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What's News

Business & Finance

GE said Immelt will step aside as CEO on Aug. 1, ending a 16-year run atop the conglomerate, and will be succeeded by 30-year veteran John Flannery. **A1**

Fujifilm said losses from accounting irregularities in New Zealand were much larger than first thought. **B1**

Uber will name Nestlé executive Wan Ling Martello to its board as the company grapples with an intensifying leadership crisis. **B1**

Sharp sued Hisense Electric, accusing the firm of putting the Sharp name on poor-quality TVs and of deceptive advertising. **B4**

U.S. sales of prostate-cancer drugs have dropped sharply since the start of a probe into charities that help patients pay for them. **B3**

Lotte plans to offer shares in its petrochemical unit in Malaysia that could put the IPO's total value at \$1.39 billion. **B7**

Microsoft said its Xbox One X will go on sale Nov. 7 for \$499, about \$100 more than Sony's high-end PlayStation 4 Pro. **B4**

China's passenger-car market is suffering a lean spell, with sales falling for the second month in a row in May as higher taxes hurt. **B3**

Jaguar Land Rover invested \$25 million in Lyft, the latest auto company to pair with the ride-hailing firm. **B4**

World-Wide

Sessions will testify at a public hearing before the Senate Intelligence Committee, which is investigating Russian meddling in the 2016 election. **A6**

The Army has commissioned a study to determine whether an anesthetic injection to the neck alleviates symptoms of PTSD. A1

Police detained hundreds of anticorruption protesters across Russia, including opposition leader Alexei Navalny. **A5**

Mixed messages and a lack of details have led to confusion over when exactly Congress needs to lift the debt ceiling. **A6**

Medicare erroneously paid an estimated \$729 million under an initiative designed to shift health-care records to computer files. **A6**

Several donors are pledging \$790 million to vaccinate millions of children in hopes of eradicating polio by 2020. **A5**

A man sentenced to death in Pakistan on charges of committing blasphemy on Facebook plans to appeal the conviction. **A5**

Obesity now affects 1 in 10 people in the world, and in many countries it is increasing faster in children than adults, according to a new study. **A6**

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WORLD NEWS

What the U.K. Election Means in America



CAPITAL JOURNAL

By Gerald F. Seib

As Britain's Conservatives sift through the rubble of their electoral disaster last week, a question with compelling relevance in Washington now arises:

Young voters upended the status quo in Britain. Could they do it in the U.S.?

Multiple forces were at work, of course, in the stunning outcome of the British election, which cost Prime Minister Theresa May and her Conservative Party their majority in Parliament. An uninspiring campaign, terrorism, second thoughts about the decision to exit from the European Union, even the downsides of the prime minister's attachment to the American president—all were factors.

But the decisive one may have been a surge of support for the opposition Labour Party among young voters. A postelection analysis by the Financial Times found that

young voters backed Labour over the Conservatives by 51 points more than the national average. By contrast, voters over the age of 65 backed the Conservatives by 32 points more than the national average.

That is a stunning generation gap—and a far wider one than seen just a few years ago. "Over the course of seven years, the partisan age gap has rocked from 14 points to 83," the Financial Times wrote.

Those young voters propelled Labour leader Jeremy Corbyn, the trans-Atlantic version of Sen. Bernie Sanders, to his unexpectedly strong challenge to Mrs. May. This all represented a considerable turnaround from just 12 months ago, when young voters' failure to show up in such numbers was a significant factor in the vote in favor of Brexit, the departure from the EU.

"For many of Corbyn's supporters, this was the anti-Brexit election," writes Richard V. Reeves of the Brookings Institution in his postelection analysis. "Older voters voted overwhelmingly to leave the EU, while many pro-European youngsters stayed home. This time, they turned out. Seats with high numbers of young voters, including many college towns, swung strongly towards Labour."

Indeed, an exit poll by NME, a music-news organi-



Labour leader Jeremy Corbyn, shown in London last week, is the U.K.'s version of Sen. Bernie Sanders.

zation, indicated that turnout among those aged 18 through 24 rose 12 percentage points over the last general election two years ago. Two-thirds of those young voters went for Labour.

Such findings are cause for concern for America's own conservative party, the Republicans, who face signs they could be confronting a similar wave among young voters. Democrats, in turn, will be heartened—though the story also carries cautionary notes for them.

The election of Republican President Donald Trump—brought about in part because young voters under-

performed in key areas for Democrat Hillary Clinton—has prompted a surge of anti-Trump sentiment among young voters, as well as a rise in activism.

In the most recent Wall Street Journal/NBC News poll, just 26% of those aged 18 through 34 said they approved of the job Mr. Trump is doing, while 64% said they disapproved. That 38-point gap between approval and disapproval stands in stark contrast to the findings among voters aged 50 to 64, where Trump approval essentially matched disapproval, and

with voters aged 65 and above, where approval slightly topped disapproval.

Moreover, there are signs that this Trump disapproval is spilling over into the Republican Party more broadly. The Pew Research Center tracked the party affiliation of voters from December 2015 through March of this year, and found that 23% of voters aged 18 through 29 who originally identified as Republicans or leaned Republican had defected to the Democrats.

Anecdotal evidence shows this move toward the Democrats is accompanied by stronger activism among

young voters. State and local meetings of both the Democratic Party and Our Revolution, the organization formed to absorb last year's Sanders supporters, are filled with boisterous young activists of the left.

Significant parts of that youth movement have little to no use for the Democratic Party establishment, and some actually would prefer breaking out on their own. The divide was on full display over the weekend, when Mr. Sanders told a boisterous rally in Chicago: "The current model and the current strategy of the Democratic Party is an absolute failure."

But therein also lies a warning for Democrats. The surge in activism by young voters is fueled not merely by anti-Trump sentiment but by a drive to push the party to the left. That almost certainly isn't a formula for picking off some swing congressional districts within their grasp, such as the one to be filled in a special election for an open House seat in Georgia on June 20.

In such districts, the key for Democrats is winning over centrists who may lean Republican but are turned off by Mr. Trump. As that suggests, young-voter fervor is a good thing for Democrats overall—but not necessarily everywhere.

GE

Continued from Page One

the financial crisis. The stock has rebounded off its lows but lagged behind the returns of the S&P 500. Over all, GE shares have fallen about 30% since he took over in 2001.

The conglomerate has refocused on its industrial businesses, shedding low-margin units like home appliances and striking a big oil-and-gas deal with Baker Hughes Inc. last fall. GE said the leadership change has been in the works for years, with the board deciding on the timing in 2013 and voting Mr. Flannery as CEO Friday. Last month, Mr. Immelt told analysts the board had been working on succession plans but didn't indicate a decision was imminent.

"We've got a disciplined process. And I think we've got it well on track," Mr. Immelt said at an investor conference.

GE shares rose 3.8% to \$29 in morning trading. Shares are down more than 8% so far this year.

The succession planning, which included external candidates, was narrowed to four internal candidates in about 2015: Mr. Flannery, finance chief Jeff Bornstein, the head of the power business Steve Bolze, and the head of the oil and gas business Lorenzo Sironielli.

Throughout 2016, those four were interviewed and increasingly given public exposure and investor interviews and by the end of the year, the timing and process for the change was set up, according to a person familiar with the matter.

Mr. Immelt felt the portfo-

lio work he had been concentrating on would be nearing the right time this summer, this person said.

Mr. Immelt and the board would have rather had a share price in the \$30 or higher range for the change, but the timing wasn't influenced by investor pressure, according to this person.

GE directors made their final decision about Mr. Flannery during a regularly scheduled board meeting Friday at its Boston headquarters, according to another person familiar with the matter.



Jeff Immelt last year

Trian had "zero" impact on the process, this person said. Even the date of last Friday's board meeting was scheduled "years in advance," this person said.

The three runner ups "didn't know they didn't get it" until after Friday's board meeting ended, this person added.

Board members are hopeful that those will stay though it is unclear whether that will happen, this person said.

Mr. Flannery will review the businesses and doesn't come into the job with any sacred

cows, but no major changes are anticipated at this time, the person said. There is no mandate to shake up the portfolio.

Mr. Flannery is the former head of GE's India business and former leader of its deals team. On Mr. Flannery's watch, GE spun off its consumer credit business, Synchrony Financial, sold its appliance business, and purchased of the energy business of Alstom SA.

He stepped in to lead the health-care business in 2014 when the unit was struggling and some analysts called for GE to spin it off or sell it. Instead, Mr. Flannery and GE have doubled down. The unit, which makes imaging and diagnostic equipment, has been expanding into life sciences. GE Healthcare's revenue rose to \$18.29 billion in 2016, back to levels it sustained in the beginning of the decade, while increasing operating profit.

Mr. Flannery was one of several business units heads that were seen as potential successors.

Mr. Immelt had told people close to him for years that he didn't want to repeat the divisive and protracted succession process that put him in the top job when he took over from Mr. Welch. Instead, he wanted his eventual departure to be quick and seamless.

Mr. Bornstein will remain chief financial officer and become vice chairman, GE said.

Mr. Flannery will take over as chairman of the board next year.

The new CEO will be focused on cash-flow management and shareholder value and will work closely with Mr. Bornstein on costs, one of the people familiar with the matter said.

Like Mr. Immelt, he is a devoted Allman Brothers fan going to some of the rock group's final concerts. He is a voracious reader of fiction and nonfiction by authors including Atul Gawande and J.D. Vance.

He started working abroad for GE Capital in 1997 in Latin America and moved to Asia in 2005. He took a risk in 2009 by moving to India where he ran the company's first separate profit-and-loss statement for a country.

After leaving India, he joined GE's corporate headquarters team in 2013 where he ran mergers and acquisitions. On Mr. Flannery's watch as head of GE's mergers and acquisitions team, he led the spinoff of its consumer credit business, Synchrony Financial.

—Joann S. Lublin
and Kate Linebaugh

moved to West Hartford, Conn., where his father was president of a small bank. He graduated from Fairfield University before going to business school at the University of Pennsylvania.

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and Kate Linebaugh

BROKER

Continued from Page One

Brokers are a key part of a mortgage chain that starts with a borrower going to a broker for a loan. The broker surveys lenders for the best loan to fit the customer. The lender then funds the borrower's loan.

While brokers before the crisis served banks and independent lenders, today they are working largely for nonbank lenders who make up a critical part of the mortgage market.

In the first quarter, nonbank lenders accounted for about half of the mortgages originated in the U.S., according to industry publication Inside Mortgage Finance.

The subprime going has been tough, though. In the first quarter, nearly a decade after the start of the housing crisis, lenders originated just \$6 billion in loans to borrowers with less than stellar credit scores or who are using alternative documentation to prove income, a category now known as "nonprime," according to Inside Mortgage Finance.

In all of 2016, they originated \$22 billion in loans, according to Inside Mortgage Finance. Back in 2005, at the peak for such loans, lenders made about \$1 trillion of these mortgages.

Meanwhile, the volume of loans produced by mortgage brokers dropped to \$37 billion in this year's first quarter, down about 34% from the last three months of 2016. Loans from brokers peaked at around \$1.1 trillion in 2003.

Lenders say there is an untapped market among borrowers with good credit scores such as self-employed workers who don't have proper income documentation, or for responsibly made loans to borrowers with credit problems that have had bankruptcies in the past or had to sell their home for less than it was worth.

If they are successful in recruiting brokers, lenders believe the market potential for both types of loans could reach \$200 billion annually.

A big hurdle: finding the right kind of brokers and instructing them in the lost art of making a subprime loan. Some are returning to the industry for the first time since the crisis. Others like Mr. Boyd have never been in it.

"I knew a mortgage was a loan for a house," said Mr. Boyd, who was recruited by his boss, Jon Maddux, after selling him a Calvin Klein suit at a local outdoor mall. "I came in just a blank slate."

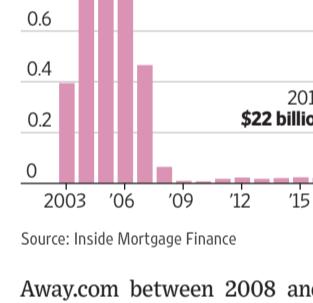
Before he co-founded Drop Mortgage, the parent company of FundLoans, in 2014, Mr. Maddux ran the website YouWalk-

Starting Over

Nonprime mortgages, and those originated by brokers, have plummeted since the financial crisis.

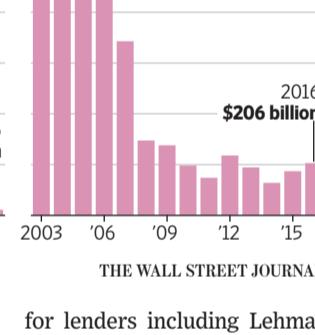
Nonprime mortgage originations

\$1.2 trillion



Source: Inside Mortgage Finance

Broker mortgage originations



for lenders including Lehman Brothers Holdings Inc., and laughs when asked about the difference between the precrisis lending period and today.

"Back then, we saw a lot of fraud with wages and earnings and bank statements," he said.

Today, every loan file "is manually reviewed and underwritten by our company."

Mortgage brokers have become so scarce that the industry's trade group last year launched a grant program for the first time to help loan salesmen get back into the business—or enter it for the first time. The group, NAMB, the Association of Mortgage Professionals, has been overwhelmed with interest and has made 30 grants to brokers over the past six months, said Rocke Andrews, head of the program.

Subprime mortgages are typically made to borrowers with a credit score of around 660 or lower, at interest rates ranging from 6% to 10%. Alternative documentation loans, or Alt-A loans, are made to borrowers with higher scores but who use bank statements or other less conventional ways to prove their income.

Steve Arnold, an account executive at Angel Oak Mortgage Solutions, one of the largest nonprime lenders, said he is on the phone almost nonstop from 8:30 a.m. to 6 p.m. every day except Sunday coaching brokers on how to make nonprime loans.

Recently, Mr. Arnold said, a broker called with a client who had a credit score of 620 and had sold his prior house in a sale that didn't generate enough funds to cover the mortgage. But the person had stellar income and was paying his rent on time.

The broker didn't know how to make a loan possible.

"A lot of [the brokers] are timid and scared and don't know where to start with the nonprime type loans," said Mr. Arnold, who is based in West Palm Beach, Fla.

Mr. Arnold made subprime loans between 2003 and 2007.

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WORLD NEWS

U.S. Presses China on North Korea Trade

Administration asks Beijing to curb deals by about 10 entities, weighs sanctions

The Trump administration has asked Beijing to take action against around 10 Chinese companies and individuals to curb their trading with North

By Jay Solomon in Washington and Jeremy Page in Dandong, China

Korea, according to senior U.S. officials, as part of a strategy to decapitate the key networks that support Pyongyang's nuclear-weapons program.

Although there is no firm deadline, the U.S. has indicated the Treasury Department could impose unilateral sanctions on some of these entities before the end of the summer if Beijing doesn't act, the U.S. officials said.

Without such action, U.S. officials fear that Pyongyang, which has conducted nine missile tests since President Donald Trump took office, would be able to develop a missile capable of carrying a nuclear warhead as far as the continental U.S. within a few years.

The U.S. officials declined to name the entities being targeted.

But several Chinese entities of concern are identified in a report to be released Monday by a Washington-based nonpartisan research group, C4ADS, which works to expose illicit trading networks. Those identified in the report include a Chinese businessman and his sister said to be connected to a ship intercepted by Egypt last year while smuggling 30,000 North Korean rocket-propelled grenades.

U.S. officials say the report reflects part of its strategy toward North Korea.

While thousands of Chinese firms trade with North Korea, many are interconnected through parent companies or shared ownership, according to U.S. officials and C4ADS, which previously helped the Obama administration identify sanctions targets. That means shutting down even a handful of these connected networks would make it harder for North Korean leader Kim Jong Un to finance and supply his nuclear program, current and former U.S. officials said.

Pyongyang conducts roughly 90% of its recorded foreign trade through China, according to Chinese trade data.

"We've told the Chinese we hope they'll act against certain companies and people," said a senior U.S. official briefed on North Korea policy. "But we've



A North Korean soldier walks near Sinuiju, opposite the Chinese border city of Dandong. Below, Chinese tourists try to catch a glimpse of North Korean soldiers from a boat near Sinuiju.



also said that we're prepared to act alone and can reach North Korea if we choose."

China's foreign ministry didn't immediately respond to a request for comment.

Beijing has said repeatedly that while it implements United Nations sanctions on North Korea, it is opposed to unilateral action and favors a negotiated solution. U.S. sanctions on North Korea target virtually the nation's entire economy; U.N. sanctions are less stringent and still allow for significant nonmilitary trade.

Mr. Trump first asked Chinese President Xi Jinping to crack down on North Korean trade during a summit at the president's Florida resort in April, U.S. officials said. It remains unclear whether Beijing will take action against the

Chinese companies of concern to the U.S.

C4ADS said Chinese corporate and trade records show 5,233 local companies traded with North Korea between 2013 and 2016. Many of them share Chinese owners, addresses or other identifying features, it said.

"You need to deny these networks access to Chinese markets and more broadly the international financial system," said David Thompson, author of the C4ADS report.

While noting that much of China's trade with North Korea is legal, the report identified several Chinese companies exporting potential "dual use" items that could be used either for civilian purposes or in North Korea's missile programs.

Among the key players it

identified was Sun Sidong, a businessman in the northeastern Chinese city of Dandong. Relatives identified one of his business partners as his elder sister, Sun Sihong, and Chinese corporate records show them using the same address.

C4ADS said the pair were connected to a ship that U.N. sanctions experts say was seized near the Suez Canal last year while illegally transporting the North Korean rocket-propelled grenades hidden under iron ore.

That ship—the Jie Shun—was owned at the time by a Hong Kong-based company controlled by Sun Sihong and had previously been owned by Sun Sidong via another Hong Kong company, according to the Equasis shipping database and Hong Kong corporate records.

Ms. Sun declined to comment.

Another of Mr. Sun's companies, Dandong Dongyuan Industrial Co., exported \$28.5 million of goods to North Korea—including trucks, machinery and electrical goods—between 2013 and 2016, according to Chinese customs data provided by a U.S.-based firm, Panjiva.

C4ADS said Dandong Dongyuan was the biggest exporter of potential "dual use" items in its sample and that last year they included navigational apparatus in a category that could be used in vehicles or in ballistic missile guidance systems.

"Once charted, not only do links between top firms become more apparent, but it becomes much more apparent that a very small number of key executives control a disproportionate share of the trade," said C4ADS.

Mr. Sun agreed to meet a Wall Street Journal reporter in Dandong, but soon afterward a dozen of his staff pulled over the reporter's taxi, boxed it in with their vehicles and called local police, who briefly detained the reporter.

Mr. Sun and his staff then came to the police station and answered a few questions in the presence of several officers before leaving with his entourage. He denied doing any trade with North Korea or having any knowledge of the Jie Shun.

But he acknowledged hav-

ing a business in the U.S. called Dongyuan Enterprise USA, which is based in Queens in New York City. He declined to answer further questions.

C4ADS said the U.S. business could "provide him the ability to register for business services within the U.S., including sending or receiving shipments, establishing bank accounts, or applying for employment visas."

Dandong Dongyuan reported that it was exporting to North Korea in corporate filings from 2010 on but removed the reference in November 2016. From 2011 to 2016, it had approval to export trucks and in 2015 it was allowed to join a trade exhibition in Pyongyang, according to Chinese government notices.

The Trump administration has been seeking in recent months to increase economic pressure on North Korea beyond just China, senior U.S. officials said. This has included dispatching top diplomats on missions to Europe, the Middle East, Southeast Asia, and Africa, all places where the North Koreans have conducted trade.

"When countries are under extended sanctions...they look for the cracks and seams," said a senior U.S. diplomat involved in North Korea policy. "So everything goes to unlikely spots in the world where they are less likely to be tracked down."

—Kersten Zhang in Beijing contributed to this article.

The advertisement features a Breitling Avenger Hurricane watch with a black dial and a dark strap. The dial has large, bold numbers and sub-dials. The brand logo, a stylized bird, is prominently displayed above the word "BREITLING". The text "INSTRUMENTS FOR PROFESSIONALS™" is also present. The background is dark with the words "AVIENGER" and "HURRICANE" in large, metallic letters.

AVIENGER
★
HURRICANE

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

WORLD NEWS

Indian Businesses Face Taxing Transition

By CORINNE ABRAMS
AND DEBIPRASAD NAYAK

MUMBAI—India is bracing for a dramatic but risky overhaul of the country's tax system that authorities hope will draw millions of businesses into their tax net and boost the economy.

The initiative, set to kick off on July 1, aims to streamline India's cumbersome network of state and federal levies and ease commerce across state borders.

It is a big part of a larger effort, including the cancellation of large-denominated currencies last year, to improve tax collection from companies that make up India's huge informal economy. Some estimate the new system will add nearly 1 percentage point to India's growth in gross domestic product within a few years.

But the risks could drag on short-term economic growth, experts say. Among the hurdles are getting millions of companies to register, educating them on how to file online, poor internet connections and widespread tax avoidance. The design of the new nationwide Goods and Services Tax—which replaces a value-added tax and other levies—also is more complex than many expected.

A chaotic rollout could roil an economy still hobbled by a cash shortage caused by the elimination of the bank notes in November.

"This is one of the biggest changes we have undertaken since independence," said Neelkanth Mishra, India equity analyst at Credit Suisse.

The government says it will implement the tax on schedule, simplifying the tax structure and lifting the economy.

India ranks 172nd out of 190 countries in the World Bank's ease-of-paying-taxes index. It has one of the worst tax-to-GDP ratios in the world, at 16.6%, compared with an OECD average of 34%. That deprives the government of revenue for much-needed improvements to education, health care, sanitation, infrastructure and other



DEBJANI CHATTERJEE/NURPHOTO/ZUMA PRESS

Workers posted an advertising billboard in Kolkata this month. Ad agencies and other firms are bracing for a complex new tax regime.

state priorities.

The new tax has already registered 80% of the 7 million current VAT business payers, the government says, and it hopes to bring in most of the rest. The challenge, experts say, will be registering millions of other small and mid-size enterprises in India that aren't registered.

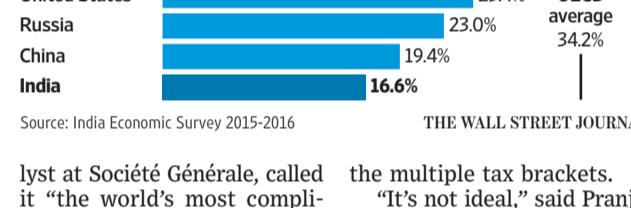
Among the more than 160 countries that use a value-added tax, India's is among the most complex. It has four tax brackets, exemptions for products like petroleum and additional levies on luxury goods. It will split revenue between states and the central government. The rules are the result of years of wrangling between political parties, states and central government in the world's biggest democracy, a country of 1.2 billion people.

Kunal Kumar Kundu, ana-

Digging Deeper

India has one of the lowest tax-to-GDP ratios in the world. Policy makers hope a new goods-and-services tax could help change that.

Tax-to-GDP levels



Source: India Economic Survey 2015-2016

THE WALL STREET JOURNAL.

lyst at Société Générale, called it "the world's most complicated VAT framework," saying that compliance will likely be burdensome, particularly for small businesses.

HSBC initially projected that the system would add 0.8% to India's GDP growth but halved its projection after the government announced

the multiple tax brackets.

"It's not ideal," said Pranjul Bhandari, HSBC's chief economist for India.

The new system requires most businesses with annual revenue above 2 million rupees (\$31,000) to upload their invoices every month to a portal that will need to be stable enough to accept bil-

lions of documents.

"I don't know whether [policy makers] know the complications in a small trade," said Biju John, a rubber dealer in the southern state of Kerala. "We are in rural areas, where internet connectivity is poor."

Businesses' invoices will be matched with those of their suppliers or vendors, who must provide their tax number before they can claim a credit.

Analysts commend the use of peer pressure to make businesses comply.

"The government has made you the tax collector," Uday Pimprikar, a partner at Ernst & Young who specializes in indirect taxation, told a seminar hall packed with business owners and accountants in Mumbai this month.

At scenes like this playing out across the country, merchants anxiously ask questions and voice hopes the govern-

ment will delay implementation.

Many businesses say they are still awaiting guidance on how the new tax will work.

"There are no clear insights given on how to process it," said Parag Malde, owner of Jupiter Impex, a textile company in Mumbai.

As the registration deadline looms, some businesses say they plan to stop taking orders while the tax is implemented. Others say they will wait to see what happens.

"Even our accountants are clueless on how to comply with the rules," said Naresh Patel, owner of R&D Plastics in the western city of Ahmedabad. "It will likely be a painful transition for us."

Ankit Tanna, director of Mumbai-based printing company Printmann group, said his company sent three reminders to suppliers to register.

"We told them: 'If by June 15 we do not have a [tax] number from you, we will be discontinuing our orders.'

Two of his staff have helped vendors register. "A teacher can only teach, ultimately," but it is up to them to comply, Mr. Tanna said.

Once in place, the system will create a single market, potentially allowing global companies like Unilever, Amazon and Nestlé to consolidate operations.

Wal-Mart India this month said it was setting up a new tax helpline for the mom-and-pop shops that buy goods from its wholesaling business.

The company said it wanted to help all its partners make a smooth transition to the new system.

Amazon said it was conducting tax webinars for sellers and had produced written and video guides for them.

But few expect implementation to be easy.

"India is trying to attempt what some of the leading economies do not have," said Abhay Laijwala, head of India equities research for Deutsche Bank. "Even the United States does not have" such a system.

Beijing Presses Web Censors to Toe Party Line

BY JOSH CHIN AND EVA DOU

BELIJING—The Chinese Communist Party's powerful disciplinary wing is taking aim at the country's internet censors for not pushing a party-line agenda, saying they were "irresolute" in implementing the policies of President Xi Jinping and "not trying hard enough to ensure political security."

The rebuke, published on Sunday by the Central Commission for Discipline Inspection, may shed light on censors' surprise shuttering last week of dozens of Chinese celebrity news and gossip sites—an area previously considered safe from government scrutiny.

The commission's new report, taken together with last week's action, is also another sign that the Communist Party under Mr. Xi is moving to reclaim ideological authority it surrendered after Mao Zedong's death, analysts said.

"The old Communist ideology is coming back," said Qiao Mu, a Beijing-based media scholar and prominent critic of government censorship. "Communism doesn't like entertainment and gossip; it wants politics and class warfare."

The discipline inspection commission's report targeted the Cyberspace Administration of China, which is in charge of regulating internet content, and had been in the works for months. Analysts say the Cyberspace Administration was likely aware of its findings before taking action last week to shut down at least 90 social-media accounts run by celebrity news and gossip sites.

Among the closed sites was the Weibo social-media account of China's self-proclaimed "No. 1 Paparazzo," Zhou Wei, who had amassed more than 7 million followers by publishing salacious stories about Chinese celebrities.

In meetings last week, au-

Protests Swell Over China Housing

Protests against Chinese property controls have grown in intensity in recent weeks, underscoring the challenge for the government in preventing public eruptions of anger as it cracks down on housing speculation.

By Dominique Fong in Beijing and James T. Areddy in Shanghai

In response to skyrocketing home prices, governments in China's big cities have set limits on the buying of multiple homes and higher down-payment ratios, which has left many unable to sell their homes and others worried they won't be able to buy in before prices rise further.

Protests over the new rules started in early May. In the latest and largest breakout, hundreds of people marched down a busy Shanghai shopping street this weekend.

Snapshots of the Shanghai protest quickly whirled through mobile-messaging app WeChat, showing scenes of protesters clashing with police and some being dragged away. In videos set against bright neon lights and in drizzly rain, the shrieks of whistles were heard as fists pumped and the crowd chanted demands that the city loosen restrictions.

"So far, no Shanghai leader has come out to speak to us," said Li Pinger, a 40-year-old IT contractor at a local university who took part in Saturday's protest.

Ms. Li said she has been unable to move into an apartment she bought last year at a hotel project in Shanghai's Qingpu District after the Shanghai government in May banned the sale of apartments built on land for commercial or office use and directed developers to convert thousands of units back to fit those purposes.

Ms. Li put up half of the 580,000 yuan (about \$85,000) for her apartment and took out a mortgage for the rest. Now, she feels trapped, she said: "I'm really angry."

In one office building far from the city center, occupants of the "offices" have



New apartment buildings soar over an older structure in Shanghai's Guangfuli neighborhood.

built kitchens, showers and in one case, a loft sleeping area—all in defiance of a notice saying décor is limited to office functions.

The developer, Shanghai Tongying Real Estate Co., has proposed refunds or compensation for those who want to pull out since Shanghai issued restrictions, according to a statement it published online. Some residents said leaving would require moving even farther out of town.

Shanghai's government had no official response to Saturday's protest. In a statement released late Monday, a local housing bureau suggested a softening of policies applied to developers and buyers, though it stopped short of explicitly saying commercially-zoned units could be permitted for use as residences.

It is unclear how many people have been detained by police in Shanghai; some WeChat users say their friends have been held since Saturday. Other WeChat users in Beijing and Shanghai say police have come to their homes to ask them to go "drink tea," a euphemism for an interrogation.

Shanghai's police department didn't respond to calls or a fax for comment.

Public displays of discon-

tent in China's largest cities is an especially delicate matter ahead of a Communist Party leadership shuffle this fall and protest coverage and policy criticism have been largely removed from social media.

Disgruntled residents have flocked to WeChat, venting frustrations and sharing personal grievances as well as rallying each other to hit the streets. One message shared widely on WeChat groups highlighted the sense of shared purpose that protesters in Shanghai felt with those protesting restrictions in the capital.

"We're just following in the steps of Beijing," said the anonymous poster. "We have been awakened and are standing up."

Beijing banned people from buying or selling commercial-use apartments in late March. Some buyers had seen these homes as a good option because they were generally cheaper and rules to buy them had been looser than for ordinary homes, making it easier for people without local residency to buy them.

Mr. Han is trying to get the sale of his apartment back on track. For now, "any conclusion has been put off," he said.

Suddenly, a police van rolled out. "You must leave immediately," a loudspeaker boomed. People quickly scattered.

Beijing's housing authority said in late May that it would allow apartments that were bought before March 26 to be listed and sold, an apparent loosening of the previous blanket ban on the sale of them.

Mr. Han is trying to get the sale of his apartment back on track. For now, "any conclusion has been put off," he said.

—Junya Qian in Shanghai contributed to this article

thorities told the country's top web portals, video-streaming sites and social-media platforms that the accounts were being shut down to comply with privacy protections in the country's new cybersecurity law, the Cyberspace Administration's Beijing and Guangzhou branches said.

The regulators also encouraged the platforms to do more to promote the spread of "core socialist values" online.

The Cyberspace Administration and Central Commission for Discipline Inspection didn't reply to requests for comment.

If sustained, the crackdown on entertainment news would mark a dramatic reorientation of China's censorship machinery, which has previously ignored entertainment while grinding away at independent news reporting and expressions of political dissent.

Weibo, which hosted several of the closed accounts, is a vivid example. The platform was left for dead by many analysts after a crackdown in 2013 silenced influential users seen as critical of the government, but it revived itself with a focus on entertainment and is now bigger than Twitter with 340 million active users.

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

Squeezing celebrity gossip and entertainment news threatens to deprive the government of a useful diversion at a time of slowing economic growth and increasing social anxiety, media scholars said.

Clamping down on gossip raises the specter of a wider crackdown on entertainment. That could threaten an industry that has been a bright spot for the Chinese economy, as well as for media companies in the U.S. and elsewhere.

—Wayne Ma and Lilian Lin contributed to this article.

WORLD NEWS

Police Hold Hundreds in Russia Rally

By JAMES MARSON

MOSCOW—Police on Monday detained hundreds of anti-corruption protesters across Russia, including opposition leader Alexei Navalny, who is hoping to harness a surprise surge in rallies against the Kremlin to challenge President Vladimir Putin in elections next year.

The protests in cities across Russia—from Vladivostok in the east to Norilsk in the Arctic—were the first since the largest anti-Kremlin demonstrations in five years in March.

Riot police in Moscow dragged protesters out of a crowd carrying Russian flags and shouting “Russia without Putin!” in chaotic scenes one of the capital’s main streets, as the unsanctioned protest mixed with official celebrations of Russia Day. More than 100 people were detained in both Moscow and St. Petersburg, according to monitor OVD-Info.

Mr. Navalny, a 41-year-old anticorruption blogger, has energized Russia’s weak and di-

vided opposition with videos and blog posts that expose what he calls egregious examples of corruption at the top levels of the Russian state.

He has spread his campaign for the presidency to cities across Russia in recent months, even though a conviction for embezzlement, which he calls politically motivated, may prevent him from running, and opinion polls show overwhelming support for 17-year Kremlin incumbent Mr. Putin.

Police detained Mr. Navalny on Monday near the entrance to his home, his wife said in a message on his Twitter.

Mr. Navalny had received permission to stage a rally in Moscow, but he said on Sunday he was switching the venue to the capital’s main drag near the Kremlin, blaming authorities for pressuring companies into not providing equipment for a stage at the agreed venue.

The General Prosecutor’s Office said that a protest in the new location would be illegal, and warned that police would take measures to prevent disorder. Mr. Navalny will



Riot police detained a man on Tuesday during an anticorruption protest organized by opposition leader Alexei Navalny in Moscow.

face misdemeanor charges for calling for the protest and disobeying a police officer’s order, police told Interfax news agency, which could land him a fine and 15 days in jail.

Members of Mr. Navalny’s Anti-Corruption Foundation, which uses the internet to appeal to young voters, said electricity at their office was cut and their streaming video stopped, before they moved to a backup that worked.

Authorities had warned that

people carrying placards or who appeared to be protesting would be arrested. But thousands, many of them in their late teens and twenties, still came to Tverskaya Street in Moscow, where they swarmed around metal detectors that police had set up for Russia Day celebrations.

People re-enacting events from Russia’s history, including men in metal helmets and chain mail wielding wooden shields, mixed with crowds

shouting, “We’re in charge!” and “Putin’s a thief!” Police tried to hold protesters back at certain points, beating some with batons and dragging others from the crowd to waiting police vans.

The geographical spread of the protests, including cities in Russia’s far east, Siberia and Arctic north, represents rare progress for the opposition movement in tapping discontent outside Moscow and St. Petersburg.

Numbers varied from city to city from dozens to hundreds to thousands. Russian state television largely ignored the demonstrations, instead covering official events including sports competitions, musical performances and the unfurling of a huge Russian flag by service members from the Ministry of Emergency Situations and children in red berets from a government-backed youth military group called Yunarmiya.

Party Members Grill U.K.’s May After Vote Setback

By JENNY GROSS
AND JASON DOUGLAS

LONDON—Prime Minister Theresa May on Monday faced a grilling from Conservative lawmakers, marking an early test of her ability to effectively govern after a disappointing election outcome weakened her ANALYSIS power.

Mrs. May’s failure to secure a majority in last week’s vote puts the country’s objectives in coming Brexit negotiations in flux.

With no clear mandate, control over the shape of Brexit is likely to hang on lawmakers more than Mrs. May’s own views, raising the prospect that the U.K. is heading for a less-abrupt break with the EU than seemed likely before the election.

The electoral gamble has damaged Mrs. May’s authority within her party. She was expected to face difficult questions at the Monday meeting, including over her ability to continue on as leader.

David Davis, the minister overseeing Britain’s negotiations on exiting the EU, told the British Broadcasting Corp. that bickering over who would succeed Mrs. May was the “absolute height of self-indulgence” and urged party members to get behind her.

But rumors swirled over how long she could last, and to what extent she could see through the definitive break with the EU she had set out—including leaving the bloc’s single market for goods and services to get control over immigration. Scottish leader Nicola Sturgeon said supporters of a clear break with the EU have been left “dead in the water” in the wake of the election result.

Mrs. May’s team continued to seek a deal with a small Northern Irish party, the Democratic Unionist Party, which it is hoping it can rely on to pass legislation through Parliament. The DUP is likely to de-

mand concessions in exchange for its support, including guarantees that Brexit won’t disrupt trade between Northern Ireland and Ireland, an EU member.

Kathrin Muehlbronner, senior vice president of Moody’s, said in a research note that the Conservative Party’s reduced share of parliamentary seats may mean there is a higher likelihood of a Brexit involving compromises that Mrs. May wouldn’t have earlier considered.

“This could potentially include a request to remain inside the EU single market or the customs union,” Mrs. Muehlbronner said.

She also expected the election outcome to delay the start of negotiations or lead to a period where no substantive issues are discussed.

Like the Conservative Party, the main opposition Labour Party is also divided on what Brexit should look like. Labour leader Jeremy Corbyn and his close ally John McDonnell, the party’s finance spokesman, have sent a strong signal that they believe the U.K. should quit the EU’s single market for good and services as well as its customs union.

Mr. McDonnell, in an interview with broadcaster ITV on Sunday, said that a Brexit deal that preserves Britain’s single-market membership would be interpreted “as not respecting the result of that referendum,” referring to last year’s Brexit vote. Their stance tallies with the party’s election platform, which said that a Labour government would seek to preserve the benefits of single-market membership and the EU’s customs union, while ending free movement of people. It pledged to “build a close cooperative future relationship with the EU, not as members but as partners.”

Yet some in the party have left the door open to less of a clear break. Barry Gardiner, trade spokesman and one of a three-person team driving Labour’s Brexit policy, said on

Monday that some kind of “reformed membership” of the single market and customs union was another possibility, though it isn’t clear if such an offer would even be on the table. Others in the party have been more explicit. Chuka Umunna, a former Labour business spokesman, has said the U.K. could leave the EU but maintain single-market membership by seeking a similar status to Norway, which pays into the EU budget and accepts the free movement of people from the bloc.

Uncertainty over the direction of Brexit weighed on business leaders. The U.K.’s Institute of Directors said it quizzed 700 executives and found a sharp deterioration in confidence about the U.K.’s economic prospects.



Theresa May, center, met on Monday with her cabinet, its first meeting after last week’s election.

LEON NEAL, PRESS POOL

National Front Loses Big in France

By WILLIAM HOROBIN
AND STACY MEICHTRY

PARIS—After knocking at the gates of power only a month ago, Marine Le Pen saw support for her far-right party crumble in Sunday’s first round of parliamentary elections, dashing its hopes of becoming France’s opposition party and an entrenched menace to the European Union.

President Emmanuel Macron’s fledgling party, La République en Marche, trounced mainstream parties across the political spectrum but forced the once-buoyant antiestablishment National Front in particular into a reckoning.

Ms. Le Pen on Monday faced a final election result that showed the momentum that had carried her in to last month’s second-round presidential vote had perished.

National Front candidates garnered only 13.2% of Sunday’s vote, compared with 13.6% in the last parliamentary election five years ago. Pollster Ipsos Sopra-Steria projected

the party would end up with between one and five seats in the 577-seat National Assembly, compared with between 415 and 455 for Mr. Macron’s party and its centrist ally.

What caused the collapse, pollsters and party officials say, is that the National Front’s primarily young, working-class base decided to sit out the parliamentary races. Around 57% of people who voted for Marine Le Pen in the presidential election stayed home for the parliamentary ballot, Ipsos Sopra-Steria said.

The abstention rate among Macron voters was 38%.

The numbers stand in contrast to the National Front’s high expectations going into the 2017 races. In recent years, the party had drawn nearly a third of the vote in local, regional and European Parliamentary elections.

This clearly marks a pause in a very, very strong progression,” Ms. Le Pen said Monday while campaigning for a seat in the north of France.

Supporters who expected

Ms. Le Pen to win the first round of the presidential race were disappointed when she finished behind Mr. Macron. Her 33.9% score in the runoff also fell far short of the 40% she was hitting in the polls.

What followed was soul-searching. Ms. Le Pen floated the possibility of renaming and restructuring her party before deserting the idea. She also promised to hold a party congress after the parliamentary elections to discuss the National Front’s anti-euro stance, which many of the rank-and-file blamed for her presidential loss.

“All voters have disappointment from the presidential election, and all they hear about is internal difficulties,” said Jérôme Fourquet, a pollster with IFOP.

Mr. Fourquet and other analysts say Ms. Le Pen is likely to retain leadership of the National Front, because the party’s identity is built around her family. They say the only figure who might have challenged her for leadership was

her niece, Marion Maréchal Le Pen, who quit the party shortly after the presidential loss, saying she wanted to spend time with family.

In 2012, Ms. Maréchal Le Pen won the party’s only seat in the National Assembly, winning 34.65% of the first-round vote in a southern French district. The National Front candidate now running for her seat, Hervé de Lépinay, won 31.81% of the vote on Sunday behind the La République en Marche candidate.

The party’s best shot for landing a parliamentary seat is in Pas de Calais, an area hard-hit by migrant flows and industrial decline, where Ms. Le Pen herself is running.

Ms. Le Pen scored 46.02% on Sunday, nearly 30 points ahead of her La République en Marche rival, Anne Roquet.

But she and other National Front candidates face the same hurdle she tripped over in the presidential race: Those who voted for other candidates in the first round are expected to coalesce behind her rival.

WORLD WATCH

PAKISTAN

Man on Death Row To Fight Insult Charge

A man sentenced to death by a Pakistani court on charges of committing blasphemy on Facebook plans to appeal the conviction, his lawyer said, the first such punishment in Pakistan for blasphemy on social media.

The verdict comes amid a crackdown on blasphemous comments on social media.

Mr. Raza’s lawyer, Fida Hussain Rana, said his client, a Shiite Muslim, was targeted after he had an argument about a sectarian matter with two Sunni Muslims on Facebook.

—Qasim Nauman

GLOBAL HEALTH

Donors Bid to Quash Polio by 2020

The longstanding quest to eradicate polio is attracting a new injection of funds from donors

around the world, as health leaders grapple with obstacles from ridding conflict areas of the virus to a shortage of vaccine.

Rotary International, the Bill & Melinda Gates Foundation, and the Canadian government are among several donors who are pledging \$790 million on Monday to vaccinate millions of children, conduct surveillance for the virus and other needs until 2020—the year in which health leaders hope to declare that polio has been eradicated. The pledges were to be made at a Rotary International convention in Atlanta.

The Global Polio Eradication Initiative, which includes Rotary,

the Gates Foundation, and other organizations, set the cost of polio eradication activities between 2013 and 2019 at \$7 billion. The new pledges leave about \$300 million to be raised.

The GPEI has missed previous deadlines that it set for eradicating polio, a highly infectious virus which primarily affects young children and can cause paralysis. There is reason to hope the latest goal can be met, because there have been only five cases of polio this year in Pakistan and Afghanistan, two countries where transmission of polio has never been stopped. Vaccination campaigns have improved, reaching

children in communities hard to access before. But some areas controlled by insurgent groups are still hard to reach.

—Betsy McKay

BRAZIL

Judge Cautions on Temer Spy Report

The chief justice of Brazil’s Supreme Court said an “extremely grave crime” would have occurred if a magazine’s report is accurate that President Michel Temer ordered the nation’s intelligence service to spy on the judge overseeing the sprawling Car Wash

corruption probe.

Brazilian news magazine Veja reported Friday that Mr. Temer allegedly told ABIN, the Brazilian Intelligence Agency, to find out details of the life of Supreme Court Justice Edson Fachin with the aim of seeking information that could compromise the judge.

Mr. Temer, who is under investigation by the Supreme Court for his alleged role in the Car Wash scheme, denied the report and any wrongdoing, saying Friday the government has never tried to oppose the probe. The Wall Street Journal couldn’t independently verify Veja’s report.

—Samantha Pearson

U.S. NEWS

Clarity Lacking on Debt-Ceiling Timing

Treasury secretary has urged action but hasn't said when cash is expected to run out

By KATE DAVIDSON

U.S. lawmakers face a big unknown six weeks before they leave Washington for summer recess: The government could run out of cash before they get back or soon after their return, but the Trump administration isn't saying when.

Mixed messages and a dearth of details from the administration have led to confusion on Capitol Hill and in markets over when exactly Congress needs to lift the debt ceiling.

The Treasury has been unable to raise additional cash from securities sales since the government hit the \$20 trillion debt ceiling in mid-March.

Since then, Treasury has been using extraordinary measures, such as redeeming certain investments in federal pensions programs and suspending new investments in those programs, to raise cash. At some point in the coming months, the Treasury will exhaust those measures and run too low on cash to make all of its payments in full and on time unless the debt limit is raised and it can once again sell bonds.



U.S. Treasury Secretary Steven Mnuchin spoke at the U.S.-China Business Council meeting in Washington on June 6.

Lack of clarity complicates the administration's efforts to convince lawmakers to raise the debt limit sooner rather than later.

"Congress is going to need to know what the deadline is, because until they actually focus on a specific date, it's going to be hard to come up with a strategy to get the increase done," Goldman Sachs political economist Alec Phillips

said.

Treasury Secretary Steven Mnuchin urged lawmakers last month to deal with the debt ceiling before they leave for the summer on July 28, but stopped short of saying when the government will run out of cash. On Friday he told reporters "we will be fine" if Congress doesn't raise the ceiling before August.

"This is not an issue, but I

don't want to leave any doubt we have plans, and backup plans, for funding the government," he said. Asked to elaborate, he said, "They are Treasury secretary superpowers," a phrase he has used in the past to refer to the extraordinary measures.

Mr. Mnuchin's remarks Friday suggest Treasury doesn't see those measures running out before lawmakers return

from their recess on Sept. 5. A Treasury spokesman didn't respond to a request seeking further clarification. The comments could be interpreted by Congress as a reason to delay action until then, despite Mr. Mnuchin's earlier entreaties to act sooner.

Lawmakers will likely try to pin him down this week when he testifies on Capitol Hill three separate times, starting

Monday afternoon, on the president's budget.

Typically, the Treasury secretary provides details about timing in a letter to Congress several months in advance of a potential debt-ceiling breach.

Mr. Mnuchin sent letters to lawmakers in March detailing the extraordinary measures Treasury had begun using, but didn't say when he expected to run out of room to pay the government's bills.

The Bipartisan Policy Center, a Washington think tank, is expected to release an updated analysis Monday showing Treasury will exhaust its extraordinary measures in October or November, unchanged from their earlier projections.

One uncertainty surrounding forecasts is that government revenues have been lower in recent months than previously expected, possibly because of individuals and businesses delaying tax payments in anticipation of GOP tax cuts. If the trend continues, it could cause Treasury to run out of room sooner, analysts have said.

Although government receipts are up \$29 billion during the first eight months of the fiscal year from the same period a year earlier, the CBO said they are about \$60 billion to \$70 billion, or 3%, smaller than what CBO predicted at the beginning of 2017.

Sessions Slated to Testify Publicly

By ARUNA VISWANATHA

Attorney General Jeff Sessions will testify at a public hearing Tuesday before the Senate Intelligence Committee, which is investigating Russian meddling in the 2016 election.

The committee said Monday that Mr. Sessions would appear before it at 2:30 p.m. in an open session. There had been some uncertainty as to whether Mr. Sessions would appear in a public session or a closed one.

The hearing comes after a weekend letter in which Mr. Sessions canceled previously planned public testimony before House and Senate appropriations panels. He said he wanted to address questions former Federal Bureau of Investigation Director James

Comey raised when he testified before the intelligence panel last week.

A Justice Department spokeswoman said Mr. Sessions "believes it is important for the American people to hear the truth directly from him."

Mr. Comey had suggested there were reasons Mr. Sessions had to recuse himself from the Justice Department's investigation into Russian interference in the 2016 election that weren't publicly known.

Mr. Comey also described imploring Mr. Sessions not to allow President Donald Trump to speak to him one-on-one again, as he had on several occasions. A Justice Department spokesman has rejected Mr. Comey's characterizations of his interactions with the attorney general.



Jeff Sessions will address issues raised by the former FBI chief.

Guilty Plea Expected in Reporter-Assault Case

By NATALIE ANDREWS

Incoming Republican U.S. Rep. Greg Gianforte of Montana will plead guilty Monday to assaulting a reporter the day before he was elected, Gallatin County Attorney Marty Lambert said.

Mr. Gianforte is accused of body slamming Ben Jacobs after the reporter for the *Guardian* asked him a question on May 24.

After an investigation, the Gallatin County sheriff filed a misdemeanor assault charge against Mr. Gianforte, casting a pall over his campaign in its final hours. But voters shrugged off the incident and elected him the next day.

Mr. Gianforte's spokesman Shane Scanlon didn't return multiple requests for comment.

At Mr. Gianforte's court appearance, the prosecutor will recommend a sentence to the court. Mr. Gianforte could face up to \$500 in fines and up to six months in jail.

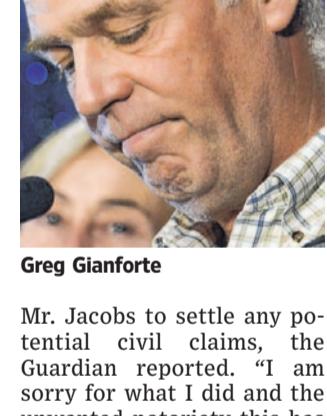
The state hasn't yet certified the special election results, a factor delaying Mr. Gianforte's swearing-in that has nothing to do with the assault charge, said Christi Jacobsen, chief of staff to the Montana secretary of state. The certification timing was set before the special election.

After the altercation, House Speaker Paul Ryan called on Mr. Gianforte to apologize. A spokeswoman for Mr. Ryan said the speaker had talked to Mr. Gianforte since the election but didn't

say what the two discussed.

Last Wednesday, Mr. Gianforte apologized to Mr. Jacobs and said he would donate \$50,000 to a nonprofit group that promotes press freedom.

"You did not initiate any physical contact with me and I had no right to assault you," Mr. Gianforte said in the letter, which was also part of an agreement with



Mr. Jacobs to settle any potential civil claims, the *Guardian* reported. "I am sorry for what I did and the unwanted notoriety this has created for you. I take full responsibility."

Upon news that Mr. Gianforte would plead guilty, Democratic Congressional Campaign Committee spokesperson Drew Godinich said: "Greg Gianforte is unfit to represent the people of Montana, and should decline to take the oath of office."

Audit Finds Errors in Medicare Payouts

By MELANIE EVANS

Medicare erroneously paid an estimated \$729 million to doctors and other health professionals under a federal initiative designed to shift the health-care system from paper records to computer files, according to a new federal audit.

The Department of Health and Human Services Office of Inspector General said Medicare, over a three-year period, improperly paid health professionals who vouched they earned bonus payments under the initiative, but who either lacked proof or failed to meet bonus criteria.

The Centers for Medicare and Medicaid Services, the agency that oversees Medicare, should review its incentive payments and recoup any money erroneously paid and do more to scrutinize spending under the program, OIG auditors said.

CMS "conducted minimal documentation reviews," the report said, "leaving the EHR program vulnerable to abuse and misuse of federal funds."

The audit estimated improper payments totaled 12% of the approximately \$6.1 billion Medicare paid out as electronic health-record incentives

to professionals during the three years reviewed.

Auditors based the estimate on a review of 100 health professionals who vouched they earned bonuses between May 2011 and June 2014. To do so, health professionals must meet several criteria, such as using computers to order prescriptions and transfer health data electronically.

Auditors said they found, in that sample of 100, 14 health professionals who reported incorrect information or who couldn't produce required documents or other proof they met bonus criteria. The 14

professionals were paid \$291,222 in that period.

In a February letter responding to the OIG findings, then-acting CMS Administrator Patrick Conway touted the rapid use of electronic health records under the initiative and said Medicare would recoup improper payments to professionals included in the sample audited by the OIG.

"Providing high-quality care to Medicare beneficiaries while being responsible stewards of taxpayer dollars remains a top CMS priority," CMS officials said in responding to the audit.

U.S. WATCH

WHITE HOUSE

Ivanka Trump Cites Ferocity of Opposition

Ivanka Trump said Monday she was surprised by the ferocity of some of the opposition to President Donald Trump and his agenda, but said it wouldn't deter the administration's policy plans.

"It is hard. There's a level of viciousness that I was not expecting," Ms. Trump said on Fox News, when asked about whether it has proved hard to stick to the agenda amid the Russia investigation and other distractions. "But this isn't supposed to be easy. My father and this administration intends to be transformative. We want to do big, bold things."

Still, "I was a little blindsided ... on a personal level" by the "ferocity" of the opposition to her father, said Ms. Trump, who serves as assistant to the president.

Ms. Trump sidestepped questions about her husband, senior adviser to the president Jared Kushner, and whether he was

clashing with other White House officials. "There is a 24-hour news cycle that gets fed by a lot of salacious details. We're all focused on the work."

Ms. Trump said her father feels "very vindicated" and "very optimistic" after former Federal Bureau of Investigation director James Comey testified in front of the Senate Intelligence Committee last week.

Ms. Trump also highlighted the multibillion dollar deals Saudi Arabia pledged to the U.S., including investments in defense, health care and technology. "The leadership that my father showed. The way he was able to foster real dialogue... [that] concluded in billions of dollars for American businesses," she said.

—Sharon Nunn

HEALTH

Global Obesity Rising In Rich, Poor Nations

The global obesity problem now affects 1 in 10 people in the world, it is rising in countries rich

and poor, and in many countries it is increasing faster in children than adults, according to a new study. The researchers estimated more than 107 million children and 603 million adults are obese.

The research found obesity has tripled in children and young adults in countries like China, Brazil and Indonesia.

The study was led by a team at the University of Washington

in Seattle. It was published online Monday by the New England Journal of Medicine and presented at a food science and policy meeting in Stockholm.

—Associates Press

PENNSYLVANIA

Officer Testifies in Fraternity Case

A detective testifying at a hearing for 18 Penn State fraternity brothers accused in the death of a 19-year-old pledge said Monday the student looked like a corpse in surveillance video from the fraternity house.

"He looked dead, he looked like a corpse," said State College Police Detective David Scicchitano, describing sophomore Tim Piazza's appearance in footage showing frat brothers carrying him upstairs the morning after a pledge event that involved heavy drinking. Mr. Scicchitano spoke at preliminary hearing at a courthouse near campus that will determine if there's enough evidence to send the case to court for trial.

The defendants face a variety of charges, with some accused of involuntary manslaughter and felony aggravated assault. The fraternity chapter is also a defendant.

—AP



REMEMBRANCE: Artist Yuri Karabash hugs a family member of a victim at the Pulse nightclub on Monday in front of his mural that commemorates the one-year anniversary of the attack that killed 49.

JOE BURBANK/ASSOCIATED PRESS

Iowa Seeks To Rework Health Law

Other states nationwide are keeping an eye on the state's plan to revamp the Affordable Care Act

By ANNA WILDE MATHEWS
AND LOUISE RADNOFSKY

Iowa officials are seeking federal permission to implement a plan that would alter major aspects of the Affordable Care Act in the state, an effort that will draw close attention from other states facing a meltdown of their health-insurance marketplaces next year.

Officials in President Donald Trump's administration said they were aware of the Iowa proposal and were open to supporting it to the extent possible under the current health law.

"If Iowa thinks that certain things are what they need, we're going to try to work with them," a White House official said. The official said the administration welcomed suggestions from the states to tweak the workings of the law within their borders, and officials "want to get to 'yes' with states."

The Iowa proposal, which would offer one type of insurance plan and revamp the law's subsidies that help people buy coverage, among other changes, would be in effect for 2018, though it could be extended.

Iowa Insurance Commissioner Doug Ommen, a Republican, said the state must take emergency action to ensure that about 72,000 Iowans who have ACA plans aren't left without coverage options next year, after insurers said they would pull out. The proposal was meant as a stopgap measure, Mr. Ommen said, as Republicans in Congress work to pass a bill that would make significant changes to the law at a national level.

Iowa's largest insurer, Wellmark Blue Cross and Blue Shield, now said it would reverse its plans to exit from the state's individual market and will sell plans in every county next year if the new proposal goes into effect.

Still, the effort faces significant challenges—including questions about whether Mr. Trump's administration has the authority to approve all aspects of it under the law. The White House official said the

administration is "open to maximizing opportunities" for states' proposals under the law, but "we're not going to stretch the law."

Iowa officials believe the federal government has flexibility to approve the plan, which aims to steady the Iowa individual insurance market, Mr. Ommen said. "If you don't have a stable market, no one has insurance," he said.

Iowa's gambit will get notice from around the country, experts said, as insurers announce they plan to pull back from ACA marketplaces next year in the wake of a wave of withdrawals in 2017. About 45 counties across three states—Missouri, Ohio and Washington—are poised to be without any products available through their insurance marketplaces in 2018. Other states, including Alaska, are seeking federal waivers for programs to bolster their markets, but the Iowa proposal is more sweeping.

'We're confident there will be [coverage] in 2018, but we can't guarantee anything.'

Mr. Trump, a Republican, and other administration officials have sought to highlight insurance-market problems—including Iowa's—in their bid to push GOP health-care legislation through the Senate. The House has already passed a bill. Democrats have said Mr. Trump's administration is exacerbating strains on the insurance marketplaces by threatening to stop certain federal ACA payments that insurers said are vital.

But there is also pressure on Mr. Trump's administration to ensure the individual insurance markets don't implode. Even if Republican legislation is signed, it likely wouldn't take effect in time to change insurance markets in 2018. White House officials said they have worked behind the scenes for months with in-



Iowa insurance officials said action must be taken to ensure thousands of people in the state aren't left without coverage next year.

surers to discuss their options, including answering questions and encouraging them to continue to offer coverage in some cases.

The Iowa proposal would change important features of the federal health law. The law's subsidies that enable lower-income people to buy health insurance would become flat payments tied to age and income. The plan streamlines the insurance plans now sold under the law to one design at the ACA's most popular "silver" tier of coverage. Consumers would purchase the plans outside the insurance exchange created by the law.

Consumers would still be able to buy 2018 plans during this fall's open enrollment period, but to purchase them after Jan. 1 they would need to show they had maintained continuous coverage, with no gap longer than 63 days in the previous 12 months. That restriction aims to prevent people from signing up only when they have medical needs, Mr. Ommen said. The law's mandated essential benefits would stay in place, as would protections that ban insurers from setting premiums or denying coverage based on consumers' pre-existing health conditions. A new reinsurance program would limit insurers' costs for the most-expensive enrollees.

Wellmark Blue Cross and Blue Shield had said in early April that it would stop selling ACA plans in Iowa after losses. CEO John Forsyth said the insurer believed the current market wasn't sustainable but wanted to help develop changes that would improve it.

Wellmark needs an answer by late August to be ready for

Opioid Crisis Poses Challenge for Bill

The nation's worsening opioid crisis has become another sticking point in Republican plans to dismantle portions of the Affordable Care Act, with key GOP senators hesitating to support a bill that could threaten addiction treatment.

Several provisions of the ACA, also known as Obamacare, allowed millions of Americans seeking substance-abuse treatment to gain coverage, including through an expansion of the Medicaid health program for the poor. But the House bill repealing the ACA, passed in early May, would roll back that Medicaid expansion beginning in 2020 and allow insurance companies to charge some people with drug addictions higher

premiums or deny them substance-abuse coverage.

Concerns about those provisions cut into Republican support for the replacement measure in the House. Of the 20 Republicans who voted against the House bill, 16 represent states that saw significant increases in drug-overdose death rates in recent years.

Now, the same concerns are emerging as a factor as the Senate takes up the House bill and ponders how to change it.

Sen. Rob Portman (R., Ohio) said in an interview that there is a growing worry among fellow GOP senators that rolling back the Medicaid expansion without offering other affordable options would have an outsize effect on people seeking addiction treatment, who access medications and other treatments through their insurance.

"So many people on Medicaid and expanded Medicaid rely on that funding for their treatment for substance abuse," he said. "This is clearly an issue where you don't want to make matters worse by reducing access to treatment."

Mr. Portman, along with other Republican senators from states that have expanded Medicaid such as Dean Heller of Nevada, are pushing to wind down the Medicaid expansion funding more slowly. They would have the rollback occur over a seven-year window beginning in 2020.

Lawmakers are also looking at including a pot of money specifically for opioid treatment, according to Republican Senate aides. But more budget-hawkish lawmakers want to end the Medicaid expansion in three years, by 2023.

—Sharon Nunn

emeritus professor at Washington and Lee University. "It's just hard to imagine how this could be legal," he said.

The Iowa program may also pose challenges to some older and lower-income ACA enrollees, compared with the current law's setup, due to how the Iowa subsidies would work, said Larry Levitt, a senior vice president at the Kaiser Family Foundation. "There may be some winners and losers from this," he said, but "it sounds like an important proactive effort from the state to preserve coverage for people."

Mr. Ommen said the plan "is not a perfect solution," but "our view is this is the only option we have to preserve our market."

PTSD

Continued from Page One
unusual medical netherworld. Most of the doctors who have administered it said they firmly believe it works. The wider military, hewing to standard medical practice, won't endorse the treatment without evidence from a controlled trial such as the one the Army has commissioned.

"It has yet to be proven that it really does work," said psychologist Ron Hoover, who oversees the new PTSD study on behalf of the Army. "The Army takes a fairly conservative position about treatments or any kind of medical care. They don't want to risk service members' lives or experiment on them."

Researchers are finding it difficult, though, to recruit volunteers for the study because likely candidates have already heard promising reports about the treatment from comrades, said co-principal investigator Kristine Rae Olmsted of RTI International, a nonprofit research organization hired by the Army to conduct the study.

Of the 240 patients that researchers hope to enroll, 80 would receive a harmless saline injection to distinguish the real shot's medical impact from any placebo effect. PTSD sufferers know they can get the genuine injection free from military hospitals without signing up for the study and risking getting a placebo, Ms. Olmsted said. "The problem," she said, "is word-of-mouth is very powerful."

Researchers began enrolling subjects last summer at military hospitals in Germany, Hawaii and North Carolina. RTI

said only 43 had volunteered by mid-May.

Between 11% and 20% of Iraq and Afghanistan veterans suffer from PTSD in a given year, according to the National Center for PTSD, an arm of the Department of Veterans Affairs. Commanders worry that PTSD reduces the combat effectiveness of those still in the military and can make life a misery for those who have left it. Sufferers are often irritable, edgy and quick to anger.

The most common psychological treatments, called exposure therapies—in which a PTSD sufferer repeatedly revisits the traumatic event to weaken its effect—ease symptoms in about 60% of those with combat-related PTSD, according to an estimate by psychologist JoAnn Difede, director of the Program for Anxiety and Traumatic Stress Studies at Weill Cornell Medicine and New York-Presbyterian Hospital.

About the same percentage see at least some improvement from the most frequently used anti-PTSD drugs—selective serotonin reuptake inhibitors—but only 20% to 30% see complete remission from the drugs, according to 2014 research led by Dr. Difede.

Physicians such as Dr. Lynch who advocate use of the stellate ganglion block say it improves the effectiveness of traditional treatments.

The conundrum surrounding the new Army study highlights both the injection's promise and the frustration its advocates feel trying to win it wider acceptance beyond the special-operations troops who are already convinced.

"Honestly, I feel like I've let people down," said Army Dr. Sean Mulvaney, a former Navy

SEAL who practices at Fort Belvoir, Va., and said he had administered more than 600 stellate ganglion injections to PTSD patients. Among most military doctors, he said, "it's not getting traction."

The Department of Veterans Affairs said it has no specific

population suffering from PTSD. Doctors said veterans are problematic trial subjects because they have an incentive to stay sick—the VA pays benefits to those suffering from combat-induced PTSD. The elite commandos who have already become fans of the in-

flight reaction. Doctors sur-

mise that in patients with PTSD, messages between the brain and body get stuck in a loop. The anesthetic resets the system.

The drug is marketed under the brand name Naropin by Germany's Fresenius Kabi AG



policy regarding use of stellate ganglion blocks to treat PTSD among those who have left the military. Doctors use the injections for PTSD on a limited basis at their discretion, a VA spokesman said. The department is conducting a small research project on the injections at its medical center in Long Beach, Calif.

The prospects of generating scientific consensus are clouded by the nature of the

injections have the opposite in-

centive—active-duty SEALs and Green Berets usually want to show improvement so they can stay with their teams, doc-

tors said.

In the stellate ganglion pro-

cedure, doctors inject the anesthetic ropivacaine in the right side of the neck, using ultrasound to guide the needle to the area around the target nerves. The right side of the brain controls the fight-or-

and, according to RTI, costs less than \$2 a dose. Most patients require just one injection, although some return for a second shot, doctors said.

One of the patients is Dr. Lynch's commander, Brig. Gen. Donald Bolduc, a Green Beret who has served more than five years in Afghanistan. He was injured by an errant 2,000-lb. American bomb in 2001 and again in a 2005 helicopter crash.

Gen. Bolduc said he came home with symptoms from headaches and memory loss to excessive alertness and flashes of anger. He was diagnosed with PTSD in 2014 and received his first of two stellate ganglion blocks. His wife, he said, noticed the change in his demeanor on the drive home.

The shot "gives you the break to deal with things," he said. "I was able to put myself on the road to recovery." He said he is also on medication for anxiety and depression as part of a broad treatment plan for his PTSD and injuries. The injection, he said, "doesn't stop you from operating effectively in a combat environment."

In a 2014 study led by Drs. Lynch and Mulvaney, researchers injected a local anesthetic into the necks of 166 service members suffering from PTSD. They concluded the injection is a "safe and minimally invasive procedure that may provide at least 3 months of relief from symptoms associated with combat-related PTSD."

That study didn't feature a control group. One small controlled study published in 2015 found no statistically significant difference between effects from one stellate ganglion block and the placebo. Patients showed improvement after a second injection.

"The most obvious explanation would be that the previously reported benefits for PTSD were attributable to placebo effect," psychiatrist Robert McLay, the research director at Naval Medical Center San Diego, said at the time. He said this year he believes the treatment is worthy of further study.

The Army study is intended to settle the debate.

KC MCGINNIS FOR THE WALL STREET JOURNAL

IN DEPTH

NUKE

Continued from Page One

Unfortunately, the people who built these plants didn't leave instruction manuals for taking them down. And even when they did remember to pass on useful information, odds are it was stored on outdated computer programs or written in Russian.

That makes powering down, decontaminating and dismantling these plants extremely difficult—and costly. Expunging a nuclear power plant can cost \$1.5 billion, experts say. In Europe alone, the cleanup bill for around 90 shut plants will top \$100 billion.

Only 17 nuclear plants have ever been decommissioned and completely cleaned up. Roughly 160 more sit idle, awaiting demolition, according to the International Atomic Energy Agency.

When Mr. Ehlert and his team of 15 engineers at E.ON's PreussenElektra GmbH donned their hard hats and filed into the Würgassen plant in Beverungen, what they saw sent their minds racing.

Perched atop a nuclear reactor pressure vessel was a 74-ton lid 20 feet in diameter. To maneuver it into the elevator shaft and down to ground level, Mr. Ehlert and his team would have to smooth the edges of the corridor leading to the elevator. But even if that worked, they wouldn't be able to move the lid through the hallway to the decontamination rooms because the path was



A worker for EWN Entsorgungswerk für Nuklearanlagen GmbH decontaminates parts of a former nuclear power plant.

ANDREA GIESERTHAG FOR THE WALL STREET JOURNAL

blocked by concrete pillars.

It turns out when the facility was erected, workers installed the hulking pressure vessel and lid first and built the plant around them.

The team ordered a high-powered jet that shoots sand-laden water with enough force to cut through steel, convinced regulators it could slice cleanly through the thickest part of the lid, and went to work.

First the engineers enveloped the vessel lid with a suction tent to keep any dangerous waste from escaping. Using a remote-controlled robot arm that was

attached to the jet, they began carving up the lid "like a cheesecake," Mr. Ehlert said. After each cut, the arm had to be recalibrated manually and the sand swept and removed. Chopping it up took six weeks.

Once outside, workers used a sandblaster to clean the metal that had sat just 30 feet from the radioactive reactor. "You could have made normal frying pans out of it," says Mr. Ehlert.

In all, the project took a year, he says, and helped to prompt the company to change its approach to dismantling. "We now have a look inside the

pressure vessel first," spokeswoman Almut Zyweck said.

Much of the work demolishing a nuclear power plant is little different from destroying, say, a sugar refinery, since radiation is limited to a small portion of the facility. But because nothing is very far from dangerous radiation, potential hazards can crop up almost anywhere.

Workers cleaning up the Maine Yankee plant outside Portland, Me., once discovered contamination on the carpeting of the visitors' center. It was irradiated by a piece of uranium

ore used in demonstrations, according to an official decommissioning report. How the carpet was exposed remains unclear.

"Technically, it's very exciting to dismantle a plant," says Thomas Volmar, project manager at Germany's closed Mülheim-Kärlich plant. "My engineer's heart beats faster."

Inside the Mülheim-Kärlich reactor, workers are gradually stripping the plant down to naked walls for precise contamination readings and cleaning in a process that is equal parts high- and low-tech. Staff each day don protective cloth-

ing, hard hats and radiation dosimeters for safety. In cleared areas, the walls have become scratchpads, covered with freehand schematic drawings and phone numbers scrawled in black marker. Silver duct tape Xs cover nail holes to prevent radiation from seeping into the walls. Concrete blocks painted in yellow and black stripes flag hazards.

When teams from Siempelkamp Engineering and Services GmbH were hired to help dismantle the massive Zion nuclear plant near Chicago, some engineers wanted to slice the gargantuan steel pressure vessels enveloping the cores using a torch with a powerful vacuum system to suck up dust and gases. The company had used the tool in Germany, but it had never been used in the U.S.

Other staff from Siempelkamp questioned the speed of the instrument. The tool worked.

Problems occasionally arise when engineers discover early blueprints weren't updated, says Ralf Borchardt, director of project management at EWN Entsorgungswerk für Nuklearanlagen GmbH, a company created by Germany's government to dismantle Soviet-built plants in former East Germany.

Mr. Ehlert at E.ON says that in years past, when he told people he worked in the nuclear industry, "they were so quiet you could hear a pin drop." Now when he tells people he dismantles plants, they smile, he says. "Almost everyone likes to talk about tearing things down."

POUND

Continued from Page One
power hasn't responded as textbooks might suggest.

Chemicals made at Chemoxy International Ltd.'s factory in Middlesbrough are worth about 20% more in the export market after last June's fall in sterling, given the beefed-up value of the currencies used to buy those goods overseas. Higher costs for imported materials, however, all but erased that advantage.

"We have a huge interdependency on international markets," says Chemoxy Chief Executive Ian Stark. The company exports more than 60% of its products and imports about 85% of its chemical raw materials. A weaker pound, he says, "isn't revolutionary."

British businesses ranging from car makers to food processors to lumber mills are discovering the same thing.

Adam Posen, president of the Peterson Institute for International Economics, and a member of the Bank of England's rate-setting monetary policy committee between 2009 and 2012, says the effects of currency moves on exports have faded over time. After the financial crisis in 2008, a big sterling depreciation didn't result in the pickup in exports "we would have expected," he says.

"You just don't get as much bang for your pound as you used to," said Mr. Posen.

Whether or how the relationship between a currency's strength and economic growth still holds has ramifications for international politics. In the U.S., manufacturers have long complained about the impact of a strong dollar. President Donald Trump has accused Japan and China of keeping their currencies artificially low, hampering U.S. exports.

In 1992, the pound fell by around 11% between September and the end of that year after the U.K. crashed out of the European exchange rate mechanism—a precursor to the euro that required a stronger pound than the government could sustain. The U.K. economy then went on an export tear, which turned a trade deficit into a five-year surplus and jump-started a recovery.

The pound fell by nearly 25% against the currencies of its major trading partners between 2007 and 2010 and never recovered, sparking optimism in government that exports would rise. In 2012, then-U.K. Treasury chief George Osborne targeted an increase in exports to £1 trillion by 2020, from £499 billion that year. By the end of 2016, exports had risen to just £547 billion.

When the currency took another beating after the Brexit vote, the impact was similarly muted. Car maker Aston Martin, which exports 80% of its vehicles, helps show why. Before Brexit, when the pound traded at \$1.50,

Is a Declining Pound Good for the U.K.?

The post-Brexit decline in the British pound has fueled inflation. Economists believe an export-related boost to the economy is unlikely to materialize.

The British pound has fallen since the Brexit vote...

Pound vs. the dollar



Exports have risen, but so have imports...

Total trade in goods*



...calling into question whether the U.K. economy will see the kind of sterling-related bounce it has seen in the past.

Change in net trade as a percentage of GDP after past sterling depreciations

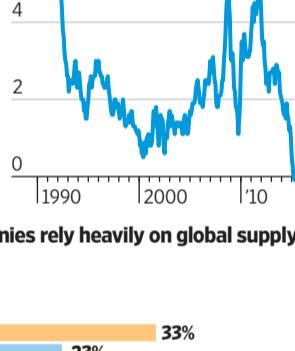


*excluding extremely volatile items

Sources: FactSet (currency); U.K.'s Office for National Statistics (CPI, exports vs. imports); Pantheon Macroeconomics (depreciation); Organization for Economic Co-operation and Development (import content)

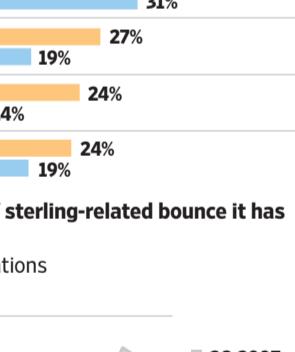
...leading inflation to begin increasing.

Consumer price index



...in part because many U.K. companies rely heavily on global supply chains...

Import content of exports



new mathematical models for estimating real effective exchange rates, one measure of the strength of a currency. It said without taking into account deep global supply chains, standard exchange-rate models "are increasingly becoming obsolete."

Academic debate

Other economists have resisted the idea, including a team at the International Monetary Fund, which came to a different conclusion and found "little evidence of a weakening in the effects of exchange rates over time."

In its analysis, the IMF suggests a significant currency depreciation—where currencies weaken by at least 13% in advanced economies, or 20% in emerging ones—results in a 10% rise in export volumes over five years.

The IMF had some caveats. The paper argues the impact of a weaker currency is strongest when the economy isn't running at full capacity, for example following a recession. It also suggests that financial crises dent companies' ability to take advantage of a depreciation, because of the lack of available credit.

"In general, however" the authors conclude, "the role of flexible exchange rates in facilitating the resolution of trade imbalances remains significant."

Since Britain's vote to leave the EU, consumers abroad have been buying more British products. In the six months through April, the most recent month for which the U.K.'s Office for National Statistics has published data, goods export volumes increased 3.1% from the year-earlier period. Over that same period, import volumes rose even more, by 4.9%.

"We are not yet seeing a notable narrowing of the [trade] deficit," the Office for National Statistics noted in its latest report.

For some exporters such as Scotland's whisky industry, the pound's fall has been pure good news because most of what goes into a bottle of whisky is produced locally. The Scotch Whisky Association says exports increased 4% last year to over £4 billion.

Most U.K. manufacturing industries, however, can no longer rely on domestic supply chains. In 2015, manufacturing represented 9.8% of the U.K.'s gross domestic product, down from 14.7% in 2000. In the U.S., by comparison, manufacturing represented 12.3% of the GDP in 2015, and 15.5% in 2000.

As U.K. manufacturing declined, service industries grew and now are responsible for 79% of GDP. Those industries are less sensitive to changes in exchange rates. In the services sector, the U.K. runs a trade surplus that grew to 5.4% of GDP at the end of last year. For London's huge financial sector, sterling's tumble has little benefit because business is often denominated in other

currencies and demand for service industries tends to be less price sensitive.

Trade in goods, however, is an entirely different story. The U.K. deficit in that area has ballooned from 1.6% of GDP in 1995 to 6.4% last year. It has kept rising despite imports becoming more expensive and exports more competitive.

This year's goods deficit, through April, is £42.8 billion, excluding oil and particularly volatile items such as aircraft. Some economists have long been skeptical of the idea that trade can be shifted by currency depreciation in the longer term. As a currency weakens, the price of imported goods rises, raising inflation.

"Don't believe that Britain is going to depreciate itself out of its current account imbalances," says Willem Buiter, chief economist at Citigroup Inc. and a former member of the Bank of England's rate-setting committee.

Expensive Fish

To make matters worse, Britain has become so reliant on imports to stock its stores that a weaker pound has increased inflation, making life more expensive and curbing consumer spending.

Britain now imports more than 60% of its fish. The pound's fall triggered a 15% overnight jump in prices for the crates of cod and haddock that Mike Woods buys from the docks of Grimsby, in northern England. That cost his food processing company, Albert Darnell Ltd, an additional £15,000 a week.

Like other food manufacturers, Mr. Woods is passing on that increased cost to consumers. Fish and chips have become more expensive at the St. James Fish Restaurant in the center of Grimsby. "We get people complaining now," says waitress Eve Barrow.

Retail prices of cars, shoes and potato chips have risen. Last October, an increase in the price of Marmite, a sticky yeast spread beloved by the British, triggered front-page headlines. Economic growth in the U.K. slowed in the first quarter of the year, with higher prices hurting consumer spending.

Around 80% of the timber used in U.K. construction is imported, mainly from Scandinavia, according to the Timber Trade Federation. It isn't easy for Britain's construction industry, which is responsible for around 7% of GDP, to shift quickly to domestic suppliers.

Keith Ainslie of James Jones & Sons Ltd, the U.K.'s largest sawmill, says the firm's main plant in Lockerbie, Scotland, is already "working full tilt." Processing more logs would mean building another sawmill, a roughly £60 million project that would take around three years to get up and running.

Fish merchants in Grimsby, England, say the price of imported fish jumped overnight when the U.K. currency fell.



CHRISTOPHER WHITFIELD/THE WALL STREET JOURNAL

sports cars sold in New York for \$150,000 would bring home £100,000. With the pound now at \$1.27, such sales bring an extra £18,000. But over half the car's components must be bought from abroad, blunting the effect.

"During the past decade, a lot of auto suppliers have moved offshore," says Aston Martin Chief Executive Andy Palmer. "In consequence, you don't get the benefits."

In recent months, sterling has recovered from its post-Brexit lows and is currently down 15% against the dollar and 13% against the euro. Analysts remain pessimistic about the currency as Britain heads for divorce from its largest trading

partner, the European Union.

The pound fell 1.7% on Friday after Prime Minister Theresa May's ruling Conservative Party failed to secure enough seats in a snap general election to alone form a government.

Global economists are debating how much exchange rates affect trade for developed nations. Two recent papers, from the World Bank and the Organization for Economic Cooperation and Development, found movements in exchange rates had a declining impact on trade in several advanced economies.

The OECD paper said a

plunge of sterling in 2008 and the yen's decline against the dollar in 2012 had little impact on trade. The study said evidence had become more embedded in global supply chains. Between 1995 and 2011, the import content of exports rose from 14.9% to 24.3% among OECD nations.

In May, the Bank for International Settlements published

LIFE & ARTS



ILLUSTRATION BY TAYLOR GALLER; APPLES (BELOW)

FITNESS | By Rachel Bachman

Your Gym's Tech Is Getting Smarter

From cardio equipment that can talk to your Apple Watch to sensors that track your movements, new tools surface at health clubs

FROM THE Apple Watch to eagle-eyed sensors, digital technology is going ever further to embed itself into your health club.

These advances promise exercisers everything from smoother workout starts to better data to increased gym attendance. However, tech-savvy gym rats concerned about privacy should remember that they can always opt out.

This fall, an update to Apple Watch's operating system launches a feature called GymKit, which will allow the watch to link to most major cardio-equipment brands available at gyms by tapping the watch to an enabled machine, says Jeff Williams, Apple's chief operating officer.

On a treadmill, for instance, the machine will track speed, workout duration, incline and distance covered. The watch will track heart rate, and use a combination of treadmill data and its knowledge of user age, sex and body type to calculate calorie count. All data from the workout will beam to the Apple Watch, but the watch won't share any user data with the cardio equipment, Apple officials say.

For the past few years, gym-goers have been able to connect to cardio equipment through various smartphone apps. But it is a patchwork system, and many people skip it and leave their data locked in machines.

A spokeswoman from equipment maker Life Fitness says she



An update to the Apple Watch operating system this fall will allow users to capture data from a workout by tapping the watch to a cardio machine.

anticipates the Apple Watch's new connectivity will boost the number of tracked workouts.

A simpler connection to cardio machines will remove a step or two from groggy morning routines and could give Apple Watch an edge in the wearables market, where it is playing catch-up two years after its launch. About 7% of adult consumers own a smart-watch, compared with 18% who own a wearable fitness tracker, according to the NPD Group. Another perk: not having to use the cardio console. "Who wants to punch in your weight before you do your workout?" says Jay Blahnik, Ap-

ple's director of fitness for health technologies.

Bryan O'Rourke, a fitness-industry consultant specializing in technology, says Apple Watch's move is part of a larger push to integrate easy-to-use technology into health club members' lives at the gym and elsewhere. Traditional health clubs are facing more competition from specialty fitness boutiques and online-streaming workout services.

New York-based health club chain Equinox is testing a smartphone-based chatbot—a computer program that uses artificial intelligence to simulate human conversation—to

talk to new members via instant messaging. Equinox's chatbot reaches out to new members weekly for the first month, encouraging them to set goals and nudging them when they fall short. It also responds when they send a message.

In a recent monthlong test at all 88 Equinox clubs, new members who used the chatbot visited the club 40% more often than new members who opted out, according to Samir Desai, Equinox chief information officer. The chatbot's first goal is to get people coming to the gym, since people who don't form that habit in the first few months are likely to drop their membership.

At four clubs in New York, Equinox has also installed sensors to track members through their smartphones while they're in the club. The sensors can tell when a member regularly runs on a treadmill, for instance, and prompt a message suggesting the person try one of Equinox's Precision Running classes.

Nadine Kerstan, a 45-year-old holistic health coach in South Orange, N.J., joined Equinox about a year ago. She enjoys the guided meditations she listens to through Equinox's smartphone app. But the concept of sensor-tracking is "a little creepy," she says. "I don't want to feel like Big Brother is watching me at the gym."

Niki Leondakis, CEO of Equinox Fitness Clubs, says the informa-

tion from sensors will help the club help members achieve their goals. The more engaged members are with the club, the more often they show up and exercise, she says.

"I would say that everyone today understands that they're being tracked," Ms. Leondakis says, citing a shopper browsing for shoes on a website.

The aim is to install the sensor system at all clubs, Mr. Desai says. Equinox says its members are asked if they want to allow the app to track their location and can opt out.

Bay Area-based Active Wellness is going further. It manages about 60 fitness locations across the U.S., mostly in corporate settings. In its Oakland, Calif., club, Active Wellness is testing a facial-recognition system designed to let members breeze in without a card or digital swipe, and track members in most places except locker rooms and bathrooms.

Mike Rucker, Active Wellness's vice president of technology, acknowledged some members' reservations about the system. Members can opt out, he says, but facial recognition could create more seamless gym experiences in the near future.

"Imagine a world where you step on a treadmill that automatically adjusts to all your favorite settings," Mr. Rucker says. "And literally without touching a button, you're ready to go."

PLAYLIST: ALAN ALDA

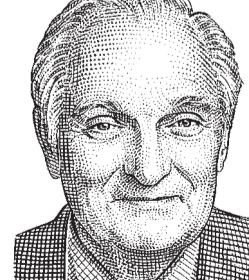
FAB FOUR WITH FEELING

Alan Alda, 81, is a film, stage and TV actor who has won seven Emmy awards. He is the author of *"If I Understood You, Would I Have This Look on My Face?"* (Random House). He spoke with Marc Myers.

When I was 31, I bought the Beatles' "Sgt. Pepper" just after the album came out in June 1967. The more I listened to it, the more the album felt like a collection of really sharp show tunes. It was so unlike anything else. **"SHE'S LEAVING HOME"** is still a favorite and deeply personal.

Listening to the song today, I'm left with a grateful sense of melancholy. The song's lyric is beautifully constructed and illustrates both sides of the chasm between caring parents and a newly independent child.

Looking back, I wish I had made it easier on my parents when I was trying to break free. I'm sure I hurt them many times by saying what I felt or thought without softening the blow.



My mother was tender and easily hurt. One day when we were in Amsterdam just before I spent my junior year in college in Paris, she innocently said, "Your father and I are in Amsterdam, and you'll be in Paris. You can come up and visit us."

I said, "I'm not coming up to see you all the time." My mother became upset and walked ahead of me. It was difficult to catch up to her.

The Beatles song opens with a strangely anxious harp solo. When Paul McCartney begins to sing the song's narrative, he's backed by a sorrowful cello and strings. The arrangement is haunting.

Meanwhile, John sings the parents' perspective as a Greek chorus—"We gave her most of our lives." In the song, the daughter leaves a "note that she hoped would say more," while her parents wonder, "How could she do this to me?" Two inner voices, each so far from understanding the other.

Recently, I listened to the song and re-



The Beatles in their 'Sgt. Pepper' days, photographed in 1967.

called an incident with one of my daughters many years ago, when she was still in college. After she failed to win an audition, I wasn't as sympathetic as I could have been. She told me off in blunt terms.

Later, she called to apologize. I said, "I didn't mind. I thought you were just being colorful." But it was more than that. Now I realize that her outburst was probably the very moment she emotionally left home.

OPINION

REVIEW & OUTLOOK

South Korea's Defense Blunder

Moon Jae-in's decision to suspend deployment of a missile-defense system last week signals how the new South Korean President will approach the threat from North Korea as well as relations with the U.S., China and Japan. Like his center-left predecessors, Mr. Moon wants to play a balancing role between the regional powers and convince North Korea to negotiate an entente. This naïvete puts South Korea's security in peril.

The ability of the U.S.-made Terminal High-Altitude Area Defense (Thaad) to protect against missile attacks from the North isn't at issue. Nor is cost, since Washington is picking up the \$1 billion tab. The system is only controversial because China is angry that the radar can peer into its airspace. Beijing is imposing unofficial economic sanctions on Seoul to force it to abandon Thaad.

Mr. Moon has buckled under Chinese pressure and decided to delay the placement of new launchers for up to two years as his government conducts an environmental assessment. National Security Adviser Chung Eui-yong tried to reassure the U.S. that Seoul will adhere to the agreement to deploy Thaad.

But Mr. Chung's promise was undermined by an unidentified presidential office official who told the media last week that the need for Thaad is "not urgent." That prompted incredulity among many Koreans, since the North continues to test its missiles almost every week along with apocalyptic threats.

Hezbollah in New York

Federal prosecutors have charged two U.S. citizens with providing material support to Hezbollah and helping the Iranian-backed Lebanese terror group prepare potential attacks in America and Panama. The charges, announced Thursday after the men were arrested June 1, show that Iran's terror proxies roam far beyond the Middle East.

The FBI and New York Police Department carried out the investigation, which resulted in a raft of terror-related charges for naturalized citizens Ali Kourani of the Bronx and Samer el Debek of Dearborn, Mich. Prosecutors say Hezbollah recruited the men as "operatives," provided them with "military-style training," then gave them a variety of ominous tasks.

Prosecutors in the Southern District of New York say the 32-year-old Mr. Kourani conducted "pre-operational surveillance" of military and law-enforcement sites around New York as well as Kennedy Airport. The feds allege that Mr. De-

The Joongang Daily newspaper wrote, "We are absolutely dumbfounded by the remarks," while the Korea Herald opined, "Given the higher frequency of the North's missile tests in recent months, the complete deployment of the system is urgent. Anti-missile capability has become a matter of survival for the South."

Mr. Moon also tried to reassure Sen. Dick Durbin of Illinois, the second-ranking Senate Democrat, who visited Seoul in late May, that he wouldn't reverse the decision to deploy Thaad. But Mr. Durbin came away even more concerned about the new President's plans. "It's my fear that he thinks—I hope I'm wrong—that [Moon] thinks that South Korea has a better chance working with China to contain North Korea than working with the United States," he told the Washington Examiner.

Anything short of dismantling the Thaad radar and the two sets of launchers deployed by the previous government is unlikely to appease Beijing. Abroad and at home, Mr. Moon's attempt to please everyone is bound to backfire. Meanwhile, North Korea may be emboldened to escalate its missile and other military provocations to test the new administration.

Mr. Moon still has time to fix his mistake before he meets President Trump in Washington later this month. Environmental assessments can and should be waived when national security is at stake. If Thaad doesn't satisfy that requirement, it's hard to imagine what does.

Mr. Debek's alleged Panamanian operations are consistent with Hezbollah's presence across Latin America that goes back to the bombings of the Israeli embassy and a Jewish community center in Buenos Aires, in 1992 and 1994 respectively, killing more than 100 people.

In 2011 U.S. investigators foiled a plot to kill the Saudi ambassador at a Washington restaurant, leading to a guilty plea by the would-be assassin. Hezbollah was also behind a 2012 bus bombing in Bulgaria that killed five Israeli tourists and their local bus driver.

Iran bankrolls Hezbollah to the tune of \$200 million annually and provides most of the 80,000 missiles the group points at Israel. The latest allegations are a reminder that the Tehran regime still deserves its reputation as the world's leading state sponsor of terror.

America's Steel-Trapped Minds

Donald Trump has ordered a "national security" review of steel imports with a goal of justifying a broad-based tariff. If his advisers look honestly at the evidence, they can't possibly find enough to justify such a job-killing, economically harmful policy.

Start with the fact that U.S. steel prices are already higher than in the rest of the world, and the gap has significantly widened over the past five years amid increased import duties. In 2012 the average price of cold-rolled coil produced in the U.S. was 11.5% and 12.1% higher than the Chinese and Southern European equivalent. This year U.S.-made steel is 34% and 27% more expensive, respectively.

American steel makers cry "dumping," but is every foreign company in every country dumping? The U.S. Commerce Department has already imposed 152 antidumping or countervailing-duty orders on imports from 32 countries, and many more cases are pending. Commerce charged South Korea and Turkey with dumping welded line pipe in 2015 and last year slapped duties on imported cut-to-length steel plate from Brazil, China and Turkey. Antidumping duties contributed to a 25% decline in foreign imports between 2015 and 2016.

Domestic steel makers have exploited these protectionist measures to raise prices and boost their bottom lines. Last year Nucor posted an 11.9% profit before taxes, depreciation and amortization. AK Steel's margins have doubled in two years to 8.5% while Steel Dynamics's has increased by half to about 15%.

Commerce Secretary Wilbur Ross nonetheless says that antidumping duties are "not able to resolve the broader structural economic harm to the U.S. steel industry caused by massive global overcapacity and unfair foreign competition." His beef is that China, which accounted for nearly half of the world's output last year, has driven down global prices and increased pressure on U.S. steel companies.

The reality is that foreign competition forced the U.S. steel industry to become more efficient—or at least it did before the tariff walls began going up. Over the past four decades, production has shifted from unionized integrated mills that use blast furnaces and iron ore to lower-cost mini-mills that employ electric arc furnaces, scrap metal and non-unionized labor. Steel from integrated mills makes up a third of domestic production, down from about three-quarters in 1980.

Domestic manufacturers that were slow to adapt, such as Bethlehem Steel, have gone out of business while leaner steel makers that have embraced new technologies are prospering. In

A new Trump steel tariff would crush his 'forgotten' workers.

April U.S. Steel slashed its annual profit forecast to invest in retrofitting decades-old mills. Improvements in technology and workflow are the main reasons the U.S. steel workforce has shrunk—and survived an onslaught of competition.

Yet U.S. foundries are still running at only 71% capacity while imports make up a quarter of the U.S. market. One reason is that most advances in high-strength steel have occurred overseas. Many downstream consumers say domestic steel doesn't meet industry quality or safety standards. Mini-mills produce lower-grade metal that's suitable for roads and buildings, but not as much for automotive sheet or appliances.

This excess capacity should moot natural security concerns. Defense consumes less than 3% of domestic steel, and U.S. foundries would have plenty of spare capacity to ramp up production in wartime. Canada, Mexico and South Korea accounted for 40% of imports last year, while China and Russia together provided 7%.

The greatest harm from broad-based steel tariffs would be to the thousands of American businesses and workers that use steel. These would include the higher cost of American steel for construction (42% of steel shipments), automotive (27%) and machinery (9%). Public works and homes would cost more to build.

Many U.S. companies that compete globally would risk losing business to overseas competitors. Some would turn to substitute materials such as plastic or aluminum, tweak their supply chains or move production overseas. Auto makers would likely utilize more high-strength aluminum and shift more production to Canada and Mexico. American steel workers could even be harmed if demand for steel drops as users adapt to higher prices.

There are 16 times more workers employed today in U.S. steel-consuming industries than the 150,000 or so American steelworkers. A study by economists Joseph Francois and Laura Baughman found that more American workers lost jobs (200,000) after George W. Bush imposed steel tariffs in 2002 than were employed in the entire steel industry at the time (187,500). The result was \$4 billion in lost wages.

The case against steel tariffs is so overwhelming that it's hard to believe even Mr. Ross can find a way to justify it. The motivation could only be to assist the politically clamorous owners of a handful of steel companies that would exploit government favoritism to raise prices. The losers would be millions of the so-called forgotten men and women the President vowed to help during his campaign.

The Future Will See a Robot-Human Alliance

By Ken Goldberg

Humans have been beaten by a machine again. Last month the world's top-ranked player of Go, an abstract strategy board game, lost to Google's AlphaGo program. This marked a major achievement for machine learning, given the game's complexity.

What might be more important, though, went less noticed: Around the same time, some of the world's top Go players began competing alongside the AlphaGo program in human-machine teams. The players learned new strategies by studying AlphaGo's previous games and said working with the program gave them new confidence. This suggests a different way to think about the coming era of artificial intelligence.

Most computer scientists agree that predictions about robots stealing jobs are greatly exaggerated. Rather than worrying about an impending Singularity, consider instead what we might call Multiplicity: diverse groups of people and machines working together to solve problems.

Multiplicity is not science fiction. A combination of machine learning, the wisdom of crowds and cloud computing already underlies tasks Americans perform every day: searching for documents, filtering spam emails, translating between languages, finding news and movies, navigating maps, and organizing photos and videos.

Consider Google's search engine. It runs on a set of algorithms with input from a large number of human users who share valuable feedback every time they click on or skip over a link. The same is true for spam filters. Every time someone marks an email as spam or overrides a filter, it helps fine-tune the system for determining what is relevant.

Multiplicity allows Amazon to recommend books, Netflix to suggest movies and Facebook to organize newsfeed posts. Millions of people show their preferences by clicking, and that data is used to build and maintain statistical models that predict what users want.

The key is clustering people and products, which allows the algorithm to make recommendations under the assumption that similar people have similar tastes. A continuing stream of human interaction ensures that the system evolves as new items are introduced and as tastes change.

While scientists still don't understand Multiplicity very well, they are discovering clear benefits to machine diversity. Researchers have developed a family of techniques known as "ensemble learning," in which a set of specialized algorithms work together to produce a single result.

One variant, known as "random forests," was developed by Leo Breiman and Adele Cutler at the University of California, Berkeley. They proved that in complex problems with noisy data, a group of "decision trees" will always outperform a single tree—so long as the trees are sufficiently diverse.

By the same token, the benefits and challenges of human diversity have been recognized for centuries in political science, economics and sociology. Experiments on group problem-solving show that the diversity of the people involved is more important than their total IQ.

Perhaps the most exciting area of machine learning is deep learning, in which millions of parameters are tuned based on diverse training examples of speech or images that have been labeled by people.

Call it Multiplicity: diverse groups of people and machines working together.

In robotics, too, the exciting progress, especially in autonomous driving, can be characterized in terms of Multiplicity. Data from a varied group of human drivers is combined to demonstrate appropriate responses to varying conditions, and to train multiple statistical machine-learning algorithms that run on distributed hardware.

The systems must be continuously updated and fine-tuned based on changes in road, weather and traffic conditions, and as human expectations evolve. All this requires a continuing feedback cycle with people at the core.

Collective intelligence with artificial intelligence enables many of the most sophisticated and effective systems in use today. If people stopped providing input, these systems would quickly become outdated and would deteriorate.

Despite years of experience in human factors and human-machine interfaces, more research is needed on the best ways to combine diverse groups of people with diverse groups of machines. The important question isn't when machines will surpass human intelligence, but how humans can work together with them in new ways.

Multiplicity is collaborative instead of combative. Rather than discourage the human workers of the world, this new frontier has the potential to empower them.

Mr. Goldberg, a professor of engineering at the University of California, Berkeley, is director of the People and Robots Initiative.

Venus Shines in the Shadow of Mars

By Ray Jayawardhana

The U.S. has long played favorites with Earth's planetary neighbors. It operates exploration rovers on Mars but has ignored Venus for years.

Even Barack Obama and Donald Trump agree on the importance of a human mission to Mars, yet each has remained silent on Venus. Mars is farther from Earth—why has it managed to push Venus off the radar screen?

The American infatuation with Mars has a lot to do with its potential to support life. Mars is half the size of Earth and home to a flimsy atmosphere, a frigid climate and horrendous dust storms. But the red planet might have harbored microbes long ago, and it could play host to well-equipped astronauts in the not-too-distant future.

Venus's inhospitality wasn't always a given. As recently as the 1960s, some scientists thought Venus would be like Earth because it is similar in size, mass and composition.

The Soviet engineers who designed Venera-4, the first spacecraft to penetrate the Venusian haze 50 years ago, geared it for flotation in case of a water landing. But the probe perished before it reached the planet's surface, after encountering hellish temperatures, bone-crushing pressure and sulfuric-acid clouds.

Earth and Venus may have resembled each other long ago but diverged. Farther from the sun, Earth held on to much of its water, while early oceans on Venus boiled off into space. As carbon dioxide built up in the Venusian atmosphere, it trapped more heat, triggering a runaway greenhouse effect and present-day temperatures hot enough to melt lead.

Even though conditions on Venus are uninviting, scientists searching for potentially habitable planets around other stars are keen to understand how two similar worlds turned out so differently. Researchers want

to learn how its surface is rejuvenated geologically, and why Venus spins in the opposite direction to the other planets.

Scientists aren't sure how active its volcanoes are or whether it has lightning. They are also puzzled as to why clouds whip around the planet every four Earth days, at super-hurricane speeds, but Venus itself rotates at a leisurely 243-day pace.

The second planet deserves more study because once it may have been like Earth.

Despite the lure of mysterious Venus, NASA hasn't dispatched a dedicated probe since the radar-mapping Magellan mission ended more than two decades ago. The European orbiter Venus Express kept watch for eight years until 2014, revealing a surprisingly cold region and a tenuous layer of ozone high in the atmosphere. In December 2015, a refrigerator-sized Japanese spacecraft named Akatsuki—meaning "dawn"—survived a near-fatal engine failure to reach Venus's midst after a five-year delay.

NASA had a chance to make amends to Venus earlier this year. Among five mission concepts vying for a slot on the space agency's Discovery program, two proposed a visit to Venus. One aimed to drop a probe that would sample the air, and the other proposed mapping Venus's surface at high resolution from orbit. But NASA announced in January that neither had made the cut.

Given all that scientists expect to learn from Venus, the planet does not deserve to remain in its sibling's shadow.

Mr. Jayawardhana, an astrophysicist and dean of science at York University in Toronto, is the author of "Strange New Worlds" (Princeton University Press, 2011).

OPINION

Comey Closes the Case—Almost

By Peter J. Wallison

Now we know, thanks to former FBI Director James Comey's testimony last week, that President Trump wasn't a target of the investigation into Russian meddling in the 2016 election.

That's by far the most important thing Mr. Comey said. For a year, the FBI has been looking into possible collusion between the Trump campaign and Russia, and apparently there wasn't enough evidence to make Mr. Trump a target. That news should put to rest—as the president had hoped—an allegation that, if true, would undoubtedly have caused even Republicans in Congress to consider impeachment.

But Mr. Comey's testimony has put another question on the table: whether the president attempted to obstruct justice. According to Mr. Comey, he met with Mr. Trump privately in the Oval Office while the FBI was investigating former national security adviser Mike Flynn. "I hope

The president's insistence on disputing the former director's testimony was a needless complication.

"you can see your way clear to letting this thing go," Mr. Comey says the president told him. The former FBI chief testified that the president also asked him for "loyalty." Mr. Trump later fired Mr. Comey, possibly because he hadn't shown it.

As this national obsession continues, there will be heated discussions about whether Mr. Trump's statements and actions, and the surrounding circumstances, were an effort to obstruct justice. The answer: Given what we know, there is very little chance Special Counsel Robert Mueller will bring an obstruction charge.

For one thing, the facts are ambiguous. Yes, Mr. Trump asked Mr. Comey to abandon the investigation of Mr. Flynn, but he didn't order it—something that, as president, he had the authority to do. As Mr. Comey remembered the president's request, it



President Trump and then-FBI Director Comey at the White House, Jan. 22

was couched as a wish: "I hope you can see your way clear . . ."

Similarly, the president's desire for loyalty is not unusual. All presidents expect loyalty from those in their administrations. The executive branch cannot function if subordinates aren't loyal to the president. Leaks are evidence of this.

In addition, Mr. Comey reported Mr. Trump said several things that are inconsistent with an intent to disrupt the investigation generally.

The most serious part of the inquiry relates to the Trump campaign's possible collusion with the Russians—clearly an impeachable offense if it occurred with Mr. Trump's knowledge or direction. Mr. Comey reports Mr. Trump as saying "if there were some 'satellite' associates of his who did something wrong, it would be good to find that out." That clearly indicates Mr. Trump wasn't trying to keep the FBI from investigating the Russia collusion issue.

These factual ambiguities alone make the case for obstruction of justice far less than clear-cut. Legal and political considerations militate in the same direction.

There is a strong argument that, as a matter of law, the president cannot be criminally guilty of obstructing justice if he simply orders the FBI director not to investigate someone. All appointed officials are the president's subordinates, and he is responsible for, and has authority over, their actions.

Under this conventional analysis of the executive branch, the president is authorized to direct or command investigations or prosecutions by the Justice Department, which acts on his authority alone. Thus, the president cannot be guilty of obstruction of justice unless he attempts to obstruct an investigation of himself, as in Watergate.

We don't know how many times past presidents have instructed the Justice Department to prosecute, or not, a criminal case. When the House voted in 2012 to hold President Obama's attorney general, Eric Holder, in contempt for failing to turn over documents, who directed that he not be prosecuted? It isn't publicly known how often this happens, but Mr. Mueller and the rest of the professionals in the Justice Department certainly know. That adds further ambiguity to Mr. Mueller's decision.

The idea that on this limited evidence Mr. Mueller would find the president obstructed justice, and thus set in motion proceedings that could unseat the winner of a presidential election, is a dream of the "resistance," but it isn't credible.

The smartest thing ever said about Mr. Comey's approach to the Hillary Clinton email issue—shaming her in public but refusing to recommend prosecution of what was clearly a serious crime—was that the FBI director didn't want to make a decision

that would determine the outcome of the 2016 election.

Similarly, Mr. Mueller probably will scold Mr. Trump for his actions, which certainly violated normal Washington protocol, but say ultimately that prosecution isn't warranted.

There isn't even much for Mr. Mueller to investigate. Only two people are involved, Messrs. Trump and Comey, and the latter's testimony is the only evidence Mr. Mueller needs. He could make the decision promptly, allowing the president and Congress to turn to the important domestic and foreign issues America faces. Mr. Comey's failure before last week to acknowledge publicly that Mr. Trump wasn't a target of the Russia probe shows the damage unnecessary delay can do.

What might have foreclosed this favorable outcome, however, is the president's unnecessary challenge Friday to Mr. Comey's account. Never one to leave well enough alone, Mr. Trump accused Mr. Comey of lying and offered to give his own testimony. That sets up a conflict that the media will treat as a test of Mr. Trump's honesty.

Unless there are tapes—which would raise even more questions—this is a challenge the president will lose. His exculpatory recollections under oath, whatever they are, will not be more credible than Mr. Comey's contemporaneous memorandums.

If that is Mr. Mueller's finding, the president will have given his enemies the priceless opportunity to claim he lied under oath, an impeachable offense—at least in Republican eyes when President Clinton was in the dock.

But the situation isn't irretrievable. Mr. Mueller could still say the president's testimony would change nothing and needn't be taken, since Mr. Comey's statements and memorandums simply don't make out a case of obstruction. Mr. Mueller would face merciless media and Democratic criticism for cutting this circus short.

But if he is the man of integrity everyone has averred, he will follow this course for the good of the country.

Peter J. Wallison is a senior fellow at the American Enterprise Institute. He was White House counsel in the Reagan administration.

The Trump Budget Still Shortchanges The Military

By Mac Thornberry

Ask anyone who served in the U.S. military in the late 1970s, and he will tell you it was a miserable time. Morale was low. Training was deficient. Weapons and equipment didn't work. Good people left the armed services in droves.

At the same time the world was growing more dangerous, with the Soviet invasion of Afghanistan, the Iranian revolution and hostage crisis, and multiple nations falling to communism.

A decade later the situation had turned around. How did America go from the hollow military of the 1970s to the strength that helped drive the Soviet Union out of existence? Are there lessons we could apply today?

After the stagnant '70s, Presidents Carter and Reagan boosted spending by double digits annually.

A few months ago the vice chiefs from each branch of the U.S. military appeared before the House Armed Services Committee, which I lead. Their testimony certainly got my attention. Only three of the Army's 58 Brigade Combat Teams are "ready to fight tonight." More than half the Navy's airplanes cannot fly because they are awaiting maintenance and spare parts. The Air Force is short 1,500 pilots and 3,000 mechanics, and its fleet is older and smaller than ever.

All that is alarming enough, but what surprised me most was testimony that pilots today get fewer training hours in the cockpit than during the dire days of the 1970s.

How did this happen? Since 2010 the defense budget has been cut by more than 20%, but the world hasn't become 20% safer.

To get planes, ships and equipment ready to deploy to the Middle East or elsewhere, the military has had to take parts off other planes, ships and units. This cannibalization has diminished American readiness. The military isn't prepared to carry out all the missions it may be asked to do in a time of war.

What is the answer? Rebuilding the military after the 1970s took serious and sustained effort. When the Soviets invaded Afghanistan, the Carter administration raised defense spending by 12% in 1979 and 15% in 1980.

Ronald Reagan added even more: 17% in 1981 and 18% in 1982. After that the rate of growth slowed a bit, but in all there were five straight years of double-digit increases followed by three more of nearly 10%. At that point the defense budget was about 6% of America's gross domestic product. Today it's only 3.1%.

Repairing the damage done to the military in our time will require a similar sort of response. It's wrong to send brave men and women out on missions for which they aren't fully prepared or without the best equipment the nation can produce.

President Trump has committed to rebuilding America's military, but his first budget proposal doesn't follow through on that promise. Admittedly, very few of his Pentagon appointees were in place to help write the budget. Still, the proposal he sent to Congress for next year adds to defense spending a mere 3% above President Obama's last budget. Although it may stop the bleeding, it won't do much to help the military get well.

At the same time, the Pentagon needs to get better value for the money it spends. Outdated acquisition systems result in wasted dollars and delays in getting our troops the weapons and equipment they need. That is why defense reform has been, and will continue to be, such a high priority for the House and Senate Armed Services Committees.

But fixing the military's planes and ships cannot wait until the budget is balanced. America's military personnel need those tools now. Few remember how fierce the opposition was to the defense buildup of the 1980s. But looking back, President Reagan's policy was obviously the right one—for those who served and for the good of mankind.

I hope that 30 years from now they can say we did the right thing as well.

Mac Thornberry, a Texas Republican, is chairman of the House Armed Services Committee.

In Iran, Radio Liberty Doesn't Live Up to Its Name

By Sohrab Ahmari

President Trump is hiring a chief executive for the Broadcasting Board of Governors, the federal agency that oversees Voice of America and other media outlets charged with beaming light and liberty into closed societies world-wide. Politico reports the leading contender is Michael Pack, a conservative filmmaker and president of the Claremont Institute. Whoever gets the job faces an uphill battle to reform an agency that has lost its sense of mission.

To get a feel for the dysfunction, consider Radio Farda, the Persian-language component of Radio Free Europe/Radio Liberty. With an annual budget of \$117 million, RFE/RL is supposed to serve as a surrogate press in 23 countries across Europe and Asia that restrict media freedom. Farda is one of its most important broadcasters, intended to give Iranians a rigorous, fair and morally credible alternative to propaganda from Tehran.

But Farda too often fails to deliver. Nowhere is this more apparent than in its treatment of Israel. Here's how it recounted a Palestinian attack that took place March 19, 2016, amid last year's stabbing intifada: "Israeli media, quoting security officials, claimed that Abdullah Ajlouni, a 20-year-old youth, had, as Israeli media put it, approached several Israeli soldiers in a 'suspicious manner,' and had tried to attack them."

In fact, Israeli forces didn't open fire on Ajlouni merely because he had acted suspicious. Ajlouni had pulled a knife and stabbed one of the soldiers before they opened fire.

The story went on to claim that Ahmad Dawabsheh, a 6-year-old Palestinian boy who eight months earlier survived an arson attack by hard-line Israeli settlers, had been "transferred to Spain for treatment of wounds sustained in the flames, and Israel still hasn't arrested anyone on suspicion of carrying out the attack."

Again, incorrect. Israel had two months earlier indicted two Jews, charging one with murder over the attack, which killed Ahmad's parents and 18-month-old brother. Iranians relying on Farda to understand these events were given the false impression that Israel is a place where Jews kill Arabs with impunity. Nenad Pejic, a former Balkan correspondent who now serves as RFE/RL's Prague-based editor-in-chief, conceded in an email that the stabbing story that also discussed the Dawabsheh case had been "inaccurate."

Here's a Farda headline, from a March 10, 2016, news brief: "Three Palestinians and One American Killed in Clashes in Israel." The implication of saying that Palestinians were killed in impersonal "clashes" is that unmentionable Israelis hover in the background as potential culprits. It is only in the second paragraph that the story identifies the attacker as a "Palestinian man." Omitted altogether is that the "clashes" started after he began stabbing mainly Jewish civilians.

Such obfuscation of assailants' and victims' identities reinforces the frame, familiar to Iranians from their own media, in which Israelis are always aggressors. Mr. Pejic acknowledged that this story was "incomplete."

Mr. Pejic said the label "extremist" was "misused" with respect to Mr.

McCain in a 2012 article. But he said the other instances arose from quotes, or came from opinion pieces, or were otherwise "in line with the kind of political observation frequently found in news analysis."

Yet RFE/RL couldn't point to any instances in which Democrats or supporters of the deal were labeled "extremists"—or with other pejoratives like "peaceniks" or "hippies." As a taxpayer-funded broadcaster, RFE/RL has a particular duty to refrain from partisanship when reporting on American politics.

Perhaps most dismaying are the stories that seem to be borrowed wholesale from state-run Iranian media.

An April 2016 Farda headline quoted President Hassan Rouhani to the effect that "If It Weren't for Iran's Assistance, ISIS would Have Captured Baghdad and Damascus." Another, from November 2016, read: "Iran's Deputy President Visits Shiite Festival in Iraq."

Like any item that might appear in Islamic Republic of Iran Broadcasting, these U.S.-funded stories deferentially quoted one Iranian official after another without offering context or any alternative view. Mr. Pejic agreed that these stories were "incomplete."

If any federal agency could use a Trumpian shake-up, the Broadcasting Board of Governors is it.

Mr. Ahmari is a Journal editorial writer in London.

Notable & Quotable: Hillary

From "Can Hillary Clinton Please Go Quietly Into the Night?" by T.A. Frank, VanityFair.com, June 9:

There's a fine line—or maybe not even so fine a line—between boosting morale and monopolizing the spotlight. One reason Bill Clinton was able to make a name for himself decades ago was that previous candidates had the grace to get out of the way. Jimmy Carter and Walter Mondale and Michael Dukakis weren't trying to place themselves at center stage during the campaign of 1992. The Clintons, by contrast, kept sticking around. . . . As a friend of mine recently wrote to me in an e-mail, "They both had to be president?"

Even the name of [Mrs.] Clinton's PAC has a presumptuous ring to it. When someone has driven a bus off the road and hurled passengers out of their seats, it's a bad time for the

driver to stagger back to the wheel and call out "Onward together!" Onward, fine. Together, maybe not.

All of this would be easier to take if Hillary were on a crusade for a distinctive cause, in the manner of Bernie Sanders or Pat Buchanan or Jesse Jackson or Ross Perot. But when she offers her take on the world, she speaks in clichés and vague generalities like "progress" versus "turning back the clock."

Such teleological smugness (to which Barack Obama was likewise prone) doesn't just attract the ire of conservatives; liberals can get miffed, too. Is "progress" on the side of expanding NATO or the opposite? Is it on the side of greater National Security Agency surveillance or of less? Is it in favor of immigration amnesty or high-tech border security? We all want to move forward, but maybe we're not all facing Hillary's way.

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, June 13, 2017 | B1

Yen vs. Dollar 109.6940 ▼ 0.58%

Hang Seng 25708.04 ▼ 1.24%

Gold 1265.50 ▼ 0.24%

WTI crude 46.44 ▲ 1.33%

10-Year JGB yield 0.059%

10-Year Treasury yield 2.191%

Fujifilm Reveals Broader Losses

By MEGUMI FUJIKAWA

TOKYO—Fujifilm Holdings Corp. said losses from accounting irregularities in New Zealand were much larger than first thought and extended to the company's Australian office-equipment unit, a development that raises further doubts about Japanese firms' control over their overseas operations.

The Japanese camera and copier maker said six board members at its mainstay subsidiary Fuji Xerox would resign to take responsibility for losses that ballooned to ¥37.5 billion (\$340 million) between fiscal 2010 and 2015, from ¥22 billion. It also docked pay from all the board members at Fuji Xerox and two senior group executives. Only one of

the resigning board members will stay with the company.

Fujifilm said the scandal-related losses shouldn't widen further because it had reviewed all existing contracts at the two units and didn't see the same problems in any of its other markets, including Japan.

The latest example of Japanese accounting irregularities is likely to add to investors' concerns over corporate governance at Japan's companies, after a long-running accounting scandal at Toshiba Corp. and last year's admission by Mitsubishi Motors Corp. that it falsified fuel-efficiency data for some of its cars.

Fujifilm launched an independent investigation in April into the irregularities at its New Zealand Fuji Xerox unit,



KIM KYUNG-HOON/REUTERS

Fujifilm's Kenji Sukeno says a subsidiary got too much leeway.

several months after the first media reports of problems at the company.

The findings by the third-party panel released Monday

showed that the losses in New Zealand were larger than first thought and that an Australian sales subsidiary had followed similarly inappropriate ac-

counting practices.

Too much leeway had been given to Fuji Xerox to follow different practices from its parent company because the unit had helped support Fujifilm's bottom line as the company tried to reinvent itself in response to the digital revolution, said Kenji Sukeno, Fujifilm's president and chief operating officer.

"We showed too much respect for Fuji Xerox because it contributed to profits when Fujifilm was reforming itself after its film business peaked in 2000. We didn't nag at Fuji Xerox very much, and that is something we now regret," Mr. Sukeno said at a news conference after the release of the company's delayed earnings for the business year ended

Please see LOSSES page B2

Uber Furthers Push for Diversity

By GREG BENSINGER

Uber Technologies Inc. plans to name Nestlé SA executive Wan Ling Martello to its board, people familiar with the matter said, in Uber's third prominent female hire of the past week as the ride-hailing company grapples with a leadership crisis.

Uber's board of directors met Sunday in Los Angeles to weigh a possible leave of absence for Chief Executive Travis Kalanick and the potential departure of Emil Michael, chief business officer and Mr. Kalanick's closest lieutenant.

An email sent Monday to employees said Mr. Michael has left the company. Mr. Michael didn't say whether he'd been pushed out or left on his own. The Wall Street Journal had reported he planned to resign as soon as Monday following the results of an investigation into Uber's workplace culture by former U.S. Attorney General Eric Holder. The report was presented to the board on Sunday.

Uber has declined to comment. Ms. Martello couldn't be reached for comment, and Messrs. Kalanick and Michael haven't responded to requests for comment.

The company has been grappling with the fallout from a former software engineer's February blog post alleging that Uber ignored harassment claims from workers.

It is also dealing with a lawsuit by Google parent Alphabet Inc. over the alleged theft of self-driving-car trade secrets, a U.S. probe into its business practices, and the departures of senior executives.

The results of Mr. Holder's investigation are set to be released to employees Tuesday after the board unanimously voted to adopt all its recommendations. They were expected to include new human-resources processes, said people familiar with the matter.

Mr. Michael's exit could complicate a proposal that Mr. Kalanick step aside for a period of time as he deals with the death of his mother in a boating accident last month that left his father seriously injured. The board took no action on the idea and left it to Mr. Kalanick to decide, a person familiar with the matter said.

Uber is set to soon announce Ms. Martello, Nestlé's executive vice president for Asia, Oceania and sub-Saharan Africa, as its eighth voting director, according to people familiar with the matter.

Ms. Martello previously served as chief financial officer for the Kit Kat maker and was CFO for Wal-Mart Stores Inc.'s international division.

The addition of Ms. Martello follows last week's hiring of Harvard Business School management professor Frances Frei and Apple Inc. music executive Bozoma Saint John.

Ms. Frei was hired as senior vice president of leadership and strategy to assist Uber's human-resources team, while Ms. Saint John will be the company's chief brand officer.

INSIDE



HIGHER TAXES DENT CAR SALES IN CHINA

AUTOS, B3

HEARD ON THE STREET

By Charley Grant

GE Needs To Bring Good Things Back to Life


A fresh face will be leading General Electric. Next up for the industrial giant: freshening up shareholder returns.

GE said Monday that longtime Chief Executive Jeff Immelt will retire on Aug. 1. The change is more of a makeover than a full-scale rebuild. John Flannery, a veteran company executive, will take over as CEO. Finance chief Jeff Bornstein will remain in place. GE said that succession planning has been under way since 2011.

Investor returns under Mr. Immelt were disappointing. Much of that was due to bad luck. Mr. Immelt took the helm on Sept. 10, 2001, and presided over the company during the 2008 financial crisis.

More recently, however, GE has missed analyst sales estimates in 10 of the past 13 quarters, according to FactSet. The rate at which GE has converted operating profit into free cash flow, an

The conglomerate has missed analyst sales estimates in 10 of the past 13 quarters.

important metric for an industrial company, has deteriorated to 76% in 2016 from 91% in 2014 (GE subsequently changed the way it measures cash-flow conversion).

Operating cash flow from the industrial business was negative \$1.6 billion in the first quarter, though GE held this year's expectation of \$12 billion to \$14 billion constant. Mr. Immelt said last month that deeper cost cuts might be needed for the company to meet a goal of earning \$2 a share in 2018.

Even the move to spin off GE Capital, which investors celebrated, has had just a limited effect on the share price. GE shares have lagged behind the Dow Jones Industrial Average since the split was announced in 2015.

So, Mr. Flannery has his work cut out for him. On the bright side, he will enjoy the benefit of lower expectations. GE trades at about 16 times forward earnings, according to FactSet—not necessarily cheap, but well below the nosebleed valuations that Mr. Immelt had inherited. The shares yield a

Please see HEARD page B2



CRAIG WARGA/BLOOMBERG NEWS

Blue Jeans Get Their Game Back

Denim makers are playing up stretch, comfort and styles that fit more like leggings

By ANNE STEELE

searcher Euromonitor. Denim makers languished on innovation in design and function, industry experts say.

But fashion momentum is shifting back to denim. Sales were up 1.7% in 2016 and are expected to rise 2.2% this year, according to Euromonitor, aided by emerging vintage trends and a push to add flexibility and comfort.

Ms. Lacey says she now owns nine pairs of jeans, nearly all of them purchased in the past year—and says new fits and finishes enticed her to buy again. She favors sailor-fit jeans, high-waisted and cropped with a wider leg, but she also has snapped up pairs with silhouettes she hadn't seen before inspired by 1980s and '90s style. "It feels really

fresh," Ms. Lacey says. "I want to have all of them."

That is welcome news for the \$18 billion U.S. denim business, whose big players include Levi Strauss & Co. and Gap Inc.'s Old Navy.

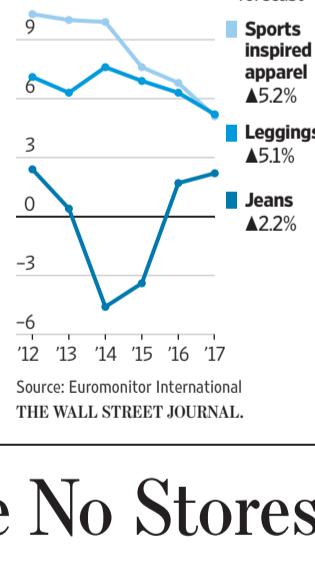
Low-rise skinny jeans dominated shelves for too long, says NPD Group analyst Marshall Cohen. The styles grew stale, as people either didn't fit into them or didn't need to buy more of them.

Meanwhile, they were starting to wear more-comfortable casual styles more often. "We saw this element of extreme casualization in play that made it acceptable to wear sports apparel beyond the intended purpose of playing sports," says James Curleigh,

Please see JEANS page B2

Denim Rebounds

After years of falling sales, jeans are on the rise again. U.S. retail sales, change from previous year.



Source: Euromonitor International

THE WALL STREET JOURNAL.

The Mall of the Future Will Have No Stores

By ESTHER FUNG



ment: reducing, or even eliminating, retail from the equation.

Some landlords plug empty spaces with churches, for-profit schools and random enterprises while they figure out a long-term plan. Others see a future in mixed-use real estate, converting malls into streetscapes with restaurants, offices and housing. And some are razing properties altogether and turning them into entertainment or industrial parks.

Ford's 10-year lease at Fairlane Town Center "brought 1,800 to 2,000 employed people to our property, people with a paycheck," said Mr. Powers. The mall, which is still anchored by Macy's, J.C. Penney and Sears, is 91% leased, he said, and its food operators are doing better in the daytime than they did before, as Ford workers pile in for lunch.

Please see MALLS page B2



FORD LAND

Ford Motor moved some of its staff into a Dearborn, Mich., mall.

somewhat serendipitous."

As retailers close bricks-and-mortar stores at an accelerating pace, shopping-center landlords like Starwood Cap-

ital are facing a vexing question: What to do with all this empty space?

Their solutions are varied but all have a common ele-



NORIHIKO SHIROZU/REUTERS

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JEANS

Continued from the prior page
president of the Levi's brand
for Levi Strauss & Co. "We saw
women wearing yoga pants to
dinner."

By 2014, headlines were declaring denim in danger. In 2015, Tom Brady was splayed out in the pages of GQ wearing a \$375 sports jacket with \$50 Under Armour sweatpants. In that same year, Levi's admitted there was a problem.

"The market has moved to super-stretchy, supersoft fabric, and we're out there with more rigid fabric," Levi's Chief Executive Chip Bergh told analysts at the time. "We missed from a product standpoint, is kind of the real quick and dirty...and so we're scrambling."

Athleticwear sales are still growing at rates quadruple those of denim.

Alison Partridge, vice president of women's merchandising at Gap Inc.'s Old Navy, says athleisure's focus on comfort has pushed the denim industry to evolve and innovate. "The athleisure trend may be the best thing that has happened to denim," she says.

Old Navy challenged itself to make denim that would fit and perform the way leggings do, but would look like a pair of jeans, Ms. Partridge says. Last year, the brand launched a "Built-in Sculpt" denim line that is almost twice as

stretchy as its standard jeans. And it isn't just for women: Old Navy now includes stretch denim across men's and children's lines.

Levi's began its pivot in 2014 by creating an athletic fit for men and relaunched its entire women's line in 2015. Last year, it altered an iconic product, introducing stretch into its 501 jeans, the first blue jean, created nearly a century and a half ago for the likes of cowboys and miners. The 2016 change was almost contradictory, adding softness to denim, which was historically built to be durable.

VF Corp.'s Lee Jeans revamped its denim last year, with a campaign emphasizing stretch and fit. Its new "Dream Jean" promised to "look like a skinny jean outside and feel like a yoga pant inside."

Now, while athleticwear sales are still growing at rates quadruple those of denim, growth has begun to slow: Sales of leggings were up 6.8% in 2016 versus 7.6% in 2015, and "sports-inspired apparel" sales grew 6.3% versus 6.9%. Overabundance and a lack of innovation, some of the same reasons jeans washed out, may be factors.

Mr. Cohen says he isn't convinced the denim goodwill will last: Much of jeans makers' comeback has been fueled by the vintage resurgence rather than their own style innovations.

"It's in a reactive mode," Mr. Cohen says. "In 18 months, retailers will have to earn it on their own."

And the competition isn't sitting back—Nike Inc. recently scored a patent for "architecturally reinforced denim" designed with athletic endeavors in mind.

penditure.

The irregularities stem from leasing agreements the New Zealand and Australian units made with customers allowing them to pay monthly usage fees. In some instances there was no clear minimum usage requirement, leading to doubts about whether the fees would be sufficient for Fujifilm to recover costs, the company said.

Those rules covered areas such as business strategy, personnel changes and capital ex-

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THE WALL STREET JOURNAL

BUSINESS & FINANCE



CHRIS RATCLIFFE/BLOOMBERG NEWS

Qatar Airways CEO Akbar Al Baker criticized U.S. President Donald Trump for supporting an Arab air blockade of Qatar.

Airline Boss Chides Trump

DUBAI—The chief executive of Qatar's national airline struck a strident tone in the face of an air blockade imposed by its Arab neighbors, expressing dismay that U.S. President Donald Trump backed the action while talking up the carrier's growth prospects.

*By Nicolas Parasie
in Dubai
and Robert Wall
in London*

A group of Middle East countries led by Saudi Arabia, the United Arab Emirates, Bahrain and Egypt last week cut diplomatic and transport links to Qatar, accusing it of supporting Islamist groups and extremists in the region. Doha denies that it supports extremists. Mr. Trump has signaled he backed the move by Qatar's neighbors.

"I'm extremely disappointed in President Trump, I thought he was more shrewd," Akbar Al Baker, CEO of state-owned **Qatar Airways**, said in an inter-

view. "I was expecting that the U.S. will lead the challenge to this blockade," he said.

Mr. Al Baker, who has for years maintained friendly relations with Mr. Trump, is among the first Qatari executives to publicly lash out at the U.S. for its role in isolating the Persian Gulf state.

He called the four countries' blockade "an illegal act" that contravenes existing agreements with Qatar allowing free and unhindered air-space passage.

The tension with the U.S. comes at a politically sensitive time for Mideast airlines that have expanded rapidly on U.S. routes.

Some U.S. rivals, including American Airlines Group Inc., Delta Air Lines Inc. and United Continental Holdings Inc., have lobbied the Trump administration to curb the growth of airlines from the Persian Gulf, such as Qatar Airways, **Emirates Airline**, and Etihad Airways, though other U.S. carriers and tourist groups have

urged Washington to maintain an open market. The Trump administration hasn't said which side it would back.

The suspension of flights between the Arab states threatens to disrupt Qatar Airways' model, which consists of shuttling passengers from larger nearby countries like Saudi Arabia across its network of more than 150 destinations. Through Doha's airport, the airline carries millions of passengers every year, helping boost tourism and business, which are vital to Qatar's plan to diversify its energy-dependent economy.

"It will be a difficult year but we have a plan to mitigate any risk of the reduction of Qatar Airways' growth," Mr. Al Baker said.

The air blockade has affected 18 Qatar Airways destinations or about 50 daily flights since it was announced last week, according to Mr. Al Baker.

Mr. Al Baker said he would use the planes normally deployed on one of the affected

routes to accelerate the launch of several new destinations. The airline had earlier said that for 2017 and 2018 it expects to establish new routes to Thailand, Brazil, Chile, Ivory Coast, Ghana, Australia and Kenya among two dozen destinations.

"Now that we have the capacity available to us, we will deploy in those new destinations," he said. "The world isn't only these four countries," he said.

The airline late Sunday announced a 22% jump in profit for the fiscal year ended in March. "We are going to persevere, we are going to remain strong," he said.

Mr. Al Baker has tried to build the 20-year-old airline into a global aviation powerhouse with big purchases of Boeing Co. jets. In October, it agreed to buy 60 of Boeing's newest single-aisle planes. It also is a launch customer for the Chicago-based plane maker's new 777X, its biggest twin-engine jetliner.

MALLS

Continued from the prior page

Ford liked the mall's proximity to its main facility in Dearborn, which is being rebuilt over the next 10 years, and its wide open spaces.

"We didn't move walls, didn't change anything in a significant way," said Dave Dubensky, chairman and chief executive of Ford Land, the company's real estate arm.

A construction binge in the 1980s and 1990s left the U.S. oversaturated with malls. Growth in online sales and declining demand for full-price goods are causing retailers to shrink the number of stores and divert resources to e-commerce platforms.

In all, retailers have announced 2,880 store closings from January to April 6 of this year, more than twice as many as in the same period a year earlier, according to **Credit Suisse Group AG**. For the full year, the investment bank anticipates more than 8,600 stores to close. Analysts predict that 400 or so of the roughly 1,100 malls in the U.S. will close in coming years.

Many mall owners are trying to live up the experience, bringing more dining and entertainment tenants, and eschewing the traditional mix of middling food courts, fashion retailers and department stores.

"The appetite for experimentation is there," said Matthew Billerbeck, a Seattle-based senior vice president of design and architecture at CallionRTKL. "The industry had gotten complacent and formulaic."

One strategy is to convert enclosed malls into open-air properties that landlords call "lifestyle centers," with apartments, theaters, grocery stores, medical offices and other conveniences—and much

less retail.

In Arlington, Va., landlord **Forest City Realty Trust** is redeveloping Ballston Common Mall by knocking down the main entrance to create a plaza, removing two-thirds of the roof and installing more windows to create wider vistas of open spaces. The Cleveland-based real-estate investment trust is also building 406 apartments linked to the mall.

"We're turning the mall inside out," said Will Voegeli, senior vice president at Forest City Realty Trust. "We don't want a building with its back turned to the street."

The firm is converting what was once Macy's furniture store on the third level of the mall into a gathering space for residents, including outdoor patios, seating and landscaping. Its tenant mix will feature more food options and street-facing retail.

Sometimes developers conclude that the only way to save a dying mall is to level it and start over.

The City Center mall in

downtown Columbus, Ohio, was a community centerpiece where pop bands such as Hanson performed in the 1990s.

But the 1.25-million-square-foot mall started to deteriorate as competition from shopping centers increased.

As stores close, mall owners must decide how to make use of the empty space.

redevelopment plans," said Guy Worley, chief executive and president of Columbus Downtown Development Corp., a nonprofit development firm.

"It was built to be a mall and nothing else."

So, the city demolished the property over a two-year period and retained the underground parking structure, which was still used by workers downtown. In 2011, Columbus Downtown opened a park in its place called Columbus Commons, which has a performance space, two cafes, a carousal and bocce courts.

The park has spurred development around its perimeter, mostly office and residential, and hosts more than 200 events annually. The flagship Lazarus department store, which had been linked to the mall, is now an office building.

Taking some inspiration from parks and high-street retail in New York City, Mr. Worley said Columbus Downtown is looking to add restaurants and art galleries along the streets a block away from the park.

Hughes, is in order. Segment operating profit fell 33% from a year earlier, but equipment orders were up 30%. Mr. Immelt's timing on energy bets has been unfortunate, but Mr. Flannery's might be fortuitous.

Even without a total overhaul of the business, there should be good opportunities

to cut expenses and sharpen the company's portfolio, especially with activist hedge fund **Trian Fund Management** installed as a major shareholder.

GE shares were up 3.8% in early Monday afternoon trading. Mr. Flannery will have a good opportunity to keep that momentum.

HEARD

Continued from the prior page

healthy 3.5%.

BUSINESS NEWS

Charities' Role in Lifting Drug Sales

Drugmaker donations to charities for drug costs decline in wake of U.S. investigation

By JONATHAN D. ROCKOFF

U.S. sales of blockbuster prostate-cancer drugs have dropped sharply since the start of a federal investigation into charities that help patients pay for these drugs, as the manufacturers have reduced donations to the charities and instead given away the medicines for free.

Drugmakers donate hundreds of millions of dollars a year to charities that help U.S. patients cover out-of-pocket costs for drugs. In turn, the drugmakers rely on the charities to effectively boost the sales of those drugs. The assistance ensures patients fill their prescriptions, and insurance pays the rest of the tab.

Every \$1 million donated to charities can lead to up to \$21 million in sales for drug companies, according to Citi Research. Because very few companies make prostate-cancer drugs, they tend to donate proportionally more to these charities than manufacturers of other treatments do.

Federal prosecutors in late 2015 started to investigate charities that provide financial assistance to Medicare patients, and at least six companies—including the top two prostate-cancer drugmakers, **Johnson & Johnson** and **Pfizer** Inc.—have received federal subpoenas seeking information about their dealings with the charities, according to securities filings.

It is unclear what the prosecutors are looking into, and the U.S. Attorney's Office in Boston, which securities filings said sent the subpoenas, declined to comment.

Donations to funds providing prostate-cancer drug assistance have fallen off since the investigation began, according to industry officials, analysts



John Kleck was prescribed prostate-cancer drug Zytiga, but couldn't afford the \$2,900 monthly cost. Mr. Kleck ended up receiving the drug free of charge from Johnson & Johnson.

and charities.

With the foundations less able to help patients, the drug companies decided to give away more of the drugs for free. Sales of the two top-selling prostate-cancer drugs, J&J's Zytiga and Pfizer's Xtandi dropped 14% and 11% respectively in the first quarter from a year earlier.

The companies "got scared and stopped funding the cancer-assistance programs," said Sanford C. Bernstein & Co. analyst Ronny Gal. "So instead, they gave the drug for free. When you give patients [a drug] for free, it comes off your sales number."

The sales drop offers a window into a Byzantine arrangement that has drawn criticism for increasing health-care costs by keeping patients on ever-costlier medicines.

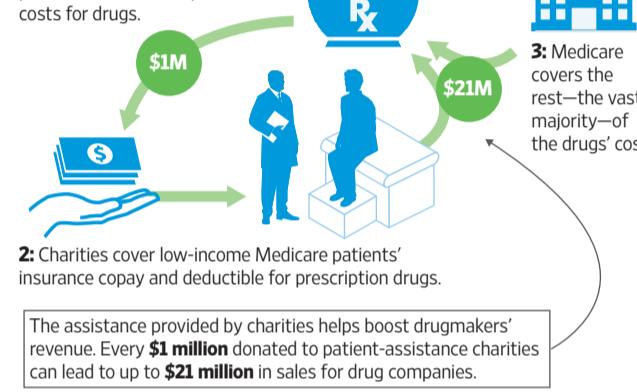
Patient-assistance charities help people skirt some of the hurdles that insurers use to control spending: Copays, coinsurance and high deductibles.

Zytiga lists for \$9,400 a month and Xtandi for \$9,900, according to wholesale-acquisition-cost data from Truven Health Analytics.

For commercially insured

Byzantine Arrangement

Drugmakers donate hundreds of millions of dollars a year to charities that help patients cover out-of-pocket drug costs, in turn supporting the pharmaceutical industry's sales.



Sources: WSJ staff reports, Citi Research

THE WALL STREET JOURNAL

patients, drug firms run their own foundations that assist low-income patients. But for Medicare patients, certain kinds of assistance from company-controlled foundations could run afoul of anti-kickback law that bars financial inducements in government-run programs. Around the time that Medicare's drug benefit,

known as Part D, went into effect in 2006, many independent charities began to spring up. They include the Patient Access Network Foundation, which is among the leading providers of charitable financial assistance to prostate-cancer patients. To avoid crossing anti-kickback rules, the charities aren't supposed to use

their aid to steer patients to any particular company's drug.

The eight biggest charities got more than \$1.1 billion in donations, mostly from drug companies, in 2014—the latest available data—to provide financial assistance to Medicare patients, according to Bernstein Research.

Starting in late 2015, companies including J&J, Pfizer, Biogen Inc., Celgene Corp., **Gilead Sciences** and Valeant Pharmaceuticals International Inc. received subpoenas or other requests about their relationships with these foundations, according to securities filings. Biogen, Celgene and Gilead declined to comment. Valeant said it is cooperating.

A J&J spokesman said the company donated more than \$47 million to various independent charities last year to help patients get treatment "regardless of the medicine prescribed by the physician," and J&J checks to make sure the foundations comply with all laws and regulations.

J&J has said federal prosecutors from Massachusetts asked for records "pertaining to payments to any" charities that provide financial assistance to Medicare patients.

Pfizer has said prosecutors asked for materials regarding the Patient Access Network Foundation and other charities. The PAN Foundation wouldn't say whether it has also received subpoenas.

Among the patients who wound up getting free drugs from a manufacturer because a charity wasn't accepting applications was John Kleck.

Mr. Kleck, a retired elementary-school teacher, was prescribed Zytiga in late March. He couldn't afford the \$2,900 he owed out of pocket for the first month of the prescription, said Bethany Lyon, the social worker at the UPMC CancerCenter who helped him secure assistance. Mr. Kleck met J&J's eligibility requirements, and the company is providing the drug free for the rest of the year.

Car Sales In China Slide Amid Higher Taxes

By TREFOR MOSS

SHANGHAI—China's passenger-car market is suffering a lean spell, mirroring a similar slowdown in the U.S. auto sector, with sales falling for the second month in a row in May as higher taxes hurt.

Passenger-car sales in the world's biggest auto market dropped 2.6% to 1.75 million last month, the government-backed China Association of Automobile Manufacturers said Monday. That performance followed a 3.7% decline in April, the sharpest since a mid-2015 slump, which prompted the government to slash its auto-sales tax to 5% from 10% to stoke demand.

"The market is gloomy," said Xu Haidong, the association's assistant secretary-general, blaming "overconsumption" last year for weak demand now.

Passenger-car sales surged 16% in 2016, thanks in part to the government's tax cut. But Beijing raised the tax back to 7.5% at the start of this year, sapping buyer interest.

Tighter liquidity controls are also making some Chinese banks reluctant to finance auto purchases, said Robin Zhu, an auto analyst with Sanford C. Bernstein, a brokerage firm.

Having forecast 4.6% growth for the China auto market in 2017 at the start of this year, Mr. Zhu said there is now a risk of growth failing to achieve that level.

Surging demand for commercial vehicles is offsetting sluggish passenger-car sales. Sales of commercial vehicles in China increased 15% year-over-year in May to 345,000.

While total vehicle sales declined marginally in May by 0.1% year-over-year, they increased 3.7% in the first five months overall.

—Lilian Lin contributed to this article.

Finance Chiefs Under Fire As Activists Turn Up Heat

By RICHARD TEITELBAUM

Investors cheered last month when **Whole Foods Market** Inc. named a chairwoman and five independent directors. After losing more than 40% since late 2013, shares rose 2.2%.

CFO JOURNAL Charles Kantor was less impressed with a different change. The portfolio manager at **Neuberger Berman Group** LLC, was concerned that the finance chief the company named the same day, Keith Manbeck, lacked experience, as the company is being targeted by activist investor **Jana Partners** LLC. Neuberger Berman owned a 2.7% stake in the upscale grocery chain as of March 31, according to FactSet.

"He has a very steep learning curve," said Mr. Kantor,

Arconic Inc.

But pressure is mounting on CFOs, too, as they are more often given the job of cutting waste, increasing efficiency and boosting margins.

Mr. Kantor's concerns about Whole Foods speak to the vital function that CFOs have assumed. Mr. Manbeck previously served as senior vice president of digital finance, strategy management and business transformation at retailer **Kohl's** Corp., according to Whole Foods.

"It's hard to argue that they hired someone with the skill sets described in our letter," Mr. Kantor said.

A Whole Foods spokeswoman didn't respond to emails and phone calls seeking comment.

The number of companies targeted publicly by either dedicated activists or those for whom it is a strategic fo-

for a dividend increase or share buyback.

"Those opportunities have largely vanished," said David Hunker, head of shareholder activism defense at **J.P. Morgan Chase & Co.**

Operational changes are more arduous than buybacks for finance executives. In 2014, **Starboard Value LP** lobbied **Darden Restaurants** Inc. to cut back on free breadsticks and sell more wine at its Olive Garden chain, among other changes. The company had three CFOs in eight months. Starboard sold its stake last year after sharp price gains in Darden stock.

"It's become more granular," said Eleazer Klein, a partner at law firm **Schulte Roth & Zabel LLP**. "They really get into the weeds on these things."

Starboard Value didn't respond to requests for comment.

The finance chief's role can require doing the activist's bidding or pushing back.

"That takes a special person in the CFO position to stand up to an activist and say, 'That's not right,'" said **Valeant Pharmaceuticals International Inc.** finance chief Paul Herendeen.

His experience dealing with pressure from activists dates back to the middle part of the last decade while CFO at **Warner Chilcott PLC**, he said. Mr. Herendeen was two months into a new CFO role at **Zoetis** Inc. in 2014 when he learned **Pershing Square Capital Management LP** had a stake of more than 8% in the animal-health company and was agitating for board seats and expense reductions.

Mr. Herendeen helped lead a drive that included cutting Zoetis's head count by more than 20% over about 24 months, refocusing research and development, and reducing the variety of packages and dosages it sold. The efforts are expected to save \$300 million in annual costs in 2017, according to a company spokesman.

who signed a letter last year calling for a new CFO with a background in real estate, cost-cutting and store economics.

When activist investors ask for changes at a company or on its board, their campaigns often start at the top, with the CEO in the crosshairs. Public activist pressure played a prominent role in ousting the chief executives of three S&P 500 companies this year: insurer **American International Group Inc.**, railroad **CSX Corp.** and aerospace-parts maker

cus rose 25% to 456 worldwide in 2016 from 366 from the previous year, according to Activist Insight.

The kinds of opportunities activists exploit are changing, and some practitioners are recalibrating their tactics in ways that bolster the CFO's profile.

After the 2008-09 financial crisis, U.S. companies built up cash on fears of more turmoil. That made them targets for activists who could score a bump in share price by pushing management to use cash

and cash on hand to buy back stock.

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TECHNOLOGY

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Cyber Experts Identify Malware

By ROBERT McMILLAN

Computer-security researchers said Sunday they have discovered the malicious software that knocked out electricity in Ukraine's capital last year, and warned U.S. companies that the code could be repurposed to disrupt systems in the U.S.

The discovery sheds light on an incident that security experts have been watching closely, hoping to understand the risk to the U.S. electrical grid. It follows a 2014 cyber campaign against the U.S. in which networks at 17 energy companies, including four electric utilities, were compromised.

The malicious software, called Crashoverride, has been analyzed during the past week by Dragos Inc., a Washington, D.C., firm specializing in securing the industrial-control systems in manufacturing plants or power facilities. Robert M. Lee, Dragos' chief executive, said the software was discovered earlier this year by ESET, a Slovakia-based antivirus vendor. ESET didn't immediately reply to requests for comment Sunday.

U.S. officials have expressed concern about cyberattacks on the industrial-control systems that run power plants and factory systems. Software specifically designed to infect these systems is relatively rare, however—Crashoverride is only the fourth example, according to Dragos.

Mr. Lee said Crashoverride focuses on disruption, rather than merely reconnaissance as in some other examples of such software. That makes it the most powerful industrial-attack code uncovered since Stuxnet, the software jointly developed by the U.S. and Israel a decade ago to disrupt Iran's Natanz nuclear enrichment facility, he said.

Crashoverride "is a selection

of tools that are targeted, well planned and tested," said another industrial-control system expert briefed on the malicious software. "We've never seen this level of capabilities before."

The software runs on the Microsoft Windows operating system. Once installed on a network, it scans to discover what computer systems are available and can then be configured to switch circuit breakers, cutting off power, Mr. Lee said.

A Microsoft representative wasn't immediately able to comment on Sunday.

Mr. Lee didn't say how ESET, which shared the Crashoverride with him, obtained it. But, he said, the software contains a number of digital clues linking it to the 2016 attack which caused a partial outage in Kiev, Ukraine's capital, in the early hours of Dec. 17.

It isn't clear who was responsible for that attack. At the time, Ukrrenergo, the utility that operates the backbone of Ukraine's power transmission network, suspected a computer intrusion. "We're 99% sure that it was a hacker," the utility's chief executive, Vsevolod Kovalchuk, said at the time.

Ukrrenergo didn't respond to requests for comment on Sunday.

There are no known Crashoverride infections in the U.S., Mr. Lee said. While the code isn't designed to work with systems on the U.S. power grid, it wouldn't be difficult to modify it to work in the U.S., he said.

Mr. Lee is skeptical that the Crashoverride code could have a widespread impact, however, because it would need to be manually configured to attack individual substations.

"This is scary and it is a threat, but we would be talking about hours of outages. Maybe a day or two."



A 2016 exhibition in Taiwan. Sharp said its testing found the Sharp-brand TVs made by China's Hisense violated U.S. standards.

Sharp Sues to Regain Name

Hisense Electric, sued by Sharp, owns rights to sell the Japanese brand in the U.S.

By TAKASHI MOCHIZUKI

TOKYO—Sharp Corp. has sued China's **Hisense Electric** Co., which licensed the Sharp brand for televisions sold in the U.S., accusing Hisense of putting the Sharp name on poor-quality TVs and deceptively advertising them.

The court action is the latest effort by Osaka-based Sharp to retrieve the right to use its own name when selling TVs in one of the world's largest markets. Sharp is trying to recover its position as a global maker of consumer electronics.

Hisense rejected the allegations and said it was selling

high-quality televisions under the Sharp name.

The dispute illustrates the risks when the owner of a well-known brand name gives up control over products sold under that name.

In 2015, Sharp signed a deal with Hisense giving the Chinese company the right to use the Sharp name on TVs sold in the U.S. through 2020.

At the time, Sharp was in financial distress and selling assets to raise cash. In 2016,

Taiwan's Foxconn Technology Group, formally known as **Hon Hai Precision Industry** Co., took a controlling stake in Sharp for ¥388.8 billion (\$3.52 billion), and Foxconn has sought to put the Japanese company back on a growth track. In a complaint filed to a California state court in San Francisco, Sharp lawyers said the Japanese company's brand

and trademark "are at risk of being destroyed" by the time the five-year term of the Hisense agreement expires.

It said that under Hisense's management, the televisions are "shoddily manufactured" and "in many cases, perceived by consumers as cheap." It said it wanted Hisense to stop using the Sharp name.

Sharp said its testing found the Sharp-brand televisions made by Hisense violated U.S. Federal Communications Commission standards.

It said Hisense gave consumers deceptive information about the size and brightness of the TVs, violating other federal standards. Hisense said it did nothing wrong.

"Hisense categorically denies Sharp's claims in the litigation and looks forward to presenting its case in the appropriate forum," a company

representative told The Wall Street Journal.

"Hisense is in full compliance with the trademark license agreement and Sharp's attempt to terminate the agreement is of no effect.

Hisense will continue to manufacture and sell quality televisions under the Sharp licensed brands."

Waseda Business School professor Atsushi Osanai, who used to work at **Sony** Corp.'s TV unit, said the case was important to Sharp's efforts to restore itself as a global brand.

"If it wants to revive as a global consumer-electronics maker, Sharp should make every possible effort to retrieve the U.S. TV license because the product, which still occupies the center of the living room, remains an important marketing tool," Mr. Osanai said.

Luxury Car Maker Invests In Lyft

By JOHN D. STOLL



MIKE BLAKE/REUTERS

Lyft President John Zimmer said the Jaguar Land Rover partnership will help achieve a future of 'shared mobility.'

Lyft drivers are getting an upgrade.

The U.K.'s luxury-vehicle maker Jaguar **Land Rover** has invested \$25 million in Lyft Inc., the latest auto company to strike a deal with the Silicon Valley ride-hailing company.

Under the agreement, the companies will collaborate on "mobility services," including self-driving cars, and certain Lyft drivers will be supplied with Jaguar or Land Rover vehicles, likely for testing purposes. The partnership follows a wave of conventional auto companies pairing with a growing patchwork of tech companies, startups or companies not seen as conventional players in the car business on autonomous-vehicle technology and testing.

Jaguar Land Rover, owned by India's **Tata Motors** Ltd., follows General Motors Co. as a Lyft investor. GM invested \$500 million in the **Uber Technologies** Inc. rival in early 2016. Lyft has struck deals with **Alphabet** Inc.'s **Waymo** unit and **NuTonomy** Inc. to work on

technology. Lyft has plans to start testing autonomous vehicles in controlled fleets.

The investment comes via Jaguar Land Rover's InMotion venture arm and is part of a seed round that also included funding for **SPLT**, a Detroit carpooling startup.

"Lyft envisions a future where shared mobility will transform cities and improve people's lives," Lyft President John Zimmer said in a joint news release. "This partnership will help us achieve that ambitious goal."

BUSINESS WATCH

BOX OFFICE

'The Mummy' Rises In Asia, Not U.S.

Tom Cruise's "The Mummy" was buried at the U.S. box office this weekend by "Wonder Woman" but looked more alive overseas thanks to a strong start in China.

The reboot of the cinematic monster from Comcast Corp.'s Universal Pictures opened to a weak \$32.2 million in the U.S. and Canada, according to studio estimates.

That was well behind the \$57.2 million second weekend in theaters for "Wonder Woman," from Time Warner Inc.'s Warner Bros. That film's ticket sales dropped only 45%, the smallest for any superhero movie since 2005's "Batman Begins" and a sign of its strong word-of-mouth. "Wonder Woman" has now grossed a total of \$205 million domestically and \$230.2 million overseas.

"The Mummy" posted strong openings of \$52.2 million in

China and \$17.8 million in South Korea, both of which were records for films starring Mr. Cruise. Overall, it grossed \$141.8 million internationally.

—Ben Fritz

CEO of GM Division Has Stepped Down

The chief executive of **General Motors** Co.'s European division has resigned.

Opel said Karl-Thomas Neumann has been succeeded by Michael Lohscheller, the company's finance chief, as CEO.

In March, French auto maker Peugeot SA struck a deal valued at more than €2 billion, or over \$2.24 billion, to purchase General Motors' unprofitable European operations.

Opel said that Mr. Lohscheller would remain a member of the management board until the closing of the sale of Opel to Peugeot, which is officially known as Groupe PSA.

—Nick Kostov

YANZHOU COAL MINING

Firm Gets Approval To Buy Coal Business

Yanzhou Coal Mining Co. said its \$2.45 billion deal to buy a large part of the Australian coal business of Rio Tinto PLC received regulatory approvals from Chinese authorities.

Yanzhou Coal said Monday that it has received approval from China's National Development and Reform Commission and the country's Ministry of Commerce for the deal.

The acquisition of Rio Tinto's Coal & Allied Industries Ltd. through its Australian unit—Yancoal Australia Ltd.—has already received support from Australia's Foreign Investment Review Board.

Coal & Allied includes Rio Tinto's giant coal operation in Australia's Hunter Valley, which the company has been attempting to unload for years, and its Mount Thorley Warkworth mines.

—Saurabh Chaturvedi

Microsoft Console to Cost \$499

By SARAH E. NEEDLEMAN

Microsoft Corp. said that its next videogame console would go on sale Nov. 7 for \$499, or about \$100 more than **Sony** Corp.'s high-end PlayStation 4 Pro.

The Xbox One X will be Microsoft's smallest gaming machine yet in size, though it packs in more power, speed and graphical fidelity than its predecessors, Xbox chief Phil Spencer said at a company event Sunday ahead of the annual Electronic Entertainment Expo, better known as E3.

Microsoft highlighted several new games coming exclusively

to the Xbox One platform, which includes the new Xbox One X as well as Windows 10 and the original Xbox One. But there won't be any games made solely for the Xbox One X.

The Xbox One X also will be compatible with games developed for the original Xbox One and Xbox 360, many of which will play faster and look better, the company said.

Microsoft first revealed that the Xbox One X was under development a year ago, giving it the code name Project Scorpio.

Meanwhile, rival Sony released a beefier PlayStation 4 in November for \$399. Sony has said all models of the Play-

Station 4 combined have sold more than 60 million units world-wide to date.

Microsoft stopped reporting Xbox unit sales in late 2014, though analysts estimate about 30 million have been sold to date.

The timing of the new machines represents a departure from tradition, as companies traditionally had waited six to seven years in between introducing significant upgrades.

Microsoft and Sony both introduced their previous-generation consoles in late 2013. Nintendo in March released the Switch for \$299, in what so far has been a successful launch.

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VP Class-C Units AUD H AS EQ HKG 06/09 AUD 14.74 23.5 -1.8

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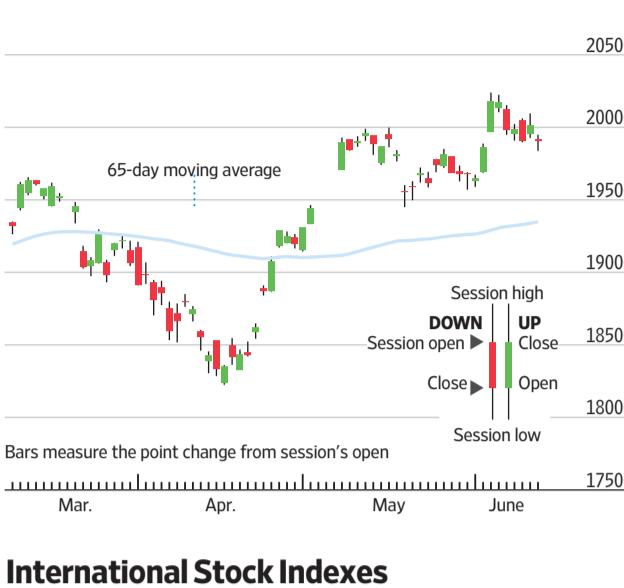
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MARKETS DIGEST

Nikkei 225 Index

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Bars measure the point change from session's open

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386.62 ▼3.77, or 0.97%

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Data as of 12 p.m. New York time

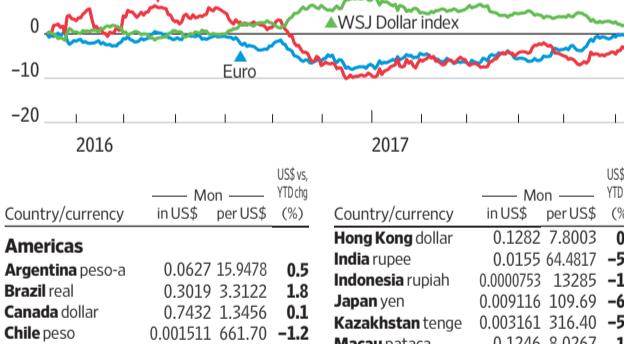
International Stock Indexes

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Close	High	YTD % chg
World	The Global Dow	2769.78	-11.61	-0.42	2193.75	2791.48	9.6	
	MSCI EAFE	1886.48	-6.49	-0.34	1471.88	1956.39	9.9	
	MSCI EM USD	1007.58	-10.61	-1.04	691.21	1044.05	26.9	
Americas	DJ Americas	581.77	-2.02	-0.35	480.90	585.50	7.7	
Brazil	Sao Paulo Bovespa	61698.53	-512.03	-0.82	48066.67	69487.58	2.4	
Canada	S&P/TSX Comp	15409.22	-63.99	-0.41	13609.58	15943.09	0.8	
Mexico	IPC All-Share	49194.57	112.84	 0.23	43902.25	50154.33	7.8	
Chile	Santiago IPSA	3677.17	-6.70	-0.18	2998.64	3786.05	14.1	
U.S.	DJIA	21202.20	-69.77	-0.33	17063.08	21305.35	7.3	
	Nasdaq Composite	6159.28	-48.64	-0.78	4574.25	6341.70	14.4	
	S&P 500	2423.58	-8.19	-0.34	1991.68	2446.20	8.3	
	CBOE Volatility	11.80	1.10	 10.28	9.37	26.72	-16.0	
EMEA	Stoxx Europe 600	386.62	-3.77	-0.97	308.75	396.45	7.0	
	Stoxx Europe 50	3181.93	-28.14	-0.88	2626.52	3279.71	5.7	
France	CAC 40	5240.59	-59.12	-1.12	3955.98	5442.10	7.8	
Germany	DAX	12690.44	-125.28	-0.98	9214.10	12878.59	10.5	
Israel	Tel Aviv	1420.63	-6.70	-0.47	1372.23	1490.23	-3.4	
Italy	FTSE MIB	20910.23	-212.19	-1.00	15017.42	21828.77	8.7	
Netherlands	AEX	521.89	-5.41	-1.03	409.23	537.84	8.0	
Russia	RTS Index	1041.49	...	Closed	884.83	1196.99	-9.6	
Spain	IBEX 35	10842.40	-135.90	-1.24	7579.80	11184.40	15.9	
Switzerland	Swiss Market	8807.85	-38.00	-0.43	7475.54	9136.95	7.2	
South Africa	Johannesburg All Share	51564.00	-652.93	-1.25	48935.90	54716.53	1.8	
Turkey	BIST 100	99442.11	499.24	 0.50	70426.16	99707.33	27.3	
U.K.	FTSE 100	7511.87	-15.46	-0.21	5788.74	7598.99	5.2	
Asia-Pacific	DJ Asia-Pacific TSM	1625.77	-2.38	-0.15	1308.52	1637.17	14.3	
Australia	S&P/ASX 200	5677.80	...	Closed	5103.30	5956.50	0.2	
China	Shanghai Composite	3139.88	-18.52	-0.59	2833.07	3288.97	1.2	
Hong Kong	Hang Seng	25708.04	-322.25	-1.24	20038.42	26063.06	16.9	
India	S&P BSE Sensex	31095.70	-166.36	-0.53	25765.14	31309.49	16.8	
Indonesia	Jakarta Composite	5691.44	15.91	 0.28	4807.23	5791.88	7.5	
Japan	Nikkei Stock Avg	19908.58	-104.68	-0.52	14952.02	20177.28	4.2	
Malaysia	Kuala Lumpur Composite	1788.89	...	Closed	1614.90	1791.01	9.0	
New Zealand	S&P/NZX 50	7432.74	-3.36	-0.05	6664.21	7571.11	8.0	
Pakistan	KSE 100	47671.80	-1855.12	-3.75	36979.96	52876.46	-0.3	
Philippines	PSEI	7990.24	...	Closed	6563.67	8102.30	16.8	
Singapore	Straits Times	3248.34	-5.85	-0.18	2729.85	3271.11	12.8	
South Korea	Kospi	2357.87	-23.82	-1.00	1925.24	2381.69	16.4	
Taiwan	Weighted	10109.96	-89.69	-0.88	8458.87	10226.84	9.3	
Thailand	SET	1563.81	-2.84	-0.18	1406.18	1591.00	1.4	

Source: SIX Financial Information/WSJ Market Data Group

Currencies

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



London close on June 12

Country/currency	Mon	US\$ vs. in US\$	Mon	YTD% per US\$ (%)
Europe				
Bulgaria leva	0.5736	1.7435	-6.2	
Croatia kuna	0.1512	6.615	-7.8	
Euro zone euro	1.1203	0.8927	-6.1	
Czech Rep. koruna-b	0.0427	23.396	-8.9	
Denmark krone	0.1506	6.6384	-6.1	
Hungary forint	0.03642	274.61	-6.7	
Iceland krona	0.01028	99.72	-11.7	
Norway krona	0.1180	8.4713	-2.0	
Poland zloty	0.2669	3.7469	-10.5	
Russia ruble-d	0.01753	57.030	-6.9	
Sweden krona	0.1144	8.7450	-4.0	
Switzerland franc	1.0319	0.9691	-4.9	
Ukraine hryvnia	0.0384	26.0715	-3.7	
U.K. pound	1.2652	0.7904	-2.4	
Middle East/Africa				
Bahrain dinar	2.6508	0.3773	0.02	
Egypt pound-a	0.0552	18.1015	-0.2	
Israel shekel	0.2823	3.5422	-8.0	
Kuwait dinar	3.2949	0.3035	-0.7	
Oman rial	2.5972	0.3850	0.02	
Qatar rial	0.2725	3.670	0.8	
Saudi Arabia riyal	0.2666	3.7504	-0.01	
South Africa rand	0.0778	12.8459	-6.2	
Asia-Pacific				
Hong Kong dollar	0.1282	7.8003	0.6	
India rupee	0.0155	64.4817	-5.1	
Japan yen	0.000753	13285	-1.8	
Kazakhstan tenge	0.003161	316.40	-5.0	
Macau pataca	0.1246	8.0267	1.4	
Malaysia ringgit-c	0.2344	4.2655	-4.9	
New Zealand dollar	0.7202	1.3885	-3.8	
Pakistan rupee	0.0095	104.750	0.4	
Philippines peso	0.0202	49.595	-0.02	
Singapore dollar	0.7223	1.3844	-4.3	
South Korea won	0.000835	1131.82	-6.3	
Sri Lanka rupee	0.065664	152.29	2.6	
Taiwan dollar	0.03309	30.225	-6.9	
Thailand baht	0.02935	34.070	-4.9	

Sources: Tullett Prebon, WSJ Market Data Group

Key Rates

Latest 52 wks ago

Liber

One month 113933% 0.44205%

Three month 124167 0.65250

FINANCE & MARKETS

Trump to Urge Curbs on Watchdog

By RYAN TRACY

WASHINGTON—The Trump administration was ready to recommend limits on the U.S. consumer-finance regulator and a reassessment of a broad range of banking rules in a report to be released as early as Monday, according to people familiar with the matter.

The report from the Treasury Department, drafted in response to a February executive order from President Donald Trump, is less sweeping than financial legislation approved by the House of Representatives last week, these people said.

That suggests the administration is taking a more pragmatic path than some Republicans who want to throw out Obama-era financial rules wholesale, although administration officials are still seeking to loosen regulatory restrictions on banks in significant ways.

The Treasury Department didn't respond to a request for comment.

The report makes recommendations on policy goals, without laying out a specific process for achieving them, these people said. It is harshly critical of the Consumer Financial Protection Bureau and recommends that the agency be stripped of its authority to



The Treasury Department report is highly critical of the Consumer Financial Protection Bureau.

tors could pursue on their own, once Mr. Trump's team completes the process of appointing new regulators.

Regulators are already reviewing the Volcker rule, for instance, and people familiar with the matter said the report examines how the current enforcement environment for the rule is affecting financial markets.

The report is expected to set in motion a re-evaluation of the Community Reinvestment Act, a law intended to make sure banks meet local credit needs, people familiar with the matter said. It will also likely suggest that big banks be asked to file "living wills" every two years, instead of annually, these people said. The wills outline how banks could go through bankruptcy without needing a taxpayer bailout.

The report also is likely to examine bank regulators' position on leveraged loans, a form of risky lending to already-indebted companies, one of the people said.

It will likely raise broad concerns about the use of arbitrary asset-size thresholds to apply bank regulations, such as the 2010 Dodd-Frank law's provisions requiring tougher supervision of banks with more than \$50 billion in assets, this person said.

examine financial institutions, people familiar with the matter said. By law, the bureau has the authority to enforce consumer laws as well as to examine individual firms on a continuing basis.

One person familiar with the report's contents said it is likely to recommend that the CFPB continue to be led by a single director, but that the president be able to remove

the director at will. Currently, the president's authority to do that is the subject of a legal battle.

The report also contains a substantial section on the Volcker rule, which bans banks from most trading or speculating unless they are doing so on customers' behalf.

And it will likely recommend that small banks—those with less than \$10 billion in

assets—be exempt from it, these people said. It isn't expected to recommend repealing the Volcker rule, they said, a change that was included in the House Republicans' bill.

Changes to the CFPB's authority or structure, or the applicability of the Volcker rule, would require congressional action.

The report also explores bank-rule changes that regula-

Lotte Decides on Price Range for Chemical IPO

By YANTOULTRA NGUI

KUALA LUMPUR, Malaysia—South Korea's **Lotte Group** plans to offer shares in its petrochemical unit in Malaysia at between 7.80 ringgit and 8 ringgit (\$1.83 and \$1.88) each, according to two people with direct knowledge of the initial public offering.

If the stock sells at the high end of the price range, the 740.4 million shares in **Lotte Chemical Titan** being sold would be worth about 5.92 bil-

lion ringgit (\$1.39 billion), making the IPO Malaysia's largest since the pay-television operator **Astro Malaysia Holdings** Bhd. raised \$1.5 billion in 2012.

Four so-called cornerstone investors have agreed to take up to 20% of the IPO, The Wall Street Journal reported Wednesday. The people familiar with the IPO identified them as Malaysian state-owned fund manager **Permodalan Nasional** Bhd., the insurance firm **Great Eastern**

and asset managers **Maybank Asset Management** and **Eastspring Investments**. Cornerstone investors are generally allocated substantial blocks of IPO shares in exchange for a commitment to hold the stock for a set period, but there is no lock-up period for this IPO, they added.

A Lotte Group spokes-

woman said the company could "not comment on detailed information about the process."

Lotte Chemical Titan, which

produces plastics including polyethylene used in shopping bags and toys, plans to use most of the IPO proceeds to build a naphtha plant in Indonesia, according to a draft prospectus filed with the **Securities Commission**.

An IPO of Lotte Chemical Titan had been planned for last year, but the offering was delayed after South Korean prosecutors charged the parent company's chairman and four of his family members with tax evasion and embez-

zement in October. Lotte apologized for "causing concern" and said it would cooperate with the investigation process. In January, the chairman's sister was sentenced to three years in prison.

Lotte is South Korea's fifth-largest conglomerate. Besides petrochemicals, it has interests in duty-free stores, luxury hotels and insurance. It boasts annual sales of about \$74 billion, and has been controlled by the Shin family since it was established in 1948.

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Goldman Strikes Wind Deal

By LIZ HOFFMAN

A wind farm in Scranton, Pa., sitting over ancient coal seams, will soon power **Goldman Sachs Group** Inc.'s data centers in New Jersey.

The Wall Street bank said Monday that it has agreed to buy 68 megawatts of electricity from the plant, which will come online in 2019. It is the first such agreement struck by a bank, according to trade group Business Renewables Center, and pushes Goldman closer to its goal of producing 100% of the energy it uses from renewable sources by 2020.

The deal is Goldman's effort to stake a claim in a hot corner of the energy-trading market—and to try to catch up with rivals.

Citigroup Inc. and **Morgan Stanley** are already big in the renewables-trading segment. Goldman recently hired a Citigroup trader, Moe Hanifi, who will join Harry Singh, Goldman's head of U.S. power trading, in spearheading the firm's effort.

Commodities trading has been a tough business across Wall Street since the financial crisis because of stricter capital rules. It was among the businesses that Goldman blamed for disappointing trading revenue last quarter.

Goldman won't just be in the renewables market for its own needs. The firm's commodities arm has been building a business to connect corporate buyers of electricity with developers.

That group, reporting to commodities chief Greg Agran, will manage the 15-year electricity contract, protecting Goldman from price swings, grid congestion and other risks. It hopes to market that same service to a group of companies that are striking their own power agreements, Mr. Agran said in an interview.

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MARKETS

Ebb in Populism Boosts European Bonds

BY CHRISTOPHER WHITTALL

French and Italian bond prices rose and the British pound continued its fall on Monday, with investors taking very different views of the politics currently affecting three of Europe's largest economies.

Weekend ballots in France and Italy showed signs that the popularity of the anti-establishment parties that had spooked investors earlier this year continues to wane. But the pound has been falling since the U.K.'s ruling Conservative Party failed to secure a Parliamentary majority in last Thursday's election, spurring investor concern that this will make Brexit negotiations even harder for Britain.

The yield on French 10-year government bonds fell around 0.05 percentage point to 0.595% in afternoon trading, according to Tradeweb, its lowest level since November. That came after French President Emmanuel Macron's La République en Marche party won the first round of parlia-

mentary elections on Sunday, putting the upstart centrist party on course to secure a sweeping majority. Yields fall as bond prices rise.

The yield on Italy's 10-year government bond fell around 0.09 percentage point to 2.00%, its lowest level since January, after no candidates from the antiestablishment 5 Star Movement made it through to the runoff vote for any of the main cities contested in Italian municipal elections.

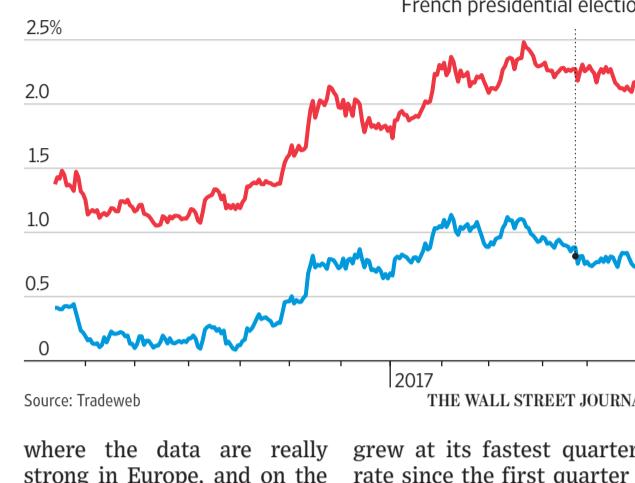
Sterling was down 0.8% against the dollar late Monday afternoon in the U.K., on the heels of the currency's 1.7% decline against the U.S. currency Friday. The yield on 10-year U.K. government bonds was around 0.03 percentage point lower at 0.977%, meanwhile, as investors sought havens amid the continuing political uncertainty.

"In the near term, the risk of populism across Europe is in retreat," said Nicola Mai, global sovereign credit analyst at Pacific Investment Management Co. "Both on the macro side,

Changing Fortunes

French and Italian debt rallied in response to the weekend's election results.

10-year government-bond yields



Source: Tradeweb

April 23, 2017

First round of voting in French presidential election

THE WALL STREET JOURNAL.

where the data are really strong in Europe, and on the politics side, things have been quite encouraging for markets."

Investors' views on the eurozone have become increasingly bullish as the U.K. economy has slowed.

The eurozone economy in the first three months of 2017

grew at its fastest quarterly rate since the first quarter of 2015. Britain's economic growth, by contrast, was revised lower to 0.2% in the first quarter of the year, according to figures released last month.

Investors dumped French bonds earlier this year on concerns that far-right candidate Marine Le Pen could clinch the French presidency. Ms. Le Pen favored pulling France out of the euro, a move many have feared would presage a messy breakup of the currency bloc.

Marine Le Pen could clinch the French presidency. Ms. Le Pen favored pulling France out of the euro, a move many have feared would presage a messy breakup of the currency bloc.

But Mr. Macron won a convincing victory in May and Sunday's vote in France has put Mr. Macron's party and its centrist ally, MoDem, on course to win a majority of as much as 455 seats in the 577-seat National Assembly in the second-round vote a week from now, according to the polling firm Ipsos Sopra-Steria. That would strengthen Mr. Macron in his efforts to loosen France's rigid labor laws.

"Political risk in France has disappeared and it's good for structural reforms over the long term," said Thomas Page-Lecuyer, a strategist at CPR Asset Management.

In Italy, the euroskeptic 5 Star Movement failed to reach the second round of voting for any of the major cities in local elections—a contrast with its victories in Turin and Rome last year. Italian government bonds had already been

boosted last week after the risk of a snap general election receded when Italy's largest political parties failed to agree on a new electoral law. The European Central Bank on Thursday reaffirmed its commitment to keep its massive bond-buying program in place, which has supported Italian debt in recent years, lending further support to the market.

The 5 Star Movement's "impetus seems to have lost some momentum," Fabio Fois, an economist at Barclays, wrote in a note to clients. Still, Mr. Fois said he expected the 5 Star Movement to keep polling neck and neck with the ruling center-left Democratic Party at the national level.

Pimco's Mr. Mai said the risk of populism in Europe hasn't gone away. "While populism might be on the decline while the macro [economy] improves in Europe, at the next crisis there is going to be significant risk again of populism rising," he said.

—Jon Sindreu contributed to this article.

THE WALL STREET JOURNAL.

Tech-Stock Selloff Hits Asia, Europe

BY RIVA GOLD
AND ALEXANDER OSIPOVICH

Shares of technology companies fell world-wide, extending Friday's steep declines in the U.S. giants that had been driving this Monday's year's stock-market gains.

Hong Kong's Hang Seng Index slid 1.2%, dragged lower by a 2.45% fall in internet heavyweight **Tencent**, which had recently climbed to record highs. South Korea's Kospi fell 1% as **Samsung Electronics** lost 1.6%, while in Taiwan, home to several key **Apple** suppliers, the Taiex declined 0.9%.

Technology has been the

best-performing sector this year, prompting fears that shares of U.S. tech giants were overbought.

For the second quarter, the information-technology sector is expected to report the second-highest year-over-year earnings growth in the S&P 500 at 9.3%, according to FactSet.

Analysts have cited a series of critical research notes of big-name players like Apple as the trigger for the selloff.

"It was ripe for a pullback of some sort," said Mark Luschni, chief investment strategist for Janney Montgomery Scott.

The Stoxx Europe 600 dropped 1%. Austrian chip

maker **AMS** slid 8.3%, **STMicroelectronics** sank 8.9% and **Dialog Semiconductor** declined by 6.7%.

By midday in New York, the Nasdaq Composite had fallen 0.9%. The S&P 500 lost 0.4% and the Dow Jones Industrial Average declined 69 points, or 0.3%, to 21202.

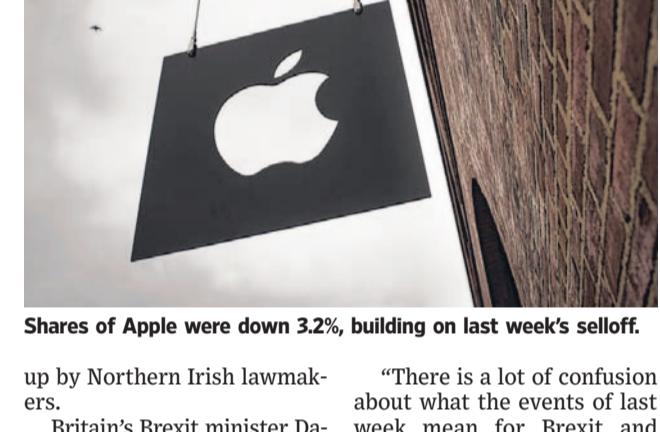
Apple shares lost 3.2% in afternoon trading, making them the Dow's worst-performing stock. Google parent **Alphabet** fell 1.5%, **Facebook** dropped 1.6% and **Amazon.com** was down 1.7%. Shares of those companies each fell 3% or more Friday.

Shares of **General Electric** rose 3.8% after the company said longtime leader Jeff Im-

melt will step aside as chief executive and will be succeeded by John Flannery, the head of the company's healthcare business.

The yield on the benchmark 10-year U.S. Treasury note rose to 2.213%, according to Tradeweb, from 2.201%, as investors moved into bonds, often considered a haven, amid the tech selloff. Yields rise as prices fall.

The British pound fell 0.8%. Unease around the U.K. election result sent the currency to its lowest since April on Friday. The U.K. now faces the prospect of prolonged political uncertainty as Prime Minister Theresa May tries to form a minority government propped



Shares of Apple were down 3.2%, building on last week's selloff.

up by Northern Irish lawmakers.

Britain's Brexit minister David Davis said Monday that negotiations with the European Union may not start next Monday as originally planned.

"There is a lot of confusion about what the events of last week mean for Brexit and therefore for the path of the currency," said David Stubbs, global market strategist at J.P. Morgan Asset Management.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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U.K. Drifts Away From EU Recovery

The U.K. wants to separate from Europe. Judging by economic and political outcomes, it looks like it is getting its wish.

The shock outcome of the U.K. election has left the incumbent Conservative party under Prime Minister Theresa May in a much weaker position. Uncertainty over the outlook for the economy and Brexit has only risen.

That has overshadowed more salutary events in Europe. The first round of parliamentary elections in France suggest there will be a strong majority for new President Emmanuel Macron to push ahead with reforms. In Italy, local elections produced a subdued performance for the anti-establishment 5 Star Movement.

Economic outcomes have diverged too. The U.K. slipped in the first quarter to the bottom of the European league table with growth of just 0.2% from a quarter earlier; the eurozone grew by 0.6%.

The clearest reversal is in foreign-exchange markets: The euro has reached its highest against sterling, above 0.88, since the U.S. election in November. Meanwhile, the 10-year Italian bond yield has fallen to just above 2%, its lowest since late January. The gap between 10-year German and U.K. yields has narrowed back toward levels seen after the Brexit vote as the U.K.'s prospects have dimmed.

The eurozone's many moving parts mean jitters about continental European politics will return, particularly in Italy. But the U.K.'s troubles are front and center. Eurozone assets, in particular the euro, look stronger and more stable.

—Richard Barley

Evergrande's \$1 Billion Sacrifice

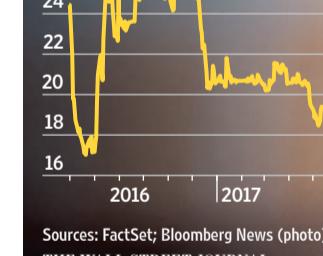
It shouldn't be cause for celebration when a property developer takes a \$1 billion loss on a stock bet. For an overindebted, monstrously large Chinese property developer, it appears to be a sacrifice worth making.

China Evergrande, the country's biggest developer by assets, sold its 14% stake in rival **China Vanke** to **Shenzhen Metro Group** on Friday at a discount to market price.

The sale likely signals an end to an 18-month takeover saga at Vanke in which an obscure insurer called Baoneng made an unsolicited effort to take control of the developer. Shenzhen Metro, a subway operator controlled by the municipal government, will become Vanke's largest shareholder with a 29.4% stake after the purchase. Founded by the Shenzhen government more than three decades ago, Vanke is one of the best-managed developers in China and the local government is eager to not let it

Sour Bet

China Vanke's share price



Sources: FactSet; Bloomberg News (photo)

China Evergrande Group Chairman Hui Ka Yan

fall into control of Baoneng, which has ballooned in assets in recent years by aggressively leveraging up.

For Evergrande, it looks like a rash gamble gone wrong—it lost \$1 billion, or 19%, in less than one year. It has never explained why it inserted itself in the Baoneng saga, buying and selling the Vanke stake, apart from the vague reason of a

"strategic development requirement."

Yet there could be a deeper political calculus. Evergrande is seeking to list most of its assets on the Shenzhen Stock Exchange through a backdoor listing with Shenzhen SEZ Real Estate & Properties, a company ultimately controlled by the Shenzhen government. The move is seen as a way for

the heavily indebted developer—its net debt-to-equity ratio is 432%—to find easier access to financing.

The expectation that it could tap the equity market to reduce its bloated balance sheet has helped its Hong Kong-listed shares more than triple this year. As a hint to the warming relationship between Evergrande and the municipal government, a company controlled by the Shenzhen government was among the investors in its 39.5 billion yuan (\$5.81 billion) fundraising two weeks ago.

Being able to tap Shenzhen's stock market—renowned for its generous valuations—is good news for Evergrande. The belief that it will rein in its otherwise reckless expansion is a big assumption. The company has already racked up another \$14 billion of borrowings since December, according to a filing last week.

For Evergrande's addiction to debt, old habits die hard.

—Jacky Wong

OVERHEARD

Perseverance is an admirable trait.

Cancer-drug developer **XBiotech** Inc. provides a case in point. The biotech company announced Friday afternoon that its late-stage study for its experimental colon cancer treatment Xilonix has been discontinued after an interim analysis of the data.

While it didn't show any safety concerns, the findings "were not sufficient to meet efficacy."

However, CEO **John Simard** is undeterred. "In the coming weeks, the company plans to analyze the data extensively to further understand the primary and secondary endpoint data, as well as to identify populations that may have benefited from the therapy. These findings today will not affect our efforts to pursue approval of the therapy," he said in a statement.

Shareholders may not have much else left besides that character trait, though. Shares plunged 66% on Friday.

How Fed Could Offer More Fuel to Financial Stocks' Rally

This week's meeting of the Federal Reserve may be one of the most important for financial stocks in several years.

There is little doubt the Fed will raise rates, which will help many of the big banks. The more important news will be what it says about shrinking its balance sheet, likely later this year.

The Fed currently holds \$2.5 trillion of U.S. Treasurys and \$1.8 trillion of mortgage-backed securities, a legacy of multiple rounds of quantitative easing. It has been keeping these levels steady by continually reinvesting in new securities when its holdings mature. Analysts expect the Fed to outline further details of an

emerging plan to gradually phase out these reinvestments, allowing the balance sheet to shrink at a controlled pace.

This could give a boost to already rallying financial stocks, which perked up late last week after stagnating in recent months.

The story of this tightening cycle so far is that short-term rates have risen but long-term yields have remained stubbornly low. This has still been a net positive for many banks, particularly large ones, because so many of their loans are linked to short-term benchmarks like Libor.

But banks also want to earn more on their longer-duration assets, including

mortgages, real-estate loans, and mortgage-backed securities. That is particularly true of regional lenders and, among the biggest banks, Wells Fargo.

Life-insurance companies, which hold lots of long-dated assets to match against their future liabilities, are even more eager to see long-term rates rise.

Finally, if the Fed is shrinking its assets, it will also have to shrink the liability side of its balance sheet, particularly the excess reserves that banks hold with the central bank, notes Jim Vogel, a fixed-income strategist at **FTN Financial**. This would free up banks to move more funds into higher-yielding assets.

Action at Short End

Short-term rates have risen as long-term rates have fallen



Source: FactSet

THE WALL STREET JOURNAL.

through a gradual tapering of repurchases.

Even as the Fed has talked up its plans for shrinking the balance sheet, long-term rates have drifted lower so far this year, and bank stocks have underperformed following a strong rally in late 2016. This suggests that fading optimism on growth and inflation have overwhelmed any investor preparations for the possibility of higher rates.

Nonetheless, removing a huge sovereign buyer from the market surely means that long-term rates will be higher than they otherwise would be. Financial stocks, already the biggest winners from Fed tightening, should get another boost.

—Aaron Back