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As of 12 p.m. ET DJIA 21149.89 ▲ 0.06% NIKKEI 19984.62 ▲ 0.02%

STOXX 600 389.18 ▼ 0.06% BRENT 48.36 ▼ 3.51%

GOLD 1289.40 ▼ 0.39% EURO 1.1233 ▼ 0.40%

DLR \$109.57 ▲ 0.15%

What's News

Business & Finance

Banco Santander acquired Banco Popular Español in an overnight auction for €1, after the ECB determined the ailing lender was near collapse. **B5**

◆ Lotte Group plans to take orders next week for an IPO of its Malaysian petrochemical unit that could raise up to \$1.4 billion. **B5**

◆ An obscure Chinese manufacturer is the top player in Africa's fast-growing smartphone market, beating out Apple and Samsung. **B1**

◆ Hyundai's top U.S. sales executive resigned, the latest departure in the midst of the auto maker's disappointing sales results. **B3**

◆ Uber fired over 20 workers as a result of an investigation into claims of sexual harassment and sexism, according to an employee. **B4**

◆ Trafigura reported a 22% fall in profit, suffering from a period of lower volatility in oil prices. **B5**

◆ The EU will propose stricter rules to allow airlines to challenge perceived unfair competition from overseas rivals. **B2**

◆ Samsung said it would invest about \$760 million to double its production capacity for mobile phones and refrigerators in India. **B4**

◆ Lansdowne Partners' tiny Princay fund has gained 13% this year, making it one of the sector's top performers this year. **B5**

World-Wide

◆ Sessions offered to resign in recent weeks amid tension with Trump over his decision to recuse himself from the investigation into alleged Russian election meddling. **A6**

◆ Trump is tapping former Assistant Attorney General Wray to serve as the next director of the FBI, the president said in a tweet. **A1**

◆ Suspected Islamic State gunmen struck the Iranian capital, killing 12 people and targeting two symbolic pillars of the regime. **A1**

◆ Security agencies were investigating international links of the London terror attackers, as British authorities raised the death toll to eight. **A3**

◆ The EU announced \$563 million in funding by 2020 for a program to unify its defense market and develop advanced weaponry. **A5**

◆ Germany said its air force contingent engaged in the campaign against Islamic State would leave Turkey. **A3**

◆ Canada signaled it would pursue foreign-policy objectives that contrast with those of the U.S. **A4**

◆ A Brazilian court began a trial to rule on whether to strip the president of his post over alleged illegal campaign financing. **A4**

◆ A group of Russian Catholics is demanding greater recognition from Pope Francis. **A5**

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WORLD NEWS

Turkey Detains Lawyers in Crackdown

Local Amnesty International chief, 22 others picked up in anti-Gulen push

BY NED LEVIN

ISTANBUL—The head of Amnesty International's Turkey branch was detained along with nearly two dozen other lawyers on suspicion of links with a terror organization, in a continuing crackdown in the country.

Taner Kilic, who has chaired the global human-rights organization's Turkey branch since 2014, and 22 other lawyers were picked up on suspicion of using an encrypted telephone chat app that Turkish intelligence says was a primary communication tool for followers of Fethullah Gulen, according to Amnesty International. Turkey blames the U.S.-based cleric for last year's failed military coup attempt, while Mr. Gulen has denied any involvement.

Mr. Kilic was scheduled to be interviewed by counterterrorism police in the coastal city of Izmir, where he was detained on Tuesday, Amnesty said. The lawyer, who has served on Amnesty's board for various periods since 2002, is neither a member nor a supporter of the Gulen movement, and in fact has been a critic of it, said Gauri van Gulik, Amnesty International's deputy



Riot police blocked protesters in Ankara demonstrating in support of two hunger strikers who were taken into custody last month.

ADEM ALTAN/AGENCE FRANCE PRESSE/GTY IMAGES

director for Europe and Central Asia.

"The fact that Turkey's postcoup purge has now dragged the chair of Amnesty International Turkey into its web is further proof of just how far it has gone and just how arbitrary it has become," said Amnesty International's Secretary-General Salil Shetty.

Turkey's Interior Ministry didn't respond to a request to

comment.

The move against the lawyers is part of a larger crackdown in Turkey that started after the violent, but failed, attempt to overthrow the government in July 2016. Since then, Turkey has been under a state of emergency, and roughly 50,000 people have been arrested and 150,000 others purged from their civil-service jobs.

Turkey says the actions are necessary to defend against a terrorist group, which is how the government classifies Mr. Gulen's organization. Amnesty, as well as many other human-rights groups, political opposition parties and foreign governments, has condemned the crackdown as arbitrary and in violation of human rights.

Numerous people detained since last summer are alleged

to have used the encrypted messaging app ByLock. The app was popular among followers of Mr. Gulen, Turkish officials say, and the act of downloading the app has been grounds for detention, arrest as well as prosecution.

Mr. Kilic was able to communicate with colleagues and his lawyer while police searched his office Tuesday. In those conversations, he told them that he

has never had ByLock on his phone and had never heard of the app before it became commonly mentioned in the media in connection with Mr. Gulen's organization, according to Ms. van Gulik. Mr. Kilic also said he didn't know the 22 other lawyers detained Tuesday, Ms. van Gulik said.

In addition to his work with Amnesty International Turkey, Mr. Kilic was a commercial lawyer who has also specialized in refugee law, Ms. van Gulik said.

Mr. Kilic's detention doesn't appear to be connected to Amnesty International's work, the organization said. Its Turkey branch has about 40 full-time employees around the country working in coordination with headquarters in London, in addition to Amnesty International's separate research and advocacy in the country, Ms. van Gulik said.

A report issued by Amnesty International last month on public-sector workers purged by the government after the coup attempt found that "the absence of individualized evidence has facilitated arbitrary dismissals on the grounds of score-settling, political affiliations, or even personal conflicts."

—*Yeliz Candemir*

contributed to this article.

Notice to Readers

Greg Ip's Capital Account column will return next week.

IRAN

Continued from Page One
within an hour killed all three terrorists, the statement said.

In a separate shooting, a garden worker was killed and three security guards were wounded at the shrine complex near the capital, which contains the remains of Iran's 1979 revolutionary leader, state television said.

Security guards at the shrine shot and killed both assailants, according to state television.

Questions remain about how the group was able to plan and carry out a sophisticated double attack on two of Iran's most secure sites. Visitors to the parliament are thoroughly searched and typically not allowed to take personal belongings inside, including even a pen. The attackers who entered the parliament managed to carry in AK-47 rifles, grenades and suicide vests.

All other prominent locations in the country that could be targets of a terrorist attack had been secured, Iran's deputy interior minister for security, Hossein Zolfaghari, said, without specifying what they were.

At least 12 people were

killed and 42 wounded in the assaults, according to the Interior Ministry.

Until Wednesday, Iran had largely shielded itself from terrorist attacks by Sunni extremist groups like Islamic State, relying on tight monitoring by its security forces and frequent arrests of people suspected of plotting terrorist attacks.

"Tens of terrorist groups were foiled [in Iran] over the past three years," Mr. Zolfaghari told state television Wednesday, though he didn't identify the groups.

The latest attacks exposed a raft of new security challenges for Iran. They may dent public confidence in the government of recently re-elected President Hassan Rouhani and his ability to keep Iran free of the scourge of Sunni radicalism.

The attacks also raise questions about Iran's justification for its military involvement in Syria and Iraq—a presence that has cost billions of dollars to sustain. Iran's Supreme Leader Ayatollah Ali Khamenei has said Iran's Revolutionary Guards must battle Islamic State and other Sunni extremists in places like Syria to prevent them from penetrating Iran's borders.

Iran sends thousands of



A boy is evacuated during the parliament-complex attack in the Iranian capital.

the Iranian fighters who were killed in Syria and said "may the martyrs rest in peace."

Some Iran watchers expressed skepticism that Islamic State had carried out attacks inside the highly secure sanctum of Shiite power. Islamic State has claimed attacks opportunistically in the past, according to Mehdi Khalaji, a fellow at the Washington Institute for Near East Policy, and the targets of the attack were unusual for the extremists, who usually strike groups of ordinary people rather than political symbols.

The Pentagon spoke out against the attacks Wednesday, an apparent show of solidarity with the Iranian victims despite longstanding American political differences with Iran. Secretary of Defense Jim Mattis said in late March that Iran appeared to be a major state sponsor of terror and President Trump in May said Iran spread instability and stoked sectarianism throughout the Middle East.

While Islamic State hadn't successfully carried out attacks in Iran before Wednesday, Iranian authorities have announced foiling its plots in the recent past.

—*Nour Alakraa in Berlin and Maria Abi-Habib in Beirut contributed to this article.*

OIL

Continued from Page One
to new markets.

"The glut of crude around the world, coupled with extremely low prices to rent oil tankers, is upending petroleum flows," said Kurt Barrow, vice president at consulting firm IHS Energy.

While U.S. exports make up just 1% of global oil volumes, they are a new factor helping to tame down prices and keep them rangebound between \$45 and \$55 a barrel. Exports represent a relief valve for U.S. drillers, who are ramping up production at a pace to surpass 10 million barrels a day, a record, by next year if not sooner.

The U.S., which shipped more than 110 million barrels to foreign buyers from January to April, according to ITC data, is benefiting in part from a decision by the Organization of the Petroleum Exporting Countries to temporarily reduce output.

A major reason why U.S. exports are rising is that American crude has been selling at a discount of roughly \$2.50 a barrel to the international oil-price benchmark, Brent, for much of this year. That spread makes it profitable to pay to transport U.S. oil to farther flung locales. If U.S. oil's discount to Brent gets bigger, American shipments will ramp up.

Pumped Up

Surging U.S. oil exports are penetrating new markets and meeting increased demand from existing buyers.

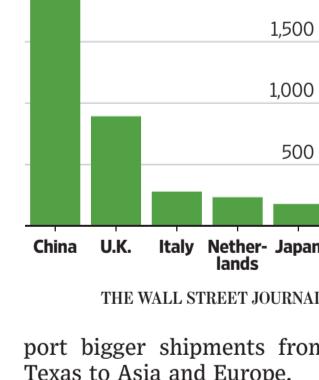
Volume of oil bought by new importers in 2017

| India | 1,468,019 barrels of oil |
|-----------|--------------------------|
| Hong Kong | 732,273 |
| Denmark | 683,095 |
| Australia | 223,000 |
| Georgia | 123,952 |

Note: Imports for January through April

Source: U.S. International Trade Commission

Year-on-year increase in oil imports from the U.S. among selected countries



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If it shrinks, less U.S. oil will flow overseas.

Another big reason for the increase in exports is so-called back-haul economics, said Mason Hamilton, an analyst with the Energy Department. Tankers carrying crude from the Middle East to Texas used to unload and go home empty. Now U.S. oil can be loaded on those tankers and make a pit stop in Europe on their way back.

In late May, Occidental Petroleum Corp. successfully tested docking a supertanker that can hold more than 2 million barrels of crude. The test at its shipping terminal in the Port of Corpus Christi was part of a plan to eventually ex-

port bigger shipments from Texas to Asia and Europe.

The U.S. still ships out nine times more refined petroleum—like gasoline, diesel and propane—than it does raw crude oil. But that could start to change.

"It takes years to establish markets," Mr. Hamilton said. "Refiners are protective of their refineries. They want a consistent quality stream—no mystery crudes—so they are testing it out."

In 2013, 99% of the small trickle of oil that flowed out of the U.S. on special permits went to Canada. Since the lifting of the export ban, American oil has flowed to more than 30 countries, with

some cases, experts be-

lieve, countries are taking U.S. shipments to make a statement to their current suppliers: We have options.

Italy and the Netherlands, where the pipeline-linked Port of Rotterdam serves as a major gateway to Europe, are also emerging as destinations for U.S. crude. Royal Dutch Shell PLC, which operates the largest refinery in Europe in Rotterdam, is among the companies that have shipped U.S. crude to the Continent.

American crude's place in Europe remains relatively small, at just shy of 25 million barrels in the first four months of the year. But the

"We believe that more U.S. oil production will be needed to meet future global demand and offset production declines in China and Mexico during 2017 and 2018," said Rob Thummel, managing director for Tortoise Advisors, an energy investment adviser with \$16.8 billion under management.

Since the start of this year, more oil routes have been forged between the U.S. and India, Hong Kong, Australia and Denmark. Even Georgia, sandwiched between big oil producers Russia and Azerbaijan on the Black Sea, took a shipment of U.S. crude in March.

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White House adviser Reed Cordish's last name was misspelled as Cornish in a U.S. News article Wednesday about President Donald Trump's plans for the nation's infrastructure.

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

exports are a challenge to Russia, which toppled the U.K. and Norway as the top oil exporter into the Netherlands 12 years ago.

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WORLD NEWS

London Probe Turns to Terrorists' Links

Attackers' possible foreign ties under scrutiny; death toll raised to eight

U.K. and other Western security agencies were seeking to nail down international connections of the attackers in London's weekend rampage, as British authorities on Wednesday raised the death toll to eight after recovering a body from the Thames.

By Benoit Faucon and Laurence Fletcher in London and Giovanni Legorano in Rome

Authorities had been warned about at least two of the attackers but weren't actively monitoring them before the attack, exposing the difficulty national security services have keeping tabs on extremists and communicating with their foreign counterparts.

Security agencies are probing possible links to Islamist networks of Moroccan origin, a Western security official said Tuesday, focusing on the movements and connections of two of the attackers: Youssef Zaghba—a 22-year-old dual Italian-Moroccan citizen police identified on Tuesday—and Rachid Redouane, a 30-year-old Libyan-Moroccan with an Irish identity card.

They are also investigating a mostly South Asian group in London that has been a fertile



Debris from Saturday's attack in London's bar-and-restaurant area of Borough Market remained in the streets on Wednesday.

from boarding a flight from Bologna to Istanbul in March 2016 after Islamic State propaganda was found on his phone, and that they had shared their concerns about him with the British. British officials declined to comment on whether they had received such information.

Zaghba told the authorities who stopped him that he "wanted to be a terrorist" but then immediately distanced himself from the statement, Bologna Prosecutor Giuseppe Amato told Italian radio station Radio 24.

"We used to worry about the returnees," the Western official said. "Now we don't know what to do about those who could not go to Syria."

Authorities are investigating possible connections between Zaghba and radical networks in Morocco and its diaspora in Europe, the Western security official said. Security officials also want to know whether Redouane linked up with Islamic State networks in Ireland, where he lived from 2012 until at least 2014, or during a 2014 trip to Morocco.

In London, authorities are investigating connections between Butt—who neighbors said had appeared in a TV documentary called "The Jihadis Next Door" that aired last year—and a London Islamist network that has groomed jihadists for decades, including Islamic State recruits.

—Matthew Dalton, Michael Amon and Jon Sindreu contributed to this article

recruiting ground for Islamic State in Syria, the official said. The third attacker, 27-year-old Khuram Butt, was a Pakistan-born British citizen known to U.K. authorities, but police have said no intelligence suggested an attack was being planned.

"People are going to look at our front pages today and they're going to say, 'How on earth could we have let this guy or possibly more through the net?'" Foreign Secretary Boris Johnson told Sky News, adding security services would

have to answer to how Butt and the others were able to stage the attack.

After the body was found in the river Tuesday evening, police on Wednesday said they had informed the next of kin of Xavier Thomas, a 45-year-old French national who disappeared after the attack.

French President Emmanuel Macron said three French nationals died as a result of Saturday's rampage, in which the three residents of east London mowed down pedestrians in a van on London Bridge and

slashed their way through the popular Borough Market pub-and-restaurant area before being shot and killed by police.

Another person killed in the attack was identified Tuesday as 28-year-old Australian nurse Kirsty Boden, whose family said she was killed as she ran toward the attack in an effort to help people on the bridge. Sara Zelenak, a 21-year-old Australian living and working in London, was also killed, police said Wednesday.

Family members further confirmed the death of Ignacio

Echeverría, a 39-year-old Spanish national hailed as a hero for trying to fight off the attackers with his skateboard.

"My brother Ignacio tried to stop some terrorists and lost his life trying to save others," said his sister, Isabel Echeverría, in a Facebook post. "Ignacio, we love you and we'll never forget you."

In identifying the third attacker as Zaghba on Tuesday, U.K. police said he hadn't previously been a "subject of interest." But Italian officials said the man had been prevented

U.K. Vote: Testing Times for Pollsters



MARIO DJURIC/REUTERS

Prime Minister Theresa May, right, and Labour's Jeremy Corbyn.

Britons go to the polls on Thursday to cast their vote in an uncertain election, with pollsters agreeing only on one thing: that the commanding lead enjoyed by the Conservative Party of Prime Minister Theresa May has shrunk dramatically during the six-week campaign.

By Jason Douglas in London and Jo Craven McGinty in New York

Just as this election has tested Mrs. May's leadership, so it is testing Britain's polling firms. Opinion polls published by a dozen or so firms in the final days before voting have shown a wide variation in the size of the Conservative lead, from 1 or 2 percentage points over the main opposition Labour Party to an 11-point gap.

Quirks of Britain's parliamentary system mean that such discrepancies present an unusual range of possible outcomes at Thursday's election. Mrs. May could return with the big majority in Parliament she says will strengthen her hand in coming Brexit talks with Brussels. She could limp back into government much diminished. Or the Conservatives

could lose enough seats to give other parties the chance to club together and govern instead.

The reason for the variation in the polls: Faulty predictions ahead of the previous election in 2015 prodded the polling industry in the U.K. to overhaul the arcane methods they employ to divine public opinion. A similar postmortem happened in the U.S. after nationwide polls pointed to victory for Hillary Clinton in 2016's presidential election.

In the U.K., it is these adjustments that are generating the mixed signals clouding the election result, pollsters say.

"This is an experimental

election in many ways for pollsters," said Jon Cohen, chief research officer for SurveyMonkey, which conducts online polls in the U.S. and U.K.

Mrs. May called a snap election April 18 at a time when opinion polls gave her center-right Conservatives an advantage of around 20 percentage points on average over the main opposition Labour Party, led by veteran left-winger Jeremy Corbyn.

Her lead has narrowed sharply since the race began, with the average Conservative lead shrinking to around 8 points on Tuesday, according to a Wall Street Journal analysis.

Pollsters say the slip reflects a lackluster Conservative campaign and a better-than-expected reception for Labour, which has been more successful than the government at picking up wavering voters. Terror attacks in Manchester and London shocked the country and colored the parties' campaigns. No poll has yet given Labour an outright lead.

That polling average conceals a wide variation among different pollsters' estimates of Mrs. May's advantage. Even small differences in party vote shares in the U.K. can have hard-to-predict effects when it comes to forming a new Parliament, thanks to an electoral system that tends to reward big parties at the expense of smaller ones and those with concentrated geographical support at the expense of those with more diffuse backing.

To fix the problem, firms broadly have taken two approaches. Some made an extra effort to make their panels more representative of the wider population, while others have worked harder to weight their findings to reflect voting patterns among different groups of people.

Germany Weighs In Against Qatar Isolation

Germany's foreign minister criticized Saudi Arabia and other Arab countries for isolating Qatar, weighing in on a dispute that is beginning to drive a wedge between the U.S. and some of its closest allies.

By Andrea Thomas in Berlin and Margherita Stancati in Doha

Saudi Arabia and countries including the United Arab Emirates, Bahrain and Egypt on Monday abruptly severed diplomatic ties with Qatar, citing its alleged support for religious extremism and its ties to Islamist groups like Egypt's Muslim Brotherhood and Hamas, which rules the Gaza strip.

"We made clear that we in Germany and in Europe have a great interest for the situation in the Gulf region not to escalate," German Foreign Minister Sigmar Gabriel said Wednesday.

"It's clear that we can only win the fight against Islamic State when we stand side by side in the anti-IS coalition."

The rupture pits neighboring countries allied with the West against each other, complicating efforts to combat Islamic State in Syria and Iraq. Qatar is home to America's largest military base in the Middle East, from where U.S. forces oversee the international air bombing campaign against the extremist group.

Germany's position on the dispute is at odds with that of U.S. President Donald Trump. In a series of messages on Twitter on Tuesday, Mr. Trump sided with Saudi Arabia, the U.A.E. and others and appeared to take credit for the move, which he said was aimed at countering extremist ideology and terror financing.

Like Germany, Turkey—another ally of both the U.S. and Qatar—has criticized the hard-line stance against Qatar.

"We disapprove of the sanctions against Qatar," Turkey's President Recep Tayyip Erdogan said Tuesday.

Berlin to Move Air Base Out of Turkey

BY ZEKE TURNER

BERLIN—Germany said its air force contingent engaged in the campaign against Islamic State would leave Turkey after Ankara refused to allow German lawmakers access to the troops in an escalation of tension between the North Atlantic Treaty Organization allies.

Defense Minister Ursula von der Leyen said Wednesday that Chancellor Angela Merkel's cabinet approved her proposal to relocate the more than 250 troops to an air base in Jordan from Incirlik Air Base in southern Turkey, a launchpad used since last year by German forces to fly reconnaissance and refueling missions in support of the U.S.-led coalition fighting Islamic State in Syria and Iraq.

"We have a parliament-led army and it goes without saying lawmakers need to visit the servicemen and women," Ms. von der Leyen said in an interview with German radio.

While the move means Germany will stop flying reconnaissance and refueling missions during the relocation, defense experts said they think the country's modest contribution to the anti-Islamic State coalition means the dispute is unlikely to undermine the campaign. But it



A German jet lands at Incirlik Air Base, from where Berlin has contributed to the fight against ISIS.

marks an admission of failure by Berlin, which has gone out of its way to appease Ankara in talks between Ms. Merkel and Turkish President Recep Tayyip Erdogan in Brussels last month and between the president and German Foreign Minister Sigmar Gabriel in Turkey this week.

Despite mounting domestic pressure to toughen her line against a regime seen here as autocratic, Ms. Merkel has been reluctant to damage ties with Ankara, which is working with the EU on keeping a flow of refugees from the Middle East to Europe in check.

A succession of diplomatic spats centered on Mr. Erd-

ogan's crackdown on domestic opponents have sent the relationship to a historic low.

After Turkey's decision to block German lawmakers from visiting German troops in Incirlik in recent weeks, Ms. Merkel yielded to demands from parliament that the troops be withdrawn.

Germany will have to transfer Tornado jets, a refueling aircraft, and thousands of tons of equipment from Incirlik to Jordan's Muwaffaq Salti Air Base, according to Ms. von der Leyen. She said coalition partners would be asked to help cover Germany's operational responsibilities during the move. The relocation is expected to take

up to three months.

Turkey's ban on visits to Incirlik began last summer after German lawmakers voted to label Ottoman Turks' killing of more than a million Armenians about 100 years ago as genocide. In September, Turkey briefly lifted the ban, but the tension flared up again this year.

This spring Mr. Erdogan's constitutional referendum spilled over onto German soil, host to the largest Turkish diaspora in the world, with Germany trying to block Turkish politicians from campaigning here and Turkey comparing modern Germany's government to the Nazi regime.



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WORLD NEWS

Australians Spend Less as Loans Rise

By JAMES GLYNN

SYDNEY—Data analyst Ben Reid recently took out a 25-year loan on a home outside Sydney despite a frothy housing market in Australia, believing in the market's staying power. Payments on the \$500,000 mortgage will consume about half his take-home pay.

"I'd like a new car in the next couple of years but not sure where that cash will come from," said Mr. Reid, who is married with a 2-year-old son.

Big personal debts and spending worries like Mr. Reid's are a gathering storm over Australia's economy, threatening a 25-year streak without recession. Growth rose anemic 0.3% in the first quarter, Australia's statistics bureau said on Wednesday, putting annual growth on track to be the weakest since September 2009.

Consumer spending has helped to cushion a deep downturn in mining investment when commodity prices slumped a few years ago. Consumption accounts for more than half of Australian GDP growth, of which nearly a third is retail sales.

But much of that spending is from borrowed money rather than from savings or higher wages. Australia's savings rate fell to 4.7% in the first quarter, a 10-year low.

As a result, Australian household debt has risen to a record 212% of income, ac-

cording to the latest available data from the Organization for Economic Cooperation and Development. That is the fourth-highest globally after Norway, the Netherlands, and Denmark, and higher than the U.S. peak of 143% just before the 2007 global financial crisis.

Now, as consumers bump up against the limits of their credit, that debt is biting into their spending, economists say.

Retail sales in Australia have fallen or been flat for three of the past five months, the worst conditions in years. Wage growth is the lowest on record, according to government data going back nearly two decades.

"Australia is decoupling further from the global recovery, with the consumer facing a cash flow and credit crunch," Morgan Stanley analysts said this week.

Signs of stress are growing on Main Street. A spate of retail bankruptcies since January has included shirt-sellers, shoe shops and fashion clothing chains.

Among them was the Australian franchisee of U.K. retailer Topshop, which set up shop here only six years ago.

The chain had nine stores, an online shop and space in 17 department-stores making around 90 million Australian dollars (\$US67 million) in annual revenue when insolvency specialists took charge on May 24.

Gerard Towell, who manages a vendor of musical instruments south of Sydney,

Guitar World, said his business has stopped expanding and hiring as sales slow. "I wouldn't be surprised if the economy slides into a recession," Mr. Towell said.

At a policy meeting on Tuesday, Australia's central bank said it was concerned that poor wage growth is crimping consumer spending and said that scenario is likely to persist.

A downturn in consumer spending risks undermining the government's budget projections released just weeks ago. After a decade of budget deficits, the government projects a surplus in the coming years with aid from rising wages. Many economists thought that outlook was overly optimistic.

Failure to meet the surplus targets could lead to Australia losing its AAA sovereign credit rating, which would drive up borrowing costs for federal and state governments, and the country's big banks.

To be sure, recent softness in consumer spending may reflect temporary factors, such as a cyclone that left a trail of destruction in eastern Australia in March.

But many economists aren't convinced that weak GDP growth will be short-lived, saying record-low wages growth and the rising debt burden are the source of the spending slowdown.

"The retail sector is verging on recession," said Josh Williamson, senior economist at Citigroup.

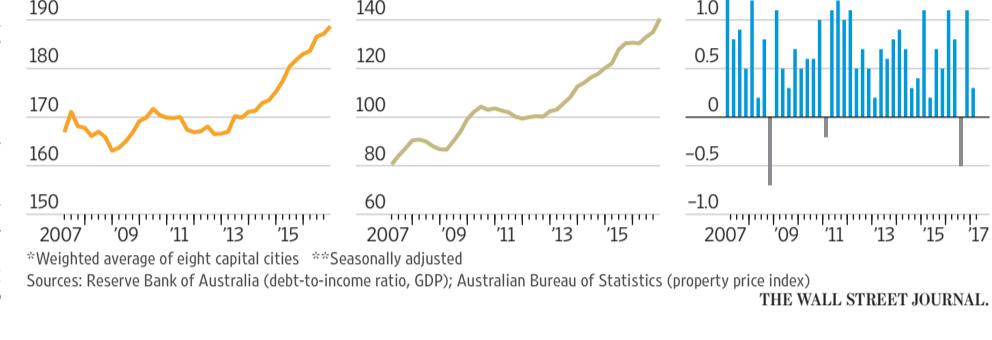
The real-estate sector is a



Australian household debt has surged. Above, a financial advertisement at a Sydney bus shelter

Debt Distress

Australians who have loaded up on debt are starting to curb spending, posing a new risk to the economy's 25-year streak without a recession.



*Weighted average of eight capital cities **Seasonally adjusted

Sources: Reserve Bank of Australia (debt-to-income ratio, GDP); Australian Bureau of Statistics (property price index)

THE WALL STREET JOURNAL.

top concern.

Low interest rates led many households to bet on property, often taking bank loans that required no down payment on a house. House prices in Sydney and Melbourne, the nation's two biggest cities, rose 11.1% and 11.5% in the year

through May 31, according to an analysis by data company CoreLogic.

Now, as the U.S. leads the world in shifting to a cycle of rate increases, ratings firms and economists worry those bets could sour in Australia.

"You're second guessing

whether you've spent too much over the weekend and weekly grocery shop," said Mr. Reid, the data analyst. "As much as we're aren't crippled at the moment, the uncertainty of what could happen always makes you double think."

Canada Breaks With U.S. Policy

By PAUL VIEIRA

OTTAWA—Canada signaled it would pursue foreign-policy objectives that are in contrast to the growing isolationism of the U.S., marking a shift away from its historic alignment with its neighbor and most important trading partner.

In a speech to the legislature on Tuesday, Foreign Minister Chrystia Freeland took the unusual step of expressing Canadian government discontent with the U.S., citing concerns about America's growing protectionism, its withdrawal from the Paris climate-change agreement and the desire by its voters to "shrub off the burden of leadership" globally.

Canada plans to strengthen its military presence in the most dangerous parts of the world, Ms. Freeland said, and on Wednesday Canadian Defense Minister Harjit Sajjan released plans that would see the Liberal government ramp up spending on defense by more than 70% over a 10-year period.

A boost in military spending and greater engagement would mark a departure for the Liberal government of Prime Minister Justin Trudeau, who was elected on a campaign promise to end Canada's direct combat role in the fight against Islamic State.

"To rely solely on the U.S. security umbrella would make us a client state," she said. "Such a dependence would not be in Canada's interest....The fact that our friend and ally has come to question the very worth of its mantle of global



Prime Minister Justin Trudeau embraced Foreign Affairs Minister Chrystia Freeland after her speech about a shift in foreign policy.

leadership puts into sharper focus the need for the rest of us to set our own clear and sovereign course," Ms. Freeland said.

While Ms. Freeland didn't name U.S. President Donald Trump, she left little doubt that she was talking about U.S. leadership as she described the distance between the Canadian government and Trump administration policies on global trade, climate change, the commitment to the North Atlantic Treaty Organization and the pursuit of women's rights, including access to safe abortion.

The remarks are the latest in a string of warnings from world leaders about the risks of U.S. isolationism. German Chancellor Angela Merkel said Europe can no longer rely on other countries, underscoring her concern with U.S. policy

such as Mr. Trump's refusal to publicly back a core tenet of NATO, that an attack on one member is an attack on all.

Ms. Freeland said the principle, known as Article 5, is "at the heart" of Canada's security policy.

Ms. Freeland highlighted Canada's differences with the U.S. even as she faces renegotiating the North American Free Trade Agreement, in talks scheduled to start in August. Mr. Trump was elected in part on a vow to revamp the trade pact among the U.S., Canada and Mexico, which he has called a "disaster" and blamed for U.S. manufacturing job losses.

That criticism is misplaced, Ms. Freeland said. "It is wrong to view the woes of our middle class as the result of fiendish behavior by foreigners," she said. "The real culprit is do-

mestic policy that fails to appreciate that continued growth, and political stability, depend on domestic measures that share the wealth."

The big surprise in the speech, observers say, was Ms. Freeland's "strident endorsement" of a stronger Canadian military, said Colin Robertson, a former Canadian diplomat and now vice president at the Canadian Global Affairs Institute, in Ottawa. "She gave every indication the government will make a robust investment in our security and defense," he said.

Such an investment would move Canada closer to, although still below, the NATO target that member countries should spend 2% of gross domestic product on defense.

Last week, Mr. Trudeau joined Ms. Merkel and French President Emmanuel Macron in publicly rebuking Mr. Trump for his decision last week to withdraw from the Paris climate-change accord.

Meanwhile, Mr. Trudeau and Ms. Merkel spoke by phone on Tuesday, at which time both Group of Seven leaders reiterated their commitment to multilateralism and the fight against climate change, according to a summary of the conversation released by Canadian officials.

They agreed to "continue working closely with like-minded partners to implement the historic Paris agreement on climate change," the Canadian readout said.

—Jacquie McNish contributed to this article.

China Criticizes U.S. Defense Study

By JOSH CHIN

Ms. Hua called the mention of Pakistan as a potential site for a Chinese base speculation. She didn't comment further beyond noting that China and Pakistan "have been long conducting mutually beneficial cooperation in different fields."

The Pentagon report also for the first time examined China's "maritime militia," a growing civilian fleet staffed by military-trained fishermen that Beijing uses for "low-intensity coercion" in defending its vast maritime claims in nearby seas.

While the militias used to rent boats from companies or fishermen, China now appears to be building a state-owned fleet to patrol the South China Sea, the report says.

"The maritime militia is literally on the front lines of advancing China's sovereignty claims in the South China Sea," said Andrew Erickson, an expert in Chinese maritime strategy at the U.S. Naval War College.

Mr. Erickson said there were several incidents in the past decade in which militia boats conducted surveillance and carried supplies during conflicts with China's neighbors over disputed islands.

Its inclusion in the report was important, he said.

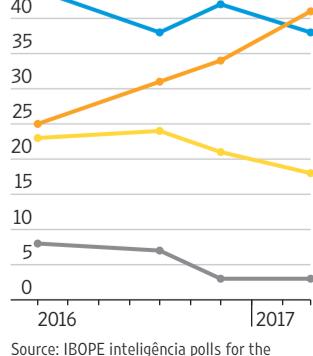
"By 'calling it out' in public, the U.S. government can reduce the force's room for maneuver," he said.

"China is determined to defend the country's sovereignty and security" in the East and South China Seas, Mr. Wu said, blaming reconnaissance activities by U.S. warships for increasing tension in the region.

—Pei Li contributed to this article.

Popularity Contest

How Brazilians view President Michel Temer compared to former President Dilma Rousseff



Brazil Court Weighs President's Fate

By SAMANTHA PEARSON AND PAULO TREVISANI

BRASILIA—President Michel Temer faces his biggest test yet as Brazil's top electoral court began a landmark trial to rule on whether to strip him of the presidency over alleged illegal campaign financing.

The closely watched case, scheduled to last until at least Thursday, is set to decide the unpopular leader's fate and affect his plans to overhaul Latin America's biggest economy.

Three years into Brazil's massive "Car Wash" corruption investigation, the Superior Electoral Tribunal, or TSE, is believed by analysts to have ample evidence that the 2014 presidential ticket benefited from illicit funding. Herman Benjamin, the justice overseeing the trial, on Tuesday

dismissed last-minute requests to throw out the case. Mr. Temer and Dilma Rousseff, who won the 2014 election with Mr. Temer as her vice-presidential running mate, are under investigation by the TSE for allegedly using proceeds from the corruption scheme at oil company Petrobras to fund their campaign. Mr. Temer and Ms. Rousseff deny wrongdoing. Petrobras has said it was a victim of the scheme.

Until now, the court has moved slowly on the allegations, in part because of legal wrangling over evidence. Legal experts also say the conservative court was reluctant to topple the business-friendly president and plunge Brazil into a new crisis just as the country emerges from its worst recession on record.

But testimony released by

Brazil's Supreme Court in May in which executives of meatpacking giant JBS SA said they paid bribes to Mr. Temer as part of the vast corruption scandal has paralyzed his government and put pressure on the TSE to act. Mr. Temer denies he accepted bribes.

"Until two weeks ago, the TSE was headed to [spare Mr. Temer] due to strictly political reasons," said Christopher Garman at political risk consultancy Eurasia Group.

"There was clear consensus in Brasilia that stripping Temer of his mandate could generate a new political, economic and institutional crisis that political and economic elites desperately wanted to avoid," he said.

"The million-dollar question now is whether the scandal that rocked Brasilia [in May] has inverted that logic."



A Chinese army trainer encouraged soldiers during parachute training.

EPA/PRESSTO/AGENCE

WORLD NEWS

ECB Skeptic Throttles Back on Criticism

As vote for presidency of bank approaches, Germany's Weidmann sounds like candidate

By TOM FAIRLESS

F R A N K F U R T — J e n s Weidmann, the German central-bank chief who made his name by loudly attacking the European Central Bank's crisis-fighting efforts, has become a quiet defender of the ECB against its German critics.

The shift has been subtle. Mr. Weidmann still criticizes the bank's radical stimulus measures. But his tone has softened as evidence accumulates that the ECB's policies are working—and as the race to become the institution's next president approaches.

"There is currently no doubt that an expansionary monetary policy stance is appropriate," Mr. Weidmann said in a speech late last month, while suggesting he might not agree with his colleagues on the details.

Only five years ago, he was boasting of clashes with fellow policy makers, and comparing easy-money policies to drugs and alcohol.

As ECB officials gather Wednesday and Thursday in Estonia, what was once a bit-

ter argument over the bank's far-reaching monetary stimulus is expected instead to be a pragmatic discussion about whether to start reducing it.

Mr. Weidmann declined to be interviewed for this article.

ECB President Mario Draghi's term ends in 2019. The jockeying to succeed him is likely to begin sometime after Germany's national elections in September. The presidency is determined by a vote of eurozone leaders.

Mr. Weidmann has been carefully non-committal. "I make a point of never taking part in speculation on such issues," he said in an interview last month, responding to whether he might be the next ECB chief.

But German Chancellor Angela Merkel and her finance minister, Wolfgang Schaeuble, are reportedly prepared to push for him, on the basis that no German has led the ECB, which is based in Frankfurt, in its near 20-year history.

Mr. Weidmann has been careful not to alienate his German constituency. While he has cooled his fiery rhetoric, he continues to criticize policies viewed with deep distrust in Germany, such as government-bond purchases.

Despite his unpopularity in some European capitals, Mr. Weidmann would have a



Jens Weidmann, head of Germany's central bank, has exhibited a newfound amity with the ECB.

strong claim for the top job. Germany is the region's anchor economy, and the ECB was modeled on the Bundesbank. Mr. Weidmann's predecessor, Axel Weber, was widely seen as the front runner before he pulled out of the race, a decision that infuriated Ms. Merkel.

With a rapprochement between the ECB and its most important shareholder, the Bundesbank, the bank could

stand a better chance of winning acceptance in Germany for some of its policies. And, as the ECB navigates an exit from its stimulus, it would stand a better chance of avoiding a public fight that could confuse investors and rattle financial markets.

Mr. Weidmann's colleagues on the ECB's governing council are relieved about his new approach. Many had grown exasperated, complaining, usually

in private, that Mr. Weidmann rejected anticyclic measures while proposing no alternatives.

Still, the Bundesbank chief's newfound amity with the ECB is raising some concerns back home. Much of Germany's political and economic establishment thinks the ECB's ultra-low interest rates punish German savers while taking the pressure off sluggish European economies such as

France and Italy to reform.

"I fear that Mr. Weidmann has softened his opposition," said Jörg Krämer, chief economist at Commerzbank in Frankfurt.

Nor is it clear that a mere shift in tone will be enough to win around Mr. Weidmann's critics in southern Europe.

When ECB President Draghi repeatedly complained in public about colleagues saying "Nein zu Allem"—German for "No to everything"—it was clear whom he meant. The Italian hasn't made that jibe recently, though.

"Many in southern Europe certainly have strong reservations against Jens Weidmann, that's for sure," says Guntram Wolff, head of Brussels-based think tank Bruegel.

Mr. Weidmann is 49 years old and is a former International Monetary Fund official.

The last time the ECB presidency was open, Ms. Merkel pushed for Mr. Weber. But Mr. Weber's rift with other ECB members over the question of buying government bonds led to his resignation, and to Mr. Draghi becoming president in 2011.

With his newly restrained tone, Mr. Weidmann appears to have learned from his predecessor's mistakes, which diminished German influence at the ECB.

Russian Catholics Appeal to Pope

By FRANCIS X. ROCCA

ROME—A group of Russian Catholics is demanding greater recognition from Pope Francis, saying the Vatican's appeasement of Moscow threatens its very existence.

Leaders of the Russian Byzantine Catholic Church, with fewer than 30,000 members world-wide, are meeting in Italy this week in their first such synod in a century.

On the agenda is a long-standing request for their own bishop and resources for training their own clergy.

Church leaders say the pope has ignored their appeals as he pursues closer ties with the Russian Orthodox Church, which is dominant in the country.

"The survival of the Russian Catholic Church is what's at stake," said the Rev. Lawrence Cross, a Russian Catholic priest based near Melbourne, Australia. "One of the essential things we need for our survival, like any church or any family, is a father."

Archbishop Cyril Vasil', secretary of the Vatican's Congregation for the Oriental Churches, said his office was aware of the Russian Catholics' meeting but declined to comment.

The complaints of the Russian Byzantine Catholic Church echo those of other groups who feel Pope Francis is willing to sacrifice their well-being for the sake of other priorities.

Catholics in Ukraine accuse the pope of playing down Russian aggression toward their country in order to placate the Russian Orthodox Church, which has criticized Ukrainian Catholics' opposition to Russia-backed separatists.



Pope Francis with Russian Orthodox Patriarch Kirill in February

1.3 billion Catholics belong to the Latin—or Western—Church.

A fraction, meanwhile, belongs to about two dozen Eastern Catholic Churches, which regard the pope as their ultimate authority but have their own rituals, laws and traditions.

The Russian Byzantine Catholic Church is one of the smallest of these churches.

It celebrates a liturgy identical to that of the Russian Orthodox and seeks to serve as a bridge across the thousand-year gap between Catholicism and Orthodoxy.

Yet its relationship with both sides is troubled. Russian Catholics suffered and died alongside Orthodox Christians under the Soviet regime.

Yet the Orthodox Patriarchate of Moscow regards the Russian Byzantine Catholic Church, like other Eastern Catholic churches, as a vehicle for luring members of its flock to Rome.

The overwhelming majority of the roughly 919,000 Catholics in the Russian Federation today are Latin Catholics, mostly ethnic Germans and Poles, Father Roberson said.

The tiny numbers of Russian Byzantine Catholics inside Russia operate under the wing of a Latin rite bishop in Siberia.

Most Russian Byzantine Catholics today live outside the Russian Federation, with communities throughout the West.

St. Michael's Chapel in lower Manhattan, founded in 1936, attracted a small but dedicated congregation that at one time included Dorothy Day, founder of the Catholic Worker movement, and the poet-monk Thomas Merton.

EU Adds Funding For Defense Plans

By LAURENCE NORMAN
AND JULIAN E. BARNES

BRUSSELS—Fresh on the heels of President Donald Trump's call for allies to increase military spending, the European Union announced €500 million (\$563 million) in funding by 2020 for a new program to unify its fractured defense market and jointly develop advanced weapons systems.

European officials hope Wednesday's initiative, in the works long before Mr. Trump's exhortation, will benefit from his push for European governments to spend more on defense. It may also help to blunt criticism from Washington.

The history of attempts to unify Europe's defense industry and military-acquisition programs is littered with expensive failures. Defense analysts say national governments have repeatedly sought to direct limited resources to local companies.

This time, the thinking is relatively modest. The EU will use the fund to co-finance several projects ranging from €500 million to €1 billion to develop a new generation of weaponry.

European countries spend relatively little on military research. EU members, excluding the U.K., which is departing, together devote roughly €5 billion annually to military research and development.

The Pentagon, in contrast, spends roughly \$80 billion annually to develop new equipment. Mr. Trump in May used a meeting of North Atlantic Treaty Organization leaders to

blast allies for insufficient military spending that he said unfairly burdened U.S. taxpayers.

While European diplomats were surprised by Mr. Trump's hectoring tone, most accept that defense outlays must increase. Germany plans an 8% increase this year, but many analysts say even that won't close the gap. Jointly funded projects could help direct increased spending to needed European capabilities such as drones, cyber and robotics, officials and analysts say.

The U.S. has pushed Europe to buy American weaponry, but European officials want spending to support EU companies.

Prior European multinational defense programs have founders, run over budget or failed to deliver capabilities on time.

"It is the classic difficulty in a multinational program," said Douglas Barrie, a defense analyst at the London-based International Institute for Strategic Studies. "Too many chefs, not enough bottle washers."

The new defense fund eschews the traditional approach to defense cooperation, driven by giant projects. Instead, it will offer a cash boost to smaller defense-focused firms across the EU that are willing to cooperate. The goal is to convert ideas and research into actual defense equipment.

Under the program, EU funds must be matched by national governments who commit to buy the weaponry developed under the initiative. The aim is to deliver €2.5 billion in overall European defense spending. More EU funding is expected after 2020.

WORLD WATCH

EUROPE

OECD Pushes ECB to Taper Bond Buying

The European Central Bank should wind down its bond purchases in 2018 and raise one of its key interest rates by the end of that year, the Organization for Economic Cooperation and Development said.

The Paris-based research body also cut its economic growth forecasts for the U.S. this year and next, saying stimulative measures it had expected from the Trump administration would now likely be implemented later than it had previously anticipated.

The OECD's call comes as ECB policy makers prepare to meet in Tallinn, Estonia, and marks a change in its stance since March, when it said policy makers should continue with current policies.

With the eurozone's economic recovery set to pick up, and inflation higher than it has been in



KASHMIR ANGER: Hundreds of students and villagers attended the funeral Wednesday of a college student killed a day earlier by Indian security forces in Shopian, India, south of Srinagar.

recent years, ECB policy makers have come under increasing pressure from Germany and elsewhere to wind down the stimulus measures they have

launched since 2014.

Those measures include purchases of government bonds that run at €60 billion (\$67 billion) a month, and a negative

deposit rate, where banks pay to hold funds at the central bank.

"With core inflation projected to slowly approach the inflation target by end-2018, the Euro-

pean Central Bank should gradually taper asset purchases in 2018," the OECD said.

—Paul Hannon

MYANMAR

Troop Transport Plane Goes Missing

A military transport plane with 120 people on board was reported missing on a flight from southern Myanmar to Yangon, a military spokesman said. There were fears it may have crashed into the ocean, since its route would have taken it over the Andaman Sea.

Gen. Myat Min Oo said the Chinese-made Y-8 turboprop aircraft was carrying 106 passengers—mostly families of military personnel—and 14 crew members when it disappeared Wednesday afternoon. It isn't unusual for such flights to carry civilians to offset transportation costs for military families stationed in the remote south.

"The military plane went

missing and lost contact after it took off from Myeik, and now the military has started a sea and air search with naval ships and military aircraft and is preparing for rescue operations," he said. It was raining at the time but not heavily, he said.

Myeik, also known as Mergui, is a city in southeastern Myanmar on the Andaman coast.

An announcement on the Facebook page of the commander of the military, Senior Gen. Min Aung Hlaing, said the flight took off from Myeik at 1:06 p.m. Contact with it was lost at 1:35 p.m., when it was believed to be about 32 kilometers (20 miles) to the west of Dawei, formerly known as Tavoy.

The military announcement said Myanmar received the Y-8 plane in March 2016, and it had logged 809 flying hours.

In a separate announcement, the commander's office said six navy ships and three military aircraft were searching for the missing plane.

—Associated Press

U.S. NEWS

Sessions Offered to Quit Amid Tensions

Attorney general's relationship with Trump strained over Russia probe recusal

BY ARUNA VISWANATHA AND DEL QUENTIN WILBER

Attorney General Jeff Sessions offered to resign from his post in recent weeks, amid tensions with President Donald Trump over his decision to recuse himself from the investigation into alleged Russian meddling in the 2016 election, according to people familiar with the matter.

The offer wasn't a formal one, and Mr. Sessions, an early and steadfast supporter of Mr. Trump, doesn't want to quit and doesn't believe he should, the people said. But the exchange comes amid increasingly outward signs of displeasure from Mr. Trump and the White House regarding Mr. Sessions and the Justice Department more broadly.

The disclosure also comes as the Senate Intelligence Committee begins two intensive days of hearings that will include scrutiny of the administration's handling of the Russia investigation, featuring testimony from current and former Justice Department officials.

White House spokesman Sean Spicer wouldn't answer a question Tuesday about Mr. Trump's level of confidence in Mr. Sessions.

"I have not had a discussion with him about that," Mr. Spicer said at the regular White House briefing.

That answer stood in contrast to his response to the



Mr. Sessions listening as President Donald Trump speaks during his swearing-in as attorney general in the White House on Feb. 9.

Coats and National Security Agency Director Mike Rogers.

An even higher-profile hearing follows Thursday when Mr. Comey will testify before the same committee. He is expected to tell senators Mr. Trump asked him to back off the FBI's scrutiny of former national security adviser Mike Flynn, an allegation Mr. Trump has disputed.

Mr. Sessions was the first U.S. senator to endorse Mr. Trump's presidential bid and was a vocal advocate for him during the campaign, at a time when few established Republicans were publicly supporting Mr. Trump. He was among the first appointments to the president's cabinet, and his staffers and former aides have taken jobs in the White House and across the administration.

On Monday, Mr. Trump took to Twitter to complain about the Justice Department, which Mr. Sessions leads, and its approach to his executive order suspending visitors to the U.S. from six predominantly Muslim countries. Two versions of the order were rejected by multiple courts; the second version is being appealed to the Supreme Court.

"The Justice Dept. should have stayed with the original Travel Ban, not the watered down, politically correct version they submitted to S.C.," Mr. Trump wrote. Still, Mr. Trump signed both an initial and a revised version of the order, and only the president, not the Justice Department, is constitutionally empowered to issue executive orders.

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

same question recently about Jared Kushner, Mr. Trump's son-in-law and a senior White House adviser.

Asked last week if the president had confidence in Mr. Kushner, Mr. Spicer said "absolutely."

Mr. Trump's displeasure with Mr. Sessions appears to trace back to the attorney general's decision in March to remove himself from involvement in any Justice Department investigation related to the 2016 presidential race, following the disclosure that he had conversations with a Rus-

sian official while advising the Trump campaign. That contact appeared at odds with testimony he gave during his confirmation hearing.

Immediately following Mr. Sessions' recusal, Mr. Trump reiterated his support for the attorney general, saying at the time in a series of tweets that he is "an honest man," and that "the Democrats are overplaying their hand." But he has privately expressed frustration about that decision.

One White House official said the president, who has

denied any involvement with Russia's alleged hacking of Democratic and other political organizations during the election, viewed Mr. Sessions' decision as a sign of weakness, the official said.

Mr. Trump berated several top aides in the Oval Office after learning of Mr. Sessions' recusal, the person said.

Following that recusal, Deputy Attorney General Rod Rosenstein named Robert Mueller III to serve as special counsel to head the investigation into the Russia matter, a decision Mr. Trump has made

it clear he is unhappy with.

Mr. Sessions' resignation offer also came around the time the Justice Department was dealing with Mr. Trump's unexpected firing of former Federal Bureau of Investigation Director James Comey. The circumstances surrounding Mr. Comey's firing were front and center during hearings this week before the Senate Intelligence Committee.

These started Wednesday with a session featuring Mr. Rosenstein, Acting FBI Director Andrew McCabe, Director of National Intelligence Dan

Coats and National Security Agency Director Mike Rogers.



Former Assistant Attorney General Chris Wray

FBI

Continued from page A1
circumstances surrounding his dismissal.

Sen. Mark Warner of Virginia, the top Democrat on the Senate Intelligence Committee—which will interview Mr. Comey on Thursday—told CBS in an interview Wednesday morning that he found the timing of Mr. Trump's new FBI pick suspect.

"Clearly this is an effort by the president to try to distract attention from our hearings today and tomorrow," Mr. Warner said.

A White House spokeswoman didn't respond to a request to comment. The White House hasn't issued an official statement on Mr. Wray's selection, aside from the GOP president's tweet from his personal Twitter account.

Mr. Wray has represented New Jersey Gov. Chris Christie, a Republican and a top Trump ally, in the 2013 George Washington Bridge lane-closure controversy. While Mr. Christie was considered for some key posts in the administration, Mr. Trump ultimately asked him to lead a commission on opioid addiction after firing him from his role as head of the presidential transition team.

Mr. Wray started his career as an assistant U.S. attorney in Atlanta before joining the Justice Department's leadership as a senior aide to Deputy Attorney General Larry Thompson in 2001. He led the Justice Department's criminal division from 2003 through 2005, serving under then-Attorney General John Ashcroft, as well as Mr. Comey, who at the time was deputy attorney general.

Mr. Comey was a firm supporter of Mr. Wray, writing to the Senate Judiciary Committee to support his nomination to the Justice Department.

"The president has found someone who is not only whip-smart, hardworking and possesses indispensable experience as a line prosecutor," Mr. Comey wrote in 2003. "The president has chosen wisely in deciding upon a governmental version of hockey's substitution on the fly. The stakes are too high to have it otherwise."

A graduate of Yale Law School, Mr. Wray was a lawyer at King & Spalding in Atlanta before joining the Justice Department. He returned to the firm as a partner in 2005.

Also at King & Spalding is the independent ethics adviser the Trump Organization tapped this year to approve certain company transactions. Some ethics experts have accused Mr. Trump, who retains ownership of the company, of not taking appropriate steps to distance himself from his business, which is now run by the president's two adult sons.

Mr. Wray's selection was praised by members of the legal and ethics community. Norm Eisen, who served as ethics counsel to former President Barack Obama, tweeted that Mr. Wray was a "good choice," writing he was "very fair" in his work on the Justice Department's task force investigating Enron Corp. "I endorse," Mr. Eisen wrote.

Mr. Trump's decision to fire Mr. Comey last month in the middle of his agency's investigation into whether associates of Mr. Trump colluded with Moscow to influence the 2016 presidential election roiled Washington. Since then, the Justice Department has appointed a special counsel—former FBI Director Bob Mueller—to oversee that probe.

Russian officials have denied that the government attempted to influence the U.S. election. Mr. Trump has denied any collusion and has called the investigation a "witch hunt."

Hearing Probes Trump Discussions

BY BYRON TAU

WASHINGTON—Two top U.S. intelligence officials declined Wednesday to offer specifics on any conversations with President Donald Trump or to rebut media reports that he had asked them to intervene in investigations into whether his associates colluded with Russia to influence the 2016 election.

Speaking before the Senate Intelligence Committee, Director of National Intelligence Dan Coats and National Security Agency Director Adm. Mike Rogers both said they hadn't ever felt pressured or ordered by Mr. Trump to help end an investigation focused on campaign associates. But they also wouldn't answer questions on whether they had been asked to influence a continuing probe or asked to say anything that they knew

to be untrue.

The Washington Post reported on Tuesday that Mr. Trump had asked Mr. Coats to help stop a probe into his former national security adviser, Mike Flynn. The Post also reported last month that both Mr. Coats and Adm. Rogers were asked to issue statements exonerating Mr. Trump and his associates from any collusion with Russia.

"In the three-plus years that I have been the director of the National Security Agency, to the best of my recollection, I have never been directed to do anything I believe to be illegal, immoral, unethical or inappropriate," Adm. Rogers testified. "And I do not recall ever feeling pressured."

Mr. Coats said similarly that he hadn't been pressured

"to intervene or interfere in any way in shaping intelligence in a political way or in relationship to an ongoing investigation."

But in a later exchange with Sen. Marco Rubio (R., Fla.), the men didn't answer whether they had been asked by the president to influence an investigation.

"What I'm not willing to do is to share what I think is confidential information that ought to be protected in an open hearing," Mr. Coats said.

"I am asking whether or not you have ever been asked by anyone to influence an ongoing investigation," Mr. Rubio replied.

"I understand but I'm just not going to go down that road in a public forum," Mr. Coats said, adding that he would be willing to meet with Robert Mueller, who is the special counsel overseeing the

federal investigation into alleged Russian interference in last year's election.

Wednesday's Senate hearing was nominally to be on the subject of surveillance, but senators also sought answers on the Russia probe and Mr. Trump's abrupt firing of James Comey as director of the Federal Bureau of Investigation on May 9. Russian officials have denied the government meddled in the U.S. election, and Mr. Trump has denied any collusion.

Mr. Coats began his prepared remarks by delivering a broad defense of Section 702 of the Foreign Intelligence Surveillance Act, which authorizes intelligence officials to target the communications of non-U.S. persons located outside the U.S. for foreign-intelligence gathering. Section 702 comes up for reauthorization by Congress at year-end.

Mr. Coats has been a key figure in the Senate Intelligence Committee's jurisdiction over federal law enforcement. A subcommittee has held a public hearing on the matter of Russian interference, inviting two Obama administration officials to testify publicly. And the bipartisan leadership of the panel has been pressing the FBI for more information about Mr. Comey's firing. Mr. Comey has agreed to appear before the Senate Intelligence Committee but hasn't committed to appear before the Judiciary Committee.

Top Democrat: Sen. Dianne Feinstein (D., Calif.)

Scope: The Judiciary Committee has jurisdiction over federal law enforcement. A subcommittee has held a public hearing on the matter of Russian interference, inviting two Obama administration officials to testify publicly. And the bipartisan leadership of the panel has been pressing the FBI for more information about Mr. Comey's firing. Mr. Comey has agreed to appear before the Senate Intelligence Committee but hasn't committed to appear before the Judiciary Committee.

Actions: Judiciary has been conducting public hearings and closed-door meetings on issues around Mr. Comey's dismissal and the Russia probe.

Leader: Rep. Jason Chaffetz (R., Utah)

Top Democrat: Rep. Elijah Cummings (D., Md.)

Scope: The House Oversight Committee has jurisdiction over waste, fraud and abuse within the federal government. It has been probing several issues related to Mr. Trump—including whether his business empire poses conflicts of interests, questions about Mr. Comey's firing and issues related to the firing of former national security adviser Mike Flynn.

Actions: The panel has been requesting and reviewing documents. Hearings are possible.

BY BYRON TAU

There are at least five investigations that directly affect President Donald Trump and his associates. Most are looking into questions about whether Russia interfered in the 2016 election, while others are investigating controversies from Mr. Trump's actions in office concerning the Russia probes—including his firing of James Comey as FBI director.

Here is the state of play of each investigation.

Leader: Special counsel Robert Mueller

Scope: The FBI, under the supervision of Mr. Mueller, is conducting a counterintelligence investigation into whether there was any collusion between Mr. Trump or his associates and Russian officials. He has also taken over separate investigations of whether any of Mr. Trump's associates committed crimes unrelated to Russian coordination, such as violations of tax law or lobbying restrictions. Mr. Mueller will also need to decide whether to investigate questions about Mr. Trump's dismissal of Mr. Comey.

Actions: Grand jury subpoenas have been issued to associates of Mr. Trump as part of the investigation. Unlike the congressional investigations, the FBI's probe is looking into possible criminal violations.

Leaders: Rep. Mike Conaway (R., Texas) and Rep. Devin Nunes (R., Calif.)
Top Democrat: Rep. Adam Schiff (D., Calif.)
Scope: Like its Senate counterpart, the House Intelligence Committee is conducting an investigation into whether Russia intervened in the election and whether any one from Mr. Trump's campaign colluded with Russia.

Actions: The panel has been conducting public and closed-door hearings on the issue and aims to write an authoritative public report.

Leader: Sen. Chuck Grassley (R., Iowa)
Scope: The Senate Intelligence Committee is conducting an investigation into whether Rus-

sia intervened in the election and whether anyone from Mr. Trump's campaign colluded with Russia. But the panel is also investigating whether handling of sensitive intelligence involving Trump associates by Obama administration officials was improper. The committee has been plagued by partisan infighting—with its chairman, Mr. Nunes, stepping aside as leader of the Russian investigation in order to fight claims that he had mishandled classified information, something he denies.

Actions: The panel has been conducting both public and closed-door hearings on the issue and aims to write an authoritative public report.

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EVAN VUCCI/ASSOCIATED PRESS

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U.S. NEWS

Millions Are Shut Out of Home Deals

By LAURA KUSISTO

Roughly three million potential first-time home buyers have been shut out of the market over the past decade, according to a new study, suggesting the market's recovery of the past few years could have been stronger.

Tight lending standards and acute shortages of affordable housing in many markets have lessened the pool of potential buyers, particularly among young people, reducing a key component of housing demand.

First-time buyers are a critical area of focus for housing economists in part because they drive new demand for housing. They often serve as buyers of starter homes, allowing those homeowners to trade up.

"They provide that greater mobility to the overall housing market. Without first-time buyers the market becomes much more stagnant and less dynamic," said Lawrence Yun, chief economist at the National Association of Realtors.

In all, the number of first-time U.S. home buyers aver-

aged 1.5 million a year over the past decade, compared with the historical average of 1.8 million, according to a new study to be released Thursday by Genworth Mortgage Insurance that examines mortgage data from Fannie Mae, Freddie Mac, the Federal Housing Administration, Veterans Affairs and other sources. The study looked at data going back to 1994 and defined first-time buyers as anyone who hasn't owned a home in the last three years.

Lackluster demand for homeownership among younger people has been one of the main factors holding back the housing recovery. Many young people have been delaying buying homes due to tight credit, student loans and rising rents that have made it difficult to save for down payments.

"What's been missing is confidence," said Sam Khater, deputy chief economist at CoreLogic Inc.

But that is starting to change. So far this year, first-time buyers represented about

38% of the market, greater than the historical average of



Tight lending standards and a shortage of affordable homes have held back the housing recovery by shutting out millions of buyers.

35%, according to Genworth. Some two million first-timers purchased homes last year, or 37% of the market.

"We've had a very strong surge in first-time home buyers," said Tian Liu, chief economist at Genworth.

A number of factors are propelling first-time buyers into the market. Many are entering their 30s, marrying and having children, and need more space than they can get by renting.

Credit also appears to be loosening. According to Gen-

worth, about 78% of first-time buyers are using low-down-payment loans, compared with the historical average of 73%.

Economists said a wave of first-time buyers is likely coming over the next decade, as a large cohort in their mid-20s begin to buy homes.

"As we're seeing millennials age into homeownership, there's a huge tailwind coming," said Nela Richardson, chief economist at Redfin.

To cater to rising demand from first-timers, home builders are starting to build less-

expensive homes after years of focusing mainly on the upper end of the market.

U.S. homes got smaller last year for the first time since the recession. The median size of a new single-family home slipped 2% to 2,422 square feet in 2016, according to Census Bureau data released last week.

While that is a small adjustment, it is the first time since 2009 and only the third time in the past 20 years it has fallen.

Activity from repeat buyers,

meanwhile, is now below historical levels, according to the Genworth survey. About 1.6 million repeat buyers financed home purchases last year, compared with the 22-year average of 2.4 million a year.

That reflects declining mobility as homeowners move less due to the fact that they are underwater on their mortgages, they enjoy historically low mortgage rates, or there are fewer enticing job opportunities.

—Jeffrey Sparshott contributed to this article.

Lawmakers, Industry Groups Fault Air-Control Plan

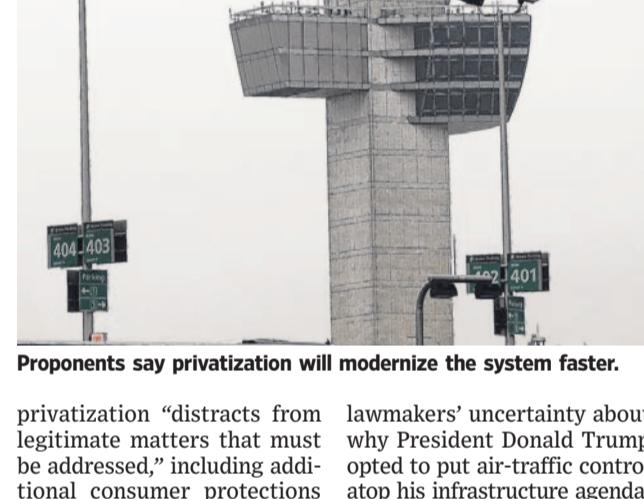
The White House bid to privatize the nation's air-traffic control system faces hurdles including widespread Demo-

By Andy Pasztor,
Natalie Andrews
and Susan Carey

catic opposition, many skeptical GOP senators and industry divisions that scuttled earlier efforts.

Transportation Secretary Elaine Chao tried to rev up support Wednesday by offering assurances that rural communities won't be short-changed and that airport towers at small airports operated by contractors will be protected from cutbacks under the proposed system. "I'm very concerned about access for rural America," she told the Senate Commerce Committee, but said those areas are "most hurt by the status quo."

Reflecting the extent of opposition in the Senate, GOP Sen. Roger Wicker of Mississippi said "this is a tough sell" for rural lawmakers. Sen. Bill Nelson of Florida, the panel's top Democrat, said reviving the debate over traffic control



"significantly diminish the opportunity for air service to most communities across the country."

Many Republican lawmakers dismissed the privatization issue as premature, since there isn't any specific White House plan on the table. Cory Gardner (R., Colo.), another member of the Commerce Committee, said "we've got a long ways to go in this process" before he can take a position.

Similar legislation was approved on a partisan vote by the House Transportation Committee last year, though it died before reaching the House floor and was never seriously considered by the Senate. Sen. John Thune, the South Dakota Republican who chairs the Commerce Committee, intends again this year to move an FAA reauthorization bill without an air-traffic revamp, according to one person familiar with the details.

Unlike in 2016, this year there is an administration putting its political capital behind the idea. Proponents argue that shifting traffic-control responsibilities to a private, nonprofit corporation run by a

board representing a broad variety of stakeholders would lead to faster and more efficient modernization. The proposed entity would be funded by user fees and could raise capital in the bond market—rather than relying on the political vagaries of Capitol Hill.

Rising impatience with the FAA's uncertain finances and the slow, troubled modernization has prompted most major U.S. carriers and the Business Roundtable, a group of chief executives, to support the White House proposal. Also on board are several unions representing airline pilots and a traveler-advocacy group. The union representing some 10,500 controllers, stung by a staffing crisis due in part to erratic FAA appropriations, said it shares the administration's commitment to modernization and will review the legislation to see whether it protects its members.

By contrast, groups representing operators of business aircraft, along with associations representing private pilots and manufacturers of small planes, have come out strongly against the concept, concerned that the plan would

give commercial airlines too much power, unduly raise user fees and isolate small and rural communities, whose airports could get less funding for improvements under a private system.

Lawmakers from the left have signaled an eagerness to work with Mr. Trump on a broad, bipartisan infrastructure bill. The White House's opening gambit, however, was slammed Tuesday by Senate Minority Leader Chuck Schumer (D., N.Y.), who said it would raise costs for travelers.

A day earlier, Marc Short, the White House director of legislative affairs, told reporters that the administration wants to craft an infrastructure plan by year-end. Congress may also need to pass a tax-reform bill to fund the infrastructure projects, but progress is stalled because lawmakers first want to overhaul the nation's health system.

Responding to bipartisan criticism of privatization, Secretary Chao opened the door to cooperating with lawmakers over fees, governance structure and other details of the proposal.

U.S. WATCH

LABOR DEPARTMENT

Joint-Employment Guidance Withdrawn

The Labor Department has withdrawn guidance from the prior administration that broadened the definition of when multiple employers could be responsible for same worker.

The department announced Wednesday the rollback of 2015 and 2016 informal guidance on joint employment and independent contractors.

Some businesses, particularly franchised brands and those employing contractors on a large scale, said the prior guidance had opened them up to additional liability. For example, a company could more easily be found to be jointly responsible for labor-law violations committed by a contracting firm.

The guidance applied to only a portion of labor law, including enforcement of overtime rules and the federal minimum wage. A related matter of joint employment that concerns union organizing and other issues wasn't affected by the rollback, because those rules fall under the jurisdiction of the National Labor Relations Board, not the department.

The department "is taking first steps to undo this costly regulation created by the previous administration," said Matt Haller, vice president of public affairs for the International Franchise Association.

The department said

Wednesday the removal of the guidance doesn't change the legal responsibilities of employers. Rather, it changes which firms could be considered the legal employer of a worker.

—Eric Morath

SENATE

Hatch Optimistic on GOP Tax Agreement

Senate Finance Committee Chairman Orrin Hatch said he has no set target for tax rates or tax revenue as lawmakers struggle with what tax breaks to curtail in their rewrite of the tax code.

While the Trump administration seeks a 15% corporate tax rate and House Republicans call for a 20% tax rate, down from the current 35%, Mr. Hatch remained circumspect. He said only that he wants to get tax rates as low as possible.

"Until we perform the surgery and start eliminating preferences and credits in order to bring down rates—and get official feedback from the Joint Committee on Taxation—we cannot speak definitively on the rate targets," he said in a speech at a conference Wednesday. "And, of course, we have to see just where our members are going to object to the removal of certain tax provisions because, once again, our margin of error with regard to the vote total is very slim."

Mr. Hatch, a Utah Republican, said he was optimistic that Re-

publicans would be able to overcome their internal differences and he said lawmakers agreed on about 80% of what they're trying to accomplish. He said he thought the administration and House Republicans would move off of their rate goals to get a bill signed into law. One of those disagreements is the House proposal to include a border adjustment in the corporate tax, exempting exports and taxing imports.

—Richard Rubin

OREGON

Murder Defendant Stages Outburst

The man accused of killing two passengers and wounding a third who tried to stop his anti-Muslim tirade against two teenagers on a Portland, Ore., light-rail train shouted he's "not guilty" during a courtroom outburst directed at one of the victims. Jeremy Christian didn't enter a plea during his brief court appearance Wednesday but said he was "not guilty of anything but defending myself against the ... aggression of Micah Fletcher."

Mr. Fletcher was in the courtroom but said nothing to reporters. The 21-year-old was stabbed in the neck during the May 26 attack. Two other men were killed. Mr. Christian has been charged with aggravated murder, attempted murder and other charges.

—Associated Press

BY IAN TALLEY

WASHINGTON—The Trump administration plans on reviving talks toward a bilateral investment treaty that would give U.S. firms broader access to the Chinese market, but only after Washington makes progress on other trade issues, U.S. Treasury Secretary Steven Mnuchin said.

The Obama administration had said it was close to completing a yearslong negotiation with Beijing on a Bilateral Investment Treaty, but the Trump administration's focus on ramping up exports to China, rather than U.S. investment in the world's second-largest economy, has quashed hopes among U.S. business advocates of the so-called BIT.

First, the administration is seeking to make progress on a set of specific market-access issues such as beef exports, Chinese rules on biotechnology imports and energy products. "Then we can turn to the bilateral investment agreement," the secretary said.

He also said that while the administration was considering technical changes to the

WASHINGTON

China Treaty on Mnuchin Agenda

SPENCER PLATT/GETTY IMAGES

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He also said that while the administration was considering technical changes to the

interagency security review process on foreign investment, it won't use it to leverage better trade terms with China.

Some lawmakers and their advisers have proposed not only bolstering the processes used by the Committee on Foreign Investment in the U.S., which reviews foreign deals, but also using it to pursue the administration's goal of achieving "reciprocity" in its trade relationship with China. If Beijing doesn't give U.S. companies access to Chinese markets, the concept goes, the U.S. might use the review process to restrict Chinese access to U.S. markets until it relents.

Mr. Mnuchin said, however, "fundamentally, we want to keep CFIUS as a national security review and we want to deal with economic issues separately." He added, "I don't think we want to confuse those issues."

To be sure, the administration is already co-mingling economic and national security issues. The Commerce Department is reviewing whether China's policies that subsidize its steel industries represent a national security threat because of its effect on the U.S. steel sector. If it finds that it does, Commerce could levy fresh tariffs on Chinese imports.

—HAYNE PALMOUR IV/SUDT/ZUMA PRESS

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IN DEPTH

APPLE

Continued from Page One

a distant third, at best. Amazon, which has been selling its Echo speaker for 2½ years, last month unveiled a device, also powered by the Alexa voice assistant, that includes a camera and a display for video calling. And it has partnered with companies to put Alexa into Ford Motor Co. cars, LG Electronics Inc. refrigerators, and General Electric Co. lamps.

Alphabet Inc., which debuted its Google Assistant-based speaker in October, said last month it would make its voice product available through an app on iPhones. Microsoft Corp. in May unveiled a speaker for its voice robot, Cortana, and Samsung Electronics Co. is expected to install its planned Bixby assistant on home appliances.

Siri has remained largely a feature of the iPhone, although it is also available on a handful of other Apple devices, including the Apple Watch. Siri's capabilities have advanced incrementally, with functions matched or exceeded by those of rival systems. Several independent studies have shown Siri is less accurate than Alexa or Google Assistant in responding to user queries.

Some former executives, close observers and even devoted customers say Apple's innovative power appears to be waning, stymied by a lack of urgency and difficulty bringing ideas to fruition. In nearly six years under Chief Executive Tim Cook, Apple's stock has soared but the company hasn't delivered a breakthrough product on par with the string of hits under late founder Steve Jobs, which included the iPod, iPhone and iPad.

One reason could be the iPhone itself, one of the most successful consumer products in history. It accounts for most of Apple's sales and dominates much of the company's focus, which former executives say has inhibited the company's ability to develop products untethered from the phone, as rivals did with their brand-new voice-activated devices.

"Siri is a textbook of leading on something in tech and then losing an edge despite having all the money and the talent and sitting in Silicon Valley," said Holger Mueller, a principal analyst at Constellation Research, a technology research and advisory firm.

Apple's supporters say it often has entered categories after rivals and assumed a commanding position. And Apple says the pace of its innovation has only accelerated. The company has tripled research-and-development spending over the past five years to \$10 billion annually. It is working on a range of projects, including an autonomous driving system, that could become hits if they come to market. Apple notes that Siri, through its presence on the iPhone, is in the pockets of hundreds of millions of users globally—far more than any rival's voice assistant.

"We're very happy with where the company is from an innovation standpoint," Eddy Cue, the Apple senior vice president whose portfolio includes Siri, said in an interview before Monday's announcements, which also included augmented reality for developers and more-powerful Macs. "It's part of our DNA."

The race to develop digital assistants is one of the biggest areas of competition in the tech industry today. Industry executives say these products, pow-

ered by increasingly effective artificial-intelligence algorithms, are revolutionizing computing much like the PC and smartphone, leading to a future where computers will converse with humans, recall previous conversations, and provide personalized responses without buttons or touchscreens.

Siri was one of Mr. Jobs's last major new products. He became a fan in 2010 when it was launched by a small startup as a digital-assistant app for iPhones. In 30 phone calls over 45 days, he persuaded its founders to sell, according to Gary Morgenthaler, a Siri investor. He then pushed them to fine-tune a handful of features that would work flawlessly across millions of iPhones in multiple languages.

Touted as "the best feature" of the iPhone 4s in 2011 by Apple marketing chief Phil Schiller, Siri converted words to text and interpreted their meaning to describe the weather or make calendar appointments and helped fuel a 73% increase in iPhone shipments in its first year. A day after the announcement, Mr. Jobs died.

In the years since, former Siri team members say, progress has been slowed by a failure to set ambitious goals, shifting strategies and a culture that prioritizes user privacy—making it difficult to personalize and improve the product. The project also has suffered from the departures of key team members, some of whom went to competitors.

About a year after Mr. Jobs's death, Apple hired Bill Stasior, an Amazon search executive, to oversee Siri. Mr. Stasior studied artificial intelligence at Massachusetts Institute of Technology, but his expertise was in search rather than speech or language. This led some members of the Siri team to believe he didn't fully appreciate the product's original vision: to expand beyond the iPhone to third-party apps.

To make Siri available to additional apps—so users, for instance, could check their bank balance or order a car service—Apple needed to create a platform and coding tools that allows developers to integrate the virtual assistant into apps for



Apple's stock has soared under CEO Tim Cook, but critics see a lack of innovation. Below, a prototype of the new HomePod..

In 2014, Apple moved Siri to a machine-learning system that used algorithms to improve its performance. Mr. Cue compared the new system to a brain transplant, saying it made Siri more versatile, allowing it to field requests no matter their phrasing. For example, it could answer both "Give me yesterday's Yankees score" and "What was yesterday's Yankees score?"

"The key about things like Siri is to make it not feel like something you have to think about," Mr. Cue said. Apple said Siri's error rate was cut in half.

Around the same time, Amazon introduced Alexa and its Echo speaker. The company pioneered a new category, blanketeting television with quirky ads featuring Alec Baldwin. It sold an estimated 11 million home speakers in two years.

The device's popularity caught Apple off guard. It was designed to not only play music and answer questions, but also control light switches and other home appliances, a concept Apple had recently introduced through a software system

only in seven languages.

At the same time, the iPhone—accounting for two-thirds of sales—so dominates internal focus that Apple largely abandoned the original Siri team's vision for an assistant that would go beyond calendar appointments and text messaging.

Instead, Apple added languages, added a male voice to Siri's original female voice, and allowed users to verbally create reminders while reading an article or viewing something on the iPhone. Apple and other large companies "tend to make improvements at the margin," said Larry Gillick, a former Siri speech scientist who serves as chief technology officer at a startup called Semantic Machines.

Amazon and Google, which introduced its own assistant in 2016, also enjoyed advantages over Siri because they had more data from their robust search engines to train their assistants and less-restrictive privacy policies than Apple, former Siri employees said.

Apple protects user privacy by randomly tagging Siri searches and keeping the data tagged for only six months, unlike Google and Amazon, which keep data until users ask for it to be discarded. The practice has complicated efforts to improve Siri because Apple relinquished control of data before it could be used to gauge the impact of software tweaks, former Siri engineers said.

"You're hamstrung," said Jason Douglas, a former member of the Siri search team. "The iTunes store has great data but the scale of it is not Google or Amazon."

Mr. Cue said Apple often uses generic data rather than user data to train its systems and has the ability to improve Siri's performance for individual users with information kept on their iPhones.

After Siri's brain transplant, plans to improve Siri's conversational ability stalled. Apple tasked Alex Acero, an expert in language processing, with combining two rival teams: speech recognition and natural language. The first involves adapting software to recognize spoken words, and the second involves interpreting those words. Following an executive-level power struggle, the project was transferred to another leader without expertise in the field, said Chuck Wooters, who was on the speech-recognition team.



The change disillusioned some speech-recognition experts. One left for Google and another for Amazon, said Mr. Wooters, who also departed and joined the Semantic startup, which is developing technology to make virtual assistants more conversational.

Apple declined to comment. Mr. Acero, who still works on Siri, didn't return requests to comment.

Other employees were discouraged by the reluctance to allow third-party apps to employ Siri. Apple added the ability to use Fandango to buy movie tickets in 2013, but Mr. Stasior halted a plan to extend Siri's abilities to more apps, two former employees said. By the time the project moved forward two years later, Apple had reduced the number of new commands developers would be able to use, a former engineer said.

In June 2016, Apple unveiled about 150 new commands, called intents, for Siri at its annual developer's conference. It opened Siri to about seven types of apps, including payment and ride-sharing apps such as Venmo and Uber. By comparison, Amazon's Alexa allows developers to create custom commands, which it calls skills, and some 12,000 have been created, allowing users to order coffee, start a guided meditation or check their bank account balance.

The limited scope of Siri's commands disappointed many developers, said Brian Roemmele, a developer who attended the announcement.

"People went from being happy and excited to sitting in workshops and realizing, 'I can't use it,'" he said. "Some went back to that attitude: Siri's always going to be dumb. They moved on to developing for Google and Alexa."

Mr. Cue said Apple chose to open Siri to apps that people

use frequently and make it versatile enough to understand requests said in a variety of ways. "These are things you do every day and use all the time," he said.

Apple on Monday announced developers would be able to use Siri for four more types of apps, including notes and bank accounts.

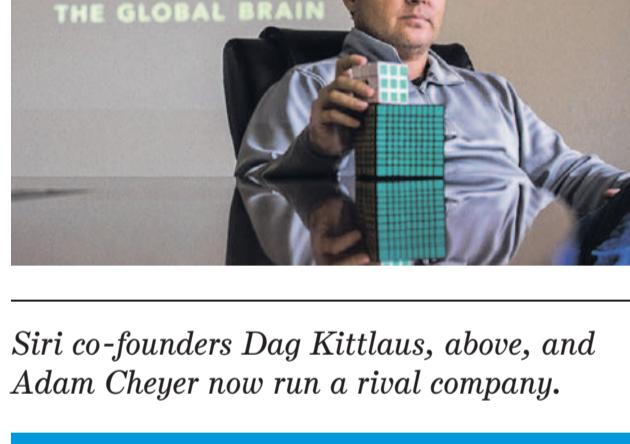
Siri's capabilities have lagged behind those of rivals elsewhere, as well. In tests across 5,000 different questions, it answered accurately 62% of the time, lagging the roughly 90% accuracy rate of Google Assistant and Amazon's Alexa, according to Stone Temple, a digital marketing firm.

A separate study by Loup Ventures, a market-research firm, shows Siri performs better than rivals on core iPhone functions, so-called command-related queries—making calendar appointments, placing phone calls, sending text messages—but doesn't do as well answering questions accurately from the web.

Apple has tried to close the gap through acquisitions. In 2015, it purchased VocalIQ, a Cambridge, England-based startup that designed a system to improve a virtual assistant's conversational ability.

The plan was to feed Apple's data through the system to make Siri more conversational, a former engineer said, allowing a user to ask for a nearby coffee shop and subsequently narrow the list by asking for one with Wi-Fi.

Google Assistant has begun to offer those conversational capabilities, but Siri still hasn't made that advance. "I don't think anyone does an A+ on conversation," said Mr. Cue. "It's a challenging problem and there's a lot of work to be done in that area. It will get a lot better and needs to get a lot better."



ANDREW BURTON FOR THE WASHINGTON POST/GETTY IMAGES

Siri co-founders Dag Kittlaus, above, and Adam Cheyer now run a rival company.

the iPad, iPhone or Apple Watch. It did so in 2016.

Apple declined to make Mr. Stasior available for an interview. He didn't respond to emails seeking comment.

Siri co-founders Adam Cheyer and Dag Kittlaus left the team, citing personal reasons. They started a competing company, Viv Labs, to make a voice-based system available to third-party developers. Roughly a half-dozen other members of the team followed. Samsung bought Viv last year for about \$215 million.

called HomeKit that allows developers to design thermostats and door locks that could be controlled by Siri.

The iPhone, in many ways a huge advantage, was also becoming an impediment. Apple says more than 375 million of its devices access Siri each month across 21 languages, and that Siri fields nearly two billion requests a week. In the U.S. alone, it has 70 million unique users weekly. By comparison, Amazon's Alexa is available only in German and English, and Google Assistant is available

fingers, the Cubans haggled over prices in the thousands of dollars for heaps of what most locals would consider useless scrap.

"They buy up everything for Russian cars and tractors by weight, without even looking at what parts and models they are for," said Mr. Muradian. "Whatever it is, they'll be able to sell it at a profit at home."

A typical group of Cubans spends \$3,000 to \$7,000 in the market, stall owners say. These are astronomical sums for residents of an island where the average wage is \$25 a month.

Back in Cuba, whole villages chip in to send an envoy on shopping trips to Moscow, often using remittances from relatives in Miami or Madrid. Residents of the Rodas village in Cuba's central sugar belt said their cane would rot in the fields without an annual trip to Moscow to buy parts for their 1970s Soviet tractors.

Some of the workers in this cottage trading industry are part of the tens of thousands of Cubans who went to the former Soviet Union as students. They studied engineering, medicine and science and returned to develop their Communist homeland. But when the Soviet Union and its subsidies collapsed in 1991, they often found themselves working as waiters and security guards for minimum wage.

Soviet-educated Cuban engineer Raul Curo came back to live in Russia several years ago. He bought a taxi and became part of Moscow's booming Cuban expatriate community, servicing shoppers from the island. Mr. Curo meets Cubans in the airport and drives them around the city's flea markets, helping to translate and haggle.

"Everyone loves Cubans here. It's been like this since Khrushchev," Mr. Curo said, referring to the Soviet leader

who risked nuclear Armageddon by striking an alliance with Cuba in the 1960s and deploying missiles there.

During the low season, translator Mr. Trieto makes money giving Spanish lessons to Azerbaijani and Armenian stall owners in the city's flea markets. Others make ends meet giving salsa lessons in Moscow night spots such as Old Havana.

Most Cuban shoppers come to Moscow for about a week and spend whole days trawling the city's flea markets to collect the 260 pounds worth of goods they are allowed on the plane for a fee.

They borrow boots and winter jackets from friends and family and sleep on double-bunks in crammed Soviet-era apartments owned by Cuban expatriates.

"They basically live in the bazaar," said taxi driver Mr. Curo of his compatriot shoppers. "They came, they bought up, and they left. In a couple of months, they are back."

warmest jacket he could find on the entire 150 acres of the Sadovod flea market.

At the entrance of Lyublino's budget Moskva shopping center is a Cuban canteen adorned with pictures of the island's lush rolling hills and a photo of President Vladimir Putin with the late Cuban leader Fidel Castro. The Cuban cook serves up cheap homemade dishes of rice, beans and shredded pork.

The shopping center offers a translation service for Cuban groups and Cuban immigrants work in the center's cheap jewelry stalls. An Azerbaijani stall owner haggled in broken Spanish with a group of Cubans over a stack of jeans on a recent visit.

"They basically live in the bazaar," said taxi driver Mr. Curo of his compatriot shoppers. "They came, they bought up, and they left. In a couple of months, they are back."

Dmitry Filonov contributed to this article.

CUBA

Continued from Page One

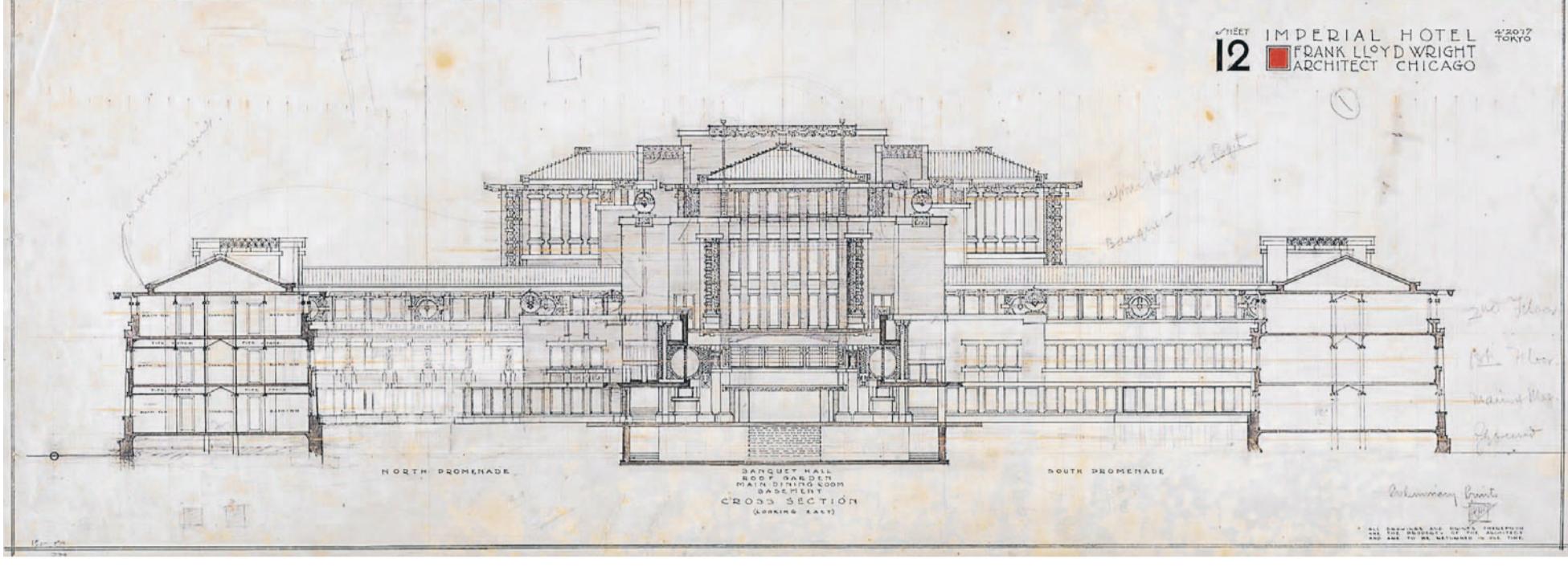
of this has helped revive a very Cold War-sounding trading relationship between Russia and Cuba.

Consider the need for car parts in Cuba. Given the U.S. trade embargo, most cars in Cuba are either American-made cars from the 1950s or Soviet-era jalopies. The square-shaped models of Ladas and Nivas all but disappeared from Moscow's streets years ago.

In Cuba, they are still going strong. Well, when they don't break down and need new parts, the shortage of which can produce some spectacular profits.

In Moscow, a 1980 Moskvich—another boxy offering from the Soviet era—might fetch around \$500. In embargoed Cuba, it can go for as much as \$14,000, Cuban taxi

LIFE & ARTS



BY JULIE V. IOVINE

New York
SIX DECADES after his death, Frank Lloyd Wright is still the most famous architect in America—a publishing house favorite despite library shelves already sagging with thousands of Wright-themed tomes, and the name most often invoked by members of the public asked to recall any architect.

And so the prospect of a major exhibition at the Museum of Modern Art celebrating the architect's sesquicentennial would not necessarily generate much excitement among architects and architecture buffs. And one bearing the title "Frank Lloyd Wright at 150: Unpacking the Archive" might even induce a bit of dread, particularly in light of the fact that some 500,000 pieces of paper are said to be in the archive, now jointly owned by MoMA and Columbia University.

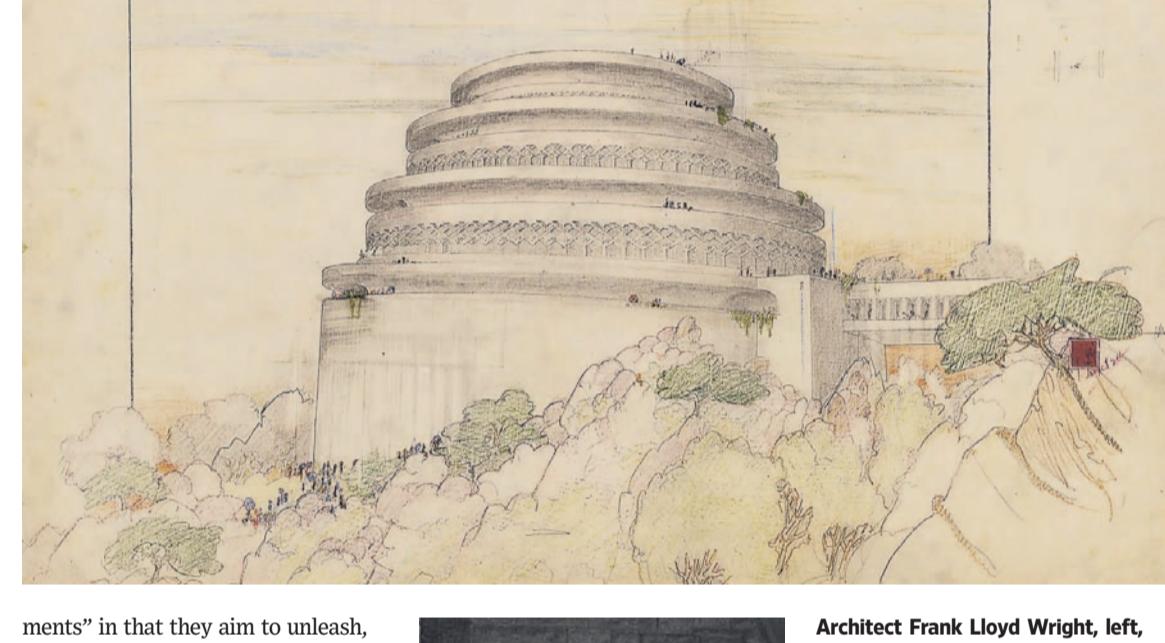
But that would be a mistake. "Unpacking the Archive" is not only an illuminating cross-section of items underpinning the creation of major architectural works, but also a glimpse into MoMA's evolving approach to exhibitions—by taking an oblique, selective approach rather than surveying major milestones.

In reconfigured third-floor galleries atop the refurbished and extended Bauhaus staircase—the completed first phase of the museum's ambitious Diller Scofidio + Renfro expansion (details of what comes next were announced last week)—a team of guest historians and in-house curators have been let loose in the archive under the direction of Barry Bergdoll, a MoMA curator in the department of architecture and design and a Columbia University art history professor, and Jennifer Gray, a project research assistant at the museum. Each was asked to pick one or more artifacts from the archive and build a story, an argument or revelation around the selection.

The result is not a show that will trace Wright's career or explain his masterworks, as such exhibitions often do. It does, however, succeed at pumping some vitality back into a reputation bleached of urgency by overexposure to Robie House silk ties, Coonley Playhouse stained-glass coasters and other Wright-themed merchandise. Mr. Bergdoll has called the 12 sections "Madeleine mo-

EXHIBITION REVIEW

Frank Lloyd Wright Seen Afresh



ments" in that they aim to unleash, as did Proust's sugary nibble, a few vivid new impressions of this most thoroughly examined genius.

The exhibition is organized along a central spine where an appetizer portion of Wright's greatest and weirdest hits is featured. It ranges from the famous richly hued, below-the-falls perspective of Fallingwater with which Wright seduced his client, Edgar Kaufmann Jr., into approving a daring cantilever design whose construction details had not yet been figured out to a pencil sketch of the wacky Gordon Strong Automobile Objective and Planetarium Project (1924-25), a gigantic roadside whirligig. But there are also surprises, specifically the Meteor Crater Inn project (1948), a faceted stone tower shooting off-kilter over the crater's edge in Arizona that could have been designed by an upstart architect today.

Rooms branching off this central



gallery neatly contain the 12 "stories" triggered by archive objects. In one, we can examine the contents of a presentation record—Wright's own commemorative portfolio of photos and plans—of one of the architect's most ambitious projects:

Architect Frank Lloyd Wright, left, and his designs for the Gordon Strong Automobile Objective and Planetarium Project (1924-25), above, and the Imperial Hotel, Tokyo (1913-23), top

the Imperial Hotel (1913-23) in Tokyo. It is a particularly rare find as it represents a complete record of the finished building as Wright himself never saw it. The hotel famously survived the Great Kanto Earthquake of 1923 but was subsequently demolished in winter 1967/68. The photos and plans in the album (with Wright's name misspelled on the cover) attest to the hotel's grandiosity. One black-and-white image, showing snow on a tree in a courtyard, seems composed to suggest the woodblock prints of the 19th-century artist Hiroshige, a Wright hero. Nearby, a site plan marks the spot from which Wright wanted every photo taken.

THE MUSEUM OF MODERN ART/AVERY ARCHITECTURAL & FINE ARTS LIBRARY, COLUMBIA UNIVERSITY, NEW YORK (3)

Another section analyzes Wright's distinctively stylized drawings. Created by staffers in his office, there are some 55,000 in the archive. Janet Parks of Columbia's Avery Library was able to identify the hand of Marion Mahony, one of the first licensed female architects in the U.S., on some of the famous Prairie House drawings that remain among his finest. Wright himself, it seems, liked to add the bushes and greenery around the edges.

There are interesting polemics, as in Princeton professor Spyros Papapetros's contention that Wright embedded ornament so deeply into his designs not only to make the whole sublimely organic but also to make sure that clients would not be able to eliminate expensive details. Mr. Bergdoll shows how Wright cooked up the notorious Mile-High super-tower in the 1950s as a press stunt in Chicago to upstage the imperious modernist Mies van der Rohe, who the 89-year-old Wright thought was stealing his thunder. But in a section on Wright's landscapes based on some rare plans for plantings—including for the Darwin Martin House in Buffalo—the argument that his admixtures of indigenous and exotic plants suggests "ongoing horticultural debates tied up with larger issues surrounding race, immigration, and belonging" sounds like a revisionist stretch.

Other sections draw a bead on a model for a farm-to-market concept; a 1928 rendering for a rural school project for African-American children; Wright's ideas about pre-fabricated building systems; and the architect's attraction to circles as the ultimate harmonious form.

For all his extreme popularity, Wright is not a hot topic among contemporary scholars, and architecture students rarely look hard past his early Prairie Houses. This show shakes things up. In short explanatory videos attached to each gallery (for once, well worth watching), the various historians—many not even Wright scholars—share the details of their explorations with a palpable sense of excitement. Their enthusiasm is rightly contagious.

Frank Lloyd Wright at 150: Unpacking the Archive

Museum of Modern Art, June 12-Oct. 1

Ms. Iovine reviews architecture for the Journal.

ART

TAKASHI MURAKAMI TAKES OVER CHICAGO

BY ELLEN GAMERMAN

TAKASHI MURAKAMI'S Tokyo studio is bustling with staff 24 hours a day, seven days a week. Judging by the artist's latest show—his first major museum retrospective in a decade—there is plenty to do.

Yesterday the Museum of Contemporary Art Chicago opened "Takashi Murakami: The Octopus Eats Its Own Leg," featuring the Japanese artist's work from 1982 to the present. Some pieces Mr. Murakami created for the exhibit are so new, the show's organizer didn't learn their titles until days before the opening.

The 55-year-old Mr. Murakami is known for colorful works filled with gleefully distorted eyeballs, smiling daisies, snarling ogres and other psychedelic images. He is famously savvy about commerce and has collaborated with companies such as Louis Vuitton and celebrities including Kanye West.

For the Chicago exhibit, he designed an octopus-like character and dressed up as the

creature for some promotional events.

The walls of the show's final gallery are covered with 45 panels filled with Mr. Murakami's anime-inspired figures. Such immersive installations captivate viewers—and their cellphones. In Washington, the Hirshhorn Museum and Sculpture Garden's show, "Yayoi Kusama: Infinity Mirrors," attracted the institution's largest crowds in 40 years. The exhibit, which engulfed visitors in dazzling rooms, went viral. A hashtag for the show reached 91 million Twitter and Instagram accounts.

The Chicago exhibit is one of the artist's many projects. Mr. Murakami's company, Kaikai Kiki, employs about 270 people in Japan and the U.S. Its locations in Tokyo, Saitama, Kyoto, Sapporo, New York and Seattle handle animation, film post-production and art production.

Mr. Murakami, whose retrospective coincides with the Chicago museum's 50th anniversary, mixes cherubic characters with darker subtexts, like the atomic bomb in the form of happy-go-lucky mushrooms. Lately, he has focused on the aftermath of Japan's



Mr. Murakami covered the walls of the final gallery of his Chicago exhibit with one massive work.

devastating 2011 tsunami and earthquake, with craggy Buddhist monks and strange monsters in his candy-colored canvases, said MCA chief curator Michael Darling.

In the coming weeks, Mr. Murakami's art will be hard to miss around Chicago. The

show's octopus character and Mr. Murakami's smiling flowers will appear on lamppost banners and on the museum's exterior. The exhibit runs through Sept. 24 before traveling next year to Vancouver and Fort Worth, Texas.

OPINION

REVIEW & OUTLOOK

Britain Makes Its Choice

Between Brexit and terrorism, British voters have a lot on their minds as they head to the polls Thursday to elect a new Parliament. On both of these large and defining issues, they have a real choice.

Prime Minister Theresa May remains the favorite to keep her job. Her Conservative Party's "strong and stable leadership" slogan resonates with voters bracing for Brexit uncertainty and battered by terror attacks in London and Manchester. She's a more serious leader and thinker than Labour leader Jeremy Corbyn, and voters seem disposed to credit gravitas.

That gravitas matters most on security. As Home Secretary under former Prime Minister David Cameron, Mrs. May helped develop surveillance and policing methods with which Britain has been more successful than some European peers in thwarting terror attacks. Now Britain must renew its focus on thwarting Islamist radicalization. Mrs. May's speech after Saturday night's attack in London offered a way forward, including an emphasis on British values of freedom and tolerance.

Her differences are profound with Mr. Corbyn and the left fringe of Labour he represents. He has bragged about his record voting against antiterror legislation relating to both Islamist and Irish nationalist terror, including laws banning glorification of terrorism and giving police emergency surveillance powers.

He has also argued against seizing the passports of those who attempt to join Islamic State in Syria and that Britain's domestic terror threat is a consequence of its attempt to fight terrorism in the Middle East. Oh, and he opposes NATO.

Britain's other vexing challenge is its future after leaving the European Union. No one can say

May and Corbyn offer sharp contrasts on growth and security.

how negotiations will go, so the more important question is how Britain will prepare its own economy for whatever happens.

The main disappointment of the campaign, and it's a big one, is that Mrs. May hasn't campaigned more aggressively on economic growth as an antidote to Brexit-induced uncertainty. Instead she has pulled

the Tories further to the left on social spending, taxation and regulation. Her plans to cap fuel prices and create a new industrial strategy, to name two, are economically dubious and falling flat politically.

Fortunately the rest of the party is moderating some of these urges. Pressure from the Tory Thatcherite wing explains why Mrs. May is sticking to Mr. Cameron's plan to cut the corporate-tax rate to 17%, and why she was forced to abide by Mr. Cameron's pledge not to increase personal-income tax rates.

Labour's manifesto, meanwhile, is a spree of tax hikes—on top earners, private-insurance premiums and even home backyards. It supports nationalizing industries, more spending on government employees, unreformed entitlements and handouts such as free university tuition for the middle class.

British voters appear to recognize that's not the way forward, but Mrs. May's softening poll numbers are a warning. If she loses seats or the election, it will be because she tried to be a Tory Tony Blair when voters want a bolder vision for a greater Britain.

Her challenge if she wins will be to negotiate a Brexit deal that sets Britain up for success, and then pursue domestic policies that capitalize on the opportunity. She hasn't offered the right formula, but voters can at least dispense with Mr. Corbyn's guarantee of decline.

The 'Private' Jim Comey

The media are pitching James Comey's Thursday testimony as the biggest since Watergate, and the former FBI director may provide high Trumpian drama. Let's hope Congress also challenges Mr. Comey on matters he'd rather not talk about.

The politically savvy Mr. Comey has a knack for speaking in congenial forums such as the clubby Senate Intelligence Committee he'll address Thursday. By contrast he is refusing to appear before the Senate Judiciary Committee—where he came under a grilling in May, days before he was fired—though there is no bar to him testifying more than once.

Circa News is also reporting (and we have confirmed) that Mr. Comey is refusing to answer seven questions sent to him in a letter from Judiciary on May 26. The bipartisan request is from Republican Chairman Chuck Grassley and ranking Democrat Dianne Feinstein, as well as the chairman and ranking Member of the Judiciary Subcommittee on Crime and Terrorism.

The questions are aimed at discovering how the contents of Mr. Comey's famous "memo" to himself came to be splashed across the press. This still-private memo reportedly says President Trump asked Mr. Comey to back off an investigation into former National Security Adviser Michael Flynn, and its contents surfaced in the New York Times not long after Mr. Comey was fired—courtesy of an unidentified Comey "associate."

The Judiciary letter asks if Mr. Comey created other memos about interactions with Justice Department officials or Mr. Trump; if he shared the contents of his memos with people inside or outside the Justice Department; if he retained copies of the memos, and if so to turn them over to the committee.

Some good questions the former FBI chief prefers not to answer.

We're told Mr. Comey replied via email that he didn't have to answer the questions because he is now a "private citizen." But that same private citizen will be opining in front of a national television audience before a committee investigating serious questions of law and intelligence.

Mr. Comey shouldn't be able to pick and choose which of his memos he sends to Congress and which he can keep for his memoirs. If Mr. Comey wrote those memos while FBI director, as his talkative pals claim, the memos are government work product and he has a duty to provide them to investigators.

The "private citizen" excuse is useful in that it exposes that Mr. Comey's main goal will be providing testimony against Mr. Trump while reviving his own reputation. Tip for Thursday viewing: Notice if Mr. Comey answers questions selectively, ducking those he doesn't like behind the cover of Robert Mueller's special-counsel investigation.

The Intelligence Committee shouldn't let him get away with it. If Mr. Comey wants a public stage to tell his side of the Trump story, fair enough. But he should also be required to provide actual copies of his memos (if they exist), disclose with whom he shared them, and where they are now stored. He should also tell the country if Mr. Trump was a target of the Russia investigation while he supervised it at the FBI.

Oh, and someone should also ask Mr. Comey if it's true, as the Washington Post has reported, that the FBI probe of Hillary Clinton's emails was triggered by a phony document provided by Russian intelligence. The point of this Congressional oversight is to help the public understand how Russia tried to meddle with American democracy, and Mr. Comey's duty didn't end with his dismissal.

Qatar's Reckoning

The rift between Qatar and four of America's Sunni-Arab allies led by Saudi Arabia deepened on Tuesday. Riyadh closed ground routes to Qatar, and the Saudis and others blocked Qatari vessels and aircraft from their waters and air-space, all but isolating the tiny Persian Gulf monarchy. Meanwhile President Trump seemed to signal support for the diplomatic blockade on—where else?—Twitter. This is an overdue reckoning for Qatar, albeit with some risk to U.S. interests.

On Monday Bahrain, Egypt, the Saudis and the United Arab Emirates suspended diplomatic ties with the Qatars. The Saudis spoke for the other three when they accused Doha of "financing, adopting and sheltering extremists," and they are right. For years the Qatars have maintained a two-faced policy toward the West, their Arab neighbors and the various Islamist movements that threaten Middle East stability.

Qatar hosts a U.S. military base that is crucial to American operations against jihadists including Islamic State. The base is also a guarantor of the tiny country's independence, against the Saudis as well as Iran, with which Doha shares a natural-gas field in the Gulf.

At the same time the Qatars have supported the Islamist groups that seek to overthrow established regimes. Al Jazeera, the Qatars' popular television network, provides a platform to Yusuf al-Qaradawi, a leading Islamist ideologue who has praised Hitler for carrying out "divine punishment" against the Jews.

Fellow Arab states are fed up with the Gulf monarchy's mischief.

Qatar has also funded and provided a refuge to leaders of the Palestinian terror group Hamas, and it financed Islamist militias in Libya after the fall of Moammar Gadhafi. Qatari individuals and charities fund the Syrian branch of al Qaeda, according to the U.S. State Department, and the Qatari state is open about its support for the Muslim Brotherhood.

It isn't clear what triggered this week's rupture, which some attribute to a recent ransom payment of \$1 billion to an Iranian-backed militia that had kidnapped prominent Qatars in Iraq. Others point to Mr. Trump's tough anti-Islamist rhetoric during his visit to Riyadh last month.

The Saudis may have interpreted Mr. Trump's speech as a green light to confront Qatar after eight years during which his predecessor looked the other way. Mr. Trump bolstered that conclusion with a tweet Tuesday: "During my recent trip to the Middle East I stated that there can no longer be funding of Radical Ideology. Leaders pointed to Qatar—look!"

Well, OK, but the goal of U.S. policy now should be to restore Arab unity to forge a common front against Sunni radicals and Iranian imperialism. The aim of the current pressure shouldn't be to permanently isolate Doha but to bring its conduct into line with what is expected of a Western ally. The diplomatic brawl has put Qatar on notice that it must stop supporting radicals, but the country will be an even larger problem if it joins arms with Iran.

Who's Conspiracy Mongering Now?



BUSINESS WORLD
By Holman W. Jenkins, Jr.

The president who tweeted last week to complain about his "covfefe" last year ran a campaign. Whatever you like to believe about certain Trump companions and their conversations with Russian persons, nothing about it suggested an organization capable of participating in an arch conspiracy with a foreign intelligence agency. The campaign was a typically disorganized, free-form, low-budget Trump production. People came and went with head-spinning speed while having distressingly little effect on the candidate.

That's why the storm that is getting ready to break may have a lot less to do with Trump collusion than you think. U.S. House Intelligence Committee subpoenas name three former Obama officials related to the "unmasking" of Americans captured in the vast electronic trawl supposedly undertaken purely for foreign-intelligence purposes.

One subpoena concerns former United Nations Ambassador Samantha Power, with no intelligence responsibilities but personally close to President Obama. Why?

This comes amid a report from America's Foreign Intelligence Surveillance Court about a pattern of Obama violations of the privacy of Americans "incidentally" caught up in foreign surveillance. We already know of one unmasking illegally leaked to the press for political purposes, Mike Flynn.

More important, we know one case of foreign intelligence seen by U.S. officials turning out to be a Russian plant, i.e., the fake document concerning Hillary Clinton that prompted James Comey's intervention in the campaign.

So add two questions to the list. Did Obama officials use allegations about Trump-Russia connections as an excuse to abuse intelligence collection for political purposes, and how much intelligence that caught their interest was actually fake intelligence planted by Russia? The obvious case being the scurrilous Trump dossier that was widely circulated internally and leaked to the media.

You can doubt his perspicacity, but Mr. Trump's view of Russia is far from inexplicable, and voters got a full blast of it during the campaign. Vladimir Putin walks all over the U.S. because our leaders are weak. Russia relations were a specific case of the general Trumpian pitch. He is a strong leader who, with his amazing personality, would transform bad situations into good ones.

Improved relations with Russia have been the aim of every president since the collapse of the Berlin Wall, and indeed every president since FDR.

Presidents and presidents-elect have been using secret emissaries and back channels forever.

If the Trump campaign directed or

cooperated in illegal acts by Russia, that would be collusion in the sense of contributing to a crime. If Mr. Flynn promised privately what Mr. Trump was saying publicly, that he would seek better relations with Russia, as a deliberate inducement to encourage Russian meddling in the race, most of us would consider that an impeachable offense.

But unable to substantiate any such allegation, the media reach for an error so bad it has a name—the equivocation fallacy. Thus Jared Kushner is accused of, *after the election*, trying to "collude" with Russia in settling the Syrian war—the ad absurdum case of trying to make those seven letters, c-o-l-l-u-d-e, substitute for proof of something nefarious.

Every presidency is a mixed bag, but today's intelligence follies cross a Rubicon.

The qualifications for president are light and Mr. Trump meets them all. He's a natural-born U.S. citizen of the requisite age. He received a majority of the electoral vote. U.S. voters are entitled to elect someone whom their fellow citizens consider an idiot, and may even have good reason for doing so since every election is a binary choice between X and Y.

Let's also recognize that the U.S. voter has hit very few home runs in 228 years. Presidents are a mixed bag—always. Even Obama idolaters by now should be rethinking how he spent his first two years, which ended up throwing away the last six and helped bring Mr. Trump to power (ironically, thanks to many frustrated "hope and change" Obama voters in the Midwest).

And certainly nothing about Sarbanes-Oxley, the Medicare drug benefit, the Iraq war, or the Department of Homeland Security makes us particularly long for George W. Bush.

Mr. Trump is many things, but he's not an idiot. He has a deep, instinctive understanding of New York political, real estate and media culture, and, like many presidents, now is struggling to apply his mostly irrelevant knowledge to a job he is poorly prepared for. He still strikes us as a good bet not to finish his term—his age, his temperament, the antisociality between his business interests and his White House life, the latter not helped by his classy in-laws.

But unless you think everything was hunky dory, or unless you're a member of the class for whom his status is a threat to your status, his election was exactly what you want in a democracy, a timely message from the electorate to the class of people who make it their profession to try to lead us. Never mind what fairer-minded historians write, even liberal ones will say the seminal fact of Mr. Trump's time was how quickly his critics sank to his conspiracy-mongering level and worse.

LETTERS TO THE EDITOR

VOA Should Come Clean on Mandarin Service

As a former director of the Voice of America, I was surprised at the current VOA director's May 31 letter upbraiding the performance of her Mandarin language service chief. Amanda Bennett said that Sasha Gong didn't uphold "the journalistic principles . . . [that] apply universally to all VOA services."

This accusation was made in respect to a live VOA interview with expatriate Chinese billionaire businessman Guo Wengui, who had some explosive revelations to make on how Chinese businesses are suborned into supporting the Chinese government's spying on its own citizens.

In my day, such an interview would have been considered a coup. What went wrong?

As far as I am aware, no one has raised any journalistic concerns regarding the content of the interview. Nor does it appear that the broadcast took place without permission, as it was monitored live by several senior members of VOA management. Nonetheless, the broadcast

was abruptly terminated at an hour and 16 minutes into what was to be a three-hour interview.

What must the Chinese audience have thought of this?

In my 11 years of experience at VOA, I am unaware of anything like this having happened before. It is equally strange that five members of the Mandarin service have been suspended, pending an investigation.

My Feb. 20 article on VOA mentions a particularly egregious violation of journalistic standards at its Ukrainian service in October. There have been others, as amply documented at BBG Watch. None of these reported instances has resulted in personnel suspensions or investigations. Why the draconian action regarding the five Mandarin service members?

Any investigation ought also to go to VOA's management to make sure these questions are adequately answered.

ROBERT R. REILLY

Vienna, Va.

Nationalism Won't Defang Islamic Radicals

Regarding Sohrab Ahmari's "How Nationalism Can Solve the Crisis of Islam" (May 29): A word of caution when using the term nationalism as a solution for the more strident forms of radical Islam. If we look to Sayyid Qutb (1906-1966) in Egypt, we see a radical whose idealism was baptized in nationalistic resentment of colonialism and its lingering effects. Fertile minds can be easily stirred with nationalist thinking and, throw in a dash of Salafism, and we're right back where we started.

Sovereign nations need to be involved in sorting out the issues that arise on their own doorsteps, but we must remember: Any nation

whose laws are man-made or accepts military aid from the West is fair game for radicals. Those things violate the concept of *Tawhid*. Perhaps we should learn more about what motivates radicals. *Alwala wal bar'a* (loyalty and disavowal) is a good place to start.

JARED WHITE

Montgomery, Ala.

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

OPINION

America's Missing Inspectors General

By Joseph E. Schmitz

The promises contained in the Trump campaign's "Contract With the American Voter" began with "restoring honesty and accountability, and bringing change to Washington" and ended with a pledge to "drain the swamp and reduce the corrupting influence of special interests on our politics."

Now that he's president, Donald Trump has an opportunity to make good on these pledges by filling 12 vacant inspector-general spots at federal agencies including the Defense and Energy departments, Central Intelligence Agency, National Security Agency, and Office of the Director of National Intelligence.

The Inspector General Act of 1978 mandates that inspectors general at cabinet-level agencies "shall be appointed by the President, by and with the advice and consent of the Senate, without regard to political affiliation and solely on the ba-



GETTY IMAGES/STOCKPHOTO

offices—are appointed by the agencies themselves. According to the Project on Government Oversight, the Interior Department has been without a permanent inspector general since Feb. 23, 2009. The vacancy at the CIA dates to Jan. 31, 2015.

Inspector-general vacancies in the intelligence agencies can be "very, very damaging," to quote former CIA Director John Brennan's recent testimony about Washington's "culture of leaks." Many of the current vacancies are at least in part the fault of Senate Democrats and anti-Trump Republicans, who have deliberately slowed the confirmation process in order to hurt the president.

In the absence of fully vetted, Senate-confirmed appointees, acting inspectors general are charged with monitoring vast, occasionally recalcitrant federal bureaucracies. Often viewed as temporary and toothless, acting inspectors gen-

eral typically don't have the enforcement clout necessary to investigate misdeeds and root out corruption. In 2012, Sen. Charles Grassley (R., Iowa), issued a statement critical of the Obama administration's reliance on acting inspectors general rather than fully vetted and Senate-confirmed ones: "Even the best acting inspector general lacks the standing to make lasting changes needed to improve his or her office."

That was nine months before the attack on a diplomatic compound in Benghazi, Libya. The U.S. State Department's office of inspector general had warned then-Secretary of State Hillary Clinton about the compound's vulnerability, to no avail. In fact, there was no Senate-confirmed inspector general at State during Mrs. Clinton's entire scandal-marred tenure as secretary.

In order for inspectors general to do their jobs as required by statute—that is, to conduct audits and

investigations that identify waste, fraud and abuse in government—they need to be backed up by the sense of permanence that Senate confirmation provides. Mr. Trump needs to focus his administration on recruiting, training, and retaining the best inspectors general.

By law that task falls to the deputy director for management at the Office of Management and Budget. This senior OMB official also serves as the executive chairman of the Council of the Inspectors General on Integrity and Efficiency. In this role, the OMB deputy director for management can and should establish a leadership-driven system for hiring and retaining the best inspectors general. Reining in politically motivated inspectors general who leak sensitive investigatory findings in order to promote their own agendas should also be a priority.

As ex officio leader of the entire inspector-general community, the OMB deputy director for management should also provide dynamic leadership. Unfortunately, a Senate-confirmed appointee has yet to be named. As a result, the inspector-general community is leaderless.

In this era of rampant leaks, "resistance" and "deep state" abuses of power, Senate-confirmed inspectors general and proactive leadership from the top are needed more than ever. These essential government watchdogs ought to be front and center in carrying out President Trump's pledge to drain the swamp.

Mr. Schmitz served as Defense Department inspector general from 2002 to 2005 and is now a partner at the law firm of Schmitz & Socarras LLP.

The U.S. Is Losing The Pacific To China

By Ben Bohane

Port Vila, Vanuatu

A quiet but determined chess game is being played for control of the region. Only one side, however, is competing in earnest. The other appears to be ceding ground without much of a fight.

This is a new phenomenon. For more than 100 years, the U.S. has viewed the Pacific Ocean as an "American lake." But recently much has changed. The Philippines, long an American ally, has pivoted away to China, while the rest of the Pacific islands are also being wooed with Chinese diplomacy and investment.

The U.S., meanwhile, has remained absent. Former President Obama's "pivot to Asia" has proved to be empty rhetoric. Today there is little evidence that the U.S. is putting any significant resources into the Pacific islands.

President Trump has an opportunity to do something substantial here, but his office may be distracted by the Middle East, as has been the case with every prior administration.

For the price of a single day's war in the Middle East, the U.S. could shore up its Western flank by courting the Pacific islands with investments in tourism and vital infrastructure while engaging meaningfully with its leaders. Instead, China is picking them off one by one.

Where China has unleashed multi-billion-dollar investments throughout the islands of Melanesia, Micronesia and Polynesia, offering critical infrastructure projects, planeloads of tourists and access to financial inclusion, the U.S. has stayed silent. It continues to neglect its treaty allies in Micronesia and ignore the rest of the region.

Palau is still waiting on \$216 million in funds promised in 2011 as part of its agreement to provide the U.S. with exclusive military access. Similar frustrations may lead the Federated States of Micronesia to terminate its own treaty with the U.S. next year, well ahead of its expected 2023 expiration. And in American Samoa, one congresswoman is warning about the lack of defense capabilities, as well rising Chinese influence in Samoa. In Melanesia, China is focusing resources on Papua New Guinea and deploying diplomacy in Fiji.

But the difference between Chinese and U.S. engagement is most stark in Vanuatu.

Recently the Vanuatu government signed off on a deal with China Civil Engineering Construction Corporation to upgrade the island's three main airfields. The focus will be extending Port Vila's Bauerfield, the capital's primary airport, to allow for direct flights from China by next year. Built by the U.S. Navy in 1942, Bauerfield is named after Lt. Col. Harold W. Bauer, a fighter pilot in the U.S. Marines shot down that year during the Battle of Guadalcanal. The Chinese will also upgrade Pakoa airfield in Santo, the island where a young James Michener was based during World War II before writing his Pulitzer Prize-winning novel, "Tales of the South Pacific."

No U.S. company tendered for either contract. In fact, there's no U.S. engagement in Vanuatu at all, not even a resident ambassador. Meanwhile, China has built the national Parliament, the prime minister's office, the foreign affairs building, the Melanesian Spearhead Group secretariat, a national convention center and a national stadium.

The quid pro quo? Vanuatu was the first Pacific nation to support China's claims in the South China Sea, soon followed by Nauru and Papua New Guinea.

The region has also been shut out by online commerce. PayPal, Visa and other U.S. financial companies don't recognize any Pacific island nations. But Jack Ma's Alibaba Group recently sent representatives to help get Vanuatu and all the other Pacific nations onto his e-commerce platforms, including Tmall and Alipay.

If the U.S. offers no aid, no investment, no infrastructure and no access to e-commerce platforms at a time when China is offering all of the above, is it any surprise that Pacific island governments and their people are turning to China?

Unless Washington starts in earnest to engage the Pacific islands—vital bases during World War II—its lack of investment, diplomacy and financial inclusion will inevitably see the region swing to China. The U.S. will have ceded the entire board, one piece of the Pacific at a time.

Mr. Bohane is a photojournalist, author and television producer who has covered Asia and the Pacific islands for the past 25 years.

The Pentagon is without a permanent watchdog—and so are the CIA and NSA. Trump should fix this fast.

sis of integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, or investigations."

Currently 34 of the federal government's 73 inspectors general require appointment by the president. The rest—typically at federal

A Turning Point for Trumpinology



POLITICS & IDEAS
By William A. Galston

A headline in Politico Monday read: "Trump national security team blindsided by NATO speech." If this report is correct, President Trump left his top team—national-security adviser H.R. McMaster, Defense Secretary Jim Mattis and Secretary of State Rex Tillerson—in the dark regarding his May 25 speech at the North Atlantic Treaty Organization headquarters in Brussels.

All three officials, Politico reports, believed the president's address would explicitly affirm his commitment to Article 5 of the NATO treaty, which states that an attack on one ally is an attack on all. Only when Mr. Trump began speaking did they realize he had removed the crucial sentence, reportedly with encouragement from chief strategist Steve Bannon.

The article's author, Susan Glasser, remarks that the episode represents "a significant moment of rupture inside the Trump administration". The president withheld information from his top advisers and then forced them to offer "awkward, unconvincing, after-the-fact claims that the speech really did amount to a commitment they knew it did not make."

I have talked with veteran national-security scholars and officials who regard this as a turning point in their assessment of the administration. Until now they believed Mr. Trump's experienced advisers would be able to run American foreign policy along more or less conventional postwar lines, even if the president's rhetoric veered from time to time in a nationalist direction.

They no longer believe this. Instead, they say, his modus operandi will be transactional. The true north of his compass points to Mr. Bannon's truculent, aggressive nationalism. Strobe Talbott, head of the Brookings Institution (where I work), told Ms. Glasser he had spoken with a highly placed Asian official who said Washington "is

now the epicenter of instability in the world."

In this context, it is especially troubling that Mr. McMaster and Gary Cohn, the head of the National Economic Council, teamed up to publish a startling defense of Mr. Trump's crockery-breaking European tour. The key doctrinal sentence runs: "The president embarked on his first foreign trip with a clear-eyed outlook that the world is not a 'global community' but an arena where nations, nongovernmental actors and businesses engage and compete for advantage."

Lest the reader conclude that the authors regard this as a disagreeable reality, they declare: "Rather than deny this elemental nature of international affairs, we embrace it." Hooray for the war of all against all! Messrs. McMaster and Cohn are attacking a straw man. There is a lot of daylight between Hobbes and Kant. Anarchy is not the only alternative to World Federalism.

Even if an all-encompassing global community doesn't exist, smaller subcommunities do, because regimes matter. Political scientists have shown that democracies are unlikely to wage war against one another. The core proposition of America's foreign

policy for decades has been that democracies have something in common that mutes their antagonism toward one another and shapes a shared outlook on which to base mutual endeavors. NATO's persistence in the face of changing circumstances offers evidence for

Many thought a strong staff could steady the ship of state. No longer.

this proposition, as does inter-democratic cooperation on a host of international issues.

"At every stop in our journey," Messrs. McMaster and Cohn continue, "we delivered a clear message to our friends and partners: Where our interests align, we are open to working together." The implication is that where they do not, we aren't.

I cannot imagine a blunter articulation of the transactional myopia that shapes this administration's policies. What about doing the right thing for its own sake, as President George W. Bush did when he placed America's moral authority and material resources behind the global struggle against AIDS?

Worse, Messrs. McMaster and Cohn tacitly presuppose a pinched, shortsighted understanding of American interests. This week marks the 70th anniversary of the Marshall Plan. If Mr. Trump had been president after World War II, the U.S. wouldn't have offered such assistance to a struggling Europe. Why spend the equivalent of \$130 billion in today's dollars to give Europeans a hand up? Why not retreat across the Atlantic and leave them to their fate?

President Truman and Secretary of State George Marshall had learned the answer to these questions from Franklin Roosevelt: In the long run, the U.S. won't survive as an island of democracy in a sea of autocracy. If Americans cherish not only their prosperity but also their institutions, they need allies who share their principles. This is an example of what Alexis de Tocqueville termed "self-interest rightly understood." By contrast, Mr. Trump embraces self-interest wrongly understood, and his enablers, who surely know better, are helping him peddle this poison as medicine.

Yes, NATO partners should contribute more to the common defense. But even if they paid nothing, a free and democratic Europe would still serve the interests of the U.S.

The Left Celebrates a Terrorist—Again

By Jillian Kay Melchior

When the fourth bomb exploded in lower Manhattan on New Year's Eve 1982, Detective Richard Pastorella took shrapnel from his stomach to his scalp. It blinded him, maimed his right hand, left him nearly deaf. Surgeons used 22 titanium screws to hold together his ruined face.

"When my granddaughters present me with crayon drawings and are pleased to show them to me, I have to pretend that I can see them and enjoy their effort," Detective Pastorella later testified. "I have sacrificed my pride, my dignity and will never be free."

Now the leader of the terrorists

who maimed him is free. President Obama granted Oscar López Rivera clemency in January. This weekend he will march in New York's Puerto Rican Day Parade.

López Rivera was the "prime recruiter" for the terrorist group FALN, as well as "a key trainer in bombing, sabotage, and other techniques of guerrilla warfare," according to his presentencing report.

From 1974 to 1983, his group carried out more than 130 bombings, killing six. He has shown little remorse. Last month he insisted that "colonized people" have the right to use "all methods within reach, including force."

The Puerto Rican Day Parade had originally designated López Rivera its first-ever National Freedom Hero. After massive backlash, organizers tried to save face. He stepped down from his "formal role," they announced, but will still march.

So will the city's far-left political elite. Although both of the state's U.S. senators said they wouldn't march, Mayor Bill de Blasio was willing to do so even when the terrorist was the official parade honoree. His office called the uproar "needless controversy." City Council Speaker Melissa Mark-Viverito overtly supported López Rivera.

That's part of a broader trend: Over the past year, the far left has repeatedly venerated terrorists and murderers. Take Rasmea Odeh. In 1969 her group, the Popular Front for the Liberation of Palestine, murdered two college students by planting a bomb in a box of sweets in a Jerusalem grocery.

Odeh awaits deportation after lying about her terrorism conviction

on U.S. immigration papers. According to the feminist website Jezebel, she "epitomizes the progressive left movement and exemplifies the women to whom we should be listening." The Women's March gave Odeh a prominent role as it orchestrated the Day Without Women strike. She has also gone on the campus speaking circuit.

It took a backlash for Oscar López Rivera to lose his 'hero' status.

Another leftist cause célèbre: Leonard Peltier, serving a life sentence for murdering two FBI agents at the Pine Ridge Indian Reservation in South Dakota in 1975. He and other assailants ambushed the men, riddling their cars with at least 125 bullets. As one agent lay wounded and another tried to surrender, Peltier shot both point-blank.

The Standing Rock alliance of environmentalists, Hollywood progressives and Native American activists have fought for Peltier's release, portraying his conviction as a legacy of the 1890 Wounded Knee massacre.

The progressive media insists that it's conservatives who are violence-prone—especially in the era of Trump. But it's the left that champions monsters like Oscar López Rivera, Rasmea Odeh and Leonard Peltier.

Ms. Melchior is Heat Street's political editor.

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LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

Even Elite Fliers Find Fewer Airline Perks

Flying 100,000 miles a year on one carrier won't guarantee regular upgrades to business or first class anymore

THE DECLINE in airline amenities that has vexed consumers in the back of the plane is now hitting elite frequent fliers, too.

Some of the big carriers' best customers complain that perks have been whittled away. Delta used to give its top-tier frequent fliers free club membership, but now offers that as a choice in a bundle of options. United paid Global Entry fees for top customers three years, but stopped in 2015. And the most important loyalty benefit—an upgrade—has gotten much rarer because airlines are selling more first- and business-class seats, auctioning them off, and in some cases shrinking those cabins and reducing legroom there as well.

"The loyalty is gone," says Peter Boer, a consultant to technology companies. He now buys business-class and first-class tickets on different airlines for his travelers, since he can't get an upgrade from American, where he's a lifetime platinum member.

Even "systemwide upgrades," the golden ticket for travelers that used to let you instantly upgrade any flight, are becoming harder to use, elite-level frequent fliers say. Systemwide upgrades are earned by travelers who spend heavily with airlines and fly more than 100,000 miles a year, or hit a milestone like 2 million lifetime miles. They used to get you confirmed upgrades when you bought your ticket.

With United, you can't buy the cheapest ticket for international trips and use systemwide upgrade certificates. You must spend more for a coach ticket and then wait, not knowing if the upgrade will clear. If it doesn't come through, you paid more for your coach seat than necessary.



On American, the available inventory of seats for systemwide upgrades has shrunk. That means waiting until departure on many flights to see if you'll get a cushier seat.

Mark Kovac, a Dallas-based business consultant who is a member of American's highest loyalty tier, invitation-only Concierge Key, bought coach tickets last fall for a family summer trip to London. He was told seats weren't available then to use his systemwide upgrades—the first time that had happened to him.

When he complained, American told him the airline's predictive models are blocking upgrades more often so premium seats are available to sell close to departure. "It is true that until a few years back, systemwide upgrades would, more often than not, get cleared at the time of booking. However, that

is not the case now," a customer service representative at American's AAdvantage program wrote.

To Mr. Kovac, that erases a big benefit. "This is probably the biggest, most noticeable thing they've changed," he says. "I used to want to save these for something special. Now I just use them whenever I can."

Mr. Kovac and his family did get upgraded shortly before the overnight flight to London on Friday, but his children, ages 10, 8 and 6, were spread around the cabin, he says.

American says it has improved its international premium cabins and seen an increase in paid demand. "We continue to refine our systems to reflect the demand for the product while still providing as much availability as possible to our elite members," a spokeswoman says.

Frequent fliers say they understand airlines' desire to sell premium seats rather than give them away, but upgrades used to be considered a necessary investment in loyalty. Frequent travelers essentially paid for those seats in advance by buying expensive tickets trip after trip.

In January, American also chopped how many systemwide upgrades it gave out to 100,000-mile-a-year executive platinum members. Each year executive platinum members used to get eight SWUs. This year that was cut to four, with the opportunity to earn two for reaching 150,000 miles and two more at 200,000 miles.

Gary Leff, co-founder of the frequent-flier community InsideFlyer, says top travelers are complaining a lot about American lately because the airline is making

changes after its merger with US Airways. American was considered the most generous for top customers, because Delta and United had already weakened some perks, he says. Now there are few major differences between the three big airlines, Mr. Leff says.

Delta says the percentage of passengers in first class who paid to sit there used to be around 10%, but by next year will hit 70%. Airlines offer more first-class sales and discounted seats and push affordable upgrades by email and kiosk.

To placate their best customers stuck in coach, American and United now give them the small consolation of a free cocktail and food item for sale onboard.

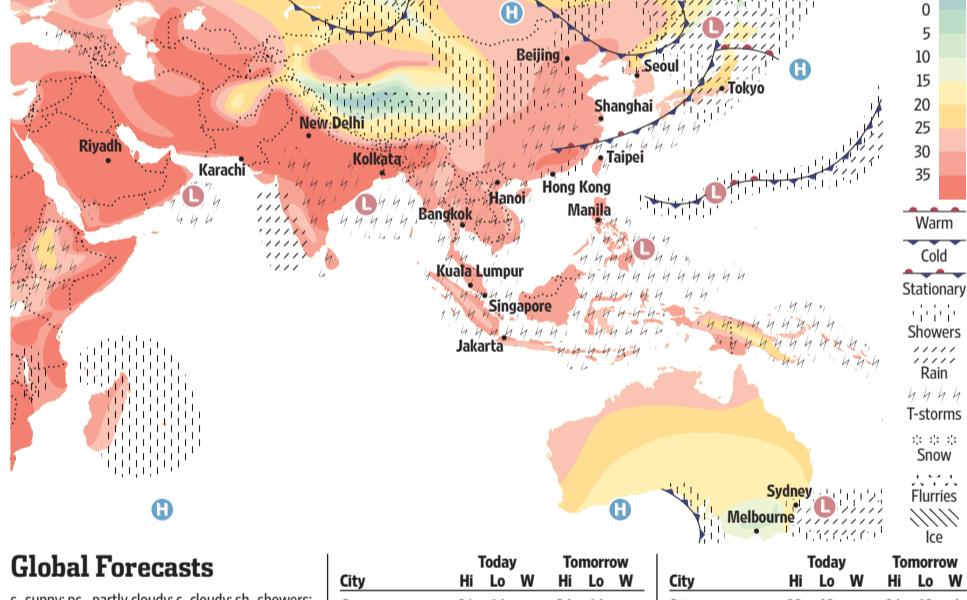
A bigger upgrade issue looms for top-tier travelers: How "premium economy" cabins will impact upgrades on international flights. Premium economy—usually a separate cabin with more legroom, wider seats and upgraded food compared with coach—has been a big hit on international airlines, priced several hundred dollars above coach tickets but several thousand below business class.

American is rolling out its version now. Delta says its premium economy will launch in the fall. United says it is taking steps toward premium economy, too.

The catch: On many international airlines, upgrades move you up one cabin. So instead of jumping from coach to business, an upgrade from economy moves you to premium economy. To get to business class you have to buy a premium economy ticket. "It reduces the value of the upgrade," Mr. Leff says.

U.S. airlines have yet to say what their upgrade policy will be on flights with premium economy.

Weather



Global Forecasts

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

| City | Today | | | Tomorrow | | |
|--------------|-------|----|----|----------|----|----|
| | Hi | Lo | W | Hi | Lo | W |
| Amsterdam | 22 | 15 | t | 19 | 14 | sh |
| Anchorage | 17 | 12 | c | 16 | 10 | sh |
| Athens | 28 | 21 | t | 28 | 19 | s |
| Atlanta | 26 | 17 | pc | 28 | 18 | pc |
| Bahrain | 43 | 27 | s | 45 | 26 | s |
| Baltimore | 23 | 12 | c | 27 | 14 | pc |
| Bangkok | 31 | 25 | t | 31 | 25 | t |
| Beijing | 34 | 16 | pc | 39 | 17 | s |
| Berlin | 19 | 13 | pc | 26 | 13 | t |
| Bogota | 18 | 11 | sh | 18 | 10 | c |
| Boise | 26 | 12 | c | 23 | 10 | sh |
| Boston | 21 | 12 | pc | 20 | 16 | sh |
| Brussels | 24 | 14 | t | 21 | 12 | t |
| Buenos Aires | 13 | 4 | r | 14 | 8 | pc |
| Cairo | 40 | 25 | s | 37 | 22 | s |
| Calgary | 27 | 10 | pc | 20 | 7 | sh |
| Caracas | 32 | 27 | pc | 31 | 27 | pc |
| Charlotte | 25 | 15 | c | 28 | 18 | pc |
| Chicago | 28 | 16 | pc | 28 | 16 | pc |
| Dallas | 31 | 21 | pc | 32 | 22 | pc |
| Denver | 30 | 14 | t | 34 | 16 | s |
| Detroit | 25 | 14 | pc | 25 | 17 | c |
| Dubai | 41 | 30 | s | 40 | 29 | s |
| Dublin | 18 | 10 | r | 18 | 12 | sh |
| Edinburgh | 15 | 10 | r | 17 | 10 | sh |
| Frankfurt | 24 | 12 | pc | 22 | 12 | t |

The WSJ Daily Crossword | Edited by Mike Shenk



CLOCKING IN | By Colin Gale

| Across | |
|--|---|
| 1 Montenegro's capital was named for him until 1992 | 22 Emmy-winning PBS series of 1980 |
| 5 Company that introduced the Hula Hoop and Super Ball | 41 Eliciting gasps, perhaps |
| 10 Free cash? | 42 Take to court |
| 14 Mouse target | 43 Spruces |
| 15 Epitome of machismo | 44 Peacock, notably |
| 16 Triceps attachment | 45 Improvised style |
| 17 Scruff | 46 Darling visitor |
| 18 Aster family flower | 47 Six-pack makeup |
| 19 Inner workings | 48 Grassy expanses |
| 20 They stretch from Cuba to Trinidad | 49 Daze |
| 21 Blotto | 50 Ramstein and others |
| 22 Emmy-winning PBS series of 1980 | 51 Six-Day War weapons |
| 23 Role that earned Patti LuPone her first Tony | 52 Hint of hue |
| 24 Name on West Coast stations | 53 Bud |
| 25 Car ad abbr. | 54 With 63-Across, what (in abbreviated form) has been added to the long Down answers |
| 26 Course | 55 Ramstein and others |
| 27 Darling visitor | 56 Six-Day War weapons |
| 28 Grassy expanses | 57 Hint of hue |
| 29 Daze | 58 Bud |
| 30 Improvised style | 60 With 63-Across, what (in abbreviated form) has been added to the long Down answers |
| 31 Six-pack makeup | 61 Ramstein and others |
| 32 Grassy expanses | 62 Six-Day War weapons |
| 33 Role that earned Patti LuPone her first Tony | 63 Hint of hue |
| 34 Name on West Coast stations | 64 Bud |
| 35 Car ad abbr. | 65 Six-Day War weapons |
| 36 Hint of hue | 66 With 63-Across, what (in abbreviated form) has been added to the long Down answers |
| 37 Bud | 67 Hint of hue |
| 38 DJ's creations | 68 Bud |
| 39 Crowdsourced review site | 69 With 63-Across, what (in abbreviated form) has been added to the long Down answers |
| 40 Brand advertised as "Wonderfilled" | 70 Hint of hue |

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

- 61 Banks of Chicago
62 Pumper part
63 See 60-Across
64 Distributed
65 Foil's kin
23 Target of refinement
25 Poetry class topic
27 They made "Up"
28 Place to buy magic wares?
29 Nonprofit org. since 1920
30 Informal denial
31 Commotions
32 Baskin of Baskin-Robbins
34 Gambling and drinking, e.g.
37 "Just wait!"
44 Old Navy purchase
46 Little lion
47 Attack chopper
51 Fool (around)
52 Opera's Pinza
53 Describe
54 Visitor to King Mongut
55 Hook helper
58 Hot state

| Previous Puzzle's Solution | |
|----------------------------|-------------------|
| SHOPS | GAH EMMA |
| TAHOE | ARIA LOEW |
| INFREE | FAULL FULL |
| ROUTARP | FLING |
| INLOCOPARENTIS | IN LOCOPARENTIS |
| OOHATEE | O OH ATEE FBI |
| POPOPUP | USES BUST |
| ENLISTS | ITSAJOB |
| PEASRUST | PLINY |
| SAYSEANSET | SAY SEAN SET |
| INCONFLICTWITH | IN CONFLICT WITH |
| DUPLOFAYMOAT | DUPLO FAY MOAT |
| CAPEINTHEROUGH | CAPE IN THE ROUGH |
| OLINLILENARGUE | OLIN LILEN ARGUE |
| OLDS | SLR TEHEE |

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, June 8, 2017 | B1

Yen vs. Dollar 109.5700 ▲ 0.15% **Hang Seng** 25974.16 ▼ 0.09% **Gold** 1289.40 ▼ 0.39% **WTI crude** 46.08 ▼ 4.38% **10-Year JGB yield** 0.046% **10-Year Treasury yield** 2.177%

Rosneft Deal Came With a Twist

Russia's sale of stake in state oil company allows for buyback; an emergency loan?

Russia's sale of one-fifth of its state-owned oil company to Qatar and commodities giant Glencore PLC last year had an

By Sarah McFarlane
in London
and Summer Said
in Dubai

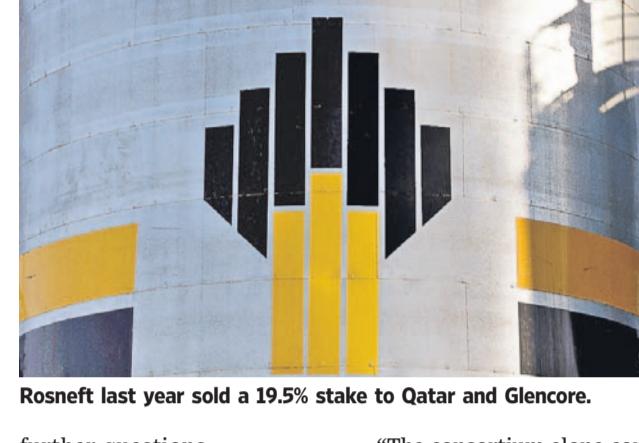
unusual provision: Moscow and Doha agreed Russia would buy a stake back, people familiar with the matter said.

Russian President Vladimir Putin hailed the €10.2 billion (\$11.5 billion) sale of the PAO Rosneft stake in December as a sign of investor confidence in his country. But the people with knowledge of the deal say it functioned as an emergency loan to help Moscow through a budget squeeze.

Moscow agreed with Qatar that Russia would buy back at least a portion of the stake from the rich Persian Gulf emirate, the people said. The Qatar Investment Authority and Glencore, the Swiss-based commodities giant, formed a partnership to buy the 19.5% stake in Russia's energy jewel at a time when Mr. Putin's government needed cash.

The people with knowledge of the deal say the buyback arrangement was negotiated with involvement from Mr. Putin and the emir of Qatar, Sheikh Tamim bin Hamad Al Thani. Russia and Qatar saw it as an opportunity to build a bridge between countries that had taken opposing sides in the Syrian civil war, the people said. One of the people said the buyback would happen in the next 10 years.

Kremlin spokesman Dmitry Peskov said he didn't agree with the characterization of the deal as an emergency loan. He didn't respond to



Rosneft last year sold a 19.5% stake to Qatar and Glencore.

further questions.

Glencore and the Qatar Investment Authority said the deal's contract contained no right for Russia to buy back Rosneft shares from the consortium they created.

"The transaction did not include an option or agreement for Rosneft, Rosneftegaz or the Russian state to buy the stake or parts of the stake acquired by the consortium," Glencore said.

"The consortium alone controls the future ownership of these shares," the Qatar Investment Authority said through a London public-relations firm.

Rosneft, the world's largest listed oil producer, is traded publicly in Moscow, but it isn't easy to buy and sell large pieces of the company because it remains majority-owned by the Russian state and is an instrument of economic power

for Mr. Putin.

The people familiar with the deal said a time-limited structure and a buyback agreement for the deal worked for both Qatar and Russia.

Qatar wanted its Rosneft stake to be temporary, the people said. The emirate believes it will profit from selling the shares back to Russia at a later date, the people said, betting that oil prices will rise and push up Rosneft's share price. Qatar saw the political benefits of giving Russia access to quick cash as a sort of loan to address a budget deficit that had widened due to lower oil prices, the people said.

After the deal, a range of talks opened between Russian and Qatari businesses on a scale not seen before, Russian news agencies have reported.

For Russia, a temporary deal was also preferred by Igor Sechin, a Putin confidante who runs Rosneft and its parent company Rosneftegaz, one of

Please see STAKE page B2

Chinese Phones Take On Apple

By Liza Lin and Dan Strumpp

SHENZHEN, China—The top player in Africa's fast-growing smartphone market isn't Apple Inc. or Samsung Electronics Co. It is Transsion Holdings Ltd., an obscure Chinese manufacturer that won customers by offering handsets with features targeted to local markets.

Transsion—whose products are sold under the Tecno, itel and Infinix brand names—developed handsets with two SIM-card slots after research showed people were carrying additional cards to avoid making out-of-network calls. It also optimized its cameras to better highlight the features of people with dark skin tones.

"We didn't want to bring what we had," said Arif Chowdhury, Transsion's vice president. "We wanted to bring what customers need."

That kind of thinking partly explains how Chinese manufacturers managed to snare more than 40% of the global smartphone market in the first quarter of 2017, double what they had five years ago, according to industry researcher IDC. Meanwhile, Samsung's and Apple's share of the global market has begun to slip.

The other answer can be found in the Pearl River Delta, China's southern tech corridor. With few exceptions, notably Beijing-based Xiaomi Corp., most of the more than 20 Chinese smartphone makers are there, a region rich in the technical know-how and manufacturing infrastructure.

Shenzhen is home to Huawei Technologies Co., ZTE Corp. and Transsion. BBK Electronics Corp., the parent owner of the popular Oppo and Vivo smartphone makers, and TCL Corp. are both less than 60 miles to the north.

It is a volatile market, as shown by Xiaomi's fall from the No. 1 Chinese phone maker in 2015 to the No. 5 position last year. The fight is all about staying competitive in pricing and features, and Shenzhen is the battleground.

Once known as little more than a hub of contract manufacturing for Western technology giants, the region has given birth to an array of domestic upstarts by marrying low-cost production and high-

Please see PHONES page B2

Rio Tinto's Copper Quest Tests Tech Limits

By STEVEN NORTON

SUPERIOR, Ariz.—One of the world's largest untapped copper deposits sits 7,000 feet below the Earth's surface. It is something operator Rio Tinto PLC wouldn't have touched—until now.

Not that long ago, an abundance of high-grade copper could be mined out of shallow open pits. But as those deposits are depleted and high-grade copper becomes tougher to find, firms such as Rio have been compelled to mine deeper underground.

Advances in mining technology are making that possible—just as innovations in oil and gas drilling heralded the fracking revolution. Now, using everything from sensors and data analytics to autonomous vehicles and climate-control systems, Rio aims to pull ore from more than a mile below ground, where temperatures can reach nearly 175 degrees Fahrenheit.

"Copper has just become a lot harder to get, and we're relying on technology to keep dealing with that decline in grade," said Craig Stegman, Rio's vice president for operational and technical support for copper and diamonds.

The company bets the Resolution Copper Mining project, a joint venture in Superior, Ariz., between Rio and BHP Billiton Ltd., could one day supply a quarter of annual U.S. demand for the metal. It plans to spend \$6 billion to \$8 bil-



The copper mine in Superior, Ariz., is 7,000 feet below the surface, where temperatures can reach nearly 175 degrees Fahrenheit.

lion on the mine, which the company hopes to bring into operation in the mid-2020s, when a lengthy approval process is expected to end. That includes completion of an environmental-impact statement,

a process managed by the U.S. Forest Service.

Rio expects Resolution will be one of its most advanced projects because the company can design the mine with the latest technology in mind,

rather than retrofitting it after the mine begins operating.

Most of the world's copper is extracted from open pits at the Earth's surface, according to the International Copper Study Group. Some mines are

deeper than the Resolution mine, but this is Rio's deepest underground mining project to date.

While a deep underground block-cave mine costs much more to develop, Rio

Please see MINE page B2

HEARD ON THE STREET | By Justin Lahart

As Facts Change, So Must The Fed

The facts have changed. Will the Federal Reserve change its mind?

There is no such thing as a sure thing, but a Fed rate increase next week is close. Officials at the central bank have made it clear they plan to lift their target range on overnight rates, and futures markets are putting the chances at better than 90% that a move will be made at their meeting next week.

But when Fed policy makers look beyond next week, they will have to consider a few inconvenient facts: First, even though unemployment is low, wage growth remains weak and inflation has cooled. Second, the economy remains stuck in a slow-growth rut. And third, the chances of near-term tax cuts and fiscal stimulus, which could provide a meaningful economic boost, have fallen.

just from the data and the headlines, but from the market. The yield on the 10-year Treasury note on Tuesday slipped to its lowest in more than half a year—an indication that bond investors have downgraded their growth and inflation expectations.

None of these developments are likely to prevent a rate rise next week, but they could prompt the Fed to rethink its projected rate increases through next year and its plan to begin winding down its balance sheet.

At the outset of the year it seemed as if the economy might be shifting into higher gear, with the election of President Donald Trump bringing about a burst of optimism at many businesses. But the good vibes didn't translate into better growth. Gross domestic product increased at just a 1.2% annual rate in the first quarter. Most economists reckon it will rebound to about a 3% rate in

Please see HEARD page B2

A Short-Selling Star Stirs Up Hong Kong

HONG KONG—Short sellers don't often achieve rock-star status. But in markets obsessed Hong Kong, Muddy Waters' Carson Block comes close.

By Steven Russolillo,
Jacky Wong
and Joanne Chiu

Certainly, Mr. Block's visit to Asia's leading financial center has caused a stir in its stock market this week. Investors and companies were on tenterhooks after Mr. Block said on Tuesday he would announce his latest target at the Sohn Hong Kong investor conference Wednesday.

Even after Mr. Block revealed his next target—Man Wah Holdings Ltd., a Hong Kong-listed furniture maker—the whirlwind continued. Man Wah's shares slumped by as much as 15.4%, leading to a halt in its trading.

His impact, though, was arguably just as great on stocks he hasn't decided to target. Shares in companies that had fallen sharply the day before, as investors tried to guess who was on the Muddy Waters radar, suddenly surged back on Wednesday after Mr. Block finished speaking. Tongda Group

Holdings Ltd., a maker of smartphone casings, rebounded 8.9%, after falling 10% the day before. Water supplier China Water Affairs Group Ltd. jumped 3.5% after it had dropped 9.4% on Tuesday.

The violent swings in some shares Tuesday and Wednesday illustrate the outsized impact on markets investors such as Mr. Block can gener-

ate. Short sellers like Muddy Waters borrow shares to sell them with the hopes of buying them back at a cheaper price later on, aiming to profit from a price decline.

Mr. Block's previous prescient calls on Chinese companies have made him a superstar at the annual Hong Kong edition of the Sohn conference, where a variety of market par-

ticipants are given a short time slot to explain their latest big investing idea. On Wednesday, his every move was tracked by a mob of local reporters.

Mr. Block shot to fame in 2011 following his campaign against Chinese forestry company Sino-Forest Corp., which filed for bankruptcy the following year. Late last year, he

Please see BLOCK page B2



Anticipation of comments by short-seller Carson Block caused swings in Hong Kong shares.

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The projected life of the Resolution mine is more than 40 years.

MINE

Continued from the prior page says it can match the operating costs per ton of ore of a surface mine, partly because it is so mechanized.

"Because Resolution is so deep and so hot, it's really going to push the envelope of technology," said Mary Poulton, professor emerita of mining and geological engineering at the University of Arizona.

As with the development of new hydraulic-fracturing and horizontal-drilling techniques to extract oil from shale-rock deposits, locating and extracting the copper successfully requires deployment of new technologies such as cheaper, more powerful sensors and breakthroughs in the use of data.

A network of pipes pumps water out of the shaft at 600 gallons a minute.

"Whoever gets underground and figures out technology for underground is going to be ahead," said Theophile Yameogo, a partner with Ernst & Young LLP's mining and metals practice.

A 15-minute elevator ride 6,493 feet down Resolution's No. 10 mine shaft leads to a dimly lighted cavern where warm water falls from the rocks like rain. Electrical gear buzzes constantly, and a network of pipes pumps water out of the shaft at the rate of 600 gallons a minute. A ventilation system cools the area to 77 degrees.

Over the next few years, Rio plans to deploy tens of thousands of electronic sensors, as well as autonomous vehicles and complex ventilation systems, to help it bring 1.6 billion tons of ore to the surface over the more than 40-year projected life of the mine.

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BUSINESS NEWS

China's Box-Office Ascent Slows

By ERICH SCHWARTZEL

A slowdown in ticket sales and a drop in China's currency have undermined projections that the country would become the world's No. 1 box-office sometime this year, with a new report indicating the U.S. could keep the top spot through 2021.

In China, already a key market for Hollywood studios, challenging market conditions have depressed what had been torrid growth in the country, according to a report from PricewaterhouseCoopers LLC.

Anemic box-office growth last year in China depressed projections, and the country is cracking down on box-office fraud believed to have inflated ticket grosses. It is unclear how aggressive those crackdowns will continue to be. The recent fall of the yuan has also thrown projections into flux.

The conditions have grown so opaque and unpredictable that the country may still surpass the U.S. by 2021, but the variables of the market defy firm projections, said Matthew Lieberman, advisory marketing leader at PwC. "There are a couple of unknowns that drive us to err on the conservative side," he said.

One thing is clear: China, which already has more movie theaters than any country in the world, is building more at a rapid clip. The country will have more than 80,000 screens in 2021, nearly twice as many as the U.S. will have, according to PwC's annual Global Entertainment and Media Outlook report.

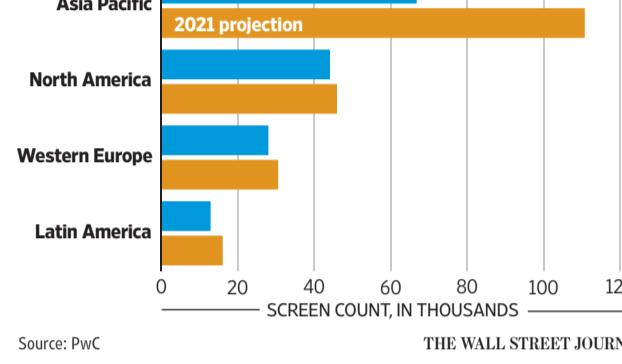
"There are hundreds of new cities being built in China, and all have cinemas being built in them," said Mr. Lieberman. "Where else in the world can you have entirely new cities?"

The screen construction is one of several long-term trends cited by PwC that point to the Asia Pacific region as the primary source of growth for the global cinema industry. Box-office grosses in that part of the world are expected to grow more rapidly than any-



Screen Surge

Movie theater screen count by region



Source: PwC

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where else in the next five years, according to PwC, hitting a projected \$20.4 billion in 2021. North American box office is projected to tick up to around \$12 billion, from \$11.3 billion in 2016.

Stateside, PwC sees significant growth for the theatrical movie industry's biggest competitors, such as at-home entertainment options.

The U.S. market for subscription video-on-demand services such as Netflix Inc. will continue to outpace the country's theatrical movie business, with subscription and video-on-demand rentals hitting \$13.6 billion this year

and rising to \$18.8 billion by 2021, the outlook found. Esports and virtual-reality are also expected to shoot up, said Mr. Lieberman, though they are starting from a tiny base, compared to feature films and video-on-demand.

Any projected growth in U.S. box office is expected to arise almost entirely from increasing ticket prices, said Mr. Lieberman. In China, currently the world's second-largest box-office market, growth is expected to derive from rising admissions.

China's box office is expected to grow more than any other country in the next five years.

Fans of the latest 'Pirates of the Caribbean' film at a debut event in Shanghai last month.

One looming question facing China's prospects is the renegotiation of distribution terms that will dictate how many U.S. releases are imported into the country each year.

Nonetheless, China's theater-construction boom is proving lucrative for exhibition companies. IMAX Corp.'s presence in the country is expected to rise, with its 3-D screen footprint nearly doubling to 575 by 2021.

The ticket surcharges from IMAX screenings are expected to contribute to a rise in the cost of Chinese movie tickets, which averaged \$4.50 last year but should hit \$5.27 in 2021. The average ticket price in the U.S. last year was \$8.65.

IMAX's growth is benefiting from theater construction in smaller cities, some of which are getting their first theaters, said Cecilia Yau, a partner in the entertainment and media practice at PwC's Hong Kong Office. "You can introduce the new technology right away" and train consumers to pay for the more expensive ticket, she said.

Top U.S. Sales Executive For Hyundai Resigns

By ADRIENNE ROBERTS

Hyundai's National Dealer Council until the end of 2016.

The auto maker has also been selling too many vehicles to fleet customers such as rental-car agencies, a move that can ding residual values, Mr. Kraushaar said. "There's some instability at Hyundai and it's concerning," he said in an interview.

Mr. Brnovich's "more than 30 years of experience in the industry will help us continue our momentum heading into the second half of the year," the Hyundai spokesman said, referring to Mr. Hatami's interim replacement. "We also have confidence in our entire sales organization to work hand-in-hand with Hyundai's dealer body to provide customers with industry-leading vehicles, technology and customer service." The spokesman added that Mr. Hatami "served the company well during his time as head of sales and we wish him nothing but success."

Mr. Hatami was in his position as vice president of sales for just under two years, according to his LinkedIn profile. Before a brief stint at Nissan Motor Corp. from 2014 to 2015, he was with Hyundai for nearly a decade, holding various positions across the company. Mr. Hatami's biography has been removed from Hyundai's website.



JUSTIN SULLIVAN/GETTY IMAGES
The car maker has failed to keep up with U.S. consumer trends.

THE FUTURE OF EVERYTHING

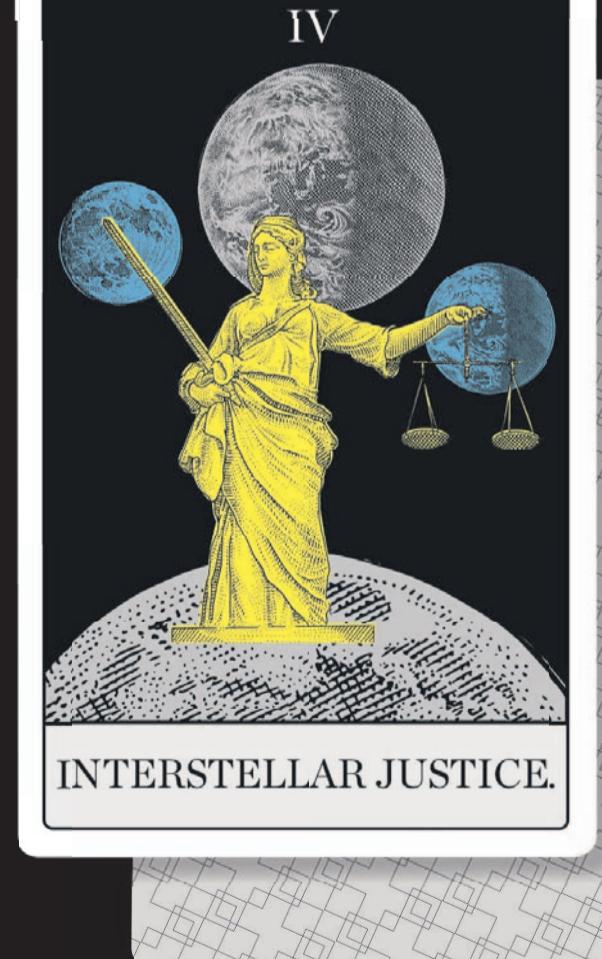
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TECHNOLOGY

Uber Fires Over 20 In Wake Of Probe

BY GREG BENSINGER
AND JOANN S. LUBLIN

Uber Technologies Inc. has fired more than 20 workers as a result of an investigation into claims it has an aggressive, male-dominated workplace that permits sexual harassment and sexism, according to an employee who attended a companywide meeting Tuesday.

The ride-hailing company told its more than 12,000 employees that law firm **Perkins Coie LLP** investigated 215 claims relating to workplace behavior and that no action was taken on 100 of them, according to this person. The names of those fired weren't disclosed. Uber declined to comment.

The firings mark the initial fallout from two investigations Uber ordered into its own workplace culture, after a February blog post by former software engineer Susan Fowler Rigetti claimed Uber management had ignored multiple complaints from her and other female workers of sexual harassment and sexism by their managers.

Uber is expected to release in the coming days an executive summary of a report prepared by former U.S. Attorney General Eric Holder, who along with his law firm, **Covington & Burling LLP**, was hired to help investigate the San Francisco company's practices and recommend changes. Perkins Coie was retained, in part, to look into Ms. Fowler Rigetti's claims.

It is highly unusual for a company to dismiss more than 20 people over claims of sexual harassment, sexism or other workplace matters, according to Rick Rossein, a law professor at City University of New York.

Bloomberg News earlier reported news of the firings.

Bernard Coleman, Uber's head of diversity, said later on Tuesday that part of the company's cultural problems may stem from focusing too much on its ride-sharing service and not on its workplace during its early years. Fixing these problems now is more difficult because of Uber's size, he said.

The executive, who joined Uber in January after holding the chief diversity role for Hillary Clinton's presidential campaign, said the company will soon roll out diversity and inclusion training.

Uber, valued by investors at \$68 billion, has been scrambling to repair its image in the wake of a series of executive departures, a federal probe into its business operation, a lawsuit by Google parent Alphabet Inc. over alleged trade-secret theft, and the company's admission that it erroneously withheld tens of millions of dollars from New York City drivers over more than two years.

—Douglas MacMillan contributed to this article.

Google Mapping Travels Outback

Maps app is extending to remote areas of the globe; elephants and camels help out

BY MIKE CHERNEY

ULURU, Australia—Google is encountering some unusual challenges as it aims to capture eye-level imagery of the remotest parts of the globe for its mapping app.

In a recent foray into the Australian outback, Google's amateur cartographers used a backpack to lug bulky camera equipment around Uluru, a popular tourist site also known as Ayers Rock. One hitch: they had to avoid photographing certain parts of the red rock formation that are especially sacred to the local Aboriginal people.

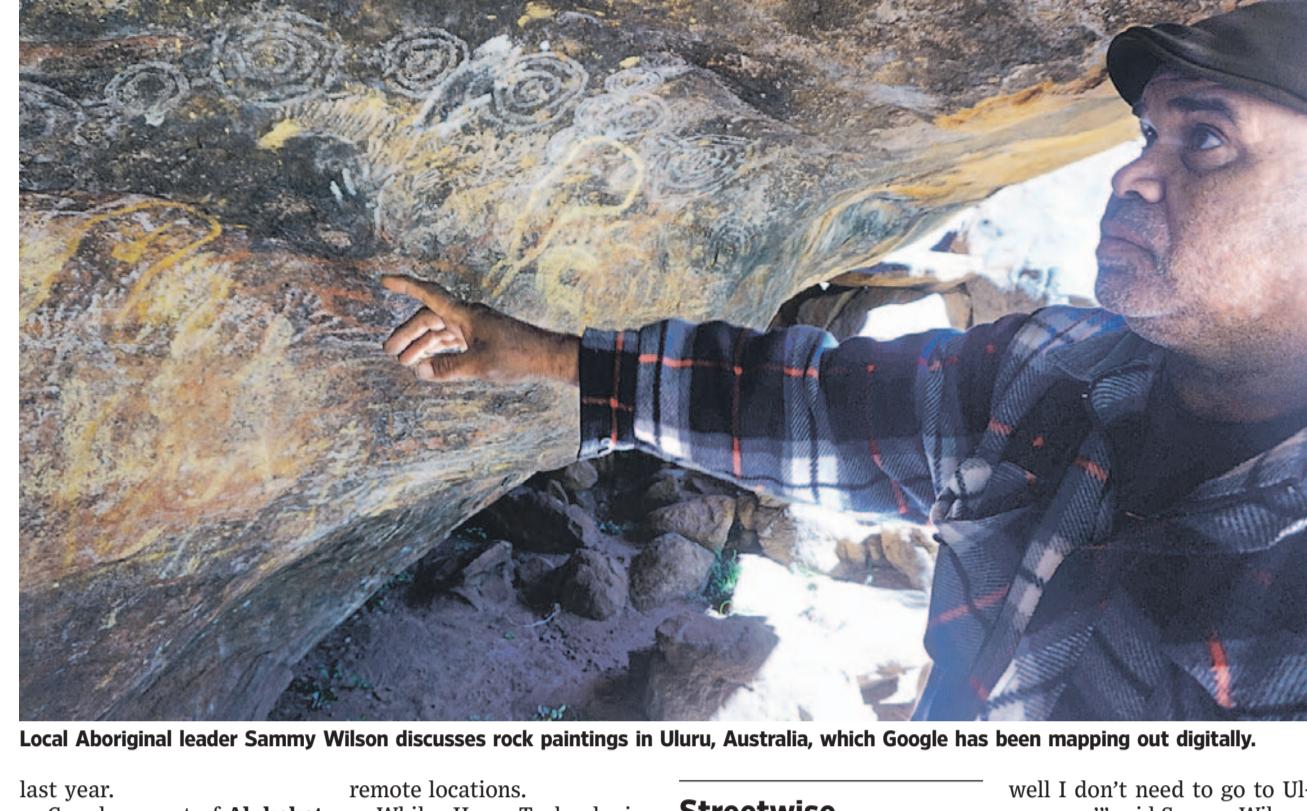
Having taken shots of many of the world's streets using cameras on vehicles, Google is moving to more difficult locations. On the South Pacific island of Vanuatu, where it captured images of a volcano, the company sought to photograph lava without any of its cameras falling in. And in Cambodia, monkeys destroyed its equipment.

The images are being used to enhance Street View, a component of the company's popular Google Maps app, as the company searches for new features that will entice users. Starting this month, users will be able to take a continuous virtual walk around much of Uluru.

Maps are becoming more important to the world's largest technology companies as they chase billions of advertising dollars and build a presence in the autonomous-vehicle industry.

The value of ads in the U.S. that are based on a user's location will grow to \$32 billion by 2021 from \$12 billion in 2016, according to estimates from BIA/Kelsey, a media and advertising consulting firm.

These location-targeted messages will take up 45% of the mobile-ad market by 2021, the firm said, up from 38%



Local Aboriginal leader Sammy Wilson discusses rock paintings in Uluru, Australia, which Google has been mapping out digitally.

last year.

Google, a part of **Alphabet Inc.**, has been cautiously adding advertising to Google Maps. Last year, it unveiled "promoted pins," location markers appearing in different colors for advertising certain businesses. The challenge for Google is integrating ads without cluttering the app.

Competitors in mapping include Apple Inc. and a host of other players, such as privately held Here Technologies, which is part-owned by German automakers Audi AG, BMW AG and Daimler AG. In the market for general consumers, Google has a clear lead. Google Maps was the fourth most popular mobile app overall in the U.S., while Apple Maps was the 12th most popular, according to a 2016 report from comScore.

On Monday, Apple said it would add to its Maps app the floor plans for airports and malls in such cities as Hong Kong, London and Chicago. It also is updating the app to show speed limits and lane navigation for drivers. The company hasn't said anything about extending its maps to

remote locations.

While Here Technologies isn't focusing on cultural sites like Uluru in the way Google is, it has a fleet of camera-equipped cars mapping roads in remote regions of the Philippines.

"Cars have been stuck in mud, cars have not been too successful in crossing creeks and rivers, and cars have been stuck in sand," said Brent Stafford, Here's Asia-Pacific director.

At Uluru, a roughly 2,800-kilometer drive northwest of Sydney in the central Australian desert, Google relied on amateur human cartographers. In other remote locations, animals were also enlisted. An elephant helped to map in Thailand, and a camel wore a camera pack in the United Arab Emirates.

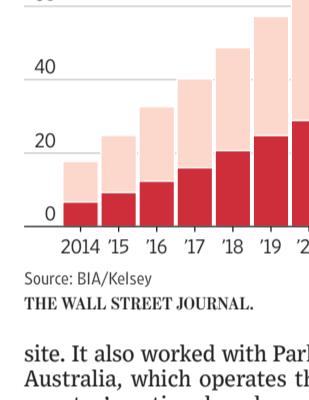
"This is not a case of driving up there in a four-wheel drive and just going off road," said Casey Whitelaw, engineering director for Google Maps in Sydney.

Google was approached by tourism officials from Australia's Northern Territory, where Uluru is located, to map the

Streetwise

Ads based on a user's location are expected to grow.

Estimated value of the U.S. mobile-advertising market



Source: BIA/Kelsey

THE WALL STREET JOURNAL.

well I don't need to go to Uluru now," said Sammy Wilson, a local Aboriginal leader who also heads the board for Uluru's national park. "I hope that it will make them think about what more there is to learn and understand and appreciate from visiting here," he said, speaking through an interpreter in the Pitjantjatjara language.

Google was given a map showing those areas of Uluru deemed too sensitive to photograph.

Analysts say that by adding more remote sites to its maps, Google is ensuring its consumers will continue to use its app, which offers opportunities to attract users to other company products. However, they also note the company's reputation for "moonshot" projects and public-minded goals like organizing the world's information.

Imaging places like a volcano "sounds like a very Google-y thing to do, even if that by itself is not something that can be commercialized," said Colin Sebastian, a research analyst at Baird in San Francisco.

Alleged Theft of iPhone Data Tests China's New Law

BEIJING—A week after China's first cybersecurity law took effect, an investigation over the alleged theft and sale of iPhone users' information looks set to test how well **Apple Inc.** and other companies protect Chinese citizens' personal data.

Police in eastern China said they had detained 22 people, including 20 from Apple "direct sales outlets" in China and companies to which Apple outsources services. Police said those detained had used Apple's internal system to illegally obtain information associated with iPhone products like phone numbers, names and Apple IDs, and then sold the information.

A statement by police in Cangnan county in Zhejiang

province gave no further information on the Apple outlets involved or details on the two other people detained. Calls to the police news department went unanswered.

The statement said the 22, who were detained May 3, charged from 10 yuan (\$1.50) to 180 yuan for each piece of information and that the total amount of money involved was more than 50 million yuan.

An Apple spokeswoman in China didn't respond to a request for comment.

China has long struggled to rein in a robust black market in personal information, prompting one political activist last year to purchase and publish in a form of protest the private data of several Chinese tech CEOs, in-

cluding Alibaba Group Holding Ltd. co-founder Jack Ma. The activist showed evidence of one vendor offering to sell personal information ostensibly belonging to Chinese President Xi Jinping for 1,000 yuan.

Police in eastern China said they detained 22 people early last month.

A core aim of the cybersecurity law is to better protect individuals' private data, authorities have said.

iPhone users' information is

highly prized on the black market because of the belief they are more affluent. Obtaining data such as a user's Apple ID could help hackers lock iPhones remotely and then demand payment from the user to unlock it. The potential for abuse widens further if hackers gain access to a user's cloud storage.

Ahead of the June 1 implementation of the cybersecurity law, foreign technology companies expressed concern, saying they were uncertain how it would affect their operations. Specific measures to comply with the law's mandates on protection of personal information are still being worked out, according to the regulator, China's Cyberspace Administration.

Under earlier laws, companies have largely escaped punishment when employees used their access to internal computer systems to steal users' personal data, according to Liu Chunquan, an intellectual property lawyer with Shanghai-based Duan & Duan Law Firm.

That has changed under the cybersecurity law, Mr. Liu said, with companies now potentially facing fines and other punishment by regulators unless they can prove their systems weren't to blame for leaks.

"Now with this law, Apple as a company faces much greater legal risk than it would have before," he said.

—Yang Jie and Josh Chin contributed to this article.

BUSINESS WATCH

SAMSUNG

Investment to Boost Output in India

Samsung Electronics Co. said it would invest about \$760 million to double its production capacity for mobile phones and refrigerators in India, a key market for the smartphone maker.

The expansion of its factory in Noida, located outside New Delhi, underscores the importance of the Indian market, where the smartphone maker is battling Apple Inc. and a handful of lower-cost handset makers.

—Timothy W. Martin and Newley Purnell

VOCUS

KKR Shows Interest In Telecom Firm

KKR & Co. has pitched a takeover offer for Australian's **Vocus Communications Ltd.** valued at about 2.18 billion Australian dollars, or US\$1.64 billion. Vocus said it received a preliminary and nonbinding offer from KKR of A\$3.50 a share in cash.

—Rob M. Stewart

PHONES

Continued from page B1
tech engineering

"The impression that Chinese companies are not good at innovation was accurate three years ago but not anymore," said Li Dongsheng, chairman of **TCL**, whose smartphones are ranked in the top five in the U.S.

Oppo, China's largest smartphone maker by market share last year, started producing phones eight years ago that were notable only for simple design flourishes such as a camera molded into the shape of a smile. Today, its biggest selling points include a "beautify" function that smooths and brightens users' selfies and a fast-charging battery.

"We do customer channel checks and survey our large sales force to find out what consumers need and want from their phones, and try and innovate that way," said Alen Wu, Oppo's vice president and marketing director for its China market.

In 2016, Oppo sold more than three phones in China for every two sold by Apple. A year earlier, it was the other

way around.

Now, Oppo is taking the same playbook overseas. In Southeast Asia and India, where Oppo found that consumers love taking selfies, they rolled out wide-angle camera lenses designed for group selfies. The Chinese vendor announced plans this year to expand its Indonesia factory, open one in India and push into the Middle East and North Africa.

Similarly, Huawei has streamlined its lineup of

smartphones and has put greater emphasis on its phone cameras, including its own version of the depth effect pioneered by the iPhone 7 Plus—with the background blurred and foreground in focus—in a phone costing a third of the iPhone's price.

"In the smartphone space, what we're going to do is catch up with our competitors through innovation," Shao Yang, president of strategy marketing at Huawei's consumer group, told reporters at

a briefing this year. "In the next phase, we hope to take the lead by offering the best user experience and the best products for our users."

At Transsion, company executives introduced the dual-SIM-card phone after noticing how African users often carried two SIM cards and swapped them around because call rates between different telecom networks were more expensive than intra-network calls.

The company also found that customers enjoyed taking selfies but were disappointed at how poorly darker skin tones turned out, Transsion's Mr. Chowdhury said. It tweaked the algorithm on its smartphone camera to allow more light exposure, boosting photo clarity.

It paid off. Transsion was the top phone maker in Africa last year, with 38% market share, topping Samsung, according to IDC.

In emerging markets such as Africa and India, low price is crucial to success. But Chinese makers are also making strides in the U.S. Smartphone makers from China increased their market share to 19% in the U.S. last year from 13% in 2012, at the expense of Apple and Taiwanese maker HTC.

Corp., IDC data shows.

TCL, which bought the rights to BlackBerry's phone brand at the end of last year after helping the brand manufacture its smartphones, plans to use the once-ubiquitous marque to enter the high-end segment in the U.S., TCL's Mr. Li said.

U.S. customers are practical and, apart from Apple users, brand loyalty isn't strong, he added. This has created an opportunity for Chinese brands to muscle in.

Still, the similarities among Chinese makers and the lack of Apple-like brand cachet means that Chinese smartphone makers are mostly fighting one another for customers.

The challenge for those companies is how to differentiate themselves as they expand beyond their sales强holds, said Kiranjeet Kaur, a research manager at IDC in Singapore.

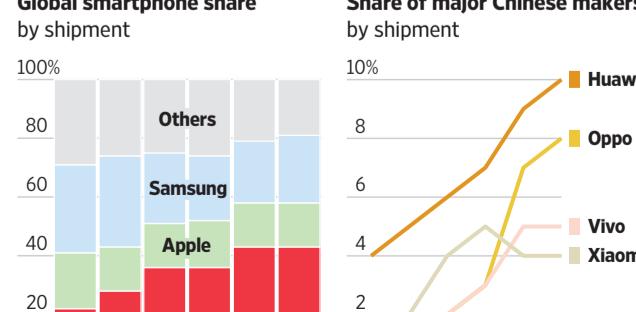
"Chinese phone makers stand out from their foreign peers because of its features but less so from each other," Ms. Kaur said. "As they enter new markets, they will face more competition from each other."

—Junya Qian in Shanghai contributed to this article.

China Calling

Chinese smartphone makers are gaining market share with competitive pricing and features.

Global smartphone share by shipment



*Including more than 20 smartphone makers from China

Source: IDC

THE WALL STREET JOURNAL.

FINANCE & MARKETS

Santander Buys Ailing Popular

EU-organized sale of troubled bank for €1 wipes out shareholders but spares taxpayers

BY JEANNETTE NEUMANN

MADRID—Banco Santander SA acquired Spanish rival Banco Popular Español SA in an overnight auction for the nominal amount of €1 (\$1.13) after the European Central Bank determined Banco Popular was near collapse, providing a test of Europe's banking rules enacted after the financial crisis.

The overnight rescue acquisition of Banco Popular marks a swift and decisive response by the European Union to stop the downward spiral of Spain's most troubled big bank.

While the Spanish banking sector is largely healthy, Banco Popular has proved a weak link. The lender's balance sheet is weighed down by around €37 billion in foreclosures and other nonperforming assets accumulated since the country's real-estate boom went bust.

The sale of Banco Popular also marks the first major move by the Single Resolution Board, the European body charged with dealing with failing banks and ensuring that taxpayer money doesn't go to bailing out troubled lenders.

Instead, shareholders and junior debtholders are in line for losses, along with holders of contingent convertible debt, also known as CoCos, which European authorities have encouraged banks to issue in recent years.

Lenders across the region, including Banco Popular, have used this kind of debt to raise



After attempts failed by Banco Popular to find a buyer in a private sale, EU authorities launched a rapid-fire auction Tuesday night.

billions of euros of capital.

chi di Siena SpA.

Banco Popular has been floundering for months, though in recent weeks its crisis deepened as investors became increasingly concerned it wouldn't be able to sell assets, raise capital or find a buyer.

Like other troubled lenders in Italy, Portugal, Greece and elsewhere in Europe, the bank hasn't been able to generate strong enough profits to help shore up its balance sheet. Banco Popular's share price had plummeted more than 50% in the past week alone.

The ECB determined on Tuesday "that the bank was failing or likely to fail," ac-

cording to a statement.

After recent attempts by Banco Popular to find a buyer in a private sale failed, EU banking authorities launched a rapid-fire auction Tuesday night, with Santander emerging as the buyer early Wednesday morning, Santander Executive Chairman Ana Botin said.

She declined to say how many other banks were involved in the auction.

One of the banks invited to the Tuesday auction was Spain's Banco Bilbao Vizcaya Argentaria SA, people familiar with the process said separately. But Spain's No. 2 bank

by market value decided against bidding for Banco Popular, those people added.

The rescue imposed steep losses on junior bondholders and wiped out shareholders, while senior bondholders were spared.

The transaction spared taxpayers, fulfilling a major objective of EU banking rules that were enacted after a number of European governments used public money to shore up teetering banks during the financial crisis.

A private solution for a teetering bank "is great news for Europe," Ms. Botin said during a news conference in Madrid.

FINANCE WATCH

ACCOUNTING

Fewer U.S. Firms Restate Results

The share of U.S. companies restating their results hit a six-year low in 2016, a sign that finance chiefs have strengthened their oversight of financial reporting in recent years.

Just 671 public companies disclosed they would need to re-issue or revise their financial filings last year, or 6.8% of the 9,831 companies, according to an upcoming annual study by Audit Analytics.

That is the lowest number of restatements in fifteen years and the lowest share since 2010, when 6.7% of companies disclosed they would need to restate financials. That year, 847 out of 12,713 listed companies told investors a restatement was needed.

Tighter regulation and a decline in the number of U.S.-listed

CURRENCY TRADING

World Bank Backs Effort to Cut Risks

The investment arm of the World Bank has backed a Wall Street startup working to cut a major risk for banks' trading desks.

The International Finance Corp., a member of the **World Bank Group**, is investing \$3 million into LMRKTS LLC, a New York startup founded in 2012 by ex-traders to help banks to slash their exposure to one another, according to the companies.

The project, which focuses on currency trading for emerging-market banks, is part of a recent surge of investment in startups aiming to offer tools, using data mining and other new "quant" techniques, to help manage the cost and complexity of trading. That cost has hampered banks' trading revenue since the financial crisis.

But unlike the Silicon Valley venture-capital money pouring into consumer-facing "fintech" startups, most of the funding for these firms is coming from banks or other parts of the existing financial system.

LMRKTS is backed by a bevy of Wall Street veterans and well-known financial experts, including former U.S. Treasury Secretary Lawrence Summers, who is an adviser.

The investment will help introduce LMRKTS, which has worked so far with big U.S. and European banks, to emerging markets' banks, said Andi Dervishi, head of fintech investments at IFC.

—Telis Demos

—Tatyana Shumsky

The investment will help introduce LMRKTS, which has worked so far with big U.S. and European banks, to emerging markets' banks, said Andi Dervishi, head of fintech investments at IFC.

The fund tends to bet on rising stocks more than falling stocks and has benefited from a 7% rise in the Stoxx 50 stock-market index so far this year.

Mr. Joab also used price falls on investor nervousness surrounding the French presidential election to increase his positions in French stocks, which have also performed strongly, a person familiar with the matter said.

The gains come as a boost for Lansdowne after its flagship Developed Markets fund, run by Peter Davies and Jonthan Regis, lost nearly 15% last year, one of its worst cal-

tions in bank stocks, support services firms and industrial companies.

The gain puts the fund—which largely consists of money from Mr. Joab and his family plus money from top Lansdowne executives—well ahead of an average 2.4% gain among hedge funds this year to May 26, according to Chicago-based data group HFR.

That ranks it among the best-performing hedge funds globally in what is proving to be another challenging year for the sector, according to data compiled by the Journal.

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Named after a village in central France where Mr. Joab's family comes from, the Princay fund takes very large, concentrated positions in European stocks.

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Former Treasury Secretary Lawrence Summers advises LMRKTS.

BY LAURENCE FLETCHER

LONDON—A little-known portfolio run by one of London's biggest hedge-fund firms has quietly become one of the sector's top performers this year.

At **Lansdowne Partners**, which manages around \$19 billion in assets from its base in London's expensive Mayfair district, the tiny Princay fund has gained 13% this year, according to numbers sent to investors and reviewed by The Wall Street Journal.

Managed by Frenchman Samuel Joab, a former fund manager at BlueCrest Capital who focuses on forensic accounting of company balance sheets, the \$65 million Princay fund has profited from posi-

tions in bank stocks, support services firms and industrial companies.

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Lotte Set To Launch Malaysian Unit IPO

BY P.R. VENKAT

SINGAPORE—**Lotte Group**, South Korea's fifth-largest conglomerate, plans to take orders next week for an initial public offering of its Malaysian petrochemical unit that could raise as much as \$1.4 billion, people familiar with the process said Wednesday.

The South Korean company is looking to list its Malaysian subsidiary, **Lotte Chemical Titan**, by the end of this month.

People familiar with the process said four investors—including a Malaysian state-owned fund manager and private insurance companies—have agreed to take up to 20% of the IPO.

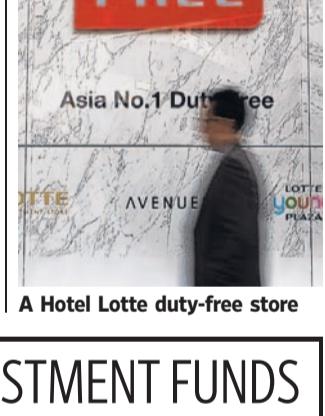
A spokeswoman for Lotte Group said the company plans to launch its Malaysia IPO by July but declined to give further details.

Plans to list Lotte Chemical Titan were delayed last year after South Korean prosecutors charged the parent company's chairman and four of his family members with tax evasion and embezzlement. The chairman's sister was sentenced to three years in prison in January.

Lotte's troubles subsequently escalated when authorities in South Korea launched an investigation into alleged financial wrongdoing at the parent. In an October statement, Lotte apologized for "causing concern" and said it would cooperate with the investigation process.

The South Korean conglomerate has interests in duty-free stores, luxury hotels and insurance. It boasts annual sales of about \$74 billion and has been controlled by the Shin family since it was established in 1948.

Lotte Chemical is planning to sell 740.48 million shares; people familiar with the IPO process said the company intends to sell the shares at a maximum price of 8 Malaysian ringgit (\$1.87) a share.



A Hotel Lotte duty-free store

Trafigura's Half-Year Profit Plummets 22%

BY SARAH MCFARLANE

Oil trader **Trafigura Group** Pte Ltd's half-year profit fell sharply, suffering from a period of lower volatility in oil prices, even with a rise in traded volumes.

The privately held company reported a 22% fall in profit to \$471 million in the six-month period ended March 31.

Its oil-trading volumes rose during the period, however, with the firm expecting to exceed 5 million barrels a day in 2017, up from 4.3 million barrels the previous year.

Trafigura is the third-largest oil trader behind **Vitol Group** and **Glencore PLC**. Tightening margins have meant these three companies have ramped up the amount of oil they trade

to generate profits, growing their market share to the detriment of smaller firms.

Trafigura said its gross profit margin fell to 1.8% for the period, compared with 2.7% in the first six months of 2016.

Oil prices were stuck within a particularly tight range in January and February which limited trading opportunities.

"We can generate profit whatever the market circumstances, whether it's a flat market or volatile market, but obviously the quantum of the profitability is higher if the market is volatile," said Christophe Salmon, chief financial officer at Trafigura. He added that the oil market was much more volatile in May, which would contribute to the company's second-half results.

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—%RETURN—

FUND NAME GF AT LB DATE CR NAV YTD 2-YR

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8865, Website: www.cam.com.sg, Email: cam@cam.com.sg CAM-CF Limited OT MUS 06/02 USD 307280.21 1.7 11.1 -3.7

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China A-Share Fund C1 AUD H OT HKG 06/06 AUD 13.03 10.5 17.5 -7.6

China A-Share Fund C1 CAD H OT HKG 06/06 CAD 12.27 12.3 15.2 -8.0

China A-Share Fund C1 EUR H OT HKG 06/06 EUR 12.04 10.3 16.1 -8.8

China A-Share Fund C1 GBP H OT HKG 06/06 GBP 12.42 9.5 17.1 NS

China A-Share Fund C1 NZD H OT HKG 06/06 NZD 12.61 9.7 14.8 -8.4

China A-Share Fund C1 SGD H OT HKG 06/06 SGD 12.42 9.7 14.8 -8.4

China A-Share Fund C1 USD H OT HKG 06/06 USD 12.42 9.7 14.8 -8.4

China A-Share Fund C100 H OT HKG 06/06 HKD 12.42 9.7 14.8 -8.4

China A-Share Fund C100 HNZD H OT HKG 06/06 NZD 12.42 9.7 14.8 -8.4

China A-Share Fund C100 HKD H OT HKG 06/06 HKD 12.42 9.7 14.8 -8.4

China A-Share Fund C100 SGD H OT HKG 06/06 SGD 12.42 9.7 14.8 -8.4

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China A-Share Fund C100 USD NZD H OT HKG 06/06 USD NZD 12.42 9.7 14.8 -8.4

China A-Share Fund C100 NZD SGD H OT HKG 06/06 NZD SGD 12.42 9.7 14.8 -8.4

China A-Share Fund C100 HKD SGD H OT HKG 06/06 HKD SGD 12.42 9.7 14.8 -8.4

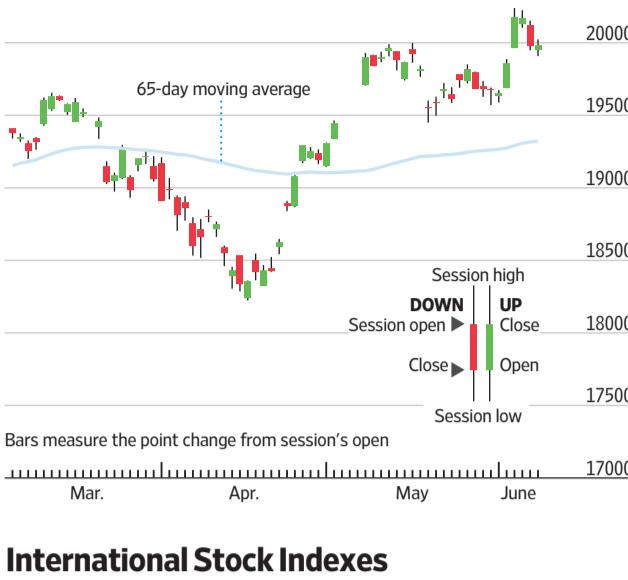
China A-Share Fund C100 HKNZD SGD H OT HKG 06/06 HKNZ

MARKETS DIGEST

Nikkei 225 Index

19984.62 ▲ 4.72, or 0.02%

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



Bars measure the point change from session's open

STOXX 600 Index

389.18 ▼ 0.22, or 0.06%

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



Mar. Apr. May June

S&P 500 Index

2430.02 ▲ 0.69, or 0.03%

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



Mar. Apr. May June

Data as of 12 p.m. New York time

Last Year ago

Trailing P/E ratio 24.08 24.22

P/E estimate * 19.01 17.81

Dividend yield 1.95 2.18

All-time high: 2439.07, 06/02/17

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

International Stock Indexes

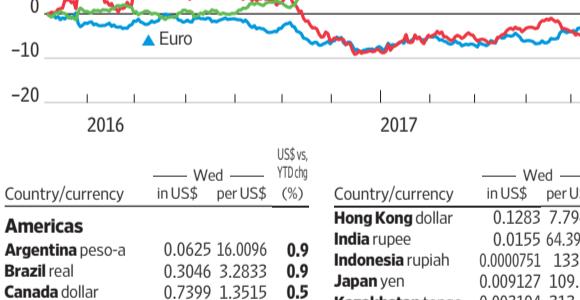
Data as of 12 p.m. New York time

| Region/Country | Index | Close | Net Chg | % chg | 52-Week Range | Close | High | YTD % chg |
|---------------------|-------------------------------|-----------------|---------|--------------|---------------|------------|-------------|-----------|
| World | The Global Dow | 2771.79 | -3.49 | -0.13 | 2193.75 | ● 2791.48 | 9.6 | |
| | MSCI EAFE | 1899.88 | -4.57 | -0.24 | 1471.88 | ● 1956.39 | 10.7 | |
| | MSCI EM USD | 1014.07 | -1.82 | -0.18 | 691.21 | ● 1044.05 | 27.7 | |
| Americas | DJ Americas | 582.74 | -0.21 | -0.04 | 480.90 | ● 585.50 | 7.8 | |
| Brazil | Sao Paulo Bovespa | 63063.14 | 108.45 | 0.17 | 48066.67 | ● 69487.58 | 4.7 | |
| Canada | S&P/TSX Comp | 15367.62 | -96.94 | -0.63 | 13609.58 | ● 15943.09 | 0.5 | |
| Mexico | IPC All-Share | 49054.78 | -163.84 | -0.33 | 43902.25 | ● 50154.33 | 7.5 | |
| Chile | Santiago IPSA | 3716.25 | -17.53 | -0.47 | 2998.64 | ● 3786.05 | 15.3 | |
| U.S. | DJIA | 21149.89 | 13.66 | 0.06 | 17063.08 | ● 21225.04 | 7.0 | |
| | Nasdaq Composite | 6289.04 | 13.98 | 0.22 | 4574.25 | ● 6310.62 | 16.8 | |
| | S&P 500 | 2430.02 | 0.69 | 0.03 | 1991.68 | ● 2440.23 | 8.5 | |
| | CBOE Volatility | 10.47 | 0.02 | 0.19 | 9.56 | ● 10.47 | 26.72 -25.4 | |
| EMEA | Stoxx Europe 600 | 389.18 | -0.22 | -0.06 | 308.75 | ● 396.45 | 7.7 | |
| | Stoxx Europe 50 | 3201.50 | -9.97 | -0.31 | 2626.52 | ● 3279.71 | 6.3 | |
| France | CAC 40 | 5265.53 | -3.69 | -0.07 | 3955.98 | ● 5442.10 | 8.3 | |
| Germany | DAX | 12672.49 | -17.63 | -0.14 | 9214.10 | ● 12878.59 | 10.4 | |
| Israel | Tel Aviv | 1427.42 | 3.52 | 0.25 | 1372.23 | ● 1490.23 | -2.9 | |
| Italy | FTSE MIB | 20739.91 | -20.10 | -0.10 | 15017.42 | ● 21828.77 | 7.8 | |
| Netherlands | AEX | 523.10 | 1.39 | 0.27 | 409.23 | ● 537.84 | 8.3 | |
| Russia | RTS Index | 1034.31 | -6.92 | -0.66 | 884.83 | ● 1196.99 | -10.2 | |
| Spain | IBEX 35 | 10871.70 | -8.00 | -0.07 | 7579.80 | ● 11184.40 | 16.2 | |
| Switzerland | Swiss Market | 8876.73 | -31.54 | -0.35 | 7475.54 | ● 9136.95 | 8.0 | |
| South Africa | Johannesburg All Share | 52117.82 | -134.05 | -0.26 | 48935.90 | ● 54716.53 | 2.9 | |
| Turkey | BIST 100 | 9716.52 | -715.02 | -0.73 | 70426.16 | ● 99278.08 | 24.9 | |
| U.K. | FTSE 100 | 7478.62 | -46.33 | -0.62 | 5788.74 | ● 7598.99 | 4.7 | |
| Asia-Pacific | DJ Asia-Pacific TSM | 1633.29 | -0.57 | -0.03 | 1308.52 | ● 1636.13 | 14.8 | |
| Australia | S&P/ASX 200 | 5667.20 | -0.30 | -0.01 | 5103.30 | ● 5956.50 | 0.02 | |
| China | Shanghai Composite | 3140.32 | 38.20 | 1.23 | 2833.07 | ● 3288.97 | 1.2 | |
| Hong Kong | Hang Seng | 25974.16 | -22.98 | -0.09 | 20038.42 | ● 25997.14 | 18.1 | |
| India | S&P BSE Sensex | 31271.28 | 80.72 | 0.26 | 25765.14 | ● 31309.49 | 17.4 | |
| Indonesia | Jakarta Composite | 5717.33 | 9.49 | 0.17 | 4807.23 | ● 5791.88 | 7.9 | |
| Japan | Nikkei Stock Avg | 19984.62 | 4.72 | 0.02 | 14952.02 | ● 20177.28 | 4.6 | |
| Malaysia | Kuala Lumpur Composite | 1785.92 | -5.09 | -0.28 | 1614.90 | ● 1791.01 | 8.8 | |
| New Zealand | S&P/NZX 50 | 7467.90 | -27.07 | -0.36 | 6664.21 | ● 7571.11 | 8.5 | |
| Pakistan | KSE 100 | 50162.81 | 18.18 | 0.04 | 36940.88 | ● 52876.46 | 4.9 | |
| Philippines | PSEI | 8002.32 | 49.20 | 0.62 | 6563.67 | ● 8102.30 | 17.0 | |
| Singapore | Straits Times | 3230.49 | -5.26 | -0.16 | 2729.85 | ● 3271.11 | 12.1 | |
| South Korea | Kospi | 2360.14 | -8.48 | -0.36 | 1925.24 | ● 2371.72 | 16.5 | |
| Taiwan | Weighted | 10209.99 | 3.81 | 0.04 | 8458.87 | ● 10226.84 | 10.3 | |
| Thailand | SET | 1566.58 | -2.37 | -0.15 | 1406.18 | ● 1591.00 | 1.5 | |

Source: SIX Financial Information/WSJ Market Data Group

Currencies

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



London close on June 7

US\$ vs. per US\$ (%)

Country/currency

Wed YTD chg

Country/currency

Wed YTD chg

| Country/currency | in US\$ | per US\$ (%) | Country/currency | in US\$ | per US\$ (%) |
|---------------------|-----------|--------------|---------------------------|----------|--------------|
| Americas | | | Hong Kong dollar | 0.1283 | 7.7942 |
| Argentina peso-a | 0.0625 | 16.0096 | India rupee | 0.0155 | 64.3950 |
| Brazil real | 0.3046 | 3.2833 | Indonesia rupiah | 0.000071 | 1331.31 |
| Canada dollar | 0.7399 | 1.3515 | Japan yen | 0.009127 | 109.57 |
| Chile peso | 0.001495 | 668.70 | Kazakhstan tenge | 0.003194 | 313.11 |
| Colombia peso | 0.0003454 | 2895.00 | Macau pataca | 0.1245 | 8.0300 |
| Ecuador US dollar-f | 1 | 1 unch | Malaysia ringgit-c | 0.2343 | 4.2675 |
| Mexico peso-a | 0.0548 | 18.2481 | New Zealand dollar | 0.7196 | 1.3897 |
| Peru so'l | 0.3060 | 3.2677 | Pakistan rupee | 0.0095 | 104.825 |
| Uruguay peso-e | 0.0353 | 28.360 | Philippines peso | 0.0202 | 49.540 |
| Venezuela bolivar | 0.100150 | 9.99 | Singapore dollar | 0.7235 | 1.3821 |
| Asia-Pacific | | | South Korea won | 0.000886 | 1125.34 |
| Australia dollar | 0.7548 | 1.3249 | Sri Lanka rupee | 0.065411 | 152.88 |
| China yuan | 0.1472 | 6.7941 | Taiwan dollar | 0.033160 | 30.16 |
| | | | Thailand baht | 0.02939 | 34.02 |

Sources: Tullett Prebon, WSJ Market Data Group

FINANCE & MARKETS



Alibaba headquarters in Hangzhou, China, shown last year. The company's shares have surged on a series of strong quarterly results.

China Tech Rally Has Bite

Tencent, Alibaba have risen even faster than FANG highfliers in U.S.; analysts stay upbeat

By STEVEN RUSSOLILLO

HONG KONG—If you thought the FANG trade in the U.S. had teeth, it pales in comparison to what is happening in Asia.

Facebook Inc., Amazon.com Inc., Netflix Inc. and Google parent Alphabet Inc., which make up the FANG acronym, have each gained more than 20% so far this year, propelled by strong earnings growth and overall investor enthusiasm for technology stocks. But China's tech giants, Tencent Holdings Ltd. and Alibaba Group Holding Ltd., are motoring at an even faster pace. They have each surged more than 40% so far this year and hover near records.

Still, analysts and investors say these stocks have more room to rally. The companies are growing rapidly, their business models are diversified beyond pure tech plays

and their share prices are cheaper than the FANG group.

Tencent and Alibaba, which together make up one-quarter of the MSCI China Index by market capitalization, have helped push the index 24% higher this year, far outpacing U.S. benchmarks.

The MSCI China Index, which includes mostly Chinese companies listed in Hong Kong and the U.S., is a vehicle for stock investors to gain exposure to China despite capital controls that limit direct foreign investment in domestic markets.

For now, analysts are only getting more optimistic about Tencent's and Alibaba's futures, thanks to strong earnings and revenue growth.

More than 90% of analysts who cover both companies say they are a buy; neither company has a sell rating, according to FactSet. Based on 12-month price targets, these analysts forecast double-digit gains for both companies over the ensuing year.

"Fundamentals for these large-cap internet stocks have been pretty resilient," said John Choi, head of Hong Kong

and China internet research at Daiwa Capital Markets. "The overall momentum is still very strong and I think there is more to come."

Hong Kong-listed Tencent is the owner of China's largest social network, WeChat, and the world's largest videogame publisher by revenue. The company has a market capitalization of around \$330 billion, or roughly the size of Exxon Mobil Corp. It has been investing and forming partnerships outside of China, including a 5% stake in Elon Musk's Tesla Inc. Tencent logged \$171 billion in revenue last year.

Analysts expect that to nearly double within two years, according to FactSet.

Caroline Yu Maurer, the Hong Kong-based head of Greater China equities at BNP Paribas Asset Management, which has a stake in both companies, said Tencent is benefiting from a growing audience and increasingly sticky user base. WeChat had 938 million monthly active users in the first quarter, up 23% from a year earlier.

Alibaba, which is listed on the New York Stock Ex-

change, is the e-commerce giant that runs popular online-shopping websites Taobao and Tmall. It also has surged to records, thanks to a string of strong quarterly results. Alibaba's fiscal fourth-quarter revenue, reported last month, climbed 60% from a year earlier, a sign of strength for China's consumer economy. After shares rose following its initial public offering in New York in late 2014, the stock struggled for a few years before jumping in 2017.

Even following these big rallies, Tencent's and Alibaba's valuations are rich but not exorbitant. Tencent fetches 35 times projected earnings over the next 12 months, below a recent high in 2014. Alibaba trades at a more reasonable 27 times forward earnings, which is roughly around its average in its three years on the public markets.

By comparison, the four FANG stocks in the U.S. trade at an average multiple of about 90 times projected earnings. Amazon and Netflix, historically richly valued stocks, sport triple-digit multiples.

Some Investors See Good in Labour Win

Jeremy Corbyn is a self-described socialist who says he will raise taxes and nationalize industries if his Labour Party wins Thursday's U.K. election. Some investors hope he does win.

By Christopher Whittall, Alistair MacDonald and Jon Sindreu

The seemingly counterintuitive choice—markets typically welcome Conservative Party victories—says much about how Britain's vote to leave the European Union has upended the way investors view U.K. politics.

Many investors say that Brexit will turn out to be negative for the British economy, throwing up tariffs and obstacles to trade and hurting the country's large financial industry. Some fund managers argue that the Conservative Party's harder line on Brexit means that their investments, in the longer run, will do better if Mr. Corbyn's Labour Party wins or ends up leading a coalition government with pro-EU parties.

"If you see a Corbyn win, emotionally you'd see a big trade-off in the pound but afterwards it may stabilize and do a bit better if there is a sense Corbyn can negotiate a softer Brexit," said Mark Dowding, co-head of investment-grade debt at BlueBay Asset Management. "I think Corbyn would probably get an easier ride out of our European partners," he said.

Mr. Corbyn has made significant ground in polls, but most investors still believe that the Conservatives will win a majority. In mid-April, some polls gave the Conservatives a lead of more than 20 points over the Labour Party. That has narrowed to 8 points, according to a Wall Street Journal average of opinion polls.

To be sure, a large Conservative majority also is viewed as being positive for markets. But that is also due, in part, to Brexit, because many investors believe a big win would shore up Prime Minister Theresa May's ability to push back against Conservative lawmakers who demand an immediate and complete break from Brussels.

Still, there are some investors who see a Labour victory in any iteration as being the worst option for markets. The party's election manifesto promises to increase income taxes on anyone earning over £80,000 (\$103,200) a year while nationalizing the country's rail companies; water and energy utilities; and postal service provider, Royal Mail PLC. Mr. Corbyn also has no government experience and is considered a maverick on foreign policy issues.

Given this, some analysts predict an immediate fall in the pound should he win and big declines in U.K. shares, particularly utilities.

Labour's plans for increased fiscal spending could also send yields on U.K. government bonds higher if, as expected, it pushed up inflation, driving the Bank of England to nudge up interest rates earlier than expected. Yields rise when bond prices fall.



Andy Buchanan/Agence France-Presse/Getty Images

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MARKETS

Smaller China Firms Feel Bond Squeeze

Debt issuance falls as yields rise above bank lending rates, a hit to Beijing's market plans

By SHEN HONG

SHANGHAI—A sharp rise in the cost of borrowing in China's bond markets is the latest sign of conflict between Beijing's effort to rein in financial-system risk and its long-term goal of modernizing the economy.

Debt U-turn

Chinese companies have been scrapping planned bond issues at an increasing rate.

| Value of bonds delayed or canceled | Number of bonds |
|------------------------------------|-----------------|
| 2017* 328 billion yuan | 382 |
| 2016 542 | 613 |
| 2015 338 | 331 |
| 2014 255 | 227 |
| 2013 0.5 | 1 |

*Through Wednesday Note: 100 billion yuan = \$14.72 billion

Source: Wind Info

In a little-noticed shift, Chinese companies in recent weeks have been able to take out medium-term bank loans at a lower interest rate than bond investors demand. The average yield on AAA-rated five-year corporate bonds, currently 4.90%, has been above the central bank's corresponding benchmark lending rate of 4.75% since May 3, according to data provider Wind Info.

The highly unusual reversal—it hadn't happened since records began in 2006—is largely due to Chinese regula-

tors' attempts to tamp down speculation by investment funds that borrow heavily to leverage their bets.

"Beijing's deleveraging campaign is the main driver behind higher borrowing costs throughout the economy, from money-market rates to bond yields, and even banks are under pressure too," said Teck Kin Suan, senior economist at **United Overseas Bank** in Singapore.

The bond-rate surge is bad news for small and midsize private businesses, which typically have little access to bank loans. Corporate-bond issuance has slumped and the number of companies scrapping bond plans has jumped.

The surge also marks a setback for Beijing's longstanding pledge to let capital markets play a bigger role than state-run lenders in funding the world's No. 2 economy—a change that in theory should make capital allocation more efficient.

The People's Bank of China's campaign to tame highly levered investing be-

gan last summer and intensified in February and March when it twice raised a suite of key money-market interest rates. Government bonds haven't been spared: The yield on the benchmark 10-year bond rose to a 29-month high of 3.69% on May 12 and has remained elevated since. Yields rise as bond prices fall.

Faced with higher borrowing costs, 382 Chinese companies have delayed or canceled a total of 327.7 billion yuan (\$48.2 billion) in planned new bonds since the start of 2017, up from 348 companies and 284.2 billion yuan in the same period a year earlier.

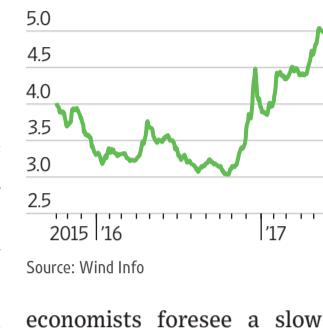
Total new corporate-bond issuance this year stands at 1.7 trillion yuan, down sharply from 4.1 trillion yuan at this point last year. Subtracting maturing bonds, net corporate-bond financing since the start of the year stands at a negative 521.3 billion yuan, compared with a positive 1.9 trillion yuan a year earlier.

While the economy has re-

Bond Bend

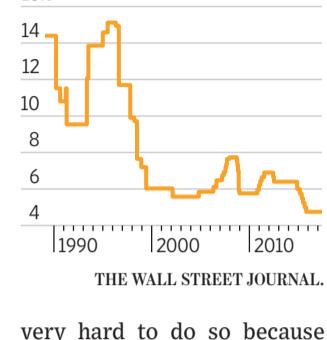
It has become more expensive for Chinese companies to borrow from bond markets than the country's banks.

Average yield on AAA five-year Chinese corporate bonds



Source: Wind Info

PBOC's five-year benchmark lending rate



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economists foresee a slowdown later in 2017 as it becomes harder for companies to raise funds. China's economy has been fueled in recent years by ever-rising credit, which has sent total corporate debt soaring to the equivalent of 150% of gross domestic product.

"The argument that now more companies will switch to traditional bank lending only stands in theory. In reality, it's

very hard to do so because banks are under pressure and even big state-run enterprises are finding it difficult to get cheap loans now," said Liu Dongliang, senior economist at **China Merchants Bank**.

Mr. Liu said companies that have put off issuing bonds in hopes of a retreat in borrowing costs need to accept that this has grown unlikely.

"People need to give up their false hope now," he said.

Shanghai Stocks Continue Rally; Oil's Fall Hits Energy Sector

By ESE ERHERIENE AND JON SINDREU

Stocks in China surged, continuing a rally that has taken benchmark indexes higher on seven of the past nine trading days, while a sharp decline in the price of oil weighed

WEDNESDAY'S MARKETS on shares in Europe.

The latest gain in Chinese stocks came after some listed companies sent notices to employees that markets saw as offering a short-term boost to share prices.

Since Tuesday afternoon, 10 companies have issued state-

ments to the effect that controlling shareholders were encouraging employees to buy shares and would compensate them should losses occur.

The Shanghai Composite Index rose 1.2%, or 38.20 points, to 3140.32, while the Shenzhen Composite Index gained 2.2%.

Moves in other Asian markets were muted. Australia's S&P/ASX 200, Japan's Nikkei Stock Average and Hong Kong's Hang Seng index closed marginally lower, while the Kospi slipped 0.4% in South Korea.

U.S. shares began the day with a small gain, boosted by media reports that the European Central Bank will lower its forecast for inflation.



Oil tanks in Oklahoma. U.S. stockpiles rose more than expected.

Lower inflation would make policy makers at the ECB, scheduled to meet Thursday, more likely to keep monetary

policy loose for longer, weighing on the euro and potentially benefiting stocks.

Last week, official figures

showed eurozone inflation falling to 1.4% in May, after coming near the ECB's target of close to but below 2%.

The common currency fell 0.4% against the U.S. dollar.

The Stoxx Europe 600 spent much of the day in the black, but closed 0.1% lower as energy stocks fell after a report from the U.S. Energy Information Administration saying that oil stockpiles rose for the first time in nine weeks.

U.S. inventories rose by nearly 3.3 million barrels last week. Analysts and traders surveyed by The Wall Street Journal had anticipated a 3.5-million-barrel decrease.

West Texas Intermediate crude was down \$2.07 a bar-

rel, or 4.3%, at \$46.12 near midday in New York. Brent, the international benchmark, fell \$1.78, or 3.6%, to \$48.34.

Exxon Mobil declined 1% and Chevron slid 1.4%.

Shortly after midday, the Dow Jones Industrial Average was up 5 points, or less than 0.1%, to 21141. The S&P 500 added less than 0.1% and the Nasdaq Composite gained 0.3%.

Meanwhile, some assets investors perceive as havens slipped. Gold was down 0.4%. Yields on the 10-year Treasury note rose to 2.160%, according to Tradeweb, from 2.147% Tuesday. Yields rise as prices fall.

—Aaron Kurilloff contributed to this article.

HEARD ON THE STREET

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Rising Stakes for Tesla in China

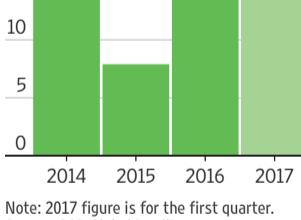
China has become a big part of **Tesla**, even if Chief Executive Elon Musk hasn't said much about it.

The electric-car maker is in many ways out of sync with its peers in the world's largest electric-car market. Unlike GM, Volkswagen and **Ford Motor**, it doesn't have a local joint-venture partner or a local dealer network to plug into. Its battery chargers don't comport with China's national standard. It doesn't produce locally, so its sticker prices are burdened with a 25% import tax in addition to the cost of shipping cars over.

Yet it has found some success. Revenue tripled last year and represents almost one-fifth of the company's total. It attracted a big Chinese investor in **Tencent**, which took a 5% stake in March, giving it local credibility and contacts. Shortly thereafter, Chinese state media tweeted a picture of Mr. Musk and Chinese Vice Premier Wang Yang in Beijing. Talk started swirling of a Tesla factory in China, which

Uphill Road

Tesla's sales in China as a percentage of total sales



Note: 2017 figure is for the first quarter.

Source: S&P Global Intelligence

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Charging stations for Tesla cars in Hong Kong

would end the import tax and possibly qualify Tesla for generous subsidies on which Chinese rivals such as **BYD** thrive. It boasts an expanding list of its so-called supercharger stations in China.

The question is, will whatever strategy Tesla is using to win those sales continue to work as it introduces its mass-market Model 3? Tesla hasn't said when next year it will launch the Model 3 in China and doesn't disclose

built up. The number of vehicles sitting at dealerships in March and April was close to the highest ever for Tesla in China.

Tesla has been leaning on marketing tactics that will likely be short-lived. It has raised prices twice over the past year, both times announcing the increase was imminent—which may pull demand forward, but is no way to generate new demand. It has offered discounted insurance as well as perks like free charging for a limited time.

Tesla's success in big cities has been underpinned by another tactic: arranging license plates for buyers. Plate issuance is restricted, so including them with the purchase has given Tesla an edge, though not an unassailable one.

Tesla may already be hitting a rough patch there. Based on customs data, research firm JL Warren Capital figures first-quarter shipments were down 15%, a trend that continued in April. Meanwhile, inventory

Anjani Trivedi

OVERHEARD

Another day, another bank raising its forecast for 10-year U.S. Treasury yields. HSBC, however, is sticking with doing things differently.

Higher yield forecasts were in vogue after U.S. President Donald Trump's election win last year. But Trump fever has faded. And even with the Federal Reserve apparently heading for a rate increase, the 10-year yield closed Tuesday at 2.15%, its lowest this year.

The striking thing about HSBC's end-2017 call is that at 1.9%, up 0.3 percentage point from its previous forecast, it is still well below current yields. The bank's strategists say this move just reflects higher short-dated yields constraining how far long-dated yields can fall; it is maintaining its view that the U.S. economy can't take significantly higher yields.

The average year-end forecast for 10-year yields is 2.8%, HSBC says, adding that of 59 forecasts compiled by Bloomberg it is the only one below 2% at the end of 2017. Lower for longer still has traction.

In Biotech, No News Is Bad News

Biotech stocks have a special need for catalysts. The relative absence of them of late should concern investors.

The American Society of Clinical Oncology annual meeting passed without much of a stir, at least from an investor's point of view.

There were exceptions like **Loxo Oncology**, whose shares rocketed 40% Monday after the company presented encouraging preclinical data. But that didn't translate into a broad stock rally—the S&P Biotechnology Select Industry Index essentially hadn't budged through Tuesday.

At first blush, that shouldn't be too concerning. The index is up 19% so far this year. But the lack of a stronger rally isn't something to dismiss altogether. The majority of stocks within the index aren't profitable, and depend heavily on positive sentiment to attract investors. Major medical meetings, like the recent ASCO one, are generally the best place to find such catalysts that attract investor interest.

Without such obvious factors on the horizon, biotech stocks are at risk for a reversal.

Companies with obvious catalysts should continue to turn in a strong performance. **Vertex Pharmaceuticals**, the top-performing stock in the S&P 500 so far in 2017 as of Tuesday's close, will have hotly anticipated cystic fibrosis data later this year. **Regeneron Pharmaceuticals** shares are up more than 25% this year as its dermatology drug Dupixent hits the market.

But for investors holding companies without such a hook, it is likely that no news will eventually turn into bad news.

—Charley Grant

High Seas Are Set to Deliver a Shock in the Oil Patch

Circle January 2020 on your calendar for what could be a major disruption to the energy market and a jolt to the global economy.

The origin of the problem isn't some oil cartel's machinations, a looming war or even a technological shift; it is a bureaucratic body that few people have heard of: the International Maritime Organization. Just 30 months from now the cargo vessels that are the lifeblood of global trade will be required to cut the sulfur content in their fuel from 3.5% to 0.5%.

Ships move more than 10 billion tons of cargo a year and do it far more effi-

Decked

Daily spending in 2020 on refined products

| Scenario* | Spending |
|----------------|----------------|
| Base case | \$8.83 billion |
| Scenario one | 9.79 |
| Scenario two | 10.04 |
| Scenario three | 10.14 |
| Scenario four | 10.41 |
| Scenario five | 10.46 |
| Scenario six | 10.83 |

*Scenarios involve different levels of fuel switching and use of marine diesel. Based on estimated wholesale prices.

Source: EnSys Energy and Navigistics Consulting

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oil, which is just about the cheapest, dirtiest stuff to come out of refin