

THE WALL STREET JOURNAL.

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WSJ.com EUROPE EDITION

DJIA 21397.29 ▼ 0.06%

NASDAQ 6236.69 ▲ 0.04%

NIKKEI 20110.51 ▼ 0.14%

STOXX 600 388.53 ▲ 0.01%

BRENT 45.22 ▲ 0.89%

GOLD 1247.60 ▲ 0.34%

EURO 1.1149 ▼ 0.19%

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U.K.'s May Makes 'Fair and Serious Offer' to EU



BREXIT KICKOFF: Prime Minister Theresa May is greeted by French President Emmanuel Macron and German Chancellor Angela Merkel in Brussels. Mrs. May made a proposal to European Union leaders that would allow EU citizens in the U.K. to stay once it leaves the bloc. A2.

Senate Releases Health Bill

Legislation would roll back Obama's signature law; four GOP senators oppose this version

U.S. Senate Republican leaders released a health-care plan Thursday that would undo major parts of the Affordable Care Act and transform a large part of the nation's health-care system by changing and cutting

the underlying funding for the Medicaid program.

The bill would reverse the law's expansion of Medicaid, a move that could affect millions of people, and eliminate the law's much-debated requirement that most

Americans pay a penalty if they don't have health insurance. The 2010 law, known as Obamacare, was former Presi-

dent Barack Obama's signature legislative achievement.

The Senate plan in many ways echoes a version passed by the House last month, but

it differs in significant details.

It was unclear if those differences, such as the shape of tax credits to help people buy insurance and a more gradual phasing-out of the Medicaid expansion,

would be enough to attract centrist Republicans without alienating conservatives in both chambers.

But the challenge quickly became evident when four conservative GOP senators—Ted Cruz of Texas, Ron Johnson of Wisconsin, Mike Lee of Utah and Rand Paul of Kentucky—is-

sued a statement saying they couldn't vote for the bill as it stood. Still, they said, they Please see HEALTH page A5

Qatar Airways Seeks 10% Stake in American

By ROBERT WALL
AND SUSAN CAREY

Government-owned Qatar Airways said it aims to buy as much as 10% of American Airlines Group Inc.—a brash attempt by the fast-growing Middle East carrier to push its way into the U.S. amid political upheaval back home.

American said Qatar Airways informed it of an intention to buy at least \$808 million of its stock on the open market, or roughly 16.7 million shares at Wednesday's closing price. American, the world's largest airline by traffic and revenue, has a market value of roughly \$24 billion.

American Chief Executive Doug Parker, in an interview Thursday, said Qatar Airways approached the airline in early June about the investment. He said he was "not happy" about the prospect and found the approach "puzzling and strange."

In Thursday afternoon trading, American Airlines shares were trading up 1.1% at \$48.97.

In a filing early Thursday, American said Qatar Airways Chief Executive Akbar Al Baker told it of the plan to acquire up to a 10% stake. In a separate statement, Qatar Airways said it would seek to build a 4.75% stake initially, then add to that after approval from American's board and U.S. regulators. Please see STAKE page A2

HANGOVER PLAGUES DIAGEO'S INDIA MOVE

Largest liquor company, 'King of Good Times' tycoon face legal quagmire

By DANIEL STACEY

MUMBAI—India's liquor market was for years a thorn in the side of Diageo PLC, the world's largest spirits maker. Then it met the "King of Good Times."

Vijay Mallya, a billionaire fond of mullet haircuts, diamond earrings, sports and lavish parties, invited Diageo executives to his Mumbai residence in early 2012 and

offered them a deal for a majority stake in India's largest liquor maker, which he controlled.

Diageo was desperate to break into India and had long coveted United Spirits Ltd. As the two sides began discussions, the challenge of absorbing the company and its freewheeling founder became increasingly obvious.

The liquor company was intricately, and confusingly, in-

tertwined with Mr. Mallya's wider business empire, which was crumbling.

His airline company was low on cash. To prop it up, he had advanced money from his liquor business, recording the payments on a handwritten ledger he showed the Diageo executives gathered in his home, according to two people familiar with the meeting and the ledger itself, which was reviewed by The Wall Street Journal. The Diageo executives also learned payments were being made to political figures in some key Indian states where United Spirits operated, the two people say.

Diageo subsequently bought a 55% stake in United Spirits for \$3.2 billion, the largest food-and-beverage transaction in Indian history. Five years later, its gamble on Mr. Mallya's business has made India the second-largest market for its brands, which include Johnnie Walker whisky and Smirnoff vodka. The man who orches-

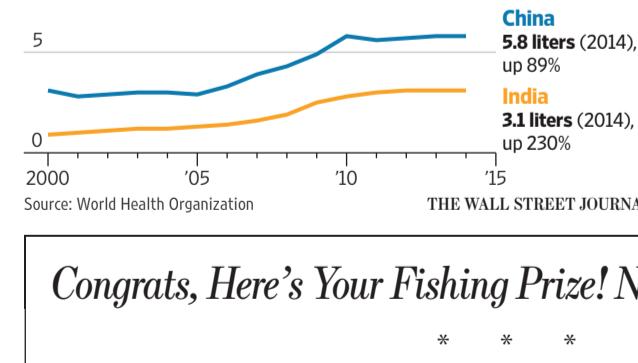
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◆ Heard: Why Diageo is splurging on tequila..... B8

Intoxicating Growth

India's increasing appetite for alcohol has made it an alluring market for international drinks brands.

Per-capita alcohol consumption



Source: World Health Organization

U.K. 10.7 liters (2015), up 0.7% since 2000

U.S. 8.8 liters (2014), up 7.4%

China 5.8 liters (2014), up 89%

India 3.1 liters (2014), up 230%

THE WALL STREET JOURNAL.

A Farewell to Otto Warmbier



SOLEMN TASK: Mourners carry the casket of Otto Warmbier in Wyoming, Ohio. Mr. Warmbier, 22, died Monday after returning home in a coma from North Korea following 17 months of captivity. BILL PUGLIANO/GETTY IMAGES

China Probes Debt At Big Deal Makers

China's banking regulator is conducting a sweeping check on the borrowings of some of the country's top overseas deal makers, according to people

By Lingling Wei
and Wayne Ma in
Beijing and James T.

Areddy in Shanghai

Please see PROBE page A2

for flamboyant owners, political connections and acquisitive appetites. One is Anbang Insurance Group Co., whose chairman, Wu Xiaohui, has been detained by investigators of economic crimes, according to people familiar with the matter. Also on the list is HNA Group Co., one of China's most aggressive overseas investors; Fosun International Ltd., whose chairman dubs himself as China's Warren Buffett; and Dalian Wanda Group, a property giant that recently has branched out

Please see PROBE page A2

Congrats, Here's Your Fishing Prize! Now For the Polygraph

* * *

Because fishermen tell tall tales, tournaments are testing winners

By JOHN CLARKE

Phil Heasley, a fisherman from Naples, Fla., motored out of Harbour Island Marina in Ocean City, Md., with a crew on a Tuesday in August 2016 before dawn on board his 68-foot boat, the Kallianassa. Seventy miles out into the Atlantic Ocean, just after 8:30 a.m., they baited hooks and let out some line as they trolled the waters moving around 5 knots. All was quiet until they got a bite at 8:48 a.m. and the yellow fishing line quickly unspoiled off the reel. Mr. Heasley fought the fish for 10 minutes, his rod bending to

the boat rails, before the crew gaffed and hauled it on board. It was the fish of a lifetime—a 76.5-pound white marlin that won him the world's largest annual billfish tournament, the White Marlin Open, and \$2,818,662 in prize money. He swears it happened just like that.

Fishing is full of tall tales

Please see FISHY page A6

INSIDE



THE VACATION RENTAL REVOLUTION

OFF DUTY, WI

BUYING A HOME SIGHT UNSEEN

MANSION, W9

WORLD NEWS

BRUSSELS BEAT | By Stephen Fidler

U.K. Mistakes Brexit Talks for Poker, or War

 Friday marks a year since the British referendum vote to leave the European Union. The 12 months leading up to the start of negotiations this week haven't been auspicious.

Both sides have traded insults. "The hostile, almost juvenile, rhetoric from both London and Brussels has been deeply worrisome and needs to stop," said Tim Cullen, director of the Oxford University Program on Negotiation.

If Brussels has unhelpfully scaled up some of its demands, with officials suggesting privately that the U.K. might face a bill of €60 billion to €100 billion (\$111 billion) or more on departure, London seems to have forgotten some important rules of international negotiations. Among them: This isn't poker and it isn't war.

The EU has been much more explicit about its opening positions on the negotiations. The U.K. has been less so, perhaps because it is still working them out. But Prime Minister Theresa May has

suggested another motive, saying she wouldn't give a "running commentary" on Brexit negotiations in order not to "reveal our hand prematurely" to the EU.

Simon Tilford, deputy director of the pro-EU Center for Economic Reform, says this approach misunderstands the nature of such negotiations. It isn't poker because you can't hide your cards.

"The British government cannot engage in bluff because the EU knows exactly what cards Britain holds, and they know they're not very good. Britain can walk away, but the EU sees that as an empty threat," he said.

Ngaire Woods, dean of Oxford University's Blavatnik School of Government, says the U.K. has made other classic negotiating mistakes. The first was to imagine it is going into battle.

This approach encourages negotiators to obscure their real intentions so as to defeat their foes, perhaps with a last-minute deception along the lines of D-Day. "But Brexit is not D-Day," Ms. Woods argues



Prime Minister Theresa May at the EU summit in Brussels.

GONZALO FUENTES/REUTERS
to secure this partnership are still unknown.

In the past, British ministers have boasted that they see themselves in the driver's seat. Brexit minister David Davis, speaking in October, suggested Germany's desire for free trade in cars and access to the City of London's financial center were just two among many issues that gave the U.K. the upper hand in the talks.

"In many areas—not just the City, and not just as regards cars—the balance of negotiating advantage is increasingly heavily stacked our way," Mr. Davis told Parliament.

European officials don't see it that way, saying what gives them clout in the negotiations is size: The EU economy is far more important than the U.K.'s. EU exports to the U.K. represent about 3% of the bloc's economic activity while U.K. exports to the EU more than 12% of British output. The British capitulation to the EU's negotiating timetable this week emphasizes which is the stronger party, they say.

In their public statements,

EU governments have repeated their priority is maintaining the bloc's unity. They want a close economic relationship with the U.K., including with its car industry and the City of London. But they are convinced they can cope with the fallout from a failure to secure a deal—something they believe would create an economic disaster for the U.K. They don't take seriously, therefore, Mrs. May's suggestion that "no deal is better than a bad deal."

"The basic fact remains that the U.K. is in a weak position because of the disparity in size," Bruno Maçães, a former Portuguese secretary for European affairs, told the Royal United Services Institute. "What I hear from all sides in Brussels is that the EU has very few things it either needs or wants from the U.K."

The one issue sometimes mentioned, he said later, is for the U.K. to commit not to use tax and regulation aggressively to undercut the EU's competitiveness. Other than that, he said, when he asked Brussels-based bureaucrats what the EU wanted from Britain, "I just drew blank stares."

May Broaches Citizens' Rights With EU Leaders

By JENNY GROSS
AND VALENTINA POP

BRUSSELS—British Prime Minister Theresa May on Thursday set out proposals that would give European Union citizens living in the U.K. the opportunity to stay once it leaves the bloc, kicking off discussions on an issue that could be an early stumbling block in Brexit talks.

Mrs. May, speaking at the end of a dinner with the other 27 EU leaders, said she wanted to provide clarity to the roughly three million EU citizens living in the U.K., whose future status there has hung in question since the U.K. voted a year ago to leave the bloc.

EU leaders didn't respond to Mrs. May's proposals, saying the discussions would take place in another forum.

officials have suggested.

The U.K. has also erred, she says, by focusing exclusively on its own interests. Every specialist on negotiations advises that understanding the other parties' interests is essential for success.

The EU knows what the U.K. says it wants: Mrs. May repeated this week that Brexit "is about building a new, deep and special partnership with our European friends and neighbors." But exactly what that means and what obligations Britain will be willing to accept

people living in the EU. The EU has already said it was seeking the full range of rights and benefits EU and British citizens currently enjoy on each others' territories.

Mrs. May said EU citizens who arrive before a yet-to-be-determined date—likely between this year and 2019—and have remained in the country for at least five years could apply to stay indefinitely and

receive the same rights as U.K. citizens. Those who have stayed for fewer years would have a path to eventually apply for that status.

While these proposals may be palatable to EU leaders in their general outline, the tougher challenges will be working out the details, such as what rights would apply to the families of EU citizens living in the U.K. after Brexit.

The host of the Brussels summit, Donald Tusk, played down expectations about a detailed Brexit discussion during the dinner.

"It must be clear that the European Council is not a forum for the Brexit negotiations. We have our negotiators for this, and so leaders will only take note of these intentions," he said ahead of Mrs. May's presentation.

PROBE

Continued from Page One
into entertainment.

The fifth company on the list is Rossonei Sports Investment Management Changxing Ltd., which made headlines with its acquisition this year of Italian soccer powerhouse AC Milan.

The five are famed for bold international bets on big brand names, opaque structures and a dizzying amount of deal making. Excluding Rossonei, they accounted for a whopping \$57 billion in overseas investment since the beginning of 2015—15% of Chinese firms' total, according to Dealogic.

"They're all guys that have engaged in high-profile marquee international acquisitions," from soccer clubs to Hollywood businesses, said Bill Bowler, an equity-sales trader at Forsyth Barr Asia in Hong Kong. The regulator's

Liu Zhiqing, an official at the banking regulator, declined to comment on the issue but said big companies are naturally a focus of the regulator when it comes to systemic risk, a phrase increasingly used by regulators.

Share prices of several listed units of the groups plunged on word that some banks have been selling the groups' bonds. Bank of China Ltd., for instance, began scaling back its holdings of Wanda-issued bonds in early June, tagging those bonds as "risky," according to a person familiar with the situation. China Construction Bank has grown increasingly cautious about exposure to HNA's international deals, according to a banker there.

Shenzhen-listed shares of Wanda Film Co., the entertainment unit of Wanda Group, controlled by Wang Jianlin, were suspended Thursday afternoon after falling nearly 10%. In a statement, the company denied that banks had dumped Wanda's bonds. Hong Kong-listed HNA Holding Group Co., a unit of HNA Group, fell about 6%, while Fosun International closed down 5.8%. Anbang has no listed entities.

HNA didn't have an immediate comment. Rossonei couldn't be reached. A Fosun spokeswoman said operations are normal; she didn't elaborate. Anbang didn't immediately respond to a request for comment. Wanda declined to comment on the probe.

The probe into these companies' borrowing is part of a campaign aimed at safeguarding China's financial system from potential risk ahead of a major Communist Party shuffle later this year.

A surprise of this is regulators' questioning of high-profile private tycoons, who in many cases have ties to the party elite. But Chinese President Xi Jinping has appeared less enamored than past administrations with the country's "red capitalists."

Mr. Wu, who disappeared this month, was the biggest name to face investigators since the brief disappearance in 2015 of Fosun co-founder Guo Guangchang for what the company described as assistance with investigations.

Anbang has described Mr. Wu's absence as temporary.

—Phred Dvorak and Julie Steinberg in Hong Kong and Chao Deng and Grace Zhu in Beijing contributed to this article.

move has already sent shock waves through Chinese markets and could rock the deals world, where the groups are well known.

Fosun and Anbang have both relied on insurance units to build scale and to pivot overseas. While neither name is well-known outside business circles, each boasts landmark assets. Fosun owns Cirque du Soleil and Club Méditerranée SA, while Anbang owns New York's Waldorf Astoria and Essex House hotels.

The investigation started on June 6, when officials at the China Banking Regulatory Commission held what was described as "urgent" conference calls, asking lenders to look over loans made to the five groups as well as the guarantees provided by banks to let them borrow overseas.

The goal, one of the people said, is "to examine those companies' leverage situations and risks." Banks are required to report the results of their checks to the regulator, which then will assess whether lenders should cut down their exposure to the companies, the people said.

Embattled South African Leader Faces New Pressure



GROWING CRITICISM: Opposition party leader Bantu Holomisa, center, speaks in Johannesburg after the country's top court ruled that lawmakers can cast secret ballots in a no-confidence vote on President Jacob Zuma. No date has been set for a vote.

STAKE

Continued from Page One

ulators. It said it sees American as a "strong investment opportunity" and intends its investment to be a "passive position."

Foreign ownership stakes in U.S. airlines are relatively rare but not unprecedented. U.S. law allows foreigners to hold up to 25% of voting shares and 49% economic interest in a U.S. airline. British Airways once held a 25% stake in US Airways. British entrepreneur Richard Branson owned a large minority stake in Virgin America.

Qatar's proposed investment in American would be more unusual: The two have been on opposite sides of a bitter air-industry fight. U.S. and European carriers have accused Qatar Airways and two other Gulf airlines, Emirates Airline and Etihad Airways, of benefiting from government ownership and subsidies. The fast-growing Gulf carriers have denied that.

American, based in Fort Worth, Texas, said that it hadn't sought the investment and that the proposed move wouldn't affect its management or strategic direction. American said it also wouldn't stop the airline from pursuing its subsidy claim against the Persian Gulf carriers.

American's incorporation rules prohibit anyone from acquiring 4.75% or higher in the airline without board approval.

American said Qatar has filed for separate antitrust approval with the U.S. Federal Trade Commission and the Justice Department.

The deal could potentially face review by the Committee on Foreign Investment in the U.S., according to a former government official that had CFIUS responsibilities. CFIUS is a multiagency body that can recommend the president block foreign deals on national security grounds. If a shareholder agreement backs Qatar Airways' statement that it intends to be a passive investor, then the deal probably wouldn't come under CFIUS review, the former official said.

American Airlines, as of April filings, had five shareholders above the 4.75% threshold, including Warren Buffett's Berkshire Hathaway Inc., which has a 10% stake. On the surface, the move echoes Qatar Airways' investment in British Airways parent International Consolidated Airlines Group SA. Qatar Airways initially acquired 9.9% in IAG in 2015, before raising its stake to about 20% in several share purchases. While it hasn't interfered with running the airline or taken a board seat, cooperation between Qatar Airways and British Airways has blossomed.

Qatar Airways has taken stakes in other airlines including South America's Latam Airlines Group. It also is taking a stake in Italy's Meridiana and has said it wanted to set up a carrier in India.

"It's a strategic investment" in the U.S. market, said Daniel McKenzie, an analyst at Birmingham Research Group. The U.S. is Qatar's top destination and accounts for 8% of its total flying, he said.

The disclosure comes as the nation of Qatar, a crucial U.S. ally in the Middle East and host to a major overseas military base, is coping with an economic blockade levied this month by Saudi Arabia, the United Arab Emirates, Bahrain and Egypt.

Those countries cut diplomatic and transport links to Qatar, accusing it of supporting Islamist groups and extremists in the region. Doha denies that it supports extremists. President Donald Trump seemed to support the blockade on Twitter, though the State Department has since asked Saudi Arabia and the United Arab Emirates, Bahrain and Egypt.

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2013 merger with US Airways Group Inc.

American continues to be dead set on convincing the U.S. government that state support for Qatar Airways and the two other large Gulf airlines is hurting the U.S. industry and American jobs, Mr. Parker said.

The proposed investment "is confusing to our team and we don't like that," he said.

—Doug Cameron, Imani Moise and Nico Parasie contributed to this article.

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WORLD NEWS

Migrants Stream Back to French 'Jungle'

Hundreds take refuge in port town, long a gateway for refugees trying to reach U.K.

By NOEMIE BISSEBERE

CALAIS, France—Migrants are returning to the French side of the English Channel, saddling France's newly elected president with a humanitarian and diplomatic challenge that has long bedeviled the European Union.

Hundreds of migrants from Afghanistan, Syria, Iraq and Africa have taken refuge in wooded areas around the port town of Calais, which for decades has served as a gateway for refugees trying to reach the U.K. The seasonal flow defies efforts by the predecessor of President Emmanuel Macron to dismantle the notorious refugee camp known as the Jungle. Last year, Paris relocated thousands of refugees to other parts of France.

Their return is likely to exacerbate tensions along the channel just as Brexit negotiations get under way. Immigration to the U.K. of both documented and undocumented migrants was a major factor in Britain's vote last year to leave the economic bloc.

Mr. Macron has said that in light of Brexit, France and the U.K. should renegotiate a 2003 border treaty that put the onus on France to secure the border.

Under that agreement,



Migrants this month gathered on a pile of loose dirt in Calais, France, near the site of the former refugee camp known as the Jungle.

PASCAL ROSSIGNOL/REUTERS

known as the Touquet accords, London provides some border agents and helps finance security walls and razor wire on the French side of the channel just as Brexit negotiations get under way. Immigration to the U.K. of both documented and undocumented migrants was a major factor in Britain's vote last year to leave the economic bloc.

But France processes the vast majority of asylum claims made by those hoping to reach the U.K. French police also deploy in large numbers across the port to not only bar entrance to the tunnel, but also maintain public order in areas that are seasonally flooded with migrants.

On Tuesday, a truck driver died in an accident after migrants placed tree trunks on the highway, police said. Migrants typically obstruct the roadways leading into the tunnel so they can clandestinely board the vehicles and sneak into the U.K. Nine Eritreans were detained by French police.

About 30 migrants are discovered every day hiding in the back of a truck at border controls, said Gilles Debove, a police officer in Calais. "It's starting again."

The perennial problem has fueled support around Calais

for the far-right National Front. Half of the eight National Front candidates elected to Parliament last week—including party leader Marine Le Pen—will represent areas around Calais.

For more than a decade, migrants have taken advantage of the free movement within the EU to hopscotch across the region and reach their preferred destinations. The U.K. remains a magnet due to its looser labor rules, multicultural cities and the ability of many migrants to speak at least some English.

Farid Kahn, a 23-year-old

from Afghanistan, arrived in Calais a few weeks ago after transiting through Italy.

"I sold three homes in Afghanistan to pay for my journey to England," he says. "I speak English and studied computer science. I could get a job there."

Mr. Macron says the solution to stemming the flow of migrants is to reinforce the borders of countries at the edge of the EU, such as Greece and Italy. A staunch pro-European, he doesn't want to restrict travel between France and its European neighbors—a measure

favored by Ms. Le Pen.

"Macron wants to let migrants into the country, but he does nothing to take care of them," says Emanuel Candas, 52, an employee at a mechanical contractor who works across the street from an area where meals are distributed by aid workers in Calais.

One way for Mr. Macron to relieve political pressure is to make it easier for migrants bottled up in Calais to leave France. The Touquet accords aren't part of Brexit negotiations, and Mr. Macron has pledged not to engage in separate bilateral talks with the U.K. that might undercut negotiators in Brussels. Still, the accords allow either of the signatories to withdraw unilaterally.

For now, French authorities continue to play cat-and-mouse. Migrant camps were dismantled in 2002 and 2009, but many more returned in subsequent years.

On a recent afternoon, a white truck carrying food for migrants parked near a canopy of trees. About 400 migrants emerged from hiding to stock up on supplies. Moments later, police came and chased them away.

Aid workers say police are using excessive force against migrants and trying to prevent them from distributing meals. On Thursday, a spokesman for the French government said police chiefs "had been given instructions for more flexibility and humanity to be shown."

EU Leaders Back Joint Defense Plan

By LAURENCE NORMAN
AND JULIAN E. BARNES

joint projects now do.

EU foreign policy chief Federica Mogherini has said she hopes to launch PESCO by year-end, a goal EU leaders backed Thursday, according to people briefed on discussions.

Still, important differences remain. Some countries, particularly Germany, have pushed for easier entry criteria, allowing more countries to participate.

France, in contrast, wanted to ensure that participating countries made ambitious pledges of money and material from the outset. That could allow PESCO to provide a platform for groups of EU countries to undertake demanding overseas operations.

German officials have said they favor early projects that don't involve combat operations. They have suggested the first projects should focus on plans like a common European medical evacuation facility or drone technology.

Angela Merkel acknowledged "conceptual differences" between France and Germany.

Pauline Massart, the deputy director for security and geopolitics at Friends of Europe, a Brussels-based think tank, said there is strong momentum behind the common defense project, but "it could falter on technicalities or political will."

"France has been okay with being a big military power and is well-supported by French citizens," said Ms. Massart. "That obviously in Germany is less acceptable."

But EU diplomats say differences between Berlin and Paris may be narrowing. They say while France is signaling more patience on how quickly to scale up PESCO projects, Germany is signaling it will make a serious commitment to joint initiatives.

—Valentina Pop and Stacy Meichtry contributed to this article.

U.K. Warns More Towers at Risk

By DENISE ROLAND
AND WIKTOR SZARY

LONDON—The U.K. government warned that hundreds of public-housing high-rises across the country could be covered with the same cladding suspected of contributing to the quick spread of a fire that incinerated an apartment tower in London last week, killing at least 79 people.

The government on Thursday said it had identified about 600 publicly owned residential towers that had installed some form of cladding—an exterior facade often used to make a building more energy efficient or improve its outward appearance. Authorities are now testing the cladding on those buildings to determine how many used the same material as Grenfell Tower, the site of the disaster.

British Prime Minister Theresa May, in an appearance before Parliament on Thursday, said a number of buildings had already been found to contain "combustible" cladding.

A spokesman for the prime minister's office said that so far cladding samples from seven high-rise public-housing buildings in four local government areas have failed the flammability tests. The tests are continuing and this number could rise, he said.

During a refurbishment of Grenfell Tower completed last year, contractors installed a widely used material on the exterior of the building. It consists of an aluminum shell and a flammable plastic filling.

The cladding material, called Reynobond PE and made by Arconic Inc., is marketed around the world. In the U.S., its use is generally limited to lower buildings because of fire-safety concerns.

U.K. officials have said the material didn't meet building standards for towers above 18 meters, or about 59 feet, tall.



ANDREW PARSONS/IMAGES/ZUMA PRESS

But British building industry experts and the British company that supplied the material to Grenfell Tower contractors maintain that it is compliant with current building codes.

Arconic makes a similar product, Reynobond FR, using a fire-retardant filling. It wasn't used in the Grenfell Tower refurbishment.

The cladding has become a focus for authorities in the aftermath of the fire because video footage of the blaze appeared to show flames spreading fast up the building along its exterior. Recent fires in France, Australia and the United Arab Emirates have involved quickly spreading flames along buildings' exterior cladding, as well, raising global concerns about such material.

It isn't clear if any of those fires involved the exact same cladding as that covering the 24-story Grenfell Tower.

British authorities are conducting a criminal investigation into the fire.

British fire-service officials and others were now involved in a large-scale testing operation, soliciting samples of building materials from across Britain to test. Mrs. May suggested the U.K. would relocate residents in towers that were identified as containing flammable cladding. Such a move could involve relocating tens of thousands of residents.

The Grenfell Tower's cladding is a focus of the investigation into the deadly blaze.

"We cannot and won't ask people to live in unsafe homes," she told Parliament.

London Mayor Sadiq Khan called for the government specifically to rehouse residents affected. "There is now a huge amount of work to urgently do to ensure that it is safe for people to remain in

properties affected. If not, the government must support people being rehoused immediately while cladding is being removed."

The U.K. Department for Communities and Local Government has said such cladding isn't compliant with building regulations, citing rules that say any insulation used in external wall construction for high-rise buildings should be of "limited combustibility." A spokesman repeated that position Thursday morning.

But others inside the industry have contested the government's interpretation of that rule. This week, CEP Architectural Facades Ltd., the company that supplied the cladding material, said Reynobond PE does comply with building regulations in England and Wales. CEP provided the cladding to a separate contractor, Harley Facades Ltd., which installed it as part of the refurbishment.

Harley Facades last week said it would be inappropriate to comment on any aspect of the fire or its causes in advance of the investigation and that it wasn't aware of any link between the fire and the exterior cladding to the tower.

A spokeswoman for Arconic said the company fully supported the authorities as they carry out their investigation.

Both Harley and Arconic declined to comment on whether Reynobond PE was compliant with building regulations.

Arnold Tarling, a chartered surveyor and fire-safety expert, said building regulations did allow for cladding to contain flammable substance, as long as it was "fully bonded" to a non-combustible material like aluminum, as is the case with Reynobond PE. He said cladding wasn't generally viewed as insulation but that, even if it were, then bonding aluminum sheets to both faces would make it compliant.

WORLD WATCH

BRAZIL

At Least 21 Die After Truck Hits Vehicles

A truck laden with rocks collided with a bus and two ambulances Thursday, killing at least 21 people and injuring nearly 30 in southeastern Brazil, police said.

The accident occurred near the city of Guarapari in the state of Espírito Santo when the truck slammed into the bus and the two ambulances behind it that were coming in the opposite direction.

The press office of the state's

Public Security Department said the truck driver and an ambulance driver were among the dead as were at least 13 of the 32 bus passengers.

—Associated Press

Macron Says Assad Can Stay for Peace

President Emmanuel Macron said removing Syrian leader Bashar al-Assad from power shouldn't be a precondition for a peace deal, his first major for-

ign-policy departure from the stance of his predecessor, François Hollande.

Mr. Macron, however, drew a "red line" against Mr. Assad using chemical weapons.

—Matthew Dalton

AFGHANISTAN

Car Bomb Kills 34 In Southern City

A car bomb killed 34 people in the southern city of Lashkar Gah, an Afghan official said, the latest in a string of attacks in

Helmand province where Taliban militants are closing in on the provincial capital.

The Taliban claimed responsibility for the bombing, which targeted a branch of the New Kabul Bank, said Omar Zwak, spokesman for the provincial governor.

The group has carried out a number of attacks in the past targeting civilians and government employees in Kabul Bank branches.

In addition to the 34 killed, he said more than 60 people were wounded, most of them civilians.

—Habib Khan Totakhil



ABDUL KHALIQ/ASSOCIATED PRESS

WORLD NEWS

Iraqis Move To Punish ISIS Families

BY BEN KESLING
AND GHASSAN ADNAN

BAGHDAD—Local governments in northern Iraq are seeking to punish the families of Islamic State members, in defiance of warnings by the nation's leader that the policy will further fragment the country as it emerges from years of war.

The city council of Mosul passed an ordinance this week saying it would expel all families of those who had joined the extremist group, as a neighboring province said it would refuse to accept any of those forced to leave.

U.S.-backed Iraqi forces have battled for eight months to push Islamic State from Mosul, the militant group's last major stronghold in the country. Tensions have been high, as residents who have lived under three years of brutal occupation clamor for retribution, sometimes with public protests.

The federal government fears that large-scale retaliation could inflame resentments. Iraqi Prime Minister Haider al-Abadi, once criticized for being slow to address the issue, has said a family should not be punished for the crimes of just one person, citing verses from the Quran to support his position.

He has empowered federal forces—the only ones with any real power—to prevent such punishments, either through force or by refusing to take part in such efforts. A member of the National Security Service, the country's intelligence force, near Mosul said it has orders to prevent a deportation from Mosul.

Mr. Abadi has been in conversation with local lawmakers to try to forestall such measures and routinely mentions the issue in his weekly addresses to the nation. When protests hap-

pen, representatives of the federal government have been known to calm the situation.

During its 2014 blitz though vast swaths of the country, the Sunni radicals of Islamic State took over much of the three Sunni-majority provinces of Shiite-dominated Iraq—Anbar, Salahuddin and Nineveh, where Mosul is located. As Islamic State loses territory to Iraqi forces, families across the country who have been pushed out of their homes can end up in displaced person camps with no real prospects.

"Kicking out Daesh families is a key thing and a natural reaction by people to what they have been subject to by Daesh terrorists," Zuhair al-Jabouri, a Mosul district councilman, using the Arabic acronym for Islamic State, said following the Monday vote. The council, which was exiled to nearby Erbil during Islamic State occupation, reformed in Mosul after much of the city was retaken.

While Mosul councilmen have said they hope the families will be sent to some sort of rehabilitation camp, the governor of neighboring Salahuddin province said Wednesday that he will refuse to accept any of those expelled.

"Let deported Daesh families go somewhere else," said Khalid al-Kazraji, a Salahuddin provincial council member. "We try to keep our province safe."

"A few days ago...thousands of people protested against the presence of Daesh families in Mosul and tried to attack such families and kick them out," said Mohamed Ibrahim, head of the Nineveh provincial council's security committee. "We should deal with it quickly before things get out of control."

In Anbar, tribal authorities came together last year to ex-



Men who fled fighting in western Mosul in March were separated from their families for investigation into possible links to ISIS.

pel such families from their homes in cities, and eventually the provincial government also supported the move, saying that leaving families in place could foster a cycle of revenge. At the time, the central government did little to prevent such actions.

Baghdad hasn't tried to resettle such families in their old homes, some of which have been destroyed.

In makeshift housing outside a village in Anbar, 65-year-old Ahmed Agool said he hasn't been allowed to return to his home in the city of Khaldiya, where his house was destroyed during the military operation against Islamic State. "Everyone blames me because of my son who joined Daesh."

The man, who has lost everything, laments his son's decision to join Islamic State and the authorities' refusal to believe his disapproval of it.

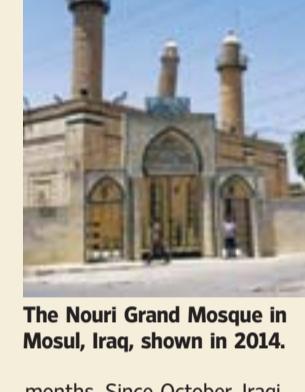
"I denounced my son," he said. "I went to the court in Ramadi and the police office there and denounced my son because he joined Daesh." But that changed nothing, he said.

Mosque is Bombed As Troops Close In

ERBIL, Iraq—Islamic State militants bombed the historic Nouri Grand Mosque in Mosul, Iraq's military said, destroying the site where their leader announced the creation of a self-declared caliphate straddling Iraq and Syria.

The destruction of the mosque came as Iraqi counterterrorism forces approached within 50 yards of the structure, in the final push of an eight-month campaign to reclaim the last major urban territory controlled by Islamic State in the country.

The mosque had become a symbol of the group's control of large swaths of Iraq in 2014. Its destruction comes nearly three years to the day since Abu Bakr al-Baghdadi used the landmark to announce the creation of what he described as a caliphate—a territory that has shrunk significantly in recent



The Nouri Grand Mosque in Mosul, Iraq, shown in 2014.

Combined Joint Forces Land Component Command-Operation Inherent Resolve.

In July 2014, al-Baghdadi ascended the imam's pulpit in the mosque and made his first public speech, declaring himself the leader of all Sunni Muslims. Built in the late 12th Century on the west bank of the Tigris River, and once best known for its 150-foot leaning minaret, it became a symbol of Islamic State's grip on Mosul.

His speech came less than one month after the extremist group's fighters swarmed Iraq's Sunni population centers, seizing about one-third of the country in a blitz that sent Iraqi forces into retreat and ceding control of Mosul, Iraq's second-largest city, to Islamic State.

The mosque's recapture holds mostly symbolic value for Iraqi forces just starting to break the militants' fierce grip on western Mosul's Old City, a densely packed warren of narrow streets and alleys and brittle homes.

—Tamer El-Ghobashy

months. Since October, Iraqi forces backed by U.S. advisers and air power have reclaimed nearly all of Mosul.

Iraq's military called the destruction "a historic crime."

Islamic State said the mosque was destroyed by a U.S. airstrike.

"As our Iraqi Security Force partners closed in on the al-Nuri mosque, ISIS destroyed one of Mosul and Iraq's great treasures," said Maj. Gen. Joseph Martin, commanding general of

opportunities in the kingdom and betting that its economic liberalization will prove profitable.

Banks such as J.P. Morgan Chase & Co. play a key role in advising and financing Vision 2030 overhauls, such as the listing of Saudi National Oil Co., or Aramco, a state asset that the new crown prince has previously valued at \$2 trillion. Citigroup Inc. recently obtained a much-coveted banking license. General Electric Co. and other companies have pledged to invest billions of dollars in the Saudi economy.

"It is a market where you more likely than not want to be present," said Sjoerd Leenart, head of J.P. Morgan for the Middle East, Africa and Turkey. But he added: "Those looking for the quick buck will not succeed."

While the Saudi government is on track with some of its 2030 targets such as reducing the fiscal budget, it lags behind in others.

The \$200 billion program to privatize state entities, airports and utilities has moved slowly. Even the Aramco IPO is facing delays because of its complexity, though Saudi officials say it will still take place in 2018 as scheduled.



Shops have closed in Riyadh. So far, Mohammed bin Salman's reform plan has made little headway.

based research and strategy firm. "The implementation is going more slowly."

The crown prince's push has come up hard against the bureaucratic and legal obstacles that have long made Saudi Arabia a difficult place to do business. In the World Bank's Doing Business Index, Saudi Arabia ranks 94 out of 190

economies. For ease in starting a business, the kingdom ranks 147, trailing Gulf neighbors Qatar and the United Arab Emirates.

There also remain pockets of resistance to an overhaul among members of the royal family, the religious establishment, the business elite and the civil service, analysts say.

Still, some analysts say the crown prince is better posi-

tioned to push ahead with an overhaul now that he is next in line to the Saudi throne, supplanting his more-cautious cousin Mohammed bin Nayef.

He can consolidate domestic power and more effectively counter opposition to the 2030 plan, these people say, and eventually redirect and revitalize the region's biggest economy.

"The change in succession cements the prospects of the successful implementation of Vision 2030," said Giyas Gokkent, an economist at the Institute of International Finance, a Washington, D.C.-based trade group representing global financial institutions.

Just hours before Mohammed bin Salman's promotion was announced Wednesday, index provider MSCI Inc. said that it would consider classifying the kingdom as an emerging market as early as next year, a move that could draw billions of dollars to the economy.

During his recent visit to Saudi Arabia, U.S. President Donald Trump also provided a vote of confidence. He was accompanied by a large delegation of prominent business leaders eager to explore op-

Saudi Firms Tap Turks for Qatar Cargo

BY YELIZ CANDEMIR

ISTANBUL—Several Saudi companies are completing plans with Turkish logistics companies to transport goods to Qatar, according to Turkish businessmen, an arrangement that illustrates how profits are being made even as diplomatic relations in the region remain tense.

Turkish companies have been a major beneficiary of the break in diplomatic—and some commercial—relations that Saudi Arabia, Bahrain, the United Arab Emirates and Egypt have made with Qatar in protest at what Riyadh has claimed is Doha's "financing, adopting and sheltering extremists."

Qatar has called the measures unjustified and denied interfering in the domestic affairs of other members of the six-member Gulf Cooperation Council.

Turkey's increasing reliance on business with the Gulf Arab states, especially in light of Ankara's deteriorating relations with its European allies, is a major reason why President Recep Tayyip Erdogan is working to mediate the dispute that has destabilized regional energy, retail and air markets, officials and analysts said. So far, Turkish diplomacy hasn't adversely affected business on either side of the dispute, according to Turkish businesses.

Teksan Lojistik, one of Tur-

key's largest logistics companies, says its orders have jumped 110% since the political crisis erupted June 5. General manager Serdar Aydin said clients booking shipments are mainly Turkish companies selling to Qatar firms, but that he is also negotiating with several large Saudi companies that are trying to honor contracts with Qatari clients but that have found themselves blocked from sales or deliveries by Riyadh's embargo on Doha.

He said that his company is negotiating the delivery of 50 to 60 tons of Saudi products, and the main issue delaying Saudi transshipments is a lack of capacity on boats or cargo planes. "We are having a prob-

lem to find space in flights to deliver goods," Mr. Aydin said.

Cargo space is completely full for all orders to Qatar right now, according to Mr. Aydin and officials from other Turkey-based logistics companies. He said capacity should open up next week, after the religious Eid holiday.

Turkish Economy Minister Nihat Zeybekci said that 105 Turkish cargo planes have so far delivered goods to Qatar, whereas public-service advertisements have appeared on social media explaining the Turkish words for basic goods, such as milk, for Arabic-speaking Qataris.

As Turkey's diplomatic relations with Europe soured, its attention to the Gulf has



Port workers unloaded a container ship in Doha, Qatar, last week.

grown, both as a destination for Turkish exports and as a source of foreign direct investment.

Mr. Erdogan this year made a pitch for a free-trade pact between Turkey and the GCC, as many major Turkish compa-

nies do a roaring business across the Gulf.

Turkey's trade volume with Qatar hit \$710 million last year, and trade with Saudi Arabia was \$5 billion, according to data from the Turkish Statistics Institute.

U.S. NEWS

Sticking Points Slow GOP Budget Efforts

House Republicans are struggling to agree on a plan to fund the federal government for 2018, a critical task that they must tackle before moving ahead with ambitions for a tax overhaul.

By Kate Davidson,
Kristina Peterson
and Richard Rubin

Defense hawks want to boost military spending above levels imposed by spending curbs six years ago. But many Republicans aren't willing to support the higher spending absent spending cuts elsewhere, as they are trying to balance the federal budget over the next decade without raising taxes.

The debate has delayed GOP efforts to move forward with a budget resolution—which Republican lawmakers plan to use as a tool to advance their tax plan—as well as spending bills needed to keep the government running once its cur-

rent funding expires Oct. 1. Time isn't on their side: Congress leaves for a weeklong recess for the Fourth of July and will be out for five weeks starting July 28, leaving little room on the legislative calendar.

"The sticking points are all good sticking points," said Rep. Jim Renacci (R., Ohio), a member of the budget committee, who said the panel is trying to come up with a budget as quickly as possible. "You have people who want to spend more on defense. You've got people who want to curtail spending.... In the end, we've got to do a little bit of both."

Some Republicans want to see military spending boosted to \$640 billion, well above current law's limit of \$549 billion for fiscal year 2018. They argue that the spending caps are harming national security and should be lifted, especially in a time of heightened geopolitical risk.

"What we've done to our defense is nearly criminal, and

our ability to defend ourselves has absolutely been impacted," said Rep. Chris Stewart (R., Utah), a former Air Force pilot who supports the \$640 billion level for defense spending.

Most Republicans, however, wouldn't support increased military spending without corresponding cuts to other parts of the budget. The problem is that Republicans have spent years slimming down nondefense discretionary spending, leaving less to trim at this point. Many of them balked at cuts that President Donald Trump's budget proposed to popular programs and agencies, such as the National Institutes of Health, the Centers for Disease Control and Prevention, and regional economic development programs.

"While there is obviously waste and duplication, there are a lot of important things the federal government does, from defense, food safety, medical research, lots of



A budget resolution is needed to keep the government running once its current funding expires Oct. 1.

things," said Rep. Frank Lucas (R., Okla.).

Democrats have said they are willing to boost defense spending, but not without an increase in nonmilitary spending, as well. "We have to have a responsible budget," said Sen. Ben Cardin (D., Md.) "I don't think you can just say

add one and cut the other."

The House Budget Committee is aiming to mark up the budget resolution as early as next week. House Republicans said they were presented five options for how to proceed with the spending bills and a budget resolution this year at a meeting with GOP leadership Wednes-

day. But there was no consensus on the best path forward.

Most House Republicans say they will ultimately have to deliberate with Democrats, who will have leverage in both chambers, since House Republicans rarely have enough votes to pass spending bills with just GOP votes.

HEALTH

Continued from Page One
were open to negotiation.

"The bill needs to look more like repeal of Obamacare and less like we're keeping Obamacare," Mr. Paul said.

The senators said the bill needed to do more to lower health-care costs, and Mr. Paul said a reason for issuing the statement was so GOP leaders know "that there is not 50 votes for this."

At the other end of the GOP political spectrum, Sen. Dean Heller of Nevada, a centrist facing re-election, said he had "serious concerns" about the GOP bill, particularly its effect on Medicaid recipients.

Thursday's release of the 142-page bill, after its contents had been closely held by Republican leaders, launched a fast-moving process that GOP leaders hope will culminate in the passage of a new health law, possibly before Congress's August recess. Senate GOP leaders said they plan to vote next week, and if the bill passes, the House and Senate bills would have to be reconciled before going to the president for his signature.

The Senate bill, mirroring its House counterpart, keeps some of the 2010 law's structures in place. Like the current law, it uses tax credits to provide sub-



Senate Majority leader Mitch McConnell leaves the chamber after announcing the release of the GOP health-care bill on Thursday.

sides for people who don't get health insurance on the job. But the credits would be less robust and premiums could be higher.

In other areas the bill takes fuller aim at the law. The fed-

eral funding that the law provided to enable states to expand Medicaid would be phased out starting in 2021 and eliminated by 2024. States could still keep the expansion, but they wouldn't get the addi-

tional federal funds they had used for the expanded program.

Beyond that, the Senate bill

would limit states' overall Medicaid funding from Washington for the first time. States would

including 41% who strongly believed so. Senate Republicans have been drafting their own version of legislation to repeal and replace the ACA, with plans to bring it to a vote as early as next week.

The Obama-backed law grew more popular early this year as President Donald Trump and the Republican-led Congress began talks to repeal it. In January, the Journal/NBC News poll found that more people viewed the law as a good idea rather than a bad one, the first such finding since the law was passed.

Asked how they viewed the 2010 health law, 41% of respondents said it was a good idea, and 38% said it was a bad idea, according to the poll, which was released just as Senate Republicans unveiled their own version of a health-care overhaul.

The GOP health-care bill passed by the House in May was resoundingly panned in the poll: Just 16% said the House repeal-and-replace bill was a good idea. That is even less popular than the 23% approval it drew in a poll taken shortly after the bill was passed.

Some 48% viewed the House GOP bill as a bad idea,

some centrist Republicans.

"That translates into literally billions of dollars and it would result in states either cutting back on eligibility or rural hospitals going under because of uncompensated care," said Sen. Susan Collins (R., Maine). "Those are serious problems."

Among Republicans' loudest complaints about the 2010 law was that it imposed several new taxes, and the GOP push would undo most of them.

Like the House bill, the Senate bill would repeal a 3.8% tax on investment income retroactively to January 2017 and delay the repeal of a 0.9% payroll tax until 2023. Both of those taxes apply only to individuals making more than \$200,000 and married couples making more than \$250,000. A tax on generous employer health plans would remain but be delayed until 2026.

Senate Republicans were largely tight-lipped Thursday morning as they emerged from a closed-door meeting in which Senate Majority Leader Mitch McConnell (R., Ky.) briefed them on the bill's contents.

Democrats criticized the bill for curbing Medicaid funding while repealing taxes on the wealthy. They noted President Donald Trump's recent characterization of the House version of the bill as "mean."

—Byron Tau
and Natalie Andrews
contributed to this article.

Trump Says Obama Team Failed to Block Hacking

By REBECCA BALLHAUS

WASHINGTON—President Donald Trump on Thursday morning issued a series of Twitter missives blaming Democrats and the Obama administration for not doing enough to protect against Russian hacking efforts in the 2016 election.

Later in the day, the president returned to Twitter to say he doesn't have recordings of his conversations with former FBI Director James Comey, ending more than a month of questions about the existence of any tapes as the two men dispute each other's accounts of their discussions.

Mr. Trump first raised the prospect of such recordings in a tweet days after firing Mr. Comey in May, when he wrote that the former FBI director "better hope" no tapes of their conversations exist.

"With all of the recently reported electronic surveillance, intercepts, unmasking and illegal leaking of information, I have no idea whether there are 'tapes' or recordings of my conversations with James Comey," Mr. Trump tweeted. "But I did not make, and do not have, any such recordings."

While the Capitol was consumed Thursday morning with Senate Republicans' health-care bill, Mr. Trump seized on testimony by former Department of Homeland Security Secretary Jeh Johnson before

a House committee the day before to defend himself in the probe of Russian interference in the 2016 vote and alleged collusion by his associates.

Mr. Johnson and current DHS officials testified that Russia had interfered in the U.S. election to boost Mr. Trump and hurt Democrat Hillary Clinton.

President launches Twitter barrage, says he didn't tape dinner with FBI chief.

Mr. Johnson, asked whether he had seen evidence that Mr. Trump or his campaign had colluded with Russia, said he hadn't "beyond what has been out there open-source, and not beyond anything that I'm sure this committee has already seen and heard before, directly from the intelligence community."

That statement, Mr. Trump wrote on Twitter, made Mr. Johnson the "latest top intelligence official to state that there was no grand scheme between Trump and Russia."

"By the way, if Russia was working so hard on the 2016 election, it all took place during the Obama Admin. Why didn't they stop them?" he added.

Mr. Johnson testified the

Obama administration initially sought to avoid making announcements about Russian meddling efforts in order to not give the appearance it was taking sides in the election.

On Thursday, Mr. Trump also criticized the Democratic National Committee, asking why the organization declined to turn over its server to the FBI and turned down the Department of Homeland Security's offer to help safeguard against cyberattacks.

It isn't usual for victims of a breach to turn over logs and other data rather than the physical server.

Mr. Johnson said he was told by his staff that the DNC didn't think it needed DHS's assistance at the time.

A spokeswoman for the DNC wrote in a statement Wednesday: "The DNC was contacted by DHS months after the DNC worked closely with the FBI to remedy the intrusion. The DNC then provided DHS with detailed information about the intrusion."

Mr. Trump's lawyers and top advisers have urged him not to tweet or speak about Russian hacking efforts while the Justice Department's special counsel investigates Trump associates' ties to Russia—a probe that recently widened to examine whether the president tried to obstruct justice by firing Mr. Comey as FBI director.

—Byron Tau

contributed to this article.

SUPREME COURT

Rules for Stripping Citizenship Tightened

The Supreme Court tightened standards for stripping an immigrant of citizenship, rejecting the government's position that any lie, no matter how minor, during the naturalization process can cost an individual her American nationality. Instead, a jury must find that "a false statement sufficiently altered those processes as to have influenced the award of citizenship," Justice Elena Kagan wrote for the court.

The case involved a Bosnian Serb refugee, Divna Maslenjak, who immigrated in 2000 and later obtained American citizenship. Parts of her story later unraveled and she was stripped of citizenship after admitting she covered up her husband's service in a Bosnian Serb army unit that massacred 8,000 Bosnian Mus-

lim civilians at Srebrenica in 1995.

Applicants for citizenship must possess "good moral character," and the government argued that accurate information regarding her husband's activities would have affected the decision to grant Ms. Maslenjak citizenship. But at her trial for procuring citizenship illegally, the jury was instructed that any lie, even if it wasn't "material" and "did not influence the decision to approve [her] naturalization" was sufficient for conviction.

The government's broad claim, under which lying about ever having driven over the speed limit theoretically could cost an immigrant her citizenship, clearly troubled the justices at argument in April. The decision against the government was unanimous.

The Justice Department declined to comment. A lawyer for Ms. Maslenjak said he needed time to study the decision.

—Jess Bravin

WASHINGTON

EPA Unveils Rules On Chemical Testing

The Environmental Protection Agency released new rules to clarify the agency's process of testing the chemicals used in everyday products and other commerce. The new rules implement the Toxic Substances Control Act, which requires the agency to identify toxic chemicals. The law was an effort to restore consumer confidence in the government's testing program. The new rules will lay out EPA procedures to determine which chemicals used in commerce need to be evaluated for dangers to consumers. It will also include new procedures to distinguish between chemicals that have been made, sold or used in the last decade and others no longer used in commerce.

—Eli Stokols



SISTINE CHAPEL EXHIBIT: Guests walk through the 'Up Close: Michelangelo's Sistine Chapel' exhibit that will be on display at the Oculus at Westfield World Trade Center in New York through July 23. The exhibit features 34 reproductions, including the Creation of Adam and the Last Judgment.

MICHAEL NOBLE JR./ASSOCIATED PRESS

IN DEPTH

DIAGEO

Continued from Page One
trated the deal for Diageo, then-Chief Operating Officer Ivan Menezes, has become chief executive.

Yet the commercial success has been accompanied by lots of trouble. Diageo is in the crosshairs of Indian authorities and entangled in multiple legal proceedings stemming from the acquisition. The authorities are looking into whether Mr. Mallya used the deal to launder money, and Mr. Mallya's creditors have sought the return of shares purchased by Diageo.

Mr. Mallya, who Diageo alleges diverted nearly \$500 million from United Spirits and didn't pay it back, said in an email to the Journal that Diageo had "complete knowledge" of the money he had taken out of the company to support his other businesses. Diageo was "happy with the transactions happening at United Spirits" and "analysed all the underlying documents" before signing a deal, he said.

Diageo spokesman Dominic Redfearn disputed Mr. Mallya's version of events. "At no time were we made aware of the diversions of funds that Dr. Mallya now suggests Diageo was 'happy with,'" Mr. Redfearn said in an email. "His claims that we 'analysed all the underlying documents' and were therefore 'happy with the transactions happening at USL' are false." He said "evidence of diversion of funds only became clear after the closing of the transaction."

London-based Diageo cut ties with Mr. Mallya last year, and he left India amid criminal investigations of unpaid debts and possible money laundering and tax evasion.

He resurfaced in a London townhouse filled with impressionist art. India sought extradition, and bank creditors who claim they are owed \$1.6 billion say they hope to see him imprisoned. In April, he was arrested in London and released on £650,000 (\$822,000) bail, pending an extradition hearing. Mr. Mallya has said he did nothing illegal.

Other Western firms betting on the world's fastest-growing large economy also have run into trouble in India. Last year, BP PLC was hit with a \$1.55 billion fine in connection with a gas-drilling joint venture in India. Vodafone PLC, after buying India's largest telecommunications company for \$16.4 billion, received a \$2.2 billion tax bill when India changed its tax laws in 2012. BP and Vodafone say they are contesting the findings.

Diageo's spokesman said the United Spirits transaction, despite its complexity, "was a fantastic opportunity in a key market." He said the company "knew from the start there were aspects of governance and controls that would need to be brought into line with international best practice." Since Diageo took control, he said, United Spirits has strengthened its corporate governance, compliance practices and controls systems, and its board has ordered two forensic audits of the company, sharing the results with Indian authorities.

One Indian court handling claims by Mr. Mallya's creditors has ruled Diageo's deal to buy



CHRIS RATCLIFFE/BLOOMBERG NEWS

Vijay Mallya left Westminster Magistrates' Court in London earlier this month. He was arrested in April and faces extradition to India.

United Spirits was designed by Mr. Mallya's holding company to "keep creditors in the dark." In February another court paved the way for a group of Indian state banks to demand at least \$350 million worth of shares Mr. Mallya sold to Diageo.

An Indian money-laundering investigation of Mr. Mallya, in cooperation with the U.K.'s Serious Fraud Office, is broadening to look at whether Diageo helped him shift assets offshore through side deals connected to the United Spirits takeover, according to an official at India's Enforcement Directorate. The Serious Fraud Office declined to comment.

In January, India's securities regulator announced it had ordered Diageo to compensate United Spirits shareholders for a \$140 million payment it made last year to pay off one of Mr. Mallya's overseas debts. Diageo is appealing. Mr. Mallya said he had become "a political football."

United Spirits' share price is 25% lower than when Diageo bought its last tranche of stock in July 2014. Annual profits are below where they were before Diageo agreed the deal in 2012. Diageo said United Spirits revenue rose last year and it is "confident for the future."

In late 2012, before the deal was struck, Paul Walsh, then Diageo's chief executive, met with United Spirits executives over drinks at their company's Bangalore headquarters and was adamant about getting into the booming India market, says a former United Spirits' executive who was there.

Diageo had launched a wine business in India in 2006, but closed it after three years. A joint venture with the country's second-biggest liquor firm was wound down in 2011. French liquor giant Pernod Ricard SA, Diageo's rival, owns one of India's biggest liquor businesses.

Diageo had long had its eye on United Spirits, according to executives from both companies, but it wasn't until 2012 that Mr. Mallya looked to Diageo as a potential savior.

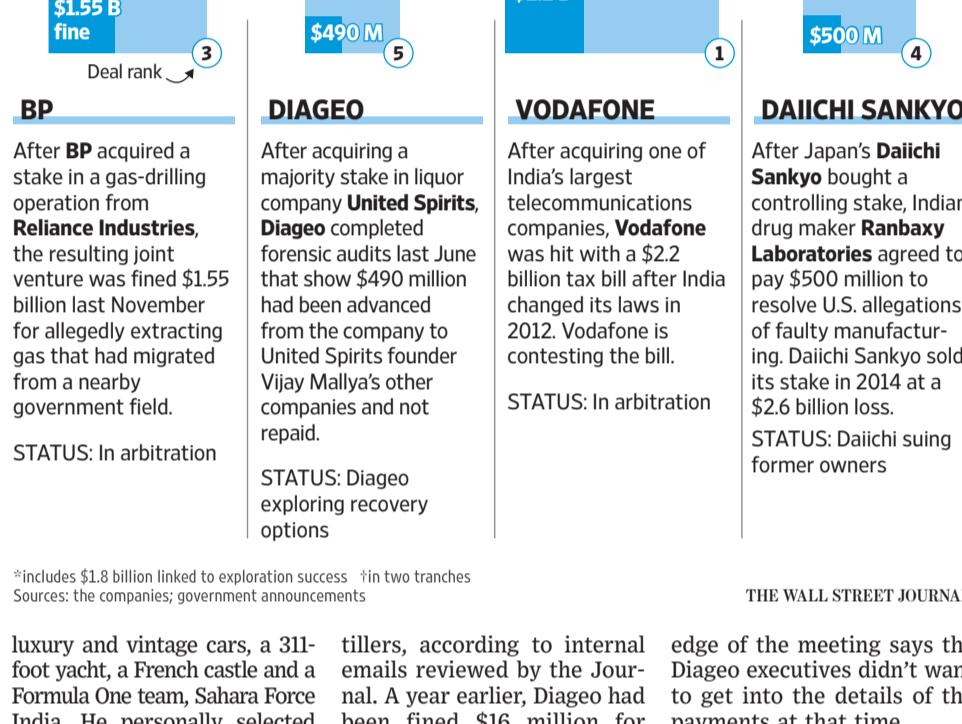
Mr. Walsh assigned Mr. Menezes, an Indian-born, U.S.-educated Diageo veteran, to seal the deal.

Some India states still have prohibition laws, but many eliminated them relatively recently. Mr. Mallya embodied India's new spirit. Parties at his villa in Goa drew business and political luminaries and featured performers such as Enrique Iglesias and Bollywood's Sonu Nigam.

He owned more than 200

Big Surprises

Four of the five biggest foreign acquisitions in India have been hit with unexpected taxes, fines or write-downs in recent years.



*includes \$1.8 billion linked to exploration success. ¹in two tranches

Sources: the companies; government announcements

luxury and vintage cars, a 311-foot yacht, a French castle and a Formula One team, Sahara Force India. He personally selected each air hostess at his airline company, Kingfisher Airlines, according to local news reports.

Kingfisher Airlines, however, was in financial trouble. Crippled by high fuel costs and a slump in the Indian economy, it was on the brink of bankruptcy in 2012, court documents indicate, forcing Mr. Mallya to consider a sale of United Spirits to raise cash.

tillers, according to internal emails reviewed by the Journal. A year earlier, Diageo had been fined \$16 million for breaching that U.S. law after being caught paying bribes in India and elsewhere.

India's liquor trade is rife with unorthodox practices and allegations of corruption. Political figures in states with monopoly retailing laws often have sought payments to allow drink brands to sell their products there, local court records show.

At the meeting in Mumbai in early 2012, Mr. Mallya pulled out a handwritten document that two people in attendance say outlined diversions of money aimed at propping up non-liquor businesses of Mr. Mallya's that were struggling. It also outlined some payments to people in India's political system that Mr. Mallya said were to secure distribution rights, according to those two people and a document reviewed by the Journal.

Mr. Menezes looked at the document, the two people say, and left it with Mr. Mallya. One person with close knowl-

edge of the meeting says the Diageo executives didn't want to get into the details of the payments at that time.

Before the deal closed in May 2013, Diageo received a spreadsheet listing transactions that didn't conform to standard accounting. The spreadsheet, which was reviewed by the Journal, showed that a range of manufacturing and distributing partners, from a bottling plant in the northern state of Uttar Pradesh to a sugar factory in the southern state of Karnataka, had received advances from United Spirits and then lent the money to Mr. Mallya's other businesses.

The spreadsheet indicated that Utkal Distilleries Ltd., a rum maker in India's south, had advanced \$8 million from United Spirits to another company controlled by Mr. Mallya. Internal forensic audits ordered by the Diageo-appointed CEO later concluded that most of the money had been used to pay jet-fuel bills.

A bottling plant had borrowed \$7 million to upgrade its facilities, then advanced the money to Mr. Mallya's holding company, the spreadsheet and other company documents showed. Auditors later concluded the cash had been sent to Kingfisher Airlines.

Overall, United Spirits had advanced \$340 million to Mr. Mallya's other companies

and creditors, the spreadsheet showed.

Mr. Mallya said Diageo received this spreadsheet "periodically during due diligence." The Diageo spokesman said the company hadn't received it until later, after agreeing to the terms of a deal in November 2012. Diageo bought its first tranche of shares in May 2013.

Diageo offered Mr. Mallya a range of sweeteners to get the deal done. Its lawyers helped draft a new \$75 million sponsorship deal between United Spirits and a holding company for Mr. Mallya's Formula One team that increased payments fivefold, documents viewed by the Journal show.

Diageo agreed to buy his South African brewery assets, to keep Mr. Mallya as chairman of the company indefinitely, and to allow him to retain benefits, including access to luxury properties owned by United Spirits, according to Diageo filings.

The two companies agreed to a deal in November 2012 that called for Diageo to buy shares in United Spirits.

Diageo bought one tranche of shares from another company of Mr. Mallya's. Court documents from a subsequent judicial action by creditors show that Diageo knew the creditors considered those shares collateral against their unpaid loans, and that Diageo might have to give the shares back to those creditors later.

Conflicts soon erupted over the strategic direction of United Spirits. The Diageo-appointed CEO and board hired forensic auditors to comb through accounts. They confiscated hard drives of United Spirits' top executives and, using Mr. Mallya's emails, began piecing together a picture of his collapsing empire, according to documents reviewed by the Journal.

The emails appeared to show that Mr. Mallya cajoled and pressured his management team to divert money from United Spirits to save his other ventures, even as he was wrapping up a deal with Diageo.

Mr. Mallya said in his email to the Journal that forensic auditors "didn't understand the underlying business principles of United Spirits and so jumped to wild conclusions."

After its first forensic audit in 2015, United Spirits' board asked Mr. Mallya to step down as chairman. When he refused, the CEO wrote to the chief of Bangalore's police department, alleging money had been "wrongfully diverted" as part of a "criminal breach of trust." Diageo never filed an official complaint with the court. Mr. Mallya resigned as chairman in February 2016, after agreeing to a \$75 million severance package.

Forensic auditors brought in by United Spirits after the deal alleged at least about \$500 million was advanced from United Spirits to Mr. Mallya's other companies and never paid back.

In February, Mr. Mallya's other creditors won the right to liquidate one of Mr. Mallya's companies that sold shares to Diageo, and are seeking to have 7% of United Spirits' shares returned to them, or to strike a cash settlement with Diageo, says a person familiar with the situation. In its 2016 annual report, Diageo said it believes it will remain in control of United Spirits regardless of the outcome of the litigation.

—Saabira Choudhuri contributed to this article.

FISHY

Continued from Page One
bama, have passed laws to combat fish-tournament fraud.

Polygraph tests aren't perfect, but they help deter cheating, say organizers of the White Marlin Open, which draws more than 300 boats and 2,000 anglers who pay \$1,000 each year to compete. Polygraph tests are required for its winners of amounts greater than \$50,000.

In the case of the Maryland marlin, all four men on board the Kallianassa were administered polygraph tests.

One day after boating the multimillion-dollar fish, Mr. Heasley and his captain, David Morris, took turns sitting before a polygrapher in a second-floor room in an Ocean City hotel. Then came the questions:

"Did you commit any tournament violations Tuesday?"

"Did you commit any tournament violations on your vessel?"

"Did you commit any tournament violations?"

Mr. Heasley wiggled his toes and bounced his legs, according to court depositions. "I'm not a

stationary person—I'm fidgety," he said. His captain was nervous, hung over, and complained of claustrophobia, according to the deposition. Both answered "no" to the questions. Neither passed the test.

"For the first time in my life, my integrity and honesty have been challenged, not because of any allegation of wrongdoing, but because of polygraph tests," Mr. Heasley said in a written statement this week. "The toll that these events have had and continue to have on my family and my crew is massive and harrowing."

Capt. Morris said, also in a written statement this week: "I am a fisherman, it's who I am. My word is my reputation, it follows you in this business. My crew and I are honorable fishermen, nothing will ever change that, not skewed polygraphs nor distorted and fabricated timelines. My crew and I stand by our word and our reputation."

Mr. Heasley's lawyer said Mr. Heasley and his crew abided by all of the tournament rules and regulations.

Mr. Heasley said in a deposition he may have tripped up over questions about the tournament rules—he was familiar

with the four pages of regulations, but didn't have them memorized. He said he was confused about how to answer some of the questions, and thought the polygraph test was more of a formality, like signing a score card after a golf tournament. "I was as truthful as yes and no answers will let anyone be," he said in a deposition.

A few weeks later, Mr. Heasley, along with two crew mates, one of whom said he was hung over after drinking 15 beers the night before, according to court documents, took another polygraph test. All three failed.

According to the test results, Mr. Heasley and the two mates were deceptive about whether or not they violated any tournament rules.

In addition to the failed polygraphs, the tournament record showed signs of misconduct, according to event organizers. The record was

initially marked down with a catch time of 8:15 a.m. That time was crossed out and changed to 9:05 a.m. before Mr. Heasley submitted it to officials. Tournament rules prohibit fishing before 8:30 a.m.

After his second failed polygraph test, tournament officials announced Mr. Heasley was in violation of the rules and wouldn't receive the prize money.

The matter moved to federal court in Baltimore, with contest organizers asking to redistribute the \$2.8 million first prize to 13 competitors who won other categories during the tournament.

After a two-week trial, the judge ruled on June 14 that Mr. Heasley and his crew failed the required test and, according to tournament rules, wouldn't receive the winnings.

The judge also found Mr. Heasley and the Kallianassa crew violated the tournament's time ruling. "Specifically, it is clear from the evidence and testimony presented in this case that the Kallianassa's fishing lines were deployed and in the water before 8:30 a.m. on Tuesday, August 9, 2016."

Mr. Heasley's defense relied

heavily on discrediting the accuracy of lie-detector tests. "Polygraphs are not like a pregnancy test, where you dip in a stick and you get your answer—yes or no. They're highly, highly subjective tests," Chris Sullivan, Mr. Heasley's attorney, said in court in December, explaining courts don't allow polygraphs as admissible evidence, and studies show them to be only 50% accurate. "It has nothing to do with catching the winning fish."

"The polygraph tests worked," said White Marlin Open founder Jim Motsko. "I'm not calling anyone a cheater. But this could have changed the playing field in every tournament. This is a professional sport. You need to enforce the rules."

Anglers beware—organizers of other fishing tournaments are watching carefully, Mr. Motsko said. "My phone hasn't stopped ringing."

Capt. Morris defended his boss as the most ethical and honest person he knows—"straight as can be," he said in a deposition. When asked why he was nervous during the test, he said, "I don't know, man. I'm just a fisherman."



Phil Heasley, center left, and team at the 2016 White Marlin Open.

DAVE MESSICK/HOOKED ON OC

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BOOKS

'We have gold because we cannot trust governments.' —Herbert Hoover

Goodbye, Yellow Brick Road

Gold shaped America's monetary policy—and Americans' fantasies of wealth—for nearly four centuries

Nation Under Gold

James Ledbetter

ight, 380 pages, £22.70

BY JAMES GRANT

NO WORK at all to make
ern money. Since the start of the
financial crisis, the world's cen-
bankers have materialized the
alent of \$12.25 trillion. Just tap,
ap on a computer keypad.

"The Nation Under Gold" is a brief
st the kind of money you have
g out of the ground. And you do
to dig. The value of all the gold
has ever been mined (and which
y still exists in the form of bau-
coins and ingots), according to
World Gold Council, is a mere
illion.

ld anchored the various metal-
monetary systems that existed from
the 18th century to 1971. They
imperfect, all right, just as
s Ledbetter bends over back-
to demonstrate. The question is
her the gold standard was any
imperfect than the system in
today.

at system features monetary
ight by former university eco-
ics faculty—the Ph.D. standard,
call it. The ex-professors buy
s with money they whistle into
ence ("quantitative easing"), tinker
with interest rates, and give
ches about their intentions to
onds and tinker with interest
("forward guidance").

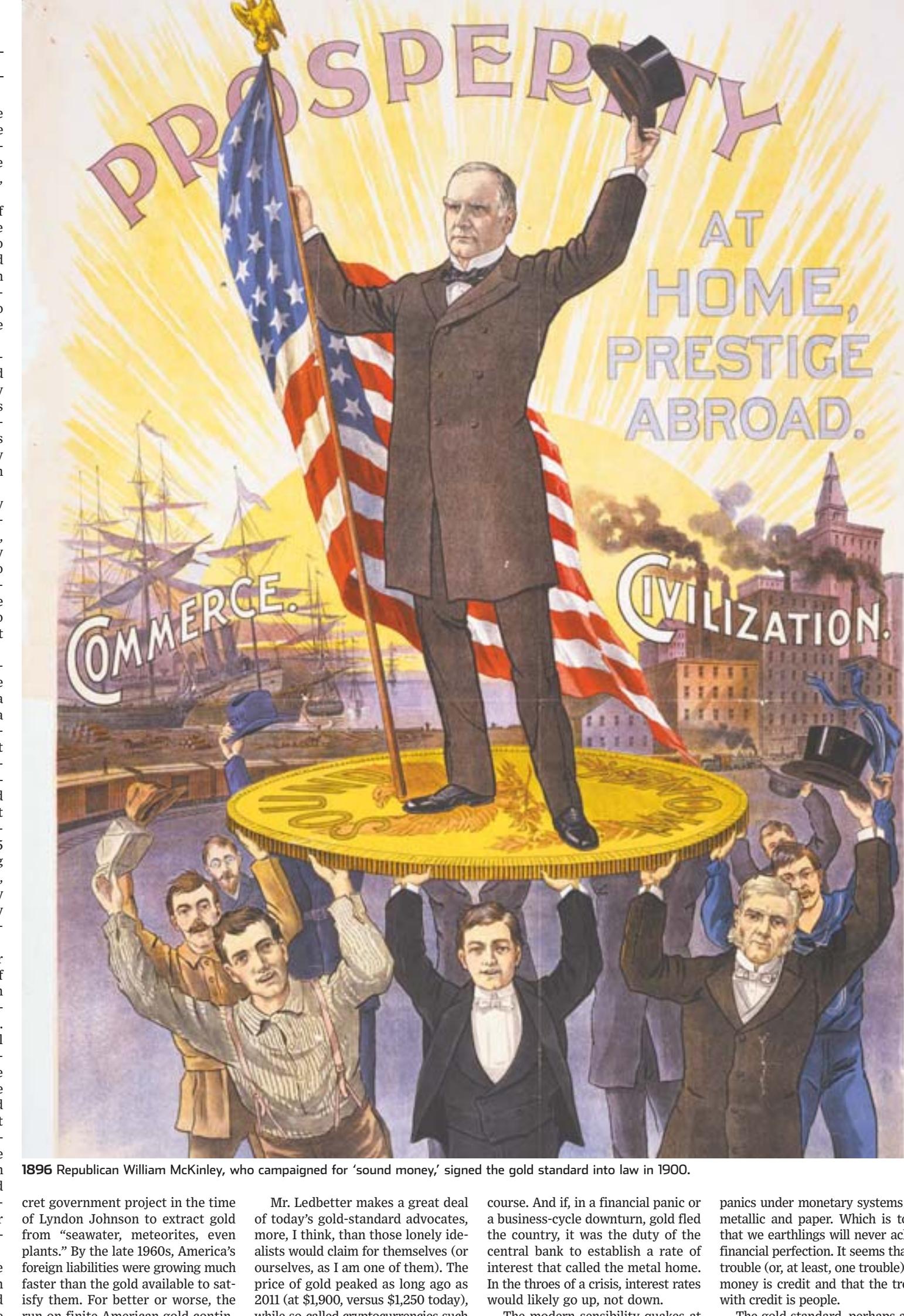
u wonder how the Ph.D. stan-
came to eclipse a system whose
name, "gold standard," is a
ard for excellence. Addressing a
nal television audience on Sun-
vening, Aug. 15, 1971, President
ard Nixon announced the tempo-
suspension of the dollar's con-
vability into gold. No more would
g governments enjoy the right
ide in their greenbacks for bul-
at the then standard rate of \$35
e ounce. (Americans had long
relinquished that right; indeed,
xon spoke, they could not legally
gold.) Roughly a half-century
the temporary suspension is be-
ng to look permanent.

o until the Nixon edict, paper
ey, under the law, was a kind of
ative. It derived its value from
metal into which it was converted.
Today's dollar is inconveritible.
sure, you can exchange Federal
ve notes for gold coins or bits
to your heart's desire, but the
of exchange is whatever the
et will bear. Under a gold
ard, fixedness was the great
etary virtue. Nowadays, adapt-
ity is the beau ideal. As George
r observes, money has been
formed from a measuring rod
magic wand. Anyway, the Ham-
mers or Lincolns or Grants in your
t owe their value to the govern-
t's fiat, not to its gold.

Mr. Ledbetter's book is a chronicle
the American people's fascination
gold. He is mystified and
sed by it. He rolls his eyes at the
rushes and the gold-centered or-
oxies of yesteryear. Whatever
our forebears thinking?

His well-spun narrative spans the
er part of four centuries. He
us from gold mining in North
ina during the administration
John Adams to the Founders'
etary protocols, which defined
dollar as a weight of gold or sil-
from the California Gold Rush to
ate-19th-century politics of in-
n, featuring William Jennings
n and his unsuccessful campaign
late the gold dollar by substi-
abundant silver; from the for-
mation of the Federal Reserve in
the dollar was still as good as
to the shockingly improvisa-
dollar policies of the New
One fine day, Mr. Ledbetter re-
FDR raised the gold price by 21
because it seemed to the presi-
that three times seven was a
number.

ext comes the patchwork gold re-



1896 Republican William McKinley, who campaigned for 'sound money,' signed the gold standard into law in 1900.

cret government project in the time
of Lyndon Johnson to extract gold
from "seawater, meteorites, even
plants." By the late 1960s, America's
foreign liabilities were growing much
faster than the gold available to sat-
isfy them. For better or worse, the
run on finite American gold contin-
ued, and Nixon cut the cord.

On, now, to the great inflation of
the 1970s, along with the rise of the
goldbugs, the cranks (Mr. Ledbet-
ter's interpretation) or visionaries
(as others might style them) who
predicted the collapse of the dollar
and the rise of double-digit infla-
tion in the Jimmy Carter years. In
the mid-1970s, as Mr. Ledbetter re-
counts, the long fight to restore the
right of American citizens to own
gold—a right that FDR's adminis-
tration had extinguished in 1933—was
finally won. The author concludes
his story with a survey of the con-
temporary rear-guard movement to
expose the failings of today's mon-
etary nostrums and reinstitute a
gold dollar.

As if to clinch the case against
gold—and, necessarily, the case for
the modern-day status quo—Mr.
Ledbetter writes: "Of forty econo-
mists teaching at America's most
prestigious universities—including
many who've advised or worked in
Republican administrations—exactly
zero responded favorably to a gold-
standard question asked in 2012."
Perhaps so, but "zero" or there-
abouts likewise describes the num-
ber of established economists who in
2005, '06 and '07 anticipated the
coming of the biggest financial event
of their professional lives. The econo-
mists mean no harm. But if, in uni-
son, they arrive at the conclusion
that tomorrow is Monday, a prudent

Mr. Ledbetter makes a great deal
of today's gold-standard advocates,
more, I think, than those lonely ide-
alists would claim for themselves (or
ourselves, as I am one of them). The
price of gold peaked as long ago as
2011 (at \$1,900, versus \$1,250 today),
while so-called cryptocurrencies such
as bitcoin have emerged as the favorite
alternative to government-issued
money. It's not so obvious that, as
Mr. Ledbetter puts it, "we cannot get
enough of the metal." On the con-
trary, to judge by ultralow interest
rates and sky-high stock prices, we
cannot—for now—get enough of our
celebrity central bankers.

What was the gold standard,
exactly—this thing that the
professors dismiss so airily today? A
self-respecting member of the com-
munity of gold-standard nations
defined its money as a weight of
bullion. It allowed gold to enter and
leave the country freely. It exchanged
bank notes to gold, and vice versa, at
a fixed and inviolable rate. The peo-
ple, not the authorities, decided
which form of money was best.

The gold standard was a hard task
master, all right. You couldn't
devalue your way out of trouble. You
couldn't run up a big domestic bud-
get deficit. The central bank of a
gold-standard country (if there was a
central bank) was charged with pre-
serving the convertibility of the cur-
rency and, in a pinch, serving as
lender of last resort to needy com-
mercial banks. Growth, employment

course. And if, in a financial panic or
a business-cycle downturn, gold fled
the country, it was the duty of the
central bank to establish a rate of
interest that called the metal home.
In the throes of a crisis, interest rates
would likely go up, not down.

The modern sensibility quakes at
the rigor of such a system. Our
forebears embraced it. Countries
observed the gold standard because it
was progressive, effective, civilized. It
anchored prices over the long term
(with many a bump in the short term).
It promoted balance in international
accounts and discipline in domestic
ones. Great thinkers—Adam Smith,

panics under monetary systems
metallic and paper. Which is to
say that we earthlings will never ac-
tain financial perfection. It seems that
trouble (or, at least, one trouble)
money is credit and that the trou-
ble with credit is people.

The gold standard, perhaps a
all, was a political institution. It
ished in the age of classical libera-
lism. It was the financial counterpart to
philosophy of limited govern-
ment. The Ph.D. standard is likewise a pol-
itical institution. It is the financial coun-
terpart to the philosophy of sta-
tism. The policy that some banks are
big to fail—that they must be tre-
almost as wards of the state to
vent their failure—is a hallmark of
modern age. The policy—indeed
law—that the stockholders of a
are themselves responsible for the
vency of the institution in which
hold a fractional interest was a
mark of the gold-standard era.

Mr. Ledbetter is on a mission to
set the historical record straight.
head off an unprogressive move
away from paper money. He writes:
"To avoid gold's false paths, we
must argue with the past, to test the
assumptions that are too often an-
casionally passed uncritically."

I expect that before very long
will be arguing with our imme-
past—demanding to know why
public debt has doubled since 2008.
second-guessing our collective be-
in the mazy doctrines of "qua-
tive easing" and "forward guid-
and tuning in to watch congression-
hearings into the causes of the
future stock-market crash. Mr.
Ledbetter has told some good stories
he hasn't made his case.

Mr. Grant is the editor of *Grant's*

BOOKS

'The quintessential Japanese balance . . . : to surrender all of yourself to an illusion, and yet . . . to know all the while that it is an illusion.' —Pico Iyer

FICTION CHRONICLE: SAM SACKS

Young Urban Japanese Singles



IN TOMOYUKI HOSHINO'S novel "ME" (Akashic, 239 pages, £12.48), a disenchanted electronics megastore clerk named Hitoshi swipes a stranger's cell phone at a McDonald's and then tricks the man's mother into wiring money into his bank account. But the joke is on him. Soon after, the old woman turns up at Hitoshi's apartment calling him Daiki, refusing to believe that he isn't her son and pestering him about getting married. A sobering thought for other would-be scammers: What if the fake identity you made up was the one you got stuck with?

Stranger still, when Hitoshi goes to his own childhood home he's nearly chased off the property. There he finds a young man who strongly resembles him living in his room and going by his name. When the two meet—again at a McDonald's—Hitoshi comes to a realization: Their experiences match so closely that they might as well be the same person. He is a ME. And there are countless others like him.

Part existential fable, part "Night of the Living Dead," Mr. Hoshino's inventive novel, accessibly translated by Charles De Wolf, paints a nightmare vision of Japan's rootless millennials, who work grinding dead-end jobs that leave them little time for family or individual passions. "The image of a sardine floated across my mind," Hitoshi thinks as he considers his doppelgängers. "Though I seemed to be swimming freely in the sea, I was merely moving my body in relation to the other fish around me. There was no sardine leader deciding in which direction we would swim. We merely conformed to the fluctuations of the school, expanding or shrinking, drifting off to the side or surging ahead into the distance."

At first Hitoshi and his fellow MEs are happy to band together against an uncaring world. But the camaraderie doesn't last, since every time one reveals a character flaw the others take it as an indictment of themselves. As the MEs' failures and weaknesses become intolerably magnified onto the "living but useless rabble" they're gripped by a suicidal impulse that unleashes a crazed murder spree. The frenetic, knife-wielding finale reaches its climax in—a McDonald's, of course. None of them can think of any place else to eat.

Japan's laureate of youthful disaffection is Haruki Murakami, who rose to fame in the 1980s, particularly



with the novel "Norwegian Wood" (1987), by depicting a postwar protest generation that looked for definition in serial love affairs and Western popular culture. Mr. Murakami's 1980 story "A Slow Boat to China," about the childhood memories of a lonely and provincial Tokyo man, provides the inspiration for Hideo Furukawa's novella "Slow Boat" (Pushkin, 124 pages, £7.99). Mr. Furukawa updates the tale to Christmas Eve 2002, when a nameless narrator wanders Tokyo accessing his own fragmented memories.

These center on a sequence of heartbreaks. The narrator recalls his first short-lived relationship in summer camp, the girlfriend he lost as a university student because his train stalled on the way to meet her at the airport and the beautiful chef who worked in his café until a catastrophe drove him out of business. A mood of gloomy, wisecracking rebellion against the "idiotic world" pervades the writing. The narrator can't stand Tokyo but never manages to leave. Like Mr. Murakami's outcasts, he thinks "the Japanese language is

nothing but lies" and invents private forms of communication. He and his summer camp crush converse exclusively in movie dialogue.

Translator David Boyd brings the slight and endearing story into riffing, confessional English. "If this was a kabuki play," the narrator says when things with his second girlfriend start to heat up, "this would be the place where the wooden clappers get faster and faster." Most of the time, though, he's at a standstill. "Hope . . . I still have hope. That I'm getting out of here. But I have no idea where I am—no idea where I'm going—and isn't that the same as having no way out?"

But Japanese fiction isn't all alienation and haunted laughter. Hiromi Kawakami's "The Nakano Thrift Shop" (Portobello, 229 pages, £7.99) takes up the genre of "slice-of-life" storytelling that has found popularity in manga graphic novels. These books follow their characters across quotidian days in school or the workplace, charting their friendships and love affairs and generally arriving at some affirmative lesson

about the richness of human connections. Ms. Kawakami's gentle, humorous novel, in an unassuming translation by Allison Markin Powell, provides the same consolations.

Three novels about millennials disconnected from society, from one another and from hope.

It takes place in a Tokyo antique store run by the keen-eyed Mr. Nakano, who excels at turning a profit by buying and selling trinkets. As his earnest young shopkeeper Hitomi deals with his idiosyncratic customers (the most colorful is a gentlemanly Yakuza gangster), she falls for her coworker Takeo, a painfully introverted young man with an artistic nature. At times Takeo seems to want nothing more than companionship; at other times he's blunderingly intimate. Early on he has to make amends after

sketching a portrait of Hitomi in the same pose and state of undress as Goya's Naked Maja. The book's setting, with its rare, delicate objects and back-and-forth bartering, provides a fitting background to their halting courtship.

There's a feline quality to their relationship that readers of forthright temperament may find maddening. Remarkably little happens. The two conduct much of their relationship through text messages and awkward eye contact during work hours. When Takeo punishes Hitomi with a silent treatment after some minor lapse, Mr. Nakano's sister, the young woman's mentor, explains, "What has happened, my dear Hitomi, is that you have stepped on his tail." Tails are routinely bruised. There's a lot of sulking.

But gradually Ms. Kawakami transforms the relationship from childlike curiosity and sexual desire to deeper forms of love and appreciation. The eccentricities of the side characters add to the quiet charm of the couple's maturation. And there's not a McDonald's in sight.

Putrefaction of the Spirit

where there is corruption, bodies sold or condemned to slaughter.

Readers of Claudio Magris's "Danube," a marvelous travel book and meditation on the culture and history of Central and Southeast Europe, know that he is a discursive, demanding but richly enjoyable writer. The same qualities are evident in "Blameless," ably translated from the Italian by Anne Milano Appel. "Blameless" is a novel, but in no way a conventional one, for there is no plot as such, no coherent narrative, and innumerable digressions. Characters flit in and out, and only

he is a half-crazy and disreputable collector of just about everything, scribbling notes and instructions on stray pieces of paper.

Only toward the end of his life does he become more than an eccentric magpie. The transformation is the result of his investigation of the "Risiera," a disused rice factory

stored his finds and was killed when a fire consumed it—but much of the novel comes to us in his words, relating his memories and rambling thoughts.

The other main character is a young woman, Luisa, charged with the organization of the Museum and faced with the onerous, near-impos-



AT LAST Trieste residents crowd around an Allied tank, 1945.

known or suspected—about what her own mother had done, or might have done—in the last terrible year. Had she perhaps been a "despicable informer" too?

If the theme of the novel is the horror of war, a horror which is metaphysical as well as fleshly—the horror of reeking flesh and desperate lust—it's also the case that even the collector senses that his museum will alter nothing, no matter with what skill and devotion Luisa sets it in order. Who's right, who's wrong, in Trieste in 1945—well, later there will be a time for forgetting. "The Resistance is a complex business and those who resisted multiply all the more as the years go by." That's how it is in war, and in post-war. Truth is slippery as mercury.

"Blameless," as the title suggests, is slippery too, slippery because it searches for truth, and the truth depends first on the angle from which you approach it and won't in any case stay still. It's hard to get a grip on this complex novel, and this is how it must be, because understanding depends on perspective, and perspective is as hard to keep steady as the waves that break on the harbor wall. The prose gallops but demands that you read it slowly and thoughtfully, the author's intelligence being resistant to summary. Reading "Blameless" is worth the effort, but it would be foolish to pretend that the effort demanded is not considerable, or that the reader won't sometimes feel trapped in a maze, where the center can't be reached and the way out is choked.

Mr. Massie's most recent book is the novel "End Games in Bordeaux."

A maze-like novel about lives marred by the metaphysical and moral horrors of war.

the main ones are fictional. It's set mostly in Trieste, Mr. Magris's home city.

Trieste was once part of the Republic of Venice, then of the Habsburg Empire of Austria-Hungary, then (from 1866) of the new Kingdom of Italy, and in 1945 was disputed between Italy and Yugoslavia before finally (perhaps) becoming Italian again. The seed for the novel was planted in Mr. Magris's mind by a Triestine professor who devoted his life to collecting weapons and all sorts of military material in order to build a War Museum, in the hope that exhibiting these "instruments of death" could lead the way to peace. The unnamed principal character of "Blameless" has the same idea, but

where the Nazi Occupiers in the last years of the war imprisoned Jews (and other undesirables), torturing and murdering some, dispatching others north to death camps in what is now Poland. The collector searches for names written on the prison walls: not the names of the victims, for these were documented by the mad bureaucracy, but of those who had betrayed or informed on the doomed prisoners. In the early pages of the book we learn of this collector's death—he was sleeping in a coffin in the hangar where he

BOOKS

'Raise your glass in the air for the man from Clare who invented the submarine!' —'The Ballad of John Philip Holland'

A Man Down Below

Going Deep

By Lawrence Goldstone

Pegasus, 378 pages, £21.99

BY PAUL KENNEDY

THERE ARE very few wars in history that begin, dramatically, with a brand-new weapon displaying its transformative power, but one such case occurred in the southern North Sea in September 1914, when three large cruisers of the Royal Navy were torpedoed and swiftly sunk by a diminutive German U-boat, the U-9. At that moment, the age of the attack submarine was born, and the struggle for naval supremacy for a great part of both World War I and World War II was defined. The U-boat—shorthand for “Unterseeboot”—had come of age.

It is appropriate, then, that the historian Lawrence Goldstone begins “Going Deep” with a dramatic re-telling of the U-9’s exploit. It should be said immediately that his chronicle doesn’t present the whole history of submarine warfare but rather the story of the efforts of various American inventors and entrepreneurs—above all, an Irish-born engineer named John Philip Holland—to create a power-driven, human-directed and sub-marine vessel that could stalk and then, with its torpedoes, obliterate even the most powerful of surface warships. In the formative years of its development—from the Civil War to World War I—the story is chiefly an American one, though not completely, which is perhaps, despite the book’s many merits, a partial weakness of Mr. Goldstone’s presentation.

The librarian shelving “Going Deep” might pause before finding its exact location. It does indeed concern itself with technological innovation—and there are some intriguing illustrations to help the reader along: One of them, for instance, shows an electric taxi moving through New York streets in 1899, one of the many enterprises of Isaac Rice, whose interest in batteries and electrical systems would feed into his submarine research. The book also includes a large amount of detail about the U.S. Navy’s budgetary and ship-construction concerns as it entered the modern, post-Civil War decades. But “Going Deep” can also be seen, plausibly, as a study in American business history. As such, it fits in line with Mr. Goldstone’s earlier studies, notably “Birdmen: The Wright Brothers, Glenn Curtiss, and the Battle to Control the Skies” (2014) and “Drive! Henry Ford, George Selden, and the Race to Invent the Auto Age” (2016). The publisher’s



GETTY IMAGES

JOHN PHILIP HOLLAND Father of the modern submarine.

blurb calls these works, appropriately, “innovation histories.”

More specifically, “Going Deep” is a story of late-19th-century American competitive capitalism, of winners and losers in the struggle to win congressional support and Navy Department authorizations for another fabulous and disruptive—and, if one got it right, hugely profitable—new technology. To the winner in this race went all, or nearly all, the spoils. Unlike the automobile, where the consumer would decide the outcome, but just like early aircraft development, the submarine depended upon government contracts, domestic and foreign. Thus Mr. Goldstone’s narrative also sheds light on America’s early military-industrial complex, which often involved dubious if not outright illegal actions, bribery, political corruption, exaggerated “yellow press” claims and bankrupted enterprises.

The book is strongest in its detail of technological invention, as Holland and the other designers struggled to overcome the many challenges of early submarine development. How do you design fan vanes—the movable fins or “wings” on the boat’s side—so that they will allow you to control oblique diving and also ensure that the craft will rise back to the surface? How do you keep the vessel stable when the center of gravity can shift so easily, not least when a torpedo is fired? How do you release the fatal battery and engine fumes from a self-contained cylinder (for that’s what a submarine is) 60 feet under the surface? Finding the answers to these questions and others involved sea trials and, along the way, the loss of many brave men.

Mr. Goldstone has a shrewd eye and a lively pen. He wryly labels some supposed naval experts overseeing the production of an early design “notably

inexpert” and “more inflexible for their ignorance.” While he doesn’t curiously employ the vast unpublished archives of the U.S. Navy (now in the National Archives), he makes ready use of memoir literature and quotes from the contemporary American press, which had an enormous appetite for any sign that Holland and his designer rivals were producing a Jules Verne-like wonder-weapon of the deep.

Among many fine vignettes is the story of Teddy Roosevelt’s prescient interest in the submarine, including his taking an underwater trip in a prototype across Long Island Sound in August 1905. At this, as may be imagined, the newspapers went wild.

“Going Deep” ends in 1914. By that time, the U.S. Navy was on its way to possessing some submarines—vessels equipped with torpedoes that were therefore capable, in theory, of sinking an enemy’s warships or his merchant

marine, although in fact these boats were aimed at only coastal defense. And by 1914 American industry could boast of a nascent submarine-building capacity, especially in the form of the Electric Boat Co., which was to survive the capriciousness of the Navy Department’s “on-off” love affair with the submarine until World War II finally proved its undoubted power.

But these successes, limited though they were, were not John Philip Holland’s. He had played a major role—really, the greatest role—in developing the early submarine, grasping that it could transform naval warfare. He had grappled with and overcome most of the daunting technological obstacles in the way of making his vision a reality. Mr. Goldstone is surely right to give him such prominence. But eventually Holland was shunted aside by more

How an Irish-American engineer developed a Jules Verne-like wonder-weapon of the deep.

ruthless entrepreneurs, dabbled by business partners and denied Navy contracts. He passed away on Aug. 12, 1914, just as World War I was beginning. By then, feeling beaten and having retired, he was a quiet churchman and amateur historian. This part of Mr. Goldstone’s story is not a happy one.

For a book that is about the advent of the attack submarine, “Going Deep” is too America-centric in both its story and sources. In the decades before 1914, inventing submarines was, like inventing aircraft, something that involved a frenzied international competition, and on many occasions American designs were not the best. One yearns here for a comparative look, as Katherine Epstein offered in “Torpedo: Inventing the Military-Industrial Complex in the United States and Great Britain” (2014).

And since Mr. Goldstone’s story opens with the stunning wartime success of the U-9, one yearns more for even a brief explanation of why the most formidable submarine navy in both world wars was Germany’s, not America’s. Even the best of the nationally focused “innovation histories,” and this is one of them, would look better if they gave the reader an international perspective.

Mr. Kennedy, a professor of history at Yale, is the author of “The Rise and Fall of the Great Powers.” He is currently writing a book on sea power and World War II.

Reminders to Never Forget

Hell’s Traces

By Victor Ripp

Farrar, Straus, 206 pages, £18.99

BY DIANE COLE

ALEXANDRE AND VICTOR Ripp were ordinary Jewish boys from Russian families, similar in age and physical appearance, living in Paris in the early 1940s. But any further resemblances between the two cousins can never be known: In July 1942, at the age of three, Alexandre was rounded up with his grandmother and soon after was murdered at Auschwitz. By then, Victor and his family had managed a narrow escape from France, leaving just weeks after Germany’s invasion in the spring of 1940.

Why was it Victor—now living in suburban New Jersey—who survived and not Alexandre?

That’s the unbearable question that has always haunted Mr. Ripp. It gnawed with particular ferocity after he attended an exhibit several years ago at Berlin’s Jewish Museum that included material about his mother’s well-to-do family, which possessed the combination of foresight, financial assets and connections to uproot themselves after Hitler’s rise to power. Ultimately, every member of the Kahan family—more than 30 people—found their way to safety. Many went to Palestine; others decamped for France before being forced to seek refuge yet again, in time landing in America. Their journey was fraught. But they lived.

By contrast, the vast majority of Mr. Ripp’s father’s family, including 10 others besides Alexandre, were rounded up, shipped off in cattle cars and exterminated. Rather than being commemo-

rated in a museum exhibit as the Kahans were, they don’t even have graves.

For Mr. Ripp, this stark disparity stung—and generated ruminations about the nature of remembrance, the role of public memorials and, ultimately, an itinerary that would take him to 35 different Holocaust memorials in Germany, France, Poland, Belarus, Austria and Hungary. At least some of these, he hoped, “would also spark to life the story about the different destinies of the Kahans and the Rips.”

A man who fled the Nazis as a boy takes a somber tour of Europe’s Holocaust memorials.

In “Hell’s Traces: One Murder, Two Families, Thirty-Five Holocaust Memorials” Mr. Ripp intersperses his journeys to these memorials with the stories and fates of the two sides of his family. He also does a good deal of reporting, talking to architects, designers, Jewish community leaders, local guides and European friends about the way these memorials honor—or in some cases, deny—the Holocaust.

The author finds that the most effective memorials are not necessarily the most celebrated ones. For instance, he has reservations about Germany’s *Stolpersteine*, or stumbling stones. These cobblestone-sized memorials are embedded in the pavement outside the last known residences of Hitler’s victims and inscribed with their names and dates of birth and death. But Mr. Ripp doesn’t like the notion of stumbling over a life: “I like memorials to be set off by fences or announced by

signs or otherwise conspicuously marked,” he writes.

One of the most stirring memorials Mr. Ripp visits is situated in the Berlin neighborhood that was once called Jewish Switzerland because of the preponderance of Jews who lived there, including Albert Einstein and

struction of the Jewish inhabitants.”

Thus the succession of plaques ends with a pictogram of a char-blackened face, redolent of the death camps and their crematoriums. To some this may sound tasteless, but the impact was striking. “When we first put up the signs, some people took them to be

Jews who from the XIV century lived on the land of Grodno.” That’s all it says. There is no reference to the Holocaust, the more than 44,000 Grodno Jews who were thrown into extermination camps, or the cemetery. To Mr. Ripp, the vague wording “seemed . . . only to repeat the willed ignorance it should have avoided apologizing for.”

Such moments are chilling, but as the book goes on, Mr. Ripp’s mission begins to seem tedious, perhaps even to himself. For instance, despite being annoyed by the prevalence of stumble stones, he also complains when not enough visitors are present or pay attention at particular memorials. “If no one notices a Holocaust memorial, does it still have significance?” An excellent question, to be sure, but Mr. Ripp seems unhappy either way.

Eventually he finds the resonance he has sought all along, in a memorial set in a Parisian playground in the neighborhood where Alexandre once lived. A glass tablet features an etching of two hands reaching for each other with the inscription, in Mr. Ripp’s translation: “Numbered among those who lived in Paris in the Sixteenth Arrondissement, there were fifteen so young that they had not reached an age when they had have attended school. As you pass by, read their names, your memory is their only grave.” Among those names is Alexandre’s. Here, at last, Mr. Ripp can finally glimpse the boy Alexandre was—and conjure the grown man he never had the chance to become. With this act of memory and imagination, Mr. Ripp transforms his cousin from a ghostly memory to a vivid presence whose loss he—and his readers—can more fully grasp.

Ms. Cole is the author of the memoir “After Great Pain: A New Life Emerges.”



GETTY IMAGES

WALL OF NAMES A Holocaust memorial in Paris’s Marais neighborhood.

Erich Fromm. Mounted on 80 lamp posts over several blocks are two-sided plaques that tell the step-by-step story of the laws passed to marginalize, persecute and, ultimately, annihilate the Jews. One side of each plaque shows a pictogram (swim trunks, for instance), with the other side displaying the text of the Nazi-era law banning Jews from yet another ordinary activity (in this case, the dictate that Jews could no longer use Berlin pools). As the memorial’s designers Renata Stih and Frieder Schnock explain to the author, the point was to “make visible the conditions which led in an insidiously logical way to the de-

new government rules,” Ms. Stih recounted. “Apparently these people believed that it was perfectly reasonable for Nazi policies to be put back into practice. Finally we had to attach a small disk to each sign to tell people that they were looking at art.”

In Grodno, the birthplace of the author’s father and Alexandre’s father, Mr. Ripp finds what he calls an “anti-Holocaust memorial”: a sports stadium built, in 1950, on the grounds of Grodno’s old Jewish cemetery. It wasn’t until 2003, when human remains were uprooted during stadium repairs, that an easy-to-miss plaque went up, reading: “In memory of those

Ms. Cole is the author of the memoir “After Great Pain: A New Life Emerges.”

OPINION

REVIEW & OUTLOOK

Change in the House of Saud

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King Salman broke with decades of tradition with his royal decree that ousted his nephew, security czar Mohammed bin Nayef, in favor of Salman's son, Mohammed bin Salman. The Saudi crown has typically passed from one octogenarian or septuagenarian brother to another, so the rise of the 31-year-old son as heir designate is a monumental development.

This is all the more remarkable given the young leader's reformist inclinations. The Saudis face a triple challenge in falling oil prices, a youth demographic bulge and Iranian imperialism. The Crown Prince believes the answer is an assertive foreign policy that unites Sunni Arab states against Tehran, combined with domestic reform that weans the Kingdom off oil.

This regional vision took shape soon after King Salman ascended the throne in 2015. As Defense Minister (a portfolio he will retain), the Crown Prince emerged as the architect of the Saudi-led military campaign to oust the Iranian-backed Houthi rebels from Yemen.

The Yemen operation has been long and hard, but it has largely succeeded in cutting off Iranian supplies to the Houthis and boosted the confidence of Arab states. Mohammed bin Salman has also spearheaded efforts to diplomatically isolate Qatar over its two-faced policy of cooperating with the West while funding Islamist groups like Hamas.

Last year the Crown Prince launched Vision 2030, a reform program to diversify the

Mohammed bin Salman wants to transform the hidebound Kingdom.

Saudi economy and expand the role of private enterprise. The heart of the plan is to boost the private share of the economy to 65% by 2030 from about 40%, and reduce the government's dependence on oil for revenues, now at 70%.

That's a tall order in a Kingdom that has historically offered its citizens oil-funded, cradle-to-grave welfare in exchange for little say in politics. Many Saudis have grown up to expect high-paying government jobs that are increasingly hard to subsidize with oil at under \$50 a barrel. Unleashing the private economy will also require liberating Saudi women to enter the work force—the right to drive would be a start—and that has already triggered clashes with the Wahhabi clerical establishment.

Earlier this year the government was forced to reverse a pay cut for state employees. Yet Mohammed bin Salman has made progress in other areas. A plan to offer public shares in the state-run oil company, Aramco, is moving ahead. Concerts are performed and movie theaters are opening for the first time in the Kingdom, allowing young Saudis access to entertainment and social interaction that their peers nearly everywhere else take for granted.

His appointment as Crown Prince will strengthen his hand by putting to rest competing claims to the throne from more conservative corners of the House of Saud with its 7,000 princes. A moderate and prosperous Saudi Arabia would bolster stability across the Arab world and is squarely in the U.S. national interest. Washington should support and encourage the young prince as he pursues change.

Singapore and the Fighting Lees

After Singapore's founder, Lee Kuan Yew, died in March 2015, some expected his son, Prime Minister Lee Hsien Loong, to face a challenge from leading figures in the ruling People's Action Party (PAP). Instead the revolt has come from within his family.

The feud is ostensibly about Lee Kuan Yew's house, which according to his will should be demolished. On June 16 Lee Hsien Yang and Lee Wei Ling, the younger son and daughter of the late leader, posted a statement on Facebook accusing their brother of planning to designate the house as a historical building. The Cabinet Secretary confirmed that a ministerial committee is considering whether to preserve it.

But the real fight is over Singapore's political system. The younger Lees accused the Prime Minister of abusing his power: "[W]e have felt threatened by Hsien Loong's misuse of his position and influence over the Singapore government and its agencies to drive his agenda. We are concerned that the system has few checks and balances to prevent the abuse of government." Lee Hsien Yang, the former CEO of Singapore's largest listed company, said he will leave Singapore because he fears retaliation.

Most shocking, the two younger Lees accuse their brother and his wife, Ho Ching, of

Will squabbling in the ruling family lead to more political debate?

nepotism: "His political power is drawn from his being Lee Kuan Yew's son. We have observed that Hsien Loong and Ho Ching want to milk Lee Kuan Yew's legacy for their own political purposes. We also believe, based on our interactions, that they harbour political ambitions for their son, Li Hongyi."

The Prime Minister responded, "Ho Ching and I deny these allegations, especially the absurd claim that I have political ambitions for my son."

Singapore under Lee Kuan Yew prided itself on clean government and meritocracy, but another part of his legacy was the suppression of criticism. When publications and opposition politicians expressed concerns similar to those now being raised, the government found ways to silence them. The government also used the Internal Security Act to detain those it deemed subversive without trial.

Lee Kuan Yew held Singapore's elite together through a web of personal connections and prestige, and the PAP's rule has never been seriously challenged. The squabbling among his children reveals cracks in this consensus, and the big question is whether this will result in serious political opposition. Singapore is a wealthy and stable society that could benefit from more robust democratic debate.

Trump to Cordray: You're Not Fired

For a guy who supposedly likes to fire people, President Trump has been strangely reluctant to remove Consumer Financial Protection Bureau (CFPB) director Richard Cordray. Yet his own Treasury Department has made an excellent case for dismissal.

Last week Treasury issued a report with recommendations to increase certainty, consumer choice and access to credit in the financial system. Big banks are cheering proposed changes to relax liquidity and capital standards, but reforms to the CFPB might matter to more people.

Some of Treasury's recommendations would require legislation—such as making the agency subject to congressional appropriations—though most could be achieved through regulatory and procedural changes by the CFPB. The problem is that Mr. Cordray won't accept curbs on his power. Dodd-Frank states that the President may remove the director only for "inefficiency, neglect of duty, or malfeasance in office" rather than at-will like other agency heads. Yet the report enumerates a litany of ways in which Mr. Cordray has flouted the law.

Treasury notes the "CFPB has avoided notice-and-comment rulemaking and instead relied to an unusual degree on enforcement actions and guidance documents." The Administrative Procedure Act requires regulatory agencies to issue formal rule-makings, or at least formal guidance, to explicate law. Mr. Cordray says "facts and circumstances" guide the bureau's legal interpretations.

The CFPB has even refused to provide guidance to Congress on behavior that may constitute "unfair, deceptive, or abusive acts and practices." Enforcement actions are its only guidance. In 2012 the agency published a compliance bulletin for credit companies in conjunction with a \$210 million settlement with Capital One Financial Corp. for alleged deceptive marketing.

The CFPB targeted auto dealers, which Congress explicitly exempted under Dodd-Frank. The bureau charged discrimination based on a dubious disparate-impact analysis that guessed the

The many reasons to ax the consumer financial bureau chief.

victims' race based on names and addresses. In January the CFPB accused student-loan servicer Navient, which is regulated by the Education Department, of abusing borrowers by placing them in forbearance rather than loan forgiveness.

The bureau has also abused its authority by issuing sweeping civil investigative demands—essentially fishing expeditions—that lack the legal protections of subpoenas and motions for discovery for prosecuted parties. Targets can challenge the document demands, but the CFPB shames supplicants by publishing its rejections and has never publicly agreed to narrow the scope.

In April the D.C. Circuit Court of Appeals squashed a civil investigative demand to the Accrediting Council for Independent Colleges and Schools. The court whacked CFPB for extending its authority over a nonprofit that isn't even tangentially involved in finance as well as failing to provide a description "of the conduct the CFPB is interested in investigating."

The CFPB tries to avoid court rebukes by using its own administrative law judges to adjudicate cases, which occur on an expedited timeframe and lack the judiciary's due process protections. Incredibly, the bureau says its enforcement actions are also not subject to a statute of limitations, which the D.C. Circuit last year held was "absurd."

Treasury argues that the CFPB's "lack of clear regulatory standards may lead to excessive risk aversion among regulated parties thereby undermining innovation and consumer choice." They also undermine the U.S. constitutional system of checks and balances.

Mr. Cordray's term doesn't end until July 2018, and implementing Treasury's reforms as well as attendant rule-makings could take more than a year. Meantime, Mr. Cordray can continue shaking down businesses with enforcement that he hopes will propel his expected campaign for Governor in Ohio. Mr. Cordray might not even mind being fired and becoming The Resistance's next martyr. So why not give him the heave ho?

Letters to the Editor

Radio Liberty Persian Service: Mixed Reviews

Sohrab Ahmari's June 12 commentary, "In Iran, Radio Liberty Doesn't Live Up to Its Name," asserts that the Persian service of Radio Free Europe/Radio Liberty parrots the editorial line of Iranian state media.

While we will acknowledge any individual story that falls short of our editorial standards, as any news organization should, the suggestion that Radio Farda somehow mirrors the Iranian press is ludicrous.

The government and its supporters make clear their view of Farda by blocking it on the internet, jamming its radio broadcasts, threatening Farda's staff members outside Iran and harassing their relatives inside the country.

Meanwhile, Farda's audience in Iran finds it such an important alternative to state media that they use circumvention software to reach Farda despite government blockages. By such techniques, Iranians view Farda's internet site millions of times a month. They also use Farda's social-network platforms as a means to discuss events in the country free of government control.

This Floricide Illustrates Government's Lack of Sense

Regarding Henry I. Miller's "Attack of the Killer Petunias" (op-ed, June 14): Someone tell me this is a comedy skit and not one more government agency running off the rails with too much regulatory muscle and not enough common sense.

We in the U.S. have successfully fed Americans and those in need worldwide for decades with our agricultural bounty—all made possible thorough genetically modified crops and livestock. Much of the research to make this agricultural miracle possible was done at state land-grant colleges and by the USDA. These crops yield more, are more nutritious and more disease resistant. And, yes, genetically modified flowers bloom brighter, faster and stay in bloom longer.

The idea of donating the errant plants to a hospital is a heart-stirring gesture, but save some for a mental institution for the symbolism.

PHIL PEPE
Yonkers, N.Y.

Beware Europe's Quiet Election



POLITICAL ECONOMICS By Joseph C. Sternberg

Berlin and Munich
By the time Germans go to the polls for a national election in September, Europe will have endured more than a year of electoral turmoil. Most observers expect the German vote to come as a relief. In contrast

to votes in Britain, Italy, the Netherlands, France, Britain again and maybe also Italy again, Germany will be staid and stable, both voting the "correct" way and not giving anyone reason to worry that it will do anything else.

There's one problem: Germany's election is too stable.

Chancellor Angela Merkel, cruising toward re-election for her fourth term, is easily Europe's most boring center-right politician. She's dialed back her one genuinely controversial decision—to throw open Germany's doors to more than a million Middle Eastern migrants in 2015—without entirely repudiating it.

It's unfair to accuse her of complacency, and she'll offer some modest tax cuts and other kitchen-table policies to woo middle-class voters rather than merely resting on her laurels. But everyone knows her main selling point will be continuity at home and abroad.

Contrast that with Theresa May, who despite her "strong and stable" tag line attempted a wholesale makeover of Britain's Conservative Party and then failed; François Fillon, who ran for France's Republican presidential nomination on the strength of a Thatcherite program; or Mark Rutte in the Netherlands, who kept his seat by embracing what Europe's mainstream thinks are controversial views on assimilation of immigrants. They weren't all right or successful, but at least they tried to respond to the public's demand for more ideas from the political class.

The German left is equally soporific. The center-left Social Democratic Party (SPD) has rallied behind a 61-year-old man who spent the past 22 years in Brussels. Martin Schulz is no Gerhard Schröder, and he criticizes many of the labor-market reforms that Mr. Schröder implemented as SPD Chancellor in the early 2000s.

But Mr. Schulz is no Jeremy Corbyn either. His economic platform, in contrast to Mr. Corbyn's industrial nationalizations and redistributive taxation, is a few relatively modest tax hikes and more money for schools and roads. The flashiest pledge is an expansion of government-pension spending that is no more or less unaffordable than the mainstream center-left approach anywhere.

Germans might not see anything wrong with this. Politics here has often

been fierce in the postwar period but never radical. You wouldn't expect either the center-right CDU or the center-left SPD to embrace a leader like Donald Trump or Mr. Corbyn.

Germans briefly flirted with the far-right Alternative for Germany (AfD) and neo-Communist die Linke (Left), but polls suggest voters already have come home to the two major parties, well before the curfew of the September election.

The drawback is that this creates an almost entirely content-free election when voters everywhere else are anxious to debate serious issues. Germany should be ripe for better campaign than it's getting. Headline economic data are strong, with growth hitting 1.9% last year (it's good for Europe), unemployment at 4.2%, and a record fiscal surplus of €54 billion (\$60.17 billion).

Markets will applaud German stability—until German voters start demanding more from their politicians.

But those numbers mask serious problems. Growth of inflation-adjusted earnings shows signs of slowing as inflation picks up. Unemployment is low because millions of people have been pushed into underemployment.

Germany's mainstream parties are committing malpractice by not tackling these matters head-on now, in this election, when the global economy is providing a growth tailwind. They'll regret not doing so if the economy falters under protectionist pressure from America or new bouts of Brexit-induced uncertainty—to name only two threats—and voters turn again to more exciting fringe candidates for new ideas.

For now the task of providing some excitement falls to the plucky Free Democratic Party (FDP), the party of entrepreneurship and a smaller state. After an electoral downturn in 2013 the party is waging a comeback under charismatic leader Christian Lindner. He made his name in 2015 with a viral YouTube video excoriating an SPD member of a state parliament for mocking entrepreneurs like Mr. Lindner. The best outcome in September might be that Mrs. Merkel is forced to form a coalition with a revived FDP, and Mr. Lindner pulls her grudgingly toward tax reform and deregulation.

Someone sane has to start doing politics, because experience everywhere has shown that if mainstream politicians don't do it, eventually voters will turn to fringe parties that will. Germany shouldn't assume it's immune to this trend. It might merely be late to the uprising.

LETTERS TO THE EDITOR

Radio Liberty Persian Service: Mixed Reviews

Farda's goal is to provide its large Iranian audience with honest journalism. The commitment of its audience and the reactions of Iranian authorities suggest Farda is doing just that.

THOMAS KENT

President and CEO

Radio Free Europe/Radio Liberty

Prague

Mr. Ahmari is right on the mark. I was director of Radio Liberty when the Berlin Wall came down and the U.S.S.R. collapsed, arguably the most successful period in the radio's history. Later I was a Republican member of the Broadcasting Board of Governors (2010-12), leaving that position when it became evident to me that U.S. international broadcasting was hopelessly lost, operating without a strategy and increasingly detached—indeed, often antithetically—to U.S. interests.

When I was nominated to the board, several senators asked me to undertake an investigation into the Voice of America's Persian News Network (PNN), which was widely seen as having gone off track. I presented my findings to the first meeting of the board after my confirmation by the Senate.

The PNN was a complete mess: operating without serious supervision, staffed haphazardly and perhaps penetrated at different places by Iran's intelligence services. I recommended its complete overhaul, but little happened given that most of PNN's employees enjoyed civil-service status. I understand that little has changed today.

It's not just the PNN or Farda, which are the tip of the iceberg. Unless U.S. international broadcasting can be completely rethought, we are probably better off closing it down and starting over. This three-quarters-of-a-billion-dollar enterprise is vital, but now it isn't serving American interests. President Trump should shake up this enterprise.

S. ENDERS WIMBUSH

Washington, Va.

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

OPINION

India's Problem With Renewable Energy

By Rupert Darwall

Indian Prime Minister Narendra Modi's visit to Washington next week could prove to be his most important summit since Donald Trump became president. There is bound to be some friction, for instance over changes to America's H-1B visa program for skilled workers. But the two democracies have many interests in common, the most significant being energy.

The U.S. and India were the biggest losers from the Paris climate accord. The U.S. decision to pull out should embolden India to do the same, and the two could cooperate on building the clean-coal energy infrastructure that India needs to grow its economy.

Switching to wind and solar risks locking the country in permanent inferiority to China.

At the 2009 Copenhagen climate conference, China and India together sank Western attempts to agree on a comprehensive climate treaty. But Xi Jinping's accession in 2012 saw a sea change in Chinese policy and a new openness to multilateral approaches. This was seized on by the Obama administration, which negotiated the November 2014 U.S.-China climate deal that paved the way for the 2015 Paris accord.

When it comes to energy policy, China and India have divergent in-

terests. China has many features of development maturity. While China's per capita electricity consumption of 3,927 kWh in 2014 is lower than Western Europe's, it is similar to countries such as Hungary and Poland.

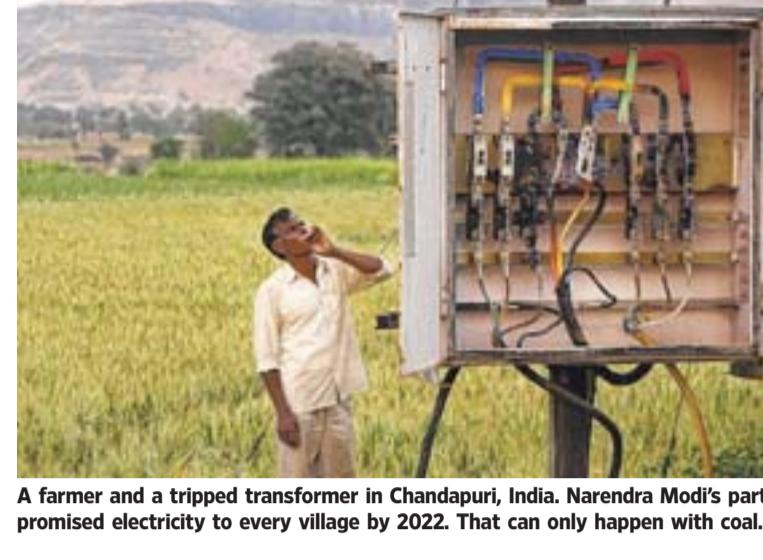
As the world's largest producer of solar photovoltaic panels, and with the ambition and means to achieve the same in wind power, China has a mercantilist interest in promoting renewable energy while remaining heavily dependent on coal.

India is in a different place. At 804 kWh, its per capita electricity consumption is little more than 20% of China's. Even after two years of declining coal consumption, China's increase in coal usage over the past 10 years exceeded India's total consumption in 2016.

China can afford the rich man's illusion of cheap renewable energy. It runs large trade surpluses and has \$3 trillion in foreign-currency reserves. India has sizeable current-account deficits and reserves of \$380 billion.

In the 2014 elections, the Bharatiya Janata Party came to power promising to bring electricity to every village by 2022. Mr. Modi and his ministers know they can only deliver this promise with coal. According to India's Nationally Determined Contribution under the Paris Agreement, coal accounted for 60.8% of India's installed capacity and "will continue to dominate power generation in future."

From 2006 to 2016, Indian coal consumption increased by 88%, in 2015 overtaking the U.S. to become the world's second-largest coal market. New Delhi plans to replace coal-



GETTY IMAGES

A farmer and a tripped transformer in Chandrapur, India. Narendra Modi's party promised electricity to every village by 2022. That can only happen with coal.

fired power stations that are more than 25 years old with modern, supercritical plants. That should boost power-station thermal efficiency by nearly 70%, thereby lowering emissions. India's energy minister, Piyush Goyal, calculates that modernizing India's coal generation will have a far greater impact on reducing emissions than the Paris accord's emphasis on renewable energy.

Meeting with U.S. Energy Secretary Rick Perry at the Clean Energy Ministerial meeting in Beijing earlier this month, India's science and technology minister, Harsh Vardhan, commented that there had hardly been any mention of climate change. "They are pushing for clean coal," he said of the Americans.

Under the Obama administration, there had not been much interest. "Since you have taken interest," Mr.

Vardhan said to Mr. Perry, "we can collaborate on the development of clean-coal technology."

The fly in the ointment is India's ambitious plans for wind and solar energy. Unlike cellular technology, which enables developing nations to leapfrog fixed-wire telephony, wind and solar energy are intermittent and therefore not reliable substitutes for dependable coal-generated power.

As Mr. Perry has noted, a reliable and resilient electric system is essential for public health, economic growth and job creation. The high fixed costs and zero marginal costs of wind and solar mean wholesale electricity prices trend towards zero, while their intermittency means gas, coal and nuclear plants operate less efficiently. But in the end the same amount of thermal-generating capacity is still needed, multiplying the in-

vestment required to fully electrify the Indian subcontinent.

Currently India's leading electric companies, such as NTPC and Tata Power, generate the healthy profits necessary to build out the Indian grid. But this won't last, if Germany's example is anything to go by. In the seven years from December 2007, three German utilities saw the destruction of €68.9 billion (\$76.77 billion) in shareholder value.

Wholesale electricity prices in India are already plunging. Over the past nine years, thermal-generating capacity utilization has fallen to 60% from 79%. Germany can tolerate this kind of value destruction because it has a working grid. Young, fast-growing economies like India's can't.

Much of the blame for the renewables push rests on international development agencies. The World Bank's 2016 Climate Action Plan promotes renewable energy as essential to stabilizing the climate, but it doesn't mention the damaging impact of intermittency on the long-term health of the grid.

Putting more wind and solar energy on India's grid will push up costs and retard Indians' access to cheap, reliable power. Ultimately it risks locking India in permanent economic inferiority to China. That outcome isn't in the interests of India or America. Whatever Mr. Modi says about India's continued participation in the Paris agreement, as a political leader he has something in common with Mr. Trump: He will put his country's interests first.

Mr. Darwall is the author of *"The Age of Global Warming: A History"* (Quartet, 2013).

This Is Not Your Father's Saudi Arabia

By Karen Elliott House

The appointment of Mohammed bin Salman, 31, as Saudi Arabia's next king will accelerate his radical reform and further solidify the U.S.-Saudi partnership. King Salman's long-anticipated decision to name his son crown prince almost certainly is intended to present a unified face to the kingdom's adversaries, especially Iran—and to bolster U.S. support for a more assertive Riyadh.

The royal decree removing Crown Prince Mohammed bin Nayef, 57, was said to be supported by 31 of the 34 members of the Kingdom's Allegiance Council, surviving sons and grandsons of Saudi Arabia's founder. The former crown prince immediately pledged his loyalty to the new one, who knelt in front of his cousin in a public show of respect.

This announcement concludes a long struggle within the ruling family. Many royals had opposed Mo-

hammed bin Salman precisely because they feared his father, now 81, intended to establish his own lineal monarchy at the expense of other family branches. The king won their support by amending the law of succession so that after the last of the founder's sons is king—that will almost certainly be Salman—the king and crown prince can't be from the same branch.

The new crown prince had assiduously wooed President Trump to counterbalance support for Mohammed bin Nayef among the U.S. defense and intelligence establishments. Mr. Trump's strong support of Riyadh during his recent visit, coupled with growing Saudi-Iran tensions, seems to have moved King Salman to act. The new crown prince may be clearing the way for action against Qatar, which he has accused of supporting Iran and regional terrorist groups.

Because Mohammed bin Salman has already been setting policy al-

most single-handedly, his elevation isn't likely to lead to any sharp changes at home, where he is pressuring an ambitious agenda to wean the Kingdom off declining oil revenues and create a private-sector led economy.

The new crown prince, 31, promises economic revival and a more assertive world role. Can he deliver?

His reform plan, known as Vision 2030, is revolutionary. Out with government dependence; in with self-reliance. Out with antimodernist Wahabi dogma and in with moderation. "Our vision is a strong, thriving and stable Saudi Arabia . . . with Islam as its constitution and moderation as its method," he said in unveiling the plan a year ago.

Even though the promised reforms have barely begun, they have sparked strong opposition as Saudi citizens feel the pocketbook impact of reduced subsidies for energy, water and electricity. Economic growth has nearly stopped as government cuts spending to ease huge budget deficits. The impact is particularly large because 80% of Saudi household income comes from government, which employs 6 in 10 Saudi workers.

All this has led many Saudis to take a wait-and-see attitude toward reform. Many assumed that should King Salman die and Mohammed bin Nayef accede, the new king would fire his young cousin. That uncertainty is gone. Mohammed bin Salman may even be able to persuade his father to step aside, so as to guarantee the crown prince's accession. Power dies with a monarch, so the royal family could band together at Salman's death to deny his son the throne.

With the succession settled, Saudi citizens are more likely to buckle

down and accept painful change. The U.S. should welcome this clarity and do all it can to support reform inside Saudi Arabia as the best way to enhance both stability and human rights. The Trump administration also should welcome the prospect of working with a Saudi leader who seems to have bet his role in the royal family on partnership with the U.S. and assertive opposition to Iran.

Now both countries need a workable strategy to confront Tehran, which is gaining power in the region at the expense of both Riyadh and Washington. Saudi Arabia under Mohammed bin Salman has gone on the offense at home and in the region after generations of cautious defense. It's one thing to go from defense to offense, far harder actually to score.

Ms. House, a former publisher of *The Wall Street Journal*, is the author of *"On Saudi Arabia: Its People, Past, Religion, Fault Lines—and Future"* (Knopf, 2012).

The Republicans Make a Narrow Escape

By Karl Rove

Before Tuesday's special election in Georgia's Sixth Congressional District, many journalists were ready to declare a victory by Democrat Jon Ossoff proof the GOP is doomed to lose its congressional majorities next year. Flipping the seat would have shown definitively the Trump presidency is a kiss of death for Republican candidates. But Republican Karen Handel won, by 3.8 points, blowing these story lines into oblivion.

It was history's most expensive House race: Mr. Ossoff had at least \$31.2 million spent on his behalf to \$22.7 million for Ms. Handel. These will grow when more campaign-finance reports come in.

The Democrats didn't spend their money well. While Mr. Ossoff won 48.1% to Ms. Handel's 19.8% in the April 19 open primary, he received the same percentage Tuesday. Meanwhile, Ms. Handel won more votes than did the 11 GOP candidates combined two months ago.

It would be understandable if Re-

publicans took this victory—the fourth in as many special congressional elections this year—as an opportunity to celebrate. But the GOP has important lessons to internalize too.

First, the ground game matters immensely. With multiple Republican hopefuls keeping the party apparatus neutral, only Democrats mounted an effective get-out-the-vote effort in April. But in June's one-on-one race, the GOP dusted off its old GOTV manuals, deployed organizers and did the basic work of canvassing and phoning to persuade and turn out voters.

Democrats increased Mr. Ossoff's vote by more than 32,000 over his April showing. Yet the GOP rallied some 96,000 more votes for Ms. Handel by focusing on Republicans who didn't vote in April and were unlikely to vote in June without special attention.

The Congressional Leadership Fund spent \$1 million on the ground game and digital ads targeted 100,000 such voters. People who didn't vote in April made up at least 22% of Tuesday's turnout.

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Tuesday's results prove it's possible to make these contests about more than Donald Trump. Ms. Handel won 51.9% while data from one conservative super PAC suggested only 38% of voters approved of Mr. Trump. Enough swing voters apparently don't believe every Republican candidate is responsible for everything the president says and does.

Anger at Mr. Trump alone won't attract the swing voters Democrats need to take Congress. Plus, Mr. Trump isn't inexorably destined to become less popular. His approval ratings could rise if he enacts reform legislation.

Democrats must offer an attractive agenda to draw suburban voters while maintaining the outrage of their party's left wing. The Georgia election shows how difficult that is, even with virtually unlimited campaign cash.

In open seats, the GOP needs to field candidates with records of getting things done in government, business or the military. Ms. Handel

was an awkward candidate, but her record as Fulton County board chairman and Georgia secretary of state proved her effectiveness in office. This provided a strong contrast with Mr. Ossoff's exaggerated résumé.

Karen Handel ekes out a special-election victory and upsets the Democratic narrative for 2018.

Republicans would do well to encourage congressmen not to retire. Incumbency alone doesn't guarantee victory, but independent and unaligned voters are often swayed by it.

Passing ambitious legislation on the economy, tax reform, health care and defense could boost the incumbency advantage further. The fewer retirements, the more the party can focus limited resources on races truly at risk.

Finally, Democrats have done better at building the networks to generate massive small-dollar contributions over the internet for special elections, but it's unclear how transferable that strength will be to the general election. Similarly, House Republicans have more resources at their party committee and super PACs, but it isn't clear that will be sufficient to re-elect the GOP House majority.

After escaping defeat Tuesday, many Republicans felt not just relieved but exhilarated. It's fine to take a moment to be happy at Tuesday's outcome, but it was still a hard race in what should be a safe GOP district. The 2018 midterm elections won't be pretty for Republicans, but the election Tuesday showed they don't have to be a catastrophe.

Mr. Rove helped organize the political-action committee American Crossroads and is the author of *"The Triumph of William McKinley"* (Simon & Schuster, 2015).

Daniel Day-Lewis Calls It a Day

By Matthew Hennessey

Some actors you wouldn't mind seeing less of. If they retired you wouldn't miss them. Not Daniel Day-Lewis.

The 60-year-old British star announced this week he will no longer appear in films. Known for staying in character during production—even between takes and at lunch—Mr. Day-Lewis has always been legendary.

"My Beautiful Laundrette," in which he played a gay, right-wing punk, and "A Room with a View," in which he played an Edwardian nerd with a Pince-nez, were released in New York on the same day in 1986. Together they announced the arrival of a major new talent.

While playing Hamlet at the National Theatre in London in 1989, he

inhabited the character so thoroughly that he took the actor playing the king's ghost to be an apparition of his own dead father, the poet Cecil Day-Lewis. A spooked Daniel Day-Lewis collapsed backstage. It wasn't a stunt. He left and never returned to the play—or to the stage.

No one had ever seen, and no one had ever given, a performance like the one Mr. Day-Lewis gave as the Irish writer Christy Brown in "My Left Foot." Brown, who had severe cerebral palsy, couldn't walk or use his arms. Mr. Day-Lewis insisted on being carried on set and having meals fed to him. One reviewer said it was so raw and truthful, it felt impolite to stare.

This isn't the first time Mr. Day-Lewis has quit the business. Frequent sabbaticals have seen him pursue avocations from painting to

furniture making. Unconfirmed reports had him apprenticed to an Italian cobbler in the 1990s. He says without these sidelines he'd have nothing to give to his roles.

Mr. Day-Lewis once promised himself never to work unless he needed to. "There's something ludicrous about acting all the time," he told the *New Yorker* in 1992.

Isn't there also something ludicrous about walking away from your gifts? I hope Daniel Day-Lewis changes his mind. He's always been one of those actors you wanted to see more of, not less. Maybe a few years away will restore his passion. If not, the movies will be poorer for his absence. There's never been an actor quite like him.

Mr. Hennessey is an associate editorial features editor at the *Journal*.

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FILM REVIEW | By Joe Morgenstern

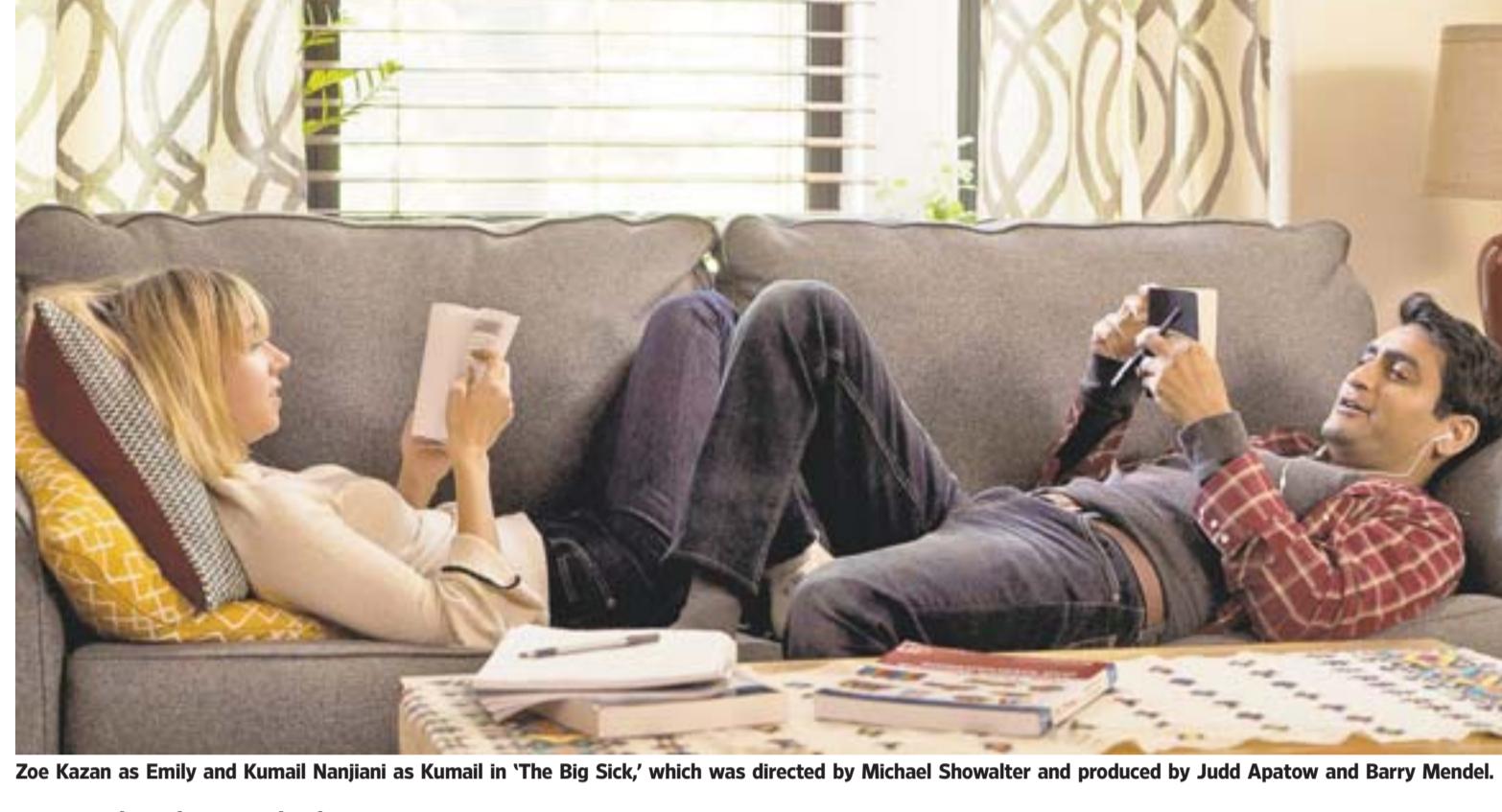
A Cure for the Common Comedy

Struggles with assimilation and illness are at the heart of this smart, hyperverbal movie

MAYBE THE TITLE of "The Big Sick" could be improved (or maybe not; the third word does stick in your mind), but everything else conspires to make this romantic comedy a cockeyed classic. It's hilariously hyperverbal, yet wonderfully heartfelt. Will the lovers and those around them ever stop talking? You wish they wouldn't, because the flow of language is such giddy fun. You hope they will; quiet time is required for deeper connections. No need for concern on either count, though. Here's a movie in which wishes and hopes are eventually granted.

The lovers, Kumail and Emily, are played, respectively and brilliantly, by Kumail Nanjiani and Zoe Kazan. He's an aspiring stand-up comic and sometime Uber driver. She's a graduate student and future therapist. They meet between sets at a comedy club. You may know Mr. Nanjiani—who, like his character, was born in Pakistan—from his role as Dinesh on the HBO comedy series "Silicon Valley." He and his wife, Emily V. Gordon, wrote "The Big Sick" as a liberties-taken version of their romance, which was interrupted when she fell victim to a mysterious illness that threatened to kill her. The film was directed by Michael Showalter—if there's a false note in his work I missed it—and produced by Judd Apatow and Barry Mendel. (Producers seldom get mentioned in movie reviews, but Mr. Apatow, the maestro responsible for such memorable comedies as "Bridesmaids," "Knocked Up" and "The 40-Year-Old," has left his mark on every elegantly crafted scene of this one.)

These days, when so many feature films are dumbed down to marketable proportions—or created for overseas consumption, and domestic audiences be damned—there's reason to be grateful for any straightforward story that's executed competently. "The Big Sick," by contrast, inter-



Zoe Kazan as Emily and Kumail Nanjiani as Kumail in 'The Big Sick,' which was directed by Michael Showalter and produced by Judd Apatow and Barry Mendel.

weaves at least four strands of a complex sequence of events that changes tone, switches moods and pauses for grace notes or casual lunacies, but never loses track of its characters' emotional cores, or their screwball-urgent zest for life.

Kumail and Emily play out a love story, and subsequent breakup, with witty words that can defeat passion; he's the comic, but she's his equal in nervous banter and reflexive self-irony. (He looks a bit too old for her, but that loses significance as the relationship progresses.) Kumail is trapped in a classic tale of incomplete assimilation; his love for Emily conflicts with his traditional parents' insistence on an arranged marriage.

Emily's illness transforms everything; what was funny is now sud-

denly and inexplicably a matter of life or death (though funny makes its first, sly comeback when Kumail uses his unconscious beloved's thumb to unlock her phone so he can contact her parents.)

Everything is transformed again by the arrival of Emily's father, Terry (Ray Romano), and her mother, Beth (Holly Hunter), a pair of cuckoo-birds with territorial instincts; they see Kumail only as an ex-boyfriend who has forfeited his right to have any say in her care. (All his frustrations explode when he can't get four slices of cheese on the same burger in the best food-ordering scene since "Five Easy Pieces.")

Earlier in the film we've had a strong sense of who Emily is: tender, vulnerable, quick to embrace

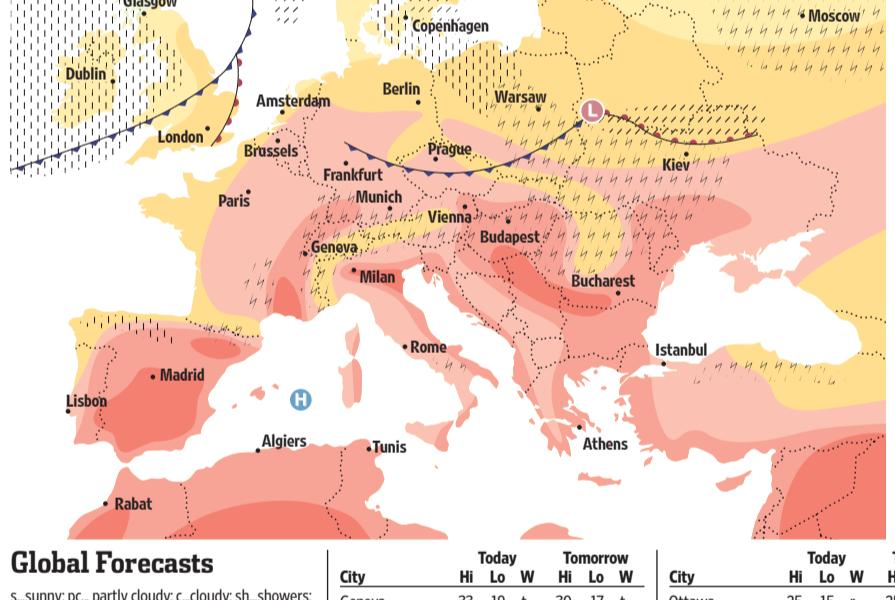
Kumail as the soulmate he is but slow to see the red flag of reticence he's been waving. Now, with Emily's parents taking charge, we get a sense of what made her who she is.

These two were not cut out for parenting, or marriage. Beth is a loose cannon on a runaway tank—a compact tank, given Ms. Hunter's stature, but an unstoppable one, given the gorgeous ferocity of her portrayal. (After all her distinctive performances over the decades, this one is astonishing.) Terry is interestingly bookish, even thoughtful, but his mind is linked to his mouth by the neural equivalent of a slipping transmission. "Love isn't easy," he tells Kumail at one point. "That's why they call it love." Kumail, baffled, says, "I don't get that." Terry, rueful, re-

plies, "I know. I thought I could just start talking and something smart would come out."

Everyone talks compulsively—clouds of words and sentences that come out funny, more than anything else, but also smart and, best of all, charged with honest feeling. That's the signal achievement of the screenplay, and of Mr. Nanjiani's sweetly soulful presence at the center of the action. As a stand-up comic, Kumail is desperate—to please, to break free, to succeed. As a man, his struggle is to strengthen his spine, stand up to his life and take his place with Emily, however long her life may last. It's a lot for any movie to take on. "The Big Sick" pulls it off with unquenchable humor and ineffable grace.

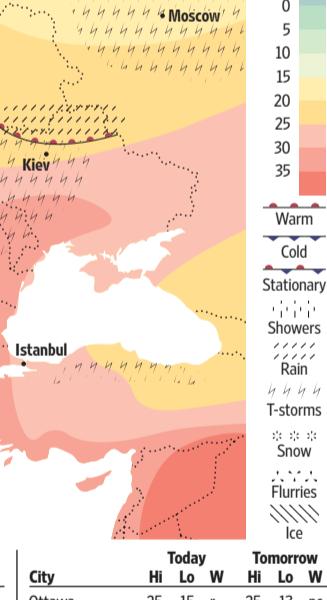
Weather



Global Forecasts

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	22	18	pc	20	14	sh
Anchorage	15	9	pc	18	11	pc
Athens	32	23	s	33	23	s
Atlanta	31	23	c	28	21	t
Bahrain	40	26	s	42	27	s
Baltimore	31	21	t	30	17	r
Bangkok	34	26	t	33	25	t
Beijing	24	18	sh	25	18	r
Berlin	23	15	pc	24	16	sh
Bogota	19	10	r	19	10	r
Boise	29	14	s	32	16	s
Boston	29	21	t	28	18	pc
Brussels	26	14	pc	22	13	sh
Buenos Aires	22	15	c	21	16	r
Cairo	33	22	s	35	23	s
Calgary	18	8	pc	19	8	pc
Caracas	31	25	pc	31	25	pc
Charlotte	32	23	c	32	20	t
Chicago	27	15	t	24	13	pc
Dallas	36	22	pc	28	23	t
Denver	23	11	pc	25	10	c
Detroit	28	15	t	25	13	pc
Dubai	42	31	s	41	31	s
Dublin	19	10	sh	17	9	pc
Edinburgh	18	10	c	15	10	pc
Frankfurt	30	16	pc	29	15	pc

AccuWeather.com



City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Ottawa	25	15	r	25	13	pc
Paris	27	14	s	27	15	pc
Philadelphia	31	23	t	30	19	r
Phoenix	45	31	pc	46	33	s
Pittsburgh	24	17	t	25	13	pc
Port-au-Prince	35	23	pc	35	23	pc
Portland, Ore.	33	16	s	35	18	s
Rio de Janeiro	25	19	pc	25	18	pc
Riyadh	42	25	s	41	25	s
Rome	29	18	s	29	20	pc
Salt Lake City	31	15	s	33	17	s
San Diego	24	19	pc	24	19	pc
San Francisco	25	14	pc	22	14	pc
San Juan	31	25	pc	31	25	sh
Santiago	13	7	pc	14	8	s
Santo Domingo	33	23	pc	32	23	pc
Sao Paulo	21	13	s	22	12	s
Seattle	27	14	s	30	16	s
Seoul	31	21	pc	31	21	pc
Shanghai	29	24	t	29	23	t
Singapore	31	26	c	31	26	c
Stockholm	20	12	c	20	11	t
Sydney	19	10	s	18	9	s
Taipei	34	26	pc	34	26	pc
Tehran	35	21	s	35	23	s
Tel Aviv	28	21	s	22	22	pc
Tokyo	27	21	pc	27	22	pc
Toronto	26	14	r	24	13	s
Vancouver	22	13	s	25	15	s
Washington, D.C.	31	23	t	31	20	r
Zurich	31	17	t	30	15	t

The WSJ Daily Crossword | Edited by Mike Shenk



CONSERVATION EFFORTS | By Matt Gaffney

The answer to this week's contest crossword is a valuable resource.

- Across**
- 1 Inexperienced with
 - 6 Collars
 - 10 "Don't ___ the trolls"
 - 14 Mediterranean spheroid
 - 15 Radiate
 - 16 Hindu hero
 - 17 Captures the zeitgeist
 - 19 Group with guns
 - 20 Leader of "struggle sessions"

Down

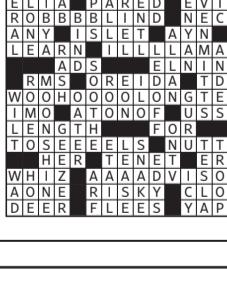
- 21 Syllables of reproach
- 22 Was (for Halloween)
- 24 Get ___ deal
- 26 Singer's unit
- 28 Djembe or bongo
- 30 Wry laugh
- 31 Research group
- 34 CCLXIII quadruped
- 37 Act sullen
- 39 Digression
- 41 Conservation phrase to use three times
- 44 Word on Hawaii license plates
- 45 Creator of Wonka
- 46 Delicate dozen
- 47 "I'm sorry, Dave" speaker
- 48 Your of yore
- 50 Word in touristy shop names
- 52 Tranquil
- 55 Spring to the surface
- 59 Tends to flowers
- 61 Theater magnate Marcus
- 63 TV character who says "Thank you, come again!"
- 64 County of northern Ohio

► Email your answer—in the subject line—to crossovercontest@wsj.com by 11:59 p.m. Eastern Time Sunday, June 25. A solver selected at random will win a WSJ mug. Last week's winner: Bob Ehrhardt, Bel Air, MD. Complete contest rules at WSJ.com/Puzzles. (No purchase necessary. Void where prohibited. U.S. residents 18 and over only.)

PUZZLE CONTEST

- 65 Like many debut albums
- 68 Office drudge
- 69 1970s hearthrob Garrett
- 70 Feature of Dwight Yoakam's voice
- 71 Beach acquisitions
- 72 Grinds (out)
- 73 Classification of some port wine
- 74 Build over time
- 75 Roy G. __
- 76 "Family Guy" baby
- 77 Currency in Cameroon
- 78 You, presumably
- 79 Poly-poly
- 80 Broke down Watson
- 81 Lent's forty
- 82 Fall
- 83 Ex of Uma
- 84 Dead wrong
- 85 Ado
- 86 Joyce of "Three's Company"
- 87 Most promgoers
- 88 Watching ___ (Julia Louis-Dreyfus sitcom)
- 89 Series with suing
- 90 One of the lvies
- 91 Poly-poly
- 92 Broke down
- 93 District
- 94 Does in
- 95 Rodent-induced cry
- 96 Howard Hughes once owned it

Previous Puzzle's Solution



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THE WALL STREET JOURNAL.

Friday - Sunday, June 23 - 25, 2017 | B1

Euro vs. Dollar 1.1149 ▼ 0.19%

FTSE 100 7439.29 ▼ 0.11%

Gold 1247.60 ▲ 0.34%

WTI crude 42.74 ▲ 0.49%

German Bund yield 0.255%

10-Year Treasury yield 2.153%

New Push to Warn Pilots on Hacks

By ANDY PASZTOR

LE BOURGET, France—Escalating concerns about cyberthreats are prompting the aviation industry to devise an unlikely new safeguard: real-time warnings to pilots about potential hacking attempts.

Work to develop such systems, which have prompted disagreements between some in the industry, are part of separate efforts by France's **Thales SA**, **Raytheon Co.** and other companies to expand cyber protections for aircraft. **Airbus SE** and **Boeing Co.** support the pilot-alerting goal, reflecting a desire to try new things as global threats intensify and evolve.

But interviews at the Paris Air Show showed there isn't an industrywide consensus on the concept, a version of which is under development and could

start to be tested on some commercial aircraft by late 2018. Large suppliers such as **Honeywell International Inc.** and **Rockwell Collins Inc.**—which provide cockpit equipment for many airliners—are skeptical about the need for such proposed capabilities.

The debate isn't likely to affect cybersecurity systems on today's airliners or even those built in the next few years, though it could have an impact on how the digital cores of future models will be protected.

Proponents of alerting see advanced systems on aircraft as being able to identify attempted or successful cyberintrusions, with the data feeding into artificial intelligence features powerful and adaptable enough to automatically respond to the hazard.

"The conventional ways by



Aviation firms are responding to rising concern about cyberthreats.

which we've protected ourselves in cyber may need to change" as threats evolve, said Greg Hyslop, Boeing's chief technology officer.

Allan McArtor, chairman of the Airbus unit that operates in the U.S., Canada and Latin America, also sees a need for greater industry sophistication

in battling potential cyberthreats. "We haven't been able to make a very convincing argument" to the public about why aircraft are safe from outside intrusion, he said. What is missing, he added, is "a convincing cyberthreat architecture that allows us to be aware of attacks" when they take place, including warnings going directly to the cockpit.

The push for new approaches generally tracks recommendations from an earlier U.S. government-backed study group. The group of experts also concluded that airline vulnerabilities extend to maintenance operations that can allow outsiders to gain unauthorized access to aircraft systems.

In September, the Federal Aviation Administration's top technical advisory group ad-

Please see CYBER page B2

Apple Bears Down In India

Apple Inc. is broadening its push into India, perhaps the iPhone's last great growth market.

By Newley Purnell
and Rajesh Roy in New Delhi, and Tripp Mickle in San Francisco

The company's first Indian-made iPhones began selling locally this month with hopes reduced prices will boost sales in the sprawling country where Apple has just 3% of the smartphone market.

The Cupertino, Calif., company is considering opening flagship stores in India's megacities and is helping hundreds of third-party resellers open new shops at an unprecedented pace. It also has set up development centers to build apps for Indian customers and enhance local mapping capabilities.

While Apple's strategy typically is to sell high-price handsets to telecommunications carriers, its effort in India reflects the realities of an emerging market where wages are low, cellular speeds are sluggish and consumers mostly buy phones from small, unaffiliated shops. The company also must overcome weak brand awareness and its relatively late arrival in a market where **Samsung Electronics Co.** has a head start.

"It's not a push for premium—it's a push to sell an Apple device by any means necessary," said Lauren Guenveur, an analyst with market-research firm Kantar Worldpanel.

India, already the world's second-largest mobile market after China, is expected to add more mobile subscribers—310 million—than any other country in the four years through 2020, according to estimates from GSMA, a global association of mobile-service providers. Apple wants to make sure all the growth doesn't go to Samsung and rising Chinese competitors such as Xiaomi Corp. and Lenovo Group Ltd.

There is "a lot of headroom [in India] in our mind, and so we are working very hard to realize that opportunity," Chief Executive Tim Cook said on a call with investors in October.

Samsung, which holds 27% of India's smartphone market, announced this month it was doubling its capacity in India with a \$760 million investment in its smartphone and refrigerator factory outside India's capital.

Chinese brands such as **BBK Electronics Corp.**'s Oppo and Vivo are rapidly gaining ground, with their 50% share of the smartphone market in the first quarter representing a doubling from a year earlier, according to Kantar Worldpanel.

Apple might need to temper investor expectations in India, where by 2020 it is likely to increase its market share to just

Please see APPLE page B4

STREETWISE

By James Mackintosh

Blind Faith In Bezos May Sting Investors

Investors think Jeff Bezos has the magic touch. Few companies other than Amazon could announce a \$14 billion takeover of a mature firm, give no details of why they are buying the very business model they're trying to disrupt, and have their market value rise by more than the takeover price.

Since Amazon said last week that it would buy upscale grocery chain Whole Foods Market, multiple theories have circulated about what it is up to. Some think it is about convenience shopping. Some that it is about customer data. Some suggest logistics, the grocery supply

In the 20 years since it listed, Amazon has made a total of \$5.7 billion in net income.

chain, or an extra distribution channel for the company's growing range of own-brand electronics. Still others think Amazon hasn't really got a strategy yet. What all seem to agree on is that Amazon will make it work, and other grocers should be cowering in the their freezer cases.

Amazon doesn't inspire the near-religious fervor found among Apple's true believers, but the online-shopping-to-movie-studio conglomerate does depend on faith, hope and charity. Faith in Mr. Bezos's inventiveness provides the essential underpinning for Amazon shares, while investors hope that he doesn't really think of the company as a charity to finance wacky new ideas.

Amazon—like Google and Facebook—has a successful core business, pays little heed to shareholders and plows its spare cash back into expansion and research and development rather than dividends. In the 20 years since it listed, it has made a total of \$5.7 billion in net income, more than half of that in the past two years. It has spent \$64 billion on R&D in the same period, including \$4.8 billion in the first quarter alone.

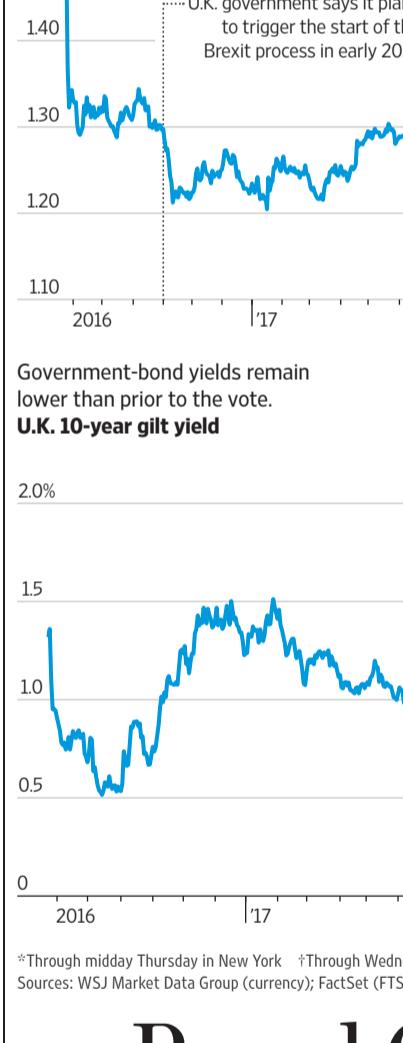
Mr. Bezos set out his principles in 1997. "We will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability consider-

Brexit's Impact on Markets: One Year On

Britain's surprise vote to leave the European Union on June 23 last year shook financial markets, sending the pound down more than 11% against the dollar in a matter of hours and causing local shares to tumble. Here's how U.K. markets stand one year later.

The pound remains far lower compared with a year ago...

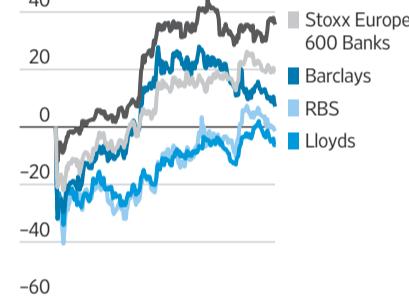
How many dollars £1 buys*



Sources: WSJ Market Data Group (currency); FactSet (FTSE 350); Thomson Reuters (banks, stocks); Tradeweb (gilt)

...while local bank shares have underperformed...

Change since June 23, 2016, in bank shares, in local-currency terms†



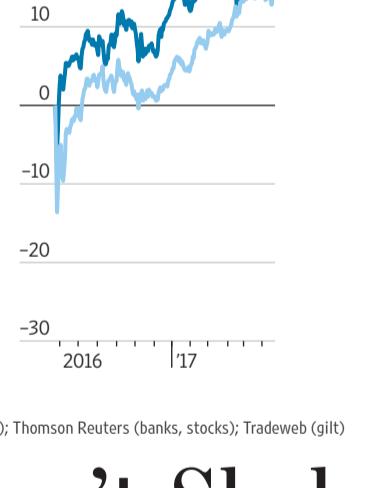
...and retailers have been under pressure.

FTSE 350 General Retailers index*



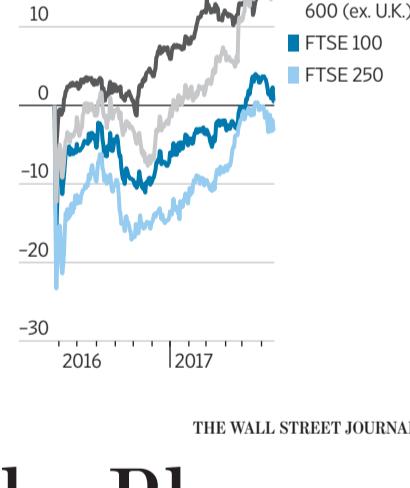
U.K. stocks are up since Brexit....

Change since June 23, 2016, in stock-market indexes, in sterling terms†



...but viewed in dollar terms, those indexes have lagged behind.

Change since June 23, 2016, in stock-market indexes, in dollar terms†



THE WALL STREET JOURNAL.

Pound Can't Shake the Blues

Political trouble, weak growth, rising inflation complicate the outlook for the currency

By CHRISTOPHER WHITTALL
AND RIVA GOLD

and the pound tumbled 11% in a matter of hours.

Since then, political uncertainty and concerns that leaving the EU will dent economic growth have continued to weigh down the pound. Despite rising slightly this year, it currently trades at around \$1.27, compared with \$1.50 before the referendum result.

Many feel it has further to fall but are reluctant to place large bets given the uncertain political and central bank out-

look in the U.K. Inconclusive elections earlier this month opened up the possibility of the U.K. maintaining closer-than-expected ties with the EU, but also fueled worries the prime minister will be seen as a less reliable interlocutor, increasing the chances the talks could end without a deal.

Meanwhile, as the bulk of the developed world grapples with accelerating growth and signs of tepid inflation, the U.K. is experiencing inflation-

ary pressures and signals of a slowdown in the economy.

Weak growth and building inflation have made life complicated for **Bank of England** policy makers, who are increasingly at odds over whether to raise interest rates in response to higher inflation.

"I think the U.K. will face a headwind to growth later this year as Brexit concerns strangle things," said Alan Wilson, investment manager at **State**

Please see POUND page B2

Please see APPLE page B4

Uber Backers Force CEO's Hand

By GREG BENINGER
AND MAUREEN FARRELL

with the matter.

Travis Kalanick's decision to step down as chief executive of **Uber Technologies Inc.** stunned his more than 12,000 employees and rippled through Silicon Valley, but it was the culmination of weeks of maneuvering by some of the firm's biggest backers to oust the nearly \$70 billion company's co-founder.

Mr. Kalanick was in Chicago on Tuesday to interview a candidate for his top deputy position when he received unexpected news about his future, according to people familiar

private company.

Even in the midst of a number of controversies, Mr. Kalanick's abrupt surrender was a stunning fall for one of the most celebrated careers in Silicon Valley in recent years. Tech entrepreneurs idolized the pugnacious Mr. Kalanick for snubbing convention and prioritizing winning at all costs, and investors hailed him as the model for a founder.

Please see UBER page B4

- ◆ Kalanick's exit is a rare win for women in tech B4
- ◆ For Lyft, it isn't a 'time to gloat' B4



Travis Kalanick resigned as chief executive of the company he co-founded, saying he had 'accepted a group of investors' request.'

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POUND

Continued from the prior page
Street Global Advisors.

Investors say that politics, and specifically Brexit, will be the major driving force behind the pound's long-term path.

The U.K. opting to maintain a close relationship with the EU could see sterling swing higher, they say. Some investors believe the recent election result has made that outcome more likely. The Conservative Party, which had campaigned for a clean break with the EU, lost its majority in parliament and is reliant on other parties to pass legislation.

But Britain's two main political parties say they remain committed to Brexit. Many still think sterling will suffer as negotiations move forward.

Bearish bets against the pound have increased for a third week.

"Sterling hasn't bottomed yet," said Marc Chandler, global head of currency strategy at **Brown Brothers Harriman**, predicting it could eventually fall to parity with the dollar. "Brexit will make the U.K. smaller and weaker."

Over the nearer term, the pound's trajectory will largely depend on how the Bank of England addresses the simultaneous rise in inflation and slowdown in economic growth.

U.K. consumer prices climbed in May at the fastest annual rate in almost four years, with a weak pound leading to higher import prices.

Economic growth held up well in the latter half of 2016, defying the dire predictions of many analysts. But growth slowed in the first quarter of the year on weak consumer spending. Some economists believe that could be a sign of things to come.

Researchers at industry trade group **Institute of International Finance** forecast quarterly U.K. growth will slow to near zero this year as businesses put off investment decisions and consumers are

hit by declines in real wages. Brexit negotiations are likely to be tough and uncertainty will remain high throughout, they argue.

Inflation-targeting central banks typically raise interest rates to tamp down on price rises.

Higher rates would typically boost the currency, as investors are encouraged to buy higher-yielding sterling-denominated assets.

But the increase in U.K. consumer prices is mainly due to the weak currency boosting import prices, rather than the result of rising wages and an expanding economy. The BOE cut interest rates and boosted its bond-buying stimulus programs following the Brexit vote to support the economy, and policy makers are now wary of lifting rates in a way that could stifle growth.

Communications from Bank of England officials reveal this conflict. The BOE's rate-setting monetary policy committee voted to hold rates steady at record lows last week. But three people on the eight-member committee voted for a rate rise, up from one person at the previous meeting.

Andreas König, head of foreign exchange in Europe for Pioneer Investments, says it is hard to find any reason to bet on the pound rising over the longer term due to the U.K.'s economic position and the uncertainty over Brexit. But he is wary of betting on its decline because he thinks the BOE's recent comments show it will intervene verbally to prop up the currency.

"Lower sterling makes sense fundamentally, but from a risk-reward perspective it's not very attractive," he said.

Others are still betting on declines. Bearish bets against the pound have increased for a third week, with net speculative positions on the currency remaining in negative territory at all times since the vote. Many believe the lack of clarity over the U.K.'s relationship with the EU will continue to cloud the picture.

"It's difficult to see sterling making significant gains until the political uncertainty here is cleared and we can see a clearer path to how Brexit negotiations will work themselves through," said Simon Derrick, chief currency strategist at BNY Mellon.

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BUSINESS & FINANCE

Foxconn Seeks U.S. Plants

The iPhone assembler weighs seven states for potential factories; \$10 billion is at stake

BY YOKO KUBOTA

TAIPEI—Taiwan's **Foxconn Technology Group**, which assembles Apple Inc.'s iPhones in China, is looking at seven states in the American heartland where it would invest \$10 billion or more to manufacture flat-panel screens and related equipment.

"Over the years, manufacturing of consumer goods has shifted out of the U.S." Terry Gou, the chairman of the company formally known as **Hon Hai Precision Industry** Co., told reporters after the company's annual shareholders meeting Thursday. "We will bring our advanced technology there to revive American manufacturing."

Foxconn's U.S. ambition, which Mr. Gou flagged in January, comes amid a flurry of U.S. investments announced by Asian companies as President Donald Trump seeks to stimulate American manufacturing.

South Korea's **Samsung Electronics** Co. is in talks to invest about \$300 million to



Foxconn's Terry Gou has met with the governors of three states.

on the U.S. plants, he said.

Foxconn also plans to build supply chains and introduce automation technologies to its U.S. operations, Mr. Gou said. The company will decide on more details by the end of July to early August, he said.

Mr. Gou said he has met with three state governors, without specifying which ones. Governors from Michigan, Ohio and Wisconsin have visited Japan to meet Mr. Gou, people familiar with the matter said. A Foxconn spokesman declined to comment.

In January, Mr. Gou said he hoped to invest \$7 billion in the U.S. and has welcomed pitches from state governments. The investment could create 30,000 to 50,000 jobs in the U.S., he has said.

In the shareholders meeting, Mr. Gou also said Foxconn hasn't given up on its efforts to buy **Toshiba** Corp.'s memory-chip unit, which the Japanese electronics maker is seeking to sell for some \$20 billion. A day earlier, Toshiba said it had chosen as its preferred bidder a consortium that includes a Japan-backed investment fund and a state-owned bank.

—Timothy W. Martin
in Seoul
contributed to this article.

expand its U.S. production facilities, a move that could generate about 500 jobs, according to people familiar with the matter.

Japan's biggest auto maker, **Toyota Motor** Corp., said earlier this year it plans to invest \$10 billion in the U.S. over the next five years, while Chinese textile producer **Keer Group** Co. has said it is planning to expand its existing capacity in South Carolina.

Samsung is considering a shift of some production of oven ranges now made in Mexico to a factory in Newberry, S.C., about 240 kilometers northwest of the port of Charleston, according to the people familiar with the mat-

ter. **Caterpillar** Inc. plans to vacate the plant soon.

Caterpillar said last year it would close the Newberry facility, a packaging plant for electric generators, with 325 jobs, and shift those positions to other U.S. locations.

In his remarks, Mr. Gou said Foxconn is considering roughly five states for potential investments, but a company executive later clarified that to say that seven states are candidates: Illinois, Indiana, Michigan, Ohio, Pennsylvania, Texas and Wisconsin.

Foxconn will work together with **Sharp** Corp., the Japanese electronics maker acquired by Foxconn last year,

certain nature of threats. Industry officials agree there hasn't been a single verified instance of safety systems being breached on a large commercial jetliner. But at the same time, experts' warnings are getting louder about the dangers of hackers finding a vulnerability in aviation protections.

Raytheon, which over the past decade has bulked up its cybersecurity business to more than \$1 billion a year in revenue, hopes to start designing what could be a cyber warning system intended for cockpits in both commercial jets and military aircraft. The challenge is "how do you remediate existing systems and build in that resiliency going forward," according to David Wajgras, president of the company's intelligence, information and services unit.

Raytheon, a major global provider of air-traffic control hardware and applications, is starting with the more modest goal of establishing a detection system intended to identify false or spoofed sensor readings from engines, flight computers or other operating elements. But ultimately, it envisions sending some type of automated message to warn pilots if their aircraft is believed to be under cyberattack.

Compared with Thales, Raytheon is earlier in the process of analyzing the challenges, and it hasn't identified or signed an aircraft operator or maintenance organization to serve as a partner for field testing.

Warning systems could be used for other purposes. Under some scenarios, air carriers want the option of quickly being able to turn off all in-flight entertainment data to a specific seat, row or even the entire cabin.

CYBER

Continued from the prior page
opted language seeking to ensure that cybersecurity protections would be incorporated into all future industry standards—affecting everything from aircraft design to flight operations to maintenance practices.

Thales decided years ago that it wasn't sufficient to merely devise elaborate protections. "We must have some real-time capabilities to detect and respond" if an intrusion is under way, said Thomas Hutton, one of the company's top cybersecurity officials. He wouldn't disclose which airline signed up to participate in the testing phase, but the goal is to send a real-time alert and have crew members react based on "a very detailed set of procedures"

that they were trained to use.

Carl Esposito, president of Honeywell's Electronics Solutions Business unit, sees no need for such drills, pointing to the extraordinary rigor and care avionics suppliers use in writing code. Existing safety systems are effectively impenetrable from the outside, he said, because of "encryption, security keys and end-to-end verification" of users already embedded in the software.

Flight-control applications are separated from cabin-entertainment data with a physical gap between their respective power grids. In the event a warning comes to the cockpit, he maintained, aviators aren't cybersecurity experts so "what could the pilots do about it anyway?"

These different assessments of the industry's cyber vulnerabilities—and what leaders should do combat future attacks—partly reflects the un-

certainty of threats. Industry officials agree there hasn't been a single verified instance of safety systems being breached on a large commercial jetliner. But at the same time, experts' warnings are getting louder about the dangers of hackers finding a vulnerability in aviation protections.

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Continued from the prior page
actions or short-term Wall Street reactions," he told shareholders.

Investors have bought into the idea that by not maximizing profit in the short term, Amazon can maximize profit in the long term—even if, 20 years later, the long term still hasn't arrived. At most listed companies, the exact opposite is true, with management under constant pressure to boost dividends and buybacks.

"It's become easier to invest as a private company than as a public company," says James Anderson, a partner at Edinburgh-based Baillie Gifford & Co. whose biggest holding is Amazon.

"There's a small number of companies that appears permitted to do this, and it's very difficult for most other public companies."

Holding shares in Amazon requires the belief that Mr. Bezos will find enough good investments to offset the mistakes—such as cash Amazon put into Pets.com, the epitome of badly-thought-through dot-com bubble catastrophes. So far, just one of his successes would cover a lot of mistakes, with Amazon Web Services alone making almost 90% of operating profit in the first quarter.

Investors also need to believe that eventually Mr. Bezos will start paying out some of the cash. The value of a company ultimately comes from future dividends—and Amazon has yet to pay a cent.

The long-term danger is that instead of paying dividends, the cash is wasted. History is littered with examples of chief executives indulged by shareholders who become so enamored of their own brilliance that they fritter away shareholder money on wasteful expansion.

BUSINESS NEWS

Boeing Is Top Seller at Paris Air Show

Plane maker beats out rival Airbus in orders as both attract robust single-aisle jet demand

BY ROBERT WALL

LE BOURGET, France—**Boeing** Co. beat **Airbus** SE in the annual jetliner-orders bonanza at the Paris Air Show, but both companies came out winners in one crucial way: Demand for both plane makers' most-popular single-aisle jets remains buoyant.

Overall orders for planes have slowed recently after a yearslong run of supercharged growth fanned by fast-growing budget carriers and cash-rich Middle East buyers. Those buyers have stayed away from bigger jets, making the so-called narrow-body, or single-aisle, market the key to the industry's medium-term health.

At the end of the show, Boeing claimed \$75 billion in deals for 571 new planes. Airbus said it secured \$42 billion in deals for 144 firm orders, along with 202 other looser commitments for planes. That was better than many analysts had expected.

The orders and commitments secured by Boeing, the world's No. 1 plane maker, were fueled by its launch of a new narrow-body model, the 737 Max 10. Boeing got 16 customers to sign up to the new plane, including **United Continental Holdings** Inc. It leaves the Paris show with 361 deals



A Boeing 737 Max 9 on display at the Paris Air Show Thursday. Boeing claimed \$75 billion in deals for 571 new planes at the event.

for the new plane.

"There is a very strong, robust market for the single-aisle" aircraft, said Boeing's new chief plane salesman, Ihssane Mounir, at his first big event since taking the job.

Boeing said 214 of the deals for the new plane were order conversions from other models. Mr. Mounir said the con-

versions were partly a reflection of buyers wanting to move quickly to acquire the new aircraft.

Rival Airbus lagged behind with 286 single-aisle deals.

"This is a slower year for orders than previous years," said John Leahy, chief plane salesman for Airbus.

Iranian airlines have be-

come a relatively recent new customer base for both jet makers after global powers in 2015 lifted sanctions on the country in return for Tehran agreeing to limits on its nuclear program. Airbus on Thursday announced deals with two Iranian carriers for 73 planes, though the U.S. government still has to provide

the licenses required because of American content on the planes.

Though orders get much of the attention at the air show, plane makers and investors are more focused on aircraft deliveries that correlate more closely with cash flow.

The Paris deals underscored Airbus and Boeing plans to

build more of their popular single-aisle planes, both companies said.

David Joyce, president of **General Electric** Co.'s aviation unit, said the company would be building 800 more engines than planned in the coming three years for Airbus and Boeing to meet strong demand. It builds those engines in cooperation with France's **Safran** SA.

Airbus builds about 50 A320 planes a month and is on a path to producing 60 a month from mid-2019. Airbus Commercial Airplanes President Fabrice Brégier said the company would be interested in producing even more single-aisle planes if engine suppliers could boost output. Mr. Brégier said demand for the planes is high enough to increase output further. "The limiting factor is the engine availability," he said.

Boeing also said it is studying higher output, though Mr. Mounir said the company, for now, was sticking to plans to increase production from 42 narrow-body planes a month today to 57 in 2019.

There is less appetite to build more planes in the wide-body market, where order volume has been soft for some time. Airbus only secured 20 widebody deals. Boeing signed deals for 56 long-range jets, mostly its Dreamliner model. The plane maker has been considering whether to boost production of that model, too, but Mr. Mounir said it was too early to make that call.

Red Tape Hurts Telecom, Trump Says

BY DREW FITZGERALD
AND REBECCA BALLHAUS

President Donald Trump on Thursday told technology and telecom executives the government will tackle federal regulations they consider too restrictive but stopped short of announcing any specific policies aimed at their industries.

The White House meeting drew executives from two dozen companies, including **AT&T** Inc., **Honeywell International** Inc., and **General Electric** Co. The discussions focused on sectors subject to

complex government oversight, such as wireless broadband, and others still too new for fully developed rules, like airborne drones.

"We want our innovators to dream big," the president said. "We want them to create new companies and to create lots of jobs." He criticized federal regulations that are "so bad, so out of line."

The president congratulated GE Chief Executive Jeff Immelt on his recently announced retirement plans and praised AT&T CEO Randall Stephenson—who was seated next to

the president—for having done "really a top job."

The president didn't address his administration's oversight of corporate mergers—one persistent focus for the telecom sector—though some attendees have big deals awaiting the government's blessing. AT&T last year announced an \$85 billion takeover of Time Warner Inc., owner of CNN and Turner's cable networks. CenturyLink Inc. CEO Glen Post attended as his company seeks regulatory approval for a \$25 billion merger with rival Level 3 Communica-

tions Inc.

Thursday's meeting instead focused on the barriers to investments in technology and network infrastructure. Much of the chatter dealt with the fifth-generation wireless technology that phone companies are developing to support faster connections to cars, appliances and industrial systems. Mr. Stephenson touted the importance of the 5G network's rollout, saying, "If we get this right, we probably lead the world for another era in terms of broadband."

"Everybody was zeroing in on the same thing, and that's about speed," Verizon Communications Inc. executive John Stratton said in a later interview. "If you don't remove those barriers and friction to deployment, you slow the pace of investment."

Mr. Stratton said much of the policy work discussed Thursday was already in the works at the Federal Communications Commission and on Capitol Hill. But, he added, it was "helpful to have the guy at the top taking an interest in your industry."

The event piggybacked off another White House tech summit on Monday. Leaders from Amazon.com Inc., Microsoft Corp., Oracle Corp. and others volunteered their help modernizing government IT systems, though White House officials' comments on their initiatives shed little light on what policies, if any, the administration plans to change.

Tesla Studies China For Auto Factory

BY TIM HIGGINS
AND TREFOR MOSS

Tesla Inc. said it is exploring with government officials in Shanghai the possibility of opening a facility to build electric vehicles for the Chinese market.

In late trading in New York Thursday, Tesla's shares were up 1.6% at \$382.59. The stock is up about 80% this year.

China charges a 25% duty on all imported cars, but the hefty markup hasn't deterred affluent buyers who regard a Tesla vehicle as a prestige item.

One Chinese Tesla owner, Chen Zhanchong, said he paid \$176,000 for a Tesla Model S P90D in late 2015, well over the sales price in the U.S. But the 31-year-old Guangzhou resident, who recently left his job at an internet company, said it was still a good value for a high-performance electric car. "If a cheap Model 3 is produced in China in large quantities, local companies won't be able to compete," Mr. Chen said. "Tesla will enjoy explosive growth."

Tesla reported more than \$1 billion in revenue in China in 2016, a figure that analysts say equates to about 11,000 vehicle sales. The company sold just over 76,000 cars globally last year.

—Junya Qian contributed to this article.

Journal Reporter Fired Over Ethics

BY LUKAS I. ALPERT

The Wall Street Journal fired veteran foreign-affairs reporter Jay Solomon for violating the paper's ethical standards, stemming from his dealings with an aviation tycoon whom he had cultivated as a source.

The connections between Mr. Solomon and Farhad Azima, a Kansas City, Mo.-based businessman, were reported Wednesday by the Associated Press, which discovered them as part of an investigation into Mr. Azima's broader dealings. The AP reported that Mr. Azima has done secret work for the U.S. government and has won lucrative government contracts.

The AP reported it obtained emails and text messages between the two men that it said showed Mr. Azima had offered Mr. Solomon a 10% stake in a company he was trying to create. The AP said it had also seen a document that listed an apparent stake in the company, Denx LLC, in Mr. Solomon's name.

In a statement, the Journal said: "We are dismayed by the actions and poor judgment of Jay Solomon. The allegations raised by this reporting are serious. While our own investigation continues, we have concluded that Mr. Solomon violated his ethical obligations as a reporter, as well as our standards."

"He has not been forthcoming with us about his actions or his reporting practices, and he has forfeited our trust," the statement continued. "Mr. Solomon is no longer employed by The Wall Street Journal."

The AP said it wasn't clear if Mr. Solomon had ever received any money or accepted the stake in the company. Lawyers for Mr. Azima, an American citizen who was born in Iran, told the AP the messages had been stolen by hackers.

Mr. Solomon couldn't be reached for comment. In a statement to the AP, he said, "I clearly made mistakes in my reporting and entered into a world I didn't understand." He added, "I never entered

into any business with Farhad Azima, nor did I ever intend to. But I understand why the emails and the conversations I had with Mr. Azima may look like I was involved in some seriously troubling activities. I apologize to my bosses and colleagues at the Journal, who were nothing but great to me."

Mr. Solomon had worked for the Journal for more than two decades covering international diplomacy and topics such as nuclear-weapons proliferation and counterterrorism.

He wrote "The Iran Wars: Spy Games, Bank Battles, and the Secret Deals That Reshaped the Middle East," a book published by Random House in 2016.

The AP quoted two other Denx officials saying Mr. Solomon discussed proposed deals with Mr. Azima while he was developing the aviation magazine as a source for his Journal reporting. They said Mr. Solomon withdrew from the venture "shortly after business efforts began."

BUSINESS WATCH

IMAGINATION TECHNOLOGIES

Chip Designer Puts Itself Up for Sale

Imagination Technologies

Group PLC, a small U.K. technology firm that has been one of

Apple

Inc.'s important suppliers,

said it has put itself up for sale

after receiving a number of

takeover approaches.

Imagination's stock rose 16%

on Thursday. But in April, the technology company said Apple would stop using the chip de-

signer's technology in its devices, sending shares tumbling more than 70%.

Imagination said at the time that Apple was working on its own designs for graphic processing units, the technology Imagination supplied to the iPhone maker. GPUs power videos and other animations on smartphones, computers and other gadgets.

An intellectual-property-based business worth about \$500 million in market value, the U.K.-based chip designer doesn't

manufacture chips itself.

—Rory Gallivan

VIRGIN MOBILE

Company to Become iPhone-Only Carrier

Virgin Mobile, the phone carrier founded by mogul Richard Branson, will become the world's first iPhone-only carrier, the company said Wednesday.

The carrier, which was acquired by **Sprint** Corp. in 2009, sells prepaid phone services, meaning customers don't have contracts and must pay upfront each month.

Virgin has faced competition from Cricket Wireless, which was bought by **AT&T** in 2014, and MetroPCS, which was acquired by **T-Mobile US** Inc. in 2013.

By moving to iPhone only, Virgin hopes to appeal to a higher-end customer base that is already loyal to Virgin's other business lines, such as its airline and travel services. Sprint has about 12 million prepaid customers, which includes its Boost brand.

—Ryan Knutson



Virgin hopes its move to iPhone-only will attract higher-end customers.

TECHNOLOGY

WSJ.com/Tech



Lyft, which has been battling Uber for years, is trying to avoid seeming to take advantage of its larger rival's misfortunes.

Lyft: It Isn't a 'Time to Gloat'

Uber competitor builds market share, expands aggressively as founders counsel humility

BY CAT ZAKRZEWSKI
AND PATIENCE HAGGIN

As **Uber Technologies** Inc. was grappling with leadership turmoil that ultimately led to its chief executive's resignation, the founders of rival ride-hailing company **Lyft** Inc. sent a companywide email.

"This isn't a time to gloat," they said.

Schadenfreude might have been understandable at Lyft, which has been locked in a bitter, cash-burning battle with Uber for years. The San Francisco-based companies have slugged it out with competing fare cuts to woo customers, and dueling subsidies to poach drivers—each quickly matching new features when the other rolls them out on its app.

Lyft, by far the smaller of the two, has long tried to build a reputation as the better-behaved ride-sharing company, with a playful pink logo that stands in contrast to

Uber's austere black-and-white emblem. Last November, well before Uber's string of scandals started, Lyft began running a series of TV commercials portraying executives at a fictitious competitor—a thinly veiled sendup of Uber—scheming against Lyft and ridiculing its practice of letting riders tip drivers.

That left Lyft's brand extraordinarily well-positioned when Uber's travails began in February with a blog post by a female former engineer alleging sexual harassment and discrimination at Uber. That was followed by problems including a legal battle with Alphabet Inc.'s Waymo unit over autonomous-driving technology and an exodus of high-level executives, culminating in CEO and co-founder Travis Kalanick's resignation on Tuesday.

Indeed, Lyft has benefited. Its U.S. market share has steadily increased in 2017, according to data firm Second Measure. The firm, which tracks U.S. consumers' credit-card transactions, found that Lyft held 21.7% of the market in May, up from 15.9% in December. Uber's share of the

market has declined about 6 percentage points in the same period, to 78.3% from 84.1%.

"It's very easy to appreciate the fact that anything that distracts Uber is a net win for Lyft," said Greylock General Partner Simon Rothman, who is an early individual investor in Lyft.

Uber didn't immediately respond to a request for comment.

Lyft is trying to avoid seeming to take advantage of its rival's misfortunes. The firm has shifted from advertising that took swipes at Uber to positive messaging about Lyft itself. And its founders are counseling humility.

"The faults of our competition don't do anything to deliver a better experience for our customers," Lyft co-founders John Zimmer and Logan Green wrote in the companywide email, which was sent last Friday.

Still, Lyft isn't letting the opportunity slip. It is aggressively recruiting new riders, people familiar with the matter say. The company also launched in 150 new cities this year, exceeding the 100 cities it said it would launch in during the year in

only six months.

Lyft has formed a partnership with Waymo to collaborate on self-driving cars, and struck a deal with Boston driverless-car company **NuTonomy**. This month it signed a deal with Land Rover to collaborate on autonomous driving technology, with the British luxury-vehicle company investing \$25 million in Lyft.

Lyft also raised \$600 million in fresh funding this year at a valuation of \$7.5 billion. And the events at Uber appear to have benefited Lyft's share price on the secondary market for private shares, said Ken Sawyer, managing director of Saints Capital, which buys shares from venture-capital firms.

"Since the beginning of this year, the ask [for Lyft] has definitely gone up," said Mr. Sawyer, whose firm doesn't own shares in Lyft or Uber. "It's definitely trading higher than it was when all this started."

Morgan Housel, partner at Collaborative Fund, an early Lyft investor, said Lyft is capitalizing on the moment even if it isn't trumpeting it.

the law firm of former U.S. Attorney General Eric Holder, Uber also was challenging a lawsuit from **Google** parent **Alphabet** Inc. over trade-secret theft, while the Justice Department was just beginning an investigation into Uber's use of technology to evade regulators.

The Holder investigation, as well as the controversies around Mr. Kalanick, also were threatening to further hamper the search for a chief operating officer, which was entering its

Mr. Kalanick's departure exposes Uber's leadership shortcomings.

fourth month and from which several candidates had walked away, according to people familiar with the matter.

Several investors believed it was time for Mr. Kalanick to exit, but they felt they had little sway over the company's decisions, let alone over a chief executive whose voting shares protected him from a forced ouster, people familiar with the matter said.

The investors believed a let-

ter signed by a group of influential shareholders was the only way to force out Mr. Kalanick, two people said.

Mr. Kalanick had started an indefinite leave from Uber last week, a move he said was necessary to mourn the sudden death of his mother in May and to focus on returning as a reinvigorated leader. Expecting his leave would be short, Benchmark decided it needed to act before Mr. Kalanick returned to his daily role as CEO, two of the people said.

The Holder report, meanwhile, recommended nearly 50 changes be made to improve Uber's culture.

By Monday of last week, Benchmark had found four additional investors to sign the letter, including **First Round Capital**, **Lowercase Capital**, **Menlo Ventures** and **Fidelity Investments**, according to people familiar with the matter.

After receiving the letter on Tuesday, Mr. Kalanick sought counsel including with another board member, according to people familiar with the matter. He decided the pressure from investors was too great and stepped down, they said.

Mr. Kalanick's departure exposes Uber's leadership shortcomings and raises the question of who can lead a company whose defiantly competitive startup culture and leadership style reflected the pugnacious chief executive.

In recent months, Mr. Kalanick had lost about a half-dozen direct reports and several other senior executives—through resignations or firings—including the leaders of operations, marketing, finance, communications and self-driving car development.

When Uber announced Mr. Kalanick's leave last week, the company said it would be run by a committee of 14 executives. The structure remains in place while Uber seeks a new CEO.

Douglas MacMillan, Rolfe Winkler and Joann S. Lublin contributed to this article.

Startup Surge

Valuation of the largest venture-capital-backed companies

Uber	\$68 billion
Didi Chuxing	\$50
Xiaomi	\$46
Airbnb	\$31
Palantir	\$20
Lufax	\$18.5
Meituan-Dianping	\$18.3
WeWork	\$17.2
Pinterest	\$12.3
SpaceX	\$12

Source: Dow Jones VentureSource
THE WALL STREET JOURNAL.

APPLE

Continued from page B1

5% worth about \$10 billion, not much for a company with more than \$215 billion in annual revenue, said Mizuho Securities analyst Abby Lumba.

"They can't ignore it," Mr. Lumba said. "But it's not enough to move the needle."

India is using its giant domestic market to woo global manufacturers, charting a different path to development than that of the export-powered economies of Japan, South Korea and China. If a lower-cost iPhone becomes popular with a rising middle class of Indian consumers, production could be expanded and more jobs could be created—which in turn would help lift living standards and discretionary spending. It is comparable to what Ford's inexpensive Model-T did a century ago for the young, up-and-coming economy in the U.S.

India has worked hard to persuade Apple to produce phones locally. The government has eased foreign-investment restrictions, with an eye toward fostering an ecosystem of phone-parts manufacturers to supply international electronics makers. The effort is in keeping with Prime Minister Narendra Modi's Make in India initiative.

Under investment restrictions, foreign-owned single-brand retailers such as Apple were required to source around 30% of their products locally in order to open their own shops. Apple was rejected when it pushed for that restriction to be waived. New Delhi later said companies could be given three years to reach the requirement, according to government officials.

Apple was also refused permission to import used iPhones to be refurbished and sold in India, said a Trade Ministry official.

"The government is eager

Women in Tech View Kalanick's Exit as Rare Win

BY GEORGIA WELLS

The resignation of **Uber Technologies** Inc. Chief Executive Travis Kalanick was widely viewed by women in the industry as a rare victory for those speaking out about inequality in the workplace.

For them, it was a blog post by former Uber software engineer Susan Fowler Rigetti four months ago alleging sexism and harassment that sparked the sequence of events leading to Mr. Kalanick's exit on Tuesday.

The allegations that Uber's workplace was hostile to women—and other freewheeling practices under the leadership of Mr. Kalanick—led investors to pressure him to resign, according to people familiar with the matter.

"This is bigger than just Uber, and bigger than just the tech industry," said Anita Hill, professor of social policy, law and women's studies at Brandeis University.

Ms. Hill put sexual harassment on the map as a workplace issue in 1991 when she testified that then-U.S. Supreme Court nominee Clarence Thomas had sexually harassed her when he was her boss.

The tech industry—and Silicon Valley, in particular—have for years battled a reputation as being a difficult industry for women to succeed in. About two-thirds of the employees of Facebook Inc., Alphabet Inc.'s Google and Apple Inc. are men, despite their recent efforts to recruit more women.

The accusations of harassment at Uber were seen by industry observers as evidence of why women struggle to fit in the tech workplace. But Ms. Hill and others praised Uber for taking Ms. Fowler Rigetti's accusations seriously. Ms. Fowler Rigetti's blog post led to an investigation by former U.S. Attorney General Eric Holder that recommended an overhaul of Uber's workplace practices and the dismissal of many employees.

"Susan is a hero for sharing her story publicly and pushing the culture to change," said Joelle Emerson, chief executive of Paradigm, a consultancy that advises many Silicon Valley companies on diversity.

Ms. Fowler Rigetti didn't respond to a request for comment.

Mr. Kalanick condemned the behavior described by Ms. Fowler Rigetti in a statement following her blog post in February.

Ms. Fowler Rigetti isn't the first woman to allege sexual harassment in the tech industry. In 2012, Ellen Pao sued her former employer, Kleiner Perkins Caufield & Byers, one of the most prominent venture-capital firms in Silicon Valley, for gender discrimination and retaliation. She lost the case, but the attention it drew sparked a dialogue about discrimination in the industry.

Ms. Pao has said she regularly hears from men and women who say her allegations resonated with what they had seen or experienced.

Other tech firms have settled sexual-harassment cases. In 2014, a former executive at Tinder sued the dating app and its then-parent company IAC/InterActiveCorp., claiming she was sexually harassed. Tinder, which denied her allegations, settled and the executive left the company.

When Ms. Fowler Rigetti published her post in February, women rallied in support of her, sharing her post on social media and saying Uber permitted a toxic environment. The hashtag #DeleteUber, which encouraged users to delete the Uber app on their phones, was tweeted about 3,000 times in the 24 hours after Ms. Fowler Rigetti published her post, according to Keyhole, a social-media analytics firm. "Believing her opens up the door to believing other women who come forward with similar stories," said Y-Vonne Hutchinson, founder of ReadySet, a diversity consulting firm.

ford. If it were priced below \$300, the model could win buyers now spending a similar amount for higher-end Android phones, said Faisal Kawoosa, principal analyst at research firm CMR.

Apple has been trying to expand its distribution network in India, where about 85% of smartphone sales occur across a fragmented network of small retailers, according to Mizuho Securities. Apple supports resellers with marketing materials, furniture and other assistance. It plans to back 200 new stores in the next year, according to a person familiar with the company's thinking.

As it plunges into India, Apple faces a consumer-awareness problem, with nearly half the population unfamiliar with the brand, according to a Morgan Stanley survey. To build awareness, the company has been considering opening flagship stores in New Delhi, the technology hub of Bangalore and the financial center of Mumbai, according to a person familiar with the company's plans.

Meanwhile, Apple is doubling down on content. In March, it opened an app-development center in Bangalore to help coders making iOS apps for India.

The country has nearly three million mobile app developers, but fewer than 15% of those make iOS products, said Jayanth Kolla, founder of research firm Convergence Catalyst. Apple has also opened an office in Hyderabad to boost mapping capabilities.

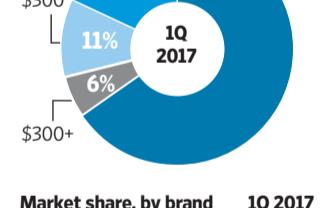
Of course, Indians don't have to buy iPhones to bond with the Apple brand. In a bid to get young users hooked, Apple this year started offering Indian college students its Apple Music service, which is also available on Android devices, for the equivalent of 93 cents a month—less than one-fifth the cost in the U.S.

—Karan Deep Singh
in New Delhi
contributed to this article.

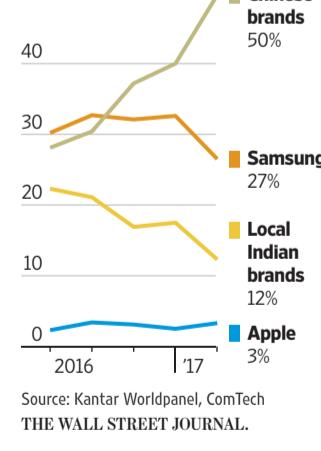
Tough Territory

With the iPhone SE selling for about \$325, Apple may face obstacles as it expands in India.

Share of smartphone sales by price



Market share, by brand



Source: Kantar Worldpanel, ComTech

THE WALL STREET JOURNAL.

to have the world's most-valued company have its operations here," the official said.

"We hope something mutually agreeable is worked out in the near future."

When the company decided to make its own phones here, Apple picked Taiwan's Wistron Corp. to begin assembling the iPhone SE, its least-expensive model, with production starting in May.

The high prices on iPhones are the biggest reason Apple can't sell more in India. Analysts estimate more than 75% of the smartphones sold in the country sell for less than \$250 and 95% sell for less than \$500. The iPhone SE was introduced last year at about \$600 and now sells for around \$325—and could fall further to a level more Indians can afford.

FINANCE & MARKETS

ECB Plans EU-Wide Instant Payments

By TOM FAIRLESS

FRANKFURT—The European Central Bank said it would build an instant-payment system spanning the entire eurozone that allows companies and citizens to transfer money in seconds, in an effort to boost financial integration across the 19-nation currency bloc.

The system, scheduled to start operating in November next year, will reduce the time needed for payments between bank accounts from as long as one day to mere seconds, the ECB said Thursday.

The service will be available around the clock, 365 days a year.

As such, it could pose a serious challenge to existing payment systems such as debit cards.

The move by the ECB aims to address the absence of a rapid-payments system that spans the entire region, from tiny Baltic countries such as Estonia to Greece and Spain.

It could pose a serious threat to debit cards and other payment systems.

It will ensure "that the demand for instant payments is met at European level and further facilitate the integration of the euro area," the ECB said.

Instant payments are already available within several eurozone countries, but banks have yet to seek to join up the whole bloc.

The ECB has already done part of the work, by building a pan-eurozone system, known as TARGET2, that quickly processes large transactions between banks and central banks.

The new system, known as TARGET instant payment settlement or TIPS, would allow citizens to pay a restaurant bill directly from their bank account, for instance—or to split the bill by transferring money immediately to a friend's bank account.

It will be developed in close cooperation with European banks, which will pay a maximum price of €0.002 (\$0.0022) for each payment for at least the first two years of operation, the ECB said.

Banks will then decide how much to charge clients for the service.

Berkshire Rescues Mortgage Lender

By JACQUIE McNISH
AND NICOLE FRIEDMAN

Mortgage lender **Home Capital Group** Inc. said it is pursuing further asset sales and financings following a rescue package from Warren Buffett's **Berkshire Hathaway** Inc.

Under terms of a deal announced Wednesday night, Berkshire agreed to indirectly acquire a 38.39% stake in Home Capital and lend 2 billion Canadian dollars (\$1.5 billion) under a credit line.

Alan Hibben, an independent director with the Canadian lender, said on a conference call Thursday that the board is seeking to further shrink the company's debt and its book of about C\$25 billion in mortgages for the short term as it moves to restore funding following a large deposit flight the past two months.

The Berkshire loan will be less expensive than an emergency line negotiated during the deposit run.

Over the longer term, Mr. Hibben said he expects Home Capital will be on a growth path, because "you can't shrink your way to greatness."

Home Capital's stock climbed after news of Berkshire's backing, jumping 20%, to C\$17.95, in late afternoon trading on Thursday.

The Toronto-based company, Canada's No. 1 lender of residential mortgages by total assets to borrowers with less-than-stellar credit ratings, ex-



COLE BURSTON/BLOOMBERG NEWS

Warren Buffett's Berkshire will acquire a 38.39% stake in Home Capital and lend it about \$1.5 billion.

perienced an exodus of more than 95% of about C\$2 billion of high-interest savings deposits in the past two months.

The run followed allegations from the Ontario Securities Commission, which alleged Home Capital misled investors in 2015 about the extent of mortgage fraud it had uncovered in 2014 and the loss of business it would suffer when it said that it fired an unidentified number of mortgage brokers.

The company and officials have since settled the allegations without admitting wrongdoing.

The company and executives struck agreements to pay C\$29.5 million in penalties and other payments to the regulator and shareholders belonging to a class-action lawsuit.

Mr. Hibben said Berkshire's planned investment was a turning point for the company that is aimed at restoring confidence and attracting new depositors.

Mr. Buffett, Berkshire's chairman and CEO, has a long history of making contrarian bets on troubled companies with financial lifelines that sometimes include deeply discounted stock purchases.

Berkshire said it would acquire the stake in two steps through its Columbia Insurance Co. subsidiary.

"Home Capital's strong assets, its ability to originate and underwrite well-performing mortgages, and its leading position in a growing market sector make this a very attractive investment," Mr. Buffett said.

The initial purchase of a 20% stake, which is set to close June 29, calls for Home Capital to issue new shares for C\$153 million, or C\$9.55 a

share. The company said the purchase amounts to a 20% discount to its stock price ahead of the deal announcement. The stock purchase isn't subject to a shareholder vote because Toronto Stock Exchange rules allow buyers to bypass investor approval at a time of financial hardship.

Berkshire agreed to purchase an additional 24 million shares for C\$246.8 million, or about C\$10.30 a share. This investment will be subject to shareholder approval at a special meeting in September.

The Berkshire loan will charge an interest rate of 9.5% and a 1.75% fee on undrawn funds. Home Capital said its existing line with Healthcare of Ontario Pension Plan—arranged in April when it was hit by the deposit exodus—charges an interest rate of 10% and a fee of 2.5%. Mr. Hibben said Home Capital hopes to pay down the new bank line by attracting new deposits and generating cash through asset sales and new financing.

For Berkshire, the deal offers good returns but is "not going to have the same power to move the needle as had they been able to acquire Unilever, for example," said Thomas Russo, managing member of Gardner Russo & Gardner, which manages \$10 billion and holds Berkshire shares. Berkshire and a private-equity firm had approached Unilever PLC in February about a takeover, but Unilever declined.

Warren Buffett Says to Buy Israel's Bonds

By NICOLE FRIEDMAN

Warren Buffett, the world's most famous stock picker, has a new sales pitch: Buy Israeli bonds.

The billionaire investor and **Berkshire Hathaway** Inc. chairman hosted a lunch and dinner in New York last week to encourage investments in Israeli bonds.

The events raised about \$150 million in investments, according to the **Development Corp. for Israel**, the broker-dealer that sells Israeli bonds.

Mr. Buffett, of course, is better known as a booster of stocks. He recommends that nonprofessional investors put their wealth in low-cost stock index funds and often says the stock market will continue to rise in the coming decades.

But he said many wealthy people hold bonds because they are more concerned with maintaining their wealth than achieving the highest returns. The wealthy are whom Mr. Buffett has targeted with his pitch.

"I do not tell them that bonds are a place to put your

money generally, but I will tell them that you're going to get paid back" by investing in Israeli bonds, said Mr. Buffett in an interview. When Mr. Buffett was 7, he requested a book called "Bond Salesmanship" for Christmas.

He said he likes to invest in Israel because it is a success story, similar to the U.S. Both are relatively new countries that have been founded on open markets and an entrepreneurial spirit.

"From the standpoint of accomplishments beyond the financial returns...I think that it's an excellent choice."

Mr. Buffett's ties to Israel and to the American Jewish community go back decades. His first wife, Susie, had Jewish friends and traveled to Israel, he said.

Mr. Buffett told attendees at last week's dinner that many of the most important mentors in his life were Jewish, said real-estate developer Larry Silverstein, who attended the event.

The yield on the benchmark 10-year Israel government

bond was 2.055% Wednesday, according to Thomson Reuters, down from 2.063% at the end of last year. Yields fall when bond prices rise. Israel's economy expanded 4% last year and is projected to grow 3.25% this year, according to the Organization for Economic Cooperation and Development. Israel's currency has risen against the dollar this year, and the country's central bank opted last month to keep its

benchmark interest rate at a record low.

Mr. Buffett's connection to Israeli bonds started last year. Berkshire Hathaway Guard Insurance Cos., a commercial insurer in Wilkes-Barre, Pa., that Berkshire acquired in 2012, held Israeli bonds that were set to mature. Development Corp. for Israel, which is commonly known as Israel Bonds, couldn't confirm whether the company wanted to reinvest.

The corporation's regional director wrote a letter to Mr. Buffett, who called back, agreed to reinvest and invited Israel Bonds officers to visit him in Omaha, Neb.

"He really liked the fact that he could support Israel...through the purchase and investment in Israeli bonds," said Stuart Garawitz, Israel Bonds' vice president of sales, who visited Mr. Buffett in Omaha in April 2016.

Mr. Buffett subsequently hosted a dinner for 40 in Omaha in November, which raised \$60 million for Israeli bonds, including \$5 million of Mr. Buffett's personal money.

Berkshire invested \$4 billion in Israeli metalworking company **Iscar** in 2006, the conglomerate's first foreign acquisition, and Mr. Buffett traveled to Israel to see the operation. He later toured Europe with Iscar executive Eitan Wertheimer to try to drum up more overseas deals.

Mr. Buffett also donated \$10 million to a hospital in Israel in 2013, according to press reports at the time.



SHAHAR AZRAN/ISRAEL BONDS

Warren Buffett shakes hands with real-estate developer Larry Silverstein, left, as Israel Bonds CEO Israel Maimon looks on.

Big U.S. Banks Healthy, Fed Says

BY RYAN TRACY
AND TELIS DEMOS

WASHINGTON—The largest U.S. banks survived a hypothetical "stress test" and could continue lending even during a deep recession, the Federal Reserve said Thursday, in a signal that many banks will win approval next week to boost payouts to investors.

In the first part of its annual tests, the Fed said 34 of the largest U.S. banks have significantly bolstered their defenses since the 2009 crisis. It was the third straight year the initial results showed all big banks meeting the Fed's definition of good health.

The outcome could bolster industry arguments that the banking system is safe enough to allow for cutting back some regulations, possibly boosting efforts by the Trump administration and congressional Republicans to ease rules put in place after the financial crisis.

The more closely watched part of the annual tests occurs next Wednesday, when the Fed will release its decision whether to approve—or block—banks' plans to return capital to shareholders through dividends or share



MICHAEL B. RUBIN FOR THE WALL STREET JOURNAL

This year's Fed stress tests assess 34 of the largest U.S. banks.

buybacks.

This week's results don't necessarily predict the Fed's verdict next week. In some previous years, banks have shown strong capital ratios in the first part of the tests, only to be deemed as failing in the second round, which uses a broader set of criteria. Thursday's results don't include banks' individual capital distribution plans.

The Fed said the banks would experience collective loan losses of about \$383 billion but still meet its required minimum capital ratios—even given a hypothetical scenario that envisions the U.S. unemployment more than doubling to 10% and severe strains in corporate-loan and commercial-real-estate markets. The banks finished the test with an even higher level of capital than they had before the 2008 crisis, a Fed official said.

Fed officials attributed the positive results to the fact that banks have worked

through problematic loans like soured mortgages, while steadily increasing loss-absorbing capital on their books as a result of stiffer postcrisis requirements.

"This year's results show that, even during a severe recession, our large banks would remain well capitalized," Fed governor Jerome Powell said in a statement. "This would allow them to lend throughout the economic cycle, and support households and businesses when times are tough."

Fewer banks are expected to fail next week than in previous years. In the second round, the Fed typically judges not just banks' balance sheets, but also their "qualitative" risk-management practices.

Altice Advances After Giant IPO

By NICK KOSTOV
AND CORRIE DRIEBUSCH

Shares of **Altice USA** Inc. traded higher in their market debut Thursday, a day after the cable operator raised more money in its initial public offering than any other U.S.-listed telecom since 2000.

Altice shares opened at \$31.60 on the **New York Stock Exchange**, above the IPO price of \$30, and were at \$32.46 in afternoon trading, up 8.2% from their offer price. The opening price valued the company—formed through the merger of Cablevision Systems Corp. and **Suddenlink Communications**—at more than \$23 billion. The company is the U.S. unit of European telecommunications company **Altice NV**.

Patrick Drahi, the French billionaire who founded Altice, and company executives gathered at the New York Stock Exchange on Thursday morning for Altice USA's first day of trading. They rang the

opening bell and applause broke out on the NYSE floor as shares began trading around 10:18 a.m. ET.

Wednesday, in an encouraging sign for the beleaguered telecom sector, Altice raised \$1.9 billion in its IPO, which included selling more shares than anticipated. At that price, it is the biggest U.S.-listed telecom IPO in roughly 17 years, according to data provider Dealogic, when the tech boom ushered in a wave of cable and wireless operators.

It is the second-largest U.S.-listed telecom since 2000. Altice is the fourth-largest cable operator by revenue will be able to leverage the money raised and expand in an environment in which competition is stiff.

U.S. telecom stocks have slumped this year. Shares of

Altice competitors AT&T Inc. and Verizon Communications Inc. were down 10% and 15%, respectively, in 2017 through Wednesday. European-listed shares of Altice NV were up roughly 19%.

Investors also will be betting on Mr. Drahi.

He controls the parent company, which will remain the majority owner of Altice USA. Altice offered Class A shares, which have almost no voting rights.

Altice, private-equity firm **BC Partners** LLP and stakeholder **Canada Pension Plan Investment Board** sold 63.9 million shares. Altice updated its regulatory filing earlier Wednesday to reflect that it and selling stakeholders would be selling more shares than the 46.6 million it targeted earlier. It planned to sell shares between \$27 and \$31 apiece.

Altice USA posted a net loss of \$721.3 million last year compared with a \$1.1 billion loss a year earlier.

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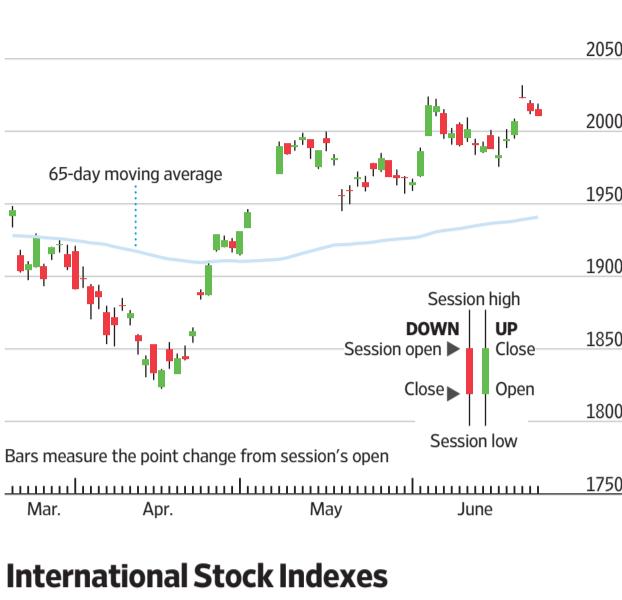
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MARKETS DIGEST

Nikkei 225 Index

2010.51 ▼ 28.28, or 0.14%

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



Bars measure the point change from session's open

STOXX 600 Index

388.53 ▲ 0.03, or 0.01%

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



S&P 500 Index

Data as of 4 p.m. New York time

Last 24.09 23.85

P/E estimate * 18.75 17.87

Dividend yield 1.95 2.19

All-time high: 2453.46, 06/19/17

2434.50 ▼ 1.11, or 0.05%

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



International Stock Indexes

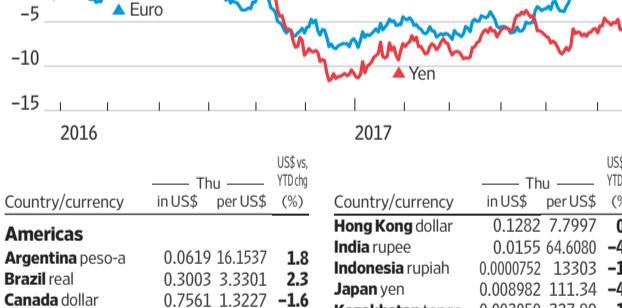
Data as of 4 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Close	High	YTD % chg
World	The Global Dow	2764.79	2.87	▲ 0.10	2193.75	● 2791.48	9.4	
	MSCI EAFE	1886.62	3.97	▲ 0.21	1471.88	● 1956.39	9.9	
	MSCI EM USD	1009.43	2.96	▲ 0.29	691.21	● 1044.05	27.1	
Americas	DJ Americas	583.62	0.26	▲ 0.04	480.90	● 588.61	8.0	
Brazil	Sao Paulo Bovespa	61242.28	480.54	▲ 0.79	48954.41	● 69487.58	1.7	
Canada	S&P/TSX Comp	15223.05	74.52	▲ 0.49	13609.58	● 15943.09	-0.4	
Mexico	IPC All-Share	49018.09	34.64	▲ 0.07	43902.25	● 50154.33	7.4	
Chile	Santiago IPSA	3616.12	5.37	▲ 0.15	3061.18	● 3786.05	12.2	
U.S.	DJIA	21397.29	-12.74	▼ -0.06	17063.08	● 21535.03	8.3	
	Nasdaq Composite	6236.69	2.73	▲ 0.04	4574.25	● 6341.70	15.9	
	S&P 500	2434.50	-1.11	▼ -0.05	1991.68	● 2453.82	8.7	
	CBOE Volatility	10.43	-0.32	▼ -2.98	9.37	● 10.43	26.72 -25.7	
EMEA	Stoxx Europe 600	388.53	0.03	▲ 0.01	308.75	● 396.45	7.5	
	Stoxx Europe 50	3200.16	8.65	▲ 0.27	2626.52	● 3279.71	6.3	
Austria	ATX	3079.84	-30.48	▼ -0.98	1981.93	● 3212.50	17.6	
Belgium	Bel-20	3853.35	-16.59	▼ -0.43	3127.94	● 4055.96	6.8	
France	CAC 40	5281.93	7.67	▲ 0.15	3955.98	● 5442.10	8.6	
Germany	DAX	12794.00	19.74	▲ 0.15	9214.10	● 12951.54	11.4	
Greece	ATG	814.81	-8.51	▼ -1.03	517.10	● 828.32	26.6	
Hungary	BUX	35779.27	-165.96	▼ -0.46	25126.36	● 36168.63	11.8	
Israel	Tel Aviv	1438.22	-1.10	▼ -0.08	1372.23	● 1490.23	-2.2	
Italy	FTSE MIB	20930.26	-141.65	▼ -0.67	15017.42	● 21828.77	8.8	
Netherlands	AEX	519.39	-1.09	▼ -0.21	409.23	● 537.84	7.5	
Poland	WIG	60987.33	-174.89	▼ -0.29	42812.99	● 62666.49	17.8	
Russia	RTS Index	978.45	5.12	▲ 0.53	885.22	● 1196.99 -15.1		
Spain	IBEX 35	10709.90	-30.80	▼ -0.29	7579.80	● 11184.40	14.5	
Sweden	SX All Share	594.26	1.57	▲ 0.26	443.66	● 598.42	11.2	
Switzerland	Swiss Market	9051.27	65.66	▲ 0.73	7475.54	● 9136.95	10.1	
South Africa	Johannesburg All Share	51072.86	-329.83	▼ -0.64	48935.90	● 54716.53	0.8	
Turkey	BIST 100	100072.15	682.03	▲ 0.69	70426.16	● 100106.8	28.1	
U.K.	FTSE 100	7439.29	-8.50	▼ -0.11	5788.74	● 7598.99	4.2	
Asia-Pacific	DJ Asia-Pacific TSM	1628.74	4.31	▲ 0.27	1308.52	● 1643.59	14.5	
Australia	S&P/ASX 200	5706.00	40.30	▲ 0.71	5103.30	● 5956.50	0.7	
China	Shanghai Composite	3147.45	-8.76	▼ -0.28	2854.29	● 3288.97	1.4	
Hong Kong	Hang Seng	25674.53	-20.05	▼ -0.08	20172.46	● 26063.06	16.7	
India	S&P BSE Sensex	31290.74	7.10	▲ 0.02	25765.14	● 31311.57	17.5	
Japan	Nikkei Stock Avg	20110.51	-28.28	▼ -0.14	14952.02	● 20230.41	5.2	
Singapore	Straits Times	3215.55	13.78	▲ 0.43	2729.85	● 3271.11	11.6	
South Korea	Kospi	2370.37	12.84	▲ 0.54	1925.24	● 2381.69	17.0	
Taiwan	Weighted	10399.06	49.34	▲ 0.48	8458.87	● 10399.06	12.4	

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 22

Country/currency	Thu	US\$ vs. per US\$ (%)
Country/currency	in US\$	per US\$ (%)
Hong Kong dollar	0.1282	7.7997 ▲ 0.6
India rupee	0.0155	64.6080 ▲ -4.9
Indonesia rupiah	0.0000752	13203 ▲ -1.6
Japan yen	0.008982	111.34 ▲ -4.8
Kazakhstan tenge	0.003050	327.89 ▲ -1.7
Macau pataca	0.1244	8.0364 ▲ 1.5
Malaysia ringgit-c	0.2331	4.2907 ▲ -4.7
New Zealand dollar	0.7262	1.3759 ▲ -4.7
Pakistan rupee	0.0095	104.85 ▲ 0.5
Philippines peso	0.0198	50.389 ▲ 1.6
Singapore dollar	0.7190	1.3909 ▲ 3.9
South Korea won	0.0008766	110.73 ▲ -5.6
Sri Lanka rupee	0.0065278	153.19 ▲ 3.2
Taiwan dollar	0.03288	30.415 ▲ -6.3
Thailand baht	0.02943	33.980 ▲ -5.1

Source: Tullett Prebon, WSJ Market Data Group

Key Rates

Latest 52 wks ago

Cur	Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans					
HK\$	AliaGroup	I299	57.40	1.41	31.20
HK\$	AstellasPharma	4503	138.07	0.73	-14.57
HK\$	TokioMotor	700	587.00	0.63	-14.55
HK\$	Wesfarmers	WES	40.82	1.49	-3.13
HK\$	WestpacBanking	WBC	30.19	1.41	-7.39
HK\$	Woolworths	WOW	25.23	0.52	4.69
Stoxx 50					
CHF	ABB	ABBN	24.58	-0.12	14.43
CHF	ASMLHolding	ASML	117.30	0.43	-0.49
CHF	AXA	CS	24.02	-0.10	

FINANCE & MARKETS

Saudis Boxed In by Low Oil Prices

BY SUMMER SAID
AND MICHAEL AMON

Saudi Arabia is searching for ways to shake crude-oil prices out of a slump that threatens its new crown prince's economic-transformation plan, Persian Gulf oil officials say, but the kingdom has few good options.

Mohammed bin Salman, elevated to crown prince of Saudi Arabia this week, needs oil prices to rise from current levels of \$45 a barrel to carry out plans to kick-start the kingdom's economy, largely through a partial public listing of state-owned Saudi Arabian Oil Co., known as Saudi Aramco.

The Saudis are targeting \$60 a barrel to help the initial public offering generate tens of billions of dollars, which would be plowed into developing new technology and industrial sectors in Saudi Arabia.

Members of the Organization of the Petroleum Exporting Countries have held informal talks in recent days about how to halt a nearly month-long skid in oil prices, which have fallen 14% since late May.

OPEC, along with big producers like Russia that aren't members of the 14-nation group, is already withholding almost 2% of the world's oil supply, but some OPEC members say more needs to be done to bring production in line with demand.

On Thursday, Brent crude, the global benchmark, rose 0.9%, to \$45.22 a barrel.

Prince Mohammed is known for taking aggressive action on several fronts, prosecuting a war in Yemen, leading the diplomatic freeze against Qatar, and greenlighting Saudi participation in OPEC's production cuts.

But the Saudis have less leverage over other OPEC members because of the Aramco IPO, said Jim Krane, a fellow who studies Middle East energy and geopolitical issues at Rice University's Baker Institute. Other OPEC members are unlikely to cut production fur-



Crown Prince Mohammed bin Salman needs higher crude prices to jump-start the economy.

ther unless they see Saudi Arabia taking on a large share of the burden because any new cuts would be seen as a push to support the Aramco IPO.

"It's almost kind of put them on the back foot," Mr. Krane said of the Saudi oil strategy.

It is a particularly difficult time for Saudi Arabia to attempt a bigger production cut. The kingdom still burns crude oil to produce electricity, and it needs even more crude in the summer, when air-conditioning use soars. And some OPEC delegates say bold action could be counterproductive.

U.S. oil producers took advantage of a price rise late last year after OPEC announced its cuts, increasing production. The resulting flood of new crude oil has persuaded some investors that OPEC's actions aren't enough to rebalance the market.

"There are doubts if this whole cut initiative was effective," said an OPEC national delegate close to the Saudis.

Another OPEC delegate said

Prince Mohammed is likely to be less involved in Saudi oil policy now that he has expanded responsibilities as crown prince, acting as the country's day-to-day leader.

As deputy crown prince, he was often involved in the kingdom's oil strategy, especially before he appointed his own choice, Khalid al-Falih, in 2016 to succeed Saudi Oil Minister Ali al-Naimi.

"It is a totally different approach from that seen during the last days of Naimi," the delegate said.

Saudi Arabia has time to wait for oil prices to rise, with the IPO not scheduled until 2018. Publicly, Saudi Arabia, its allies and OPEC are preaching patience.

On Thursday, OPEC issued a news release touting its members' compliance with their pledges to cut production. "The oil market is moving in the right direction," the news release said.

Mr. Falih told an Arabic newspaper in London that Libyan and Nigerian production wouldn't stop OPEC's efforts to drain down the global oil

oversupply by the end of 2017. The United Arab Emirates' oil minister, Suhail bin Mohamed al-Mazrouei, said OPEC wasn't planning any new action soon.

Privately, OPEC members' worries are centered on two members who were exempted from the obligation to cut output: Libya and Nigeria. Both had their oil industries disrupted by civil strife, but their production has come roaring back in recent months.

OPEC members say no consensus has emerged about Nigeria and Libya, which would both likely object to limits.

"Curbing production has always been a difficult task in OPEC," Bijan Zanganeh, Iran's oil minister, told state media this week, confirming the OPEC talks.

In lieu of new cuts, Saudi Arabia has pursued other courses to help prices. Mr. Falih has highlighted the kingdom's reduced exports to the U.S., where the summer driving season usually sends demand higher.

The kingdom has also cut exports to Asia.

Dow, S&P 500 Slip; Health Shares Rise

BY AMRITH RAMKUMAR
AND RIVA GOLD

U.S. blue chips and the S&P 500 edged lower Thursday as gains in shares of hospital, health-services and pharmaceutical companies weren't enough to offset declines elsewhere.

The Dow Jones Industrial Average fell 12.74 points, or less than 0.1%, to 21397.29. The S&P 500 fell less than 0.1%, and the Nasdaq Composite added less than 0.1%.

In Europe, the Stoxx Europe 600 rose less than 0.1% to 388.53.

Health-care shares, the best-performing sector in the S&P 500 this week, extended gains as Senate Republicans unveiled their health-care bill. The bill faces an uncertain future with several Republican senators wavering on it, but its release was a key step for President Donald Trump's agenda, some said.

Some analysts and investors have also watched the health-care overhaul for clues about the path for tax cuts, which many have been betting on since the election and anticipate will improve corporate profits.

The removal of uncertainty on the health bill's contents and few apparent negatives for hospital and health-care stocks were likely contributing to the sector's gains Thursday, said Timothy Anderson, man-

aging director at brokerage MND Partners, a division of TJM Investments.

Health-care shares rose 1.1% in the S&P 500 by late afternoon and the Nasdaq Biotechnology Index, which is up roughly 10% so far this week, gained 1.4% Thursday.

Among the biggest gainers were Gilead Sciences, up 4.4%, Envision Healthcare, up 3.5%, Centene, up 3.6% and Laboratory Corp. of America Holdings, up 2.9%.

In Europe, shares of Novartis jumped 5% after the pharmaceutical company said its Ilaris drug had produced positive trial results.

Energy shares gave back earlier gains and were down less than 0.1% in the S&P 500 by late afternoon.

U.S. crude rose 0.5% to \$42.74 a barrel, but is still down 20% from the start of the year. Investors have been concerned about rising U.S. production amid a persistent global glut of crude.

Investors were also monitoring speeches from Federal Reserve officials this week to gauge the pace of interest-rate increases ahead.

The yield on the 10-year U.S. Treasury note was at 2.153%, according to Tradeweb, slightly down from 2.156%. Yields fall as bond prices rise.

Earlier, Japan's Nikkei Stock Average and Hong Kong's Hang Seng Index both inched down roughly 0.1%.

—Lucy Craymer contributed to this article.



Novartis jumped 5% on positive trial results for its Ilaris drug.

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MARKETS

Energy Sector's Junk Debt Loses Appeal

High-yield bonds of oil-and-gas producers begin to follow their stocks lower

By ALISON SIDER

The market for U.S. energy-company bonds has declined this month along with prices for crude oil, a development that could make it more expensive for firms in the sector to borrow.

The Bloomberg Barclays high-yield energy index has a return of negative 2.56% this month as of Tuesday. The average yield has climbed to 7.14%, up from 6.35% at the start of the month. Bond yields rise when prices fall.

U.S. oil prices inched upward on Thursday, rising 0.5% to \$42.74 a barrel, but remained in bear-market territory, more than 20% below their February high. Shares of oil-and-gas producers have been falling all year, putting them among the worst performers in the S&P 500.

In the past two weeks, the energy high-yield market is starting to catch up to the stock market, fueling fears that junk-rated energy bonds will experience a downturn like the one in early 2016, when debt investors saw low odds of survival for companies and many bonds traded at distressed levels.

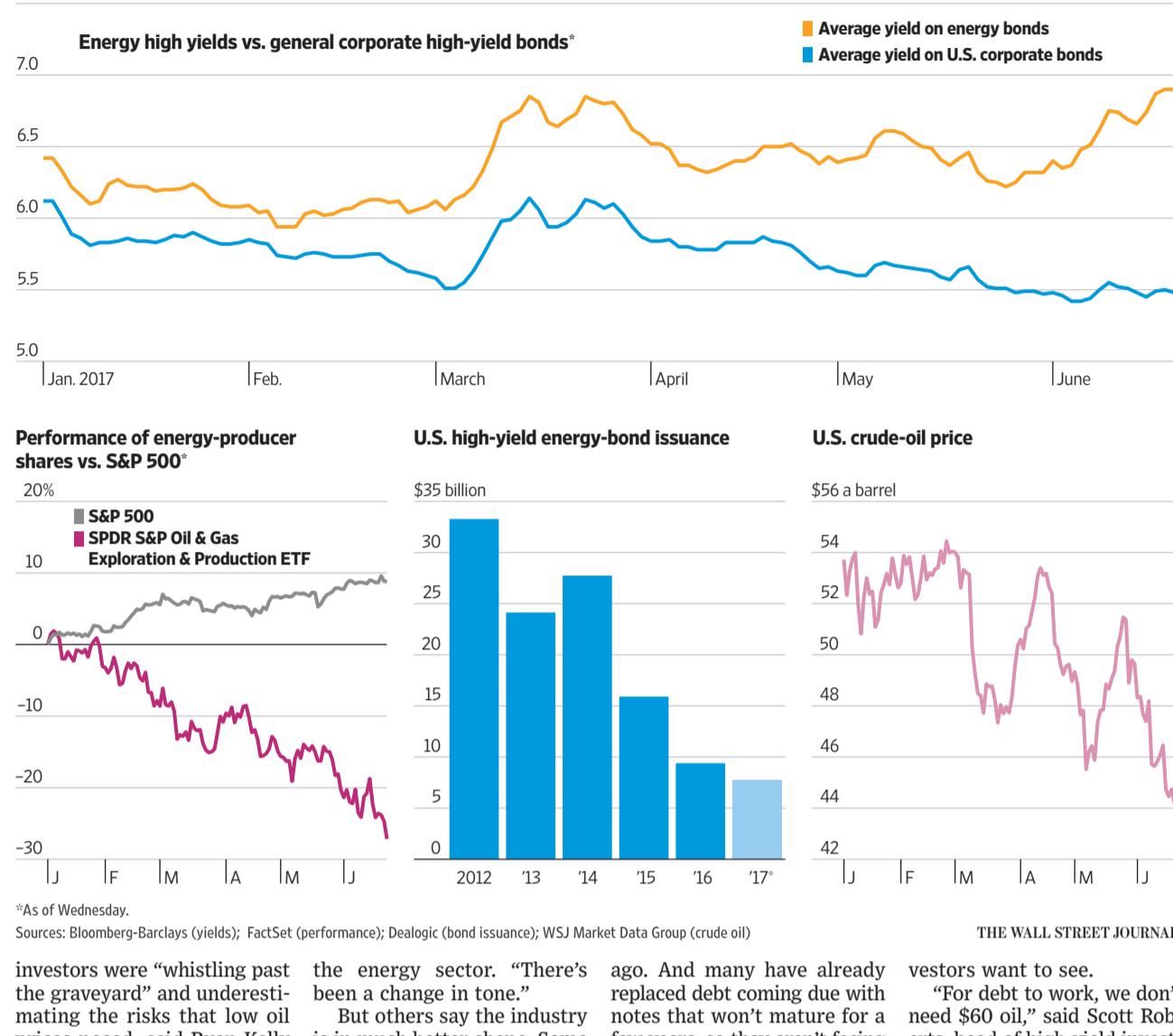
It has become pricier for some energy companies that are looking to the bond market to refinance or raise funds for drilling or acquisitions, said Phillip Tamplin, head of energy high-yield capital markets at Credit Suisse. Higher yields mean more expensive borrowing rates for firms.

So far this year, debt markets have been largely open to producers. Low-rated U.S. oil and natural-gas producers have raised \$7.75 billion selling bonds in 2017, compared with \$280 million at this time last year, according to Dealogic.

Just a few weeks ago, bond

Borrowing Pains

The oil slump that has dragged energy shares lower is hitting high-yield debt. Yields on junk-rated energy bonds have climbed relative to those in the broader market, making it more expensive for oil and gas producers to borrow.



Prices have been declining for four straight weeks, falling this week to their lowest levels since August as investors started to fear that the glut in crude wasn't going away.

Prices of some oil and gas producers' debt have started to tick lower—diverging from the broader junk-bond market—as oil fell to levels that prompted questions about how these companies will cover their costs.

Bond investors started to worry that oil isn't headed for a quick bounce higher. If producers stick to their plans to drill more wells, where is the money going to come from?

"Now people are questioning maybe this doesn't rebound. The patience starts to wane," Mr. Roberts said.

So far, rising anxiety in the energy world hasn't bled to other sectors—a change from recent years when a swoon in oil prices caused sell-offs in high-yield debt broadly.

Some producers' bonds have been more sensitive to oil's plunge than others. Companies such as Parsley Energy Inc. and Diamondback Energy Inc., which work in the inexpensive Permian region and are in good financial shape, haven't moved much recently. But bonds that EP Energy Corp. sold at par in February have dropped about 8 cents in the past week and traded at 70 cents on the dollar Wednesday, according to MarketAxess.

While some companies may have missed a chance to refinance earlier this year, most can afford to wait before tapping bond markets, said Marisa Moss, director of high-yield energy research at Citigroup. But if oil doesn't recover, it could become a more pressing problem.

"They're sitting on the sidelines waiting for that bump in oil prices to tap the market again," she said.

—Sam Goldfarb contributed to this article.

the energy sector. "There's been a change in tone."

But others say the industry is in much better shape. Some producers have sold shares and assets to pay down debt in recent years, and the weakest players have been flushed out through bankruptcy, they say.

Producers have slashed their costs and can turn a profit at much lower oil prices than they could a few years

ago. And many have already replaced debt coming due with notes that won't mature for a few years, so they aren't facing looming repayments.

For credit investors, oil prices between \$45 and \$55 a barrel weren't so worrisome. At that range, many U.S. oil companies could stay afloat and repay their loans, even if those prices wouldn't spur the kind of growth that stock in-

vestors want to see.

"For debt to work, we don't need \$60 oil," said Scott Roberts, head of high-yield investments for Invesco Fixed Income. "A lot of these companies that have debt outstanding are making pretty attractive profits in the \$47 to \$50 range."

But that price range, which seemed like a lock for months, is slipping away. U.S. crude fu-

HEARD ON THE STREET

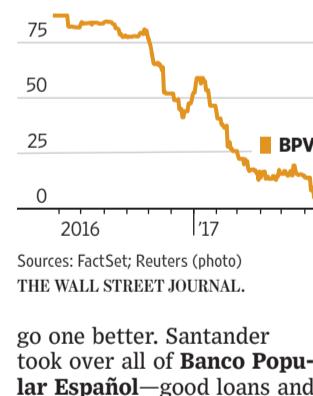
FINANCIAL ANALYSIS & COMMENTARY

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A Sweet Deal to Aid Italy's Banks

Rescue Raider



Intesa Sanpaolo CEO
Carlo Messina

Italy has a potential solution for another of its banking messes, but it involves a state-aid dodge that might stretch Europe's rules too far.

The problem is with the Veneto banks—**Veneto Banca** and **Banca Popolare di Vicenza**—two merged lenders in dire need of capital, even though they were bailed out by an industry-backed rescue fund only last year.

The potential rescuer is banking giant **Intesa Sanpaolo**. But it doesn't want to get its hands dirty. Italy's second-biggest bank by assets will only do the deal if it is allowed to exclude all the Veneto banks' bad loans and any that look like they might go bad, as well as ditch all the existing equity and junior bonds of the banks and be indemnified against any legal risks. Oh, and it doesn't want to pay anything but a token sum, or need to raise capital or cut its dividend.

It is as if Carlo Messina, Intesa's CEO, looked at Banco Santander's rescue of a struggling Spanish bank this month and decided he could

go one better. Santander took over all of **Banco Popular Español**—good loans and bad—and while it only paid a single euro, it is raising €7 billion (\$7.82 billion) of equity to help fund the assets it is acquiring. Some think those terms were highly favorable.

But there is a problem with ensuring Intesa's expanded balance sheet remains as well capitalized as

it is today. For Intesa to acquire the good chunk of the banks' roughly €60 billion in assets fully capitalized, the bad bank that is left behind will likely need to impose losses not only on their equity and junior bonds, but on some of their senior bonds.

If senior bonds take a hit, that could spread panic among other weak Italian banks and even among depositors. To prevent this,

taxpayers' cash will be needed to compensate senior bondholders. But that risks breaching Europe's stiff state-aid rules.

The government has little choice but to get creative. It tried to convince Italy's biggest lenders to chip in more money to keep the Veneto banks going, but they refused. The government's next hope is that it can get around state-aid rules by liquidating the banks, like an ordinary company, selling good assets and scrapping the rest, rather than going through Europe's bank resolution mechanism. The idea is that state money would be going to wind down a bank, not prop it up.

But it is hard to say that Intesa wouldn't be receiving state aid, at least indirectly, and therefore gaining an unfair competitive advantage.

Intesa's local rivals are unlikely to complain—they will have avoided injecting any cash themselves. But other banks in Europe, even Santander, may think this deal goes too far. —Paul J. Davies

OVERHEARD

There is almost nothing that will turn **Etsy**, the relentlessly upbeat seller of handmade tchotchkies, away from its cheerful tone.

"Etsy Sharpens Focus on Key Growth Initiatives," was the title of a Wednesday press release from the online marketplace in order to "deliver value to its stakeholders."

Etsy's employees might be less than thrilled: Below the positive-sounding headline came word that the company plans to lay off about 140 employees, or 15% of the workforce. That comes after the company announced about 90 layoffs last month.

Generally, reducing head count isn't a great sign for a company that is expected to grow rapidly. Analysts anticipate revenue to double from last year's total. Investors pushed Etsy shares slightly higher, perhaps because higher earnings would bring down the company's lofty valuation. Etsy's price/earnings ratio on this year's expected earnings is 1,230.

Why Diageo Is Splurging On Tequila

Diageo is so desperate to avoid ending up the Budweiser of U.S. liquor that it could pay almost \$500 a bottle for tequila. Only supercharged tequila drinking will justify Diageo's splurge.

The London-listed group announced Wednesday that it agreed to buy Casamigos for up to \$1 billion, comprising a \$700 million down payment and a further \$300 million if the brand hits certain milestones.

Craft beer started squeezing big brewers like Budweiser in the 2000s, but really took off this decade. It now accounts for about one-fifth of U.S. beer sales. Meanwhile, craft liquor represents just 3% of its market, reports Citi, and is only just getting into its stride.

Liquor has important differences to beer: The U.S. market is growing faster, and most big brands can boast a craft heritage.

Still, established categories like blended scotch—and labels like Diageo's Johnnie Walker—have found themselves challenged by upstarts. Diageo's U.S. market share by unit sales was 17.1% last year, down from 17.3% in 2015 and 19.3% in 2012, according to data provider IWSR.

There are some worries Diageo is overpaying: Bernstein estimates that the investment will cover its cost of capital only if Casamigos sales continue to grow by 40% to 50% a year. But the real risk for investors could be that the liquor market fragments further to the benefit of upstarts.

To revive U.S. growth, Diageo really needs Americans to go back to drinking Scotch.

—Stephen Wilmot

Goodbye for Now to China's Large Global Deal Makers

China's top deal makers are at the epicenter of a shake-up. The seismic waves will ripple afar.

China's banking regulator has asked the country's lenders to investigate loans extended to a group of companies that have aggressively invested overseas, according to The Wall Street Journal.

The firms in question include **Anbang Insurance Group**, **HNA Group**, **Fosun International** and **Wanda Group**, which together have spent tens of billions of dollars in recent years to snap up assets around the globe.

Companies directly related already have felt the pain. A cinema unit of

Wanda, which also owns **AMC Entertainment**, fell 10% Thursday. Shares of Hong Kong-listed Fosun International, owner of **Club Méditerranée** and Cirque du Soleil, were down about 6%.

The news came a week after the chairman of Anbang was detained by a special investigative unit looking at economic crimes. Anbang has risen from obscurity to become an insurer with assets approaching \$300 billion, including New York's Waldorf Astoria hotel.

All of these companies have loaded up debt, sometimes using obscure financing to fund overseas ambitions. Beijing is legitimately worried

about their increasing risks and intricate web with the banks. A clampdown could send shock waves through China's financial system.

The impact would be felt outside China, too. Deals that are yet to be completed now have an added level of uncertainty. Singapore logistics firm CWT, pending a \$1 billion takeover from HNA, fell 5.3% Thursday to a level not seen since the deal announcement. HNA is still in the process of buying a 25% stake in Old Mutual's U.S. asset-management unit and a majority stake in Trump-backer Anthony Scaramucci's hedge fund, Skybridge.

Another worry is if these

Shopping Trip

China's outbound M&A

\$200 billion

150
100
50
0

Year to date
Source: Dealogic

THE WALL STREET JOURNAL.

companies need to sell some of their assets if Beijing really turns the taps off. HNA is Deutsche Bank's largest shareholder with a nearly 10% stake. It also owns

around one-quarter of Hilton Worldwide Holdings. Both deals were accomplished with highly engineered financial structures, the kind that may make regulators antsy.

More broadly, the "China bid," which has kept global deal making humming, will take an even longer breather than previously thought. Companies in the U.S. and Europe looking to sell themselves may now have a harder time finding a good price if these acquisitive companies are withdrawing themselves from their buying spree. China's financial plumbing problems could flush assets down the drain.

—Jacky Wong

Watch out!
Toys with
digital eyes
are here
W7



OFF DUTY



The oddly cool
alternative for
minivan-averse
families
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Friday - Sunday, June 23 - 25, 2017 | **W1**

Suite Surrender

Though hotel snobs have long resisted Airbnb and other vacation-rental services, they're happily giving in as homes-away-from-home get ever more accommodating



VINE AND DINE
Eat Indian takeout under the 9-by-20-foot (retractable) skylight in the dining room next to a wall of greenery.

LIVING LARGE
Thirty-two-foot ceilings, a working fireplace and idiosyncratic decor that wasn't chosen by a committee.

MORE THAN A MINI BAR
The home's full kitchen with Carrera marble counters beats a \$15 bag of pretzels—and there's the famous Smithfield meat market a few blocks away.

SLEEP EASY
This home has four sleeping quarters, including a large master suite and a kids' room stocked with toys and books—no need to lug your own.

Welcome to your new neighborhood.

BY CHRISTIAN L. WRIGHT

WE'D PROCRASTINATED in booking a room for a spring visit to Charleston, S.C., and were priced out of the good hotels. So I told my sister we'd Airbnb. Once a sharing-economy platform becomes a widely recognized verb, it has left the realm of trend and become a cultural game-changer. After doubling its number of listings year after year, now offering 4 million private homes available for rent—from the coast of South Carolina to the South China Sea—Airbnb is currently valued at \$31 billion.

And yet, as I set about searching its stylish website—using the winnowing filters to specify “entire house,” “two bathrooms” and my budget—and whizzing by all the crummy places and any-

thing with Adirondack chairs in primary colors, the sun went quickly past the yardarm. These were wasted hours, ones I could have used to compose a fan tweet to Aziz Ansari, to practice my Spanish on Duolingo or to finish reading John McPhee's “Levels of the Game.” Besides, I ultimately came up empty: The sweet little house downtown with porches and parking was...not available for our dates.

Given such hassles, it is no wonder sophisticated travelers still resist the idea of vacation rentals. And many of the holdouts I interviewed also just can't fathom shacking up in someone else's house based on a few blurry snapshots. These Never Renters, as I fondly call them, aren't just hotel snobs, they've been put off by horror stories—iffy lock on the front door! stained sheets! dodgy Wi-Fi! questionable neighborhoods!—like those told by renters and hosts on the website Airbnbhell, a veritable database of

scams, shady policies and gory details. They don't want to live like a local, buy rainbow chard at the farmers' market or lollygag in a stranger's idea of good interior design. As we all know, photos can be deceptive. Alighting on a rental feels inherently riskier than booking a hotel.

“I have a lovely apartment,” said Tania Chamlian, a former advertising creative director who lives in New York. “If I'm going to go somewhere, it has to be at least as nice. I'm a hotel person and all my friends are too. Sometimes I travel by myself, and I want to be pampered.”

The difference now is that the home-sharing revolution is rewriting the rules of vacation accommodations. While Airbnb still dominates the field, posher rivals have sprung up catering to specific tastes, making it easier to find your home away from home and leading Airbnb to raise its game. The new players narrow the field according

Please turn to page W2

OFF DUTY

THE VACATION-RENTAL REVOLUTION

Continued from page W1

to type of traveler—families with young children, say, or design enthusiasts—while Airbnb still rewards those who enjoy the hunt. When Christopher Noey, a senior adviser in the director's office at the Metropolitan Museum of Art in New York, rented a house on Lake Atitlán in Guatemala, his friends were skeptical. "They thought it was a crazy roll of the dice," he said. But Mr. Noey is a fierce researcher who managed to score a stylish five-bedroom villa with a hot tub, daily maid service, a cook and someone who came in the afternoon to light the fire on the terrace. He found the listing on Airbnb, for about \$90 a night per person. "One afternoon, we see a fisherman out on the lake," he said. "He rows over to our dock and delivers the fish to the cook. That's not going to happen in a hotel."

He is not the only convert. Manhattanite Ricky Ian Gordon, an opera composer, harbors great affection for grand hotels, so last year, when his husband rented an apartment in Paris for a week, he felt a bit crestfallen and rather trepidatious. "We get up to this place on the Seine, go inside, and I can't even believe this could be an Airbnb," said Mr. Gordon. "The guy who lets it is an art collector. The living-room ceiling is painted like the Sistine Chapel. There are art books everywhere, and beautiful antiques. He has surrealist paintings on the wall. It was magical and much more fun than a hotel. For 10 days, we had a home in Paris."

This possibility of playing house in many of the planet's most appealing destinations has spurred a tidal wave of interest in home and apartment rentals world-wide. In 2015, nearly one in three U.S. travelers stayed in some form of private accommodation—through rental sites including HomeAway and Flipkey, both precursors to Airbnb—from about one in 10 in 2011, according to Phocuswright, a tourism research firm. Meanwhile, fancier rental companies, like Luxury Retreats, are trying to woo the jet set with more consistently hotel-like quality. Another, Onefinestay, which claims to rigorously vet all properties, somehow convinces homeowners who would never consider renting their house to strangers to do so.

When Kinvara Balfour, a tech consultant and film director from London, travels for work, she often uses Onefinestay. "It's brilliantly managed," said Ms. Balfour, who recently stayed in a sunny, open-plan house in Los Angeles that comes with cleaning service. "When I fly from London, I usually arrive at 10 o'clock at night," she said, adding that a Onefinestay representative "greets you and shows you around, gives you a welcome pack with instructions to the house, the Wi-Fi password, coffee and tea. And an iPhone. I use it for GPS when I'm driving." The Onefinestay iPhone loaner, available free for all guests, comes preloaded with a property-specific app to help with anything from garbage collection to a doctor recommendation. Of Onefinestay's contribution to her traveling life, Ms. Balfour said, "For me, it's a luxury that's become a necessity."

Hotel snobs don't want to lollygag in a stranger's idea of good interior design.

As the big travel companies like Expedia and TripAdvisor continue to bulldoze their way in on the action—Expedia now owns HomeAway and VRBO (the pioneering home-sharing service that launched in 1996) and TripAdvisor Rentals has 300,000 vacation homes in 200 countries—the market is flooded with an overwhelming number of listings for would-be renters. Consequently, the demand for more narrowly curated offerings, even among business travelers, is growing. To court road warriors, Airbnb has identified certain listings as "business travel ready"—outfitted with a desk, hairdryer and 24-hour check-in. As the competition heats up, the company is also zeroing in on the deluxe market. When it bought Luxury Retreats last February, it seemed an attempt to compete with the new breed of smaller, more discriminating rental agencies, those that might finally persuade hotel devotees to take a dip in the rental pool. Consider this list, at right, of more specialized sites as the lifeguard on duty.

HOSTEL ACQUISITION
A four-bedroom home in Los Angeles's Santa Monica Mountains, offered by Welcome Beyond. Rates start at about \$1,030 a night.



ROOM, NOT BORED // A CRASH COURSE IN SEVEN HOME-RENTAL SITES THAT CATER TO SPECIFIC TASTES

For Design-Minded Iconoclasts

WELCOME BEYOND

Founders Oliver and Chris Laugsch, Berlin-based brothers, curated a collection of unusual houses (and small hotels) in 41 countries that they say favor personality over pretension. That might mean a rustic 19th-century barn in Tivoli, N.Y., with curtains for walls or a fully staffed Swahili beach house built by native artisans on Kenya's Lamu Island.

Perks Welcome gifts, like a bottle of Spanish red in Andalusia or a complimentary dinner upon your arrival at a Marrakesh villa.

Hassle Factor Low. The website is well designed and easy to navigate.

Sample Price A private Greek-island retreat with a neoclassical house that accommodates up to 22 people starts at about \$800 a night. That four-bedroom rustic barn in upstate New York, with antler accents and claw-foot bathtub? From \$220 a night. welcomebeyond.com

For Discriminating Urbanites

ONEFINESTAY

Launched in London and New York in 2010, Onefinestay concentrates on luxury hotel-like service in apartments and houses in select major cities, all vetted and prepared for guests by Onefinestay staff. The Accor Group bought the company last year, but has only expanded its reach to a total of nine cities so far (adding Boston, Los Angeles, San Francisco, Miami, Milan, Paris and Rome), with seasonal offerings in the Hamptons, Edinburgh, Southern California and the French Riviera.

Perks A loaded iPhone for local use, custom fitness videos by Tracy Anderson (a longtime guest) streamed in all properties, toiletry brands specific to locale and Soul Cycle passes in some cities.

Hassle Factor Low. Straightforward click-and-buy website also offers city tips.

Sample Price A sophisticated, spare one-bedroom in Rome starts at a nightly rate of about \$200. And a four-bedroom penthouse in Boston's Beacon Hill averages \$995 a night. onefinestay.com

For the Glitterati With Entourage

THE THINKING TRAVELLER
Launched with just seven villas in Sicily, the Thinking Traveller has grown slowly—based on word-of-mouth and local connections—to encompass about 180 private properties, sprinkled around Sicily, Puglia, the Greek Islands, Corsica and the Brazilian beach town of



YOUR CASA IS MY CASA The 12-bedroom Don Archangelo all'Olmo villa in Sicily comes with a heated swimming pool and full-time staff, including a chef. Available through the Thinking Traveller, weekly rates starting at \$16,350.

Trancoso. Available exclusively through the Thinking Traveller, some of these high-end villas come with staff (cook, driver, housekeeper, owner's personal assistant) and what the company calls "magnetic views."

Perks A pre-arrival care package that includes a location-specific guide written by a Thinking Traveller staffer who lives there.

Hassle Factor Low. You can reserve a property for up to 24 hours while you make up your mind. Or you can chat with a villa agent by phone before pulling the trigger.

Sample Price On the Greek island of Skopelos, a 2.4 acre compound with seven bedrooms, its own secluded beach and a pet donkey runs from about \$6,600 a week. A unique stone villa in Puglia with two pools, six bedrooms and six bathrooms starts at \$3,220 a week. thethinkingtraveller.com

For Groovy Families

KID & COE

Founded in 2013 by Zoie Kingsbury Coe—a young

mother who travels a lot with her musician husband—this service found a void to fill: baby-ready homes (equipped with high-chairs, cribs, toys, blocked electrical sockets) for families not willing to sacrifice style for square feet. Now the fast-growing company represents some 1,200 listings in 49 countries, many in France, Italy and the U.S., with a few in Japan and Morocco. Family-friendly highlights are itemized for each property (e.g. baby monitor, washer/dryer, game console, stair guards, trampoline).

Perks An online guidebook to the destination, compiled by local parents; a member-based exchange program for home swaps.

Hassle Factor Low. Put your dates in and a price appears.

Sample Price A well-appointed two-bathroom stone cottage on 16 acres in the Hudson Valley is about \$300 a night. An Architectural Digest-featured residence in Thailand is \$1,722 (including meals), a night for four people. kidandcoe.com



A four-bedroom home in Amsterdam listed by Kid & Coe.

For Persnickety Big Spenders

ULTRAVILLA

Founded in 2014, UltraVilla is a by-invitation directory of luxury rental agencies that showcases mostly high-end properties in 22 countries, from ski chalets in the Alps to private islands in Greece.

Perks The kind of entree to, say, Scottish estates and grand English houses that once required aristocratic ancestry. White-glove service at most properties.

Hassle Factor Medium. Though the booking process can take time, the main UltraVilla website has efficient drop-down menus and day-dream-like photos. Once you find a property you like, you're directed to the corresponding website, through which you must weed anew.

Sample Price Most of these homes do not come cheap. A four-bedroom wood-and-glass modern manse in New Zealand (with massive decks and a helipad) starts at \$15,550 a night. Then again, you can also find a genteel three-bedroom flat on Paris's Left Bank with nightly rates from \$900. ultravilla.com



A three-bedroom flat in Paris offered by Haven In, a luxury rental agency found on ultravilla.com

it goes to the owner who then contacts you. Listings on the landing page are divided by categories like "Cool Places for Design Lovers" and "Bring Fido Along" rather than geographically, which can be frustrating.

Sample Price Average about \$250 a night, with options like an elegant four-bedroom apartment in St. Petersburg, with Wi-Fi and arched windows. The portfolio also includes some architectural gems like a 1960s Chuck Reed three-bedroom in Hollywood, Fla. that starts at \$1,750 a week. boutique-homes.com

For the Wannabe Duke and Duchess

LANDMARK TRUST

The British Landmark Trust rents 198 historically significant buildings across the U.K., plus a few in France, Belgium and Italy (including John Keats's home in Rome). Plenty of them are long on charm and short on frills, and are all self-catering.

Perks That's English for bring your own...ground coffee, shampoo, food, cooking oil, matches and even duvets. In one place, a rural cottage where you have to hike up from the parking lot, you get a wheelbarrow for the trek.

Perks The Landmark Trust operates as a charity, so the rental fee for, say, four nights at the 15th-century St Winifred's Well in Shropshire (about \$195) goes to help the trust rescue more buildings. Each place has a designated housekeeper who'll meet you upon arrival or tell you in advance where the key is hidden.

Hassle Factor Medium. Sort by category ("Links to Literature," "Castle Stays"), make an inquiry, get a reply within three days.

Sample Price The trust keeps prices low to maximize number of visitors. Average cost of a Landmark stay is below £50 (about \$63) per person per night. landmarktrust.org.uk

—Additional reporting by Sara Tucker

CLOCKWISE FROM TOP: JOE FLETCHER & JULIEN HAUSHER/HAVEN IN; KID & COE; THE THINKING TRAVELLER

For Chic and Thrifty Nomads

BOUTIQUEHOMES

The brainchild of a former set designer and a stylist, the company represents 1,000 vetted properties in 69 countries, from Spain to Sri Lanka.

Perks A members-only program is in the works to give loyalists discounts.

Hassle Factor Varies. No direct online booking. Once you fill out an inquiry form,

► For five additional specialized rental services, see wsj.com/travel.

OFF DUTY

'Swim' Out of Water

The newest trend in swimwear? Designs so splashy they can slip under street clothes and double as high fashion

BY CHRISTINE WHITNEY

IS IT A TOP or a bikini? Are those shorts or seaworthy boy-brief bottoms? When studying the spring 2017 runway collections, it's often difficult to tell.

Indeed, the line between swimwear and ready-to-wear has blurred this season. Designers sent out aquatically inclined pieces tucked into pants or layered under tunics as if to say that water isn't really swimwear's natural habitat.

But is wearing a bikini as a top a faux pas? Not to Miuccia Prada who, for both her Miu Miu and Prada collections, tipped her swim cap to the dolce vita era with an offering of retro suits layered with blouses and skirts. Inspired by the look of swim, Joseph Altuzarra served up beachy ruffled bralettes with high-waisted skirts, while Tory Burch showed maxi skirts with bikini-like silk bralettes, which she later modified for retail into bona fide swimwear.

Translating the runway to the real world, however, can be tricky, but when done right, this trend can squeeze more value from your summer wardrobe. "I think that people like the multiple uses," said designer Lisa Marie Fernandez, who has championed the concept since launching her swimwear and resort brand in 2009. "The bikini is no longer just a bikini. The one-piece is also a bodysuit."

She helped pioneer the idea of making bikinis and maillots from denim, seersucker and crepe, fabrics which easily transition from seaside to sidewalk. And yes, you can actually swim in them.

Elyse Walker, owner of eponymous boutiques in Newport Beach and Pacific Palisades, Calif., recommends wearing ruffled bikini tops—like those from Ms. Fernandez—with wide trousers or full skirts that are high-waisted enough to expose just a sliver of midriff. Scoop-neck one-pieces, meanwhile, are easily tucked into high-rise jeans. A customer "might buy a bikini for a trip to St. Bart's, but then she can also [wear the top] to dinner in the Hamptons," said Ms. Walker. Call it investment dressing. Her other favored brands for souped-up swim are Australian label Zimmerman and New York designer Jonathan Simkhai, who recently added bathing suits to his collection.

The bikini is no longer just a bikini. The one-piece is also a bodysuit.'

swim-and-skirt/dress ensembles with e-commerce site Matches Fashion.

New York designer Joseph Altuzarra showcased other charming layering approaches in his collection, putting floral bikini-inspired bralettes under striped off-the-shoulder knit dresses so that only the ruffled straps peeked out. Elsewhere, he paired a cherry-print skirt with a matching bralette and finished it with a blazer. Result: a look both festive and almost formal.

Mr. Altuzarra advocates wearing swimwear with a silk shirtdress, either unbuttoning the dress from the neck to show off a bikini top or from the bottom to flash a pair of boy-cut briefs. Throw on a belt and wedge sandals to pull it all together. "Before, you'd have your city clothes then your holiday pieces on the side," said Ms. Fernandez. "Now it's more about lifestyle clothes. To just wear [swim] by the pool would be a disservice."

To find a swim top you can elevate to regular-top status, pay attention to fabric and silhouette. "I feel like the vintage-inspired styles really work best," said New York fashion stylist Ann Caruso. Those 1950s-style fuller-cut tops and bottoms not only offer more cover, they're also more fashion-forward. "You wouldn't really do the string bikini top," she added. Search out structured shapes in rich-feeling fabrics, and restrict swimwear made of very basic Lycra to the pool and shore, said Ms. Fernandez. She uses a substantial matte neoprene even for her simplest styles.

Another tip from Ms. Fernandez: Take care that you're appropriately covered when taking your swimwear out on the town. "If you're showing shoulder and you have a crop top, balance it with a trouser or skirt with a little length to it," she said. The designer added skirts and dresses to her collection in 2015—taking some of the guesswork out of swim-to-street ensembles. If you really want a no-brainer solution, she recently launched a mini collection of coordinated



TO LIVE AND DIVE
With interesting fabrics and design details, swimwear can be stylish enough to depart the deck chair.

Top Left: Bikini Set, \$895, *Miu Miu*, 212-641-2980; Tricot Comme des Garçons Shirt, \$530, *Dover Street Market*, 646-837-7750; Skirt, \$2,850, *Céline*, 212-535-3703; Sunglasses, \$460, *oliverpeoples.com*; Earrings (throughout), \$350, *ippolita.com*

Top Right: Swimsuit, \$380, *Fendi*, 212-897-2244; Skirt, \$790, *Isabel Marant*, 212-249-2019; Sunglasses, \$220, *illesteve.com*; Belt, \$450, *etro.com*; Sandals, \$490, *loewe.com*

Left: Swimsuit, \$430, *lisamariefernandez.com*; Trousers, \$410, *joseph-fashion.com*; Sunglasses, \$460, *oliverpeoples.com*

Photographed at Le Bain at The Standard High Line, New York.

ANDREW ONGELA FOR THE WALL STREET JOURNAL, STYLING BY REBECCA MAJINSKY, HAIR & MAKEUP BY MARK WILLIAMSON, MODEL SUMMER THOMPSON/WILHELMINA

FÊTE ACCOMPLI A GOOD-LOOKS GUIDE TO RECENT EVENTS

HAUTE HAUL

The bountiful table setting.



GROCERY GAMES

"IT'S LIKE BEING in someone's pantry," said Kate Bosworth last Thursday night. "A very, very fancy pantry." The actress was in the tony New York food shop Clover Grocery, marveling at shelves filled with \$13 jars of Himalayan salt. The store, an extension of haute health restaurant Cafe Clover, accommodated an intimate dinner that Ms. Bosworth was co-hosting with designer Jason Wu and e-commerce site Shopbop.

The point of the celebration: a collaboration between Mr. Wu and design studio Work + Sea for Mr. Wu's lower-priced label, Grey. "We met last summer at a dinner party," said Work + Sea co-founder Michael Woodcock. "Jason loved our prints. He instantly emailed me saying, 'Let's do something.'"

Though Mr. Woodcock and co-founder Lara Apponyi mostly create prints for wallpaper, they developed two for Grey's sporty feminine clothes—an abstract botanical in two colors and a quirky motif combining images of Egyptian cats, camels and female busts that Mr. Wu dubbed "CATmouflage."

The latter also featured on the place mats that decorated the long dinner table—along with a lush and rambling centerpiece of geraniums, roses, freesia and what seemed like a grove's worth of lemons. In keeping with the theme of bounty, each guest's name was inscribed with a heat pen on a fat orange. (Paper place cards can feel so 2016.)

Before dinner, Mr. Wu welcomed his guests, proclaiming himself tired of big dinners "with terrible people." The small group, which included jewelry designer Jennifer Fisher and model Carlotta Kohl, seemed flattered. Or perhaps it was simply the glow of extremely stylish health. —Taylor Harris



Jason Wu

BILLY FARRELL AGENCE

OFF DUTY

ON WINE LETTIE TEAGUE



The Iffy Business of Predicting Wine Trends

I WAS WALKING through a wine shop recently when a wine in a blue bottle caught my eye. Had the wine-maker—or, more likely, wine marketer—decided this disco-bright color was one that would draw buyers or did the contents require a colorful cover up? I spotted several other bottles of a similar hue—a few German Rieslings and a couple Moscatos—and wondered if I was seeing the start, the middle or the end of a trend. The larger question: How do bottle colors or grape varieties or even entire countries (see: New Zealand) become so popular they actually turn into trends?

A few decades ago, a great ad campaign could start a trend. Take, for example, Bartles & Jaymes, the fictional folksy spokesmen created by Gallo in the early 1980s. Messrs. Bartles and Jaymes sat on a porch and told the story of how they had created a wine cooler. The highly successful television campaign not only made the B&J label a hit but also launched an entire industry of low-alcohol fruit drinks.

A decade earlier, the white wine Blue Nun became famous largely thanks to a clever radio campaign starring the married comedy duo Jerry Stiller and Anne Meara, who bantered about life and a wine from Germany with an unlikely name. "Blue Nun, the delicious white wine that's correct with any dish," said the spots' tagline. Around the same time, other white wines from Germany became popular, too—including Black Tower (in a tower-shaped bottle) and Black Cat (aka Zeller Schwarze Katz) in a bottle with a cat on its label—though none was the equal of Blue Nun.

When Blue Nun was transferred from a brown to a blue bottle in the late 1990s, the brand had long since lost its luster and the blue bottle did nothing to bring it back. Peter Sichel, the visionary who had made Blue Nun famous, denounced the move as a gimmick, a marketing contrivance unlikely to succeed, and it looks like he was right.

The blue-bottled Bartenura Moscato (aka "blue Bart"), meanwhile, became a hot brand. When this kosher Moscato transitioned to a blue bottle back in 1992, the main goal was to help it keep up with the competition, according to Jay Buchsbaum, vice president of marketing and director of wine education at Royal Wine Corporation, which imports the wine. One of the company's competitors, a much smaller Kosher-wine producer, had bottled their Moscato in a blue bottle and promptly stole a chunk of Bartenura's market share. "We caved and followed suit," said Mr. Buchsbaum.



ILLUSTRATION BY CATE ANDREWS

It turned out to be a propitious move, particularly when rap star Drake and the blue bottle were prominently featured in the music video for DJ Khaled's "I'm On One" in 2011. The wine was an instant hit among an entirely new group of drinkers. The company had nothing to do with the placement of the bottle, said Mr. Buchsbaum, but they were "in awe" of what the video did for their brand. The blue bottle phenomenon was kickstarted yet again when another rap star, Nicki Minaj, partnered with the Myx Fusions brand in 2013.

The trend of cute animals on wine labels—kangaroos, cats, zebras—has come and gone and might come again. In 2006, the data information company Nielsen noted that 77 so-called "critter" brands had debuted in the preceding three years, piggybacking on the great popularity of Yellow Tail, the Australian Shiraz whose label depicted a leaping wallaby. Launched in 2001, Yellow Tail was styled as an affordable, approachable, easy-drinking red and it was an immediate hit in the U.S.

Other brands like the Little Penguin, Tall Horse, Smoking Loon and Goats do Roam, sought to capture the same drinkers with their cute counterparts but never succeeded to quite the extent that Yellow Tail did.

By December 2006, the headline of an article in Wine & Spirits Daily read, "Are Critter Labels Becoming Passé?" It was, predicted this report, the "beginning of the end." According to Danny Brager, SVP of beverage alcohol at Nielsen, growth had decidedly slowed by the middle of 2008. Sales of critter labels had slowed to a tiny 2% growth between mid-2007 and July 2008.

The 'critter brands' trend has come and gone and might come again.

A resurrection of sorts for Yellow Tail was attempted at this year's Super Bowl, with a 30-second ad featuring a man in a bright-yellow suit and a kangaroo cooking at a barbecue with the tagline "If you see a roo at a party, it's a good party." Australians reacted with outrage to what they regarded as a cheap cultural stereotype.

Other trends have taken off and never really faded. The New Zealand Sauvignon Blanc category unoffi-

cally entered the American market with the brand Cloudy Bay in 1990

and has been hot ever since. Pinot Noir has been trending upward ever since the release of "Sideways" in 2004. The movie is inevitably and unendingly credited with the Pinot Noir boom thanks to the eloquent championing of the grape by the otherwise reprehensible character Miles Raymond (Paul Giamatti).

Danelle Kosmal, the Washington, D.C.-based vice president of beverage alcohol at Nielsen, cited "Sideways" when she noted Pinot Noir's continued upward trend. I had contacted her hoping to talk about trends, including blue bottles (which, sadly, the company does not track), and to see if she had any predictions for the future.

Ms. Kosmal had some interesting statistics on hand. For example, Moscato is still growing, but, as of

May 2017, was up by only 3.4% over the same time last year. "It's just not the hottest trend," Ms. Kosmal said. A true trend required year-after-year double-digit growth, she said.

Ms. Kosmal was kind enough to educate me as to the difference be-

tween a fad and a trend in the wine world. The former lasts under two years, according to Ms. Kosmal,

while the latter takes years to unfold, and the wines tend to stay

popular for a long time. "If it's sustainable it has the potential to be-

come a trend," she said. With so much data at her disposal, could Ms. Kosmal predict what might be the next big trend?

"If I could foresee the future, I'd be making a lot more than I do," she replied with a laugh. But she offered a couple ideas. "Alter-

nate packaging overall is growing very strongly," she noted. "This will be an interesting season for cans."

I noted that I'd definitely seen more canned wine in stores. "There were some rather large launches in the spring of 2016," Ms. Kosmal added. She said she'll be tracking sales this summer to confirm if canned wine is a bona fide phenomenon. "We are looking for this summer to see if it's a trend."

But even if wine in cans showed strong growth, wouldn't it still be a fad, not a trend, since only a year would have passed since the prominent launches? I was confused. But perhaps the difference didn't really matter, since success is so often a matter of luck—like when the makers of Bartenura Moscato copied a lesser rival and put their wine in a blue bottle and were lucky enough to have a rap star pick it up.

► Email Lettie at wine@wsj.com.

SLOW FOOD FAST SATISFYING AND SEASONAL FOOD IN ABOUT 30 MINUTES

Summer Corn Soup With Cilantro-Corn Relish



The Chef:

Günter Seeger

His Restaurant:
Günter Seeger in
New York City

What He's Known For:
Precisely executed,
elegant cooking
that favors excellent
ingredients and at-
tention to detail
over flourishes.

BACK IN 1984, when chef Günter Seeger first came to the U.S. from Germany, "farm-to-table" hadn't yet caught on across the country. "I was shocked by the food," he said—and by the lack of access to fresh produce in particular. But there were pleasant surprises too. Foremost among them: sweet summer corn. "I remember first eating it right off the cob," he said. "I got sticky juice all over my face, and it was fantastic."

As a tribute, Mr. Seeger has created this corn soup, his final Slow Food Fast recipe. It calls only for fresh corn kernels, chicken stock, butter and a little heavy cream. Puréed until silky-smooth, the result is fresh and intensely corny. The garnish, a relish of raw corn, cilantro, jalapeño and lime,

both underlines the soup's flavor and provides a textural counterpoint.

The in-season, just-picked corn available in summer is so sweet because, unlike cobs shipped long distances, its sugars have not had time to convert to starch. So, to get the soup's consistency right—slightly thicker than melted ice cream—let the blender run an extra minute once you have a smooth purée, to develop the starch and add body. A glug of cold cream makes the texture even more velvety. "I add it at the end so it whips and increases in volume," Mr. Seeger said.

What better way to distill the pleasure of summer's freshly shucked ears? To Mr. Seeger, they remain a sweet surprise, year after year. —Kitty Greenwald

TOTAL TIME: 20 minutes **SERVES:** 4

3 tablespoons butter
Kernels from 8 ears fresh
corn
3 cups chicken stock

Kosher salt
½ cup cold heavy cream
1 jalapeño pepper, seeded
and minced

4 bunches cilantro, finely
chopped
2 tablespoons olive oil
Juice of ½ lime

1. Make soup: Set a medium pot over medium-high heat and add butter. Once butter has melted, after about 1 minute, stir in ¾ of the corn kernels and cook until bright yellow, 1–2 minutes. Pour in chicken stock and bring to a boil, about 3 minutes. Boil until corn has softened but still has some bite, and stock takes on corn flavor, about 2 minutes. Season with salt.

2. Transfer soup to a food processor or

blender and purée until very smooth, about 2 minutes. Then, continue blending soup until it thickens further, about 1 minute more. Pass soup through a strainer and discard solids left in strainer. Return soup to food processor or blender and process a third time. With motor running, slowly pour in cold cream. Season with salt to taste.

3. Make corn relish: Place remaining corn in a medium bowl. Toss kernels with jalapeño, cilantro, olive oil, lime juice and salt to taste.

4. Serve soup warm or chilled, divided among 4 bowls. Spoon corn relish over

soup as a garnish.



BRIGHT IDEA Cilantro, lime juice and jalapeño in the garnish cut through the sweetness of this luscious corn soup.



She's a fan.



To find out why Darcey Bussell is a fan visit mandarinoriental.com ATLANTA • BANGKOK • BARCELONA • BODRUM • BOSTON • GENEVA • GUANGZHOU • HONG KONG • JAKARTA • KUALA LUMPUR • LAS VEGAS • LONDON • MACAU • MADRID • MARRAKECH • MIAMI • MILAN • MUNICH • NEW YORK • PARIS • PRAGUE • SANYA • SHANGHAI • SINGAPORE • TAIPEI • TOKYO • WASHINGTON D.C.

OFF DUTY

Whatever Floats Your Bed

Setting it adrift away from the wall can improve your vantage point—and create a dressing or storage zone behind it

BY ELIZABETH ANNE HARTMAN

WHAT DO Alvy Singer—Woody Allen's alter ego in "Annie Hall"—and Achille Salvagni, the Rome-based architect and interior designer, have in common? Stressful storage issues and an unconventional solution to them: moving the bed into the middle of the bedroom. Though the floor-to-ceiling bookcases that Alvy and his Valium-popping second wife placed against the emancipated wall ultimately failed to save their marriage, Mr. Salvagni and his wife of 10 years have had a happier result.

"The decision to move the bed away from the wall in the bedroom started from the need of my wife to have a much wider closet," said Mr. Salvagni. Since the other three walls were pierced by windows or doors, the bed couldn't go anywhere else, and its repositioning in the room's center created space to build the sort of storage that saves relationships.

"Bedrooms have become more than a place to sleep," said New York designer Nancy Ruddy. Using the headboard as a divider defines another "room" within the bedroom—for dressing or for working. "These spaces allow couples to partake in activity without disrupting their partner's sleep," she added.

If you've tossed your TV remote because your bedroom's so small that you change the channels with your toes, this may not be an option for you. But many postwar urban apartments, for example, feature a long file-drawer of a bedroom—windows at one end, closets and the door at the other—with homeowners reflexively placing the headboard against one of the other two, windowless walls. But in a room just 15 feet long, pivoting the bed so it faces the windows will leave enough room to comfortably navigate around it.

"In cramped city apartments, you can't be a stickler," said New York designer Grace Rosenstein. "A 2-foot clearance is good enough."



CENTER STAGE Architect Ricardo Bofill moved a bed away from the wall to fit two sets of shelves in his Spanish home, featured in 'Warehouse Home: Industrial Inspiration for Twenty-First-Century Living,' by Sophie Bush (Thames & Hudson).

Floating the bed also frequently blocks an uninspiring view of closet doors.

This trick can also help people get more livability out of oddly proportioned spaces, such as lofts, said New York architect Andrew Franz: "Dividing a room with a large object can scale it down, creating more intimate areas."

For a 19th-century cottage on

Wistow Island, in Ontario's Muskoka lakes region, Toronto designer Anne Hepfer moved a master bed away from the room's doorway, fashioning a vestibule of sorts that provides more privacy when the door is open. When you're exposing the back of a headboard, as she did by moving the bed from the wall, it helps if the headboard is more structural

and pleasant to look at, noted Ms. Hepfer, "preferably made of wood, in a more modern style." Alternatively, you can position a dresser or bookcase against the backs of less attractive headboards.

You can always ditch the headboard completely, but where space and resources permit, consider commissioning a headboard especially designed for floating beds.

For a contemporary house in Larkspur, Calif., San Francisco firm Nicole Hollis designed a bed destined to sit in front of white oak floor-to-ceiling closet cabinets. "The master bed is a single piece of custom furniture," said Frank Merritt, of Jensen Architects, who designed the house. "It incorporates the bed frame, side tables, reading lights and, on the back side, a dresser, all in the same knotty oak as the cabinets." The bed placement, closer to the windows, also gave its inhabitants better views of Mount Tamalpais and the bay beyond.

Maximizing a view also motivated Holly Hollenbeck, of HSH Interiors in San Francisco, when she decorated a home in the hills of Marin County. Because three sides of the master bedroom were glass, when the bed occupies the middle of the room, "the wall behind you disappears from your visual plane, so it feels like you're sleeping in a tree house," explained Ms. Hollenbeck.

This trick frequently blocks an uninspiring view of closet doors.

Bay Area architect Eric Haesloop similarly accommodated clients who wanted to apply a Thoreau-esque aesthetic to their Silicon Valley home. The room in which he floated the master bed looks onto a small private pond surrounded by a hillside garden, but he pointed out that "this works in any home with a dominant view on one side."

Both Mr. Haesloop and Ms. Ruddy referred to studies suggesting that an uncluttered sleeping space—free of visual distractions that remind one of work or chores—allows for better sleep.

No matter how you set up a bedroom, "the bed is the centerpiece," said Ms. Hollenbeck. The irreverent act of liberating it from the walls not only gives it pride of place, but opens up a whole range of design possibilities.

FAST FIVE

FIRST-CLASS PLASTIC

They won't smash if dropped on a patio, but these festive vessels will shatter your notions of what acrylic glasses look like



Mercury Row 7-ounce Glass, \$26 for six, wayfair.com

Striped Tumbler, \$26 for four assorted, potterybarn.com

Lo-Ball Glass, \$32 for four, lillypulitzer.com

TarHong Cantina Drinkware, \$51 for 12, wayfair.com

FLOWER SCHOOL



THE ARRANGEMENT

MODELING KLEE

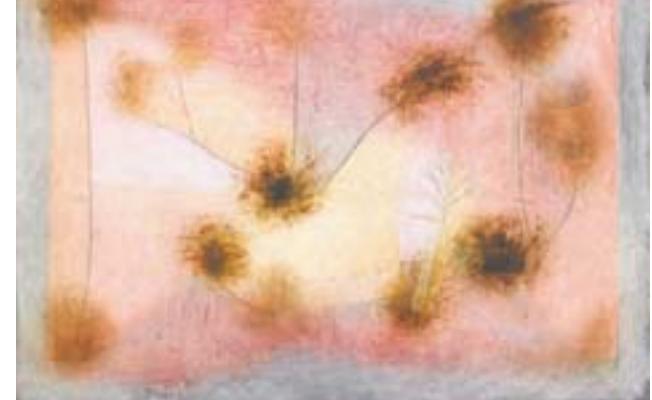
Floral designer Lindsey Taylor takes cues from Paul Klee painting that evokes musical notes

I ASSOCIATE EACH month with a color. For June, it's pink, due to the parade of roses, peonies and foxgloves in my East Coast garden. Accordingly, I chose a painting loaded with the pale hue to fuel my June arrangement: "Hardy Plants" (1934) by Swiss-born artist Paul Klee (1879-1940).

Klee, the son of a professional violinist and a musician himself before turning to art, often imparted a musical quality to his pieces. To me, this canvas looks like a sheet of music notation, the brown blotches the note heads, the lines their stems. Pondering it, I was on the

verge of tapping my foot.

I started with a shallow chalky vessel, gray like the painting's edges, and inserted a floral frog to keep stems



THE INSPIRATION

upright. First up: peonies, an obvious choice for June, the full blooms blush with hints of buttery yellow. To add staccato rhythm, I stuck in buds of burgundy peony, thistle-like faded heads of echinops and garlic scapes. Long bare stems formed notation-like lines.

This airy, playful bouquet ended up looking a little like a choir singing its heart out.

OFF DUTY

The Digital Eyes Have It

With the help of small LCD screens, digitally animated eyes are giving once-stoic toys a highly expressive makeover

IN HUMANKIND'S seemingly never-ending quest to give life to toys, we've reached a major milestone: digitally animated eyes, rendered with small LCD screens. With these enhancements, no longer do dolls need to stare blankly into the distance. Now playthings can appear to glance around the room or scrutinize you directly. Some can even alter their expression.

"There's no limitation to what you can express through the eyes," said Jeremy Padawer, co-president and partner of Wicked Cool Toys, which makes a Cabbage Patch Kid and a soon-to-be-released Teddy Ruxpin with the feature.

Hasbro introduced a Furby with digitally animated eyes in 2012, and ever since, skeptics have asked: Does creating more realistic toys stifle a child's imagination?

This is a question Mr. Padawer has pondered at length. "I have seen [children] have more fun with a cardboard box than some toys," he said. "What we're doing is providing tools to unlock some of the potential.... It's about variety at the end of the day."

Below, a guide to a handful of toys resolutely on the more-is-more end of the realism spectrum.

—Michael Hsu



RYAN SNOOK

REALITY SIGHTS // ANIMATED EYES ARE DESIGNED TO BRING INANIMATE PLAYTHINGS TO LIFE. BUT HOW REALISTIC ARE THEY?



Ultimate Lightning McQueen

This remote-control sports car, based on a character from Pixar's "Cars" movies, comes fully loaded with a spirited personality.

Recommended ages Kids should be old enough to safely commandeer an app-controlled vehicle that can do donuts on command and drive 6 mph.

Realism Off the charts. A trapezoidal LCD screen renders the expressive Pixar-animated eyes, while motors tilt the chassis from side to side, giving this personified car real body language. Another giant leap forward: how Lightning McQueen's (non-LCD) lips sync smoothly with its speech—a contrast to the primitive chomping action of other talking toys.

Interaction style Dashing. In drive mode, Lightning McQueen will offer its unsolicited 2 cents ("Nice driving!") and comments relevant to its state of being ("I feel a power nap coming on" each time you turn it off.)

Eerie or endearing? Endearing. It's hard to believe this isn't a Pixar character come to life. \$300, sphero.com



Furby Connect

Furbies were bizarre when they first came out in the late 1990s—and today's more lifelike version is even more so.

Recommended ages Kids who are old enough to appreciate fart jokes (Furby flatulates gleefully) but won't be terrified by the creature's frantic squawking and gesticulating.

Realism Impressive. Although the first Furby with LCD eyes was released in 2012, subtle tweaks to the sensors and motors in this latest iteration make its Gremlin-like kinesics and utterances seem exceptionally natural. The moving eyelids, ears, mouth and body (Furby has no arms) along with the digital eyes create a convincing effect.

Interaction style Unashamedly manic. Accelerometers coupled with audio and touch sensors allow it to react to you. Tickle it, cradle it, pull its tail. All will get a rise out of this gibberish-spouting critter.

Eerie or endearing? Both. More eerie than endearing until you get a chance to know it. \$65, hasbro.com



Teddy Ruxpin

The animatronic storytelling, learn-to-read teddy bear from the mid '80s makes a comeback with animated LCD eyes and stories that are downloaded via app rather than loaded on cassette tape.

Recommended ages 3 and up: preschoolers and "pre-readers" (three read-along stories are included; more are available for purchase).

Realism While the eyes are more lively than the original's, which could only manage a slow but charming blink, the motorized mouth does feel like a throwback. Eye animations sometimes veer into the fantastic (bouncing hearts, spinning globes), depending on the story being told.

Interaction style Intentionally limited. Like its predecessor, this Teddy Ruxpin will only tell stories, not listen to yours.

Eerie or endearing? Endearing, in a nostalgic way. And this Teddy Ruxpin is more huggable than the original. Gone is the bulky cassette housing on the back that made the earlier model awkward to cuddle up to. \$100, available this fall, teddyruxpin.com



Cabbage Patch Kids Baby So Real

This tech-ed-out reinterpretation of the '80s toy phenomenon can perform typical behaviors for an interactive doll: cry when it's wet, giggle when tickled, snore after you rock it to sleep and burp contentedly after you pretend to feed it with a special bottle.

Recommended ages 3 and up, according to the manufacturer.

Realism Modest. Animated eyes can blink (digitally) and look around (inquisitively). But its mouth is static when it talks. As with other Cabbage Patch Kids, it's infused with a special "baby" scent.

Interaction style Demanding, as befits a toy designed to be "nurtured." Sensors on its face allow the doll to play peekaboo; those on its body let it know when you've changed its diaper. When it's sick, its cheeks glow red until you administer medicine.

Eerie or endearing? To adults who "adopted" an inanimate Cabbage Patch Kid during their own childhood decades ago: Eerie. Very eerie. \$90, cabbagepatchkids.com



Spider-Man

Like Teddy Ruxpin, this Spider-Man-based on the soon-to-be-released movie—tells stories but of the "Choose Your Own Adventure" variety. Speech-recognition tech (processed in the toy itself, never sent to the cloud) lets children alter plotlines based on their responses to Spidey's questions.

Recommended ages Children old enough to sit through a highly interactive story—which shouldn't be too taxing considering that Spidey will occasionally ask them to race around the room to catch bad guys or toss the toy in the air to dodge hazards.

Realism Low. The eyes are the only aspect of this toy that moves, and the animations are fairly subtle.

Interaction style Wisecracking. The scripted jokes are squarely aimed at tween boys. A motion sensor in Spidey's chest allows it to react when you're nearby. Accelerometers enable it to respond when you move it.

Eerie or endearing? Neither really, but there is something adorable about Spidey's squat physique. \$150, sphero.com



MY TECH ESSENTIALS

LUKE ROBITAILLE

The 13-year-old winner of the 2017 Raytheon Mathcounts National Competition on scientific calculators and online chess



I play a card game called **Mao**. It's played with two regular decks shuffled together. When you win a round by getting rid of all of your cards, you make a new rule that people have to follow, but you don't tell them what it is. They have to deduce what the rule is by how it's applied and how they get penalized for not doing what it is they're supposed to do.

My Texas math team is spread out all across the state, so we use Google Hangouts to practice our team rounds. This is critical. We managed to get a perfect score on team rounds—but if we hadn't, we wouldn't have won.

Calculators are allowed in Mathcounts competitions. My favorite is the TI-30x IIS. It's simple and really fast. It has a lot of memory locations, too—not just the horribly confusing memory on cheaper calculators.



I play a lot of online chess on **Chess.com**. There are very good people to play chess against on the site, whereas at my house not so much. No offense to my parents, but they're not as good at chess as I am.

An excellent website that has helped me a lot is **artofproblemsolving.com**. Its math textbooks were some of the key resources that I used when I was younger to get up to this high level of math. It also has an excellent website with an online community of mathy people, and an online school.

I also use a site called **Expii.com**. It has all sorts of math and science lessons that you can go through and learn at your own pace. It has some interesting math puzzles, too. I've spent quite some time on those.

I got a cellphone last year to stay in contact with my mother while I'm at math camps and not within a 20-foot radius of her. My current one is a **Samsung Gusto 3** flip phone. I don't really use it to get on the internet; I pretty much just use it for calling.

I have a **fidget spinner** that's shaped like the Batman logo [similar model shown], with two weights instead of three. It's hard to explain what the draw is. It's just one of those things.

I do watch TV—perhaps more than I should. I've been watching **"The Twilight Zone"**—the really old one—on Netflix. I got interested because of my father, who's into sci-fi. I'm into sci-fi pretty much. I guess it's sort of a nerdy thing.

—Edited from an interview by Chris Kornelis

OFF DUTY



LONG HAULER The Nissan NV Passenger Van can seat up to 12 and offers cup holders for every passenger.

Go Big and Go Home

Minivan not quite large or hip enough for your family's needs? More Americans are looking to the commercial fleet

BY JONATHAN WELSH

WHETHER due to vanity or insecurity, some people simply refuse to drive a minivan. Haters point to the vehicle's bread-loaf styling and the "I've given up" vibe it exudes. So what are style-conscious Americans to do when they have an abundance of children or gear to haul? Go even bigger. Intended for businesses, commercial passenger vans—the descendants of those that shuttled you to camp or baseball games when you were a kid—are nonetheless becoming the darling of harried families.

Although not exactly glamorous, commercial passenger vans have been known to turn heads at the school pickup line or the country-club entrance. The practical appeal is clear: While most minivans and large SUVs can seat seven or eight, the Ford Transit, Mercedes-Benz Sprinter and Chevrolet Express can be configured to accommodate from five to 15. The vans also offer plenty of room in back for your stuff (no need to install a roof rack or haul a trailer.)

Unlike the gas-guzzling, commercial passenger vans sold in the 1970s, the latest models are markedly more fuel-efficient.

Unlike the gas-guzzling commercial passenger vans that Detroit's Big Three began selling in the 1970s, the latest models are notably fuel-efficient, thanks in part to their diesel engines. And the market is growing fast. The Mercedes Sprinter started shaking up the U.S. van world more than a decade ago, but the Transit, NV and Ram ProMaster, from Fiat Chrysler, have arrived more recently to meet demand.

Indeed, big vans have become a bright spot in the U.S. auto market. Sales of full-size commercial vans were up more than 15% in



CLOCKWISE FROM TOP: NISSAN; CHEVROLET; FORD MOTOR COMPANY; MERCEDES BENZ; RAM

2016 over the previous year, with some newer models posting huge increases in the same period: ProMaster sales, for example, jumped by 45%.

The big vehicles are also attracting buyers with wanderlust. A couple that might otherwise seek out a larger RV can live in one fairly comfortably. Sites like Van Life (van-life.net) and Digital Nomads Forum (digitalnomadsforum.com) offer advice to those looking to use these vans for extended road trips, camping and as full-time mobile homes.

Here, an overview of the latest bigger-than-a-minivan options.

1 Nissan NV

When Nissan launched its NV passenger van in 2011, the company expected it to appeal to airports, hotels and resorts with shuttle fleets, according to Mark Namuth, Nissan's senior manager of fleet and commercial sales. "But the design team was telling us that families were going to buy this vehicle, so we needed to pay more attention to the interior," he said. Although he doubted the wisdom of investing in better seats, storage and other amenities, he's glad he relented. "They were right. We sell

about 60% to 70% of our passenger vans to families," he explained. While other large vans have flat front ends, the NV's prominent hood gives it a muscular, pickup-truck profile. The design also moves the engine and transmission forward, where they don't encroach on front-seat space. *From \$33,800, nissancommercialvehicles.com*

2 Ram ProMaster

Based on a Fiat design popular in Europe, this unabashedly boxy van is the shortest bumper-to-bumper—and the only one in this roundup with front-wheel drive. As a result, it turns tightly and parks relatively easily. The standard version is no longer than a Toyota Avalon sedan and handles pretty much like a midsize SUV. Like most of its competition, the ProMaster is available in a range of lengths and roof heights. Although it ships from the factory with up to three front seats, you can outfit this van to seat 15 via one of the many third-party ProMaster "upfitters" out there. *From \$29,995, ramtrucks.com*

3 Chevrolet Express

Though the design of the Chevrolet Express hadn't evolved in any

meaningful way for the past three decades or so, just this year, the Express leaped into the modern age with a new diesel engine—only slightly larger than that in the Mercedes Sprinter—significantly boosting fuel economy. The engine comes with an 8-speed automatic transmission (the most gears in this competitive group) for smoother acceleration and better fuel economy. Car makers aren't required to publish fuel-economy ratings for big vans, but a Chevy spokesperson said that company staffers have driven the diesel Express thousands of miles at 25 mpg and better. Not bad for a family road trip. *From \$33,140, chevrolet.com/express*

4 Mercedes-Benz Sprinter

The Sprinter was the first of the "Euro-style" commercial vans to arrive in the U.S. in the early 2000s. Delivery companies including FedEx snapped them up, despite their relatively steep sticker price, because their fuel economy made them a long-term value. Consumers soon caught on. The Sprinter is available with a four-cylinder diesel engine that might seem underpowered for such a large vehicle, but it has

plenty of kick, and the smooth-shifting 7-speed transmission gives the Sprinter surprisingly peppy acceleration. The biggest surprise: When going just under 70 mph on the highway, the Sprinter managed an impressive 28 miles per gallon. *From \$39,170, mbvans.com*

5 Ford Transit

Unlike traditional large vans and trucks, whose frames and bodies are fabricated separately and then bolted together, the Transit's are integrated, just like a traditional passenger car's chassis and body-panels. This setup stiffens the Transit's overall structure, resulting in a smoother ride and more agile handling. While the majority of Transits are used in commercial fleets, many customers buy one for personal rather than business use, according to Ford sales analyst Erich Merkle. In line with the broader trend, retail sales of the Transit, which include personal-use customers, have risen 7% so far this year. *From \$34,365, ford.com/new-commercial-trucks*

Dan Neil's Rumble Seat column will return in two weeks.

THE FIXER: MICHAEL HSU



Gadgets That Make Small Type Easier to Read

QI am afflicted with Age-Related Macular Degeneration, which impairs my ability to read. After my son observed me struggling to peruse a newspaper using a conventional, hand-held magnifying glass, he gave me a domed, crystal magnifier. It has made reading infinitely easier, although its 3-inch width doesn't quite cover the entire span of a typical newspaper column. Are there any innovations in this world? By the way, I have tried several forms of full-page sheet magnifiers with minimal success or satisfaction.

AI've come across a few products that may help. The first is the Satechi ReadMate LED Desktop Magnifier (\$25, satechi.net) shown here. It offers 5X magnification and three built-in LED lights that provide additional illumination. (The LEDs are handy, since overhead lights can cause glare when using magnifiers like these.) The ReadMate's lens measures only about 2.75 inches in diameter, but because it's elevated on a metal base, the view is wide enough to span the narrower columns of most newspapers.

Although not quite as portable, the **Jumbomag** (\$25, amazon.com) might suit your needs as well. Similar to the ReadMate, it also offers a 5X magnification and LEDs, but this model sits on top of a lightweight plastic base and is rechargeable via USB (instead of the ReadMate's coin-cell batteries). With a lens that's just under 3.25 inches, the Jumbomag is ideal for wider columns of text, since less sliding back and forth is required.

If you're looking for a more traditional product, consider the **XL Prism Magnifier** (\$65, areaware.com). Made entirely of crystal glass, this triangle-shaped magnifier measures about 4 inches at its widest point—the biggest of the bunch. Although its stated magnification level is only 1.5X, text viewed through it appears roughly the same size as the above models. The XL Prism doesn't offer a built-in light or any other bells and whistles, but it does serve as a handsome, sculptural desk accessory.

Have lifestyle problem that a gadget might solve? Email us: thefixer@wsj.com



KIERSTEN ESSENPREIS

MANSION

HOMES | MARKETS | PEOPLE | UPKEEP | VALUES | NEIGHBORHOODS | REDOS | SALES | FIXTURES | BROKERS

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THE WALL STREET JOURNAL.

If you do not expect the unexpected,
you will not find it.'

—Heraclitus

Friday - Sunday, June 23 - 25, 2017 | W9



BRONXVILLE, N.Y. Matthew Knouff, above on the right, was in London when he spotted an online listing for this Tudor-style home. His real-estate agent, Dex Lipovic, above on the left, gave him a virtual tour using FaceTime, Apple's video-calling service. Mr. Knouff bought the property for \$1.175 million and is currently renovating it as he decides whether to move in or resell.

Blind Home-Buying

It takes both confidence and trust to purchase a house sight unseen. But advances in virtual reality and other technology have taken away some of the surprises.



EAST HAMPTON, N.Y. Laurie McNally, above wearing white blouse, was at a health retreat in San Diego when her agent called about a house in East Hampton, N.Y. Ms. McNally looked at a couple of photos of the home on her cellphone and bought the property for \$870,000. 'I went on trust,' said Ms. McNally, who is pictured with her daughter, Nicole Goodman.

BY KATY MC LAUGHLIN

Fla., he got out of the car and said, "OK, let's go see the \$1.65 million house I just bought sight unseen."

It takes a confident buyer—and a trusted real-estate agent—to purchase property without a firsthand visit. Would-be buyers can always

peruse listing photos and videos online, and Google Earth offers views of the neighborhood. But to avert some of the surprises of a long-distance listing, agents are increasingly walking clients through properties via FaceTime, Skype or

Please turn to page W12

VICTORIA'S REAL-ESTATE BOOM

The housing market of this picturesque British Columbia city experiences a surge in demand, driven by buyers priced out of other Canadian locales and by those seeking a laid-back lifestyle; glassy mansions sprout on the water.



BY LEIGH KAMPING-CARDER

The picturesque city of Victoria—with its lively harbor and wooded roads—is beset with home buyers.

The capital of British Columbia, Canada's westernmost province, has long attracted Canadian retirees looking for mild weather. In the past year, however, demand has been strengthened by buyers priced out of Vancouver and other Canadian cities, and by semiretired professionals able to work remotely and who are seeking a laid-back lifestyle.

The median price of a Victoria home rose 15.5% to 587,086 Canadian dollars, or \$436,008, in the first quarter of 2017 compared with the same period last year, according to real-estate brokerage Royal LePage. Inventory has plummeted. And Victoria

HOUSE OF THE DAY
wsj.com/houseoftheday



Brooklyn
A modern home in Park Slope asks \$7.5 million



Kent, Conn.
An estate filled with a 'lifetime of tchotchkes'



Dana Point, Calif.
A \$17.5 million listing features sunset views

FOR SALE The home of Victoria native Rob McAdams sits on 16.22 acres with 840 feet of frontage on Saanich Inlet.



LAST It took Lloyd and Suzie Anderson almost two years to find this waterfront four-bedroom home.



VICTORIA'S REAL-ESTATE BOOM

Continued from page W9

luxury market, which starts around \$1.5 million, is booming. Between May 2016 and May 2017, homes sold at or above that price; before 2015 these sales hovered between 20 and 40, said Fairway's Leo Spalteholz, who writes about the Victoria market. "In single-family homes, where we have our biggest crunch, it's just no land to build anything," said Bill Ethier of Royal LePage Coast Capital Realty. Lloyd and Suzie Anderson's hunt for a waterfront equestrian property in Victoria took almost three years. After being outbid four times, Mrs. Anderson had taken to watching real-estate websites late at night. During one search, she found a listing that had gone up minutes earlier. "We flew out the next day" from Ontario, said the 68-year-old retired teacher.

The couple's roughly \$2 million bid was accepted, and in August they moved into the 6,144-square-foot, four-bedroom home. On a steep, heated driveway, the house sits amid stands of cedars and bushy rhododendrons on the Salish Channel. A back yard path zigzags down to the water, where the couple stores their kayaks out of reach of otters. Mr. Anderson offers Mr. Anderson, 56, has partly retired from his Montreal-based aircraft-equipment rental company, the space to practice yoga.

The downside: There is no land for Mrs. Anderson's horse. So after a nearly \$300,000 renovation, completed in May 2016, the couple is in fact to buy a home nearby with acreage for the horse for about \$2.15 million. Their current home is listed with Deedrie Ballard /Max Camosun for about \$3 million.

In recent years, Canadian home prices have spiked thanks to low interest rates, a stable economy and overseas investment. Governments in British Columbia and Ontario implemented a 15% foreign-



GRANT HARDER FOR THE WALL STREET JOURNAL (3)

MOVING ON Rob McAdams built this house in Victoria in 1993. Now semi-retired, he has listed it for \$5.87 million. He and wife Bette split their time between Victoria and Palm Desert, Calif., and the Canadian property is too large for them.

buyer tax to cool the markets in Vancouver and Toronto.

Victoria, a collection of 13 municipalities with a total population of 367,770, lagged behind. A concentration of modestly paid government workers kept housing prices stable, and its small-town vibe and island location kept it off the radar of international buyers.

All this has turned Victoria into a comparative bargain. Vancouver's median home price was about double Victoria's, or roughly \$876,000, in the first quarter, according to Royal LePage.

Victoria makes up a small, urban section of Vancouver Island, a 12,355-square-mile expanse of old-growth forest, mountain ranges,

remote communities and vacation spots. Biking, hiking and other outdoor activities are popular pastimes. Deer are a common sight.

Residents extol their city's friendliness, contrasting its easy-going attitude with the hustle and bustle of Vancouver.

Victoria lacks some big-city amenities like high-end shopping

and thriving nightlife. And the city is reachable only by air or boat. The Victoria International Airport has no direct flights to Europe or Asia or the eastern U.S.

The boom in Victoria real estate is visible in the glassy mansions sprouting in the coveted municipality of Oak Bay, which contains the Uplands, the city's most desirable neighborhood. On a recent drive, Jason Binab of Engel & Völkers Vancouver Island pointed out for-sale signs on stucco and shingle-style homes—likely teardowns.

Some Oak Bay residents have resisted proposals to build tall condo buildings, preferring single-family homes in a traditional setting.

"Change is slow in this particular neighborhood," said Mike Miller, president of Abstract Developments. The company is behind the first condo project approved after a seven-hour public hearing and three-hour debate—in Oak Bay since 2003. Construction is set to start in the fall on the Bowker Collection, 43 single-level townhomes and apartments with prices starting at about \$440,000.

Most of Victoria's luxury homes are located downtown near the Inner Harbour. One of the largest projects under way is Bayview Place, a nearly \$750 million mixed-use development that will ultimately have 2,000 apartments spread over 20 acres, said Ken W. Mariash Sr., founder of developer Focus Equities.

Victoria native Rob McAdams spent about \$2.23 million building his five-bedroom house in 1993 and has since invested about \$375,000 in upgrades. The house sits on 16.22 acres with 840 feet of frontage on Saanich Inlet. A totem pole stands in the great room.

Now semiretired from land development, Mr. McAdams, 75, has listed the home for about \$5.87 million with Royal LePage. He and his wife, Bette, 72, split their time between Victoria and Palm Desert, Calif., and the property is too large for them, he said.

PRIVATE PROPERTIES | CANDACE TAYLOR

Vancouver Estate Shoots for a Record \$47 Million



Vancouver—one of Canada's priciest housing markets—an estate is on the market for \$3 million Canadian dollars, or about \$47.3 million.

The home fetches its asking price, which will become the priciest home ever recorded in the area, surpassing a nearby home that sold for about \$45 million, said listing agent Christa Frosch of Sotheby's International Real Estate Canada.

Located in a sought-after area of Vancouver's West Side with views of the Pacific Ocean and nearby mountains, the European-inspired home is roughly 22,000 square feet, with five bedrooms and 12 bathrooms. The owner, Joseph Segal, said he built the house about 20 years ago and has used it for many functions over the years; the home has two kitchens and an elevator. The walls and ceilings have painted murals, and above a staircase in the basement is a chandelier that once hung in Benito Mussolini's home, Mr. Segal said.

The upper level includes a workout room and a craft room. An indoor swimming pool has an adjacent sauna, wet bar and his-and-hers bedrooms.

Mr. Segal is founder of Kingswood Capital, a venture-capital firm and real estate developer. He said he and his wife spent years acquiring art and fixtures for the home on trips all

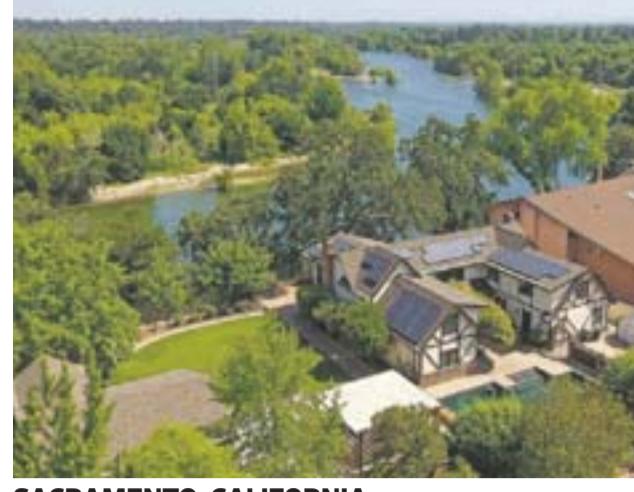
over the world.

Tiers of gardens and an orchard with plums, apples, cherries and fig trees. Each year over 12,000 tulips bloom in the garden, Ms. Frosch said.

Selling because they are downsizing to a smaller home in Vancouver. "I'm an old man," he said, and "it's a big place."

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FROM TOP: DOROTHY HONG FOR THE WALL STREET JOURNAL (2); ALEXIA FODERE FOR THE WALL STREET JOURNAL

Continued from page W9

WhatsApp, or even making custom videos. Real-estate brokerages and a crop of new technology companies are creating three-dimensional photographic and video tours, which can be viewed in virtual reality.

Mr. Smyrnios and his wife, Lisette, began searching for a home in Lighthouse Point at the beginning of the year, after deciding to relocate from Littleton, Colo., to be closer to Ms. Smyrnios's mother. They visited the area three times, viewing property with their agents, Lisa and John Wilson of Douglas Elliman Boca Raton. In April, the Smyrnioses were busy packing up their home—and Ms. Smyrnios was about to leave for a business trip—when Ms. Wilson called to tell them about a house she thought was ideal for them.

The Wilsons gave the couple a 45-minute tour of the property using Apple's video-calling service FaceTime. They held up an iPhone and narrated as the Smyrnioses directed them to parts of the house they wanted to examine further. Ms. Wilson also rode on the back of a motorbike, with Mr. Wilson driving, and FaceTimed the neighborhood for Ms. Smyrnios. The Smyrnioses researched crime statistics and other quality-of-life issues on Areavibes.com. Ms. Smyrnios's mother also went to look at the house—a visit the couple also observed via FaceTime—and gave her thumbs-up.

When they first arrived, "I liked it even more in person," said Ms. Smyrnios, a 49-year-old executive for a consulting firm.

Last summer, Laurie McNally signed a contract to buy a weekend house close to the beach in East Hampton, N.Y., paying \$870,000. Not only had Ms. McNally not seen the house, but when her real-estate agents, Chris Chapin and Raymond Lord of Douglas Elliman, called to tell her about it, she was at a mind-and-body health retreat in San Diego and lacked access to a computer. Phone use was limited to a few hours each night.

"They sent a couple of pictures and a description," which she looked at on her cellphone, said Ms. McNally, a finance executive who lives in Ardmore, Pa. Advised she needed to move quickly, "I went on trust," Ms. McNally said.

She put down a 10% deposit, customary in New York state, when she signed the contract. Had she decided she didn't like the property upon seeing it, "she could not have backed out without losing her deposit," said Mr. Lord.

"Sight unseen" offers on family homes are on the rise, according to Redfin, a national real-estate brokerage. In a survey of 1,334 recent home buyers in 11 major metropolitan markets, 33% said they had made an offer on at least one house "sight unseen." In previous surveys, Redfin found that about

WORTH THE RISK The kitchen, above, and porch, below, of Laurie McNally's weekend home in New York's Hamptons. Ms. McNally could have lost her 10% deposit had she decided she didn't like the property after seeing it firsthand, according to real-estate agent Raymond Lord.



20% of buyers said they had bid on houses they had never seen.

Agents say blind bids are more common in hot markets, as well as in places that are popular with overseas buyers.

Sotheby's International Realty adopted 3-D photography in September, and now about 10% of its listings include 3-D photo tours. About 5% of the company's 880 offices world-wide currently have virtual-reality viewing areas, where clients can view 3-D property pictures on a screen or while wearing VR headsets. In five years,

the company should have such viewing areas in every office, said John Passerini, global vice president of interactive marketing.

VirtualAPT, a Brooklyn-based technology company that launched last year, invented a robot that films virtual tours in 3-D. The robot records a real-estate agent guiding a tour of a property, as though showing it to a live person, and produces a video within 15 minutes, said chief executive Bryan Colin.

Both Mr. Passerini and Mr. Colin said the goal of such tours is to facilitate sales of real estate to people

who can't travel to see properties and to minimize time spent on a search.

Today, 3-D tours are more commonly seen on high-end listings that have larger marketing budgets. Mr. Colin's tours cost \$1 per square foot, so a 3,000-square-foot home would cost the real-estate agent \$3,000. Although viewing 3-D tours while wearing a virtual-reality headset best imitates the live experience, consumers resist putting on VR headsets, even when they are provided free, real-estate executives say. Any extra technical

steps are turnoffs to consumers. VirtualAPT tours require just clicking on a link, because Mr. Colin said wealthy real-estate buyers dislike downloading apps.

While Matthew Knouff was vacationing in Italy, his real-estate agent called to tell him about an apartment in Brooklyn's Williamsburg neighborhood that met all his criteria: It was a one-bedroom with a view, in a building with a pool and a screening room. While soaking in a pool on the Amalfi Coast, Mr. Knouff, a 37-year-old data-privacy consultant, toured the property on FaceTime with his agent, Dex Lipovic of CORE.

Upon hanging up, Mr. Lipovic shot video with his iPhone and a DJI Osmo attachment, a video stabilizer that keeps the phone steady for a better-quality video. Mr.

Knouff went into contract for \$1.125 million without ever having visited the apartment.

Last year, while Mr. Knouff was in London for work, Mr. Lipovic provided a FaceTime tour of a house in Bronxville, a community just north of Manhattan. Mr. Knouff bought the property for \$1.175 million and is currently renovating it as he decides whether to move in or resell.

Mr. Knouff thinks there's a benefit to remaining a step removed, explaining that on a brief visit to a property, a bad mood, an anomalous smell or noise or some other unimportant detail could make him dismiss a property with potential. "My bias could impact me in a negative way," said Mr. Knouff. Sight unseen "for me is the easiest way to purchase," he said.



REMOTE TOUR Angelo and Lisette Smyrnios, with their dog Remi, at their Lighthouse Point, Fla., home purchased for \$1.65 million based on FaceTime tours and a video of the neighborhood shot from the back of a motorbike.

MANSION



ARTFUL HOME Phil and Nnenna Freelon, inset below, spent around \$450,000 and nine months to complete their one-bedroom duplex. The kitchen and dining area, above.

INSIDE STORY

An Architect's Penthouse in an Unlikely Place

Phil Freelon, who led the design team for the Museum of African American History and Culture, creates an art-filled home in a former Durham, N.C., department store that once had a whites-only lunch counter

BY STEFANOS CHEN

IN 1960, in the basement of Kress department store, an Art Deco building in downtown Durham, N.C., activists staged sit-in protests at the whites-only lunch counter.

Fifty years later, African-American architect Phil Freelon and his wife, Nnenna, a six-time Grammy-nominated jazz singer, became the first owners of a newly converted apartment in the top two floors of the five-story building.

"We thought it was an interesting twist that African-Americans would own the penthouse in a building that dated back to the Jim Crow era," said Mr. Freelon, who has spent much of his career creating exhibition spaces for black culture.

Mr. Freelon, the design director at architecture firm Perkins + Will, led the design team behind the recently opened Smithsonian National Museum of African American History and Culture in Washington, D.C. His other works include the Museum of the African Diaspora

in San Francisco, Emancipation Park in Houston and his current project, a \$50 million expansion of the Motown Museum in Detroit.

The couple bought the 2,100-square-foot, two-story space—a vacant shell that in another era stored mechanical equipment in the 1930s building—for \$175,500 in 2010, records show.

The 14-unit mixed-use condo development still has the original Kress logo and ornate terra-cotta facade.

He bought the space from a developer who had intended to keep the unit, but was deterred by the awkward layout—the two floors are offset, not directly aligned on top of each other.

"We like challenges," said Mr. Freelon, 64, for whom the project marked a departure from his large-scale, modernist work. "If it's simple, it's boring."

He collaborated on the design with Durham architect Ellen Cassilly. The Freelons spent around \$450,000 and nine months to complete the one-bed-



ON VIEW The master bedroom suite with large bath, above, has French doors leading to a rooftop deck with city views, below.

room, loft-like apartment, which has a roughly 216-square-foot rooftop terrace overlooking the skyline.

Design obstacles became an advantage. The large commercial windows were unusually high off the floor, so Mr. Freelon raised the floor 18 inches, allowing him to hide ductwork and air systems below the floor and bring the windows to eye level. A structural beam in the center of the floor-plan was used to create distinct quadrants on the main level: kitchen, dining, living and music, where Mrs.

Freelon, 60, plays her baby grand piano.

A favorite piece of art is a harbor scene from Gloucester, Mass., painted by his grandfather, Allan Freelon Sr.

"It's a lovely space to create music," said Mrs. Freelon.

The foyer leads to an open floorplan with red-oak flooring, 9-foot concrete ceilings, and track lighting to showcase the family's collection of mostly African-American art. One of Mr. Freelon's favorites, an impressionist harbor scene from Gloucester, Mass., was painted by his grandfather, Allan Freelon Sr., a noted Harlem Renaissance artist. For a "little bit of funkiness," Mr. Freelon said they built a curved pumpkin-orange wall that outlines the kitchen and adds color.

A central staircase is

lighted by a large clerestory window that brightens both levels. Alcoves in the walls of the stairwell display traditional sculptures from West Africa.

Upstairs, the only bedroom, a spacious suite with 11-foot ceilings, opens onto the rooftop deck, with sturdy blue-oat-grass planters that can withstand Durham's dry heat. A television is hidden in the adjacent study, where Mrs. Freelon creates collage and multimedia art. (Rather than watch TV in the bedroom, they stream music by the likes of Ella Fitzgerald or Pat Metheny on their built-in sound system.)

The couple, who have been married for 37 years and have three adult children, used to live in a 6,000-square-foot Georgian Colonial nearby. They are now wrapping up a modernist lake house about 20 minutes from town, where they plan to split their time.

Their plans were complicated last year when Mr. Freelon was diagnosed with Amyotrophic Lateral Sclerosis (ALS), a disease that affects muscle control and mobility. "It's relevant to everything I do now," said Mr. Freelon, who launched the Freelon Fund to support research on the disease.

The couple's two-story penthouse can be retrofitted with a glass elevator, he said, and their lake house was designed with mobility and ease of access in mind from the start.

He finds some poignancy in how his work remains the same. "I've always been focused on accessibility and providing equal access to everyone," he said.



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KRESS BUILDING Traditional West African sculptures in granite and wood are displayed in the stairwell, above.

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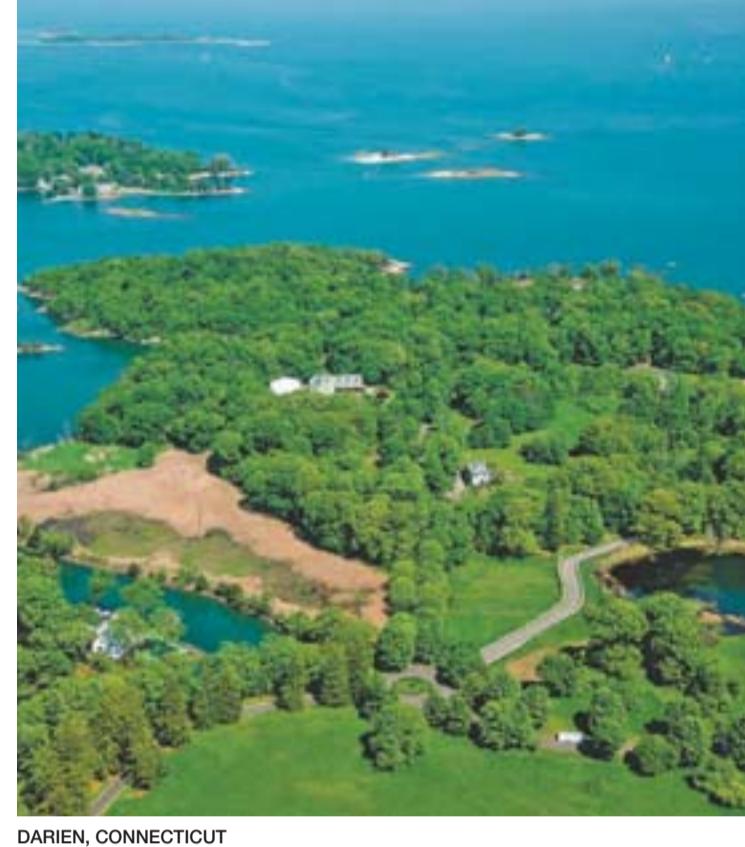
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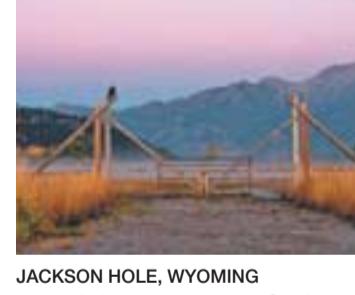
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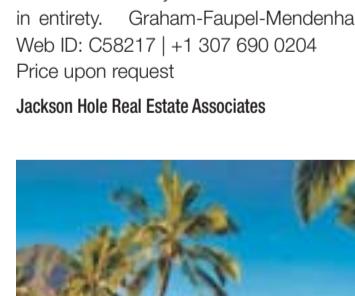
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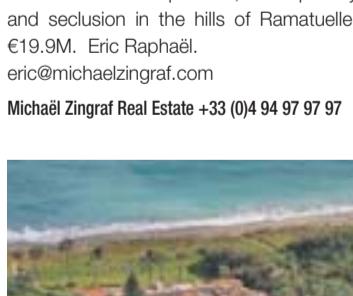
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