER-MAN'S AUNT MAY

BY MICHAEL SALFINO

**SPIDER-MAN** hardly ages, no matter how many times Hollywood reboots the famed webslinger.

His Aunt May? That's another story.

As "Spider-Man: Homecoming" heads to North American theaters on July 7, Spidey's dear old aunt continues her Benjamin Button-esque reverse-aging process. Fans of the Stan Lee comic book first met the gray-haired woman in the 1960s. She looked much the same in her screen debut, in 2002's "Spider-Man." Actress Rosemary Harris was 74 the day that film opened.

Fast-forward to 2012. The first reboot, "The Amazing Spider-Man," brought audiences Sally Field as Aunt May. She was 65 on opening day.

Which brings us to Reboot No. 2. Now the orphaned young superhero, played by Tom Holland, is looked after by an Aunt May, played by 52-year-old Marisa



Tomei. Audiences already have briefly seen this iteration of the character flirting with Robert Downey Jr.'s Iron Man during her cameo in the 2016 release "Captain America: Civil War".

The new family dynamic was something producers thought would give Peter Parker a more re-

latable life. "We wanted to show a new version of Aunt May who is more like a single mom," said Kevin Feige, president of Marvel Studios and a producer on "Homecoming."

That's in keeping with the way Aunt May was portrayed in the Ultimate Spider-Man series in the

2000s, according to Mark Giacchino, author of an upcoming Spider-Man book and co-host of Amazing Spider-Talk podcast. The writer of that series, Brian Michael Bendis, patterned a 50-something Aunt May after his mother. "So this is an updating of his entire universe, versus having Spider-Man worried about getting Aunt May her heart pills," Mr. Giacchino says.

The metamorphosis of Aunt May could open the door to accusations of Hollywood ageism. But some close observers have said the current version makes her stronger and less vulnerable.

"In the comics, Peter was always protecting her it was like his second mission, which could supersede his first mission of 'with great power comes great responsibility,'" says Washburn University adjunct sociology instructor Ora McWilliams, who has written about Aunt May.

It makes a lot more sense that Peter Parker's aunt would be in her early 50s, given that Spider-

Man is again a high-school student. "She's more like Grandma May as originally conceived," says Harvard Kennedy School lecturer Chris Robichaud, author of an upcoming book on superheroes and philosophy.

Mr. Robichaud, while cautioning that we won't know how the character is written until the movie is released, anticipates that Aunt May will be more a mother rather than a damsel in distress. "A more modern woman. Headstrong. Not the clueless, fragile character that in the comics made a series of bad romantic choices." (Most notable among these: almost marrying supervillain Dr. Octopus.)

Some fans who were initially skeptical of a younger Aunt May have embraced the idea of the change. "As long as [the filmmakers] get the core relationship between Peter and May right, fans will be happy regardless of her age or appearance," says ComicBook-Movie.com editor Josh Wilding.

—Ben Fritz contributed to this article.

## LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

# Which Airlines Pad Their Schedules the Most?

U.S. carriers have added more cushion to account for weather delays—and to climb DOT rankings for on-time arrivals

**TODAY'S POP QUIZ:** If Delta and American both have flights from Dallas-Fort Worth to Detroit leaving at 11 a.m., and both flights take 2 hours, 53 minutes to get to the gate in Detroit, which one is late?

The answer: American Flight 43. American schedules that trip at two hours, 38 minutes. Delta Flight 653 is scheduled to make the trip in two hours, 47 minutes, with nine minutes of extra cushion. The same travel time could leave American 15 minutes late—tardy in Transportation Department statistics. Delta, only six minutes overdue, would be on time in the eyes of DOT.

On average, Delta schedules trips with five minutes more padding than American, helping Delta place higher in on-time performance rankings, according to DOT data.

Every airline gives itself extra cushion in its schedule to account for weather delays, mechanical repairs, air-traffic control slowdowns and a thousand other things that leave planes and passengers stewing. It may not seem this way to casual travelers, but airline schedules are quite precise. They're planned to the minute based on seasonal winds, time of day, aircraft type and historical performance.

Yet airlines disagree on how much cushion feels right. Delta and United add more padding into schedules than American and Southwest, according to DOT data comparing scheduled time with actual gate-to-gate time.

The padding is only one factor in airline performance, but it makes a difference. In 2016, 86.5% of Delta domestic flights arrived on time under the DOT's definition, which is at the gate within 14 minutes of scheduled time. That was best among the four biggest U.S. carriers. United was second at 81.7%, according to DOT. Southwest had an 80.8% on-time arrival rate, American 79.4%.

Among airlines, on-time performance is a competitive battle. Advertising as an on-time leader has



ILLUSTRATION BY MIKE GORMAN

benefits: Reliability matters to frequent fliers. Several airlines pay employees bonuses based on on-time arrivals. Some now promise rebates to top corporate clients if they don't beat competitors in punctuality.

DOT data show Delta has increased its schedule cushion every year since 2009. This year through April, the most recent month available, Delta's flights have been scheduled about nine minutes longer than they actually took, on average. That's about a 6% cushion.

In 2009, Delta's schedule employed just two minutes of padding, on average, or 1.4%. That year only 78.6% of Delta flights arrived on-time, according to DOT.

Many changes drove Delta's op-

erational turnaround. The airline hasn't only improved on-time performance, but also dramatically reduced cancellations. Better-managing maintenance and employees played a major role.

Delta says a big shift for the airline came in 2011, when it decided to focus on its rate of arrivals at the scheduled minute, not the 14-minute cushion DOT offers. That's a tougher standard, but one that increases reliability, helps customers make connections and prevents traffic jams at big hubs.

The airline says it increased scheduled time and decreased ground time for planes. Often airlines bolster ground time, so a 10-to-15 minute delay doesn't impact the next flight. Delta chose the

opposite approach: increasing scheduled time—what airlines call block time, so 80% or more of its flights arrive exactly on schedule, then shortening ground time between flights.

"We think this is the best combination for Delta Air Lines and our customers," says Dave Holtz, senior vice president operations and customer care. "If higher reliability is a bad thing, someone's got to prove it to me."

Schedule padding has been on the rise overall, but it's not as extreme as many travelers suspect. In 1997 and 2007, scheduled time for domestic flights almost matched the actual time they took. Schedules were within 1% of actual flight times. By 2012, that average

for all airlines was up to 3%. Last year, the average scheduled time for domestic flights last year was 145 minutes, but actual gate-to-gate time of 140 minutes. That's a 4% cushion.

Congestion at busy airports has played a role, along with more bad weather. If you study a single flight over a number of days, the difference between the longest and shortest trip has widened, says Tracy Lee, United's vice president of network operations. As airlines have planned for that variance, scheduled trip times have gone up.

"I think everybody is higher than they used to be, and that's because we really don't have a choice," Mr. Lee says.

Every minute added to schedules can increase costs: higher crew pay for trips at many carriers, more planes and gates needed to fly the same number of trips. Adding one minute to every flight costs United \$10 million in annual expenses.

The changes Delta made influenced United, Mr. Lee says. United ran its average schedule buffer up to about nine minutes, or 5% padding, in 2015 as it worked to boost on-time performance. Last year, the padding increased more, to an average of 10 minutes per domestic flight. With operations running more reliably, United trimmed 90 seconds off every flight last fall, Mr. Lee says.

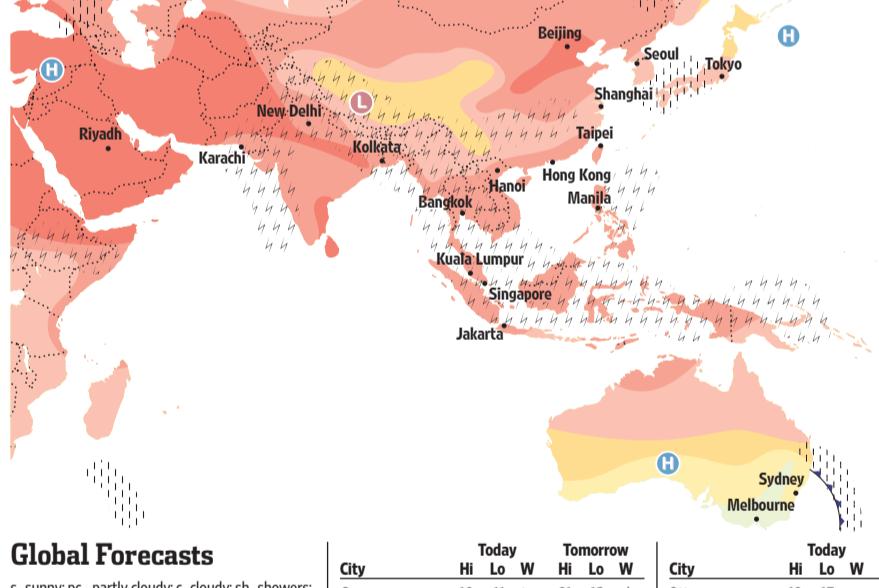
Hawaiian, Alaska, Virgin America and Spirit are the stingiest on padding schedule minutes, according to an analysis of DOT data.

American's schedule also runs lean: four minutes, or just over 2.5%, for its average domestic trip.

American says it has been working to reduce delays and run more on time, but has resisted the temptation simply to add minutes to its schedule. American internally focuses on on-time departures more than arrivals.

"The schedule should be an accurate reflection of what it's going to take to operate that flight," spokesman Josh Freed says.

## Weather

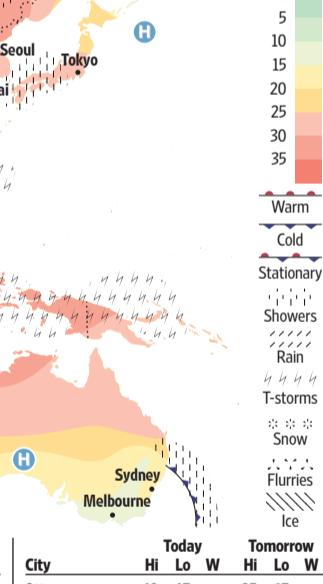


## Global Forecasts

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

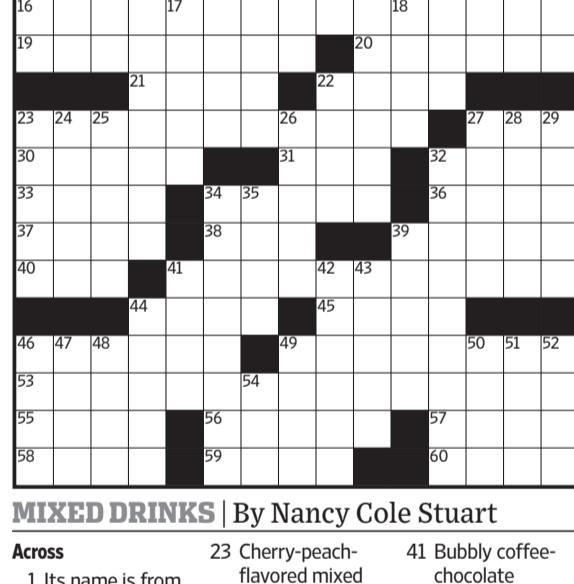
City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	20	15	sh	20	14	sh
Anchorage	14	10	r	16	11	c
Athens	36	26	s	39	27	s
Atlanta	26	21	t	28	22	t
Bahrain	46	29	s	46	30	s
Baltimore	33	21	s	34	23	pc
Bangkok	34	27	t	34	26	t
Beijing	35	23	pc	37	24	s
Berlin	21	15	r	21	14	sh
Bogota	19	10	r	19	9	c
Boise	29	14	s	32	16	s
Boston	27	20	pc	30	21	pc
Brussels	22	14	sh	21	12	sh
Buenos Aires	16	6	s	17	5	c
Cairo	37	24	s	39	25	s
Calgary	21	10	c	24	12	pc
Caracas	30	25	pc	31	25	pc
Charlotte	31	19	pc	30	21	t
Chicago	29	20	t	27	18	r
Dallas	35	26	pc	36	25	pc
Denver	29	10	sh	26	11	pc
Detroit	30	20	t	29	21	t
Dubai	46	33	s	43	32	s
Dublin	14	10	sh	16	8	c
Edinburgh	14	11	r	17	9	c
Frankfurt	22	14	r	23	14	sh

## AccuWeather.com



City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	19	11	t	21	13	sh
Ottawa	19	17	r	25	17	c
Paris	21	14	pc	20	13	sh
Havana	32	23	pc	32	24	sh
Philadelphia	32	22	s	34	23	pc
Hong Kong	33	28	pc	32	28	sh
Honolulu	30	23	s	29	23	pc
Houston	32	26	t	33	26	t
Istanbul	31	25	s	34	24	s
Jakarta	32	24	pc	31	24	t
Johannesburg	18	3	s	18	3	s
Kansas City	31	20	t	28	15	pc
Kuala Lumpur	35	23	pc	37	24	s
Kolkata	34	27	t	34	26	t
Las Vegas	41	27	s	42	28	s
Lima	21	17	pc	21	17	pc
London	20	13	c	21	13	pc
Los Angeles	25	17	pc	27	17	pc
Madrid	24	11	s	23	12	pc
Manila	33	26	t	34	26	t
Melbourne	13	7	sh	12	2	pc
Mexico City	23	16	t	22	13	t
Miami	32	26	t	33	27	pc
Milan	26	15	t	25	14	t
Monterrey	37	24	pc	37	22	pc
Montreal	21	16	r	24	18	sh
Moscow	22	15	pc	27	17	r
New Delhi	31	28	r	30	27	r
Nashville	30	22	t	30	22	t
New Orleans	32	26	t	32	26	t
New York City	30	22	pc	31	24	t
Washington, D.C.	33	23	s	34	25	pc
Zurich	21	11	t	22	11	sh

## The WSJ Daily Crossword | Edited by Mike Shenk



### MIXED DRINKS | By Nancy Cole Stuart

Across	Down
1 Its name is from the Mongolian for "waterless place"	28 Brother of Miriam and Moses
5 Short-on-the-sides hairstyle	29 ELO frontman Jeff
9 Plays for fun	32 Measure for radiation between microwaves and infrared light
13 "Can you break ___?"	34 Vegas performer
14 Try to buy	35 Bench-pressing target
15 Detachment	39 Microscope part
16 Brewed citrus mixed drink?	41 One may be brought to order
19 View from the Rock and Roll Hall of Fame	42 Cheaper
20 Violently stormy	43 Light circlers
21 Coolidge or Wilson	44 Irritated state
22 Jane Rochester's maiden name	46 Run in place
23 Cherry-peach-flavored mixed drink?	47 Broadway's Esparza
27 James Dean's "East of Eden" role	48 Cologne container
30 Blessing prompter	49 Site of la Torre Pendente
31 Wasted	50 Nephew of Caligula
32 Aid for those who wait	51 First fratricide
33 Stir up	52 Plus-size supermodel
34 Design info	54 Summer Olympics host between London and Tokyo
36 Secure	55 Stop lying
37 Princess Charlotte's great-aunt	57 Prune, e.g.
38 Cool, in jive talk	58 Parisian pronoun
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## OPINION

### REVIEW & OUTLOOK

## The GOP's Schumer Option

**S**enate Republicans on Tuesday delayed a vote on their health-care bill until after the July 4 recess, and the timidity and opportunism of too many Senators suggest they may never get 50 GOP votes. We hope they understand that if they fail, Republicans will be entrusting their political health-care future to the brutal generosity of Democratic Leader Chuck Schumer.

The idea persists in some media and GOP ranks that if the Senate bill dies, this will produce a blossoming of bipartisanship. The left will have been repudiated by ObamaCare's woes, and the right by the GOP Congress's failure. Everyone can then sit down in the glorious middle and work out a compromise. It's a lovely thought—like peace on Earth and the end of original sin. It is also a fantasy.

If Republicans fail, Democrats will have zero political incentive to cooperate except on their policy terms. Americans know that Republicans run Congress and the White House, and that they promised to do something about the problems of ObamaCare. Do Republicans really believe voters in 2018 will blame GOP failure on the President who left town two years ago? Democrats can tell you how well that strategy worked in 2010.

Then there's who Republicans would negotiate with—and over what. Last week Governors John Kasich (R., Ohio) and John Hickenlooper (D., Colo.) offered a five-point bipartisan reform outline that was laughable in its lazy generalities: "Improve affordability... Restore stability to insurance markets."

Well, sure, but how? Reaching these goals requires hard policy choices on which the parties are philosophically divided. Democrats want to stabilize markets with more taxpayer money and federal rules. Republicans want to deregulate markets and let insurers offer more plans that better suit the variety of insurance con-

sumers. Democrats want to expand Medicaid to cover ever-more Americans. Republicans, or at least most of them, want to put Medicaid on a budget to provide better coverage to the neediest.

When Senate Republicans reached out to Heidi Heitkamp this spring to negotiate on health care, the North Dakota Democrat told Politico she had these demands: No per capita Medicaid block grants to the states and no rollback in ObamaCare's Medicaid expansion. And that was merely "the price of admission for me sitting down." Ms. Heitkamp is the second most conservative Senate Democrat after West Virginia's Joe Manchin.

Ms. Heitkamp would never get a real chance to negotiate in any case. If their current effort fails, Republicans would then need 60 Senate votes to pass anything, and that gives Mr. Schumer the whip hand. His price for cooperating would include the Medicaid status quo; preserving the individual and employer mandates; tens of billions in higher subsidies to lure insurers back into the failing exchanges; and probably a limit on the policy flexibility the Trump Administration could allow states.

Does that sound like something Rand Paul might support? Or Mike Lee? The more conservative Republicans who defect, the more Mr. Schumer would demand in return for more Democratic votes. Majority Leader Mitch McConnell would have to scramble to find even 15 Republicans to vote with Democrats as the GOP majority splinters.

This is the Senate reality, not some Kasich Kumbaya circle. Republicans can either set aside their narrow self-interest and fix ObamaCare on their terms, or they can collapse in disarray and bail it out on Mr. Schumer's. In 2018 they can defend an accomplishment or try to explain away a failure. Americans will know the difference.

## Supreme Court Religious Bonus

**G**ood news: Monday's U.S. Supreme Court ruling on religious liberty was even better than we thought. The Justices ruled 7-2 that a church could not be banned from a public benefit program merely because it is a church. On Tuesday the Justices extended that principle by overturning a ruling that struck down Colorado's school-voucher program on religious grounds.

In 2011, Colorado's Douglas County adopted a Choice Scholarship Program to let 500 students attend a local private school. But groups including the American Civil Liberties Union sued. The Colorado Supreme Court killed the program citing the state's version of the Blaine Amendment, one of many state anti-Catholic laws from the 1800s to prevent public money from funding religious schools (*Doyle v. Taxpayers for Public Education*).

The Douglas County School District and the Institute for Justice, which represents three families in Colorado, appealed to the Supreme Court in 2015, but the Justices held the petition pending the resolution of *Trinity Lutheran v. Comer* on Monday. On Tuesday the Court vacated and remanded *Doyle* to the lower court for reconsideration in keeping with *Trinity Lutheran*'s holding that Missouri's application of the Blaine Amendment violated the First Amendment's Free Exercise Clause.

The High Court typically vacates and remands only when the Justices think there is a

### The U.S. Justices extend their Blaine ruling to school vouchers.

"reasonable probability" that the lower court got it wrong. Colorado's do-over is a warning to other states that might use Blaine Amendments to derail school choice programs that threaten teachers unions and the public school monopoly.

The win comes at a good time for school-choice advocates who have been building momentum in the states. In May three families successfully challenged a Montana rule that prevented a voucher program from being used at religious schools. On Monday the Georgia Supreme Court unanimously upheld a program of tax credits for scholarships to some 13,000 students to attend private schools.

School choice is spreading because parents want the chance to get their child a better education than they receive in local public schools. Sometimes that enhanced opportunity is offered by religious schools, and the First Amendment doesn't allow the state to discriminate on the basis of religion.

Judicial liberals have interpreted Monday's *Trinity Lutheran* ruling as applying only to school playgrounds. But in his concurrence Justice Neil Gorsuch wrote that the Court's playground decision should be understood broadly because jurisprudence must be governed by general principles. "The general principles here do not permit discrimination against religious exercise," he wrote, "whether on the playground or anywhere else."

## An American Insurance Shakedown

**N**ew Jersey Governor Chris Christie made his reputation prosecuting political corruption, but he now sees nothing unseemly about shaking down the state's largest health insurer to backfill the budget and fund new anti-opioid spending.

The lame-duck Governor has given up fixing New Jersey's tax-and-spend culture, but he still hopes to achieve some success rehabilitating drug addicts. That's laudable. But since the state is short on cash, he's bludgeoning the not-for-profit Horizon Blue Cross Blue Shield to pay the bill.

Horizon is the state's sole health-services corporation, meaning it pays state and federal taxes—\$543 million last year—but doesn't make distributions to shareholders. The insurer covers about 3.8 million Garden State residents, including 900,000 Medicaid recipients and controls about 55% of the individual market.

In February Mr. Christie demanded that Horizon hand over \$300 million annually of its \$2.4 billion reserve to expand addiction treatment. Many states are expanding rehab programs with Medicaid funds and taxpayer dollars, and the Republican U.S. Senate health-care reform includes an additional \$2 billion for opioid treatment.

Mr. Christie accuses Horizon of maintaining an excessive surplus—in New Jersey, any surplus appears excessive—but Horizon's reserve hews to industry standards and is smaller on a risk-adjusted basis than those maintained by most state Blue Cross Blue Shield affiliates.

A healthy cushion is particularly critical amid ObamaCare uncertainty. If the federal individual mandate is lifted while New Jersey main-

### A U.S. Governor ramps up his cash raid on a state health nonprofit.

tains a guaranteed-coverage requirement, the reserve could prevent premiums from soaring.

When Horizon undershot the Governor's bid by offering \$135 million, Mr. Christie began targeting the insurer in terms that recall Barack Obama's tirade against Wellpoint for raising premiums after ObamaCare passed. Last week the state

Department of Human Services, which answers to the Governor, slapped Horizon with a \$15.5 million fine for mishandling Medicaid claims and misreporting its finances. Horizon disputes the charges.

Now Mr. Christie is offering schools a \$125 million boost if Democrats turn Horizon into a public charity. The state Senate this week is debating legislation that would give the Department of Banking and Insurance wide latitude to determine if Horizon has breached its "charitable commitment." If the state insurance commissioner deems that its reserve is "inefficient," Horizon would be required to produce a plan to "improve the overall health status of all New Jersey residents" that would include "responding to emerging health care issues in New Jersey" like substance abuse.

To add injury to insult, Democrats are also proposing to deem Horizon "an insurer of last resort." The designation would require the insurer to cover the state's sickest patients without compensation from other insurers or the state. Horizon would have no choice but to increase premiums to comply.

Mr. Christie's raid is a tax and regulatory mugging masked as public charity. If this succeeds, is any business or nonprofit—perhaps Princeton's \$22 billion endowment is also excessive—safe in New Jersey?

## The James Comey Coverup



In the Sunday Washington Post's account of what President Obama knew about Russian election meddling and what he did about it, one absence is notable. Nowhere in the Post's lengthy tick-tock is Mr. Obama presented with evidence of, or described as worried about, Trump collusion with Russia.

Why has this apparently well-documented, and eminently documentable, episode fallen down the memory hole, in favor of a theory for which there is no evidence, of collusion by the outsider Mr. Trump?

The alternative history is incalculable, but consider: If Mr. Comey had followed established practice, the Hillary investigation would have been closed without an announcement, or the conflicted Ms. Lynch or an underling would have cleared Mrs. Clinton. How would this have played with voters and the media? Would the investigation's reopening in the race's final days, with discovery of the Weiner laptop, have taken place? Would the reopening have become public knowledge?

### Russia may have indeed affected the election, but not in a way anyone wants to discuss.

The noisy, obnoxious ways Russia meddled amounted to nothing. The public was able to discount them. It was only through a bumptious act of America's own law-enforcement community, in a way the public didn't know at the time may have been influenced by planted Russian intelligence, that the Kremlin conceivably really may have affected an extraordinarily close race in the Electoral College.

What also emerges from the Post's tick-tock, as well as from public testimony by U.S. intelligence chiefs, is that Russia didn't seek to hide its meddling. The Russian goal was to avoid provoking "escalation from Putin" or "potentially contaminating the expected Clinton triumph," in the Post's words.

Strangely missing from the Post account, however, is one Russian intervention, revealed by the paper's own earlier reporting, that may really have, in farcical fashion, elected Donald Trump.

This was FBI Director James Comey's ill-fated decision to clear Hillary Clinton publicly on intelligence-mishandling charges. His choice, it now appears, was partly shaped by a false intelligence document referring to a nonexistent Democratic email purporting to confirm that then-Attorney General Loretta Lynch had vowed to quash any Hillary charges.

On April 23, the New York Times first alluded to the document's existence in an 8,000-word story about Mr. Comey's intervention.

On May 24, the Post provided a detailed description of the document and revealed that many in the FBI considered it "bad intelligence," possibly a Russian plant.

On May 26, CNN adumbrated that Mr. Comey "knew that a critical piece of information relating to the investigation into Hillary Clinton's email was fake—created by Russian intelligence—but he feared that if it became public it would undermine the probe and the Justice Department itself."

"In at least one classified session [before Congress]," CNN added, "Comey cited that intelligence as the primary reason he took the unusual step of publicly announcing the end of the Clinton email probe.... Comey did not even mention the other reason he gave in public testimony for acting indepen-

dently of the Justice Department—that that Lynch was compromised because Bill Clinton boarded her plane and spoke to her during the investigation."

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Expect a coverup: The truth is absolutely unacceptable to the establishment that Special Counsel Robert Mueller represents. There is no appetite for the truth among Democrats: They cling to Mr. Comey's legal exoneration of Mrs. Clinton in the server matter.

There is no appetite among Republicans: Messrs. Comey and Mueller are Republicans, promoted in their careers by Republican presidents. There is no appetite in the Trump White House, which doesn't want its win tainted in history by a Russian dirty trick.

There is no appetite in the Kremlin: Mr. Putin knows that relations with the American superpower are slipping toward an all-out hostility that he can't afford.

In the U.S., to acknowledge the truth would be to complete the task Russia set itself in discrediting the U.S. leadership class.

A coverup is the only way to go.

## LETTERS TO THE EDITOR

### Don't Let the 2% Inflation Target Hurt Growth

Glenn Hubbard discusses past "false model" failures of Federal Reserve policy and advocates a "healthy skepticism about prevailing models," yet he doesn't question the Fed's current obsession with its 2% inflation target ("How to Keep the Fed From Following Its Models off a Cliff," op-ed, June 16).

Some inflationary pressures due to strong demand are desirable. But the Fed fails to recognize that favorable supply-side forces can keep inflation below its sacrosanct 2% target: forces such as increased retail competition, increased commodity supplies (particularly energy) and productivity increases. All these are good for economic growth, and they increase real incomes by keeping prices lower than otherwise.

However, from the Fed's 2% viewpoint, they can be used as an excuse to delay interest-rate normalization, even though the economy is strengthening and can withstand an interest-rate increase.

### Trump Is Offering Europe A Message It Needs to Hear

Josef Joffe's "How Trump Is Like Obama" (op-ed, June 15) is an incomplete review of the U.S. role in modern Europe. Comparing the Marshall Plan to NATO funding is patently ridiculous.

After World War II, the U.S. spent billions in Europe to prevent the rise of destabilizing ideologies, thus giving France, Germany and the rest of Europe time to build or stabilize functional democracies. The intent never was for U.S. taxpayers to provide the entire European defense network.

The Journal previously reported that the Netherlands is selling its remaining main battle tanks. Germany cannot field a complete armored division in its own defense nor provide more than a squadron of attack helicopters to keep Russian tanks at bay.

The U.S. is willing to pay more for European defense—just not for all of it.

JONATHAN BASTIAN

Lexington, Ky.

Conversely, adverse supply-side trends do the opposite. They push up prices, restrain real incomes and weaken the economy. But higher inflation rates could encourage Fed rate increases even when a weaker economy is on the horizon.

This failure to recognize the underlying causes of inflation and disinflation has the potential to drive monetary policy off a cliff by encouraging the wrong policy at the wrong time.

EM. PROF. ROBERT F. STAUFFER  
Roanoke College  
Salem, Va.

Mr. Hubbard may be correct that the Federal Reserve's independence doesn't guarantee sound monetary policy, but his historical examples aren't well chosen. Mr. Hubbard cites three periods in which the Fed made unwise policy, despite the fact that it had "substantial independence": the 1930s, 1965-1979 and the early 2000s.

Since the era of an independent Fed really didn't begin until the Fed-Treasury accord of 1951, the example of Fed policy in the depression era is surely irrelevant.

The next period cited by Mr. Hubbard—1965 to 1979—encompassed the tenure of Arthur Burns, who had been notoriously bullied by President Richard Nixon into implementing overly accommodative monetary policy for Mr. Nixon's political ends.

As for the third period in the early 2000s: While the Fed was reasonably free of external political pressure, it had by then developed some dangerous habits of playing politics on its own. The "Greenspan put" may have kept other politicians at bay, but the consequences were ultimately disastrous.

STEVE STEIN  
Larkspur, Calif.

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## OPINION

# What's Next for Hong Kong

By Fred Hu

**A**s Hong Kong marks the 20th anniversary of its handover to China, a pessimistic mood hangs over the city. Some critics claim that the “one country, two systems” experiment has failed and as a Chinese territory Hong Kong has lost its competitiveness and economic vitality. Nothing could be further from the truth.

While its enormous economic lead over its sister cities in mainland China has narrowed, Hong Kong’s global position has improved significantly since the handover. Its economy has matched or outperformed nearly all its traditional peers internationally.

**Twenty years after the handover to China, the territory is faring better than critics will admit. But its biggest challenges are still to come.**

Hong Kong achieved an annual real growth rate of 3.4% from 1997 to 2016, outperforming the average of 2% among advanced economies. Austria and Switzerland, comparable in population, grew 1.7% and 1.9%, respectively, during the same period. Only Singapore recorded a slightly better performance.

Hong Kong’s feat is all the more remarkable considering it faced a series of shocks over the past two decades—starting with the Asian financial crisis, ignited by the devaluation of Thai baht on July 2, 1997, only a day after Hong Kong’s handover.

That was followed by the SARS epidemic, severe deflationary pressures under the pegged exchange-rate system and the shocks of the global fi-

nancial crisis in 2008-09. Time and again, Hong Kong demonstrated its stability and resilience.

As for the stunning development of mainland cities such as Shanghai and Shenzhen, Hong Kong should rightfully deserve some of the credit. It was the role model for Chinese cities since the start of the reform era.

Hong Kong’s success story of achieving fabulous wealth and prosperity through a free-market economic system inspired mainland policy makers and entrepreneurs. Through its unique role in trade, direct investment and sophisticated services, Hong Kong has made crucial contributions to China’s rise as a global economic powerhouse.

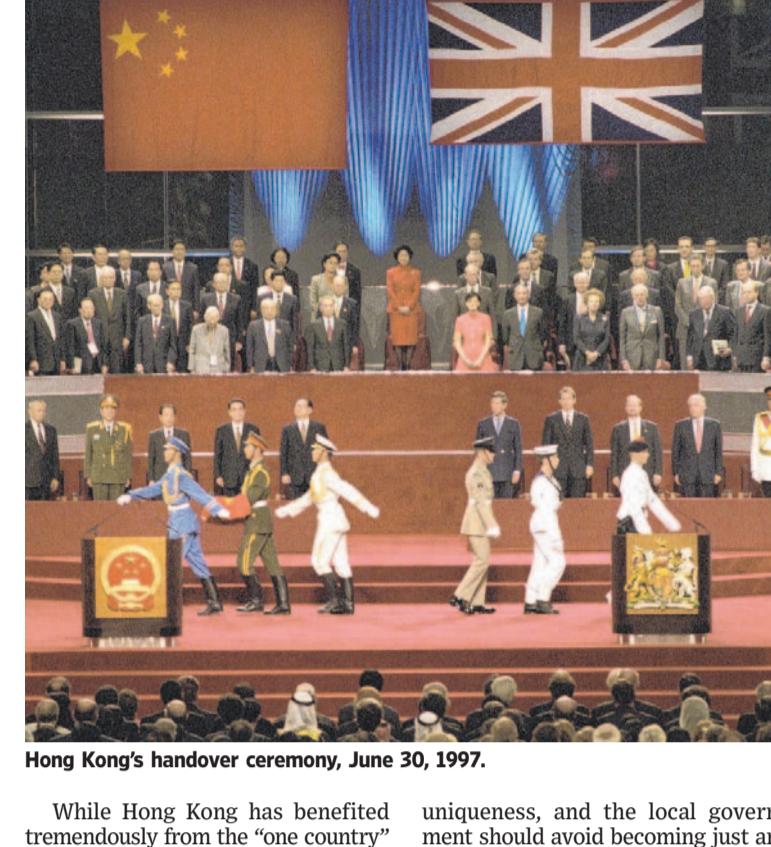
In return, Hong Kong has cemented its status as a leading international financial center. Among Hong Kong’s salient advantages is a strong banking system, which has proved to be one of the best-managed, most-resilient, and most-profitable in the world.

Perhaps the most notable development since the handover is the rapid expansion of Hong Kong’s stock market. The number of publicly listed companies on the exchange has increased three times since 1997 to just under 2,000, and market capitalization reached \$3.2 trillion by 2016, five times that of Singapore’s market.

Hong Kong leads New York and London in initial public offerings. In terms of scale and importance in global capital markets, Hong Kong has left its chief regional rival Singapore in the dust.

But Hong Kong does face challenges. First and foremost is preserving the autonomy of Hong Kong with unfettered freedom, a strong rule of law and complete openness.

Under the “one country, two systems” formula designed by Deng Xiaoping, the city retains its free-wheeling capitalist system with an independent judiciary and guaranteed individual rights.



Hong Kong's handover ceremony, June 30, 1997.

Third, Hong Kong must diversify its economy by nurturing new growth sectors. Today Hong Kong relies on finance, real estate, trade and other services exactly as it did 20 years ago, with few new industries in sight. Meanwhile its neighbor Shenzhen successfully transitioned from a labor-intensive manufacturing hub to a tech powerhouse, where global leaders such as DJI, Foxconn, Huawei, Ping An, Tencent and ZTE are based.

Hong Kong possesses many of the requisite factors for technological leadership, including world-class universities with top scientists in fields such as biotech and robotics. Yet it has failed to create a vibrant startup ecosystem. Beijing and Shanghai are in the top 10 of global startup rankings, while Hong Kong isn’t even in the top 20.

Hong Kong spends just 0.7% of its gross domestic product on research and development, compared to 2% in Singapore, 3.1% in Taiwan and more than 4% in Israel and South Korea. The city enjoys a large budget surplus, and its medium-term fiscal outlook appears positive. It has the resources to rapidly close the R&D gap if it chooses to.

Hong Kong needs a strategic vision and strong action to transform the city into a 21st-century innovation leader. Building a startup ecosystem with rekindled entrepreneurial spirit holds the key to the city’s future.

As new startups proliferate, more opportunities beyond traditional industries will become available to the younger generation, enhancing their prospects of finding jobs with avenues of advancement.

Despite missed opportunities and significant challenges, Hong Kong has been an unqualified success since its handover 20 years ago. Provided politics doesn’t get in the way, the city is capable of reinventing itself and thriving.

*Mr. Hu is chairman of Primavera Capital Group.*

While Hong Kong has benefited tremendously from the “one country” part over the past two decades, the “two systems” feature remains the crucial differentiator and cornerstone of its identity. That’s mainly because political and legal developments on the mainland haven’t kept pace with the remarkable economic progress there.

Worries about the gradual erosion of liberty in Hong Kong have increased in recent years. As Deng recognized, the freer Hong Kong remains, the more prosperous and dynamic it will be, and the more valuable a role it can play in China’s modernization.

It is as vital as ever to uphold the “one country, two system” principle enshrined in Hong Kong’s Basic Law. Beijing should cherish Hong Kong’s uniqueness, and the local government should avoid becoming just another Chinese city. It is in Hong Kong’s and China’s best interest for Hong Kong to be a true global city under Chinese sovereignty.

Second, like other high-income societies, Hong Kong faces the challenge of widening inequality. The local housing market is the most expensive in the world, making affordability a hot-button issue for the low-income population and fueling discontent.

The city doesn’t need a European-style social-welfare state, but it sorely needs a better housing policy to maintain social stability. That could be achieved mainly through increased supply of land for residential development and expansion of the existing public-housing program.

## U.S. Supreme Court Justices Lay Down the Law

By David B. Rivkin Jr.  
And Lee A. Casey

In one of the last decisions of its term, the U.S. Supreme Court dealt a clear rebuke to politicized lower courts. The justices’ unanimous ruling in *Trump v. International Refugee Assistance Project* upholds both the integrity of the judiciary and the Supreme Court’s own authority.

The case came to the justices from two federal appellate courts. They had upheld trial judges’ orders halting enforcement of President Trump’s “travel ban” executive order, which temporarily limits entry to the U.S. by nationals from six countries. The court will hear the appeal on the merits in October. On Tuesday it held unanimously that the executive order can be immediately enforced, with narrow exceptions, until they address the merits of these cases in the fall.

The challenges to the order claimed it violated the First Amendment’s protection of religious freedom and exceeded the president’s

authority under immigration law.

Both the substance and tone of these decisions created an unmistakable impression that a portion of the judiciary has joined the anti-Trump “resistance.” Not only did the lower-court judges defy clear and binding Supreme Court precedent, they based much of their legal analysis, incredibly, on Candidate Trump’s campaign rhetoric.

The high court didn’t rule entirely in the administration’s favor. By a 6-3 vote, with Justices Clarence Thomas, Samuel Alito and Neil Gorsuch dissenting, it held that the individuals who originally challenged the order could continue to do so, as could a carefully defined class of “similarly situated” persons with “close familial” relationships to individuals in the United States, along with institutions that can show a “formal, documented, and formed in the ordinary course” relationship to a U.S. entity.

That, the court specifically cautioned, isn’t an invitation for evasion by immigration advocates: “For example, a nonprofit group

devoted to immigration issues may not contact foreign nationals from the designated countries, add them to client lists, and then secure their entry by claiming injury from their exclusion.”

**In the travel-ban case, a high-court ‘compromise’ delivers a unanimous rebuke to political judges.**

That exception, Justice Thomas noted for the dissenters, was a “compromise”—most likely the product of Chief Justice John Roberts’s effort to achieve a unanimous decision.

Given the circumstances, this was a good outcome. It lends the imprimatur of the full court to the rebuke of the lower courts, and avoids the kind of partisan split that prevailed in both the Fourth and Ninth Circuit Courts of Appeals. All nine justices are also

now on record supporting the proposition that the vast majority of foreign nationals cannot claim a constitutional right to enter the United States.

When the court reviews the merits of the case in the fall, however, such considerations will be out of place. While courts can adjudicate cases involving immigration and other foreign-affairs issues, judicial engagement in this space is fundamentally different than in domestic affairs.

In an area of decision-making that involves both institutional knowledge of international affairs and continuous access to classified information, great deference is in order from the courts. If the courts wade into this area, they would undermine both national security and respect for the judiciary.

The perception that judging is swayed by political or ideological considerations would be particularly calamitous in this area. Better a 5-4 decision articulating this view clearly than a unanimous but equivocal one.

The odds of a clear outcome are good. As Justice Thomas pointed out, his colleagues’ “implicit conclusion” is that the administration is likely to prevail on the merits.

The high court’s own precedent in this area is clear. Nonresident aliens have no constitutional right to enter the U.S. When denying entry, the president need only provide a “facially legitimate and bona fide” justification. As the court held in *Kleinlein v. Mandel* (1972), once that justification is established, there is no further inquiry or balancing for the courts to make.

Any other decision would be both inconsistent with the court’s precedent and injurious to the Constitution’s separation of powers. It would also compromise the president’s ability to defend the nation at home and abroad and cause grave harm to the judicial branch in maintaining its own critical constitutional role.

*Messrs. Rivkin and Casey practice appellate and constitutional law in Washington.*

## History Has Vindicated Helmut Kohl

By Marcel Fratzscher

Helmut Kohl’s death earlier this month has revived a contentious debate over his legacy. Although the former chancellor of Germany is widely considered to be a political genius, conventional wisdom holds that his economic policy was a failure. It’s time to reassess that view. Kohl was smarter on economics than many professional economists are willing to admit.

The arguments that Kohl was a brilliant statesman and a bad economist are closely intertwined. His overarching political goal was to quickly reunify Germany after the

collapse of communism in the East and then unite much of Europe under a new single currency.

Kohl’s center-left opponent in the 1990 elections, Oskar Lafontaine, and many German academics argued against immediate reunification. They believed the East German economy was too different from the West and needed time to adjust. East German companies had outdated products that had no chance of competing in Western markets and market regulations were mostly absent.

Kohl ignored his critics. His central economic insight was that reunification would be the cause, not the result, of economic alignment.

East Germany’s best hope was to quickly adopt the strong institutions of the West.

He has been proved right by history. This is true even of perhaps the most controversial aspect of his reunification policy—the one-to-one conversion of East German marks to deutschemarks. Most German economists argued that this would distort relative prices and destroy the East’s competitiveness. The president of the Bundesbank at the time, Karl Otto Pöhl, resigned in protest over Kohl’s decision.

But the truth is that East Germany’s economy was obsolete and couldn’t be competitive at any price. No one would have bought a car from the East German auto maker Trabant, or “Trabi,” even at a 10-to-one exchange rate.

So Kohl took a different approach. His one-to-one conversion amounted to a large stimulus that helped East Germans survive several years of high unemployment and low incomes as their economy reconfigured along market principles.

Kohl wasn’t infallible. He was too optimistic when he promised “blossoming landscapes within a few years.” And he was wrong on labor-market and competition policies during his chancellorship. He raised taxes and expanded the welfare state, which inhibited investment and deteriorated the economy’s international competitiveness.

But the economic convergence of the East is a remarkable success. Today the average productivity per capita in what used to be East Germany is around 80% of the West. That compares well to massive re-

gional differences elsewhere in Europe. The north-south economic divide in Italy and Spain today, for instance, is much greater than the east-west divide in Germany.

Even the financial transfers to the East of around 30% to 40% of gross domestic product over 25 years seem modest.

**Economists criticize his decisions on German reunification and the euro, but he understood better the relationship between politics and economics.**

Central to the economic success of German reunification was the immediate adoption of the West’s institutions—its governance, including both its democracy and its administrative agencies, and also its currency—which forced economic structures and actors to adjust. This gradually and endogenously created an optimal currency area. Kohl intuited that if instead East Germany waited until it was ready to adopt Western institutions, it might never adopt them at all.

There is an important lesson here for Europe today. Institutions are more important than relative prices. The eurozone’s problem isn’t that relative prices are wrong, but that it lacks credible institutions and adjustment mechanisms.

Just as for East Germany in 1990, the problem of Greece or Italy

today isn’t a lack of price competitiveness but one of poor or missing national and European institutions. A weak currency isn’t a durable strategy to ensure competitiveness and prosperity.

Eurozone countries have benefited from adopting a strong and credible euro, which has created more favorable financing conditions and more stable prices than most members enjoyed before. And it has deepened trade and competition, benefitting particularly open economies, including Germany’s.

Member states should take the lesson from German reunification and focus on reforming domestic institutions as well as completing the monetary union. That requires finally completing Europe’s capital-market and banking unions under a single regulatory structure and creating a fiscal union with both more risk sharing and a stricter adherence to joint rules. Just as in Germany in 1990, sharing sovereignty in Europe today will ultimately make it stronger and more resilient and everyone better off.

Helmut Kohl was a visionary, not just about the politics of German reunification and European integration but also on its economics. He didn’t consider the euro the price for German reunification, but as an essential prerequisite for his vision of a strong and united Europe. He lived to see his dream come true for Germany, but not for Europe. It can still come true now.

*Mr. Fratzscher is president of the German Institute for Economic Research (DIW) in Berlin.*

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, June 29, 2017 | B1

**Yen vs. Dollar** 112.1470 ▼ 0.18%

**Hang Seng** 25683.50 ▼ 0.61%

**Gold** 1248.50 ▲ 0.17%

**WTI crude** 44.51 ▲ 0.61%

**10-Year JGB** yield 0.060%

**10-Year Treasury** yield 2.218%

## U.K. Regulator Urges Industry Shake-Up

Financial Conduct Authority sets out a long list of remedies to aid investors

By PHILIP GEORGIADIS

LONDON—The U.K.'s **Financial Conduct Authority** issued a damning verdict on the country's \$7 trillion asset-management industry, criticizing weak price competition and bumper profits in an industry it says needs a substantial overhaul.

The regulator on Wednesday set out an extensive range of remedies to drive competition and transparency, including introducing a single, "all-in fee" and an increased duty on fund managers to act in the

best interest of investors. The report stops short of the industry's worst-case scenario, referring the entire sector to competition authorities, but fund managers will have to grapple with a call for major change. It comes as the City of London faces competition from other major financial centers following 2016's vote to leave the European Union and as it gears up to implement substantial regulatory changes, including Europe-wide modifications to rules governing financial firms in January 2018.

The report follows an 18-month investigation, which included meetings with 135 organizations. The FCA said it had consulted widely on the proposals. The FCA said improvement in value for money

could have a significant positive impact on U.K. pension systems and savings.

Martin Gilbert, chief executive of Aberdeen Asset Management, said the FCA's recommendations are constructive and sensible.

"With investment risk increasingly being passed down from governments and employers to individuals, it is crucial that asset management evolves to meet this new world," Mr. Gilbert said.

Among its most harsh findings, the FCA outlined widespread concerns about value for money for investors and the relationship between price and performance throughout the industry. It said investment firms didn't typically compete on price, there is considerable price clustering in

### Key Points Made In the Report

- ◆ Investment firms typically didn't compete on price.
- ◆ Considerable price clustering exists in some parts of the market.
- ◆ Investment firms tended not to lower their prices to win new business.
- ◆ Investors' awareness of charge structures was often poor.

some parts of the market, and that firms tended not to lower prices to win new business.

The regulator said it would push for a single all-in fee for investors, which the industry

has previously lobbied against, a move that could hit profitability in the sector.

The report is also likely to increase the pressure on money managers in the U.K. Many of these are already facing tough competition from the growth of passive funds, which attempt to match an index rather than try to beat it. While the FCA was clear it doesn't favor either strategy, it said some actively managed funds were found to offer similar exposure to passive funds, while charging significantly more.

The regulator's analysis showed £109 billion (\$139.7 billion) is invested in active funds that are more expensive than passive funds but offer little discernible benefit as they also closely mirror

the market. It added both active and passively managed funds didn't usually outperform their own benchmarks after fees.

The report found poor client communication throughout the industry and said investors' awareness of charge structures was often poor. The FCA said it has concerns over how asset managers communicate with individual investors in particular, and plans to strengthen the requirement for fund managers to act in the best interests of investors and to require them to appoint at least two independent directors. It said it would also push to make it easier for fund managers to switch investors to a cheaper share class.

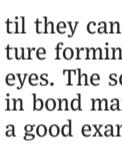
The regulator has previ-

Please see INVEST page B2

### HEARD ON THE STREET

By Richard Barley

## Tranquil Markets Get a Shock



Sometimes financial markets are surprisingly bad at connecting the dots—until they can't ignore the picture forming before their eyes. The screeching U-turn in bond markets this week is a good example. The world's central banks are sending out a message that loose monetary policy can't last forever.

The bond reversal has been sharp, and centered on Europe. Ten-year German bund yields started Tuesday just below 0.25%, but by Wednesday afternoon stood at 0.37%. That helped lift bond yields around the globe, since the low level of German yields has been acting as an anchor.

The bond's sell-off Tuesday was the worst in 22 months, according to Deutsche Bank. The euro, meanwhile, has gained nearly 2 cents against the dollar to reach \$1.136.

The immediate trigger was a speech from European Central Bank President Mario Draghi arguing that as the eurozone recovery progresses, keeping policy unchanged would be a form of monetary loosening. Instead, the central bank could "adjust the parameters of its policy instruments." In more straightforward terms, ultra-stimulative policy measures are set to be reined in.

What is surprising is that markets are surprised by it. The tone from global central banks has been growing more confident in recent months. The Federal Reserve has raised rates and begun talking about starting the process of shrinking its balance sheet. The ECB has sounded more encouraged by a deepening and broadening eurozone recovery, and there has been a good deal of debate about its exit strategy.

The Bank of England has provided surprises too, with an unexpected shift among policy makers toward raising interest rates. Gov. Mark Carney added volatility to markets Wednesday by hinting that a rate rise may become necessary if the economy keeps growing, and in particular if investment picks up. The pound and gilt yields jumped in response.

This could be a significant moment for markets. In the first half of 2017, worries about complacency have grown, with bonds and stocks putting in good performances. That doesn't appear to be sustainable. If central banks stick to the message they have been sending, then the second half of the year may not be such a smooth ride.

## Thailand Helps Cook Up Higher Rice Prices



DARIO PIGNATELLI/BLOOMBERG NEWS

Farmers unloaded rice from a truck in Ubon Ratchathani, Thailand, last year. Thailand has sold a significant amount of its rice stocks, and the absence of a huge Thai surplus, combined with lower inventories elsewhere, have pushed up prices for the grain. B8

## Small-Stock Slide Stumps Investors

By ESE ERHERIENE AND GREGOR HUNTER

A collapse in more than a dozen small-cap companies' shares in Hong Kong this week has wiped billions of dollars off their value, and shone a light on a riskier section of the city's stock market just as it gears up to mark 20 years since the former British colony returned to Chinese rule.

Market participants remain stumped over what, or who, triggered the declines of as much as 90% for a number of stocks listed on Hong Kong's Growth and Enterprise Market, home to a plethora of so-called penny stocks that trade for less than one Hong Kong dollar (13 U.S. cents) each.

That includes the man who last month raised questions

about the network of cross-shareholdings that appears to link the firms which were part of the plunge.

In a report titled "The Enigma Network: 50 Stocks Not To Own," Hong Kong-based activist investor David Webb highlighted several companies with high valuations that appear to be tied by their ownership of each other's shares—a network Mr. Webb illustrated with an intricate spidergram.

The companies included umbrella-maker China Jicheng Holdings Ltd., consultancy GreaterChina Professional Services Ltd. and AMCO United Holding Ltd., whose businesses include manufacturing, lending and securities investing.

Investors initially shrugged

off Mr. Webb's missive. But on Tuesday the trio were among the leading decliners, suddenly tumbling 94%, 93% and 70%, respectively. AMCO fell a further 49% Wednesday while

An index of over 70 small-cap Hong Kong stocks plunged 9.6% in one day.

GreaterChina lost 34% of its remaining value. China Jicheng rose 6.3%.

With other stocks named in Mr. Webb's report tumbling, the S&P/HKEX Growth Enterprise Market Index, made up of more than 70

small-cap companies, plunged 9.6% on Tuesday, its biggest drop since mid-2015, and a further 0.8% Wednesday—a fourth-straight decline that put the cumulative lost market value at some \$3 billion, according to Reuters data. Hong Kong's Hang Seng Index, its main benchmark, fell 0.6% on Wednesday.

AMCO United said it had no comment. China Jicheng and GreaterChina Professional Services couldn't be reached for comment.

Other major financial centers have markets for small and medium-size companies, including London's Alternative Investment Market and Tokyo's so-called Mothers market. Such markets offer investors the chance to buy into

Please see PLUNGE page B2

## Toshiba Sues to Proceed On Sale

By TAKASHI MOCHIZUKI

TOKYO—Toshiba Corp.'s future turned even more uncertain as it filed suit to stop a business partner from blocking the sale of its semiconductor business, meant to plug a gaping financial hole.

The struggling conglomerate is racing to raise about \$20 billion from the sale to a Japanese-government-led consortium—against the opposition of Western Digital Corp., which has a stake in the business. Toshiba had aimed to announce a deal by Wednesday with the consortium, which includes South Korean chip maker SK Hynix Inc., a Western Digital competitor.

Instead of announcing the deal agreement, Toshiba asked the Tokyo District Court to suspend a legal motion filed by Western Digital to halt the sale, and to award it ¥120 billion (\$1.06 billion) in damages. Western Digital, which argues that its joint-venture contract with Toshiba gives it veto power over any sale, had filed the motion with a state court in California earlier this month.

Western Digital submitted a new proposal to buy the operation itself on Tuesday, with U.S.-based private-equity firm KKR & Co.

A deal is critical for Toshiba because it has negative shareholder equity of ¥581.6 billion following the chapter 11 bankruptcy filing by its Westinghouse Electric Co. subsidiary. The conglomerate will be removed from the Tokyo Stock Exchange if it fails to fix its financial standing by next March.

Please see TOSHIBA page B2

### INSIDE



MAERSK, OTHER FIRMS CONTEND WITH CYBERATTACK'S FALLOUT

BUSINESS, B3

## Apple's Next iPhone Poses Risk

By TRIPP MICKLE

For the iPhone's 10th birthday, Apple Inc. is giving itself a big, new challenge.

Maintaining its usual secrecy about product plans, Apple is widely expected later this year to announce three iPhones instead of the usual two—updated versions of the current iPhone 7 and 7 Plus as well as a 10th-anniversary iPhone with a different display and new features like wireless charging and facial-recognition technology.

Such devices would make an attractive purchase for customers disappointed with the relatively incremental improvements of recent smartphones. But analysts say that such a plan also has big risks for Apple, including the possibility of a higher price tag that could damp demand, trickier



ZHANG PENG/LIGHTROCKET/GETTY IMAGES

fewer but better devices would increase sales. The iPhone's popularity has tested that philosophy. Though Apple produces fewer handset models than many of its rivals, it has increased the number of colors from one to six in the past decade and expanded from a single model annually to five models last year, including the iPhone 6, iPhone 6 Plus and iPhone SE. Apple also makes the iPad in four models, the Apple Watch in two versions with countless variations, 11 Macs, the Apple TV and a host of accessories.

Most product expansions have come off without trouble under Apple Chief Executive Tim Cook, whose operational prowess helped turn Apple into the world's most valuable listed company. The company did run into trouble,

Please see IPHONE page B4

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## BUSINESS & FINANCE

# Samsung to Add U.S. Plant

BY TIMOTHY W. MARTIN

SEOUL—**Samsung Electronics** Co. said Wednesday that it will invest \$380 million at a site in Newberry, S.C., to expand its U.S. home-appliance manufacturing.

The announcement came as South Korean President Moon Jae-in was set to arrive in Washington for a summit meeting with U.S. President Donald Trump.

Samsung said its South Carolina investment will generate 954 local jobs, including engineers and craftsmen, by 2020. The facility will begin producing home appliances later this year, with the company saying it aims eventually to make the Newberry factory its U.S. manufacturing hub.

The Wall Street Journal, citing people familiar with the matter, reported last week that Samsung planned to invest in an existing factory to be vacated by **Caterpillar** Inc.

South Carolina officials had been courting Samsung for months and made a visit to South Korea in recent weeks, the Journal reported.

Samsung said contact with South Carolina officials started last fall.

"This new investment will enable Samsung to increase the speed with which we can deliver premium home appliances," Samsung Electronics co-Chief Executive Officer B.K. Yoon said in a statement.

"Samsung's investment is great news for South Carolina



Samsung announced plans to invest \$380 million to expand home-appliance manufacturing in the U.S.

and the United States, and it is a direct reflection of the fact that America is becoming an even stronger destination for global businesses looking to grow," U.S. Commerce Secretary Wilbur Ross said in a statement.

Mr. Trump has called for a

revival of manufacturing in

the U.S.

Samsung said the \$380 mil-

lion investment in South Caro-

lina was an initial one, "with

plans to grow from there."

The Suwon, South Korea-

based firm said it has made

more than \$10 billion in U.S.

investments over the past 18

months, including its \$8 bil-

lion acquisition of automotive technology manufacturer Harman International Inc., which was announced last year.

Samsung said it chose the Newberry site for its work-force, supply chain and access to transportation. Newberry is about 150 miles northwest of the port of Charleston.

## TOSHIBA

Continued from the prior page

Some analysts said Toshiba's legal action could backfire by prolonging the dispute and slowing the sale. It might have been quicker to seek a settlement, they say.

"This means a war which Toshiba looks likely to lose," said Amir Anvarzadeh, head of Japanese equity sales at BGC Partners, a brokerage. "Toshiba is running out of time."

At a shareholders meeting Wednesday, Toshiba Chief Executive Officer Satoshi Tsunakawa said that Western Digital is "unreasonably interfering." A Western Digital spokeswoman declined to comment.

Toshiba had initially aimed to pick a buyer for the chip unit by March. After postponing a decision several times, it

missed its latest self-imposed deadline: the shareholders meeting. Toshiba executives apologized at the meeting for the delay, and said they would confirm a sale as soon as possible. They didn't name a new target date.

Taiwan's Foxconn Technology Group and Broadcom Ltd. of the U.S. were among other bidders for Toshiba's NAND flash-memory operation, enjoying a boom thanks to demand for the memory for smartphones and computer servers.

But Toshiba selected as its preferred bidder a group led by state-backed fund Innovation Network Corp. of Japan and 100% government-owned Development Bank of Japan, joined by U.S. private-equity firm Bain Capital and SK Hynix. It called the group's proposal the best "not only in terms of valuation, but also in respect to certainty of closing,

retention of employees, and maintenance of sensitive technology within Japan."

The selection of a Japa-

nese-government-led group

angered some, including Terry Gou, chairman of iPhone as-

sembler Foxconn, formally

known as Hon Hai Precision

Industry Co. Hiroshige Seko,

Japan's economy minister, said

the administration hadn't in-

tervened.

Western Digital made sev-

eral proposals to buy the op-

eration, including one to join the

government-led group.

Toshiba's Mr. Tsunakawa said

it didn't pick the U.S. partner

because Western Digital

hadn't participated in the for-

mal bidding process.

Analysts say that unless

Toshiba can reach a settle-

ment with Western Digital, the

U.S. company is likely to em-

ploy every possible step to

solve the deal process.

"If a consortium with the

Japanese government was a must, Toshiba should have made more effort to pull in Western Digital, not its com-  
petitor SK Hynix," Waseda Business School professor Atsushi Osanai said.

The Toshiba-Western Digital relationship now looks ir-  
retrievably broken.

Toshiba said that in addition to filing suit, it had cut off Western Digital's access to their joint-venture database to protect Toshiba's intellectual property.

Analysts say the only win-  
ner from the dispute is Sam-  
sung Electric Co., which holds  
top share in the NAND flash-  
memory market, according to  
IHS Markit.

As the legal battle between  
Toshiba and Western Digital drags on and makes business  
planning harder, Samsung has  
the opportunity to boost chip  
investment and bolster its ad-  
vantage.

## PLUNGE

Continued from the prior page

companies that often have strong growth prospects. But they are also often associated with loose regulation, and several have been tarnished by intermittent scandal. Hong Kong's GEM market carries the slogan "A 'Buyers Beware' Market for Informed Investors" atop its website.

In Hong Kong's case, the timing of the sudden selloff is embarrassing, given the international spotlight on the city this week. Chinese President Xi Jinping is due to visit Hong Kong on Thursday as part of the celebrations marking two decades since China regained sovereignty.

Hong Kong has long been viewed by global investors as a more predictable market than those in mainland China, owing to its English language common-law courts, independent judiciary and a strong rule of law.

But some argue the city's relatively loose approach to regulation has led to a casino-like environment for some stocks. Companies listed on the GEM market traded at an average price-to-earnings ratio of 46.7 at the end of May, according to exchange data. That compares with a multiple of 34 for the Shenzhen market, home to many of China's fast-  
est-growing companies.

Mr. Webb said the unex-  
plained plunge in the GEM mar-  
ket was indicative of poor over-  
sight of markets by the city's auth-  
orities, including exchange operator Hong Kong Exchanges & Clearing Ltd., known as HKEx, which owns the market.

"The bigger picture here is

that there's been a structural

failing in financial stock-mar-

ket regulation, and these prob-

lems have been allowed to

## All That Glitters Is Not Gold

The S&P/HKEX Growth Enterprise Market Index, which tracks small-cap stocks listed on Hong Kong's GEM board, lost \$3.2 billion in market capitalization in the past few days.

380points



Source: FactSet

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ship among few investors,  
small floats and thin trading  
volume. He added that some  
of the companies involved own  
or have stakes in local broker-  
age firms.

Some market participants  
said rumors of tighter regula-  
tion over the GEM market may  
have sparked its dive this  
week.

"The story has been going  
around the HKEx is trying to  
force the delisting of some of  
these smaller caps," said Hao  
Hong, managing director and  
head of research at Bank of  
Communications.

An HKEx spokesman said it  
had no plans to forcibly delist  
companies.

Others said the sudden  
drop could have been exacer-  
bated by the close links be-  
tween the companies involved,  
with some being forced to sell  
their holdings in others as  
prices dropped.

The selloff "may have been  
further accelerated by margin  
calls," said Pun Tit-Shan, chief  
executive at local brokerage Asia  
Wealth Securities.

—Joanne Chiu

contributed to this article

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## BUSINESS NEWS



The Port of Rotterdam in the Netherlands said Wednesday that two container terminals operated by Maersk's APM Terminals had stopped activities.

## Alibaba Ups Its Bet On Web Retailer

**Alibaba Group Holding** Ltd. is raising its bet on populous Southeast Asia, a region that is home to more than 600 million consumers.

By Liza Lin in Shanghai  
and Newley Purnell  
in New Delhi

The Chinese internet giant said Wednesday it is plowing an additional \$1 billion into Southeast Asian e-commerce firm **Lazada Group**, raising its stake to 83% from 51%.

Alibaba had paid \$1 billion for a controlling stake in the internet shopping platform last year. Based in Singapore, Lazada operates in six markets including Indonesia and the Philippines.

Alibaba, the owner of China's two most popular online retail sites, Taobao and Tmall, has made globalization a focus of the firm's expansion plans as competition at home intensifies. Company founder and Chinese billionaire Jack Ma recently traveled to Detroit to make a pitch alongside celebrities such as Martha Stewart, to attract U.S. businesses to sell on its platforms.

Launched in 2012 as an online platform buying products, warehousing them and selling the goods directly to consumers, Lazada accelerated its shift to a model similar to Alibaba's Tmall after the Chinese company's acquisition last year. Lazada now runs online storefronts for small regional merchants and international brands including Samsung Electronics Co. and L'Oréal SA.

The region holds promise as incomes are rising and consumers are increasingly getting online via low-cost smartphones. Southeast Asia is poised to become one of the world's fastest-growing regions for e-commerce revenues, exceeding \$25 billion by 2020, according to industry researcher Frost & Sullivan.

The area has also attracted interest from Chinese rivals, with JD.com Inc. announcing this month it plans to enter new markets in the region. Still, challenges include difficult logistics, a lack of digital-payment systems and many consumers' unfamiliarity with online transactions.

A Lazada spokesman said the deal values Lazada at \$3.15 billion, up from a \$1.5 billion valuation in 2016's deal, and that Alibaba bought out stakes from previous investors such as Swedish investment firm Kinnevik AB and German technology incubator Rocket Internet.

## Businesses Contend With Hack

Cyberattack's effects linger from Tuesday; Maersk port facilities are among hardest hit

By NICK KOSTOV  
AND COSTAS PARIS

Global firms scrambled to cope with fallout from a cyberattack that disrupted computers across Europe and the U.S.

**A.P. Moeller-Maersk** A/S, the world's biggest container-ship operator, has shuttered many of its ports around the world. French construction giant **Saint Gobain** resorted to manually operating some factory gear.

The origins of the virus were still unknown early Wednesday. Security experts described the computer disruption as a cyberattack and said the virus—dubbed Petya—appeared to stem in part from an obscure Ukrainian tax software product. A type of "ransomware," the bug locks data, asks for ransom and spreads quickly from computer system to system—in this case across Ukraine, Russia, Europe and the U.S. There were few reports from Asia of disruptions.

The ransomware was designed to spread within corporate networks running **Microsoft** Corp.'s Windows operating system, but didn't appear to be affecting consumers, security experts said.

A Microsoft spokeswoman on Tuesday said that the company was investigating the outbreak.

Companies that reported disruptions included U.S. pharmaceuticals firm **Merck & Co.**, British advertising giant **WPP Group** PLC and Russian oil producer PAO **Rosneft**.

Many firms hit by the attack said their day-to-day operations hadn't been significantly affected or that they

were still assessing the situation. Rosneft, for instance, said on Twitter Wednesday that the virus hadn't affected production, but added that "it is premature to evaluate the cyber attack impact."

In Ukraine, the country that appeared most affected by the attack, the government said it had halted the spread of the virus and that key government and business systems were stable.

But others were still struggling Wednesday to restore critical operations. One of those most severely affected: Maersk, a key cog in the world's global supply chain.

Maersk said early Wednesday it was still coping with widespread computer outages at its APM Terminals subsidiary. Maersk said it wasn't taking new bookings or offering quotes at affected terminals.

"IT systems are down across multiple sites and select business units," the company said.

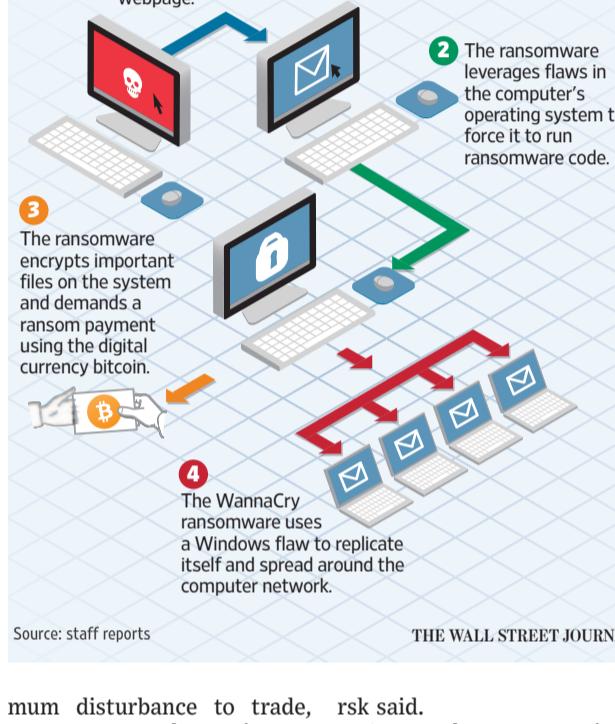
Ports in the U.S., Europe and India reported Maersk-run container terminals weren't taking ships. Whether those APM port closures ricochet more broadly will depend on how quickly Maersk restores systems, shipping experts said.

Coordinating ship arrivals, unloading containers and then scheduling storage and trucks to move products out of ports requires a high degree of coordination and efficiency. A big bottleneck in a single port can reverberate widely and quickly.

The Indian government said Wednesday that an APM terminal at the Jawaharlal Nehru Port, India's largest port on the outskirts of Mumbai, was experiencing trouble. It warned of delays to inbound and outbound vessels at the terminal, one of four at the port.

The government said it was taking steps to "ensure mini-

### How Ransomware Works



Source: staff reports

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mum disturbance to trade, transporters and more importantly local citizens." The port has opened up a nearby parking lot where shippers can store cargo delayed at the port.

Lars Jensen, chief executive of CyberKeel, a Copenhagen advisory firm in maritime cyber security, said if Maersk manages to restore its computer systems soon, operations could return to normal without major problems.

"The longer it drags on the more the entire logistics chain will be disrupted," Mr. Jensen said. "The ships can be operated manually but if you don't have access to your operational and commercial databases you won't know where your containers are."

Maersk Line vessels are maneuverable, able to communicate and crews are safe, Mae-

rsk said.

On Tuesday, APM terminals in New Jersey and Los Angeles had been closed. The Dutch port of Rotterdam, one of Europe's biggest, said Wednesday that two container terminals operated by Maersk's APM had stopped activities.

"The port is still running at three quarters of its capacity," said Martijn Pol, a spokesman with the Port of Rotterdam.

In Spain, Maersk's APM terminal at the port in Barcelona is currently closed, according to an official. In a tweet, the Barcelona port said the APM terminal "has been affected by the Petya cyberattack and is working to resolve" the problem.

Several Saint Gobain factories were recovering Wednesday, including a plant in Amboise, France, that produces abrasive wheels, used to cut

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## TECHNOLOGY

WSJ.com/Tech

PERSONAL TECHNOLOGY | By Geoffrey A. Fowler

# Talking Kitchen Computer Is More Intrusive



**Ama-**  
**zon.com** Inc.  
is masterful  
at changing  
our habits.

Not long ago,  
it seemed unthinkable to buy  
clothes online. Or buy any-  
thing on your phone. Or talk  
to a speaker (also, mind you,  
a way to buy things).

The \$230 Echo Show is  
Amazon's most audacious  
product yet. Now it wants to  
colonize your countertop

with a 7-inch touch screen  
and a camera. You can even  
use it to randomly peer

through the always-on cam-  
era of loved ones' Shows and  
into their homes, if they list  
you as persona grata.

Amazon is onto a good  
idea: the casual kitchen com-  
puter that doesn't require a  
mouse, keyboard or even  
meatloaf-kneading fingers to  
operate. But there is still  
work ahead to make the Show  
a welcome addition to most  
homes. This first version has  
limited skills that take advan-  
tage of the new screen—yet it  
is so intrusive, I was ready to  
yank the plug after a week.

The Show, which ships  
Wednesday, has all the func-  
tions of Amazon's original  
Echo speaker, the first home  
appliance to popularize inter-  
net-connected microphones.  
You call out the wake word  
"Alexa," then command Amazon's AI assistant to play Beyoncé,  
turn on the lights or tell a joke. The Show's boxy

design and wide bezels aren't  
as cool as the cylindrical Echo.  
But it could hear me just as  
well as the original, and its  
speaker sounded slightly bet-  
ter (but still not great).

In some important ways,  
the Show is unlike anything  
we've seen before, whether  
the original Echo or its com-  
petitors Google Home and Ap-  
ple HomePod. The Show is  
part phone booth, part hands-  
free tablet, part countertop TV.

So what can the Show  
show? In its first week, the  
screen "skills"—Alexa's term  
for apps—suggest where  
things are headed:

It's a **senior-friendly**  
**video-call station** to use  
with people who also have a  
Show or the Alexa smart-  
phone app.

It can **pull up recipes** or  
**scan items to buy** from Am-  
azon.com.

It **plays Amazon and**  
**YouTube videos.**

It **shows lyrics** while  
playing music.

I wouldn't bet against the  
Show getting more skills fast:  
Amazon has proven more suc-  
cessful at lining up partners  
for Alexa than either Apple Inc.  
or Alphabet Inc.'s Google have  
for their talking assistants. One  
of the Show's first partner-  
ships pairs it with the Ring  
video doorbell. Just say, "Al-  
exa, show me the front door."

It'll also work with cameras  
from Nest, August and others.  
As a gadget pioneer, I'm  
willing to wait for more



Amazon's \$230 Echo Show is part phone booth, part hands-free tablet and part countertop TV.

skills. My problem is more  
fundamental: Living with a  
Show is too often pertur-  
bing—and occasionally creepy.

The first time I turned the  
Show on, the screen asked  
me if I'd like to subscribe to  
Amazon's Audible service. I  
couldn't proceed until I'd re-  
plied. ("No.") It was my first  
reminder that the Echo Show  
is as much an Amazon sales  
kiosk as a kitchen helper.

Once up and running, the  
Show started flashing a se-  
ries of calendar events, head-  
lines and usage tips. One  
read: "Video: Baseball Mascot  
Outruns Fan. Try 'Alexa, play  
the mascot video.'" That's  
one way to teach owners

about Alexa's ever-growing  
capabilities. I assumed the  
tips would eventually fade.

But they didn't. They keep  
refreshing every seven sec-  
onds. In the span of one  
minute, the Show nagged me  
to play Katy Perry and told  
me about a Batman-cos-  
tumed policeman. It felt like  
one of those elevator dis-  
plays took up residence next  
to my toaster. Voice-only Al-  
exa was well-bred enough to  
speak only when spoken to.

This much is a relief: An  
Amazon spokeswoman tells  
me the company has "no plans  
or future intentions to adver-  
tise products on Echo Show."

Eventually I found some

settings that let me remove  
the "trending topics" mes-  
sages, but not the tips. A Do  
Not Disturb mode stops in-  
coming calls and dims the  
screen. Using another setting,  
for the clock, you can turn off  
the screen completely in Do  
Not Disturb mode, until you  
call Alexa. This should be the  
default, not hidden in settings.

Bringing home an always-  
on screen can disrupt family  
life in other ways. For one,  
it's catnip for children. Unlike  
a regular TV, they can oper-  
ate it whenever they want,  
without a remote. It's cute  
when tykes ask Alexa for  
songs, weather and informa-  
tion but grating when they

beg for videos. Now that Al-  
exa can do so much, it's urg-  
ent for her to gain the abil-  
ity to recognize the voices—or  
faces—of family members.

The biggest head  
scratcher is that 5-megapixel  
camera. True, Amazon got  
millions of us to live with  
microphones, but cameras  
are a different beast.

One of the Show's headline  
features requires a very high  
level of comfort with being  
watched: "Drop in" mode lets  
approved friends turn on your  
camera and say hi, without  
requiring you to pick up the  
call. The nominal privacy  
protection is a 10-second count-  
down, in which the view into  
Lord-knows-what happening  
in your house is obscured by  
digital frosting. During that  
time, you can disable the  
camera or reject the call.

That function is optional,  
but another one isn't: To fig-  
ure out when to activate the  
screen, the camera remains  
on. You can cut off the camera  
with Do Not Disturb or with  
the same button that cuts off  
the Show's microphone—but  
using the button means the  
whole thing stops working.

The Show is a promising  
talking home computer and  
may appeal to people already  
heavily invested in Alexa's  
world. But it's a shame Am-  
azon's strange design choices  
muddy its potential. Walking  
the line between futuristic and  
creepy, the Show landed in the  
worst place of all: annoying.

## BUSINESS WATCH

TESCO

### Supermarket Chain To Cut 1,200 Jobs

**Tesco** PLC is cutting 1,200  
jobs at its head office, the latest  
round of cuts as the supermarket  
chain works to turn around its  
performance under Chief Ex-  
ecutive Dave Lewis.

"This new service model will  
simplify the way we organize  
ourselves, reduce duplication and  
cost but also, very importantly,  
allow us to invest in serving  
shoppers better," a spokesman said.

—Saabira Chaudhuri

MONSANTO

### Earnings Climb 18% Amid Soybean Gains

Higher soybean plantings in  
the U.S. this spring boosted bio-  
tech seed giant **Monsanto** Co.'s  
quarterly profit 18%, despite the  
broader slump in agricultural  
commodity prices.

"For soybeans, the momen-  
tum continues to be tremen-  
dous," President Brett Bege-  
mann said.

Chief Executive Hugh Grant  
said Monsanto's sale to German  
chemical conglomerate **Bayer**  
AG was progressing through  
antitrust reviews around the  
world. The \$57 billion deal to  
create the world's largest sup-  
plier of pesticides, seeds and  
crop genes is expected to close  
this year, Mr. Grant said.

For the quarter, U.S.-based  
Monsanto reported income of  
\$843 million, or \$190 a share,  
up from \$717 million, or \$163 a  
share, a year ago. Revenue from  
seeds and genomics, Monsanto's  
biggest business, fell 2.3% to  
\$3.1 billion despite strong results  
from the soybean-seed segment.

—Jacob Bunge

GAWKER MEDIA

### Judge Allows Subpoena of Thiel

A bankruptcy judge gave  
**Gawker Media** permission to  
subpoena Peter Thiel about his  
relationship with the lawyer who  
represented Hulk Hogan in the  
lawsuit that proved to be the  
publisher's undoing.

Judge Stuart Bernstein of the  
U.S. Bankruptcy Court in Man-  
hattan ruled Tuesday that  
Gawker has established cause  
for examining Mr. Thiel's rela-  
tionship with the lawyer, Charles  
Harder. Gawker seeks evidence,  
if any exists, that Mr. Thiel con-  
spired with Mr. Harder to de-  
stroy the media company.

Gawker's inquiry will be lim-  
ited by the settlement the com-  
pany signed last year with Terry  
Bollea, Mr. Hogan's real name.

—Jonathan Randles



PATRICK T. FALLON/BLOOMBERG NEWS

### Microsoft and Box Team Up

BY JAY GREENE

**Microsoft** Corp. cut a deal  
Tuesday with competitor **Box**  
Inc. to form a partnership on  
cloud-computing technology in  
an effort to get ahead in the  
emerging business.

Box, like Microsoft, offers  
web-based document-storage  
services. In years past, Microsoft  
might have shunned helping a riva-  
l, but three years into Chief  
Executive Satya Nadella's tenure,  
it is working more with competi-  
tors to win over customers.

"This is an example of where Mi-  
crosoft has really changed over  
the last three or four years," said  
Scott Guthrie, executive vice  
president of the company's  
Cloud and Enterprise group.

Box provides file-sharing and  
storage services to customers  
looking to stash documents, vid-  
eos and other types of data online.  
Microsoft's Azure cloud-  
computing service offers a  
technical foundation upon which  
companies like Box can run

their services, in addition to its  
cloud-computing applications,  
such as its OneDrive online ser-  
vice that competes with Box.

The two companies will

now work to better integrate  
their products and sell the  
combined services. In addition,  
Box will offer its products  
on Microsoft's Azure cloud-  
computing service. And Box also  
intends to use Microsoft's artifi-  
cial-intelligence technology, which  
could help customers with such  
tasks as video search and transla-  
tion services, Box co-founder and  
CEO Aaron Levie said.

Box already partners with  
Microsoft's cloud-infrastructure  
rival Amazon.com Inc. Customers  
can choose to run Box's services  
in Amazon Web Services data  
centers. Box will continue to work  
with Amazon, but Mr. Levie said  
the new deal, which includes inte-  
gration with Microsoft products  
as well as joint sales efforts of  
combined services, "goes well beyond  
what we've done with Amazon."

The deal also opens up mar-  
kets for Box where customers  
are required to keep their data  
stored in the countries in  
which they reside. In April  
2016, the company introduced  
Box Zones to address data-sov-  
ereignty issues; the service is

now available in eight coun-  
tries. A Box spokesman said  
the new partnership will allow  
Box to take advantage of  
Microsoft Azure's global footprint  
and offer in-region storage in  
six additional countries.

The combined sales effort  
will begin shortly. The tech-  
nology integration should occur  
over the next two quar-  
ters, Mr. Levie said.

For Microsoft, the deal builds  
on efforts to work with rival  
technologies, rather than fight  
them. Mr. Guthrie compared the  
move to Microsoft's embrace of  
the rival Linux operating system  
as well as its decision to make  
its Office productivity suite of  
programs available on Apple  
Inc.'s iPad.

Box isn't as fierce a competi-  
tor to Microsoft as Linux and  
**Apple** have been. The compa-  
nies have worked together be-  
fore. More than a year ago,  
they agreed to make Box's ser-  
vices work more smoothly with  
Office.

Still, Mr. Levie said he has  
noticed Microsoft's "new tone  
and tenor" in working with  
technology rivals, rather than  
just battling them.

—By Jay Greene

Continued from page B1

though, as its newest device,  
the AirPod headphones, were  
delayed several weeks by pro-  
duction challenges. It also  
missed out on sales of the  
iPhone 7 Plus, its highest-  
priced handset, during the De-  
cember quarter because of  
what Mr. Cook has acknowl-  
edged were mistakes in fore-  
casting demand and supply.

Anticipation of the new  
iPhone has helped push up Ap-  
ple's stock price to a record  
this year, although it has rec-  
ently lost some of those  
gains.

Challenges with some up-  
coming iPhone hardware fea-  
tures have stoked concerns  
about the potential for delays  
this year, specifically for the  
10th-anniversary handset. Sev-  
eral analysts say they expect  
it to be several weeks late  
because of challenges related  
to a new type of finger-  
print-verification technology. Apple  
also is running into problems  
with a lamination process dur-  
ing the device's assembly, mul-  
tiple analysts have reported.

"If they lose just one week,  
that's big numbers in terms of  
volume and a lot of revenue  
and a lot of angst," said Dan  
Panzica, a supply-chain analy-  
st at IHS Markit who follows  
Apple closely.

Apple previously ran into  
production delays in 2012 with  
the iPhone 5, which featured a  
new coating material that was  
more susceptible to scratches.

Broadcom Ltd., which sup-  
plies chips to Apple for the  
iPhone, fueled expectations of  
a delay during a June 1 ana-  
lysts call, saying initial pro-  
duction of a next-generation  
handset from a large North  
American customer has been  
"slower this year compared to  
prior years."

Broadcom didn't respond  
to requests for comment. Ap-  
ple declined to comment.

Apple's primary iPhone  
manufacturer, **Foxconn Tech-  
nology Group**, has time to im-  
prove production processes.

Still, supply-chain experts said  
the risk of delay is greater  
with the anniversary phone  
because it is expected to be

Apple's first with an organic  
light-emitting diode, or OLED,  
screen. OLED, made by only a  
few suppliers, is more flexible  
for phone design than the LCD  
screens in current iPhones.

OLED technology could en-  
able a thinner iPhone with  
better battery performance  
and a screen that bends  
around the phone's curved  
edges, according to display  
technology executives. But it  
also puts Apple at the mercy  
of its biggest competitor, Sam-  
sung Electronics Co., which  
has a 97% share of manufac-  
tured mobile displays in the

OLED market, according to the  
OLED Association.

Samsung's Galaxy S8 phone,  
a large-display phone unveiled  
in March, also features an  
OLED screen, putting Apple in  
the position of catching up.  
Wireless providers selling the  
iPhone are expected to con-  
tinue promotions for the Gal-  
axy S8.

With three new phones this  
year, Apple will be pressed to  
predict sales, supply-chain  
consultant John Haber of  
Spend Management Experts  
said, and the company will  
have to react quickly if it mis-  
reads demand forecasts for  
any of the three devices.

—Takashi Mochizuki  
contributed to this article.

Continued from page B1

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## BUSINESS NEWS

# Activist Funds Take Aim at Europe

Cheap valuations and greater protection for minority shareholders support the trend

BY LAURENCE FLETCHER

Activist hedge fund **Third Point LLC's** \$3.5 billion stake in **Nestlé** threatens to make life awkward for the world's largest packaged-food company. Several funds in Europe's nascent market for shareholder activism are already creating a nuisance for the region's companies for much less money.

Several managers have recently made trades in which they have snapped up shares in a European company controlled by a larger owner—often one trying to buy up the remaining shares of that company.

Using tactics ranging from letters to the board to threats of legal action, funds often allege unfair or abusive practices by the majority owner that they say could depress the value of their stakes. One possible outcome is that the bigger owner, either on merit or simply to put matters to bed, buys out the investor at a favorable price.

Hedge funds' calls for change are often strengthened because rules in some European countries can offer minority shareholders greater protection than they may be afforded elsewhere.

"The bet by the activist is that the bidder has got so much face invested in the company, are they really not going to pay an extra few percent?" said a senior executive at one of Europe's largest hedge funds, which runs more than \$10 bil-



STS Ansaldo workers in Italy. Elliott is involved in a dispute with the Hitachi-owned rail-signaling firm.

particularly attractive when markets are rising and the economy is improving, as has been the case in Europe since the start of the year.

A large investor trying to buy a majority stake or the entire company may be a signal to a hedge fund that the target company's underlying business is improving more quickly than the market realizes.

Meanwhile, rules in Europe, while fragmented across countries, tend to give smaller shareholders more protection than in the U.S. Thresholds at which minority shareholders can be forcibly 'squeezed out' of a company tend to be higher.

"A rising economy, in which people and companies are more confident about what's going on and where financing is readily available, is a perfect environment for squeeze-outs," said Christopher Rossbach, managing partner of London-based investment company J. Stern & Co. Squeezeouts is a term sometimes used to describe these trades.

Europe could see more of such trades because the different rules in different countries make for greater opportunities for arbitrage, he said.

In Europe—traditionally seen as hard work for little return for activists—campaigns are on the rise, helped by cheap valuations and a greater willingness among institutional investors to cooperate with activists. Last year 61 companies in mainland Europe were publicly subjected to activist demands, according to data firm Activist Insight, up from 48 the previous year and 28 in 2014.

This year, as of June 26, 35 companies have been targeted.

lion in assets.

Elliott Advisors, the European affiliate of Paul Singer's **Elliott Management Corp.**, is involved in a number of such battles. These include a dispute with Japanese electronics maker **Hitachi Ltd.**, the majority owner of Italian rail-signaling firm **STS Ansaldo**.

STS didn't respond to a request for comment.

The hedge fund, which this year set up a website to put forward its case, has highlighted what it says "appears to be the collusive nature" of Hitachi's purchase. "Hitachi has vigorously contested this claim at each possible occasion. No evidence of collusion has ever been provided," said a Hitachi spokesman.

Paris-based activist CIAM, already involved in a long-running legal dispute with **Walt Disney Co.** over its actions in relation to Euro Disney, has this month filed a criminal lawsuit over the way **Altice NV** has used the assets of telecom company **SFR Group**, which it majority owns. Last month CIAM wrote to SFR's board, expressing concerns about a fee it said would be paid to use Altice's brand. A spokesman for Altice said this issue had been "answered in a precise and complete manner without raising any comment" from CIAM.

"Majority shareholders often consider that minority shareholders don't exist," said Catherine Berjal, chief executive of CIAM, speaking more broadly. "We have to remind them that they do." She said the proportion of her portfolio focused on minority rights trades had risen in recent years.

Reade Griffith, founding partner at London-based **Polygon Global Partners LLP** who runs \$850 million in event-driven assets, said minority-rights trades were an area he sees as particularly attractive.

"European regulatory regimes are generally more protective of minority shareholders than you see in U.S. We keep a particularly close eye on changes in the ownership stakes of majority shareholders as part of our investment process," said Mr. Griffith.

While individual situations will vary, these trades can be

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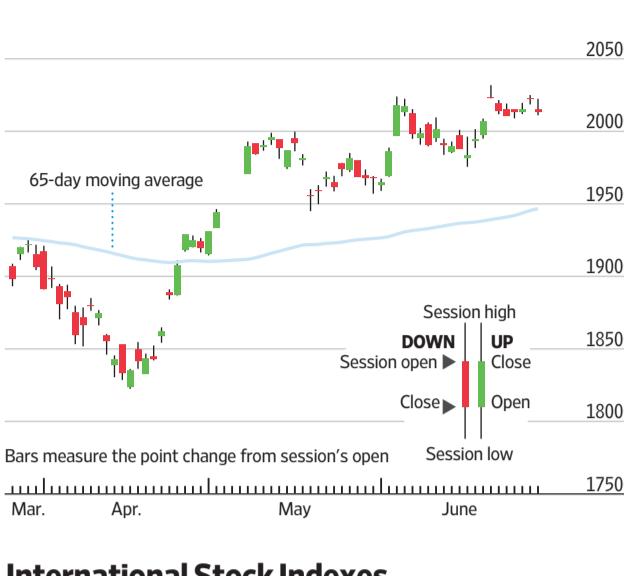
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## MARKETS DIGEST

### Nikkei 225 Index

**20130.41** ▲ 94.68, or 0.47%

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



Bars measure the point change from session's open

Session high  
DOWN UP Close  
Session open ► Close  
Close ► Open  
Session low

Mar. Apr. May June

### STOXX 600 Index

**385.82** ▲ 0.16, or 0.04%

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



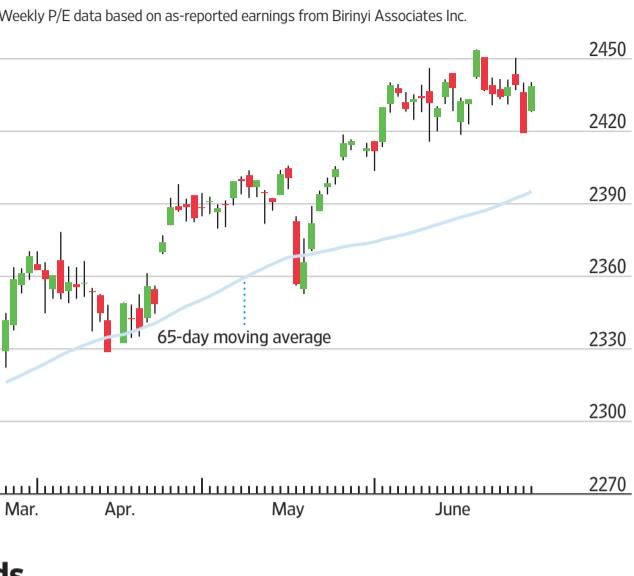
65-day moving average

Mar. Apr. May June

### S&P 500 Index

**2438.70** ▲ 19.32, or 0.80%

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



Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

Mar. Apr. May June

### International Stock Indexes

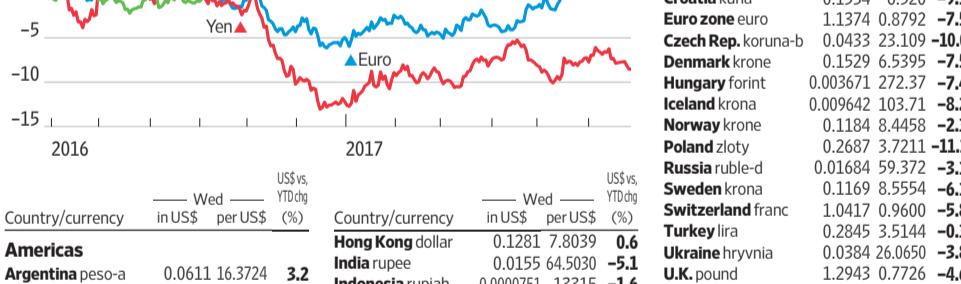
Data as of 12 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	<b>2787.45</b>	<b>19.42</b>	<b>0.70</b>	2285.55	2285.55	2791.48	2791.48	10.3
	<b>MSCI EAFE</b>	<b>1902.10</b>	<b>9.22</b>	<b>0.49</b>	1471.88	1471.88	1956.39	1956.39	10.8
	<b>MSCI EM USD</b>	<b>1011.54</b>	<b>-5.14</b>	<b>-0.51</b>	691.21	691.21	1044.05	1044.05	27.4
<b>Americas</b>	<b>DJ Americas</b>	<b>586.16</b>	<b>5.07</b>	<b>0.87</b>	498.56	498.56	588.61	588.61	8.5
Brazil	<b>Sao Paulo Bovespa</b>	<b>61912.27</b>	<b>236.81</b>	<b>0.38</b>	50009.45	50009.45	69487.58	69487.58	2.8
Canada	<b>S&amp;P/TSX Comp</b>	<b>15333.54</b>	<b>52.32</b>	<b>0.34</b>	13928.71	13928.71	15943.09	15943.09	0.3
Mexico	<b>IPC All-Share</b>	<b>49237.83</b>	<b>150.09</b>	<b>0.31</b>	43998.98	43998.98	50154.33	50154.33	7.9
Chile	<b>Santiago IPSA</b>	<b>3618.75</b>	<b>2.50</b>	<b>0.07</b>	3067.58	3067.58	3786.05	3786.05	12.3
<b>U.S.</b>	<b>DJIA</b>	<b>21469.35</b>	<b>158.69</b>	<b>0.74</b>	17456.02	17456.02	21535.03	21535.03	8.6
	<b>Nasdaq Composite</b>	<b>6199.91</b>	<b>53.29</b>	<b>0.87</b>	4732.34	4732.34	6341.70	6341.70	15.2
	<b>S&amp;P 500</b>	<b>2438.70</b>	<b>19.32</b>	<b>0.80</b>	2042.69	2042.69	2453.82	2453.82	8.9
	<b>CBOE Volatility</b>	<b>10.15</b>	<b>-0.91</b>	<b>-8.23</b>	9.37	9.37	23.01	23.01	-27.7
<b>EMEA</b>	<b>Stoxx Europe 600</b>	<b>385.82</b>	<b>-0.16</b>	<b>-0.04</b>	318.76	318.76	396.45	396.45	6.8
	<b>Stoxx Europe 50</b>	<b>3186.65</b>	<b>-4.88</b>	<b>-0.15</b>	2705.79	2705.79	3279.71	3279.71	5.8
France	<b>CAC 40</b>	<b>5252.90</b>	<b>-5.68</b>	<b>-0.11</b>	4062.07	4062.07	5442.10	5442.10	8.0
Germany	<b>DAX</b>	<b>12647.27</b>	<b>-23.75</b>	<b>-0.19</b>	9304.01	9304.01	12951.54	12951.54	10.2
Israel	<b>Tel Aviv</b>	<b>1436.23</b>	<b>-2.36</b>	<b>-0.16</b>	1372.23	1372.23	1490.23	1490.23	-2.3
Italy	<b>FTSE MIB</b>	<b>21047.80</b>	<b>256.94</b>	<b>1.24</b>	15293.10	15293.10	21828.77	21828.77	9.4
Netherlands	<b>AEX</b>	<b>516.39</b>	<b>-2.34</b>	<b>-0.45</b>	419.45	419.45	537.84	537.84	6.9
Russia	<b>RTS Index</b>	<b>1002.83</b>	<b>-0.96</b>	<b>-0.10</b>	898.05	898.05	1196.99	1196.99	-13.0
Spain	<b>IBEX 35</b>	<b>10702.70</b>	<b>54.80</b>	<b>0.51</b>	7857.80	7857.80	11184.40	11184.40	14.4
Switzerland	<b>Swiss Market</b>	<b>9076.73</b>	<b>3.81</b>	<b>0.04</b>	7585.56	7585.56	9148.61	9148.61	10.4
South Africa	<b>Johannesburg All Share</b>	<b>51596.84</b>	<b>164.60</b>	<b>0.32</b>	48935.90	48935.90	54716.53	54716.53	1.9
Turkey	<b>BIST 100</b>	<b>100617.69</b>	<b>979.04</b>	<b>0.98</b>	70426.16	70426.16	100617.66	100617.66	28.8
U.K.	<b>FTSE 100</b>	<b>7387.80</b>	<b>-46.56</b>	<b>-0.63</b>	6140.39	6140.39	7598.99	7598.99	3.4
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	<b>1626.48</b>	<b>-4.41</b>	<b>-0.27</b>	1351.93	1351.93	1643.59	1643.59	14.3
Australia	<b>S&amp;P/ASX 200</b>	<b>5755.70</b>	<b>41.50</b>	<b>0.73</b>	5142.40	5142.40	5956.50	5956.50	1.6
China	<b>Shanghai Composite</b>	<b>3173.20</b>	<b>-18.00</b>	<b>-0.56</b>	2929.61	2929.61	3288.97	3288.97	2.2
Hong Kong	<b>Hang Seng</b>	<b>25683.50</b>	<b>-156.49</b>	<b>-0.61</b>	20436.12	20436.12	26036.06	26036.06	16.7
India	<b>S&amp;P BSE Sensex</b>	<b>30834.32</b>	<b>-123.93</b>	<b>-0.40</b>	25765.14	25765.14	31311.57	31311.57	15.8
Indonesia	<b>Jakarta Composite</b>	<b>5829.71</b>	<b>...</b>	<b>Closed</b>	4834.57	4834.57	5829.71	5829.71	10.1
Japan	<b>Nikkei Stock Avg</b>	<b>20130.41</b>	<b>-94.68</b>	<b>-0.47</b>	15106.98	15106.98	20230.41	20230.41	5.3
Malaysia	<b>Kuala Lumpur Composite</b>	<b>1771.23</b>	<b>-8.22</b>	<b>-0.46</b>	1616.64	1616.64	1792.35	1792.35	7.9
New Zealand	<b>S&amp;P/NZX 50</b>	<b>7624.49</b>	<b>-1.86</b>	<b>-0.02</b>	6664.21	6664.21	7626.35	7626.35	10.8
Pakistan	<b>KSE100</b>	<b>46332.31</b>	<b>...</b>	<b>Closed</b>	37039.57	37039.57	52876.46	52876.46	-3.1
Philippines	<b>PSEi</b>	<b>7857.18</b>	<b>-19.19</b>	<b>-0.24</b>	6563.67	6563.67	8102.30	8102.30	14.9
Singapore	<b>Straits Times</b>	<b>3215.70</b>	<b>-3.83</b>	<b>-0.12</b>	2787.27	2787.27	3271.11	3271.11	11.6
South Korea	<b>Kospi</b>	<b>2382.56</b>	<b>-9.39</b>	<b>-0.39</b>	1953.12	1953.12	2391.95	2391.95	17.6
Taiwan	<b>Weighted</b>	<b>10390.55</b>	<b>-121.51</b>	<b>-1.16</b>	8575.75	8575.75	10513.96	10513.96	12.3
Thailand	<b>SET</b>	<b>1582.63</b>	<b>-3.82</b>	<b>-0.24</b>	1406.18	1406.18	1591.00	1591.00	2.6

Source: SIX Financial Information; WSJ Market Data Group

### Currencies

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



Source: Tullett Prebon, WSJ Market Data Group

London close on June 28

Country/currency	Wednesday	Wednesday	US\$ vs. per US\$ (%)
Country/currency	Wednesday	Wednesday	US\$ vs. per US\$ (%)
Hong Kong dollar	0.1281	7.8039	0.6
India rupee	0.0155	64.5030	-5.1
Indonesia rupiah	0.0000751	13315	-1.6
Japan yen	0.008917	112.15	-4.2
Kazakhstan tenge	0.003085	324.14	-2.9
Macau pataca	0.1253	7.9817	0.8
Malaysia ringgit-c	0.2326	4.2991	-0.6
New Zealand dollar	0.7306	1.3687	-5.2
Pakistan rupee	0.0095	104.725</td	

## BUSINESS NEWS

# Investors: Beijing Gave Banks an Edge

BY CHAO DENG

BEIJING—By asking banks to examine the borrowings of a few high-profile conglomerates this month, Beijing flagged its worries about these companies' overseas outreach, giving banks information the rest of the market didn't have.

The instructions were given to a group of banks including the four largest and some midsize ones on June 6, people familiar with the matter told The Wall Street Journal. But they only became known on June 22 after a morning of markets reacting to rumors centered on one of the companies, property and entertainment giant **Dalian Wanda Group**. Before noon that day, Shenzhen-listed shares of Wanda Film Co., the main listed unit of the group, fell nearly 10% before trading was halted. A Wanda-related bond also fell.

The Journal and local media reported in the afternoon that Chinese banks had started a broad risk assessment that went beyond Wanda's borrowings. Once that became clear, the value of the bond started recovering. Wanda Film shares regained some ground after trading resumed Friday.

The way the order was communicated quickly drew complaints from investors and academics, who said it enabled unfair trading as banks were in a position to pare holdings of Wanda and the other four groups—Anbang Insurance Group, HNA Group Co., Fosun International Ltd. as well as Rossoneri Sports Investment Management Changxing Ltd., the buyer of the AC Milan soccer club—before the rest of the market knew their loans were under scrutiny. It is unclear if the regulator also addressed the potential for trading by the banks.

The review order from China's banking regulator came as Beijing tries to get a

### Warning Signs

Sudden plunges in Wanda stocks and bonds last week had investors guessing.

#### Wanda Film shares

Trading in Shenzhen\*

60 yuan

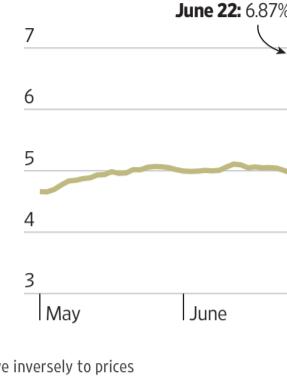


\*Trading in five-minute intervals

Source: Factiva

#### Dalian Wanda Commercial Properties bond yield†

8%



†Yields move inversely to prices

THE WALL STREET JOURNAL.

### News Flash

A new wave of rumors about a regulatory probe sparked losses in more companies.

#### HNA Holding Group shares

Trading in Hong Kong

HK\$0.36



Note: Trading in five-minute intervals

Source: FactSet

#### Fosun International shares

Trading in Hong Kong

HK\$13.00



THE WALL STREET JOURNAL.

lators' intentions have few ways to complain.

The China Banking Regulatory Commission "has placed a heavy focus on how to make sure the banks are running in a healthy way," said Tiecheng Yang, a lawyer in charge of financial regulation at Clifford Chance LLP in Beijing. The commission may be less committed to protecting retail investors, he said.

The protection of stock and bond investors is the responsibility of China's central bank and securities regulator, a task that sometimes collides with regulators' mandate to carry out the directives of the Communist Party leadership.

Some analysts say that if the regulator had publicly declared a probe of risks associated with some major Chinese companies' overseas expansion publicly, broader market turmoil would have ensued.

"They are not aiming to increase capital-market volatility," said David Millhouse, head of China research at brokerage Forsyth Barr Asia in Hong Kong.

As investors learned about the regulatory message to banks on the afternoon of June 22, Hong Kong-listed HNA Holding Group Co., a unit of HNA Group, fell 6%, while Fosun International Ltd. closed down 5.8%. Anbang doesn't have any listed units.

Wanda said in a statement on Friday that more than 6 billion yuan (\$876 million) of market value from its film subsidiary had been wiped out due to "rumors and slander" and that investors had gotten hurt. It stopped short of blaming the regulator's order for the turmoil, and said regulators hadn't yet made an assessment of the risk related to any of its borrowing.

It wasn't the first time Chinese regulators came under criticism over market turmoil that followed measures intended to reduce risk. Chinese stocks and bonds took a hit this year after Beijing's efforts to contain new borrowing left both banks and companies scrambling for funds.

Officials have turned more cautious in their approach, but companies and investors that feel blindsided by regu-

grip on runaway debt. On Monday, a top-level Communist Party meeting chaired by President Xi Jinping stressed the need to strengthen monitoring of Chinese firms' overseas investments and operations, according to the official Xinhua News Agency.

An analyst at Bank of China Ltd., Wang Youxin, said on Wednesday that the banking regulator wants to make sure overseas investments are "rational," with valuations of targets like hotels and football clubs highly fluctuating. He said the regulator also wants to clamp down on firms buying in order to move money abroad. China has suffered waves of capital outflows that threaten the stability of its financial system.

One institutional investor who had a big bet on Wanda bonds watched his investment turn from a profit to a loss as rumors swirled on Chinese social media, some of which said banks were dumping Wanda bonds because of "political risks."

The investor said that given the extent of losses in the market, the regulator should have come out to offer an explanation. The banking commission didn't respond to

a request to comment. It wasn't clear whether or to what extent banks had reacted to the directive by selling assets related to the companies mentioned. Bank of China began scaling back its holdings of Wanda bonds in early June, tagging those bonds as "risky," according to

China Construction Bank, the focus of one rumor, denied that it had sold Wanda holdings.

In a public letter to the head of China's banking com-



MARCO LUZZAN/GETTY IMAGES

Rossoneri Sports Investment Management, buyer of AC Milan, was among the firms under scrutiny.

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