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What's News

Business & Finance

Takata said it filed for bankruptcy protection and plans to sell much of its business to rival Key Safety Systems for around \$1.6 billion. A1

A senior executive of Australia's Crown Resorts pleaded guilty to gambling crimes in China and was sentenced to 10 months in prison. B1

Third Point disclosed a \$3.5 billion stake in Nestlé, demanding a raft of changes it said will boost margins and shares. B3

Amazon's deeper push into the grocery business threatens to further pinch packaged-food companies already coping with slowing sales. A1

The EU will soon hit Google with a fine of more than \$1.12 billion and demand changes to its business practices. B1

Puerto Rico is looking to sell itself off in parts as it is out of cash and unable to borrow money anymore. B8

Mozambique can't account for over \$1 billion raised in international markets for two state companies. B5

Jury selection was set to begin Monday in the securities-fraud trial of former pharmaceutical executive Martin Shkreli. B2

The market for a complex form of European bank debt has remained resilient despite two setbacks in the space of a month. B7

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The Supreme Court allowed Trump to implement part of his temporary ban on travelers from six Muslim-majority countries, after lower-court rulings against the ban. A1

The U.S. court also agreed to consider whether the Constitution's religion clauses allow a bakery to deny service to gay couples. A6

South Korea's foreign minister struck a conciliatory tone regarding the controversial missile system. A4

Nobel Peace Prize laureate Liu was released from prison and is receiving treatment in a Chinese hospital for late-stage liver cancer. A4

May clinched a deal with Northern Irish lawmakers that will keep her Conservative Party in government despite recent election losses. A3

Synthetic drugs are arriving in the U.S. through international parcels delivered by mail and private express services. A7

Officials in Myanmar and Thailand burned illegal narcotics worth more than \$800 million to mark the U.N. day against drug abuse and trafficking. A5

A cargo ship that hit a U.S. destroyer near Japan this month sent emergency warnings beforehand. A4

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Court Allows Partial U.S. Travel Ban

Supreme Court lets a limited version of the president's order on travelers take effect

By BRENT KENDALL

WASHINGTON—The U.S. Supreme Court allowed President Donald Trump's administration to implement part of its temporary ban on travelers from six Muslim-majority countries and said Monday it would review lower-court rulings that found the executive

actions likely unlawful.

The Supreme Court's action is a reversal of fortune for Mr. Trump, who had been on the losing end of several lower-court decisions that blocked his March 6 executive order that sought to impose a 90-day ban on U.S. entry for people from Iran, Libya, Somalia, Sudan, Syria and Yemen. The executive order, a revised version of one issued in January, also sought the temporary suspension of the U.S. program for admitting refugees.

The justices, in an unsigned 13-page opinion, narrowed the

◆ Court to decide on service denials at gay weddings

◆ Whistleblower provision on docket

◆ Gun activists frustrated by refusal to hear case

A6

scope of the ban for now, ruling the president couldn't enforce it against travelers "who have a credible claim of a bona fide relationship" with someone or some organization in

the U.S. The court imposed a similar narrowing of the ban on refugees.

The court said it would give closer consideration to the case in October, when it will hear oral arguments in the matter. The justices' action came on the last day of their current term, before they take a three-month break.

The administration, which has said the travel ban is necessary for national security, filed an emergency appeal earlier this month at the high court asking for permission to move forward with the execu-

tive order as litigation continues. The White House also asked the Supreme Court to review the underlying issues in the case and resolve whether the president's ban is permissible.

With the Supreme Court's order Monday, travelers could see Mr. Trump's restrictions go into effect in three days. In a recent memorandum, the president directed administration officials to implement his executive order 72 hours after the court granted permission to do so.

Please see BAN page A6

U.K.'s May Secures Deal to Prop Up Government



SHAKE ON IT: Prime Minister Theresa May, left, clinched an agreement with Democratic Unionist Party leader Arlene Foster, right, that will keep Mrs. May's party in government after losing its parliamentary majority. Questions remain about Mrs. May's future as leader, though. A3

Bankrupt Takata Is Poised To Live On

BY SEAN MC LAIN

TOKYO—Takata Corp.'s bankruptcy filing spells the end of a storied auto-parts maker, but the company could limp on for years supplying parts for the approximately 54 million defective air bags that still need to be replaced in the U.S. alone.

Takata said Monday it had filed for bankruptcy protection and plans to sell much of its business to rival Key Safety Systems Inc. for around \$1.6 billion. The measures are meant to ensure it can continue producing the ammonium nitrate-based inflators for the recalled air bags, which have been linked to at least 16 deaths and over 180 injuries worldwide.

A haggard-looking Shigenobu Takada, Takata's president, bowed deeply at a press conference Monday and pledged production would continue. "We will deeply apologize from the bottom of my heart to all of the relevant people and creditors who have been supporting and cooperating with us," he said.

Please see TAKATA page A2

THE ALL-SEEING SURVEILLANCE STATE IS A REALITY IN CHINA

In vast experiment, facial-recognition systems crunch data from cameras to monitor citizens

By JOSH CHIN AND LIZA LIN

SHENZHEN—Gan Liping pumped her bike across a busy street, racing to beat a crossing light before it turned red. She didn't make it. Immediately, her face popped up on two video screens above the street. "Jaywalkers will be captured using facial-recognition technology," the screens said.

Facial-recognition technology, once a specter of dystopian science fiction, is becoming a feature of daily life in China,

where authorities are using it on streets, in subway stations, at airports and at border crossings in a vast experiment in social engineering. Their goal: to influence behavior and identify lawbreakers.

Ms. Gan, 31 years old, had been caught on camera crossing illegally here once before, allowing the system to match her two images. Text displayed on the crosswalk screens identified her as a repeat offender.

"I won't ever run a red light again," she said.

China is rushing to deploy new technologies to monitor its people in ways that would spook many in the U.S. and the West. Unfettered by privacy concerns or public debate, Beijing's authoritarian leaders are installing iris scanners at security checkpoints in troubled regions and using sophisticated software to monitor ramblings on social media. By 2020, the government hopes to implement a national "social credit" system that would assign every citizen

Please see CHINA page A8

It's 5 O'Clock Somewhere—Unless You've Been Bought by Wal-Mart

Retail giant spent \$3.3 billion for Jet.com, then had to cope with its happy hour

By SARAH NASSAUER AND BRIAN BASKIN

HOBOKEN, N.J.—Soon after Wal-Mart Stores Inc. bought Jet.com Inc., employees at the e-commerce startup learned how dry life under the retail behemoth could be.

That's because Wal-Mart took away all the office booze.

In September 2016, a few weeks after the \$3.3 billion acquisition, staffers gathered in Jet's purple-themed headquarters, with sweeping views of Manhattan, to hear the rumors confirmed: Wal-Mart doesn't allow office drinking.

The startup's regular Thursday evening happy hour would have to be moved out of the office to the Wicked Wolf Tavern and other local bars. Casual deskside drinking had to go.

"People were not thrilled," said Liza Landsman, a Jet executive who in 2015 helped launch the website, which sells everything from deter-

gent to designer purses, and is now president.

Jet employees were accustomed to the perks and quirks of a startup that raised more than \$500 million from investors. They had the requisite pool table, cold-brew coffee on tap and conference rooms named after comic-book locations.

While those things stayed, an array of liquor in an office kitchen cupboard marked "Bar" didn't. Some Jet employees squirrelled away a few bottles before an outside company packed up the contraband, said one former employee.

"I would not say it's a party culture, but not the opposite of that," said another former Jet employee.

In fact, Wal-Mart had made a major concession to Jet's thousands of employees by allowing Jet to pay for an off-site happy hour. There are no champagne toasts at Wal-Mart headquarters in Bentonville,

Arkansas.

Amazon.com Inc.'s deeper push into the grocery business threatens to further pinch packaged-food companies already coping with slowing sales.

An enduring shift by consumers toward fresh and natural options is eating into the business of big food brands, like Kraft Heinz Co., Kellogg Co., and Mondelez Interna-

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LIU XI/EUROPEAN PRESSPHOTO AGENCY

BEIJING FREES
AILING
DISSIDENT

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TOO
MANY
TOURISTS

LIFE & ARTS, A9



CARGO CAPTAIN
SAYS U.S. SHIP
IGNORED ALERT

WORLD NEWS, A4

Amazon's Grocery Push Hits Food Brands

BY ANNIE GASPARRO

AND LAURA STEVENS

to develop a complete strategy, according to people familiar with Amazon's thinking.

Now, Amazon is preparing to expand into the sector with its proven history of aggressively driving down prices.

Amazon's deal to buy Whole Foods Market Inc. for \$13.7 billion, including debt, was disclosed about six weeks after its first meeting with executives. Because the deal came together so quickly, Amazon hasn't yet had the time

to develop a complete strategy, according to people familiar with Amazon's thinking. But the company is likely to leverage its negotiating expertise and the combined scale of the business to push for lower prices from suppliers, they said.

Amazon "will keep squeezing national brands on pricing," said James Thomson, a former senior manager in business development at Amazon.

Please see AMAZON page A2

WORLD NEWS

Democrats' Challenge: Middle-Class Appeal



CAPITAL JOURNAL

By Gerald F. Seib

Democrats have entered a summer of discontent, in which their disdain for President Donald Trump is matched by their frustration at an inability, so far at least, to notch an election victory that would show they can translate anti-Trump sentiment into success at the ballot box.

They are troubled most immediately by their failure to capture a seemingly winnable vacant House seat in suburban Atlanta last week. That has precipitated a round of backbiting and second-guessing, and a debate about whether the party's success lies in staking out the political center, to claim the votes of independent and moderate Republicans put off by the coarseness and unpredictability of Mr. Trump, or in moving left to capture and spread the passion of those who want a clean and sharp break from the status quo.

Democrats might want to pause, though, to consider a broader problem: Why has their hold on the middle class loosened?

This is the trend that made the Trump phenomenon possible, and that Mr. Trump in turn appears to have exacerbated. The scope of Democrats' problem is visible in the latest Wall Street Journal/NBC News poll. Less



Supporters of Democrat Jon Ossoff after the candidate failed to win a vacant House seat in Georgia.

Increasingly, middle-class voters also worry about job security. That's where Mr. Trump has sapped away some of Democrats' middle-class appeal, particularly with his tough trade rhetoric.

"Especially in Pennsylvania and the Midwest, there is a real belief the country hasn't stood by them," says Larry Cohen, chairman of Our Revolution, an activist group that has absorbed much of Sen. Bernie Sanders's 2016 presidential campaign. "In Iowa, somebody said to me, 'We like to make things and grow things.' Well, good luck making things today."

Part of the issue is cultural. As the Democratic Party has become more centered in urban areas and along the coasts, it has cemented its connection to younger and more highly educated Americans but has lost its appeal to some middle-class and would-be middle-class voters.

Hints of all these effects lie within the Journal/NBC News poll. Belief that Democrats are the champions of the middle class is notably low in the Midwest (33%), among rural voters (31%) and among white men with less than college educations (25%). Taken together, those voters make up the core Trump constituency.

The problem as well as the potential for Democrats can be found in another set of numbers. Just 20% of self-identified political independents say Democrats do a better job at looking out for the middle class. But belief in the Republicans is almost identically low. Perhaps the Democrats' challenge is less to move left or right than to craft a message that appeals to them.

visible is what the party can do to reverse it.

For more than a quarter of a century, the Journal/NBC News poll has been asking Americans which party—the Democrats or the Republicans—would do a better job of looking out for the middle class. In 1990, the Democratic advantage was enormous: By a whopping 29-point margin, 47% to 18%, Americans said the Democrats would do the better job for the middle class.

By 2011, the Democratic margin had shrunk to 20 points. Now, in the latest survey completed last week, the Democratic advantage has shrunk to 13 points, the

smallest gap ever.

This isn't an incidental data point. In American politics, the middle class occupies hallowed ground that parties yearn to control. Americans with lower incomes want to become part of the middle class, and thus are drawn to the party that can pave the way there. Those already in the middle class want to be assured they won't slip backward and out of it. And at least some of those who have risen above the middle class are grateful to whichever party and policies gave them the chance to do so.

So just about every eco-

nomic policy from both parties is pitched as a magic elixir for the middle class. The question for Democrats is why their pitch doesn't have the same resonance as before.

Part of the answer may lie in the party's priorities. Democrats' signature domestic achievement in recent years, the Affordable Care Act, was designed in large measure—and admirably so—to extend health coverage to Americans who couldn't otherwise afford it. But while providing health security to many low- and middle-income people, it also produced a fair amount of health insecurity to oth-

ers in the middle class, through higher insurance premiums and shrinking coverage options.

Similarly, Democratic efforts to raise the minimum wage speak more loudly to low-income Americans than to the middle class.

By contrast, middle-class worries trend more toward finding a way to buy a home and paying for college costs. Chicago Mayor Rahm Emanuel says that's a reason one of the most politically successful initiatives he has pursued has been a program to provide tuition-free community-college educations to city high-school graduates.

TAKATA

Continued from Page One

Under the Japanese supplier's current plan, a reorganized Takata will handle liabilities not assumed by Key Safety, specifically producing the inflators for continuing recall repairs, according to bankruptcy-court documents.

By the end of 2019, the U.S. recall will expand to cover 70 million air bags—in 42 million cars—from about 46 million currently. Only around one-fifth of the eventual total had been repaired as of May 26, according to U.S. National Highway Traffic Safety Administration data.

Consumers have complained of parts shortages at repair facilities, and some bags may need to be replaced more than once, as early replacements—deemed still problematic—age and the ex-

plosion risk grows. The recall—the largest automotive-safety campaign in U.S.—affects cars from 19 manufacturers, from luxury makers like BMW AG and Tesla Inc. to Ford Motor Co. and Honda Motor Co.

Car makers in theory could seek compensation from Takata for their recall costs or simply take their business elsewhere. Thus far, they appear more concerned about making sure Takata's factories keep churning out replacement parts.

Japanese car companies have said that they will continue to purchase replacement parts from Takata, and in filings on the Tokyo Stock Exchange on Monday indicated they expect most of their recall costs won't be reimbursed by Takata.

Those companies include Honda, the maker most exposed to the recall. It has set aside ¥556 billion (\$4.9 bil-

lion) over two years to cover its recall costs, fueling losses as its peers have enjoyed record profits from strong U.S. car sales and a weak yen.

But Honda is further ahead in the recall than others, having repaired more than 10 million of the currently recalled air bags, or roughly 59% of its share. That compares with 34% for Toyota Motor Corp. and 29% for General Motors Co., according to the NHTSA—and only 2% for Daimler AG Mercedes-Benz.

Two years into the U.S. recall, lawmakers are critical of the progress. "We've got to pick up the pace on boosting production of replacement inflators and assisting consumers who need to get their vehicles fixed," said Sen. Bill Nelson (D, Fla.) in a statement this month.

The problem is more pressing in states like Mr. Nelson's, where heat and high humidity increase the likelihood the Takata air bags will explode with excessive force, spraying shrapnel inside the vehicles. Regulators have made these regions the priority.

In Japan, three-quarters of Takata's recalled air bags have been replaced. Car makers credit the country's mandatory vehicle-safety inspections. There are also significant numbers of recalls elsewhere, including Europe.

Takata expects to be producing replacement parts at least until March 2020, according to replacement plans from car makers.

Timeline: Takata's Inflating Crisis

- ◆ November 2008 Honda recalls 4,000 vehicles globally equipped with rupture-prone Takata air bags.
- ◆ 2009 Takata air-bag ruptures are linked to two driver deaths.
- ◆ April 2013 Takata informs U.S. regulator that a manufacturing defect is to blame for air-bag ruptures. Toyota, Nissan and Mazda recall vehicles equipped with Takata air bags.
- ◆ May 2015 Takata determines that more air bags could be defective, and agrees to monitoring by a third party appointed by the U.S. regulator. The recall expands to include
- 22 million air bags in the U.S.
- ◆ May 2016 The number of air bags recalled is more than doubled after the U.S. regulator determines the ammonium nitrate used to inflate them will dangerously degrade even without a manufacturing defect. Takata is required to complete the recall by the end of 2019.
- ◆ June 2017 U.S. Sen. Bill Nelson (D, Fla.) says only a third of the 46 million air bags currently recalled had been repaired. The total number recalled is set to rise to 70 million.
- ◆ Monday Takata files for bankruptcy in Japan and the U.S. and announces a preliminary agreement to sell operations to Key Safety Systems for \$1.6 billion.



Takata boss Shigehisa Takada bowed in apology on Monday.

CORRECTIONS & AMPLIFICATIONS

The surname of Claude Moniquet, a former French intelligence official who leads the Brussels-based think tank European Strategic Intelligence and Security Center, was misspelled as Monique in a Page One article on Monday about recent terror attacks in Europe.

TripAdvisor Rentals has approximately 800,000 vacation homes. An Off Duty article in the Friday-Sunday edition about vacation rentals incorrectly said the company has 300,000 vacation homes.

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

AMAZON

Continued from Page One

azon and now partner at brand consultancy Buy Box Experts. Amazon's initial priority will likely be to lower Whole Foods' operating costs so that it can charge less for groceries, in hopes of winning more customers, according to the people familiar with the company's thinking. Amazon and Whole Foods declined to comment for this article.

Whole Foods Chief Executive John Mackey told employees this month that one of Amazon's core values was "frugality," hinting at a greater focus on cutting costs and lowering prices for shoppers.

Whole Foods' sales have suffered over the past two years, partly because of a perception among shoppers that its offerings are too expensive.

"If Amazon steers Whole Foods away from its 'whole-paycheck' image, and successfully sells Whole Foods' products online, then 'Big Food' faces the threat of losing even more market share," said Rabobank food analyst Nicholas Fereday.

Mondelez's comparable sales in North America declined by 1.9% in its most recent quarter. Kraft Heinz's U.S. comparable sales fell 3.5%, and Kellogg recently lowered its 2017 comparable sales growth forecast to negative 3%, excluding currency-rate fluctuations. Most packaged-food companies have turned to cost-cutting to boost their profit margins.

Amazon has worked on developing its own private label, and last year made a big push into perishable food. Analysts and former employees expect the company to use Whole Foods to build out its own labels and capitalize on the grocer's success with its 365 brand, which accounted for 15% of its most recent fiscal year's sales.

Amazon's Whole Foods deal could also widen the reach of natural and organic brands by putting them online, making them more competitive with traditional, ubiquitous brands.

Alexander Pease, chief financial officer of pretzel maker Snyder's-Lance Inc., said at a conference last week that the deal would generate another "level of discussion

Catching Up

With the acquisition of Whole Foods, Amazon will become even more competitive in the grocery business.

Estimated U.S. market share of food and beverage sales

Wal-Mart	25.0%
Kroger	10.0%
Albertsons	7.0%
Costco	6.0%
Whole Foods	2.0%
Amazon	1.6%

Source: Susquehanna Financial Group

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with [retailers] around price."

But Susquehanna Financial Group analyst Pablo Zuanic said the Amazon-Whole Foods' combined share of about 4% of U.S. grocery sales hasn't enough "clout" to hurt big food companies in the way of bargaining power.

It could also take time before food makers start feeling pressure, because the deal hasn't been completed, and Amazon's strategy for Whole Foods could shift, the people familiar with the company's thinking said. The deal is expected to be completed this year.

Whole Foods' CEO hinted at a greater focus on cutting costs and lowering prices.

Companies such as PepsiCo Inc. and Mondelez, which have top-selling brands and a global presence, are best positioned to withstand the impact of a combined Amazon and Whole Foods, some analysts said.

But mainstream brands with less market share are likely to get squeezed by niche organic options on the high end and private-label copycats on the low end, they said.

UBS analysts see Campbell Soup Co. and Conagra Brands Inc., two less diversified players that are already facing big problems as consumers move away from packaged-foods, as among the companies that could suffer most from the combination of Amazon and Whole Foods. Campbell's comparable sales fell 1% in the latest quarter. Conagra's compa-

rable sales fell 4.8% in its last reported quarter.

"We enjoy good working relationships with both Amazon and Whole Foods and expect that to continue," a Campbell spokeswoman said. Conagra declined to comment.

In the past, Amazon has been willing to lower price tags at the expense of margins to gain traction in a new market. Amazon's stock has risen even when profits didn't, indicating investors' patience with the company's strategy to push for long-term gains.

Mr. Thomson, the former Amazon manager, said that in its bread-and-butter online retail business, Amazon has taken a tough stance to match or beat competitors, even if that meant prices dropped below a brand's minimum. The company also typically attempts to negotiate lower prices with brands each year, he said.

And when it comes to private label, "Amazon will move much faster at building new brands than any national brand can today," Mr. Thomson said.

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WORLD NEWS

U.K. Conservatives Reach Deal to Rule

Despite pact with Northern Irish lawmakers, May remains vulnerable

By JASON DOUGLAS
AND STEPHEN FIDLER

LONDON—U.K. Prime Minister Theresa May clinched a deal with a group of Northern Irish lawmakers that will keep her Conservative Party in government despite the loss of its parliamentary majority in elections this month.

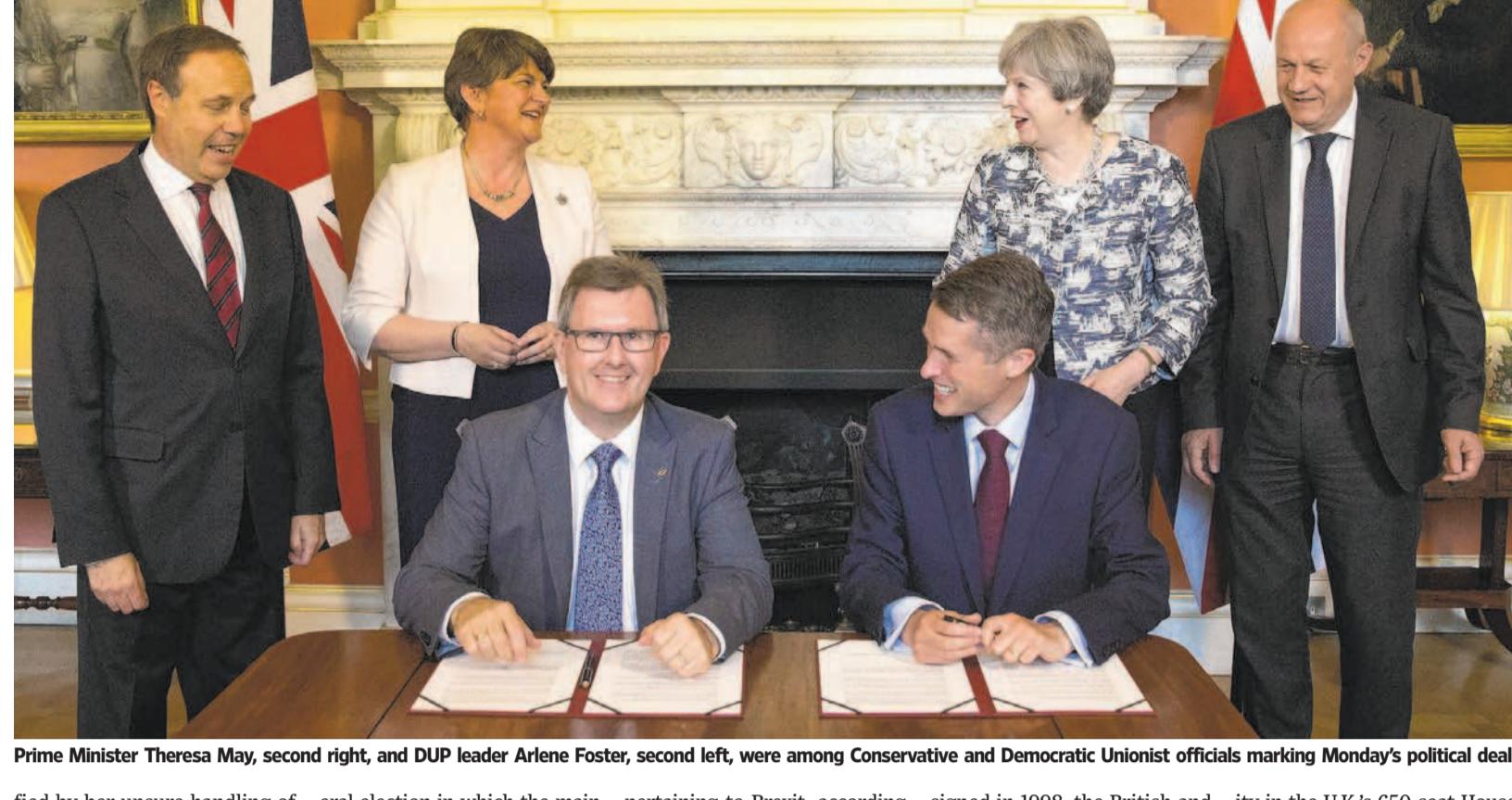
Downing Street on Monday said the Conservatives agreed to a so-called confidence-and-supply arrangement with Northern Ireland's Democratic Unionist Party that guarantees the smaller party's support at critical parliamentary votes—including those associated with the country's exit from the European Union.

The deal means Mrs. May is likely to clear her first major parliamentary hurdle since losing her majority when lawmakers on Thursday vote on her party's legislative agenda.

But while dispelling some of the political uncertainty dogging the U.K. since the June 8 vote, big questions remain about whether she will be able to push through critical parts of the agenda, including Britain's departure from the European Union.

The government's majority is thin and vulnerable to any rebellions from within her own party, either from its anti-EU or pro-EU wings. Also the House of Lords, the unelected second chamber that is strongly anti-Brexit, is also likely to claim more scope to hold up or amend legislation proposed by a minority government.

Big questions remain, too, about Mrs. May's future as leader. Those have been ampli-



Prime Minister Theresa May, second right, and DUP leader Arlene Foster, second left, were among Conservative and Democratic Unionist officials marking Monday's political deal.

fied by her unsure handling of the fire in the Grenfell Tower apartment building that killed at least 79 people.

Mujtaba Rahman of the Eurasia Group consultancy described the Conservative Party's mood as volatile, saying "a change of Tory leader is still possible within months."

In any event, he wrote in a research note, Mrs. May is unlikely to survive long enough "to do Brexit." The U.K. expects to leave the EU in March 2019.

He said one factor helping her hang on was the absence of a natural successor among leading Conservative politicians.

Some Conservatives are also concerned about creating further uncertainty with Brexit negotiations under way, and eager to avoid a further gen-

eral election in which the main opposition Labour Party could gain further ground and could even lead a new government.

David Davis, the Brexit minister and a likely candidate to succeed Mrs. May, said on Sunday that talk of replacing her was "self-indulgent."

Speaking after the agreement with the Conservatives was announced, DUP leader Arlene Foster said the pact "will operate to deliver a stable government in the United Kingdom's national interest at this vital time."

The party agreed to back the Conservatives' tax and spending proposals and other crucial votes that governments in the U.K. must win to stay in office. It also has agreed to support the government on all legislation

pertaining to Brexit, according to a three-page document setting out terms of the pact. Support on all other policies will be determined "case by case," the agreement said.

In return, London pledged an extra £1 billion (\$1.27 billion) of public spending in Northern Ireland over the next five years in areas including infrastructure, education, health and economic development. Mrs. Foster said the Conservatives also agreed to ditch proposals on overhauling benefit payments for retirees that the DUP opposed.

Mrs. May sought to ease concerns that the deal with the DUP would undermine the U.K. government's role in supporting the peace process in Northern Ireland. Under terms of the Good Friday Agreement

signed in 1998, the British and Irish governments act as impartial mediators between the main Protestant and Catholic parties.

Mrs. May said the U.K. remains steadfast in its commitment to the peace process and the revival of Northern Ireland's devolved government in Belfast, where power is shared between mostly Protestant pro-British political parties including the DUP and Irish nationalists such as Sinn Féin.

The assembly has been suspended since February amid recriminations over a botched renewable-energy plan and other disagreements.

The Conservatives won 317 seats in a national election June 8, falling short of the 326 needed for an outright major-

ity in the U.K.'s 650-seat House of Commons. Adding the DUP's 10 to Mrs. May's tally gives her a working majority of 13, because Sinn Féin's seven elected lawmakers don't take up their seats and three others serve as Parliamentary officers and don't participate in votes.

Sinn Féin criticized the pact. "It provides a blank check for a Tory Brexit, which threatens the Good Friday Agreement," said the party's president, Gerry Adams.

However, Ireland's foreign minister, Simon Coveney, said he welcomed both parties' recommitment to the Good Friday Agreement as well as "the commitment by the British Government to govern in the interests of all parts of the community in Northern Ireland."

EU Urges 'More Ambition' on Citizens' Rights in Brexit

The European Union's chief Brexit negotiator called on the U.K. to show "more ambition" in protecting the rights of EU citizens following the U.K.'s departure from the bloc after London laid out detailed proposals on the issue.

By Jason Douglas in London and Valentina Pop in Brussels

The proposals, which come just over a year after the U.K. referendum vote to leave the EU, would give EU citizens living in the U.K. as long as two years after Brexit to seek permission to stay indefinitely in the country.

London is hoping for an

early success in Brexit negotiations with the EU on the rights of the more than three million EU nationals in Britain and the more than one million U.K. nationals living in the union's 27 other member states.

Prime Minister Theresa May sketched out her plan at a meeting of EU leaders last Thursday, but it met with a lukewarm reception from other leaders, who said there is still work to be done to reach a deal.

Presenting more detailed proposals to Parliament, Mrs. May described her plan as "fair and serious" and stressed that EU citizens in the U.K. are an integral part of British society.

After Monday's more detailed statement, Michel

Barnier, the EU's chief Brexit negotiator, called for "more ambition" from the U.K.

"EU goal on #citizensrights: same level of protection as in

More than three million EU nationals currently reside in Britain.

EU law. More ambition, clarity and guarantees needed than in today's UK position," Mr. Barnier tweeted.

The U.K. government said in a 24-page paper that EU nation-

als will be able to apply for permanent "settled status" in the U.K. for themselves and their families if they have lived in the U.K. for five years or more before a cutoff date yet to be agreed with the EU.

Guy Verhofstadt, the European Parliament's point man on Brexit, said on Monday that while he welcomed the U.K. proposal, "a number of limitations remain worrisome and will have to be carefully assessed."

"The European Parliament will act to protect the rights of EU citizens in the U.K. and defend the integrity of EU law, including the Charter of Fundamental Rights and its enforcement framework," he said, in reference to the ECJ.



Protesters demand EU residents be allowed to remain in the U.K.

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WORLD NEWS

China Frees Ailing Dissident From Prison

Liu Xiaobo served more than seven years of an 11-year sentence for subversion

BY JOSH CHIN
AND TE-PING CHEN

BEIJING—Chinese Nobel Peace laureate Liu Xiaobo was released from prison on medical parole, more than seven years into a sentence that drew wide Western condemnation but that ultimately has had few negative consequences for China.

Mr. Liu, who is 61 years old, was determined to be in the final stages of liver cancer on May 23 and was receiving treatment at a hospital in the northeastern city of Shenyang, said his lawyer, Mo Shaoping, citing a conversation with Mr. Liu's family members.

The Liaoning Prison Administration Bureau confirmed that Mr. Liu had been released in a statement posted late

Monday. It said eight noted cancer experts had been assigned to treat him.

A poet and literature professor, Mr. Liu was detained in late 2008 shortly after he led the drafting of a pro-democracy manifesto that spread widely in Chinese intellectual circles. He was declared guilty on Christmas Day the following year and sentenced to 11 years imprisonment. Writers including Salman Rushdie and Margaret Atwood lobbied for his release.

In 2010, Mr. Liu was awarded the Nobel Peace Prize, a move that deeply angered China, which described Mr. Liu as a "criminal." Mr. Liu's wife, Liu Xia, has since been under house arrest.

In a smartphone video posted to the WeChat instant messaging app by a family friend on Monday, Ms. Liu appears distraught over news of her husband's illness. "He can't undergo surgery, or do chemotherapy or radiation therapy," she says in tears.



Liu Xiaobo

Those in the human-rights community who hoped global condemnation would pressure China into softening its treatment of political dissidents have been disappointed.

"The world community has largely forgotten Liu Xiaobo," said Jerome Cohen, director of the U.S.-Asia Law Institute at New York University. He said

Mr. Liu's fate was a sad reminder of longstanding oppression in China.

In the years since Mr. Liu was arrested, Beijing has seen its international clout grow. Chinese investment has poured into Africa, across Asia and elsewhere and Beijing has become more assertive about wielding that economic influence to further strategic interests. Criticism of its imprisonment of Mr. Liu and other dissidents has grown fainter.

"China has paid a very small price for imprisoning Liu Xiaobo," said Steve Tsang, director of the SOAS China Institute in London. "It's a reflection of the rise of China. We see most countries don't want to pick a fight with the Chinese," he said.

Last week, the United Nations Human Rights Council adopted a China-backed resolution affirming Beijing's long-standing position that held up development as promoting human rights. A plan by the Eu-

ropean Union to condemn China's human-rights record at the U.N. body was blocked by Greece, a destination for heavy Chinese investment.

In the U.S., the Trump administration has focused its dealings with China on trade and enlisting China's help in reigning in North Korea's nuclear program rather than human rights.

Neither the U.S. nor the European Union signed a joint letter from 11 embassies in March criticizing Beijing over allegations that it was using torture to extract confessions from detained activists and human-rights lawyers.

The U.S. Embassy in Beijing didn't immediately respond to a request for comment on Mr. Liu's release or criticism the U.S. could do more to press China on human rights. In the past the State Department has said it routinely raises human rights in meetings with Chinese officials.

International human-rights

groups reacted sharply to the news of Mr. Liu's release.

"Liu Xiaobo should never have been jailed in the first place," said Sophie Richardson, Asia director for Human Rights Watch. That he was released with late-stage cancer "shows all the pathologies of human rights in China today," she said.

Mr. Liu participated in the 1989 pro-democracy demonstrations on Tiananmen Square, and wrote extensively about them after China's military was called in to crush them. "The day seems more and more distant and yet for me it remains a needle inside my body," he wrote in a poem years later.

The manifesto Mr. Liu helped write, "Charter 08," called for a broad set of changes in China, including a new constitution, to bring about a more democratic system, though it stopped short of calling for the overthrow of the Communist Party.

—David Gauthier-Villars contributed to this article.

Satellites Help Australia Reel In Fish Poachers

BY ROB TAYLOR

CANBERRA, Australia—Researchers in Australia and the U.S., backed by Microsoft Corp. co-founder Paul G. Allen, are using satellites to fight illegal fishing—which causes billions of dollars a year in commercial losses and depletes stocks.

With the world's third-largest fishery zone covering 3.5 million square miles, Australia is at the forefront of efforts to combat poaching. Its patrol ships have chased illegal trawlers almost as far as South Africa, a distance of 4,600 miles, to stop the plunder of prized Patagonian toothfish—sold in the U.S. as Chilean sea bass.

Australian government scientists and Vulcan Inc., Mr. Allen's private company, have developed a notification system that alerts authorities when suspected pirate vessels from West Africa arrive at ports on remote Pacific islands and South America.

The system, announced this week, relies on anticollision transponders installed on nearly all oceangoing craft as a requirement under maritime law. These devices are detectable by satellite.

A statistical model helps identify vessels whose transponders have been intentionally shut off. Other data identify fishing boats that are loitering

in risk areas, such as near national maritime boundaries.

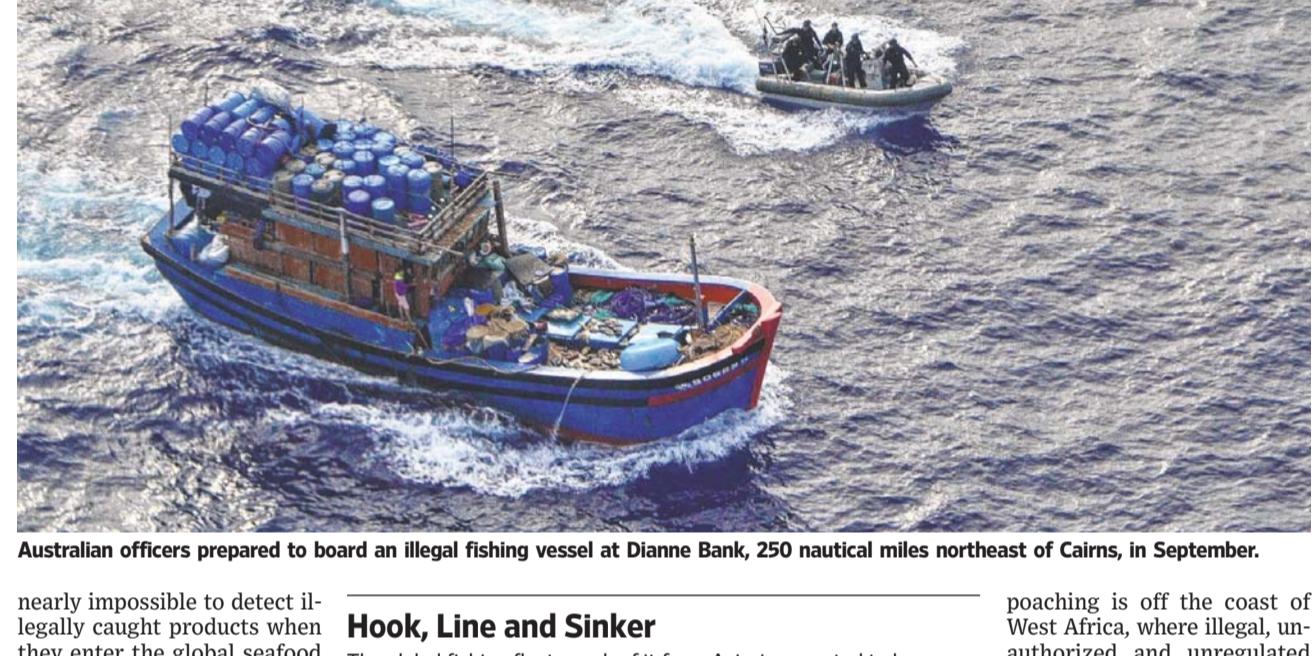
"We can shine a spotlight on vessels acting suspiciously based on factors including the vessel's history, movement and whether its transmitter has been intentionally disabled," said Chris Wilcox, who helped develop the system for Australia's Commonwealth Scientific and Industrial Research Organization.

"On one hand you can't see them [if their transponder is switched off], but on the other it means they've just flagged themselves as avoiding surveillance, and as a risk indicator, that's at the top of the list," he said.

Illegal fishing is estimated to account for 11% to 19% of the global catch, according to Australia's government and the United Nations Food and Agriculture Organization. And one-third of all fish sold in the U.S. is believed to be caught illegally.

Seafood consumption in wealthy nations has soared in recent decades, increasing reliance on imports. Between 1980 and 2014, U.S. seafood consumption rose 60%, with imports now meeting 90% of the demand, according to Global Fishing Watch and the World Wildlife Fund.

Illegal fishing can be highly lucrative because violators don't pay duties or taxes on their illegal catches. And it is



Australian officers prepared to board an illegal fishing vessel at Dianne Bank, 250 nautical miles northeast of Cairns, in September.

nearly impossible to detect illegally caught products when they enter the global seafood market, Dr. Wilcox said.

Poachers ignore catch quotas intended to protect species from overfishing and use outlawed equipment, including nets stretching 15 miles or more that scoop up everything in their path. Illegal fishing causes commercial losses of as much as \$23 billion a year worldwide, according to the U.N.

Nearly half of the world's population relies on seafood as a primary source of protein, the Commonwealth Scientific and Industrial Research Organization says, and demand is expected to grow. Fish exports were valued at about \$148 billion in 2014, U.N. statistics show.

The researchers' satellite-based tracking tool will begin operating in October and will be free to access. It was set up in response to a treaty aimed

Hook, Line and Sinker

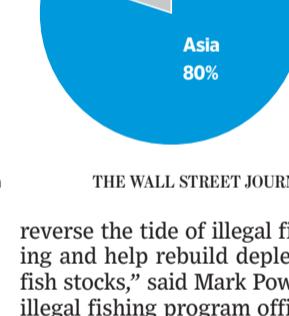
The global fishing fleet, much of it from Asia, is expected to have nearly 10 billion mouths to feed by 2050.

Biggest fisheries catches, 2014

China	14.8 million metric tons
Indonesia	6.0
U.S.	5.0
Russia	4.0
Japan	3.6

Source: U.N. Food and Agriculture Organization

Motorized fishing vessels, 2014



THE WALL STREET JOURNAL.

at eradicating illegal fishing that came into force in June 2016. The Agreement on Port State Measures had agreement from 29 countries, including African nations previously linked to illegal fishing.

"Countries that use this new tool will now be able to

reverse the tide of illegal fishing and help rebuild depleted fish stocks," said Mark Powell, illegal fishing program officer for Vulcan.

China is the world's largest seafood producer, followed by Indonesia, the U.S. and Russia. The most critical area for

poaching is off the coast of West Africa, where illegal, unauthorized and unregulated fishing accounts for an estimated 40% of fish caught, according to the World Ocean Review.

Other areas of concern include the western and southern Pacific and the southwest Atlantic. Illegal trawlers contribute to overfishing that threatens marine ecosystems and food security in some of the poorest countries.

Last year, Argentina's coast guard opened fire on and sank a Chinese trawler that was fishing illegally in its waters. South Korea's coast guard fired on Chinese poachers several months later.

Australian authorities have said geopolitical tensions in the South China Sea, a rich fishing ground, may be driving more illegal fishing vessels into the South Pacific from China, Taiwan and Vietnam.

Cargo Captain Says Navy Ship Was Warned

The captain of a cargo ship that hit a U.S. destroyer near Japan this month has told investigators that the ship sent emergency warnings as the American vessel suddenly cut across its path, according to a person with direct knowledge of the testimony.

By Costas Paris
in New York,
Alastair Gale in Tokyo
and Gordon Lubold
in Washington

The ACX Crystal blared its horn and flashed its lights as the USS Fitzgerald crossed in front of it from the left around 1:30 a.m. on June 17 south of Tokyo, the captain said, according to the person, in an account U.S. investigators contest.

"The Crystal turned right to prevent the crash, but it was too late," the person cited the captain's report as saying.

The description of the account from Crystal captain Ronald Advincula to investigators is the first available direct testimony from either crew of the incident, which killed seven U.S. sailors. Mr. Advincula couldn't be reached to comment. It wasn't clear from the account of his testimony whether the captain was saying he was on the bridge of the vessel at the time.

—Cheiko Tsuneoka
contributed to this article.

Seoul Reaffirms Defense Commitment

BY JONATHAN CHENG

SEOUL—South Korea's foreign minister said a review of a controversial U.S. missile-defense system ordered by President Moon Jae-in "does not mean we'll cancel or reverse our decision" to host it, striking a conciliatory tone ahead of Mr. Moon's White House visit this week.

The remarks on Monday, in Foreign Minister Kang Kyung-wha's first policy address since she was sworn in a week ago, addressed nervousness in

both capitals about whether Mr. Moon, South Korea's first left-leaning president in nearly a decade, will clash with U.S. President Donald Trump when they meet at the White House on Thursday and Friday.

The stakes are particularly high given concerns about North Korea's rapidly advancing nuclear and missile capabilities. Mr. Moon said during his election campaign this year that he would seek closer ties with North Korea, particularly through economic cooperation, sparking concerns

about a policy misalignment with Washington.

Ms. Kang acknowledged those concerns Monday, but also offered the firmest reassurances yet from the new government, saying Mr. Moon sought only to upgrade South Korea's relationship with the U.S. "from good to great."

A spokesman for the U.S. Embassy in Seoul said the embassy welcomed Ms. Kang's highlighting of the strength of the alliance with the U.S. and the two countries' shared views on North Korea ahead of



Korean Foreign Minister Kang Kyung-wha with U.S. Lt. Gen. Thomas Vandal in Uijeongbu in June.

this week's summit.

On the Terminal High-Altitude Area Defense, or Thaad, system, Ms. Kang called the deployment "an alliance decision." Using the acronym for South Korea's formal name, the Republic of Korea, Ms. Kang said: "My government has no intention to basically reverse the commitments made in the spirit of the ROK-U.S. alliance."

She added that Mr. Moon, like Mr. Trump, was focused on reining in North Korea's nuclear and missile program.

Messrs. Trump and Moon, both of whose administrations are relatively young, have shown signs of friction over Thaad, which the U.S. says is designed to defend against a North Korean missile attack.

The U.S. and South Korea agreed last year under Mr. Moon's unpopular conservative predecessor to deploy Thaad in South Korea, and Seoul's defense ministry secured a golf course in the country's south on which to install the system.

During his election campaign, Mr. Moon criticized the decision-making process as opaque, and vowed to review the decision as president. Days before Mr. Moon's election, the U.S. declared Thaad baseline operational following two overnight shipments of hardware. Mr. Moon later ordered the U.S. to stop further deployment of Thaad.

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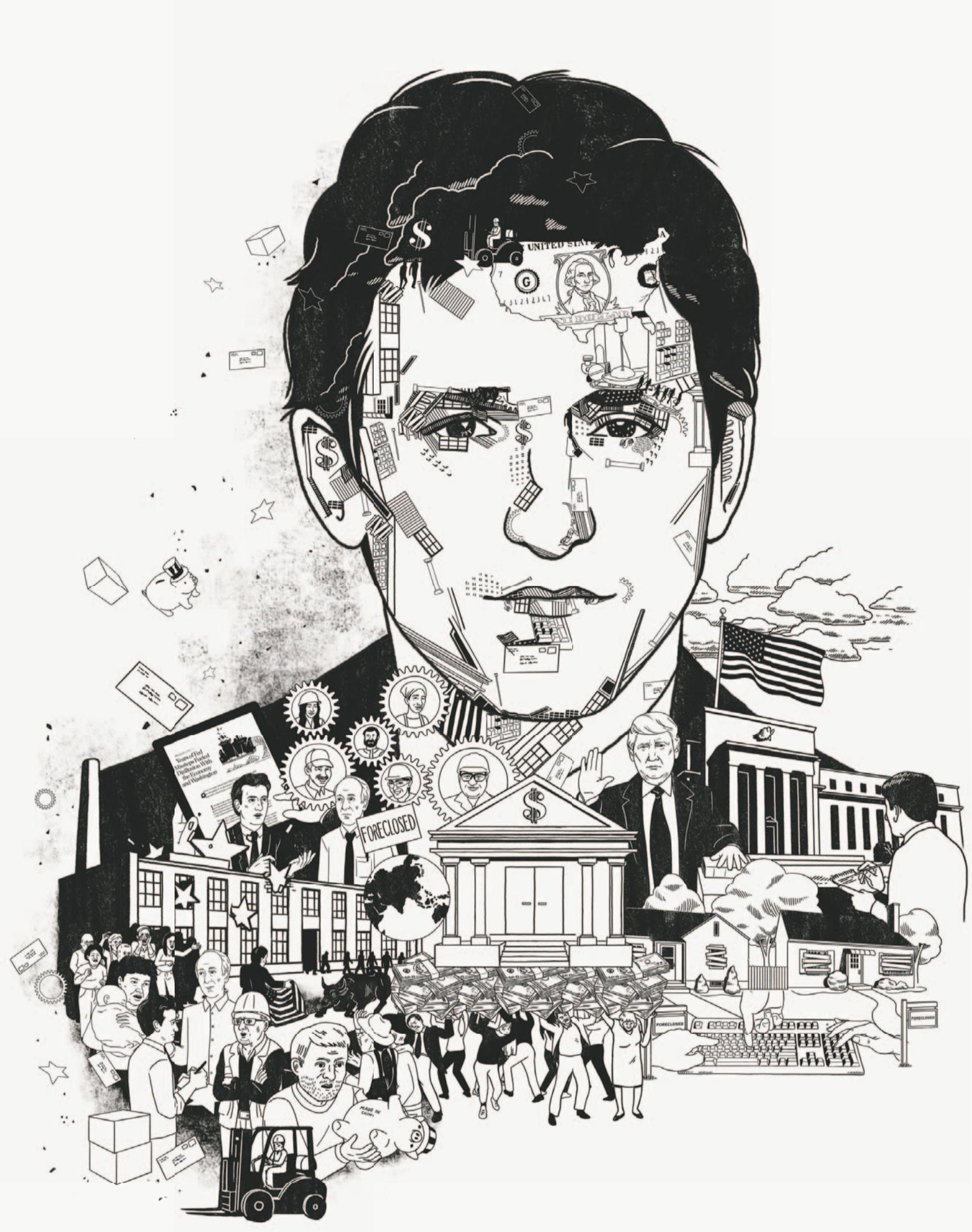
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WORLD NEWS

Exiled Syrians Cruise Down Memory Lane

Istanbul boat tour lets exiles relive 'good old days' before civil war ravaged their country

BY NOUR MALAS

ISTANBUL—On the glittering Bosphorus strait, a boat outfitted to look like an old Damascus neighborhood offers Syrians living in Turkey a wistful taste of home.

To the beat of drums and folkloric processions, Syrians looking to escape from the grim reality of their nation's war glide down memory lane on the "Layali Shameyah," or "Syrian Nights" cruise in Istanbul.

But there are implicit ground rules. Politics are checked at the dock, with no talk of rebels or the regime, say the Syrian entertainers on board, who hail from different political backgrounds. And out of sensitivity to the war's tragedy, the organizers strain to curb the debauchery common to Istanbul's party-boat scene.

"This was a challenge for us," said Ahmad Abdul Ghani, the business's 33-year-old founder. "We put our heads together and decided the best way would be to focus on folklore and culture, rather than a party environment."

Mr. Abdul Ghani began the cruise in 2015 with dual aims: to bring Syrians who fled the war to Turkey together and to draw other Arabs enchanted by Syria's cultural traditions but now also locked out of the country.

The boat's advertising slogan for the Muslim holy month of Ramadan was "our joy is in being together," a jingle that rhymes in Arabic. The cruise has been packed



Musicians and a whirling dervish perform for the public on the 'Syrian Nights' cultural cruise on Turkey's Bosphorus waterway.

ness gives jobs to dozens of Syrians who had otherwise struggled to find work in Turkey, they say, and it has reaffirmed apolitical cultural pride among exiled Syrians.

"It caught people's attention," Mr. Abdul Ghani said, who left Damascus in 2013. It shows that "Syrians aren't just here as refugees."

The four-hour cruise's regulars, who can afford the normal \$50-per person fee, include Arab tourists and wealthier Syrian families. There also is a younger crowd for which the evening is a splurge, but also a catharsis.

Young Syrians like Mohammed Fadel, who left his family behind in Aleppo, stomp and sing the night away. Mr. Fadel initially struggled to learn Turkish and settle in when he arrived four years ago, but now works two jobs, as a paralegal and a translator.

"I miss my country. I miss my family," he said, catching his breath and mopping his brow after dancing with friends from his hometown. "But at the same time, I am happy we are gathered together here."

As the cruise neared Turkish land, the mood swung from upbeat to somber at the last performance: a scene drawn from a popular Arabic television series set in a fictional Damascus neighborhood between the world wars.

Dramatized by a melancholy Syrian melody, the scene involved a dispute over gold between two neighbors—the moral evoking peace and forgiveness.

"This is how the people of Syria were raised: on truthfulness, loyalty, forgiveness and generosity," the lead actor proclaimed to claps and tears from the audience.

throughout the holy period, which ended on Saturday, due to a discounted price and the lure of traditional entertainment.

On a recent evening, Syrian entertainers dressed in baggy shirwal pants roamed the boat twirling their theatrically upturned mustaches, a throwback to when such facial hair was the measure of a man's dignity and authority.

A hakawati, or storyteller, regaled the audience with morality tales, evoking traditional wise men of Da-

mascus. A three-piece band sang classic Arabic tunes as guests dined on specialties from Homs and Aleppo.

Ruba Khawaja, who left Damascus two years ago with her three school-age children, snapped selfies. "This is a way to remember the good old days," she said. "It's important to get out of our pain."

The cruise isn't without controversy. Another family from Damascus watched the entertainment disapprovingly, without standing or clapping, saying Ramadan was a time of

reflection and austerity.

When a woman began to shimmy slowly around her dance partner, her hips moving in an Arabic belly dance, the entertainment troupe gathered quickly around them with their drums and swords, pushing the duo into a group procession.

"When something starts to go overboard, we rush in there with our swords to say: 'Remember, this is a cultural performance,'" said Mohammad Rifai, procession chief, chuckling.

On a Facebook page for the cruise, some Syrians called it expensive and inappropriate. One Turkish user wrote that the Syrians should "go home."

Half of Syria's prewar population of 23 million has been displaced since 2011 when the war began, and around 3 million now live in Turkey, more than in any other nation. Turkey has proudly embraced them, even as both sides acknowledge mutual weariness in a war with no end in sight.

The cruise staff tout their accomplishments. The busi-

Tour Boat Sinks In Colombia; 6 Die

Associated Press

BOGOTÁ, Colombia—A multideck tourist boat carrying about 160 passengers sank Sunday in a lake near Medellín, leaving at least six people dead and 15 others missing.

Colombia's air force and firefighters from nearby cities were looking for survivors at the Guatapé reservoir where the accident took place.

Videos circulating on social media showed the turquoise and yellow-trimmed party boat, the El Almirante, rocking back and forth as people crawled down from an upper deck as it began to sink. Recreational boats and personal watercraft rushed to the scene to pull people from the vessel and take them to shore.

Margarita Moncada, the head of the disaster-response agency in Antioquia state, said

that according to a preliminary report, 99 people were rescued and 40 others managed to find a way to shore on their own and were in good condition. Speaking to reporters from the reservoir, she said nine people had died.

But later Sunday President Juan Manuel Santos arrived at Guatapé and said 122 people were either rescued or found their way to shore and six had died. The number of missing was reduced to 15 from about twice that initially reported.

It wasn't clear what caused the boat to sink. Some witnesses on shore said the boat appeared to be overloaded, but Mr. Santos said it was sailing well below capacity. None of the passengers was wearing a life vest. Complicating the search, there was no passenger list. Authorities were at a loss to say exactly how many people were on the boat.



El Almirante went down in the Guatapé reservoir near Medellín. There was no passenger manifest and 15 people are still missing.

WORLD WATCH

JAPAN

BOJ Officials Call for More Transparency

Some Bank of Japan officials called on the central bank to communicate clearly about its thinking on monetary policy, as speculation grows over whether and when it would tighten monetary policy, opinions submitted by board members earlier in June showed.

In the summary of board members' opinions submitted for a June 15-16 policy meeting, officials generally backed the bank's sticking with aggressive easing because the Japanese economy remains far from hitting the bank's 2% inflation target. Core inflation in April was 0.3%.

The expanding asset size of the central bank and an improving economy have triggered interest in its exit from aggressive easing, one official said.

"The bank needs to be accountable for its thinking on monetary-policy management, in order not to raise concern among market participants," the official said. The summary doesn't identify speakers by name.

Another official said the fundamental problem regarding the central bank's exit from aggressive easing is that "its timing cannot be foreseen," given that it is still far from hitting its 2%

inflation target.

The expectation that the bank could raise rates this year continues to gain traction as the Federal Reserve raises rates and offers specifics on how it plans to trim its balance sheet.

In the June meeting, the Bank of Japan left interest rates unchanged and kept its promise to buy about ¥80 trillion (\$720 billion) in Japanese government

bonds each year. One official called for the ¥80 trillion annual target to be cut to ¥45 trillion, given that purchases of debt have fallen below the promised pace.

Gov. Haruhiko Kuroda, in a news conference following the June meeting, has rejected the idea that he should follow the Fed's steps and detail how the central bank might trim its assets.

—Yoko Kubota

IRAQ

ISIS Pushing Back in Mosul, Military Says

Iraq's Ministry of Defense says Islamic State fighters have launched a string of counterattacks in a western Mosul neighborhood that was previously declared free of IS.

The attacks come as Iraqi

forces continue to move in on the last pocket of territory the militants hold in the Old City.

Army spokesman Brig. Gen. Mohammed al-Khadari says IS sleeper cells set fire to houses and cars on Sunday afternoon. Fighting lasted into the night in the Tanak neighborhood on Mosul's far western edge.

He says by Monday morning the situation was under control.

Iraqi forces launched an operation to retake the Old City—the IS group's last stronghold in Mosul—just over a week ago, more than eight months after the fight to retake Iraq's second-largest city officially began.

—Associated Press

SOUTHEAST ASIA

Drug Haul Burned in Myanmar, Thailand

Officials in Myanmar and Thailand burned illegal narcotics worth more than \$800 million on Monday to mark the U.N. day against drug abuse and trafficking.

The move came as authorities struggle to stem the flood of illicit drugs in the region, with Thailand's justice minister last year saying the country's war on drugs was failing.

In Thailand's Ayutthaya

province, more than 9 tons of drugs with a street value of more than 20 billion baht (\$590 million) went up in smoke including methamphetamine, known locally as "yaba" or "crazy drug," according to police.

"Currently, we are able to take down a lot of networks, including transnational networks bringing drugs into Thailand...to be shipped to Malaysia and other countries," Sirinya Sitthichai, secretary-general of the Office of Narcotics Control Board, told reporters in Ayutthaya.

In neighboring Myanmar, the police said they destroyed confiscated drugs worth around \$217 million.

Myanmar remains one of the world's largest producers of illicit drugs, including opium, heroin and methamphetamine. Those narcotics are often smuggled into China.

Last year, lawmakers in Myanmar voiced disappointment over lackluster efforts to tackle the drug problem.

The market for methamphetamine has been growing in Southeast Asia, the United Nations has said. It estimates that Southeast Asia's trade in heroin and methamphetamine was worth \$31 billion in 2013.

—Reuters



Firefighters oversaw the controlled burning of narcotics outside Yangon, Myanmar, on Monday.

REUTERS

U.S. NEWS



MATTHEW STAVER FOR THE WALL STREET JOURNAL

Jack Phillips pictured in September 2013 at his shop in Lakewood, Colo. He argued that he was no ordinary tradesman but an artist.

Case of Baker Denying Cake To Gay Nuptial Before Court

BY JESS BRAVIN

WASHINGTON—The U.S. Supreme Court agreed Monday to consider whether the Constitution's religion clauses allow a bakery to deny service to gay couples.

The Supreme Court found in 2015 that the Constitution provides same-sex couples the same right to marry that opposite-sex partners enjoy. But the decision didn't say they are entitled to wedding cakes or flower arrangements. That sparked several disputes involving bakers and florists who have invoked their religious opposition to gay marriage to refuse service to same-sex couples.

Federal law doesn't explicitly prohibit discrimination based on sexual orientation, but Colorado, along with some 20 other states, provides at least some civil-rights protection to gays and lesbians. In 2012, Jack Phillips, who runs the Masterpiece Cakeshop in Lakewood, Colo., refused to make a wedding cake for Char-

lie Craig and David Mullins.

The couple complained to the state civil-rights agency, which found Mr. Phillips' religious beliefs didn't exempt him from the Colorado Anti-discrimination Act, which requires businesses to serve customers without regard to race, color, disability, sex, sex-

He argued that by requiring him to sell wedding cakes to gay couples as well as straight couples, the state is coercing him to create art that celebrates an act his religion abhors.

"Cake making dates back to at least 1175 B.C. Of any form of cake, wedding cakes have the longest and richest history," the

had no ground to complain about compelled speech.

The American Civil Liberties Union, representing Messrs. Craig and Mullins, argued that the state's interest in eradicating discrimination outweighed whatever religious discomfort Mr. Phillips might feel from serving the couple.

"It is no answer to say that Mullins and Craig could shop somewhere else for their wedding cake, just as it was no answer in 1966 to say that African-American customers could eat at another restaurant," the ACLU argued, recalling an argument made against the federal Civil Rights Act of 1964, which prohibited most retail businesses from discriminating based on race, color, religion, sex or national origin.

In 2014, the Supreme Court declined to hear an appeal in a similar case from New Mexico, where the state Supreme Court upheld a discrimination finding under state law against a wedding photographer who refused to shoot a same-sex ceremony.

The state of Colorado said Mr. Phillips had no ground to complain about compelled speech.

ual orientation, national origin, ancestry, creed or marital status. A state appeals court upheld the agency.

In appealing to the Supreme Court, Mr. Phillips argued that he was no ordinary tradesman but an artist, and that the First Amendment free-speech clause prevents the state from compelling him to express any particular idea through his creative work—in this case, that a marriage of two men should be celebrated.

brief argues. "Only a wedding cake communicates this special celebratory message, slicing a pizza or a pot roast would not have the same effect."

Plenty of other bakeries were willing to take the couple's business, the brief noted.

In urging the court to reject the case, the state of Colorado noted that there had been no discussion of what the cake might exactly say, or even if it would have any specific message at all, so that Mr. Phillips

somewhere else for their wedding cake, just as it was no answer in 1966 to say that African-American customers could eat at another restaurant," the ACLU argued, recalling an argument made against the federal Civil Rights Act of 1964, which prohibited most retail businesses from discriminating based on race, color, religion, sex or national origin.

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SUPREME COURT WATCH

CORPORATE MISCONDUCT

Whistleblower Provision on Docket

The court agreed to consider whether employees who report misconduct at their companies are entitled to protections as whistleblowers if they report the alleged wrongdoing only internally, not to the Securities and Exchange Commission.

The announcement is welcome news for corporate defendants that have lamented the broad way in which the SEC and some federal courts have interpreted the 2010 Dodd-Frank financial overhaul, which is ambiguous about whether employees

who make only internal corporate reports of securities fraud are protected under federal law.

The Dodd-Frank law included a number of provisions aimed at encouraging people to speak out about alleged wrongdoing at their employers. Those included new incentives, such as giving tipsters a portion of the penalties imposed on firms if they reported misconduct to the SEC. It also included new penalties for employers seen as discouraging the reporting of misconduct—so-called antiretaliation provisions.

Monday's case narrowly focuses on whether such antiretaliation provisions apply to people who report misconduct internally but not to the SEC. The high

court will consider the matter in the fall when it meets for its next term, giving the justices a platform to potentially narrow the scope of protection in this area.

—Andrew Ackerman

CONCEALED WEAPONS

Refusal to Hear Case Frustrates Activists

The justices refused to review California's concealed-weapons restrictions, frustrating gun activists who saw the case as a path to expand the individual right to possess firearms that the high court first recognized in 2008.

California generally prohibits

carrying firearms, concealed or openly, in urbanized areas but permits local authorities to make exceptions, allowing individuals to carry concealed weapons in some circumstances if they demonstrate "good cause."

That responsibility for granting such licenses typically falls to the sheriffs of the state's 58 counties or to police chiefs in its cities. While some jurisdictions recognize a general desire for self-defense as an adequate reason, others require more, such as a specific threat that would justify special precautions.

Gun owners challenged such requirements in San Diego and Yolo counties, contending that when read together with state-

wide laws, they effectively eliminated most individuals' ability to carry firearms for self-defense outside the home.

—Jess Bravin

CHURCH-STATE SEPARATION

Grant Program Can't Bar Religious Schools

The court ruled that Missouri may not exclude a church school from a program that funds playground resurfacing, finding that discrimination based on "religious identity" violates the Constitution.

The opinion, by Chief Justice John Roberts, stopped short of the wholesale redefinition of church-state separation that reli-

gious advocates supporting the case had hoped for. Chief Justice Roberts said in a footnote that the court didn't "address religious uses of funding or other forms of discrimination" apart from the playground program.

That footnote exposed the court's stark divisions regarding the religion clauses. Two conservative justices, Clarence Thomas and Neil Gorsuch, explicitly rejected the Roberts footnote, even while agreeing with his broader decision in favor of the church. The Constitution "guarantees the free exercise of religion, not just the right to inward belief (or status)," Justice Gorsuch wrote.

—Jess Bravin

Trump Criticizes Obama on Russia's Role in Election

BY CAROL E. LEE

WASHINGTON—President Donald Trump lashed out on Monday at his predecessor over his handling of Russia's alleged meddling in the U.S. election and he denied any collusion between his presidential campaign and Moscow.

Mr. Trump, writing in a series of statements on Twitter, also said he didn't try to obstruct the federal investigation into the matter.

The GOP president wrote that "under a magnifying glass, they have zero 'tapes' of T people colluding. There is no collusion & no obstruction. I should be given apology!"

It is unclear what tapes the president is referencing. Investigators recently expanded their probe into Russia's intrusion in the election and whether there was collusion with Mr. Trump's campaign to include whether Mr. Trump tried to obstruct justice, according to people familiar

with the probe.

An official who worked in the Democratic administration of former President Barack Obama dismissed Mr. Trump's

criticism, saying the administration took Russia's alleged involvement in the election seriously. Russia has denied any government effort to influence

the U.S. election.

Mr. Trump's comments follow his statement earlier this month that he didn't have tapes of his conversations

win...and did not want to 'rock the boat.'

Mr. Trump also said of Mr. Obama: "He didn't 'choke,' he colluded or obstructed, and it did the Dems and Crooked Hillary no good."

A former official in Mr. Obama's administration said: "The administration's attacks on President Obama's response to Russia cyber meddling is a transparent effort to distract from the terrible impact of their ACA repeal bill."

The former official was referring to the GOP effort to repeal the Affordable Care Act, also known as Obamacare.

"This situation was taken extremely seriously, as is evident by President Obama raising this issue directly with President Putin; 17 intelligence agencies issuing an extraordinary public statement; our homeland security officials working relentlessly to bolster the cyberdefenses of voting infrastructure around the country," the former official said.



ANDREW HARRER/PRESS POOL/EUROPEAN PRESSPHOTO AGENCY

President Donald Trump, left, and then-FBI Director James Comey at the White House in January.

with the probe.

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Mr. Trump's comments follow his statement earlier this month that he didn't have tapes of his conversations

U.S. NEWS

How Unwitting Postman Becomes a Dealer

Synthetic opioids are entering country via international parcels delivered by mail

BY ARIAN CAMPO-FLORES
AND JON KAMP

Not long before Don Holman's son Garrett died from an overdose in February, he learned his 20-year-old had his drugs delivered directly to their Virginia home in the mail, in packages from foreign countries. "Your drug dealer today is your mailman," Mr. Holman said. "If your kids are getting any packages in the mail whatsoever, you need to know what that is."

Fentanyl and other synthetic narcotics like U-47700, which was found Garrett Holman's system, are now streaming into the U.S. through international parcels delivered by the U.S. Postal Service and private carriers like United Parcel Service Inc. and FedEx Corp., according to authorities. The deliveries are helping fuel an opioid crisis that claims tens of thousands of U.S. lives each year, prodding congressional lawmakers to propose tougher rules and new resources to try to stop the flow.

Seizures of fentanyl arriving by both international mail and express carriers reached nearly 37 kilograms in the U.S. overall in fiscal 2016, compared with 0.09 kilogram five years earlier, according to Customs and Border Protection data.

While Mexican drug cartels usually transport synthetic opioids like fentanyl in bulk by land across the southern U.S. border, many American dealers and users use the mail to



Customs and Border Protection officers wear masks and gloves as they work. The chemicals in some synthetic drugs are lethal.

receive smaller supplies of the drugs, officials say. In the past year, authorities have arrested such alleged dealers in cities including Cincinnati, Salt Lake City and Kearny, N.J.

Mail and private express services are "attractive options for smugglers," said Salvatore Ingrassia, acting assistant director for trade and cargo at CBP's New York field office. He said there has been a "significant increase" in synthetic opioids arriving in packages.

Customs officials rely on X-ray machines and visual scans to find the contraband at nine international mail facilities

around the country. With 621.4 million international packages and mail pieces arriving through the U.S. Postal Service alone in fiscal 2016, it is like finding a needle in a haystack.

The chemicals are so lethal, drug-sniffing dogs aren't trained to identify them for fear of death.

"This manual process...coupled with the tremendous volume of inbound mail to the United States, creates a daunting task for CBP," said Robert Perez, the agency's acting executive assistant commissioner for operations support, at a May Senate hearing on opioid mail shipments.

A measure sponsored by lawmakers including Sen. Sherrod Brown (D., Ohio) would provide customs officials with more screening equipment and lab resources to detect fentanyl arriving by mail or at ports of entry. Another bill in the Senate, sponsored by Ohio Republican Rob Portman, would require overseas shippers that use the U.S. Postal Service to provide certain pieces of information, transmitted electronically to CBP before parcels arrive in the country.

Sen. Portman's measure seeks to address a problem that customs officials and others have complained about for years: Unlike private carriers like FedEx and UPS, the Postal Service doesn't always provide CBP with advance data like a shipper's name and address and a description of contents.

Run through software programs, the data can help flag warning signs such as an address or neighborhood known to be the origin of previous shipments of chemicals.

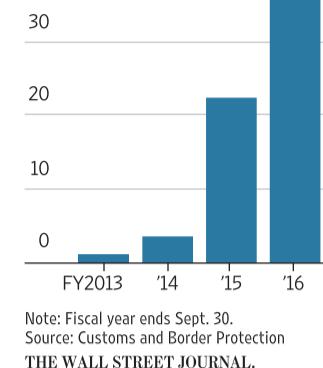
At the recent Senate hearing, a UPS official called advance data "the cornerstone of effective risk assessment." Mr. Perez from CBP also highlighted the data's importance.

The Postal Service says it is

Drug Delivery

Seizures of fentanyl arriving by both international mail and express carrier

40 kilograms



Note: Fiscal year ends Sept. 30.

Source: Customs and Border Protection

THE WALL STREET JOURNAL.

more limited than private carriers because it has to work with foreign postal operators. It has been pushing overseas operators to provide such information and now receives data for 40% to 50% of inbound packages, said Robert Cintron, the agency's vice president for network operations, at the hearing.

The Postal Service is obliged under international agreements to accept incoming mail from nearly every country, Mr. Cintron said.

"Though the express carriers typically require additional data to ship parcels, it is still rather difficult for these carriers and law enforcement to detect and intercept opioids," the White House Office of National Drug Control Policy wrote in a letter to the House Energy and Commerce Committee in March.

Representatives for UPS and FedEx said the companies comply with law enforcement's legal requirements on imports.

GOP Senators Lay Out Demands on Health Bill

By LOUISE RADNOFSKY

five Americans.

In addition, four conservative senators object to the bill's retention of requirements for insurers to cover patients at the same price regardless of medical history and with set benefit packages. Those provisions have created new consumer

Democrats were trying to sway more centrist Republicans from the new legislation.

protections but also have driven up premiums for younger, healthier people in particular, which the senators have cited as a primary concern.

"It's going to be a challenge," Sen. Pat Toomey (R., Pa.) said Sunday on CBS, about ameliorating centrists' concerns over the Medicaid changes in the bill.

The Congressional Budget Office was expected to produce

a formal estimate Monday of the existing legislation's effects. The GOP could then hold a procedural vote Tuesday or Wednesday, and a final vote later in the week, if consensus comes quickly. If the negotiating process is drawn out and requires new, complex changes, the timetable would likely shift.

Senate Majority Leader Mitch McConnell (R., Ky.) has said he wants to see a vote on the legislation's passage late Thursday or early Friday, before Congress's July 4 recess. If he is successful in garnering at least 50 votes, with Vice President Mike Pence breaking a tie, the House could then take up the Senate legislation, or the two chambers could try to reach a compromise. The House passed its own health bill last month.

If the effort fails, it would plunge the party's seven-year campaign promise to repeal the ACA into uncertainty and potentially put lawmakers at odds with a president, Donald Trump, who is anxious for a

major legislative win. By late Sunday, it was clear that enough Republican senators had publicly put their votes in play to require more negotiations.

Sen. Luther Strange of Alabama said Sunday on Fox News that he is "not there yet" in supporting the plan, adding that he was "very strongly optimistic" that the bill could be passed.

Meanwhile, Democrats and backers of the legislation they consider the core achievement of former President Barack Obama were trying to sway more centrist Republicans from the new legislation.

Republicans "have, at best, a 50-50 chance of passing this bill," Democratic Senate leader Chuck Schumer of New York said Sunday on ABC.

Medicaid in particular is a tricky issue because GOP-controlled states split almost down the middle over whether to expand eligibility for the program—to millions of low-income, childless adults for the first time—using federal funding under the ACA.

Kristina Peterson, Byron Tau and Rachel Witkowski contributed to this article.



Senate Majority Leader Mitch McConnell, center, wants a health-bill vote before the July 4 recess.

U.S. WATCH

MINNESOTA

Castile Family Reaches Settlement in Death

The mother of Philando Castile, a black motorist fatally shot by a police officer during a traffic stop last year in a Twin Cities suburb, has reached a nearly \$3 million settlement over his death, officials and attorneys for the family said Monday.

In a joint statement, the City of St. Anthony Village—where Jeronimo Yanez, the former police officer, was employed at the time—and attorneys for the family said that Valerie Castile, the trustee of the Castile family, will receive a settlement of \$2.995 million over Mr. Castile's death.

Mr. Castile, a 32-year-old supervisor at a school cafeteria, was fatally shot by Mr. Yanez on July 6 last year after he pulled him over for a broken taillight in Falcon Heights, a Twin Cities suburb. Falcon Heights is patrolled by police from St. Anthony. Mr. Yanez fatally shot Mr. Castile when he informed the officer that he had a gun.

Mr. Castile was legally permitted to carry the gun.

Mr. Castile's death drew extra attention because his girlfriend, Diamond Reynolds, filmed the aftermath of his shooting on her smartphone and posted it live to Facebook. The video was watched by hundreds of thousands of people.

A jury earlier this month found Mr. Yanez not guilty of second-degree manslaughter over Mr. Castile's death, prompting an outcry and protests in St. Paul, Minn.

The settlement between the city of St. Anthony Village and Ms. Castile will avoid a wrongful-death lawsuit over the incident. "The City and the Trustee were able to reach this agreement avoiding a federal civil rights lawsuit which may have taken years to work its way through the courts, exacerbating the suffering of the family and the community," said the joint statement.

The settlement will be paid through the League of Minnesota Cities Insurance Trust, the statement added, and no taxpayer money will be used to fund the settlement.

"No amount of money could ever replace Philando," the joint statement added. "With resolu-

tion of the claims the family will continue to deal with their loss through the important work of the Philando Castile Relief Foundation.

The nonprofit was established by family to help victims of gun violence and their families.

The city of St. Anthony dismissed Mr. Yanez as an officer shortly after his acquittal. The city has offered him a voluntary settlement agreement.

—Shibani Mahtani



Valerie Castile, mother of Philando Castile, speaking June 16 after police officer Jeronimo Yanez was found not guilty in the fatal shooting.

ECONOMY

Durable Goods Orders Decline 1.1%

Demand for long-lasting factory goods declined in May for a second consecutive month, driven by a pullback in airplane orders as the U.S. manufacturing sector continues to find its footing.

Orders for durable goods—products designed to last at least three years, such as jet

planes and industrial robots—decreased 1.1% from April to a seasonally adjusted \$228.18 billion in May, the Commerce Department said Monday. That was the largest drop in six months.

Economists surveyed by The Wall Street Journal had expected a more modest 0.4% decline last month. April orders were revised down to a 0.9% decline, which followed four straight monthly rises.

"The broad story in terms of capital spending appears to be wait-and-see," Stephen Stanley, chief economist at Amherst Pierpont Securities, said in a note to clients. "Business sentiment popped after the election, and I think that a lot of executives are excited to invest in and expand their businesses, but they would prefer to wait and see what happens with corporate tax reform before deciding how and how much to execute."

Last month's fall was led by sharp declines in two volatile categories, a 30.8% drop in military-aircraft orders and a 11.7% drop in orders for civilian airplanes and parts. Excluding the transportation segment, orders rose 0.1% in May.

—Ben Leubsdorf

OHIO

Websites Targeted By Hackers Restored

Ohio officials have restored 11 government websites that were hacked with a message purporting to be supportive of the Islamic State terrorist group.

The Department of Administrative Services says affected websites were restored by Monday. They'd been hacked Sunday with a message that included: "I love the Islamic state."

The Department of Public Safety says the FBI and U.S. Department of Homeland Security are investigating the hacking.

It affected websites for the governor and his wife, the lieutenant governor, and the inspector general, as well as Ohio's Medicaid and prisons agencies. The list also included sites for Ohio's casino and facilities commissions, the offices of Health Transformation and Workforce Transformation, and the government streamlining effort LeanOhio. The same message infiltrated government websites in Brookhaven, New York, and Howard County, Maryland.

—Associated Press

IN DEPTH

CHINA

Continued from Page One
a rating based how they behave at work, in public venues and in their financial dealings.

China's tech companies are helping lead the way, scooping up unprecedented data on people's lives through their mobile phones and competing to develop and market surveillance systems for government use.

Facial-recognition technology is one of the most powerful new tools in the surveillance arsenal. Fueled by advances in artificial intelligence, these systems can measure key aspects of a face, such as distance between the eyes and skin tone, then cross-reference them against huge databases of photographs collected by government agencies and businesses and shared on social media.

Other countries also have begun experimenting. In the U.S., the Federal Bureau of Investigation uses the technology to help identify criminal suspects, and the Department of Homeland Security is deploying it in airports to track when foreign visitors leave the country. Its use is expected to grow world-wide as a tool for law enforcement and personal identification, and U.S. companies are among those using it in pilot programs.

China, however, stands apart in harnessing facial recognition as a cudgel to influence behavior. The Chinese Ministry of Public Security—its national police force—and other agencies called in 2015 for the creation of an “omnipresent, completely connected, always on and fully controllable” nationwide video-surveillance network as a public-safety imperative. In a policy statement, the agencies included “facial comparison” in a list of techniques to be used to improve surveillance networks.

“These security steps appear in American movies,” said Xie Yinan of Megvii Technology Inc., a Chinese tech startup that sells facial-recognition systems to private and public enterprises. “But in China, it’s actually being used in real life.”

Chinese government agencies including the public-security ministry, the central planning agency and the ministry in charge of information technology either declined to comment or didn’t return calls.

On Chongming Island near Shanghai, a new running course has been outfitted with a facial-recognition system to ensure runners don’t take shortcuts through the foliage during timed competitions, said Chen Zhixian, a manager at the company that built the track.

Jogger Chen Xiang, 42, said he was aware of the system but wondered why it was needed. “Running is an activity, and we’re just out here to have fun,” he said.

Facial-recognition cameras are being used in China for routine activities such as gaining entrance to a workplace, withdrawing cash from an ATM and unlocking a smartphone. A KFC restaurant in Beijing is scanning customer faces, then making menu suggestions based on gender and age estimates. One popular park in the capital has deployed it to fight toilet-paper theft in restrooms, using face-scanning dispensers that limit each person to one 2-foot length of paper every nine minutes.

A world where everyone can be tracked by their face wherever they go is still a long way off, and will require much better algorithms and cameras than currently exist, said Anil Jain, the head of Michigan State University’s Biometrics



An electronic sign in Shenzhen shows the faces of people caught jaywalking by surveillance cameras.

Research Group.

China is moving in that direction, abetted by a vast surveillance network. Industry researcher IHS Markit Ltd. estimates China has 176 million surveillance cameras in public and private hands, and it forecasts the nation will install about 450 million new ones by 2020. The U.S., by comparison, has about 50 million.

It isn't known how many cameras in China are enabled for facial recognition, but any high-definition camera can potentially be linked to such a system.

The camera network has spawned anxiety in some quarters. One night in May, government cameras in the coastal city of Wenzhou kept watch as dozens of people filed into to a Protestant church for an emergency meeting called following the installation of the cameras near and inside the church compound the previous month.

The growing appeal of religion in China has unsettled the country's officially atheist leadership. Three years ago, authorities began removing crosses from many places of worship in Wenzhou, and last year China's State Administration of Religious Affairs ordered major churches, mosques and temples to be “fully covered” by surveillance cameras.

Cameras were installed at the Wenzhou church holding the

to track him, he said. “They told me that whenever I walked through certain intersections, a computer system would alert them to my location,” he said.

Facial recognition works by breaking down a face into a series of measurements and using them to create a template that can then be compared with others in a database.

Early systems could only compare two photos taken in relatively ideal conditions. The application of artificial-intelligence techniques such as deep learning, which uses software to mimic the way neurons in the brain process information, has revolutionized the technology. Algorithms can now pick out and manipulate patterns on their own, making it easier to detect and identify faces turned to the side, smiling or frowning, or weathered by age.

China has access to immense amounts of data—photos uploaded by the country’s more than 700 million internet users and a centralized image database of citizens, all of whom must have a government-issued photo ID by age 16.

This year, China set up a government-funded laboratory to push the development of facial recognition and other forms of artificial intelligence. China hopes to become a leading innovator in those technologies.

“The things we’ve been able to do in this space surprise me,

and Road Forum hosted by President Xi Jinping in Beijing to promote old Silk Road trade routes. At entrances to the event, paramilitary police stood next to face-detecting video consoles linked to cameras trained on the doors.

“It’s really advanced,” a guard said as the system snapped images of two people who had approached the screening area. In an instant, the screen pulled up their names, photos and profiles, verifying them as invited guests.

Several dozen Chinese police agencies are either testing or using facial-recognition systems, according to facial-recognition firms and state media reports.

In Chongqing, two systems identified 69 criminal suspects during the first 40 days they were in use last year, according to Xu Li, a co-founder of SenseTime Group Ltd., which provided the systems. Mr. Xu showed a letter from the local police crediting it with the detention of 14 suspects.

During the Group of 20 international summit in Hangzhou last fall, Megvii and other firms worked with local police. Surveillance cameras scanned the faces of pedestrians, which an artificial intelligence system checked against a list of criminal and terror suspects. Police were alerted each time the system found a match, leading to the detentions of more than 60 people over a month, according to tallies from the companies.

Police in Hangzhou, Chongqing and several other cities identified by companies and state media as using facial recognition didn’t respond to requests for comment.

For Fu Gui, 33, the technology proved life-changing in a positive way. He was 6 when he was kidnapped from his village in Chongqing and sold to a family in faraway Fujian province, according to Fu Guangyou, his aunt and caretaker at the time he was abducted. Years later, he provided his photo at age 10 to a nonprofit group that reunites stolen children with their families. His aunt says she contacted the same group a few years later, submitting a photo of Mr. Fu at age 4.

Early this year, the nonprofit got access to Baidu’s facial-recognition program, which matched Mr. Fu’s photos.

“I immediately called his father,” Ms. Fu recalled. “Fu Gui’s dad didn’t even believe me. He had given up hope.” Mr. Fu, who was reunited with his family, declined to comment.

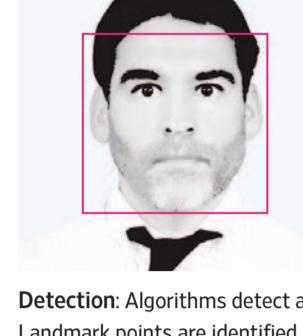
Developers of facial-recognition systems also pitch them as an alternative to keys, credit cards and ID cards.

China Merchants Bank allows customers to scan their faces instead of using bank cards to withdraw money from about

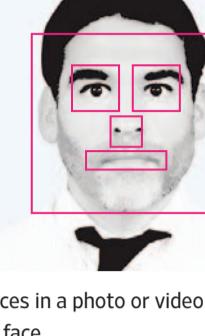
1,000 ATMs. A mobile affiliate

How Facial Recognition Works

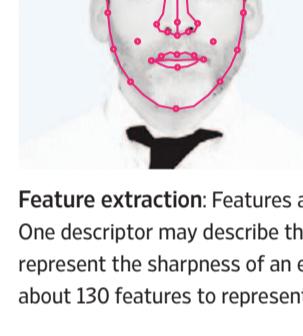
How an algorithm works to identify a face within an image and draw conclusions about a person's identity.



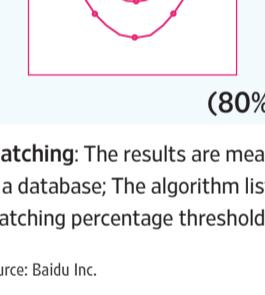
Detection: Algorithms detect all the faces in a photo or video feed. Landmark points are identified on each face.



Normalization: The image is adjusted so the landmark points are at similar pixel positions as photos in the database. A left eye would be placed at the same pixel position as the left eye position in database photos.



Feature extraction: Features are extracted to fully describe a face. One descriptor may describe the shape of mouth and another may represent the sharpness of an eye corner. The system may extract about 130 features to represent a face.



Matching: The results are measured against other templates in a database; The algorithm lists matches above a certain matching percentage threshold.

Source: Baidu Inc.

of Ping An Bank uses facial recognition to authenticate a borrower or investor's identity over the internet. “We won't need to remember another password,” said Xu Bing, a SenseTime co-founder and vice president. “All you'll need to do to unlock your phone or log in to an account is scan your face.”

SenseTime’s Beijing showroom gives an idea of where things are heading. In the lobby, a face-detecting console estimates for visitors their age, gender, mood, attractiveness and closest celebrity resemblance, while also serving up ads based on those characteristics. The company also displayed a system it says can use camera networks to track a person’s movements around a neighborhood.

Still to come: a police car with a roof-mounted camera able to scan in all directions at once and identify wanted lawbreakers. Researchers at the University of Electronic Science and Technology of China in Sichuan province have developed a working prototype. “We’ve

tested it at up to 120 kilometers per hour,” said Yin Guangqiang, head of the university’s security-technology lab.

A national facial-recognition system is still years away, but state-run media reports that Chinese police already are making arrests using the technology. At least five cities are using it to identify jaywalkers.

Jaywalkers in China are typically subject to small fines, but authorities in the southwestern city of Fuzhou are using facial recognition to identify offenders. Authorities have published the names of jaywalkers in local media and have said they notified the employers of certain offenders.

Jiang Hui, a young Fuzhou resident, recently rode his electric scooter through a red light at a crosswalk. He said discouraging jaywalking is reasonable.

“But sending the information to your company?” he said. “What are they going to do with it?”

—Kersten Zhang in Beijing and Junya Qian in Shanghai contributed to this article.

BOOZE

Continued from Page One

Ark., thanks to a cocktail of conservative culture and a strict low-cost ethos.

Benton County, where the company has been based since Sam Walton opened his first store in 1950, prohibited the sale of alcohol until 2012. Wal-Mart generally doesn’t allow employees to expense alcohol during work outings, let alone drink in the office.

“People don’t really talk about drinking at work because you don’t want to have that reputation,” said Bo Yarbrough, a former recruiting manager at Wal-Mart. Increasingly, employees gather at the growing number of local bars for weekday happy hour after work, “but you wouldn’t want to put that kind of thing on a work calendar,” said Mr. Yarbrough, who

left the retailer last summer.

Jet is based in Hoboken, a city where some locals brag about the high number of bars per capita. Jet founder Marc Lore, a New York native, is a wine aficionado and owner of a small vineyard in California’s Napa Valley. Lore Vineyard’s 2013 Cabernet Sauvignon earned a coveted 97 points from the Robert Parker Wine Advocate for its “fabulous intensity and loads of blackberry,” though recent vintages aren’t sold to the public.

Wal-Mart’s absorption of Jet is part of its intensifying battle with Amazon.com Inc. After buying the company, Wal-Mart put Mr. Lore in charge of its U.S. e-commerce business and swallowed several other online startups, including San Francisco’s ModCloth, which sells women’s apparel, and Michigan’s Moosejaw, an outdoors specialist. This month, it paid \$310 million for New York

City-based Bonobos Inc., another apparel seller.

Mr. Lore and Wal-Mart CEO Doug McMillon discussed the potential culture clash in meetings before the Jet acquisition, including what to do with the startup’s office drinking, said Ms. Landsman, Jet’s president. The executives invented the off-site happy hour

promise to preserve “key touchstones in the culture” that made Jet’s entrepreneurial talent valuable to Wal-Mart in the first place, she said.

Several months ago, Mr. McMillon asked Jet executives whether the retail giant was “hugging” Jet too tightly or not enough, she said. Jet executives said things were largely

going well but many employees had stopped coming to happy hour after it was moved outside the office.

“One of the huge advantages of the office was the ability to float in and out,” mingling, then going back to work at your desk, said Jack Hanlon, a Jet vice president.

Wal-Mart reversed course. In recent weeks Jet brought back Thursday night happy hour in the office—generally beer, wine and food. “It’s a pretty big signal from Wal-Mart that they were able to be flexible,” said Mr. Hanlon.

The change is permeating the empire. Wal-Mart had wine and beer at a tailgate for its e-commerce team in San Bruno, Calif., when it hosted its annual day at a San Francisco Giants game in May. It is also allowing other startups it has acquired to host a weekly office happy hour—pending approval from a Wal-Mart executive vice president.

The employees at Madison Heights, Mich.-based Moosejaw, which Wal-Mart bought in February, never lost access to the “4 p.m. beer fridge” and keg, unlocked for one hour on Thursdays. “It helped that our beer fridge had always been run responsibly,” with a two-beer maximum, Moosejaw CEO Eoin Comerford said.

Mr. Lore spoke to Bonobos staff in New York the day of the acquisition and cited Wal-Mart’s newfound flexibility on office drinking as an example of how hard it will work to protect culture, said a Wal-Mart spokesman.

There are other aspects of Wal-Mart’s traditional habits that still raise eyebrows among Jet staffers. For example, Wal-Mart asked Jet employees to be mindful of swearing in the office.

“That did not last,” said Jeannie Slivensky, a marketing manager at Jet. “This is New York.”



Wal-Mart and Jet.com, which has headquarters in Hoboken, N.J., above, have compromised about allowing happy hours in the office.

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LIFE & ARTS



A crowd at the Trevi Fountain in Rome, above, where recently two tourists were found swimming nude. Below, a cruise ship gives passengers a view of St. Mark's Square in Venice.

BY PIETRO LOMBARDI

IN CAPRI, a squabble between two mayors—who are also cousins—highlights a larger debate throughout Italy. While tourism is an important revenue source, many Italians up and down the Italian peninsula would like tourists—at least some of them—to stay away.

Last year, Giovanni De Martino, the mayor of Capri, was fed up. He watched as ferries arrived from the Italian mainland in rapid succession, disgorging tourists—many budget day-trippers—every five minutes, only to face hourlong waits to board the cable car from the port to the town's center.

Worried that the hordes were endangering the island's charm and exclusivity, Mr. De Martino launched a push to reduce the frequency of the ferry arrivals to every 20 minutes.

But the mayor soon faced a bitter foe: his own cousin, Francesco Cerrotta, mayor of Anacapri, the only other town on the island. Mr. Cerrotta immediately took up the fight against his cousin's attempt to slow the tide of visitors.

"Someone in Capri still dreams of Jacqueline and Onassis strolling along Via Camerelle," Capri's main drag, Mr. Cerrotta told Italian media. "Capri needs glamour. But it also needs to fill hotels, restaurants and shops."

Still, recent incidents, such as two tourists swimming nude in the Trevi Fountain and another diving

TRAVEL

Arrivederci, Tourists

Italian officials squabble over limiting tourism in hot spots like Venice, Florence and Capri, where crowds and high jinks irk some of the locals

off Venice's Rialto Bridge, have only strengthened officials' determination to find ways to keep the hordes at bay. The number of tourists arriving in Italy topped 52 million in 2016, up nearly 30% since 2000.

But authorities are finding it devilishly difficult to stop tourists from coming. Efforts to limit incoming visitors are colliding with legal, business and practical challenges.

In Florence, a 2016 city decree raising the cost of entry tickets for tourist buses was, in part, struck down by a regional court. The city



appealed the decision, winning a temporary suspension of the ruling.

The Cinque Terre, the tiny fishing villages on the Italian Riviera,

drew 2.5 million visitors last year, 500 times the local population. In response, local officials unveiled a plan this spring to cap the number of tourists allowed onto the picturesque trails connecting the five towns. Despite protests, the system got under way in June.

Venice, which each year sees 15 million day trippers pour into an area five times the size of New York's Central Park,

has heard more calls from locals and some politicians to limit access to the floating city. But the idea has gone nowhere, in part due to legal hurdles.

"We don't want to close the city," said Paola Mar, head of tourism for the city. "And the law doesn't permit it."

Earlier this month, Venetians held a symbolic referendum calling for something to be done about the huge cruise ships that disgorge millions of tourists each year and sail perilously close to St. Mark's Square. They are angry that a 2012 government decree calling for them to be rerouted is so far a dead letter.

Some smaller destinations enjoy a special legally protected status that gives them a free hand in checking the flow of tourists. For instance Pinosa, a small island off the Tuscan coast, accepts only 330 people a day, while its neighbor Montecristo allows 1,000 a year. Video surveillance cameras help authorities to enforce the limits.

In Capri, Mr. De Martino's plan to limit ferry service was squelched by regional authorities. But the two cousins have continued to fight over everything from limiting the circulation of huge tourist buses to improving the port to accommodate the flow. "Capri has borne the brunt of unchecked arrivals...we need to do something," Mr. De Martino argues.

This spring, when a fresh surge in crowds on the island sparked new calls for a cap on the number of visitors, the two cousins were again at odds. Over a long holiday weekend in June, almost 45,000 people, mostly day trippers, came to Capri, three times the local population.

ENTERTAINMENT

HOW JOHN CENA BECAME A TRIPLE THREAT

BY CHRISTOPHER JOHN FARLEY

JOHN CENA'S signature taunt in the ring is, "You can't see me." But these days the World Wrestling Entertainment superstar appears to be everywhere.

The wrestler-turned-actor has landed roles in hit movies like "Trainwreck," voices the title character in the coming animated movie "Ferdinand," and executive produces and hosts the Fox reality series "American Grit," which launched its second season this month. He also stars in "The Wall," a war movie, which was released in early May. Mr. Cena is set to appear in HBO sports mockumentary "Tour de Pharmacy" next month, and he'll also make a high-profile return to the professional wrestling world on the WWE show "SmackDown Live" on July 4th.

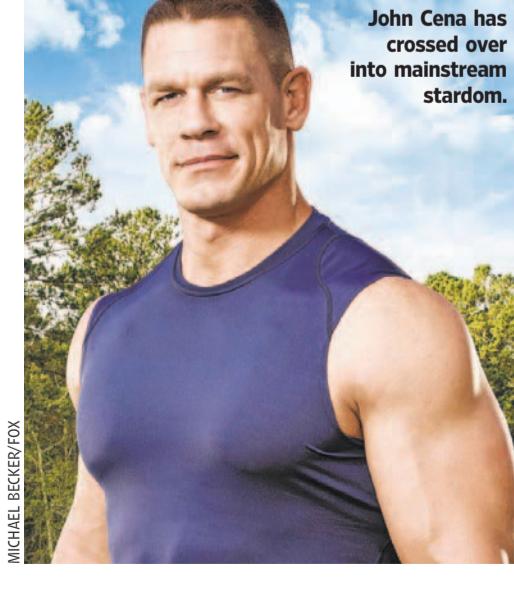
Mr. Cena, who has around 44 million followers on Facebook alone, is one of the few wrestlers who has managed to cross over into mainstream stardom with movies, TV shows and music re-

leases, and he's not done branching out. He's currently trying to learn Mandarin and piano by setting aside 30 minutes a day to work on each. He says his progress has been "slow and steady. It's just a matter of time under tension equals results."

Mr. Cena recently stopped by The Wall Street Journal to talk about "American Grit," his return to the wrestling ring, and his philosophy of time management. An edited transcript follows.

How do you find the time to juggle TV, movies and wrestling?

I like to do all the stuff I'm doing. I learned at a very young age that there's no substitute for hard work. So the cool thing is I don't have to do anything I don't want to do, but I'm also getting a lot of opportunities to do a lot of stuff that I do like. I say yes to everything and then figure it out later.



John Cena has crossed over into mainstream stardom.

Is there a connection between all the things you do?

I've spent 15 years as a storyteller. I'm in the storytelling business. So when I choose to be a part of a movie, it's because I like the story. That's why I like doing "American

Grit" so much. I get to oversee all the challenges and try to draw things out of these people to help them right their wrongs, to help them weave a great end to a wonderful story. So when you talk comedy or drama or action or WWE or "American Grit," it's all based off of stories.

How did you end up doing the voice of the bull in the animated adaptation of the kids book "The Story of Ferdinand"?

The voice-only stuff was great. It's a lot of long hours and it's a labor of love and I love the story. It's about someone, Ferdinand, the bull, who is perceived to be something but is so much more than just what it appears on the surface. I've struggled with this a lot in my career at WWE. I'm well aware of the stereotypes and preconceived notions that folks that don't know what we do have about our business.

You're very active on Twitter, with almost 10 million followers. On June 1, Tesla founder Elon Musk tweeted, "Am departing presidential councils. Climate change is real. Leaving Paris is not good for America or the world," and you retweeted it. Tell me about that.

I think it's a strong message. And I think him leaving the presidential council, I think companies and individual states trying to retain the parameters of the Paris agreement is also a strong message. I love the United States of America. I think it's one of the greatest countries in the world. But if you strip away all the lines and borders, we're all human beings and we only got a world to live on.

So what's going to happen when you go on "SmackDown Live" on July 4th?

I don't know what to expect and that's why "SmackDown Live" is awesome and WWE is awesome. This is the longest I think I've been away healthy from the WWE in fifteen years, so I'm ready to get back. I'm very, very excited about Independence Day.

OPINION

REVIEW & OUTLOOK

Chris Hill Repents on North Korea

A former U.S. diplomat has written an op-ed advising the Trump Administration not to negotiate with North Korea over freezing its nuclear-weapons program. No big deal, you might say. Except that the author is Christopher Hill, the former State Department grandee who offered North Korea a cascade of concessions to freeze its nuclear program in the mid-2000s.

Mr. Hill is entitled to change his mind. But the U.S. wouldn't be in such a pickle today if he had realized a decade ago that the Kim regime will never voluntarily give up a nuclear program that he now calls "inherently aggressive." In the years since Mr. Hill was negotiating, Pyongyang has made itself more lethal by miniaturizing its warheads and developing long-range missiles to deliver them.

The mistakes made by Mr. Hill and his boss, George W. Bush, are relevant today because President Trump is now being asked to go down the same road. China is trying to bring the U.S. and the North back to the negotiating table, while South Korean President Moon Jae-in, who will visit the White House later this week, recently floated the idea that the U.S. should offer to scale back military exercises with the South in return for more nuclear promises from Pyongyang.

This is a failed strategy, and the U.S. can't afford to waste more time on it. Over the past quarter century, the U.S. has repeatedly propped up the Kim regime while the North failed to keep its promises. In the 1994 Agreed Framework, Bill Clinton gave Kim Jong Il a stream of oil shipments in return for a nuclear freeze. In 2002 the North Koreans admitted to Mr. Hill's predecessor Jim Kelly that they had

Trump can learn from the diplomat whose appeasement failed.

a secret program to enrich uranium, but media and foreign-policy elites refused to believe it and blamed the Bush Administration.

Mr. Bush held the line on North Korea for six years, until Condoleezza Rice persuaded him that a deal with North Korea could bolster his legacy. Mr. Bush's insistence that the North make a full declaration of its program fell by the wayside, but the U.S. gave the North multiple carrots, including removal from the list of state sponsors of terrorism and the release of assets from a money-laundering probe.

That deal foundered because the North refused to accept even watered-down U.S. demands for inspections. In 2008 Mr. Hill mocked his critics who "imagine there is a building somewhere with a secret door they can open and find a group of scantily clad women enriching uranium." A year later the North Koreans showed an American scientist a huge array of gas centrifuges—which had not been part of its declaration. Ms. Rice and Mr. Hill won the inside debate over Dick Cheney and Robert Joseph, who have since been vindicated.

In 2012 Barack Obama reached his own deal with the North for a freeze on nukes and missile development in return for aid. The North Koreans promptly continued testing missiles under the guise of launching satellites. They evidently expected the U.S. to look the other way, and after so many State Department climbdowns it's hard to blame them.

Thanks in part to Mr. Hill's misjudgments while he was in power, the U.S. has few good options to stop North Korea from deploying nuclear-tipped missiles and putting American cities at risk. Mr. Trump can't afford to make the same mistakes.

Beijing's Nobel Shame

Liu Xiaobo, winner of the 2010 Nobel Peace Prize, is suffering from late-stage liver cancer, the world learned Monday. His lawyer says China has granted Mr. Liu "medical parole," and he is receiving treatment in a Shenyang hospital. But Beijing can't shirk responsibility for his condition, which should have been treated aggressively earlier, and for his years of incarceration and separation from his family, which were a cruel injustice.

China imprisoned Mr. Liu in 2008 and sentenced him to 11 years in prison for "incitement to subversion of state power." His crime? He helped write Charter 08, a peaceful call for political reform signed by thousands of Chinese. The manifesto was based on Charter 77, a Soviet-era human-rights petition written by Czech dissidents including Vaclav Havel.

As the Nobel citation noted, "Liu has consistently maintained that the sentence violates both China's own constitution and fundamental human rights." Beijing continues to im-

prison anyone who protests its failure to abide by its own laws.

Liu Xiaobo will be remembered long after Xi Jinping is forgotten.

foundation, Beijing curtailed diplomatic relations and trade on grounds that Norway had honored a "criminal." Chinese authorities also put his wife, Liu Xia, under house arrest. Such ruthlessness is a hallmark of the current generation of Chinese Communist rulers.

The world heard nothing directly from Mr. Liu during his nine years in prison, but his wife spoke to him shortly after his sentencing. "When he decides to do something, he doesn't regret it," she said. "He said he hopes to be the last person punished for practicing freedom of expression."

Long after the Communist Party is discarded and current President Xi Jinping is forgotten, Mr. Liu will be remembered as an historic figure in the fight for Chinese freedom.

The Missile Defense Imperative

Liberal opposition to missile defense has persisted since the 1980s, but the politics may be changing with technological

more efficiently, military brass can make better choices faster.

As nuclear threats grow, the U.S. needs more advanced protection.

mean more tests and more available to take out threats. This is crucial as the North builds mobile launchers and tries to develop multiple warheads on a single missile.

Some Senators suspect that the Sullivan amendment is little more than home-state pork, but all states would benefit from preventing an attack and the fact of geography is that the trajectory of intercontinental missiles usually requires them to fly over Alaska. The Pentagon is studying whether to place another interceptor site in the Midwest or East Coast.

Opponents say missile defenses are too expensive given that interception might fail, so better to trust arms control and the deterrence of mutual-assured destruction. But arms talks with North Korea have been a fool's errand since negotiator Robert Gallucci and Bill Clinton bought its promises in 1994.

Even a 50% chance of interception might increase deterrence by making the success of an enemy first strike more doubtful. North Koreans or other rogues also may not be rational actors who fear their own annihilation. U.S. leaders have a moral obligation to do more than let Kim Jong Un hold American cities hostage, and without defenses a pre-emptive military strike might be the only alternative.

The price for the space-based system is classified but no doubt expensive, and it's difficult to score technologies still under development. But Congress ought to be able to find money to save Seattle from annihilation while arming U.S. troops against conventional threats. If it can't, voters should at least be able to see who voted against their protection.

The Senate will take up the National Defense Authorization Act in the coming weeks. Mr. Sullivan's missile-defense amendment would be a down payment on a safer America in an ever more dangerous world.

Urban Terrorism Returns to Colombia



AMERICAS
By Mary
Anastasia
O'Grady

A terrorist attack on June 17 in the upscale Bogotá, Colombia, shopping mall Centro Andino left three dead and nine injured, one critically. The bombing marks the return of urban terrorism to Colombia's capital city even while the ink is barely dry on the "peace" settlement President Juan Manuel Santos signed in Havana last year with the narco-terrorist group FARC.

Investigators have said the bomb used ammonia nitrate, a notoriously unstable compound. Whoever took it into a closed area like a bathroom probably wasn't an explosives expert.

On Wednesday the Colombian news outlet RCN reported in vague terms that the medical examiner found no traces of bomb residue on any of the bodies, a claim that isn't credible. When asked, the medical examiner wouldn't confirm that claim, saying only that he made a report to the attorney general's office. No one answered that office's public-affairs lines when I called on Friday, and no report has been made public.

President Santos's impunity deal for the FARC yields more violence.

Centro Andino is a national symbol of capitalism and has long been considered a possible terror target. Vehicles entering the parking garage are inspected by police and bomb-sniffing dogs. The area is blanketed with surveillance cameras. Colombian forensic teams excel at terrorism investigations and count on U.S. technical support for anything they lack. Yet this investigation appears amateurish at best.

Investigators initially said witnesses spotted two suspicious males entering the ladies' room not long before the bomb went off. Normally video footage would be urgently released to enlist the public in finding the suspects.

Instead the investigation team recruited sketch artists to make composite drawings of the men. The Twitter handle @Oskar_Sc captured the ridiculousness of this: "If you spit a piece of chewing gum" in Andino, "security can show the image from four different angles. They make a composite sketch of the attack?"

The sketches were released Tuesday. A day later the government withdrew them and said they weren't official.

No group has claimed responsibility for the attack, but that's not unusual. After the FARC bombed Club El Nogal in 2003 it denied paternity until authorities uncovered documents five years later that proved its guilt for a massacre that killed 36.

The only one to die instantly in the Andino blast was a 23-year-old French national, Julie Huynh. She had been in Colombia for six months doing social work for a nongovernmental organization with links to former FARC guerrillas ostensibly demobilized under the Santos agreement. On June 8 she reportedly took a trip to Cuba. She was at the mall with her mother and planned to leave Colombia within days.

The FARC's reaction to Huynh's death has been intriguing. It has oozed sympathy on social media for her but hasn't mentioned the other victims. A photo of her posted by the FARC contains its seal in the lower left corner. Perhaps unfairly, Colombians are recalling the story of Tanja Nijmeijer, the Dutch national who arrived in Colombia in 2000 under a "social worker" cover and turned out to be a ruthless terrorist.

On Wednesday the police announced arrest warrants for five men and one woman who it said are members of People's Revolutionary Movement (MRP), an offshoot of the Marxist National Liberation Army (ELN). On Saturday it said it arrested four men and four women alleged to be MRP members involved in the crime. Some were reportedly captured in a town known as a FARC stronghold. It is worth noting that MRP bombings until now have been low-power, nonlethal events in which pamphlets were left behind—very different than Andino.

Huynh's proximity to the bomb may have been pure coincidence. But the failure to conduct a professional investigation muddies the waters.

Mr. Santos warned Colombians last year that if the FARC isn't appeased, it will return to urban warfare. Recently the attorney general said that the FARC's wealth has been uncovered and will be confiscated to compensate its victims. Colombians could be forgiven for fearing that at Centro Andino the FARC responded.

Write to O'Grady@wsj.com.

A Truce in Drug Research

By Marc Siegel

Scott Gottlieb, the new U.S. Food and Drug Administration commissioner, is focused on scientific innovation and "finding better treatments for a lot of costly diseases." In Senate testimony last week, he talked about facilitating approval of targeted genetic cancer therapies and medications for rare diseases, known as orphan drugs. To streamline the discovery process and avoid duplication, Dr. Gottlieb has told me, the FDA will emphasize the need to "better integrate academic discoveries with industry."

That won't be easy—academia, government researchers and industry have long been rivals. But Dr. Gottlieb can shed light on the positive accomplishments of industry scientists while encouraging more open communication among the three groups and reducing redundancy.

Most Americans are unaware how many great scientists, trained in academia, now work in private pharmaceutical laboratories. A 2010 paper in the peer-reviewed journal *Nature Reviews Drug Discovery* confirmed that the vast majority of pharmaceuticals now in use were discovered in drug-company labs, where a process known as high-throughput screening allows computer analysis of thousands of compounds to determine those with the best activity against certain diseases. Big Pharma pioneered this process in the late 1980s before its use began to expand to academia in the early 2000s.

Once a promising drug has been discovered, it moves first to animal testing and then to human clinical trials. It is here that the corporate and academic worlds must work together. For decades, research funded by pharmaceutical companies has exceeded what the National Institutes of Health spends. According to a 2010 study in the *Journal of the American Medical Association*, of the approximately \$100 billion spent in biomedical research in 2007, close to 60% came from the pharmaceutical industry and a little more than 30% from the government. In 2011, the industry spent \$39 billion on research in the U.S. while the NIH spent \$31 billion. Drug-company-funded clinical trials at major medical centers produce the majority of publications in the medical literature.

A laboratory scientist has many incentives to leave academia and come over to the "dark side" of private industry. The money is better, of course, but the profit motive in well-equipped private labs often leads to an emphasis on creative solutions. One downside: the loss of prestige that goes along with an academic affiliation.

A few years ago I visited Pfizer Laboratories in Groton, Conn., to meet with a chemist (trained at a top university) who had discovered a novel use for the antibiotic azithromycin. He told me he was about to abandon his research because the drug seemed ineffective. Following an impulse, he measured tissue levels of azithromycin, which stayed elevated for several days. He realized a patient could take a five-day course of the drug and it would remain effective much longer. The popular and effective Zithromax Z-Pak was born. "I would never have felt the freedom to go the extra step in my previous life in academia," he said.

Collaboration between academia and industry has helped along several new Ebola vaccines in development at the NIH, including VSV-Zebov. Discovered by Canadian scientists and licensed by NewLink Genetics and Merck, VSV-Zebov was studied in a clinical trial in Guinea. The results, published in the journal *Lancet* in December, look promising.

Even Microsoft is entering the world of academic medicine. The technology giant has developed a prototype of a watch it calls Emma that senses and temporarily quiets tremors caused by Parkinson's disease. If trials confirm the watch's promise, Emma could help diagnose patients and treat symptoms without the side effects of common Parkinson's medications.

The process of developing a new vaccine or bringing a new device to market is complex and exacting. Manufacturers are generally motivated by profit, and their top scientists operate with a creativity rare among the protocol-heavy, prestige-driven scientists of academia. But both sides share a goal: curing people. Dr. Gottlieb, with his background in clinical medicine and biotechnology, is well-suited to help them do it.

Dr. Siegel, a professor of medicine and medical director of Doctor Radio at New York University's Langone Medical Center, is a Fox News medical correspondent.

OPINION

Trump, Mueller and Arthur Andersen

By Michael B. Mukasey

What exactly is Special Counsel Robert Mueller investigating? The basis in law—regulation, actually—for Mr. Mueller's appointment is a finding by the deputy attorney general that "criminal investigation of a person or matter is warranted."

According to some reports, the possible crime is obstruction of justice. The relevant criminal statute provides that "whoever corruptly . . . influences, obstructs or impedes or endeavors [to do so], the due and proper administration of the law under which any pending proceeding is being had," is guilty of a crime. The key word is "corruptly."

Did the president act 'corruptly'? Not from what we know—but then neither did the accounting firm.

President Trump's critics describe two of his actions as constituting possible obstruction. One is an alleged request to then-FBI Director James Comey that he go easy on former national security adviser Mike Flynn, who was under investigation for his dealings with Russia and possible false statements to investigators about them.

According to Mr. Comey, Mr. Trump told him, "I hope you can see your way clear to letting this go, to letting Flynn go," because "he is a good guy."

An obstruction charge based on that act would face two hurdles. One is that the decision whether to charge Mr. Flynn wasn't Mr.

Comey's. As FBI director, his job was to supervise the investigation. It is up to prosecutors to decide whether charges were justified.

The president's confusion over the limits of Mr. Comey's authority may be understandable. Mr. Comey's overstepping of his authority last year, when he announced that no charges were warranted against Hillary Clinton, might have misled Mr. Trump about the actual scope of Mr. Comey's authority. Nonetheless, the president's confusion couldn't have *confferred* authority on Mr. Comey.

The other is the statutory requirement that a president have acted "corruptly." In *Arthur Andersen LLP v. U.S.* (2005), the U.S. Supreme Court accepted the following definition: that the act be done "knowingly and dishonestly, with the specific intent to subvert or undermine the integrity" of a proceeding.

Taking a prospective defendant's character into account when deciding whether to charge him—as Mr. Comey says Mr. Trump asked him to do—is a routine exercise of prosecutorial discretion. It is hard to imagine that a properly instructed jury could decide that a single such request constituted acting "corruptly"—particularly when, according to Mr. Comey, Mr. Trump also told him to pursue evidence of criminality against any of the president's "satellite" associates.

The second act said to carry the seed of obstruction is the firing of Mr. Comey as FBI director. The president certainly had the authority; it is his motive that his critics question.

A memorandum to the president, from the deputy attorney general and endorsed by the attorney general, presented sufficient grounds for the firing: Mr. Comey's usurpation of the prosecutor's role in the Clinton



AFP/GETTY IMAGES

Then-FBI Director Robert Mueller testifies before the Senate in 2013.

matter and his improper public disclosure of information unfavorable to Mrs. Clinton.

But the president's detractors have raised questions about the timing—about 3½ months into the president's term. They have also cited the president's statement to Russian diplomats days afterward that the firing had eased the pressure on him.

The timing itself doesn't suggest a motive to obstruct. Rather, coming a few days after Mr. Comey refused to confirm publicly what he had told Mr. Trump three times—that the president himself wasn't the subject of a criminal investigation—the timing suggests no more than an understandable anger. The statement to Russian diplomats, which might have been intended to put the Russians at ease, collides with the simple fact that an investigation—conducted by agents in the field—proceeds regardless of whether the director continues

in office, and thus hardly suggests the president acted "corruptly."

One of Mr. Mueller's early hires among the dozen-plus lawyers already aboard has a troubling history with the word "corruptly." Andrew Weissmann led the Enron prosecution team that pressed an aggressive interpretation of "corruptly," which permitted a conviction even absent the kind of guilty knowledge the law normally associates with criminal charges. As a result, the accounting firm Arthur Andersen was convicted. By the time the conviction was reversed on appeal to the Supreme Court in 2005—in large part due to the erroneous application of "corruptly" in the statute at issue—Arthur Andersen had already ceased operation.

What if—for some reason not apparent to the public now—Mr. Mueller were to conclude that the president did act "corruptly"? Could he

initiate a criminal prosecution? The Office of Legal Counsel at the Justice Department, which sets policy for the department and other agencies of government, has already opined more than once—starting in 1973, during Watergate—that the answer is no. It would offend the Constitution for the executive branch to prosecute its head.

What else might Mr. Mueller do? Some have suggested that if he finds criminal activity occurred he could report his findings to the House so as to trigger an impeachment proceeding, as Independent Counsel Kenneth Starr did in 1998. But the law under which Mr. Starr was appointed has lapsed, and the regulations governing the special counsel provide for only two kinds of reports—either to Justice Department leadership when some urgent event occurs during the investigation, or to the attorney general to explain the decision to prosecute or not. Reports of either type are to be treated as confidential.

Mr. Mueller could simply take the bit in his teeth and write a public report on his own authority, or write a confidential report and leak it to the press. If he did either, he would be following Mr. Comey's lawless example.

Or if, as appears from what we know now, there is no crime here, Mr. Mueller, notwithstanding his more than a dozen lawyers and unlimited budget, could live up to his advance billing for integrity and propriety and resist the urge to grab a headline—not necessarily his own urge but that of some he has hired.

Hold fast. It may be a rough ride.

Mr. Mukasey served as U.S. attorney general (2007-09) and a U.S. district judge (1988-2006).

For the U.S. and India, a Convergence of Interests and Values

By Narendra Modi

Last June in my address to a joint session of the U.S. Congress, I stated that the relationship between India and America had overcome the "hesitations of history." A year later, I return to the U.S. confident in the growing convergence between our two nations.

This confidence stems from the strength of our shared values and the stability of our systems. Our people and institutions have steadfastly viewed democratic change as an instrument for renewal and resurgence.

In an uncertain global economic landscape, our two nations stand as mutually reinforcing engines of growth and innovation. Confidence in each other's political values and a strong belief in each other's prosperity has enabled our engagement to grow. A vision of joint success and progress guides our partnership.

Our bilateral trade, which already totals about \$115 billion a year, is poised for a multifold increase. Indian companies are adding value to the manufacturing and services sectors in the U.S., with total investments of ap-

proximately \$15 billion and a presence in more than 35 states, including in the Rust Belt. American companies have likewise fueled their global growth by investing more than \$20 billion in India.

The transformation of India presents abundant commercial and investment opportunities for American businesses. The rollout of the Goods and Services Tax on July 1 will, in a single stroke, convert India into a unified, continent-size market of 1.3 billion people.

The planned 100 smart cities, the massive modernization of ports, airports, and road and rail networks, and the construction of affordable housing for all by 2022—the 75th anniversary of India's independence—aren't just promises of great urban renewal within India. These plans also showcase the enormous fruits of our relationships with enterprising U.S. partners—worth many billions of dollars over the next decade alone—together with new employment opportunities across both societies.

India's rapidly expanding aviation needs, and our increasing demand for gas, nuclear, clean coal and renew-

ables, are two significant areas of increasing convergence. In the coming years, Indian companies will import energy in excess of \$40 billion from the U.S., and more than 200 American-made aircraft will join the private Indian aviation fleet.

Our two nations stand as mutually reinforcing engines of growth and innovation.

The combination of technology, innovation and skilled workers has helped forge an exciting digital and scientific partnership between our two countries. The creative and entrepreneurial energy of our engineers, scientists and researchers, and their free movement between both countries, continue to help India and the U.S. retain their innovation edge and maintain competitiveness in the knowledge economy.

A new layer in our engagement is our partnership for global good.

Whenever India and the U.S. work together, the world reaps the benefits—be it our collaborative efforts to find affordable vaccines for rotavirus or dengue, our joint studies of gravitational waves, observations of distant planets, establishing norms for cyberspace, providing humanitarian assistance and disaster relief in the Indo-Pacific region, or training peacekeepers in Africa.

Defense is another mutually beneficial sphere of our partnership. Both India and the U.S. have an overriding interest in securing our societies, and the world, from the forces of terrorism, radical ideologies and nontraditional security threats. India has four decades' experience in fighting terrorism, and we share the U.S. administration's determination to defeat this scourge.

We are already working together to address the existing and emerging strategic and security challenges that affect both our nations—in Afghanistan, West Asia, the large maritime space of the Indo-Pacific, the new and unanticipated threats in cyberspace. We also share an interest in ensuring that sea lanes—critical life-

lines of trade and energy—remain secure and open to all.

The logic of our strategic relationship is incontrovertible. It is further underpinned by faith in the strength of our multicultural societies that have defended our values at all costs, including the supreme sacrifices we've made in distant corners of the globe. The three-million-strong Indian-American community, which represents the best of both our countries, has played a crucial role in connecting and contributing to our societies.

The past two decades have been a productive journey of engagement for our mutual security and growth. I expect the next few decades to be an even more remarkable story of ambitious horizons, convergent action and shared growth.

The U.S. and India are forging a deeper and stronger partnership that extends far beyond the Beltway and the Raisina Hill. That partnership has become our privileged prerogative and our promise for our people and our world.

Mr. Modi is prime minister of India.

Health-Reform Principles That Can Cross Party Lines

By Lanhee J. Chen
And Ron Pollack

The current congressional debate about health reform in America focuses on two closely linked issues: how to structure subsidies and the future of Medicaid. We write to support two propositions that can better serve economically vulnerable American families, while also ensuring that public dollars are spent effectively.

First, we believe public subsidies for private insurance premiums should be means-adjusted to make coverage affordable for lower-income people. Second, we believe states should be given new flexibility to streamline coverage options in Medicaid, the Children's Health Insurance Program (CHIP) and other publicly supported insurance, so that families

can obtain the coverage that best suits their circumstances and serves their needs.

We, along with Sara Rosenbaum, Gail Wilensky, Joe Antos, John McDonough, Grace-Marie Turner and Stuart Butler—a group of health-policy researchers who join in this article—hold diverse political views and policy outlooks. But we believe these propositions transcend partisanship and ideology.

Most Americans receive employer-sponsored health insurance, which is heavily subsidized through the tax system. Many millions of others are enrolled in Medicaid and CHIP, funded jointly by the federal government and the states, and Medicare, funded through federal tax revenue and individual contributions. Until 2014, individuals who were not eligible for employer-spon-

sored insurance or public programs could buy their own insurance, but most didn't receive any financial help. As a result of the Affordable Care Act, millions more people receive subsidies to help pay for their insurance premiums.

Public support for health coverage should be spent as effectively and efficiently as possible. Toward that end, we agree that the existing tax exclusion for employer-sponsored health benefits should have reasonable limits. We also agree that it is prudent to provide subsidies for people who need help to purchase adequate insurance.

While hundreds of billions of taxpayer dollars reduce the cost of health coverage and care for most Americans, until recently those with limited financial means seeking individual coverage were left out. This lack of access to affordable care drove many uninsured Americans to skip medical treatment that would have averted suffering and higher costs over time.

If we expect low-income families to purchase health insurance, we must structure the subsidies to make affordable coverage a realistic possibility. That means providing greater subsidies to those who can least afford the premiums.

While we have differing perspectives about the level and structure of Medicaid funding, we all believe that carefully developed state testing can be a primary engine for reforming Medicaid and providing care to low-income families. The improved use of waivers, for example, can help states develop fiscally sound and affordable coverage options for their most vulnerable citizens.

States should be given greater authority to configure and redirect revenue streams from Medicaid, CHIP and

private insurance to improve and strengthen coverage. Integration of funding streams would make it easier for individuals to keep the same coverage and providers when their employment or other life circumstances change. It would also allow all family members to share the same health

Experts don't always agree—but eight of us found common ground despite our other differences.

private insurance to improve and strengthen coverage. Integration of funding streams would make it easier for individuals to keep the same coverage and providers when their employment or other life circumstances change. It would also allow all family members to share the same health

plan. Experimentation would enable states to integrate health-care options better so that families could choose the best plan for their needs.

To ensure cost-effectiveness, states seeking waivers should be required to meet an overall federal budget-neutrality standard. Neutrality should be required for the cumulative budget impact of a proposal involving multiple programs and subsidies, not for each program. States should be allowed to align better the federal subsidies available to their citizens, even if allowing them to do so would require specific changes to one or more forms of coverage.

This additional flexibility, however, must be subject to safeguards. While we differ about the extent of the federal safeguards needed to protect state coverage and benefits, we all agree that flexibility should not allow funds for health-care services to be diverted to other purposes. Furthermore, funding for low-income populations must not be diverted to cover higher-income individuals.

With this new authority, states could simplify their insurance mar-

kets and enable children to receive coverage with their parents. This would allow parents to shop for better and more integrated coverage for their children while retaining the protections established by CHIP.

Lawmakers should also consider altering Medicaid, CHIP and tax-subsidy rules to ensure that families without employer coverage for their children can receive support to buy affordable child-only plans. Similarly, states could help healthy adults buy private insurance.

We believe that these incremental policies would establish a more equitable health-care system and help families of limited means secure the care they need to remain healthy.

Mr. Chen is a fellow at the Hoover Institution and director of domestic policy studies in the Public Policy Program at Stanford University. Mr. Pollack was founding executive director and is chair emeritus of Families USA. They and their colleagues who join this article participate in the Convergence Center for Policy Resolution's Health Reform Roundtable.

Notable & Quotable

Justice Neil Gorsuch dissenting in Perry v. Merit Protection Board, June 23:

I just cannot find anything preventing us from applying the statute as written. . . . The only thing that seems sure to follow from accepting [the appellant's] invitation is all the time and money litigants will spend, and all the ink courts will spill, as they work their way to a wholly remodeled statutory regime. Respectfully, Congress already wrote a perfectly good law. I would follow it.

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, June 27, 2017 | B1

Yen vs. Dollar 111.5540 ▲ 0.24%

Hang Seng 25871.89 ▲ 0.79%

Gold 1244.30 ▼ 0.95%

WTI crude 43.47 ▲ 1.07%

10-Year JGB yield 0.056%

10-Year Treasury yield 2.122%

Crown Employees Get Prison in China

A senior executive of Australian casino company **Crown Resorts** Ltd. pleaded guilty Monday to gambling crimes in China and was sentenced to 10 months in prison, capping an

By Wayne Ma
in Shanghai and Mike Cherney in Sydney

episode that has chilled efforts by casinos to lure Chinese high-rollers.

Jason O'Connor, Crown's head of international VIP operations, was charged along with 18 other current and former Crown employees who also pleaded guilty during a

three-hour trial before Criminal Court No. 1 in Shanghai's Baoshan district.

In addition to Mr. O'Connor, four others received 10-month sentences and 11 were given nine-month sentences, with credit for time served since mid-October, Crown said.

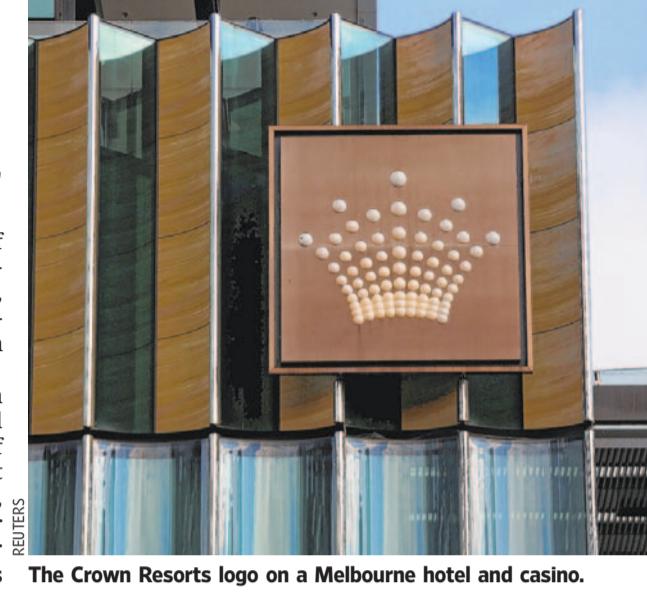
Three administrative employees who have been free on bail weren't sentenced.

The arrests followed an investigation that tracked 69 big-spending Chinese gamblers from 2015 to 2016 as they were coaxed to Crown's Australia resorts with free airline tickets, visas and hotel accommodations and

gamblod tens of millions of Australian dollars, authorities said in court Monday, according to a person present. Crown has casinos in Melbourne and Perth.

Casino gambling is illegal in China, except in the special administrative region of Macau. Foreign casinos aren't allowed to advertise gambling, but they can promote their destinations more broadly, for example promoting beaches and shopping.

The defendants could have been sentenced to as many as three years in prison, according to lawyers following the case, making Monday's terms



The Crown Resorts logo on a Melbourne hotel and casino.

seem relatively light—especially in comparison with higher-profile cases involving foreign and Chinese employees of GlaxoSmithKline PLC and

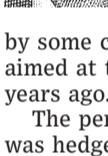
Rio Tinto PLC. Australian Rio Tinto executive Stern Hu, for example, was sentenced to 10 years in prison in China for

Please see CROWN page B2

HEARD ON THE STREET

By Spencer Jakab

Why Shale Yields Oil, Not Cash


Oilmen are known for using salty language, but even they were shocked by some choice words aimed at them a couple of years ago.

The person uttering them was hedge-fund manager David Einhorn of **Greenlight Capital**. He charged that the companies leading the U.S. shale fracking revolution were "all hat and no cattle," failing to meet the basic business requirement of returning more cash to investors than they consumed. The biggest offender, he said, was Pioneer Natural Resources—the "mother-fracker."

Was he right? The price of an exchange-traded fund that tracks the industry, the Van Eck Vectors Unconventional Oil & Gas ETF, ticker symbol FRAK, has shed half of its value since his presentation. Pioneer actually did somewhat better. But benchmark U.S. oil prices dropped from nearly \$60 a barrel at the time to just over \$26 the next February and are 30% lower today—a factor that weighs heavily on energy shares.

The heart of his argument is worth examining, though, as U.S. oil output is poised to surpass its 2015 record amid a renewed drilling boom in places such as the Permian Basin. Over the past decade—roughly the history of the shale boom and two intervening busts—eight leading U.S. shale producers have collectively generated \$414 billion in revenue but had negative free cash flow of \$68 billion.

There were signs the industry could break that streak this year as technological innovation and a plunge in service costs brought the break-even oil price down by about a third in some locations. Yet analysts' free-cash-flow forecasts for fiscal 2017 compiled by FactSet show that cumulative expectations for the same eight companies have dropped from just over \$1 billion in February to less than \$60 million. The obvious explanation is that oil prices have dropped. A big reason for that, though, is shale's surprising success, which has offset supply cuts by big oil exporters.

Oil producers will argue that individual projects have had good returns when planned and that their companies are profitable. Yet free cash flow is a bedrock principle in any investment.

Yet another shale boom might become a victim of its own success.



Mescal is hard to make on a large scale because of handcrafted production and a long growing time required of agave used in its distillation.

EU Fine Against Google Is Imminent

BY NATALIA DROZDIAK

BRUSSELS—The European Union's antitrust watchdog will as soon as Tuesday hit **Alphabet** Inc.'s Google with a fine of more than €1 billion, or over \$1.12 billion, and demand changes to the company's business practices, according to people familiar with the matter.

The European Commission, which has for roughly seven years been investigating Google for breaching the bloc's antitrust rules in various areas, is poised to announce as soon as Tuesday that Google has manipulated search results to favor its own comparison-shopping service. Other formal EU probes into Google's behavior with its Android mobile-operating service and AdSense advertising service are continuing.

The antitrust penalty against Google is expected to surpass the EU's previous record fine imposed on a company for allegedly abusing its market position: €1.06 billion against **Intel** Corp. in 2009.

"We continue to engage constructively with the European Commission and we believe strongly that our innovations in online shopping have been good for shoppers, retailers and competition," said Google spokesman Al Verney.

The EU will also likely demand Google give rival comparison-shopping services such as **Foundem.co.uk** and **Kelkoo.com** Ltd. equal treatment in its search results. Complainants in the case allege that Google both demotes competitors' offerings in search rankings and artificially inserts its own service in a box above all other search results, regardless of their relevance.

A decision in the comparison-shopping case could create precedents for Google's behavior with its other search services, such as travel and maps, which the EU is also scrutinizing.

The move is likely to stoke accusations across the Atlantic that the EU disproportionately targets American companies, especially tech firms, to protect its own European-grown industries. The European Commission has already struck Apple Inc., Facebook Inc. and Starbucks Corp. with various decisions for breaching the bloc's competition rules, hitting their financial accounts. The regulator also continues to probe McDonald's Corp. and Amazon.com Inc. for allegedly not paying enough taxes in Europe.

In the Google case, some large U.S. companies, including **Yelp** Inc., complained alongside European firms to the EU about the company's behavior in the hopes that the EU would take action.

Liquor Companies Binge on Mescal

Tequila's smokier cousin widens its appeal, but revenue growth faces hurdles

By ROBBIE WHELAN

SAN JUAN DEL RIO, Mexico—Mescal, tequila's smokier cousin, has made the leap from the rugged mountains of Mexico to trendy bars from New York to Los Angeles.

But the world's biggest liquor companies are struggling to parlay its popularity into substantial profits. The factors driving mescal's rise—its handcrafted production, its connection to Mexico's indigenous village culture and the long growing time required of the agave used in its distillation—are also why the spirit is hard to produce on a large scale.

That isn't keeping the industry from trying. Earlier this month, France's **Pernod**

Ricard SA said it bought a controlling stake in **Del Maguey Single Village Mezcal**, Mexico's largest mescal exporter. Del Maguey was founded in 1995 by Ron Cooper, an itinerant surfer and artist from Los Angeles.

Pernod Ricard joins **Bacardi Ltd.**, **Jose Cuervo** and **Diageo PLC**, which all have either acquired, launched or struck distribution deals with high-end mescal brands in the past three years.

It is too early to say whether these investments will prove profitable. But as U.S. consumers drink more cocktails, rising sales of mescal could help pad liquor firms' earnings amid sluggish growth in other big alcohol categories, such as rum and vodka, said Milena Redzic, an associate analyst with **AllianceBernstein** in London.

A steady decline in worldwide alcohol consumption accelerated last year, falling 1.4%, according to industry re-

search firm IWSR, due mainly to flagging interest in beer and wine. Cocktails, however, have been a rare bright spot, especially in the U.S., where sales of spirits grew 2.6% last year, more than double the growth of wine sales.

Globally, mescal sales have increased 17% annually, on average, in the past decade.

"It definitely fits very well in the overall consumer preferences in the U.S., where people want a lot of provenance and a lot of story in what they're drinking," she said.

Export demand for mescal surpassed domestic consump-

tion in Mexico for the first time last year, according to the country's mescal regulator. Producers sold a record 640,000 cases both inside and outside Mexico. Exports to the U.S. rose 27% to 140,000 cases.

Even with the consistent growth, mescal had just \$124 million in sales last year, according to IWSR. In comparison, tequila, which is made from a single variety of agave known as Weber Blue, had \$6.9 billion in sales. Single-malt scotch, another premium liquor with humble roots, posted sales of \$5.9 billion.

AllianceBernstein estimates that Pernod Ricard might have paid between \$30 million and \$40 million for Mr. Cooper's mescal brand, based on typical gross sales margins and valuations in the premium-spirits market. Mr. Cooper and Pernod Ricard declined to comment on the deal's terms.

Pernod Ricard acknowl-

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INSIDE



NESTLÉ CEO MARK SCHNEIDER CONFRONTS LOEB'S CHALLENGE

BUSINESS, B3

Apple, J.P. Morgan Target Venmo

By PETER RUDEGEAIR

Venmo has become a verb among people who want to send money digitally to each other. What it hasn't become is a huge moneymaker for parent **PayPal Holdings Inc.**

Historically, that hasn't been much of a concern for PayPal, although that is starting to change. Making money might matter even less to the big tech and finance firms like **Apple Inc.** and **J.P. Morgan Chase & Co.** that are going after Venmo's business.

Those firms are trying to prevent Venmo from becoming to person-to-person payments what **Google** is to search or **Facebook** is to social media. The reason: Even if such services aren't profitable today, companies believe they are vital to getting and keeping consumers, especially coveted

millennials.

"We don't charge customers," Gordon Smith, head of consumer banking at J.P. Morgan, said at an investor conference while describing the bank's efforts in person-to-person payments.

"So you all quite rightly will ask me, 'Well, what's the revenue model?' And the revenue model is that the customer is engaged on our banking app."

J.P. Morgan this month connected its smartphone apps to a new money-transfer network called Zelle, which is owned by several banks and will eventually reach 86 million consumers. That followed an announcement from Apple that it was also getting into person-to-person payments.

Behind the companies' zeal is rapid growth in digital person-to-person payments. Consumers made \$147.1 billion in

such transactions in 2016, up 47% from the year before, according to consulting firm Aite Group LLC.

But Venmo won't be easily pushed aside. It is growing faster than the overall market, handling \$17.6 billion in such payments in 2016, more than double its \$7.5 billion in 2015.

With these payment services, consumers link a bank account, debit card or credit card to a smartphone app and can send money to anyone else with just the email address or phone number of the recipient. Venmo and the other services typically eat the charges that banks or card networks impose on transfers that move over their payment rails.

"It's been all cost and no revenue, but a tremendous acquisition tool and a tremendous engagement tool," PayPal

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Grocer Supervalu Says Finance Chief to Leave

BY HEATHER HADDON AND ALI STRATTON

Retail and wholesale food seller **Supervalu** Inc.'s chief financial officer is resigning, the third executive to step down within the past week amid turmoil in the grocery industry.

Bruce Besanko, who also was the Minnesota-based grocer's chief operating officer, will step down July 5 "to pursue an opportunity outside the company," Supervalu said.

The grocery industry is struggling with increased competition and prolonged food-price deflation that has eroded company margins. Last week, the chief executive of **Southeastern Grocers** LLC, Ian McLeod, said he was leaving the chain for Hong Kong-based retailer **Dairy Farm International Holdings** Ltd. Also last week, the CEO of Fresh Market, Rick Anicetti, said without explanation that he was resigning.

Supervalu has struggled with a sharp decline in sales in its retail stores, prompting the grocer to focus more on its wholesale business. The company's stock has fallen by 30% in the past year to around \$2.96 on Monday.

Last week, the company completed its acquisition of Unified Grocers for \$390 million to further bolster its wholesale business.

Supervalu said its wholesale margin in its fiscal fourth quarter rose to 3.6% from 2.9% a year earlier. Its retail margins shrank to 1.3% from 2.7%.

Supervalu Chief Executive Mark Gross said Monday that Mr. Besanko made improvements to the company's capital structure. Earlier this month, Supervalu said it plans to overhaul its technology infrastructure in a move to strengthen its operations.

The company said it has begun a search for Mr. Besanko's successor.

MESCAL

Continued from the prior page

edges that mescal is still a tiny market, but cited growth potential in its decision to buy Del Maguey, which sold 35,000 cases worth \$15.4 million last year, almost all of it in the U.S.

"In the U.S. mescal is still under 150,000 cases a year," said Jeff Agdern, a senior vice president with Pernod Ricard USA. "There was a time when Irish whiskey was under 200,000 cases a year and look where it is today." Some 3.8 million cases of Irish whiskey were sold in the U.S. last year.

Many producers and industry watchers don't think mescal can grow at anything like the pace of whiskey.

"This stuff is made by farmers, not in factories," said Mr. Cooper, Del Maguey's founder.

"We're exporting more mescal because people want to drink the good stuff, the artisanal, handmade stuff."

"How could you scale up and still have good quality? That would make it tequila, amigo."

Here in San Juan del Rio, a village of roughly 2,000 people about three hours from the state capital of Oaxaca in southern Mexico, indigenous families have made mescal by hand for hundreds of years.

Workers harvest enormous agave plants from mountain-side plots, then use mules to haul them to family-run copper-pot distilleries called palenques, many of them far

from paved roads. There the plants are ground into a pulp and fermented naturally, with no yeast or other additives, then distilled into the clear, strong spirit.

Mescal is of similar strength to tequila, ranging from 40% to 50% alcohol content by volume.

Santiago Suárez, a 31-year-old Mexico City native, founded **Mezcal Amores**, which last year sold 11,000 cases of its Amores and Amaras brands to U.S. importers for about \$3 million.

This year, he launched a new factory near Oaxaca City to produce a lower-priced brand of mescal known as Verde, aimed at bartenders.

On a recent afternoon here,

Mr. Suárez tried to explain

mescal math to three of his

producers. Roberto Luis

Hernández, a farmer who has

been making mescal for 60 years, asked why Mr. Suárez couldn't pay him more.

Mr. Suárez explained that,

to cover the costs of logistics, marketing and markups charged by importers and distributors in the U.S., he already has to charge a retail price of more than \$40 per bottle, which is at the high end for mescal. Even so, he says Mezcal Amores has been losing money for five years.

"If I raise my prices, even by a few dollars per bottle, there are 50 other brands of mescal waiting to sweep in and sell their product to the same restaurant," Mr. Suárez said. "The competition is brutal."



CROWN

Continued from the prior page

accepting bribes and stealing commercial secrets.

Crown's decision to sell its stake in a Macau casino operator after the detentions likely helped influence the lenient sentences, said Hans Hendrischke, professor of Chinese business and management at the University of Sydney Business School.

Crown was "sending a very strong signal that they take this seriously and they want this to be resolved as soon and as smoothly as possible," Mr. Hendrischke said. "This is very much the way things operate in China, and it would confirm that if you respond adequately

as Crown has done, you can get an adequate return from the Chinese side."

Nicolas Groffman, an attorney at Harrison Clark Rickerbys, said that other gambling cases have included charges of embezzlement or bribery, which didn't happen in this instance.

"Maybe there isn't motivation anymore to go after them hard because they've got other big fish to fry," Mr. Groffman said. "There was no need to hang these people and give them anything beyond the normal sentences."

In a written statement, Crown said the 16 employees who were sentenced to prison terms were also fined the equivalent of 1.7 million Australian dollars (US\$1.3 million) in total. The company said

that it would pay the fines on the employees' behalf.

Crown shares closed up four Australian cents at A\$12.79 on the Australian stock exchange on Monday.

The case has been watched closely by the gambling industry. Crown and competitors in Australia and New Zealand reported declines in their VIP businesses after the arrests.

Macau, in contrast, is on a 10-month revenue winning streak that analysts said has been partly driven by high-rollers who have returned there from other gambling meccas.

Crown has said visitors from mainland China comprised less than half of the company's international VIP revenue, and that mainland

Chinese VIPs accounted for about 12% of the company's A\$3.6 billion in total revenue for the 2016 fiscal year.

But for the six months ending Dec. 31, Crown said its overall VIP program revenue in Australia fell 45%.

Most of the Crown employees detained held sales and marketing positions targeting different regions of China, according to the person present in the court.

The three employees who weren't sentenced or fined were administrative workers, this person said.

Aside from the three Australians, one detainee was Malaysian and the others were Chinese, people familiar with the case have said.

—Junya Qian in Shanghai contributed to this article.

BUSINESS & FINANCE

Shkreli Fraud Trial to Open

BY REBECCA DAVIS O'BRIEN

Jury selection was set to begin Monday in the U.S. federal securities-fraud trial of Martin Shkreli, the former pharmaceutical executive who stirred outrage two years ago for his decision to dramatically raise the prices of lifesaving drugs.

Federal prosecutors in Brooklyn allege that Mr. Shkreli, 34 years old, committed a series of frauds, misleading investors in his hedge funds and looting a publicly traded pharmaceutical company to cover the losses when those funds soured.

Mr. Shkreli, who also faces civil charges brought by the U.S. Securities and Exchange Commission and a \$65 million lawsuit brought by the pharmaceutical company, has pleaded not guilty and denied wrongdoing.

A second defendant in the case, Evan Greebel, a former corporate lawyer whom prosecutors accused of helping Mr. Shkreli in one of the alleged schemes, is scheduled to go on trial later this year.

The eight criminal counts against Mr. Shkreli, which include securities fraud and conspiracy to commit wire and securities fraud, are unrelated to the controversial drug-price increase. In 2015, as chief executive of Turing Pharmaceuticals AG, Mr. Shkreli bought the rights to Daraprim—a decades-old drug that fights a potentially life-threatening parasitic infection and raised the price from \$13.50 to \$750 a pill.

Mr. Shkreli defended that move, saying he had an obligation to "maximize our profit" for his investors. After his December 2015 arrest, Mr. Shkreli told The Wall Street Journal that federal law enforcement had targeted him because of the Daraprim price increase and his brash public persona.

That persona hasn't diminished since his arrest: Mr. Shkreli has taunted U.S. Congress members and Democratic presidential candidates, feuded with rap artists and journalists and maintained a stream of social-media bluster.

Mr. Shkreli's lawyers are seeking to distinguish their client's public behavior from his actions as an executive, which they say didn't amount to criminality.

For the trial, expected to last four to six weeks, the government said it would call investors in Mr. Shkreli's hedge funds to testify, among dozens of potential witnesses.

Ben Brafman, Mr. Shkreli's lawyer, said at a pretrial hearing last week the government had taken a "myopic view" of Mr. Shkreli's relationship with investors, noting that all of the investors were eventually repaid. "The question is whether he intended to defraud them."

Mr. Shkreli is "traveling to the beat of his own very unique drummer, if you will," Mr. Brafman said in court, calling him a "boy genius."

In a later statement, Mr. Brafman said: "Mr. Shkreli and his lawyers intend to try this case in the courtroom, not via social media or in the press."

Meanwhile, Mr. Shkreli was raising capital for a new fund, **MSMB Healthcare**: Between February 2011 and November 2012, he persuaded 13 investors to give him \$5 million.

Prosecutors said Mr. Shkreli falsely claimed that the new fund at the time had \$55 million under management.

To conceal mounting losses, prosecutors allege Mr. Shkreli produced phony performance reports and misappropriated assets from **Retrophphin** Inc., a drug company he founded in 2011. In his alleged misconduct involving Retrophphin, prosecutors say Mr. Shkreli was assisted by Mr. Greebel, who served as outside counsel to Retrophphin.

Mr. Shkreli's lawyers, for their part, have said they would defend Mr. Shkreli on two of the counts on grounds that he was relying on Mr. Greebel's legal advice.



KEVIN HAGEN/GETTY IMAGES

BUSINESS NEWS

Nestlé Faces Stiffer ‘Winds of Change’

BY SAABIRA CHAUDHURI

Newly minted Nestlé SA Chief Executive Mark Schneider is facing the first big challenge of his short career in packaged foods.

Mr. Schneider indicated Monday he plans to continue with his own push to spur growth at the maker of Stouffer's frozen food and Nesquik chocolate milk, despite calls for radical change by activist investor Daniel Loeb.

Late Sunday, Mr. Loeb's Third Point hedge fund disclosed a \$3.5 billion stake in Nestlé, demanding a raft of changes it said would boost margins and shares, including the divestment of a long-held stake in L'Oréal SA. In a short response Monday, Nestlé said it keeps an “open dialogue with all our shareholders” but “remained committed to executing our strategy and creating long-term shareholder value.” The Swiss-based company said it had no further comment on Mr. Loeb's stake.

Messrs. Schneider and Loeb met in Switzerland about two weeks ago, according to a person familiar with the matter, to discuss the investor's ideas for how Nestlé can grow.

The stake amounts to just

1.25% of Nestlé, but that makes Mr. Loeb one of the company's biggest investors. And his recommendations come at a time when Nestlé shareholders could find them hard to ignore: Years of slow growth have shaken Nestlé and its consumer-goods competitors, as they contend with changing consumer tastes and other headwinds.

Shareholders welcomed the Third Point investment, sending Nestlé's stock up more than 4% on Monday.

Last year, Nestlé's board plucked Mr. Schneider out of the health-care industry to help diversify from its slow-growing cash cows to healthier foods and products. He moved quickly to shake things up. Shortly after taking the top job, he abandoned Nestlé's longstanding annual growth target, after years of Nestlé missing it. Earlier this month, he put Nestlé's U.S. confectionery business up for sale.

But he has also resisted some of the more radical approaches taken by competitors. He is an outspoken critic of so-called zero-based budgeting, the cost-cutting technique applied by Brazilian fund 3G Capital at some of the U.S. consumer-goods businesses it



Mark Schneider has discussed ideas for boosting Nestlé's growth with activist investor Daniel Loeb.

steers.

Jefferies analyst Martin Deboo said Mr. Schneider has some room to maneuver.

“We view [Nestlé] as a proud company with an enduring model,” said Mr. Deboo. “We expect them to be wary of bending too readily, too publicly, to the views of an ultimately small shareholder.”

Third Point's letter to investors on Sunday identified “a familiar set of conditions that make it ripe for improvement and change.” The fund said: “Our recommendations to Nestlé management, if taken together, would dramatically improve both the growth profile and earnings power of the company.”

Nestlé's board. Mr. Schneider is the Swiss company's youngest pick for the top job in 50 years and its first outsider CEO since 1922.

Last year, before Mr. Schneider took over, Bernstein analyst Andrew Wood warned Nestlé “may suffer a slow slide to mediocrity” after polling 75 of the Swiss giant's investors. Their worries included a weak commitment to cutting costs and rising competition. The polling also revealed frustration about return of capital and mixed views on the company's push into health sciences and skin care.

Mr. Wood hailed Mr. Schneider's appointment but wrote that the new CEO faced “fundamental operating issues” across Nestlé's business units, and said any turnaround would “likely take years not months.”

On Monday, Mr. Wood in a note said “Third Point is just saying (perhaps just louder) what others have been thinking and saying for some time.”

Mr. Schneider has indicated he gets it.

“Size alone does not protect us from the winds of change,” he said at an industry conference in Berlin on Thursday, adding that Nestlé is facing a constant need to evolve.”

Hollywood's Misses Grab Large Audiences Overseas

BY BEN FRITZ
AND ERICH SCHWARTZEL

LOS ANGELES—Hollywood's most important movies are posting big numbers this summer—in all the wrong places.

American moviegoers are losing interest in some of Hollywood's biggest franchises, depriving studios of their most profitable ticket sales even as international audiences in some foreign markets keep showing up.

“Transformers: The Last Knight” became the latest example of the lopsided performance this past weekend, disappointing stateside with a five-day, franchise-low debut of \$69.1 million while collecting a franchise-best \$123.4 million in China. Its box-office sales follow a pattern set this year by the eighth “Fast & Furious,” the fifth “Pirates of the Caribbean” and Tom Cruise's reboot of “The Mummy,” all of which performed similarly.

Such results have become the norm for some of Hollywood's so-called tentpole movies, which regularly cost more than \$200 million to produce and are expected to serve as studios' biggest moneymakers. A poor showing in the U.S. no longer necessarily discourages studio executives from approving yet another installment in a long-running series if enthusiasm from overseas moviegoers is high enough.

But where grosses originate can have a major impact on studios' bottom line.

Studios keep about 60% of every dollar spent on movie tickets for major hits in the U.S., compared with less than half in many foreign countries and just 25% in China. In addition, China and other developing nations have far smaller DVD, digital and television businesses that can generate ancillary revenue.

“The amount that comes back to the studio changes dramatically, so while the global number can look pretty good, the math of it isn't the same,” said an executive at one studio experiencing the phenomenon.

“There's real impact to what that [international] business brings to the overall profitability of a movie,” said Megan Colligan, president of world-



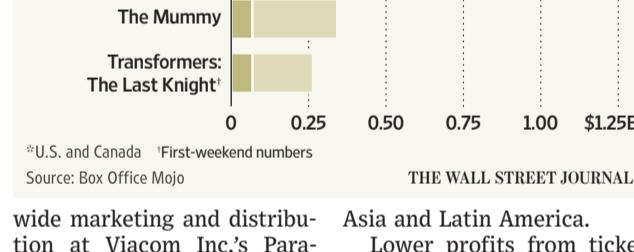
A scene from 'The Mummy'

Universal Pictures

Poor Showings

American moviegoers are losing interest in some of Hollywood's biggest franchises, even as international audiences keep showing up.

Box office revenue, in billions, through June 25



wide marketing and distribution at Viacom Inc.'s Paramount Pictures, which released “Transformers.” The movie's dismal domestic opening is 31% below the last installment of the series, released in 2014 over four days. Its global gross stands at \$265 million.

“Fast” grossed less domestically than the previous two movies in the auto-adventure series, while the new “Pirates” and “Mummy” were the worst performers yet in their franchises.

Together, the three movies have grossed a disappointing \$454 million in the U.S. and Canada but a total of \$1.79 billion overseas, with \$654 million coming from China alone. Previous films in each franchise earned a higher proportion of their global box office than stands at \$265 million.

“Fast” grossed less domestically than the previous two movies in the auto-adventure series, while the new “Pirates” and “Mummy” were the worst performers yet in their franchises.

Studios are rethinking their creative approaches to future sequels in hopes of reviving interest among Americans in light of the recent box-office flops. In addition, some fear that audiences in foreign countries such as China will soon grow as weary of these long-running franchises as Westerners have.

For American audiences, many of these franchises are too familiar, as are stars such as Mr. Cruise of “The Mummy” and Johnny Depp of “Pirates,” say studio executives.

“Sequels are greeted with a little bit of cynicism in this country,” said Ms. Colligan. “People are looking for something that really reimagines what they're expecting and yet they want the things that are very familiar to them.”

In China, it might help that only about 34 foreign films, most of them from Hollywood, play each year.

“There is a real bubbling enthusiasm for American films, in part because they only get a small slice of them,” said Mr. Clark.

“Fate of the Furious” is only the third movie in the long-running series to play in China, as is “Pirates of the Caribbean: Dead Men Tell No Tales.”

A few big movies this year, including remakes, sequels, and comic book adaptations, have performed well everywhere and bucked the trend. “Beauty and the Beast,” “Guardians of the Galaxy Vol. 2,” and “Wonder Woman” are all major hits in the U.S. while also earning robust revenue internationally.

Asia and Latin America.

Lower profits from ticket sales are partially offset by cheaper marketing expenses in other countries, said Ms. Colligan. Studios often have only a few weeks to market a movie in China, as opposed to many months in the U.S. China also offers digital promotions that cost millions less than state-side campaigns.

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Name of the State Highway / Major District Road

Length (in Km)

Estimated Project Cost (In Rs.Cr)

The development and operation/ maintenance of the Road No-1SH-68, including the section from Km 193/500 to 207/00 & from Km 250/660 to 308/160 (Approx. 75.224 km) (hereinafter called as “SH 68”) and Section of Osmanabad-Bembali-Nandurga Road SH-238 from km 0/00 to Km 30/00 & the Section of Karikheda Lohara-Ashtamod Road SH 211 from km 142/300 to km 183/00 (Approx. 69.375 km)(hereinafter called as “SH 238” and “SH 211”) in the state of Maharashtra by two laning road / two laning road with paved shoulders on “Hybrid Annuity” basis (the project) and has decided to carry out the bidding process for selection of private entity as the Bidder to whom the Project may be awarded.

Brief particulars of the Project are as below.

Dated : 19/06/2017

Subject:- RFP for Improvement of Roads in the Osmanabad District in Maharashtra State for Two laning road / Two Laning road with paved shoulders under MRIP Package AU-63 On Hybrid Annuity Mode.

The Government of Maharashtra had entrusted to the Authority the development, maintenance and management of State Highways and Major District Roads of State of Maharashtra. The Authority has resolved to augment the existing road section of Paranda to Waradwadi Phata (Barshi Border) Bhatambra Osmanabad Sarola Shivaji - Borphal Road SH-68 from Km 193/500 to 207/00 & from Km 250/660 to 308/160 (Approx. 75.224 km) (hereinafter called as “SH 68”) and Section of Osmanabad-Bembali-Nandurga Road SH-238 from km 0/00 to Km 30/00 & the Section of Karikheda Lohara-Ashtamod Road SH 211 from km 142/300 to km 183/00 (Approx. 69.375 km)(hereinafter called as “SH 238” and “SH 211”) in the state of Maharashtra by two laning road / two laning road with paved shoulders on “Hybrid Annuity” basis (the project) and has decided to carry out the bidding process for selection of private entity as the Bidder to whom the Project may be awarded.

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The complete BID document can be viewed / downloaded from e-procurement portal of

<https://mahatenders.gov.in> from 01/07/2017 at 10.00 Hrs (IST) to 13/09/2017 at 17.45 Hrs. (IST). Bid must be submitted online only at <https://mahatenders.gov.in> during the validity of registration with the Maharashtra Government e-Tendering Portal being managed by portal / Website (i.e. <https://mahatenders.gov.in>) on or before 13/09/2017 till 17.45 Hrs. (IST), Technical submissions of the Bids received online shall be opened on at 11.30 Hrs. (IST) on 15/09/2017.

Bid submitted through any other mode shall not be entertained. However, Bid Security, proof of online payment of cost of bid document, Power of Attorney and joint bidding agreements specified in the RFP shall be submitted physically by the Bidder on or before 17.00 Hrs. (IST) on 13/09/2017.

Please note that the Authority reserves the right to accept or reject all or any of the BIDs without assigning any reason whatsoever.

Thanking you,

Yours Faithfully

Executive Engineer

Public Works Division, Osmanabad

P.W.D Premises, Samata Colony,

Osmanabad - 413501.

e-mail ID : osmanabad.ee@mahapwd.com

D.G.I.P.R.2017/2018/1080



PARMOUNT/EVERETT COLLECTION

‘Transformers: The Last Knight’ stumbled in the U.S., with a franchise-low debut of \$69.1 million, while getting \$123.4 million in China.

TECHNOLOGY

WSJ.com/Tech

WALLET

Continued from page B1

CEO Dan Schulman told a separate investor conference last month. He added that the typical user opens Venmo two or three times a week.

Venmo was an afterthought for PayPal when it acquired the service as part of a roughly \$800 million deal for Braintree Payments Solutions LLC in 2013. Braintree's primary business was enabling tech companies like Uber Technologies Inc. and Airbnb Inc. to accept online and mobile payments. Braintree had paid around \$26 million for Venmo in 2012.

Users liked that Venmo didn't require the sender and recipient to belong to the same bank, a stipulation that doomed earlier payments services.

Starting this quarter, PayPal plans to ramp up its effort to make money from Venmo by trying to persuade merchants to accept it as a form of payment—and charging them a typical fee of 2.9% plus \$0.30.

Apple is also angling to use person-to-person payments to boost usage of Apple Pay. The goal: Apple keeps a slice of the

transaction fee charged to merchants when its users tap their iPhones to pay for goods and services.

Apple Pay's progress has been slow; only 13% of the estimated 680 million iPhone users have activated the service, according to Loup Ventures, a venture-capital firm specializing in tech research. Person-to-person payments could spur more sign-ups, but because it works through iMessage, the service's user base is limited to people who have newer iPhones, iPads and Apple Watches.

"The big disadvantage of the Apple product is it's Apple only," said Craig Maurer, an analyst at Autonomous Research.

With Zelle, banks are trying to be as inclusive as possible. The seven banks that own Early Warning Systems LLC, the entity that owns the Zelle network, have the largest U.S. customer bases. The member banks, which include J.P. Morgan, Bank of America Corp. and Wells Fargo & Co., plan to integrate Zelle within their own smartphone apps. Unlike with Venmo and Apple Pay, customers using Zelle won't have to initiate separate transfers to get money they received into their bank account.

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wrong person.

APPLE

Pros: Service works with Apple's iMessage, so users don't need to download a separate app. Funds can immediately be used to shop with Apple Pay.

Cons: Both sender and recipient must have Apple devices that run the latest operating systems.

ZELLE

Pros: Will work within the apps of the biggest banks, such as J.P. Morgan Chase, Bank of America and Wells Fargo. Funds are deposited directly into bank accounts within minutes.

Cons: Banks have a luke-warm record in digital payments, and customers of banks outside the Zelle network will need to download and register a separate app.

VENMO

Pros: Works across several types of mobile devices and bank accounts. Funds can immediately be used to shop. Social-media-like features are a hit with millennials.

Cons: Users have to initiate transfers from Venmo to their bank accounts, which can take a day or more to clear. It also can be difficult to retrieve money mistakenly sent to the

A Radical Hiring Experiment

BY KELSEY GEE

When Saniya Jaffer arrived for a job interview at Unilever PLC's Englewood Cliffs, N.J., office last October, she was a finalist for a summer position in information technology. After three rounds of interviews and assessments, the Chicago-native was about to encounter the first human in the process.

Before then, 21-year-old Ms. Jaffer had filled out a job application, played a set of online games and submitted videos of herself responding to questions about how she would tackle challenges of the job. The reason she found herself in front of a hiring manager? A series of algorithms recommended her.

A radical hiring experiment is under way at the London-based maker of Dove soap and Axe deodorant. To diversify its candidate pool for early-career roles that are a fast track to management, Unilever has ditched résumés and traditional campus recruiting. Its new process relies on algorithms to sort applicants and targets young potential hires where they spend much of their time: their smartphones.

The company has made more than 450 hires across the globe this way since the fall of 2016. Its experiment provides a glimpse of a tech-fueled future of recruiting in which humans write job descriptions and make the final decisions, but software and algorithms do the rest. Goldman Sachs Group Inc. and Wal-Mart Stores Inc.'s Jet.com have begun using similar digital tools to hook young workers and broaden their candidate base.

Since young people live their lives online, Unilever decided to use the internet to recruit beyond the eight or so schools where recruiters had traditionally sought hires, said Mike Clementi, a Unilever human-resources executive.

"With all of the information readily available to us today about job candidates, why would we still choose to go to a small handful of college



Unilever's Mike Clementi, with interns. The company is relying on algorithms for much of its hiring process.

campuses?" Mr. Clementi said.

To get the word out about jobs, Unilever placed targeted advertisements on Facebook and career-advice sites such as WayUp and the Muse. Those who clicked on the ads were directed to a career site where they could apply for entry-level jobs and internships in just a few clicks, because Unilever pulls information from the candidate's LinkedIn profile to fill out the application. An algorithm scans those applications—275,400 in all so far—to surface candidates who meet a given role's requirements. The software weeds out more than half of the pool, according to Unilever spokeswoman Joelle Hutcheon.

Candidates are then asked to play a set of 12 short online games designed to assess skills like concentration under pressure and short-term memory. The top third of those students or fewer are invited to submit video interviews on HireVue, through a website or app, answering questions about how they would respond to business challenges encountered on the job.

At both steps, artificial-intelligence can filter anywhere from 60% to 80% of candidates, Ms. Hutcheon said. To

determine which candidates are most likely to be successful at Unilever, the AI uses data points such as how quickly they respond to questions, their facial expressions and vocabulary.

The first step involving direct human judgment is the last step, a final in-person interview with Unilever human-resources executives and managers. Last fall across the U.S. and Canada, around 300 candidates interviewed in person for 200 positions.

Unilever says hiring has become faster and more accurate—80% of applicants who make it to the final round now get job offers, and a similar number accept—and the company saved on recruiting costs, too, though Mr. Clementi wouldn't say how much. Applicants hailed from more than 2,600 colleges for positions in the U.S. and Canada, tripling the numbers of schools in its previous applicant pool.

"It was definitely a weird feeling to know that robots are judging you," said Jordan Vesey, 21, a Pennsylvania State University student currently interning with Unilever's customer-development team in New Jersey. Andy McAllister, a Unilever

director of supply chain, was skeptical that algorithms could successfully choose his interns. Having attended University of Maryland job fairs and other events for years, "it felt like we were taking away the personal touch," he said.

Mr. McAllister became a convert after meeting the program finalists last fall. The caliber of students visiting the Englewood Cliffs headquarters for interviews with Unilever employees was as strong, or stronger, as the candidates he had hand-selected the prior year, he said.

"There's tremendous opportunity here," said Mr. McAllister, adding the changes prompted him to realize that the previous recruiting tactics left room for bias, because recruiters often compare applicants against their own experiences and unconsciously root for students they personally interview.

Unilever spokeswoman Ms. Hutcheon said it is too early to say whether the new hiring practices correlate with stronger employees, adding that the company is closely tracking those hires' success. Still, the company is rolling out its digital recruiting program world-wide, hiring for entry-level roles this way from Brazil to Indonesia.



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FINANCE & MARKETS

Surviving a Gas Bust and Making a Billion

Family behind Rice Energy stands to gain a big payday from the purchase by EQT

BY RYAN DEZEMBER
AND TIMOTHY PUO

Eighteen months ago, the Rice family was pressured to sell shares in their family gas company at record-low prices as the natural-gas market tanked.

Now, the family is selling again. But this time, it is selling the entire company and under much more favorable circumstances.

Last week, rival Appalachian gas producer **EQT Corp.** said it would buy **Rice Energy Inc.** for \$6.7 billion in a deal that is poised to deliver more than \$1 billion to the family, whose members make up much of Rice's management and control roughly 18% of the company's shares, according to securities filings.

The merger, which will create one of country's largest natural-gas producers, shows how the shale boom continues to mint great fortunes even after the bounty of oil and gas around the world depressed energy prices.

With gas in particular, timing is everything. Prices for the fuel, which is used in heating and to generate electricity, are prone to wild swings as unpredictable as the weather.

In late 2015, the warmest winter on record pulled down gas futures to all-time, inflation-adjusted lows, dragging down Rice's stock. To avoid a margin call, the family sold a slug of shares they had borrowed against. Had they been



Traders on the New York Stock Exchange floor awaited the IPO of Rice Energy in 2014.

able to hang on to those five million shares, the family would now be nearly \$100 million richer.

Under terms of the EQT deal, Rice shareholders are due \$5.30 in cash and about one-third of an EQT share. Based on EQT's closing stock price the day before the deal was announced, that equates to about \$27.05 for every Rice share.

Still, the family is likely one of the gas boom's biggest winners just a decade after Daniel Rice III and his sons created the company from scratch. Their expertise in oil and coal helped them scout land in the early days of the shale-gas

boom in Pennsylvania.

Mr. Rice honed his expertise at BlackRock Inc., where he was a mutual-fund manager specializing in energy, when his family started the gas company. One early move was a deal to drill in areas controlled by a coal company that Mr. Rice's BlackRock fund invested in.

After the arrangement was brought to light by The Wall Street Journal, Mr. Rice resigned. Rice executives declined to comment and Mr. Rice, who is now a Rice board member and a portfolio manager for Boston money manager GRT Capital Partners LLC, didn't respond to requests for

comment.

"While there were no actual conflicts of interest, BlackRock and I both understand the desire to avoid even the appearance of one," he said at the time.

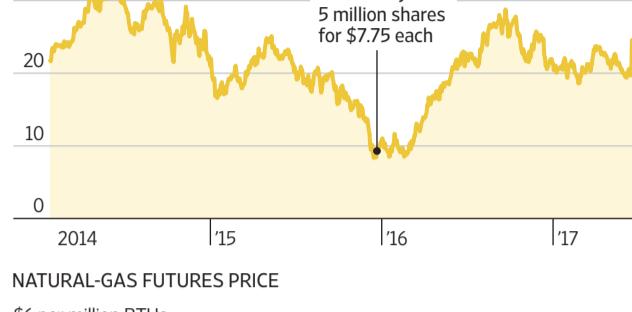
Although Mr. Rice played a large role in funding and founding the company, he largely left management to three of his sons, who are in their 30s. Daniel Rice IV is its chief executive. Toby is operations chief and Derek is executive vice president of exploration.

Their younger brother, Ryan, works there as a petroleum engineer, according to the com-

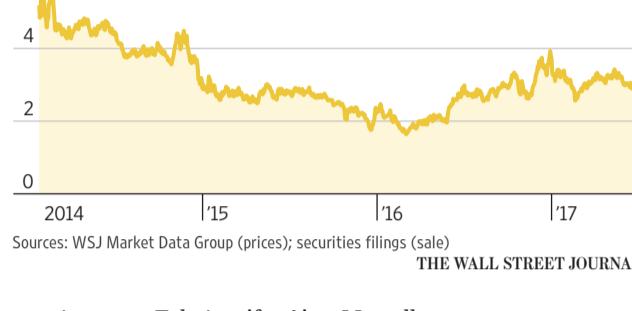
Reversal of Fortune

Rice Energy's founding family is poised to reap more than \$1 billion in its sale to rival EQT, after the gas producer's shares rebounded from depths that forced the family to sell stock at an all-time low.

RICE ENERGY SHARE PRICE



NATURAL-GAS FUTURES PRICE



Sources: WSJ Market Data Group (prices); securities filings (sale)

THE WALL STREET JOURNAL.

Marcellus.

The company did an initial public offering in 2014, debuting with a 4% gain over its IPO price of \$21 a share. The family owned one-third of the company's shares at the time, and the offering valued them at \$900 million. Those shares ran up an additional 50% in gains by that summer when Rice announced a historic find.

It drilled a Utica well called Bigfoot 9H that by one measure ranks among the most successful in U.S. history. It hit an initial production of 41.7 million cubic feet a day, enough to power every home in Pittsburgh for 36 hours.

FINANCE WATCH

STORE CAPITAL

Berkshire Hathaway Buys a Stake in REIT

Warren Buffett's **Berkshire Hathaway Inc.** picked up a 9.8% stake in real-estate investment trust **Store Capital Corp.**, at a time many investors are growing concerned about the health of the commercial real-estate sector.

Shares of Store Capital, which invests in single-tenant properties including chain restaurants, supermarkets, drugstores and other retail locations, shot up 9.6% to \$22.77 by early afternoon Monday in New York.

Store Capital said Mr. Buffett's \$377 million investment represents a vote of confidence in its business. Store Capital's real-estate portfolio totaled \$5.5 billion, representing 1,750 property locations, as of March 31.

Berkshire Hathaway's investment makes it Store Capital's

third-largest shareholder, behind Vanguard Group and Fidelity Management & Research Co., according to data from FactSet.

—Imani Moise

BEST LOGISTICS

Chinese Firm Files For IPO in the U.S.

A Chinese logistics company backed by **Alibaba Group Holding Ltd.** and Foxconn Technology Group filed for an initial public offering in the U.S., according to securities filings.

Best Logistics Technologies

Ltd. said it plans to offer its shares on Nasdaq's exchange under the name Best Inc.

How much the company plans to raise, and at what valuation, hasn't been disclosed.

Founded in 2007 by Johnny Chou, Google China's former co-president, Best Logistics has grown quickly by building a

warehouse-and-distribution network across China.

—Austen Hufford

TOWER

Suncorp Increases Bid for Insurer

Australia's **Suncorp Group Ltd.** sweetened a takeover offer for **Tower Ltd.**, valuing the smaller company at about 236.1 million New Zealand dollars (\$US172 million), in an effort to strengthen its position in the New Zealand insurance market.

The insurer and bank said it would offer NZ\$1.40 cash a share. Suncorp in February trumped a NZ\$1.17-a-share bid from Canada's Fairfax Financial Holdings Ltd., offering NZ\$1.30 and acquiring an 11.1% stake in Tower. It lifted that to 19.9% by mid-March, paying NZ\$1.40 each for the subsequent shares.

—Rob M. Stewart

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VP Class-C Units AS EQ HKG 06/23 USD 17.99 24.4 32.7 -2.1

VP Class-C Units AUD H AS EQ HKG 06/23 AUD 14.79 23.9 30.9 -2.0

VP Class-C Units CAD H AS EQ HKG 06/23 CAD 14.26 23.1 30.7 -3.1

VP Class-C Units HKD H AS EQ HKG 06/23 HKD 12.12 23.0 30.7 -3.0

VP Class-C Units NZD H AS EQ HKG 06/23 NZD 14.79 22.6 31.2 -2.1

VP Class-C Units RMB H AS EQ HKG 06/23 CNY 12.13 26.2 35.2 NS

VP Multi-Asset Fund Cls A HKD OT OT HKG 06/23 HKD 10.38 7.9 NS NS

VP Multi-Asset Fund Cls A USD OT OT HKG 06/23 USD 10.48 7.3 8.9 NS

VP Taiwan Fund AS EQ CYM 06/23 USD 19.55 16.7 24.4 10.4

—Rob M. Stewart

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THE WALL STREET JOURNAL.

WALDO SWIERS/BLOOMBERG NEWS

State-owned entities can't account for a big chunk of funds from loans and bonds meant for them.

In Mozambique, Audit Can't Locate More Than \$1 Billion

BY MATINA STEVIS

More than \$1 billion that Mozambique raised in international markets with the help of two major banks can't be fully accounted for by the state-owned companies that benefited from the funds, the auditing and risk-assessment company **Kroll Inc.** said in a report reviewed by The Wall Street Journal.

The report, posted to the Mozambique attorney general's website, found the state-owned entities can't account for more than half of some \$2 billion in loans and bonds arranged for Mozambique by **VTB**, Russia's second-largest bank, and Zurich-based **Credit Suisse Group AG**. Neither bank has been accused of wrongdoing.

The unaccounted-for sums include a \$500 million loan that should have been spent in cash but now can't be found, the report said. It also includes roughly \$800 million out of some \$1.5 billion spent on assets that an assessment by an independent expert found should have cost about \$700 million, the report stated.

Kroll's report, paid for by the embassy of Sweden in Mozambique, criticizes the way the state-owned companies—**MAM**, **Ematum** and **ProIndicus**—were managed and operated. The report says the companies have had almost no revenue and accuses their senior management of concealing facts and avoiding the auditors.

The chief executive of all

three companies is Antonio do Rosario, a senior official in Mozambique's powerful secret service, known as SISE. He declined to comment.

A spokesman for the government of Mozambique declined to comment.

The loans' opaque nature was revealed last year when The Wall Street Journal reported they had been kept secret from the public and from subsequent creditors who continued lending to Mozambique

"Gaps remain in understanding how exactly the USD 2 billion was spent."

without knowing about the past loans. The Journal previously reported the existence of the audit and of the previously undisclosed loans.

"Gaps remain in understanding how exactly the USD 2 billion was spent, despite considerable efforts to close this gap," the Kroll report said.

The differences between prices of the aforementioned assets and services outlined in the invoices provided to ProIndicus and EMATUM by the Contractor, compared with the prices estimated by the independent expert total approximately USD 713 million," the report further stated.

Prinvinvest, the Abu Dhabi based contractor that provided the assets, which include

sophisticated surveillance vessels and other maritime equipment, some of it for military use, responded to the fair-value assessment by Kroll's independent expert in a statement.

"We were disappointed to see that the grant of a valuable intellectual property was not included as a valued asset, as enabling the creation of a shipbuilding and maintenance capability whilst enhancing the country's blue economy and industry was a key component of the project and still has the potential to drive significant revenues for our Mozambican customers," Prinvinvest said in a statement.

Prinvinvest has maintained that the bill for the assets it sold to the three state-backed Mozambican companies was higher than average market prices would suggest because of intellectual-property rights and training, namely services, that were sold to the companies, driving up the cost.

Regarding the allegedly missing \$500 million, the Kroll report said its auditors hadn't received satisfactory explanations as to how that money had been spent. The report said the money was added into Mozambique's state budget without seeking parliamentary clearance.

The scandal has plunged

Mozambique into a financial crisis, with major international donors suspending aid to the poor southern African nation until the money is tracked and accounted for.

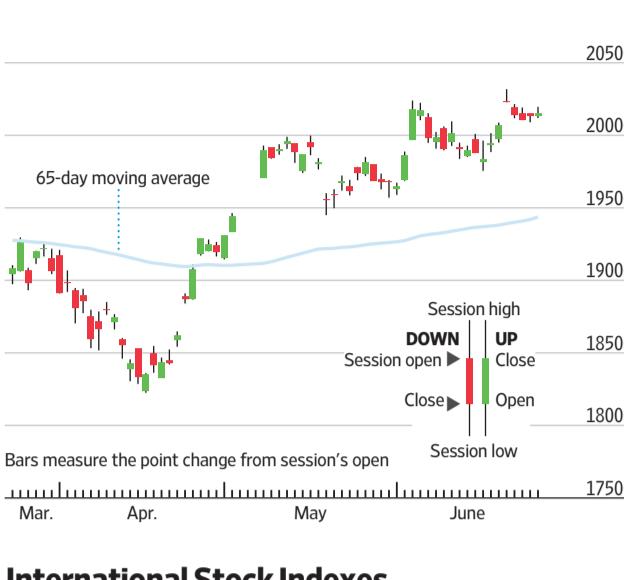
The International Monetary Fund has suspended a bailout.

MARKETS DIGEST

Nikkei 225 Index

20153.35 ▲ 20.68, or 0.10%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

STOXX 600 Index

389.05 ▲ 1.43, or 0.37%

High, low, open and close for each trading day of the past three months.



Data as of 12 p.m. New York time

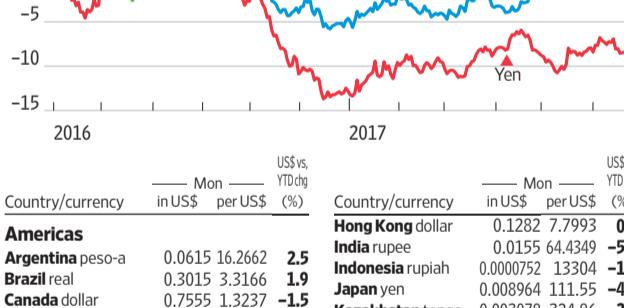
International Stock Indexes

Region/Country	Index	Close	Latest NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2777.03	7.77	0.28	2193.75	● 2791.48	9.8		
	MSCI EAFE	1894.05	4.82	0.26	1471.88	● 1956.39	10.4		
	MSCI EM USD	1019.52	7.85	0.78	691.21	● 1044.05	28.4		
Americas	DJ Americas	586.26	1.29	0.22	480.90	● 588.61	8.5		
Brazil	Sao Paulo Bovespa	61905.64	818.51	1.34	48954.41	● 69487.58	2.8		
Canada	S&P/TSX Comp	15295.80	-23.76	-0.16	13609.58	● 15943.09	0.1		
Mexico	IPC All-Share	49180.16	199.38	0.41	43902.25	● 50154.33	7.7		
Chile	Santiago IPSA	3621.19	...		Closed	3061.18	● 3786.05	12.3	
U.S.	DJIA	21441.69	46.93	0.22	17063.08	● 21535.03	8.5		
	Nasdaq Composite	6257.19	-8.06	-0.13	4574.25	● 6341.70	16.2		
	S&P 500	2443.03	4.73	0.19	1991.68	● 2453.82	9.1		
	CBOE Volatility	9.94	-0.08	-0.80	9.37	●	26.72	-29.2	
EMEA	Stoxx Europe 600	389.05	1.43	0.37	308.75	● 396.45	7.6		
	Stoxx Europe 50	3210.62	18.88	0.59	2626.52	● 3279.71	6.6		
France	CAC 40	5295.75	29.63	0.56	3955.98	● 5442.10	8.9		
Germany	DAX	12770.83	37.42	0.29	9214.10	● 12951.54	11.2		
Israel	Tel Aviv	1444.63	2.51	0.17	1372.23	● 1490.23	-1.8		
Italy	FTSE MIB	21001.95	168.07	0.81	15017.42	● 21828.77	9.2		
Netherlands	AEX	520.62	1.12	0.22	410.21	● 537.84	7.8		
Russia	RTS Index	992.84	3.91	0.40	885.22	● 1196.99	-13.8		
Spain	IBEX 35	10696.60	65.80	0.62	7579.80	● 11184.40	14.4		
Switzerland	Swiss Market	9121.22	88.33	0.98	7573.21	● 9148.61	11.0		
South Africa	Johannesburg All Share	51288.71	-214.81	-0.42	48935.90	● 54716.53	1.3		
Turkey	BIST 100	99638.65	...		Closed	70426.16	● 100265.6	27.5	
U.K.	FTSE 100	7446.80	22.67	0.31	5958.66	● 7598.99	4.3		
Asia-Pacific	DJ Asia-Pacific TSM	1635.13	4.69	0.29	1317.58	● 1643.59	14.9		
Australia	S&P/ASX 200	5720.20	4.30	0.08	5103.30	● 5956.50	1.0		
China	Shanghai Composite	3185.44	27.57	0.87	2895.70	● 3288.97	2.6		
Hong Kong	Hang Seng	25871.89	201.84	0.79	20172.46	● 26036.06	17.6		
India	S&P/BSE Sensex	31138.21	...		Closed	25765.14	● 31311.57	16.9	
Indonesia	Jakarta Composite	5829.71	...		Closed	4834.57	● 5829.71	10.1	
Japan	Nikkei Stock Avg	20153.35	20.68	0.10	15106.98	● 20230.41	5.4		
Malaysia	Kuala Lumpur Composite	1779.45	...		Closed	1616.64	● 1792.35	8.4	
New Zealand	S&P/NZX 50	7595.50	41.86	0.55	6664.21	● 7595.50	10.4		
Pakistan	KSE100	46322.31	...		Closed	37039.57	● 52876.46	-3.1	
Philippines	PSEi	7814.17	...		Closed	6563.67	● 8102.30	14.2	
Singapore	Straits Times	3209.47	...		Closed	2729.85	● 3271.11	11.4	
South Korea	Kospi	2388.66	10.06	0.42	1926.85	● 2388.66	17.9		
Taiwan	Weighted	10513.96	136.26	1.31	8458.87	● 10513.96	13.6		
Thailand	SET	1585.61	3.25	0.21	1406.18	● 1591.00	2.8		

Source: SIX Financial Information; WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Source: Tullett Prebon, WSJ Market Data Group

London close on June 26

Country/currency	Mon	US\$ vs. in US\$	Mon	YTD% per US\$ (%)
Europe				
Bulgaria leva	0.5724	1.7471	-6.0	
Croatia kuna	0.1510	6.625	-7.6	
Euro zone euro	1.1190	0.8937	-6.0	
Czech Rep. koruna-b	0.0426	23.487	-8.6	
Denmark krone	0.1505	6.6462	-6.0	
Hungary forint	0.003617	276.45	-6.1	
Iceland krona	0.009590	104.27	-7.7	
Norway krone	0.1180	8.4757	-2.0	
Poland zloty	0.2658	3.7629	-10.1	
Russia ruble-d	0.01696	58.975	-3.7	
Sweden krona	0.1147	8.7196	-4.3	
Switzerland franc	1.0293	0.9715	-4.7	
Ukraine hryvnia	0.0384	26.0599	-3.8	
U.K. pound	1.2726	0.7858	-3.0	
Middle East/Africa				
Bahrain dinar	2.6512	0.3772	0.01	
Egypt pound-a	0.0551	18.1430	-0.1	
Israel shekel	0.2838	3.5234	-8.4	
Kuwait dinar	3.2930	0.3037	-0.6	
Oman rial	2.5956	0.3853	0.1	
Qatar rial	0.2721	3.675	1.0	
Saudi Arabia riyal	0.2665	3.7523	0.04	
South Africa rand	0.0778	12.8578	-6.1	
Asia/Titans				
Hong Kong dollar	0.1282	7.7993	0.6	
India rupee	0.0155	64.4349	-5.2	
Indonesia rupiah	0.0000752	13304	-1.6	
Japan yen	0.008964	111.55	-4.7	
Kazakhstan tenge	0.003078	324.86	-2.6	
Macau pataca	0.1244			

FINANCE & MARKETS

Strain in China's Dollar Debt

A decline in the price of Evergrande bonds issued last week adds to tension in market

By SAUMYA VAISHAMPAYAN

A fall in the price of bonds issued by China's largest property developer last week is adding to strains in the market even as Chinese companies continue to pile up a mountain of dollar-denominated debt this year.

China Evergrande last week sold bonds worth \$6.6 billion in total, the largest issuance by an Asian high-yield company ever, according to Dealogic. The company issued \$3.8 billion of new debt and exchanged \$2.8 billion of old bonds for new debt, paying coupons of up to 8.75%.

Still, the bonds fell sharply in their first few days of trading, and on Monday, just days after the issue, they were still trading below their face value, according to Thomson Reuters data. Such a price fall is unusual for newly issued bonds, market analysts say.

Evergrande's bond deal comes on top of a dizzying amount of dollar-bond issuance by Chinese companies this year. Collectively, they have sold about \$90.5 billion in dollar debt, nearly as much as the \$102.8 billion issued in all of 2016 and already more than the \$84.8 billion issued in 2015, according to Dealogic. The year-to-date issuance is a record this century, based on Dealogic data.

Alongside the surge, Chinese regulators have in recent months tightened scrutiny over companies wishing to issue bonds overseas. The Wall Street Journal reported last week that China's banking regulator is checking the borrowings of some of the country's biggest overseas deal makers, including property giant Dalian Wanda Group. The offshore bonds of many of those companies were hit hard last



Evergrande sold bonds worth \$6.6 billion last week. They were trading below face value Monday.

week, according to the research firm CreditSights.

Market participants said the fall in Evergrande's bonds appeared to be mostly due to a large amount of bonds being allocated to buyers. Investors often place larger orders for new bond issues than they want to receive because they don't expect to get the full amount of their order.

"The price reaction was predominantly because of the very large volume," said Rick Mattila, international head of market strategy at MUFG Securities Asia Ltd. in Hong Kong. "Investors ended up with more bonds than they would have perhaps liked."

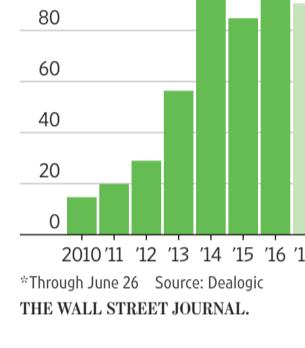
Evergrande couldn't be reached for comment.

Chinese companies have turned to offshore markets for funding in recent months as Beijing takes steps to bring down the country's lofty debt levels. Rising yields in China's government-bond market have made it more expensive for Chinese companies to borrow onshore, since investors generally demand even higher yields to own corporate bonds because of the risk of default.

Falling U.S. Treasury yields have made it more attractive

Bond Bonanza

Chinese companies have issued \$90.5 billion in dollar debt so far this year, nearly as much as the total for 2016.



*Through June 26. Source: Dealogic

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for Chinese companies to issue U.S. dollar debt. The yield on the 10-year Chinese government bond has risen to 3.566% on Monday in Hong Kong from 3.07% at the end of 2016, while the 10-year U.S. Treasury yield has fallen to about 2.135% from 2.43% in the same period, according to Thomson Reuters data.

"One consequence of the deleveraging campaign by the [Chinese] government: Companies have been able to borrow more cheaply offshore

than onshore," said Teresa Kong, a portfolio manager at Matthews Asia in San Francisco, adding that she owns some dollar-denominated debt issued by Chinese companies.

Some say investors could now become more choosy about dollar debt issued by Chinese companies.

The boom has caught the Chinese authorities' attention. The National Development and Reform Commission, the country's economic planning ministry, has required most companies to register their plans to issue offshore bonds since September 2015. That system has operated more like an approval process recently, market participants say.

In recent months, the NDRC has cracked down on foreign-debt issuance by property companies and financing vehicles linked to local governments, according to Ying Wang, a senior director at Fitch Ratings in China. On June 12, the ministry issued a statement naming companies that hadn't complied with registration requirements, and warned others against doing the same.

◆ Heard: Stop the music on Evergrande's debt B8

CoCo Bond Market Weathers Setbacks

By JUSTIN YANG

The market for a complex form of European bank debt has remained resilient despite two setbacks in the space of a month—a sign it may have finally come of age, some investors say.

The broader market for European banks' contingent convertible bonds, or CoCos, held steady after Germany's Bremer Landesbank suspended interest payments to investors on two bonds last week and regulators wrote off Spain's Banco Popular Español SA bonds to zero earlier this month.

Investors in the Bloomberg Barclays European Banks CoCo Index, which indicates the performance of European banking CoCos and included Banco Popular's CoCos until they were wiped out, have turned in a loss of 0.32% month-to-date through June 23, but a 10.8% return year-to-date.

"The fact that the whole universe has held up well is a sign that the market has matured," said Andrea Iannelli, investment director at Fidelity International.

CoCo bonds were designed in the wake of the financial crisis to ensure banks can weather rocky periods by forcing debtholders to take losses.

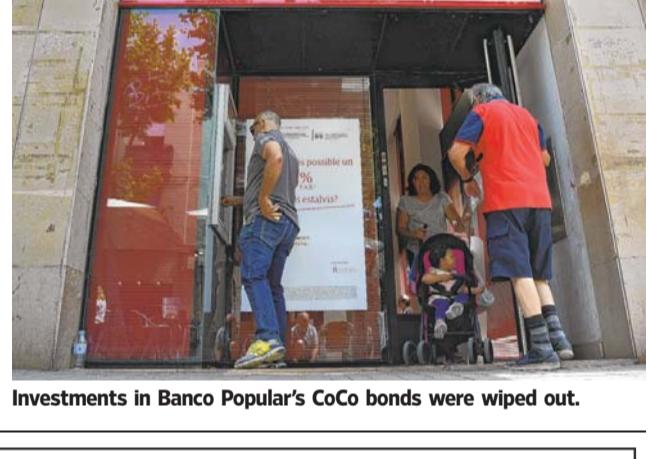
Banks, or their regulators, can stop interest payments being paid out on the bonds and—in more extreme cases—convert the debt into equity or remove bondholders altogether.

Both Bremer's coupon suspension and Banco Popular's write-off were firsts for the CoCo bond market. So far, money managers have taken these events in stride.

The fallout from Banco Popular appeared to be contained to the immediate aftermath. Bonds issued by banks from so-called peripheral European countries traded up or down by around half a point on the news, said a report by independent researcher CreditSights shortly after Banco Popular's CoCo write-off.

The market's resilience is a far cry from February last year, when concern that Deutsche Bank AG could stop coupon payments on its CoCos spooked investors. By Feb. 11, investors in the European Bank CoCo index were already down more than 8% for that year.

Mr. Iannelli said CoCos have become attractive as one of the last asset classes that provide "reasonable yield," but still need to be handled with scrutiny. Bremer's two CoCo bonds offered interest payments, or coupons, of 9.5% and 8.5%.



Investments in Banco Popular's CoCo bonds were wiped out.

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MARKETS

For Sale: Puerto Rico State Assets

Indebted U.S. territory seeks to raise money from private firms in infrastructure deals

By HEATHER GILLERS

Puerto Rico has no cash and can't borrow money anymore. So it is looking to sell itself off in parts.

The troubled U.S. territory is preparing to seek bids in coming months from private companies willing to operate or improve seaports, regional airports, water meters, student housing, traffic-fine collections, parking spaces and a passenger ferry, according to a government presentation reviewed by The Wall Street Journal.

The goal is to attract more than \$500 million in investment starting this summer, according to a spokesman for the Puerto Rico Public-Private Partnerships Authority. Future possibilities include the island's power utility, water-and-sewer system and waste management, according to presentations made in April to private investors.

Puerto Rico officials haven't disclosed exactly how they plan to use any proceeds. The government currently needs cash to pay down debt, run operations and for other purposes.

Potential deals are a cornerstone of a new plan to revitalize the territory, which in May was placed under court protection, the largest-ever U.S. municipal bankruptcy. Gov. Ricardo Rosselló predicts public-private partnerships launched over the next three years will bring \$5 billion in new investment and 100,000 jobs to Puerto Rico. Economic projections in the commonwealth's revitalization plan are based in part on the completion of public-private partnership deals.

It is an ambitious goal. U.S. public-private transportation projects—the most common type of partnerships—have attracted about \$30 billion in total



Ferries are among the services that Puerto Rico's government hopes to hand off to a private operator.

private and public investment since 1993, according to the Public Works Financing news-letter's P3 Projects Database.

"I hope it happens, but I recognize it's aggressive," former Puerto Rico Gov. Luis Fortuño, who created the Public-Private Partnerships Authority, said of the \$5 billion target.

In public-private partnerships, the government allows private firms to lease and operate public infrastructure for decades in exchange for upfront cash or a promise of long-term improvements. Some arrangements also involve building new infrastructure. Unlike municipal bonds, public-private partnerships insulate investors from the government's financial distress: The money typically flows straight to the private operator without ever passing through government officials' hands.

Proponents say privately run projects are typically more efficient and well-run than public projects, creating savings that lower the overall cost.

Critics of the partnerships say governments are pledging away revenues they need to fund core services in exchange for infrastructure improve-

ments that could cost less if publicly financed. In one example, after Chicago leased its parking meters to a private firm in 2008, the city's inspector general found the firm's \$1.157 billion upfront payment was \$974 million less than what the city would have gotten from operating the meters itself.

"Just as it is imprudent to sell your house to make a monthly credit-card payment, valuable governmental assets shouldn't be viewed as a one-shot budget solution," said Chris Hamel, head of municipal finance at RBC Capital Markets, speaking generally about public-private partnerships.

Puerto Rico has had issues in the past with private partners.

Former Gov. Alejandro García Padilla tried to find partners for a passenger ferry from the mainland to the islands of Culebra and Vieques. But the government couldn't afford to put down collateral to guarantee to a private operator that it would make payments to supplement ferry fares, and prospective partners lost interest.

Rick Newman, a developer and owner-operator of hotels in Puerto Rico who runs a private

ferry service, opted against bidding to operate the Culebra and Vieques ferry under Mr. García Padilla's plan. He said the proposed partnership carried too much risk. He said he would consider a new partnership, but not if the private partner is expected to rely solely on passengers for revenue.

"If the request for proposals comes out and says you have to live off of the fare box, the government may not find a private operator," Mr. Newman said.

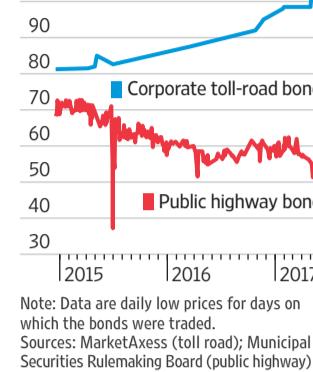
Other public-private partnerships in Puerto Rico have done better.

In 2009, then-Gov. Fortuño pushed through legislation creating an authority that could move forward with public-private deals without legislative approval. Puerto Rico's largest airport is run by a public-private partnership.

The authority's first major deal was a decision to lease the island's busiest road, the José de Diego Highway, and a shorter nearby road. Puerto Rico got \$1.08 billion in upfront cash—almost all of it went to pay off debt—and a promise from the private firm, Autopistas Metropolitanas de Puerto

A Tale of Two Bonds

Puerto Rico highway bonds are tanking but investments in the island's busiest toll road are doing well.



Note: Data are daily low prices for days on which the bonds were traded.

Sources: MarketAxess (toll road); Municipal Securities Rulemaking Board (public highway)

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Rico LLC, to invest about \$350 million in the roads, according to the Federal Highway Administration. The private firm made a range of improvements, paving and widening the expressway and enhancing toll-collection efforts. It also raised prices for drivers by 20% since 2011; driving from end to end now costs \$4.45.

Mr. Fortuño said that without private investment, he wouldn't have had the upfront capital to make needed safety improvements. "I didn't have a choice," he said.

The private operator's owners, Goldman Sachs Infrastructure Partners and the Spanish infrastructure firm Abertis, each received about \$40 million in earnings before interest, taxes, depreciation and amortization from the road last year, according to people familiar with the matter.

Prices on the toll road's bonds have risen by about eight cents on the dollar since October and now are trading at par value. Puerto Rico highway bonds, in contrast, are trading at close to 50 cents on the dollar after the island's highway authority entered a court-supervised bankruptcy process last month.

Italian Banks Lift European Indexes

By CHRISTOPHER WHITTALL AND KENAN MACHADO

Bank shares rose in Europe, boosting the Stoxx Europe 600 index, after Italian authorities said Sunday they were prepared to spend as much as €17 billion (\$19 billion) as part of a plan to shut down two failing regional banks.

MONDAY'S MARKETS The Stoxx Europe 600 rose 0.4% to settle at 389.05, while the FTSE MIB index in Milan gained 0.8%.

Italian banks have been a concern for years, weighed down by bad loans, low profitability and insufficient capital.

"If finally the issue of [bad loans in] the Italian banking system and overcapacity in some of the regional banks is being addressed, it is a very positive signal," said Isabelle Mateos y Lago, chief multasset strategist at BlackRock.

Shares in Intesa Sanpaolo, which will buy the best assets of the two troubled lenders for a token fee, rose 3.5%.

In the U.S., the Dow Jones Industrial Average rose 34 points, or 0.2%, to 21428. The S&P 500 added 0.1% and the Nasdaq Composite shed 0.2%.

In Asia, the Shanghai Composite Index rose 0.9%, with Chinese stocks continuing to perform strongly following MSCI's decision to add them to its indexes.

Gains there also helped boost Hong Kong equities on Monday. The Hang Seng Index rose 0.8%.

In Japan, the Nikkei Stock Average rose 0.1%. Signs that interest rates will remain low are weighing on Japanese financial stocks, said Hisao Matsura, chief strategist for equities at Nomura Japan.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

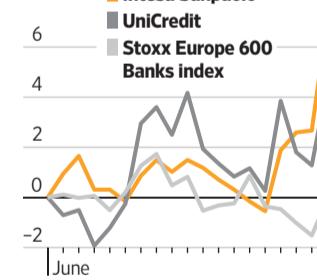
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Rescue in Italy Is a Step Back for Europe

Rapid Relief

Italian bank shares versus other European bank stocks



Sources: FactSet; Bloomberg News (photo)

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An Intesa Sanpaolo branch in Rome

This deal will boost Intesa's earnings by 5% to 7% by 2020, according to analysts, without costing the bank a penny.

Europe's resolution authorities said the banks don't face the resolution process because they weren't a risk to financial stability.

requires that at least 8% of all liabilities of a failing bank must suffer losses before any public money can be used. The equity and junior debt in these two banks didn't cover that, which would have left owners of the senior bonds and the banks' deposits facing losses. And that risked a broader panic in Italy.

Normal bankruptcy avoids this and pragmatically is surely the right choice. Italian banks rallied on Monday.

Investors could foresee similar action in the future by checking where that 8% mark sits in their banks. However, resolution authorities have hurt their reputation by not explaining this plainly. Regulators should have discretion to act in the wider interest, but transparent reasoning is crucial to public trust.

However, none of this explains why Intesa got such a good deal and why state aid

was allowed. Granted, Italy will end up with fewer branches, which is good in an over-banked country.

But while Intesa is being paid to look after senior bonds and depositors, it has promised €5 billion of new credit in the Veneto region this year in return for that support. That looks like state-directed help for companies.

European governments have a history of helping banks fund industry cheaply. Such aid perpetuates the link between public money and banking in dangerous ways, precisely what the global rewriting of bank rules since 2008 was meant to stop.

Europe's competition authorities, who rule on state-aid matters, appear to have given tacit approval to the old ways of doing business. The decision on these small banks sets a worrying precedent.

—Paul J. Davies

OVERHEARD

One week down, 100 years to go.

Argentina made waves when it issued a \$2.75 billion century bond last week.

Many pointed to 2001's default. But the bond has had a sprightly start.

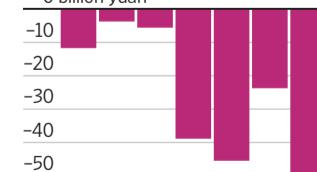
By Friday, the yield on the new paper had fallen to 7.67%, according to FactSet, from 7.9% at issue on June 19. Thanks to the power of duration, for every 0.01-percentage-point move in yield, the bond's price moves by about \$0.12. So by Friday, the price had recorded a chunky gain of 2.8 points, or 3.1%, versus the issue price of 90.

That is a short-term picture of a long-term security. Still, markets always have to break down prospects for the distant future into manageable near-term chunks. For today's fund managers, performance this year will loom larger than 2117.

Stop the Music on Evergrande's Debt

Delusions of Grandeur

China Evergrande's operating cash flow



*1 billion yuan = \$146 million

Source: company reports

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an unusually big drop for a new bond issue.

The decline should hardly be surprising. Evergrande's issuance came despite its promise in March to bring down its debt. True, the new

bonds will help reduce its financing expenses as it retires more expensive perpetual securities. The sale of a 26% stake in its subsidiary, Hengda, for 70 billion yuan (\$10 billion) and the expected mainland listing of that unit may also lower its leverage.

But there is only so much financial engineering can achieve. The only sustainable way for companies to reduce debt is to generate positive free cash flow. Evergrande's operating cash flow has been negative every year since it listed in Hong Kong in 2009.

Evergrande may have got away with a massive bond issue this time. Unless it proves it can do more than just replacing old debts with new debt, investors should stop giving it the benefit of the doubt.

—Jacky Wong

As Beijing looks to rein in companies that have splurged on overseas deals, it is talking up the risks to its financial system. But just how serious is the problem?

After all, for years Beijing has urged leading companies to "go global," and encouraged banks to support them with lending. Its words were taken to heart: Companies like sprawling conglomerate HNA Group and insurer Anbang pushed the country's outbound acquisitions to more than \$200 billion last year, according to Dealogic. Now, as The Wall Street Journal reported last week, regulators are investigating leverage and risks at banks associated with China Inc.'s bulging overseas deals.

It is clear that Chinese banks are already heavily exposed to China's big deal

makers through basic lending. Chinese lenders had extended more than 500 billion yuan (\$73 billion) of loans to HNA alone as of last year, according to a company bond filing.

But traditional loans aren't the only way banks are exposed. Take China Construction Bank, one of HNA's biggest lenders. This month, the bank financed a \$190 million investment made by HNA's aviation unit in the initial public offering of Guangzhou Rural Commercial Bank. Also this year, CCB fully guaranteed a \$200 million bond that HNA issued offshore. And last year, together the two set up an investment fund to raise 20 billion yuan.

When HNA sought to buy a majority stake in developer Tysan from U.S. private-eq-

uity firm Blackstone last year, meanwhile, CCB provided all of the financing—including a margin loan and a loan facility backed by letters of credit. The same happened when HNA bought a stake in jewelry maker KTL Holdings late last year.

It is hard to know whether such wide-ranging connections, repeated across other banks and acquisitive companies, add up to a broad risk to the financial system. What they do illustrate is the heavy task regulators have set themselves to unpick relationships that often go back years. CCB, for example, helped bail out a company Chen Feng, now HNA's chairman, worked for back in the 1990s. Regulators may have just started getting their arms around the problem.

—Anjan Trivedi