

# THE WALL STREET JOURNAL.

DOW JONES | News Corp.

TUESDAY, JUNE 27, 2017 ~ VOL. XXXV NO. 102

WSJ.com

EUROPE EDITION

DJIA 21409.55 ▲ 0.07% NASDAQ 6247.15 ▼ 0.29% NIKKEI 20153.35 ▲ 0.10% STOXX 600 389.05 ▲ 0.37% BRENT 45.83 ▲ 0.64% GOLD 1246.30 ▼ 0.79% EURO 1.1190 ▼ 0.03%

## What's News

### Business & Finance

**Nestlé's CEO indicated** he would continue with his own growth plan after hedge fund Third Point disclosed a \$3.5 billion stake and demanded changes. **A1**

◆ **Takata will continue** making parts for air bags after the firm filed for bankruptcy protection and said it plans to sell most assets to Key Safety for \$1.6 billion. **A1**

◆ **Amazon's push** into the grocery business threatens to further hurt sales for big food brands like Kraft, Kellogg and Mondelez. **B1**

◆ **Google faces** a record EU fine of over \$1.12 billion for allegedly rigging search results to favor its own comparison-shopping service. **B1**

◆ **Arconic will stop** selling panels used on high-rise buildings that are suspected to have contributed to the spread of the London fire. **B1**

◆ **Rio Tinto said** it preferred a sweetened offer from China's Yancoal over Glencore's bid for its Australian coal mines. **B2**

◆ **Berkshire made** another real-estate bet, buying 9.8% of Store Capital, a REIT, for \$377 million. **B5**

◆ **A Crown executive** was sentenced to 10 months for gambling crimes in China. **B3**

◆ **Google parent Alphabet** is hiring rental-car firm Avis to store and service self-driving cars, as it plans for a driverless taxi network. **B4**

◆ **Three Mozambique** state firms can't fully account for more than \$1 billion raised for them. **B5**

### World-Wide

◆ **The U.S. Supreme Court** ruled that the Trump administration can implement part of its temporary ban on travelers from six Muslim-majority countries. **A1, A6**

◆ **The Senate health plan** raises the number of uninsured by 22 million in 2026, the Congressional Budget Office said. **WSJ.com**

◆ **May clinched** a deal with Northern Irish lawmakers that will keep her U.K. Conservatives in government despite the loss of their parliamentary majority. **A3**

◆ **The EU called** on Britain to show "more ambition" in protecting the rights of EU citizens following Brexit. **A3**

◆ **Germany warned** Turkey that Erdogan's bodyguards facing U.S. arrest warrants wouldn't be welcomed during the G-20 summit. **A4**

◆ **Chinese dissident Liu** was freed from prison on medical parole, over seven years into a sentence that was widely condemned. **A5**

◆ **Seoul won't reverse** its decision to host a U.S. missile-defense system, the foreign minister said. **A5**

◆ **The cargo ship** that hit a U.S. destroyer near Japan had sent emergency warnings to the American vessel, the ship's captain said. **A5**

◆ **Trump lashed out** at Obama over his handling of Russia's alleged meddling in the U.S. election. **A6**

◆ **Iraq's military said** the battle to wrest full control of Mosul from Islamic State will be over in a few days. **A4**

| CONTENTS             | Markets |
|----------------------|---------|
| Business News.....   | B3      |
| Capital Journal..... | A2      |
| Crossword.....       | A12     |
| Heard on Street..... | B8      |
| Life & Arts.....     | A9,12   |
| Opinion.....         | A10-11  |
| Technology.....      | B4      |
| U.S. News.....       | A6-7    |
| Weather.....         | A12     |
| World News.....      | A2-5    |

€3.20; CHF5.50; £2.00; U.S. Military (Eur.) \$2.20



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## Court Allows Partial U.S. Travel Ban

Nation's top justices let 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 his 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 order, a revised version of one issued in late January, sought to impose a 90-day ban on U.S. entry for people from Iran, Libya, Somalia, Sudan, Syria and Yemen, and suspend temporarily the U.S. program for admitting refugees.

The justices, in an unsigned 13-page opinion, narrowed the scope of the ban for now, rul-

### The Day in Court

- ◆ Justices to rule on service denials at gay weddings
  - ◆ Whistleblower provision on docket
  - ◆ Gun activists frustrated by refusal to hear case
- A6**

ing 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 move by the justices, ruling on the court's last day of the current term, means Mr. Trump's travel restrictions could go into effect in as soon as three days. The justices said they would give closer consideration to the case in October, when they will hear oral arguments. By then, the 90-day pause on travel would already be over, a fact that could moot the justices' further consideration.

It is possible, however, that Mr. Trump's administration would seek to restrict travel

for some foreign nationals beyond the 90 days. U.S. officials are studying vetting procedures world-wide, and that review process could result in additional countries being added to the list for restricted travel.

Mr. Trump in a statement Monday called the high court's action "a clear victory for our national security. It allows the travel suspension for the six terror-prone countries and the refugee suspension to become largely effective."

"My number one responsibility is to protect the American people. 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. **A3**

## THE ALL-SEEING SURVEILLANCE STATE IS A REALITY IN CHINA

In a 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 a rating based how they be-

Please see CHINA page A8

### INSIDE



LIU XIA/EUROPEAN PRESSPHOTO AGENCY

BEIJING  
FREES DYING  
DISSIDENT

WORLD NEWS, A5



IN ITALY,  
TOO MANY  
TOURISTS

LIFE & ARTS, A9



ISTOCK

AMAZON MAY  
EAT INTO  
FOOD BUSINESS

BUSINESS & FINANCE, B1

## Bankrupt Takata to Meet Recall Needs

By SEAN MCLAIN

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 the lion's share 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 world-wide.

A haggard-looking Shigehisa 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.

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. Please see TAKATA page A2

## Who Pays on the First Date? No One Knows Anymore

\* \* \*

First dates multiply in Tinder era, and those tabs add up; the fake 'reach' for the wallet

By KHADEEJA SAFDAR

There was a time when Tinesha Zandamela would dig around for her wallet at a first date, anticipating that the guy would insist on paying.

That was before she went out with one who "forgot" his wallet, or the one who requested to split the check 50-50 after eating nearly all the food. Now when the bill arrives, she sits still, not even attempting what some call "the reach."

"If you reach, you could end up with the entire bill," said the 23-year-old in Provo, Utah. "No one is going to stop you."

Love in the time of Tinder is upending an age-old tradition between men and women: that moment when the bill arrives and the woman feints for her wallet—but expects the guy will insist on paying.

The popularity of the dating app and others like it means single people are going

on more first dates than ever. Many women say they have stopped doing the reach because they aren't only more likely to end up splitting the bill, but also more liable to cover all of it. Now when the check arrives, both people often brace themselves for a gunfighter's staredown.

On her 18th birthday, Jaclyn Suchta, an account supervisor in Rochester Hills, Mich., found herself on the losing side. She said she was invited to a movie that day, but at the ticket counter, her date looked at her blankly for several uncomfortable moments, until she ponied up cash for both tickets, plus popcorn and sodas.

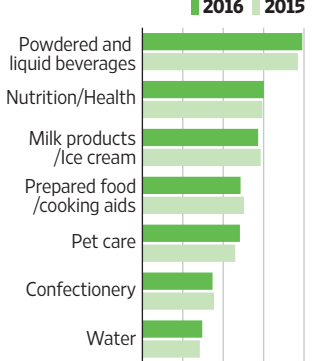
"It was so awkward," she said. "Who makes you pay on your birthday?"

Alex Paull, 19, said she recently went on a date with a man she met on Tinder and chose not to reach for the check since he had picked the Please see DATE page A8

### Sprawling Empire

Pressure mounts on Nestlé to focus on fast-growing segments.

Revenue by business, in billions of Swiss francs



1 Swiss franc = \$1.03 Source: the company THE WALL STREET JOURNAL.



WORLD NEWS

# Democrats' Challenge: Middle-Class Appeal



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 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



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

class are grateful to whichever party and policies gave them the chance to do so. So just about every economic 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 others in the middle class, through higher 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. 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.

## NESTLÉ

*Continued from Page One* it keeps an "open dialogue with all our shareholders" but remains "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. Third Point's stake amounts to just 1.25% of Nestlé, but that makes Mr. Loeb one of the company's top 10 investors. 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, a raft of new upstart rivals and other headwinds. Shareholders welcomed the Third Point investment, sending Nestlé's stock up more than 4% Monday. Mr. Schneider, 51 years old, took the top job at Nestlé in January. Third Point has been accruing shares since the start of the year, encouraged by the possibilities that come with a new CEO, according to people familiar with the matter. Nestlé's board plucked Mr. Schneider out of the healthcare industry to help diver-



Mark Schneider has discussed boosting growth with Daniel Loeb.

sify from its slow-growing cash cows to healthier foods and products. He moved quickly to shake things up. Shortly after becoming CEO, he abandoned Nestlé's longstanding annual growth target, after years of shortfalls. 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 steers. Messrs. Schneider and Loeb met in Switzerland about two weeks ago, according to one of these people, to discuss the investor's ideas for how the company can grow. Third Point believed that new management, already motivated to boost margins, was ready to take the steps it was suggesting, according to people familiar with the matter. But the hedge fund wanted to make its views public to rally shareholder support for the changes, one of these people said. Third Point also has con-

### Third Point's Move Could Affect L'Oréal

Is Nestlé SA's stake in L'Oréal SA in play? Daniel Loeb's Third Point hedge fund on Sunday disclosed a \$3.5 billion stake in Nestlé. It is demanding a series of moves to boost shareholder return, including a review of the Swiss food giant's €24.4 billion (about \$27.4 billion) stake in French cosmetics firm L'Oréal. Shares of L'Oréal were up 3.9%. The two companies have long resisted pressure from analysts and investors to decou-

ple. Critics complain the two don't share strategic goals and would be better untethered. In 2014, L'Oréal bought back 8% of shares held by the Swiss company in exchange for cash and part of their dermatologic joint venture, Galderma. As part of its partial retreat, Nestlé gave up one of its three board seats, but continued to own 23% of L'Oréal. All that raised new questions about whether Nestlé would remain a major shareholder much longer. L'Oréal spokespeople declined to comment on the company's intentions. —Nick Kostov

cerns about the makeup of the board, which it believes lacks packaged-food and financial expertise, the people said. Nestlé didn't respond to a request to comment. Third Point's letter to investors on Sunday identified "a familiar set of conditions that make [Nestlé] 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." Third Point has tapped Jan Bennink, a food-industry vet-

eran, as its adviser on the investment. While Third Point hasn't specified whether it would seek a board seat at Nestlé, it listed Mr. Bennink's expertise in packaged foods and shareholder returns in its letter. Often activists name advisers as a signal of who they hope to be named to the board down the road. The hedge fund raised a special \$1 billion investment fund for Nestlé in a matter of a week, the people said. EnTrustPermal, an investor in hedge funds that is majority-owned by Legg Mason Inc., put \$650 million in that

fund, according to people familiar with the matter—a sizable sum for a single investor. EnTrustPermal co-owner Gregg Hymowitz confirmed the firm had invested in the activist play. 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." Mr. Schneider, a dual U.S. and German citizen, spent the 13 years before Nestlé heading German health-care giant Fresenius SE, which runs hospitals, makes medical equipment and supplies drugs and nutritional products. There, he earned a reputation for deal making and cost-cutting, catching the attention of 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. "Size alone does not protect us from the winds of change," Mr. Schneider said at an industry conference in Berlin last week, adding that Nestlé is facing "a constant need to evolve." —Juliet Chung contributed to this article.

## TAKATA

*Continued from Page One* 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 explosion 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 yen (\$4.9 billion) 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's 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 written

statement earlier 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 isn't the only company supplying replacements

for the recalled air bags. Larger rival Autoliv Inc. has reported a surge in air-bag orders in the past two years, in part due to the recall. Takata expects to be producing replacement parts at least until March 2020, according to replacement plans from car makers.

### CORRECTIONS & AMPLIFICATIONS

The surname of Claude Monique, 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](mailto:wsjcontact@wsj.com).

### 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 defect is to blame. Toyota, Nissan and Mazda recall vehicles equipped with Takata air bags.
- ◆ **May 2015** Takata determines that more air bags could

- be defective. 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.
- ◆ **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.



Takata boss Shigehisa Takada bowed in apology on Monday.

**THE WALL STREET JOURNAL.**  
Europe Edition ISSN 0921-99  
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London, SE1 9GF

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65-6415 4300; Tokyo: 81-3 6269-2701;  
Frankfurt: 49 69 29725390; London: 44 207  
842 9600; Paris: 33 1 40 17 17 01;  
New York: 1-212-659-2176

Printers: France: POP La Courmeuve; Germany:  
Dugan Media Group/Hannover A.S. Branch; Italy:  
Qualiprinters s.r.l.; United Kingdom: Newsprinters  
(Brixbourne) Limited, Great Cambridge Road,  
Waltham Cross, EN8 8DY

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Editor responsible: Thorold Barker M-17936-  
2003. Registered address: Avenue de Cortenberg  
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## WORLD NEWS

# U.K. Conservatives Reach a 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 over 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 outside Downing Street 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

By Jason Douglas in  
London and Valentina  
Pop in Brussels

departure from the bloc after London laid out detailed proposals on the issue.

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.

London is hoping for an early success in Brexit negotia-

tions 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 on Thursday, but it was met with a lukewarm reception.

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 EU law. More ambition, clarity

*More than three million European Union nationals now reside in Britain.*

and guarantees needed than in today’s UK position,” Mr. Barnier tweeted.

The U.K. government said in a 24-page paper that EU nationals 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 European Court of Justice, the EU’s top court.



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



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WORLD NEWS

# Exiled Syrians Cruise Down Memory Lane

Istanbul boat tour lets exiles relive 'good old days' before 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 throughout the holy period, which ended on Saturday, due to a discounted price and the lure of traditional entertainment.

On a recent evening, Syrian



EURKAN TEMIR VII MENTOR PROGRAM FOR THE WALL STREET JOURNAL (2)

Families exiled by war from their homeland leave their politics behind and enjoy a Syrian-themed cruise on Turkey's Bosphorus strait. Below, musicians and a whirling dervish perform for the passengers on the four-hour-long 'Syrian Nights' cultural cruise.

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 Damascus. 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 three million now live in Turkey, more than in any other nation.

## WORLD WATCH

### IRAQ

#### Military Says ISIS Near Defeat in Mosul

The battle to wrest full control of the Iraqi city of Mosul from Islamic State will be over in a few days, the Iraqi military said on Monday, as elite counterterrorism units fought militants among the narrow alleyways of the historic Old City.

An attempted fight-back by militants failed on Sunday night and Islamic State's grip on the city, once its de facto capital in Iraq, was weakened, a senior commander said.

"Only a small part [of the militants] remains in the city, specifically the Old City," said Lt. Gen. Abdul Ghani al-Assadi, commander of the counterterrorism Service in Mosul.

"From a military perspective, Daesh [Islamic State] is finished," Gen. Assadi said. "It has lost its fighting spirit and its balance. We are making calls to them to surrender or die."

As CTS units battled militants in the densely populated maze of tiny streets of the Old City, which lies by the western bank of the Tigris River, Gen. Assadi said the area under Islamic State control in Mosul was now less than 2 square kilometers.

Mosul will fall "in very few days, God willing," he added.

Up to 350 militants are estimated by the military to be besieged in the Old City, dug in among civilians in crumbling houses and making extensive use of booby traps, suicide bombers and sniper fire to slow the advance of Iraqi troops.

More than 50,000 civilians, about half of the Old City's population, remain trapped behind Islamic State lines with little food, water or medicines, according to those who escaped.

—Reuters

### SOUTHEAST ASIA

#### Drug Haul Burned In Myanmar, Thailand

Officials in Myanmar and Thailand burned 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 methamphetamines, known lo-

cally 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 methamphetamines. Those narcotics are often smuggled into China.

Last year, Myanmar lawmakers voiced disappointment over efforts to tackle the drug problem. The market for methamphetamines 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

### COLOMBIA

#### Tour Boat Sinks; 6 Drown, 15 Missing

Scuba divers on Monday searched for bodies in a reservoir near the Colombian city of

Medellín where a tourist boat packed with more than 150 passengers for the holiday weekend capsized, leaving at least six people dead and 15 missing.

Rescuers including firefighters and air force pilots in helicopters searched for survivors at the Guatapé reservoir where El Almirante ferry sank.

A flotilla of recreational boats and jet skis had rushed to the scene, pulling people from the boat as it went down and avoiding an even deadlier accident.

Videos circulating on social media show the turquoise-and-yellow-trimmed party boat rocking back and forth as people crawled down from a fourth-deck roof as it sank in a matter of minutes.

Survivors described hearing a loud explosion near the men's bathroom that knocked out power a few minutes after the boat began its cruise around the giant lake. As water flooded on board, pressure built and people were sucked under by the sinking ship.

"Those on the first and second decks sank immediately," survivor Lorena Salazar told local media. "All we could do was scream and call for help....It was completely chaotic."

—Associated Press

### MONGOLIA

#### Ruling Party Loses Vote for Presidency

The Mongolian ruling party's candidate lost in presidential elections to a populist business tycoon and a nationalist wanting the country to benefit more from its mineral wealth, preliminary results early Tuesday showed. The election was headed for a runoff.

The Mongolian People's Party's

Miyegombo Enkhbold, speaker of the parliament and a horse dealer, garnered 30% of about 1.3 million votes cast Monday, according to the General Election Commission.

Business tycoon Khaltmaa Battulga of the Democratic Party won 39%, while nationalist Sainkhuu Ganbaatar of the Mongolian People's Revolutionary Party, a vocal critic of mining giant Rio Tinto's operations in the country, garnered 32%.

—Associated Press



FRED DUFOUR/AGENCE FRANCE-PRESSE/GETTY IMAGES

A man leaves a polling station in Erdene Sum Ger in Mongolia.



VOICE OF AMERICA/ASSOCIATED PRESS

Recep Tayyip Erdogan's security guards beat protesters during the Turkish president's trip to Washington last month. Some of these guards are barred from accompanying him to Germany.

## Germany Bars Erdogan's Guards

By ANDREA THOMAS

BERLIN—Germany told Turkey that members of President Recep Tayyip Erdogan's security detail facing arrest warrants in the U.S. wouldn't be allowed to accompany him to next month's Group of 20 summit, a lawmaker said Monday.

The move appears aimed at averting a fresh deterioration in the already tense relationship between Turkey and Germany, two North Atlantic Treaty Organization allies that have clashed repeatedly in recent months.

Police in Washington issued arrest warrants for a dozen members of the Turkish president's security team two weeks ago after they allegedly became involved in an assault on demonstrators outside the

Turkish Embassy at the margins of Mr. Erdogan's visit.

"We were told the German government had informed Turkey that these are persona non grata," a German lawmaker said, adding that the information had been provided by the government at a closed-door meeting of the lower chamber's home affairs committee on Wednesday.

Turkish officials didn't respond to requests to comment.

Germany is hosting a summit of the Group of 20 largest economies on July 7 and 8 in Hamburg. Security officials said last week they were concerned Kurdish sympathizers of the banned PKK separatist group might join protests.

The German Foreign Ministry declined to comment on the government's decision but

said it expected Mr. Erdogan not to travel with members of his security entourage who faced U.S. arrest warrants.

The security detail of traveling dignitaries don't traditionally enjoy diplomatic immunity in Germany, making an arrest likely should they try to enter, according to security officials.

Earlier in June, Germany said it would move its 250 troops engaged in the campaign against Islamic State from its base in Turkey to Jordan after Ankara declined to allow German lawmakers access. Tensions also rose after several high-ranking military officers fearing persecution were granted asylum in Germany following the July 2016 coup attempt.

—Ned Levin in Istanbul contributed to this article.



WORLD NEWS

# China Frees Dying 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 as-

signed 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.

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 Na-



Liu Xiaobo has liver cancer.

tions Human Rights Council adopted a China-backed resolution affirming Beijing's longstanding position that held up development as promoting human rights. A plan by the European 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 reining in North Korea's nu-

clear 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.

Mr. Liu was the first Chinese citizen to be awarded the Nobel Peace Prize, although the Dalai Lama, the exiled Tibetan religious leader, received the prize in 1989. The Nobel committee recognized Mr. Liu, who was represented at the award ceremony in the Norwegian capital of Oslo by an empty chair symbolizing his imprisonment, for his "long and nonviolent struggle

for fundamental human rights in China."

China denounced the government of Norway and curtailed imports of Norwegian salmon, even though the Nobel committee is independent of any government. Relations between Beijing and Oslo only recently thawed after Norway made several concessions. Those included Norwegian Prime Minister Erna Solberg's decision not to meet with the Dalai Lama, whom Beijing considers a dangerous separatist, when he visited the country in 2014.

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.

—David Gauthier-Villars in Stockholm contributed to this article.

## Cargo Captain Says U.S. Ship Was Warned

The captain of a cargo ship that hit a U.S. destroyer near Japan earlier 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 for comment.

In response to the account, U.S. military officials said there had been no communication between the two ships be-

fore the collision and the cargo ship's loud collision alarm never sounded. They raised questions particularly about the commercial ship captain's reported contention that his ship tried to signal the warship for at least 10 minutes before hitting it.

The officials said they were perplexed by the reported statement from the Crystal's captain. Tracking data indicate that the cargo ship continued sailing on essentially the same course for about another 30 minutes before turning around and returning to the position where the collision occurred.

"We think the timing and the substance is a little odd," an official said of the report. "This is all what the investigations will uncover."

Navy officials have said they aim to complete initial assessments of what happened by the end of the summer.

Along with the U.S. Navy, the U.S. Coast Guard, Japanese Coast Guard and Japan Transport Safety Board are investigating the incident.

Representatives for all have said they won't comment or speculate on the cause of the collision.

A spokesman for Nippon Yusen K.K., which chartered the Crystal during the recent journey, declined to comment.

## Seoul Reaffirms Defense Stance

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 note 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 high given concerns about North Korea's 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 on Monday 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 em-



South Korean Foreign Minister Kang Kyung-wha, center, talks with U.S. Lt. Gen. Thomas Vandal.

bassy 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 this week's summit.

On the Terminal High-Altitude Area Defense, or Thaad, system, which has been seen as an early test of Messrs. Trump and Moon's relationship, Ms. Kang called the deployment "an alliance decision," and said Mr. Moon would work closely with Washington "on the basis of mutual trust."

"My government has no in-

tention to basically reverse the commitments made in the spirit of the ROK-U.S. alliance," Ms. Kang said, using the acronym for South Korea's formal name, the Republic of Korea.

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.

On a separate issue, Ms. Kang said on Monday that Mr. Moon's campaign-trail suggestion that South Korea should reopen a closed business park operated jointly with North Korea would take place only "within the framework of international sanctions."

The suggestion that South Korea reopen the Kaesong Industrial Complex has raised questions about whether such a venture would violate United Nations Security Council resolutions prohibiting business dealings with North Korea.

## Australia Uses Satellites in Its Efforts to 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 Sunday U.S. time, 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



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

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

### Hook, Line and Sinkers

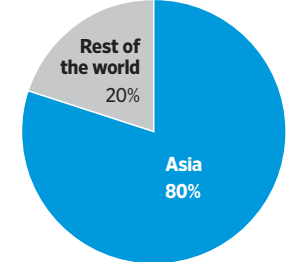
The global fishing fleet, much of it from Asia, is expected to have nearly 10 billion mouths to feed by 2050.

#### 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.

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 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 the world's population relies on seafood as a primary source of protein, the Commonwealth Scientific and Industrial Research Organiza-

tion 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 at eradicating illegal fishing that came into force last June. 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.

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.



# U.S. NEWS



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 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's 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 argues 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 ACLU argued the fact the plaintiffs could shop elsewhere was no answer.*

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

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

## BAN

*Continued from Page One*

bility as commander in chief is to keep the American people safe. Today's ruling allows me to use an important tool for protecting our nation's homeland," the GOP president said.

Mr. Trump's critics argued the court's order should be viewed narrowly because many would-be travelers or refugees should be seen as having a connection to the U.S.

"This order, properly construed, should really allow for only the narrowest implementation of any part of the ban," said Omar Jadwat, an American Civil Liberties Union lawyer who argued one of the travel-ban cases in the lower courts.

The Department of Homeland Security said it would provide details on implementation after consultation with the State Department and Justice Department.

"The implementation of the executive order will be done professionally, with clear and sufficient public notice, particularly to potentially affected travelers, and in coordination with partners in the travel industry," the Homeland Security Department said.

Mr. Trump's first executive order on immigration, which he signed shortly after taking office, was briefly implemented with no advanced notice and caused widespread confusion at U.S. airports. It also created anxiety in immigrant communities because its terms appeared to apply to people who already had been given permission to live in, or travel to, the U.S.

The high court's action Monday, which partially stayed lower-court rulings against Mr. Trump, signals

that the president has a fair shot of prevailing at the Supreme Court. It takes five votes on the nine-member court to grant a stay, and one of the factors the court considers is whether the party seeking the stay has a fair prospect of winning the case.

Chief Justice John Roberts, who announced the court's action, assembled an ideologically diverse coalition for the middle-ground approach, attracting the support of maverick conservative Justice Anthony Kennedy and the court's four liberal justices.

Three of the court's most conservative justices—Clarence Thomas, Samuel Alito and Neil Gorsuch—offered a partial dissent that objected to the narrowing of the president's ban. In their dissent, they wrote that they feared the compromise standard, which turns on the closeness of a person's connections to the U.S., would be unworkable and "invite a flood of litigation until this case is finally resolved on the merits."

States, immigrant- and civil-rights groups and individual U.S. residents have brought cases challenging Mr. Trump's planned restrictions, which they say are less about pressing national-security threats and more about fulfilling a campaign promise to ban the entry of Muslims into the U.S.

The legal battles have set up a major test of presidential power at the very early stages of the new administration.

Making matters more unusual, Mr. Trump has tweeted his own commentary about the cases as they have progressed, including statements that he would like travel restrictions that are stronger and broader than the current ones his Justice Department has been trying to defend in court.



People gathered outside the Supreme Court on Monday.

## 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 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. The case focuses on whether such antiretaliation provisions apply to people who report misconduct internally but not to the SEC.

—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.

Gun owners challenged such requirements in San Diego and Yolo counties, contending that when read together with statewide 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 religious 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 divisions regarding the religion clauses. Conservative Justices Clarence Thomas and Neil Gorsuch rejected the Roberts footnote, even while agreeing with his decision in favor of the church.

—Jess Bravin

### TENURE

#### No News From Justice Kennedy

Justice Anthony Kennedy made no announcement on whether he plans to retire, following speculation he might do so as the court ended its session.

Such a move would provide President Donald Trump with a big opportunity to drastically change the makeup of the Supreme Court, where Justice Kennedy, 80 years old, often serves as a swing vote between the court's liberal and conservative wings.

—Joshua Jamerson

# Trump Criticizes Obama on Russia's Role in Election

By CAROL E. LEE

WASHINGTON—President Donald Trump lashed out on Monday at former President Barack Obama over his handling of Russia's alleged meddling in the U.S. election and denied any collusion between the Trump 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.

A former Obama administration official responded on Monday that "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 [Affordable Care Act] repeal bill."

Mr. Trump 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 was unclear what tapes



President Donald Trump, left, fired FBI Director James Comey in May, months after this meeting.

the president was referencing. Investigators recently expanded their probe into Russia's intrusion in the election and whether it colluded with

Mr. Trump's campaign. The probe now includes whether the president tried to obstruct justice, according to people familiar with the investigation.

Mr. Trump's comments followed his admission that he didn't have tapes of his conversations with former Federal Bureau of Investigation Direc-

tor James Comey. Mr. Comey has testified that Mr. Trump said he hoped Mr. Comey would back off from investigating former national security adviser Michael Flynn.

Mr. Flynn is one of the Trump associates whose actions are part of the federal investigation of various conversations with Russian officials during the presidential-transition period, according to people familiar with the inquiry. Mr. Comey was leading that probe until Mr. Trump fired him last month.

Mr. Trump has called the investigation a "witch hunt."

On Monday, Mr. Trump accused Mr. Obama of not taking action in response to intelligence officials' finding that Russia was meddling in the election because he believed that his preferred candidate, Democrat Hillary Clinton, would win the race.

"The reason that President Obama did NOTHING about Russia after being notified by

the CIA of meddling is that he expected Clinton would win...and did not want to "rock the boat," Mr. Trump wrote.

The former Obama White House official responded on Monday that "this situation was taken extremely seriously, as is evident by President Obama raising this issue directly with President [Vladimir] Putin" of Russia.

The former Obama administration official also cited "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 president directing a comprehensive intelligence review, and ultimately issuing a robust response, including shutting down two Russian compounds, sanctioning nine Russian entities and individuals, and ejecting 35 Russian diplomats from the country."



U.S. NEWS

# Republicans Add Penalty To Health Bill

Provision requires six-month waiting period for consumers who let their insurance lapse

By **STEPHANIE ARMOUR**  
AND **KRISTINA PETERSON**

U.S. Senate GOP leaders added a provision to their health-overhaul legislation on Monday that would impose a waiting period on coverage of six months for people who let their insurance lapse, a penalty aimed at ensuring consumers maintain coverage when they are healthy.

The six-month waiting period had initially been considered and omitted from the bill, which was released Thursday ahead of a likely vote this week. The health-insurance industry had been pressuring Senate Majority Leader Mitch McConnell (R., Ky.) to include the measure in any revisions as a way to help ensure people maintain continuous coverage, according to several people close to the insurance industry.

Individuals who had a break in continuous coverage for 63 days or more in a prior year would have to wait six months before coverage begins, according to the change, but

they wouldn't have to pay premiums during that time.

The Senate GOP health bill would repeal large portions of the Affordable Care Act, including a requirement that most people have coverage or pay a penalty. Without that mandate, insurers have been concerned that young and healthy people, who help offset the costs of older and sicker consumers, wouldn't obtain coverage. That would push premium costs higher because the Senate legislation also requires insurers to cover people with pre-existing health conditions.

The addition of the waiting period aims to fix that gap, mandating that people wait six months before getting coverage on the individual market. Republican leaders have told insurers on Friday that the waiting period would be inserted, according to several people familiar with the talks.

It remains unclear whether the provision will meet the procedural rules that Senate leaders are using to push the bill through the Senate with a simple majority, rather than the usual 60 votes needed for passage.

A version of the bill passed last month by the House would let insurers temporarily



Insurers have pressed Senate Majority Leader Mitch McConnell to include the waiting-period measure in any revisions to the bill.

charge higher premiums to people who had a break in coverage. It would apply to individuals who had a lapse of 63 days or more. People with pre-existing conditions in those cases could be charged more for a year.

The change comes as Mr. McConnell engages in high-stakes negotiations to get the votes he needs to pass the bill this week. Senate GOP leaders have been working with Republican senators who have voiced concerns, focusing on those who said they won't vote for the bill as currently written—Ted Cruz of Texas,

Mike Lee of Utah, Ron Johnson of Wisconsin, Rand Paul of Kentucky and Dean Heller of Nevada.

Republican leaders also are rejecting calls from some quarters to postpone Thursday's scheduled vote to allow for more deliberation. "I am closing the door. We need to do it this week before double-digit premium increases are announced for next year," Majority Whip John Cornyn (R., Texas) tweeted on Monday.

The leaders hope a vote this week would put pressure on lawmakers to wrap up their negotiations. Mr. Cornyn, the sec-

ond-ranking Senate Republican, had previously said a vote was needed by the end of July.

For now, Republicans remain short of the 50 votes they need to pass the bill, with some GOP senators, including Mr. Johnson, requesting more time to analyze it.

"Like Obamacare, it relies too heavily on government spending, and ignores the role that the private sector can and should play," Mr. Johnson wrote in an op-ed piece on Monday in the *New York Times*.

The nonpartisan Congressional Budget Office said it would release Monday after-

noon its analysis of the Senate health bill, assessing its likely impact on the federal budget and the number of uninsured.

If the CBO finds many fewer people would have coverage under the Senate bill than under the ACA, that could complicate Senate leaders' effort to rally support among the GOP holdouts.

The American Medical Association said Monday in a letter to Senate leaders that it opposes the health bill, saying the legislation would "expose low and middle-income patients to higher costs and greater difficulty in affording care."

# Unwitting Postmen Become Dealers of Foreign Fentanyl

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," said Mr. Holman. "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. in fiscal 2016, compared with 0.09 kilogram five years earlier, according to Customs and Border Protection data.



Customs officers take precautions as they look for chemicals used in synthetic drugs like fentanyl.

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 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 office.

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

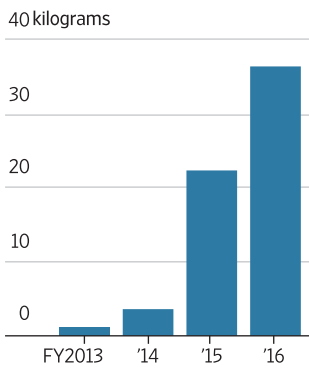
alone in fiscal 2016, it is like finding a needle in a haystack.

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

## Drug Delivery

Seizures of fentanyl arriving by both international mail and express carrier



Note: Fiscal year ends Sept. 30.  
Source: Customs and Border Protection  
THE WALL STREET JOURNAL.

for operations support, at a May Senate hearing.

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, sponsored by Sen. Rob Portman (R., Ohio), 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.

Mr. 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.

The Postal Service says it is 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 obligated under international agreements to accept incoming mail from nearly every country, Mr. Cintron said. He added that requirements of Sen. Portman's bill would undermine the Postal Service's ability to compete with private shippers.

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

## U.S. WATCH

### HOUSE OF REPRESENTATIVES GOP Nears Deal to Boost Defense Outlay

House Republicans are nearing a deal on overall spending levels for fiscal year 2018 that would boost military spending well above the limit imposed by current law.

For the fiscal year that begins in October, House Republicans are coalescing around setting base defense spending at \$621.5 billion, surpassing the \$549 billion limit under current law, in a budget resolution that could be released and adopted by the House Budget Committee later this week, according to House GOP aides. House Republicans are likely to set nonmilitary spending at \$511 billion, which is below the limit of \$516 billion under current law.

"This is so important for our country," House Budget Committee Chairwoman Diane Black (R., Tenn.) said last week. "We've got to make sure that we have a fiscally sound country moving forward and at the same time, strengthening our military and getting to where we can do tax reform."

The budget resolution, a largely symbolic document, carries unusual importance this year, because Republicans plan to use it to help pass an overhaul of the tax code without Democratic support. The budget resolution will lay out the measuring sticks and revenue targets for the tax plan, which top Republicans are trying to write now. If the House and Senate both adopt the same budget, that unlocks the so-called reconciliation procedures that can allow a subsequent tax bill to pass on a party-line vote.

—*Kristina Peterson and Richard Rubin*

### MINNEAPOLIS

### 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 po-

lice 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.

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 settlement will be paid



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

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 resolution 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.

—*Shibani Mahtani*

### ECONOMY

### Durable Goods Orders Fell 1.1% in May

Demand for long-lasting factory goods declined in May for the second straight 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 an 11.7% drop in orders for civilian airplanes and parts. Excluding the transportation segment, orders rose 0.1% in May.

More broadly, factory demand has strengthened in 2017. Durable-goods orders rose 2.8% in the first five months of 2017 compared with a year earlier.

—*Ben Leubsdorf*



IN DEPTH

CHINA

*Continued from Page One*  
have 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 surveillance. 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 databases of photos 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, said Anil Jain, the head of Michigan State University's Biometrics Research Group.

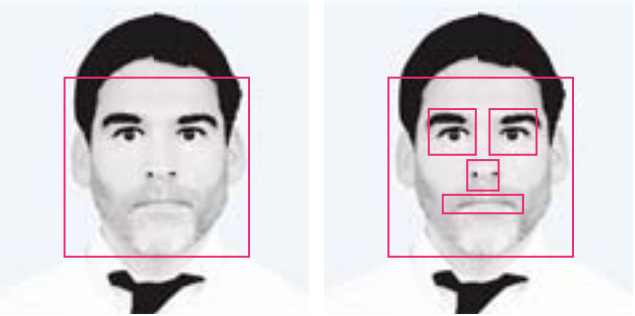
China is moving in that direction, abetted by a vast surveillance network. Industry researcher IHS Markit Ltd. estimates China has 176 million



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

How Facial Recognition Works

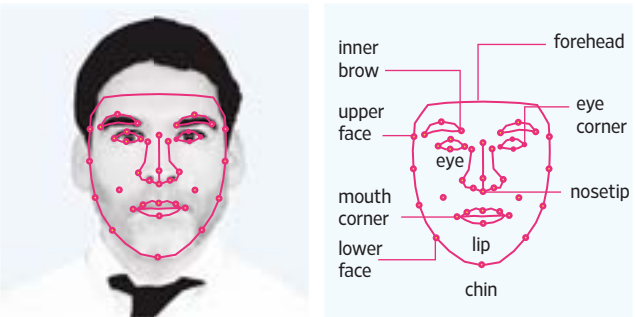
How an algorithm works to identify a face within an image and draw conclusions about a person's identity.



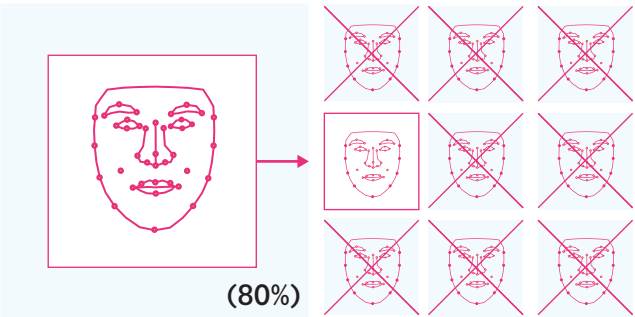
**Detection:** Algorithms detect all the faces in a photo or video feed. Landmark points are identified on each face.



**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.

THE WALL STREET JOURNAL.

application of artificial-intelligence techniques such as deep learning, which uses software to mimic the way neurons in the

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 I've been in this business a long time,” said Lin Yu-anqing, a computer scientist for internet search company Baidu Inc. and a member of the team overseeing the lab.

The Chinese startups say their best customers are local police bureaus, which are under pressure from central authorities to identify and squelch threats to social stability.

At a recent security-equipment conference in Chengdu, displays of facial-recognition systems were popular. At one booth, a promotional video by Intellifusion Technology Co. showed a police officer directing a squadron of facial-recognition drones for crowd surveillance. “That's a little ways into the future,” said Huang Fan, a marketer for Intellifusion, the company that installed the jaywalking-detection system in Shenzhen.

The company's current systems can track an individual's movements inside a building through facial recognition and alert authorities if that person tries to access restricted floors.

In May, facial-recognition systems were used at the Belt 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 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.

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.

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.*

DATE

*Continued from Page One*  
place and initiated the date.

After the man took her home, he sent her a \$20 invoice via the mobile-payment app Venmo for her portion of the meal, she said. The West Virginia University student said she blocked him on Venmo and didn't pay the bill.

On Grindr, a dating app primarily for gay men, people are often opting for cheaper dates, such as coffee and cocktails, said Byron Norton-Wolf, a 51-year-old in Orlando, Fla.

It is a “good thing” when both people do the reach at the same time, the singing waiter said, though he added age can be a determinant on same-sex dates. “The person who doesn't reach is usually younger.”

One of his dates, however,

circumvented the whole process. Before the check arrived, he went to the restroom and said he would be waiting outside.

The rules aren't complicated, according to etiquette experts. “If you invite, you pay,” said Diane Gottsman, author of “Modern Etiquette for a Better Life.” “But the reality is that the other person may not know the rules or realize it's a date.”

Alexz Poole, a 30-year-old lawyer, said that since moving to New York four years ago, she has noticed a gradual change in the way the reach was being received. At first, her dates would typically intervene and pay the bill, she said, but over time she ended up covering more than her fair share.

At a recent drinks meetup, she asked her date if they were planning to order food since they hadn't specified beforehand. His response: “Don't you

have food at home?”

Thanks to the growing number of online dating services, the economic dynamics of playing the field have changed. According to analysis conducted by Deutsche Bank, paying for two people in New York or San Francisco to go to a movie and have a meal, plus a few beers and taxi rides, comes to about \$130. Three of those a week can cost more than \$20,000 a year.

Some people say they are embracing what they consider to be a more progressive view on gender roles. “I almost feel like it's rude not to let them pay,” said Miles Bird, a 27-year-old who works in venture capital in San Francisco.

Mr. Bird said he usually suggests splitting the check before the reach is an option, though he has been forced to pay the entire bill on occasion.

“Not reaching when reaching is expected is a kind of re-

verse power play,” said Chase Amante, founder of Girls Chase, a website aimed at providing dating advice to men. “Rather than the man asserting power by paying, the woman asserts power by forcing the man to pay.”

A woman who refuses to reach, however, could come off as a “gold digger,” he said. “There's a certain subset of the population looking for free meals.”

The custom of a man paying on a date is a relic of chivalry that is several centuries outdated and connotes ownership, said Julia Long, a sociology lecturer at Anglia Ruskin University who specializes in feminist theory. “Women are not commodities to be bought.”

Ms. Zandamela, who considers herself a feminist, said that since women still tend to earn less than men, it isn't unreasonable for guys to cover din-

ner and a movie. “There's a huge gender pay gap,” she said. “The least a guy can do is pay for a date that he initiates.”

Some men say they expect to cover the check on a first date, but still hope the woman will reach. “You don't want to feel like you're being used,” said Amir Nobakht, a medical doctor in Los Angeles.

He said his guest on a recent date ordered two entrees—pasta to eat at the restaurant and a grilled fish to go. When she went to the bathroom, he asked for separate checks, he said. “I always pay on the first date, but you have to draw the line somewhere.”

The practice of a man paying on a heterosexual date has proved more resistant to change than other gendered norms, said David Frederick, a psychology professor at Chapman University. In a 17,600-person study he published

with colleagues in 2015, 39% of the women surveyed said they hoped the man would decline an offer to help pay the bill.

“I never expect them to let me pay, but more often than not, it's happened,” said Katie Hart, 37, an accounts payable manager in Indianapolis. “They're like, sure, and, I say, oh, OK, sure.”

She recently went on a date to a downtown restaurant, and the man suggested splitting a burger and fries. When the burger showed up, she said, “he cut it very unevenly, looked at it for a few minutes and then took the bigger side.”

When the check arrived, Ms. Hart said she performed the ritual reach for her credit card, and he agreed to let her pay half without any hesitation. “Even the waitress looked at him, like, are you serious?”

—*Brian Baskin contributed to this article.*



# 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

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.

## 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

"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 Pinosola, 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 upcoming animated movie "Ferdinand," and executive-produces and hosts the Fox reality series "American Grit," a Fox reality series putting competitors through grueling physical tests which launched its second season this month. Mr. Cena is set to appear in the HBO sports doping 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, is one of the few wrestlers who has managed to cross over into mainstream stardom with movies, TV

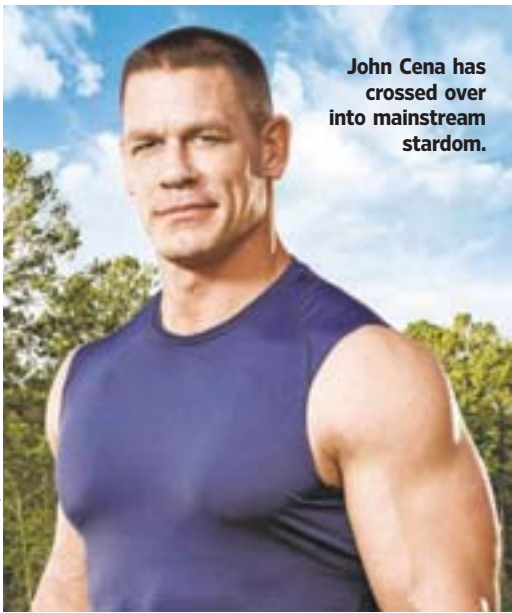
shows and music releases, and he's not done branching out. He's currently trying to learn Mandarin and piano by setting aside 30 minutes a day to work on each. He says his progress has been "slow and steady. It's just a matter of time under tension equals results."

Mr. Cena recently talked 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.

**Is there a connection between all**



John Cena has crossed over into mainstream stardom.

MICHAEL BECKER/FOX

**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.

**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 15 years, so I'm ready to get back. I'm very, very excited about Independence Day.

**You and Dwayne "The Rock" Johnson had some epic wrestling battles, but I've read that the animosity became real outside the ring. What kind of relationship do you two have?**

The Rock has always been an inspiration in my career. He helped me very early on without knowing it—he really kind of poked the bear so to speak, so he couldn't help but get agitated. But I think when all is said and done we certainly had a tighter bond because of it. I think he's a wonderful human being, you talk about a guy who has mastered time management and has set the bar for productivity—he is it. So I look toward him for inspiration a lot.



OPINION

REVIEW & OUTLOOK

Bank Bailouts, Italian-Style

Italy wants you to know it’s not bailing out the two banks that were rescued at the cost of up to €17 billion (\$19.03 billion) this weekend. But then why are senior bondholders being protected in full?

Veneto Banca and Banca Popolare di Vicenza, both based in the prosperous north-eastern region around Venice, are being liquidated, so they aren’t technically being bailed out or rescued. Much of their capital will be wiped out. The problem is that Rome is still spending a bundle of taxpayer money to close down two midsize banks that aren’t systematically important while sparing bondholders from so much as a minor haircut.

After the European Central Bank on Friday deemed the pair “failing or likely to fail,” Rome stepped in to wind them down in accordance with Italian bankruptcy laws. Formally, the two banks have ceased to exist. The government will transfer a portfolio of good loans worth around €12 billion to Intesa Sanpaolo, Italy’s largest bank. The bad assets that contributed to the banks’ combined 37% proportion of nonperforming loans will be transferred to a bad bank.

But this is a liquidation with an Italian twist. Intesa bought those assets for €1, after a week-long bidding process in which it was apparently the only buyer. In reality, Rome is paying Intesa. The bank will receive €5.2 billion to shore up its capital base in light of the new assets it’s acquiring, to cover the costs of laying off thousands of staff and to account for potential losses on the loan portfolio.

Italian taxpayers are also on the hook for the whole value of the nearly €12 billion in loans Intesa is acquiring. Together the cash and guar-

Rome closes down two banks but saves their senior bondholders.

antees come to €17 billion. That’s roughly 1% of Italy’s gross domestic product, so let’s hope the Italian government is right when it says the guarantee will never need to be exercised.

This episode suggests that Europe’s no-bailout rules have failed an early test. The EU’s new Single Resolution Board declined to get involved Friday on grounds that neither bank is systemically important. That spared them having to include a haircut for creditors that the European Union theoretically requires before taxpayers can be asked to support an institution.

Italy feared the political consequences of such a “bail-in” because Italian mom-and-pop investors own a disproportionately large share of the bonds. But apart from the false advertising of disguising a bailout as a liquidation, this sends a signal to other bank creditors that they’ll always be rescued too. Watch other banks in trouble hawk their paper with abandon knowing that the more widespread the placement the more likely they’ll be spared.

The larger story is that Europe keeps hamstringing its banks. Italy’s bankruptcy laws make it expensive and time-consuming to clear the books of nonperforming loans, and ultralow interest rates by the European Central Bank make it difficult for struggling institutions to earn their way back to health. Slow growth weighs on the balance sheets of many banks despite repeated rescue attempts—including several billion euros last year for these two banks from a government-backed investment fund.

Europe lacks the political will to enact policy reforms that European banks and economies need. So no wonder it finds taxpayer bailouts—sorry, “liquidations”—impossible to resist.

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.

China also tries to punish foreign individuals and institutions that expose its human-rights abuses. That includes the nation of Norway, home to the Nobel Committee. After Mr. Liu won the Peace Prize, which is administered by a private 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.

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

America’s Missile Defense Imperative

Opposition to missile defense has persisted since the 1980s, but the politics may be changing with technological progress and the rising threat from North Korean dictator Kim Jong Un’s nuclear weapons. Congress has an opportunity this summer to notch a rare bipartisan deal that enhances U.S. security.

Kim has already overseen more nuclear and missile tests than his father and grandfather combined, and the Defense Intelligence Agency warns that “if left on its current trajectory” Pyongyang will develop a capacity to hit Japan, Alaska, Hawaii or even the U.S. West Coast. The Trump Administration is pleading with China to stop the North, but Chinese leaders never seem to act and they’re even trying to block regional missile defenses in South Korea.

Meanwhile, the U.S. last month successfully tracked and shot down a mock intercontinental ballistic missile, akin to a bullet hitting a bullet. The Ground-based Midcourse Defense (GMD)—first fielded in 2004 but untested since 2014—has a success rate of nine in 17 intercept trials. But even the failures show the GMD is increasingly effective.

Alaska Senator Dan Sullivan wants to build on this progress with an amendment that would fund a more integrated system, add new interceptors and sensors and increase research. The legislation has united conservatives such as Ted Cruz and Marco Rubio and liberal Democrats such as Gary Peters and Brian Schatz, no small feat in the Trump era.

Systems like the Aegis Ballistic Missile Defense at sea and the Terminal High Altitude Area Defense (Thaad) on the ground can shoot down regional threats within earth’s atmosphere. Only the GMD can hit long-range threats targeting all 50 states, bringing the missiles down in space. All of these systems have separate radars, which have to be coordinated to get a complete picture of a target. The bill aims to create a better integrated system that provides what Mr. Sullivan calls “an unblinking eye.”

This would include advanced space-based sensors. An improved system in space could provide a persistent picture—from launch to interception. If the systems can communicate

more efficiently, military brass can make better choices faster.

By the end of 2017 there will be 40 ground-based interceptors at Alaska’s Fort Greely and four at California’s Vandenberg Air Force Base, where the May test was conducted. The bill provides for 28 more interceptors for Fort Greely. Extra interceptors 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.

German Pacifism Comes Under Fire



EYE ON EUROPE  
By John Vinocur

Berlin

The phrase came in black bold face, underscored and with a don’t-miss-this exclamation point. “Endangering German soldiers!” it read. Typographically, at least, a panic button had been pushed. The German military, it turns out, might come

under fire in Syria.

It was front-page news last week in Bild, the biggest-selling newspaper in Germany, a country where the army and air force basically do not fight.

After a U.S. jet shot down a Syrian fighter aircraft on June 18, Russia warned that any plane flying into a designated zone over Syria would be targeted. Bild said that German reconnaissance Tornados—no gunfire, please—would soon have to fly their missions for the U.S.-led anti-Islamic State coalition by passing through “the defined danger zone.”

While the coalition’s American and French special forces operate inside Syria with combat air support from Belgian, Danish and Dutch allies, Germany’s air force does photo reconnaissance and its armed forces train Kurdish fighters beyond the frontiers of the Russian-backed dictatorship.

As for the principle of shared risk, basic to the coherence and symbolism of the West? The Allies mostly look away, although adversaries such as Russia or Islamic State can revel in the reality of a nonlethal German player on every front. Pacifism is the reflexive German excuse.

But last week’s decision by the European Union to step up defense cooperation and put big money into the effort—“I don’t see danger to NATO in it,” said Kurt Volker, a former U.S. ambassador to the alliance—is nudging the German issue into the open.

France’s President Emmanuel Macron, for one, sees enhanced credibility in acknowledging the softness of German engagement rather than evading it while attempting to build a European military with, of course, France as its primary player.

Mr. Macron took the truth to French troops last month in Mali, where they are fighting Islamist forces. “Let me be straight about this,” he said, referring to European support, including Germany’s dispatch of up to 1,000 troops. “We do what’s purely military, and they take care of the development missions.”

Mr. Macron was more specific last week, saying, “Germany is lucid on the limits of action . . . notably in the area of military intervention. To protect itself, to protect Europe, it needs France.”

That’s a generous way of describing German irresolution, and avoids any reference to what American attitudes might be. The single universally dissuasive ele-

ment of a prospective EU military is its firm relationship with the U.S.

Eastern European alliance members in the Russian line of fire recognize this. In an article from Lithuania, where a German-led NATO battle group is operating, the Frankfurter Allgemeine Sonntagszeitung reported over the weekend that there was widespread pressure for the “life insurance” of a company-level American presence in the region’s three similar NATO formations. U.S. troops are currently deployed only in Poland’s battle group.

Both the Americans and French noted with muffled despair last year that the first German military doctrine issued in a decade spoke of Russia as a “challenge” rather than the “threat” referred to in NATO’s 2016 Warsaw summit declaration. This is a nonstrategy, without the red-

The country is surprised its military faces danger in Syria. But what then does it think its military is for?

lines Mr. Macron favors. It is mirrored by polls over three consecutive years that report a majority of Germans saying Germany should not defend the Baltic States or Poland if Russia attacks them.

You might think Mrs. Merkel would have expressed her dismay about Germans unwilling to fight for their friends. But a debate on the issue has never been considered. Instead, Mrs. Merkel defends the Nord Stream 2 Russia-to-Germany natural-gas pipeline project deployed by the U.S. Senate, alongside conservative and Greens groups in the European Parliament.

Three months before her likely reelection, Ms. Merkel is a chancellor whose projection of calm precludes dealing with casualties, discussing Russia in military terms or saying “for shame” to a single quivering voter.

It doesn’t have to be this way. Norbert Röttgen, the Christian Democrat president of the Bundestag’s foreign-affairs commission and a Merkel loyalist, told me: “We have to define the role of the Bundeswehr,” referring to Germany’s armed forces, “as an instrument in our foreign and security policy, and we have to start to think strategically instead of pursuing interests piecemeal. Nobody likes conflict. But turning a blind eye and conflict aversion may eventually come at a much higher cost.”

This is self-awareness. It brings to mind potential new German engagement rid of its passivity as Berlin’s way to give substance to a European defense initiative.

But it leaves for now a Germany unable to win Russia’s respect militarily or provide greater credibility to the West’s challenged deterrence.

LETTERS TO THE EDITOR

Debating Mark Zuckerberg’s Universal Income

In his critique of Mark Zuckerberg’s universal basic income (UBI) proposal (“Mark Zuckerberg’s Opiate for the Masses,” op-ed, June 20), Andy Kessler seriously misrepresents the nature of the proposal. It isn’t “paying people not to work,” but paying people whether they work or not.

The strongest arguments for universal income center on its elimination of work disincentives by the unconditional nature of such grants. Current methods of income-support either create distortions by high marginal effective tax rates or phasing out benefits or they directly distort through interventions like the minimum wage.

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

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

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

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

What political party could possibly launch a successful UBI repeal-and-replace campaign in an America teetering on the edge of fiscal collapse? And if the U.S. has a problem with illegal immigration now, imagine what happens when statisticians push through the UBI and soften border-security enforcement.

Some wealthy conservatives have hopped on the UBI bandwagon as well, partly out of compassion and partly as a “give the left-behind masses some cake and maybe they’ll leave us alone” strategy.

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

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

RYAN GRAHAM  
Melbourne, Fla.

A universal basic-income program should be considered, not because there won’t be enough jobs for everyone, but because it would be more efficient and less subject to fraud, waste and abuse than the multitude of federal, state and local programs that form America’s safety net. An effective UBI program would replace Social Security, food stamps, unemployment insurance and numerous other complex financial assistance programs. The UBI program would provide only enough income to meet each individual’s basic needs. Most people would still work to earn additional income, as most people aspire to more than just survival.

ROBERT SOMMERS, PH.D.  
Jacksonville, Fla.

The ideas of Mr. Zuckerberg, Elon Musk and Robert Reich are evidence that educational intelligence and the ability to make money have no correlation with having common sense. There can be no universal basic income to give anybody unless somebody is working to create what is to be given away. Who do they think will do that?

It’s just like the minimum wage. You can set the minimum wage at whatever amount you want, but it will always be the minimum wage.

TIM BALDWIN  
San Antonio, Fla.

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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 Michael 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 was not 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 could not have conferred 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 matter and his im-



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

proper 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 does not 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 was not 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 presi-

dent 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.*

## 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 narcoterrorist group FARC. Mr. Santos immediately declared the perpetrators of the crime “enemies of peace.” Thank you, Captain Obvious. But Colombians are asking who did it, and the answers they’re

getting are suspiciously murky. That has given rise to rumors of a coverup. Yet one thing is certain: Granting impunity for crimes against humanity, as Mr. Santos did for the FARC, has invited more terrorism. 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. Counterterrorism 101 teaches that in any terrorist attack, those closest to the explosion are prime suspects until they can be cleared. Huynh had to have been near the bomb; the other two women died from their wounds at the hospital. Yet the investigation has produced

nothing substantive about any of the victims. 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. President Santos’s impunity deal for the FARC yields more violence.

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. 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 Revolu-

tionary 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 at [wsgj.com](mailto:wsgj.com).*

### 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.



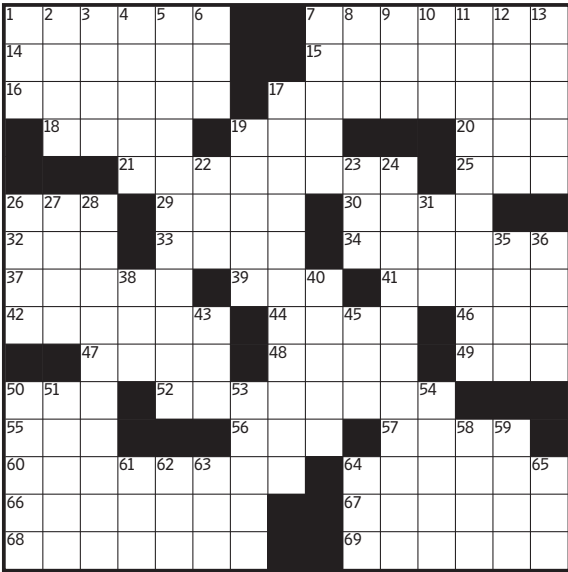
Physicians are trained in how to tell people they are terminally ill by acting out the conversations in a simulation lab

**Alive Hospice senior director Eileen Johnson plays the role of patient as Dr. Jordan Asher practices giving her bad news.**

"I will think about that and as I work with people," he said.



**The WSJ Daily Crossword** | Edited by Mike Shenk



## DOWNLOADS | By Zhouqin Burnikel

|                                    |  |                                      |
|------------------------------------|--|--------------------------------------|
| <b>Across</b>                      | 26 Dallas cager, for short               | 48 Kiddie lit meanie                 |
| 1 "Yeah, right..."                 |  |                                      |
| 7 Hip hop's ____ Boys              | 29 Egg-shaped tomato                     | 49 Posed for a portrait              |
| 14 Energizes, as a crowd           | 30 Calorie-laden                         | 50 Suet or lard                      |
| 15 Subsequently                    | 32 Lawyers' org.                         | 52 First-rate                        |
| 16 Robotic floor cleaner           | 33 Authentic                             | 55 Torn ____ (athlete's knee injury) |
| 17 No-parking area on a street     | 37 Desert plant with sword-shaped leaves | 56 Stan of Marvel Comics             |
| 18 Total guess                     | 39 Chicago-to-Atlanta dir.               | 57 Inform                            |
| 19 Flag on a lapel, e.g.           | 41 Path for hikers                       | 60 Response to a ring                |
| 20 ____ card (cellphone component) | 42 Supplies with a crew                  | 64 "Now begin"                       |
| 21 Funnel-shaped flowers           | 44 Made the scene                        | 66 Frightened shout                  |
|                                    | 46 Voting yes                            | 67 Puzzle                            |
| 25 Field bales                     | 47 Sound of music                        | 68 "Well, sorry!"                    |
|                                    |  | 69 Respect                           |

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

|  |                                    |
|--|------------------------------------|
| down   | 27 Border on                       |
| 1 Rowboat mover                                      | 28 Future building spaces, perhaps |
| 2 Med. insurance groups                              | 31 EMT expertise                   |
| 3 Dalmatian mark                                     | 35 Turkish coin                    |
| 4 Graphic often including insets of AK and HI        | 36 Vending machine opening         |
| 5 Inflatable transports                              | 38 Corp. money handler             |
| 6 Antipollution org.                                 | 40 Postal Service symbol           |
| 7 Russian pancakes                                   | 43 Prepared                        |
| 8 Sound detector                                     | 45 Hosp. diagnostic scan           |
| 9 Gobbled up   | 50 Deer babies                     |
| 10 Salt for le chef de cuisine                       | 51 Sneezing sound                  |
| 11 Refuse piles                                      | 53 Upper crust                     |
| 12 Ancient region of Turkey for which a sea is named | 54 Jokester's question             |
| 13 Hostile force                                     | 58 Theater box                     |
| 17 Sports game outcomes                              | 59 Gin and tonic garnish           |
| 19 Predatory felines                                 | 61 Fitting name for a cook         |
| 22 Foot feature                                      | 62 Start of many titles            |
| 23 Is for two?                                       | 63 Croque-monsieur meat            |
| 24 1955 hit for Tennessee Ernie Ford                 | 64 "Golly!"                        |
| 26 Baseball's "Say Hey Kid"                          | 65 Scotsman's cap                  |

### Previous Puzzle's Solution

|   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|
| B | R | I | D | P | A | G | E | S | P | H | I |
| C | R | U | N | O | X | I | D | E | T | A | I |
| H | O | L | D | O | N | T | S | O | I | A | N |
| B | O | W | E | Z | I | T | S | A | D | A | N |
| R | E | D | W | I | N | E | C | R | A | S | S |
|   |   |   | H | E | A | D | S | O | R | T | A |
| B | A | L | E | S |   | A | L | L | I | E | S |
| A | L | O | T |   | P | L | L | I | E | S |   |
| S | S | T |   | G | O | O | F |   | W | O | R |
| H | O | U | S | E |   | O | F | T | U | D | O |
|   |   |   | S | P | E | L | L |   | N | E | U |
| I | N | L | A | W | S |   | S | C | A | N | A |
| S | E | A |   | H | I | G | H | O | L | D | T |
| S | E | A |   | I | D | E | A | L |   | E | S |
| E | N | D |   | Z | E | L | D | A |   | E | S |

## THE DAILY SHOT

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, June 27, 2017 | B1

**Euro vs. Dollar** 1.1190 ▼ 0.03%

**FTSE 100** 7446.80 ▲ 0.31%

**Gold** 1246.30 ▼ 0.79%

**WTI crude** 43.38 ▲ 0.86%

**German Bund** yield 0.248%

**10-Year Treasury** yield 2.135%

## Food Labels Await Amazon's Squeeze

By ANNIE GASPARRO  
AND LAURA STEVENS

**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, such as **Kraft Heinz Co.**, **Kellogg Co.**, and **Mondelez International** Inc. They also face growing competition from store brands and upstarts.

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 quickly, Amazon hasn't had 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 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



Amazon's grocery push will bring pricing pressure to the sector.

"frugality," hinting at a bigger 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-

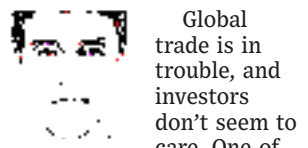
paycheck' image, and successfully sells Whole Foods' products online, then 'Big Food' faces the threat of losing even more market share," said Rabobank food analyst Nicholas Fereday.

Mondelez's comparable sales in North America de-  
*Please see AMAZON page B2*

### STREETWISE

By James Mackintosh

## Alarm Bells Ring Out On Trade



Global trade is in trouble, and investors don't seem to care. One of the ironies of the election of a fierce nationalist in the U.S. is that it coincided with what looked like a recovery in global trade, after years of stagnation.

We will find out in coming days if President Donald Trump and his administration are willing to jeopardize trade by slapping tariffs on steel on national-security grounds—bypassing international rules and opening the way to a tit-for-tat response. But even without new tariffs, the nascent trade recovery isn't all it seems.

Investors have rightly seen tariffs as good for U.S. steel stocks, which have been pummeled by international competition and weak balance sheets. But there seems to be little fear of a full-blown trade war developing, either in steel—where investors in shares of major foreign competitors have seemed oblivious—or more widely.

Why aren't investors more concerned about the risk of globalization being put into reverse gear? One answer is that few really believe Mr. Trump wants to start a trade war. His campaign rhetoric led investors to dump the Mexican peso after he won, anticipating trade troubles. But the peso is now stronger than it was before the November election, and the first tariffs he imposed were on Canada, not the target his voters expected. Aside from Canada, his trade actions have so far mostly involved fiddling around the edges, commissioning reports and improving the enforcement of existing rules.

Another answer is that investors have been discussing "deglobalization" for a long time, so the idea of increased trade friction comes as no surprise (though a full-on trade war would be a shock). The 2007-2008 financial crisis led to a collapse in global trade, and after a brief recovery it flatlined for years. Banks also retreated from financial commitments abroad, and there has been no return to the pre-Lehman Brothers days of grand cross-border banking acquisitions. Creeping protectionism has been visible in the rising number of minor trade disputes.

The data showed a clear pickup in trade in the first quarter, with 5.7% year-over-year growth in March the highest for six years, according to the CPB Netherlands Bureau for Economic Policy  
*Please see STREET page B2*



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

## Liquor Companies Binge on Mescal

Tequila's smokier cousin broadens 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 during 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 companies' 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 research

firm IWSR, mainly because of 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, Ms. Redzic said.

*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-  
*Please see MESCAL page B2*

### INSIDE



UNILEVER GOES DIGITAL  
IN RADICAL HIRING EXPERIMENT

TECHNOLOGY, B4

## Tower Fire Puts Firm on Its Heels

By BOB TITA

**Arconic** Inc. said it has stopped selling panels used on the exterior of high-rise buildings that are suspected of contributing to the spread of a deadly fire in a London apartment tower earlier this month.

The U.S.-based aerospace and building materials specialist said Monday that the decision reflected "inconsistency" in building codes around the world. The fire that killed 79 people in London's Grenfell Tower on June 14 has already prompted a widespread review of construction safety standards in the U.K.

The move by Arconic triggered a sharp fall in its shares, as analysts questioned whether its role in supplying the panels could entail potential liabilities and affect its search for a new chief executive following a tu-

multuous six months that included a proxy battle with activist investors.

Arconic, formerly part of **Alcoa** Corp., produces panels under the Reynobond PE brand that go into cladding for buildings. Reynobond PE panels aren't allowed by regulators on tall buildings in the U.S. and some other countries because of the potential fire hazard. The panels have been widely used in the U.K., including the recently refurbished Grenfell Tower.

"Because of the inconsistency of building codes across the world and issues that have arisen in the wake of the Grenfell Tower tragedy regarding code compliance of cladding systems, Arconic is discontinuing global sales of Reynobond PE for use in high-rise applications," the company said in a written statement. A spokesman confirmed the company

has stopped selling the PE model panels altogether.

Reynobond PE consists of two aluminum sheets sandwiching a polyethylene core. The Grenfell Tower's facade is suspected of having aided the fire's advance. Investigators suspect the blaze spread through a narrow gap between the burning polyethylene core in the Reynobond panels and a layer of insulation attached to the exterior of the apartment building.

Though Arconic's involvement in the cladding used on the building had been known, the stock fell 6% to \$24.01 in Monday trading, wiping out about \$600 million in the company's market value.

The proxy fight at Arconic resulted in the resignation of longtime CEO Klaus Kleinfeld.

—Wiktor Szary  
*contributed to this article.*



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

## INDEX TO PEOPLE

*STREET*

Trade acceleration is good news for investors, as more globalization means faster economic growth and more efficient use of productive assets and workers (who may not be so happy). The dangers for investors are that the recovery proves to be a mirage, or that Mr. Trump brings it to an end.

The global trade recovery might be less than it seems if it is merely a reflection of China's stimulus last year. Oxford Economics estimates that as much as 70% of the trade growth comes from the knock-on effects of Chinese demand, which few expect to last. As China put the monetary brakes on in recent months, the Baltic Dry index of shipping costs has tumbled, and the Dow Jones Global Shipping index shows the sector's stocks have fallen a tenth from this year's high. South Korea's trade volumes, used by many as a leading indicator of global trade, have fallen back after hitting a new high in

The lesson of the 1930s is that trade wars hurt every-

one, so my money would be on more subtle forms of retaliation. But politicians can best show they mean business by striking back publicly. In Europe, attacking Mr. Trump looks especially like a vote winner. Investors should be worrying a lot more about trade.

Mr. Glasenberg rose through Glencore as a coal trader, and the company is among the biggest traders of the commodity in the world.



Escalating the bidding on Friday, Glencore submitted an all-cash offer of \$2.68 billion, saying its bid was fully funded

conditional guaranteed royalty payments of which \$200 million will be received before the end of 2018.

Rio has highlighted Yan-  
coal's approval from regula-  
tors in China, a voracious con-  
sumer of coal.

# AMAZON

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 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

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.

*Amazon has been willing to lower price tags at the expense of margins.*

UBS analysts see Campbell Soup Co. and Conagra Brands Inc., two less-diversified players that are already facing big problems as consumers move

Mr. Thomson, the former Amazon manager, said that in its 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.

## Legal Notices

## BANKRUPTCIES

IN RE: CGG S.A.,<sup>1</sup>  
Debtor in a Foreign Proceeding.

Case No. 17-11636 (MG)

**NOTICE OF FILING AND HEARING ON PETITION UNDER CHAPTER 15 OF THE UNITED STATES BANKRUPTCY CODE**

PLEASE TAKE NOTICE that on June 14, 2017, Bâstaire Place-Farge, the duly authorized foreign representative (the "Foreign Representative") of CGG S.A. (the "Foreign Debtor"), a French company in reorganization proceedings under French law (the "Safeguard Proceeding" currently pending before the Tribunal de Commerce de Paris (Commercial Court of Paris), France) (the "French Court") filed the Chapter 15 Petition for Recognition of a Foreign Proceeding (Dkt. No. 1) and the Verified Petition Under Chapter 15 of the United States Code (Dkt. No. 2) (together, the "Petition") pursuant to and in accordance with the requirements of the United States Code (the "Bankruptcy Code"), with the United States Bankruptcy Court for the Southern District of New York (the "Court").

PLEASE TAKE FURTHER NOTICE that the Foreign Representative seeks the entry of an order (a) finding that (i) the Foreign Debtor is eligible to be a "debtor" under chapter 15 of the Bankruptcy Code, and (ii) the SafeGuard Proceeding is a "foreign main proceeding" within the meaning of section 1502 of the Bankruptcy Code, and (b) granting recognition of the SafeGuard Proceeding as a "foreign main proceeding" within the meaning of section 1502 of the Bankruptcy Code, and (c) granting recognition of the SafeGuard Proceeding as a foreign main proceeding under sections 1517 and 1520 of the Bankruptcy Code.

PLEASE TAKE FURTHER NOTICE that the Court has scheduled a hearing (the "Hearing") to consider the Petition and the relief requested therein must do so in writing and in accordance with the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, and the Local Bankruptcy Rules for the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, New York 10004.

PLEASE TAKE FURTHER NOTICE copies of the Petition and all documents filed in the chapter 15 case are available to parties in interest on the Court's Electronic Case Filing System, which can be accessed on the court's website at <http://www.nysb.uscourts.gov> (a PACER login and password are required to retrieve a document), at <http://cases.primeclerk.com/cgssa> free of charge or upon written request to the Foreign Representative's counsel (including by facsimile or e-mail) addressed to: LINKLATERS LLP, 1345 Avenue of the Americas, New York, NY 10105, Telephone: (212) 903-9000, Facsimile: (212) 903-9100, Attn: Robert H. Trust, Esq., [robert.trust@linklaters.com](mailto:robert.trust@linklaters.com), Christopher J. Hunkler, Esq., [chunkler@linklaters.com](mailto:chunkler@linklaters.com).

PLEASE TAKE FURTHER NOTICE that any party in interest wishing to submit a response or objection to the Petition or the relief requested therein must do so in writing and in accordance with the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, and the Local Bankruptcy Rules for the United States Bankruptcy Court for the Southern District of New York, setting forth the basis therefor with specificity and the nature and extent of the respondent's claims against the Foreign Debtor. Such responses or objections must be filed with the Court's Electronic Case Filing System, which can be accessed on the Court's website at <http://www.nysb.uscourts.gov> and otherwise, on a compact disc (CD), preferably in Portable Document Format (PDF), Microsoft Word, or any other Windows-based word processing program (e.g., Microsoft Word), so as to be actually received on or before 5:00 P.M. (EDT) on July 6, 2017. The Foreign Representative shall file a reply, if any, on or before 5:00 P.M. (EDT) on July 13, 2017.

PLEASE TAKE FURTHER NOTICE that all parties in interest opposed to the Petition or the relief requested therein must appear at the Hearing at the time and place set forth above.

PLEASE TAKE FURTHER NOTICE that, at the Hearing, the Court will consider the scheduling of a case management conference to coordinate the efficient administration of the case.

PLEASE TAKE FURTHER NOTICE that the Court may grant the relief requested in the Petition as prayed for, whether or not the Court may grant the relief requested in the Petition without further notice or hearing.

PLEASE TAKE FURTHER NOTICE that the Hearing may be adjourned from time to time without further notice other than an announcement in open court, or a notice of adjournment filed with the Court, of the adjourned date or dates at the hearing or any other further adjourned hearing.

Dated: June 16, 2017, New York, New York  
LINKLATERS LLP, by: /s/ Robert H. Trust, Margaret B. Schnitzkopf, Robert H. Trust, Christopher J. Hunkler, LINKLATERS LLP, 1345 Avenue of the Americas, New York, NY 10105, Telephone: (212) 903-9000, Facsimile: (212) 903-9100, Counsel to the Foreign Representative.

<sup>1</sup> The last four digits of the Foreign Debtor's federal employer identification number are 4402. The location of the Foreign Debtor's executive headquarters is Tour Maine Montparnasse, 33 Avenue du Maine, 75015 Paris, France.

# MESCAL

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





BUSINESS NEWS

# Crown Employees Get Prison in China

A senior executive of Australian casino company **Crown Resorts** Ltd. pleaded guilty to gambling crimes in China and was sentenced to 10 months in prison, capping an episode that has chilled efforts by casinos to lure Chinese high-rollers.

*By Wayne Ma  
in Shanghai  
and Mike Cherney  
in Sydney*

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 Monday 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 ho-

tel accommodations and gambled 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 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 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 Hendrichske, professor of Chinese business and management at



The Crown Resorts logo on a Melbourne hotel and casino.

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. Hendrichske 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 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.

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.

Crown said 17 are currently employed and two are former staffers.

The trial was closed to the public and no charging documents were released Monday, although an official accounting of the charges and sentences is likely to be released later, the person at the court said.

Crown and other casino operators have long gone to extraordinary lengths to court wealthy Chinese gamblers to their baccarat tables and other games of chance.

The blandishments typically include free food and drink, Chinese-speaking service staff and complimentary hotel suites, people in the industry said.

For the biggest spenders, a chartered jet flight from China to Australia wasn't uncommon, these people said.

—Junya Qian in Shanghai contributed to this article.



Peloton Interactive sells internet-connected bicycles and subscriptions to cycling classes. The company raised \$325 million this year and is currently valued at \$1.25 billion.

## CFO Steers Cycling Firm Toward Sustained Growth

By NINA TRENTMANN

One of Lisa Klinger's tasks is to put the brakes on her boss.

“When I first joined, our CEO said that if we are not public within 12 months, he would be disappointed,” recalls the finance chief of **Peloton Interactive** Inc., the 400-person Manhattan-based company that sells internet-connected bikes and subscriptions to cycling classes. “I cringed,” she said.

Ms. Klinger is Peloton's first chief financial officer. Her 2016 hire might have been a precursor to an initial public offering of stock. Ms. Klinger has taken two companies public previously: luxury retailer **Vince Holding** Corp. and U.S. grocer **The Fresh Market** Inc. However, Chief Executive and co-founder John Foley no longer talks about a coming IPO.

A spokesman for Mr. Foley said he wouldn't comment on Ms. Klinger's remarks or on a potential date for an IPO.

“When I got here, we had to do a lot of basic building,” she said. Peloton was focused on the exercise bikes and online classes, whereas more mundane, yet fundamental things, such as finance processes and internal controls, received little attention.

“The team was working on a great product but did not think of setting up the background operations,” Ms. Klinger said.

Her mission is to turn Peloton into a “well-run, high-growth company.” Controlled, sustained growth is important to putting Peloton on a solid footing so an IPO will be successful and deliver a high valuation, Ms. Klinger said. This



Lisa Klinger, Peloton's chief financial officer, has taken two companies public previously.

includes expanding and sustaining the subscriber base, increasing the number of showrooms and improving the logistics around shipping bikes to customers.

“We could do an IPO tomorrow, but that's not what we are here for,” Ms. Klinger said, adding that listing simply for the sake of listing wasn't the best long-term strategy.

Peloton raised \$325 million this year and is valued at \$1.25 billion. Investors include **Wellington Management**, **Fidelity Investments**, **Kleiner Perkins Caufield & Byers** and **True Ventures**, among others. The company, which hasn't yet posted a profit, earned \$170 million in revenue in 2016, up from \$60 million the previous year.

A monthly subscription fee of \$39 generates about 60% of Peloton's revenue, Ms. Klinger said.

“We want to get as many bikes into people's homes as possible so we can get the subscription fee,” she said.

Peloton didn't give specific subscriber numbers, but aims to have 200,000 subscribers by the end of the year.

The company might prove to be disruptive to the fitness industry, similar to the way **Netflix** Inc. upended cable television.

“The subscription fee is the thing that matters,” said Andrew Burns, an analyst at D.A. Davidson & Co. “This is a high-quality annuity stream.”

Contrary to competitors such as **SoulCycle** Inc. that operate dozens of cycling studios, Peloton only sells \$1,995 bikes that come equipped with a tablet on which users see live or prerecorded cycling classes, a less capital-intensive business model.

“Peloton is a potential winner because of its capital-light business model,” said Randy Konik, an analyst with Jefferies LLC in New York. “The good thing at Peloton is that they don't have to have many studios,” Mr. Konik said.

Peloton plans to use its fifth round of funding to shore up its working capital, Ms. Klinger said.

Some of the cash will be used as a deposit for a revolving credit facility.

There is no rush to go public, and Peloton so far hasn't stated when it expects to break even. But being closely held provides the company with flexibility.

“You can do things like saying you will have negative earnings before interest, tax, depreciation and amortization for the next 18 months,” Ms. Klinger said.

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Package no. AU 63 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 **Karjkheda 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.

| 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) and Road No-2, including Section of SH 238 from km 0/00 to Km 30/00 & the Section of SH 211 from km 142/300 to Km 183/00(Approx.69.375km)bytwo laningroad/twolaningroadwithpaved shoulderson“Hybrid Annuity”basis. | 144.60         | 254.10                            |

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,

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**Executive Engineer**

**Public Works Division,Osmanabad**

**P.W.D Premises, Samata Colony,**

**Osmanabad - 413501.**

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



# Waymo Hires Avis To Service Its Cars

By JACK NICAS

Google parent **Alphabet** Inc. is hiring rental-car company **Avis Budget Group** Inc. to store and service its self-driving cars in a deal that shows Alphabet's vision for a network of driverless taxis is getting closer to reality.

Alphabet's driverless-car unit Waymo is ramping up a program it launched in April in Phoenix to eventually give hundreds of selected residents there free rides in its self-driving cars.

Under the program, Waymo needs a depot to service and dispatch its vehicles. The company said it chose Avis for its experience in quickly fixing and cleaning rental cars and for its presence across the U.S. and abroad, which can help Waymo expand its program to other cities.

Avis, which also owns the rental-car service Zipcar, said that under the multiyear agreement, it is modifying some rental-car locations to park Waymo's vehicles and service them, including oil changes, tire rotations and cleaning.

The companies didn't disclose financial terms of the deal or specify its length. The deal isn't exclusive, so Waymo can still establish partnerships with other fleet-management firms.

Avis shares were up 13% Monday afternoon, as the deal gives the company a lead on other auto companies hoping to enter the business of managing driverless-car fleets. Ford Motor Co. said last fall that it is looking to manage such fleets.

—Christina Rogers contributed to this article.

## BUSINESS WATCH

MARTIN MARIETTA

### Deal Would Expand Reach in U.S. South

**Martin Marietta Materials** Inc. said Monday that it has agreed to buy **Bluegrass Materials** Co. for \$1.63 billion in cash, in an effort to expand its footprint and product range in the southeastern U.S.

Building-materials supplier Martin Marietta said Bluegrass is the nation's largest closely held aggregates company. Bluegrass operates in Georgia, Kentucky, Maryland, South Carolina and Tennessee.

Martin Marietta said the transaction is expected to boost its earnings per share and cash flow in the first full year. It also expects annual cost savings of about \$15 million from the deal.

The company said it expects the transaction to close in the fourth quarter of 2017.

—Ali Stratton

SUPERVALU

### CFO to Step Down From the Food Seller

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

The grocery industry is struggling with increased competition. 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 that he was resigning.

—Heather Haddon and Ali Stratton

# 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 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 campuses?" Mr. Clementi said.



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

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.

"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 in-

terns.

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 unconsciously root for students they personally interview.

Algorithms alone cannot remove bias in the hiring process, since humans choose the traits they want software to look for, said Jeanette Maister, whose London-based staffing firm World Careers Network PLC recently began selling AI-enhanced recruiting services.

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

# Buffett Puts More Chips on Property

BY NICOLE FRIEDMAN  
AND IMANI MOISE

Warren Buffett's **Berkshire Hathaway** Inc. has made its second big real-estate bet in two weeks.

On Monday, the real-estate investment trust **Store Capital** Corp. disclosed Berkshire has purchased a 9.8% stake in the firm. The US\$377 million investment from Berkshire is a wager that some types of storefronts will continue to attract shoppers, even as online shopping has forced the U.S. retail industry to close stores at a record pace.

Store Capital's largest investments are in single-tenant properties such as chain restaurants, veterinary clinics and fitness centers.

The deal comes just a few days after Berkshire invested about 400 million Canadian dollars (US\$302 million) in the struggling Canadian mortgage lender **Home Capital Group** Inc.

Berkshire bought 18.6 million newly issued shares of Store Capital for \$20.25 each, a 2.5% discount to the stock's Friday closing price. Shares rose 11% Monday afternoon to \$22.83.

"We're devoted to doing service-sector investments ...where you can't buy these services through the internet," said Christopher Volk, Store Capital's chief executive, in an interview. Berkshire "saw an opportunity to invest at an attractive price, and they believe in us."

Mr. Buffett didn't immediately respond to a request for comment.

Store Capital said last year that it plans to invest \$900 million in real estate in 2017, but it could spend more than that with Berkshire's investment, said Janney Montgomery Scott LLC in a note.

The firm's biggest customers include a Midwestern furniture retailer, movie-theater chain **AMC Entertainment Holdings** Inc. and a chain of preschools.

"This deal signals that value investors may be taking a closer look in order to start separating the wheat from the chaff" in the retail real-estate sector, said KeyBanc Capital Markets analysts in a note.

# Apple, J.P. Morgan Target Venmo

Big tech and finance firms are charging into person-to-person payments

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 the 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



Venmo founders Andrew Kortina and Iqram Magdon-Ismail in 2014.

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

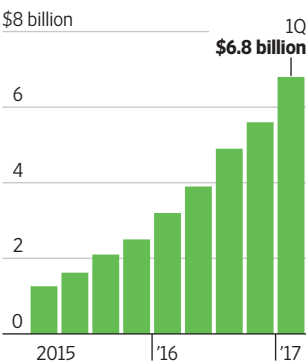
Venmo was an afterthought for PayPal when it acquired the service as part of a roughly \$800 million deal for **Braintree Payments Solutions** LLC in 2013. Braintree's primary business was enabling tech companies like **Uber Technologies** Inc. and **Airbnb** Inc. to accept online and mobile payments. 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. Another feature within the app displayed transactions of friends and relatives in a news feed, which proved to be a hit with college students and recent graduates used to sharing minutiae on social networks.

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

## Paying Up

Volume of transactions processed on Venmo



Source: the company  
THE WALL STREET JOURNAL.

\$0.30. Early adopters include online fashion marketplace **Poshmark** Inc., online bulk retailer **Boxed.com** and hamburger chain **White Castle Management Co.**

"People really value [person-to-person payments], but there's so much more they want to a digital commerce experience," Bill Ready, PayPal's chief operating officer, said in an interview.

Apple is also angling to use person-to-person payments to boost usage of Apple Pay, which was launched in 2014. 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 in stores, online and in smartphone apps.

Funds that an iPhone user receives will be stored on a virtual card issued by **Green Dot** Corp., that can be used to shop with Apple Pay. Rather than building a distinct smart-

## What's Possible With Top Services

Banks and technology companies are increasingly encouraging customers to use new digital-payment services to send money to friends and other contacts. But which is the best approach? All bring similar benefits—not needing to carry cash or write a check. But there are distinct advantages and setbacks for some of the leading products as well.

### VENMO

**Pros:** Works across several types of mobile devices and bank accounts. Funds can immediately be used to shop with Venmo. 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 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, so the user base is limited.

### 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 lukewarm record in digital payments, and customers of banks outside the Zelle network will need to download and register a separate app.

—Peter Rudegeair

phone app, Apple is integrating its money-transfer service with its iMessage and Siri products later this year. (Venmo also works with iMessage and Siri.)

So far, Apple Pay's overall 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 accounts.

Customers of other banks can access Zelle through a stand-alone app, but that isn't due to launch until later this year. Those transfers won't run on Zelle, but through **Visa's** and **Mastercard's** real-time payments networks. Venmo says it will also move money to their bank accounts on those faster networks for a fee of 25 cents per transaction.

Zelle potentially could be put to commercial use in the future for things such as commercial payments or paying bills online. But even if a business case isn't immediately apparent, executives now view digital person-to-person payments as a service like mobile banking that consumers will come to expect from their financial institution.

"We can't allow people like Venmo or PayPal or others to intermediate us and our customers," said Tim Spence, chief strategy officer at **Fifth Third Bancorp**, which is participating in Zelle. "The economics of relationship-based banking, the value you can deliver to the customer, are vastly greater than being a utility operating in the back-ground."

# In Mozambique, \$1 Billion Has Gone Missing

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 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.

Prinvest, 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 Sunday.

"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," Prinvest said in a statement.

Prinvest 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



State-owned entities can't account for half of some \$2 billion in loans and bonds meant for the agencies, an audit has found.

of intellectual-property rights and training, namely services, that were sold to the companies on told of the tangible assets, 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.

"Until the inconsistencies are resolved, and satisfactory documentation is provided, at least USD 500 million of expenditure of a potentially sensitive nature remains un-audited and unexplained," the

report concluded.

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 to Mozambique following the revelations and is in discussions with the government for a new bailout. It has pledged to withhold any aid until questions surrounding the earlier loans are resolved. The IMF said it intends to send a staff mission to Mozambique next month in July to discuss the Kroll audit and "possible follow-up actions, including

working with the authorities to address concerns related to the management of public resources."

Previous published reports about the loans prompted investigations by regulators in the U.K. and Switzerland, as well as at the Securities and Exchange Commission, on the role Credit Suisse and VTB played, as facilitators of the loans. The banks have denied wrongdoing.

The Kroll audit confirmed reports that the banks had carved \$200 million in fees out of the \$2 billion total—a slice well above what is typical for this market. The banks have said they were paid fees appropriate to the specifics of the deals.

In a statement late Sunday, Credit Suisse said that its banking feed for the transaction "totalled \$23 million - roughly 2.3% of the total financings and is in line with comparable emerging market financing transactions.

Mozambique told creditors in October 2016 that it wouldn't be able to repay them and initiated a debt restructuring. Creditors have been reluctant to participate.

The Kroll report has been seen as a key step toward unblocking the restructuring process and normalizing relations between Mozambique and its sources of financing.



Karl-Georg Altenburg

# Citi Hires European Adviser

BY BEN DUMMETT

**Citigroup** Inc. has hired a high-profile former J.P. Morgan Chase & Co. and Deutsche Bank AG investment banker as a senior adviser.

Karl-Georg Altenburg also takes a seat on a newly formed advisory board that the U.S. bank and its corporate clients can tap as they navigate Britain's impending split from the European Union and other sweeping changes taking place across the region.

The board brings together former politicians and bankers from the U.K., Germany, the Nordics and France with several senior Citigroup executives overseeing the bank's operations in Europe, the Middle East and Africa. The aim is to help strengthen the bank's corporate and investment-banking business in EMEA.

Currently based in London, Mr. Altenburg, 54 years old, brings with him deep knowledge of the German and surrounding markets. He was most recently Deutsche Bank's co-head of corporate finance in EMEA before retiring in 2015.

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|   |     |    |    |    |      |    |     | YTD 12-MO 2-YR |
| ■ Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866   |     |    |    |    |      |    |     |                |
| Fax No: 65-6835-8865, Website: <a href="http://www.cam.com.sg">www.cam.com.sg</a> , Email: <a href="mailto:cam@cam.com.sg">cam@cam.com.sg</a> |     |    |    |    |      |    |     |                |
| CAMS-GIF Limited 01 01 MU5 06/16 US\$ 305610.13 0.5 6.5 -3.2  |     |    |    |    |      |    |     |                |

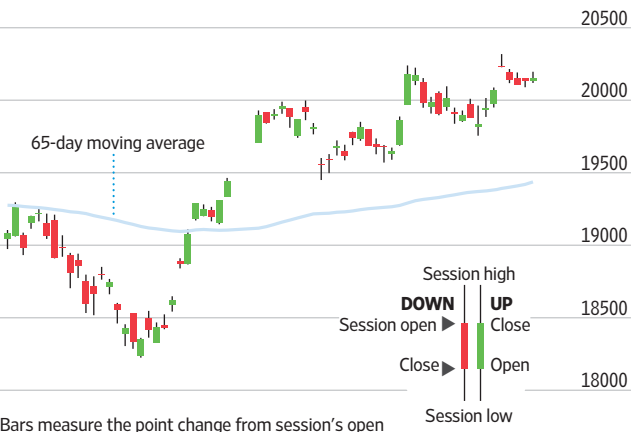
For information about listing your funds, please contact: Freda Fung tel: +852 2831 2504; email: [freda.fung@wsj.com](mailto:freda.fung@wsj.com)



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.



STOXX 600 Index

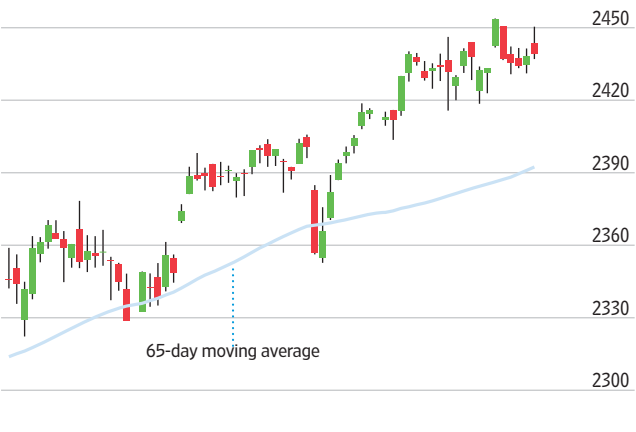
**389.05** ▲1.43, or 0.37%  
High, low, open and close for each trading day of the past three months.



S&P 500 Index

**2439.07** ▲0.77, or 0.03%  
High, low, open and close for each trading day of the past three months.

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



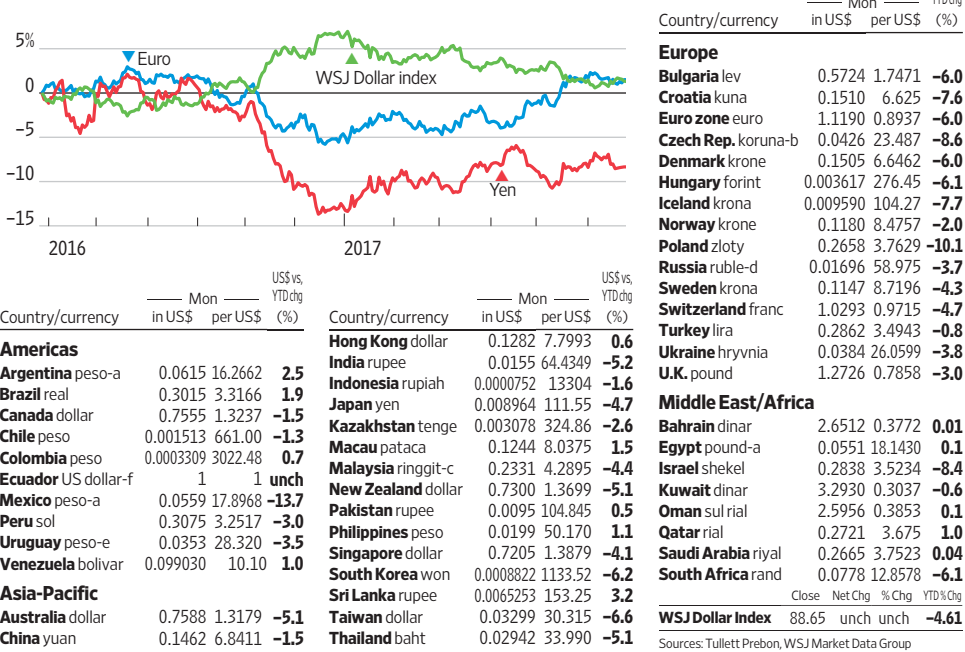
International Stock Indexes

| Region/Country |                                     | Index | Close    | Latest NetChg | % chg  | Low      | 52-Week Range | High     | YTD % chg |
|----------------|-------------------------------------|-------|----------|---------------|--------|----------|---------------|----------|-----------|
| World          | The Global Dow                      |       | 2772.72  | 3.46          | ▲0.12  | 2193.75  |               | 2791.48  | 9.7       |
|                | MSCI EAFE                           |       | 1890.45  | 1.22          | ▲0.06  | 1471.88  |               | 1956.39  | 10.1      |
|                | MSCI EM USD                         |       | 1019.87  | 8.20          | ■0.81  | 691.21   |               | 1044.05  | 28.4      |
| Americas       | DJ Americas                         |       | 585.56   | 0.59          | ▲0.10  | 480.90   |               | 588.61   | 8.4       |
|                | Brazil Sao Paulo Bovespa            |       | 62250.97 | 1163.83       | ■1.91  | 48954.41 |               | 69487.58 | 3.4       |
|                | Canada S&P/TSX Comp                 |       | 15319.92 | 0.36          | ▲0.00  | 13609.58 |               | 15943.09 | 0.2       |
|                | Mexico IPC All-Share                |       | 49171.91 | 191.13        | ▲0.39  | 43902.25 |               | 50154.33 | 7.7       |
|                | Chile Santiago IPSA                 |       | 3621.19  | ...           | Closed | 3061.18  |               | 3786.05  | 12.3      |
| U.S.           | DJIA                                |       | 21409.55 | 14.79         | ▲0.07  | 17063.08 |               | 21535.03 | 8.3       |
|                | Nasdaq Composite                    |       | 6247.15  | -18.10        | -0.29  | 4574.25  |               | 6341.70  | 16.1      |
|                | S&P 500                             |       | 2439.07  | 0.77          | ▲0.03  | 1991.68  |               | 2453.82  | 8.9       |
|                | CBOE Volatility                     |       | 9.79     | -0.23         | -2.30  | 9.37     |               | 26.72    | -30.3     |
| 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       |
|                | Austria ATX                         |       | 3087.45  | 29.36         | ▲0.96  | 1981.93  |               | 3212.50  | 17.9      |
|                | Belgium Bel-20                      |       | 3861.74  | 17.98         | ▲0.47  | 3127.94  |               | 4055.96  | 7.1       |
|                | 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      |
|                | Greece ATG                          |       | 819.09   | -1.43         | -0.17  | 517.10   |               | 828.32   | 27.3      |
|                | Hungary BUX                         |       | 35739.11 | 139.60        | ▲0.39  | 25315.32 |               | 36168.63 | 11.7      |
|                | 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       |
|                | Poland WIG                          |       | 61701.57 | 719.38        | ■1.18  | 43534.02 |               | 62666.49 | 19.2      |
|                | 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      |
|                | Sweden SX All Share                 |       | 592.89   | -1.37         | -0.23  | 443.66   |               | 598.42   | 10.9      |
|                | 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      |
|                |                                     |       |          |               |        |          |               | 4        |           |
| U.K.           | FTSE 100                            |       | 7446.80  | 22.67         | ■0.31  | 5958.66  |               | 7598.99  | 4.3       |
| Asia-Pacific   | DJ Asia-Pacific TSM                 |       | 1632.70  | 2.26          | ▲0.14  | 1317.58  |               | 1643.59  | 14.8      |
|                | 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 |               | 26063.06 | 17.6      |
|                | India S&P BSE Sensex                |       | 31138.21 | ...           | Closed | 25765.14 |               | 31311.57 | 16.9      |
|                | Japan Nikkei Stock Avg              |       | 20153.35 | 20.68         | ▲0.10  | 15106.98 |               | 20230.41 | 5.4       |
|                | 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      |
|                |                                     |       |          |               |        |          |               |          |           |

Source: SIX Financial Information; WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



| Country/currency    | Mon in US\$ | per US\$ | US\$ vs. YTD chg (%) |
|---------------------|-------------|----------|----------------------|
| <b>Americas</b>     |             |          |                      |
| Argentina peso-a    | 0.0615      | 16.2662  | <b>2.5</b>           |
| Brazil real         | 0.3015      | 3.3166   | <b>1.9</b>           |
| Canada dollar       | 0.7555      | 1.3237   | <b>-1.5</b>          |
| Chile peso          | 0.001513    | 661.00   | <b>-1.3</b>          |
| Colombia peso       | 0.0003309   | 3022.48  | <b>0.7</b>           |
| Ecuador US dollar-f | 1           | 1        | unch                 |
| Mexico peso-a       | 0.0559      | 17.8968  | <b>-13.7</b>         |
| Peru sol            | 0.3075      | 3.2517   | <b>-3.0</b>          |
| Uruguay peso-e      | 0.0353      | 28.320   | <b>-3.5</b>          |
| Venezuela bolivar   | 0.099030    | 10.10    | <b>1.0</b>           |
| <b>Asia-Pacific</b> |             |          |                      |
| Australia dollar    | 0.7588      | 1.3179   | <b>-5.1</b>          |
| China yuan          | 0.1462      | 6.8411   | <b>-1.5</b>          |

| Country/currency   | Mon in US\$ | per US\$ | US\$ vs. YTD chg (%) |
|--------------------|-------------|----------|----------------------|
| <b>Hong Kong</b>   |             |          |                      |
| dollar             | 0.1282      | 7.7993   | <b>0.6</b>           |
| <b>India</b>       |             |          |                      |
| rupee              | 0.0155      | 64.4349  | <b>-5.2</b>          |
| <b>Indonesia</b>   |             |          |                      |
| rupiah             | 0.0000752   | 13304    | <b>-1.6</b>          |
| <b>Japan</b>       |             |          |                      |
| yen                | 0.008964    | 111.55   | <b>-4.7</b>          |
| <b>Kazakhstan</b>  |             |          |                      |
| tenge              | 0.003078    | 324.86   | <b>-2.6</b>          |
| <b>Macau</b>       |             |          |                      |
| pataca             | 0.1244      | 8.0375   | <b>1.5</b>           |
| <b>Malaysia</b>    |             |          |                      |
| ringgit-c          | 0.2331      | 4.2895   | <b>-4.1</b>          |
| <b>New Zealand</b> |             |          |                      |
| dollar             | 0.7300      | 1.3699   | <b>-5.4</b>          |
| <b>Pakistan</b>    |             |          |                      |
| rupee              | 0.0095      | 104.845  | <b>0.5</b>           |
| <b>Philippines</b> |             |          |                      |
| peso               | 0.0199      | 50.170   | <b>1.1</b>           |
| <b>Singapore</b>   |             |          |                      |
| dollar             | 0.7205      | 1.3879   | <b>-4.1</b>          |
| <b>South Korea</b> |             |          |                      |
| won                | 0.000822    | 1133.52  | <b>-6.2</b>          |
| <b>Sri Lanka</b>   |             |          |                      |
| rupee              | 0.0065253   | 153.25   | <b>3.2</b>           |
| <b>Taiwan</b>      |             |          |                      |
| dollar             | 0.03299     | 30.315   | <b>-6.6</b>          |
| <b>Thailand</b>    |             |          |                      |
| baht               | 0.02942     | 33.990   | <b>-5.1</b>          |

| Country/currency          | Mon in US\$ | per US\$ | US\$ vs. YTD chg (%) |
|---------------------------|-------------|----------|----------------------|
| <b>Europe</b>             |             |          |                      |
| Bulgaria lev              | 0.5724      | 1.7471   | <b>-6.0</b>          |
| Croatia kuna              | 0.1510      | 6.625    | <b>-7.6</b>          |
| <b>Euro zone</b>          |             |          |                      |
| euro                      | 1.1190      | 0.8937   | <b>-6.0</b>          |
| <b>Czech Rep.</b>         |             |          |                      |
| koruna-b                  | 0.0426      | 23.487   | <b>-8.6</b>          |
| <b>Denmark</b>            |             |          |                      |
| krona                     | 0.1505      | 6.6462   | <b>-6.0</b>          |
| <b>Hungary</b>            |             |          |                      |
| forint                    | 0.003617    | 276.45   | <b>-6.1</b>          |
| <b>Iceland</b>            |             |          |                      |
| krona                     | 0.009590    | 104.27   | <b>-7.7</b>          |
| <b>Norway</b>             |             |          |                      |
| krona                     | 0.1180      | 8.4757   | <b>-2.0</b>          |
| <b>Poland</b>             |             |          |                      |
| zloty                     | 0.2658      | 3.7629   | <b>-10.1</b>         |
| <b>Russia</b>             |             |          |                      |
| ruble-d                   | 0.01696     | 58.975   | <b>-3.7</b>          |
| <b>Sweden</b>             |             |          |                      |
| krona                     | 0.1147      | 8.7196   | <b>-4.3</b>          |
| <b>Switzerland</b>        |             |          |                      |
| franc                     | 1.0293      | 0.9715   | <b>-4.7</b>          |
| <b>Turkey</b>             |             |          |                      |
| lira                      | 0.2862      | 3.4943   | <b>-0.8</b>          |
| <b>Ukraine</b>            |             |          |                      |
| hryvnia                   | 0.0384      | 26.0599  | <b>-3.8</b>          |
| <b>U.K.</b>               |             |          |                      |
| pound                     | 1.2726      | 0.7858   | <b>-3.0</b>          |
| <b>Middle East/Africa</b> |             |          |                      |
| <b>Bahrain</b>            |             |          |                      |
| dinar                     | 2.6512      | 0.3772   | <b>0.01</b>          |
| <b>Egypt</b>              |             |          |                      |
| pound-a                   | 0.0551      | 18.1490  | <b>0.1</b>           |
| <b>Israel</b>             |             |          |                      |
| shekel                    | 0.2838      | 3.5234   | <b>-8.4</b>          |
| <b>Kuwait</b>             |             |          |                      |
| dinar                     | 3.2930      | 0.3037   | <b>-0.6</b>          |
| <b>Oman</b>               |             |          |                      |
| sul rial                  | 2.5956      | 0.3853   | <b>0.1</b>           |
| <b>Qatar</b>              |             |          |                      |
| rial                      | 0.2721      | 3.675    | <b>0.1</b>           |
| <b>Saudi Arabia</b>       |             |          |                      |
| riyal                     | 0.2665      | 3.7523   | <b>0.04</b>          |
| <b>South Africa</b>       |             |          |                      |
| rand                      | 0.0778      | 12.8578  | <b>-6.1</b>          |
| <b>WSJ Dollar Index</b>   |             |          |                      |
|                           | 88.65       | unch     | <b>-4.61</b>         |

Sources: Tullett Prebon; WSJ Market Data Group

Key Rates

|                                   | Latest    | 52 wks ago |
|-----------------------------------|-----------|------------|
| <b>Libor</b>                      |           |            |
| One month                         | 1.22211%  | 0.45880%   |
| Three month                       | 1.29483%  | 0.62710%   |
| Six month                         | 1.44639%  | 0.88685%   |
| One year                          | 1.73456%  | 1.19570%   |
| <b>Euro Libor</b>                 |           |            |
| One month                         | -0.40286% | -0.36143%  |
| Three month                       | -0.37286% | -0.29743%  |
| Six month                         | -0.30029% | -0.18557%  |
| One year                          | -0.18614% | -0.05943%  |
| <b>Euribor</b>                    |           |            |
| One month                         | -0.37400% | -0.36400%  |
| Three month                       | -0.33100% | -0.28300%  |
| Six month                         | -0.27300% | -0.17600%  |
| One year                          | -0.16100% | -0.04800%  |
| <b>Yen Libor</b>                  |           |            |
| One month                         | -0.02764% | -0.07757%  |
| Three month                       | -0.00329% | -0.03393%  |
| Six month                         | 0.02300%  | -0.00957%  |
| One year                          | 0.12443%  | 0.07293%   |
|                                   | Offer     | Bid        |
| <b>Eurodollars</b>                |           |            |
| One month                         | 1.2800%   | 1.1800%    |
| Three month                       | 1.2800%   | 1.1800%    |
| Six month                         | 1.5000%   | 1.4000%    |
| One year                          | 1.6700%   | 1.5700%    |
|                                   | Latest    | 52 wks ago |
| <b>Prime rates</b>                |           |            |
| U.S.                              | 4.25%     | 3.50%      |
| Canada                            | 2.70      | 2.70       |
| Japan                             | 1.475     | 1.475      |
| Hong Kong                         | 5.00      | 5.00       |
| <b>Policy rates</b>               |           |            |
| ECB                               | 0.00%     | 0.00%      |
| Britain                           | 0.25      | 0.50       |
| Switzerland                       | 0.50      | 0.50       |
| Australia                         | 1.50      | 1.75       |
| U.S. discount                     | 1.75      | 1.00       |
| Fed-funds target                  | 1.00-1.25 | 0.25-0.50  |
| Call money                        | 3.00      | 2.25       |
| <b>Overnight repurchase rates</b> |           |            |
| U.S.                              | 1.14%     | 0.75%      |
| Euro zone                         | n.a.      | n.a.       |

Sources: WSJ Market Data Group; SIX Financial Information; Tullett

Top Stock Listings

| Cur         | Stock              | Sym    | Last    | % Chg | YTD% Chg |
|-------------|--------------------|--------|---------|-------|----------|
| Asia Titans |                    |        |         |       |          |
| HK\$        | AIA Group          | 1299   | 58.00   | 0.96  | 32.57    |
| ¥           | AstellasPharma     | 4503   | 1401.50 | -0.25 | -13.67   |
| AUS         | AustNZBK           | ANZ    | 27.76   | 0.29  | -8.74    |
| AUS         | BHP                | BHP    | 22.45   | 0.18  | -10.42   |
| HK\$        | Bank of China      | 3988   | 3.85    | 1.05  | 11.92    |
| HK\$        | CK Hutchison       | 0001   | 98.90   | -0.15 | 12.51    |
| HK\$        | CNOOC              | 0883   | 8.54    | 0.23  | -11.96   |
| AUS         | CSL                | CSL    | 142.72  | -0.43 | 42.14    |
| ¥           | Canon              | 7751   | 3905.00 | 0.57  | 18.51    |
| ¥           | Central JapanRwy   | 9022   | 1840.00 | -0.51 | -4.32    |
| HK\$        | ChinaConstructBk   | 0939   | 6.17    | 0.98  | 3.35     |
| HK\$        | ChinaLifeInsurance | 2628   | 24.40   | 0.83  | 20.79    |
| HK\$        | ChinaMobile        | 0941   | 83.10   | -0.36 | 1.09     |
| HK\$        | ChinaPetrochem     | 0386   | 6.20    | 0.32  | 12.73    |
| AUS         | CmwthBkAust        | CBA    | 81.55   | 0.37  | -1.04    |
| ¥           | EastJapanRailway   | 9020   | 10985   | -0.45 | 8.76     |
| ¥           | Fancu              | 6954   | 21845   | 0.60  | 10.24    |
| ¥           | Hitachi            | 6501   | 671.20  | -0.46 | 6.22     |
| TW\$        | Hon Hai Precision  | 2317   | 120.00  | 0.67  | 42.55    |
| ¥           | HyundaiMotor       | 7267   | 3065.00 | 0.13  | -10.27   |
| KRW         | HondaMtr           | 005380 | 164000  | ...   | 12.34    |
| HK\$        | IndoComet          | 1398   | 5.25    | 0.96  | 12.94    |
| ¥           | Japan Tobacco      | 2914   | 4090.00 | 1.61  | 64.46    |
| KDDI        |                    | 9433   | 2399.50 | -0.84 | 1.33     |
| ¥           | Mitsubishi         | 8058   | 2262.50 | 0.31  | -9.11    |
| ¥           | MitsubishiElectric | 6503   | 1585.50 | 0.41  | -2.74    |
| ¥           | MitsubishiUFJFin   | 8306   | 726.90  | 0.19  | 0.99     |
| ¥           | Mitsui             | 8031   | 1525.50 | -0.59 | -5.00    |
| ¥           | Mizuho Fin         | 8411   | 197.40  | -0.95 | -5.59    |
| ¥           | NTTDocoMo          | 9437   | 2738.50 | -0.45 | -2.89    |
| AUS         | NatAusBnk          | NAB    | 29.16   | -0.51 | -4.84    |
| ¥           | NipponTeleg        | 9432   | 5429.00 | -0.29 | 10.50    |
| ¥           | NissanMotor        | 7201   | 1081.00 | 0.19  | -80.57   |
| ¥           | Panasonic          | 6752   | 1539.00 | 1.55  | 29.98    |
| HK\$        | PingAnInsOfChina   | 2318   | 53.10   | 1.55  | 36.88    |
| ¥           | RelianceIndsGDR    | RIGD   | 44.20   | ...   | 40.19    |
| KRW         | SamsungElectronics | 005930 | 241400  | 1.39  | 39.30    |
| ¥           | SevenEdg Hdgcs     | 3382   | 4723.00 | -0.76 | 6.00     |
| ¥           | SoftBankGroup      | 9984   | 9258.00 | 0.27  | 19.24    |
| ¥           | Sony               | 6758   | 4298.00 | 0.54  | 31.24    |
| ¥           | Suntomoto Mitsui   | 8316   | 4201.00 | -1.38 | -5.58    |
| ¥           | TsingHwaKaiPrp     | 0016   | 116.50  | -0.09 | 18.84    |
| TW\$        | TaiwanSemiMfg      | 2330   | 215.00  | 2.38  | 18.84    |



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.”

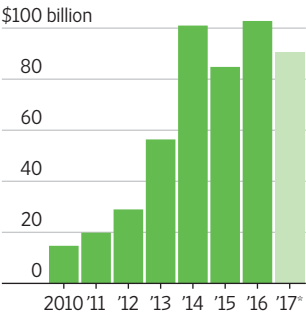
Evergrande couldn’t be reached for comment.

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  
THE WALL STREET JOURNAL.

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 Chinese 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: Evergrande’s debt spree goes too far..... 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.

According to an early June report from CreditSights, the European bank CoCo market stands at an aggregate size of €125 billion (\$140 billion), made up of 140 CoCo bonds from 56 issuers.

With a more mature market, disruption at smaller banks like Bremer Landesbank and Banco Popular isn’t enough to shake the entire sector, analysts say.

“They were both seen as exceptional cases,” said Simon Adamson, a senior European banks analyst with CreditSights.



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 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



Ferries are among the services that the government hopes to hand off to a private operator.

projects—the most common type of partnerships—have attracted about \$30 billion in total private and public investment since 1993, according to the Public Works Financing newsletter'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 improvements 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 is-

lands 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.

"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.

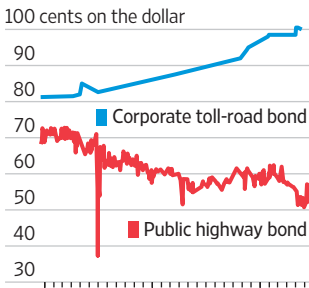
Other public-private partnerships in Puerto Rico have done better.

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

### 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) THE WALL STREET JOURNAL.

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 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 has 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.

Prices on the toll road's bonds have risen by about 8 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 Gunjan Banerji

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. 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. Their troubles have cast a shadow over the wider European banking system, which accounts for a large chunk of regional equity benchmarks.

Shares in Intesa Sanpaolo, which will buy the best assets of the two troubled lenders for a token fee, rose 3.5%. Shares in Italy's largest lender, UniCredit, gained 2.2%.

Elsewhere in Europe, food and beverage shares rallied following news that billionaire activist investor Daniel Loeb's Third Point hedge fund had taken a \$3.5 billion stake in Nestlé. Nestlé gained 4.3%.

In the U.S., the Dow Jones Industrial Average rose 14.79 points, or 0.1%, to 21409.55. The S&P 500 added less than 0.1%, and the Nasdaq Composite shed 0.3%.

U.S. government-bond prices rose after data from the Commerce Department showed demand for long-lasting factory goods declined in May for the second consecutive month.

As government bonds strengthened, the yield on the 10-year Treasury note fell to 2.135% from 2.146% Friday.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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# Rescue in Italy Is a Step Back for Europe

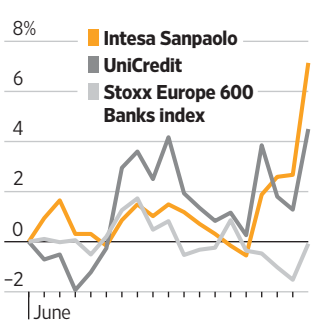
Europe's solution to the failure of two small Italian banks poses two big questions: Why weren't they dealt with under the tough new resolution system and how did **Intesa Sanpaolo** get such a good deal to take on their good assets?

The answer to the first is pragmatic, and investors might find a worthwhile lesson in it. The answer to the second is more worrying and looks like a backward step for European finance.

The two failing banks, **Veneto Banca** and **Banca Popolare di Vicenza**, are being liquidated under normal bankruptcy rules, and Intesa is taking their good assets with a €4.8 billion (\$5.37 billion) cash subsidy. Of that, €3.5 billion will support Intesa's capital ratio and €1.3 billion is to cover the cost of closing two-thirds of the banks' branches and offering voluntary layoffs to one-

### Rapid Relief

Italian bank shares versus other European bank stocks



Sources: FactSet; Bloomberg News (photo) THE WALL STREET JOURNAL.



An Intesa Sanpaolo branch in Rome

third of their staff. There are also billions of euros of unfunded guarantees against legal and other risks. This deal will boost Intesa's earnings by 5% to 7% by 2020, according to analysts, without costing the bank a penny in financial effort.

Europe's resolution au-

thorities said the banks needn't face the resolution process because they weren't a risk to financial stability. But Intesa's CEO, Carlo Mesina, said the banks' failure would have hurt the entire Italian banking system.

In truth, it is the resolution system that was most

likely to provoke crisis by enforcing losses on senior bondholders and depositors. This is because a resolution 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 risked creating a broader panic in Italy.

Normal bankruptcy avoids this and pragmatically that is surely the right choice. The relief is palpable in a broad rally for Italian bank stocks on Monday.

Investors could foresee similar action by checking where that 8% mark sits in their banks. However, resolution authorities have hurt their reputation by not explaining this plainly.

However, none of this explains why Intesa got such a good deal and why state aid was allowed.

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 through cheaper access to funding than the market alone would provide.

European governments have a long history of helping banks fund industry cheaply. Such indirect state aid perpetuates the link between public money and banking in dangerous ways, which is precisely what 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. Its 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 the country's checkered credit history: The fallout from 2001's default lingered for 15 years. But the bond, which matures June 28, 2117, got off to a sprightly start.

By Friday, the yield on the bond had fallen to 7.67% from 7.9% at issue. Thanks to the power of duration, every 0.01 percentage-point move in yield moved the bond's price by about \$0.1, resulting in a chunky gain of 3.1%.

That, of course, is a very short-term picture of a very 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, the bond's performance this year will be looming a lot larger than 2117.

## Evergrande's Debt Spree Goes Too Far

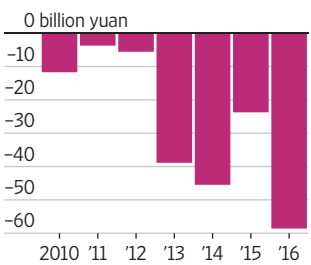
The world's most indebted property developer, **China Evergrande**, has broken another debt record. There is some hope investors are at last getting wise.

The fact that Evergrande managed to raise \$6.6 billion of dollar-denominated bonds last week—the largest bond-raising ever by a property developer globally, according to Dealogic—might suggest bond buyers are just as gullible as ever. Around 40% of the money raised replaces old debt, but the company—China's biggest developer by assets—added \$3.8 billion in new borrowings.

As usual with bond issues, investor orders exceeded the amount the company was planning to sell. Bond issuers normally leave some money on the table, so as not to test the market's gen-

### Delusions of Grandeur

China Evergrande's operating cash flow



\*1 billion yuan = \$146 million Source: company reports THE WALL STREET JOURNAL.

erosity. Evergrande, though, simply took the chance to raise the amount of debt it issued.

Still, the bonds' poor performance suggests investors' patience has been stretched.

On Monday, the eight-year bonds were trading 1.8% below their issue price.

The price decline should hardly be surprising. Evergrande's record bond issuance came despite its promise in March to bring down its debt.

The only sustainable way for companies to reduce debt is to generate positive free cash flow. There is little evidence that Evergrande has improved its ability to do so. Indeed, the company's operating cash flow has been negative every year since it listed in Hong Kong in 2009.

Evergrande may have gotten 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

## Activist Loeb Has a Tough Road at Nestlé

At **Nestlé**, Dan Loeb is pushing on a half-open door. That improves the chances of success—but reduces the prospect of big profits.

Mr. Loeb's **Third Point** posted an open letter Sunday evening announcing a \$3.5 billion investment in Nestlé. That may be the activist's largest ever initial bet, but it only buys a little over 1% of the Swiss packaged-food giant, which is easily Europe's most valuable company. Most activist campaigns in Europe have relied on much larger stakes.

However, that doesn't doom it to failure. The changes Mr. Loeb is proposing—particularly cost-cutting and the sale of low-growth businesses—aren't controversial. Investors already expected Nestlé's new chief executive, Ulf Mark

Schneider, to shake the company up, particularly after his announcement early this month that U.S. candy brands like Butterfinger and Baby Ruth are for sale. With a bit of diplomacy, Mr. Loeb can probably count on support from fellow shareholders and cooperation from Mr. Schneider.

Nestlé has a world-beating portfolio of food brands, but for several years has been plagued with slowing organic growth. It has been more reluctant than peers like **Kraft Heinz** to resort to cost-cutting and increasing debt to revive profits.

The activist's most awkward demand is that Nestlé sell its \$31 billion stake in cosmetics giant L'Oréal. Liliane Bettencourt, the French company's 94-year-old minority owner, asked for Nestlé's

help when trying to fend off political interference in the 1970s. Nestlé will be forced to defend its outdated line that the stake is "strategic." The market is sniffing action: L'Oréal stock rose about 4% Monday. Mr. Loeb wants Nestlé to buy back stock with the disposal proceeds.

Nestlé's stock rose about 4%, too, to the equivalent of 23 times prospective earnings—its highest since the dot-com era and a premium to the consumer sector. This is the real problem with Third Point's latest investment: A lot of change has already been priced in since the well-regarded Mr. Schneider took the reins in January.

Investors tempted to ride on Mr. Loeb's coattails shouldn't expect quick gains. —Stephen Wilmot