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## What's News

Business & Finance

Walgreens and Rite Aid nixed their \$9.4 billion merger agreement and reached a new deal in which Walgreens will buy half of Rite Aid's stores for \$5.18 billion. **B1**

◆ Global government-bond prices slumped further and the dollar fell, as investors continued to anticipate the end of central bank easy-money policies. **A1**

◆ Big U.S. banks plan to increase dividend payouts and share buybacks after the Fed approved capital plans for all 34 firms taking part in stress tests. **B7**

◆ Berkshire is on track to become Bank of America's top shareholder after the lender received permission to boost its dividend. **B7**

◆ The U.K. said it was likely to require further scrutiny of Fox's \$15.1 billion bid to buy the 61% of Sky It doesn't already own. **B1**

◆ Pine River Capital plans to spin off a nearly \$2 billion government bond-trading fund into a stand-alone firm Jan. 1. **B5**

◆ Sony Music plans to produce vinyl records again as the format is experiencing a renaissance among younger music lovers. **B1**

◆ Sycamore agreed to buy Staples for about \$6.9 billion, a bold bet on a firm whose sales have been shrinking. **B2**

◆ SAIC Motor will start building cars in India, as part of a plan to develop a "global structure." **B3**

## World-Wide

◆ The Trump administration is starting to enforce its travel ban on people from six Muslim-majority nations, with exceptions based on family ties or business interests. **A1**

◆ The Vatican's finance chief faces sex-abuse charges, muddling the effort to overhaul the Vatican's financial bureaucracy. **A1**

◆ Xi, during his first visit to Hong Kong as president, said that he is committed to maintaining the city's semiautonomous status. **A3**

◆ China rebuked a Senate bill that would allow U.S. Navy vessels to regularly stop in Taiwan ports. **A3**

◆ U.S. cities and counties that don't help federal immigration authorities could lose millions of dollars in federal grants. **A6**

◆ NATO announced that it will send additional forces to Afghanistan, as European officials await Washington's strategy for the nation. **A4**

◆ Merkel criticized Erdogan and Trump ahead of a meeting of world leaders in Germany next week. **A4**

◆ Israel's parole board recommended the release of former Prime Minister Olmert, who is serving a 27-month term for bribery. **A4**

◆ Senate Republicans scrambled to rework their plan to dismantle the Affordable Care Act. **A6**

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# U.S. Sets Stricter Limits on Entry

Family, business ties can offer exemptions from ban on visitors hailing from six nations

By LAURA MECKLER

WASHINGTON—The Trump administration was set to begin enforcing its temporary travel ban on visitors from six Muslim-majority nations and all refugees on Thursday, with

exceptions only for those with close family or business ties to the U.S., officials said.

The guidelines, distributed to U.S. embassies beginning Wednesday night, are a narrow reading of a Supreme Court ruling on Monday that required the U.S. continue to admit people who have "bona fide" relationships in the U.S.

Under the new rules, visa applicants and refugees with spouses, children, parents and siblings in the U.S. will be ex-

empt from the ban, but those with what the administration sees as lesser ties—including grandparents, aunts, cousins and fiancées—would still be banned, administration officials said.

Foreigners from the six countries who want to come for business must show a "formal, documented" relationship with a U.S. entity that was formed in the ordinary course of business and not created for the purpose of evading the

travel ban, these officials said.

This guidance was to be made public Thursday, spelling out details of who qualifies for the exceptions mandated by the high court. The new rules were to take effect at 8 p.m. ET on Thursday.

On Monday, the Supreme Court allowed the Trump administration to begin implementing parts of its March executive order, which had been blocked by lower-court decisions, until it can hear and

rule on a pair of legal challenges this fall. But the high court also ordered the administration to make exceptions for visa and refugee applicants who have a "bona fide" relationship with people or institutions in the U.S.

The March order, which President Donald Trump says is needed to guard against terrorism, is a revised version of one issued in late January. The revised order sought a 90-

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## Chinese Leader Reaches Out to Hong Kong While Tightening His Grip



SPECIAL GUEST: Xi Jinping, center right, said he was committed to keeping Hong Kong's semiautonomous status during a visit, even as Beijing's influence over the city grows. **A3**

# World-Wide Bond Selloff Deepens

By CHRISTOPHER WHITTALL

Global government bond prices slumped Thursday for a third straight day and the dollar fell, as investors continued to anticipate the end of the central bank easy-money policies that have dominated markets in recent years.

Investors are selling in moves that could have big consequences across markets and for local economies, even as they debated whether the current moves represent a significant change in direction or

just a period of volatility, like past so-called taper tantrums.

The slide in bond prices began Tuesday, after Mario Draghi, president of the European Central Bank, spoke of a "strengthening and broadening" recovery, a remark investors interpreted as a sign the central bank was preparing to reduce the large-scale asset purchases that have underpinned the ECB's efforts to kick-start the local economy.

Wednesday, the chiefs of the Bank of Canada and Bank of England suggested they

would reduce monetary stimulus by raising interest rates.

Investors dumped U.S. Treasurys and European bonds on Thursday morning, sending yields on many securities to their highest levels in more than a month. Meanwhile, the euro, British pound and Canadian dollar logged further gains against the U.S. dollar after rising sharply earlier this week. The WSJ Dollar index fell below the level it was at before rallying after Donald Trump's election in November.

Many investors believe

yields could still have a long way to rise, given how far they have fallen in recent years and the latest buoyant economic data. Despite the recent pickup, the yield on the 10-year Treasury note is still less than a percentage point higher than its record low of 1.366% reached in July 2016.

Others argue that structural changes mean bonds will continue to find buyers, with the West's aging populations putting money into pension funds and insurance companies that

Please see BONDS page A2

# Charges Deal Blow To Vatican Overhaul

By FRANCIS X. ROCCA

Sex-abuse charges against the Vatican's finance chief deal a major blow to already faltering efforts to overhaul the Vatican's financial bureaucracy.

Australian police on Thursday charged Cardinal George Pell with multiple counts of sexual abuse alleged to have occurred decades ago, though they

gave few details of the allegations. The 76-year-old cardinal, the highest-level Vatican official to face charges in the sexual-abuse scandals that have hit the church, denied the charges and said he would take a leave of absence with Pope Francis's permission to go back to his native Australia to clear his name.

When Cardinal Pell came to Rome three years ago to head the newly established Secretariat for the Economy, he was already the target of claims that he had mishandled cases of sex abuse by other priests. But Thursday's charges nonetheless mark a dramatic turnaround from his arrival, when the high-ranking prelate was

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# GE, THE ULTIMATE GLOBAL PLAYER, IS TURNING LOCAL

As protectionism rises, the giant looks to sink roots outside the U.S.

By TED MANN AND BRIAN SPEGELE

MARHAURA, India—General Electric Co. could hardly have picked a less hospitable spot for its new locomotive factory—but then again, it didn't have much choice.

The land here regularly floods in the rainy season, which meant work crews needed more than 500 truckloads of dirt a day to raise the parcel by more than 11 feet out of the danger zone. The facility required concrete pilings poured 82 feet below ground, on account of earthquakes.

When finished, the factory—the center-

piece of a \$200 million investment—will sit 600 miles southeast of Delhi in a tiny impoverished village in the eastern state of Bihar, a place with a rich history of government corruption scandals. The new site, handpicked by a powerful local politician, is reachable via narrow, twisting roads choked with buses, cars and rickshaws, a three-hour journey from the state capital on a good morning.

This is GE in the age of localization—the company's survival strategy for an era of slowing global trade, rising protectionism, and increasingly powerful foreign customers,

Please see GE page A8

## Top of 2017's Pecking Order for Fighting Ticks: Chickens

\* \* \*

Amid Lyme disease concerns, Americans flock to barnyard heroes

By ANUPREETA DAS

Lisa Steele lives on a small farm in the woods of central Maine, where ticks have been known to take down a moose. Yet she says she rarely finds ticks on her two pet dogs.

A self-described "professional chicken enthusiast," Ms. Steele is convinced that is because her 10 barnyard hens, including Truffle, a Chocolate Orpington that resembles a "big Hershey kiss," eat anything that moves, she says.

Two American traditions are colliding this summer. One involves people like Ms. Steele



Truffle the chicken

looking for anything that moves, she says.

Two American traditions are colliding this summer. One involves people like Ms. Steele

keeping yardbirds for their eggs or meat as part of a move toward local and organic food. The other is a nation convulsing with fear of Lyme disease. The chick people think they have the solution to the tick problem—even if there is little science to support it.

The bloodsucking critters have always been a concern, but a mild winter and swelling populations of tick-carrying deer and mice have led to one of the worst tick seasons in years, scientists say. The Northeast, especially, is overrun.

The Centers for Disease Control and Prevention

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## INSIDE



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## WORLD NEWS

# Iraqi Kurds Seek a Divorce From Baghdad



### MIDDLE EAST CROSSROADS

By Yaroslav Trofimov

The one thing that isn't in doubt in Iraqi Kurdistan's planned independence referendum is the result. It is virtually certain that an overwhelming majority will back the creation of the world's newest country.

The real question is what practical steps toward the breakup of Iraq will be taken, and how soon after the vote, which is scheduled for Sept. 25.

Will Kurdistan's bickering politicians finally put their differences aside? And will they, Iraq's federal authorities, and the region's meddling neighbors be able to prevent events spinning out of control in the referendum's inevitably contentious aftermath?

None of these neighbors—Iran, Syria and Turkey—want the Kurdish independence to succeed in Iraq, lest it inspires restless Kurdish mi-

norities within their own borders. And, while some officials in President Donald Trump's administration privately cheer the Kurdish independence cause, maintaining the unity of Iraq remains the official policy of the U.S. and its Western allies.

The country's Western partners are concerned that the referendum—even if it doesn't lead to independence anytime soon—will change the political climate in the rest of the country. With Iraq's federal elections looming next year, that could bring to power radical Shiite forces hostile to the more inclusive approach of Iraqi Prime Minister Haider al-Abadi.

It all adds up to a greater risk to regional stability just as Islamic State is finally being defeated in Iraq and Syria.

"We think the referendum is a bad idea, and the timing is a bad idea, first of all because the Kurds are not prepared for this," said a senior U.S. official. "If the Kurds go ahead with the referendum this year, it will strengthen the more polarizing and more sectarian figures [in Baghdad], and disadvantage those who are more moderate and who would reach across sectarian lines and form alliances."

Kurdistan officials retort that now is precisely the right time to tackle the his-



A Kurdish flag flutters atop the citadel of Erbil on June 8.

toric Kurdish desire to form a separate nation, after Mr. Abadi's government and the Kurdish leadership established close cooperation fighting side-by-side to oust Islamic State from Mosul. Kurdistan plans detailed negotiations with Baghdad on how and when to implement the breakup, the officials said.

"To answer the question of why now: We can achieve through this positive relationship a mutual understanding because, after Abadi, who knows who will be responsible in Baghdad? We want to avoid future confrontation and future bloodshed by ending this unhealthy interdepen-

dence in relations with Baghdad," said Hemin Hawrami, senior assistant to Kurdistan President Masoud Barzani, who called the referendum, and head of political affairs at the Kurdistan presidency.

"The referendum is for independence, but it doesn't mean that on the 26th of September we are going to declare independence. It is the start of a long process," Mr. Hawrami added.

Kurdish-populated areas of northern Iraq have enjoyed broad self-rule since 1991, an arrangement expanded and enshrined in the 2005 Iraqi constitution. Kurdistan, a region roughly the size of Ire-

land that is home to some 5.2 million people, already has its own security forces and immigration controls. Federal troops and police aren't allowed on its soil without special permission.

Complicating any move toward a breakup with Iraq is the issue of disputed territories—areas outside the recognized boundaries of the Kurdistan Regional Government, such as the city of Kirkuk and nearby oil fields, that are controlled by Kurdish forces and contain large Kurdish populations.

Kurdish Peshmerga troops took over many of these areas over the last three years, in the course of the war against Islamic State. Baghdad seeks to regain control of these contested territories and has condemned Kurdish plans to hold the referendum there, let alone to permanently annex them.

The only other recent example of a non-Arab area seceding from an Arab-majority country to form a separate nation isn't all that encouraging. South Sudan became independent following a referendum in 2011 and two years later descended into a civil war that has displaced millions.

Iraqi Kurds had their own civil war in the 1990s. The Kurdistan region remains divided between western areas

controlled by the Kurdistan Democratic Party of Mr. Barzani and eastern areas under the sway of the rival Patriotic Union of Kurdistan.

The self-ruled region's institutions have been paralyzed by a political crisis that erupted in 2015, after Mr. Barzani's mandate expired. Kurdistan's parliament, which had planned a session to elect a successor, has been unable to meet for nearly two years because KDP forces prevent the entry of its speaker to the region's capital. Kurdistan's presidential and parliamentary elections are slated for November, just weeks after the planned referendum.

Mr. Barzani has called the long-promised independence vote just as protests against the political deadlock and corruption spread throughout Kurdistan. By doing so, he deftly exploited the Kurdish nationalist sentiment to stave off domestic unrest, at least for now.

"The feeling of distrust was reaching a peak, and people were feeling that the Kurdish leadership was no longer entitled to lead the Kurdish national cause," said Maria Fantappie, a Kurdish-affairs specialist at the International Crisis Group. "But now the national feeling is prevailing, so far. The Kurdish leaders have played this trick well."

long lasting. Even this week, top ECB officials have left some investors with mixed impressions about when it will reel in its bond buying, which is currently slated to continue at least until the end of 2017.

Bank of England chief Mark Carney said last week that now wasn't the time to increase U.K. rates but hinted in a speech Wednesday that the time could in fact be near.

"The members of the central banks are not all singing from the same hymn sheet," said Steven Saywell, the global head of foreign-exchange strategy at BNP Paribas SA.

**Low bond yields have also pushed investors into stocks at elevated valuations.**

## BONDS

Continued from Page One

need a reliable stream of income. Some investors also doubt whether central banks, particularly in Europe, are ready to turn off the taps of easy money given low levels of inflation.

"The jury is still out," said Stefan Isaacs, deputy head of retail fixed interest at M&G Investments.

Mr. Isaacs is betting that bond yields will rise, arguing that in Europe, in particular, they are too low given the economic outlook. That said, he believes yield-hungry investors like pension funds will step in if yields move markedly higher.

"There are other forces at work [in the market] that historically haven't been as dominant. I don't think we're going to take bond yields back to the levels that we assumed were normal precrisis," Mr. Isaacs said.

If sustained, the spike in yields and currency moves would ripple across markets and through local economies. Rising government-bond yields tend to make borrowing more expensive for companies and consumers, long used to cheaper finance. A stronger euro may hurt European exporters, making their international revenues worth less and their products less competitive.

Low bond yields have also pushed investors into stocks at elevated valuations, given the skinny returns from debt. Higher yields would likely weigh on so-called bond proxy stocks such as utility companies, which offer investors a steady stream of income through dividends and whose shares have fallen this week. Bank stocks have risen, as lending becomes more profitable when rates are higher.

The euro rose for a third straight day against the dollar. It was up 0.4% at \$1.1430 Thursday morning in New York—hovering around levels not seen in more than a year. The British pound and the Canadian dollar rose against the greenback—rallying by 0.5% and 0.3%, respectively—after recording large gains on Wednesday.

The dollar has come under pressure as expectations have grown for rate rises in other countries. Higher rates attract tend to attract funds into a country, boosting the local currency.

The yield on the 10-year Treasury note rose to 2.271% from 2.223% on Wednesday, according to Tradeweb. Eurozone and U.K. government bond yields also climbed.

Some investors say the communications from central banks have at times been confusing, adding to the skepticism that these moves will be

This week's moves recall other times when bond yields ground higher over a period of several weeks or even months as investors sold bonds, anticipating that central banks would scale back their stimulus measures.

In 2013, the yield on the 10-year Treasury note jumped and emerging markets fell after the Federal Reserve raised the prospect of slowing its bond purchases, which eventually ended in October 2014.

The 10-year Treasury yield briefly rose above 3% in late 2013, but hit a record low of 1.366% in July 2016.

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## Cleanup in Greece Begins as Garbage Workers' Protest Ends



WHAT A MESS: Greek garbage collectors decided to go back to work after nearly two weeks of protests that left piles of trash in the streets. The workers' union wants employees on fixed-time contracts to get full-time jobs. Above, a worker sprays a pile near Athens.

## VATICAN

Continued from Page One seen as the media-savvy, straight-talking solution to the Vatican's chaotic finances.

As his plans conflicted with those of other powerful officials, he was increasingly marginalized in his efforts to take on the Vatican bureaucracy. The criminal charges now take him entirely off the scene for an indefinite time, leaving an already diminished office with even less clout to challenge longtime ways of doing business at the Vatican. They also sideline a vocal defender of traditional Catholic moral teaching.

"Pell's absence will seriously weaken the office" he runs, said Sandro Magister, a longtime Vatican watcher for Italy's *L'Espresso* magazine. "The economic reforms, which have been very modest after more than four years, will

now become even more difficult to carry out."

The cardinal's departure comes a few days after the resignation of the Vatican's auditor general, Libero Milone, only two years after Pope Francis appointed him as the first person to hold that job. The Vatican announced the departure of Mr. Milone, an ally of Cardinal Pell, in a terse statement that gave no reason for his resignation.

When Pope Francis was elected pope in March 2013, he accepted a mandate to make the Vatican bureaucracy more transparent and accountable, particularly in the financial area.

The preceding pontificate, of Pope Benedict XVI, had been shaken by controversy over leaks documenting corruption and incompetence in the Vatican, including a Christmas manager scene that cost €550,000 and little oversight of funds collected by advocates for the canonization of potential saints.

Accounting at the Vatican didn't follow unified policies, with data inconsistent across departments or not directly comparable. Budgets didn't exist, and expenditures weren't itemized.

Pope Francis brought Cardinal Pell to Rome in 2014 and originally gave him sweeping powers, with a document that said the cardinal's reach extended "to all that in whatsoever manner" concerned economic activity, including procurement and hiring.

The cardinal oversaw a review of assets which he said turned up €1.4 billion "tucked away" off the books. "I'm not saying it was being mismanaged or anything. It just was

there for a rainy day," he said in an interview last year. His office also issued new budgeting and accounting policies and produced the Vatican's first consolidated budget.

Meanwhile, Cardinal Pell's proposals for what he considered a more effective approach to asset management—demanding better returns on rental properties and outsourcing financial investments to money managers—raised hackles at the Administration of the Patrimony of the Holy See, known as APSA.

Cardinal Pell's leave of absence also removes from the Vatican a major opponent of the pope's drive to liberalize church practice on divorce.

During two international synods of bishops at the Vatican in 2014 and 2015, Cardinal Pell spoke forcefully inside and outside the meeting hall against proposals to allow divorced Catholics who remarry without an annulment to receive Communion.

According to church teaching, such Catholics may receive Communion only if they abstain from sexual relations with their new spouses, living together as "brother and sister." Otherwise the church considers their relationships adulterous. Conservatives have warned that changing this teaching would in effect legitimize sexual relations outside of marriage.

Owing to the efforts of Cardinal Pell and his allies, the two synods failed to endorse a change in the traditional practice, drawing an angry rebuke from Pope Francis at the closing session in October 2015.

In a document the following year, the pope didn't change church teaching but encouraged greater leniency in the matter by priests. Cardinal Pell and other conservatives have concluded that the pope's words didn't change the traditional prohibition on Communion for remarried divorced people.

According to Mr. Magister, the cardinal's leave of absence, following the resignation of

GREGORIO BORGIA/ASSOCIATED PRESS

Cardinal George Pell

The pope briefly gave Cardinal Pell control over most of the Vatican's real estate portfolio in July 2014 before handing it back to APSA the following February. He trimmed back the cardinal's power in other ways.

Cardinal Pell said in the interview last year that some of his setbacks were because of

his people wanting to retain their turf, their traditional role" particularly at APSA and the Secretariat of State, and he vowed not to back down.

According to Mr. Magister, the cardinal's leave of absence, following the resignation of

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Development Corp. for Israel bonds don't trade; they are issued and then held to maturity. A Finance & Markets article June 23 about Warren Buffett's investments in Israeli bonds provided a quote for the yield of Israel government bonds but didn't explain the terms of Development Corp. bonds.

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# WORLD NEWS

## Xi Vows to Protect Hong Kong's Status

Chinese president arrives on 20th anniversary of British handover of colony

By JOHN LYONS

HONG KONG—Chinese President Xi Jinping, in Hong Kong to celebrate the 20th anniversary of the city's return to China, said he was committed to maintaining its semiautonomous status, even as Beijing increasingly exerts its influence over the former British colony.

We will "assess Hong Kong's extraordinary journey in the past 20 years, learn from collective experience, and plan for the future," Mr. Xi said Thursday in a speech at Hong Kong's airport, shortly after arriving for a three-day stay. Mr. Xi said he would seek to ensure the stability of the "one country, two systems" arrangement that gives Hong Kong citizens more freedom and rights than their mainland counterparts.

Mr. Xi's visit, his first to Hong Kong as president, comes as mainland China is tightening its grip on the city of seven million. Last year, mainland authorities paved the way for the removal of lawmakers who



President Xi Jinping waits to meet with the departing Hong Kong chief executive, Leung Chun-ying, at a hotel in the city.

tional education curriculum that promotes China's Communist party, measures that failed in the past after sparking protests.

When Britain returned Hong Kong to China two decades ago, conventional wisdom was that the poor but fast-developing Communist mainland would converge with the richer, free-market Hong Kong; China would become more open and grounded in rule of law as its links to the global economy deepened.

But while China's economic growth has surged, the country of 1.4 billion people has grown more authoritarian and assertive under Mr. Xi, sparking concerns in Hong Kong and elsewhere. In 2015, five Hong Kong booksellers were secreted to detention centers in China by Chinese agents. This year, a mainland billionaire disappeared from a Hong Kong hotel and is believed to be detained or cooperating with anticorruption authorities in the mainland.

Hong Kong activists who organized the sit-in Wednesday called Beijing's government a "brutal regime" that "perverted Hong Kong people's civil and political rights."

—Jenny W. Hsu contributed to this article.

questioned Beijing's authority from the local legislature, and Beijing officials have excoriated activists it says are pushing for Hong Kong independence.

Meantime, many of the leaders of the student-led protest movement that grabbed global attention in 2014 have faced prosecution, leading many Hong Kong residents to ques-

tion the value of political activism. A pro-democracy rally is set for the July 1 anniversary, but some of its key organizers were arrested Wednesday after they staged a small sit-in.

"The significance of the visit is to further show who is boss, show who is in control," said Kin-ming Liu, a longtime Hong Kong journalist turned consul-

tant. Police have fanned out across town, blocking off parts of the normally bustling city.

Since taking office in 2012, the 64-year-old son of a prominent Communist Party revolutionary has consolidated power, launching a far-reaching anti-corruption campaign that often targeted political rivals. He has been recognized as the "core"

of party leadership, a designation that comes with sweeping decision-making power.

During his three-day visit, Mr. Xi will oversee the swearing-in of Hong Kong's new chief executive, Carrie Lam, who was seen in Hong Kong as Beijing's pick for the job. Ms. Lam is under pressure to introduce an antisedition law and a new na-

## Trump, Moon to Focus on Pyongyang

South Korean President Moon Jae-in and U.S. President Donald Trump were set to meet in Washington for the first time, a summit that will serve as an early test of the new leaders' relationship following several differences over key policies.

By Jonathan Cheng in Seoul and Carol E. Lee in Washington

The discussions come amid growing urgency about confronting the threat from North Korea. The two leaders have suggested dramatically different approaches to the issue.

Mr. Moon, South Korea's first left-leaning president in nearly a decade, has called for closer ties with North Korea, primarily through economic cooperation, while the Trump administration has called for tougher sanctions, military pressure and diplomatic isolation. White House officials said North Korea is likely to dominate the talks.

They played down differences in the two leaders' approaches and said Mr. Trump will stress the need to coordinate their policies. Mr. Trump's policy is to apply pressure on North Korea "to change their calculus to have substantive talks with us once they show they are willing to reduce the threat," a senior White House official said.

The official said Mr. Trump sees nothing "problematic" with Mr. Moon's positions.



President Moon Jae-in speaks before the Chamber of Commerce.

The U.S. administration is seeking to ramp up sanctions on North Korea and apply new diplomatic pressure to Pyongyang, though the White House official said no new sanctions are imminent.

"The State Department has been talking to our friends and partners throughout the world really to address North Korea's trade, to address many of their illegal activities sometimes conducted under the guise of diplomatic missions

to raise capital, hard currency for their weapons programs," the official said. "I think there's plenty more pressure that could be brought to bear on North Korea in the form of U.N. Security Council resolutions and also unilateral sanctions by the United States."

The U.S. wants China to do more to cut off North Korea's economic pipeline. Mr. Trump, who said last week that North Korea is a threat that has to be "probably dealt with rap-

idly," recently wrote on Twitter that China's effort to use its influence on North Korea "has not worked out."

Mr. Trump's comments about South Korea and U.S. relations, both as a candidate and since taking office in January, have roiled South Korea. Mr. Trump said in April that he wanted to renegotiate a trade deal with South Korea. He said South Korea should pay for a U.S. missile-defense installation known as a Terminal High-Altitude Area Defense system, or Thaad, that is designed to protect against a North Korean missile attack. Days later, Lt. Gen. H.R. McMaster, Mr. Trump's national-security chief, told his South Korean counterpart that the U.S. would pay for the system.

Mr. Trump has suggested in the past that South Korea pay more for the cost of U.S. troops stationed in the country, a deployment that long has been a tenet of the security alliance.

The alliance particularly has been tested by the troubled deployment of Thaad. Over the past 12 months, Thaad has become a political football, upending ties between Seoul, Washington and Beijing.

On the issue of the five-year-old U.S.-Korea Free Trade Agreement, the U.S.'s largest bilateral trade pact, Mr. Moon's aides expect Mr. Trump will be eager to discuss the issue. Mr. Trump has lambasted it as "a horrible deal."

## Beijing Assails Senate Over a Bill on Taiwan

By JOSH CHIN

BEIJING—China reacted angrily to a bill in the U.S. Senate that would allow U.S. Navy vessels to make regular stops in Taiwan ports.

The proposed change, after decades of a "One China" policy that requires the U.S. forgo official recognition of Taipei, was approved by the Senate Armed Services Committee as part of larger measure.

Beijing, which considers Taiwan a breakaway province, quickly called on the U.S. to abide by the One China policy, which it sees as an issue of unrivaled importance.

"We express our grave concern on this Taiwan-related bill," said Foreign Ministry spokesman Lu Kang at a news briefing Thursday. "The Taiwan issue concerns China's sovereignty and territorial integrity. It is China's internal affairs."

A spokesman for China's Defense Ministry echoed the sentiment, saying such contacts risk damaging China-U.S. relations and peace and stability across the Taiwan Strait.

Taiwan's Ministry of Defense didn't respond to a request to comment.

The proposed policy change, which requires approval by the full U.S. Senate and House of Representatives and the signature of President Donald Trump, could renew recent uncertainty around U.S. policy on

Taiwan, which first erupted in December when Mr. Trump, then president-elect, broke with protocol and accepted a congratulatory phone call from Taiwanese President Tsai Ing-wen.

In a January interview with The Wall Street Journal, Mr. Trump suggested he would review the One China policy unless he saw concessions from China on trade. The next month he reaffirmed the U.S.'s commitment to the policy in a phone call with Chinese President Xi Jinping.

The Senate committee vote reassures Taipei of its support in Congress and helps it push back against pressure from China, said Yan Chen-shen, a professor at the Institute of International Relations at Taiwan's National Chengchi University.

Were the bill to become law, it is possible, though unlikely, that Beijing might try to punish Taiwan by peeling away another of the island's diplomatic partners, he said. Beijing refuses formal ties with countries that recognize the island's government.

Earlier in June, Panama ended diplomatic relations with Taipei in favor of Beijing, leaving Taiwan with only 20 formal diplomatic partners, mainly small nations in the Pacific and the Caribbean.

—Jeremy Page and Dominique Fong contributed to this article.

## Combative Duterte Gets an Opponent He Didn't Want

By BEN OTTO

countries including Malaysia, Saudi Arabia and Yemen.

"It is difficult to fight someone who wishes to die," Mr. Duterte said recently at a military camp in northern Mindanao.

Days later he visited a camp housing some of the more than 400,000 civilians displaced in the region. He was visibly moved as he stood face-to-face with families from Marawi—a city just 100 miles from Davao, where he served as mayor for more than two decades.

"No one is more frustrated than I am upon knowing [terrorists] are destroying Marawi," he told them. "I have to drive them out, but I am very sorry."

The urban battle and the lack of reconciliation progress threaten to upset Mr. Duterte's law-and-order agenda—symbolized by a war on drugs that has claimed thousands of lives—and stymie his desire to create a federalist system of government that would grant more autonomy to the regions, enabling areas like Mindanao to solve their own problems.

It also throws into relief Mr. Duterte's pivot away from his country's longtime ally and protector, the U.S., and raises questions about the state of counterterrorism ties with the

West. In 2015, a year before Mr. Duterte took office, the U.S. wound up a joint task force that for 13 years had aimed to counter Muslim extremists in the Philippines.

The American Embassy in Manila has said the U.S. is providing assistance in the current situation, but declined to provide details. A Philippine military spokesman said the assistance includes technical support and intelligence.

"Marawi is a wake-up call for every nation in the Indo-Pacific," Adm. Harry Harris, commander of the U.S. Pacific Command, said in Australia on Wednesday. He called for closer cooperation among nations in the region—naming the Philippines, Indonesia, Malaysia, Bangladesh, New Zealand and Australia—along with the U.S. to confront the threat.

Mr. Duterte remains popular—his March quarterly ap-

roval rating is down only a few points from the 80s where it stood in December—and no clear opposition figure has emerged to challenge him.

For most Filipinos, Mindanao "is a distinct, troubled region far away from their daily concerns, so even when things go bad there, it is unlikely to change most people's political support," said Malcolm Cook, a senior fellow at the Iseas-Yusof Ishak Institute in Singapore.



President Duterte looks at a sniper rifle at Clark Air Base on Wednesday with Chinese officials.

The government almost daily announces that militant numbers are dwindling in Marawi, but authorities fear that the end of the Muslim holy month of Ramadan and Islamic State's retreat in the Middle East could bring foreign reinforcements to Southeast Asia.

The nation of more than 7,000 islands will be hard-pressed to intercept them if they come. The Philippines for decades has failed in its efforts to eradicate the many extremist groups that recruit from poor, marginalized Muslim communities in the jungles of Mindanao. The island was once an important base for Jemaah Islamiyah, an al Qaeda-linked group behind bombings on the Indonesian island of Bali in 2002 that killed 202 people, mostly foreigners.

Mr. Duterte blamed the Marawi conflict on the years-long buildup of jihadist groups and weapons stockpiling in Mindanao, much of it as the government adopted a conciliatory stance in seeking peace talks with larger, more mainstream rebel groups.

"We took it really for granted," he said.

—Rob Taylor in Brisbane, Australia, contributed to this article.

## WORLD NEWS



German Chancellor Angela Merkel welcomed French President Emmanuel Macron at the chancellery in Berlin on Thursday.

# Tensions Rise Before G-20

U.S. policy, Turkish activism trouble  
Merkel before leaders' meeting in Hamburg

By ANTON TROIANOVSKI

BERLIN—A meeting of world leaders in Germany next week emerged as a source of tension among allies on Thursday as Chancellor Angela Merkel sought to block the Turkish president from giving a speech and ratcheted up her criticism of U.S. President Donald Trump.

Ms. Merkel's foreign minister, Sigmar Gabriel, said Turkish President Recep Tayyip Erdogan had notified Germany of plans to deliver a speech to supporters on the sidelines of the Group of 20 summit in Hamburg on July 7 and 8. Such an appearance, Mr. Gabriel warned, was "not appropriate" and risked inciting

conflict in Germany's large community of people of Turkish descent.

Ms. Merkel backed Mr. Gabriel's position, her spokesman said.

Speaking to the German parliament to preview the annual summit—which brings together leading Western countries and emerging economies that include Russia and China—Ms. Merkel criticized the U.S. for abandoning the Paris climate accord and warned of difficult talks.

"We want to and must master this existential challenge, and we cannot and will not wait until every last person in the world has been successfully convinced of the scientific findings about climate change," Ms. Merkel said.

The summit, which Mr. Trump plans to attend after visiting Warsaw, is also expected to feature debate about international trade. German officials are concerned that

Mr. Trump could soon throw up new trade barriers, including on steel imports.

"Those who believe they can solve the problems of this world with isolationism and protectionism are making a huge error," Ms. Merkel said. "The G-20 summit takes place in especially challenging conditions this year," she said. "The world is in turbulence. It has become less united."

Mr. Trump and Russian President Vladimir Putin will meet for the first time at the summit.

German officials are concerned about the potential for violent protests—including between backers and opponents of Mr. Erdogan, a divisive figure in Germany's Turkish diaspora.

Relations between Germany and Turkey, a fellow North Atlantic Treaty Organization ally, have deteriorated since last summer's aborted coup in Turkey.

Tensions have escalated over Turkey's detention of a prominent German-Turkish journalist, a dispute over campaign appearances by Turkish officials in Germany, Germany's grant of asylum to Turkish military officers wanted in connection with the failed coup, and Turkey's refusal to allow German members of parliament to visit German troops stationed in Turkey.

Mr. Gabriel, the German foreign minister, said he had warned his Turkish counterpart that Germany lacked the police numbers to secure a public appearance by Mr. Erdogan during the G-20 summit. He also said Germany would no longer allow public appearances by non-European Union government officials that "serve to bring domestic political conflicts of another country to Germany."

—Andrea Thomas contributed to this article.

# NATO to Boost Troops for Kabul

By JULIAN E. BARNES

BRUSSELS—The North Atlantic Treaty Organization announced it would send more forces to Afghanistan as European officials said they would press the visiting U.S. defense secretary for details on Washington's strategy to curb the rising tide of violence in the Central Asian nation.

"Our military authorities have requested a few thousand more troops for the mission in Afghanistan, and today I can confirm we will increase our presence in Afghanistan," NATO Secretary General Jens Stoltenberg said on Thursday.

The number of additional troops so far committed by NATO members is well below what officials said is likely to be requested by Washington. The U.S.-led international military coalition is seeking to bolster the government of President Ashraf Ghani against an array of insurgencies led by the Taliban and the local affiliate of Islamic State.

European officials had expected the Trump administration to decide on a new U.S. strategy in Afghanistan before NATO defense ministers convened in Brussels on Thursday. But the White House has yet to announce its plans, though it has given the Pentagon unilateral authority to send thousands of additional troops to Afghanistan at its discretion.

U.S. Defense Secretary Jim Mattis was expected to reveal some of the plans to allies Thursday afternoon, Western officials said.

There are about 6,600 NATO and allied troops and fewer than 9,000 U.S. troops now in Afghanistan. After President Barack Obama approved a military surge in Afghanistan in 2009, when the government's military campaign against the Taliban appeared in danger of failing, the number of U.S. troops in the country reached about 100,000.

Mr. Stoltenberg said that while he didn't expect a specific troop request from Mr. Mattis, the meeting would al-

low the allies to discuss how to strengthen the mission in Afghanistan, "so we can break the stalemate and make advances on the battlefield which will then lay the groundwork for a political solution."

As part of the new strategy, U.S. officials are planning to reduce the number of U.S. personnel training Afghan government troops and expand the number of counterterrorism forces working with the Afghan military.

NATO is also planning to focus on advising the Afghan air force and special-operations troops. Mr. Stoltenberg said the alliance wouldn't resume a combat role in the country.

"NATO has ended our combat mission in Afghanistan," Mr. Stoltenberg said. "What we do now is not to conduct combat operations but to help the Afghans fight."

*The U.S. will expand the counterterrorism forces working with the Afghan military.*

President Donald Trump has said he wants the alliance to do more to fight terrorism, and NATO has started various counterterrorism initiatives. But U.S. officials have told NATO allies that one way to address Mr. Trump's request is step up their contributions to the war in Afghanistan.

U.K. Defense Minister Michael Fallon said Thursday Britain would send just under 100 troops to Afghanistan, a deployment he characterized as part of the fight against terrorism. "Transnational terror groups that operate in Afghanistan are a threat to us in Western Europe and are a threat to the continued existence of the Afghan state," Mr. Fallon said. "We have every intent to constrain these groups and continue to support Afghan forces."

# Israel Urges Olmert Be Released Early

By RORY JONES

TEL AVIV—Israel's parole board recommended the release from jail of former Prime Minister Ehud Olmert, who is serving a 27-month prison term for bribery.

Prosecutors can appeal the board's decision Thursday to free the 71-year-old Mr. Olmert for good behavior, but there was no immediate indication whether they planned to do so.

Mr. Olmert entered prison in February 2016 after a nine-year corruption saga that underscored efforts by the country's justice system to combat high-level corruption.

A lawyer for Mr. Olmert didn't respond to a request to comment.

The former prime minister was originally sentenced in May 2014 to six years in prison for bribery, fraud and breach of public trust. But Israel's highest court in December 2015 reduced his sentence after acquitting him of some of the charges.

Mr. Olmert is the first Israeli prime minister to serve time in prison, and his case shook a public unaccustomed to seeing its leaders jailed. Mr. Olmert denied the charges against him, which stemmed from his time as mayor of Jerusalem from 1993 to 2003.

Despite the successful prosecution of the ex-premier, allegations of corruption in politics and business remain common in Israel.

The current prime minister, Benjamin Netanyahu, is the subject of two investigations, one into whether he received unlawful gifts while in office and another into whether he tried to negotiate favorable coverage with a top Israeli newspaper. Mr. Netanyahu denies wrongdoing in both cases.

Last week, Israel's securities authority raided the offices of a big telecommuni-

tions company as part of an investigation into alleged fraud and improprieties by executives.

Israel is ranked 28 out of 176 countries on the Transparency International watch list of corruption, better than European Union members Poland and Portugal but behind the United Arab Emirates.

In the case of Mr. Olmert, he and other top-ranking public officials in the Jerusalem municipality were convicted of accepting bribes from real-estate developers.

In another high-profile criminal case at the time, Moshe Katsav was forced in 2007 to step down as president after he was accused of rape and sexual harassment. He began serving a seven-year prison sentence in 2011 and was released last year after serving five years. Israel's president is a largely ceremonial position, while the prime minister is the top official in government.

Mr. Olmert became prime minister in 2006. During his time in office he negotiated a potential peace deal between Israel and the Palestinians that some observers say was the closest the two sides have ever come to an agreement.

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## SINGAPORE Property Cooling Still Needed, Bank Says

Singapore's central bank said it wasn't yet time to ease property cooling measures, despite the real-estate market having "substantially stabilized" in the past three years.

"They [cooling measures] remain necessary," Ravi Menon, the managing director of the Monetary Authority of Singapore, said in a speech Thursday at the release of the central bank's annual report.

Underlying demand for private residential properties remains firm amid low interest rates and investors continue to search for yield and safety in property markets across the world, he said. After rising nearly 60% over four years, property prices in Singapore have eased 12% in the past 3½ years, according to the central bank.

Recently launched private projects in Singapore have seen relatively higher interest from buyers, and transaction activity in the first quarter increased by about 40% over the quarterly average in the past three years.

"The risk of a renewed unsustainable surge in property prices is not trivial," Mr. Menon said.

Singapore, which allows foreigners to buy private apartments, also needs to remain vigilant about overseas investors buying property in the island nation to escape tighter regulation back home. Authorities in China, Hong Kong, South Korea and New Zealand have tightened prudential requirements for home loans amid buoyant property markets.

—Gaurav Raghuvanshi

## EUROZONE Confidence Hits Post-Crisis High

The surprisingly strong rise in confidence should help the eurozone's economic recovery, since businesses and households are likely to spend more freely.

Eurozone businesses and

consumers were more optimistic in June than at any time since before the global financial crisis, reflecting a pickup in economic growth and the rejection of political parties hostile to the European Union in recent elections.

The European Commission's Economic Sentiment Indicator, which aggregates business and consumer confidence, jumped to 111.1—its highest level since August 2007—from 109.2 in May. Economists surveyed by The Wall Street Journal last week had expected a more modest rise to 109.5.

The surprisingly strong improvement should aid the eurozone's recovery, since businesses and households are likely to spend more freely if they feel more confident. That increases the likelihood that the European Central Bank will soon step back from the economic stimulus measures it has provided since mid-2014.

"Political winds are becoming tailwinds," ECB President Mario Draghi said in a speech Tuesday. "There is newfound confidence in the reform process, and newfound support for European cohesion, which could help unleash pent-up demand

and investment."

June's rise in sentiment was aided by France, where the country-specific reading climbed to 109.8 from 107.6 in May. This was in response to Emmanuel Macron's victory in May's presidential elections and the strong showing of his party in subsequent legislative polls.

The pro-EU centrist has pledged to remake the country's aged labor regulations and give the eurozone's second-biggest economy the vigor it has long lacked.

—Paul Hannon

BRAZIL

## Government Lowers Inflation Target

Brazilian policy makers announced cuts to the official inflation target, which is used as a guide by the central bank when setting monetary policy, as price increases lose steam amid economic sluggishness and corruption charges against the president.

The National Monetary Council, or CMN, said on Thursday that the official 12-month inflation target will go down to 4.25% in 2019, then to 4% in

2020, from 4.5% now. The current tolerance range, of 1.5 percentage points in either direction, will remain unchanged in the period.

"The inflation-targeting system has consolidated and matured, which allows for lower targets," the central bank said. "The process, however, must be carried out in a gradual and consistent manner," the bank said.

The target has been 4.5% since 2005 and will remain there through the end of 2018.

The CMN, which includes the ministers of finance and planning and the central bank president, will now announce the target three years ahead of time, instead of two years, the central bank said.

Brazil's economy is crawling out of its worst recession on record, with gross domestic product forecast to grow less than 0.5% in 2017 after two years of contraction. Consumer-price increases have slowed rapidly in the past year and a half, from a 12-month pace of 10.7% in January of last year to 3.6% in May, paving the way for the first target cut in 12 years.

—Paulo Trevisani and Jeffrey T. Lewis



SEEKING REFUGE: Hundreds of migrants rescued from the Mediterranean, among around 10,000 pulled to safety over the past few days, wait to disembark in the Italian port of Salerno. On Thursday, Italy pressed its European Union allies to take in more of the migrants.



Former Prime Minister Ehud Olmert was jailed last year.



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# U.S. NEWS



House Speaker Paul Ryan said the bill shows that GOP lawmakers are following through on pledges to toughen immigration laws.

## Sanctuary Cities Targeted

House GOP legislation would raise pressure to cooperate with immigration policies

BY LAURA MECKLER  
AND NATALIE ANDREWS

WASHINGTON—Cities and counties that don't help federal immigration authorities could lose millions of dollars in federal grants under legislation that was expected to pass the House Thursday, as Republicans ramp up their battle against so-called sanctuary cities.

The legislation represents the administration's most aggressive effort yet to force local communities to cooperate with President Donald Trump's aggressive immigration-enforcement policies.

Mr. Trump and his administration regularly spotlight undocumented immigrants who commit crimes, and on Wednesday he met with their victims to urge passage of the bill. "You lost the people that you love because our government refused to enforce our nation's immigration laws," he told the group.

The bill, along with a companion enforcement measure, represents a contrast with the comprehensive immigration legislation long pushed by Democrats and some Republicans. Those proposals typically combine enforcement measures with pro-immigrant provisions such as the legalization

of people living in the U.S. illegally. But Mr. Trump and his allies in Congress have shown little interest in a bipartisan approach.

Both measures were expected to pass the House on largely party-line votes Thursday, but they face strong opposition in the Senate, where they would need Democratic support to pass.

The first bill, called the "No Sanctuary for Criminals Act," primarily aims to persuade local jurisdictions to hold people in jail when asked to do so by the Immigration and Customs Enforcement agency.

Proponents in the Trump administration and elsewhere say releasing criminals who should be deported makes communities less safe. They add that asking a jail to hold someone for as long as 48 hours is a reasonable request.

House Speaker Paul Ryan said Thursday that the bill was an example of GOP lawmakers keeping promises to toughen immigration laws. "By flagrantly disregarding the rule of law, sanctuary cities are putting lives at risk, and we cannot tolerate that," Mr. Ryan said.

Many local communities don't honor these ICE "detainer" requests for a range of reasons.

Some say cooperation would undermine trust in law enforcement in immigrant communities, making legal and illegal immigrants less likely to report crimes. Some cite court

rulings that found local communities are liable if someone such as a U.S. citizen is wrongly held based on inaccurate information.

The Obama administration also wanted local jurisdictions to honor detainer requests, but tried to persuade rather than pressure local leaders to go along.

Under the legislation, jurisdictions would lose federal grants from the Justice and Homeland Security depart-

*The bill aims to get local jurisdictions to honor immigration 'detainer' requests.*

ments if they enacted policies restricting assistance with the enforcement of federal immigration law.

In addition, it attempts to change the legal incentives for cities and counties. It protects those that honor detainers from being sued, by promising that the federal government will take jurisdiction's place in potential lawsuits. And the bill enables crime victims to sue jurisdictions that don't comply if they are harmed by someone who is released.

A second measure, also up for a vote on Thursday, would increase penalties for people with felony convictions who are deported from the U.S. and

then return. Dubbed "Kate's law," it's named for Kate Steinle, who in 2015 was killed in San Francisco by an undocumented immigrant who had been deported five times before and kept coming back.

Ms. Steinle was "senselessly murdered by an unlawful immigrant," Rep. Pete Sessions (R., Texas) said at this week's Rules Committee meeting, where the bill was debated. "Kate's law" enhances penalties for felons who return to the United States....This is done to protect American citizens."

House Democratic leaders were lobbying their members to oppose the bill withholding federal funds from sanctuary cities. The "Kate's law" measure was politically tougher and seen by Democrats as an effort by Republicans to force them into taking an unpopular position.

House Minority Leader Steny Hoyer said many members oppose allowing illegal immigrants who have committed a crime back into the country but fear the bill overstates the problem. Others noted that people could be punished simply for arriving at a U.S. port seeking asylum.

"It's stupid, it has nothing to do with the criminal act that was done against Kate Steinle, which was a terrible thing," said Rep. Zoe Lofgren (D., Calif.) in an interview. She said elements in the bill intended to prevent illegal immigration wouldn't have prevented Ms. Steinle's death.

## Senators Attempt Health-Bill Revise

WASHINGTON—Senate Republican leaders scrambled to rework by week's end their plan to dismantle the Affordable Care Act, but GOP senators remained mired in disputes over key policy planks of the bill.

By Kristina Peterson,  
Siobhan Hughes  
and Michelle Hackman

After Senate Majority Leader Mitch McConnell (R., Ky.) abruptly postponed a vote on the bill until after next week's recess, GOP senators sought agreement on a series of thorny issues, with little evidence of quick progress.

Lawmakers said they hoped to hammer out a new version of the bill before leaving Washington on Friday, but some doubted they could overcome the intraparty rifts by then.

"It's going to be very difficult," said Sen. Susan Collins of Maine, one of nine Republicans who publicly oppose the bill.

Senators with concerns about the legislation traipsed in and out of Mr. McConnell's office. GOP leaders worked to figure out whose concerns could be soothed by extra funds and whose would require more radical alterations to the bill.

Sen. Dean Heller of Nevada, a Republican currently opposed to the bill, and the two GOP senators from Alaska, Lisa Murkowski and Dan Sullivan, were among those meeting with Mr. McConnell. But no deals to win them over emerged publicly.

In a long and contentious closed-door luncheon Wednesday, about 15 to 20 GOP senators aired competing ideas over how to improve the bill, said Sen. Rand Paul (R., Ky.), another opponent of the bill, after the session. "We've got a long ways to go," he said.

Lawmakers said much of the discussion centered on how to shore up the faltering individual market, where people buy insurance if they don't get it through work or safety-net programs. Conservatives have been pushing an idea backed by Sen. Ted Cruz (R., Texas) that would allow insurers who offer at least one plan that meets the law's requirements to also offer a cheaper plan covering fewer benefits.

"That would have the effect of significantly reducing premiums and enabling people to purchase health insurance they can afford," Mr. Cruz said.

Supporters of Mr. Cruz's plan said people who don't need a specific benefit shouldn't have to buy it—for example, men should not be required to buy policies that include maternity services.

Others dismissed such arguments, saying men are also involved in pregnancy. "Women

don't get pregnant without sperm," Sen. Bill Cassidy (R., La.) said dryly.

The Cruz plan, critics added, would encourage healthier, younger people to buy the skinnier plans, driving up premiums for sicker and older consumers.

Conservatives are also pressing to allow higher contributions to health-savings accounts and possibly remove the requirement that these accounts can be used only by employees with high-deductible plans, people familiar with the talks said.

Centrist Republicans, meanwhile, want changes in the bill's phaseout of higher federal support for the law's expansion of Medicaid, which the current bill would start reducing in 2021 and fully eliminate by 2024. Centrists also want to change a provision that lowers the growth rate for Medicaid spending in 2025. Such a shift could ease concerns about passing those costs to states.

But in a sign of the challenges facing Mr. McConnell, such a change would also create new problems among conservatives.

"It's very, very important that we keep the growth-rate provisions that we have because it's the only way to make this program sustainable," said Sen. Pat Toomey (R., Pa.).

Democrats said the delay shows that Republicans should work with them to fix the 2010 law, rather than dismantling it.

Sen. Chuck Schumer of New York, the chamber's Democratic leader, suggested that President Donald Trump, a Republican, invite all 100 senators to discuss health care at Blair House, a government residence where former President Barack Obama, a Democrat, hosted a health-care summit in 2010.

"Let's abandon more tax breaks for the rich, let's abandon cuts to Medicaid, and discuss what the American people are really concerned about—premiums, deductibles, the costs and quality of health care," Mr. Schumer said.

—Stephanie Armour contributed to this article.



Sen. Susan Collins (R, Maine) says a fast deal will be difficult.

given. "Because immigration officers have such discretionary power, we're not sure what they will abide by," she said.

The Department of Homeland Security is also developing new rules for vetting visa and refugee applicants, and is conducting a country-by-country review of security procedures that could lead to new and possibly more-sweeping travel restrictions by people from the six targeted countries and elsewhere.

DHS Secretary John Kelly said Wednesday that he looks forward to those reviews.

By the time "the government wins this case in the Supreme Court, we'll be able to move forward—not focusing on people from one religion or one culture, but focusing on every airport, every country around the world, doing a better job at determining who the person is who wants to come and why they want to come here," he said at a conference sponsored by the Center for a New American Security.

The Supreme Court's decision attempted to strike a balance until the justices could give the case full consideration in the fall. Three conservative justices expressed concern that the compromise approach could prove unworkable and generate more litigation.

—Felicia Schwartz and Brent Kendall contributed to this article.



A Saudi family at Washington Dulles International Airport on Monday, the day the Supreme Court issued a ruling on the travel ban.

JAMES LAWRENCE DUGGAN/REUTERS

Continued from Page One

day ban on U.S. entry for people from Iran, Libya, Somalia, Sudan, Syria and Yemen, and suspended the U.S. program for admitting refugees.

But the order was quickly put on hold by federal courts around the country, which found it likely presented an unconstitutional discrimination against Muslims, and that the president didn't properly justify the action.

The 90-day period began on Monday following the Supreme Court action. At its conclusion, the administration could decide to extend the existing restrictions, add additional countries to the list or otherwise modify the list.

When the Supreme Court hears arguments on the executive order in October, it is possible that the original travel restrictions will have been replaced by new ones, based on the reviews that are now under way. That could give the court an opening to avoid issuing a definitive ruling on the policy now in place.

Omar Jadwat, the lead attorney on this issue for the American Civil Liberties Union, reacted with dismay to the news, earlier reported by the Associated Press. "Spouse, but not fiancé? Son in law, but not mother in law? Makes no

sense," he wrote on Twitter.

"This reported guidance would slam the door shut on so many who have waited for months or years to be reunited with their families," added Karen Tumlin, legal director at the National Immigration Law Center. "Those engaged to be married, for example, have been cruelly left out."

The line was drawn, an administration official said, to ensure the exceptions aren't so broad as to swallow the rules altogether and allow virtually anyone to come in.

Examples of acceptable business ties include students

admitted to U.S. educational institutions, people who have accepted a job offer in the U.S., or a lecturer invited to address an audience in the U.S., according to one official.

The guidelines will affect visa processing. As the travel ban comes into force, administration officials and others don't expect the sort of chaos that unfolded airports upon implementation of Mr. Trump's first version.

Then, some travelers were abruptly stopped at arrival gates and sometimes held for hours. Thousands of people protested at airports around

the country.

By contrast, the measures that were set to take effect on Thursday allow for existing visas to remain valid, including those issued as recently as Wednesday. So, it is unlikely that people will be turned back unexpectedly in the near term.

Guidelines being issued to Customs and Border Protection agents are to honor valid visas and turn back only people who would be rejected under normal procedures, administration officials said.

Still, one official cautioned that foreigners arriving to the

U.S. are routinely subjected to additional screening and said advocates shouldn't assume the executive order is to blame if this happens to someone from one of the targeted nations.

Immigration advocates are bracing for trouble nonetheless. Amnesty International USA said it was stationing researchers at John F. Kennedy International Airport in New York and Dulles International Airport outside Washington, D.C., on Thursday to monitor implementation of the rules.

An Amnesty spokeswoman said it was unclear exactly what guidelines border agents will be

given. "Because immigration officers have such discretionary power, we're not sure what they will abide by," she said.

## U.S. NEWS

# Ending ACA Rule Could Help Insurers

BY ANNA WILDE MATHEWS

Buried in the Senate Republican health bill is a possible boon for insurers: an end to the Affordable Care Act rule that forced them to spend the lion's share of premiums on health care for enrollees.

Under the law, the federal government requires insurers to spend 80% of premiums revenue, received for individual and small-business plans, on health costs. For large employer plans, the share is 85%. If an insurer doesn't hit the required ratio, it has to rebate the extra money to customers.

The Senate version of the bill would end that requirement, starting in 2019. Instead, the bill says, states would mandate their own versions of the ratio—typically called a medical-loss ratio, or MLR—for individual and employer plans. States would also determine how rebates would be paid, if necessary.

The upshot for insurers would depend on states' actions, but analysts suggested that where states chose to loosen the requirements, the industry might be able to bolster its profits, particularly in the employer business. "They could see some margin expansion," said Ana Gupte, an analyst with Leerink Partners LLC.

Deep Banerjee, an analyst with S&P Global Ratings, said the law's ratio requirements prodded insurers to reduce administrative costs and get more efficient, and was one factor motivating the industry to seek big mergers, as companies sought to shave expenses further. The requirements also led to cuts in the commissions paid to brokers, squeezing them, industry officials have said.

"Effectively, you could see an increase in profitability" in insurers' employer business of perhaps 2% or 3% if the medical-loss ratio requirements were eased, Mr. Banerjee said. The ratio requirement affects fully insured employer plans, not those self-insured plans in which the employer pays the claims.

In the individual insurance market, where consumers buy their own plans, insurers are generally already paying out a higher share of premiums on health claims than the law requires, he said, so the shift in the ratio requirement may not have much immediate effect.

In addition, the legislation would make many other changes affecting the individual markets, including scrapping the law's mandate for individuals to have coverage, making its overall impact on that segment difficult to assess.

# Silicon Valley Moves on Wage Laws

As California weighs hourly pay mandate, region's cities enact their own measures

BY ALEJANDRO LAZO

SAN FRANCISCO—Proposers of a \$15 minimum wage have found fertile territory in Silicon Valley, where the region's booming technology industry is credited for helping drive soaring housing prices and a sizable income gap.

California is on track for a \$15 minimum wage by 2022, but some Silicon Valley cities are opting to hit that target faster, prodded by a campaign aimed at organizing low-wage workers in the region.

The city of Santa Clara is the latest to propose an accelerated \$15 minimum wage, following the lead of San Jose and six other Santa Clara County cities. The City Council plans to vote on a measure that would raise base pay to \$15 by 2019 next month.

Mountain View, where Alphabet Inc.'s Google is based, will have a \$15 minimum wage next year, as will Sunnyvale. The \$15 target will be reached in 2019 by San Jose, the region's largest city, and home to companies such as PayPal and eBay. Cupertino, hometown to Apple Inc., also will hit the \$15 target in 2019, as will Palo Alto, Milpitas and Los Altos.

Minimum pay in all of these Silicon Valley cities is expected to continue to climb beyond \$15, because all of the cities mandate more pay increases based on a regional inflation index.

The increases in one of the costliest regions in the country are being enacted when there is still much debate and research around the effectiveness of such wage increases. Proponents say raising the local minimum wage remains the easiest way to address stagnating pay. Critics say the rush toward a \$15 minimum wage will hurt businesses and cost jobs.

In Seattle, two academic studies released this month found conflicting results from the city's wage boost. The University of California, Berkeley, found Seattle's food-service workers benefited with a modest wage increase and no reduction in jobs. But a study from the University of Washington found employers cut workers' hours and earnings.

Many localities are barred by state law from boosting local wage. Cities in California, which allows for local wage laws, have been on the forefront of raising hourly pay locally.

State legislatures in Washington, Arizona, Colorado, and Maine have all approved measures to raise their states' minimum wages to \$12 an hour.



The minimum hourly wage in San Jose, Calif., is set to reach \$15 in 2019. Above at right, Chuck Hammers, a local pizzeria owner.

## How High Is Low Income?

The limits for what is considered low income for a family of four in the Bay Area exceeds that of other major cities.



Source: U.S. Department of Housing and Urban Development

THE WALL STREET JOURNAL

Twenty-six states have local minimum-wage pre-emption laws on the books that block smaller jurisdictions from setting their own wages, according to the National Conference of State Legislatures. At least 10 states considered pre-emption laws this year.

David Neumark, an economist at the University of California, Irvine, said minimum-wage increases aren't an effective policy tool for alleviating poverty and the potential effects of a \$15 minimum wage widely remain an unknown. While smaller increases leave room for businesses to adjust margins through prices or by varying their workforces, a move toward a \$15 mandate will likely leave little room for anything other than layoffs, he said.

Michael Reich, a professor at UC Berkeley and one of the

authors of its Seattle wage study, said such concerns are overblown. San Jose's 2013 minimum-wage increase to \$10 in 2010 led to an average 1.5% price increase at restaurants.

In Silicon Valley, the median household income is \$101,980—the nation's highest, according to U.S. Census data.

Some question the impact of a minimum-wage boost in one of the most expensive regions of the country. Data recently released by the U.S. Department of Housing and Urban Development say a family of four in San Jose with an annual income of \$84,750 is considered low-income. In San Francisco, \$105,350 is seen as low-income, and in New York City, it is \$76,300.

Unions and other activists say their efforts to raise wages in Silicon Valley are part of a campaign to organize service-

## Two Sides of Debate On Minimum Pay

Ravinder Lal, who employs 15 people at his two UPS Stores in San Jose and Santa Clara said he has seen higher costs because of San Jose's wage increase.

He already pays people more than the minimum wage but increases require him to also bump up workers making \$15, he said.

"Most small-business owners that I know, in this valley, are struggling just like somebody working, because it is so expensive," he said.

Blanca Rosell, 57 years old, who lives in Sunnyvale, Calif., which borders Santa Clara, said a minimum-wage increase in Santa Clara would help employers there retain workers because many low-wage workers are drawn to neighboring Mountain View for higher pay.

Ms. Rosell said she works 70 hours a week, splitting her time at a Burger King in

Mountain View and a Carl's Jr. in Santa Clara.

In Santa Clara, where she has worked more than six years in a Carl's Jr., she holds a supervisory position and is paid \$11.75 an hour. At the Burger King, where she has worked six months, she is paid \$13, because of that city's higher minimum-wage policy.

The jobs barely help cover the rent in her \$1,850 one-bedroom apartment in Sunnyvale, where she lives with her two sons, her eldest son's wife, and that couple's two younger children, she said. Her son works assembling motors at the Tesla factory in nearby Fremont.

She says she doesn't want to move because she wants her 15-year-old to be able to attend high school in the area.

"The rent is very high, and we don't make a whole lot, and so we can't make it paying all the bills," she said.

She believes an increase in Santa Clara's minimum wage will allow her to work fewer hours.

—Alejandro Lazo

industry workers and other low-wage employees in one of the wealthiest regions of the U.S. Activists say raising base pay will help the lowest-rung workers make ends meet and boost incomes for those already making \$15.

"It is a wealth-producing region, and some of the wealth should be shared," said Derecka Mehrens, a founder of the "Silicon Valley Rising" campaign, which has been organizing low-wage workers in the area.

Chris Horton, president of

Santa Clara's Chamber of Commerce, said that while the chamber supports "a living wage," the accelerated wage increase the city is considering will hit the bottom line for small businesses.

Ravinder Lal, who employs 15 people as the owner of two UPS Stores in San Jose and Santa Clara, says he made about \$150,000 more in revenue than last year—but \$50,000 less in profit, generally brought on by higher costs because of wage increases in San Jose.

## U.S. WATCH

### POLITICS

#### Republicans Chastise Trump Over Tweets

Republican President Donald Trump drew condemnation from members of his own party after he attacked a female cable-news host over her appearance and intellect in tweets Thursday.

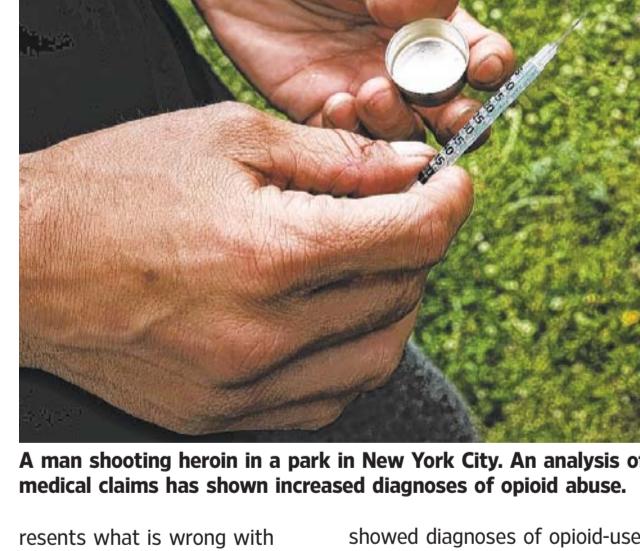
In the first of two tweets, the president said: "I heard poorly rated @Morning Joe speaks badly of me (don't watch anymore). Then how come low I.Q. Crazy Mika, along with Psycho Joe, came... to Mar-a-Lago 3 nights in a row around New Year's Eve, and insisted on joining me. She was bleeding badly from a face-lift. I said no!"

The tweets were referring to Mika Brzezinski and Joe Scarborough, hosts of the MSNBC show "Morning Joe." They came as the White House has been working to keep the focus on advancing Mr. Trump's policy goals, most notably passing a health-care bill in the Senate.

One of the key voters on the health measure, Sen. Susan Collins (R., Maine), responded to Mr. Trump's tweets with her own. "This has to stop—we all have a job – 3 branches of govt and media," Ms. Collins tweeted. "We don't have to get along, but we must show respect and civility."

Mr. Trump drew several other rebukes from within his party.

"Mr. President, your tweet was beneath the office and rep-



A man shooting heroin in a park in New York City. An analysis of medical claims has shown increased diagnoses of opioid abuse.

resents what is wrong with American politics, not the greatness of America," said Sen. Lindsey Graham (R., S.C.) in a tweet.

Sen. Ben Sasse (R., Neb.) echoed Mr. Graham's tweet with: "Please just stop. This isn't normal and it's beneath the dignity of your office."

—Eli Stokols

### DRUG ABUSE

#### Opioid-Use Disorder Surged Over 7 Years

An analysis of millions of Americans' medical claims

showed diagnoses of opioid-use disorder surged nearly 500% over the past seven years, according to a review by the Blue Cross Blue Shield Association.

The analysis, which examined the claims of more than 30 million people with commercial insurance provided by Blue Cross Blue Shield insurers between 2010 and 2016, underscores the rising tide of addiction in the U.S. Opioid-use disorder is the clinical term for addiction to opioids, which include prescription painkillers and illicit narcotics such as heroin.

Twenty-one percent of the people reviewed in the analysis

filled at least one opioid prescription in 2015, according to BCBSA, with higher doses and longer-duration prescriptions associated with higher addiction rates.

The analysis also showed that use of medications to treat opioid addiction, such as buprenorphine or methadone, grew by 65% over the period of the study—a rate dwarfed by the 493% increase in opioid-use disorder diagnoses.

—Anna Steele

CRIME

#### Most Hate Crimes Went Unreported

The majority of hate crimes experienced by U.S. residents over a 12-year period weren't reported to police, according to a new federal report released Thursday that stoked advocates' concerns about ongoing tensions between law enforcement and black and Latino communities.

More than half of the 250,000 hate crimes that took place each year between 2004 and 2015 went unreported to law enforcement, according to a special report from the federal Bureau of Justice Statistics.

Hate crimes were most often not reported because they were handled some other way, the report said. But people also didn't come forward because they didn't feel it was important or that police would help, according to the report.

—Associated Press

## GDP Expands by 1.4%, Keeps Growth on Track

BY BEN LEUBSDORF

The U.S. economic expansion remains on track as it prepares to enter its ninth year.

Gross domestic product, a broad measure of the goods and services produced across the U.S. economy, expanded at a seasonally and inflation-adjusted annual rate of 1.4% in the first quarter, the Commerce Department said Thursday.

That was up from an earlier estimate of 1.2% growth, and forecasters expect a further pickup in the second quarter, which ends Friday. Macroeconomic Advisers on Thursday projected a 3.3% GDP growth rate for the spring quarter, and the Federal Reserve Bank of Atlanta's GDPNow model this week predicted 2.9% growth.

The government will release its first official estimate for second-quarter GDP on July 28.

The economic expansion that began in July 2009 is already the third-longest growth run in U.S. history. Only the expansions of the 1960s and 1990s were longer, and forecasters surveyed in early June by The Wall Street Journal on average saw a 16% probability of a new recession beginning within the next year.

Despite its longevity, the current expansion has been weak, with GDP growth aver-

aging 2.1% a year. That is weaker than any other recovery since at least 1949. Still, the unemployment rate has continued to decline, hitting 4.3% in May—its lowest level in 16 years.

Some economists think the recent slow growth reflects trends that emerged years before the 2007-09 recession: the end of an information-technology-fueled productivity boom and a decline in labor-force participation driven by demographic and other forces.

The U.S. experienced "a very deep recession superimposed on a sharply slowing trend," and it took time for forecasters to appreciate fully how much the underlying trend had slowed, said John Fernald, senior research adviser at the Federal Reserve Bank of San Francisco.

Looking forward, he said, subdued productivity gains and slow growth in the size of the workforce may continue to weigh on overall growth.

President Donald Trump, a Republican, has said he wants to boost growth above 3% a year by overhauling the tax system, rolling back regulations and enacting other policies. But the prospects for legislation remain uncertain, and many economists have warned it will be difficult to boost growth so much in a sustained fashion.

# GE

Continued from Page One

all of which is forcing manufacturers to put down deeper local roots to win business.

"Even many Indian companies would think five times" about building in Marhaura, says Banmali Agrawala, GE's India CEO. "But we said yes to it."

GE grew from a merger of electric companies in 1892—including one founded by Thomas Edison—into a global conglomerate by building in the U.S. and exporting abroad. After World War II, GE began to build global supply chains through manufacturing hubs in advanced economies such as Japan, France and Germany. By the late 1990s, as the pace of globalization quickened, GE became the ultimate global player, making jet engines, power turbines and MRIs in the most economically efficient manner it could devise.

Now that world is slipping away. Trade as a proportion of global gross domestic product hasn't recovered to levels seen before the financial crisis in 2008 as protectionist measures exploded.

Once-impoverished nations such as India, China and Indonesia are becoming economic powers and demanding that companies not just ship them goods, but invest and build locally, teach local workers new skills and share technological know-how.

To win big contracts, GE is trading a global footprint designed for maximum efficiencies of scale for one that means greater face-to-face exposure in local markets. The remoteness of the Marhaura factory adds cost and complexity to the locomotive project. "If something takes three months," project manager Shankar Dhar said one day in April, in an interview at the worksite, "you give it six months here."

To house the workers GE will recruit from other parts of the country, the company is building a "township" of 100 residential units next to the factory. The company also says it is working with local officials to try to streamline bureaucracy and arrange the widening and straightening of roads, to ensure it can get materials to a site it never would have picked on the merits alone.

Global Trade Alert, a trade-monitoring service, counts nearly 350 regulations imposed worldwide since November 2008 requiring local sourcing, hiring or operations, including a profusion of Buy America provisions in the Obama administration. Another 466 regulations require some form of localization to bid on government contracts. More are coming, especially in emerging markets such as India, Argentina and Nigeria, says Simon Evenett, an economist at Switzerland's University of St. Gallen who runs the monitoring service.

Government-backed development banks require projects to buy or build domestically in exchange for inexpensive financing.

GE says it has established engineering and research centers in nations such as Poland, Mexico and Qatar, and flexible factories in countries such as Brazil and India, which can easily switch production lines in case political winds or market preferences change. GE is also selling off some of its best-known businesses such as appliances and lightbulbs, which

are often the first industrial products a developing country will master, and is focusing on heavy industrial machinery that are more difficult to produce.

"There is a strong trend toward economic nationalism all over the world," GE's CEO, Jeff Immelt, said in a February letter to shareholders. He says the company can't depend on new trade deals to ease global commerce, but must scatter production all over the world.

Mr. Immelt won't be around to watch his experiment play out. The company announced in June that the CEO would retire in August after 16 years at the helm, amid investor dissatisfaction with GE's sluggish stock-market performance.

Mr. Immelt's successor, John Flannery, most recently ran the company's medical-equipment unit. He also once ran GE's India business.

Mr. Flannery's first job is to evaluate GE's vast business lines, although his career path suggests he is unlikely to reverse course on localization. The health-care business has already headed down this path through the customization of some product designs, as in the case of inexpensive, handheld ultrasound scanners it developed for India.

"What works in Milwaukee doesn't necessarily work in Mumbai," Mr. Flannery says.

A localization strategy requires a deft political touch. GE must balance the competing demands of national leaders to build plants in their backyards. That has become especially difficult since the election of Donald Trump, who has been quick to tweet about any company that moves jobs out of the U.S. The White House is now working on regulations to require U.S. government projects to require U.S.-made goods.

Not long ago, GE could boast that the products it sold overseas were made in America. Robert Nardelli, a former GE executive who ran the transportation business in the early 1990s, recalls 300 locomotives ordered by China during his tenure were built in GE's huge factory in Erie, Pa.

Now GE makes a more subtle argument in meetings with Trump cabinet officials. Overseas investments aren't coming at the expense of U.S. workers they say, and, besides, they wouldn't win the new contracts unless they agreed to manufacture abroad. The engines for all 1,000 locomotives to be assembled in Marhaura, for instance, will be built at GE's Grove City, Pa., plant.

"We can't let people think it's a zero-sum game—that a job in country X means one less job in the U.S.," says GE Vice Chairman John Rice.

Today, many industrial-sector deals—which often involve governments—require 30% to 70% of a machine's contents be produced domestically, GE executives say, a figure that has been rising in recent years.

Over the course of Mr. Immelt's 35-year career at GE, the company has shifted its focus from supplying the U.S. market to selling overseas. In 1982, when Mr. Immelt joined the company, 80% of the firm's revenue came from the U.S. Today, it's only 30%. Back then, GE operated 135 factories in 25 foreign countries. As of this year, it has 325 plants spread across 40 countries.

Jobs have followed the changes. GE employs 104,000 workers in the U.S., about one-third fewer than it did a decade ago. In 1982, GE em-



A General Electric factory under construction in Marhaura, India, is scheduled to produce 1,000 locomotives for Indian Railways.

ployed 261,000 workers in the U.S. In China, GE's workforce has doubled in the past decade to about 22,000 today.

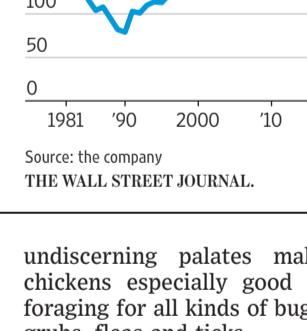
GE says it started pushing its localization strategy more fully around the time of the 2008-09 financial crisis when trade stagnated as a percentage of GDP. The company dispatched Mr. Rice, a tall Summit, N.J., native with a bald dome and a politician's back-slapping manner who previously ran its infrastructure and energy businesses, to Hong Kong to build GE's business outside the U.S. Company officials call him GE's Secretary of State.

Mr. Rice, 60 years old, says the world economy became less predictable following the financial crisis, leaving GE hustling to find what he called "tipping points"—moments when new political agendas brought opportunity.

Other companies made similar moves, including Honeywell International Inc., Caterpillar Inc. and investment giant BlackRock Inc. Honeywell introduced a line of hard hats in 2012 for Asian markets it said were designed for the heads of Asian workers—"a superior Chinese fit" according to the company. Honeywell says by setting up manufacturing in Asia it could better grasp the "nuances" of emerging markets.

In China, GE also doubled down on localization. In July 2014, Premier Li Keqiang told a group of U.S. executives that China wasn't that interested anymore in having foreign companies take advantage of the Chinese market, Mr. Rice recalls. China wanted them to

## Where General Electric Factories Are Located



Source: the company  
THE WALL STREET JOURNAL.

ticks come knocking. Mr. Bibula said the breeds he sells for tick control are the "elite forces of the chicken world," light-bodied and naturally wary of predators.

Fayetteville, N.Y., in September 2016 approved a proposal that lets residents keep up to a dozen backyard chickens. The town of about 4,400, which borders an upstate New York park, has been battling the tick menace for years.

There have been instances of children getting Lyme disease just from playing in their backyards, officials say.

Fayetteville has experimented with hiring sharpshooters to take down deer. Chickens were added to the list of tick-fighting options after a resident bugged them about it.

"We didn't want all of our eggs in one basket," said Lorrie Corsette, the village clerk.

While residents are happy about the option, Ms. Corsette said the town had received just one application for a chicken permit as of this week.

Gluttonous appetites and

undiscerning palates make chickens especially good at foraging for all kinds of bugs, grubs, fleas and ticks.

Chickens "can be very aggressive when it comes to their food," said Erin Hull, a farmer who recently gave a presentation on chicken-keeping to Fayetteville residents. "If anything moves, a chicken will attack it."

Patricia Foreman, who wrote the book "City Chicks: Employing Chickens as Garden Helpers, Compost Creators, Bio-recyclers and Local Food Suppliers," says chickens are "easier to maintain than cats," requiring little more than a clean coop, fresh water and regular routine.

She loves chickens so much that she sometimes ends phone calls by saying, "May the flock be with you."

North Hempstead, N.Y., has hatched a different plan. It will release about 25 Northern Bobwhite quails, native to the area, into the woods surrounding the community. Quails also eat ticks and officials hope

that will help reduce the scourge.

Quails, however, are known to fly their coops, so they don't make for good backyard foragers.

The idea that barnyard birds could be stand-ins for other, more proven methods of tick control is ruffling some feathers.

"To say I have a chicken and therefore won't get Lyme, that is dangerous," said Lee Ann Sporn, a biologist who teaches at Paul Smith's College in the Adirondacks.

Ms. Sporn said at least one study had found that wild birds can host Lyme-disease-causing bacteria and didn't see why ticks would spare chickens, which are also known to carry certain parasites. "Inappropriate human-domestic fowl interactions" could lead to other human health problems, she added.

Timothy Driscoll, an assistant professor at West Virginia University who studies tick-borne microbes, said there are few studies of scientific rigor

on the subject, and they all focus on guinea fowl—a noisier alternative to chickens.

Although those studies provide some evidence guineas could potentially eat enough adult Lyme-infected ticks to reduce their population, these birds appear to have little effect on nymph ticks, each the size of a poppy seed, which are a bigger threat to humans, he added.

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Opossums, on the other hand, are the real deal," Mr. Driscoll said about the marsupial's appetite for ticks. "Unfortunately, they tend to wander into roadways and get killed."

Alex Devoy, a college sophomore who helps out on a

Lakewood, N.J., farm, says guineas can eat hundreds of ticks a day. "The number of tick bites on farmworkers is much less than that of last year, when we didn't have the guineas free-ranging."

Dairy farmer Keith England keeps 15 guineas on his 5-acre property in Williamsburg, Pa., specifically for tick control. When his flock dwindled, the eight-legged critters came back quickly, he says, so he began rebuilding his bird patrol.

However, guineas startle easily and squawk loudly. Guineas "don't get along with the UPS man or guests or the dog," said Mr. Bibula, the Maine farmer.

Will Neide, a medical technologist, said he's considering chickens for his Hershey, Pa., property, which is partly wooded. He became concerned about ticks after seeing greater numbers in recent months and having to institute a nightly tick check for his four children.

"Worst case is I get eggs and a dinner out of them."

## IN DEPTH

# LYME

Continued from Page One

Control and Prevention estimates there are more than 300,000 new cases of Lyme disease in the U.S. a year, three times the rate two decades ago.

Public attention around tick-borne illnesses, including one that leaves victims allergic to red meat, is mounting. "Chemical bug spray is not the answer," Ms. Steele said. "You want the natural predators."

GE says it has established engineering and research centers in nations such as Poland, Mexico and Qatar, and flexible factories in countries such as Brazil and India, which can easily switch production lines in case political winds or market preferences change. GE is also selling off some of its best-known businesses such as appliances and lightbulbs, which

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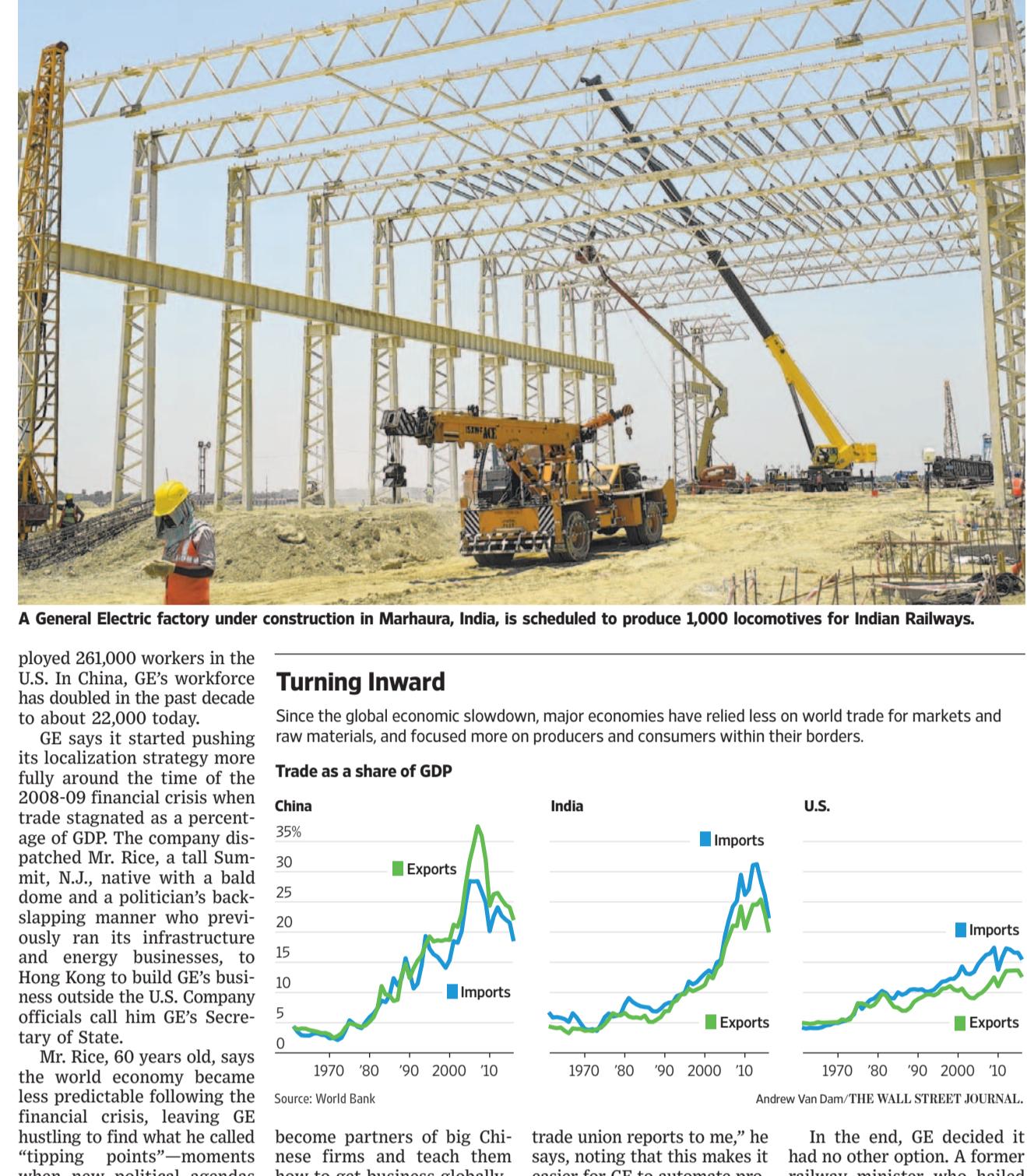
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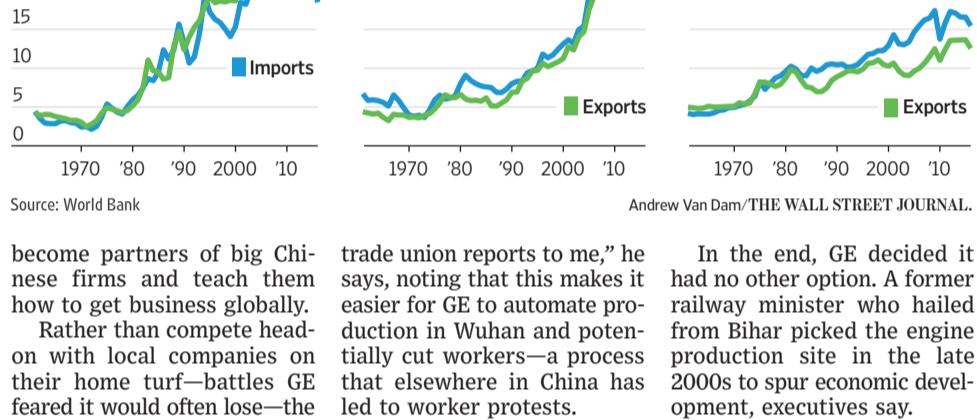


Source: World Bank

## Turning Inward

Since the global economic slowdown, major economies have relied less on world trade for markets and raw materials, and focused more on producers and consumers within their borders.

### Trade as a share of GDP



Andrew Van Dam/THE WALL STREET JOURNAL.

trade union reports to me," he says, noting that this makes it easier for GE to automate production in Wuhan and potentially cut workers—a process that elsewhere in China has led to worker protests.

GE also teamed up with China's Central Organization Department, which manages personnel moves for the Communist Party, to offer training for state-owned enterprise leaders at GE's Crotonville, N.Y., campus. More than 300 Chinese executives have taken part over the past decade-plus.

In India, GE began to push harder on localization after Prime Minister Narendra Modi was elected in 2014 on a "Make in India" platform. He promised economic development fueled by major investments in India's infrastructure.

GE says it wouldn't have won its India locomotive deal in 2015 without first expanding in India four years earlier, when it started building a factory complex in the industrial city of Pune. That helped GE train a cadre of skilled workers in an automated facility, which is expected to produce about 30% of the components in the locomotives to be assembled in Marhaura.

Selling new locomotives to Indian Railways, the government-controlled operator of its vast train network, has

# BOOKS

'Ah, there's peace in losing control.' —Jimmy Webb

## The Cake and the Rain

By Jimmy Webb  
St. Martin's, 346 pages, \$26.99

BY DOMINIC GREEN

'THE REGRET OF all novelists who have been brought up on music,' Anthony Burgess rued, 'is that counterpoint, which mirrors the multiplicity of life, is not possible in verbal language.' Prose, Burgess wrote, speaks in a single line. The doubled meanings of poetry are at most 'chordal.' But music is polyphonic. The best a lyric can do is attune itself to its musical counterpoint—as in Cole Porter's 'Ev'ry Time We Say Goodbye,' when the lyrics 'change from major to minor' and the harmony shifts ominously.

Just such a strange change recurs in Jimmy Webb's 'Wichita Lineman,' a hit for Glen Campbell in 1968. The lineman broods on his connection to a woman he loves but cannot have. 'I hear you singin' in the wire, / I can hear you through the whine.' Mr. Webb reharmonizes that slide with a chromatic bass counterpoint. The lineman ends up suspended over an unresolved chord, 'still on the line,' static atop a telegraph pole, caught in emotional torment.

Mr. Webb, then 21, wrote 'Wichita Lineman' in a few hours, because Glen Campbell had asked for 'something geographical' to follow 'By the Time I Get to Phoenix,' the Webb composition that the singer rode to No. 2 on the charts in 1967. By 1968 Mr. Webb was 'The Cole Porter of the Sixties,' according to some of the press coverage of the day. He drove a 427 Shelby Cobra. He owned an old 'Valleywood' mansion. Frank Sinatra covered his songs, and Caesar's Palace was offering him eight-week engagements at \$40,000 apiece, white piano included.

Mr. Webb wanted to be a rock star, not a studio hand. He wanted the cars, the fame, the money, the girls. He also wanted the esteem of his songwriter contemporaries. 'The Cake and the Rain' is the story of how Mr. Webb made it and how unmaking it nearly killed him. It is novellistic, perfectly plotted and quite possibly the best pop-star autobiography yet written.

A writer can approximate musical counterpoint by restructuring the timeline. Mr. Webb avoids the linear narrative and structures 'The Cake and the Rain' like 'Wichita Lineman.' The song has two sections, each leading from narrative to refrain. The book has two threads, the rise and the fall. The Devil recurs in Mr. Webb's story as a living presence.

Mr. Webb's grandfather was said to be the seventh son of a seventh son. The religious call came to his father while astride a tractor in Texas.

He became an itinerant Baptist preacher, dragging his wife and his children to 'one-horse' congregations and 'plaster-on-chicken-wire'



BIG TIME  
Webb at 22.

GETTY IMAGES

tract homes. Jimmy discovered the Devil's music secretly, between the sheets with a transistor radio.

In Oklahoma City, an older woman taught him the piano: exercises from the Baptist Hymnal, but also improvisation, arrangement and substitution, which creates new counterpoint through 'the alchemy of substituting exotic and unfamiliar chords for more prosaic ones.'

In 1963, the family reached Southern California. A year later, Mr. Webb's mother died of a brain tumor. His father returned to Texas, but 18-year-old Jimmy stayed. He was in unrequited love with California pop, which he wanted to write and record, as well as its bland incarnation, Suzy Horton, 'the most bitchin' girl in the school.' His father gave him \$40 and a warning: 'This songwriting thing is just going to break your heart, son.'

Mr. Webb dropped out of college and began recording the songs he had been composing. The first hits,

'Didn't We?' (recorded by Harris) and 'Up, Up and Away' (for the 5th Dimension), came almost overnight. His collaboration with Mr. Campbell made him a star.

In the era of Vietnam, youth revolt and 'All You Need Is Love,' Mr. Webb was 'embarrassed and a little guilty' about his wealth, his apolitical lyrics and Sinatra's approval. At the Monterey Festival of 1967, he had seen that the 'old craft and traditions' were slipping into an 'abyss' of 'ear-busting rock 'n' roll.' He jumped anyway. 'I want to be an artist,' Mr. Webb told David Geffen, a Mephistopheles bearing a recording contract, in 1970.

The author befriends Harry Nilsson and becomes a cokehead. He spends \$250,000 on tape players so that a live show can duplicate his studio sound but omits to ask the musicians' union. A mysterious fire at the rehearsal theater destroys the equipment, so he hires the Los Ange-

les Philharmonic. The live show is a disaster: He forgot to hire a conductor. He 'kidnaps' Suzy Horton in a private jet, whisks her to Hawaii and finally seduces her after giving her LSD. Then he takes to the road in a mock-Jagger leather suit and cheats on her.

The Devil has the best anecdotes. The mescaline not having worn off, Mr. Webb greets the King with 'Howdy, El!' Later, Elvis asks how many French horns he uses on his recordings. It used to be three, Mr. Webb says, but that wasn't enough: Nelson Riddle used four on Sinatra's recordings. 'Okay, Jimma, that seems about right to me too.' (Sadly, the two never collaborated.)

The roguish, broguish Harris invites 'Jimmywebb' to stay at Cottchford Farm, where Christopher Robin lived and Brian Jones died. The cuckolded songwriter Leslie Bricusse throws himself across the hood of the author's Corvette as Mr. Webb

elopes with Mr. Bricusse's wife. Mia Farrow, unsure if she can play Peter Pan in producer Mel Ferrer's movie, suggests using a young boy she had seen on 'The Ed Sullivan Show' with the Jackson Five. Mr. Webb plays it deadpan: 'His name was Michael. He would make a perfect Pan.'

Show business is the devil's work. Mr. Webb sleeps under the piano as he slaves for days on 'MacArthur Park,' the seven-minute epic whose cryptic lyrics give the book its title: 'Someone left the cake out in the rain / I don't think that I can take it / 'Cause it took so long to bake it /

The boy from Oklahoma became the Cole Porter of the '60s. But he wanted to be a rock star.

And I'll never have that recipe again.' Harris records the vocal while swilling from a giant, chilled pitcher of Pimm's No. 1. He keeps singing 'MacArthur's Park'—as though 'a fellow named MacArthur owned the park.' Mr. Webb and his engineer collect 'favored lines and passages' on a multitrack recorder, then edit down word by word.

One day in 1973, Mr. Webb crashes a glider into a pine ridge in California. His passenger, the rock photographer Henry Diltz, is 'bloodied but not bloody dead,' but the joint in Mr. Diltz's top pocket is intact. 'We fired up the splif and inhaled deeply.... Far above was the snow-crowned summit of Baden-Powell, the sun plummeting toward the west, the long shadows reaching out for us.'

Soon afterward, Nilsson and Mr. Webb mistake PCP for cocaine. Nilsson crawls around on all fours, repeating, 'Zardoz, Zardoz'—the name of a Sean Connery film 'where old age is dispensed as a punishment.' Mr. Webb goes to Hell. Passing from 'the realm of demons' to 'a bleak, dark plain under a starless sky,' his personality breaks into point and counterpoint: 'There were two of me. One suffered the most outrageous fear and insult while the other watched, calm and unsympathetic.'

For a month, everything feels like rubber—even the piano keys. He cannot remember 'a single tune or chord.' When he eventually strikes a Middle C, he cries. Born again, it seems, he plays 'Amazing Grace.' And there this story ends. Mr. Webb, expert at extracting drama from form, ends his narrative with this quiet yet resonant coda.

No one writes songs like Jimmy Webb does, and no musician ever wrote a biography like this. 'The Cake and the Rain' is a dream of sin and redemption, told with contrapuntal rigor. And, yes, Mr. Webb explains the lyrics of 'MacArthur Park' too.

Mr. Green is a historian, critic and jazz musician.

## Low Wit in Its Highest Form

### Away With Words

By Joe Berkowitz  
Harper Perennial, 272 pages, \$15.99

BY DANIEL AKST

AS A CRITIC, I've been around the block, buster. It's a risky business—the margins are paper-thin—so I work in my best cellar, a bomb shelter where pros can sing. The book stops here, ok? And if it won't hold still I hit it with a pan. Is that really so novel?

As that paragraph gratingly demonstrates, puns can be irritating. Yet the vast and diverse English language practically cries out for antics of this sort, and some people are so good at it that punning has evolved into a form of competitive sport. 'Way more pun competitions exist than most sane civilians might presume,' we learn from 'Away With Words,' Joe Berkowitz's diverting account of the subject.

Mr. Berkowitz, a staff writer at Fast Company, rashly immerses himself in this world over the course of a year, palling around with punsters and competing repeatedly in Brooklyn's Punderdome and once at the exalted O. Henry Pun-Off World Championships in Austin, Texas. 'The O. Henry is without a doubt the Olympics of pun competitions,' he says, while 'Punderdome is their X Games.'

The narrative engine of 'Away With Words' is the author's progress

through this quirky landscape. The competitions require firing off puns—preferably as part of a comic narrative—on a given or chosen topic, such as vegetables or fine arts, in front of a raucous crowd. Mr. Berkowitz is no wilting flower, but the performing isn't easy for him. Competitions involve intense time pressure and one-on-one pun-offs; if words fail you, you're out.

Puns are a kind of verbal preening, usually praised more 'for their ingenuity than for their humor.'

At this level, even the strangest topics provide almost inexhaustible fodder. At Punderdome's fifth anniversary show, the category is Italian food. On introduction: 'I never sausage a crowd.' Want to try something weird? 'I said wine not... because I'm a pro sicko.' About cheating to win an award: 'I think I could rig a Tony.' On reproductive rights: 'The government wants to put its laws on your bodies,' one punster declares. 'And I don't want 'em to put their laws-on-ya!' On the wonders of modernity: 'How did scientists date anything before the carbon era?'

By now you may be reaching for the Alka-Seltzer, which illustrates the author's problem: A little punning goes a long way, and at some point indigestion is inevitable. Mr. Berkowitz

also tries readers' patience with one or two ill-advised digressions, although his firsthand account of the dimly earnest North East Texas Humor Research Conference is a source of fun in spite of his sufferings there. Fortunately, the puns mostly come in

Jones, soars with a prepared riff on birds: 'Beek kind to me, don't thrush to judgment, I'm not robin anyone, hawking anything, talon tails out of school, ducking responsibilities or emulating anyone.' In a face-off segment, punster Jerry Yan is assigned the

Don,' an article concerning studio jitters about a forthcoming 'Godfather' film.

Nowadays cooler heads prevail, in part because the news has moved online, where wordplay in headlines is death for search-engine optimization. The rapid globalization of culture may also play a role. The English writer Kazuo Ishiguro has confessed to avoiding wordplay and colloquialisms in order to facilitate the translation of his works. World trade, it seems, is taking the pun out of literature.

Ultimately, the problem may be that pun-making is a kind of preening. Puns 'are more usually praised for their ingenuity than for their humor,' a 16th-century courtier's handbook observed, and pedantic vanity will always rub people the wrong way.

Back in Austin, after the final O. Henry round pits one of Brooklyn's best against a four-time national champ, Mr. Berkowitz hears talk among the sashed New Yorkers of getting a pun tattoo. What should it say? 'We can write 'ling,'' suggests one wag, 'and it will be an 'inkling.''

But it's clear that a pun tattoo—the absurd made flesh—would be going too far. Mr. Berkowitz is sensitive throughout to the evanescence and contingency of punning and to the fleeting chemistry of a live pun-on-pun matchup crackling with energy. 'A tattoo could never bring it back,' he writes. 'You had to be there.'

Mr. Akst writes the Journal's weekly news quiz.



BRIDGEMAN IMAGES

concentrated outbursts, and Mr. Berkowitz works so furiously to entertain us the rest of the time that you can practically see the flop sweat.

'Away With Words' is peopled, moreover, by a colorful and touchingly needy cast of punsters. With their noms-de-pun (e.g., Groan Up, Lex Icon), they are tough to keep straight but, like witty strangers at a cocktail party, amusing nonetheless.

The book culminates in a thrilling Texas gunfight between a contingent of Punderdome all-stars and O. Henry veterans. One of the stars, Southpaw

topic of pregnancy and starts on a pious note: 'Baby Jesus didn't diaper your sins.'

One question remains: Why has punning, which is as old as language, fallen into such bad odor that most of us feel compelled to groan when we encounter it, no matter how witty the wordplay? John Pollack, in his thoughtful 2011 book, 'The Pun Also Rises,' notes that punning's popularity has long ebbed and flowed. Puns used to flourish in headlines, including at this newspaper. Oh, for the days of 'Paramount in the Dark Before the

## BOOKS

'Radicalism, n., The conservatism of to-morrow injected into the affairs of to-day.' —Ambrose Bierce

# Chronicle of a Damned Generation

### Young Radicals

By Jeremy McCarter

Random House, 368 pages, \$30

### Max Eastman: A Life

By Christoph Irmscher

Yale, 434 pages, \$40

BY RICHARD ALDOUS

**TOM BROKAW** famously called those born around 1917 "the Greatest Generation." The epithet for the young men and women who had already come of age by 1917 was less inspirational. "Sometimes," wrote Walter Lippmann, one of their number, "I think we are a damned generation."

This damned generation is the subject of Jeremy McCarter's dazzling and occasionally exasperating "Young Radicals." Among other things, Mr. McCarter has been the theater critic for New York magazine and spent five years on the staff of New York's Public Theater. He co-wrote a best seller with Lin-Manuel Miranda, the creator of the musical "Hamilton."

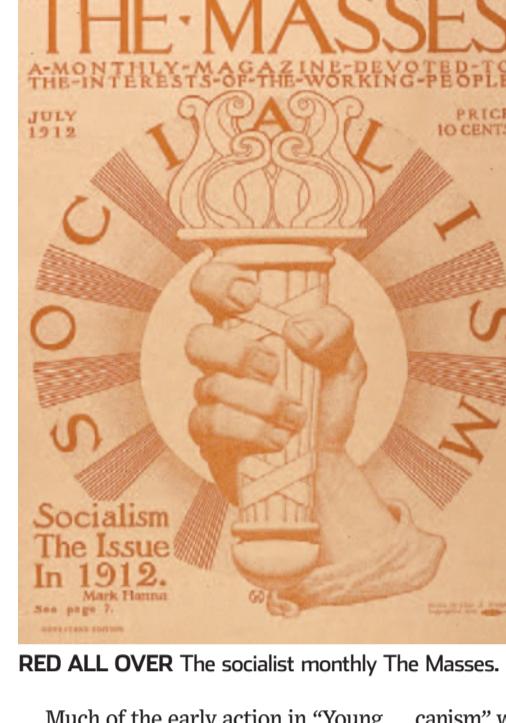
It's not difficult to see why Mr. Miranda would have been attracted to Mr. McCarter as a writing partner. He has a breezy and engaging style. He shifts between the present and the past tense, often inserts himself into the narrative and can be highly colloquial.

"An ideal is a product of our life experiences, our hopes for our futures, the intimacies we develop among those who value the same things we do," he writes in typical fashion when two of his characters fall out. "Uproot a deeply held belief, and you're likely to take some of the trellis with it."

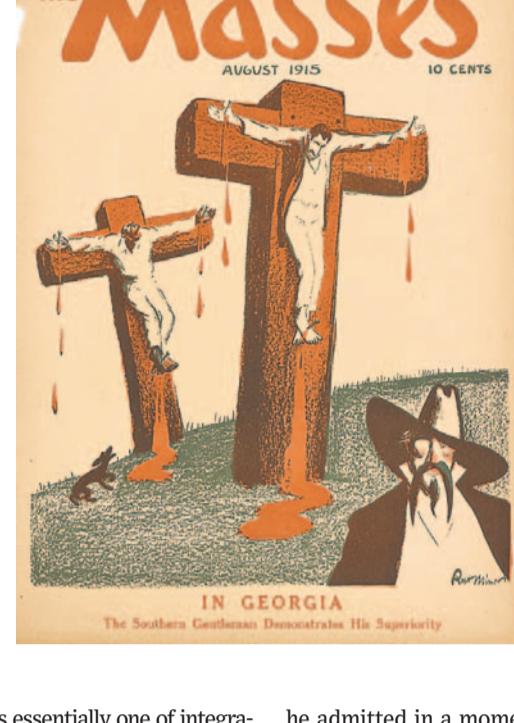
Yet the style serves a purpose. In "Young Radicals," it is to convince us that the damned generation in its own way is also one of America's most important and that it has something to teach us in its painful battles over ideals and ideas.

Mr. McCarter picks "a constellation" of five radicals "whose ideals led them to travel a similar trajectory across the sky of their era." Lippmann would become for half a century arguably America's most influential journalist. ("Lippmann always has his own foreign policy," President John F. Kennedy wistfully noted. "Sometimes it coincides with ours.")

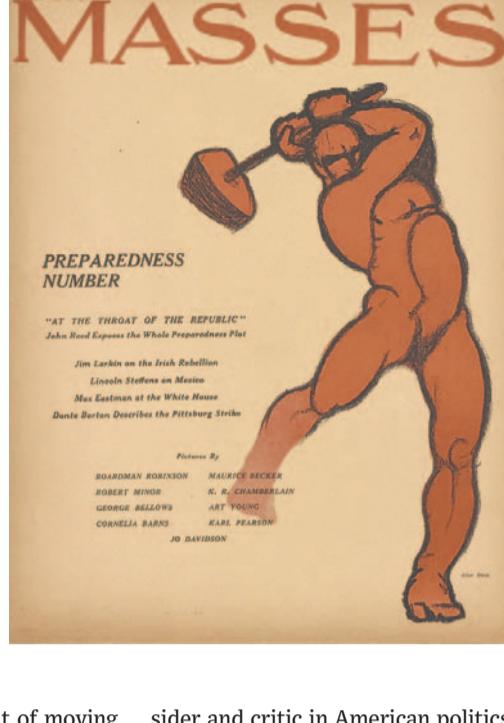
John Reed, Lippmann's Harvard classmate, was one of the first on the scene during the Russian Revolution in November 1917 and wrote "Ten Days That Shook the World" about the experience. Alice Paul was a suffragette whose activism helped women win the vote in 1920 through the 19th Amendment. Max Eastman was the editor of the socialist magazine *The Masses* and at the center of a famous sedition trial. Randolph Bourne, who had been left severely disabled by tuberculosis of the spine in childhood, was a prolific critic and essayist who wrote to make the world more hospitable to, as Bourne himself put it, "the unrepresentable and the unemployable, the incompetent and the ugly, the queer and crotchety people who make up so large a proportion of human folk." In other words, Mr. McCarter adds, "people like him."



RED ALL OVER The socialist monthly *The Masses*.



IN GEORGIA The Southern Gentleman Demands His Superiority



AT THE THROAT OF THE REPUBLIC John Reed Expresses the Whole Preparedness Plot

Much of the early action in "Young Radicals" takes place in New York's Greenwich Village, then not only a center of outré chic but also a cheap part of the city in which to live. Immigrants teemed through New York in the years before World War I. "The dynamics for a splendid human civilization are all about us," Lippmann gushed.

So too was a certain naïvete. When 25,000 silk workers went on strike in Paterson, N.J., what better way to showcase their plight in New York than to ferry some of them across the Hudson River, as Reed did, to re-enact their strike in a new musical pageant at Madison Square Garden. Surely even Mr. Miranda would have struggled to make a hit out of that one.

World War I changed the calculation for everyone as ideals slammed into harsh realities. "Everybody has to grow up," writes Mr. McCarter (characteristically in the present tense). Reed ran toward that reality, embracing the dangers of frontline reportage and, through his growing personal connection with the Bolsheviks in Russia, dabbling in febrile revolutionary politics. Paul ran toward reality too, single-mindedly recognizing that her commitment to women's suffrage trumped her opposition to America's entering World War I.

Sometimes the clash between reality and ideals brought relationships to an end. "Fresh alliances form," writes Mr. McCarter; "old friendships collapse." Bourne idolized Lippmann, but the hero worship, and their friendship, ended when Lippmann went to work for the Wilson administration.

Bourne could never bring himself to denounce Lippmann personally, but his view was clear enough. "Only in a world where irony was dead," he wrote sadly, "could an intellectual class enter war at the head of such illiberal cohorts in the avowed cause of world-liberalism."

Mr. McCarter superbly captures the mix of personal affection and catty animosity of his group, but he never loses sight of the fact that they were engaged in a battle of ideas that really mattered. The differences between Bourne and Lippmann, for example, were essentially philosophical. World War I put two visions of America into conflict. Lippmann's "ideal of Ameri-

canism" was essentially one of integration—the melting pot—one aimed at creating, as he put it, a "union of people rather than a congeries of groups."

Bourne, by contrast, saw America as a "beloved community" in which people could still feel an affinity with their racial and cultural backgrounds. Lippmann could support the war because it didn't undermine his vision of an integrated America. "Bourne doesn't have that luxury," writes Mr. McCarter. For how can the United States be "welcoming to people drawn from Russia and Germany if it's sending its sons to help Russians kill Germans, or vice versa?"

In the contest between the two men, Bourne found support from his Marxist friend Eastman, whose magazine opposed the war. Eastman, for Mr. McCarter, is a flawed but courageous character. He admits to being "as nervous as a rabbit's nose" when speaking out against the war, and at one hostile rally the organizers give him "a hat and coat to disguise himself and a loaded revolver for when the disguise fails."

Even when indicted for violating the Espionage Act, he displays a certain sang-froid in the face of prison and a large fine. "Some of us have twenty years," he quipped, "but none of us has \$10,000."

As it happens, Eastman is now the subject of a comprehensive biography by Christoph Irmscher, a professor at Indiana University. In "Max Eastman: A Life," Mr. Irmscher uses his subject's unsorted papers to create a subtle portrait of a disappointed man across the full span of his life. "I am sure I was meant to do something great," Eastman tearfully told his wife in 1944, "for that is not only my deepest, but my most present sorrow: I have wasted my talents."

By that time, he had gone from his position as a leading radical intellectual to a well-paid staff writer for Reader's Digest and had moved across the spectrum from Marxism to the libertarian right.

That Eastman publicly denounced Stalin and the purges showed that he had maintained the independence of mind that had carried him through the Masses trials in 1918. Still, Mr. Irmscher writes sympathetically, "as

he admitted in a moment of moving candor, it was difficult for a man to say that the cause for which he has given his life has failed."

Readers wanting a full life of Eastman are well served by Mr. Irmscher's meticulous chronicle, which, in his own words, is "a story largely about sex and communism"—Eastman was passionate not only in his politics but in his many relations with women, which ranged from three tempestuous marriages to attempts to bed almost every glamorous female writer who came across his path. Most readers, however, may be content to see Eastman in the context of the cohort that Mr. McCarter presents.

### World War I changed the calculation for New York radicals as ideals slammed into harsh realities.

For all the different choices that the young radicals faced, they shared, Mr. McCarter suggests, a sense of unfulfilled mission. Paul turned that sense into a spur to action: After helping secure the 19th Amendment, she never lost her edge and spent the next half-century campaigning for the Equal Rights Amendment, whose first version she helped to draft in 1923.

Her long life—she died in 1977 at the age of 92—was in contrast to that of Bourne, who died in 1918, age 32. Among his papers was a manuscript that contained his most enduring phrase: "War is the health of the state."

Reed died two years later, of scrub typhus in the Soviet Union. Like Eastman, he by the end had seen through Soviet communism and was, according to a friend, "disgusted to the point of despair."

Lippmann emerged from the war and its aftermath as disillusioned in his own way as Eastman and Reed. His excoriating book "Public Opinion" (1922) was described by John Dewey as "perhaps the most effective indictment of democracy as currently conceived ever penned." Thereafter, as a widely read columnist, Lippmann would tread the fine line between in-

sider and critic in American politics. At his best he was, as *Life* magazine said in the context of Lippmann's views of Lyndon Johnson and the Vietnam War, "the embodiment of meaningful opposition."

At the end of "Young Radicals," Mr. McCarter returns again to Bourne, because "the core of his vision is that people who come to this country can't be discriminated against because of who they are or what they believe." That's an important principle and one rooted in the Constitution, but Mr. McCarter goes on to discuss writing his epilogue as "I've watched thousands of Americans rush to airports to protest a ban on immigrants from majority-Muslim countries."

This topical digression is a rare misstep for Mr. McCarter, for it politicizes the context of the book, heavy-handedly so, as even he admits when he notes that parts of the epilogue will inevitably seem "foolish" by the time the book comes out.

It may put some readers off, but shouldn't. "Young Radicals" is a brilliant, even inspiring book, full of whip-smart analysis that demands to be read and argued over. Mr. McCarter takes a relatively obscure and, in other hands, potentially dry-as-dust topic and renders it fresh and important. It doesn't need any contemporary spin. Its resonance is unspoken.

Each generation faces new opportunities and challenges. Some generations enjoy more of the former; others endure more of the latter. But "damned" or not, ultimately the only response is simply to keep going.

Lippmann understood that better than most. He "had come to think of his generation's history as a record of democratic defeat, of possibilities foreclosed," Mr. McCarter writes. "But Lippmann had made a defiant promise that he would still be fighting long after [others] had quit.... He felt a sense of resignation about American prospects... but he wrote those columns anyway." Let's hope Mr. McCarter keeps writing too.

*Mr. Aldous, the Eugene Meyer Professor at Bard College, is the author of "Schlesinger: The Imperial Historian," to be published in the fall.*

# Gloria Days

writes author-actor-director Peter Turner. "Francois Truffaut said of her that she was the only American actress who was a real person on the screen." Mr. Turner's amusing and poignant memoir, "Film Stars Don't Die in Liverpool," originally published in 1986, has just been reissued and will be turned into a film this fall.

Her star faded and her health failing, a Hollywood actress moved in with her ex-lover and his parents.

The author met Ms. Grahame in London in 1978, when her most famous roles were in the past; she was gamely extending her career doing plays in England and America. Mr. Turner was just starting his career. She was 20 years older than he, but the age difference didn't matter to either lover. With Grahame, Mr. Turner traveled to Las Vegas (where she told him, "I don't wanna get wrapped up with any gangsters. . . . I met one once who gave me diamonds but I

sent them back. I didn't wanna end up in the East River") and to Los Angeles, where they drove past Gloria's old Brentwood home, where she had lived with her third husband, writer-pro-

ducer Cy Howard. (Before Howard she had been married to film director Nicholas Ray. Later she would marry her former stepson, Tony Ray. She had children by both Rays. "It was a family of complicated relationships," Mr. Turner writes.)

At her suggestion, Mr. Turner

moved with Grahame to New York, where the couple had more good times—until, as he writes, "one day everything turned strange." His lover became moody, solitary, un-

communicative: "I assumed that she didn't want to bother with our friendship any more." He returned to England, believing that their relationship was over.

Then, in late 1981, while staying at his parents' house in Liverpool, he received a call from Grahame, who was

in the not-so-near town of Lancaster, booked to do a play but now grievously ill. Refusing a doctor's care, let alone hospitalization, Grahame moved into her ex-lover's family home.

The story of her sojourn there takes up the majority of Mr. Turner's affecting chronicle, a flashback-filled text that evokes by turns the feel of a documentary film, a subtle poem, a melancholy novella and a farcical play featuring an "unlikely collection of people: a dying film star, her son who was also her brother-in-law, a doctor who was unable to do anything to help," and other eccentric supporting characters. Mr. Turner's unpredictable approach, full of oblique angles and unexpected shifts, seems to emulate some acting advice Grahame told him she got from her one-time co-star Bogart. "He taught me little tricks," she told Mr. Turner. "Just keep it in the shadows, Gloria," he used to say. "Let the camera come to you. I liked him."

*Mr. Nolan is co-editor (with Suzanne Marrs) of "Meanwhile There Are Letters: The Correspondence of Eudora Welty and Ross Macdonald."*



SATIN MOLL Gloria Grahame in 'The Big Heat' (1953).

GETTY IMAGES

### Film Stars Don't Die in Liverpool

By Peter Turner

Picador, 169 pages, \$16

BY TOM NOLAN

'SHE ALWAYS played a tart.' That's one fan's not unappreciative summary of the movie career of Gloria Grahame (1923-1981): the blonde with gray-green eyes who worked for top-drawer directors from Frank Capra to Fritz Lang to Elia Kazan; co-starred with Katharine Hepburn, James Stewart and Frank Sinatra; and was nominated for two Academy Awards (winning one, for 1952's "The Bad and the Beautiful"). She was the neighbor who put up with moody screenwriter Humphrey Bogart in 1950's "In a Lonely Place." In "The Big Heat" (1953), Lee Marvin tossed boiling coffee in her face. In "Oklahoma!" (1955), she was Ado Annie, who sang "I Cain't Say No."

"What sets her apart from most other actors on the screen is that she seems to be the only one who's thinking her character's private thoughts,"

## BOOKS

'There was no substitute for reality; one should beware of imitations.' —Arthur C. Clarke

**FICTION CHRONICLE:** SAM SACKS

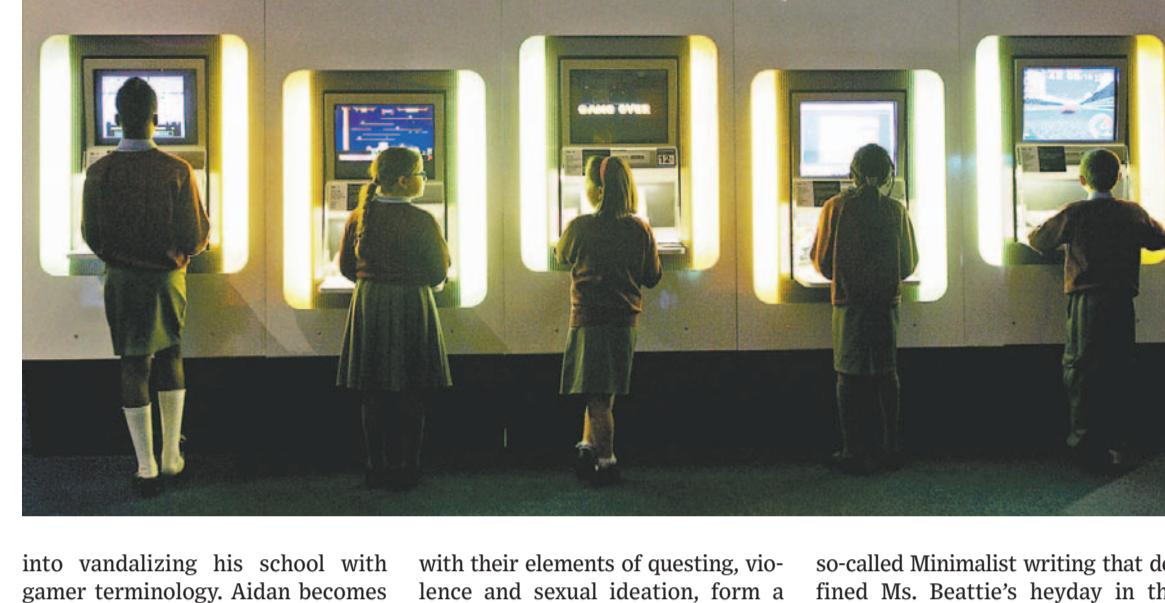


**IT'S THE AGE** that all parents dread: When their children withdraw from the Eden of total transparency into their own private worlds. Many of the controversies surrounding video games have to do with this self-conscious stage of development, just as they did when people worried that kids were spending too much time in front of the TV or, in centuries past, too much time reading books. Video games are where teenagers escape to explore fantasies, test their mental prowess and perform heroic deeds. "In EverWhen he was a healer and an Elvish prince, a leader of his company," Aliegra Goodman writes about Aidan, a skinny, introverted 16-year-old in her novel **"The Chalk Artist"** (**Dial, 335 pages, \$27**). But Aidan's overworked single mother hates the game because when he enters its virtual realm, she can't follow after him.

Aidan is one of a constellation of characters struggling to harmonize their dreams and desires with the actualities of the outside world. Nina is an heiress to the Arkadia video game franchise, which created EverWhen, but she's determined to cut her own path teaching English literature at Aidan's high school in Cambridge, Mass. Her boyfriend, Collin, an unmoored artist with a genius for sketching in chalk, decorates the sidewalks of Harvard Square. She gets him a job as an illustrator for Arkadia only to see him become consumed by the insular gaming culture that has so ensorcelled her students.

The seductions and consolations of gaming life have inspired a number of recent novels, most popularly Ernest Cline's "Ready Player One" (2011). Like Aidan's mother, however, Ms. Goodman takes a wholly negative view of the pastime. Her plot turns on a rogue marketing campaign by an Arkadia staffer who uses sexual wiles and an unreleased EverWhen sequel to manipulate Aidan

# A Prince of EverWhen



AFP/GETTY IMAGES

into vandalizing his school with gamer terminology. Aidan becomes so addicted to playing that his twin sister has to hide his console, like someone confiscating vodka bottles from the family drunk. Later his mother smashes the thing with a hammer, then slumps into a chair "with a long, shuddering sigh" of parental catharsis.

"The Chalk Artist" offers antidotes to this apparent technological scourge. Nina and Collin enjoy a highly symbolic stroll in Walden Woods and Nina's classroom efforts go toward awakening her students to the glories of Emily Dickinson. But though there's undeniable charm in Ms. Goodman's celebration of nature and poetry, the novel's moral binary feels superficial. Characterizing video games as little more than digital opiates leaves Aidan's coming-of-age story frustratingly underdeveloped.

Partly this is the fault of imbalances in the plot. The book's title refers to Collin, but the guy's an earnest bore ("My art's not deep," he says, accurately), and the fate of his relationship with Nina is decidedly low-stakes. The real intrigue is with Aidan. The immersive, collaborative worlds of his role-playing games,

with their elements of questing, violence and sexual ideation, form a powerful backdrop to the shocks of adolescence. A novel that appreciated the complexity of these games would tell a darker but more truthful story about growing up in contemporary America. Instead, Ms. Goodman has written a feel-good fantasy about kicking a bad habit with help from the Belle of Amherst.

A poem of Emily Dickinson's provides the title to Ann Beattie's **"The Accomplished Guest"** (**Scribner, 270 pages, \$26**), a phrase that refers to a spirit or muse that takes residence in the soul but that in Ms. Beattie's modest usage also describes the many visitors who populate her more recent short stories. In "Company" an aging professor hosts former students at his Maine summer house, but the invasion of cheerful youth makes him feel as close to death as the lobsters being boiled for dinner. In "Other People's Birthdays" a woman travels to see her parents and emotionally unstable sister, a trip that culminates in a bloody wrestling scrum on the front porch prompted by a withheld present.

These are busy, gregarious stories, more active and unbuttoned than the

so-called Minimalist writing that defined Ms. Beattie's heyday in the 1980s, but still possessed of her eye for quirky relationships and her side-long sense of humor. The funniest tales are what one character labels "very Key West" stories. "The Debt"

A feel-good fantasy about kicking the bad habit of video games, with help from the Belle of Amherst.

follows the road trip of three college friends who mean to confront a man who lost their money in a business scam but get themselves in far deeper trouble at a nearby brothel. "Hoodie in Xanadu" is a memorably odd portrait of the friendship between a widowed flower designer and an overweight agoraphobic Key Wester who rents his gorgeously appointed sitting room to party-throwing celebrities. To her surprise, the old woman finds what most of the nomadic characters in this pleasing collection wish they had: "A partner on a night when foxes sang and

danced in the moonlight, and the old people sat and stared."

Society's darkest impulses are on graphic display in Nick Laird's novel **"Modern Gods"** (**Viking, 308 pages, \$27**), which takes on the atrocities committed in the name of religion and politics. The book's parallel stories concern the sisters Alison and Liz Donnelly. Alison is a mother of two living in Ireland who is moving on from her abusive first marriage by wedding a quiet but kindly man named Stephen. Once they're married, however, Stephen's secret past emerges. Some 20 years before, during the Troubles, he was part of a Protestant paramilitary group that carried out a killing spree in a pub in a Catholic neighborhood of Northern Ireland.

Meanwhile, Liz, a New York-based academic, has been chosen to host a BBC documentary about "the world's newest religion," a cargo cult on an island off Papua New Guinea led by a prophetess named Belel. Predictably, Belel's beliefs clash with those of the Christian missionaries on the island, and Liz becomes entangled in their feud as it tilts toward tragedy.

Mr. Laird is alive to the ways that adamant moral certitudes tend toward violence. "Righteous fury is so easy, can be slipped on like a coat," he writes. Yet the novel's real source of discomfort is not its ideas but its prose. "Modern Gods" opens with a dramatization of the mass shooting in the pub, a fictionalization of the Greysteel massacre of 1993. The descriptions are disturbingly stylized, noting the "archipelagic blood" spattered on a bar mirror and still more blood flowing in "dark runnels across the parquet dance floor." In a flashback later on, a bullet moves "with exquisite speed" through a woman's skull. The images sickeningly evoke recent horrors like the Sandy Hook shooting and the Bataclan terror attack. Mr. Laird, a poet as well as a novelist, has a gift for language—but I wish he hadn't made these awful scenes so pretty.

# The Image as Event

## Slow Art

By Arden Reed  
*California, 325 pages, \$60*

BY ANN LANDI

**MORE THAN** 20 years ago, Arden Reed, a professor of English at Pomona College, happened upon Édouard Manet's "Young Lady in 1866" while wandering through New York's Metropolitan Museum of Art. That arresting full-length portrait of the artist's favorite model posed in a pink peignoir led to an eight-year infatuation as Mr. Reed revisited the painting whenever he could. "I found myself drawn to the picture, resisted by it, and then drawn back," he writes. "How long, I mused, could I sustain this conversation?" He discovered from that prolonged enchantment that a work of art could "behave like a moving picture," offering an experience "as rich and as thorny as any literary or philosophical text."

Subsequent encounters with works by other artists closer to our time, like Hiroshi Sugimoto and James Turrell—both of whom make art that compels rapt attention or "at least cultivates patience"—led him to write a book-length study called "Slow Art: The Experience of Looking, Sacred Images to James Turrell." And the reader thinks,

Well, why not? Especially as we've recently had books and movements devoted to slow food and slow sex, with sage advice about lingering over experiences even as the culture at large speeds up (so much so that, as the author points out, the average American museumgoer spends about 6 to 10 seconds with any work of art).

Slow art, in Mr. Reed's definition, names not a set of aesthetic objects but rather a prolonged "encounter between object and observer," and what in another writer's hands might have been a dry academic treatise turns out to be a lively ramble through high and low culture, touching on the likes of Diderot, Goethe, David Foster Wallace, Susan Sontag, Sleeping Beauty, the Countess de Castiglione and Andy Warhol.

As background to a history of slow art, the author describes and

even takes part in the annual Pageant of the Masters in Laguna Beach, Calif., a summer festival of tableaux vivants that began in 1933 and is now going stronger than ever. Tableaux vivants, for the uninitiated, are "living pictures": full-dress stage spectacles—silent, motionless and theatrically lit—with actors holding poses for 90 seconds or so. These elaborately presented scenes are traditionally "re-creations" of well-known masterpieces (the Laguna Beach theatricals always end with Leonardo's "Last Supper"). "The Pageant projects art into the world of an everyday Orange County evening, even as it sets art apart in a frame," Mr. Reed tells us. "Staging fabricates illusions that satisfy our spectatorial hunger, even as actors unmask the fakery in bodying it forth."

For Mr. Reed, tableaux vivants "occupy the point of intersection between slowing and accelerating that is the very locus of slow art." As such, they become the fulcrum for much of the author's discussion of slow art through the ages. Tableaux vivants flourished from about 1760 and waned in the 1910s. Slow art entered what Mr. Reed calls a "second golden age" beginning around 1960, with paintings by Agnes Martin and Ad Reinhardt, earthworks including Michael Heizer's "Double Negative" and Mr. Turrell's "Roden Crater," and video art from Warhol to Bill Viola.

Before all that, of course, there was the art of early Christianity, icons and other objects of religious devotion that demanded slow looking and veneration from viewers. Later, religious processions pulled out all the stops by including floats featuring tableaux vivants of familiar scenes from Bible stories, like the Return of the Prodigal Son or the Crucifixion. Yet the advent of "true" slow art occurred only about 250 years ago because, the author argues, the experience of "unprecedented speed led people to seek breathers, breaks and oases—if only to prevent cognitive and emotional fatigue." The Enlightenment *philosophie* Denis Diderot was one of its first apostles, championing tableaux vivants as a way to show people how to comport themselves, and painters responded, whether in the homely parables of Jean-Baptiste



BRIDGEMAN IMAGES

IN THE PINK 'Young Lady in 1866' by Édouard Manet.

Greuze or the high-minded neoclassical scenes of Jacques-Louis David. In a campier vein (and camp finds its way into slow art, in proponents as disparate as Sontag and Oscar Wilde), David's near contemporary Lady Emma Hamilton, the foxy wife of the British envoy to the court of the Two Sicilies and mistress of Adm. Horatio Nelson, amused her admirers with solo tableaux in which she donned a Grecian costume and performed "surprising transformations, standing, kneeling, sitting, reclining, serious, sad, playful, ecstatic, contrite, alluring, threatening, anxious," one pose following another without a break, according to Goethe.

Some of the most entertaining, and probably little known, of Mr. Reed's examples of slow art evolved

performances by Marina Abramović, the films of Jean-Luc Godard, the paintings of Joseph Marioni and Tony Conrad, and videos by Eve Sussman and Sam Taylor-Johnson. If this sounds like a massive catalogue of artists, it is. But the author gives each their due, and makes the reader curious to see more (a list of links is provided in the book). His descriptions of "Roden Crater" and Walter De Maria's "Lightning Field" are more leisurely, perhaps because he has spent enough time with both to give a vivid firsthand account of two

Do medieval icons, 19th-century tableaux vivants and performance art all share a genre?

major earthworks few of us will ever see. "The Lightning Field reads as an enormous tableau vivant," he writes, "because it stages a landscape painting.... The actors are the four hundred [lightning] rods. Perhaps because of their verticality, they feel slightly anthropomorphic, as if they were sentinels. Like human actors, the poles sway slightly in the breeze. But we are likewise actors, performing De Maria's installation together with time, light, and weather."

Mr. Reed is an enormously erudite writer, but his many references to cultural touchstones of all ages, familiar and recondite, never leave the reader in the dust. You'll have arguments with this book: Why don't certain Renaissance painters, like Leonardo and Raphael, qualify as "slow"? Why wasn't Christian Marclay's epic video "The Clock" included? And what, precisely, did Mr. Reed gain from all that time with Manet's "Young Lady"?

But your way of looking at many kinds of art and entertainment will also be subtly affected, whether it's the Ghent Altarpiece or a Warhol silkscreen. I, for one, became convinced that tableaux vivants, one way or another, foreshadow the breathtaking slo-mo sequences in "Wonder Woman."

*Ms. Landi writes about art and culture from Taos, N.M.*

## OPINION

### REVIEW & OUTLOOK

## Hong Kong's Anxious Anniversary

**X**i Jinping received a red-carpet welcome when he landed in Hong Kong for this weekend's 20th anniversary of the handover to Chinese rule. But the mainland's paramount leader will receive plenty of curses too as protesters follow him around the territory. The public anger is due to Beijing's failure to honor its promises of democracy and autonomy, a course that is radicalizing the city's youth and making it difficult for Beijing's appointed leaders to govern.

On the surface at least, the "one country, two systems" formula devised by Deng Xiaoping to last 50 years has worked tolerably well. Much as when it was a British colony, Hong Kong's capitalist system generates enormous wealth, the judiciary is officially independent and civil liberties are protected.

But look closer and it's clear that Hong Kong's special status is slipping away. The central government's "liaison office" increasingly micromanages Hong Kong affairs. The National People's Congress has overruled key judicial decisions, and senior officials call on judges to accept the leadership of the executive branch. In early 2016, mainland enforcers kidnapped Lee Bo in Hong Kong and put him on trial in China after he published material critical of Chinese leaders.

Young people in particular are angry that mainland political and economic power is changing the character of their city. The "umbrella movement" protests of 2014 saw students occupy the business district for 75 days, but they failed to convince China to allow the election of the chief executive by universal suffrage. Beijing will continue to select the city's leader through a 1,200-member committee dominated by the pro-China business elite.

It didn't have to be this way. The British could have begun a democratic process when they still ruled, as these columns advised after Margaret Thatcher's 1984 deal with Beijing. If China had of-

**Twenty years after the handover, China has reneged on its promises.**

fered a roadmap to full democracy in the early 2000s, when Hong Kong people were quietly signaling their desire for more say in government, Beijing could have earned respect and loyalty. Instead, in 2003 then Chief Executive Tung Chee-hwa tried to pass antisubversion laws to curtail civil liberties.

The better part of one million people turned out on the streets, kicking off a protest movement that has waxed and waned ever since. At each stage Beijing has responded with threats rather than compromise, adding to the rancor. The central government created precisely the opposition it feared, as some young politicians call for independence from China.

All of this is a reminder that one important underpinning of Hong Kong's freedom was never written down: the assumption that the reforming China of the 1980s would continue to free up its economy and start a process of political reform leading eventually to democracy. Some even dared to hope that the city would help Beijing learn to accept elections without preordained results.

Mr. Xi and his predecessor, Hu Jintao, have instead tightened political repression on the mainland. Chinese leaders see Hong Kong not as a democratic model but as an example to show they will deal sternly with "splittists." Veiled threats suggest that Hong Kong's new Chief Executive, Carrie Lam, will be forced to reintroduce antisubversion laws.

This is a tragedy for Hong Kong, the city that Milton Friedman hailed as a model of free-market prosperity, but it is also a tragedy for mainland citizens who have hoped that Chinese prosperity would lead to greater self-government. Beijing's attempts to intimidate dissent are making Hong Kong's rising generation more insistent that democracy is needed to guarantee their freedoms. The third decade under Chinese rule looks to be even more turbulent.

tative-easing bond portfolio that didn't exist before March 2015.

**Markets fret as they forget what normal policy looks like.**

And the negative interest rate that was once considered a crisis measure but has hung on for three years? A return to zero, let alone the ECB's pre-2008 rates of between 1% and 3%, remains years off. The same is true in Britain. If the BOE ever does

move from its current benchmark rate of 0.25% back to the 3% to 6% range before the panic, it will take years.

The U.S. Federal Reserve, which now is leading the way on unwinding crisis policies, is doing so very slowly despite eight years of economic growth. If the Fed does make it to 2% by the end of next year from 1% to 1.25% today, the fed-funds rate still would be only half its level during the late 1990s boom or its pre-2008 maximum.

There's nothing tight about any of this. Markets have simply forgotten what normal monetary policy looks like. This poses a dilemma for central bankers, as Mr. Draghi noted when he warned that as the economy improves, policies that today offer the right level of stimulus might become too accommodative. It's hard for central bankers to adjust when any move to make policy slightly less easy is interpreted as a move to make it much tighter.

Then again, central bankers have themselves to blame. As policy becomes further divorced from definable metrics such as inflation—which already suggests a need for tightening in Britain and the eurozone—central bankers struggle to explain whether and when they might adjust policy.

Markets have learned that central banks can be bullied into keeping the punch bowl on the table a little longer, as with the taper tantrum that delayed the Fed's slow withdrawal of QE by a few months in 2013. As this week has shown, the result could be a bumpy exit from crisis-era policies that central bankers increasingly recognize are no longer suitable.

## The Trump NLRB's Job List

**P**resident Trump is finally filling out the U.S. National Labor Relations Board, and not a moment too soon. Repudiating the Obama NLRB's radical rulings will take time, but Congress could lend a hand.

Last week Mr. Trump nominated Marvin Kaplan, counsel at the Occupational Safety and Health Review Commission, to one of two vacancies on the board. And this week the President rounded out the five-member board by naming William Emanuel, an employment lawyer at Littler Mendelson who helped challenge the Obama NLRB ruling that bars class-action waivers in arbitration agreements. The Fifth Circuit Court of Appeals rejected the board's theory, and the Supreme Court has agreed to hear the case.

The nominations will give Republicans their first board majority in a decade, and there's little time to waste. Some 360 cases are pending before the board, many of which present opportunities to correct recent board rulings that depart from longstanding precedent. The Coalition for a Democratic Workplace last year estimated that the Obama NLRB overturned 4,559 years of established law.

One example is the 2015 *Browning-Ferris* decision, which created a new "indirect influence" joint-employer standard that has upended contractual relationships as well as the franchise

business model. The ruling, which nullified three decades of board and judicial precedent, allows unions to drag companies into labor disputes with subcontractors and franchisees.

The Obama NLRB also rigged union election rules to deny employers due process. One change restricted employers' ability to dispute the eligibility of workers in a bargaining unit before an election. And an expedited election schedule limits employers' opportunity to present their case to employees. While employers can contest the board's decisions in court, President Obama packed the D.C. Circuit Court of Appeals with liberal judges who are inclined to defer to the board's judgment under the *Chevron* standard.

This is why it's important for the GOP Congress to clarify ambiguities in the National Labor Relations Act that unions have exploited to give themselves organizing advantages that Congress never intended. For starters, Congress could codify the direct control joint-employer standard as well as union election procedures that protect employer and worker rights.

Legislation would protect the Trump NLRB's decisions against legal challenges from the left while hemming in future Democratic majorities. Otherwise, employers will have to fight the same battles the next time a Democrat is elected to the White House.

## Should Trump Abandon The Republican Party?



**WONDER LAND**  
*By Daniel Henninger*

In 2016, Donald Trump stood on debate stages and ran against a half-dozen Republicans in the party's presidential primaries. He won. With his presidential victory came Republican control of the House and Senate, in part because of his coattails.

After Senate Republicans this week failed to move a bill to repeal and replace ObamaCare, Mr. Trump must be asking himself: Why do I need these people?

Just now, that's a good question.

If the congressional Republicans can't do ObamaCare reform after years of chanting they would, what chance is there they'll pull off the heavier lift of tax reform?

Mr. Trump has to be wondering whether he would be better off with his version of the Obama presidential model: govern by pen-and-phone executive order through the agencies he controls.

Obama rendered Congress moribund with little outcry from voters. The Obama error was his predictable left-wing overreach with extralegal decrees like the Clean Power Plan, which failed a court challenge before the D.C. Circuit.

To succeed as president, Mr. Trump has to show he can govern, and it looks like that may require separating himself from a Republican Party disabled by a permanent blocking minority with no interest in governing.

At the level of domestic politics, successful presidential governing means not much more than enabling and attaching oneself to an improving economy, as the impeached but popular Bill Clinton proved possible.

The economy is already strengthening, and Mr. Trump can direct Treasury Secretary Steven Mnuchin and White House economics chief Gary Cohn to accelerate their deregulation of financial and energy markets.

Before the Republicans lose seats and maybe control of the House in 2018, Mr. Trump can still extract a few things helpful to himself. Desperate incumbents, such as Nevada's ObamaCare reform opponent Sen. Dean Heller, will be looking for a legislative life raft. Mr. Trump no doubt could get a modest tax-cut bill passed this year. That will support slow but steady upward growth unless he retards even that with a regime of steel tariffs and myriad trade uncertainties.

Real tax reform would liberate America's ocean of pent-up capital and produce an economic boom, assuring continued GOP control of Congress. But Republicans like West Virginia's Sen. Shelley Moore Capito see their reason for being as protecting the Medicaid status quo.

Some may say Mr. Trump and the Republicans will now take political ownership of the steady collapse of the ObamaCare exchanges. But he didn't create

these things; Congress did, and when voters elected a Congress to reform ObamaCare, it failed.

The press will dump full responsibility for this political nonfeasance on congressional Republicans, and voters will take it out on them in 2018. Health and Human Services can tinker with the failing ObamaCare exchanges, as it would have under Hillary Clinton anyway, and Mr. Trump can blame Congress for the residual mess.

As to Mr. Trump's low approval rating, the danger there was always that it would scare away Republicans from his agenda. That looks moot now. The Republicans' approval rating is no doubt already plummeting. Mr. Trump's approval will rise as the economy improves and if he modulates himself by about half, as he's done recently.

**The president may separate himself from a party disabled by a blocking minority.**

Most intriguing of all is the longer-term future of Mr. Trump's formal relationship with the Republican Party. After voters in 2018 reorder Congress, Mr. Trump can consolidate his base with a big infrastructure bill co-designed by Democrats and likely approved by independent voters. By then, the Republican opposition that tanked ObamaCare reform will be irrelevant.

And please, hold the faux shock when Mr. Trump, a nonideological pragmatist, entertains Chuck Schumer's Medicare-for-all as the final health-care fix. In Mr. Trump's world, subcontractors come and go. The GOP shouldn't bother trying to collect for work done.

This disorder could surface the possibility that dare not speak its name until now: a more centrist Trumpian political party of the sort favored by Ivanka Trump. No one thought Emmanuel Macron's party bolt in France could go so far.

Look who's out front undermining Mr. Trump's health-care reform: Ted Cruz, Rob Portman, Rand Paul, Mike Lee and Ohio Gov. John Kasich. The nominal reasons each has given for opposing the reform don't add up. What makes sense is compulsively ambitious Republican politicians positioning themselves to emerge from the rubble and run in 2020 against what they think will be a wounded president. They may end up with nothing but the rubble.

Reasons abound for the GOP's rump opposition to spend the July 4 holiday re-thinking what it is doing. But the biggest of all is this: After eight years of rule by progressive presidential decree, they are putting in motion four more years of centralizing power by a Republican president. The opposition may alter American government forever, but this couldn't be further from what they intended.

*Write henninger@wsj.com.*

## LETTERS TO THE EDITOR

### Debating Mark Zuckerberg's Universal Income

In his critique of Mark Zuckerberg's universal basic income (UBI) proposal ("Zuckerberg's Opiate for the Masses," op-ed, June 20), Andy Kessler misrepresents the nature of the proposal.

It isn't "paying people not to work," but paying people whether they work or not. The strongest arguments for universal income center on its elimination of work disincentives by the unconditional nature of such grants. Current methods of income-support either create distortions by high marginal effective tax rates or phasing out benefits or they directly distort through interventions like the minimum wage.

There is much to debate about the proposal for a universal income, and I am skeptical as to whether it would in fact replace other policies because of political temptations to meddle.

It isn't, however, possible to conduct a rational debate over how best to approach serious social problems when straw men are deployed to ridicule a well-considered argument that deserves a well-considered response.

**EM. PROF. RICHARD WALLACE**  
*Wofford College  
Spartanburg, S.C.*

The lure of a UBI for liberals is obvious. Those who view the state as the best steward of collective well-being would have the state take care of us all. UBI produces game, set and match for statists, bringing an end to what remains of rugged individualism and small government.

What political party could possibly launch a successful UBI repeal-and-replace campaign in an America teetering on the edge of fiscal collapse? And if the U.S. has a problem with illegal immigration now, imagine what happens when statists push through the UBI and soften border-security enforcement. Some wealthy conservatives have hopped on the UBI bandwagon as well, partly out of compassion and partly as a "give the left-behind masses some cake and maybe they'll leave us alone" strategy.

If liberals realize their UBI dream, Washington income suppliers ought to draft an American Declaration of De-

pendence. Our refounding document should codify that we all are endowed by the state with unalienable rights, that among these are a life of leisure, an adequate degree of liberty and enough cash to buy some happiness. The freedom to pursue happiness doesn't, after all, buy cash.

**RYAN GRAHAM**  
*Melbourne, Fla.*

A universal basic-income program should be considered, not because there won't be enough jobs for everyone, but because it would be more efficient and less subject to fraud, waste and abuse than the multitude of federal, state and local programs that form our nation's safety net. An effective UBI program would replace Social Security, food stamps, unemployment insurance and numerous other complex financial assistance programs.

The UBI program would provide only enough income to meet each individual's basic needs. Most people would still work to earn additional income, as most people aspire to more than just survival.

**ROBERT SOMMERS, PH.D.**  
*Jacksonville, Fla.*

The ideas of Mr. Zuckerberg, Elon Musk and Robert Reich are evidence that educational intelligence and the ability to make money have no correlation with having common sense. There can be no universal basic income to give anybody unless somebody is working to create what is to be given away. Who do they think will do that? It's just like the minimum wage. You can set the minimum wage at whatever amount you want, but it will always be the minimum wage.

**TIM BALDWIN**  
*San Antonio, Fla.*

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](mailto: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 Needs a Post-ISIS Strategy

By John Bolton

The headlines out of Syria are eye-catching: There are signs the Assad government may be planning another chemical attack. American pilots have struck forces threatening U.S. allies and shot down a Syrian plane and Iranian-made drones. The probability of direct military confrontation between the U.S. and Russia has risen. Yet the coverage of these incidents and the tactical responses that have been suggested obscure the broader story: The slow-moving campaign against Islamic State is finally nearing its conclusion—yet major, long-range strategic issues remain unresolved.

**The U.S. should recognize Iran and Russia as adversaries—and that Iraq isn't a friend.**

The real issue isn't tactical. It is instead the lack of American strategic thinking about the Middle East after Islamic State. Its defeat will leave a regional political vacuum that must be filled somehow.

Instead of reflexively repeating President Obama's errors, the Trump administration should undertake an "agonizing reappraisal," in the style of John Foster Dulles, to avoid squandering the victory on the ground.

First, the U.S. ought to abandon or substantially reduce its military support for Iraq's current government. Despite retaining a tripartite veneer of Kurds, Sunni Arabs and Shiite Arabs, the capital is dominated by Shiites loyal to Iran.

Today Iraq resembles Eastern Europe in the late 1940s, as the Soviet anaconda tightened its hold. Extending Baghdad's political and military control into areas retaken from Islamic State simply advances Tehran's power. This cannot be in America's interest.

Iraq's Kurds have de facto independence and are on the verge of declaring it de jure. They fight Islamic State to facilitate the creation of a greater Kurdistan. Nonetheless, the Kurds, especially in Syria and Turkey, are hardly monolithic.

Not all see the U.S. favorably. In Syria, Kurdish forces fighting Islamic State are linked to the Marxist PKK in Turkey. They pose a real threat to Turkey's territorial integrity, even if it may seem less troubling now that President Recep Tayyip Erdogan's plans have turned so profoundly contrary to the secular, Western-oriented vision of Kemal Atatürk.

Second, the U.S. should press Egypt, Jordan and the Gulf monarchies for more troops and material assistance in fighting Islamic State. America has carried too much of the burden for too long in trying to forge Syria's opposition into an effective force.

Yet even today the opposition could charitably be called "diverse." It includes undeniably terrorist elements that are often hard to distinguish from the "moderates" the U.S. supports. Getting fresh contributions from Arab allies would rebalance the opposition, which is especially critical if the U.S. turns away, as it should, from reliance on the Iraqi forces dominated by Tehran.

Third, the Trump administration must take a clear-eyed view of Russia's intervention. The Syrian mixing bowl is where confrontation between American and Russian forces looms.

Why is Russia active in this conflict? Because it is aiding its allies:



GETTY IMAGES

A defaced Islamic State sign in Ba'aj, Iraq, on June 20.

Syria's President Bashar Assad and Iran's ayatollahs.

Undeniably, Russia is on the wrong side. But Mr. Obama, blind to reality, believed Washington and Moscow shared a common interest in easing the Assad regime out of power.

The Trump administration's new thinking should be oriented toward a clear objective: pushing back these Iranian and Russian gains.

Start with Iran. Tehran is trying to cement an arc of control from its own territory, through Baghdad-controlled Iraq and Mr. Assad's Syria, to Hezbollah-dominated Lebanon. This would set the stage for the region's next potential conflict: Iran's Shiite coalition versus a Saudi-led Sunni alliance.

The U.S.-led coalition, enhanced as suggested above, needs to thwart Iran's ambitions as Islamic State falls. Securing increased forces and financial backing from the regional

Arab governments is essential. Their stakes are as high as ours—despite the contredépôt between Qatar and Saudi Arabia (and others)—but their participation has lagged. The U.S. has mistakenly filled the gap with Iraqi government forces and Shiite militias.

Washington is kidding itself to think Sunnis will meekly accept rule by Iraq's Shiite-dominated government or Syria's Alawite regime. Simply restoring today's governments in Baghdad and Damascus to their post-World War I boundaries would guarantee renewed support for terrorism and future conflict.

I have previously suggested creating a new, secular, demographically Sunni state from territory in western Iraq and eastern Syria. There may well be other solutions, but pining for borders demarcated by Europeans nearly a century ago isn't one of them.

At the same time, the U.S. must begin rolling back Russia's renewed presence and influence in the Middle East. Russia has a new air base at Latakia, Syria; it's involved in combat operations; and issues dictate about where American warplanes in the region may fly. For all the allegations about Donald Trump and Russia, the president truly in thrall to Moscow seems to have been Mr. Obama.

Russia's interference, particularly its axis with Mr. Assad and Tehran's mullahs, critically threatens the interests of the U.S., Israel and our Arab friends. Mr. Assad almost certainly would have fallen by now without Russia's (and Iran's) assistance.

Further, Moscow's support for Tehran shatters any claim of its truly being a partner in fighting radical Islamic terrorism, which got its modern start in Iran's 1979 revolution. Both Iran and the Assad regime remain terror-sponsoring states, only now they are committing their violence under Russia's protective umbrella. There is no reason for the U.S. to pursue a strategy that enhances Russia's influence or that of its surrogates.

As incidents in Syria and Iraq increasingly put American forces at risk, Washington shouldn't get lost in deconfliction negotiations or modest changes in rules of engagement. Instead, the Trump administration should recraft the U.S.-led coalition to ensure that America's interests, rather than Russia's or Iran's, predominate once Islamic State is defeated.

*Mr. Bolton is a senior fellow at the American Enterprise Institute and author of "Surrender Is Not an Option: Defending America at the United Nations and Abroad" (Simon & Schuster, 2007).*

## How U.S. Antitrust Policy Helped Amazon Gain Dominance

By Allysa Finley

Amazon's \$13.7 billion bid for Whole Foods has stirred speculation among investors, business reporters and consumers. If Amazon CEO Jeff Bezos has a strategy for marrying the online and brick-and-mortar operations, he hasn't explained it—and perhaps for good reason. It's rarely wise to show your cards to competitors or regulators.

A decade ago, the U.S. Federal Trade Commission turned Whole Foods CEO John Mackey's statements against him in an antitrust suit that sought to unwind its merger with Wild Oats Markets. Mr. Mackey said Whole Foods's goal was to "eliminate a competitor" that a conventional supermarket might otherwise purchase and use as a "growth platform."

Markets are dynamic—meaning businesses face constant pressure from competitors that offer innovations or lower prices. In 2007, then-Sen. Barack Obama asked Iowa voters, "Anybody gone into Whole Foods lately? See what they charge for arugula?" At the time, Iowa didn't even have a Whole Foods, and Republicans seized on his statement to portray him as an out-of-touch elitist. Now you can buy a box of arugula at a 99-cent store.

The problem is that FTC regulators defined competition so nar-

rowly when evaluating prior mergers that they failed to see the market for the trees. Antitrust enforcement actions that sought to prevent grocery stores from consolidating have helped Amazon, which has been able to expand unencumbered by the FTC. Now supermarkets may be in a weaker position to give Amazon a run for its money.

After Whole Foods proposed the Wild Oats merger in 2007, the FTC accused Whole Foods of trying to corner a distinctive "premium natural and organic" market. The agency argued that Wal-Mart, Safeway and Trader Joe's—all of which are among Whole Foods's top competitors today—drew different clienteles and thus weren't direct competitors.

Whole Foods spent two years battling the FTC in court. But the agency's arguments lost weight as Wal-Mart and supermarkets expanded their offerings of organic products and poached price-conscious customers from Whole Foods.

In 2009 the government settled, with Whole Foods agreeing to sell 13 of its Wild Oats stores, which accounted for a token 1.3% of the company's sales.

But although the merger strengthened Whole Foods's position in the organic market, its stock price has sagged over the past two years as competition in groceries has escalated.

Meanwhile, Wal-Mart and conventional supermarkets, which were booming during the 1980s and '90s, have to fend off competition from warehouse outlets, dollar stores and German low-cost retailers Aldi and Lidl.

### When Whole Foods and Wild Oats merged, regulators said Wal-Mart wasn't a competitor.

Online food retailers such as FreshDirect, Amazon and Jet.com (acquired last year by Wal-Mart) are now catering to customers who prize convenience over cost. Silicon Valley startup Instacart promises to deliver groceries from retailers like Whole Foods, Costco and Target within two hours. And meal-kit service Blue Apron is pitching an initial public offering.

The result has been a wave of supermarket consolidation. In 2015 Albertsons merged with Safeway to maximize economies of scale and negotiate leverage with suppliers. Yet the FTC complained the deal would significantly reduce competition and potentially increase prices.

The FTC came to this conclusion by narrowly defining the market as

consisting of "one-stop shopping" supermarkets and excluding discounters, warehouses, convenience stores and organic retailers.

The commission also arbitrarily evaluated geographic competition by examining supermarkets that operated between 0.2 and 10 miles of each other. In the Whole Foods-Wild Oats deal, the FTC defined the relevant geographic market as "an area as small as approximately five or six miles in radius" from each store. With the growth in online shopping, delimiting markets by geography is increasingly absurd.

To get their merger approved, Albertsons and Safeway agreed to sell 146 of their stores to the small Northwest supermarket chain Hagen, which filed for Chapter 11 bankruptcy reorganization within a year.

Government antitrust interventions have a history of backfiring. When rental-car company Hertz sought to buy Dollar Thrifty in 2012, the FTC forced it to divest Advantage Rent A Car. Regulators argued that the merger would have reduced competition in the airport rental market, which was beginning to see disruptions from ride-hailing startups and Zipcar, a rental agency with an innovative business model.

One year after its brokered sale, Advantage went bankrupt. In 2013 Avis bought Zipcar for \$500 million.

Car-rental companies are continuing to struggle because of competition from Uber and Lyft, but are innovating to keep up. In the past three years, Hertz's stock price has tumbled more than 90%. This week, Hertz and Avis announced self-driving car partnerships with Apple and Waymo.

That story of creative destruction has been repeated across industries throughout history. Wired broadband has replaced dial-up Internet in most of the U.S. but is now being usurped by mobile. Or consider the evolution from pagers and car phones to cellphones and smartphones. A decade ago, BlackBerry led the "personal digital assistant" market, which was tiny compared to the market for flip phones.

Regulators can't foresee how innovations will disrupt markets. Antitrust interventions that seek to preserve the status quo will invariably fail—and could cause businesses to fail.

How the Amazon-Whole Foods merger will play out is anyone's guess, but businesses typically have a better record of predicting—and spurring—market revolutions than government. That's something for President Trump to keep in mind as he fills three vacancies on the FTC.

*Ms. Finley is an editorial writer for the Journal.*

## The Answer to the Virginia Shooting Isn't Looser Gun Laws

By Don Beyer

Earlier this month, a man armed with a rifle and handgun targeted members of U.S. Congress and their staffs as they practiced for the annual congressional baseball game—a bipartisan tradition dating back decades. Rep. Steve Scalise was wounded, as were two U.S. Capitol Police officers, a congressional staffer and a former aide. Thankfully all are recovering.

I was horrified. I know well the Alexandria, Va., community where the shooting happened. I represent the people who live there, and that practice field is a mile from my house.

Despite our political differences, my colleagues and I respect each other. We should come together with a shared agenda in such moments. I've been inspired by the bipartisan spirit I've witnessed in the wake of the shooting. I am troubled, however, by the gun

lobby's attempt to exploit the tragedy by advancing a dangerous political agenda that would make us less safe.

On the morning of the shooting, Republicans who control the House Committee on Natural Resources were set to hold hearings on a sportsmen's bill called the Share Act. In an attempt to mass market the sale of dangerous firearm silencers as hearing protection, members of that committee had quietly attached to the bill an unrelated measure called the Hearing Protection Act. More accurately, they might have called it the Gun Profits Protection Act.

The measure's sole purpose is to remove gun silencers from the National Firearms Act, the law that for 80 years has regulated the sale of the deadliest weapons and gun accessories. Removing existing safeguards to mass-market silencers would profit gun manufacturers at the expense of public safety, and enable dangerous individuals to buy silencers on the private market without the scrutiny of a background check.

Shortly after the shooting, Republicans on the committee canceled the hearing—for now. I was glad they did. They should shelve this dangerous proposal permanently.

The noise from James Hodgkinson's rifle alerted those on the scene in Alexandria to the shooting. Often the sound of gunshots is

what causes people to take cover and notify law enforcement.

In the weeks since the shooting, I've also noticed an uptick in calls for concealed-carry reciprocity among my colleagues. Some have proposed legislation to override local laws and allow more guns on the streets of Washington and beyond.

### One idea is to force states to accept one another's concealed-carry permits. What could go wrong?

their concealed-carry permitting requirements altogether. If a federal concealed-carry reciprocity law passes, people with no permits whatever, who have never even passed background checks, would be free to carry guns across the country.

Mass shootings resemble day-to-day gun violence in some ways, but both have a strong statistical likelihood of being committed by people with histories of domestic violence or other abuse. Hodgkinson, who is reported to have had a history of domestic violence, is another deadly data point confirming this trend.

With a federal concealed-carry reciprocity law on the books, people who have a record of domestic violence or are experiencing a mental-health crisis could carry hidden, loaded guns in all 50 states.

That's a recipe for disaster, which is why many law-enforcement organizations have firmly opposed the idea for years.

Politicians from both parties should focus on the recovery of Hodgkinson's victims and on crafting policies that will make us all safer. What we mustn't do is allow the gun lobby to exploit this tragedy in pursuit of its own dangerous agenda.

*Mr. Beyer, a Democrat, represents Virginia's Eighth Congressional District.*

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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Yen vs. Dollar 112.3370 ▲ 0.03%

Hang Seng 25965.42 ▲ 1.10%

Gold 1242.00 ▼ 0.44%

WTI crude 45.07 ▲ 0.74%

10-Year JGB yield 0.059%

10-Year Treasury yield 2.270%

## U.S. Drugstore Chains Shrink Deal

Instead of merging, Walgreens would buy some Rite Aid stores, if regulators approve

Walgreens Boots Alliance Inc. and Rite Aid Corp. have dropped their \$9.4 billion

By Anne Steele,  
Sharon Terlep  
and Brent Kendall

merger agreement, the latest in a series of high-profile deals to be derailed by antitrust enforcers.

Instead, Walgreens said Thursday it would seek to buy half of Rite Aid's stores for \$5.18 billion in cash. Executives at the drugstore chains said they had crafted the new smaller deal to address regulatory issues, but antitrust experts said there could still be competition issues.

During a review that stretched over 18 months, Federal Trade Commission staff didn't back away from concerns that the original transaction would have harmed competition, according to people familiar with the matter.

Among the concerns was

that the resulting drugstore giant—which would have challenged CVS Health Corp. in size—would have been able to bully pharmacy-benefit managers steering corporate and government drug plans.

Under the new deal, Walgreens will buy about 2,200 of Rite Aid's 4,500 stores. Previously, Rite Aid planned to sell about 3,600 stores to Walgreens and up to 1,200 to regional chain Fred's Inc.

On a conference call Thursday, Walgreens Chief Executive Stefano Pessina said the smaller transaction addresses "all substantive" FTC con-

cerns. The company, which has about 8,200 stores in the U.S., will be adding stores in regions where it currently lacks a large presence, including the Northeast and Mid-Atlantic. Asked whether that could be an issue for the FTC, Walgreens general counsel Marco Pagni said, "you should assume that we have taken account of specific feedback in formulating the plan."

The transaction would still leave two national drugstore chains that dwarf a far smaller No. 3 player. The companies, however, also compete with pharmacies at grocery chains

and discounters like Wal-Mart Stores Inc.

Seth Bloom, an antitrust lawyer in Washington, said the new deal still raises questions warranting FTC scrutiny, including on the issue of Walgreens's growing national muscle. "Just because it's half the number of stores as the previous deal doesn't necessarily settle it," he said. "It could make the review easier, but it's not a slam dunk yet."

Tad Lipsky, the acting head

Please see DEAL page B2

◆ Fred's aspirations suffer a blow..... B2

## Fox's Bid For Sky Faces Hurdle

BY JASON DOUGLAS  
AND STU WOO

LONDON—The U.K. government said it was likely to require further scrutiny of 21st Century Fox Inc.'s £11.7 billion (\$15.1 billion) bid to buy the 61% of British television giant Sky PLC it doesn't already own—adding another hurdle to Rupert Murdoch's protracted quest to consolidate control of his trans-Atlantic media assets.

British Culture Secretary Karen Bradley, who oversees media mergers in the country, said she was "minded to" refer the proposal to U.K. competition authorities after Britain's communications regulator raised public-interest concerns about the deal. The "minded to" language is used by the government to signal its intentions, but isn't binding.

Speaking in Parliament, Ms. Bradley said she would make a final decision on whether to refer the deal after hearing representations from the parties involved over the next 10 days. Fox and Sky have until July 14 to respond.

The government's move followed the release Thursday of two reports by Ofcom, Britain's media regulator, on the proposed deal. Ofcom said it has concluded that allowing Fox to take full control of Sky risked giving too much control of the U.K. media landscape to the Murdoch family.

In one report, Ofcom said "the transaction raises public interest concerns as a result of the risk of increased influence by members of the Murdoch Family Trust over the U.K. news agenda and the political process, with its unique presence on radio, television, in print and online."

Ofcom said proposals by Fox to safeguard the editorial independence of Sky's news channel helped mitigate its concerns, but Ms. Bradley said she didn't think those undertakings went far enough.

Fox said in a statement that it was disappointed that Ms. Bradley reached that decision, and that it would continue to work constructively with the U.K. authorities. It said it expects the transaction to be completed by June 2018. Sky said it would continue to engage with the process.

Mr. Murdoch and his family are a major shareholder in both Fox and News Corp., which owns a number of British newspapers, including the Sun tabloid and the Times of London. News Corp. also owns The Wall Street Journal.

Mr. Murdoch, who helped create Sky in 1990, has long sought full control of the broadcaster. He abandoned a previous attempt to buy out Sky in 2011 after a phone-hacking scandal at one of his U.K. papers—now closed—triggered

Please see SKY page B2

## CHINA CIRCUIT

By Li Yuan

## Alibaba, Tencent Must Tread Cautiously

Ama-zon.com's recent bid to acquire Whole Foods Market inflamed concerns in the U.S. about big tech companies taking over America.

In China, that's already happening. Alibaba Group Holding and Tencent Holdings are online-offline conglomerates, each with hundreds of millions of users. The pair—directly or through companies they invest in—provide services and products across a range of businesses, from retail, media and entertainment to health care, payments, banking, logistics and transportation.

Their market capitalizations—Alibaba at \$358 billion and Tencent at \$350 billion—are much higher than those of the state-owned enterprises that dominate the Chinese economy. The country's biggest bank, Industrial and Commercial Bank of China, is valued at \$261 billion; the state-owned telecom titan China Mobile is valued at \$218 billion.

The tech giants, with their wide reach into many facets of daily life, touch ordinary Chinese in ways state companies don't.

As their size and influence grow, Alibaba and Tencent are entering uncharted territory: Never in nearly seven decades of Communist Party rule have private-sector companies held such sway over the economy and society. How well they handle relationships with competitors, old-line companies and, ultimately, an authoritarian government that isn't used to sharing power will be a top challenge in coming years.

"The most important countering force against Alibaba and Tencent will probably not come from their direct competitors but the government and the traditional industries they disrupt," said Yin Sheng, an independent technology consultant who owns shares in both companies. As the two tech companies push further into other sectors, Mr. Yin believes established businesses will lobby the government to enforce tax, antimonopoly and other rules.

A Tencent spokeswoman said the company "views our peers in the internet sector and traditional industries as partners" and "the healthy growth of the internet industry will benefit users, industry players" and the economy. Alibaba didn't respond to requests for comment.

Alibaba and Tencent need to tread carefully. Some of China's wealthiest businessmen ended up in jail, often when they appeared to fall out of favor with the govern-



TransCanada is struggling to get Keystone XL customers amid low crude prices and other transport options. A North Dakota storage depot.

TERRY SWINER/REUTERS

## Delayed Pipeline Is Now Unwanted

By CHRISTOPHER M. MATTHEWS  
AND BRADLEY OLSON

Keystone XL is facing a new challenge: The oil producers and refiners the pipeline was originally meant to serve aren't interested in it anymore.

Delayed for nearly a decade by protests and regulatory roadblocks, Keystone XL got the green light from President Donald Trump in March. But the pipeline's operator, TransCanada Corp., is struggling to line up customers to ship crude from Canada to the U.S. Gulf Coast, say people familiar with the situation.

TransCanada Chief Executive Russ Girling remains committed to completing Keystone XL and believes it will prove profitable in the long term, say two people familiar with his thinking. But it may be years before the company recoups its investment in the pipeline, these people say.

TransCanada has spent \$3 billion to date on Keystone XL, much of it on steel pipe, land

rights and lobbying. Completed, the pipeline would travel 1,700 miles from Alberta to Steele City, Neb., where it would link up with existing pipelines that run to the Gulf Coast.

The lack of interest has put the pipeline's fate in jeopardy. The company, based in Calgary, Alberta, has said it wants enough customers to fill 90% of Keystone's capacity before it proceeds. It started to aggressively court potential customers earlier this year as it seeks to meet that target, according to people familiar with the situation.

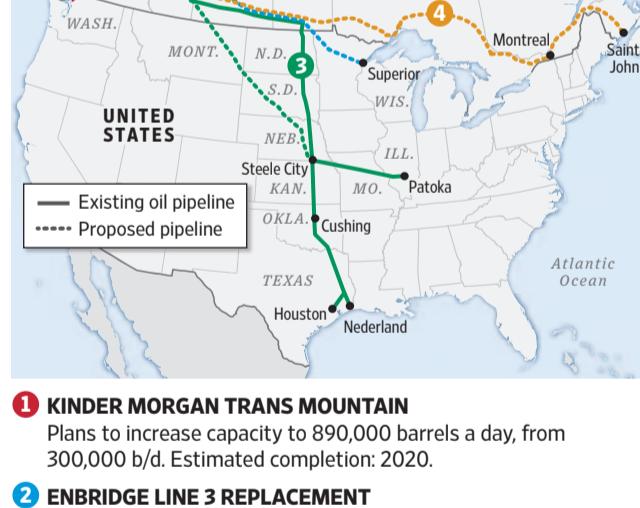
TransCanada expects the pipeline, which would carry up to 830,000 barrels of oil a day, to cost \$8 billion, compared with its initial estimate of \$7 billion. The company took a \$2 billion write-down related to the pipeline last year.

A TransCanada spokesman said the company is making progress with customers and anticipates it will firm up support in coming months. The

Please see ENERGY page B2

### A Pipeline Race

Several firms are competing to build pipelines from Canada to the U.S. Some analysts doubt there will be enough demand for the projects.



#### 1 KINDER MORGAN TRANS MOUNTAIN

Plans to increase capacity to 890,000 barrels a day, from 300,000 b/d. Estimated completion: 2020.

#### 2 ENBRIDGE LINE 3 REPLACEMENT

Line into Enbridge's existing crude system will restore 760,000 b/d of capacity by replacing an older pipeline. Estimated completion: 2019.

#### 3 TRANSCANADA KEYSTONE XL

White House has approved pipeline, but company is struggling to line up customers. Estimated completion: 2020-2021.

#### 4 TRANSCANADA ENERGY EAST

Company seeking to convert part of an existing natural-gas line to send oil east for export. Estimated completion: 2021.

Sources: Goldman Sachs; Barclays; the companies

THE WALL STREET JOURNAL.

## Sony to Press First Vinyl Records Since '89

By ALASTAIR GALE

TOKYO—Sony Music Entertainment, owner of storied U.S. music labels Columbia and RCA, said it plans to produce vinyl records for the first time in three decades.

The format is experiencing a renaissance as younger music lovers embrace the perceived warmer, more vivid sound of vinyl—and the more tactile connection to music than digital downloads offer. Sales of vinyl records in the U.S. in 2016 were up for the 11th year in a row. In the U.K. they surpassed downloads late last year.

Japan has had a vibrant market for secondhand records for many years and has also seen a recent surge in demand for new records.



at a factory in central Japan before next March.

Columbia and RCA were once rivals—two leaders in vinyl-record technology that competed to set industry standard formats. In recent years they were folded into Sony Music, the world's second-largest record company and home to artists such as Beyoncé and Bob Dylan.

In another reflection of the vinyl boom, Panasonic Corp. last year resumed sales of its Technics series of turntables, viewed by many nightclub DJs as the industry standard. Sony Corp., the parent of Sony Music, has also introduced a turntable of its own that not only plays records, but allows users to store the music as high-resolution digital files.

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SYCAMORE TO ACQUIRE STAPLES

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## BP Writes Off Angola Exploration Assets

By SARAH KENT

LONDON—BP PLC said Thursday it will write off \$750 million from its second quarter earnings as a result of poor exploration results in Angola, an oil-rich country that the company has touted as a pillar of its business.

The British oil-and-gas company said it would give up its 50% stake in a license off the African country's south coast after deciding it wasn't worth developing a 2014 gas discovery there. BP said additional exploration write-offs in the country also would contribute to the charge, without giving more details.

The shift in exploration strategy comes as BP is working to rebuild the company in the wake of its fatal blowout in the Gulf of Mexico in 2010 and a three-year plunge in oil prices that has rocked the industry.

After years of retrenchment, it is now back on the path to growth, with plans to add 800,000 barrels a day of new oil and gas production by 2020. By the end of the decade, including its stake in Russian oil giant POA Rosneft, it expects to be pumping 4 million barrels a day—as much as before the 2010 disaster.

BP said the \$750 million noncash charge won't be tax deductible, but it won't affect the company's cash flow for the quarter—an increasingly important metric for investors worried about oil firms' ability to cover spending and dividend payouts with oil prices stuck below \$50 a barrel.

BP has operated in Angola for decades and counts its operations there as some of its most important. When BP gained access to deep water and ultra deep water exploration licenses off the country's coast in 2011, it described the acquisition as a "major win."

BP said the decision to write off its Angolan assets is part of a broader portfolio review, intended to focus the company more on natural gas and lower-cost oil projects near existing infrastructure.

ual-harassment claims.

"We have concluded that the overall evidence available to date does not provide a reasonable basis for Ofcom to conclude that, if Sky were 100% owned and controlled by Fox, it would not be a fit and proper holder of broadcast licenses," the regulator said.

A fresh antitrust probe could add months to the merger process. The proposed deal had already gone through a regulatory gauntlet, including passing muster with European Union regulators, before the U.K. government called in Ofcom.

If British authorities eventually approve the proposal, Fox must still win over the 75% of minority shareholders, excluding Fox's stake, to cement the deal. Some investors argued that the Fox bid's 36% premium wasn't enough.

Sky shares rose more than 3% after the decision Thursday, to close in London at £9.88, still below the £10.75 offer from Fox. One analyst who specializes in analyzing takeovers said the move reflects relief among investors that the deal at least cleared the fit-and-proper test that some believed would be more onerous to overcome than antitrust issues.

—Ben Dunnett contributed to this article.

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THE WALL STREET JOURNAL

## BUSINESS & FINANCE

# Staples Agrees to Buyout

BY DANA MATTIOLI  
AND DREW FITZGERALD

Private-equity firm **Sycamore Partners** agreed to buy **Staples Inc.** for about \$6.9 billion, a bold bet on a company whose sales have been shrinking in recent years.

Sycamore is expected to pay \$10.25 a share for Staples, the office-supply retailer confirmed Wednesday.

The price represents a nearly 20% premium to where the shares traded just before The Wall Street Journal reported that Staples was exploring a sale in early April. Staples shares were trading at \$10.10, up 1.7%, midday Thursday.

The deal would be the biggest leveraged buyout this year, according to Dealogic. Private-equity deal activity has been restrained, in part because many companies have become expensive in the stock-market surge.

But retailers of all stripes have been buffeted by shifting buying patterns as consumers increasingly shop online, and many of their shares have fallen as a result.

The agreement values Staples at a deep discount to where the company traded just a few years ago—and to its annual revenue, which was \$18.2 billion in the fiscal year ended in January.

Sycamore prevailed over other private firms in the auction for Staples, which also has a big business supplying corporate and government clients. The company's shares



Private-equity firm Sycamore Partners agreed to pay \$6.9 billion for the office-supply retailer.

peaked at more than \$25 a decade ago, before the financial crisis caused cash-strapped businesses to cut back on purchases of office essentials. By the time the economy recovered, online retailers were increasingly siphoning off Staples' sales.

The digital transformation of workplaces, meanwhile, has dented the market for printer paper, filing cabinets and the like.

After years of sales declines, the Framingham, Mass., company in 2015 mounted a roughly \$6 billion bid to merge with rival Office Depot Inc., but a federal judge scuttled the deal a year later over concerns it could raise the prices that big companies pay

for office essentials. The failure led to the ouster of Staples' then-Chief Executive Ron Sargent, who had run the company since 2002.

Staples subsequently closed stores and sold operations in the U.K., Europe, Australia and New Zealand. Executives say they are redoubling efforts to improve performance in their home market. Staples has more 1,500 stores, according to a May investor presentation, down from nearly 2,300 five years ago.

About two-thirds of the company's earnings comes from its relatively stable corporate and government business. That unit accounts for most of the company's online sales and tends to enjoy more predictable demand, though it still posted a 0.9% sales decline in the last fiscal year.

That was still healthier than the retail unit, which reported a 7.1% revenue decline.

Staples has previously had private-equity ownership. Bain Capital, an early backer of the company, took Staples public in 1989, making multiple times its investment.

Sycamore often invests in struggling retail brands and its current portfolio includes department store Belk Inc., shoe seller Nine West and apparel chain The Limited, which it bought after the company filed for bankruptcy this year. It was also a major lender to teen retailer Aeropostale Inc., which filed for bankruptcy last year.

## Pharmacy Chain Fred's Takes Hit

By EZEQUIEL MINAYA

Regional pharmacy chain **Fred's Inc.** had enjoyed a runup in its stock price after being invited to buy a large chunk of stores to satisfy anti-trust concerns in **Walgreens Boots Alliance Inc.**'s plan to buy **Rite Aid Corp.**

It was, as it turns out, an Icarian climb.

Walgreens said Thursday it planned to buy half of Rite Aid's stores, instead of buying the company outright and selling 865 stores to Fred's, a move Fred's called a "disappointing outcome." The retooled deal nixing Fred's involvement stymied the Memphis, Tenn., company's plans to become a national player in the U.S. in the sector.

Fred's said Thursday it will be paid a \$25 million termination fee to cover its expenses

related to the aborted merger. Shares tumbled 22% to \$9.65, levels not seen since before the spotlight was fixed on the company by the merger.

The early version of the Walgreens-Rite Aid tie-up

would have more than doubled the size of Fred's, which owned about 650 stores and had a market capitalization of roughly \$400 million before the December announcement of its involvement in the deal.

Shares in Fred's skyrocketed 81% when news broke about its plans to acquire 865 additional stores for \$950 million, financed by pledging nearly all of its assets—down to furniture—to back some \$1.65 billion in loans.

"While the acquisition of additional stores was an opportunity for growth, we always viewed it as a potential outcome that would accelerate our transformation, not define it," said Michael Bloom, Fred's chief executive, in prepared remarks Thursday.

Regulators were concerned about the earlier Walgreens-Rite Aid deal, which would have married the second- and third-largest U.S. pharmacy chains by sales, could stymie competition. Divestitures are often required in large deals to assuage concerns over market power.

Source: the companies

NIKKI BOERTMAN/ASSOCIATED PRESS

A merger of bigger rivals would have meant more stores for Fred's.

## DEAL

Continued from the prior page of the FTC's bureau of competition, said the FTC would review any new transaction proposed by the parties. Mr. Lipsky said commission staff had "thoroughly investigated" the original deal and "evaluated a number of divestiture proposals put forward by the parties." His statement didn't provide further details of the FTC review.

Walgreens said it expects \$400 million in cost savings from the new deal within three to four years of closing. Walgreens will pay Rite Aid a \$325 million termination fee.

Shares of Rite Aid were off 25% Thursday afternoon while shares of Walgreens were up 1.3%. Shares of Fred's fell 19%.

Rite Aid's business has been slumping in recent quarters, falling further behind Walgreens and CVS. On Thursday, the company reported that revenue declined 5% to \$7.8 billion in the quarter ended June 3, and it posted a loss of \$75 million.

Rite Aid CEO John Standley said the remaining stores are more profitable, and the smaller size will leave the company less exposed to reductions in drug reimbursement rates. Rite Aid plans to use deal proceeds to pay down debt and the resulting lower interest costs will help free up cash to upgrade existing stores, he said.

The Walgreens-Rite Aid proposal is the latest in a string of high-profile deals to fall apart at the hands of regulators. Earlier this year, two pairs of health insurers—

producers were rushing to pump as much as possible and refiners were itching to secure steady supplies. Today, oil is trading around \$45 amid a global supply glut caused in part by the emergence of American shale drillers.

Refiners want the flexibility of being able to buy oil from wherever it is cheapest. In a world awash in low-price oil, Canadian crude doesn't look as attractive as it once did. Many refiners thus far are unwilling to commit to long-term deals for Canadian crude, say people familiar with the matter.

"A lot of water has gone under the bridge over the last seven or eight years since we proposed that project with respect to where energy prices are today," Mr. Girling told investors in May. "So it all sort of complicates the negotiation."

Meanwhile, uncertainty

## Downsized Deal

Walgreens will acquire 2,186 stores from Rite Aid, extending its global lead.



Analysts. But rail shipments generally don't require long-term commitments.

While Keystone XL stalled for years, other projects moved forward. Goldman Sachs analysts estimate that Enbridge Inc.'s expansion of an existing pipeline connecting Alberta and Superior, Wis., will be completed by 2019, while Kinder Morgan Inc.'s expansion of the Trans Mountain Pipeline from Alberta to the coast of British Columbia will be finished by 2020. They predict Keystone XL may not be finished until 2021.

TransCanada is betting the demand that spurred the project still exists. Analysts project that over the long term the Gulf Coast's demand for Canadian crude will rise as oil imports from Venezuela and Mexico fall.

—Lynn Cook contributed to this article.

## ENERGY

Continued from the prior page company has said construction could begin next year and finish as early as 2020.

The uncertain outlook for Keystone XL stands in contrast to Mr. Trump's upbeat rhetoric in March. The president invited Mr. Girling to the Oval Office and announced he was reversing an Obama administration move to block construction, declaring, "It's going to be an incredible pipeline, greatest technology known to man."

But much has changed in the oil markets since TransCanada first filed an application with the State Department in 2008 for a cross-border permit.

Back then, the price of oil had surpassed \$130 a barrel,

## BUSINESS NEWS

# SAIC Gears Up for Production in India

Shanghai car maker's initiative comes as GM quits that market, citing weak sales

BY TREFOR MOSS

SHANGHAI—China's largest auto maker said it would start building cars in India, even as its partner in China, **General Motors** Co., quits India due to weak sales.

**SAIC Motor** Corp. will be the first Chinese auto company to operate a wholly owned plant in India, where it will begin producing cars under the MG badge by 2019, the company said Thursday. It is part of a plan to develop a "global structure" and a "multinational operation" in keeping with China's ambition to become a force in the world auto industry, SAIC said.

GM and SAIC are longstanding partners in China, where they jointly manufacture GM-badged and locally branded vehicles.

Indian media reported that the Shanghai-based company is weighing whether to take



SAIC will be the first Chinese auto firm with a wholly owned India plant. An SAIC factory in Shanghai.

over GM's recently closed plant in Gujarat or build a new one, and that it had tapped GM's former India president, Rajeev Chaba, to run its local unit.

Just three million vehicles were sold in India in the 12

months ended in March, compared with more than 28 million in China in 2016. But IHS Markit forecasts that India will overtake Japan to become the world's third-biggest car market by 2020, and eclipse the U.S. by around 2030.

While those growth forecasts weren't enough to convince GM, which said in May that it would completely pull out of India by the end of 2017 as part of a global retrenchment, SAIC and other Chinese car makers see huge

potential, according to Yale Zhang, managing director of Automotive Foresight, a Shanghai auto intelligence company.

"U.S. car makers were not well-placed to meet the demands of Indian consumers, but Chinese car makers have the right low-cost products," Mr. Zhang said. "And SAIC, with their product line, is probably the most equipped." SAIC said in its statement that its India product line would include new-energy and connected vehicles, without elaborating.

Japan's Suzuki Motor Corp. dominates the Indian auto market, ahead of Korean, European and Indian rivals.

Chinese companies have stumbled in their efforts to go global: China exported over one million cars for the first time in 2012, but has failed to top that mark since then, and sold only 708,000 cars abroad in 2016.

Around 5,000 Chinese cars were bought in India in the first four months of this year, representing just 2% Chinese auto exports, according to IHS Markit.

But increasingly Chinese auto makers are looking to boost sales globally by producing locally. SAIC already operates plants in Indonesia and Thailand, while manufacturers including Chery Automobile Co. and Zhejiang Geely Holding Group Co. have plants in a range of emerging markets.

While India has obvious growth potential, SAIC will encounter "cut-throat competition" in a market where consumers demand not only low prices, but also aspirational products offering value for money, said Anil Sharma, principal analyst at IHS Markit.

Indian buyers are agnostic when it comes to the origin of auto brands and would in theory embrace Chinese cars, Mr. Sharma said, though "good cars have failed in India before."

SAIC's entry would be "a litmus test for other Chinese auto makers," Mr. Sharma said, with more likely to pour into the country if SAIC prosders.

—Junya Qian contributed to this article.

## BUSINESS WATCH

AETNA

### Insurer to Make New York Its Home

**Aetna** Inc. intends to move its corporate headquarters along with 250 jobs to Manhattan by late 2018, from Hartford, Conn., where the insurer has been based since 1853.

The company said it chose New York as its new location to tap a more robust pool of talent at the same time that Aetna is repositioning itself as a consumer-oriented health company.

"New York City is a knowledge economy hub, and a driver of the innovations that will play a significant part in our ongoing transformation," Aetna Chief Executive Mark Bertolini said in a statement Thursday.

Aetna's departure from Hartford comes as Connecticut is struggling with a spiraling fiscal imbalance that has led to a projected \$5.1 billion budget deficit over the next two years. It is the latest big-name corporate loss for Connecticut after **General Electric** Co. left the state for Boston last year.

The insurer said it would keep thousands of employees at its Hartford campus, and the company's consumer health and services team would continue to operate in Wellesley, Mass.

—Joseph Avila and Keiko Morris

BEEF PRODUCTS

### ABC News Settles 'Pink Slime' Lawsuit

ABC News has reached a settlement with the maker of a processed-meat product that critics dubbed "pink slime," bringing an end to a defamation lawsuit that threatened the network with billions of dollars in damages.

The settlement, the terms of which weren't announced, comes about halfway through a jury trial that was expected to last roughly two months.

It brings to a close a legal test of food-label laws intended to shield the U.S. food-production industry from bogus food-safety scares.

**Beef Products** Inc. sued ABC News, anchor Diane Sawyer and reporter Jim Avila in 2012 for \$19 billion, over a series of stories about its lean, finely textured beef product—what critics dubbed "pink slime"—claiming it was the victim of a journalistic hit job that harmed its business.

A judge dismissed the claims against Ms. Sawyer before the start of the jury trial, which began earlier in June in South Dakota. Because of a South Dakota food-label law that provides for triple damages against those found to have knowingly lied about the safety of a food product, ABC News was facing, potentially, \$6 billion in damages.

Beef Products, a family-owned South Dakota meat processor, said in a statement on Wednesday the settlement validated that lean, finely textured beef, made from defatted beef trimmings in a process involving ammonium hydroxide, was safe.

—Patrick Fitzgerald and Jacob Gershman

# Amazon Deal Pressures Grocery Deliveries

BY HEATHER HADDON AND JULIE JARGON

Even before Amazon.com Inc. put a supermarket chain in its cart, U.S. grocery delivery services were racing to grab hold of new regions, spending millions to gain a larger share of the fast-growing market.

Now, with the e-commerce giant planning to buy **Whole Foods** Market Inc. for \$13.7 billion, giving it a large foothold in the food-retail industry, the stakes are all the higher for companies such as

**Instacart** Inc., **Peapod** LLC, **Shipt** Inc. and **FreshDirect** LLC to deliver not only fresh food—but continued growth.

Midwestern grocery chain

**Schnucks Markets** Inc. was expected Thursday to announce its partnership with Instacart for online delivery

will extend to most of its 100 stores by July. Ahold Delhaize's Peapod is expanding its push into New York City after spending more than \$94 million on a warehouse in Jersey City, N.J., in 2014.

Shipt, which delivers food orders for retailers including

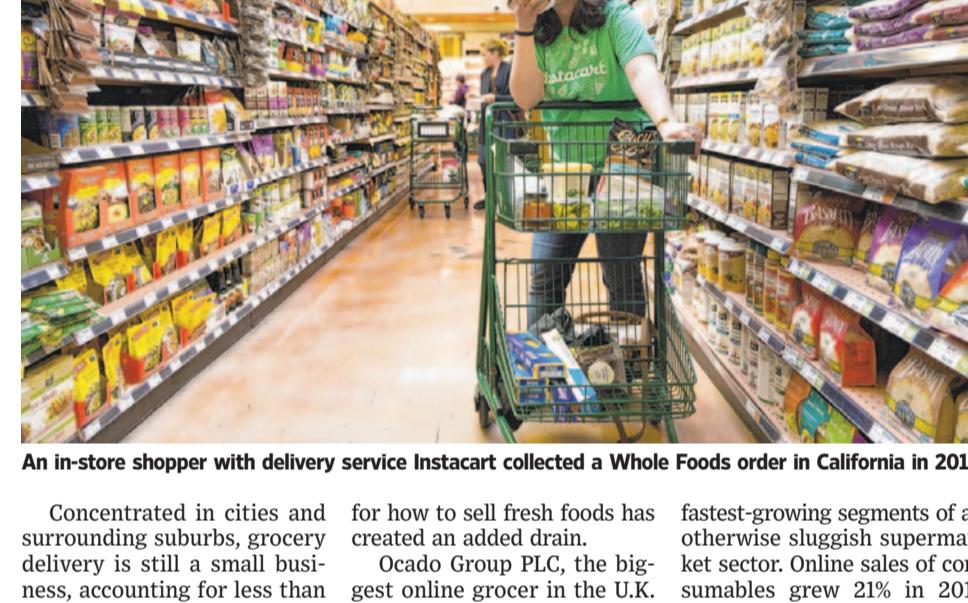
**Costco Wholesale** Corp., **Meijer** Inc. and Whole Foods, intends to almost double its markets by next year, from 51 to 100. Founder Bill Smith says the company's expansion is targeting suburban customers in less saturated regions such as the South and the Midwest to gain an edge.

The largest U.S. food sellers,

**Wal-Mart Stores** Inc. and

Kroger Co., meanwhile, are testing delivery services using Uber Technologies Inc. and Lyft Inc.

It isn't clear whether Amazon acquiring Whole Foods will remake grocery shopping in much the same way the company has changed book-buying.



An in-store shopper with delivery service Instacart collected a Whole Foods order in California in 2014.

Concentrated in cities and surrounding suburbs, grocery delivery is still a small business, accounting for less than 2% of last year's \$715 billion in food-retail sales, according to food-services research and consulting firm Technomic Inc.

Amazon already makes up more than half of online food orders through its Fresh, Prime and Prime Now services.

Seventy percent of respondents to a survey by supply-chain consulting company AlixPartners LLP last year said they had no intention of having groceries delivered.

Grace Herrera, a 59-year-old caregiver in California,

said she would rather spend time shopping than pay extra for delivery. "I have time to go to the store," she said.

Margins also remain an issue.

Razor-thin to begin with, they have dropped in recent years as falling food costs sparked a price war. And in the online world, the learning curve

for how to sell fresh foods has created an added drain.

Ocado Group PLC, the biggest online grocer in the U.K. and one of the few public ones, posted its first full year of profits in its fiscal year

ended in November 2014 and averages transaction sizes of

E-commerce giant's plan to buy Whole Foods is increasing the delivery stakes.

\$140 per order, compared with \$32 for the typical brick-and-mortar supermarket, according to Barclays Capital Inc. But about 30% of Ocado's fresh produce is wasted daily, a drag on margins and far worse than a traditional grocer's average of 3%, the firm found.

Still, delivery is one of the

fastest-growing segments of an otherwise sluggish supermarket sector. Online sales of consumables grew 21% in 2015 over the previous year, according to the Willard Bishop grocery consulting firm.

The planned partnership between Amazon and Whole Foods is a new challenge for delivery services vying for that growth, said Bill Bishop, co-founder of Brick Meets Click, an e-commerce grocery consulting firm.

Whole Foods' 466 stores could serve as mini-distribution centers in densely populated, affluent areas; Amazon, which has demonstrated a willingness to forgo profits for years to build market share, could use its e-commerce prowess to cut the specialty grocer's prices to near those of its competitors.

"This gives them another way to drive up penetration in grocery purchasing and ultimately delivery," Mr. Bishop said.

Peapod executives say that

being owned by a large retailer like Netherlands-based Ahold Delhaize allows the delivery service to bargain with suppliers for lower prices. They note that Peapod is profitable in markets where it has operated for at least a decade.

"We are the original online grocers and have outlasted many of the competitors who have come and gone," said Jennifer Carr-Smith, chief executive of the Skokie, Ill.-based company.

FreshDirect didn't respond to requests for comment.

Brick-and-mortar supermarkets are wrestling with whether to invest in their own delivery services, cede profits to startups or risk losing more business to Amazon. For grocers who use Amazon Prime to deliver to their customers, the Whole Foods deal presents a particular challenge.

Natural health-food chain **Sprouts Farmers Markets** Inc. will continue to use Prime to deliver groceries for now, said Bradley Lukow, chief financial officer for the Phoenix-based company. "We'll make the determination going forward if we want to make any changes," he said last week.

Schnucks Chief Marketing Officer Andrew Nadin said the grocery chain was planning to expand its partnership with Instacart even before Amazon set out to buy Whole Foods.

"We've never tried to out-Wal-Mart Wal-Mart. We won't try to out-Amazon Amazon," he said.

Instacart, founded by a former Amazon engineer, handles deliveries for Whole Foods. Analysts expect that to end.

Instacart declined to comment on its partnership with Whole Foods.

—Laura Stevens contributed to this article.

# UPS Turns to Golf Carts, Vexing Drivers

BY PAUL ZIOBRO

**United Parcel Service** Inc. uses jumbo jets, hybrid electric vans and, sometimes, drones to deliver nearly five billion packages each year. But a push into a less glamorous transportation mode—golf carts—has touched a nerve with drivers in one of its home bases.

Starting Thursday, UPS can use golf carts to deliver packages in Kentucky as the result of a new state law allowing delivery drivers to use the vehicles on public roads.

The company plans to use retrofitted golf carts to complement its fleet of brown delivery trucks primarily during the winter holidays, when daily volumes can rise two-thirds from normal levels.

But union leaders, who had opposed the legislation, argue that having the vehicles share the road with cars and trucks puts workers at risk. They also object because at UPS golf-cart drivers earn less than traditional truck drivers.

"They're just an eroding of full time employment for people that need it," Democratic state Rep. Rick Nelson said.



UPS already uses golf carts in Florida to make some deliveries.

Weese, a member of Teamsters Local 89, which represents UPS drivers in Kentucky.

UPS spokesman Glenn Zaccara said the carts undergo a major face-lift from the ones spotted on fairways. The vehicles will have turn signals, seat belts and emblems designating them as slow-moving vehicles.

The safety of our [workers] always comes first and we will not operate in conditions that are determined to be unsafe," Mr. Zaccara said.

UPS, which has its main WorldPort package sorting hub in Louisville, Ky., and is the state's second-largest employer behind Wal-Mart Stores Inc., lobbied for the law, which passed the Republican-controlled House and Senate by roughly 2-to-1 margins.

The golf carts, which are modified with a flatbed or pull trailer containing the packages, will be driven by part-time workers. The carts generally don't go faster than 15 miles an hour and will only be

allowed to be operated in residential areas and on public roadways with a posted speed limit of 35 miles an hour or less.

Mr. Zaccara said using golf carts would give UPS more flexibility during the holidays without having to buy new delivery trucks or vans. The electric golf carts can travel between 25 and 40 miles on a single charge, UPS said.

Controlling costs is a major issue at both UPS and FedEx Corp., which have taken steps to optimize driver routes through routing systems, automate more sorting facilities and deliver more packages to drop-off points such as stores.

Mr. DeWeese said part-time workers driving golf carts earned about \$15 an hour, versus a starting rate of \$18.75 an hour for Kentucky drivers behind the wheel of a truck or van. Most drivers in Kentucky make the maximum hourly rate of a little more than \$35 after four years.

"It's just an eroding of full time employment for people that need it," Democratic state Rep. Rick Nelson said.

UPS's goal was to find the

most efficient way to "process the near double average daily package volume we experience during our peak season" in November and December, Mr. Zaccara said.

UPS has a number of unique delivery methods to accommodate local quirks, including horse-drawn carriages on Michigan's Mackinac Island and gondolas in Venice, Italy.

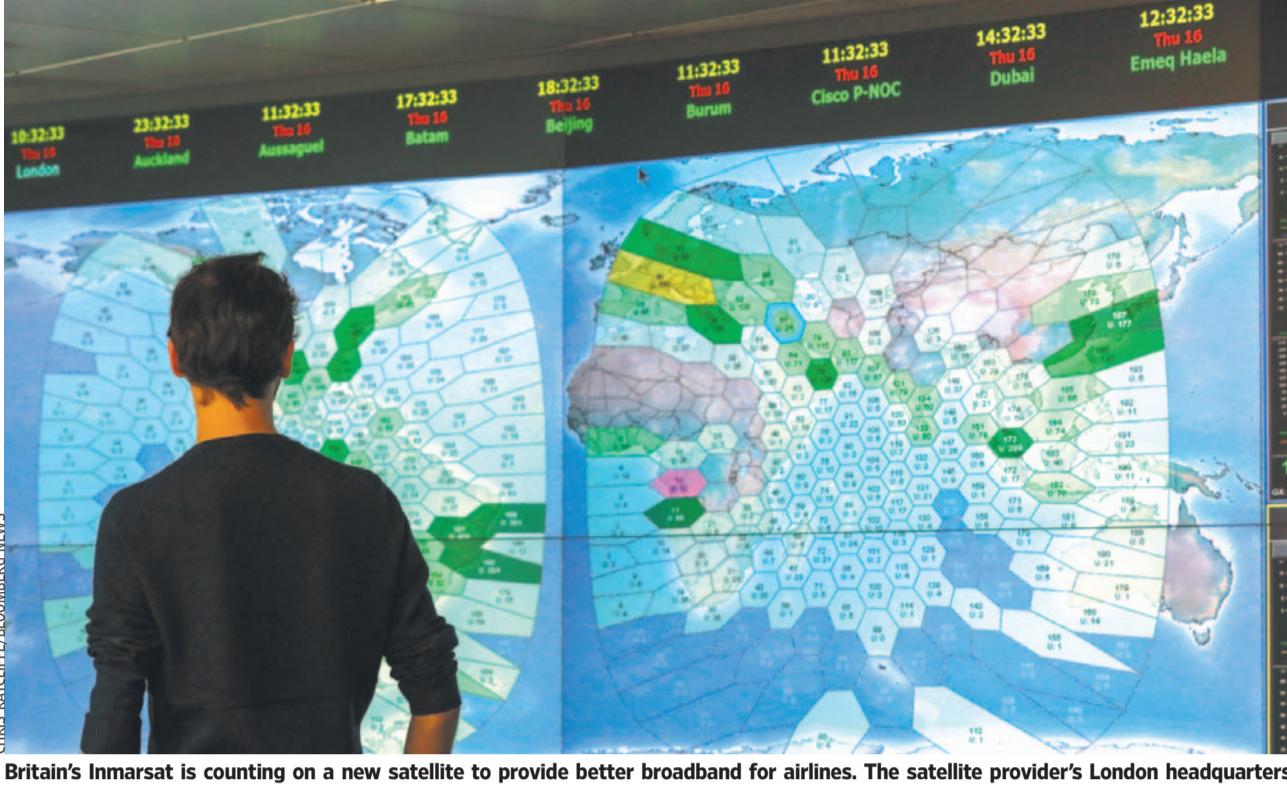
In the U.S., the delivery company's national labor contract does allow for golf-cart deliveries. One sentence in the 184-page document states: "Golf cart usage will comply with applicable federal, state and local regulations."

That provision was largely unobjectionable when the contract was ratified in 2013, said Mr. DeWeese, as it was inserted to accommodate deliveries in communities in places such as Florida where golf carts are the primary mode of transportation.

The issue comes several months ahead of when the national Teamsters union is expected to begin negotiations with UPS over its next contract. The current version expires July 31, 2018.

## TECHNOLOGY

WSJ.com/Tech



Britain's Inmarsat is counting on a new satellite to provide better broadband for airlines. The satellite provider's London headquarters.

# A Big Bet on In-Flight Wi-Fi

By ROBERT WALL

LONDON—One of the world's biggest satellite providers is betting big on in-flight broadband.

Passengers used to watching movies or live sports on their smartphones at home or on the go have become increasingly frustrated when unable to stay connected when airborne. Airlines have become eager to address that demand either by charging to boost sales or offering a free service to lure customers.

Britain's Inmarsat PLC is betting that a new satellite, launched late Wednesday by the European Ariane 5 rocket from the Guiana Space Center in French Guiana, will address those concerns. Passengers "will have a high-quality Wi-Fi experience akin to a top-quality hotel or internet cafe," Inmarsat Chief Executive Rupert Pearce said in an interview.

British Airways, a unit of International Continental Airlines Group SA, has committed to becoming the launch operator of the system on its short-haul planes. Deutsche Lufthansa AG said it would

experiment with the system.

The new satellite carries payloads for a subsidiary of Saudi Arabia-based Arabsat and for Inmarsat, whose equipment serves as the key element of its in-flight connectivity offer. Inmarsat's dedicated in-flight system, called the European Aviation Network, relies on a network of terrestrial air-to-ground communications towers, built by Deutsche Telekom AG. The satellite link provides additional capacity and fills in the spots in Europe that the ground towers can't cover. Using the ground towers will help cut costs, Mr. Pearce said.

The European Aviation Network could serve as a blueprint for the company to target other regions. Gogo Inc., which provides internet in the U.S. on planes from American Airlines Group Inc., Delta Air Lines Inc. and others, has disappointed many travelers because of limited capacity and low speed. Gogo last year signed a contract with global satellite operator SES SA to boost bandwidth. SES last year also agreed to build a powerful new satellite

to help France's Thales SA provide in-flight broadband equivalent to fiber connectivity starting in 2020.

Inmarsat has made a big bet on providing broadband to planes. A series of other spacecraft, called Global Xpress, aim to beam the internet to planes, ships and users on the ground, often in remote locations. The company in June said it would buy one-fifth of those spacecraft.

But its plans for Europe aren't without critics. Rival ViaSat, based in Carlsbad, Calif., said Inmarsat is violating key elements of its license, including relying too heavily on the ground portion. The company also has missed repeated milestones required by the license, said ViaSat president Rick Baldridge.

ViaSat in April asked the European Court of Justice to instruct the European Commission to enforce Inmarsat's license rather than delegating that role to European Union member states. Eutelsat, ViaSat's European partner to provide in-flight broadband in Europe, is joining the case. The two are providing service

to European airline Finnair and El Al Israel Airlines Ltd.

Mr. Pearce plays down the attack, saying rivals that are behind in deploying their own systems are using legal maneuvers to derail Inmarsat. "Their claims are completely false and without merit," he said.

To avoid delays to its service, Inmarsat last year moved the launch of the European Aviation Network spacecraft to Ariane 5 rocket from the Falcon 9 made by Elon Musk's Space Exploration Technologies Corp., or SpaceX. The U.S. rocket company had suffered an explosion during a fueling exercise in September. Inmarsat worried SpaceX launches would be delayed as the company returned to flight.

The satellite will undergo checks in the next few months before it is set to become operational in September. Inmarsat still needs some European regulators to sign off on elements of its hybrid system. Although the space element has received all approvals, some regulators in big markets such as Germany and France still need to approve the use of the terrestrial system.

# Google Strategy On New Services Is Under Threat

By JACK NICAS

Google has thrived by launching new services out of its powerful search engine—such as online travel, maps and news—to make finding information easier for users.

Now such expansion, a hallmark strategy of Google, is under threat.

European Union regulators this week determined for the first time that Google's search engine was a monopoly and fined the company \$2.71 billion for favoring its shopping ads over rivals. Regulators said the decision set a precedent for future cases, paving the way for a series of similar actions against other Google products, such as tools to search for flights, hotels, photos and news, analysts said.

Such actions would rein in a company that has known few bounds to its growth over two decades. In 13 years tracking Google since its 2004 public offering, "we've never been as concerned as we are following this ruling," Macquarie Capital analyst Ben Schachter wrote in a research note this week.

Regulators on Tuesday ordered Google to alter its search results in the EU to give other comparison-shopping sites higher billing, although those companies' offerings may not be as relevant to users as Google's.

Google, a unit of Alphabet Inc., said Tuesday it would review the EU decision and consider an appeal. It said its data show users and advertisers like its shopping ads, and that regulators aren't considering the prevalence of shopping sites such as Amazon.com Inc. The company declined to comment further for this article.

"Our search engine is designed to provide the most relevant results," Google said in a 2015 post in response to EU regulators. "That's not 'favoring'—that's giving our customers and advertisers what they find most useful."

In penalizing Google, the EU is prioritizing market competition over user experience, analysts said. EU regulators are "stating that if Google improves its services...then these improvements are harming competitors unfairly," Mr. Schachter said. That stance "could dramatically limit Google's ability to offer what it views as the most relevant information in a potentially long list of categories," he said.

In two other cases, involving Google's Android smartphone software and its ad network called AdSense, European regulators have said they already determined "that Google has abused a dominant position." Google has denied the charges. Rulings are expected over the next year.

Google launched its search engine in the late 1990s as a list of 10 blue links to web-pages relevant to users' queries. News Corp declined to comment. Getty didn't respond to a request for comment.

"Google absolutely believes that everything it has done in the evolution of its business is improving the consumer experience. That doesn't mean they're not guilty of competition problems, but it is why this case could be hard to settle," Mr. Gallant said. "These aren't just tactics by Google. This is religion to Google."

# Online-Parts Market Raises Funds

By JENNIFER SMITH

Xometry Inc., an online marketplace for custom-manufactured parts, has raised \$15 million in a funding round led by BMW Group's venture-capital arm, the startup said Wednesday.

The Gaithersburg, Md.-based firm connects companies that need prototypes and custom parts with a network of domestic manufacturers and machine shops that can swiftly turn those orders around.

Xometry's software uses machine learning to generate instant price quotes and lead times for customers, then sends the job out to providers that its algorithm predicts can perform the work for that

price. The company aims to streamline the process of ordering custom parts, which typically can take days.

Customers include BMW and General Electric Co., which is also an investor, as well as the National Aeronautics and Space Administration and smaller and midsize companies.

Xometry has raised \$38 million since its founding in late 2013. The company generates about \$20 million in annual revenue, said Randy Altschuler, Xometry's co-founder and chief executive.

This latest round includes new funding from existing investors GE Ventures and Highland Capital Partners. The investment will help the

company increase its sales force and expand its online platform, including adding features that make it easier for procurement teams to use, Mr. Altschuler said.

Xometry has hundreds of providers in its network and more than 5,000 customers in industries including aerospace, automotive and medical devices.

"Even companies as sophisticated as GE and BMW, their supply chains for these sizes of runs are limited," Mr. Altschuler said. "There is no central point for them to go to, no Amazon for custom manufacturing."

Xometry users upload 3-D files and answer questions, including how they want the part to be produced. The platform also factors in how the

choice of materials and other design decisions will affect the cost and speed of production.

Customers can change the quantity or the material, in real time and the price will update.

"You have instant transparency into what is this part going to cost me, and how will changes in material and the shape of the part affect that cost," said Zach Barasz, a partner at BMW i Ventures, which invests in technologies that could affect the car maker's business. They include an electric-bus company and startups that make devices that print 3-D parts.

Mr. Barasz is joining the board of directors at Xometry, which makes fittings and fixtures for BMW.



Jack Ma, the founder and chairman of Alibaba, addresses a conference in Detroit on June 23.

about whether the internet businesses should continue to benefit from preferential policies. Online shops operated by individuals and small businesses, for example, pay extremely low to no taxes under a policy that was aimed at nurturing a fledgling e-commerce sector. But that sector is now huge.

Members of this business lobby raised the e-commerce taxation issue during spring meetings of the legislature and a top government advisory body. They noted that

current tax rules put traditional retailers at a disadvantage, and urged the government to heed their complaints because they employ more people than the online firms.

Big tech firms have also been called bullies and monopolists because of their treatment of competitors. When Uber Technologies' China operation was battling Didi Chuxing Technology more than a year ago, for example, Tencent, a Didi investor, blocked some of Uber

China's service accounts on WeChat, its popular messaging app. Some online commentators excoriated Tencent for abusing its power. Uber sold its China operation to Didi last year.

Above all, there is their delicate relationship with the government. As I wrote earlier, once disruptors, China's internet companies are now part of the system. But still, they are private enterprises founded by ambitious men.

The question is whether these companies will de-

mand more say in things as they grow bigger," said Jingzhou Tao, managing partner of China practice at law firm Dechert.

Mr. Tao points out that private ownership is increasingly at odds with the current political environment. The Communist Party is strengthening its command of state-owned businesses and building up its presence in private and multinational companies. "Will it come to a point that the party committee will take charge of private enterprises too?" he said.

For now, neither side is testing the line in the sand. The government knows these

companies are important and globally known. The companies are being supportive of Beijing's goals. Alibaba's Mr. Ma recently traveled to the U.S. to talk up the benefits of China-U.S. trade, and Tencent's Pony Ma organized a forum on improving the competitiveness of Hong Kong, a former British colony, and the surrounding area.

Both sides are looking for "the best way to coexist," says an executive who has worked on government relations for decades.

Follow Li Yuan on Twitter @LiYuan6 or write to li.yuan@wsj.com.

ries. Over two decades, Google has reshaped its search results to offer tools to find everything from jobs to plumbers to financial information. The search engine also delivers song lyrics and direct answers to users' questions.

Such changes often reduced traffic to competing websites, hurting their ability to provide quality offerings. Critics also argue that Google's services are sometimes not as good as competitors', such as restaurant reviews on Yelp Inc. or Expedia Inc.'s flight-search tool. Affected companies for years have cried foul.

"We built search for users, not websites, and no matter what we do, there will always be some websites unhappy with where they rank," Alphabet Chairman Eric Schmidt told the U.S. Senate in 2011, when the Federal Trade Commission was investigating Google for antitrust violations.

In 2013, the FTC declined to press charges, going against some FTC staff recommendations. The FTC prioritized the effect on consumers over market competition, said Paul Gallant, a tech-policy analyst at Cowen & Co. "The U.S. is will-

Regulators ordered Google to alter its EU search results to give rivals higher billing.

ing to tolerate some competitive damage if consumers win in the end," he said.

But that defense failed with EU antitrust regulators, who care more about a monopoly's effect on smaller competitors, Mr. Gallant said.

The split between U.S. and European regulators is why many of Google's U.S. competitors—including Yelp, Oracle Corp., and News Corp, owner of The Wall Street Journal—have focused lobbying efforts in the EU.

News Corp's complaint to the EU is that Google illegally pulls content off News Corp's websites to use in search results, and that Google penalizes its sites' search rankings for requiring users to have subscriptions to read articles. Similarly, Getty Images Inc. has complained that Google illegally pulls its photos from its websites for Google's image-search tool.

News Corp declined to comment. Getty didn't respond to a request for comment.

"Google absolutely believes that everything it has done in the evolution of its business is improving the consumer experience. That doesn't mean they're not guilty of competition problems, but it is why this case could be hard to settle," Mr. Gallant said. "These aren't just tactics by Google. This is religion to Google."

## FINANCE & MARKETS

# Berkowitz's Comeback Bet: Sears

After setbacks, the fund manager stakes his return to glory on another contrarian call

BY SARAH KROUSE

Bruce Berkowitz was named mutual-fund manager of the decade in 2010. Today, his fund has lost 89% of its assets from a 2011 peak and he is staking a comeback partly on one of America's most beaten-down companies: **Sears Holdings Corp.**

Mr. Berkowitz's flagship Fairholme Fund has lost 12.9% so far this year while the S&P 500 is up about 9%. Over five years, the Fairholme Fund returned 7.6% vs. 15.1% for the S&P. At \$2.2 billion in assets, the fund is at just a fraction of the \$20 billion in assets it held in 2011.

Performance has hit assets in the fund, but so have redemptions. Many investors who once relished Mr. Berkowitz's concentrated bets have taken their cash elsewhere. The fund manager is now the firm's largest customer after several years of customer withdrawals.

Mr. Berkowitz is unapologetic for the poor returns, noting he always has promised his investors ultra-concentrated, often contrarian bets

and high volatility was a likely result.

"The people who had the smoothest ride were those in Bernie Madoff. Life is not smooth," he said.

Since the Fairholme Fund was started in 1999, it has delivered an annualized total return of about 10% versus about 5% for the S&P, according to **Morningstar Inc.**

Mr. Berkowitz is an anomaly in the investing world. He still does what a shrinking number of his peers do: mining regulatory filings himself, gauging his faith in company leaders, conferring with analysts and at times playing the role of activist.

That type of examination is behind his growing bet on Sears, the formerly quintessential American retailer that has reported seven years of losses.

Last month, Sears raised concerns about its ability to continue operating as a "going concern."

Mr. Berkowitz says one part of his comeback—big bets on government-backed mortgage financing giants—could pay off in the next six months.

Treasury officials have said they want to reform **Fannie Mae** and **Freddie Mac**, which could include moving them out of government control. Such a move could put an end to litigation over their future and



Bruce Berkowitz is known for making very concentrated wagers.

deliver a windfall to investors. For now, however, the future of the two entities and what that will mean for investors is unclear. Preferred shares in the two represented 38% of the Fairholme Fund at the end of February, according to a regulatory filing, the most recent holdings information available.

Mr. Berkowitz started building a position in Sears stock in late 2005 and now owns both debt and equity in a number of Sears entities. He also owns shares in its spinoff real-estate investment trust **Seritage Growth Properties**. He has continued to add to

some of those holdings in recent years.

As of the end of February, more than 10% of the fund was invested in Seritage shares, Sears and appliance seller **Sears Hometown and Outlet Stores Inc.** stock and various Sears entities' corporate debt, according to the filing. The fund's holdings also include warrants to purchase Sears common stock.

Mr. Berkowitz has been adding to his Sears exposure in recent years as its stock price has declined. This year through Wednesday, Sears shares had fallen 14%.

"The deaths of today's malls and other enclosed spaces is greatly exaggerated," Mr. Berkowitz said in a recent interview.

He believes restaurants are returning to malls, but in the form of outdoor eateries. Mr. Berkowitz said traditional clothing chains may die, but their space will be replaced by movie theaters and auto showrooms. As online retailers reshape shopping, he says the parking lots and properties traditional retailers occupied will be redeveloped and used for new services or homes.

When that happens, he says anchor properties will have heightened value given their footprint and location. And, Sears often inhabits the largest corner of malls.

In 2010, fund-research firm Morningstar named Mr. Berkowitz U.S. stock fund manager of the decade. The fund had posted a 10-year annualized return of 13.2% through the end of 2009 versus a category average return of 0.01% during the same period, Morningstar said at the time.

More recently, he has invested more in debt than stocks, drawn to the income and protection from price swings that bonds offer. He has bought both corporate debt and commercial paper of retail, hotel, metals and mining and food companies.

## Pine River Plans a \$2 Billion Spinoff

BY JULIET CHUNG

**Pine River Capital Management** plans to spin off a nearly \$2 billion government bond-trading fund into a stand-alone firm Jan. 1, in what is likely to be one of the biggest new hedge-fund launches next year.

The Minnetonka, Minn.-based firm profited big off the rebound in government-backed mortgage bonds following the financial crisis, but its assets have shrunk recently. Executives for Pine River told investors on calls Tuesday and Wednesday that Renos Dimitriou and his London-based team would launch the roughly \$1.7 billion fund next year, according to people familiar with the matter. A Pine River spokesman confirmed the plan.

The 40-year-old Mr. Dimitriou expects to launch **Elan Capital Management** in London and to follow the same investment strategy he runs at Pine River. Mr. Dimitriou's fixed-income, relative value fund focuses on the debt of G-7 countries. The firm buys bond instruments it thinks are cheap and bets against related bonds or contracts it thinks are expensive, hoping the assets will converge in price. It doesn't make macroeconomic calls on the broader direction of interest rates.

The fund's average annualized return since its late 2011 start was more than 11% through May, according to a person familiar with the matter.

Mr. Dimitriou became sole portfolio manager of the fund in 2014 after becoming co-portfolio manager in 2012.

Mr. Dimitriou has told investors the political instability and monetary policy shifts that have led to profitable trades for his fund will continue for the foreseeable future, said people familiar with the matter.

Mr. Dimitriou spent 12 years on Wall Street trading government bonds before joining Pine River in 2012.

Pine River executives told investors on the calls this week it would hold for an undisclosed number of years a passive minority stake in Elan, sharing in Elan's management and performance fees. Pine River plans to continue trading government rates, said people familiar with the matter.

The spinoff is expected to further shrink Pine River's assets under management to a little more than \$7 billion from a peak of about \$15 billion in 2015.

# China Regulators Struggle to Rein In Banks

BY SHEN HONG

SHANGHAI—One of Chinese banks' favorite tools for increasing leverage has staged a remarkable but worrisome comeback just two months after a regulatory crackdown on leveraged investment, highlighting the difficulties Beijing faces in its effort to cure the economy's addiction to debt-fueled growth and investment booms.

Chinese banks' issuance of negotiable certificates of deposit in June nearly hit the high recorded in March, data from Wind Info showed. NCDs, a type of short-term loan, have become extremely popular in recent years with Chinese banks, especially smaller lenders due to their weaker ability to attract deposits.

During a clampdown on runaway debt in April, Chinese regulators warned banks against abusing the tool for speculative, leveraged bets in capital markets. But after a deep but brief drop, NCD issuance has risen again as regulatory attention appeared to ease in recent weeks, hitting 1.96 trillion yuan (\$287.73 billion) in June, up sharply from 1.23 trillion yuan in May and

just a touch below March's record 2.02 trillion yuan.

The latest development suggests a tug of war between some of China's most aggressive and speculative lenders and policy makers, who are trying to stem slowing economic growth and reduce financial risk at the same time.

"The surge in NCD issuance volume this month in a way reflects a Tom and Jerry situation between regulators and markets," said Liu Dongliang, senior analyst at China Mer-

chants Bank, referring to the famous cartoon cat-and-mouse rivalry.

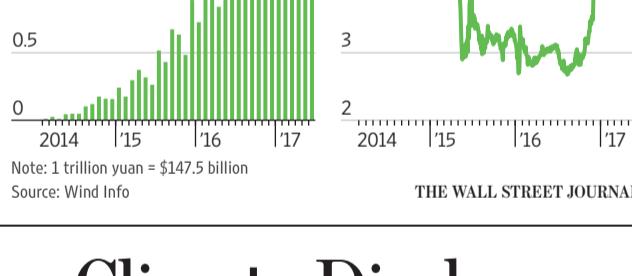
China introduced NCDs in 2013 as part of steps to liberalize interest rates, allowing banks to use the new fundraising tool to help set borrowing costs according to supply and demand.

The NCD market started taking off last year, as a rallying bond market encouraged banks, particularly the more aggressive and profit-driven smaller lenders, to use such

### Debt Addiction

Issuance of negotiable certificates of deposit surged again in June, accompanied by declining borrowing costs.

#### NCD issuance volume



THE WALL STREET JOURNAL.

short-term loans to further leverage their investments.

In early April, the country's banking regulator criticized such behavior as "working without bending down" and "sitting there collecting free money," adding that banks should do more to ensure money flowed to China's "real economy."

The regulator's warning came hot on the heels of the Chinese central bank's decision to raise short-term interest rates in February and March as Beijing intensified its campaign to discourage leveraged investment.

However, after the so-called deleveraging campaign caused Chinese bond prices to tumble to a 29-month low last month, there has been a subtle change in both official rhetoric and action.

In an apparent effort to appease nervous investors, the official Xinhua News Agency ran a commentary in early June that said the authorities will strive to maintain market stability. "Don't panic," it urged investors.

In the following week, the People's Bank of China injected the largest amount of cash into the financial system

for a single week since mid-January, which led to large declines in bond yields as well as the cost of NCD issuance.

The interest rate that banks pay to issue a three-month NCD fell to 4.40% Thursday after hitting a near 27-month high of 5.19% on June 8.

There are signs that many banks are issuing NCDs to roll over maturing loans, giving themselves a lifeline to cover frequent short-term funding needs.

Currently, NCD issuing costs are only marginally lower than the prevailing returns on Chinese corporate bonds, one of the most popular that banks purchase with such borrowed funds.

Yields on three-year AA-rated, or high-yield Chinese corporate bonds are at 4.77%, while those on safer, AAA-rated debt are at 4.48%.

In an indication of the banks' heavy reliance on this new tool, NCDs have accounted for 56% of all newly issued bonds in China in June. That is down from the record in February, when seasonal slowness for government- and corporate-bond sales because of the Lunar New Year holiday pushed the proportion to 71%.

# Panel Pushes Climate Disclosures

BY SARAH KENT

LONDON—A panel of top financial institutions and companies has launched guidelines to push for more disclosure about the impact of climate change, highlighting rising concern about the potential investment risks posed by global warming.

The task force, which was commissioned by a group of global regulators known as the **Financial Stability Board** and led by former New York City Mayor Michael Bloomberg, said companies should disclose in financial filings how they are planning for risks and opportunities related to climate change. It also called for companies to develop specific metrics and targets to measure performance in that area.

The task force included executives from J.P. Morgan

Chase & Co., Unilever PLC, miner BHP Billiton Ltd. and other large companies.

Climate-change risks are a concern for financial institutions and big companies, which fear both global warming itself and the regulatory threat from governments seeking to lessen its impact.

The recommendations have the support of over 100 companies, whose joint market capitalization totals more than \$3.3 trillion, the task force said. The report will be presented to the Group of 20 industrial and developing nations in July.

"Transparency is increasingly important to our consumers," said Graeme Pitkethly, chief financial officer at Unilever and a vice chairman on the task force. "They want to know the values of the companies they are buying

from, particularly millennials."

A recent report by IHS Markit, funded by oil companies including **BP PLC**, Chevron Corp. and **Total SA**, warned that recommendations contained in an earlier draft of the report "could obscure material information and create a false sense of certainty around the financial implications of climate-related risks."

The report says all public companies should disclose more and singled out the energy industry as one of four sectors most at risk from climate change that should consider providing more information to investors. In May, Exxon Mobil Corp. faced a revolt when 62% of voting shareholders approved a resolution calling for more information on how climate change and regulation could affect the company. Chief Executive Officer Darren Woods said the company would reflect on how it could better express its position. Exxon declined to comment on the new report.

In Europe, some big oil companies have embraced demands for more climate disclosure. Royal Dutch Shell PLC and BP both endorsed proposals asking for more disclosure on climate-change risk in 2015.

Shell welcomed the task force's report, but warned that detailed disclosure of forward-looking and potentially commercially sensitive information within official financial filings could be difficult.

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## INTERNATIONAL INVESTMENT FUNDS

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FUND NAME GF AT LB DATE CR NAV YTD %RETURN—  
FUND NAME GF AT LB DATE CR NAV YTD %RETURN—  
Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8866 06/28/17 12-MO 2-YR

CAM-CF Limited OT MUS 06/28 USD 1.2 7.3 -1.8

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GC HI Yield Inc-C1s A MDis GBP H OT CYM 06/28 GBP 9.67 5.3 14.7 9.0

GC HI Yield Inc-C1s A MDis AUD H OT CYM 06/28 AUD 11.50 5.6 16.7 10.9

GC HI Yield Inc-C1s A MDis SGD H OT CYM 06/28 SGD 10.14 5.6 15.3 10.0

GC HI Yield Inc-C1s A MDis NZD H OT CYM 06/28 NZD 15.05 5.9 15.8 9.8

GC HI Yield Inc-C1s A MDis CAD H OT CYM 06/28 CAD 9.28 5.9 15.8 9.8

GC HI Yield Inc-C1s A MDis HKD H OT CYM 06/28 HKD 11.60 12.1 21.1 21.5 NS

GC HI Div Stk Cts A MDis H Acc OT HKG 06/28 NZD 16.30 20.1 31.6 -5.9

GC HI Div Stk Cts A MDis H Acc OT HKG 06/28 USD 16.49 25.5 38.5 -3.9

GC HI Div Stk Cts A MDis H Acc OT HKG 06/28 GBP 19.53 25.3 37.4 9.8

Fund Name GF AT LB DATE CR NAV YTD %RETURN—  
AS EQ HKG 06/28 USD 143.20 25.0 36.7 -0.1

AS EQ HKG 06/28 USD 10.04 24.8 36.6 -0.5

AS EQ HKG 06/28 AUD 14.84 24.3 35.9 -0.4

AS EQ HKG 06/28 CAD 14.36 24.0 35.1 -1.3

AS EQ HKG 06/28 HKD 12.16 23.5 34.7 NS

AS EQ HKG 06/28 NZD 14.82 22.9 35.0 -0.5

AS EQ HKG 06/28 GBP 12.10 16.1 32.2 NS

AS EQ HKG 06/28 CNH 12.14 26.3 38.9 NS

AS EQ HKG 06/28 HKD 10.39 8.0 NS NS

AS EQ HKG 06/28 USD 10.49 7.4 9.2 NS

WP Multi-Asset Fund Cts A USD OT HKG 06/28 USD 19.53 16.6 26.6 9.8

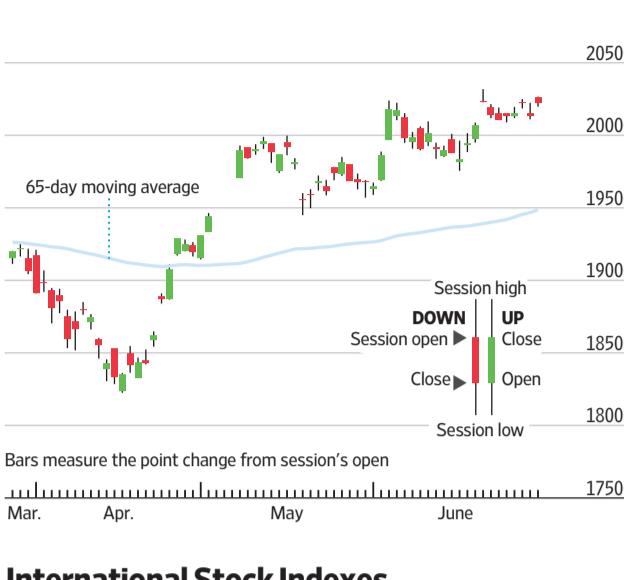
WP Multi-Asset Fund Cts A USD OT HKG 06/28 USD 19.53 16.6 26

## MARKETS DIGEST

### Nikkei 225 Index

**2020.30** ▲ 89.89, or 0.45%

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

**380.66** ▼ 5.16, or 1.34%

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



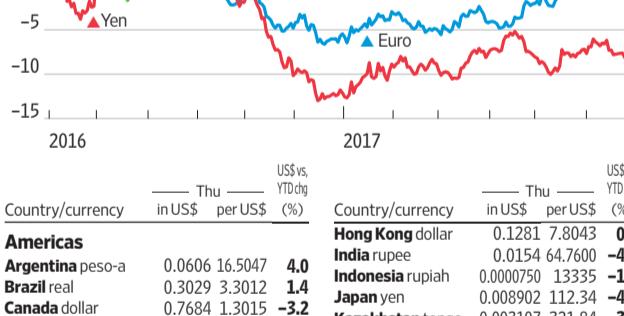
### International Stock Indexes

Region/Country	Index	Data as of 12 p.m. New York time					
		Close	NetChg	% chg	52-Week Range	YTD High	% chg
<b>World</b>	<b>The Global Dow</b>	<b>2776.71</b>	-10.62	<b>-0.38</b>	2285.55	2802.79	9.8
	<b>MSCI EAFE</b>	<b>1896.30</b>	-4.85	<b>-0.26</b>	1471.88	1956.39	10.5
	<b>MSCI EM USD</b>	<b>1011.43</b>	-0.67	<b>-0.07</b>	691.21	1044.05	27.4
<b>Americas</b>	<b>DJ Americas</b>	<b>581.63</b>	-4.86	<b>-0.83</b>	502.42	588.61	7.6
Brazil	Sao Paulo Bovespa	61905.46	-112.51	<b>-0.18</b>	50585.06	69487.58	2.8
Canada	<b>S&amp;P/TSX Comp</b>	<b>15223.66</b>	-131.92	<b>-0.86</b>	13967.61	15943.09	-0.4
Mexico	<b>IPC All-Share</b>	<b>49157.73</b>	-182.38	<b>-0.37</b>	43998.98	50154.33	7.7
Chile	<b>Santiago IPSA</b>	<b>3595.55</b>	-11.22	<b>-0.31</b>	3095.14	3786.05	11.6
<b>U.S.</b>	<b>DJIA</b>	<b>21302.61</b>	-152.00	<b>-0.71</b>	17711.80	21535.03	7.8
	<b>Nasdaq Composite</b>	<b>6134.17</b>	-100.24	<b>-1.61</b>	4774.52	6341.70	14.0
	<b>S&amp;P 500</b>	<b>2419.97</b>	-20.72	<b>-0.85</b>	2070.00	2453.82	8.1
	<b>CBOE Volatility</b>	<b>11.60</b>	1.57	<b>15.65</b>	9.37	23.01	-17.4
<b>EMEA</b>	<b>Stoxx Europe 600</b>	<b>380.66</b>	-5.16	<b>-1.34</b>	318.76	396.45	5.3
	<b>Stoxx Europe 50</b>	<b>3142.47</b>	-44.18	<b>-1.39</b>	2720.66	3279.71	4.4
France	<b>CAC 40</b>	<b>5154.35</b>	-98.55	<b>-1.88</b>	4062.07	5442.10	6.0
Germany	<b>DAX</b>	<b>12416.19</b>	-231.08	<b>-1.83</b>	9304.01	12951.54	8.1
Israel	<b>Tel Aviv</b>	<b>1433.63</b>	-2.60	<b>-0.18</b>	1372.23	1490.23	-2.5
Italy	<b>FTSE MIB</b>	<b>20704.65</b>	-343.15	<b>-1.63</b>	15293.10	21828.77	7.6
Netherlands	<b>AEX</b>	<b>508.53</b>	-7.86	<b>-1.52</b>	419.45	537.84	5.2
Russia	<b>RTS Index</b>	<b>1000.45</b>	-2.38	<b>-0.24</b>	898.05	1196.99	-13.2
Spain	<b>IBEX 35</b>	<b>10531.10</b>	-171.60	<b>-1.60</b>	7857.80	11184.40	12.6
Switzerland	<b>Swiss Market</b>	<b>8944.04</b>	-132.69	<b>-1.46</b>	7585.56	9148.61	8.8
South Africa	<b>Johannesburg All Share</b>	<b>51355.97</b>	-240.87	<b>-0.47</b>	48935.90	54716.53	1.4
Turkey	<b>BIST 100</b>	<b>100190.32</b>	-427.37	<b>-0.42</b>	70426.16	100990.5	28.2
U.K.	<b>FTSE 100</b>	<b>7350.32</b>	-37.48	<b>-0.51</b>	6309.98	7598.99	2.9
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	<b>1634.89</b>	8.49	<b>0.52</b>	1351.93	1643.59	14.9
Australia	<b>S&amp;P/ASX 200</b>	<b>5818.10</b>	62.40	<b>1.08</b>	5156.60	5956.50	2.7
China	<b>Shanghai Composite</b>	<b>3188.06</b>	14.86	<b>0.47</b>	2929.61	3288.97	2.7
Hong Kong	<b>Hang Seng</b>	<b>25965.42</b>	281.92	<b>0.10</b>	20495.29	26036.06	18.0
India	<b>S&amp;P BSE Sensex</b>	<b>30857.52</b>	23.20	<b>0.08</b>	25765.14	31311.57	15.9
Indonesia	<b>Jakarta Composite</b>	<b>5829.71</b>	...	<b>Closed</b>	4834.57	5829.71	10.1
Japan	<b>Nikkei Stock Avg</b>	<b>2020.30</b>	89.89	<b>0.45</b>	15106.98	20230.41	5.8
Malaysia	<b>Kuala Lumpur Composite</b>	<b>1771.36</b>	0.13	<b>0.01</b>	1616.64	1792.35	7.9
New Zealand	<b>S&amp;P/NZX 50</b>	<b>7685.45</b>	60.96	<b>0.80</b>	6664.21	7685.45	11.7
Pakistan	<b>KSE100</b>	<b>46711.85</b>	379.54	<b>0.82</b>	37783.54	52876.46	-2.3
Philippines	<b>PSEI</b>	<b>7788.06</b>	-69.12	<b>-0.88</b>	6563.67	8102.30	13.8
Singapore	<b>Straits Times</b>	<b>3258.65</b>	42.95	<b>1.34</b>	2787.27	3271.11	13.1
South Korea	<b>Kospi</b>	<b>2395.66</b>	13.10	<b>0.55</b>	1953.12	2395.66	18.2
Taiwan	<b>Weighted</b>	<b>10421.65</b>	31.10	<b>0.30</b>	8575.75	10513.96	12.6
Thailand	<b>SET</b>	<b>1578.12</b>	-4.51	<b>-0.28</b>	1406.18	1591.00	2.3

Source: SIX Financial Information; WSJ Market Data Group

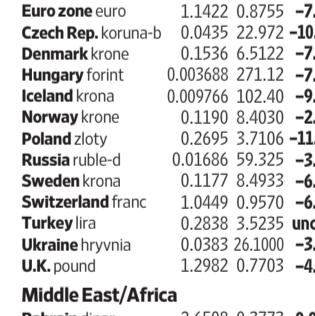
### Currencies

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



London close on June 29

US\$ vs. Yen, Euro, WSJ Dollar index



### Key Rates

Latest 52 wks ago

Liber

One month **1.22722%**

Three month **1.29861**

Six month **1.44822**

One year **1.73956**

Euro Libor

One month **-0.40071%**

Three month **-0.37200**

Six month **-0.29971**

One year **-0.18471**

Euribor

One month **-0.37300%**

Three month **-0.33100**

Six month **-0.27000**

One year **-0.15600**

Yen Libor

One month **-0.01400%**

Three month **0.00086**

Six month **0.02043**

One year **0.12229**

Offer Bid

Europollars

One month **1.2800%**

Three month **1.2800**

Six month **1.5000**

One year **1.6700**

Latest 52 wks ago

Prime rates

U.S. **4.25%**

Canada **2.70**

Japan **1.475**

Hong Kong **5.00**

Policy rates

ECB **0.00%**

Britain **0.25**

Switzerland **0.50**

Australia **1.50**

U.S. discount **1.75**

Fed-funds target **1.00-1.25**

Call money **3.00**

Overnight repurchase rates

U.S. **1.18%**

Euro zone **1.03%**

Offer Bid

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

### Top Stock Listings

Latest 52 wks ago

Cur Stock Sym Last Chg % YTD% Chg

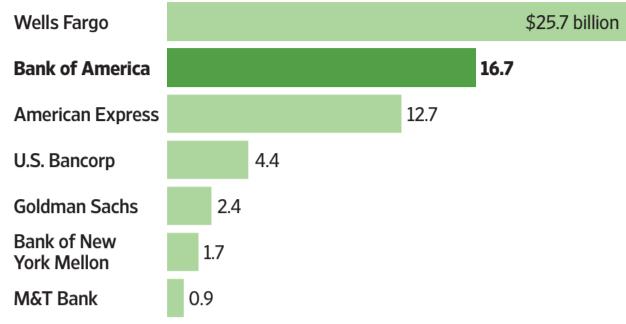
**Asia Titans**

HKS AlAigcom 1299 7.8043 0.6 0.40%

## FINANCE & MARKETS

### Berkshire's Bank Bets

How a potential common-share investment in Bank of America would compare with other Berkshire Hathaway stakes



Note: BofA stake dependent on Berkshire exchanging preferred for common shares.

Source: FactSet

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## Berkshire Poised to Be Top Holder of BofA

BY RACHEL LOUISE ENSIGN  
AND NICOLE FRIEDMAN

Warren Buffett's firm is on track to become the biggest shareholder in **Bank of America** Corp.

The Charlotte, N.C., bank, the second-largest in the country by assets, received permission from the Federal Reserve on Wednesday to boost its per-share dividend to 48 cents a year. Mr. Buffett has said a dividend of this size would prompt his **Berkshire Hathaway** Inc. to swap its preferred shares in the bank into \$17 billion worth of common stock.

The move would make the famous stock picker's firm the largest shareholder of the second- and third-largest U.S. banks—the third being **Wells Fargo** & Co.—while also providing a vote of confidence for Bank of America stock.

On Wednesday, as part of the "stress test" process, the Fed approved Bank of America's plan to pay out the 48-cent dividend, which represents a 60% increase from the current 30-cent level. The regulator also approved the bank's plans to buy back \$12.9 billion worth of shares. Over the past year, the bank got permission to buy back \$7.7 billion worth of shares.

In February, Mr. Buffett said in his annual letter to share-

holders that Berkshire planned to make the switch in its Bank of America stake if the bank could increase its annual dividend to 44 cents a share. That is because a common-stock dividend of 44 cents would pay Berkshire more than the \$300 million that the preferred stake gives the firm annually.

Berkshire bought its preferred shares in the bank in 2011, when the lender sorely needed to shore up investor sentiment. The \$5 billion deal also included warrants to buy 700 million shares of Bank of America common stock for \$7.14 apiece, far below the current price.

The preferred shares have little downside as long as Bank of America stays solvent. But they have no upside either.

With a change in Berkshire's shares, Mr. Buffett effectively would be saying that he would like to take part in possible gains on Bank of America's stock while still enjoying a steady dividend.

After an exchange, Mr. Buffett's firm would own about 7% of the bank's common shares, giving it a significant role in corporate-governance issues from compensation to the election of new directors.

Currently, the largest shareholder of Bank of America is **Vanguard Group** with a 6.6% stake, according to FactSet.

## Banks Get the OK to Raise Payouts

Fed sanctions large increase in dividends and buybacks after firms pass stress test

By LIZ HOFFMAN  
AND RYAN TRACY

Big U.S. banks plan to increase dividend payouts and share buybacks to their highest levels in years after the Federal Reserve on Wednesday approved capital plans for all 34 firms taking part in its annual stress tests.

The approvals—the first time since the annual tests began in 2011 that all firms got passing grades—reflect a turning point for big financial institutions that have been shackled by tighter regulation since the financial crisis. They could also herald a return to precrisis days when banks were reliable dividend payers and shareholders flocked to them.

Bank of America Corp. said it would increase its dividend by 60% to 12 cents a share a quarter, putting it above a threshold in which Warren Buffett's Berkshire Hathaway Inc. may convert a stake in the firm into common stock and become the bank's largest shareholder. The second-biggest U.S. bank by assets also said it received approval to repurchase up to \$12.9 billion of its shares, far above the \$7.7 billion it bought back over the previous year.

On average, the group of firms taking part in the stress tests requested payouts that are near 100% of their expected earnings over the next year, up from 65% last year, senior Fed officials said. That means banks in some cases will be able to start whittling away at capital buffers that many bank executives say are well in excess of what is needed to absorb potential losses.

Such moves signal an easing of the Fed's hardline stance toward banks since the crisis and could provide a durable pillar of support for higher bank stock prices. Those soared following President Donald



Bank of America says it would increase its dividend by 60% to 12 cents a share each quarter.

Trump's election but largely have treaded water so far in 2017 amid lackluster economic indicators, political defeats for the White House and a flattening yield curve that threatens to weigh on bank profits.

The KBW Nasdaq Bank index is up 2.8% year to date through Wednesday versus an 8.9% gain for the S&P 500. That said, bank stocks are still well ahead of the broader market when measured from November's election. Big-bank shares rose in many cases more than 1% in after-hours trading Wednesday, while some, like Citigroup Inc., were up more than 2%.

The payouts announced by banks following the tests' release Wednesday were in many cases above what investors had expected.

Citigroup said it planned to return \$18.9 billion to shareholders over the coming four quarters. That is equal to 132% of what Wall Street analysts expect the bank to earn over the same period. Analysts had expected the bank's payout ratio would be around 110%.

Morgan Stanley and Alabama-based Regions Financial Corp. were also among those that were approved for payout ratios in excess of 100%, according to FactSet estimates

and Wall Street Journal reviews of corporate filings.

"The absolute minimum is there won't be increased capital in these businesses," Morgan Stanley Chief Executive James Gorman said this month. "There shouldn't be and there won't be."

Morgan Stanley, Goldman Sachs Group Inc. and State Street Corp. cleared one of the

Fed's yardsticks by just tenths of a percentage point, suggesting they have gotten more adept at figuring out how to squeak through the tests.

The latest result was the second part of the Fed's test results. In the first leg, released last week, the Fed said all big U.S. banks were able to survive a hypothetical recession.

Fed governor Jerome Powell said the stress-test process, now in its seventh year, "has motivated all of the largest banks to achieve healthy capital levels."

Born of the financial crisis, the stress tests have come to command bankers' and investors' attention each year. Executives manage with the tests in mind and have collectively spent billions of dollars to develop risk-management systems to meet the Fed's expectations.

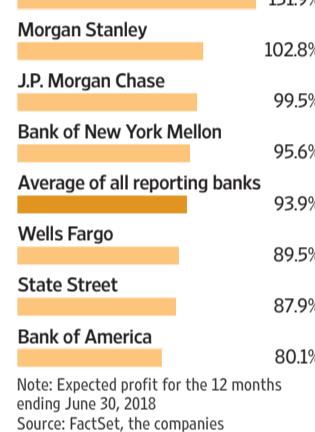
This year's passing grades suggest that those efforts have paid off. Banks are better capitalized and more conservatively managed than in the years before the financial crisis and have better insight into risks lurking in their own books.

J.P. Morgan Chase & Co., the nation's biggest bank by assets, was approved for a 12% increase to its dividend and a \$19.4 billion buyback program.

### Paying Out Profits

After years of retaining profits, big banks may start paying out more to shareholders in 2017.

#### Ratio of payout to expected profit



Note: Expected profit for the 12 months ending June 30, 2018

Source: FactSet, the companies

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## THE WALL STREET JOURNAL. D.LIVE LAGUNA

### ARE YOU THE NEXT BIG THING IN TECH?

The Wall Street Journal is scouring the globe for the world's most promising undiscovered startups. Finalists will take the stage at D.LIVE in Laguna Beach, California from October 16th-18th to face a panel of judges, Fortune 500 CEOs, entrepreneurs and global investors. The audience favorite will be featured in The Wall Street Journal.

APPLY TO THE GLOBAL STARTUP SHOWCASE  
BY JULY 7, AT [DLIVELAGUNA.WSJ.COM](http://DLIVELAGUNA.WSJ.COM)

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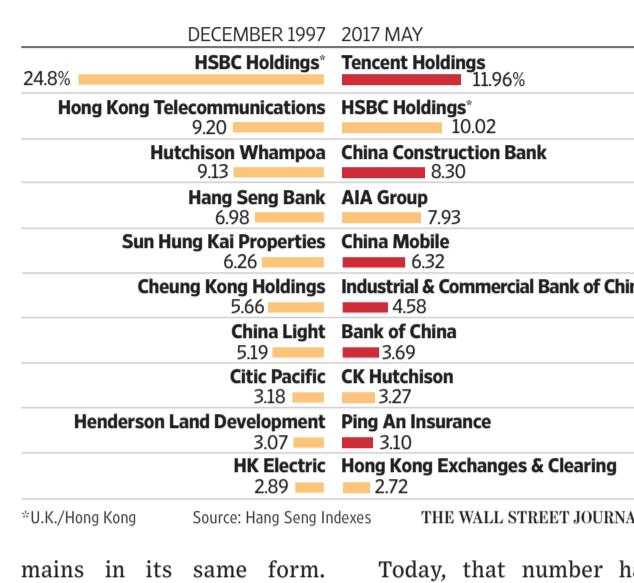
# MARKETS

## Hong Kong's Big Makeover

### Power Shift

Hong Kong's stock exchange is now dominated by large Chinese companies.

### Top 10 Hong Kong-listed companies by weighting



\*U.K./Hong Kong

Source: Hang Seng Indexes

THE WALL STREET JOURNAL.

China's influence on city's markets has been huge in the 20 years since handover

By STEVEN RUSSOLILLO

**HONG KONG**—When China regained sovereignty over Hong Kong in 1997, the flourishing financial center seemed set to become a gateway for foreign investors to the then-largely closed mainland economy.

Two decades on, Chinese influence over Hong Kong's markets, rather than foreign investors' clout in China, is far more striking.

From the ever-rising activity of China's traders to the plethora of mainland companies listing on Hong Kong's stock exchange, China looms over Hong Kong's markets in a way few expect to dissipate in the coming years.

At the time of the handover, Beijing pledged to keep the former British colony as a largely independent entity for half a century. Less than halfway through that arrangement, Hong Kong—still one of Asia's leading financial markets, despite the rise of mainland rivals such as Shanghai—is increasingly being molded in China's image.

"The influence of the mainland is ubiquitous," says Paul Gruenwald, Asia-Pacific chief economist at S&P Global.

One sign of China's importance to Hong Kong's markets is a shift in the largest constituents of the city's stock benchmark, the Hang Seng Index. Back in 1997, the index's biggest companies were either conglomerates owned by local tycoons or traditional British colonial firms, such as banking giant HSBC Holdings PLC.

Of the index's 10 biggest constituents by market capitalization then, only HSBC re-

mains in its same form. Hutchison Whampoa and Cheung Kong Holdings, two companies 20 years ago, have since merged into CK Hutchison Holdings Ltd., which is in the top 10.

Today, the Hang Seng is dominated by state-owned lenders such as China Construction Bank Corp., Industrial & Commercial Bank of China Ltd. and Bank of China Ltd., which are also listed in Shanghai.

Chinese technology and telecom companies are a big presence, too. Tencent Holdings Ltd., the owner of China's largest social network, WeChat, holds the Hang Seng's largest weighting at 11%.

It isn't just the market leaders that have changed. In 1997, mainland Chinese companies, including those incorporated offshore, made up less than 20% of Hong Kong's market capitalization, according to Hong Kong Exchanges & Clearing Ltd., which operates the city's stock market.

Today, that number has ballooned to north of 60% and looks set to rise, given the high level of new listings in Hong Kong accounted for by mainland companies. Some 92% of the total volume of initial public offerings in the city was from Chinese companies last year, according to

Mainland traders are influencing which stocks outperform in Hong Kong.

Goldman Sachs Group Inc., helping Hong Kong retain its mantle as the world's most-popular venue for listings for the second consecutive year.

This trend has proved controversial. Companies from the mainland often have high investment from so-called cornerstone investors, who buy up large amounts of the company's stock ahead of the

IPO, pledging to hold on to the shares for a few months. When state-owned Postal Savings Bank of China Co. raised \$7.4 billion in its IPO in September, 80% of the shares were preordered by six other, mostly state-owned firms.

The presence of cornerstone investors makes it easier for companies to launch their IPOs. But critics say such deals are diluting the quality of the Hong Kong market.

"Hong Kong has essentially become a China growth derivative," says Kinger Lau, chief China strategist at Goldman Sachs.

China is also changing the way Hong Kong stocks are traded.

The advent of the Stock Connect trading links between Hong Kong and the Shanghai and Shenzhen stock markets on the mainland in recent years has allowed mainland investors to buy shares of Hong Kong-listed securities via the link. Foreigners, in turn, can buy shares in China more freely than before.

While many predicted a rush of foreign money into Chinese stocks when the links were launched, so-called southbound trading, or money coming from mainland China, has become a vital source of inflows into Hong Kong.

Trading volume measured by southbound net buying via the Shanghai Connect link made up almost 10% of Hong Kong's overall market in June, according to Jefferies, near its highest since the program launched 2½ years ago.

In turn, mainland traders are influencing which sort of stocks outperform in Hong Kong, analysts say. Mainlanders often buy into big Chinese companies with listings in Hong Kong, such as state-owned banks.

## Euro's Gains Sink Continental Stocks

By CARLA MOZEE AND AKANE OTANI

500 lost 0.7% and the Nasdaq Composite fell 1.5%, dragged lower by technology stocks.

Major indexes have risen to fresh highs in the first half of the year, bolstered by strong corporate earnings and a rally in tech shares, which have been the best-performing sector in the S&P 500 this year.

Yet many investors say they are cautious about the path for stocks the rest of the year. Recent economic data, especially for inflation, has been middling, stock valuations are trading at higher-than-average levels and hopes for policy changes like tax cuts and fiscal stimulus to supercharge earnings have dwindled since Election Day in the U.S.

And changes in monetary policy such as those policy makers have hinted at in recent weeks have pushed government-bond yields higher, adding to the appeal of fixed-income securities relative to equities.

Financial shares outperformed the broader market, benefiting from higher Treasury yields, as well as the Federal Reserve's decision Wednesday to allow all major U.S. financial institutions to ramp up dividend payouts and share buybacks.

Shares of Citigroup, Bank of America and Wells Fargo & Co. were all up more than 2%, while the yield on the 10-year U.S. Treasury note rose to 2.272%, according to Tradeweb, from 2.223% Wednesday. Higher rates boost banks' net-interest margins, a key measure of lending profitability.

Shares in Asia were higher: The Nikkei Stock Average rose 0.45%, the Shanghai Composite rallied by 0.5%, and Hong Kong's Hang Seng index gained 1.1%. In Sydney, the S&P/ASX 200 gained 1.1%.

—Jon Sindreu contributed to this article.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

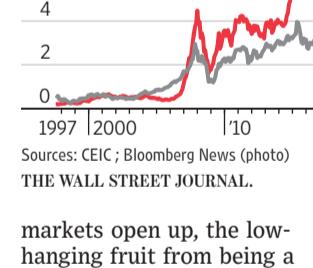
WSJ.com/Heard

Email: heard@wsj.com

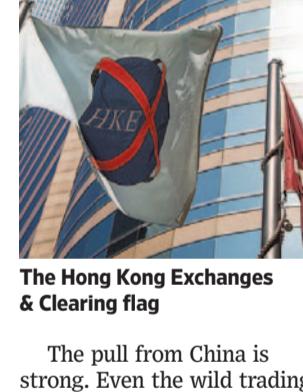
## City Must Fight to Stay Relevant

### One Country, Two Systems

Market capitalization of Hong Kong and mainland markets



Sources: CEIC ; Bloomberg News (photo)



The Hong Kong Exchanges & Clearing flag

ket scandals have left investors with exactly that worry. China Huishan Dairy plunged 85% in one day earlier this year, though a number of market participants had long pointed out its shares were being fueled by leveraged buying by its chairman. This week saw a sudden plunge in more than a dozen small-cap stocks apparently linked by a network of cross-shareholdings—an embarrassment for Hong Kong's market chiefs before the arrival Thursday of Chinese President Xi Jinping.

As its mainland rivals open up further, Hong Kong's market faces a struggle to stay relevant. Forging a clear identity as the Chinese market with the highest standard of corporate governance and investors'

protection is the best way to do that. The city's rule of law and freedom of capital and information flows should also be defended at all costs.

Hold to that course, and Hong Kong might have something to celebrate on the handover's 30th anniversary.

—Jacky Wong

markets open up, the low-hanging fruit from being a conduit may have been already plucked. MSCI's decision last week to include China's domestic shares in its indexes means Chinese companies may soon not need to list in Hong Kong to attract foreign investors.

The temptation now is for Hong Kong to mold itself further in the mainland's image. The risk is that would turn it into just another Chinese city.

But as the mainland's

strong. Even the wild trading common in mainland markets has spilled over to Hong Kong, usually considered a more rational market, following the opening of trading links with Shanghai and Shenzhen that have led to a rush of traders from the north.

However, China's influence shouldn't mean Hong Kong compromises in areas such as regulation and transparency. A series of high-profile mar-

### OVERHEARD

Everyone knows that China's famous bamboo muncher—the giant panda—is big business and a key, cuddly component in Chinese diplomacy.

Some entrepreneurial Chinese farmers are hoping to make big profits from another bamboo eater, the not-so-elusive bamboo rat.

Xiao Ling, a farmer from Hubei province, recently purchased 117 mating pairs and expects to earn about \$9,000 from the rats, which are regarded by some as a pest and are often sold for meat and fur, according to China Daily.

Chinese markets are notoriously bubble prone, and online marketplace Mr. Bamboo Rat shows that Mr. Xiao might be mistaken.

That site has vendors from all over China selling premium quality south China specimens for \$40 to \$80 a pair.

Still, there aren't many vendors listed from Hubei—Mr. Xiao may be onto something.

## H&M Needs To Update Its Fashion

Finally, some good news from H&M: It is keeping a close eye on costs. But a return to meaningful sales growth would be much better news.

H&M doesn't disclose changes in same-store sales, but Barclays estimates they were down between 4% and 5% in the six months through May. This has accelerated a decline in margins that started in 2010, when H&M moved to cut prices and improve quality amid intensifying competition.

Historically, H&M has been reluctant to prop up margins. Roughly 30% of the company's shares are owned by Chairman Stefan Persson, son of the founder. Management—now led by Mr. Persson's own son Karl-Johan—hasn't seemed under pressure to conform to the Wall Street fashion for offsetting weak growth with muscular cost management.

Until now: The quarterly operating margin reported Thursday was higher than a year earlier, despite the continuing decline in same-store sales. Brokerage Jefferies estimates that costs were down between 5% and 6% on a like-for-like basis.

There may be more fat to cut, but the junior Mr. Persson also needs to be careful he doesn't jeopardize the company's chances of recovery.

Where Inditex-owned Zara has maintained its fashion cred, H&M seems to have slipped. Once a youth fashion brand, it has turned into just another clothing chain, while the group's other brands are still too small to move the needle.

Cost discipline is welcome, but isn't enough to lure back long-term investors.

—Stephen Wilmot

## China, the Federal Reserve of Coal, Tightens the Screws

Imagine you live in a village where one very large and powerful family both farms and eats half of the grain, and has vast tracts of unused, fertile land. Is the grain business one you would want to get into?

This is roughly the situation the world's coal producers find themselves in with China, far and away the world's largest producer and user of coal, and which has been struggling with excess capacity at home for nearly half a decade. After warping global coal markets with supply curbs in 2016, China is now poised to curtail coal imports. That could be bad news for commodities companies.

The extent of the curbs remains unclear. Chinese state-owned media said Wednesday that many of China's small or midsize ports were already refusing imported coal shipments, although major ports appear to still be open. Even so, prices are already reacting:

Asian benchmark coal futures are down around 4% over the past 10 days, while Chinese domestic prices have risen 2% to 4%.

The Chinese authorities appear to be targeting dirty, low-quality coal with the import limits. State media said regulators want any benefit from its "supply side reforms"—that is supply

curbs—to remain in China.

Among commodity-producing nations, Indonesia will be the biggest loser. It sent piles of low-quality coal into China in late 2016 after China restricted its own mines' output. But coal traders like Glencore and Noble could also be vulnerable: Noble's misreading of the market after last year's Chinese supply cuts is one reason the firm is now staring into the abyss.

China's cavalier attitude toward the global consequences of its domestic policy-making for industries it dominates—think steel, shipbuilding, solar panels and, increasingly, oil refining—shows the danger of getting

involved with any sector that China decides is strategic.

China's environmental worries are real, and firms like Glencore may be smart to eye high-quality deposits like the ones it is currently bidding to buy from Rio Tinto—which could pass muster with customs in both China and Japan—if they want to stay in the coal business.

But being in coal to begin with is a risky proposition, not just because of political risk tied to climate change, but because of unpredictable China regulators. An American Treasury secretary once said that the U.S. dollar is "Our currency but your problem." China is essentially the Federal Reserve of coal—everyone else is just a price taker both as a buyer or seller. For any business, that's an insecure position to be in.

—Nathaniel Taplin

### Dark Days

Chinese coal imports by country

■ Indonesia ■ Australia ■ Mongolia

15 million metric tons

10

5

0

2008 '10 '12 '14 '16

Note: Three-month moving averages  
Source: CEIC

THE WALL STREET JOURNAL.

You call that  
an orthopedic  
shoe? (Actually,  
we do)  
**W3**



# OFF DUTY



Attention,  
collectors: It's a  
grand, really,  
really, really  
old flag  
**W7**

EATING | DRINKING | STYLE | FASHION | DESIGN | DECORATING | ADVENTURE | TRAVEL | GEAR | GADGETS

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## Make a SPLASH

You needn't be an expert swimmer to master water sports. With the right gear, sailing, surfing, paddling or even idle bobbing is easier than ever

**F**OR MANY OF US, aquatic education ceases somewhere around age 10—about the time we're proficient enough to pass the deep-end swim test. Sure, a few eventually go on to approximate the always-showy butterfly stroke or execute a swamminish dive, but most Americans are stuck with the aquatic aptitude of a grade schooler.

Unfortunately, that arrested development holds a lot of us back, convincing us that the full breadth of summer water sports is beyond our reach. We'll drift aimlessly in a stable-feeling paddle boat from time to time, but when it comes to undertaking more adventurous activities in a lake or ocean, we quietly hang back, resigned to let the confident water jocks hog all the joy.

The good news is you don't need to be a human otter to get in on the action. From kayaks that are nearly capsizé-proof to surfboards that make getting up and gliding a lot less challenging, a slew of new game-changing gear and techniques is lowering the barrier to entry. Here, a guide to the equipment every merely average swimmer needs to know about. All that's required is a willingness to dive right in.

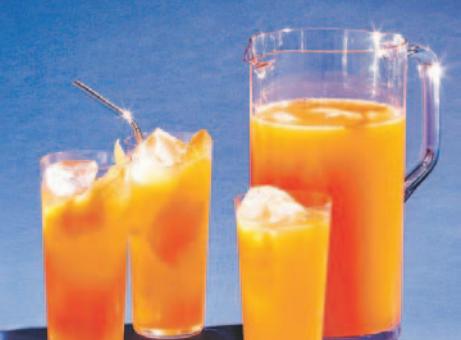
**TURN TO PAGE W2 FOR A ROUND-UP**

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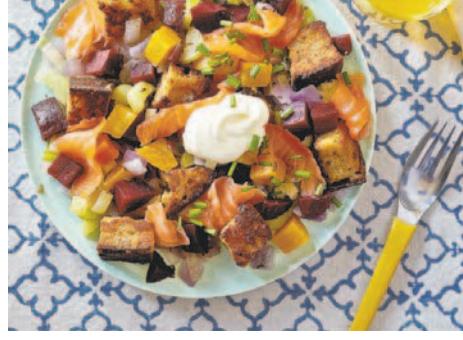
**A SWILL TIME WAS HAD BY ALL**  
An insider's travel guide to Bordeaux, the wine capital of France **W4**



**THE FINALE OF STRETCH?**  
As the trend for Lycra-boosted denim fades, jeans return to their roots **W3**



**PITCHER THIS**  
Entertaining outdoors? Try this grapefruit-inflected riff on the Aperol Spritz **W6**



**DIGGING GRAVLAX**  
Our two favorite ways to serve up cured salmon for breakfast **W6**

STEVE SCOTT

## OFF DUTY

# JUST ADD LOTS OF WATER

### Can't Surf? Maybe Your Board Is to Blame

Watching an experienced surfer glide effortlessly across the face of a wave can be as intimidating as it is inspiring. If you've tried surfing only to quickly admit defeat, the issue might not be your lack of balance but your surfboard. Unless beginners have the right kind, they're basically setting themselves up for a big ol' wipeout.

Among the most common newbie mistakes is opting for a short, pointy, hard-fiberglass surfboard, the kind favored by experienced riders. What you need is a buoyant soft-top longboard. After years of testing, we favor the Boardworks Froth! 9-foot softboard. At 3 1/4 inches thick and 23 1/2 inches wide, the Froth! provides a very stable, confidence-inspiring platform.

While a cheaper soft-board from a big box store (like the ubiquitous \$150 Wavestorm sold at Costco) might tempt you, the superior Froth! makes learning to surf easier and more fun. Cheaper "foamies" tend to be too flexible and can absorb water over time, making them heavy and floppy.

The Froth! does things right. Its solid EPS foam core is covered in epoxy resin and buttressed with wood stringers for stiffness. Durable rubber that's soft yet grippy encases the rails and top deck. And unlike other softboards, this model's deck allows for traction without the need for sticky surf wax, which gets messy and can irritate bare skin on your thighs, stomach and chest—especially when it's caked with sand (think: 80-grit sandpaper).

A slick skin on the bottom of the board ensures decent speed, while three rubberized fins provide good maneuverability without being sharp and hard, like those found on conventional surfboards. Those flexible fins, along with the board's soft, rubbery exterior, mean you're less likely to get injured by the board as you learn to shred the waves. From \$225, [boardworkssurf.com](http://boardworkssurf.com)

—Mark Anders



### Set Sail Without Getting Scuttled

Don't let sailing's notoriously steep learning curve keep you landlocked. Last year, Austria-based X-Cat released the Multi-Sport Catamaran, which offers exceptional stability (its two hulls are more stable than one), but unlike many easy-to-manage small boats, it doesn't compromise speed or excitement.

Thanks to its near-indestructible hulls, which are filled with buoyant closed-cell polypropylene foam, and a diminutive 14-foot-9-inch mast (short, even for a beginner boat), the X-Cat is very forgiving, easy to maneuver and difficult to capsize. And if the wind dies down (or if

you're simply not yet adept enough to harness it), you can just furl the sails and start rowing, using X-Cat's double-jointed oars. If even that sounds too taxing, simply engage the lithium battery-powered motor (a \$2,265 upgrade).

The X-Cat also eliminates the need for a boat trailer or launch ramp: Weighing just 120 pounds, the cat can be transported atop your car, assembled in 10 minutes and launched from the shore. \$7,700, plus \$2,700 for the rowing system, [x-cat.com](http://x-cat.com)

—Brigid Mander

### Paddle Like a Pro

If you're new to recreational boating, a kayak makes for a sensible starter vessel. It's relatively affordable, easy to paddle and sufficiently light and compact that one person can carry and stow it himself. Yet for many beginners, a kayak can feel disconcertingly wobbly.

You have to work pretty hard, though, to flip Perception's recently released Hi Life. Seriously. Whether you're buffeted by a wave or you decide to lean all the way over to one side to view the fishes, the Hi Life will keep you upright.

The stability results from the kayak's broad, long shape (roughly 11-by-3 feet) as well as all the empty volume inside its shell, which provides exceptional buoyancy. A small rudderlike fin—an unusual feature for a kayak—helps the vessel track forward smoothly as you paddle.

The Hi Life has an open-deck design: The padded seat, with a back that flips down flat, keeps you elevated well above the waterline (most kayaks sit you below it). Although



this positioning may leave you with wet feet, the open deck means you can also use the Hi-Life as a stand-up paddle board.

Despite its compactness, the Hi-Life crams in amenities, like a spot under the seat to stash drinks, and a long, narrow compartment that runs

down the center of the vessel to hold your fishing pole or camera mount. A small rear platform can serve as a swim deck kids can use to pull themselves out of the water—or as a perch for a water-loving but capsizel-phobic pup. \$799, [perceptionkayaks.com](http://perceptionkayaks.com)

—B.M.

### Skimboarding: For Those Too Chicken to Surf

As far as crazy-fun summer sports go, skimboarding is about as beginner-friendly as it gets. While it might lack surfing's thrills and glamour, you need little more than an inexpensive board and a pair of passably stylish shorts to give it a try. Getting the hang of it takes an afternoon or two.

Unlike surfing, which requires you to venture out into the ocean, skimboarding goes down on shore, in shallow water. There's not a lot to the sport. Just toss your board in front of you and jump on.

There's no need to spend a small fortune on your board, either. Tom Grenfell, a longtime employee of Cleanline Surf shops in Cannon Beach

and Seaside, Ore., recommends the DB Standard Proto ([dbskimboards.com](http://dbskimboards.com), \$190), which has foam on the surface to provide traction, so you never have to wax it. Waxing, he explained, is a huge hassle. "If you get any sand on that wax, it's gonna stick to that wax and you're gonna have to clean it up a lot."

Once you master skimboarding, you'll be able to glide gracefully along the shore for hours. As a kid, I used to go up and down the Oregon Coast, spending a good part of the day trying to skim my way to Haystack Rock.

To be sure, there's no glory in being a skilled skimboarder—especially as an adult. It's kind of like an adult riding a scooter. At one time in my life, I was

more self-conscious about hopping on a skimboard than I was revealing the gut I'd acquired fighting in the Craft Beer Revolution.

But all that changed a few years ago when I interviewed Jack Johnson—the Hawaii-raised surfer turned Grammy-nominated songwriter. I couldn't help asking: Should adults be ashamed to skim? "I skimboard to this day," he told me. "The more you can be in the ocean the better. Skimming is cool. I don't care what they say."

Look, if Jack Johnson says it's cool for me to ride my skimboard with pride, that's good enough for me. And I hope it's enough to get you on the water, too.

—Chris Kornelis



### Swim Without the Struggle

Despite being a member of the swim team when I was young, I've never found the act of swimming itself much fun. Frolicking in the surf is one thing, but having to get from point A to point B usually entailed inefficiently windmilling my arms, gasping for breath, wondering why swimming had to be so damn hard.

Well, it doesn't—as I discovered a few years ago when I learned a technique called Total Immersion (TI). Developed in the 1970s by American swimming coach Terry Laughlin (who teaches it with his wife, Alice, at a swim studio in New Paltz, N.Y.), TI has something of a cult following among amateur triathletes because it allows you to swim long distances with relative ease. The method is equally helpful if you just want to reach the floating dock where all the fun seems to be happening without your lungs burning.

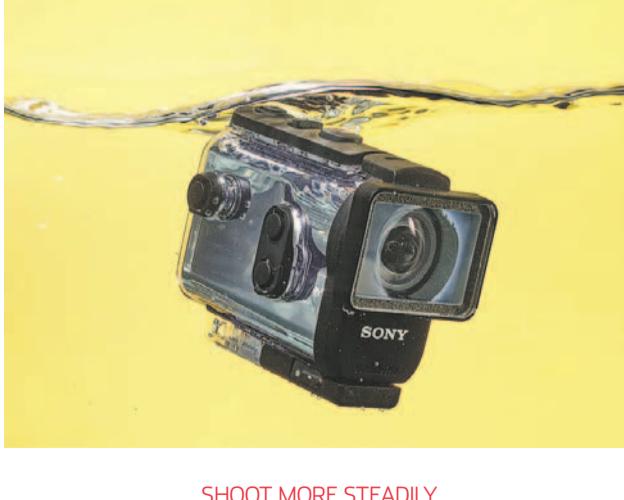
I'd always thought that the key to becoming a better swimmer was simply to work harder: Kick faster, reach farther with each stroke, breathe with more precision. But unlike traditional freestyle techniques, TI looks downright lazy. The kicks are super-slow, and the arm movements feel so relaxed it's as though you're just dropping your hand into the water. The body roll gives you as much time as you want to breathe. The approach feels weird at first, but it's also highly efficient. Once I got the hang of it, I could bang out lap after lap.

You can teach yourself Total Immersion with books and online videos, but you'll grasp it faster if you attend a weekend workshop. Offered by certified instructors around the country, these classes can transform the way you swim in a couple of days. The lessons are a worthwhile investment for those who haven't taken a swim class since they were 12—or who suspect that swimming is tougher than it needs to be. DVD, \$25; see [totalimmersion.net](http://totalimmersion.net) to find a workshop near you.

—Sara Clemence



### SLAM-DUNK GADGETS // THREE WATERPROOF GIZMOS TO PERCH PRECARIOUSLY ON YOUR POOL FLOAT OR THE BOW OF YOUR CANOE



#### SHOOT MORE STEADILY Sony FDR-X3000R

This video camera fits in the palm of your hand, but don't let its cute proportions fool you. There's enough tech packed into this sleek gadget to help you capture superlative footage in 4K—even if you've got one hand on a tiller. What sets the FDR-X3000R apart from the competition is the steady technology inside, called Balanced Optical SteadyShot, which brings an unusual degree of image stability to action shots that would otherwise be shaky and choppy. Slide it into the clear plastic housing it comes with (shown) to make it waterproof up to 197 feet. From \$350, [sony.com](http://sony.com)



#### READ WITH ABANDON Kobo Aura H2O Edition 2

Summer can be cruel to books. Humidity curls their pages; an accidental dip in the pool will literally brick them. So thank goodness for waterproof e-readers. Kobo's first-gen Aura H2O reader was waterproof but required that you seal its ports with tiny rubber gaskets. This recent upgrade can be fully submerged in up to 6.5 feet of water, no port-covers required. As evening approaches, it will also gradually reduce the amount of blue light it emits so it won't mess with your circadian rhythms while you read "20,000 Leagues Under the Sea" into the wee hours of the night. \$180, [us.kobobooks.com](http://us.kobobooks.com)



#### ROCK OUT ON A RIVER JBL Charge 3

Looking for a compact, portable summertime sound system that won't drown? The Charge 3 can handle more than collateral splashing from an overzealous cannonballer. This IPX 7-rated device can be fully submerged in 3 feet of water for up to 30 minutes. And should it happen to fall in the drink, the speaker will conveniently float back to the surface while awaiting rescue. It's available in electric-blue, red or teal (all well suited for hopping pool parties)—or classic black to best accompany moody summer storms. \$150, [jbl.com](http://jbl.com) —Lane Florsheim

# Truer Blues

As the backlash to skinny stretch-jeans grows, women are discovering the more authentic joys of 100% cotton denim

NANCY MACDONELL

**FOR MORE THAN** a decade now, well past the lifespan allotted most trends, jeans have dominated sales. Many women consider them the closest to an infallible garment the 21st century has yet produced. Skinnies owe their extreme and money-grabbing appeal to elastane, also known as Lycra, the stretchy synthetic fiber that allows for bone-sculpting cuts that Mr. Strauss could never have imagined. But skinnies may have reached their snapping point: 100% cotton denim—seen in the industry as “rigid”—is in the midst of a comeback.

Consider this: Brands that built their reputations on an ability to craft jeans that cradle the derrière and calves like a girdle, including Frame, M.i.h. Jeans of Humanity, and Current/Elliott, have all begun offering pure-cotton styles. One of the current exemplars of rigid denim is New York label Brock Collection's Wright jeans (seen below). The brand boasts a high, over 80% sell-through rate for the style at Neiman Marcus New York. Even Gap, which is a reliable barometer of denim saturation, has returned to its roots with jeans that are completely free of Lycra. “I feel old and not cool when I wear my skin,” said Amy Leverton, 37, author of the 2015 book “Skin Dudes,” about finding guys (“Denim

Dudettes” is due out next year).

The stretch backlash gained momentum in 2015 when streetwear label Vetements, designed by Demna Gvasalia, repurposed vintage Levi's, said Barneys fashion director Marina Larroudé. “Fashion insiders were getting old 501s tailored for a long time, but Gvasalia brought [reworked Levi's] to a wider audience,” she said. Despite a four-figure price tag, Vetements' pure cotton jeans—pieced together from various vintage pairs—were a hit.

Although stretch denim first appeared in the 1970s, said designer Chloe Lonsdale, founder of M.i.h. Jeans, it wasn't until the early aughts that it became the industry standard. Ms. Lonsdale, whose father owned Jean Machine, a seminal London denim boutique, sees the return to rigid as a quest for authenticity: “That classic jean aesthetic, that Lauren Hutton feeling, you don't get that in a skinny jean that hugs your ankles.”

Those making the switch should keep a few things in mind. The cut of vintage denim doesn't always work for modern sensibilities; older jeans will likely require alterations. When it comes to new iterations, Ms. Larroudé recommends a slim straight-leg style with a mid- or high-rise, like Calvin Klein's fresh take on its original nothing-comes-between-me-and-my-Calvins jeans.

While rigid jeans eventually excel at comfort, be pre-

pared for an initial struggle, said Ms. Lonsdale, who grew up hearing stories of customers lying on the floor of her father's shop while a salesperson pulled up their zippers with a clothes hanger. But the jeans will, in time, ease up and mold to your body. More important, that fit, unlike that of stretch denim—which eventually loses shape—will stay. The beauty of rigid jeans is that they last for decades. “It's like leather. It's tough. So it's going to age beautifully,” said Erik Torstensson, co-founder of denim brand Frame. The indigo dye eventually gets scraped away from the cotton fiber over time. “You get that beautiful fading as you wear them,” said M.i.h.'s Ms. Lonsdale. And should you decide to let down their hem or chop your rigid jeans into cutoffs, they'll play along by fraying beautifully. Stretch fibers snap and break.

For those loath to relinquish stretch entirely, denim brands are making styles with as little stretch as possible. M.i.h. recently launched a style called Cult that uses denim with stretch only in the warp fibers and not in the weft. That means that they give lengthwise—which makes sitting easier—but not crosswise, avoiding the telltale bagging at the knees that even the best stretch jeans eventually exhibit.

And remember: Denim is not a zero-sum game. “On a long flight, I'm not going to wear rigid jeans,” said Ms. Leverton. “When I want to look cool, I will.”



## HAVE A GOOD FRAY

Unlike stretch versions, jeans made of 100% cotton, such as these 501s on Danish model Ulrikke Hoyer, can be cut off with stylish results.

**THE ALLURE OF PURE // FIVE MODERN STYLES OF SO-CALLED ‘RIGID’ JEANS, MADE WITHOUT A WHISPER OF STRETCH**



**Dior**

\$850, [Dior](#), 212-931-2950



**Frame**

\$245, [frame-store.com](#)



**Brock Collection**

\$475, [barneys.com](#)



**Junya Watanabe**

\$410, [Comme des Garçons](#), 212-604-9200



**Gap**

\$80, [gap.com](#)

**ITS OF DISTINCTION**



## SHHH! MY SANDALS HAVE A SECRET

Created by an ex-podiatrist with a rare eye for elegance, these strappy heels prove that genuine comfort can look refined. Here's what supports their hidden agenda

BY REBECCA MALINSKY

**MARION PARKE** does not want people to call her shoes comfortable. So apologies in advance, but having personally tried them, I can attest that they redefine comfort. It's hard to forget about the hidden cushioniness of her Italian-made heels once you've experienced it.

Dr. Parke, an ex-podiatrist who launched a line of footwear last year, stresses that she aimed to avoid the classic orthopedic look:

“The insole is not brown or orange with perforated holes.”

Still, she called on her medical training to banish the pain that chic shoes often cause. She developed a last—the technical term for the mold around which a shoe is created—that provides extra support to the arch of the foot. “It gives

she explained. It also distributes weight more evenly to reduce pressure on the ball of your foot. In the sole is a thin medical-grade foam called P-cell—used, among other things, to line prosthetics that molds to feet over time.

The solid block heels are 60 millimeters (just over 2 1/4 inches high). Dr. Parke settled on a sensibly chic mid-height based on aethetics. Another aesthetic decision: the dainty width of the straps. They are, however, strategically placed to avoid friction with the ankle bone or anywhere else.

One potential irritant: all the buckles that need to be fastened and unfastened. Adjustable straps help the shoe better fit women with high arches, Dr. Parke said, adding, “Zippers would detract from the delicacy. I understand we all live a fast-paced life, but slow down and take a minute to buckle your

## OFF DUTY

### 1. L'Intendant wine shop



JOURNAL CONCIERGE  
*An Insider's Guide*

### 6. Musée des Arts Décoratifs et du Design



### 5. Cheese at Marché des Chartrons



GABRIEL GUIBERT FOR THE WALL STREET JOURNAL

### 4. Le Jardin Public



**CAKE BOSS // La Toque Cuivrée** This bakery specializes in canelé, a small vanilla cake with a touch of rum flavor and a caramelized crust. It's been a Bordeaux specialty since the 17th century. *18 cours du Général de Gaulle, la-toque-cuivre.fr*

**BOTTLE UP // L'Intendant** [1] I really fancy this wine store in downtown Bordeaux with an amazing 40-foot-high spiral staircase. The store keeps 15,000 bottles of the best Bordeaux grand cru wines and the staff are very welcoming. *2 allée de Tourny, intendant.com*

### SIPS & DIPS // Aux Quatre Coins du Vins

At this old-quarter wine bar a team of young sommeliers offers a large choice of wine from Bordeaux and all over France, and great appetizers. *8 rue de la Devise, aux4coinsduvin.com*

### OCEANIC ORDERS // La Canfouine au Canon

[2] This lovely oyster and seafood restaurant on the sea is heaven, only 45 minutes from Bordeaux. *75 rue Sainte-Catherine, Lège-Cap-Ferret*

### PLUS DON'T MISS... // Casa Blanca B&B

This 200-year-old townhouse consists of five spacious guest rooms, each with a fireplace and floor-to-ceiling French windows. *39 rue de la Course, casablancabordeaux.com*

### Symbiose

At this speakeasy opened by two alums from Paris's famed Experimental Cocktail Club, try the Smoky Suzy cocktail, made with Cognac, Champagne and fresh mint, *4 quai des Chartrons, facebook.com/symbiosebordeaux*

### La Cité du Vin

The top-floor tasting room at the city's new wine museum grants a panoramic view of the city over the Garonne River. *134-150 quai de Bacalan, laciteduvin.com*

### Darwin Ecosystem

[3] Cross the river to explore this "renovated urban wasteland," filled with restaurants, an organic garden, a roller-derby rink and an outdoor general store. *87 quai des Querries, darwin.camp*

### AMUSEMENT PARK // Le Jardin Public

[4] This is a garden for people who live in the center of Bordeaux. On Sundays, they arrive in swimsuits and stay on the grass all day. You can come to read, to play le foot or rugby, to eat lunch. *Rue de la Course and Cours de Verdun, bordeaux.fr*

### HAPPY MEAL // Garopapilles

Tanguy Laviale serves really fresh and simple food in perfect harmony in a small, casual place, with maybe 20 seats. *62 rue Abbé de l'Epée, garopapilles.com*

### AMUSEMENT PARK // Le Jardin Public

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### STAGE CRAFT // Trianon Theater

This small, renovated 20th-century theater is incredible. They put so much energy into renewing it and offer terrific programming. *rue Franklin, theatre-letrieranon.com*

### SHOP AROUND // Centre Commercial Les Grands Hommes

This shopping area, in a beautiful round structure, has high-quality shops for things like linen and ceramic plates. *12 place des Grands Hommes, lesgrandshommes.com*

### THE EPICURE

Frédéric Vigouroux Chef and owner at *Le Bouchon Bordelais*



### THE DESIGNER

### Joanne De Lepinay

### Interior decorator of homes, restaurants and boutiques



### THE CHOCOLATIER

### Thierry Lalet

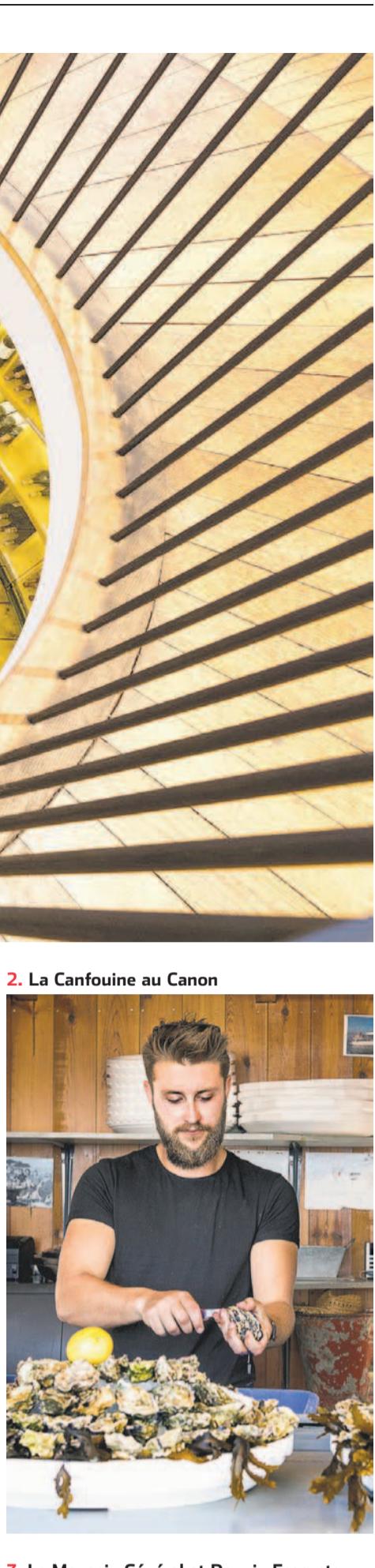
### Fourth-generation artisan at chocolate shop Saunière



### THE WINE EXPERT

### Sylvie Cazes

### President of the Cité du Vin Cultural Center and Museum



GABRIEL GUIBERT FOR THE WALL STREET JOURNAL

## OFF DUTY

MESSAGE IN A BOTTLE NOVELIST MATTHEW KLAM ON NELSON'S FIRST 108 TENNESSEE WHISKEY



# The Stories That Whiskey Unbottles

I'M PROBABLY NOT the only one, but since November I've been drinking more. To look forward to a drink at the end of another bizarre day is not a crime. So it seemed well timed when an editor at The Wall Street Journal sent me a bottle. Then I saw it was whiskey. For a long time I've thought whiskey tastes like old socks soaked in gasoline. I had an experience with Yukon Jack at a Ramones concert in 1982 and have kept whiskey at arm's length ever since.

This bottle of Nelson's First 108 Tennessee Whiskey from Nelson's Green Brier Distillery arrived along with an official history: Charles Nelson, age 15, set sail from Germany, together with his parents and siblings, for a new life in America. His father, John, had liquidated the family's candle- and soap-making business, converted his assets into gold and had the gold sewn into his clothing for easy transport. On the crossing, John fell overboard and drowned. The family arrived without a penny but somehow recovered. Young Charles later moved to Tennessee and became one of the largest manufacturers of whiskey in America. But the business went belly-up in 1909, following the passage of legislation prohibiting the manufacture of alcohol in Tennessee. A century later, Charles's great-great-great-grandsons, Andy and Charlie Nelson, revived the brand.

That told me very little about the whiskey itself—and as I've pointed out, my experience with whiskey had been extremely limited over the last 35 years—so I decided to share the bottle with someone who knows something about spirits. The guy who lives next door to me here in D.C. retired from his job at NASA at 48 and turned to woodworking. Some years later he was hired to build the interior of a tasting room for a hard-cider manufacturer in Middleburg, Va., with wood-paneled walls that rise to the copper ceiling. One day, he and the guy who owns the cidery decided to buy a still, pour cider into it and make apple brandy. Peter's been making booze there ever since. They call their cidery and distillery Mt. Defiance.

I bought my house from Peter, after he renovated it with his own hands. He built our kitchen using cherry he lathed in his basement and built our dining-room table from African mahogany. I'm somewhat awed that he left his first career to be a woodworker, then changed again to be a booze-maker.

This kind of thing isn't for everyone, but Peter seems to know what he's doing. At NASA he helped design the International Space Sta-

TO LOOK FORWARD TO A DRINK AT THE END OF ANOTHER BIZARRE DAY IS NOT A CRIME.



crafted whiskey, FEW Bourbon. We sniffed, swirled and rinsed between shots. Other employees of the cidery weighed in, agreeing that one had a better nose, the other a smoother, lighter finish. Or something. For my own part I'd say that, drunk straight, both whiskeys tasted like rat poison.

Then Peter mixed a batch of Manhattans using the First 108 in a Pyrex pitcher filled with ice, adding bitters, a slice of orange peel and Mt. Defiance sweet vermouth. He stirred it with the handle of a knife. Vermouth, I learned, is just wine fortified with honey and herbs—or, in the case of Peter's own recipe, grapefruit peel, bitter lemon, peppermint, lavender, hyssop, orris root, bitter orange peel and shiitake mushrooms. The shiitake, I was told, helped bring out the smokiness in the whiskey. The bitters were made in the "Creole style," whatever that means, using cinnamon, clove and star anise. I took the first sip, kept my mouth closed, and breathed out through my nose. All sorts of divine aromas and tastes registered. The drink was dusky, tangy and sweet.

We sat and blabbed about his booze business, and about our neighbors, and about the book I'm about to publish. I realized then that I'd been carrying around an almost unspeakable weight, one that seemed to undermine the modest, happy little life I lead next door to Peter. I'd been hired to write for a TV show in L.A. and was still trying to wrap my mind around going out there to live for six months.

"Alone?"

"Yes. I'll fly back when I can, which might be once a month." My daughter just turned 12. Peter knows me to be a fairly attentive father. I haven't missed many bedtimes.

He thought about it. Our relationship isn't the kind that normally traffics in this sort of material. "When I was a kid, my dad went to Vietnam for a year, and he had no way to communicate with us." He thought some more. I reminded myself that I'd be able to FaceTime, that going off to L.A. for a few months is not like going off to war. Peter said, "He mailed us tapes every few months and we all listened to them."

"Like cassette tapes?"

"No, reel-to-reel." I pictured his concentrated stare, watching the wheels of the reel-to-reel spin, as his father's voice came forth. We finished the pitcher, talking in a way we hadn't before.

*Mr. Klam's novel "Who Is Rich?" will be published by Random House on July 4.*

SLOW FOOD FAST SATISFYING AND SEASONAL FOOD IN ABOUT 30 MINUTES



### SOMETIMES the garnish comes first.

Known for his way with vegetables, Steven Satterfield of Miller Union in Atlanta likes to start a salad with a schmear of goat cheese on the plate and then pile greens on top. "It's a bit of a chef-y trick, but it translates nicely to homes and looks impressive," he said.

In this recipe, Mr. Satterfield's first Slow Food Fast contribution, the cheese is seasoned with basil, black pepper and lemon zest. A mound of arugula and fresh basil goes on top, along with some tangy peperonata, the sweet-sour stew of red and yellow bell peppers cooked in olive oil.

Boiled new potatoes and pieces of thinly

sliced ham ring the plate.

Typically, peperonata calls for slow stewing, but here Mr. Satterfield streamlines the process so the peppers get just a quick fry in olive oil before steeping in a vinegar bath. A splash of vinegar goes into the water the potatoes simmer in, too. "A little acidity gives them zing and seasons them from the inside out," the chef said.

It's a fun dish to eat. Once you've scooped up the cheese with forkfuls of greens, there are plenty of other ways to construct delicious bites. "Take a potato, swoosh it around and pick up the juices," said Mr. Satterfield. You won't want to miss a bit. —Kitty Greenwald

TOTAL TIME: 35 minutes SERVES: 4-6

**Kosher salt and freshly ground pepper**  
**½ cup cider vinegar**  
**12 small new potatoes**  
**½ cup plus 3 tablespoons**

**olive oil**  
**4 sweet bell peppers, stemmed, seeded and cut into strips or rings**  
**6 ounces fresh goat cheese,**

**at room temperature**  
**Zest and juice of 1 lemon**  
**½ cups roughly torn basil**  
**8 thin slices country ham**  
**5 ounces arugula**

- Fill a medium pot halfway with salted water and half the vinegar. Bring to a boil over high heat. Add potatoes and simmer until tender, 15-20 minutes. Drain potatoes and toss dry. When just cool enough to handle, break potatoes into rough, bite-size pieces and transfer to a medium bowl. Season with 3 tablespoons olive oil and salt and pepper to taste.
- Meanwhile, in a second medium bowl, combine remaining vinegar with a generous pinch of salt. Heat remaining olive oil in a large skillet over medium heat. Add peppers and fry until soft, about 4 minutes. Transfer peppers to

bowl with vinegar, reserving oil in pan. Once oil cools to warm, pour it over peppers.

- In a small bowl, mix cheese with lemon zest and lots of black pepper. Spread cheese over a platter, leaving a 1-inch border all around. Scatter ¼ cup basil over cheese. Arrange potatoes around edge of platter. Tear ham into pieces and scatter over potatoes.
- In a large bowl, combine arugula, remaining basil and lemon juice, and season lightly with salt. Drain pickled peppers and gently toss into salad. Mound salad over goat cheese.



**AIM FOR THE STARCH** Hunks of boiled new potato make an excellent medium for scooping up the cheese and the juices from the pickled peppers.

## OFF DUTY

### BREAKFAST 2.0

# One Fish, Two Fish

Cure your own gravlax for an easy, elegant brunch. Then use the leftovers in a hearty rye-bread hash

BY SARAH KARNASIEWICZ

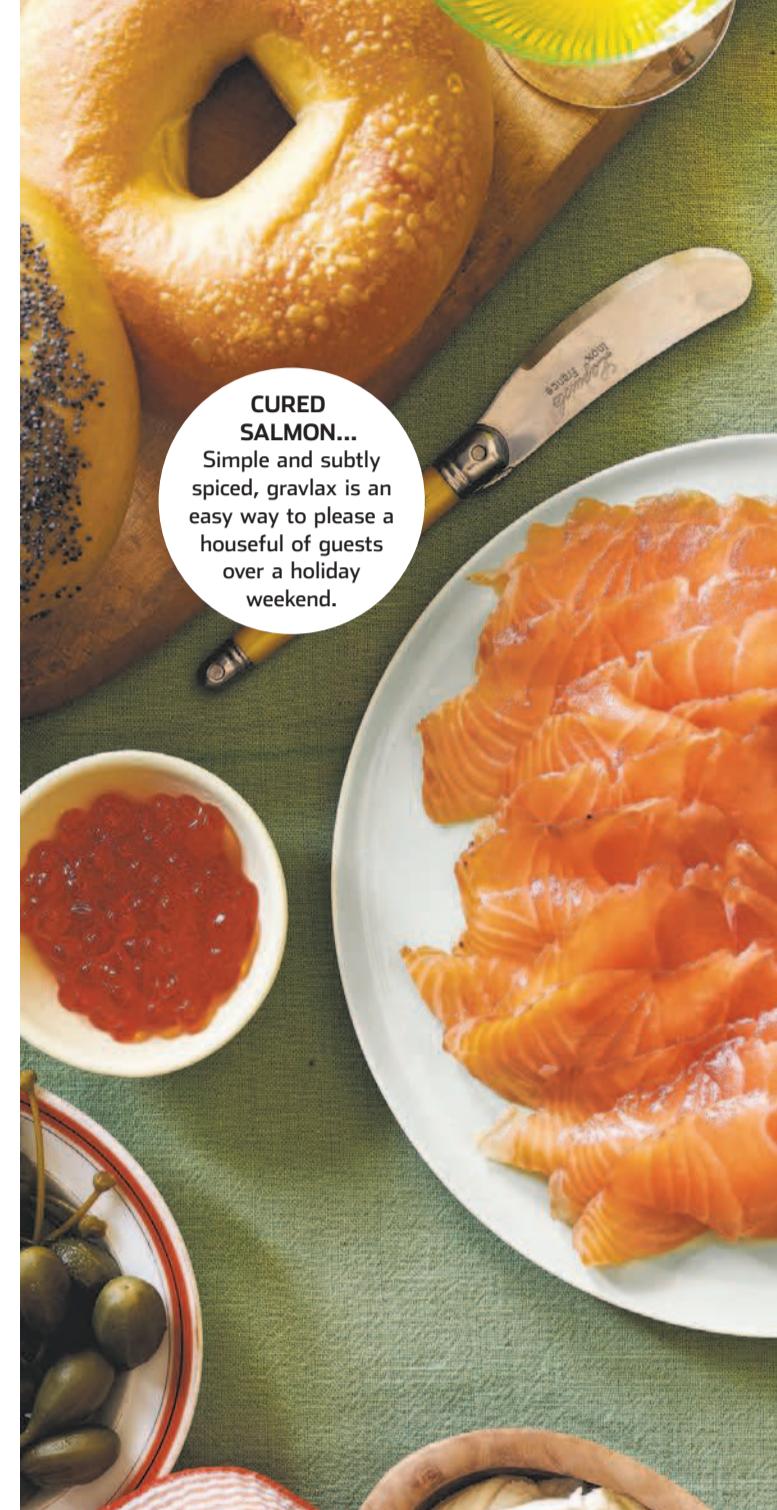
**E**AGER TO impress your overnight guests? You could spend a small fortune on 800-thread-count sheets—or about 10 minutes prepping a batch of silky, tender, caraway-scented gravlax. With a few days' stay in the fridge, the latter is guaranteed to inspire serious breakfast-table swooning. Come Saturday morning, slice the salmon thinly enough to read the horoscopes through and array it on a tray alongside a dozen plump bagels. Add a snowy peak of scallion cream cheese, some sliced onions and summer tomatoes, a scattering of capers and a few other niceties. No one will want to get out of their pajamas. You win the weekend.

With its seashell-pink hue and delicate texture, gravlax looks a lot like cold-smoked salmon and tastes like that brunch stalwart's milder cousin: sweeter, cleaner, and of course, smoke-free. For home cooks—even timid ones—this is a DIY project with little risk and enormous rewards.

There are endless ways to tweak the formula based on regional tastes and personal recipes, but the basic method—which harks back to the days when Scandinavian sailors preserved their catch by salting and burying it along the shore—remains remarkably simple. Grab a slab of the freshest salmon you can find. Ask your fishmonger to remove the skin. (And if wild Alaskan salmon is in season, splurge. It's worth it for the buttery texture and Crayola color alone.) Slather on a rub of salt and sugar and whatever herbs strike your fancy—dill and caraway are a nice nod to the Nordics, and a hefty pinch of black pepper never hurts—then wrap the whole thing tightly in plastic wrap and pop it into the refrigerator, weighted with a few hardcovers from your summer reading stash. (A couple of cans from the pantry will also work.) The longer you let it cure, the firmer the fish's flesh will be and the bolder the flavor—but generally speaking, two to three days gets the job done.

It really is as easy as that. Hearty slices of pumpernickel or bagels and cream cheese are, of course, classic pairings. But you can bring as much bling to your appetizing platter as the occasion warrants, adding bowls of cucumber salad for cool crunch, a sunny egg salad flecked with herbs or even a few spoonfuls of briny caviar.

Leftover gravlax is a rarity, but any that isn't gobbled up will keep at least five days in the refrigerator. My favorite vehicle for scraps is a hash made with hunks of rye bread. Studded with beets and slivers of salmon and crowned with a dollop of crème fraîche, it's another dead-easy dish that affirms the greatest luxury is doing next to nothing.



#### CURED SALMON...

Simple and subtly spiced, gravlax is an easy way to please a houseful of guests over a holiday weekend.



...REHASHED  
This take on the classic red-flannel hash swaps in crunchy cubes of rye bread for potatoes.

#### Black Pepper and Caraway Gravlax

ACTIVE TIME: 10 minutes  
TOTAL TIME: 2 days (includes curing)  
MAKES: 1 pound

**1/2 cup light brown sugar**  
**1/2 cup kosher salt**  
**1 tablespoon freshly ground black pepper**  
**1 teaspoon caraway seeds**  
**1 (1-pound) salmon fillet, skin and pin bones removed**

1. Combine sugar, salt, pepper, and caraway seeds in a small bowl, using your fingers to break up any clumps.
2. Spread a large piece of plastic wrap over your work surface. Sprinkle half the spice mixture onto the plastic, spreading it into an even layer that is just bigger than your salmon fillet. Place salmon on top of spices, then sprinkle on remaining spice mixture, using your hands to
3. Wrap plastic tightly around salmon, leaving ends open so moisture can escape during curing. Place wrapped salmon on a wire rack set on a rimmed baking sheet. Top with another baking sheet and weigh down with something heavy. (A few cans of beans, a cast-iron skillet or even some big books should do the trick.)
4. Transfer trays to refrigerator. Flip salmon once a day and drain off any liquid that has accumulated on baking sheet. For a light cure, let cure 2 days. For a stronger flavor and firmer texture, cure 3 days.
5. Before serving, unwrap salmon, rinse off spice mixture and pat dry. Slice very thinly, on the diagonal. Serve with bagels, sliced red onions, caper berries or capers, sliced cucumbers, sliced tomatoes, assorted cream cheeses and salmon roe.

make sure it is evenly packed around fish.

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#### Rye Bread Hash With Beets and Gravlax

TOTAL TIME: 25 minutes SERVES: 4

**2 eggs**  
**1/2 cup milk**  
**1/2 crème fraîche, plus more for serving**  
**Kosher salt and freshly ground black pepper**  
**3 cups cubed dark rye or pumpernickel bread**  
**4 tablespoons olive oil**  
**1 leek, white part only, halved lengthwise and sliced into half-moons**  
**1 red onion, coarsely chopped**  
**1/2 teaspoon caraway seeds**  
**1 large or 2 medium cooked beets, cut into 1/2-inch dice**  
**4 large pieces homemade gravlax or smoked salmon, sliced into strips**  
**Capers, for serving**  
**Chopped chives, for serving**

1. In a wide, shallow bowl or baking dish, whisk together eggs, milk and crème fraîche. Season generously with salt and pepper. Add bread and toss. While completing remaining steps, toss occasionally to fully saturate bread.
2. Heat 2 tablespoons oil in a large skillet over medium heat. Add leeks and onions and cook, stirring occasionally until soft and golden, 5 minutes. Gently stir in caraway and beets, and cook until fragrant, 2 minutes. Transfer to a bowl.
3. Wipe out skillet and return to stove over medium heat. Add remaining oil. When hot, add bread mixture. Cook until crisped on underside, 3 minutes, then use a spatula to gently turn. Continue cooking, turning occasionally, until crisped all over, 8 minutes more. Stir in reserved onion-beet mixture. Cook until warmed through, 2 minutes.
4. Divide hash among 4 plates. Top with gravlax, a dollop of crème fraîche, a spoonful of capers and chopped chives. Season with salt and pepper to taste.

## DRINKEASY

### CHILL OUT, ITALIAN STYLE

This pitcher-friendly take on the spritz cocktail takes aperitivo hour to new heights of low-key luxury

**WHEN IT COMES** to leisure, my hat is off to the Italians. So you're just hanging out at this outdoor café because that's what you do after work? On a Monday? Their mastery of kicking back manifests in cocktail form with the Aperol spritz.

This is the most famous of the spritzes, the sparkling wine-based cocktails that rule the aperitivo hour across Italy. The recipe is as easy as 3, 2, 1: three parts Prosecco, two parts Aperol, one part soda water, over ice with an orange, lime or grapefruit garnish.

It's a thirst quencher, sure, cool, sparkling and quaffable. But the Aperol spritz also has a certain la dolce vita to it that, say, a gin and tonic doesn't. Prosecco will do that. And so will the color red—just ask anyone who is fortunate enough to own a Ferrari that color.

How do you further summerize the quintessential summer drink? Make it pitcher-friendly, because even a cocktail this easy becomes a chore when you have to mix one after another. The Pompei-Spritz, a twist dreamed up by Pamela Wiznitzer, creative director of New York cocktail bar Seamstress, dials back the sparkling wine and adds grapefruit juice, a natural companion to the delectably bitter Aperol.

This drink, like all spritzes, is best in the late afternoon, with some antipasti, as you wait for the sun to set and the temperature to drop before settling into a late dinner of tortelli followed by grilled polpi and then maybe some formaggi and honey. You know, a typical Monday in Italy. But, hey, a long weekend and a backyard grill will work too. —Kevin Sintumuang

#### Pompei-Spritz

Just chill the following ingredients and pour into a pitcher with ice. Serve drinks in highball glasses with ice.

**1 (750 ml) bottle of Aperol**  
**1 (750 ml) bottle of sparkling rosé**  
**3 cups fresh grapefruit juice**  
**8 ounces tonic**



## OFF DUTY



### LOVE STORY

## The Star-Scrambled Banner

A Fourth of July appreciation of the soulful beauty of antique American flags—pre-standardization and mass production

BY STEVE GARBARINO

**GROWING UP** outside Philadelphia, the “Cradle of Liberty,” I couldn’t avoid the trappings of Yankee patriotism. The flag-waving fervor reached numbing levels in 1976, when banners paraded, bunting draped and star-spangled tchotchkes proliferated: mugs, key chains, T-shirts, bikinis.

An unlikely trigger, the revival of 1969’s “Easy Rider,” made the teen me see the red, white and blue with more appreciative eyes. I loved the look of Peter Fonda on his custom chopper, Old Glory painted on the gas tank, his helmet and leather jacket mirroring the motif, too.

The actor’s Stars and Stripes display—cool and attitudinal, symbolic of individuality more than of patriotism—hooked me. I see now that my new allegiance to the flag had much in common with the Founding Fathers’ motives. What

were they but rebels—their cause, independence?

“Consider that if the revolution had failed, all the guys who signed the Declaration of Independence would have been hung,” said Steve Winters, whose Historical Americana Company, in Atlanta, deals in antique flags.

I hadn’t thought of displaying one in my home until I visited the National WWII Museum in New Orleans, my adopted hometown. I saw framed and encased specimens—and in particular a battle-worn, faded version from D-Day, so beautiful and full of character as to qualify as art.

Studying the market, I found that early-American flags have become sought-after Americana. In May, a 13-star campaign flag from James Buchanan’s 1856 candidacy (above, center) set an auction record when it sold for \$275,000 to Jeff Bridgeman American Antiques, in York County, Pa.

Modest finds remain, however. A 48-star version, from 1959, before Hawaii and Alaska gained statehood, can be had unframed for \$10 to \$150, Mr. Winters said.

Sail and tent makers likely fabricated early flags, which flew from ships and forts, said Jeff Bridgeman. “Private use really didn’t begin until the Civil War,” he said. “Then homemade examples first appeared in a significant number.” Not until 1912 did the federal government standardize the design, which explains varieties like two flags shown here (top left and top right) that distinctively arrange 31 stars, reflecting California’s 1850 admission as the country’s 31st state.

Materials and configurations reflect events of their day. Although many flags are made of wool, silk or cotton, the 30 Xs that stand in for stars on a WWI-era example (middle left) appear to be made of medical tape. It was fashioned, said Mr. Bridgeman, by Belgians welcoming

U.S. soldiers into the previously Germany-occupied city of Virton.

Customers prefer specimens that show age and usage, said C. Garrett Bonsell, owner of Bonsell/Americana, in Hillsdale, Ill. This makes flags an anomaly; with most other collectibles, “mint condition” increases value. “People want it clear, even upon first glance, that the flag is old and unusual,” he said. Mr. Winters noted that when early hand-printed examples age, the red turns shades of orange, the blue fades and the white mellows to tan or cream. “They take on a surreal look and have wonderful, glowing chromatic colors,” he said.

Kate Schelter, a New York stylist and author of “Classic Style,” scours estate sales for vintage American banners. One hangs in the staircase of her cedar-shingled Cape Cod home. “It makes a wonderful focal point,” she said. Flags sit well, too, in interior designer Miles Redd’s bold rooms, which of-

**VERY OLD GLORIES** Clockwise from top left: circa 1850, \$45,000; and circa 1890, \$1,195, both from [historicalamericana.com](http://historicalamericana.com); circa 1850, \$22,500, [bonsellamericana.com](http://bonsellamericana.com); circa 1890, \$25,000; 1876, \$25,000; Civil War Era, \$175,000; circa 1890, \$60,000; circa 1917, \$22,000; circa 1856 (not for sale); all from [jeffbridgeman.com](http://jeffbridgeman.com)

ten pop with primary hues. “They’re incredibly distinguished and graphic,” he said.

Despite a deepened respect for early American flags, I still don’t possess one. Yet this Fourth of July, my fashion-designer wife plans to sell pocket squares she made from a roll of 1950s-era, 48-star mini-banners she found at an estate sale. I will stuff one in my sports jacket’s pocket and cruise to the levee fireworks on my scooter, not motorcycle, come Independence Day. Born to be mild.



**CASE STUDY** Joseph Dirand riffed on the concrete geometric facades of midcentury Miami for his credenza, left.



Sierra Low Credenza, \$19,985, Dune, 212-925-6171

### COPY CAT

## CABINET FEVER

How to emulate the faceted look of a memorable credenza spotted in a new Miami hotel

**CHECKING IN TO** Miami’s newly opened Four Seasons Hotel at The Surf Club, designed by American architect Richard Meier, my wife and I were upgraded to a top-floor oceanfront room. I’ve always had a thing for Mr. Meier’s minimalist glass and white-steel residences. Now we were going to spend five vacation days in one.

I opened the door and gasped. It’s one thing to see Mr. Meier’s work in photos or YouTube clips. But walking into this room was like stepping into a painting. Sunlight sailed through the floor-to-ceiling windows and filled every space. It ricocheted off the bleached and crenulated walls, leapt up to white, shallowly coffered ceilings and poured across the travertine floor. Kicking off my flip-flops, I fell back

on the king-size bed.

That’s when I saw it between my bare feet: a sublime chalky-cream credenza. Roughly 8.5 feet long, the piece deftly combined the sleek silhouette of a 1950s stereo console with a 1930s Euro Deco aesthetic. Facets on the four doors created a spine-like geometric pattern of light and shadow. And burnished brass lined the gap between the case and doors. The cabinet was sculptural, understated, cool.

Back in New York, I called the designer of the piece and all of the hotel’s guest-room décor, Paris-based architect Joseph Dirand. He told me the doors were coated with a special lacquer that crackled faintly while drying to give the wood relief its ceramic appearance. “The credenza’s doors pay tribute

to Miami’s geometric architectural facades,” he said, referencing the concrete patterns that grace many of the city’s midcentury buildings.

While Mr. Dirand’s cabinet isn’t yet available to the public, any of the alternatives shown here could fit into most contemporary spaces. Still, adding one to an eclectic interior requires some finesse. “You don’t want too many large horizontal pieces competing for the eye,” warned Rachel Newton of Red, a Brooklyn, N.Y., interior design studio, adding that the silhouette of such a credenza is best appreciated in uncrowded rooms. “Give it room to breathe,” she said. To visually link one to a layered interior, she suggested topping it with a plant with large architectural leaves or a sculptural lamp. —Marc Myers



Erinn V. Diamond Door Credenza, \$7,600, [jamieshop.com](http://jamieshop.com)



1970s Small Brutalist Sideboard with Marble Top from Morentz, \$4,300, [1stdibs.com](http://1stdibs.com)

## OFF DUTY

# Zen and the Art of Car Cleaning

New tools are allowing car lovers to give their rides pro-quality detailing—and attain a state of bliss in the process

BY JESSE WILL

**S**OME FOLKS achieve a Zen state by meditating; others run. And a few do so by lovingly detailing their cars. "It's something I look forward to every week," said Jacquelyn Tyner, a student at Cal State Monterey Bay, of the two hours of zealous, focused cleaning she lavishes on her 2006 Mini Cooper S Convertible. "It's very manual, very therapeutic."

Ms. Tyner is among a growing number of car-care hobbyists who take the craft to new levels—thanks to cleaning tools and materials once available only to pros. Detailing a car involves ministering to every surface, and can also involve buffing out scratches, correcting paint imperfections and even going so far as to smooth out bumpy "orange peel" factory finishes. "The truth is that it's easier than ever for the average Joe to do a pretty good job with a detail now," said Scott Nichols, a detailer and restorer in Scottsdale, Ariz., who chiefly prepares vintage cars for Concours-level competitions from Lake Como to Pebble Beach. "Both the compounds and the machines have gotten so much better."

Quality instruction for DIYers abounds, as well. If you want to read "Infinite Jest"-length discourses on different types of microfiber towels, well, there's a place for you (start with [reddit.com/r/autodetailing](https://www.reddit.com/r/autodetailing) and the forums on [autogeekonline.net](https://www.autogeekonline.net)). If you're more visually inclined, YouTube offers enough video tutorials to keep you enthralled for years.

Larry Kosilla is the king of car-detailing on YouTube, where his channel has nearly 400,000 subscribers.

Larry Kosilla, a former commodity trader, is the king of car detailing on YouTube, where his Ammo NYC how-to channel has nearly 400,000 subscribers. That's how Jennifer Vogt got hooked. A physician in the Navy Reserve in San Diego, Ms. Vogt now details her car weekly, she said. "I've been known to be out on the driveway at 4:30 a.m."

After studying Mr. Kosilla's how-to videos, Ms. Vogt tried her hand on her own cars, including her 2014 Maserati Quattroporte GTS. She'd had pros detail the vehicle (at upward of \$400 a pop) but realized she could do a better job herself, she explained. "When you have an eye for it, it becomes a kind of art."

That art starts with a standard carwash (see sidebar). After that,



JOSH MCKENNA

things get a little more nuanced.

Obsessive detailers, for example, don't just want a vehicle to look slick; they want it to feel slick, too. When you run your hand over a car's finish, it's likely to feel rougher than you expect. Those imperfections are contaminants like tree pollen and brake dust that have bonded to the clear coat over time.

But devotees such as Warren Naugler, a campaign manager from Carlsbad, Calif., get their cars glassy smooth by laboriously rubbing a "clay bar" over every inch of its finish to expel the pollutants. Made from synthetic resin, these pliable hunks pull tiny debris out of the clear coat. Mr. Naugler spends hours doing this about every two months. (He also admits to waking up in the middle of the night to remove bird droppings from the hood of his 2008 Lexus IS-F. "It's therapy. I'll stay out there just to think," he said.)

But clay bars can't do it all. For deeper stuff—clearing up a hazy finish, say, or eradicating etching damage from baked-on bird poop, you'll need a dual-action polisher. Once a tool of the pros, this has become essential to the DIY set. Unlike rotary polishers, which spin on a single axis, dual-action models have heads that oscillate randomly, so you won't leave swirl marks and damage your finish.

Budget-minded DIY-ers can pick up a basic dual-action polisher from Harbor Freight for \$70 and up, but

### SQUEAKY SHEEN // CAR-CARE TECHNIQUES FOR FANATICS

**Ditch the Dish Soap** It may be gentle on your hands, but it's more abrasive than car soap—and will strip away protective wax and dry out plastic trim. Products like **Meguiar's Mirror Bright Automobile Shampoo** (\$13, [meguiars.com](http://meguiars.com)) are pH neutral to protect paint and provide a light waxing, too.

**Use Two Buckets** One for soapy water, one for rinsing grime out of your mitt. Place a **Grit Guard** (\$7, [chemicalguys.com](http://chemicalguys.com)) in your bucket to provide a washboard-like surface for the task.

**Go Woolly** Many DIY detailers swear by wool wash mitts like the **CarPro Merino Wool Wash Mitt** (\$20, [carpro-us.com](http://carpro-us.com)), which hold

suds but release dirt easily when dipped in a rinse bucket. To avoid damage from brake dust, some detailers use a dedicated wash mitt and bucket just for the wheels.

**Spin a Good Yarn** Good quality microfiber towels, like a 25-by-35 inch **Griot's Garage Microfiber Drying Towel** (\$27, [griotsgarage.com](http://griotsgarage.com)), leave a streak-free finish without scratches.

**Don't Be a Hoser** For environmental reasons as well as convenience, more enthusiasts are using rinseless wash products like **Optimum No Rinse & Shine** (\$16, [optimumcarcare.com](http://optimumcarcare.com)) in lieu of hosing down their vehicles. Its polymers help usher dirt off a car's surface.

mer-based waxes and sealants are longer lasting, more effective and go on in one pass. "You're not grabbing for that can of carnauba and having to repeat it every two weeks," said Ms. Vogt.

Meanwhile, advanced ceramic coating is threatening to obviate waxing all together. Unlike waxes and sealants that sit on top of a car's finish and soon break down, this silica dioxide—like liquid glass—fuses to the clear coat and can last for months or years with maintenance.

What many DIYers love about it is that the coating's low surface tension has a hydrophobic effect—allowing a spray of water to disperse dirt. Companies like Ceramic Pro have a network of installers that charge from around \$300 for six months of coverage to \$1,700 for the life of the car. Or, assuming your car has been perfectly paint-corrected, you can do it yourself with a product like CQuartz (from about \$58, [carpro-us.com](http://carpro-us.com)).

Yet not all detailers are convinced. To holdouts like Mr. Naugler, high-tech coatings that promise to take the elbow work out of maintaining a perfect finish are hogwash. "All that high tech ceramic, Teflon, do-it-once-in-a-lifetime stuff is B.S.," he said. "Just wax your car."

Whether you prefer to polish manually or rely on nanotech, Mr. Naugler does have some words of warning about the addictiveness of detailing: "Once I realized what a clean car looked like, it threw me over the edge. I can never go back."

those with the means go for tools from Rupes, an Italian manufacturer that recently arrived in U.S. retailers. Its Big Foot series of polishers (from about \$300) has become the de facto standard among serious DIY-ers and pros alike. "I love it to death. It's a game changer," said Mr. Nichols. Rupes' latest innovation is the Nano (\$590), which can use pads just 1 inch in diameter. Ms. Vogt extols its agility. "You can do pillars, and mirrors, nooks and crannies. It's so much fun," she said.

For a dual-action polisher to do any good, you'll need a polishing compound. In recent years these have become safer to use—less likely to leave swirls or haze. Compounds have gotten more workable. Before, you really had to know what you were doing, because they'd dry out," said Mr. Nichols.

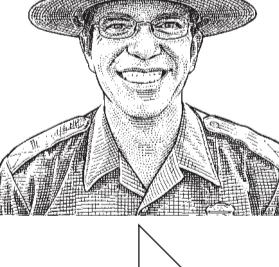
One of the most basic steps in detailing a car—waxing—has evolved, too. No longer do you need to rub a layer of wax onto your hood and then wait a half-hour for it to dry, the way your father likely did: Poly-

### MY TECH ESSENTIALS

## MIKE REYNOLDS

The superintendent of Death Valley National Park on cold-water strategies for hikers and the best vehicles for desert living

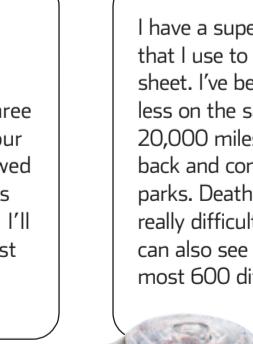
Two park rangers and I recently went up Dry Mountain. It's one of the more extreme hikes any of us has ever taken in the park. Leading up to it, I did research on [panamintcity.com](http://panamintcity.com) and [summitpost.org](http://summitpost.org), where people post their routes and compare experiences. I used the sites to make notes on my paper map about ways to get around challenging spots.



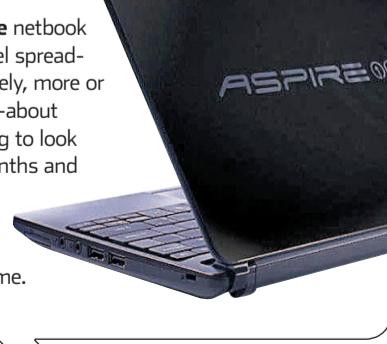
To effectively live in a remote place like Death Valley, you pretty much need two vehicles. Just to go to the grocery store, you're doing 300 miles round trip, all paved, so I have a 2012 Ford Focus for the gas mileage. On the other hand, you need a good four-wheel-drive vehicle to get around this park, where 95 percent is backcountry or only accessible by hard-core roads. My four-wheel-drive vehicle is a 2015 Toyota Tacoma, which is my desert vehicle of choice for its short turning radius, high clearance and its durability.



Before I go hiking, I freeze six quarts of water in **Powerade** bottles, then I let three thaw. As I hike, I pour water from the thawed bottles into the ones with ice in them, so I'll have cold water most of the day.



I usually carry a small roll of **duct tape** with me. [Survive Essentials 2-by-50-inch rolls shown.] You can use it to fix hiking boots, clothes, cars—just about anything in the field. I also take a small Ziploc bag with a few supplies, mostly bandages and medical tape.



I have a super-old, 2011 **ACER Aspire One** netbook that I use to track all of my hikes in an Excel spreadsheet. I've been tracking my hikes obsessively, more or less on the same spreadsheet, since 1995—about 20,000 miles worth of hikes. It's interesting to look back and compare the averages across months and parks. Death Valley miles, for example, are really difficult versus Yellowstone miles. I can also see the people I've hiked with—almost 600 different people in that time frame.



In the summertime, I typically run at 5 in the morning, when the temperature's great, like 85 degrees. This January, I finally got a GPS watch, **Garmin Forerunner 25**. I use it to track my runs and hikes, and it's been neat to precisely track how far I've gone and where I've gone.



There's only one gas station here and it generally charges around \$2 a gallon more than the ones in town. So never buy gas in Death Valley. When I'm going to town, I use an app called **"GasBuddy"** that tells you where the cheapest gas is.

—Edited from an interview by Chris Kornelis

# MANSION

Design is 'not just what it looks like and feels like. Design is how it works.' —Steve Jobs

HOMES | MARKETS | PEOPLE | UPKEEP | VALUES | NEIGHBORHOODS | REDOS | SALES | FIXTURES | BROKERS

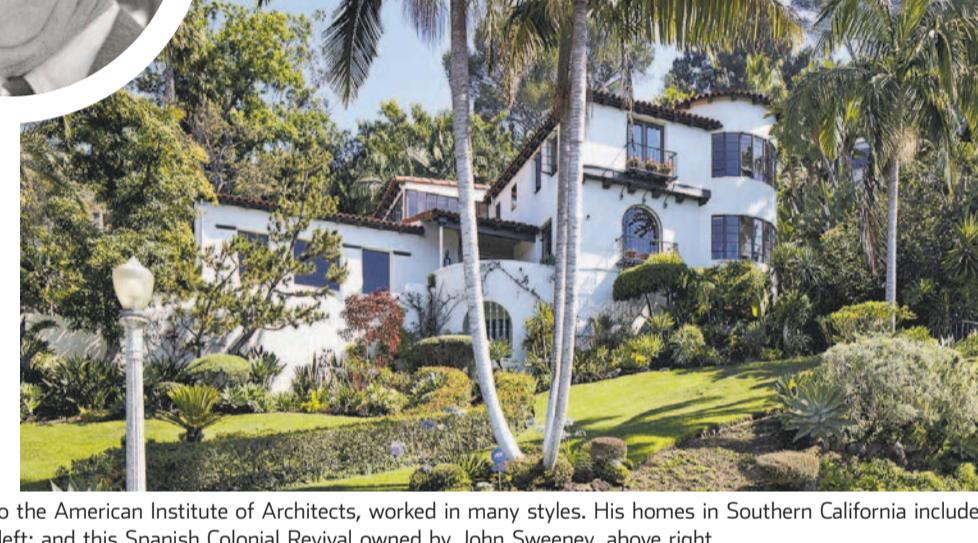
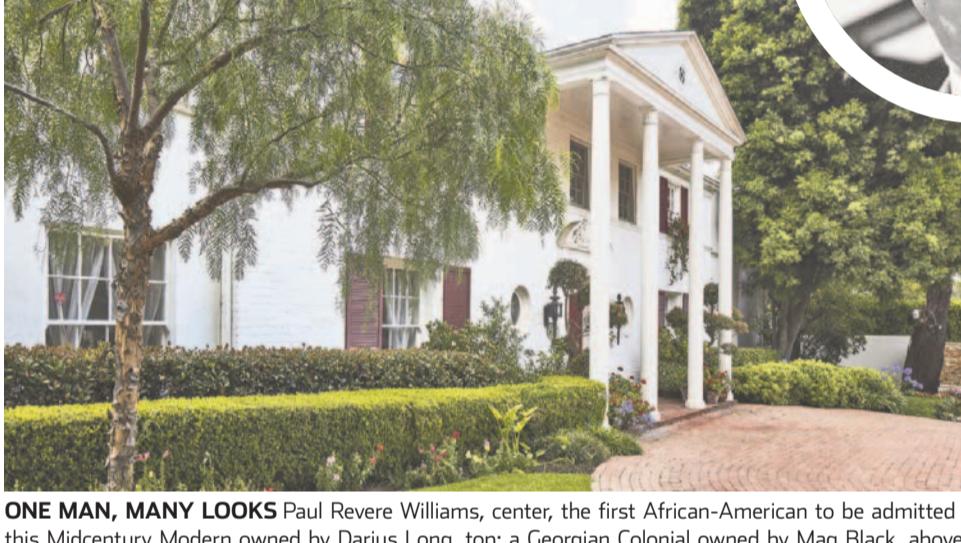
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THE WALL STREET JOURNAL.

Friday - Sunday, June 30 - July 2, 2017 | W9

## The Paul Williams Premium

A surge of interest in the late African-American architect means top dollar for his Southern California homes; the former home of Frank Sinatra and Audrey Hepburn.



**ONE MAN, MANY LOOKS** Paul Revere Williams, center, the first African-American to be admitted to the American Institute of Architects, worked in many styles. His homes in Southern California include this Midcentury Modern owned by Darius Long, top; a Georgian Colonial owned by Mag Black, above left; and this Spanish Colonial Revival owned by John Sweeney, above right.

BY STEFANOS CHEN

The list of celebrities who have passed through Mag Black's Los Angeles home is classic Hollywood: Frank Sinatra, Mia Farrow, Audrey Hepburn, Eva Gabor.

But when the 7,000-square-foot, Georgian Colonial-style home listed this month for almost \$14 million, one star took center stage: Paul Revere Williams, the architect. "I didn't know a

thing about him, but everyone ooh'd and ahh'd when they heard this was a Paul Williams," says Ms. Black, who recently relisted her home for \$13.95 million, an 8% increase, partly due to the growing strength of the Williams pedigree.

The late Mr. Williams, whose career spanned five decades and an array of architectural styles, is back in vogue—and not just with the Tinseltown set. The first African-American to be admitted to the American Institute of Architects in 1923, Mr. Williams has long been revered in the

city's affluent pockets for his willingness to put the client before convention, and for his attention to detail. (His biographer said she can identify a bona fide Williams by the gentle rise of the staircase.) Now a number of posthumous honors, including an AIA Gold Medal in December, which is shared by the likes of Frank Lloyd Wright and Le Corbusier, have shined a brighter spotlight on the architect's work.

Agents say that renewed name-recognition

Please turn to page W1

## LONDON COUNTS ON THE COOL CROWD

To boost the city's sluggish real-estate market, developers are targeting millennials and young professionals with upscale apartments and hip amenities, such as craft-beer bars and a fitness center that specializes in circus skills.

BY RUTH BLOOMFIELD

**TO REVIVE** flagging apartment sales, London real-estate developers are using trendy street art, cafes serving avocado toast, and bike-repair stations to lure young professionals and fashionable millennials.

Earlier this month, Union Developments launched its boutique development Monohaus, a reboot of a former record factory in the Hackney neighborhood of east London, very much the hipster heartland of the British capital.

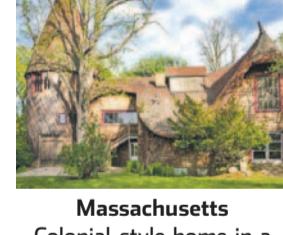
In addition to 47 apartments, the development will feature a craft-beer bar, vinyl music shop, artisan bakery and a Nordic-themed cafe serving the currently in-vogue snack of avocado on toast.

The apartments themselves are industrial style, with huge windows and polished-concrete floors. When Monohaus opens in October, prices will start at about £500,000, or about \$635,000, for a one-bedroom apartment ranging up to around \$1.78 million for



**OPENING IN OCTOBER** An architectural rendering of Monohaus, a development in the Hackney neighborhood with 47 apartments. Prices range from about \$635,000 for a one-bedroom unit to about \$1.78 million for a three-bedroom penthouse.

**HOUSE OF THE DAY**  
[wsj.com/houseoftheday](http://wsj.com/houseoftheday)



**Massachusetts**  
Colonial-style home in a storybook setting



**New York**  
Hamptons home with expansive gardens



**Tuscany**  
Villa has 17th-century chapel and three pools

JOE SCHMELZER FOR THE WALL STREET JOURNAL (3); LIFE PICTURE COLLECTION (3); GETTY IMAGES (WILLIAMS HISTORICAL)

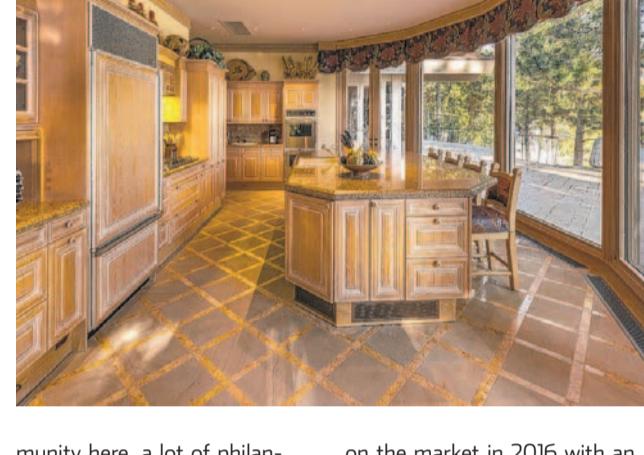
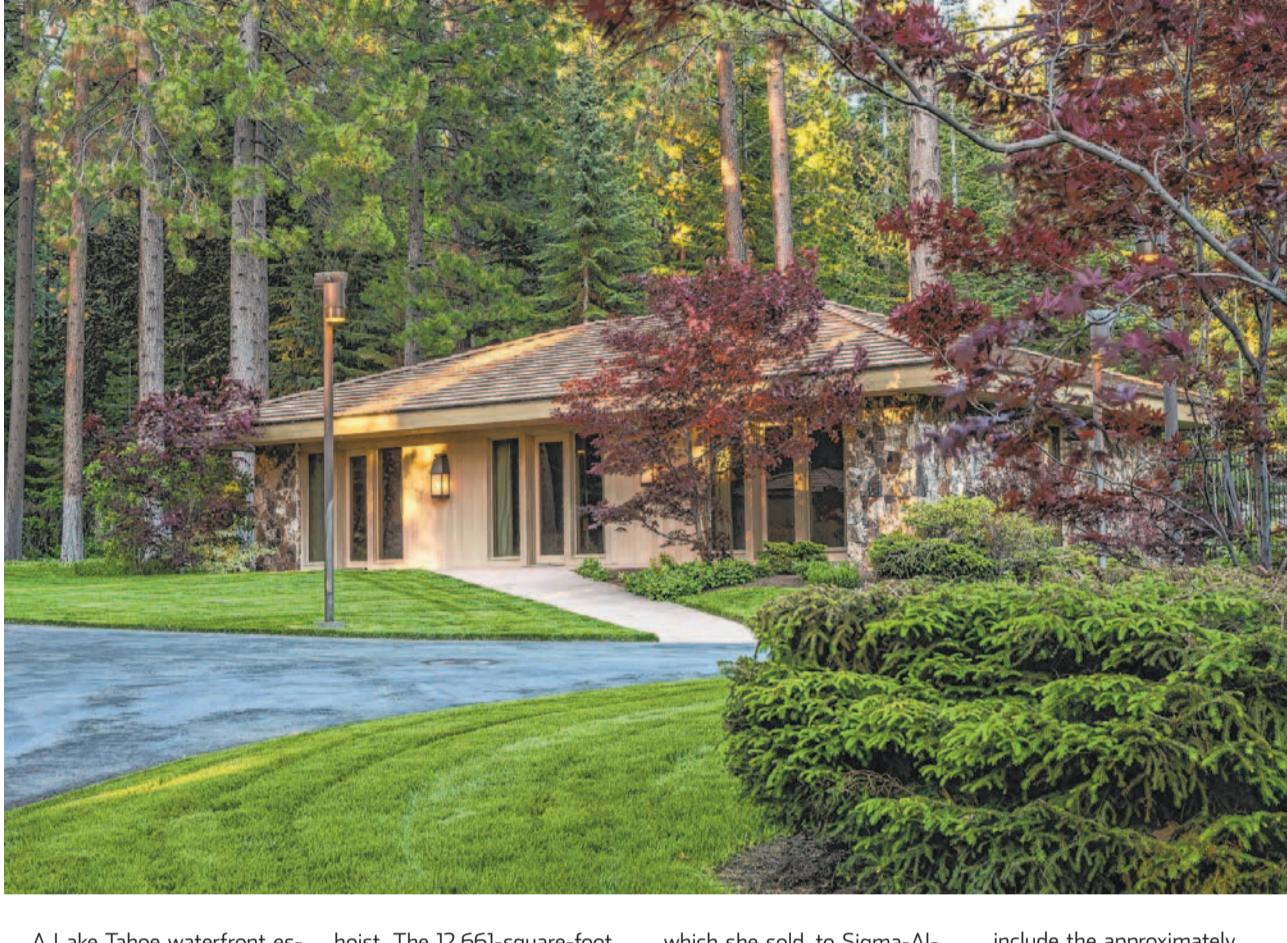
REN NICKSON PHOTOGRAPHY

SIMONE VANNUCCHI/BEAUCHAMP ESTATES

## MANSION

### PRIVATE PROPERTIES

# Onetime Steve Wynn Tahoe Estate Sells



CLOCKWISE FROM TOP LEFT: VANCE FOX (2); DOUGLAS ELLIMAN; BLOOMBERG NEWS

A Lake Tahoe waterfront estate that once belonged to casino mogul Steve Wynn has sold for \$31.1 million.

The sales price is a record for the tony enclave of Incline Village, Nev., said listing agent Patricia Lantz of Lakeshore Realty.

On 4.972 acres, the Incline Village home includes 210 feet of lake frontage and a private beach with a pier and boat

hoist. The 12,661-square-foot main house has four bedrooms, a theater and a four-car garage. The guesthouse includes three bedrooms.

The buyers are Nora Betyousef Lacey and her husband Michael Lacey, a pathologist. "It's a very elegant place to be on the lake," said Ms. Lacey, founder of bio-tech company Cell Marque, which produces cancer detection products and

which she sold to Sigma-Aldrich for \$170 million in 2014, she said.

Ms. Lacey said she plans to make only a few changes. "We want to keep the legacy of the Wynns," she said. She dubs the property, which has been known as Old Forge, the Wynn estate. "I basically call these estates by the name of the person who created them," said Ms. Lacey, whose other homes

include the approximately 30,000-square-foot Morgan estate in Los Altos Hills, Calif., which she bought for \$25 million in 2015. "The Wynn estate is our permanent home and our main home, and the Morgan estate is a beautiful place when we want to get away."

Ms. Lacey said she was attracted to the setting as well as the community. "It's a beautiful lake and we have a great com-

munity here, a lot of philanthropists of the same mindset," she said.

Homeowners in the neighborhood include Workday co-founder David Duffield, Oracle billionaire Larry Ellison and financier Michael Milken. Ms. Lacey said she dedicates her time to her foundation, which supports Assyrian entrepreneurs and charities.

The property was first put

on the market in 2016 with an asking price of \$45 million. Ms. Lantz shared the listing with Victor Lockhart, also of Lakeshore Realty.

The seller was Ten-Four-One Realty Trust, which bought the property from Mr. Wynn in 1998 for \$17 million, according to public records. Janet Pahl of Sierra Sotheby's International Realty represented the Laces.

—Sarah Tilton

## MANHATTAN PENTHOUSE WITH A BONUS

Wait, there's more: For \$48 million, you get not only a sprawling downtown Manhattan penthouse, but two staff apartments and two parking spaces.

The roughly 7,100-square-foot duplex penthouse under construction sits on the top two floors of Madison Square Park Tower, a glassy condominium on 22nd Street. The two studios, which can be used for staff or guests, are located on a lower floor and each measures about 600 square feet, said Ian Bruce Eichner, founder of Continuum Co., the building's developer. The two parking spaces are among 16 in the building and normally sell for about \$500,000 each.

The penthouse, on the 64th and 65th floors of the building, will have a double-height living room and views of the Empire State Building, said Fredrik Eklund of Douglas Elliman Real Estate, who is handling sales in



the building with colleague John Gomes. While it will likely end up with about five bedrooms and five baths, it is being marketed as a "white box," with the expectation that buyers will create their own layout, Mr. Eklund said.

Overlooking Madison Square Park, the 83-unit building started sales in 2014 and is roughly 75% sold, Mr. Eichner said. He said construction is mostly completed and closings should begin in the next few weeks. —*Candace Taylor*

Another penthouse measuring about 6,000 square feet was listed for \$38 million in early 2016 but was taken off the market while it is being completed, Mr. Eichner said. A unit on the 62nd floor listed at \$24.95 million is in contract, Mr. Eklund said.

Building amenities include a half basketball court, a yoga studio, a gym and a golf simulator room. There is also an outdoor entertaining terrace, a poker room and a billiards room. —*Candace Taylor*

## NEW YORK CONDO SELLS AT A 26% DISCOUNT

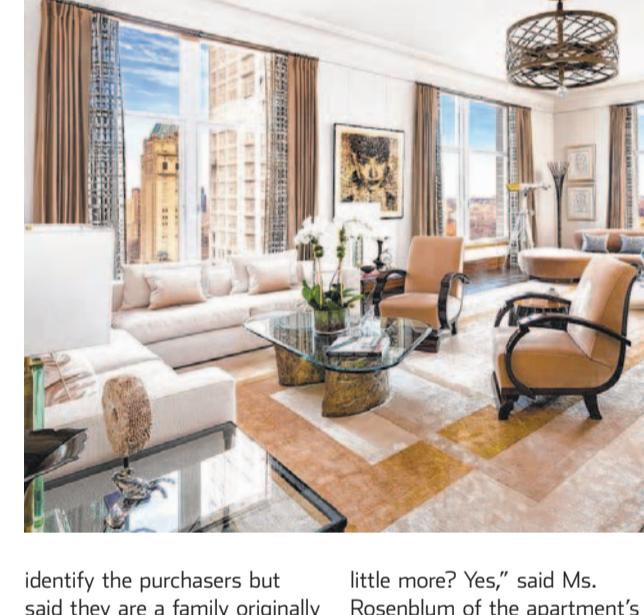
An Upper East Side condo has sold for \$26 million, or 26% off its original asking price of \$35 million.

The roughly 5,000-square-foot Park Avenue condo, which comes with a separate studio apartment on a lower floor for guests or staff, was listed in February, according to Tak Cheung of Rutenberg NYC, who represented the buyer.

A duplex spanning the 36th and 37th floors, the apartment has views of Central Park. The four bedrooms each have en suite bathrooms clad in onyx. The studio apartment measures about 635 square feet, Mr. Cheung said.

The seller was Sheila Rosenblum, who said she previously owned the home with her ex-husband Daniel Rosenblum, deputy chairman at ED&F Man Holdings, a commodities trade house. Ms. Rosenblum, who owns and manages racehorses, said she decided to sell because her son graduated from high school.

Mr. Cheung declined to



identify the purchasers but said they are a family originally from China. He said the discounted price is due in part to the supply of new construction condos in the neighborhood, including buildings such as nearby 520 Park Avenue.

"Do I wish I had gotten a

little more? Yes," said Ms. Rosenblum of the apartment's sale price. "But am I satisfied? Yes. I could have tried to hold out and I might have had it for another few years."

The listing agency was Douglas Elliman Real Estate.

—*Candace Taylor*

### RELATIVE VALUES

## THE SPIRIT OF INDEPENDENCE DAY

Three luxury homes for sale in the Iowa, Kentucky and Minnesota cities of Independence



**\$1.499 million**

Independence, Iowa

Three bedrooms, 3½ bathrooms



**\$1.59 million**

Independence, Ky.

Four bedrooms, 5½ bathrooms



**\$4.295 million**

Independence, Minn.

Four bedrooms, four bathrooms, three half-baths

This 7,138-square-foot home sits on 2.13 acres on a cul de sac in a golf-course community. Inside are custom finishes, such as hand-scraped hickory flooring and a grand curved staircase. A large lower level has a bar and a patio with built-in grill. Agents: Le Ann Dunne, Coldwell Banker Real Estate Professionals and Heather Fedderspiel of Wapsi Realty

This 6,000-square-foot contemporary home sits on a sweeping lawn on a 7.5-acre lot surrounded by trees. Rooms feature high ceilings and large windows. The kitchen and laundry room have high-end appliances. An elevator and video-security system are also included. Agents: Michele Mamo and Deborah Martin, Keller Williams Advisors Realty

Built for a Russian art dealer, this 8,303-square-foot home features elaborate woodwork carved by a Russian artisan. The house sits on about 88 acres and includes a barn and guesthouse. Other details include exposed beams, decorative tile work and extensive landscaping. Agents: Meredith Howell, Coldwell Banker Burnet-Wayzata

## MANSION

# THE PAUL WILLIAMS PREMIUM

Continued from page W9

can translate to a premium for home sellers. In June there were six Williams-designed homes publicly listed for sale, ranging from a \$2.4 million auction for a Mediterranean four-bedroom in San Clemente, Calif., to an \$88 million, 30,000-square-foot remodeled mansion in Los Angeles's Holmby Hills. In 2015, one of his 1931 Spanish Colonial Revivals sold for \$38 million in the posh Bel-Air neighborhood—almost \$19 million more than when it sold in 2011. At least two other million-dollar homes for sale are described as “Williams inspired”—agents say that is common practice in a town that is inclined to name-drop.

“I think there’s a resurgence of interest in him,” says Robin Collins, an agent with Keller Williams who, in May, listed a \$3.2 million Mediterranean Mr. Williams built in 1926.

Mr. Williams, a Los Angeles native whose first luxury-home commissions began in the 1920s, designed over 2,000 private homes across the globe, about 300 of which are located in Los Angeles's so-called Platinum Triangle neighborhoods, says Karen Elyse Hudson, Mr. Williams's granddaughter and biographer. He died in 1980 at the age of 85.

Mr. Williams amassed an impressive clientele, including Lucille Ball, Lon Chaney and Bill “Bojangles” Robinson, thanks in part to his willingness to work in whatever style his client demanded, Ms. Hudson says.

In an era of deeply held prejudice, he learned to draw renderings upside down, he wrote in an 1937 article, so as to never force his white patrons to sit beside him. Today his homes are prized for their intricate detailing and elegant proportions—two qualities that have spared many of his homes from the wrecking ball of new-home developers.

“He could see forward and around corners,” says Ms. Black, 73, a wealth manager who owns the 1938 Georgian Colonial in Holmby Hills. She bought the home for \$2.1 million in 1996, records show. Unlike many homes of that era, the 7,000-square-foot home has taller, 9-foot ceilings. Its largely open floorplan, with an emphasis on outdoor living, is echoed in new luxury homes today. The foyer and curving grand staircase, a hallmark of Williams's designs, is decorated with a Baccarat chandelier purchased by Hollywood starlet Ms. Gabor, the former homeowner, Ms. Black says.

Former renters include Frank Sinatra, Mia Farrow and Audrey Hepburn, according to Ms. Hudson's book, “Paul R. Williams: Classic Hollywood Style.”

The sitting room hides an amenity from the first homeowner, “From Here to Eternity” producer Buddy Adler: A hidden storage area once used for film reels and projector equipment in what was then a home theater.

Ms. Black, who lives at the five-bedroom home with her husband, David Scott, a retired astronaut, is selling the 1.1-acre property to be closer to family in Florida. They listed the home last year for \$12.95 million with Jade Mills of Coldwell Banker. They took it off the market near the end of 2016 “to refresh” it and redecorate, Ms. Black said.

In June, they relisted it for \$13.995 million on the strength of the market and Mr. Williams's surging name value, Ms. Mills said. (His AIA award and a subsequent honor from the University of Southern California Architectural Guild were given this year.)

In Ontario, Calif., about an hour east of the heated Los Angeles market, Darius Long is preparing to sell a very different Williams home—a 2,250-square-foot, International-style Midcentury Modern, circa 1947.

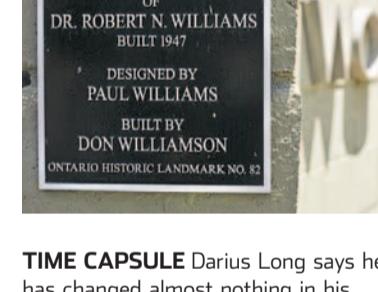
“People thought it was a pharmacy,” says Mr. Long, 54, a semi-retired aerospace electronics buyer, about the avant-garde design. Surrounded by Colonials, the two-level, two-toned, green-and-brown home is sited on an angle to create a large semicircular drive. Mr. Long bought the home from the original owner for \$435,000 in 2004, records show.

Inside, there is original wood-work and built-ins from renowned craftsman Sam Maloof. With ample glass on the front and rear of the home, the open floorplan is filled with natural light. Floor-to-ceiling glass sliders in the rear open to a

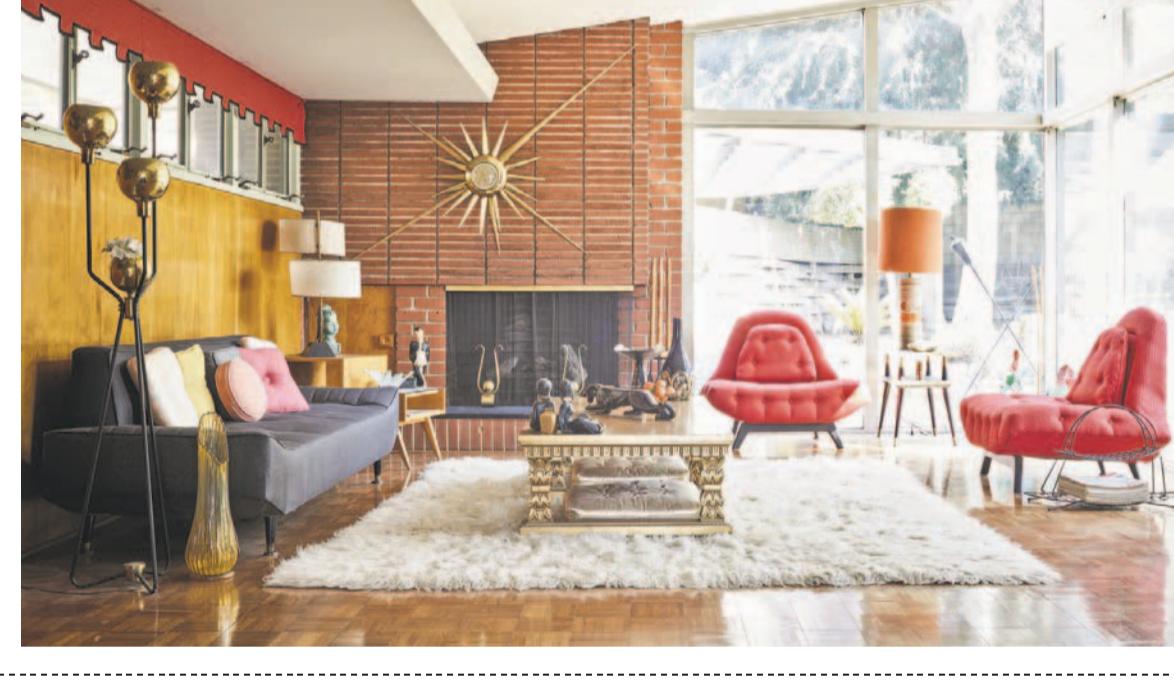


JOE SCHMELZER FOR THE WALL STREET JOURNAL (9)

**HOLLYWOOD ROYALTY** This Williams-designed Holmby Hills home was rented by Frank Sinatra, Mia Farrow and Audrey Hepburn. Owner Mag Black, seen with husband David Scott, recently relisted her home for 8% more, partly due to the growing strength of the Williams pedigree.



**TIME CAPSULE** Darius Long says he has changed almost nothing in his Williams-designed, Ontario, Calif., home—down to the linoleum floors and 1960s-era stovetop.



yard with a centuries-old oak tree. The finishes, even down to the linoleum floors and the 1960s General Electric stovetop, are as the prior owner left them. “I consider myself a docent—just a caretaker of the house,” says Mr. Long, who says he has changed almost nothing about the home.

Mr. Long plans to list the home for around \$1 million in the next few months to downsize to a home in another western state. Matthew Berkley of Deasy/Penner & Partners, the listing agent and an architectural historian, says that the unusual design and the fact that this is one of only two known Paul Williams-designed homes in the city justifies the listing price.

Homes of a similar size nearby are listed in the \$600,000 range. Mr.

Long says he will only sell to a buyer who wants to preserve the spirit of the home.

Williams-designed homes haven't been immune to buyers' demands. Ms. Hudson estimates that, “on the low side,” about 40 of her grandfather's homes have been demolished in the Los Angeles area. In 2006, one of his most notable homes, the Midcentury Modern bachelor pad of Mr. Sinatra, was torn down to make way for new construction, she says.

In Los Angeles, due to the damaging effects of hot weather and limited housing supply, homes older than 20 years are becoming scarce, because developers believe they can maximize their investment by building new, says Jeff Hyland of Hilton & Hyland. But the



**STILL STANDING** John Sweeney, seen at left with his wife, Cheryl, had his Williams-designed, 1927 home designated a Los Angeles historic cultural monument, effectively making it more difficult for the home to be demolished.

rising profile of architects like Paul Williams is helping to turn the tide.

“It's a reason to say to a seller, ‘Wait, don't tear that down—we think it's worth more if you keep it,’” he says.

There is another safeguard for Williams homes—they seldom come up for sale.

John Sweeney, 65, a civil-rights attorney, bought a 6,000-square-foot Spanish Colonial Revival in the Los Feliz neighborhood of Los Angeles for \$1.975 million in 2003, according to city records. “I feigned that I didn't know Paul Williams,” Mr. Sweeney recalls, to drive a hard bargain. “Of course, I knew everything about him.”

Mr. Sweeney, who is African-American, says he found a kindred

spirit in Mr. Williams, who faced discrimination, even as he became a household name.

“It was very special to me to live in a house that was designed by an African-American who couldn't live there,” he says. The original neighborhood covenants, he discovered, only allowed the home to transfer to white home buyers.

In 2008, he had the 1927 home designated a Los Angeles historic cultural monument, effectively making it more difficult for the home to be demolished. He has no plans to sell, but should his family decide otherwise, there are protections in place.

“I wanted to make sure,” he says, “that nobody can take down these walls.”

## MANSION

### BALANCE SHEET

# An Internet Entrepreneur's Vision in Vienna

The onetime California resident added a touch of West Coast to his \$9.5 million villa—minus the hassles

BY J.S. MARCUS

**AFTER SPENDING** eight years in California, Austrian internet entrepreneur Roman Scharf had come to hate America-size commutes. So when he and his wife returned to Vienna in 2014 with their daughter, they knew just what they wanted: a home close to school in the capital's premier villa belt in the far northwest of the city.

The pickings were slim despite their multimillion-euro budget. The couple wanted to avoid the waste of tearing down one of the decades-old villas typical of the area. As it happened, a developer had already started the process.

The Scharfs found an unusual spec house in mid-construction on a prime lot where a humdrum house once stood. They bought the high-tech, low-energy home in spring 2015, and moved in the following Au-



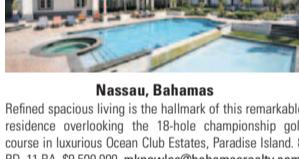
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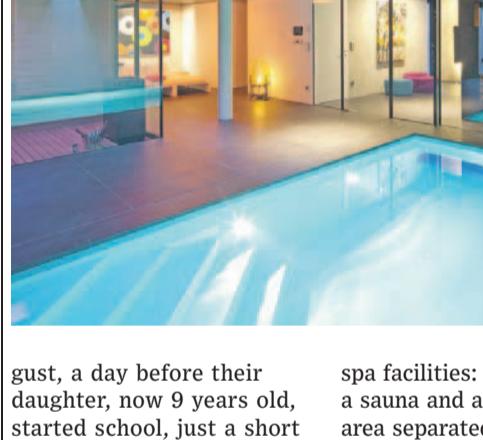
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THE WALL STREET JOURNAL.

**AUSTRIA MODERN** The 5,700-square-foot, four-level home in Vienna has views of the city center.



**ALL WET** Roman Scharf, below right. His open-plan home has views of outdoor ponds and pool, above. Below left, the basement spa facilities.



gust, a day before their daughter, now 9 years old, started school, just a short drive away.

To date, Mr. Scharf has spent about \$9.5 million on the 5,700-square-foot, four-level home, on a one-third acre lot at the edge of the Vienna Woods. He created three bedrooms from five bedroom spaces, and outfitted six bathrooms and two powder rooms.

Living in Palo Alto and Beverly Hills had given the couple some firm ideas on luxury living. They wanted a wide-open ground floor, vetoing the home's original plan for a hallway off the entrance. They also wanted a home theater on the ground floor rather than in the basement "where you have to hide yourself away," says Mr.

Scharf, 46, co-founder and CEO of Talenthause, a global platform connecting brands and artists.

A giant screen disappears into the limestone floor of the family-room area, and an oak-strip acoustic ceiling, suitable for large public spaces, means "the kids can watch a Disney movie" in the family room," says Mr. Scharf, "while the adults can have a normal conversation" in the dining area.

Adult- and child-friendly spaces fill the basement. Mr. Scharf, who developed a taste for premium Napa red wines during his years in Silicon Valley, opted for a glass-enclosed wine lounge rather than an old-school cellar. The basement also has

spa facilities: a steam room, a sauna and an indoor pool area separated from the wine lounge by a glass wall.

On the other end of the pool, another glass wall offers a view into the adjacent outdoor pool.

Kids love the novelty, while adults can supervise from the lounge, glass in hand. "We can watch the kids without getting splashed," Mr. Scharf says.

The spa facilities cost \$201,500, and Mr. Scharf spent \$22,400 on the wine lounge, which has two wine refrigerators, at \$5,600, that simulate cave conditions.

The third level has his daughter's double bedroom with a terrace, a guest room and an office. The top floor has an open-plan master suite with two terraces. Views include the heart of the city with the steeple of St. Stephen's.

Mr. Scharf and his wife have family in Croatia and Hungary. They took it as a good sign that the spec home's creative team was a Croatian-born architect, Zoran Bodrozig, and his Hungarian collaborator, interior designer Zsolt Szalai.

To bring more light inside, Mr. Bodrozig filled the backyard with two large ponds—one of which serves as a natural filtering system for the adjoining pool.

Meanwhile, Mr. Szalai designed everything from the bookcases under the family room's tricky slanted wall to the sinks and tubs in the bathrooms—outfitted with

### KEY COSTS

Property **\$1,674,000**

Construction **\$1,897,000**

Electrical system **\$603,000**

Elevator **\$50,400**

Floors/Doors/Interior **\$535,700**

Architect Fees **\$580,000**

Kitchen **\$106,000**

Heating/Cooling **\$279,000**

faucets from Denmark's Vola.

The bathrooms cost \$133,700. The open master suite—with combined bedroom and bath—features a tub and shower with a skylight. "When you take a shower at night," Mr. Scharf says, "you can see the stars."

Mr. Scharf's big splurge? The landscaping: about \$302,000 for the small lot, plus the ponds and pool. He sought the help of an A-list Austrian company, Kramer & Kramer. The potted olive and fig trees are picked up and stored in greenhouses over the winter. Several newly planted mature pine trees offer privacy.

Mr. Scharf, who drives a Tesla, is a futurist who plans one day to equip the house with enough solar energy to generate its own electricity needs. His immediate concern was to have all his home's smart functions in one system. He combed the world but found the solution nearby: a Viennese startup called Integius, which uses a visual system to simplify controls for everything from security cameras to speakers—for \$167,000.

Mr. Scharf has moved his family nearly a dozen times over the past several years, but he plans to stay put until his daughter graduates from high school. He has one regret about his new Vienna villa: the spruce trees, whose needles cause extra upkeep for the yard's ponds. "We're stuck here for the next 10 years," he says, "but it's not a bad place to be."

## MANSION

HOUSE CALL | EDDIE IZZARD

# A Lost Childhood Found

The British actor and comedian gets a surprise gift in Sweden that transports him back to an early home

**When I was a child, I was addicted to sugar. All kinds—liquid and solid—everything, except licorice. I thought licorice was disgusting and that it had nothing to do with the world of sugar.**

Sweets were so important that when I was 6 and at boarding school, I went so far as to chew gum that I found in a hedge.

I grew up in Bangor, Northern Ireland, about a half-hour northeast of Belfast on the coast. My parents and my older brother, Mark, and I lived in a one-level bungalow. I loved it there. Those were golden days spent playing with friends, mucking about and picking berries.

My mother, Dorothy, was everywhere—cooking, cleaning and getting up in the middle of the night to make me a milky coffee. That was sweetened warm milk with a bit of instant coffee. My mum had been a nurse, so she was patient and loving.

Around the time I was 5, our family went on a summer vacation to Gothenburg on the west coast of Sweden. My father, Harold, worked for British Petroleum, and a colleague of his had invited us.

Soon after we returned home, we moved from Northern Ireland to Skewen, Wales. My father was transferred there. He was a self-trained accountant who, despite never having taken the accounting exam, had redesigned the way BP crunched its refinery numbers.

One day in March 1968, Mark and I rushed into my mother's room to say goodbye before leaving for school. My mom was yellow and had been ill, but we gave her a kiss anyway before heading off. That was the last time we saw her. She died later that day. For us, childhood was over the moment we returned from school.

Later, I learned that my mother

had colon cancer and that my dad had asked to be transferred to Wales. Skewen was on a direct route from London, so mom's immediate relatives could drive up or take the train.

Our two-story house in Wales was white. We didn't have a garage, which was disappointing. I had hoped for that American TV experience where you open the kitchen door and there's the car.

But we did have an air-raid shelter in the back from World War II. It was down a few steps, and the space was damp and musty, like a sunken garage. Dad used it for storage.

Wales was different from Northern Ireland. My brother and I had to be driven to school instead of walking, and we wore a uniform and cap, which was sort of fun.

Mark and I shared a room and slept on bunk beds, with my brother on top—which meant I controlled my own nightlight. My dad often read us books before bed, including C.S. Lewis's "Chronicles of Narnia" adventure series.

When I began boarding school in 1968 after my mother's death, the other boys left me alone because I would just argue with them. I was stubborn and scared, and trying not to show my fear. I wasn't one of the gang who used to pry the putty out of window frames, remove the glass and sneak into town to steal breakfast cereal. I never liked the herd mentality.

I got my first laugh when I was 12. A teacher wrote a bunch of sketches, and I was asked to mime the behavior of a cricket player. I



**JOURNEY** Eddie Izzard, top right, who calls himself an 'action transvestite,' in London in 2015; above on right, with brother, Mark, in Bishop's Stortford, England, in 1970; right, with his mother, Dorothy, in Bangor, Northern Ireland, in the mid-1960s.



had all the mannerisms down. When I finished, the whole school audience laughed.

After that experience, I realized I loved comedy and watched it all the time on TV. I even taped sketches with my recorder to listen back and develop my timing.

When I graduated high school, I went off to the University of Sheffield in England to study math, accounting and financial management. I had a head for numbers.

But during college, I realized that accounting was going to be too rigid. My mind couldn't sit



still, so I dropped out. A friend, Rob Ballard, and I teamed up as street performers and made a go of it in London.

My first stand-up comedy appearance came in 1987, when I was 25, at the Banana Cabaret in South London.

I got on stage and did five minutes on St. Paul writing a contemporary letter to the Corinthians. It went over well, and I began hammering my way up the comedy ladder.

Today I live in London and Los Angeles. In London, I live in the central part of the city, near Victoria Station.

My three-story house has a basement, which is my favorite space. It's a big open room with a large table in the center and a kitchen. It's a bit of a mess, but it's my mess. I don't keep sugary

things in the house. I'm running marathons now, so I avoid them. As a substitute, I eat dried mango.

Years ago, when I was in Sweden doing a stand-up gig, the youngest daughter of the family we had stayed with when I was little came up to me. She said her father had Super 8 film for me.

At home, when I looked at a copy of the faded footage, I was stunned. There was my mother moving about, the sun in her face, while holding my hand and my brother's hand. In an instant, she was alive again and so was my childhood. I've watched the film many times, and it always brings my mother back to bright and shining life.

—As told to Marc Myers

**Eddie Izzard, 55, is a comedian and actor. He is the author of "Believe Me: A Memoir of Love, Death and Jazz Chickens" (Blue Rider).**

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## MANSION

# LONDON COUNTS ON THE COOL CROWD



CLOCKWISE FROM TOP: VIVE LIVING; LYNN SMITH ARCHITECTS; GRANT FRASER / ENSTAR CAPITAL; DIANE AUCKLAND / FOTHAUS

**JAVA SPACE** In Deptford, Childers Street has a coffee hangout and bar, rendering above. Rents start at \$1,700 a month for a one-bedroom unit to \$2,750 a month for a three-bedroom unit.



**BOUTIQUE** Trendy shops under disused railway arches near Deptford Market Yard, a development that opened last year.

*Continued from page W9*  
a three-bedroom penthouse.

"I hate the term hipster but I suppose that is who it is aimed at," said David Pollock, a director of Union Developments. "It is the generation involved in startups or who works in the City," London's nearby financial district.

Mr. Pollock anticipates his buyers will range in age from their early 20s to mid-40s, and added that the company won't actively look for either investor landlords or overseas owners.

"We want the place to have life," he said.

In the Notting Hill neighborhood of West London, building permits were issued earlier this month for apartments in a Victorian-era building renamed Sartoria House. The facade will feature a 7-by-14-foot work by the street artist Banksy that was salvaged from the side of the building. The developer, Enstar Capital, plans to protect the piece, "The Painter," which it says is worth \$2.9 million, with bulletproof glass.

Sartoria House, which will also include restaurants around an open-air piazza, is expected to be completed late next year. Rental apartments will start at about \$1,300 a week.

The move toward homes geared at hipsters comes at a challenging time for luxury London property. Since 2014, the prime market has quieted thanks to a mixture of tax increases, Brexit and domestic political upheaval. New developments continue to go on the market, and developments started in around 2014 are coming to completion.

Many early buyers are attempting to "flip" their purchases on to new owners. Discounting has become the norm, with buyers able to knock 5% or 6% of asking prices, said Nick Parr, a director at Knight Frank and specialist in new homes.

This glut of luxury homes means developers are now changing tack, targeting the young, fashionable and solvent rather than the super wealthy, and focusing on east London, where prices are lower than in prime neighborhoods.

"Where we used to see massive gyms and sky lounges we are now seeing tech as the driver," said Mr. Parr. "A main reason is that ser-

vice charges were getting very, very high and people were getting nervous about paying them."

Mr. Parr said many developers are opting for a "warehouse-style" aesthetic, prioritizing super high-speed broadband and bicycle parking over spas and swimming pools. Another popular—and economical—offering is dedicated apps for residents to communicate with

### A glut of luxury homes means developers are now changing tack, targeting the young and fashionable rather than the super wealthy.

neighbors, posting events and creating a community feel.

Developers are also curating the retail units they allow onto their sites.

"Ground-floor uses drive residential values more than anything else," said Mr. Parr. "People don't want to live in a building with a Starbucks underneath. What they want is a cafe serving craft beer and artisanal bread."

In Deptford, a trendy neighborhood in southeast London, residents at Childers Street, a former propeller factory, converted into 83 rental apartments have a coffee hangout and bar, an on-site movie theater with regular film nights, communal workspaces and a communal roof terrace.

The apartments themselves feature high ceilings, huge windows and industrial styling, along with integrated Sonos music systems.

"We did a lot of research, speaking to 20 and 30 year olds, and the feedback was loud and clear," said Jamie Lester, group marketing director.

Childers Street opened in mid-June, with rents starting at about \$1,700 a month for a one-bedroom apartment to \$2,750 a month for a three-bedroom unit—prices that the developer, Vive Living, says are comparable to area rents.

"We are seeing this sort of thing more and more," said Jason Margetts, head of east London res-

idential development at Savills. Developers are looking at "quality amenities like an artisan bread maker, a really good barista, which might not already exist in an up-and-coming area."

This market showed its muscle at Deptford Market Yard, a development close to Childers Street that opened late last year. It features 121 modern apartments and 11 townhouses.

Its appeal, location aside, comes from the mix of shops built into disused railway arches below. Developer U+I included trendy hairdressers, design shops and boutiques, Little Nan's—which features cocktails served in teapots—a coffee shop, several restaurants and a fitness center specializing in circus-skills training.

All but one apartment in the development was sold off plan back in February 2014, at prices starting at about \$334,000 for a studio up to \$960,000 for a two-bedroom penthouse.

Even with discounts, this new breed of apartments will pose financial challenges to buyers and renters alike. The apartments might well appeal to young and fashionable startup bosses and aspiring writers, but in reality, it is only those with affluent families or high-paying finance jobs who are likely to be able to afford them.



**DESIGN FOR THE AGES** Monohaus, rendering above, will feature industrial-style design. Developers of Sartoria House in Notting Hill salvaged street art by Banksy, below, and will display it under bulletproof glass when the building is finished next year, depicted in rendering at bottom.

