

THE WALL STREET JOURNAL.

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ASIA EDITION

As of 4 p.m. ET

DJIA 21384.28 ▲ 0.11%

NIKKEI 19943.26 ▲ 0.56%

STOXX 600 388.60 ▲ 0.66%

BRENT 47.37 ▲ 0.96%

GOLD 1254.00 ▲ 0.14%

EURO 1.1192 ▲ 0.41%

DLR ¥110.84 ▼ 0.08%

What's News

Business & Finance

Amazon's planned \$13.7 billion acquisition of Whole Foods unites Bezos and Mackey, two mavericks who will now have to blend very distinct approaches to make the deal a success. **A1, B1**

The purchase could fill a logistics gap for Amazon, providing hundreds of stores positioned to serve as pickup and delivery hubs for urban customers. **A2**

◆ A set of disappointing U.K. data and an inconclusive election have stoked global investors' concerns as Brexit negotiations begin. **B1**

◆ Toshiba is falling behind rival chip makers in securing next year's supply of silicon wafers, showing how the company's woes are hamstringing its profit center. **B4**

◆ Airbus and Boeing are expected to unveil deals for about 680 jets at the Paris Air Show as the sector remains under pressure. **B2**

◆ Hong Kong's stock-exchange operator plans a new structure that could allow firms to sell shares offering greater voting power. **B5**

◆ Apple has poached two Hollywood TV executives from Sony to lead a push into original content. **B3**

◆ China's central bank injected a net \$36.73 billion into its system, more than it has on any single day since January. **B5**

◆ The U.K. says a group tied to North Korea perpetrated last month's cyberattack. **B1**

World-Wide

◆ The bodies of seven U.S. sailors were recovered by divers after a U.S. destroyer's collision with a cargo ship crushed the captain's cabin and other sleeping quarters, giving sailors almost no time to save themselves as seawater flooded in. **A1**

◆ A bilateral treaty on the status of American forces in Japan is clouding the investigations into the Navy ship collision. **A4**

◆ U.S. diplomats have held secret talks with North Korea's top nuclear negotiator, hoping to free U.S. prisoners and establish a diplomatic channel. **A1**

◆ North Korea said Otto Warmbier sought to overthrow the government. **A4**

◆ Trump isn't under investigation, his personal lawyer said, following reports the president was being probed over whether he tried to obstruct justice. **A1**

◆ Congress is set to hold two open hearings examining Russian hacking efforts during the election. **A7**

◆ China is staking a claim to supplanting the U.S. as Pakistan's most influential ally with tens of billions of dollars of investment. **A4**

◆ U.K. leader May faced a ballooning crisis with critics accusing her of fumbling the government's response to the London tower fire. **A3**

◆ Iraqi forces pushed into Mosul's Old City, aiming to reclaim Islamic State's last stronghold in Iraq. **A2**

CONTENTS
Business News.... B3
Crossword..... A12
Heard on Street... B8
In Depth..... A6
Keywords..... B1
Life & Arts.... A8-9,12
Markets..... B8
Opinion..... A10-11
U.S. News..... A5,7
Weather..... A12
World News.... A2-4

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The damaged U.S. Navy destroyer USS Fitzgerald in Yokosuka, south of Tokyo. Seawater flooded in after a cargo ship rammed into it.

Navy Ship Collision Probed

Seven die after cargo vessel hits U.S. destroyer in shipping lane south of Tokyo

By ALASTAIR GALE
AND GORDON LUBOLD

its right side, crushing a large section of the destroyer's main structure, including the captain's cabin and sleeping quarters for 116 sailors below the waterline. Seawater flooded in through a large gash.

As the crew scrambled to save themselves and the ship, seven sailors didn't make it out of the berthing area. Their bodies were recovered by divers after the ship crawled to the port of Yokosuka.

"The water inflow was tremendous," Vice Adm. Joseph Aucoin, head of the U.S. Seventh Fleet, said in a press briefing on Sunday. "There

In a period of seconds, a 29,000 ton cargo ship loaded with containers plowed into

wasn't a lot of time" for sailors to react.

Badly injured, the captain, Bryce Benson, escaped from his cabin. He was airlifted to a nearby hospital where he was receiving emergency treatment on Sunday before being questioned.

"He's lucky to be alive," Vice Adm. Aucoin said.

The question of why a U.S. destroyer was rammed by a cargo ship over three times its size, one of the worst incidents in recent U.S. Navy history, has no immediate answers.

Some former military and commercial shipping captains speculate that the Fitzgerald

may have failed to follow international regulations that require ships to give way to other vessels to their starboard, or right side.

"Unless the destroyer lost steering control, which is unlikely, it should have given right of way to the container ship," said Yiannis Sgouras, a retired captain of tankers and cargo ships who worked in the world's busiest trade route from Asia to Europe.

Others caution that there are potentially many other contributing factors to the collision. Tracking data sent by the cargo ship, the ACX

Please see CRASH page A4

North Korean Negotiator Met Secretly With U.S.

By JAY SOLOMON

WASHINGTON—For more than a year, American diplomats have held secret talks in Pyongyang and European cities with North Korea's top nuclear negotiator, hoping to free U.S. prisoners and even establish a diplomatic channel to constrain North Korea's nuclear and missile programs.

The official dispatched by North Korean leader Kim Jong Un—Madame Choi Sun Hee—is well known to U.S. officials,

fluent in English and is believed to have direct access to Mr. Kim. That raised expectations that the regime eventually might engage with the Trump administration about the future of Pyongyang's weapons efforts. So did the agreed release this month of 22-year-old American prisoner Otto Warmbier, until it emerged he was in a coma.

"Given the reported status of Mr. Warmbier's condition, any diplomatic path forward is going to be extremely difficult," said Suzanne DiMaggio of the New America Foundation, a Washington think tank, who helped establish an unofficial channel with the North Koreans early last year. But she had a suggestion for Pyongyang to begin to repair the damage: "If the North Koreans immediately released

Please see KOREA page A4

◆ North Korea claims Warmbier sought regime change..... A4
◆ Britain blames Pyongyang for hack..... B1

Great News for Pet Indulgences: The 'Cone of Shame' Can Be a Pillow

* * *

Hard plastic protectors give way to softer materials; 'cone of inconvenience'

By SARAH KROUSE

Khalieesi cried and couldn't venture out into her kingdom for days.

The six-month-old Doberman was wearing a hard plastic recovery collar prescribed by her veterinarian after being spayed. The cone-shaped device was to keep Khalieesi—who is named after a character on the popular HBO series "Game of Thrones"—from tearing her stitches out.

San Vandenberg, Khalieesi's owner, worried the cone was hurting her pet. Its wide diameter and rigid material meant the puppy could injure herself knocking into doorways and furniture.

"Her face looked so pitiful," Ms. Vandenberg said. Unable to take her dog's whimpering, she purchased a bright blue inflatable recovery collar to replace the veterinary cone.

Across America, many pet owners are doing the same. The new collars—some made with velvety fabric and plush

cushioning—more closely resemble travel pillows. Other options for dissatisfied pet owners include cones made from soft, flexible materials and "recovery suits," or onesies that cover up surgical sites.

These so-called "pet friendly" devices are increasingly replacing what many pet owners refer to as the "cone of shame," which veterinarians have used for decades to help cats, dogs, and even rabbits heal after surgery by limiting the animals' ability to lick, bite or scratch their wounds.

Traditional plastic cones, which resemble upside-down lamp shades, are commonly called Elizabethan collars, or E-collars for short. They were named after the wide ruffs that Queen Elizabeth I often wore during the 16th century.

Some pet owners complain the wide collars are uncomfortable, limit visibility, and often lead to unintended run-ins with human legs, door

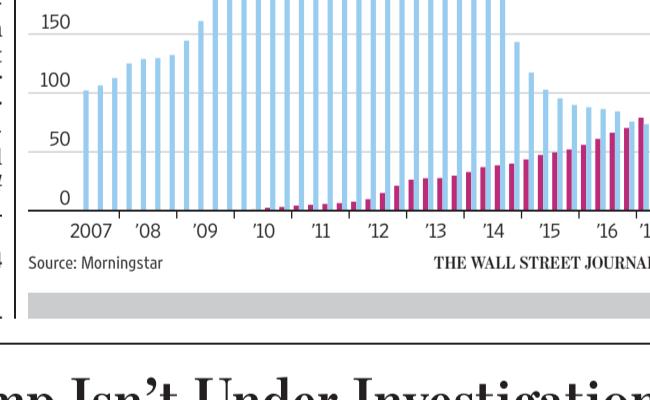
Please see CONE page A6

◆ Traditional plastic cones, which resemble upside-down lamp shades, are commonly called Elizabethan collars, or E-collars for short. They were named after the wide ruffs that Queen Elizabeth I often wore during the 16th century.

"The president is not and has not been under investigation," Jay Sekulow, an attorney for Mr. Trump, said on CBS's "Face the Nation." Asked

A New Bond King Rises

Dan Iviscyn's Income Fund has surpassed the size of the Total Return Fund once managed by Bill Gross, making it the largest of its kind in the world. **B7**



Source: Morningstar

THE WALL STREET JOURNAL.

Lawyer: Trump Isn't Under Investigation

By ANDREW ACKERMAN

WASHINGTON—A personal lawyer for President Donald Trump maintained Sunday that the president was not under investigation, following recent news reports that Mr. Trump was being probed over whether he tried to obstruct justice.

"The president is not and has not been under investigation," Jay Sekulow, an attorney for Mr. Trump, said on CBS's "Face the Nation." Asked

how he knew that, Mr. Sekulow said there has been "no notification from the special counsel's office that the president is under investigation," which he said he would expect in this circumstance.

The Wall Street Journal and other news outlets reported that investigators are now looking into whether the president sought to obstruct an FBI investigation into Russian meddling in the presidential race and possible collusion between Trump campaign aides

and Russia. Special Counsel Robert Mueller is examining whether the president fired FBI chief James Comey as part of a broader effort to alter the direction of the FBI probe, a person familiar with the matter told the Journal last week.

In his comments Sunday, Mr. Sekulow said Mr. Trump's recent tweet in which he said he was being investigated was

Please see TRUMP page A5

◆ CEOs' clout with president in question..... A7

INSIDE



ANDREW PARSONS/HANDOUT/ASSOCIATED PRESS

U.K. LEADER FACES NEW PRESSURE



ARIANA CUBILLOS/ASSOCIATED PRESS

VENEZUELAN CRISIS TESTS WALL STREET



ASIM HAFEEZ/BLOOMBERG NEWS

CHINA PUSHES U.S. ASIDE IN PAKISTAN

WORLD NEWS, A4

China: RMB28.00; Hong Kong: HK\$23.00;

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WORLD NEWS

Iraqi Troops Press Into Mosul's Old City

U.S.-backed military aims to reclaim Islamic State's last stronghold in Iraq

BY BEN KESLING
AND GHASSAN ADNAN

BAGHDAD—Iraqi forces on Sunday pushed into Mosul's historic Old City, in what is expected to be the final and most intense phase of the fight to retake the country's second-largest city from Islamic State control.

The U.S.-backed offensive began soon after sunrise, with troops advancing on the Old City from three sides, Iraqi military officials said.

"With the blessing of God, the army, counterterrorism forces and federal police started breaking into the Old City to liberate what is left of the western side of Mosul," Lt. Gen. Abdul Amir Yaralla, operations commander in Nineveh province, said in a brief statement.

The fighting is expected to mark the heaviest and bloodiest stage of the monthslong fight for Mosul because the Old City district is a densely populated warren of narrow streets and alleys, which will likely require house-to-house combat



Members of the Iraqi army are photographed with an Islamic State flag, claimed after fighting militants in western Mosul, on Saturday.

to clear out the militants.

"For sure Daesh is going to fight in a fierce way since this is their last place," said Lt. Gen. Abdul Ghani al-Asadi, commander of Iraq's counterterrorism force, the country's special forces, using another name for Islamic State. "But we have taken into consideration how the place is densely populated, the streets are narrow and

explosive devices might be placed by the enemy."

The Iraqi military said it has given Islamic State fighters a chance to surrender via announcements by loudspeaker on the battlefield. But both Iraqi and U.S. forces have said in the past they expect the militants to keep fighting.

The fight for Mosul began in October, with Iraqi military and Kurdish Peshmerga troops

pushing through rural areas and outlying villages primarily to the east of the city. Despite casualties among the troops, they made relatively quick progress before entering the city itself.

With U.S.-led coalition air support, including a new policy from Washington that allowed a more visible American troop presence on the ground and greater flexibility

in air and artillery targeting, the Iraqi forces retook the east side of the city by the end of January.

In February, Iraqi troops crossed the Tigris river, which splits the city in half, and began squeezing Islamic State deeper into the heart of Mosul's dense neighborhoods. Fighting slowed in recent weeks as Iraqi troops engaged in bitter street-to-street bat-

tles in the neighborhoods adjacent to the Old City.

Iraqi troops struggled to advance through streets jammed with abandoned cars, booby-trapped houses and hidden Islamic State sharpshooters, while trying to avoid causing civilian casualties among the thousands of residents rounded up to be used as human shields by Islamic State.

As many as 100,000 civilians remain in the Old City, according to United Nations estimates last week. Fighting has displaced more than 600,000 people just from the west side of the city, the U.N. estimates, with a large number of those pushed into camps near the city.

Iraqi forces gave no timeline for concluding the operation, though officials praised its launch before the end of Islam's holiest month of Ramadan.

"These are blessed days, these are the last 10 days of Ramadan and we hope to achieve victory," said Abdul-wahab al-Taee, spokesman for the Interior Ministry, in a statement.

Notice to Readers

Simon Nixon's Europe File column is on hiatus this week.

AMAZON

Continued from Page One
the masses with low prices enabled in part by centralization and automation. And Amazon, with \$136 billion in revenue last year, has achieved far larger success financially—putting Mr. Bezos firmly in charge.

"On both sides, they will have challenges with accepting that they can learn from each other, and letting go of the 'that's how we've always done it' mentality," says Forrester Research analyst Brendan Witcher, a former retail executive who now researches e-commerce and consumer behavior.

The companies have said little about how they plan to integrate, and declined to make their CEOs available for interviews. But at least some benefits of the combination seem clear.

Mr. Bezos gains more than 460 stores across the U.S., a network that could let Amazon sell its private-label brands and devices in stores, expand its distribution network, and bolster its Prime Now and Fresh delivery businesses.

Whole Foods gets access to Amazon's data and technology, and the combined buying power of Amazon Fresh and Whole Foods could win better prices from grocery suppliers. Also, Mr. Mackey's new boss has been tolerant of thin profit margins, a welcome relief after activist investor pressure over profit and other issues. Amazon has said Mr. Mackey will remain CEO of Whole Foods.

Still, Mr. Bezos's team is likely to scrutinize Whole Foods' business practices seeking opportunities for change, former Amazon employees say. To better compete with rivals including Wal-Mart Stores Inc., for example, Ama-

zon likely will push for lower prices, new technology, and more uniform stores to save costs, they say.

Mr. Mackey has balked at activist investors for criticizing Whole Foods as too slow to innovate, despite the company's recent efforts to do so.

Mr. Mackey, a 63-year-old Texan who studied philosophy and religion in college but didn't graduate, built Whole Foods with his partners into a national brand from one natural-food store in the basement of an Austin, Texas, house.

They bought up local health-food chains, using capital from investors to open big stores in a sector long dominated by mom-and-pop shops. Whole Foods patched together 11 regions that were given autonomy to develop their own store concepts, signage and other flourishes.

"They are free to try new things," said Mr. Mackey in a recent interview. Employees study ideas inside and outside the company and don't have to ask permission from Austin, where Whole Foods is based.

Mr. Mackey is more focused on the big picture than immersed in the details of everyday operations, former executives said. A strict vegan, he likes to cook dinners showcasing good eating to bring parts of the company together, said people who have attended.

Some say that the close-knit culture has drawbacks. "It's been a very paternalistic culture where it's a job for life. If someone doesn't deliver, you don't necessarily suffer the consequences,"

said Burt Flickinger, a grocery consultant.

At Amazon, performance is prized and, as with other tech companies, employees come and go more frequently, former employees say.

Mr. Bezos, 53, earned a degree from Princeton University in electrical engineering and computer science and worked on Wall Street before founding Amazon in his garage in 1994. He "has this unique ability to stay focused on a long term vision, while also staying very focused on

the details," says Joseph Thompson, a former general manager of retail at Amazon and current vice president of marketing and growth at BuildDirect, a home-improvement online marketplace.

Despite Amazon's size, Mr. Bezos tries to maintain a startup culture. Teams are typically kept small (defined by the ability to be fed with two pizzas). There is a strict process for developing new ideas and inventing devices, which includes writing six-page papers for explanation, according to former employees.

When former Amazon employee Eric Heller met with Mr. Bezos and his team more than a decade ago to push for requiring customers to enter credit-card security codes while checking out, the CEO dug in on the details.

"Until my mother knows what a [card verification value] is, we're not putting it on the transaction page," Mr. Bezos said, according to Mr. Heller, who has since founded consultancy Marketplace Ignition.

In meetings before the deal's announcement, executives at Amazon and Whole Foods found they shared a willingness to let employees take risks and an emphasis on customer experience, according to people familiar with the matter.

But some former employees and industry observers said it would take time for the companies and founders to mesh.

"They will be blended. It won't happen in three months but in two or three years it will," said Tom Furphy, former head of Amazon's consumables and Fresh divisions, and now CEO of Consumer Equity Partners, a venture-capital fund.

NOTABLE ACQUISITIONS

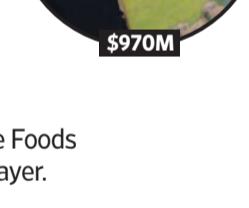
ZAPPOS.COM 2009



KIVA SYSTEMS 2012



TWITCH 2014



WHOLE FOODS 2017



Amazon market cap
\$472.1B

2015
Opened first brick-and-mortar bookstore in Seattle.

2011
Installs lockers in various locations for delivery pickups.

2012
Begins soliciting scripts to produce its own TV shows.

2004
April 1999
Amazon launched July 1994

Two-day share performance

0%
-5%
-10%
-15%
-20%
-25%
-30%

Thursday Friday

1998 2000 '02 '04 '06 '08 '10 '12 '14 '16

Amazon's World

The online retailer's footprint grows with a Whole Foods acquisition, though the grocery chain is a small player. Other retailers' stocks sank.

April 1999

Alexa Internet and Exchange.com are some of Amazon's earliest deals.

Amazon launched July 1994

2005

Prime membership is launched, offering free two-day shipping for an annual fee of \$79.

2006

Creates subsidiary to sell cloud computing services

2004

Installs lockers in various locations for delivery pickups.

2012

Begins soliciting scripts to produce its own TV shows.

2004

U.S. grocery market share, 2016

Wal-Mart
Kroger
Albertsons
Ahold Delhaize
Publix
H.E.B.
Meijer
Whole Foods

5% 10 15 20

U.S. grocery retail sales, change from previous year

8% 7 6 5 4 3 2 1 0

2004 06 '08 '10 '12 '14 '16 estimate

Sources: WSJ Market Data Group (market cap, share performance); Euromonitor International (market share, retail sales)

Photos: Zuma Press; Bloomberg; Reuters (2)

Whole Foods 2017

\$13.7B

2015
Opened first brick-and-mortar bookstore in Seattle.

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U.S. grocery retail sales, change from previous year

8% 7 6 5 4 3 2 1 0

2004 06 '08 '10 '12 '14 '16 estimate

Stephanie Stamm/THE WALL STREET JOURNAL.

Deal Seen as Ideal for Pickup, Delivery Hubs

BY ERICA E. PHILLIPS
AND JENNIFER SMITH

Amazon.com Inc.'s purchase of Whole Foods Market Inc. could fill an important logistics gap for the online retailer, providing hundreds of stores perfectly positioned to serve as pickup and delivery hubs for urban customers.

For more than two years, Amazon has been building out a network of urban warehouses, located in highly populated neighborhoods, and offering "Prime Now" delivery of food and sundries within a one- or two-hour delivery window. They are essentially big convenience stores, without the customers.

Adding the more-than-430 stores in Whole Foods' network would expand Amazon's current neighborhood network by a factor of at least five, logistics experts said Friday. "It's going to give them little warehouses all around the country in some of the big markets," said Michael Kne-

meyer, a professor of logistics at Ohio State University's Fisher College of Business.

Prime Now warehouses are around the same size as grocery stores, or slightly larger, and in urban areas where Amazon shoppers live and work, and delivering mostly same-day orders—some within one hour. Inside, there are pallets of bulk items like paper towels and cases of soda, shelves of produce and a few freezer and refrigerator aisles.

That is a contrast with the behemoth fulfillment centers that are the backbone of Amazon's extensive and expanding logistics operations. Those are

located in far-flung suburbs and stock a much wider array of goods, fulfilling and shipping orders for delivery within two days or more.

One potential immediate benefit from buying the grocer is the chain's refrigerated storage areas, which would have been expensive to install

across a network of basic warehouses, experts say, as Amazon seeks to build out its own grocery business.

"Setting aside food, the larger opportunity to build out what many refer to as the final mile to the consumer is now in sight," said Dave Baird, a supply chain consultant.

CORRECTIONS & AMPLIFICATIONS

"PMX Agency has purchased ads on Snapchat for its clients. A Technology article in the Friday-Sunday edition incorrectly said that Trae Stephens also was a founder. Separately, Ben Rubin, Itai Danino and Sima Sistani founded Life On Air Inc. in 2012. The graphic incorrectly said that Roi Tirosh also was a founder and that the company was founded in 2013.

Ryan Petersen founded Export Inc. A graphic titled "Technology Companies to

title Wednesday about insiders on corporate boards.

Stephen Harvey and Perry Sayles own a colonial farmhouse that was built in 1788. A Mansion article in the Friday-Sunday edition about Shelter Island, N.Y., incorrectly said that it was built in 1778.

About 80% of the rosés from Spain are from the regions of Rioja and Navarra, ac-

cording to the Denominación de Origen Rioja. An Off Duty article June 9 about rosés from Spain incorrectly said that about 90% of the rosés from Spain are made in Rioja.

Global alcohol volumes across all types fell 1.4% in 2016, according to industry tracker IWSR. A Business News article Friday on falling global alcohol volumes incorrectly said they fell 1.3%.

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WORLD NEWS

U.K. Leader Faces New Pressure

Ahead of talks with EU, critics fault British government's response to London tower fire

BY JENNY GROSS
AND WIKTOR SZARY

LONDON—A day before negotiations between the U.K. and the European Union were set to begin, Prime Minister Theresa May faced a ballooning crisis at home, with critics accusing her of fumbling the government's response to a London apartment tower fire that left at least 58 people dead.

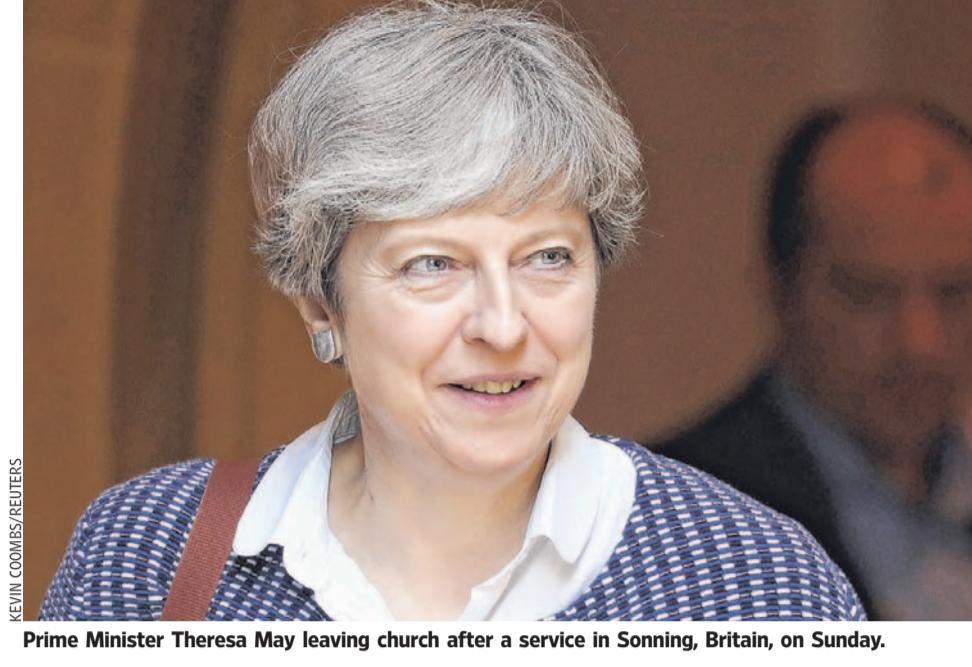
Mrs. May, already weakened by an election setback less than two weeks ago, over the weekend pledged to make more funding available to victims of the Grenfell Tower fire, after saying the government's initial response was "not good enough."

On the back of a string of government policy reversals, Mrs. May heads into the talks with plummeting public support amid questions about her Brexit strategy.

Keir Starmer, the Brexit spokesman for the main opposition Labour Party, said Mrs. May's diminished standing and her approach to negotiations has put the U.K. in the "worst possible starting position."

"I think the prime minister has got us into a complete mess," Mr. Starmer told the British Broadcasting Corp., saying she has alienated Britain's allies in Europe and weakened its position with the EU.

Criticism over Mrs. May's response to the fire, including her initial refusal to meet residents of the tower amid security concerns, has cast further doubt on how long she can continue as leader, after losing her parliamentary majority. She said a public inquiry would answer urgent questions around how



Prime Minister Theresa May leaving church after a service in Sonning, Britain, on Sunday.

Britain Wants Clean Break from the EU, Hammond Affirms

LONDON—U.K. Treasury chief Philip Hammond sought to pour cold water on any notion the ruling party's recent election setback could change Britain's negotiating stance in the coming Brexit talks, saying the U.K. would "definitely" leave the European Union's single market and customs union.

With the first round of negotiations between the EU and the U.K. set to begin Monday, Mr. Hammond also struck a defiant tone against Brussels's financial demands, accusing it of "egregious" posturing.

Prime Minister Theresa May last week held meetings with officials from Northern Ireland's

Democratic Unionist Party, seeking to hash out an alliance following her Conservative Party's failure to secure a majority in the election earlier this month.

Critics have said the election result amounts to a rejection of her negotiation strategy, which envisaged a clean break with the bloc. Questions have also been raised over whether a deal with the DUP, which wants a "frictionless" border with Ireland, could also change Britain's aims in negotiations.

But speaking to the British Broadcasting Corp. on Sunday, Mr. Hammond said there would be no change in course.

"Definitely, we're leaving the EU, and because we're leaving the EU we will be leaving the single market. And, by the way, we'll be leaving the customs union," he said.

Britain aims to secure a

deal ensuring it can segue seamlessly from the customs union to the new arrangement, he said, with its main focus on avoiding bureaucratic delays at the U.K.-EU border.

Mr. Hammond also hit back at EU officials, who say that the U.K. will have to pay about €55 billion to €60 billion (\$61.6 billion to \$67.2 billion) to leave the bloc, a "divorce bill" covering a range of past commitments made by the U.K. that it hasn't paid for yet.

"I don't recognize these sums at all," he said. "I think this is the most egregious pre-negotiation posturing that I've seen for a very long while."

The talks will have to be completed and an agreement reached by the end of March 2019, unless all EU governments agree to an extension.

—Wiktor Szary

the fire spread so quickly and why persistent warnings by residents of the public housing building's fire hazards were ignored.

In three months, Mrs. May

has gone from being one of the country's most popular leaders in decades to approval ratings of minus 34 percentage points, according to a YouGov PLC poll taken

before the fire, a sign of the extent to which this month's election damaged her and her Conservative Party.

The election result has emboldened pro-EU lawmakers,

who are pressuring Treasury chief Philip Hammond to champion a Brexit that would maintain as close as possible ties to the EU.

The election exposed the deep divisions within the U.K. over Brexit and Mrs. May's strategy. A Survation PLC poll, published over the weekend, showed that in light of the election result, 47% of people wanted to stay in the single market and customs union, compared with 36% who wanted to leave. The rest didn't know.

Talks between the Conservative Party and the Democratic Unionists, a small Northern Irish party, continue. Mrs. May wants to secure a loose alliance with the mostly Protestant, pro-British party to prop up her minority government.

A key test for Mrs. May will come Wednesday, when she is expected to lay out her legislative agenda for a parliamentary vote.

A senior Conservative lawmaker said Mrs. May's missteps over recent days have further hurt her standing in the party, but that fellow members of Parliament wanted stability and that there is little appetite for a leadership change. "Nobody wants to be involved in an internal squabble," he said.

Anand Menon, professor at King's College London, said a leadership challenge would add to the chaos of the party and take up time and resources that are needed for Brexit negotiations. "But if she keeps hemorrhaging respectability and support they'll have no choice," Mr. Anand said.

He said that while there is speculation that the election results could soften the U.K.'s Brexit negotiating aims, the safest course for the party is to keep the plan as it is. "At this point, if we reopen the issues and have a debate about it, it will be fatal for the government."

Russia Adapts to Sanctions Regime

Even as the European Union sets plans to extend economic sanctions on Russia over its interference in Ukraine, some economic and political ties between Europe and Moscow are broadening again.

By Laurence Norman in Brussels and James Marson in Moscow

On Monday, EU foreign ministers are set to extend for another year sanctions they imposed in 2014 on Russian companies and others after the annexation of Crimea. EU leaders will discuss a six-month extension of broader sanctions at a summit late in the week.

EU and Russian officials say the latest sanctions, which curtail defense, energy and financial ties, will harm the Russian economy—though Russia appears to have adapted.

Russia's economy in 2014 entered a two-year recession, sparked by sanctions and plunging oil prices, but the World Bank forecasts it to grow 1.3% this year. So far, U.S. and European restrictions on drilling technology haven't curbed Russian oil production, which has broken post-Soviet records.

Financing for Russian companies dried up in 2014. But Western capital markets have more recently cracked open, allowing Russia's government and large firms to more easily tap international debt markets.

President Vladimir Putin said Thursday that sanctions had an impact but the measures—and Russia's counter-sanctions on EU food exports—had even helped some sectors, including agriculture. "Yes, they affected us," he said. "Dramatically or not? I think not."

Prime Minister May Calls Tower-Fire Response Poor

BY WIKTOR SZARY

LONDON—At least 58 people are presumed dead from the blaze that ripped through a west London residential tower last week, police said Saturday, warning that the number might change as the search operation continues.

The number included the previously confirmed death toll of 30, London police commander Stuart Cundy said.

After facing mounting criticism for being slow to meet survivors and the families of victims, U.K. Prime Minister Theresa May said the government's immediate response had been inadequate.

"The support on the ground for families ... was not good enough," she said in a written statement.

Police said they resumed the search operation in the tower on Saturday after it was suspended Friday over safety concerns, and formally identified the first victim of the fire as Mohammad Alhajali, 23 years old. Some victims of the fire have been identified publicly by family members.

The developments come amid heightened tensions over

Wednesday's fire at Grenfell Tower—a low-income high-rise in North Kensington, near Notting Hill and a few miles from the center of the U.K. capital, that was home to hundreds of people.

Critics have questioned whether officials were too slow to address concerns about fire-safety measures in low-income, public housing. One area of focus has been whether the aluminum clad-

ding on the 24-floor building's exterior contributed to the fire's quick spread. The cladding wouldn't have met widely adopted U.S. standards, according to building groups.

On Friday, protesters barged into a meeting of local authorities responsible for the building, chanting: "We want justice!" and "Shame on you!"

The building is owned by the Borough of Kensington and Chelsea, which is a subdivision of London.

The support on the ground for families ... was not good enough.'

between the fire and volunteers at her official residence on Downing Street, a spokeswoman for the prime minister's office said.

Jeremy Corbyn, the leader of the main opposition Labour Party, met with local residents near the building two days earlier.

Mrs. May has ordered a

public inquiry into the blaze and said she had established a £5 million (\$6.4 million) fund to pay for emergency supplies, food, clothes and other costs, such as for funerals.

The mounting pressure on the prime minister follows a significant setback in elections just over a week ago, when her Conservative Party lost its parliamentary majority days before the start of Brexit talks with the European Union.

Mrs. May's approval ratings have plummeted over the past two months.

Queen Elizabeth II said Saturday in a written statement that the U.K. was experiencing a "somber national mood" following a "succession of terrible tragedies." In recent weeks, deadly terrorist attacks have hit a central London market and a pop concert in Manchester, northwest England.

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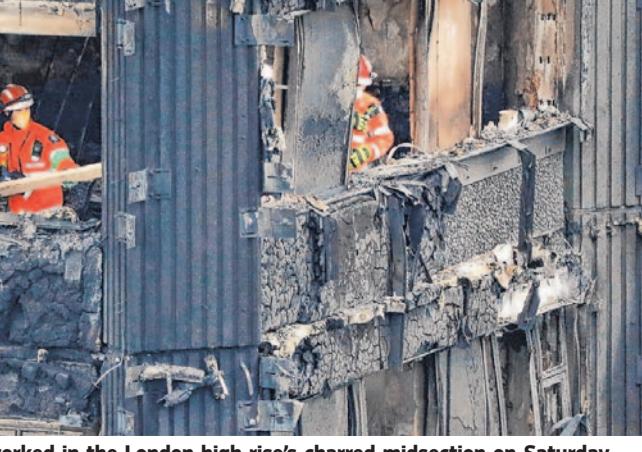
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Emergency-services members worked in the London high-rise's charred midsection on Saturday.

WORLD NEWS

China Elbows the U.S. Aside in Pakistan

Development and debt bind Islamabad as Beijing finesses the 'perceptions game'

BY SAEED SHAH

ISLAMABAD—Pakistan's ruling power structure has long been summed up with the saying "Allah, Army and America."

China is now staking a claim to supplanting the U.S. with tens of billions of dollars of investment, an embrace that promises Pakistan economic benefits and saddles it with debt—ensuring the relationship will last.

Chinese President Xi Jinping has made Pakistan his flagship partner in a program to spread Chinese-built infrastructure—and Beijing's sway—across Asia and beyond. Pakistan has so far signed on to \$55 billion in Chinese projects, many of them guaranteeing China a high return on its investments and granting tax breaks to Chinese companies.

Former U.S. President Barack Obama's "Asia pivot" is giving way to Mr. Xi's infrastructure juggernaut in a model that could be replicated across the region.

"China came in when no one else was willing to invest," said Pakistani Commerce Minister Khurram Dastagir. The U.S. missed its chance, he said.

Beijing calls its program "One Belt One Road," referring to the ancient sea and land Silk Road trade routes that China seeks to revive. Pakistan Prime Minister Nawaz Sharif inaugurated the program's first big completed project here in late May, a Chinese-built, coal-fired power plant in his home province of Punjab.



AKHTAR SOOMRO/REUTERS

Residents play soccer against the backdrop of Pakistan's Arabian Sea port of Gwadar, which is being expanded.

China is building roads, railways, power plants and a port, and has lent Pakistan \$2 billion in less than two years to shore up its foreign-exchange reserves.

A promised \$1 trillion Chinese splurge hasn't yet materialized for many countries. But in Pakistan, \$18 billion in projects are under construction in what is known as the China Pakistan Economic Corridor.

The centerpiece is Pakistan's Arabian Sea port at Gwadar, under expansion and run by a Chinese company to enable trade in goods from China's southwest.

Pakistan calculates that the Chinese investments will add two percentage points to growth in the next few years by providing infrastructure

Building Ties

China has made Pakistan a key partner through infrastructure investment, much of it in China-Pakistan Economic Corridor projects.

Top recipients of Chinese infrastructure investment

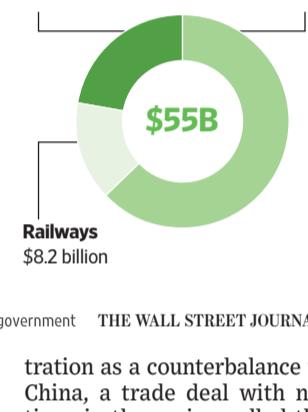
	In billions
Russia	\$77.7
Pakistan	\$71.7
Egypt	\$18.1
Bangladesh	\$13.3
Kenya	\$13.0
Laos	\$9.1
Kazakhstan	\$5.4
Thailand	\$4.3
Sri Lanka	\$2.7

Sources: BMI Research (recipients); Pakistan government THE WALL STREET JOURNAL.

needed to kick-start industrialization.

President Donald Trump has abandoned what was viewed by the Obama adminis-

Planned CPEC investment



stration as a counterbalance to China, a trade deal with nations in the region called the Trans Pacific Partnership. An American official said civilian

lot system for guidance.

"Although they have watchmen, their responses tend to be delayed," he said.

Vice Adm. Aucoin said all questions about the cause of the incident would require the results of the investigation, adding that the U.S.

Treaty Clouds Probes Into Collision

TOKYO—Two investigations—one American and one Japanese—are set into the collision between a U.S. destroyer and a container ship, but it isn't clear whether either will have the authority to unearth all the facts.

Clouding the probes is a bilateral treaty on the status of American forces in Japan that gives the U.S. jurisdiction over "offenses arising out of any act or omission done in the performance of official duty" even if the offenses take place on Japanese

territory. That language likely applies to Saturday's collision, said former Japanese military officials.

"This is an accident that happened during the performance of official duty," said Kyoji Yanagisawa, a former top official in Japan's Defense Ministry. "Basically, Japan can't get involved."

The U.S. Navy, meanwhile, doesn't have the same powers as Japan to get information from the other ship in the collision. The Japan coast guard said it interviewed the container ship's Filipino crew and an official of the Japan Transport Safety Board said it was examining damage.

—Peter Landers

would work "hand-in-hand" with Japan.

Navy officials said they were working to inform family members of those killed, and had taken over 500 calls to a hotline for relatives to obtain information about the incident. One senior Navy official said all the crew of the ship were grieving.

Vice Adm. Aucoin said that despite the extensive damage to the Fitzgerald, a ship equipped with an advanced Aegis ballistic missile defense system, it would be restored to the U.S. 7th Fleet. That process could take up to a year, he said.

The repair process could cost around the same as the \$250 million spent over 14 months on restoring the USS Cole, a similar ship to the Fitzgerald, which was heavily damaged by a terrorist bombing in Yemen in 2000.

—Costas Paris and Chieko Tsuneoka contributed to this article.

Since 2001, Islamabad has received \$33 billion in U.S. military and civilian aid, according to the Congressional Research Service. But U.S. aid hasn't yielded any high-profile infrastructure projects in Pakistan, and Pakistani officials say that joining America's war on terror has cost it \$123 billion in economic losses and tens of thousands of lives.

"The Chinese are winning the perceptions game, whatever the reality. That then leads to political outcomes, because people see the inevitability of China's rise and China's power," said Ely Ratner of the Council on Foreign Relations, a U.S. think tank.

While Washington's approach in Asia is led by the military, Beijing is binding countries to its interests with economics, Mr. Ratner said.

At a Chinese celebration of its belt and road plan in Beijing in May, Matt Pottinger, senior director for East Asia at the National Security Council, welcomed the initiative but called for Beijing to "ensure that privately owned companies can bid in a fair process."

That means that American businesses should be allowed to compete for contracts, U.S. officials said.

There is little sign of that in Pakistan. Islamabad chooses bidders from an all-Chinese short-list provided by Beijing. Pakistani officials say this is because Chinese companies bring their own financing.

The U.S. has asked to participate in the China-Pakistan Economic Corridor, but nothing has come of it, one of the American officials said.

Much as the U.S. secured the Pakistan alliance with aid to the country's powerful military, China has made the Pakistani army a beneficiary. Many construction contracts that weren't given to Chinese firms have been awarded to the military's engineering arm. The military has raised a special force, now at 15,000 and set to double in size, to protect Chinese projects.

Tahir Mashhadi, a senator from the opposition Muttahida Qaumi Movement, compared China to the East India Company, the commercial enterprise that colonized India before the British government took over.

"Here's the danger: the banks are Chinese. The money is Chinese. The expertise is Chinese. The management is Chinese. The profits are for China. The labor is Chinese," said Mr. Mashhadi.

Nadeem Javaid, chief economist at Pakistan's planning ministry, said Pakistan would be paying \$5 billion a year to China by 2022, but that the debt should be easy to manage as Pakistani exports rise, electricity prices fall, and toll revenues are generated from trade from China to Gwadar.

—Trefor Moss in Shanghai and Qasim Nauman in Islamabad contributed to this article.

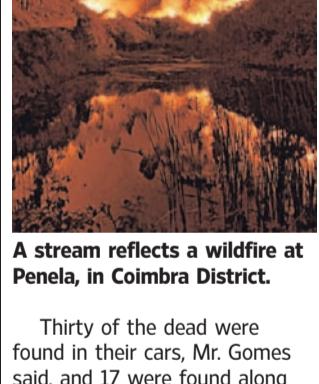
WORLD WATCH

PORTUGAL

Fires Kill at Least 57 In Central Region

Forest fires in the central part of Portugal have killed at least 57 people, many of whom died trapped in their cars as flames engulfed a road.

At least 59 people were injured, Jorge Gomes, Portugal's secretary of state of internal administration, said in remarks televised by public broadcaster RTP on Sunday from Pedrogão Grande, about 120 miles northeast of the capital, Lisbon.



AGENCE FRANCE PRESSE/GTY IMAGES
A stream reflects a wildfire at Penela, in Coimbra District.

Thirty of the dead were found in their cars, Mr. Gomes said, and 17 were found along the road that runs through the heart of the affected area.

"This seems to be the greatest tragedy we have seen in recent years in terms of forest fires," Portuguese Prime Minister António Costa said.

Portuguese authorities ruled out foul play. They believe a lightning strike might have triggered the fires.

—Jeannette Neumann

AFGHANISTAN

Taliban Attack Police At Station in Paktia

Taliban militants assaulted a police headquarters in eastern Afghanistan killing at least eight policemen and injuring several others, Afghan officials said.

A suicide bomber detonated a truck laden with explosives at the entrance of the police headquarters in Gardez city, the capital of Paktia province, on Sunday, said Mohammad Rahman Qadari, a member of the provincial council in Paktia. The blast allowed six other attackers to get inside the base, he said.

The Taliban claimed responsibility for the attack.

—Habib Khan Totakil

KOREA

Continued from Page One

the remaining three prisoners, it could set up an atmosphere for potentially serious talks."

President Donald Trump has repeatedly said he isn't seeking regime change in North Korea and hasn't ruled out negotiations to curb North Korea's rapidly advancing nuclear and ballistic-missile programs.

"She did not reverse the course before the collision. She did after the collision," a Nippon Yusen company spokesman said.

Both Japan and the U.S. are launching investigations, and each side declined to speculate about possible blame. The 20 Filipino crew members of the ACX Crystal, all of whom were unharmed,

have been questioned, a spokesman for the Japan Coast Guard said.

Around 400 vessels pass through the region where the collision took place, around 56 nautical miles southwest of Yokosuka, each day, according to the Japanese Coast Guard. Official records show three accidents have been reported in the same area in the last five years.

Collisions at sea for the U.S. Navy are extremely uncommon, said Bryan McGrath, a former destroyer captain, who said they occur only once or twice a decade, if that. He said he couldn't remember a recent collision that was this consequential.

"There are 275 ships in the Navy and 100 are under way all over the world," navigating "millions and millions of miles" every year, said Mr. McGrath, who retired in 2008 and is now a consultant. "This is very, very rare."

Yoji Koda, a retired vice admiral and former commander in chief of Japan's navy, said that when U.S. Navy vessels are in the vicinity of Japan their alert level is the same as civilian vessels. He said one possibility was that either or both of the ships in the latest collision were using an autopilot system for guidance.

"Although they have watchmen, their responses tend to be delayed," he said.

Vice Adm. Aucoin said all questions about the cause of the incident would require the results of the investigation, adding that the U.S.

began a string of about 20 meetings with North Korean diplomats in New York at about the same time as Ms. DiMaggio's trips that were focused on gaining Mr. Warmbier's release. The North Koreans' favorite spot for meetings was The Palm steakhouse in New York, close to their United Nations offices.

Mr. Richardson sent his own representative to Pyongyang in September to seek Mr. Warmbier's release. "[Mr. Warmbier's] situation will temper the desire for dialogue for the time being," said Mr. Richardson, a self-proclaimed champion of engagement. "I'm so unhappy and disgusted by what's happened to him."

The Obama administration had largely frozen direct contacts with North Korea in a policy that became known as

"strategic patience."

The two sides reached a preliminary agreement in 2012 that called for Pyongyang to freeze its missile tests in return for the U.S. shipping food aid to the country. But the deal collapsed after the North test-fired what it claimed was a rocket for a civilian satellite program.

Obama administration officials grumbled that any agreements with Pyongyang appeared futile.

Mr. Richardson has held negotiations with North Korean officials on prisoner issues dating back to the 1990s, when he was a congressman and then-President Clinton's ambassador to the U.N. But he said the dynamic of his encounters has changed under the rule of Mr. Kim, who took power in late 2011. North Korean Foreign Ministry officials,

he said, aren't as aware of developments in Pyongyang as they were under Mr. Kim's father and grandfather, the previous leaders of the communist country. The issue of American prisoners, Mr. Richardson said, appeared now to be totally under the mandate of the North's security forces.

"It's conceivable my interlocutors didn't even know about Otto Warmbier's status," Mr. Richardson said in an interview. It wasn't until June 6 that the U.S. was notified that Mr. Warmbier was in a coma.

The revelation resulted in Secretary of State Rex Tillerson's decision to send a diplomatic and medical team to Pyongyang to bring the University of Virginia student home.

Three Americans remain in North Korean prisons.

—Felicia Schwartz contributed to this article.



KYODO/ASSOCIATED PRESS

North Korean diplomat and negotiator Choi Sun Hee in Beijing.

Pyongyang Claims Regime Targeted

ULAANBAATAR, Mongolia—A North Korean official said that Otto Warmbier, the U.S. student released by North Korea last week in a coma after a 17-month detention, was "not an ordinary citizen of America" and was punished because he had sought to overthrow North Korea's government.

Mr. Warmbier's father has denied that his son was involved in any such plot, and criticized Pyongyang for having

"brutally treated" his son.

The remarks, made by a North Korean official at a meeting here of governmental and nongovernmental representatives organized by Mongolia's foreign ministry, are the first official view from Pyongyang on Mr. Warmbier's case, apart from a brief one-sentence statement on Friday saying he had been released on humanitarian grounds.

Mr. Warmbier was sentenced by North Korea to 15 years of hard labor for allegedly stealing a propaganda poster.

—Jonathan Cheng

U.S. NEWS

THE OUTLOOK | By Jacob M. Schlesinger

Trade War Risks From 'National Security' Tariffs

Donald Trump's trade policy has so far been more bark than bite: dramatic rhetoric about shaking up the old order, backed mainly by new studies and completion of routine Obama-era cases touted with extra fanfare. That may change as soon as this week, when the president bares his "America First" teeth with more ferocity, advancing plans to curb steel imports in the name of "national security."

In doing so, Mr. Trump is dusting off little-used presidential powers rooted in a claim rarely invoked in world commerce—one that has the potential to destabilize the global postwar trading regime.

"Justifying import restrictions based on national security is really the 'nuclear option,'" Chad Bown, a trade expert at the Peterson Institute for International Economics, wrote recently, warning of a "downward spiral" as trading partners "use similar exceptions to halt U.S. exports of completely different products to their markets."

In April, Mr. Trump began

to make good on campaign promises to protect the steel industry, exhuming Section 232 of a 1962 trade law giving presidents the power to block imports that threaten national security, and ordering aides to provide options on implementing the law. Officials are preparing to do so by end-June.

Do steel imports threaten security? The Bush administration weighed that question in 2001, and rejected the idea—the last time a Section 232 investigation was launched. The Commerce Department concluded at the time that only a tiny fraction of domestic steel output was needed for security-related uses, and that could be "easily satisfied...even if there were a substantial diminution of U.S. production." It also noted most steel imports come from close U.S. allies, which remains true today.

But domestic laws give an American president wide latitude to determine what threatens security.

The law's "definition of national security is much

broader than what you might think," Commerce Secretary Wilbur Ross told a Wall Street Journal conference last week, citing measures like trade's impact on employment. He said officials were looking beyond strict military concerns, noting that "there is only one U.S. manufacturer of the kind of steel that goes into transformers" for the electrical grid. "That, to me, is a legitimate national security issue," Mr. Ross added.

Global rules also give countries tremendous discretion to curb imports for national security. That's where the Trump actions could have the biggest repercussions.

The international trading system has long reflected the uneasy balance between the need to create consistent rules that could be enforced globally with the need to respect the sovereignty of member states.

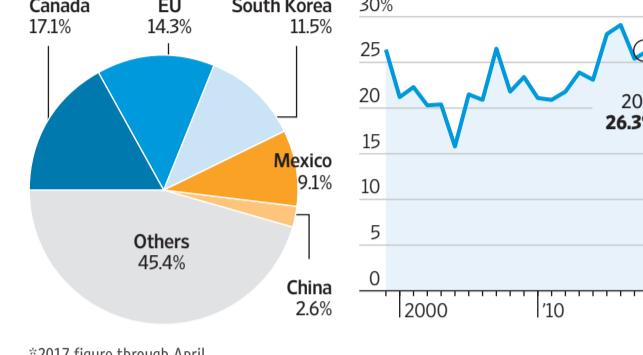
The postwar arrangement overseen by the World Trade Organization includes a national security exemption, giving countries significant freedom to use it how they see fit.

Trade law scholars call it

Weighing Steel Import Security Threat

Rising steel imports have prompted the Trump administration to consider new limits in the name of 'national security.' Skeptics say most foreign steel purchased in the U.S. comes from close allies.

Share of steel imports by country, 2016



*2017 figure through April
Source: American Iron and Steel Institute

the WTO's only "self-judging" provision. Officials have long worried the exemption, if used liberally, could upset the whole regime, posing a no-win dilemma for the Geneva-based trade arbitrators.

The WTO could declare the policy illegal, stoking domestic political anger toward a world

Cold War's "mutually assured destruction" doctrine preventing nuclear war. Only 10 national security complaints have been lodged in Geneva since 1949, all settled before the parties pushed the trade body into making a ruling.

In 55 years, the U.S. had launched only 26 Section 232 studies, with just two leading to limits, both on oil imports: from Iran in 1979 and Libya in 1982. Ronald Reagan did brandish the 232 threat as a bargaining chip, using it to persuade Japan in 1986 to "voluntarily" cut machine-tools exports.

Mr. Trump has already launched two such probes—on aluminum as well as steel—and Mr. Ross said last week "others are being considered."

Trump aides are still wrestling with just how strong to make their steel curbs. But Mr. Trump's core trade pledge has been to challenge the spirit U.S. presidents have applied to the global trading system for 70 years, which is why the looming steel case could have such broad reverberations.

THE WALL STREET JOURNAL.

government challenging a country's right to protect itself. Or it could approve the plan, encouraging other nations to go the same route, triggering a tit-for-tat protectionism the system was designed to prevent.

The result for 70 years has been the trade version of the

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INVESTORS PRAISE INVESTMENT REFORM UNDER JOKO WIDODO

In just over two years, President Joko Widodo's effort to reform and deregulate Indonesia's investment climate has produced results. Praising some of the achievements, high profile investors have expressed their satisfaction, particularly on how business application processes had become much faster and more transparent.



BKPM
Indonesia Investment
Coordinating Board

As Indonesia establishes itself as a premiere business and manufacturing hub, about 100 foreign and domestic investors have spoken openly about their positive experiences in dealing with Indonesia's Investment Coordinating Board (BKPM). Many have praised the increased government support.



The increasingly investor-friendly climate has been lauded by the business community. Moon Hyung Jo, the president director of textile producer PT Nesa Pan Pacific, who has been conducting business within the country for over 17 years, confessed to a "very different" situation under Joko Widodo's administration. "Government officials have become very transparent and very active," he said, adding that industrial business applications, which used to take about two months, could now be done in two weeks.

"We can attest to BKPM's enthusiasm in giving their service, not only during document processing, but also their field support," he said.

Indah Kiat Pulp & Paper director Didi Harsa praised BKPM's online business application system, which allows investors to file all necessary documents in a digital format. An online application is typically processed within three to five days, roughly 50 to 70% faster compared to the regular system.

Suhat Miyarso, a director at petrochemical company Chandra Asri, also confirmed some of the improvements made by the online application system: "In the past, the process to obtain permits could take two weeks. Now, if you have all the documents ready, you can have it done in three days".

First introduced in late 2014, it's the only system that's meant to reduce direct interaction between business applicants and BKPM officials, thus avoiding instances that may lead to corrupt practices such as bribery.

Another milestone that has received a warm welcome from investors is the three-hour business licensing service. Any company planning to invest at least IDR100 billion (or its equivalent in USD) or to recruit at least 1,000 workers are able to enjoy this super-speedy licensing service. Within three hours, the company will obtain nine types of permits such as the principal

investment permit, deed of establishment, company registration number and tax identification number.

The reception has been overwhelming. As of December 29, 2016, a total of 192 companies have benefitted from the three-hour licensing service. They plan to invest a whopping USD48 billion in total and employ roughly 110,000 people.

This positive track record is likely to be repeated this year. As of April 13 this year, 53 companies have filed their applications using this service with a combined investment plan value of USD19 billion and plans to recruit a total of 65,000 workers.

"Sure enough, everything was completed within three hours," said Benny Soetrisno, the advisory board chairman of the Indonesian Textile Producers Association.

One of the key sectors that has benefitted immensely from the three-hour licensing facility is oil and gas. On 31 January this year BKPM, in cooperation with the Energy and Mineral Resources Ministry, has dedicated resources to servicing the oil and gas sector.

The response has been remarkably positive. As of May 15, BKPM has processed 14 applications from oil and gas companies with an estimated investment value of USD1.3 billion. The applications came from 11 local companies, including three international firms. BKPM expects to allocate more resources on servicing other sectors that have a large multiplier effect such as oil and gas.

Investors also praised faster construction permit issuance for companies investing in industrial areas. Under this new scheme, companies are allowed to begin factory construction immediately without having to wait for their permits from the relevant authorities to be completed. Specific permits such as an environmental impact assessment could be done in parallel with their factory construction.



As of March 2017, a total of 85 construction projects have started under this direct construction facilities with a total investment value of IDR 122.3 trillion.

Direct construction facilities can only be accessed in 32 designated industrial parks. With a total land mass of 13,000 hectares,

these industrial parks represent nearly 80% of industrial areas in the country. BKPM is currently focusing on expanding the scheme to industrial parks outside Java, particularly in Sumatra, due to a growing interest from foreign investors.

Another area of reform that has given tremendous benefits for investors is the newly implemented green-lane import facility, which allows faster custom clearance of imported capital goods.

Companies can access this facility if they are in the process of building factories or supporting facilities in the country. Under the new facility, such companies can request a recommendation letter from BKPM so the relevant permits can be issued within 30 minutes by the customs office as opposed to three to five days under the regular procedure.



As of March 2017, BKPM has issued recommendation letters for 93 companies that are eligible to access the green-lane facility. Out of the total, 63 are foreign companies with a total investment value of Rp 168 trillion and 25 local companies with a total investment of Rp 20 trillion. One of the world's largest pulp and paper producers, PT OKI Pulp & Paper, is one of the companies that has benefitted from the green-lane facility.

"The entire administration procedure used to take about one month. Now, within one day, our imports can get a clearance. We see this as a very positive thing," one of the directors of OKI Pulp & Paper highlighted.

The testimony of some 100 executives is a clear testament to the progress that has been made by the Joko Widodo administration. A seal of approval has also been given by the international business community. The World Bank, in its Ease of Doing Business Report 2017, placed Indonesia as one of the top performers; Standard and Poor's had also recently acknowledged the improvement, lifting the country's sovereign rating from BB+ to BBB- (investment grade) after observing the concerted efforts to reform the business environment over a number of years. Positive trends and robust economic reforms significantly open up massive investment opportunities within the country. Don't miss the boat.

IN DEPTH

In New Cold War, Two Generals Square Off

National security adviser H.R. McMaster has long battled wits with Valery Gerasimov, in a contest of U.S. force against Russian cunning

A quarter-century after the Cold War ended, U.S. and Russian tank formations are once again squaring off.

This spring, the North Atlantic Treaty Organization moved armored forces to the Russian border, where they are conducting daily drills from Poland to Estonia. Less than 100 miles away, Moscow's forces are preparing for

By Nathan Hodge
in Moscow
and Julian E. Barnes
in Pabrade, Lithuania

large-scale maneuvers in the autumn, a demonstration of the country's revitalized might, including new equipment and improved tactics meant to keep the West guessing in the event of a clash.

Facing off behind these front lines and shaping each side's grand strategy are two of this generation's most influential officers in Washington and Moscow: U.S. Army Lt. Gen. H.R. McMaster and Russian Gen. Valery Gerasimov.

The two men's lives have evolved in parallel. Both began their careers as junior armor officers at the height of the Cold War. Both were tested in irregular warfare against separatists and militant groups. Both have coped with the rise of disruptive technologies including drones, precision bombs and sophisticated new forms of propaganda.

They haven't ever met. But each—like Patton and Rommel or John Le Carré's fictional Smiley and Karla—has made a career of studying his opponent's moves.

Their dynamic sheds light on the evolving military competition between the world's two biggest nuclear powers at a time of rising diplomatic tension. Moscow has narrowed a yawning gap in the quality of its conventional forces, but the U.S. remains far more powerful in that category. It is this imbalance that has shaped the strategic thinking of the two generals. It's American force and resolve against Russian cunning and diversion.

Gen. McMaster, now President Donald Trump's national security adviser, has emphasized that America's true strength lies not in shadowy commando raids or pinprick drone strikes, but in well-equipped land, air and naval forces working together to clearly demonstrate overwhelming superiority.

Pentagon spending

Military officers who know Gen. McMaster said they believe he will help shape the Trump administration strategy and influence the Pentagon's spending. Already the administration, which has been critical of allied defense budgets, has proposed a 40% increase in U.S. military spending in Europe, money that will pay for additional forces—from Army helicopters to Navy sub-hunters—to deploy there.

Gen. McMaster was a hero of the first Gulf War's most important tank battle. He later honed his reputation in Iraq, implementing one of the first counterinsurgency campaigns in the city of Tal Afar, which later became a model for the 2007 troop surge. More recently Gen. McMaster has overseen two critical Army initiatives to prepare America for wars of the future and counter Russia's military advances.

Gen. Gerasimov, by contrast, has always looked for American weaknesses and how Russian prowess can overcome



A U.S. Apache assault helicopter participates in NATO exercises, above; Gens. H.R. McMaster and Valery Gerasimov, below.



American power. The chief of Russia's General Staff, he has been the most articulate proponent of Russia's emerging vision of conflict, something Western observers dub "hybrid warfare." In conflicts in Syria and Ukraine, he has pioneered new approaches to hybrid war by combining traditional military weaponry with powerful nonlethal tools such as cyberwarfare, fake news and elaborate deception.

Both men obtained outside reputations as military thinkers, lauded for their studies of the other side's strategy and tactics. Each was assigned by his military to predict the contours of future conflict. Perhaps more than anyone else on either side, the two men have delineated the strategy now playing out in Europe.

Gen. McMaster, who declined to speak for this article, in essence rejected prevailing wisdom that viewed the Taliban's toppling in Afghanistan by U.S. special-operation forces as the future of warfare. Instead he focused on the Cold War, when conflict was avoided by ensuring adversaries understood America's conventional might. That means honing force-on-force warfighting skills that had been neglected at the Army's main training ranges.

"This is one officer who has done his homework over the years," said retired Army Gen. B.B. Bell, a former senior military commander in Europe and Korea. "H.R. spent the last couple years pointing the path forward for the Army to put it on a strong path to relearn the capacities it must have to defend the nation."

Gen. McMaster is the author of a secret study compiling lessons of Russia's strategies in Ukraine. The work, according to officials, drew on front-line reports by Ukrainian troops and U.S. officers, analyzing how Moscow used advanced jamming techniques, electronic surveillance and drones to make its artillery more lethal than ever. Army officials say the research is continuing and the report remains classified.

He has also influenced a generation of officers—including those serving on NATO front lines in the Baltics—with a talk on what he dubbed "Four Fallacies." The lecture argues that technology alone cannot deliver quick, clean military victories; commando raids don't amount to a military strategy; proxy forces aren't enough to win a conflict; and deterring war by demonstrating the presence, strength and capability to defeat an enemy is vital.

Gen. McMaster was a hero of the first Gulf War's most important tank battle. He later honed his reputation in Iraq, implementing one of the first counterinsurgency campaigns in the city of Tal Afar, which later became a model for the 2007 troop surge. More recently Gen. McMaster has overseen two critical Army initiatives to prepare America for wars of the future and counter Russia's military advances.

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His idea underpins NATO strategy in Europe: the move to eastern and central Europe of four battle groups led by the U.S. and its allies, plus America's deployment of a 3,500-soldier heavy brigade.

NATO's maneuvers are also a response to the Russian gambit devised by Gen. Gerasimov, who has overseen Russian military modernization and its innovative use of its armed forces in Ukraine, Syria and elsewhere.

Those ideas have been implemented in the separatist

conflict in eastern Ukraine and Russia's annexation of Crimea, and are now seen as textbook examples of Russian hybrid warfare. While the Russian strategy was designed specifically to beat Ukraine's army, American officers studying the fight see Russian techniques that would also undermine U.S. military advantages, such as control of the skies and superior surveillance through drones and satellites.

Equally worrying for the U.S. and its allies is Russia's mastery of what the Russians call "information war."

The genius of Gen. Gerasimov, according to NATO and U.S. officials, is he has paired

advances in military hardware with new strategies of disinformation. His insight was that Moscow could practice

deception operations not just on a battlefield but on a global scale.

Writing last year in a leading Russian defense journal, Gen. Gerasimov extolled the virtues of nonmilitary means to defeat or contain an adversary. "Indirect and asymmetric actions...allow you to deprive the opposing side of de facto sovereignty without seizing any territory," he wrote in a review of the lessons learned from the Russian military's combat role in Syria.

U.S. and other Western strategists scrutinize Gen. Gerasimov's writings. "The important point is that while the West considers these nonmilitary measures as ways of avoiding war, Russia considers these measures as war," wrote Charles Bartles, an analyst at the U.S. Army's Foreign Military Studies Office at Fort Leavenworth, Kan.

Gen. Gerasimov has described—hybrid war—is how you prepare the ground before you send in the men with guns," he said.

Gen. Gerasimov's approach now emerges wherever the Russian military deploys, either overtly or covertly.

Easting, the decisive tank clash that helped quickly win the war. In the battle, then-Capt. McMaster's company destroyed 28 Iraqi tanks in 23 minutes with no U.S. casualties. Gulf War victory was a fillip for the U.S. military, showing its prowess against Saddam Hussein and shaking off humiliation that had lingered after the disastrous end of the Vietnam War in 1975.

For Gen. Gerasimov, 1991 was also life-changing. The U.S.S.R. collapsed and Moscow lost its global superpower status almost overnight.

Russia's first post-Soviet decade was tumultuous. Russian troops found themselves fighting separatist insurgents during a brutal conflict in Russia's predominantly Muslim region of Chechnya. Then military leaders such as Gen. Gerasimov watched as revolutions swept through former Yugoslavia, Georgia and Ukraine from 2000 to 2004, further eroding Russian power in what it viewed as its rightful sphere of influence. Those upheavals, along with the social media-driven popular revolts of the Arab Spring, informed his concepts of hybrid warfare, according to analysts.

An early test of those ideas came in 2008 during Russia's brief conflict with Georgia, which provided an opportunity for experimentation in cyberwarfare. Before combat started, the Georgian government faced a concerted campaign to hack and disable websites, which it blamed on Moscow. Russia denies involvement in any hacking.

That experience presaged what analysts say is Russia's relentless focus on information operations, which range from planting fake news stories to directly interfering in the elections in the U.S. and Europe through cyberattacks. Russia denies such meddling.

Mark Galeotti, senior researcher at the Institute of International Relations, a foreign-policy think tank in Prague, said Gen. Gerasimov saw the tools of hacking and disinformation as a way for Russia's military to set the conditions on the conventional battlefield, sowing chaos behind the lines before the shooting started. "The West doesn't get that what Gerasimov has described—hybrid war—is how you prepare the ground before you send in the men with guns," he said.

Gen. Gerasimov's approach now emerges wherever the Russian military deploys, either overtly or covertly.

Drones overhead

"Their drones work around the clock," said Col. Vyacheslav Vlasenko, a Ukrainian battalion commander deployed recently in the country's east, referring to forces opposing him. "They correct their artillery fire. They also started using precision weapons."

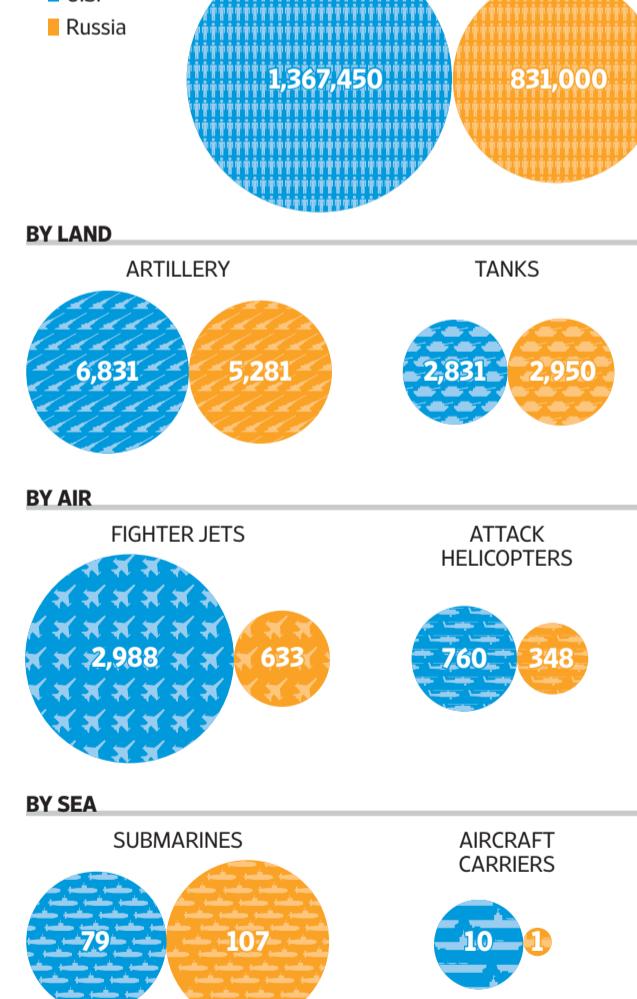
Gen. McMaster and other U.S. military officers have studied Ukraine closely, including sending officials on low-profile trips to the front lines to watch the Gerasimov strategy in action.

Like Gen. Gerasimov, Gen. McMaster burnished his reputation through his writing. His 1997 book, "Dereliction of Duty," focused on the failure of the Joint Chiefs of Staff and national security establishment to prevent strategic errors of the Vietnam War. The book, originally his Ph.D. dissertation from the University of North Carolina at Chapel Hill, remains required reading at America's war colleges.

shame on Alpha.

For some animals, recovery collars aren't feasible. At the Denali National Park & Preserve in Alaska, sled dogs that patrol the park have been known to rip recovery collars to shreds. "Our dogs hate the cones of shame. They can shatter them in a matter of minutes," said Jennifer Raffaeli, the park's kennels manager. She said cones make the dogs feel inferior in a pack and obstruct their movement in and out of their pens.

Ms. Raffaeli said she can quickly stop the dogs if she hears them trying to mess with their stitches. "They pant all night long but they do love the bed," she said.



THE WALL STREET JOURNAL.

CONE

Continued from Page One

frames and other objects.

Linda Markfield started making softer recovery collars in 2000 after Sabre, her Great Pyrenees, had surgery on his tail and struggled to make it through doorways in her home. One night, she cut up a one-inch-thick foam exercise mat into a cone shape and wrapped it around Sabre's neck, securing it with duct tape.

Today she runs All Four Paws, a Santa Monica, Calif. company that sells thousands of flexible recovery collars every year. Sales of her "Comfy

Cone" products, which are made of foam and colored nylon fabric and claim to conform to any openings that pets pass through, topped \$2 million last year, she said. The cones retail for between \$14.99 and \$40.99 apiece.

"It's not just that it works. It has to appeal to the pet owner because they need to leave it on," Ms. Markfield said.

Competing products include the inflatable KONG Cloud Collar for Dogs & Cats that sells for between \$9.99 and \$17.56 on pet supply website Chewy.com. The Well & Good E-Collar, the rigid plastic version, sells for between \$8.99 and \$16.49 on Petco.com.

At retail chain PetSmart,

sales of inflatable and softer recovery collars have nearly doubled over the past three years, according to a spokeswoman.

Recovery from surgery is "already distressing for an animal, and hard plastic cones can impede dogs' movement, impair their vision, and limit their ability to drink and eat normally," said Daphna Nachminovitch, senior vice president of cruelty investigations at People for the Ethical Treatment of Animals. She said Peta encourages softer solutions "when possible."

Pet experts are less enthralled, with some vets saying the hard plastic collars are still the best option, particularly for pets nimble enough to squirm

out of, or rip up soft collars.

On a recent Friday morning, a greyish-brown tabby was wearing a semi-translucent plastic cone and crouching on a towel in the front window of Bideawee, a no-kill shelter in Manhattan. "Poor Tigress," veterinary technician Karin Michitsch said, referring to the cat, which was healing from a dental problem. "I kind of hate it, but it's effective," Dr. Shian Simms, vice president of veterinary medicine at Bideawee, said of the rigid collar.

Long a staple in veterinary medicine, the cone's poor image was documented in Disney and Pixar's 2009 film "Up." In the movie, Dug, a golden retriever that wears a talking col-

lar, was forced to wear a cone by his pack leader, Alpha. It was Dug's punishment for not fulfilling a task he was assigned. Dug bowed and said, "I do not like the cone of shame."

Bob Peterson, who wrote Dug's dialogue and voiced the character, said he drew inspiration from dogs he previously owned. "You feel so sorry for your dog because they don't know why they're in it," he said of recovery cones.

Alpha wouldn't have seemed as mean if he had made Dug wear a blown-up inflatable cone, said Mr. Petersen. "It would have been the cone of inconvenience." Dug ultimately got his revenge. Near the end of the film, he put the cone of

U.S. NEWS

Russia Hack Probes Are Set for Hearings

The Senate and House intelligence committees are set on Wednesday to hold two open hearings examining Russian hacking efforts during the 2016 election, featuring testimony from current and former De-

By **Rebecca Ballhaus,**
Erica Orden
and Valerie Bauerlein

partment of Homeland Security and Federal Bureau of Investigation officials as well as state election directors.

Steve Sandvoss, the executive director of the Illinois State Board of Elections, is expected to walk the Senate committee through a cyberattack last July that allowed hackers to breach a database of up to 200,000 personal voter records.

Following the breach, the board informed the state attorney general's office of the cyberattack. The board was subsequently contacted by the FBI, but the agency hasn't informed the board who was responsible for the attack, according to Ken Menzel, the board's general counsel.

An information-technology report to the board in August said the FBI was "highly confident" that no voter data had been altered.

The Senate committee will also hear testimony from J. Alex Halderman, a Michigan computer scientist who helped lead a push last year for an examination of paper ballots and electronic voting machines in Wisconsin, Pennsylvania and Michigan to conclusively prove that hackers hadn't manipulated the results. A series of legal rulings ultimately halted some of the recount efforts, while others were completed and found no widespread irregularities.

The hearings represent the most robust effort to date to elicit public testimony from

state election officials concerning what federal officials have described as an aggressive and sustained effort by Russia to interfere with the 2016 presidential election.

Special counsel Robert Mueller is also investigating whether campaign advisers to President Donald Trump had ties to the Russian activities, a probe that has expanded to include whether the president obstructed justice by trying to influence its outcome, according to a person familiar with the investigation.

States are also examining their own systems. A survey by The Wall Street Journal of election officials in nearly 50 states found many continue to participate in a DHS program of periodic checks of their election systems for vulnerabilities and many had been in touch with the FBI before the election, when the bureau had provided states with a list of suspicious IP addresses.

The North Carolina State Board of Elections' investigations unit, led by a former FBI agent, is investigating the reported attempts to compromise VR Systems Inc., a Tallahassee, Fla., firm whose electronic poll book software was used on Election Day in 21 of the state's 100 counties.

The software deals with checking voters in, not with counting their votes. But on Election Day last year, that system failed in Durham County, which holds the state's most reliable Democratic voters. That forced the county to issue ballots by hand, meaning longer lines and delays—factors that can often depress turnout. The county voted for Democrat Hillary Clinton by 77.7%, while Mr. Trump won the state with 49.8% of the vote, according to the state's board of elections.

"The Republicans were claiming that this was Demo-

cratic voter fraud, but maybe the other explanation, the simplest answer, is most likely to be the correct one. Look at the Russians," said Gerry Cohen, former special counsel to the North Carolina legislature and an expert on state election law. "If you were trying to hurt Democrats in North Carolina, shutting down Durham's Election Day voter check-in would be your quickest and most effective method."

The aim of the Senate hearing, according to an email sent by a committee aide to those testifying, is to "give the public an unclassified look at Russian activity in the 2016 U.S. election, as well as a look at what we are facing from an election security standpoint in 2018 and 2020."

Former Homeland Security Secretary Jeh Johnson, meanwhile, will testify before the House Permanent Select Committee on Intelligence on Wednesday to discuss "Russian active measures" during the 2016 election.

Department of Homeland Security officials have said at least 20 states were targeted during the 2016 election. Last August, the FBI issued a warning to state governments that cited the Illinois breach and a hacking attempt in Arizona. Speaking before the House Judiciary Committee last September, then-FBI Director James Comey said the agency's counterintelligence investigators were "doing an awful lot of work...to understand just what mischief is Russia up to in connection with our election."

An FBI spokeswoman declined to comment on the agency's investigation.

In early June, the website Intercept published a top-secret National Security Agency document that said Russian military intelligence had executed a cyberattack on at least



J. Alex Halderman, below, who pushed to examine voting results last year, is set to testify Wednesday.



one U.S. voting software supplier in August 2016.

The document also said Russian operatives had sent "spear-phishing" emails to more than 100 email addresses linked to local government organizations—potentially including local election officials—in the days preceding the 2016 U.S. presidential election.

VR Systems this month said it had no indication that any customers had been compromised by the emails and said it has "policies and procedures in effect to protect our customers and our company."

As states undertake their own investigations of the 2016

election, DHS is weighing whether to maintain the designation of voting apparatus as "critical infrastructure," which gives the federal government additional authority to protect the systems. Homeland Security Secretary John Kelly said in testimony to the Senate Homeland Security Committee this month.

That decision was made by Mr. Kelly's predecessor, Mr. Johnson, and Mr. Kelly testified that he had a "large amount of pushback" on the determination from states and members of Congress.

Many states have expressed concern about additional federal authority over their election systems and have said the Constitution provides states the right to run their own elections.

In his testimony, Mr. Kelly said he doesn't support rolling back the designation and hopes to persuade states that they allow the federal government to be helpful on such issues. When asked about the review of the designation, a DHS official defended it, emphasizing that it allows the department to "prioritize our cybersecurity assistance to election officials, for those who request it."

—Arian Campo-Flores,
Sharon Nunn and Byron Tau
contributed to this article.



BRENNAN LINSLEY/ASSOCIATED PRESS
Jack Phillips, a Colorado baker, has appealed to the Supreme Court.

Gay-Wedding Debate Shifts to Speech Issue

By **IAN LOVETT**

After a string of defeats in cases involving Christian small-business owners, including bakers and florists, who refused to provide services for gay weddings and events, conservative legal groups are adopting a new strategy: pursuing cases that involve language and other protected forms of expression.

In Arizona, a company that makes paintings combined with calligraphy text is suing the city of Phoenix, arguing a city law prohibiting discrimination against lesbian, gay, bisexual and transgender people violated their free exercise of religion by compelling them to create art whose message conflicted with their Christian beliefs.

In Kentucky, a three-judge panel ruled last month that a T-shirt company, whose owner is Christian, couldn't be forced to print shirts for a gay pride festival. And in Minnesota, Christian owners of a film-production company have filed a preemptive challenge to a state law requiring businesses that offer services to straight weddings to serve gay weddings as well.

Jeremy Tedesco, senior counsel for Alliance Defending Freedom, said that compared with cakes and flower arrangements, "It's going to be a lot harder for a court to rule that films can be coerced and words on a T-shirt can be coerced."

Conservatives are also looking to the U.S. Supreme Court, which could decide this month

whether to take the case of a Colorado baker who declined to make a cake for a gay wedding—which could establish new ground rules for how religious business-owners have to deal with gay couples.

Meanwhile, cases directly involving language are moving to the forefront of the continuing fight over whether business owners should be allowed to refuse to serve same-sex weddings if they hold a religious objection to gay marriage.

Gay-rights organizations argue that the products a company sells—whether they are hand-painted or coming off an assembly line—are irrelevant.

"If they've opened their doors to the public, then it doesn't matter what they're selling—they're subject to state and local antidiscrimination laws," said Ria Tabacco Mar, a lawyer with the American Civil Liberties Union, which has argued against the Alliance Defending Freedom in multiple cases. "Any business involves words of some kind."

So far, courts have largely sided against Christian business owners whose services don't directly involve language.

In 2013, the New Mexico Supreme Court ruled that a wedding photography company couldn't refuse to photograph a same-sex ceremony.

In 2015, a Colorado appeals court ruled against a Christian baker who refused to design a cake for a gay wedding.

Trump to Meet with Tech CEOs

BY VANESSA FUHRMANS
AND PETER NICHOLAS

When tech industry executives gather at the White House Monday, brainstorming ways to modernize government will be on the agenda. But on display will be President Donald Trump's evolving relationship with America's corporate chieftains.

Some 300 business leaders have met with Mr. Trump since he took office promising the nation's top executives a direct line to the Oval Office and a chance to shape economic policy. The discussions have helped the president project an image of CEO-in-chief as he awaits a major legislative victory and have given CEOs a voice in initiatives like the administration's push to expand apprenticeship programs.

But corporate leaders are learning about the limits of their clout. Hopes for an overhaul of the corporate-tax code this year are fading, some executives and corporate lobbyists say, as the White House and lawmakers struggle to reach consensus on a plan that could get through Congress.

Mr. Trump's move to quit the Paris climate accord has been a stinging lesson for some that White House face time doesn't always translate into influence.

"It is very much an individual decision," Ms. Meck said.

Dozens of business leaders urged the president publicly and privately to keep the U.S. in the climate agreement; many were taken aback when he rejected their pro-business case for upholding the deal, people involved in the lobbying effort say.

"He's a business guy, so he's in his element," said James Kamsickas, CEO of automotive supplier Dana Inc. and a member of Mr. Trump's manufacturing-jobs council.

The White House sent participants a memo laying out Monday's agenda. An early draft solicited ideas for making government "operate like a modern technology enterprise."

"We're 10 to 20 years behind in a lot of technology," said Chris Liddell, a former chief financial officer at General Motors Co. and Microsoft who helps manage the White House's business relationships.

Executives expected to attend Monday's session include heads of Amazon.com Inc., Apple, Microsoft and Google parent Alphabet Inc.

Notably absent will be Tesla Inc.'s CEO, Elon Musk, who attended a similar tech-leader roundtable at Trump Tower in December. Mr. Musk quit his role in business councils that advise the president after Mr. Trump's decision to pull out of the Paris accord.

Salesforce.com Inc. leader Marc Benioff—who tweeted he was "deeply disappointed" in the Paris withdrawal—is no longer coming to the Monday session as planned because of a scheduling conflict, according to a person familiar with the matter.

White House officials say they have received an enthusiastic response from executives who see the overall effort to improve government efficiency as an apolitical goal. "Modernizing government services is not politicized," Mr. Liddell said in an interview in his West Wing office.

Most business leaders say they remain committed to advising the president and see the sessions as a way to learn how Mr. Trump ticks. Though he campaigned on his success as a businessman, Mr. Trump wasn't well known to most CEOs outside New York before his election.

Another factor keeping CEOs at the table: the narrowing window many see for legislating policies to boost competitiveness, particularly on corporate taxes.

"There's a real priority to get that done while there's [Republican] alignment in Congress and the White House," said Kathryn Wylde, president and chief executive of the business group Partnership for New York City, who led some 50 CEOs to Pennsylvania Avenue in April. Right now, "the issues at stake are just too important to withdraw from the conversation."

There have been disappointments. At the meeting with the New York CEOs, Mr. Trump acknowledged their concerns about any tax-overhaul bill that eliminated state and local-tax deductions, a painful prospect for New York and other states with high taxes.

"We're all lucky that I'm from New York because in some ways New York has unique problems," he told them. Yet, when the White House presented the first rough outline of its tax proposal a few weeks later, it called for taking away the deductions.

—Ted Mann
and Yoree Koh
contributed to this article.



SHANNON STAPLETON/REUTERS
Donald Trump spoke with technology leaders, including Peter Thiel, center, and Tim Cook in December.

LIFE & ARTS

WEEKEND CONFIDENTIAL | By Alexandra Wolfe

Sebastian Junger Focuses on Syria

ONE OF THE most poignant scenes in Sebastian Junger's new documentary, "Hell on Earth," shows a Syrian family in the back of a smuggler's utility truck, a large vehicle with high metal walls surrounding the cargo bed. Huddled under a tarp, they are trying to escape from their home in Manbij, at the time in an Islamic State-controlled area, and reach Turkey.

Three children, who look to be under the age of 6, give a small smile as another member of the family records video of their 15-minute border crossing on a smartphone. In the film, the father says, "During those 15 minutes, I felt like I died 100,000 times."

The film, which premiered at the Tribeca Film Festival in April and is now being shown on the National Geographic Channel, connects Syria's descent into civil war with the rise of Islamic State, mixing footage of the battles in the country with expert interviews,

Islamic State recruitment videos and personal stories of Syrians trying to escape. The crew gave smartphones to a handful of civilians so they could document their experiences.

Mr. Junger, 55, who co-directed the film, wanted to highlight the human hardships and costs of the war, without taking a conservative or liberal perspective. "I think most documentary filmmakers are actually activists, not journalists," he says. "Journalists shouldn't set out to deliberately make people think a certain way, but it is good to lay out the facts in a way that allows for some emotion."

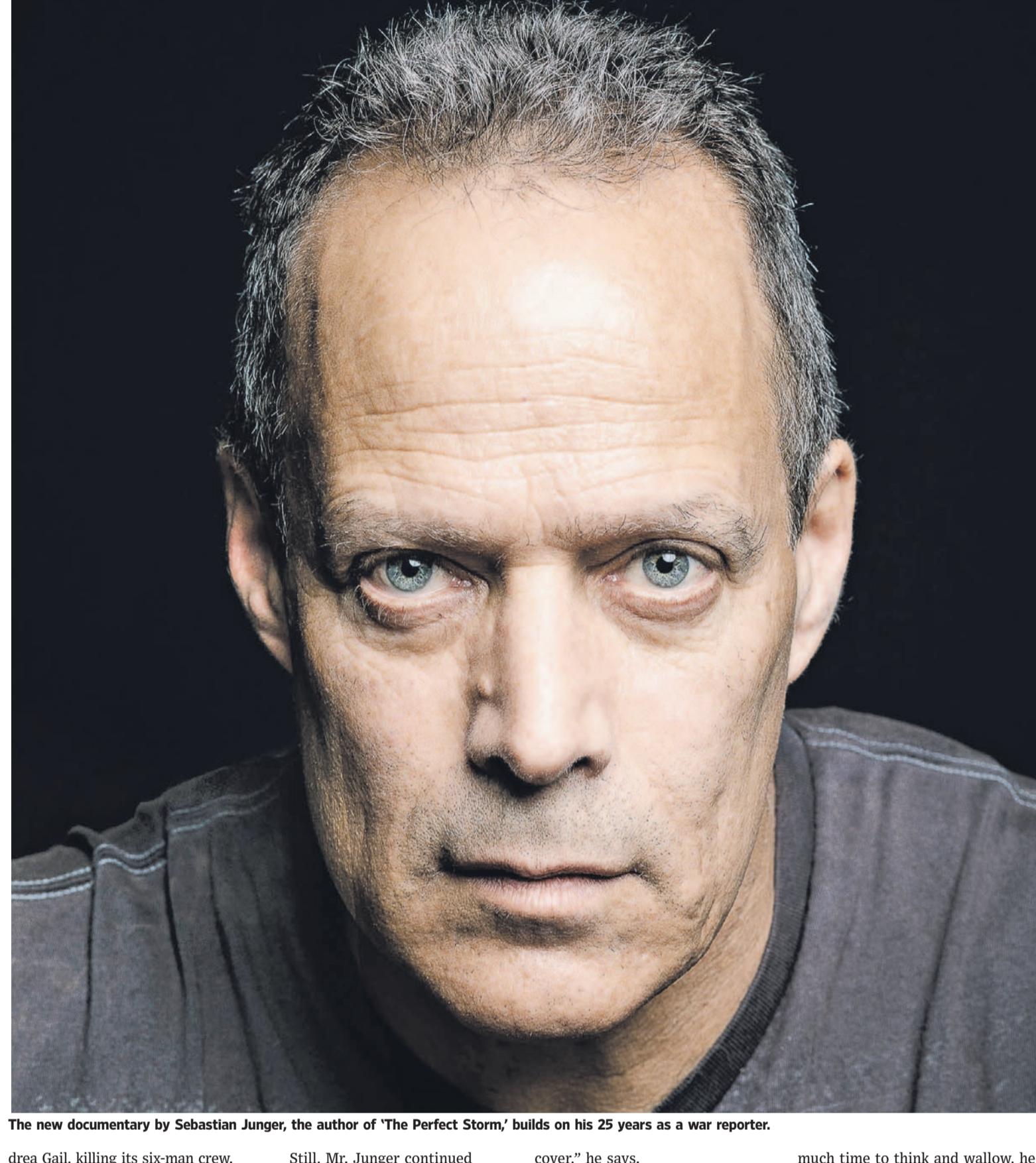
"Hell on Earth" builds on Mr. Junger's 25 years as a war reporter. Along with writing nonfiction books such as "The Perfect Storm" (1997), "War" (2010) and "Tribe" (2016), he has directed and produced several documentary films. His 2010 film "Restrepo," which was nominated for an Academy Award, followed a platoon of soldiers with whom Mr. Junger had embedded in Afghanistan. "The Last Patrol" (2014) follows him, photojournalist Guillermo Cervera and two combat veterans as they talk about the challenges of re-entering normal life during a long hike from Washington, D.C., to Pennsylvania.

Mr. Junger grew up in Belmont, Mass., the son of a mother who is a painter and a Jewish physicist father who fled to the U.S. from Europe at the beginning of World War II. He found the wealthy suburb cold and sterile. "It just felt like a bubble," he says.

After graduating from Wesleyan University in 1984, he moved around and eventually landed in Gloucester, Mass. While working as a freelance writer, he found a side job as a climber for a tree company until a chain saw tore into his left leg, leaving him severely injured.

During his recovery, an intense, three-day Nor'easter hit the East Coast and sank a local boat, the An-

'I think we're doomed to a mild unhappiness.'



The new documentary by Sebastian Junger, the author of 'The Perfect Storm,' builds on his 25 years as a war reporter.

AXEL DUPEUX FOR THE WALL STREET JOURNAL

drea Gail, killing its six-man crew. After doing some research, Mr. Junger thought that the storm, along with the dangers deep-sea fishermen face in their work, would make a compelling topic for a book.

He wrote a proposal and found an agent to shop it around to publishing houses but assumed it wouldn't sell. So he went to Bosnia to become a freelance war reporter. "When your plan B is to become a war reporter, you're facing the wrong direction," he says with a laugh. While he was there, his agent faxed him to let him know that the book had sold. "The Perfect Storm" quickly became a best-seller and was the basis of the blockbuster film of the same name.

Still, Mr. Junger continued working as a war reporter; he went to Kosovo as soon as he finished his book tour for "The Perfect Storm." He decided to stop reporting from the front lines after his friend Tim Hetherington, a war photographer who had co-directed "Restrepo," died of a mortar wound while covering the civil war in Libya in 2011. "It's too dangerous," he says. "I do miss it, but I don't want to go back to it."

He did not go to Syria for "Hell on Earth." His co-director, Nick Quested, went to border areas and made contacts in Syria from there. Mr. Junger thought it was important to document Islamic State's rise. "It seemed like a gnarly, tragic topic we should try to

cover," he says.

In his latest book, "Tribe," he looks at the human need for community. He came up with the idea for the book after wondering why he got depressed when he left Sarajevo for short breaks in the 1990s.

He found that soldiers felt the same way when they left the battlefield, as did people who left cancer wards as survivors. They missed the community they had left. "All of a sudden, I got it," he says. "There's a theme here." What people instinctively want, he says, is to belong to small groups with a clear purpose.

Too many of us are missing that sense of community and purpose in our increasingly isolated modern lives, he says. Technology and modern comforts give people too

much time to think and wallow, he adds. "When you have the free space to indulge in anxious rumination, your state of mind deteriorates," he says.

To avoid distractions and try to be present in his daily life, Mr. Junger carries a flip phone so that he isn't tempted to check his email all day. He lives in a low-income, mostly Spanish-speaking neighborhood in New York City. "It's the exact opposite of the wealthy and desolate suburb I grew up in," he says. "There's something about that feels real and human."

He also likes the sense of community in his neighborhood. How can others find something similar? It isn't easy, he says: "I think we're doomed to a mild unhappiness."

PLAYLIST: LISA SCOTTOLINE

DORM-WINDOW WISDOM

Lisa Scottoline, 61, known for her legal thrillers, is the author of "One Perfect Lie" and co-author with Francesca Serritella of "I Need a Lifeguard Everywhere but the Pool" (both St. Martin's Press). She spoke with Marc Myers.

In the early 1970s, I didn't quite get Joni Mitchell. I was in high school, and her songs weren't resonating with my life. That was before I heard

"A CASE OF YOU" coming through a dorm window at college.

In the spring of 1975, I was a sophomore at the University of Pennsylvania. By then I was dating a guy I thought I loved.

The relationship wasn't going well. Deep down I wanted a real boyfriend, a guy who would say something true, not what he thought I wanted to hear.

One day, while walking in the Quad past Speakman dorm, I heard Joni's voice on an album finishing a song. Inwardly, I rolled my eyes. But when the next song on the al-

bum began, I stopped to listen.

As Joni played and sang, I heard the truth: "Just before our love got lost you said / I am as constant as a northern star / And I said, 'Constantly in the darkness, / where's that at? / If you want me I'll be in the bar!'"

Joni was calling out a guy who was trying to B.S. her. I had goosebumps. I knew that feeling.

Joni continued: "Oh I could drink a case of you darling / Still I'd be on my feet." Yes, Joni, exactly! I was crazy about my guy, but I was getting only empty romantic words and promises from him.

The more I listened to the song, the more I realized Joni was giving me love advice. I physically shook. I went into the dorm and followed the music.

On the third floor, a door was open and the record's last song was playing. A girl returning from a shower told me the album was Joni's "Blue," from 1971, and that the song I liked was "A Case of You."



Joni Mitchell performs in Montreal at a benefit against the James Bay Hydro project in 1973.

I bought "Blue" that day. I didn't have a stereo, so the girl next door in my dorm played the song for me over and over. That night, I broke up with my boyfriend.

I told him I wasn't happy, but I didn't leave him room to sweet-talk me or fix it. I just backed out and left. It felt awesome. That's the day I became a woman.

LIFE & ARTS



NBC/ABC/PHOTO BANK/GOTTY IMAGES

ANATOMY OF A SONG

The Story Behind 'I'll Be Around'

BY MARC MYERS

THE 1970S Philadelphia dance sound can be traced back to the Spinners' "I'll Be Around." Released 45 years ago in August '72, the song climbed to #3 on the Billboard pop chart and to #1 on the R&B chart. Recently, the song's co-writer and producer Thom Bell (who received a Grammy Trustees Award this year), the song's lyricist Phil Hurt and drummer Earl Young talked about the influential hit's evolution. Edited from interviews.

Thom Bell: One Friday afternoon in early '72, I was at Philadelphia's Sigma Sound Studios producing a Stylistics record. When we finished, Vince Montana, a superb percussionist and a friend, started teasing me.

"Man, Thommy, I bet you can't write a simple song with three chords, like the old doo-wop stuff." I laughed and said, "Doo-wop was nice, Vince, but we've evolved." He said, "Yeah, but I still bet you can't do it. You need three legs to dance to some of this stuff."

Back at my office that evening, I couldn't shake Vince's challenge. I turned to my piano and played a series of three-chord combinations. Eventually I landed on E major 7, G sharp minor and F sharp major 6 (Mr. Bell illustrates on the piano).

I realized I had the start of a song for Bobby Smith, the Spinners' lead singer. The Spinners had just signed with Atlantic, and I was producing two songs for them—"How Could I Let You Get Away" and "Just You and Me Baby." I wanted a third, for insurance.

The melody and rhythm that I came up with was perfect for his voice. When I was done, I needed a lyric. But there was a problem.

My writing partner, lyricist Linda Creed, was leaving on her honeymoon. The Spinners were coming into the studio that Tuesday to try out all three songs.

So the next morning, on Saturday, I went into my office and found lyricist Phil Hurt, Bunny Slinger's writing partner.

We walked over to my office, and I played Phil the song on the piano. Then I gave him a cassette tape.

I told Phil the title I had in mind—"I'll Be Around"—which was based on my melody.

Phil Hurt: That evening, I was watching the 76ers basketball game with the sound down and listening to Thommy's tape. I started writing the lyrics based on his title.

As soon as I came up with the first line, "This is our fork in the road," the rest came fast. (Mr. Hurt sings a verse): "You made your choice, now it's up to me / To bow out gracefully / Though you hold the key, but baby / Whenever you call me, I'll be there."

My lyric was about a guy who

loves his girl but he understands that she's confused and wants to date someone else. Instead of getting angry, he lets her go. He's hurt, but he's betting she'll come back.

Mr. Bell: As soon as I heard the opening lines—"This, is our fork in the road / Love's last episode / There's nowhere to go, oh no"—I loved it.

When Bobby and the Spinners came in that Tuesday, I played piano and sang Phil's words.

Once he was set, I worked with the rest of the Spinners. I sang each of the background notes I wanted them to sing, and they tried them out. Before they left, I recorded each Spinner singing his part and gave them each a tape.

They had just come off the road and were heading home to Detroit for two weeks to rest. By practicing their parts at home, we'd save time and money when they came back to record.

When the Spinners left, I began writing and arranging the basic rhythm-track arrangement.

On the intro, I had Norman Harris open with three notes using oc-



ART

GAUGUIN'S MULTIMEDIA ADVENTURE

BY SUSAN DELSON

PROPELLED by what he called his "terrible itch for the unknown," Paul Gauguin frequently traveled far from the art world of Paris: to France's Breton coast, Panama, the Caribbean island of Martinique, Tahiti and beyond. He also liked to cross creative boundaries, experimenting with woodcarving, ceramics and other media commonly thought of as mere "crafts."

The new show "Gauguin: Artist as Alchemist" explores this less familiar side of the great painter's story, showing how his work in more mundane art forms influenced his most important breakthroughs on canvas.

Opening June 25 at the Art Institute of Chicago, the 240-work exhibition takes a loosely chronological approach, grouping the art by theme and location. Focusing on the moments when the onetime stockbroker was working most furiously in multiple media, the show deliberately bypasses points when Gauguin (1848-1903) worked exclusively on painting—leaving out, for instance, the tumultuous few weeks in 1888 that he spent with Vincent van Gogh in the south of France.

Instead, the exhibition delves deeply into Gauguin's prints, ceramics, furniture, wood sculptures and bas-reliefs, as both personal expression and creative fuel. By the time he made his first trip to Tahiti in

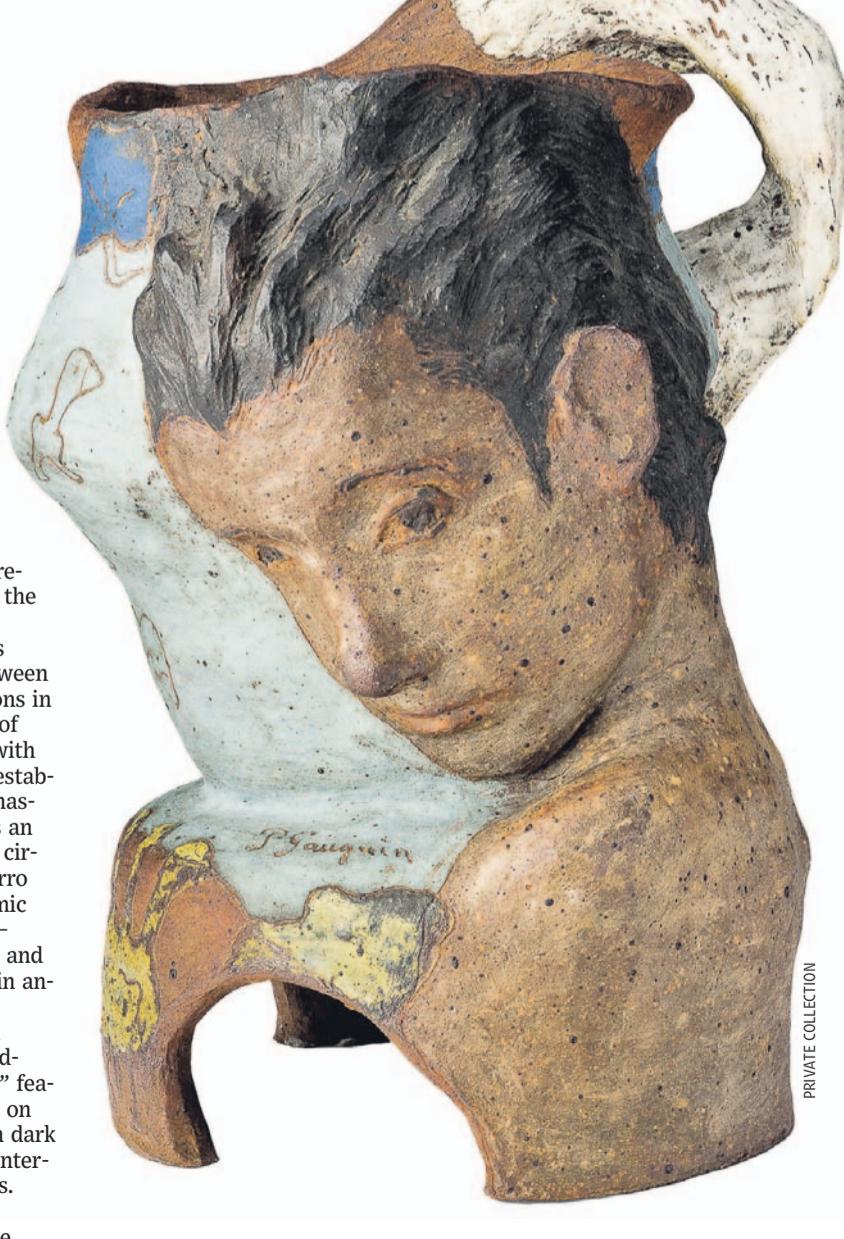
1891, "his toolbox is set," artistically speaking, said Gloria Groom, co-curator of the show and chairwoman of the museum's European painting and sculpture department. "He knows what he's doing and how to do it."

How Gauguin acquired that sure-handed grasp of his own art is the focus of the show's first half.

One early grouping of works draws a strong connection between Gauguin's late-1880s explorations in ceramics and his 1888 "Vision of the Sermon (Jacob Wrestling with the Angel)," the painting that established him as an avant-garde master. Gauguin had started out as an impressionist, falling in with a circle that included Camille Pissarro and Edgar Degas. But his ceramic experiments of the late 1880s—marked by deeply incised lines and solid blocks of color—pointed in another direction.

Depicting a crowd of Breton women in their traditional head-dresses, "Vision of the Sermon" features blocks of color like those on his ceramics, boldly outlined in dark blue. "There are these almost interlocking zones of color," said Ms. Groom.

Made around the same time, "Vase in the Form of Leda and the Swan" (1887-88) displays a similar color-block-and-outline style. The vase, said Ms. Groom, may be seen as "literally a painting in the round." Gauguin soon did a watercolor depicting the vase from dif-



PRIVATE COLLECTION

ferent angles and a year or so later made a print on the same theme, created as a design for a ceramic plate.

The desolate girl, head in hands,

depicted in the 1888 painting "The Wine Harvest (Human Misery)" ap-

The Spinners, from left to right: Henry Fambrough, Bobby Smith, Billy Henderson, Pervis Jackson and Philippe Wynne

taves on his guitar resolving in an E major 7 chord. Then I answered his line with three chords on the Clavinet, which sounds like an electrified harpsichord.

I wanted the Spinners to record more uptempo dance stuff, so I had Earl emphasize the second and fourth beats. The flavor he came up with was fantastic. It became the start of the Philly dance beat that was adapted for many disco hits that followed.

Earl Young: As a session drummer, I played grooves. My job was to come up with a beat that made the lead vocalist want to sing, so you could hear that energy and excitement in his voice.

On "I'll Be Around," I created a medium-tempo dance beat. I hit the snare and floor tom-tom at the same time on the second and fourth beats to give them a fatter sound.

Meanwhile, I played what I call my "Indian beat" on the bass drum—two hits on the first beat and a one hit on the second, repeating the pattern on the third and fourth beats. This gave the song its groove.

Mr. Bell: When the Spinners came in to record, they put on headphones and added their vocals to the rhythm track. Once the vocal track was combined with the rhythm track, it was time to overdub the horns.

After I recorded their parts, Don Renaldo and his strings overdubbed my "sweetening" arrangement. Then I overdubbed myself playing tambourine on the second and fourth beats to add a little shimmer.

I also added female background vocals. The Spinners were great, but they had low voices. The song needed a greater vocal range. I hired Barbara Ingram, Evette Benton and Carla Benson. They were students at Glassboro State College in New Jersey. I found them through my first wife, who was best friends with Barbara's big sister.

By the end of the year, with "I'll Be Around" a hit, Atlantic had me produce the rest of the tracks for "Spinners," the group's first album for the label, released in April 1973.

In November '72, I saw Vince Montana at one of my recording sessions. Hey, remember that three-chord song you said I couldn't write? 'I'll Be Around' is #1 on the R&B chart and #3 on the pop side."

Vince looked down, shook his head and just laughed. Hey, if Vince hadn't challenged me that day, I probably never would have written that song.

GAUGUIN'S 'Vase in the Form of Leda and the Swan' (1887-88) will be on view in Chicago.

the exhibition.

Drawn to non-European cultures—and implausibly claiming Peruvian Indian heritage through his French-Peruvian mother's aristocratic forebears—Gauguin positioned himself as both civilized and savage, sophisticated and crude. His search for an uncorrupted paradise led him to Panama and Martinique in the late 1880s and to Tahiti in 1891, where he spent two years before returning to France in 1893.

In Paris, Gauguin worked on "Noa Noa," his memoir of Tahiti for which he made a suite of woodblock prints. Experimenting with inks, wax, resin and solvents on different colors and types of paper, he repeatedly printed the 10 "Noa Noa" woodblocks as he continued carving them, producing different effects each time. Figures from his 1894 painting "Mahana no atua (Day of the God)"—one of his best-known works—appear and reappear in the prints.

Despite his intense and innovative output, Gauguin did not experience great success in Paris. Barely two years after he left Tahiti, he went back in 1895, determined "to see no one but savages, to live their life." In Tahiti—and in the more remote Marquesas Islands, where he moved in 1901—Gauguin's art took on a decorative aspect, in which he conceived individual works as related elements in an immersive art environment.

The artist died in the Marquesas in 1903 of causes variously suggested as syphilis, a heart attack and an overdose of laudanum. The exhibition closes with five wood bas-relief panels carved for the entrance to his home there, which he dubbed the House of Pleasure. "Be Mysterious," one panel instructs. "Be in Love and You Will Be Happy," reads another. In media both grand and modest, Gauguin tried to be all of these things.

OPINION

REVIEW & OUTLOOK

Robert Mueller's Mission

That didn't take long. Barely a week after James Comey admitted leaking a memo to tee up a special counsel against Donald Trump, multiple news reports based on leaks confirm that special counsel Robert Mueller is investigating the President for obstruction of justice. You don't have to be a Trump partisan to have concerns about where all of this headed.

President Trump reportedly stepped back last week from his temptation to fire Mr. Mueller, and that's the right decision. The chief executive has the constitutional power to fire a special counsel through the chain of command at the Justice Department, but doing so would be a political debacle by suggesting he has something to hide.

Deputy Attorney General Rod Rosenstein, who appointed Mr. Mueller, would surely resign, and other officials might resign as well until someone at Justice fulfilled Mr. Trump's orders. The President's opponents would think it's Christmas. The dismissal would put the President's political allies in a terrible spot and further distract from what are make-or-break months for his agenda on Capitol Hill. His tweets attacking the probe are also counterproductive, but by now we know he won't stop.

* * *

There are nonetheless good reasons to raise questions about Mr. Mueller's investigation, and those concerns are growing as we learn more about his close ties to Mr. Comey, some of his previous behavior, and the people he has hired for his special-counsel staff. The country needs a fair investigation of the facts, not a vendetta to take down Mr. Trump or vindicate the tribe of career prosecutors and FBI agents to which Messrs. Mueller and Comey belong.

Start with the fact that Mr. Comey told the Senate earlier this month that he asked a buddy to leak his memo about Mr. Trump specifically "because I thought that might prompt the appointment of a special counsel." Did Mr. Comey then suggest Mr. Mueller's name to Mr. Rosenstein? He certainly praised Mr. Mueller to the skies at his Senate hearing.

The two former FBI directors are longtime friends who share a similar personal righteousness. Mr. Mueller, then running the FBI, joined Mr. Comey, then Deputy Attorney General, in threatening to resign in 2004 over George W. Bush's antiterror wiretaps.

Less well known is how Mr. Mueller resisted direction from the White House in 2006 after he sent agents with a warrant to search then Democratic Rep. William Jefferson's congressional office on a Saturday night without seeking legislative-branch permission. The unprecedented raid failed to distinguish between documents relevant to corruption and those that were part of legislative deliberation. GOP Speaker Dennis Hastert rightly objected to this as an executive violation of the separation of powers and took his concerns to Mr. Bush.

The President asked his chief of staff, Joshua Bolten, to ask Mr. Mueller to return the Jefferson documents that he could seek again through regular channels, but the FBI chief refused. Attorney General Alberto Gonzales was also unable to move the FBI director. When Mr. Bolten asked again, Mr. Mueller said he wouldn't tolerate political interference in a criminal probe, as if the Republican Mr. Bush was trying to protect a corrupt Democrat. Mr. Mueller threatened to resign, and the dispute was settled only after Mr. Bush ordered the seized documents sealed for 45 days until Congress and Mr. Mueller could work out a compromise.

The D.C. Circuit Court of Appeals later ruled that the FBI raid had violated the Constitution's Speech or Debate Clause and Mr. Jefferson's "non-disclosure privilege" as a Member of Congress, though the court let Justice keep the documents citing Supreme Court precedent on the exclusionary rule for collecting evidence.

The special counsel needs to rise above his Comey loyalties.

We relate all this because it shows how Mr. Mueller let his prosecutorial willfulness interfere with proper constitutional and executive-branch procedure. This showed bad judgment. He shares this habit with Mr. Comey.

* * *

Meanwhile, Mr. Mueller's staff appointments suggest that he is preparing for a long prosecutorial campaign. One unusual choice is Michael Dreeben, a highly regarded Deputy Solicitor General whose expertise is criminal law and the Constitution. He is not a prosecutor or counterintelligence expert. Is Mr. Dreeben on hand to make a legal case for impeachment?

The special counsel has also recruited Andrew Weissmann, who oversaw the Enron Task Force and led the prosecution of the Arthur Andersen accounting firm. The Supreme Court unanimously overturned Andersen's conviction, though too late for Andersen's 28,000 U.S. employees.

Mr. Weissmann has donated to Hillary Clinton's political campaign, but more relevant for this case he was highly criticized for his legal conduct over the years by the New York Observer newspaper. "In Andrew Weissmann, The DOJ Makes a Shockingly Bad Choice for Crucial Role," said one headline in January 2015. The owner of the Observer at the time? Jared Kushner, Mr. Trump's son-in-law and now a White House aide.

With that history, can Mr. Weissmann fairly judge the actions of the Trump family and campaign? And knowing that history, why would Mr. Mueller choose Mr. Weissmann for his prosecutorial team when the appearance of fairness is crucial to public acceptance of the result?

As it happens, the Washington Post reported in its second big story last week that Mr. Mueller "is investigating the finances and business dealings of Jared Kushner." A fair question is whether Mr. Weissmann is another Patrick Fitzgerald who won't stop until he nails someone in this probe.

* * *

Mr. Mueller is widely admired and no one questions his personal integrity, but we raise these issues because the stakes for American democracy are so high. As we've said from the beginning, Russian meddling in U.S. elections is a serious matter and Americans need to know what happened. If Mr. Trump or key associates canoodled with the Russians to steal an election, then he must face the likely consequence of impeachment.

But the public has seen no such evidence, and the FBI has been looking for months. Instead we have leaks that the special counsel whose friend was fired by Mr. Trump is focusing on obstruction of an investigation into an underlying crime that so far doesn't exist. In Watergate at least there was a third-rate burglary.

Much of Washington clearly views Mr. Mueller as their agent to rid the country of a President they despise. Every political and social incentive in that city will press Mr. Mueller to oblige. But you cannot topple a duly elected President based merely on innuendo or partisan distaste without doing great harm to democracy.

Richard Nixon's road to resignation was painful but the facts were clear enough at the end that most Americans accepted the result. The country deserves no less concerning Donald Trump, no matter his character flaws. Mr. Mueller and his team of zealous prosecutors have a duty to bring a case based only on solid and conclusive evidence. Otherwise close the case with dispatch and move on.

American politics is divisive and dysfunctional as it is. Imagine what it will be like if millions of Americans conclude that a presidential election is being overturned by an elite consensus across the vast ideological and cultural divide running all the way from the New York Times to the Washington Post.

Helmut Kohl

Among the many leaders who shaped modern Europe, few have been as consequential as Helmut Kohl, who died Friday at age 87. He saw his country through the death of the Cold War and the birth of a reunited Germany at the center of a more deeply integrated European Union.

Born in 1930, Kohl came of age amid the furies of a nihilistic German nationalism and then amid the wreckage of its defeat. He was compelled to join the Hitler Youth, as were all boys in that era, but was part of the first generation of Germany's postwar leaders too young to have fought in the conflict. His parents instilled in him a devout Catholicism that shaped his later political outlook.

He entered politics in the Christian Democratic Union, which with its Bavarian sister party the CSU became Germany's main center-right party. He rose to the Chancellorship of West Germany in 1982, a position he would hold for a postwar record of 16 years.

He took power after years of Social-Democratic *Ostpolitik*, or engagement with East Germany, and when the anticommunism of Ronald Reagan, Margaret Thatcher and Pope John Paul II still faced considerable skepticism among putative foreign-policy experts. One of Kohl's early contributions was to defend plans to deploy Pershing II missiles in West Germany against fierce protests across Europe.

His vision shaped post-Cold War Europe for the better.

Kohl also built on the work of his predecessors in reconciling Germany with the rest of Europe. His friendship with French President François Mitterrand was legendary, and that proved crucial in persuading other European leaders to accept a reunified Germany after the Berlin Wall fell in 1989.

That reunification—and the creation of the euro, which Kohl accepted as its price—remains controversial. Economists are right that the euro and many economic-policy decisions governing reunification created challenges that still dog the EU. Kohl was right that peaceful German integration was worth the price.

Europe's first tasks after 1989 were political, not economic: to welcome the formerly subjugated people of Eastern Europe back into Western civilization, and to find a way for Germany to be a nation again without being a threat. Kohl, driven by his commitment to European unity, aided both projects with his policy of rapid reunification and the euro. The result was a Continent that weathered the collapse of a malign neighboring superpower while remaining at peace with itself.

Historians will remember that achievement more than the commonplace political scandals that engulfed Kohl later in his long career. Rarely does a leader change his nation as dramatically for the better as Helmut Kohl did.

Amazon Will Free You From the Minivan



BUSINESS WORLD
By Holman W. Jenkins, Jr.

Amazon's announcement on Friday that it is purchasing the U.S. grocery chain Whole Foods for \$13.7 billion was puzzling to analysts; to the grocery industry it was unalloyed lousy news. Share prices of food retailers from Kroger and Costco to Wal-

Mart dropped sharply in the moments after the news broke.

But maybe it's the car industry and its frenemy, Uber, that should really be worried.

The average American makes 1.5 trips to the grocery store a week, spending an average 53 hours a year roaming the aisles. A British survey that studied in detail the reasons for car ownership found high on the list was the need to haul otherwise unmanageable grocery loads from store to home. Some 65% said grocery shopping would be "quite" or "very" difficult without a car.

In the U.S., an even more suburban and exurban society, the same is undoubtedly true. Trips to the grocery store are second only to physically transporting oneself to school or work as a reason for car ownership, and not as easily replaced.

The British study found that even 23% of non-car owners used a car for grocery shopping. Add other food-related trips and the potential displacement is even larger. Daily trip logs kept by 7,665 Atlanta residents in 2011 showed, over a two-day period, 11,995 trips for food, 44% of which were to a store and the rest to some kind of eatery. Only 7% of these trips were made on foot.

Not that Mr. Bezos's ambition is to substitute home delivery for outside shopping. His ambition is oriented toward accelerating consumer gratification however possible. If that means delivering an item to you wherever you might be by drone, he's game. If it means setting up kiosks and lockers so you can grab in an hour what otherwise Amazon would have to ship you overnight, fine.

So what if some of this is uneconomic and effectively a loss leader? So what if free shipping encourages people to order inefficiently small numbers of items at a time? So what if lowering barriers to gratification engenders a higher-than-average inci-

ence of buyer's remorse and elevated product returns?

As every Amazon Prime subscriber discovers, even with these higher costs, the great genius of Amazon's business model is to encourage us to buy more stuff and, gradually, relinquish the habit of using the web as a tool of remorseless price equalization.

The Amazon promise to shareholders is founded on softening customer resistance to buying stuff without carefully comparing prices. Don't kid yourself about this. You're ordering sparkplugs? What a pain to get up and walk five feet to see if the cat food is running out. Just order more. Is the price on Ama-

zon.com really a bargain even with free shipping? I guess I could Google for a comparison but why bother?

Whole Foods also built its success partly on, ahem, confusing customers about value—especially the value of the nutritionally meaningless term "natural." But it's doubtful Amazon believes now it can rescue Whole Foods' own faltering success in this regard. The chain's same-store sales have been falling for two years. To the very occasional visitor, it still attracts young affluents in puffy jackets and designer hip-tops looking for dates and picking out a dainty handful of items. But serious devotees of household logistics can now fill their carts to the brim with organic milk and free-range drumsticks at Safeway or even Wal-Mart.

Our guess is that Amazon, with \$135 billion in sales, isn't buying Whole Foods, with \$12 billion in sales, to solve a Whole Foods problem. Only 3% of grocery shopping occurs online. The hassle of getting in a car and driving to a store on a crowded Saturday (when 41 million Americans do their grocery shopping) is one large area of antigratification in our retail economy. It's an area where, despite the best efforts of retailers, consumers still are careful about price and have a schlepping motive to ask, "Do I really need this?" If this isn't a challenge the Amazon business model was born to take on, what is?

The Great War's Great Historian

By Roger Kimball

The historian David Fromkin died on June 11, a couple of months shy of his 85th birthday. I first met him over lunch in 1986, when he was working on the book that would be his magnum opus, "A Peace to End All Peace: The Fall of the Ottoman Empire and the Creation of the Modern Middle East." That book, about how France and Britain endeavored to impose a new political dispensation on the Middle East in the aftermath of World War I, was published in 1989, to near universal commendation.

All of Fromkin's signature virtues were on display in "A Peace to End All Peace." It was the product of prodigious but lightly worn research. It was politically canny about the realities of power (Fromkin had been a student of Hans Morgenthau at the University of Chicago). And it was beautifully written. He commanded a light, allegro prose, spare but deeply evocative, clear as an Alpine spring.

"A Peace to End All Peace" was also shot through with a recurring leitmotif, at once nostalgic and admonitory. The nostalgia focused on the lost sense of innocence and amplitude that marked the decade before the outbreak of war in the summer of 1914—"Europe's Last Summer," as he put it in the title of his 2004 book.

The innocence had to do with the political easiness of the time. The opening decade of the 20th century was a time of apogees and consummations. There was a shared sense, Fromkin wrote in his book "The Independence of Nations" (1981), that Europe, finally, at last, had become civilized. Sweetness and light reigned, and would reign, forever. He quotes the historian A.J.P. Taylor: "Until August 1914, a sensible, law-abiding Englishman could pass through life and hardly notice the existence of the state.... He could live where he liked and as he liked. He had no official number or identity card."

For the most part, there were no passports. One didn't even need a business card when traveling. A personal card would do. This was an age before the income tax, before exchange controls and customs barriers. In many ways, Fromkin notes, there was more globalization than there is now.

There was also immensely more security—or so it seemed. In several of his books, Fromkin quotes a melancholy passage from the Austrian author Stefan Zweig about the decade before the Great War: "The Golden Age of Security," he

called it, "Everything in our almost thousand-year-old Austrian monarchy seemed based on permanency."

Except, of course, that it wasn't. The admonitory current that flows through Fromkin's writing has to do with the real permanencies in life: the intransigence of competing cultures, the unyielding imperatives of power, the awful awakenings of shattered illusions.

It is appropriate that one of his abiding passions was ancient Greek civilization—he was involved in several archaeological digs in the islands off the Turkish coast. A recurring theme in his work was the old teaching that nemesis was the inevitable result of hubris.

In politics, Fromkin was a species of Democrat that scarcely exists today. He was an unapologetic American patriot of decidedly cosmopolitan tastes. He adulated FDR and clear-eyed, disabused politicians like Scoop Jackson and Pat Moynihan. He admired much about Bill Clinton, was repelled by Mr. Clinton's wife, and regarded Barack Obama with a mixture of curiosity and revulsion (though he undoubtedly voted for him).

Unlike so many politicians of both parties today, he had the supreme political wisdom to understand that when politics becomes all-important it has failed in its primary duty: to safeguard and promote the good life.

Looking back, it seems significant that my first meeting with David should have been over lunch. Like a character in the cartoon *Tottering-by-Gently*, David was a man who never knowingly under-lunched. His nostalgia for the glittering cornucopia of antebellum Europe was an expression of a gentle but thoroughgoing hedonism. When it came to food and wine, David knew the best and wanted the best. For his friends, this had the gratifying result that they, too, encountered the best.

It is one of my regrets that I didn't know David during the years that he owned a restaurant in Paris with his friend Steven Spurrier, the great wine connoisseur. I especially wish I had been on hand for the competition he organized to determine which was better, duck or goose pâté de foie gras. The details of the competition are lost in the mists of time, but I do recall that the event involved sending someone by plane and motorcycle to procure the requisite truffles in Italy. With David, there were still some glints of grandeur post-1918.

Mr. Kimball is editor and publisher of the *New Criterion* and president and publisher of *Encounter Books*.

OPINION

Rage Is All the Rage, and It's Dangerous



DECLARATIONS
By Peggy Noonan

What we are living through in America isn't only a division but a great estrangement. It's between those who support Donald Trump and those who despise him, between left and right, between the two parties, and even between the bases of those parties and their leaders in Washington.

It's between the religious and those who laugh at Your Make Believe Friend, between cultural progressives and those who wish not to have progressive ways imposed upon them. It is between the coasts and the center, between those in flyover country and those who decide what flyover will

A generation of media figures are cratering under the historical pressure of Trump.

watch on television next season. It is between "I accept the court's decision" and "Bake my cake." We look down on each other, fear each other, increasingly hate each other.

Oh, to have a unifying figure, program or party.

But we don't, nor is there any immediate prospect. So, as Ben Franklin said, we'll have to hang together or we'll surely hang separately. To hang together—to continue as a country—at the very least we have to lower the political temperature. It's on all of us more than ever to assume good faith,

put our views forward with respect, even charity, and refuse to incite.

We've been failing. Here is a reason the failure is so dangerous.

In the early 1990s Roger Ailes had a talk show on the America's Talking network and invited me to talk about a concern I'd been writing about, which was old-fashioned even then: violence on TV and in the movies. Grim and graphic images, repeated depictions of murder and beatings, are bad for our kids and our culture, I argued. Depictions of violence unknowingly encourage it.

But look, Roger said, there's comedy all over TV and I don't see people running through the streets breaking into laughter. True, I said, but the problem is that, for a confluence of reasons, our country is increasingly populated by the not fully stable. They aren't excited by wit, they're excited by violence—especially unstable young men. They don't have the built-in barriers and prohibitions that those more firmly planted in the world do. That's what makes violent images dangerous and destructive. Art is art and censorship is an admission of defeat. Good judgment and a sense of responsibility are the answer.

That's what we're doing now, exciting the unstable—not only with images but with words, and on every platform. It's all too hot and revved up. Last week we had a tragedy. If we don't cool things down, we'll have more.

And was anyone surprised? Tuesday I talked with an old friend, a figure in journalism who's a pretty cool character, about the political anger all around us. He spoke of "horrible polarization." He said there's "too much hate in D.C." He mentioned "the heading, the play in the park" and described them as "dog whistles to any nut who wants to take action."

"Someone is going to get killed," he said.



GETTY IMAGE

A June 10 protest in Chicago.

That was 20 hours before the shootings in Alexandria, Va.

The gunman did the crime, he is responsible, it's fatuous to put the blame on anyone or anything else.

But we all operate within a climate and a culture. The media climate now, in both news and entertainment, is too often of a goading, insinuating resentment, a grinding, agitating antipathy.

A comic posed with a gruesome bloody facsimile of President Trump's head. New York's rightly revered Shakespeare in the Park put on a "Julius Caesar" in which the assassinated leader is made to look like the president. A CNN host—amazingly, of a show on religion—sent out a tweet calling the president a "piece of s—" who is "a stain on the presidency." An MSNBC anchor wondered, on the air, whether the president wishes to "provoke" a terrorist attack for political gain. Earlier Stephen Colbert, well known as a good man, a gentleman, said of the president, in a rant: "The only thing your mouth is good for is being Vladimir Putin's c— holster."

Those are but five dots in a larger, darker pointillist painting. You can think of more.

Too many in the mainstream media don't even bother to fake fairness and lack of bias anymore, which is bad: Even faked balance is better than none.

Yes, they have reasons. They find Mr. Trump to be a unique danger to the republic, an incipient fascist; they believe it is their patriotic duty to show opposition. They don't like his policies.

A friend suggested recently that they hate him also because he's in their business, show business. Who is he to be president? He's not more talented. And yet as soon as his presidency is over he'll get another reality show.

And there's something else. Here I want to note the words spoken by Kathy Griffin, the holder of the severed head. In a tearful news conference she said of the president, "He broke me." She was roundly mocked for this. *Oh, the big bad president's supporters were mean to you after*

you held up his bloody effigy. But she was exactly right. He did break her. He robbed her of her sense of restraint and limits, of her judgment. He broke her, but not in the way she thinks, and he is breaking more than her.

We have been seeing a generation of media figures cratering under the historical pressure of Donald Trump. He really is powerful.

They're losing their heads. Now would be a good time to regain them.

They have been making the whole political scene lower, grubbier. They are showing the young what otherwise estimable adults do under pressure, which is lose their equilibrium, their knowledge of themselves as public figures, as therefore examples—tone setters. They're paid a lot of money and have famous faces and get the best seat, and the big thing they're supposed to do in return is not be a slob. Not make it worse.

By indulging their and their audience's rage, they spread the rage. They celebrate themselves as brave for this. They stood up to the man, they spoke truth to power. But what courage, really, does that take? Their audiences love it. Their bosses love it. Their numbers go up. They get a better contract. This isn't brave.

If these were only one-offs, they'd hardly be worth comment, but these things build on each other. Rage and sanctimony always spread like a virus and become stronger with each iteration.

And it's no good, no excuse, to say Trump did it first. Your response to his low character is to lower your own character? He talks bad so you do? You let him destabilize you like this? You are making a testimony to his power.

So many of our media figures need at this point to be reminded: You belong to something. It's called: us.

Do your part, take it down some notches, cool it. We have responsibilities to each other.

Four Principles for Replacing Dodd-Frank

By Charles W. Calomiris

The effort to repeal the 2010 Dodd-Frank Act and reform American financial regulation seems to be losing traction. Although the House voted 233-186 earlier this month to pass Rep. Jeb Hensarling's ambitious and substantive Financial Choice Act, it is unlikely to come to a vote in the Senate soon.

The Treasury last week released the first installment of its own blueprint for reform, another good step. But the urgency of action has been lost as the Trump administration struggles to find its footing on tax cuts, health care and the budget.

Delay is damaging. Financial regulation since 2009 has been a trifecta of failure: It hasn't achieved its stated objectives, yet it has imposed enormous costs on banks and the economy, while creating Kafka-esque procedures that deform democracy by undermining the rule of law. Consider a few examples:

• The 2009 CARD Act sought to protect risky credit-card borrowers from high bank charges. Instead the law has pushed these borrowers into the shadow consumer-finance system.

• Dodd-Frank was supposed to limit mortgage risk through standards for qualified mortgages and qualified residential mortgages. But these requirements have been ineffectual because mortgage transactions by Fannie Mae and Freddie Mac are exempt. Even Barney Frank has publicly recognized the problem. In 2015 he said that regulators had "let the loophole eat up the rule." As a result of relaxed underwriting standards at Fannie and Freddie, mortgage risk has been rising steadily for the past four years.

• Title II of Dodd-Frank was advertised as a way to prevent bailouts of too-big-to-fail banks by offering them a means of orderly liquidation. But it is unworkable and won't produce neat resolution in practice. The path of least resistance remains bailouts, the procedures for which were codified by Dodd-Frank.

• The Durbin Amendment, which limited debit-card fees, failed to help

consumers because banks simply raised other fees. The share of banks offering free checking accounts fell to 37% in 2015 from 75% before Dodd-Frank.

• Dodd-Frank's Financial Stability Oversight Council was supposed to establish a credible means for measuring or controlling systemic risk, but it has failed to do so. The FSOC's one high-profile foray into so-called macroprudential policy was to limit banks' leveraged lending—an initiative designed to deprive private-equity firms of certain types of loans. This was completely ineffectual, since leveraged lending by shadow banks increased dollar-for-dollar.

• Dodd-Frank and its implementing rules have increased banks' minimum capital ratios, but there is little reason to believe that today's prudential regulations will prove more reliable during the next crisis than they were in the last one. Recall that Citigroup's regulatory Basel capital ratio was 12% at the end of 2008. The current goal seems to be to make all banks just as sound as Citi was at that time.

Despite these regulations' ineffectiveness, the compliance costs paid by customers and stockholders are large. Small banks face high regulatory overhead as a fraction of assets—so much so that virtually no new banks have been started since Dodd-Frank was passed. Midsize banks often avoid profitable growth or acquisitions because they want to avoid an increased regulatory burden. Large banks bear unique compliance costs, such as stress testing based on highly questionable criteria, which probably does little to limit systemic risk but crimps the credit supply.

Even more troubling is the adoption of processes inconsistent with the rule of law. Regulators increasingly issue "guidance" rather than go through formal rule making, with little regard for predictability, transparency or accountability. The criteria employed in stress testing are secret and therefore unaccountable. The standards for considering which nonbanks present a systemic threat are arbitrary.

The Consumer Financial Protection

Bureau's new outcome-based theories of lending discrimination are radical. The very structure of the CFPB, as a three-judge panel at the U.S. Circuit Court of Appeals for the District of

First, address incentives: Banks want to avoid costs and regulators tend toward the politically expedient.

Columbia ruled last fall, "violated bedrock due process principles" by giving the bureau's director "more unilateral authority than any other officer in any of the three branches of the U.S. government, other than the president."

With unchecked power comes predictable abuse. For instance, in "Operation Choke Point," the Obama administration, working through financial regulators, warned banks against do-

ing business with industries that the government deemed undesirable—gun dealers, tobacco purveyors and payday lenders, among others.

Why did Dodd-Frank and the rest of the crisis-induced rules fail? Because they didn't recognize the core principles of successful regulation. I would emphasize four:

First, effective regulation must address incentives. Banks and financial firms want to avoid regulatory costs. Regulators tend toward what's politically expedient. Good rules take this into account. For instance, using market-based measures of risk and capital alongside accounting measures would make regulatory arbitrage less likely.

Second, consumer protections should help people make informed choices instead of attempting to dictate choices with prohibitive rules.

Third, macroprudential policy should focus first and foremost on real-estate risk, especially where subsidized and promoted by the govern-

ment. The primary threat to financial stability remains subsidized risk-taking in the mortgage market, which is growing again to worrying levels.

Fourth, regulation should conform to the rule of law—which means ending the reliance on "guidance" and the delegation of excessive discretionary authority to politicized actors such as the FSOC and the CFPB. Financial rules and their enforcement must be transparent, so that regulators are accountable to the public.

The Financial Choice Act is a good start, but there's no time to waste. The longer the Senate waits to take up Mr. Hensarling's bill, the more harm the current regulations will do to America's financial system, the economy and the rule of law.

Mr. Calomiris, a professor of finance at Columbia Business School, is the author of "Reforming Financial Regulation After Dodd-Frank," out last month from the Manhattan Institute.

Believers Need Not Apply

By Sohrab Ahmari

Does liberalism have any room left for Christians and other believers? The question has been posed countless times, and each time liberals answer more decisively than the previous: No.

On Thursday Britain's Liberal Democrats delivered that message to their leader, Tim Farron, forcing him to resign over his views on homosexuality and abortion. The Lib Dems supposedly carry the torch of 19th-century classical liberalism, though recently it's been difficult to distinguish them from any progressive party, anywhere.

Not least when it comes to gender-and-sexuality orthodoxy. The media and many in his own party have hounded Mr. Farron for years because he deviated—gently, almost imperceptibly—from that orthodoxy. A working-class evangelical Christian, Mr. Farron imagined that his liberal opinions on other big issues such as climate change and the European Union would protect him. He was wrong.

Soon after he took the party reins in 2015, Mr. Farron was asked whether, as a Christian, he considers homosexuality a sin, to which he gave the quintessential Christian reply: "We're all sinners." But it wasn't enough. The question would resurface amid the election campaign this spring.

During a television interview on April 18, he was pressed four times, and four times he demurred. Quietness wasn't enough.

Pressure mounted, and the next day Mr. Farron relented. No, he clarified in remarks at the House of Commons, homosexuality isn't a sin. But the latter-day Gletkins and Ivanovs needed to be sure Mr. Farron believed this in his heart of hearts, not merely as a matter of public confession.

If he didn't consider homosexuality a sin, asked a BBC interviewer a few days later, why had it taken him so

long to say so? Mr. Farron was reduced to spouting gibberish.

Then the Guardian newspaper unearthed a 2007 interview in which Mr. Farron suggested that "abortion is wrong" but also cautioned Christian activists that an immediate outright ban would be impracticable. Confronted with his own words on the campaign trail, Mr. Farron pleaded that he'd never advocated abortion restrictions. It wasn't enough.

Progressives have triumphed over faith. Now they're targeting conscience itself.

In his resignation statement, Mr. Farron wrote: "To be a political leader, especially of a progressive liberal party in 2017, and to live as a committed Christian, to hold faithfully to the Bible's teaching, has felt impossible." He added: "I seem to have been the subject of suspicion because of what I believe and who my faith is in."

The concept he was grasping for is conscience.

Mr. Farron's politics recall the liberalism of Gladstone, Chesterton and Isaiah Berlin, which treated conscience as king. Today's liberalism has triumphed so spectacularly over the claims of faith and tradition that it has nothing left to conquer but the individual conscience. This is why modern liberals are so unmagnanimous in victory.

It isn't enough to emancipate transgender people—you, rabbi, must adhere to strict pronoun guidelines and feel in your soul that Chelsea Manning was always a "she." It isn't enough to legalize abortion—you, Tim Farron, must like it.

Liberals welcome believers insofar as religion can be deployed in service

of liberal causes, to be sure. But any expression of theological or moral judgment is met with hostility.

Witness Bernie Sanders's tirade against Russell Vought, President Trump's nominee for deputy director of the Office of Management and Budget. During a Senate confirmation hearing earlier this month, the Vermont socialist grilled Mr. Vought about his contention, in a blog post published last year, that Muslims "do not know God, because they have rejected Jesus Christ his Son, and they stand condemned."

Mr. Vought's was a particularly stark summary of basic Christian teaching. Plenty of Americans might disagree with the substance, phrasing or both. But Mr. Sanders went further, arguing that Mr. Vought's views were "Islamophobic" and "hateful" and therefore disqualifying.

Set aside the senator's riding roughshod over the Constitution, which prohibits religious tests for office. What was most depressing was the bleak vision of civic life behind it.

To wit, Mr. Sanders implied that a devout Christian can't hold fast to his faith's most demanding claims and at the same time exercise public authority with decency and honor. If you disagree with someone's theology, it must mean you hate him. Yet at its best the West has stood for the opposite principle: that people can build and share a democratic public square across and even through such differences.

That principle is decaying across much of the West, and authoritarian adversaries like Vladimir Putin are no doubt trying to accelerate its demise. But it wasn't Mr. Putin who made Western politics so inhospitable to large segments of society—and to conscience.

Mr. Ahmari is a Journal editorial writer in London.

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Monday, June 19, 2017 | B1

Yen vs. Dollar 110.8440 ▼ 0.08%

Hang Seng 25626.49 ▲ 0.24%

Gold 1254.00 ▲ 0.14%

WTI crude 44.74 ▲ 0.63%

10-Year JGB yield 0.055%

10-Year Treasury yield 2.157%

Markets Point to Worry Over U.K.

By JON SINDREU

In Britain, disappointing economic data and an inconclusive election have stoked investors' concerns about the country and its divorce from the European Union.

The U.K. is fast becoming one of global investors' least favorite places to put money.

Last week, domestically focused shares sold off after British retailers posted their slowest sales growth in almost four months for May. Meanwhile, data showed that accelerating inflation and slow wage growth are eroding spending power for the economy's all-important consumer.

The FTSE 250 index of mid-size British companies fell 2.1% Thursday, its worst day this year. Though the index

recovered Friday, fund managers said the stumble was a warning shot.

"I think U.K. equities are going to have a tough time over the next few years, specifically the retail side," said Seema Shah, global investment strategist at Principal Global Investors, a manager of \$620 billion in assets.

Meanwhile, money flowed out of U.K. funds for the eighth week in a row, figures from fund tracker EPFR Global showed Friday, with a net redemption of \$563 million. A survey by Bank of America Merrill Lynch published earlier in the week showed the U.K. remains the least popular market for European investors.

On Monday, the U.K. will begin negotiations to exit from the EU, a process many inves-

tors believe will be bad for its economy and which may have been complicated by Prime Minister Theresa May's loss of her parliamentary majority in this month's election.

Cash flowed out of British funds for the eighth week in a row; Brexit talks will start.

To be sure, many economists predicted a recession in 2016 if Britons voted to leave the EU, and this hasn't happened. Economic growth has accelerated and business investment has remained resilient.

But the economy's reliance

on consumers spending almost all their earnings long predates Brexit and isn't diminishing. Consumer spending is responsible for 65% of the U.K. economy against an average of 55% over the EU, according to the Organization for Economic Cooperation and Development. And British consumers are sitting on large debts, raising further questions about their continued ability to power the economy.

During the fourth quarter of last year, U.K. households saved only 3.3% of their income, the lowest since official records started in 1963. And household debt compared to income, while below where it was in 2008 before the financial crisis, is predicted to grow faster over the next five years than previously expected by

the Office for Budget Responsibility, the U.K.'s independent fiscal watchdog.

That is hurting stocks reliant on the British consumer. Measured in U.S. dollars, the FTSE Local U.K. index, which tracks U.K.-exposed shares, has fallen 14% since the Brexit referendum in June last year.

On Friday, sterling was trading at around \$1.28, down 15% since the Brexit vote. This has made things worse for consumers because higher import costs push up prices.

In May, inflation rose 2.7% from a year earlier, above the Bank of England's 2% target. Workers' purchasing power actually fell 0.6% in the three months to April.

"It's hard to see the trend in retail sales improving

Please see INVEST page B2



Wholesale prices for boneless breast meat have surged 68%.

Egg Woes Stymie Chicken Business

By JACOB BUNGE

The U.S. meat industry is striving to crack a conundrum: why fewer eggs are hatching chicks.

Over the first five months of the year, the percentage of eggs hatching broiler chickens, raised for their meat, fell to its lowest level in over a decade. That is a big problem for companies in an industry that requires about 750 million new chickens each month to raise, slaughter and process into wings, breasts and drumsticks.

"This is pretty out of the ordinary," said Will Sawyer, animal-protein analyst at Rabobank. As to the cause, he said, "I don't think anybody has the for-sure answer."

The chicken sector's decadeslong effort to make chickens grow at rapid speeds has never helped fertility. But industry officials point to a confluence of factors behind this year's decline. Some say new varieties of fast-growing breeder chickens are overeating and growing too top-heavy to effectively procreate in the first place. The breeding flock also might be growing older overall, reducing fertility. Elderly chickens' libidos also tend to wane, breeders and academics say.

The situation affects both poultry companies and consumers. At current prices, a 1% decline in the percentage of eggs that hatch of those set in incubators translates to about \$121 million in lost sales for the poultry industry over the first five months of 2017, according to analysts' estimates.

For retailers, restaurants and consumers, fewer hatching eggs—together with rising meat exports and strong consumer demand—have contributed to higher prices. Wholesale prices for boneless breast meat have surged 68%, while consumer prices have climbed 3%, according to data from the

Please see EGGS page B2



Widespread hunger and street protests are unfolding under the authoritarian Maduro government. A Caracas bread line in March.

Venezuela Poses Investor Dilemma

Humanitarian crisis prompts portfolio managers to weigh impact of holding on to nation's bonds

By MATT WIRZ
AND CAROLYN CUI

Richard House invested in Venezuelan bonds for decades, but the head of emerging-markets debt at Standard Life Investments had a change of heart last year.

Facing plunging oil revenue and dwindling dollar reserves, the Venezuelan government has been squeezing imports of daily necessities, including food and medicine, to make debt payments. Those decisions helped prompt him to sell all his Venezuelan bonds.

"Personally, it's not the policy I would be choosing at this time," Mr. House said. "It

feels very uncomfortable...on many levels."

A crisis of conscience is rippling through emerging markets, where portfolio managers are asking: Dare we hold on to Venezuelan bonds, let alone buy new ones, knowing that the authoritarian government of President Nicolás Maduro is choosing to pay lenders rather than feed its people?

After borrowing tens of billions from global investors in recent years, the country is spiraling into a humanitarian crisis. Venezuela's \$56 billion of outstanding debt makes up 3.5% of a widely followed emerging-market debt bench-

mark. Adding to the dilemma for investors, the 24% yield on some Venezuela bonds places them among the highest-yielding investments in the sector, and the debt has been one of the biggest winners on Wall Street over the past year.

While other countries, such as Turkey, also have poor human-rights records, the street protests and widespread hunger that are unfolding in Venezuela, the third-largest oil supplier to the U.S., feel more acute for many U.S. investors.

"In my memory, there's never been this kind of case for the emerging bond markets," said Mohamed El-Erian, a founding figure in the mar-

ket who is now chief economist for Allianz Group.

The issue came to the fore in recent weeks when The Wall Street Journal reported that Goldman Sachs Group Inc.'s investment arm bought bonds held by the country's central bank and that the government is trying to sell \$5 billion more debt, at a steep discount.

The integration of socially responsible rules into investment decisions has been around in stock funds for decades, but it is virtually absent in the bond world.

The last great divestment controversy—South Africa un-

Please see BOND page B2

KEYWORDS| By Christopher Mims

Tech Companies Continue to Spread Their Tentacles



Why does a phone maker get into banking transactions? Why does a social-network build a virtual-reality headset? Why does an online retailer buy a grocery chain?

Amazon's bid to acquire Whole Foods is just the most extreme example of a larger, more consequential phenomenon: America's biggest tech companies are spreading their tentacles, pushing into complementary businesses in a play to sustain growth as they saturate the market for their existing goods. Led by hard-charging executives, these companies are fueled by classic ambition—combined with the almost messianic attitude of Silicon Valley that tech can fix every industry on Earth.

The impact of all this is clear: Existing businesses that can't respond by becoming tech companies themselves are going to get bought or bulldozed, and power and wealth will be concentrated in the hands of a few companies in a way not seen since the Gilded Age. The rest of us will have to decide how comfortable we are buying all our goods and services from the members of an oligopoly.

Think about it: Apple, a computer company that became a phone company, is now working on self-driving cars, TV programming and augmented reality, while pushing into payments territory previously controlled by banks, moves that could make it the first trillion-dollar company in the world.

Facebook, still seen by

Please see MIMS page B4



Jeff Bezos's Amazon made an offer to acquire grocery chain Whole Foods this past Friday.

INSIDE



BOBBY YIP/REUTERS
NEW TACK FOR HONG KONG EXCHANGE

MARKETS, B5

MARKETS, B5

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INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

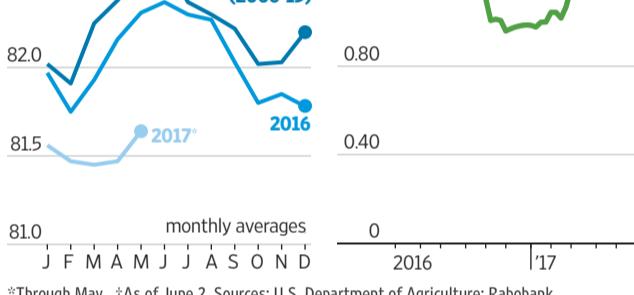
A	F	I
Airbnb Inc.....A7	Facebook.....B3	International Economics.....A5
Airbus SE.....B2	G	Pilgrim's Pride.....B1,B2
Alibaba Group Holding B5	General Motors.....A7	R
Alphabet CI A.....A7	H	Rio Tinto.....B8
Alphabet CI C.....B1,B4	Honda Motor.....B2	S
Amazon.com.....A2,B3,B8	Hong Kong Exchanges & Clearing.....B5	Salesforce.com.....A7
Amazon.com.....B1	Huntsman.....B8	Sanderson Farms.....B1,B2
Anbang Insurance Group B8	I	Saudi Aramco.....B5
Apple.....A7	Intel.....B4	Sony.....B3
Apple.....B3	International Business Machines.....A7	Sony Pictures Entertainment.....B3
Aviagen.....B1,B2	M	Spotify.....B3
B	McDonald's.....B2	SunTrust Banks.....B7
BHP Billiton.....B8	Microsoft.....A7	SVRN Asset Management.....B7
Boeing.....A7	N	T
Boeing.....B2	Takata.....B2	Tesla.....A7
C	Netflix.....B3	Toshiba.....B4
CBS.....B3	New America Foundation.....A1	Toyota Motor.....B2
Clariant.....B8	Nissan Motor.....B2	Tyson Foods.....B1,B2
Comcast CI A.....A7	P	W
D	Pacific Investment Management.....B7	Wal-Mart Stores.....B8
Dana.....A7	Perdue Farms.....B1,B2	Whole Foods Market.....A2,B8
Dow Chemical.....A7	Peterson Institute for	

INDEX TO PEOPLE

B	L	T
Bramwell, Keith.....B2	Lee, Samuel.....B7	Stayer, Phil.....B2
C	Li, Charles.....B5	Tang Yue.....B5
Choi Hee Sun.....A1	MacKenzie, Ken.....B8	Trump, Donald.....A7
Cue, Eddy.....B3	R	Trump, Ivanka.....A7
D	Richardson, Bill.....A4	W
DiMaggio, Suzanne....A1	S	Wu Xiaohui.....B8
I	Iovine, Jimmy.....B3	Y
	Sawyer, Will.....B1	Yun, Joseph.....A4

Crack Down

As the percentage of chicken eggs that have successfully hatched has declined, wholesale chicken meat prices have climbed.



*Through May. †As of June 2. Sources: U.S. Department of Agriculture; Rabobank

THE WALL STREET JOURNAL.

EGGS

Continued from the prior page

U.S. Department of Agriculture and Bureau of Labor Statistics. Grocery stores tend to operate on six- to 12-month supply contracts for poultry, suggesting that consumer prices could rise further.

The companies that dominate the \$60 billion U.S. chicken industry, including Tyson Foods Inc., Pilgrim's Pride Corp., Perdue Farms Inc. and Sanderson Farms Inc. rely on a tightly managed network of breeding farms and industrial-scale incubators. They place about 180 million baby chicks each week onto farms to raise roughly nine billion birds annually.

The parents of those chickens are supplied by breeding companies, which have mapped the chicken's DNA to help choose birds that gain weight rapidly, particularly profitable breast meat, while

Fertility challenges tied to some chickens' rapid growth might be at fault.

consuming the least possible amount of feed. Modern broiler chickens can swell to 2.8 kilograms in about seven weeks, growing to be twice as large as the birds' ancestors.

"These birds can grow to become big ol' couch potatoes," said Phil Stayer, corporate veterinarian for Mississippi-based Sanderson Farms, which raised and processed about 500 million chickens in 2016.

Fertility challenges accompanying rapid growth might have contributed to an average 81.52% of eggs placed into incubators successfully hatching during the first five months of this year, the lowest such stretch since early 2007, according to Rabobank estimates. It ranged nearly 1 percentage point below the average of the previous five years.

Aside from possible problems stemming from overeating,

ing and age, some industry officials pin part of the egg-hatching decline on new breeding chickens. For instance, Alabama-based Aviagen Inc. over the past two years has been introducing new birds that now make up nearly half the U.S. market in broiler-chicken breeding birds, according to industry estimates. Tyson, which maintains a breeding subsidiary, also has been introducing a new breeding rooster.

Figuring out how to manage any new breeder bird can be tricky. Underfeeding hens and roosters can leave them sluggish and reduce fertility. But gaining too much weight can make them lazy, with sore feet and legs, according to Dr. Keith Bramwell, a poultry specialist at the University of Arkansas.

"Unfortunately, if you let breeders grow to their potential, they will be horrible breeders," said Mr. Bramwell, who works with poultry companies on their breeding flocks. "It's a fine line." Feed components, including calorie and protein levels, are being fine-tuned to keep the birds from growing too thin or fat to procreate at the levels poultry executives expect.

An Aviagen spokeswoman didn't respond to requests for comment.

A Tyson spokesman said the company's egg-hatching is in line with expectations for its breeds.

Breeding specialists also have been experimenting with male-to-female ratios. Typically there is one rooster for every 10 hens, but if a new male variety proves unusually assertive, fewer are needed.

Producers' zest to capture robust poultry profits has also meant keeping some breeder hens in production longer than usual, to help produce as many baby chicks as possible, industry officials said. As chickens age, a lower percentage of their eggs tend to successfully hatch.

Mr. Bramwell said that mixing up the age range within a group of breeder roosters has an impact. An infusion of younger, 25-week-old males can boost older rivals' reproductive zeal. He said: "That seems to motivate those older males."

Because this kind of inflation isn't driven by stronger

BUSINESS & FINANCE

Jet Makers Jostle for Sales

Boeing, Airbus to unveil orders at Paris Air Show as sector remains under pressure

BY ROBERT WALL AND DOUG CAMERON

PARIS—It's show time for the world's top plane makers.

For much of the year, Boeing Co. and Airbus SE, the world's top two jetliner makers, have warned investors that orders for new planes would decline this year. But they have said that airline customers generally still want plenty of new aircraft and there is no danger production plans—key to earnings—are in jeopardy. Order books stretch out for years, ensuring plenty of cash flow, even if buyers slow the recent blistering pace of new purchases.

They have a chance to prove that this week, as top aerospace executives, suppliers and airline buyers converge here for the Paris Air Show, which kicks off Monday. Over croissants and foie gras at Le Bourget Airport north of the French capital, Boeing, Airbus and smaller rivals will jostle for sales in what is typically the best opportunity of the year to announce new orders.

For industry watchers, the event will go some way in determining whether the recent orders slowdown is simply a cooling-off period amid years of supercharged growth, or something more worrisome. Few, however, are anticipating a sudden turnaround.

"We expect a quiet show on the order front," said Ken Herbert, an analyst at Canaccord Genuity. In particular, Middle East airline buyers and plane lessors that drove deals at recent shows have largely filled



Among the jetliners at the Paris Air Show is a E190-E2 plane made by Brazilian aerospace firm Embraer.

their appetite, Mr. Herbert said.

In the first five months of the year, Airbus has secured 73 net orders, compared with 162 deals signed for the comparable period a year earlier. Airbus says it expects plane deliveries to outpace new order bookings this year—the first time that has happened since 2009.

Boeing has done better. The Chicago-based plane maker has secured 176 net commercial jetliner orders as of June 13, 10 more than the same period last year.

Airbus and Boeing are expected to announce deals for as many as 680 jets in Paris, estimates consultant Deloitte.

That is down 10% from the 2015 Paris Air Show. Paris alternates with Farnborough, England, as the host of the annual aviation event.

Amid the big, existing order books, shareholders have become somewhat less sensitive to deal announcements, focusing instead on deliveries.

Those dictate when plane makers are paid.

Both plane makers have backlog stretching past 2020 for their most popular models, underpinning big expected increases in output in the coming years. Boeing had a backlog of 5,646 planes at the end of May. Airbus's stood at 6,705 planes.

"We could have no sales for a number of years and we would still have to increase production to chew down that backlog," Airbus chief plane salesman John Leahy said. Especially popular are the two manufacturers' single-aisle planes, models for which demand so far has remained buoyant.

That has created its own problems, as both Boeing and Airbus have struggled over the past few years with stretched supply lines. Seats, toilets and engines have all been in short supply for both companies at different times amid their recent production increase.

"Orders don't matter; it's

deliveries that count," said Aengus Kelly, chief executive of leasing company AerCap Holdings NV, one of the largest buyers of Airbus and Boeing planes.

Still, any sense at the end of the week that orders are dropping off faster than the industry has expected could spook investors. Especially vulnerable is demand for some of the biggest planes, such as Boeing's 777 long-range jet and Airbus's A350. Airlines such as American Airlines Group Inc. and Delta Air Lines Inc. are among the carriers in recent weeks to announce deferrals of some big plane orders.

Airlines in the Middle East, large buyers of big planes, are grappling with multiple headwinds. Low oil prices have depressed lucrative business travel, and a U.S. ban on the use of laptops and tablets on inbound flights from some Middle East airports has dented bookings for Persian Gulf carriers.

BUSINESS WATCH

TAKATA

Car Makers Prepare For Company's Move

Japanese auto makers say they are prepared to weather a bankruptcy filing by Takata Corp., whose rupture-prone air bags are being recalled around the globe.

Takata is preparing to seek bankruptcy protection in the U.S. and Japan as early as this week, according to a person familiar with the matter. The automotive-parts supplier is facing an \$850 million payment to car makers, as part of a settlement with the U.S. Justice Department.

Car companies are covering the costs of recalling millions of vehicles across the world that contain air bags linked to at least 16 deaths and more than 100 injuries. The companies say the impact of a Takata bankruptcy on their operations and balance sheets probably will be muted because they have had time to account for the damage.

"We have enough parts to replace the recalled air bags," said a spokeswoman for Honda Motor Co., Takata's largest customer.

Toyota Motor Corp. said it is working with suppliers to ensure it has enough replacement parts.

Nissan Motor Co. said it is working on replacing the defective inflators as quickly as possible, and is working with alternative suppliers to ensure it has enough to meet future demand.

—Sean McLain

MCDONALD'S

Fast-Food Chain, IOC End Alliance Early

The International Olympic Committee said it and fast-food giant McDonald's Corp. agreed to end their long-running partnership before their latest deal was set to expire.

McDonald's said it decided to end the partnership to focus on new ways to grow. "As part of our global growth plan, we are reconsidering all aspects of our business and have made this decision in cooperation with the IOC to focus on different priorities," a McDonald's spokeswoman said.

The current deal was supposed to last through 2020.

—Imani Moise and Julie Jargon

BOND

Continued from the prior page
der apartheid—predates the development of modern emerging-market bond trading in the late 1980s. Countries with controversial governments like Iraq, Nigeria and Mozambique have issued international bonds, but the three together make up less than 1% of the market.

The moral calculus can grow complicated. Some investors say providing new funding to the Maduro government, as Goldman Sachs did, is unacceptable but that buying from other funds does no harm. Others say owning any Venezuelan bond is unethical because the money the country uses to service debt would be better spent feeding its populace.

Investors are also divided over the impact of divestiture. Bond yields would likely rise further, making it even harder for the government to borrow and perhaps accelerating political change. But creditors could also seize oil shipments in the case of default, cutting off the nation's primary source of dollars and further curtailing imports.

"Our goal is to lend money to a government, helping grow its economy and improve people's living standards, and eventually we hope to get paid," said Yong Zhu, senior portfolio manager at DuPont Capital Management, which owns Venezuelan debt.

Russ Dallen, a managing partner at Caracas Capital Markets, said that Venezuela's problem was the result of "a breakdown in democracy." Venezuela is set to hold voting for a new constituent assembly in July, after years of delays.

"Wall Street does not function like a moral place. It's a

sad truth," he said.

Venezuela's bonds have paid remarkably well, returning 54% in the year through May. That accounted for one-fifth of the J.P. Morgan Emerging Markets Bond Index Global's return over the period.

Many fund managers are reluctant to divest because they fear lagging behind rivals who hold on. Others are betting that recoveries in a default would exceed market prices.

With its bonds trading at an average price around 50 cents on the dollar, a default by Venezuela is considered nearly inevitable in the near future.

"We have a fiduciary duty to represent the interests of our shareholders in our

growth or a tighter labor market, all these concerns could boost the market for British government debt, or gilts. Yields on 10-year gilts have fallen, after hitting a peak of 1.5% in January.

On Thursday, three out of the Bank of England's eight rate setters voted to increase interest rates, surprising investors who expected a less hawkish stance. But yields edged up only a little and closed the week at 1.017%. Investors typically sell bonds when they believe there is a

chance rates will rise. Bond yields move opposite to prices.

Jim Leaviss, a fund manager at M&G Investments, which manages £265 billion (\$338 billion) in assets, said he believes investors have been buying gilts precisely because they have been anticipating U.K. consumers' woes and the brake that would place on rate rises.

"You see it priced in because nobody expects the Bank of England to raise rates in the foreseeable future," Mr. Leaviss said.

Consuming the least possible amount of feed. Modern broiler chickens can swell to 2.8 kilograms in about seven weeks, growing to be twice as large as the birds' ancestors.

"These birds can grow to become big ol' couch potatoes," said Phil Stayer, corporate veterinarian for Mississippi-based Sanderson Farms, which raised and processed about 500 million chickens in 2016.

Fertility challenges accompanying rapid growth might have contributed to an average 81.52% of eggs placed into incubators successfully hatching during the first five months of this year, the lowest such stretch since early 2007, according to Rabobank estimates. It ranged nearly 1 percentage point below the average of the previous five years.

The parents of those chickens are supplied by breeding

BUSINESS NEWS

Airlines Brace for More Security Checks

U.S. weighs new limits on passenger laptops, boosting risk of delays and increased costs

BY SUSAN CAREY
AND ROBERT WALL

As the U.S. considers expanding a ban of carry-on laptops on international flights, airlines are scrambling to prepare for what would be additional security checks and probably angry customers.

The most likely measure would be secondary airport checkpoints to temporarily confiscate most electronic devices from passengers. Those could lead to longer lines, delayed flights and higher costs, and could be the industry's biggest logistical challenge since 2006, when a suspected bomb plot against trans-Atlantic flights led to limits on liquids and gels on board, say aviation experts.

An initial ban three months ago—by both the U.S. and the U.K.—affected some flights from the Middle East and North Africa. The latest plan under consideration by the

Trump administration could involve flights originating from as many as 71 airports globally, and comes amid what U.S. Homeland Security Secretary John Kelly described as a "very serious" and "constant" threat. He told lawmakers this month that terrorists "are trying every day to knock down one of our airplanes."

The timing and scope of any ban remains uncertain and talks between Homeland Security and airports, airlines and European Union officials continue.

Mr. Kelly recently suggested a ban could affect all international flights to the U.S., though earlier discussions involved just flights from Europe. There is even a possibility some airports won't be affected if they meet increased security standards being developed by DHS, Mr. Kelly said.

At a meeting in Malta last week, U.S. Attorney General Jeff Sessions and Deputy DHS Secretary Elaine Duke presented their European counterparts with a list of extra security measures including improved information exchange, random testing for ex-



SEDAŞ SUNA/EUROPEAN PRESSPHOTO AGENCY

Passengers checked in for U.S. flights in Istanbul earlier this year. A U.S. laptops measure could affect as many as 150,000 flights.

plosives and acquiring more advanced airport screening devices to forestall a ban, said an EU official who participated. The Americans gave no deadlines when presenting the measures, this person said, and many already are in place.

In any case, airlines are trying to prepare contingency plans for what could be as

many as 150,000 flights affected if the ban goes global, based on travel scheduled for June, according to OAG Aviation Worldwide Ltd.

Secondary checks to seize devices and check them in aircraft cargo holds would add to increasingly cumbersome airport-security procedures.

For instance, many fliers

bound for the U.S. make connections through European airports from countries that don't ban carry-on laptops in cabins, so those devices would have to be removed at secondary checkpoints before passengers board U.S.-bound flights.

How and where secondary screening would occur depends in part on terminal layouts at each airport, according to a U.S. airline official.

Airports in Europe, including the busy London Heathrow hub as well as facilities in Amsterdam, Barcelona, Madrid and Edinburgh, are pursuing plans to segregate U.S.-bound flights at gates behind secondary screening points, said a U.S. airline official. But the layout of airports including Athens, Rome and Venice would require secondary screening at each gate, the official said.

An airport like Paris's Charles de Gaulle, with its space constraints, might require the device checks to be done on the bridges to the individual planes.

Some airport authorities allow airline personnel or vendors to search passengers and bags, but others require the use of their own staffers.

United Continental Holdings Inc., Delta Air Lines, Inc. and American Airlines Group Inc. are among those carriers hiring additional screening personnel, said people familiar with their planning.

Also being discussed by the aviation industry are possibly installing magnetometers, traditional metal scanners, or more advanced screening technology at secondary screening sites, in lieu of hand searches. Some airlines also have raised the possibility of requiring travelers to pack their devices in checked luggage from the beginning, an idea that will likely prove unpopular. Airlines also are worried that devices might be stolen or damaged, further infuriating fliers.

Airline trade groups say there are less disruptive ways to deal with the terrorist threat, including increased use of bomb-detection dogs. They say elite frequent fliers or members of "trusted traveler" programs, including TSA Pre-Check or Global Entry, should be allowed to bring their devices onboard.

—Valentina Pop contributed to this article.

Apple Taps Hollywood In Video-Content Push

BY TRIPP MICKLE AND JOE FLINT

Apple Inc. has poached two top Hollywood television executives from Sony Corp. to spearhead an ambitious push into the original-programming business.

Jamie Erlicht and Zack Van Amburg, who oversaw Sony Pictures Television productions such as "Breaking Bad" and "The Crown," will join Apple in new positions as co-heads of video programming world-wide, Apple said. They will report to Senior Vice President Eddy Cue, who oversees Apple's \$24 billion services business, which includes iTunes and its \$10-a-month streaming-music service.

By broadening its video-programming push, it could boost its services business.

The hires signal Apple's seriousness about jumping into the crowded programming business, which Mr. Cue has been working toward for more than a year. Original content has skyrocketed over the past five years as Netflix Inc., Amazon.com Inc., CBS Corp. and others vie for viewers who are dropping cable subscriptions in favor of streaming services. There were about 500 scripted shows during the just-concluded 2016-17 television season, nearly double the number of scripted shows in 2011.

Apple's music-streaming service already has taken tentative steps to carry original video content, cutting deals for shows like "Carpool Karaoke" to differentiate it from rival Spotify AB. By broadening its video-programming push, Apple could boost its services business, whose revenue Chief Executive Tim Cook aims to double to about \$50 billion by 2020. It

also could boost customer loyalty to devices like the iPhone and its Apple TV digital-media player, in which its content-delivery services are native.

The departures of Messrs. Erlicht and Van Amburg represent a blow for Sony Pictures Entertainment, which took a \$1 billion write-down in February because of its movie-studio woes. The executives are well-regarded for their ability to identify TV programs and played a critical role in turning Sony's television business into a formidable Hollywood player by developing shows like NBC's "The Blacklist" and FX's "Rescue Me."

Apple faces sizable challenges in the media business, as its efforts have a mixed record. Its iTunes service revolutionized the music business, giving birth to downloadable, \$1 songs. But an effort to bring publishers to the iPad triggered a price-fixing lawsuit, and a more recent play to create a TV-subscription service fizzled.

Apple began to dabble in programming last year with a deal to stream a documentary about a drum machine called "808" on Apple Music. This year it has pushed "Planet of the Apps," a reality show about app developers modeled after "Shark Tank," and "Can't Stop Won't Stop: A Bad Boy Story," a movie produced by hip-hop artist Sean "Diddy" Combs.

In addition to developing shows they hope will break through in today's crowded media market, the executives will have to sort through questions including whether Apple will launch a new TV-subscription service, as it has long desired. If that happens, they also will have to determine whether subscribers could buy both music and TV services at a discounted price.

Messrs. Erlicht and Van Amburg, who became Sony Pictures Television presidents in 2005, depart amid a period of transition at Sony.

Facebook Fixes Security Bug

BY GEORGIA WELLS

Facebook Inc. inadvertently exposed the names of some moderators to suspected terrorists and other groups whose content the workers were tasked with reviewing, a flaw the company Friday said has been fixed.

About 1,000 of Facebook's moderators were affected by the flaw, which disclosed their names in an activity log, a spokesman said. Clicking on a name, though, would take the viewer to the public version of the moderator's Facebook profile page. In the vast majority of cases, he said, moderator names weren't viewed by administrators of these groups.

Facebook investigators believe suspected terrorists may have viewed the profiles of

fewer than six workers, the spokesman said. According to the investigators, none of the cases involved suspected members of the terror group ISIS, the spokesman said.

The problem began in the fall and was fixed in November, the spokesman said. News of the flaw and subsequent fix was reported earlier by the Guardian.

In response, Facebook made a number of changes to prevent workers' information from becoming available externally again. The company is also testing new accounts that won't require workers to log in with personal Facebook accounts.

"As soon as we learned about this issue, we fixed it and began a thorough investigation to learn as much as possible about what happened," the Facebook spokesman said.

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May 2017

CHEMCHINA

USD 46.3 billion

Acquisition of Syngenta by China National Chemical Corporation (ChemChina).

HSBC acted as Lead Financial Advisor and Sole Initial Underwriter of \$20bn of "BidCo" debt.

February 2017 (Announced)

rb

HEALTH • HYGIENE • HOME

USD 17.9 billion

Acquisition of Mead Johnson Nutrition Company by Reckitt Benckiser.

HSBC acted as Financial Adviser and Financier.

September 2016 (Announced)

BAYER

USD 57 billion

Acquisition financing in respect of Bayer's announced acquisition of US-based, publicly listed Monsanto.

HSBC acted as Underwriter, Bookrunner and Mandated Lead Arranger.

October 2016 (Announced)

TASNEEM LIAQATI

USD 2.2 billion

The National Titanium Dioxide Company (Cristal) will transfer its titanium dioxide businesses to Tronox Ltd, in return for USD 1.67 billion cash and a 24% stake in the combined entity.

HSBC acted as Financial Adviser.

October 2016

西王集团

USD 730 million

Xiwang Group, through its listed company Xiwang Foodstuffs, in partnership with Primavera Capital, USD 730 million acquisition of 100% of Iovate Health Sciences International.

HSBC acted as Financial Adviser.

April 2016

PINGAN

Insurance • Banking • Investment

Acquisition by Shanghai Jahwa (Group) Co. Ltd (a subsidiary of Ping An Insurance), of Mayborn Group Ltd from 3i Group plc.

HSBC acted as Financial Adviser to Jahwa (Group).



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TECHNOLOGY

WSJ.com/Tech

Toshiba's Woes Hit Its Chip Operations

By MAYUMI NEGISHI
AND TAKASHI MOCHIZUKI

TOKYO—Toshiba Corp. is lagging behind rival chip makers in securing next year's supply of silicon wafers, people in the industry said, showing how the company's troubles are hamstringing operations at its principal profit center.

Toshiba is trying to sell its memory-chip unit for some \$20 billion in a bid to survive multibillion-dollar losses tied to its U.S. nuclear unit, Westinghouse Electric, which filed for bankruptcy protection in March. The company was aiming to reach a deal by June 28, but the sale process has bogged down. At a meeting Thursday, Toshiba's board failed to select a preferred bidder, people familiar with the meeting said.

The semiconductor unit is riding a once-in-a-decade boom in demand thanks to the growth in internet-connected devices and services that rely on huge data-storage capacity.

One effect of the boom is a shortage of silicon wafers, the material from which chips are created. Inventory levels have fallen to all-time lows and companies are hurrying to lock up supplies.

People in the industry involved in contract negotiations said some of Toshiba's rivals have already agreed to price increases for next year's contracts so they can ramp up production, whereas Toshiba has held back in some cases.

Toshiba, the world's No. 2 maker of NAND flash memory, could find itself at a disadvantage in a fast-paced market. Meanwhile, it remains two months behind market leader Samsung Electronics Co. in developing 3-D NAND chips, which are used in Apple Inc.'s iPhones, analysts said.

A Toshiba spokeswoman declined to comment on negotiations but said the company

is working to deal with price increases for wafers.

Companies exploring bids for the Toshiba chip unit include Foxconn Technology Group of Taiwan, SK Hynix Inc. of South Korea, U.S.-based Broadcom Ltd. and Toshiba's joint-venture partner Western Digital Corp., according to people familiar with the matter. Private-equity firms and entities backed by the Japanese government are also involved.

The sale process has been hampered both by a legal dispute with Western Digital and by government opposition to a Chinese buyer.

Western Digital, which says its contracts with Toshiba give it the right to block any other bidder, sued this week in California state court to prevent Toshiba from selecting a buyer. Toshiba says Western Digital has no such right of refusal.

Meanwhile, Japanese government officials say they won't let Toshiba's technology move to Chinese hands, and they have made clear privately that Foxconn, because of its extensive operations in China, would be blocked for that reason.

Even if Western Digital were to resolve its dispute with Toshiba and agree to buy the chip business, antitrust regulators in China or elsewhere might object because Western Digital already has a big share of the NAND flash memory market.

The delays are critical because the chip unit needs a deep-pocketed owner to fund expansion. The chip industry is in the midst of its largest growth year since 2010, and NAND chips are especially hot, as consumers demand more storage in their smartphones.

One person familiar with the matter said Toshiba views Broadcom's offer as the most attractive because the U.S. company has expressed a commitment to beefing up the chip unit's production.

Google Faces EU Antitrust Fine

BY NATALIA DROZDIAK

BRUSSELS—European Union regulators in the coming weeks are set to hit Alphabet Inc.'s Google with a record fine for manipulating its search results to favor its own comparison-shopping service, according to people familiar with the matter.

The antitrust penalty against Google is expected to top the EU's previous record fine levied on a company for allegedly abusing its market position: €1.06 billion, or \$1.2 billion, against Intel Corp. in 2009.

Under EU rules, the fine could reach as high as 10% of the company's annual revenue, which was \$90.27 billion last year.

Google faces additional and perhaps more painful consequences from the European Commission's action, including possible changes not only to its handling of its shopping service but other services as well. The antitrust watchdog's decision could also embolden private litigants to seek compensation for damages at national courts.

The EU is likely to instruct Google to put its comparison shopping service on equal footing with those of its competitors, such as Foundem.co.uk and Kelkoo.com Ltd. Such companies rely on traffic coming to their site from search engines like Google's, and the equal-treatment requirement could lead to greater visibility for rival services on the tech giant's platform.

The EU has been in talks with some of the complainants about how Google should change its search results, though the precise remedy



The anticipated penalty would be related to Google search results.

likely would be hammered out only after a decision is announced.

Google General Counsel Kent Walker has previously argued that forcing the company to place competitors' product ads in its search results "would just subsidize sites that have become less useful for consumers."

The regulator's move would be welcome relief to a range of web companies—large and small, European and American—that have been urging the EU for years to take antitrust action against Google. News Corp., owner of The Wall Street Journal, has

formally complained to the EU about Google's handling of news articles on its search service.

The EU watchdog opened its investigation into Google's practices in 2010. The former competition commissioner, Joaquín Almunia, subsequently drafted various settlements with Google over more than two years of talks, but the steps offered by Google were rejected in 2014 following criticism from competitors, as well as from politicians in Germany and France.

That led the way for Mr. Almunia's successor, EU antitrust chief Margrethe Vestager, to file formal accusations against Google—the first regulator in the world to do so—by issuing a statement of objections in the comparison shopping case in April 2015.

An EU decision against Google would set the regulator apart from authorities in the U.S.; they closed their own investigation into Google's search practices in 2013 after the company agreed to voluntary changes. The divergence could reflect in part Google's greater presence in search on the Continent, where it holds about 90% of the market.

MIMS

Continued from page B1
some as a baby-pictures-and-birthday-reminders company, is creating drones, virtual-reality hardware, original TV shows, even telepathic brain-computer interfaces.

Google parent Alphabet Inc. built Android, which now runs more personal computing devices than any other software on Earth. It ate the maps industry; it's working on internet-beaming balloons, energy-harvesting kites, and ways to extend the human lifespan.

Meanwhile, serial disrupter Elon Musk brings his tech notions to any market he pleases—finance, autos, en-

ergy, aerospace. He's delivering satellites to orbit and wants to put colonists on Mars, a backup in case his other planet-saving efforts fail. Those include electric self-driving cars, home energy storage, traffic-easing tunnels and cyborg implants to help people compete with AI.

What distinguishes Amazon is that it's the company most willing to work on everyday problems. In the long run, this might be the smarter move. While Google and Facebook have yet to drive significant revenue outside their core businesses, and Apple is only just beginning to, Amazon Chief Executive Jeff Bezos has managed to create business after business that is profitable, or at least not a drag on the bottom line.

One way he does this is by moving not just laterally—from books to consumer packaged goods—but vertically, through the supply chains that create and deliver goods. Amazon used its experience running its own websites to create Amazon Web Services, a \$14 billion-a-year business. Physical retail—nearly 90% of consumer purchases as of 2016, not including car and gasoline sales—is the latest frontier.

This trajectory wasn't obvious 15 years ago. You couldn't guess that a handful of companies would leverage their expertise, talent pools and capital to eat industries outside their own.

The iPhone, Apple's cash machine, is only 10 years old.

Mr. Musk's SpaceX was founded in 2002 and Tesla in 2003. Amazon started Web Services in 2002 and made its first big acquisition (Zappos) in 2009. Google founded its X incubator for far-out ideas in 2010, and Facebook only went public in 2012.

Two things become apparent from this timeline: First, it's flabbergasting how quickly both the revenue and the ambitions of these companies have grown. Second—and this should really give us pause—they are just getting started.

A key reason these companies are behaving differently than their peers is that the fundamental technologies of the microchip, the internet, wireless connectivity, just-in-time manufacturing, robotics, big data, etc., have made it possible. Those with expertise in these areas can create

businesses that solve existing problems in entirely new ways, or at least more efficiently and profitably.

While we might like how these companies deliver services, goods and innovation, eventually we're going to have to ask ourselves, just how much power we're comfortable having consolidated in the hands of so few businesses.

Imagine a future in which Amazon, which already employs north of 340,000 people world-wide, is America's biggest employer. Imagine we're all spending money at what's essentially the company store, and when we get home we're streaming Amazon's media. The latest update from the Amazon News Network features Jeff Bezos, president of the newly formed North American Union. I'm joking, of course—but only a little.

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FUND NAME GF AT LB DATE CR NAV YTD %RETURN—

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FUND NAME	GF	AT	LB	DATE	CR	NAV	%RETURN—	12-MO	2-YR
VP Class-Q Units	AS	EQ	HKG	06/15 USD		139.60	21.8	31.9	-2.5
VP Class-I Units	AS	EQ	HKG	06/15 USD		17.60	21.8	31.8	-2.9
VP Class-C Units AUD H	AS	EQ	HKG	06/15 AUD		14.48	21.3	30.2	-2.8
VP Class-C Units CAD H	AS	EQ	HKG	06/15 CAD		13.97	20.6	30.0	-3.8
VP Class-H Units HKD H	AS	EQ	HKG	06/15 HKD		11.88	20.6	30.1	NS
VP Class-I Units NZD H	AS	EQ	HKG	06/15 NZD		14.52	20.4	30.9	-2.5
VP Class-C Units RMB H	AS	EQ	CNY	06/15 CNY		11.79	13.1	29.0	NS
VP Class-C Units SGD H	AS	EQ	HKG	06/15 SGD		11.91	23.9	34.9	NS
VP Multi-Asset Fund Cls A HKD	OT	OT	HKG	06/15 HKD		10.34	7.5	NS	NS
VP Multi-Asset Fund Cls A USD	OT	OT	HKG	06/15 USD		10.44	6.9	9.0	NS
VP Taiwan Fund	AS	EQ	CNY	06/15 USD		19.19	4.6	24.2	10.3

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China A-Share Fund Cls A AUD H OT HKG 06/15 AUD

13.15 11.5 19.9 -7.2

China A-Share Fund Cls A AUD I OT HKG 06/15 AUD

12.20 11.6 16.9 -7.9

China A-Share Fund Cls A CAD H OT HKG 06/15 CAD

12.14 11.2 18.4 -8.3

China A-Share Fund Cls A EUR H OT HKG 06/15 EUR

12.73 10.8 17.3 -8.0

China A-Share Fund Cls A GBP H OT HKG 06/15 GBP

12.58 11.2 19.1 -8.3

China A-Share Fund Cls A HKD H OT HKG 06/15 HKD

12.72 10.4 19.1 NS

China A-Share Fund Cls A IND H OT HKG 06/15 IND

12.94 10.9 32.3 -7.9

China A-Share Fund Cls A NZD H OT HKG 06/15 NZD

13.10 17.5 20.2 10.0

China A-Share Fund Cls A SGD H OT HKG 06/15 SGD

12.96 11.7 20.2 -6.9

China A-Share Fund Cls A USD H OT HKG 06/15 USD

11.27 13.2 17.2 -9.8

China A-Share Fund Cls A ZAR H OT HKG 06/15 ZAR

14.20 13.2 22.4 -5.0

China A-Share Fund Cls A USD I OT HKG 06/15 USD

13.00 16.8 19.6 -8.2

China A-Share Fund Cls A USD H OT HKG 06/15 USD

12.91 11.1 18.9 -7.8

China Greenchip-A Units AS EQ CYM 06/15 HKD

61.75 21.4 29.3 -5.5

FINANCE & MARKETS

HKEx Pitches New Board to Boost Allure

By GREGOR STUART HUNTER

Hong Kong's stock-exchange operator has drawn up plans to launch a new board that could allow companies to sell shares offering greater voting power to some investors, as competition among global exchanges to attract new listings intensifies.

Hong Kong Exchanges & Clearing Ltd. said it would consult the market between now and Aug. 18 on its plan for a new board with two segments. One segment would focus on mature companies not currently able to list in the city because their shares limit the voting rights for some investors. The other would be geared toward early-stage companies and be off limits to retail investors.

The exchange said creating the new board "would be the best way to attract a greater diversity of issuers to list in Hong Kong," citing a current lack of listings from companies in the fast-growing tech, biotech and health-care sectors.

"We want to stay competitive, we want to stay relevant, and we want to continue to enhance market quality," said HKEx Chief Executive Charles



JUSTIN CHIN/BLOOMBERG NEWS

HKEx chief Charles Li wants to lure 'new economy' stocks by allowing dual-class share structures.

Li, adding he expected the new board to be established early next year if the plan receives a positive response.

The Hong Kong exchange's proposals come as major global exchanges are angling to host more companies' share listings. A particularly fierce battle is being fought to at-

tract Saudi Arabian Oil Co., known as Saudi Aramco, the world's largest oil company by output, which is considering where to list its shares in an initial public offering that some estimate could value it at as much as \$2 trillion. London, New York and other global exchanges are also in

the running for the IPO, and have faced pressure to change some of their listing rules to attract the oil giant.

Mr. Li has previously said he hopes the creation of a new board will help attract multinational corporations such as Apple Inc., Walt Disney Co. and Aramco to list in the city,

but said the latest proposal was geared toward attracting stocks in the "new economy."

Dual-class shareholding structures offer different voting rights to different shareholders and are widely used in the U.S. by companies including Facebook Inc. and News Corp., the parent company of The Wall Street Journal.

The Hong Kong exchange's refusal to allow such structures in the past cost it the initial public offering of **Alibaba Group Holding** Ltd., which listed in New York in 2014. Hong Kong was the world's biggest IPO venue last year, according to data from the World Federation of Exchanges.

But the exchange's plan is likely to encounter opposition from the local market regulator, the Securities and Futures Commission of Hong Kong, which in 2015 shot down a previous concept paper that asked market participants whether they would accept changing the principle of one share, one vote.

"We encourage the public to express their views on these important proposals as

they deal with some complex and difficult issues which have implications for the overall diversity and quality of the Hong Kong securities market," a spokesman for the SFC said.

Mr. Li said the exchange had continued discussions to find an appropriate solution to the impasse with the regulator. "Things do change," he said.

Dual-class shareholding structures are unpopular with some investors. Global index provider MSCI said last week that it would consult on whether to exclude companies from its benchmark indexes if they don't offer much voting power to shareholders. The index provider cited feedback from investors after the initial public offering of Snap Inc., which offered no voting rights to shareholders when it listed earlier this year.

As part of its plans, the Hong Kong exchange said it would tighten some requirements for companies to list in the city so as to provide safeguards to investors, including minimum cash flow and market capitalization.

China's Monetary Policy Zigs as U.S.'s Zags

By SHEN HONG

SHANGHAI—A day after learning that the U.S. Federal Reserve tightened monetary policy, China's central bank effectively loosened, in a move that suggests Chinese authorities are now more concerned about financial turmoil inside the country than money flowing out of it.

The People's Bank of China on Friday injected a net 250 billion yuan (\$36.73 billion) into the financial system—more than it has on any single day since mid-January, when demand for cash was high ahead of the Lunar New Year

holiday.

The huge pump priming comes as a monthslong regulatory crackdown on excessive leverage and financial misbehavior in China has left investors jittery. Most recently, authorities detained Wu Xiaohui, chairman of Anbang Insurance Group, one of China's biggest insurers, for what people familiar with the matter described as a probe into possible economic crimes.

Although market reaction has been muted, a number of Chinese banks had already distanced themselves from Anbang, whose life-insurance unit in May was barred from selling

new products for three months, in what was seen as an attempt to keep any troubles there from spreading to other parts of the financial system.

The PBOC's move contrasts with its actions following the Fed's previous rate increase in March, when the PBOC responded by pushing up its own rates within hours. Analysts attributed that reaction to the bank's desire to discourage a further surge in money leaving the country, a danger if interest rates in the U.S. look much more attractive than at home.

Since then, capital outflows have slowed and analysts say Beijing's concerns have shifted

to making sure its regulatory crackdowns don't endanger the economy and financial system.

"Apart from the seasonal factors, the central bank's move today also shows it is adopting a milder approach to its effort to reduce financial leverage because the latter has already started to have a negative impact on the real economy," said Tang Yue, an analyst at Industrial Securities.

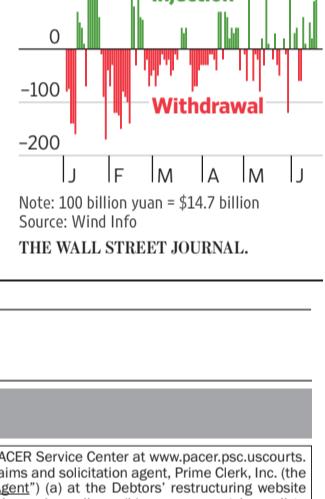
Beijing's campaign to tame highly leveraged investing began last summer and intensified in February and March, when it twice raised a suite of key money-market interest rates. The move to clean up China's

messy and risk-prone financial system has led to a sharp rise in borrowing costs in recent months: Yields on government bonds rose to a 29-month high last month and remain elevated, while a record number of companies have canceled or delayed new bond issuance.

Mr. Tang also pointed to weaker credit data released Wednesday as a fresh sign of difficulty: China's broadest measure of money supply, M2, was up 9.6% at the end of May from a year earlier, lower than the 10.5% increase at the end of April and below economists' median growth forecast of 10.4%.

Flash Cash

China's central bank injected the largest amount of cash into the financial system on a single day since mid-January.



THE WALL STREET JOURNAL.

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Legal Notices

BANKRUPTCIES

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

In re: **SUNEDISON, INC., et al.**, Chapter 11 Case No. 16-10992 (SMB) Debtors.¹ (Jointly Administered)

NOTICE OF HEARING TO CONSIDER CONFIRMATION OF, AND DEADLINE FOR OBJECTING TO, THE AMENDED JOINT PLAN OF REORGANIZATION OF SUNEDISON, INC. AND ITS DEBTOR AFFILIATES

PLEASE TAKE NOTICE OF THE FOLLOWING:

1. **CHAPTER 11 CASES.** Beginning on April 21, 2016, SunEdison, Inc. and certain of its affiliates, the debtors and debtors in possession in the above-captioned cases (collectively, the "Debtors") filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). By order of the Bankruptcy Court, the cases are being jointly administered for procedural purposes under Case No. 16-10992.

2. **APPROVAL OF DISCLOSURE STATEMENT.** On June 12, 2017, the Debtors filed the proposed First Amended Disclosure Statement for the First Amended Joint Plan of Reorganization of SunEdison, Inc. and Its Debtor Affiliates dated June 12, 2017 [Docket No. 3314] (including all exhibits and supplements thereto, the "Disclosure Statement"), and the First Amended Joint Plan of Reorganization of SunEdison, Inc. and Its Debtor Affiliates, dated June 12, 2017, attached as Exhibit A to the Disclosure Statement (as may be amended, modified, or supplemented from time to time and including all exhibits and supplements thereto, the "Plan").² By order dated June 13, 2017 [Docket No. 3319] (the "Disclosure Statement Approval Order"), the Bankruptcy Court approved (i) the adequacy of the Disclosure Statement for the Debtors' Plan; (ii) certain key dates relating to confirmation of the Plan; (iii) procedures for solicitation and tabulation of votes to accept or reject the Plan; (iv) forms of ballots and notices to be distributed in connection with solicitation and (v) procedures for notice of a confirmation hearing and filing objections to confirmation of the Plan.

3. **RECORD DATE FOR VOTING PURPOSES.** Only Creditors who hold Claims in Classes 1A and 1B and 4A – 4E on June 5, 2017 (the "Voting Record Date") are entitled to vote on the Plan.

4. **VOTING DEADLINE.** All votes to accept or reject the Plan must be actually received by the Claims and Creditor Agent by no later than July 13, 2017 at 4:00 p.m. (prevailing Eastern time) (the "Voting Deadline"). All Ballots must be properly executed, completed, and delivered to the Debtors' Claims and Creditor Agent by (a) first class mail; (b) overnight courier; (c) personal delivery, or (d) through online transmission solely via, and in accordance with, the instructions set forth on, Prime Clerk, Inc.'s E-Ballot platform on the Debtors' restructuring information website (<https://cases.primeclerk.com/sunedison>) (the "Restructuring Information Website"), in each case so that they are actually received by the Claims and Creditor Agent no later than the Voting Deadline. Any failure to follow the voting instructions included with your Ballot may disqualify your Ballot and your vote.

5. **ENTITLEMENT TO VOTE ON THE PLAN.** Only Holders of Claims in the following Classes are entitled to vote to accept or reject the Plan: Classes 1A, 1B and 4A–4E.

Class	Description
1A and 1B	Second Lien Claims
4A–4E	General Unsecured Claims

Holders of Claims and Interests in the following Classes are not entitled to vote on the Plan: Classes 2A–2E, 3A–3E, 5A–5E, 6A–6E, 7B–7E, and 8A.

6. **CONFIRMATION HEARING.** A hearing to consider confirmation of the Plan (the "Confirmation Hearing") will be held before the Honorable Stuart M. Bernstein, United States Bankruptcy Judge for the Southern District of New York, in the Bankruptcy Court, One Bowling Green, Courtroom 723, New York, New York 10004, on July 20, 2017 at 10:00 a.m. (prevailing Eastern time), or as soon thereafter as counsel may be heard. The Confirmation Hearing may be adjourned from time to time without further notice to creditors, equity holders, or parties in interest other than by an announcement in open court or as indicated in any notice that is filed with the Bankruptcy Court, and the Plan may be further modified, if necessary, prior to, during, or as a result of the Confirmation Hearing, without further notice to creditors, equity holders, or parties in interest.

7. **ALLOWANCE OF CLAIMS FOR VOTING PURPOSES.** A holder of a Claim not entitled to vote on the Plan pursuant to the procedures described above (such claim, a "Disputed Claim") shall be permitted to vote on such Claim (or to vote such Claim in an amount other than the amount set forth in the Schedules) only if one of the following shall have occurred with respect to such Claim at least seven (7) days prior to the Voting Deadline (the "Voting Resolution Event Deadline"): (a) an order is entered by the Court allowing such Disputed Claim pursuant to section 502(b) of the Bankruptcy Code, after notice and a hearing; (b) a Creditor files with the Court a motion for an order pursuant to Bankruptcy Rule 3018(a) temporarily allowing such Disputed Claim in a different amount only for purposes of voting to accept or reject the Plan (a "Rule 3018(a) Motion"); provided that such Rule 3018(a) Motion is ultimately approved by the Court after notice, at the Confirmation Hearing (or at any other hearing scheduled by the Debtors); (c) a stipulation or other agreement is (i) executed between the holder of the Disputed Claim and the Debtors resolving such objection and allowing the holder of such Disputed Claim to vote its Claim in an agreed upon amount and (ii) approved by the Court; (d) a stipulation or other agreement is (i) executed between the holder of the Disputed Claim and the Debtors temporarily allowing the holder of such Disputed Claim to vote its Claim in an agreed upon amount and (ii) approved by the Court; or (e) the pending objection to the Disputed Claim is voluntarily withdrawn by the Creditor overruled by the Court (a "Resolution Event").

Rule 3018(a) Motion (i) is not in writing, (ii) complies with the Bankruptcy Rules, the Bankruptcy Rules and the Local Bankruptcy Rules, (iii) set forth the name of the party asserting the Rule 3018(a) Motion, (iv) state with particularity the legal and factual bases for the Rule 3018(a) Motion, (v) be set for hearing at the Confirmation Hearing and (vi) be served so as to be received by the Notice Parties no later than the Voting Resolution Event Deadline.

No later than two (2) business days after a Resolution Event, the Debtors shall cause the Claims and Creditor Agent to distribute a Ballot and a pre-addressed, postage pre-paid envelope to the relevant holder of the Disputed Claim, which must be returned to the Claims and Creditor Agent by no later than the Voting Deadline (unless the Debtors, with the reasonable consent of the Supporting Second Lien Parties, extend the deadline to facilitate a reasonable opportunity for such Creditor to vote upon the Plan and such extension is approved by the Court). If the Claim is objected to a Balot and be entitled to vote such Claim in the amount and/or classification asserted by the Debtor. If an objection to a Disputed Claim was filed by the Debtors after the Voting Record Date but on or before June

29, 2017 (the "Claims Objection Deadline"), the Ballot of the holder of such Disputed Claim will not be counted absent a Resolution Event taking place prior to the Confirmation Hearing.

In the event that the Debtors and the holder of the Disputed Claim are unable to resolve any issues raised by the Rule 3018(a) Motion prior to the Confirmation Hearing, (a) the Debtors may object to the Rule 3018(a) Motion at the Confirmation Hearing (without filing a written objection), (b) Debtors' counsel, with the assistance of the Claims and Creditor Agent, shall inform the Court at or prior to the Confirmation Hearing whether including such provisional Ballot would affect the outcome of the voting to accept or reject the Plan in the relevant Class in which the provisional Ballot was cast and (c) the Court then shall determine whether the provisional Ballot should be counted as vote on the Plan.

8. **DISCHARGE, RELEASE AND INJUNCTION LANGUAGE IN THE PLAN.** YOU ARE ADVISED TO CAREFULLY REVIEW AND CONSIDER THE PLAN, INCLUDING THE DISCHARGE, RELEASE, AND INJUNCTION PROVISIONS SET FORTH IN ARTICLE XI OF THE PLAN, AS YOUR RIGHTS MAY BE AFFECTED. THE TEXT OF THE RELEASE, INJUNCTION AND EXCULPATION PROVISIONS OF THE PLAN ARE SET FORTH BELOW.

(a) **Article 11.5 Release by Debtors.** Pursuant to section 1123(b) of the Bankruptcy Code, as of the Effective Date, the Debtors and their Estates, the Reorganized Debtors, and each of their respective current and former Affiliates (with respect to non-Debtors, to the extent permitted by applicable law) shall be deemed to have conclusively, absolutely, unconditionally, irrevocably, and forever released, waived and discharged the Released Parties from any and all Claims, interests, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever (including any derivative Claims asserted on behalf of the Debtors), whether known or unknown, foreseen or unforeseen, existing or arising, in law, equity, or otherwise, that such Entity could have been legally entitled to assert against the Released Parties, arising from, or in any manner relating to, or in any manner arising from, the Original DIP Facility, the Debtors' restructuring, the Disclosure Statement, the Plan Supplement, the Rights Offering, the GUC/Litigation Trust Agreement, or related agreements, instruments, or other documents, upon any other act or omission, transaction, agreement, event, or other occurrence taking place on or before the Effective Date of the Plan, other than Claims and interests arising out of or relating to any act or omission of a Released Party that constitutes fraud, willful misconduct, or gross negligence. Notwithstanding anything to the contrary in the foregoing, the release set forth above (t) does not release the Debtor Professionals to the extent that claims against such parties are identified as GUC/Litigation Trust Causes of Action, with the identification of such claims to be reasonably agreed to by the Debtors (after consulting with the Supporting Second Lien Parties) and the Creditors' Committee; provided, that any disagreement regarding whether a particular claim should be identified as a GUC/Litigation Trust Cause of Action shall be decided by the Bankruptcy Court; (u) does not release any post-Effective Date obligations of any party under the Plan or any document, instrument, or agreement (including those set forth in the Plan Supplement) executed to implement the Plan; (v) does not release, waive, discharge, or otherwise impact the (l) releases given as contemplated in the D&O Settlement Agreement or (vii) the various matters that are carved-out and preserved in the D&O Settlement Agreement, (w) shall not impair any defenses the Debtors may have with regard to any alleged indemnification obligation that the Debtors may have to any party, (x) shall not release any claims by any non-Debtor Affiliate of the Debtors arising in the ordinary course of business (i.e., ordinary course trade claims), (y) shall not release any claims against any non-Debtor Affiliate of the Debtors held by the Debtors that is necessary to effectuate the transactions contemplated by the Plan (including, without limitation, any claims to collect proceeds from Earmouth Assets, Repatriated Cash, Residual Assets, etc.), and (z) is subject to section 1125(e) of the Bankruptcy Code to the extent applicable.

(b) **Article 11.6 Release by Holders of Claims.** As of the Effective Date, pursuant to Article 11.8 of the Plan, the Releasing Parties shall be deemed to have conclusively, absolutely, unconditionally, irrevocably, and forever released, waived and discharged the Debtors, the Reorganized Debtors, their Estates, non-Debtor Affiliates, and the Released Parties from any and all Claims, interests, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative Claims asserted or capable of being asserted on behalf of the Debtors, whether known or unknown, foreseen or unforeseen, existing or arising, in law, equity, or otherwise, that such Entity could have been legally entitled to assert against the Released Parties, arising from, or in any manner relating to, or in any manner arising from, the Original DIP Facility, the Debtors' restructuring, the Disclosure Statement, the Plan Supplement, the Rights Offering, the GUC/Litigation Trust Agreement, or related agreements, instruments, or other documents, upon any other act or omission, transaction, agreement, event, or other occurrence taking place on or before the Effective Date of the Plan, other than Claims and interests arising out of or relating to any act or omission of a Released Party that constitutes fraud, willful misconduct, or gross negligence. Notwithstanding anything to the contrary in the foregoing, the release set forth above does not release (i) any post-Effective Date obligations of any party under the Plan or any document, instrument, or agreement (including those set forth in the Plan Supplement) executed to implement the Plan; (ii) the Plan or any document, instrument, or agreement held by a governmental entity against any non-Debtor Affiliate of the Debtors arising in the ordinary course of business (i.e., ordinary course trade claims).

(c) **Article 11.7 Exculpation and Limitation of Liability.** To the extent permitted by section 1125(e) of the Bankruptcy Code, and subject to Article 11.8 of the Plan, the Exculpated Parties shall neither have,

nor incur any liability to any Entity for any Exculpated Claim; provided, however, that the foregoing "exculpation" shall have no effect on the liability of any Entity that results from any such act or omission that is determined in a Final Order to have constituted gross negligence, willful misconduct, or intentional fraud to the extent imposed by applicable non-bankruptcy law.

The Exculpated Parties have, and upon Confirmation shall be deemed to have, participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code, including with regard to the distributions of the New SUNE Common Stock and Continuing TERP CASH A Shares, as applicable, pursuant to the Plan and therefore, are not and shall not be liable at any time for the violations of any applicable, law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or such distributions made pursuant to the Plan.

Notwithstanding anything to the contrary contained in the Plan, subject to Article 11.8 of the Plan, the YieldCos and their respective former and current partners, agents, officers, directors, employees, representatives, attorneys and

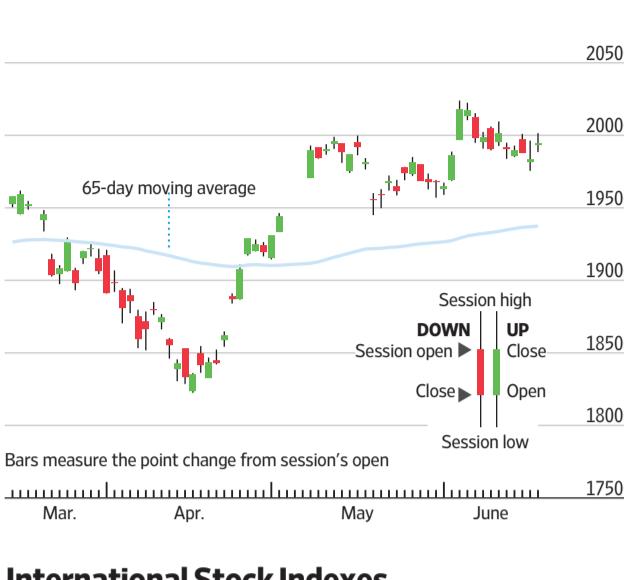
MARKETS DIGEST

Data as of Friday, June 16, 2017

Nikkei 225 Index

19943.26 ▲ 111.44, or 0.56%

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



Bars measure the point change from session's open

Mar. Apr. May June

STOXX 600 Index

388.60 ▲ 2.55, or 0.66%

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



Data as of 4 p.m. New York time

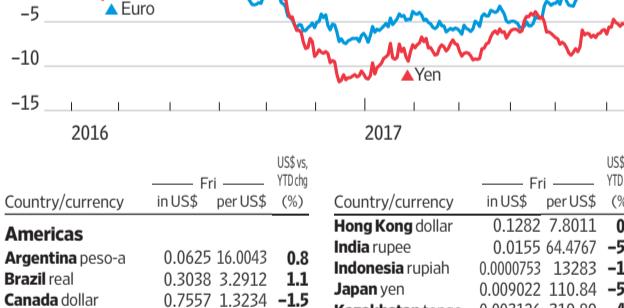
International Stock Indexes

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2765.33	8.74	▲ 0.32	2197.91	● 2790.26	9.2		
	MSCI EAFE	1892.93	15.89	▲ 0.85	1520.94	● 1916.37	12.4		
	MSCI EM USD	1003.12	-0.52	-0.05	794.56	● 1019.06	16.3		
Americas	DJ Americas	583.76	0.26	▲ 0.04	480.83	● 586.14	8.0		
Brazil	Sao Paulo Bovespa	61626.41	-296.52	-0.48	49245.53	● 69052.03	2.3		
Canada	S&P/TSX Comp	15192.54	32.12	▲ 0.21	13689.79	● 15922.37	-0.6		
Mexico	IPC All-Share	49221.03	81.33	▲ 0.17	44282.03	● 49939.47	7.8		
Chile	Santiago IPSA	3674.40	-10.48	-0.28	3067.58	● 3782.66	14.0		
U.S.	DJIA	21384.28	24.38	▲ 0.11	17140.24	● 21384.28	8.2		
	Nasdaq Composite	6151.76	-13.74	-0.22	4594.44	● 6321.76	14.3		
	S&P 500	2433.15	0.69	▲ 0.03	2000.54	● 2440.35	8.7		
	CBOE Volatility	10.38	-0.52	-4.77	9.75	● 25.76	-26.1		
EMEA	Stoxx Europe 600	388.60	2.55	▲ 0.66	308.75	● 396.45	7.5		
	Stoxx Europe 50	3192.89	18.22	▲ 0.57	2636.71	● 3276.11	6.1		
France	CAC 40	5263.31	46.43	▲ 0.89	3984.72	● 5432.40	8.2		
Germany	DAX	12752.73	60.92	▲ 0.48	9268.66	● 12822.94	11.1		
Israel	Tel Aviv	1423.62	...	Closed	1378.66	● 1478.96	-3.2		
Italy	FTSE MIB	20940.73	93.22	▲ 0.45	15103.58	● 21787.90	8.9		
Netherlands	AEX	520.67	1.92	▲ 0.37	411.62	● 536.26	7.8		
Russia	RTS Index	994.38	2.42	▲ 0.24	888.78	● 1195.61	-13.7		
Spain	IBEX 35	10759.40	59.80	▲ 0.56	7645.50	● 11135.40	15.0		
Switzerland	Swiss Market	8963.29	110.28	▲ 1.25	7593.20	● 9127.61	9.0		
South Africa	Johannesburg All Share	50831.89	...	Closed	48935.90	● 54548.91	0.4		
Turkey	BIST 100	98192.55	-544.46	-0.55	71594.98	● 99636.27	25.7		
U.K.	FTSE 100	7463.54	44.18	▲ 0.60	5982.20	● 7547.63	4.5		
Asia-Pacific	DJ Asia-Pacific TSM	1623.59	2.50	▲ 0.15	1324.15	● 1640.63	14.1		
Australia	S&P/ASX 200	5774.00	10.80	▲ 0.19	5103.30	● 5956.50	1.9		
China	Shanghai Composite	3123.17	-9.32	-0.30	2854.29	● 3288.97	0.6		
Hong Kong	Hang Seng	25626.49	61.15	▲ 0.24	20169.98	● 26063.06	16.5		
India	S&P BSE Sensex	31056.40	-19.33	-0.06	25765.14	● 31309.49	16.6		
Indonesia	Jakarta Composite	5723.64	-52.65	-0.91	4834.57	● 5792.90	8.1		
Japan	Nikkei Stock Avg	19943.26	111.44	▲ 0.56	14952.02	● 20177.28	4.3		
Malaysia	Kuala Lumpur Composite	1791.31	1.30	▲ 0.07	1616.64	● 1792.35	9.1		
New Zealand	S&P/NZX 50	7552.75	36.40	▲ 0.48	6664.21	● 7571.11	9.8		
Pakistan	KSE 100	46858.56	-584.17	-1.23	37039.57	● 52876.46	-2.0		
Philippines	PSEI	7882.22	-82.27	-1.03	6563.67	● 8102.30	15.2		
Singapore	Straits Times	3231.44	-0.65	-0.02	2729.85	● 3271.11	12.2		
South Korea	Kospi	2361.83	0.18	▲ 0.01	1925.24	● 2381.69	16.5		
Taiwan	Weighted	10156.73	68.38	▲ 0.68	8458.87	● 10226.84	9.8		
Thailand	SET	1576.58	3.05	▲ 0.19	1406.18	● 1591.00	2.2		

Source: SIX Financial Information/WSJ Market Data Group

Currencies

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



US\$ vs. in US\$ per US\$ (%)

Country/currency	Fri	YTD chg	Country/currency	Fri	YTD chg
	In US\$	per US\$ (%)		In US\$	per US\$ (%)
Americas			Hong Kong dollar	0.1282	7.8011
Argentina peso-a	0.0625	16.0043	India rupee	0.0155	64.4767
Brazil real	0.3038	3.2912	Indonesia rupiah	0.0000753	13283
Canada dollar	0.7557	1.3234	Japan yen	0.009022	110.84
Chile peso	0.001506	663.90	Kazakhstan tenge	0.003126	319.89
Colombia peso	0.000384	2955.51	Macau pataca	0.1244	8.0361
Ecuador US dollar-f	1	1 unch	Malaysia ringgit-c	0.2338	4.2765
Mexico peso-a	0.0558	17.9297	New Zealand dollar	0.7252	1.3789
Peru so'l	0.3054	3.2740	Pakistan rupee	0.0095	104.850
Uruguay peso-e	0.0353	28.310	Philippines peso	0.0201	49.860
Venezuela bolivar	0.100150	9.99	Singapore dollar	0.7230	1.3832
Asia-Pacific			South Korea won	0.0008814	1134.54
Australia dollar	0.7624	1.3116	Sri Lanka rupee	0.0065325	153.08
China yuan	0.1468	6.8104	Taiwan dollar	0.03297	30.329
				0.02945	33.960
				0.02945	33.960

Source: Tullett Prebon, WSJ Market Data Group

London close on June 16

Country/currency	Fri	YTD chg	Country/currency	Fri	YTD chg
	In US\$	per US\$ (%)		In US\$	per US\$ (%)
Europe			Bulgaria leva	0.5720	1.7482
Croatia kuna	0.1512	6.614	Croatia kuna	0.5720	1.7482
EU zone euro	1.1192	0.8935	EU zone euro	1.1192	0.8935
Czech Rep. koruna-b	0.0427	23.406	Czech Rep. koruna-b	0.	

FINANCE & MARKETS

Automated Advisers Move to Specialize

BY ANNE TERGESEN

As the millennial investor comes of age, two youthful trends are converging: socially responsible investing and robo-advisory services.

Over the past year, a small but growing number of firms have introduced automated—or “robo”—investment services that include socially responsible investments. Driving the interest is a desire on the part of individuals to spend and invest in ways that are consistent with their values. Data also show that socially responsible investments can outperform over the long run; since 1990, the MSCI KLD 400 Social Index has returned an average of 8.4% a year, versus 7.6% for the S&P 500 index.

“There is a fair amount of evidence from investor surveys that millennials and women are especially interested in sustainable and impact investing,” says Jon Hale, director of sustainability-investing research at Morningstar Inc. Given that millennials are also the target market for many robo-advisory services, “it seems like a natural combination.”

Investing giant TIAA was the latest to jump in with such an offering, launching earlier this month a robo platform with access to three types of investments: actively managed funds, index funds and socially responsible investments. This summer, robo pioneer Betterment LLC plans to introduce investments “that will better meet the needs of customers seeking a more socially responsible portfolio,” says spokesman Joe Ziemer. And Morgan Stanley said that its robo, planned for this fall, will include socially responsible investment options.

The new services are part of a trend toward specialization among robo advisers, says Sean McDermott, a project manager at consulting firm **Corporate Insight** Inc. “Every major financial-services firm has either launched a robo or has announced plans to do so. The big firms have advantages, including trusted brand names and bigger marketing budgets,” he says. “The startups are trying to carve out a niche to differentiate themselves.”

Other startups are targeting specific segments of the population, including women, Hispanics and Muslims or offering actively managed investments in contrast to the index funds that have been standard fare for robos.

Despite the head start of startups including Betterment and Wealthfront Inc., the robo field is now dominated by traditional financial-services companies. The two biggest players are Vanguard Group, which had \$65 billion in assets in its Personal Advisor Services as of March 31, and Charles Schwab Corp., with \$16 billion in its Intelligent Portfolios service.

New Bond King Not Like Bill Gross

Pimco CIO Ivascyn, who likens himself to a conductor, directs firm back to top

BY JUSTIN BAER

Dan Ivascyn's predecessor at **Pacific Investment Management** Co. was known as the “bond king.” But the firm's current investment chief would rather be called just about anything else.

“There's a tendency to bestow royal terms on asset managers,” he said at a recent conference. “We're much more like conductors of orchestras.”

Mr. Ivascyn's ascension to the top of Pimco epitomizes the new direction taken by the California money manager as it recovers from the most tumultuous period in its history. He succeeded Bill Gross, the Pimco co-founder and bond-market legend who exited in September 2014 after clashes with fellow executives.

Hundreds of billions in client money followed Mr. Gross out of Pimco, which later faced a breach-of-contract lawsuit from

its former star. Pimco settled that suit for \$81 million in March.

Mr. Ivascyn was able to stop the outflows with a team of managers who oversee more than \$1.5 trillion—one of the largest asset pools anywhere in the world. Inflows have outnumbered defections for three straight quarters.

As manager of Pimco's Income Fund, Mr. Ivascyn also attracted enough new money to claim the title of world's largest actively managed bond fund—a perch long occupied by Mr. Gross's Total Return Fund. The Income Fund now manages more than \$79 billion.

“He is the perfect CIO for the Pimco we think of in the future,” Pimco Chief Executive Manny Roman said in an interview. “What we've lost, and I would say it is a good thing, is the autocratic style.”

Pimco's new CIO bears little resemblance to his predecessor. Mr. Gross was known inside Pimco for his outbursts, was a regular fixture on financial TV shows, and occupied an extra-large desk at the center of the firm's trading floor. Mr. Ivascyn, 47 years old, typically lets oth-



DANON CASAREZ FOR THE WALL STREET JOURNAL

ers speak first in meetings, rarely appears on TV, and chose a desk no bigger than others.

In another departure from the Gross era, Mr. Ivascyn relies more heavily on the expertise of individual portfolio managers to find profitable trades. Under Mr. Gross, managers more closely followed directives set by broad investment calls.

The son of a school superintendent and a nurse, Mr. Ivascyn grew up in a three-bedroom, 1,150-square-foot home in Oxford, Mass., a small town halfway between Boston and Springfield.

Mr. Ivascyn got his start in finance after graduating from Occidental College with stints at T. Rowe Price Group Inc., Fidelity Investments and Bear Stearns Cos.' research department. Later, he earned a graduate degree in business from the University of Chicago.

It was the 2008 financial crisis that made him a star within Pimco. He had just taken over a new mutual fund, launched with little fanfare, that sought to meet retail investors' appetite for steady income from bonds. Several other senior Pimco officials turned down the chance to manage the Income Fund because it veered from Mr. Gross's Total Return strategy.

In early 2008, Mr. Ivascyn directed a team of temps to scour the offering documents of scores of bonds linked to souring mortgages.

The research helped Pimco determine which bonds were more or less likely to meet their obligations to investors.

The analysis helped Pimco weather the downturn. And in the years that followed the crisis, it gave Mr. Ivascyn the confidence to invest heavily in bonds that stood to snap back

in value as the economy stabilized. The Income Fund, now co-managed with Alfred Murata, was a prime beneficiary of those trades.

But Mr. Ivascyn wasn't immune to the strain that developed inside Pimco as Mr. Gross's relationships with fellow executives deteriorated.

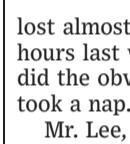
Mr. Gross said in his lawsuit that his Pimco career reached a breaking point when Mr. Ivascyn and other managing directors threatened to resign. He said in the suit that Mr. Ivascyn, who was named as a deputy CIO in 2013, was “foremost” among the individuals who sought to oust him as a way of collecting his share of the bonus pool. Mr. Ivascyn declined to comment about his interactions with Mr. Gross. Pimco officials have disputed Mr. Gross's allegations.

Unnerved by the potential loss of Mr. Ivascyn and other key employees, Pimco parent Allianz SE intended to fire Mr. Gross. Mr. Gross quit on Sept. 26, 2014, and hours later Pimco named Mr. Ivascyn as the firm's next CIO.

—Sarah Krouse contributed to this article

INTELLIGENT INVESTOR | By Jason Zweig

How to Take Crazy Risk Without Going Insane



When the asset that makes up more than two-thirds of his net worth lost almost 25% in a few hours last week, Samuel Lee did the obvious thing: He took a nap.

Mr. Lee, 31 years old, runs **SVRN Asset Management**, a small investment-advisory firm in Chicago. In his own portfolio, but not for any of his clients, he holds more than 1,000 units of ethereum, the cryptocurrency that is one of the most explosively volatile assets in the world right now.

Can a rational investor enter a wild market without losing his mind? A former exchange-traded-fund strategist at Morningstar Inc., the investment-research firm, Mr. Lee is a respected blogger and commentator on financial markets who says he insists on building prudent, long-term portfolios for his clients, without a whiff of speculation.

I would never emulate Mr. Lee's bet, and you shouldn't either. But for people who feel they must speculate—in ethereum or in any other wildly risky asset—Mr. Lee's experience offers a road map of how to go about it.

Almost 70 years ago, the great investing analyst Benjamin Graham set out the biggest dangers in taking a flier on a hot asset: “(1) speculating when you think you are investing; (2) speculating seriously instead of as a pastime, when you lack proper knowledge and skill for it; and (3) risking more money in speculation than you can afford to lose.” Mr.



Graham added: “If you want to try your luck at it, put aside a portion—the smaller the better—of your capital in a separate fund for this purpose.... Never mingle your speculative and investment operations in the same account, nor in any part of your thinking.”

Mr. Lee knows that passage almost by heart, and he fits it almost to a T.

He put only a “low single-digit percentage” of his net worth into ethereum and expects to lose most or all of it. He paid an average of just over \$25 for ethereum tokens that are now valued at more than \$350 apiece and, at their peak earlier last week, brushed \$400. Ask Mr. Lee whether ethereum is a bubble, and he will say yes. Ask him if he knows what it is worth, how long he will own it or exactly what will make him sell it, and he will tell you he doesn't know.

But he also thinks there's

a remote chance that ethereum will go up by a lot more than the roughly 1,500% it has already gained since he bought a year ago. He puts those chances at about 5%.

There are already hundreds of competing cryptocurrencies, forms of digital money that may replace cash for some purposes, enabling confidential payments without cost or delay. Which, if any, will take off is almost impossible to predict.

Launched in 2014 by a Swiss nonprofit, ethereum is based on a global network with a built-in programming language allowing any user to write contracts for ownership and transactions. Units of its common currency, or “ether,” are exchanged over the network.

“If I went by what common sense told me, I would have gotten out a long time ago,” Mr. Lee says. “I had to train myself into thinking, ‘If

Into the Ether

The digital currency ethereum in U.S. dollars



Note: Through Thursday

Source: Bitfinex via Quandl.com

THE WALL STREET JOURNAL

it's insane,” he says, “not when it's become sexy.”

But Mr. Lee isn't ready to sell yet. History shows, he says, that bubbles last longer and inflate further than most people expect, tending not to burst until they get much more popular than ethereum has so far become.

So, Mr. Lee is patiently holding an asset that most speculators trade in and out of at a ferocious pace. “When a speculative asset displays momentum,” he says, “it's better not to cut it too soon.”

Of course, he isn't the first person to take a ride on a rocket and be convinced he will know when to jump off.

As long ago as 1720, during the bubble in stock of the South Sea Co. on the London Stock Exchange, the archbishop of Dublin warned that investors were “well aware” the company wouldn't succeed, “but hope to sell before the price fall[s].” Almost all who had bought, including none other than Sir Isaac Newton, were wiped out.

Putting only a tiny amount of his initial wealth at risk, and regarding the entire venture as an all-but-certain loss, have enabled Mr. Lee to keep greed from clouding his judgment—so far. “I've lost six figures in a matter of hours, several times,” he says. “I never lost sleep over it.”

Mr. Lee hopes he can avoid the “addictive” behavior that prevents most speculators from getting out of a bubble before it's too late. Perhaps the best sign that he can is his uncertainty that he will.

Investing intelligently is hard. Speculating intelligently is way harder.

México EXCEEDS EXPECTATIONS

OUR COUNTRY IS THE 8TH MOST ATTRACTIVE INVESTMENT DESTINATION IN THE WORLD



PwC CEO Survey



gob.mx/investinmexico

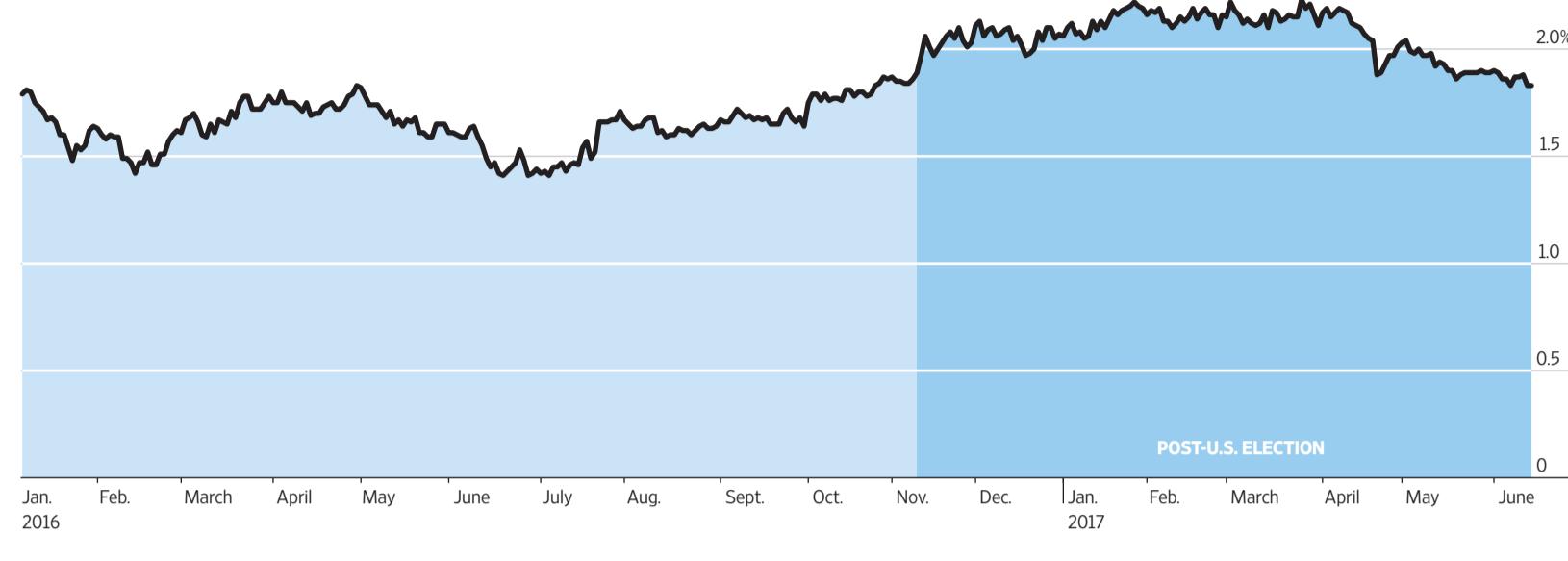
MARKETS

THE DAILY SHOT | By Lev Borodovsky

The Reflation Trade Faces a Reckoning

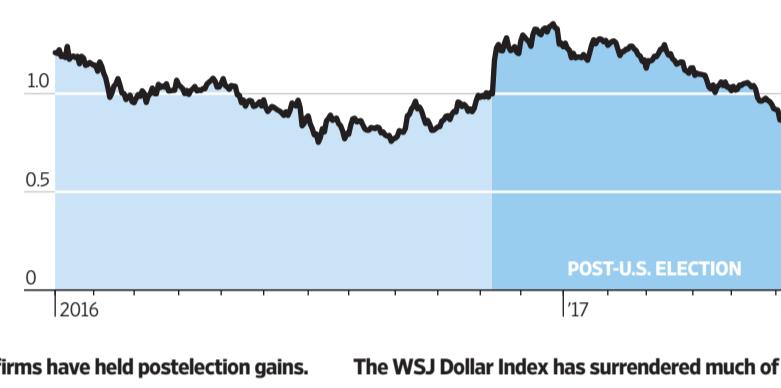
Market inflation expectations are declining again after a brief rebound.

Five-year, five-year forward inflation breakeven rate

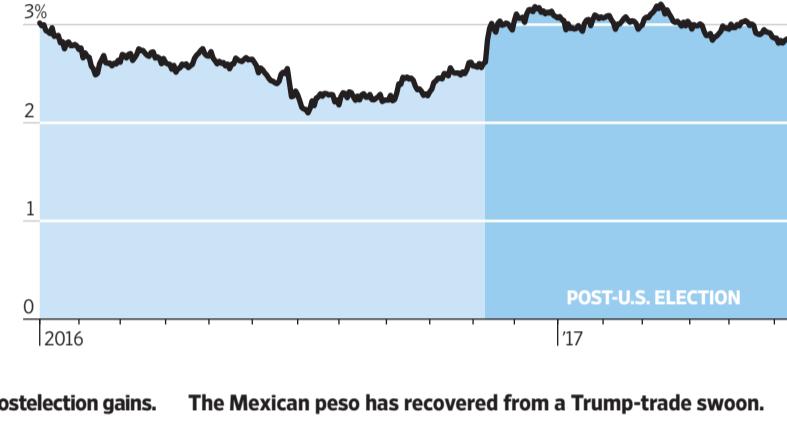


The yield curve has flattened, raising concerns about growth and bank profits.

Yield premium of the 10-year Treasury note over two-year note



Falling yields on the 30-year U.S. Treasury note underscore growth concerns.



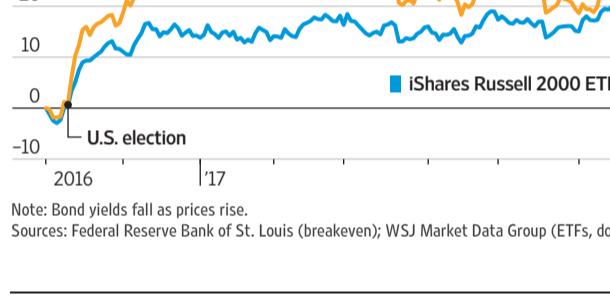
The tumble of U.S. bond yields to 2017 lows this month is the latest sign that investors are losing faith that the Trump administration will succeed this year in implementing policies that will result in a broad increase over time in economic growth and inflation.

For now, falling bond yields are helping to fuel fresh stock-market gains, as falling borrowing costs and a softening dollar loosen financial conditions. But many investors are concerned that falling inflation expectations and a flattening yield curve point to a slowdown ahead in a tepid recovery, reflecting both softening growth projections and weakening bank profits.

Investors haven't given up hope. Banks and small caps, both of which are deemed likely to benefit from tax cuts and looser regulation, have moved up since former FBI Director James Comey's testimony showed no immediate risk to the Trump administration.

But it's clear that times have changed. The retreat of the dollar and the scaling back of antitrade rhetoric have proven a tonic to the Mexican peso, which in the days after the U.S. election might well have been deemed the asset class least likely to succeed.

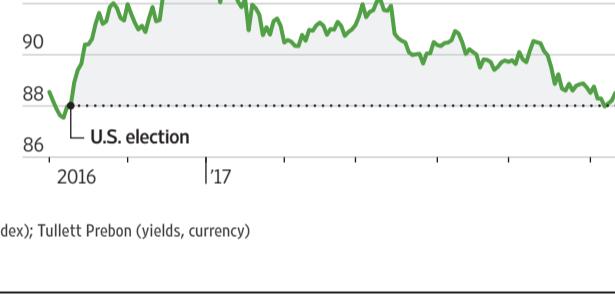
Shares of banks and smaller U.S. firms have held postelection gains.



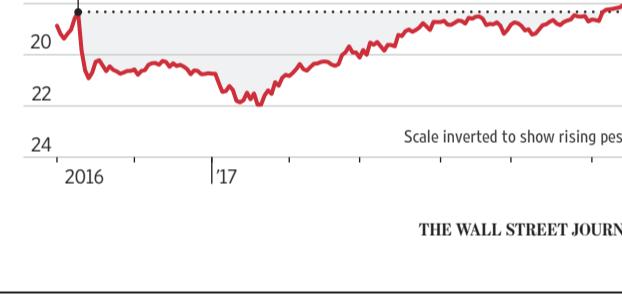
Note: Bond yields fall as prices rise.

Sources: Federal Reserve Bank of St. Louis (breakeven); WSJ Market Data Group (ETFs, dollar index); Tullett Prebon (yields, currency)

The WSJ Dollar Index has surrendered much of its postelection gains.



The Mexican peso has recovered from a Trump-trade swoon.



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BHP's New Chairman: No Easy Job

Mining giant **BHP** has been losing a war of words with activist investor **Elliott Management**, which wants it out of American oil and an end to its underperformance against rival **Rio Tinto**. So bringing in as its new chairman an outsider with a proven ability to make tough calls—and get them right—makes a lot of sense.

Ken MacKenzie's record at Australian packaging company Amcor during his tenure as chief executive is impressive. In 2005, when he took over, its return on assets and equity were 3% and 6%, respectively. When he left 10 years later, return on equity was over 20% and return on assets had doubled.

Part of that success was a no-nonsense approach to management: The new CEO replaced three-fourths of the firm's top 80 managers within two years. A bigger factor was arguably smart divestments and cheap acquisitions: Amcor's purchase of Alcan Packaging for \$2 billion from Rio just after the financial crisis, followed by the demerger of an underperforming Australasian paper business.

Still, pulling off that kind of home run in the mining sector, where valuations have already been bid back up substantially since bottoming in early 2016, could prove challenging. BHP's shale-oil assets would certainly find a buyer. But it's far from certain that this is a good point cyclically to go shopping for more iron, copper or other minerals.

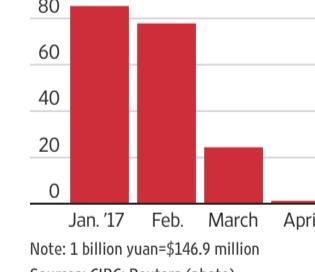
Elliott added a statement of support shortly after the announcement. Making BHP's owners as happy as Amcor's, however, may prove a lot tougher.

—Nathaniel Taplin

Anbang's Tight Ties Could Bind

Cash Drain

Anbang Life's monthly premium income



Anbang Insurance Group headquarters in Beijing

across towns and villages in China. Anbang provides about 40% of the deposits for Chengdu Rural and accounts for 80% of its related-party transactions, most of which are short-term loans. The bank also pays Anbang a high 5% interest on its deposits and holds some of Anbang's debt.

Such relationships illustrate how stress at Anbang could ripple through China's banking system. Banks have become reliant on short-term wholesale funding and have been resorting to capital raises. The loss of a big cash provider like Anbang could cause real pain.

Interbank funding conditions are already tight. China's central bank made its biggest one-day cash injection into the market in nearly six months on Friday.

If the detention of Anbang's chairman leads to the company stepping back more broadly from markets, the saga could have a while to run.

—Anjani Trivedi

OVERHEARD

What about us? Wal-Mart Stores investors might be asking that question.

The big-box retail giant announced the acquisition of men's apparel company Bonobos for \$310 million on Friday morning. The company said the deal, which will beef up Wal-Mart's e-commerce presence, is expected to close as soon as the end of the fiscal second quarter.

Bonobos products will be available via Jet.com, which Wal-Mart said "continues to provide a strong avenue for reaching an urban, millennial customer."

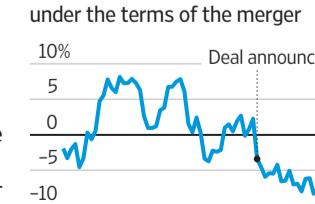
Alas, Wal-Mart and Bonobos were upstaged. Amazon.com announced a multi-billion acquisition of Whole Foods Market at about the same time.

"Wear no doubts" is the Bonobos corporate mantra. But Wal-Mart investors seem to have a few of their own. Shares declined 4.7% on Friday.

Investors Ignore Easy Money in Huntsman-Clariant Deal

Cut-Price Stock

Discount of Huntsman share price versus its value in Clariant stock under the terms of the merger



equivalent of 1.2196 Clariant shares.

Huntsman has fallen further than Clariant. That has left each Huntsman share worth 5.9% less than its value in Clariant stock as of Friday morning in Europe.

That discount has been fairly consistent. The gap has been as wide as 8% at the end of last week and has averaged 6%. If the deal closed tomorrow, owners of Huntsman stock would make a handsome immediate gain, about \$360 million.

There is little antitrust or regulatory risk because there is such little product overlap. There is little noise around potential third-party bidders coming in to disturb the deal by bidding for one of these two.

Typically, a valuation gap like this ought to be traded away by arbitrage investors buying the cheap stock and selling the more expensive one. So what gives?

Of the two, Clariant might

be marginally more likely to attract an outside bidder because rivals have looked before, including **Evonik Industries** of Germany. This is encouraging a few investors to buy Clariant and sell Huntsman, pushing the two prices apart, according to one broker.

But there are problems with this trade: Clariant has a group of family shareholders from a company it bought in 2011 who, like the management, don't want to sell the business. The trade also assumes Huntsman shares would fall if the merger was off.

In fact, Huntsman shares might rally if the deal collapsed. The reason is that the U.S. company is spinning

off and listing its volatile pigments and additives business, Venator, which is expected to bring in about \$2 billion. The proceeds are now due to be shared between Huntsman and Clariant shareholders. If the deal didn't work out, Huntsman investors would get the lot.

So, there seems a chance that Huntsman should rise relative to Clariant or absolutely, whether the deal goes ahead or not. It is a puzzle why there aren't more investors looking to exploit that valuation gap.

With the deal due to close by the end of 2017, more investors should be tempted to pick up this free money in the months ahead.

—Paul J. Davies