



## U.S. NEWS

## New Corporate Tax Goal: Beat the BEAT

The federal levy targets companies that try to shift profits to foreign affiliates

By RICHARD RUBIN

WASHINGTON—Multinational companies are trying to beat a new tax called the BEAT.

The BEAT is the Base Erosion and Anti-Abuse Tax, a complex minimum tax meant to prevent the world's biggest corporations from shifting profits from the U.S. to other countries. Turned from idea into law last year as part of the tax-code revamp, the BEAT is now frustrating corporate executives and spurring fresh tax-avoidance strategies.

Western Union Co., Accenture PLC and Conduent Inc., among others, have told investors that they could be hit by

the tax, which penalizes corporations for large cross-border payments made to related foreign affiliates.

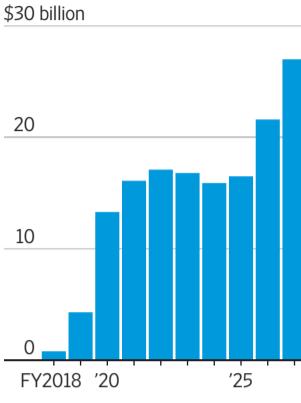
As the Treasury Department writes regulations for the BEAT, companies including HSBC Holdings PLC, Mizuho Financial Group Inc., Willis Towers Watson PLC and Takeda Pharmaceutical Co. disclosed they have lobbied the government this year about the new levy.

The BEAT, expected to raise \$150 billion over 10 years, was created to slow "earnings stripping," in which companies load up their U.S. operations with costs and deductions, and use intercompany transfers to shift profits to lower-taxed jurisdictions.

This technique was often used by foreign-headquartered companies and by U.S. ones that took foreign addresses through so-called inversion

### Big Bump

Projected U.S. revenue from Base Erosion and Anti-Abuse Tax



Note: Fiscal year ends Sept. 30.  
Source: Joint Committee on Taxation  
THE WALL STREET JOURNAL.

deals. Before this year, such maneuvers were especially attractive because of the gap between the old 35% U.S. tax rate and

foreign rates as low as 12.5% in Ireland and 19% in the U.K.

The BEAT applies to companies that make payments to related parties abroad, such as interest payments to foreign parents or royalties to overseas subsidiaries. If those related-party payments exceed 3% of total tax-deductible costs, or 2% for many financial services companies, the U.S. company then has to recalculate its taxes.

Those companies must determine what they would owe under the BEAT, which denies deductions for such related-party payments, disallows some tax credits and has a lower tax rate than the regular system.

They generally must then compare their taxes under the BEAT to the regular corporate tax system and pay whichever levy is larger.

The BEAT applies only to large multinationals, those

with gross receipts of at least \$500 million. It could hit banks, insurance companies and professional-services businesses especially hard because they rely on cross-border payments targeted by the tax. The tax doesn't apply to the cost of goods that go into products sold, such as a manufacturer's raw-materials imported from a foreign subsidiary.

Experts say the BEAT claws back some of the benefits of last year's tax cut and hits U.S.-based companies—which weren't considered the tax's prime target.

"We didn't need to hammer U.S.-based companies in this way," said Itai Grinberg, a Georgetown University law professor who supports some aspects of the BEAT.

Many companies aim to avoid the tax by keeping deductible payments below the 3% threshold. Some could choose

to restructure themselves to avoid cross-border payments between related parties, tax experts say. Companies could also recharacterize deductible payments as something else, such as an allocation of revenue.

Another possible tactic: Companies could argue the BEAT violates tax treaties by taking away deductions, said David Rosenbloom, an international tax attorney at Caplin & Drysdale in Washington. In that case, they would claim the deductions and fight the Internal Revenue Service.

Treasury officials, who have been listening to companies' complaints, plan to "take off some of the rough edges," Chip Harter, deputy assistant secretary for international tax affairs, said at a conference this month, without elaborating on exactly how.

—Ezequiel Minaya contributed to this article.

## President Eases China Approach

*Continued from Page One*  
rationality might be returning to the approaches on trade and investment restrictions," said Cornell University economist Eswar Prasad, who speaks often with Chinese officials. "But it doesn't necessarily signal a pullback from [a] hard-line stance on China."

Investment restrictions in addition to CFIUS have long been part of the administration's planned efforts to keep China from moving ahead with plans outlined in its "Made in China 2025" report to become a global leader in 10 broad areas of technology, including information technology, aerospace, electric vehicles and biotechnology. A May 29 White House statement said the policies would be aimed at "Chinese persons and entities" that seek to acquire "industrially significant technology."

Lawmakers who have worked on a bill to overhaul CFIUS have also been arguing in administration meetings that additional investment restrictions weren't necessary. "The legislative change is 'designed to deal with a narrow but important aspect of dual-use technology that's being compromised by strategic investments by countries like China,'" said Senate Majority Whip John Cornyn, a Texas Republican, in an interview.

A bill to strengthen CFIUS passed the House on Tuesday, 400-2. A similar measure has already passed the Senate and the two versions now need to be reconciled. It would assure CFIUS reviews of more transactions, particularly those involving state-owned firms. It would also create a new export-control system to review whether overseas joint ventures are improperly transferring critical technologies to foreign companies.

Industry lobbyists and China experts attribute Mr. Trump's shift to recent declines in the stock market and to U.S. companies getting battered by tariffs in U.S. trade battles with the European Union, Canada, Mexico and China.

Mr. Trump warned Harley-Davidson Inc. early Tuesday that moving production overseas would mark "the beginning of the end" of the iconic brand, a day after the manufacturer said it planned to make more motorcycles abroad to avoid EU tariffs.

People familiar with the Trump White House deliberations said the president wasn't reacting to the markets. Rather, the plans for restrictions had run up against a number of legal obstacles, among other problems, they said.

The Dow Jones Industrial

Average edged higher on Tuesday to close at 24283.11.

Relying mainly on CFIUS—if that is the final decision—would be a big victory for Treasury Secretary Steven Mnuchin, National Economic Council Director Larry Kudlow and others who have tried to tamp down the burgeoning trade battle with China. Mr. Mnuchin has been concerned that the investment restrictions could be interpreted abroad as a first step to shutting down the U.S. market.

The decision would also mark the end for now of the ascendancy of the so-called nationalist wing represented by White House trade adviser Peter Navarro and U.S. Trade Representative Robert Lighthizer. The two camps have jockeyed for power for months over the China issue.

Mr. Lighthizer has seen the investment restrictions as an important part of the U.S. trade arsenal. CFIUS is "limited in terms of national security," he said on Fox Business Network in June. The new investment restrictions—now scrapped—would "have a broader definition of national security."

Matthew Goodman, an Asia expert at the Center for Strategic and International Studies

*The decision would mark the end for now of the ascendancy of the nationalist wing.*

who served in the Obama administration, said that a new form of investment restriction would be useful because CFIUS is supposed to focus solely on national security. Scrapping the investment restriction plans seems "to be removing a useful tool for taking on what the administration has described as problematic Chinese practices."

Using CFIUS, the Obama and Trump administrations have largely halted Chinese efforts to buy U.S. semiconductor companies and helped put a big crimp on Chinese investment overall. According to Rhodium Group, a market-research firm, Chinese investments were down 92% in the first half of 2018 from a year earlier, to \$1.8 billion, because of Chinese curbs on credit and U.S. scrutiny of Chinese deals.

And yet, Mr. Navarro, among others in the Trump administration, worry that CFIUS hadn't been effective at halting Chinese acquisition of biotechnology or small venture capital investments in companies that could spawn new technologies.

The shift on the investment restrictions still leaves the U.S. and China at loggerheads over trade. China has threatened to match the first U.S. tariffs of 25% on \$50 billion of Chinese goods. Should China do that, Mr. Trump has threatened 10% tariffs on as much as \$400 billion of Chinese imports.

Mr. Prasad, the Cornell China expert, said Beijing will still be wary of trying to cut a deal with the U.S., given the ups and downs in U.S. decision making. "It might help the Chinese believe they should stay engaged with less protectionist forces [in the administration] to prevent rising tensions," he said. "But that will be a tough sell" in Beijing.

—Siobhan Hughes contributed to this article.



JOHN TAGgart/BLOOMBERG NEWS  
Harley said making motorcycles abroad for sale in the EU would cut out tariffs imposed there. Harley workers in York, Pa.

## Trump Warns Harley on Plan

By REBECCA BALLHAUS

WASHINGTON—President Donald Trump warned Harley-Davidson Inc. that moving production overseas would mark "the beginning of the end" of the iconic brand, a day after the manufacturer said it planned to make more motorcycles abroad to avoid European Union tariffs.

"A Harley-Davidson should never be built in another country—never! Their employees and customers are already very angry at them," Mr. Trump wrote in tweets Tuesday. "If

they move, watch, it will be the beginning of the end—they surrendered, they quit! The Aura will be gone and they will be taxed like never before!"

Harley said making motorcycles abroad for sale in the EU would cut out tariffs imposed last week. "Harley-Davidson motorcycles sold in the U.S. will continue to be made in the U.S.," Harley spokesman Michael Pflughoefl said.

Harley's shares declined 0.6% Tuesday, after a 6% fall Monday.

The Milwaukee company already assembles motorcycles in

Brazil and India from largely U.S.-made parts and plans to open a plant in Rayong, Thailand, later this year. International business has become increasingly important to Harley as sales have fallen at home.

Harley plans to initially absorb about half the cost of the 31% tariff EU officials imposed on its U.S.-made motorcycles and shift production abroad over the next 18 months. The EU's tariffs were a response to levies the Trump administration imposed this spring on steel and aluminum.

Mr. Trump said that when he met with Harley executives at the White House early in his administration, he "chided them about tariffs in other countries, like India, being too high."

He also suggested the company was using EU tariffs as "an excuse" to shift production overseas. "Early this year Harley-Davidson said they would move much of their plant operations in Kansas City to Thailand. That was long before Tariffs were announced."

Harley has said its factory in Thailand will make motorcycles for sale in Asia, and the closure of the Kansas City plant isn't related. But some union leaders said they, like Mr. Trump, believe Harley is using the trade strife to justify its plans to shift production abroad.

"He took the words right out of my mouth," said Joe Capra, a district representative for the

International Association of Machinists union in Kansas City, where Harley plans to close a plant that employs about 800 people by 2019.

In his February 2017 joint address to Congress, Mr. Trump singled out Harley as a "great American company" and recounted a visit executives had made to Washington earlier that month. During that meeting, Mr. Trump said he asked executives how international sales were faring. "They told me...that it's very hard to do business with other countries because they tax our goods at such a high rate," he recounted.

Harley Chief Operating Officer Michelle Kumbier said in a recent interview that tariffs were a barrier to its efforts to sell more motorcycles abroad. Harley wants to make half its annual sales abroad a decade from now, compared with about 40% currently. "We believe in free and fair trade for us to be able to compete globally," she said. "It would be great if there wasn't any tariffs on either side. Products could just flow and compete on their own merit."

Some Harley dealers abroad said making Hogs outside the U.S. wouldn't dent their allure to riders. "As long as they keep the engineering and the Americanism, I don't think it really matters," said Don Rutherford, managing director of West Coast Harley-Davidson near Glasgow, Scotland.

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## CORRECTIONS & AMPLIFICATIONS

In some editions Tuesday, the last name of reporter Rebecca Ballhaus was misspelled as Balhaus in the byline of a Page One article about U.S. immigration policy.

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com or by calling 888-410-2667.

—Siobhan Hughes contributed to this article.

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## U.S. NEWS

# Pence Calls On Nations To Curb Migration

BY VIVIAN SALAMA

**BRASÍLIA**—Vice President Mike Pence, on the first day of a Latin America trip, urged countries in the region to rein in the flow of migrants to the U.S. or face consequences.

"To all the nations of the region, let me say with great respect, that just as the United States respects your borders and your sovereignty, we insist that you respect ours," Mr. Pence said in a joint press conference with Brazil's President Michel Temer.

"Don't risk your lives or the lives of your children by trying to come to the United States on the road run by drug smugglers and human traffickers," Mr. Pence said. "If you can't come legally, don't come at all."

Mr. Temer expressed his country's concern over news of the separation of several dozen Brazilian children from their parents in the U.S. "This is extremely sensitive issue in the eyes of the Brazilian society," he said.

The Trump administration's now-revoked policy prompted the separation of thousands of children from parents in families caught trying to cross into the U.S. illegally, most of them from Central America. It spurred criticism at home and abroad, leading the vice president to refocus his Latin America trip.

"We're increasing enforcement and prosecutions," Mr. Pence said. "We've begun construction on our new southern border wall, enacted the largest investment in border security in nearly a decade, and we're hiring more personnel to protect our borders and enforce our laws."

Mr. Pence and Homeland Security Secretary Kirstjen Nielsen will attend a meeting Thursday with the presidents of El Salvador and Honduras and the vice president of Guatemala to further address the immigration situation.

The meeting will take place in Guatemala City, the final leg of Mr. Pence's trip.

Mr. Pence had originally been scheduled to travel to Guatemala to visit victims of the Fuego volcano eruption, but U.S. immigration will now be the main focus, an official from the vice president's office said.

Mr. Pence arrived in Brazil early Tuesday, but his visit to Guatemala is expected to be particularly significant since it is home to about 45% of the people attempting to enter the U.S. from the southern border, the vice president's office said.

—Louise Radnofsky contributed to this article.



More drilling in the Permian Basin has meant more business for Don Bryant, above, with his wife Donna, at his company, which makes tools to repair oil wells.

BRANDON THIBODEAUX FOR THE WALL STREET JOURNAL

# Rising Oil Prices Lift Small Towns

Record output boosts standard of living in production regions; 'the money's here'

BY REBECCA ELLIOTT AND HARRIET TORRY

**HOBBS, N.M.**—Oil is booming again in the Permian Basin, and so are the fortunes of this sun-bleached town.

Job postings for truckers and electricians cover billboards and chain-link fences lining the highways. Hotels are full of oil-field workers. The civic coffers are recovering from the recent oil bust. Hobbs, population 38,000, was able to put up \$25 million in cash for its share of a glitzy new \$63.5 million community recreation center. It sports basketball courts, a turf soccer field, waterslides, a lazy river and a three-story jungle gym.

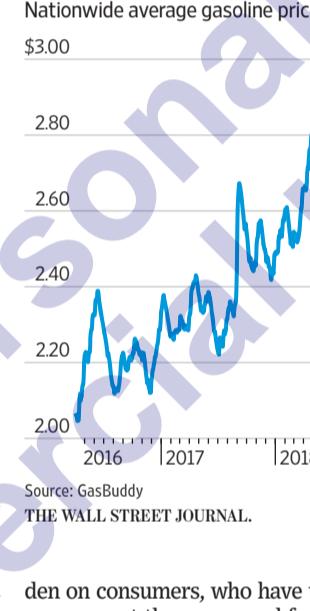
"The money's here," says Don Bryant, who was born in Hobbs 53 years ago and owns a company that makes tools to repair oil wells. He thought about uprooting for mountainous Colorado, but decided there was more opportunity in Hobbs, near the Texas border.

From Texas to North Dakota, oil-producing regions of the U.S. are surging now that America is pumping record volumes of crude—10.9 million barrels a day during the second week of June, according to the Energy Information Administration. The leap from 9.4 million barrels a day a year ago is helping lift the U.S. economy as a whole, redefining the sweet spot at which oil prices are a tailwind for the country.

The cost of a barrel of crude has risen roughly 60% in the past year, to about \$71 a barrel, while gasoline prices have climbed roughly 27% over the same period. Yet the economy is still firing on all cylinders. The Organization of the Petroleum Exporting Countries agreed on Friday to boost production in an effort to keep prices from climbing still higher.

"Historically, America had a lot more consumers and a lot less producers, so on net it was bad for the American economy," Mark Wright, research director for the Federal Reserve Bank of Minneapolis, said of pricier oil. "Now, we have a lot more producers, so as a consequence it's a lot better."

Higher oil prices are a bur-



THE WALL STREET JOURNAL

den on consumers, who have to pay more at the pump, and feed through the broader economy as businesses raise prices to cover higher manufacturing and transportation costs. But current crude prices aren't especially high, historically speaking, and are far below a decade ago, when they topped out at a record \$145 a barrel. Gasoline prices, averaging \$2.85 a gallon, remain below the levels they averaged for most of the first half of this decade.

If gasoline prices stay at current levels, people in the bottom half of the income distribution would lose about half the extra income gains from the \$1.5 trillion tax cut that President Donald Trump signed into law late last year to higher pump prices, according to an analysis by the Penn Wharton Budget Model.

Broadly speaking, more-expensive crude is far less of an economic drag than it once was.

"On net, is the U.S. economy still better off with lower oil prices? The answer is yes, though clearly not to the same extent we used to be," said Ryan Kellogg, a University of Chicago economist.

The upswing has helped spark an oil boom by making shale drilling profitable in more parts of the country. The U.S. exported a record amount of oil and fuel in April, \$19.9 billion, which helped narrow the trade deficit, the Commerce Department said this month.

Texas has flourished, closing last year as the nation's fastest-growing economy, with fourth-quarter seasonally adjusted growth of 5.2%.

In New Mexico, which has struggled economically in recent years, the economy grew

0.8% last year after declining 0.1% in 2016, when oil prices slid below \$30 a barrel. State revenue soared 14.5% through March, thanks to increased oil and gas activity, according to the state legislative finance committee.

That is benefiting places like Hobbs, which long has ridden the booms and busts of oil.

More drilling in the Permian has meant more business for Mr. Bryant and his wife, Donna Bryant, who burned through all but \$500 in personal savings during the recent downturn. They were able to begin saving about \$1,500 a month again starting in January.

"We knew it would come back. We just didn't know when," said Ms. Bryant, 52.

Nabil Tapia's family moved to Hobbs in May after her husband, an electrician, was offered \$30 an hour—plus a per diem of \$100—to work at a natural-gas plant. He was earning less than a third as much in South Texas.

"With what we're getting now, we can easily plan for what we want to do," said Ms. Tapia, 30. "There's no, 'Well, I can't get this because I don't have the money for it.'"

# GOP Lacks Immigration Consensus

BY SIOBHAN HUGHES  
AND ANDREW DUEHREN



President Donald Trump pressed for more funding for border barriers Tuesday in a meeting with lawmakers at the White House.

## Judge Says Families Must Be Reunited

A judge in California has ordered U.S. border authorities to reunite separated families within 30 days. If the children are younger than 5, they must be reunified within 14 days of the order, issued Tuesday.

U.S. District Judge Dana Sabraw in San Diego issued the order in a lawsuit by the Amer-

ican Civil Liberties Union. The lawsuit involves a 7-year-old girl who was separated from her Congolese mother and a 14-year-old boy who was separated from his Brazilian mother.

Judge Sabraw also issued a nationwide injunction on future family separations, unless the parent is deemed unfit.

More than 2,000 children have been separated from their parents and placed in government-contracted shelters.

—Associated Press

known as Dreamers, partly out of concern that political pressure would mount to extend citizenship to their parents.

In recent weeks, pressure built on Congress to act on

immigration amid a public outcry over children being separated from their parents arrested for crossing the border illegally. But the bill never got the strong presidential endorsement that could have pushed it over the top.

Mr. Trump initially said he would oppose the compromise measure, then said he supported it. Last week, following a postponement in the planned vote, Mr. Trump said Republicans should delay a vote until after the midterm elections, when he predicted they would have more solid majorities. On Tuesday, Mr. Trump said that U.S. immigration policy for illegal border crossers should amount to, "I'm sorry, you can't come in," and pressed for funding for his border barriers.

"I don't think it was helpful," said Rep. Scott Taylor (R., Va.) about Mr. Trump's wavering on the House bill. "If he had given a full-throated endorsement of this bill, which is a good negotiation, I think it absolutely increases the chances of passing."

The center of gravity had shifted by the end of the day after talks between the moderate and centrist conservatives bill ran into an intractable math problem: making changes to one part of the bill won votes of one group of Republicans but lost support of others.

—Joshua Jamerson contributed to this article.

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## U.S. NEWS

# Court Backs Antiabortion Centers

Justices cite First Amendment in ruling against California law on pregnancy clinics

BY JESS BRAVIN  
AND BRENT KENDALL

**WASHINGTON**—A divided Supreme Court Tuesday rejected a California law requiring pregnancy centers run by antiabortion groups to advise patients about state-funded family-planning services, including for abortion.

Writing for the conservative majority, Justice Clarence Thomas said the law almost certainly violated the First Amendment's free-speech guarantee by compelling the centers to advertise "abortion—the very practice that petitioners are devoted to opposing."

Liberals, in a dissent by Justice Stephen Breyer, accused the majority of a double standard, in light of the court's rulings upholding laws in other states that require abortion clinics to advise pregnant women of alternatives to the procedure, including adoption services and programs to assist with childbirth costs.

Justice Thomas rejected that argument. States can impose such requirements because abortion is a medical procedure subject to a patient's "informed consent," while the notice California required "is not tied to a procedure at all," he wrote, joined by Chief Justice John Roberts and Justices Anthony Kennedy, Samuel Alito and Neil Gorsuch.

The challenge was brought by the National Institute of Family and Life Advocates, which says it represents some 1,500 facilities nationwide that seek to persuade women to carry pregnancies to term. The group's president, Thomas Glessner, said California's effort to enlist



Abortion rights activists gathered outside the Supreme Court in Washington Tuesday as justices weighed their final decisions of the year.

his members as "advertising agents for a state-funded abortion agenda ... ended today as a miserable failure."

Similar laws in such states as Hawaii and Illinois, and in cities including Baltimore and San Francisco, were now in jeopardy, attorneys for the group said.

Those laws already were in the Trump administration's crosshairs; the Department of Health and Human Services has told those states that it has authority to investigate these requirements, people familiar with the matter said.

At the California state Capitol in Sacramento, the law's sponsors were defiant. Assemblyman David Chiu, a San Francisco Democrat, said the facilities in question, including some 370 in California, were "fake health centers" that "try to deceive women" by exaggerating the health risks of abortion.

Unlicensed centers meeting certain conditions must post a waiting-room notice, distribute a printed version or provide a digital copy to patients advising that "California has public programs that provide immediate free or low-cost access to comprehensive family planning services (including all FDA-approved methods of contraception), prenatal care, and abortion for eligible women," along with a contact telephone number.

Unlicensed centers were required to include a notice that they weren't licensed medical facilities in their signs and advertising.

The court stressed that government-compelled speech inherently is suspect, and said that California had failed to justify any of the traditional rationales for notice requirements.

If low-income women weren't sufficiently aware of state-funded health programs, the court said, there were other ways to alert them, such as more expansive public information campaigns or posting "the information on public property near crisis pregnancy centers."

Although ostensibly a First Amendment case, the court's tension over abortion itself was evident. Justice Thomas cited a law review article chronicling how dictatorial governments, including Nazi Germany, Stalin's Soviet Union and Red China's Cultural Revolution manipulated "the content of doctor-patient discourse" for their own ends.

A concurring opinion by Justice Kennedy went further still, incensed by the California Legislature's description of the FACT Act as "forward thinking."

"It is forward thinking to begin by reading the First Amendment as ratified in 1791," he wrote, and "to confirm that history since then shows how relentless authoritarian regimes are in their attempts to stifle free speech," he wrote, joined by Chief Justice Roberts and Justices Alito and Gorsuch.

Justice Breyer's dissent, joined by Justices Ruth Bader Ginsburg, Sonia Sotomayor and Elena Kagan, said the majority potentially imperiled a raft of consumer-information laws by suggesting they might violate a regulated business's free-speech rights, "ranging from securities disclosures to signs at petting zoos."

dents have "performed unevenly in living up to those inspiring words."

In a concurring opinion, Justice Kennedy warned about officials' disregarding constitutional rights in their statements and actions.

"The very fact that an official may have broad discretion, discretion free from judicial scrutiny, makes it all the more imperative for him or her to adhere to the Constitution and its meaning and its promise," he wrote. "An anxious world must know that our Government remains committed always to the liberties the Constitution seeks to preserve and protect, so that freedom extends outward, and lasts."

The current travel ban restricts entry to citizens from Iran, Libya, Somalia, Syria and Yemen, a measure the administration said was necessary to protect because those countries don't provide sufficient information for U.S. officials to assess whether their nationals are a threat.

Tuesday's ruling is unlikely to lead to a repeat of the protests and confusion that unfolded at airports when the first version of the ban took effect in January 2017 because the more limited policy has been in force since December, when the justices allowed its implementation while litigation unfolded.

But it lands amid an impassioned national debate over illegal immigration sparked by the administration's separation of some families coming over the southern border. That has prompted protests and a scramble by the administration to adjust its approach, even as Congress wrestles with whether it can pass its own immigration bill.

In the ruling, Chief Justice Roberts cited President Ronald Reagan's decision to suspend U.S. entry for Cuban immigrants and Mr. Carter's decision to deny and revoke visas for Iranian nationals.

Aside from the five Muslim countries, the ban also prohibits travel by North Koreans and certain government officials in Venezuela, though those restrictions weren't part of the court case. Chad also was on the list until recently.

Sudan and Iraq were included previously but aren't subject to the current ban.

—Rebecca Ballhaus contributed to this article.

# Senior Democrat Upset in New York Primary

BY JANET HOOK  
AND VALERIE BAUERLEIN

In a major upset for the Democratic party establishment, Rep. Joe Crowley of New York lost his primary election Tuesday, unseated by a young progressive newcomer who reflects restiveness in the left wing of the party.

Alexandria Ocasio-Cortez, a 28-year-old former Bernie Sanders organizer, won the race in the New York 14th congressional district, which includes parts of Queens and the Bronx.

It was a signal victory for the party's progressive insurgents after their candidates have lost out to more centrist, establishment-backed candidates in many primaries. In another win for progressives over the party establishment, Democrats in Maryland chose Ben Jealous, a former NAACP president who was backed by Mr. Sanders, to be their gubernatorial nominee.

Voters went to the polls for primary and run-off elections Tuesday in seven states that, on the Republican side, also laid bare the changes reshaping the party since Donald Trump's election. In major contested primaries, candidates endorsed by Mr. Trump prevailed in South Carolina, New York and Utah.

Republican primary voters chose an early Trump loyalist, incumbent Gov. Henry McMaster, in the South Carolina GOP primary run-off. In a contested New York House primary, voters chose Rep. Dan Donovan—endorsed by the president even though he crossed him on key tax and health votes—over former Rep. Michael Grimm.

And in Utah, Mitt Romney won his party's Senate nomination with Mr. Trump's blessing, having toned down some of his harsh criticism of the party's nominee during the 2016 presidential campaign. He defeated GOP state Rep. Mike Kennedy, who attacked Mr. Romney for his past criticism of Mr. Trump. The party's 2012 presidential

**Alexandria Ocasio-Cortez, a Bernie Sanders organizer, defeated Joe Crowley.**

nominee is now heavily favored to win the general election in deep red Utah.

The biggest surprise of the night came in Mr. Crowley's district. Ms. Ocasio-Cortez ran against Mr. Crowley calling for generational change, a more progressive agenda and more racial diversity in the leadership of the Democratic Party. Mr. Crowley, 56, is a senior member of the House leadership and had been considered a possible candidate for speaker if Democrats won a majority in the fall. He has represented the district since 1999 and is head of the Queens Democratic Party.

In Maryland, Mr. Jealous, who had been endorsed by Mr. Sanders and other progressive leaders, was declared the winner in a nine-person field. If he wins in November, Mr. Jealous would become Maryland's first African-American governor. But he faces a tough general election fight to unseat popular GOP Gov. Larry Hogan, who is seeking a second term.

In South Carolina, Mr. McMaster beat John Warren, a self-made multimillionaire. Mr. Trump played an outsized role in the race, tweeting his support for Mr. McMaster and flying to the state for a campaign rally on Monday.

In Colorado, both parties had lively primaries in the contest to succeed term-limited Gov. John Hickenlooper. Among Republicans, the Bush political dynasty continued to thrive, as a cousin of George W. Bush, Walker Stapleton, won the GOP nomination for governor. Democratic primary voters were also choosing from a field of four candidates and selected Rep. Jared Polis, a five-term House member, as their nominee.

# Justices Uphold Travel Ban

Continued from Page One

day, nor should it," Justice Sotomayor said from the bench.

Mr. Trump, for his part, hailed the ruling on Tuesday.

"The ruling shows that all of the attacks from the media and the Democrat politicians are wrong, and they turned out to be very wrong," the Republican president said at a meeting with GOP lawmakers.

The justices supporting the majority opinion made it clear they were aware of Mr. Trump's negative statements about Muslims both before and after the 2016 election and they listed many of them, including his retweeting of three anti-Muslim propaganda videos and his campaign call for a shutdown of Muslim entry.

"But the issue before us is not whether to denounce the statements," Chief Justice Roberts wrote. Rather, the court "must consider not only the statements of a particular president, but also the authority of the presidency itself."

The court found that Mr. Trump's comments were outweighed by the fact that the latest travel ban made no mention of religion and was justified on independent national-security grounds, including an administration study that found weaknesses in how some countries vetted their travelers.

Lawyer Neal Katyal, who represented the state of Hawaii and argued against the ban at the Supreme Court, expressed disappointment but said more than a year of litigation had "forced the White House to amend their travel bans to bring them more in line with our Constitution."

"As the Supreme Court has repeatedly said, not everything that is constitutional is good policy," Mr. Katyal said.

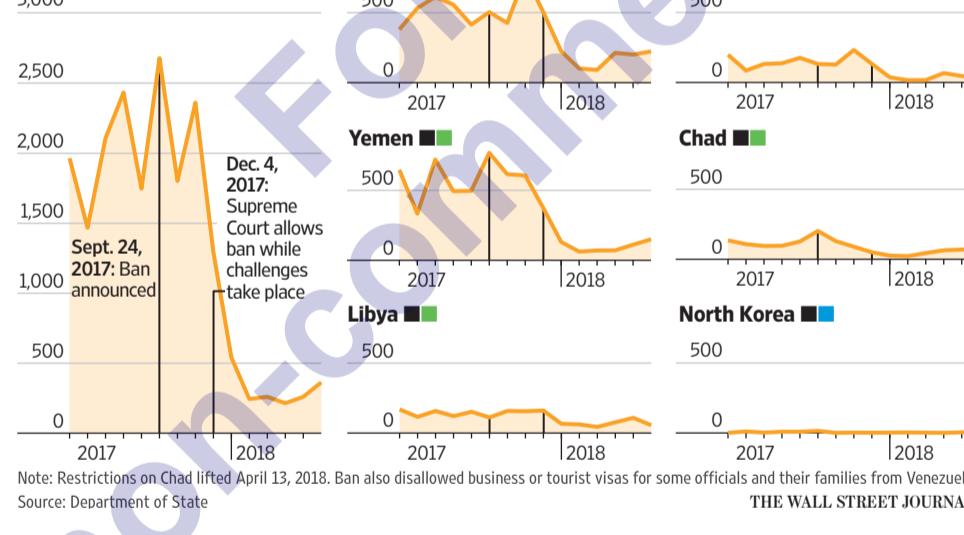
While Mr. Trump received the court's permission for the ban Tuesday, he couldn't claim its endorsement.

"We express no view on the soundness of the policy," the chief justice wrote, joined by Justices Anthony Kennedy, Clarence Thomas, Samuel Alito and Neil Gorsuch. Rather, the court stressed that it was seeking to protect the executive

## Restricted Entry

All visas issued to nationals from countries cited in President Trump's third travel ban.

Types of visas disallowed under ban, by country:



THE WALL STREET JOURNAL.

## Ruling Repudiates Internment Camps

The U.S. Supreme Court didn't just preserve the president's travel ban. Tucked inside Tuesday's opinion was another ruling a few lines long that disposed of one of the most disputed decisions in high-court history.

It was nearly three-quarters of a century ago when a wartime Supreme Court upheld the internment of "all persons of Japanese ancestry," concluding that national security concern and fear of sabotage after the attack on Pearl Harbor could justify the forced relocation and incarceration of more than 100,000 people of Japanese descent.

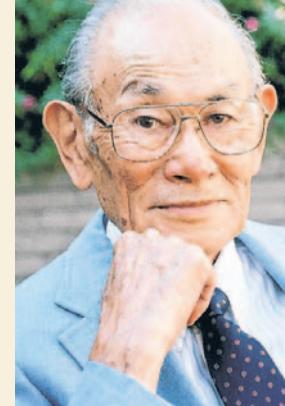
In the postwar years, Korematsu v. United States sank into infamy as an unjustifiable endorsement of racial oppression.

In a 2011 press release, the Obama administration's top lawyer before the Supreme Court, Neal Katyal, issued an apology on behalf of the solicitor general's office, which had under President Franklin D. Roosevelt

defended the constitutionality of the internment. Now in private practice, Mr. Katyal was on the losing side in the travel ban case as the lawyer who argued on behalf of Hawaii.

Hawaii v. Trump, the case decided Tuesday, was never directly about Korematsu and whether it should be overturned. But the national-security legal dispute gave justices an opportunity to finally toss it into the dustbin.

Toward the end of his 39-page majority ruling, Chief Justice John Roberts repudiated

 ROBIN WEINER/ASSOCIATED PRESS  
Fred Korematsu in 1996

and on their behalf."

"Our presidents have frequently used that power to espouse the principles of religious freedom and tolerance on which this nation was founded," he continued, from

Korematsu. The 1944 6-3 decision, with its rationale for depriving rights, was "gravely wrong the day it was decided, has been overruled in the court of history, and—to be clear—has no place in law under the Constitution," he wrote.

Thomas Goldstein, a veteran Supreme Court practitioner and publisher of SCOTUSblog, said it was long assumed that justices had abandoned Korematsu. Its holding was so "outlandishly wrong that nobody would try to rely on it."

He said the case may not have made a cameo without Justice Sonia Sotomayor's dissent. She wrote that the Supreme Court—in both Korematsu and Tuesday's ruling—allowed a president to invoke "an ill-defined national security threat to justify an exclusionary policy of sweeping proportion" and rooted in "dangerous stereotypes."

Justice Roberts said Korematsu was wrong, but so was Justice Sotomayor's analogy. "[I]t is wholly inappropriate to liken that morally repugnant order to a facially neutral policy denying certain foreign nationals the privilege of admission," he wrote.

—Jacob Gershman

George Washington's 1790 letter to the Hebrew Congregation of Newport, R.I., to George Washington's visit to the Islamic Center of Washington after the Sept. 11, 2001, terrorist attacks.

Still, he wrote, some presi-

dent is now heavily favored to win the general election in deep red Utah.

The biggest surprise of the night came in Mr. Crowley's district. Ms. Ocasio-Cortez ran against Mr. Crowley calling for generational change, a more progressive agenda and more racial diversity in the leadership of the Democratic Party. Mr. Crowley, 56, is a senior member of the House leadership and had been considered a possible candidate for speaker if Democrats won a majority in the fall. He has represented the district since 1999 and is head of the Queens Democratic Party.

In Maryland, Mr. Jealous, who had been endorsed by Mr. Sanders and other progressive leaders, was declared the winner in a nine-person field. If he wins in November, Mr. Jealous would become Maryland's first African-American governor. But he faces a tough general election fight to unseat popular GOP Gov. Larry Hogan, who is seeking a second term.

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As from the five Muslim countries, the ban also prohibits travel by North Koreans and certain government officials in Venezuela, though those restrictions weren't part of the court case. Chad also was on the list until recently.

Sudan and Iraq were included previously but aren't subject to the current ban.

—Rebecca Ballhaus contributed to this article.

## U.S. NEWS

# NSA Leak Case Results in Plea

By DEL QUENTIN WILBER

Reality Leigh Winner, a former defense contractor who was the first person prosecuted by the Trump administration for allegedly leaking to reporters, pleaded guilty in federal court on Tuesday in a deal with prosecutors that requires her to serve just over five years in prison.

The 26-year-old admitted she unlawfully retained and disseminated defense intelligence information, a charge that carries a maximum 10-year prison sentence. Her plea deal must still be approved at a future hearing by a federal judge in Augusta, Ga.

No sentencing date has been set.

Ms. Winner, a former Air Force linguist who lived in Augusta, was a contractor last year with **Pluribus International** Corp. assigned to the National Security Agency. In May 2017, she printed a secret report on Russian hackers and mailed it to the Intercept, an online news outlet that later published the document, according to court papers and people familiar with the matter.

The report concluded that Russian spies broke into com-

puters of a U.S. company "to obtain information on elections-related software and hardware solutions."

Federal authorities were able to track down Ms. Winner as the source of the document after closely inspecting a copy of the report that the news organization had given the government in an effort to verify its authenticity, according to court records.

A Justice Department spokeswoman in Georgia declined to comment on the guilty plea.

Joe Whitley, Ms. Winner's lawyer, released a statement saying the former contractor "has taken this matter seriously, and has made a very difficult decision that will no doubt impact the rest of her life."

President Donald Trump and Justice Department officials have promised a crackdown on leakers. Their efforts build on the Obama administration's aggressive policing of disclosures of classified information to reporters.

Government transparency advocates and press groups have decried leak prosecutions and investigations, saying they inhibit the free flow of information to the public.

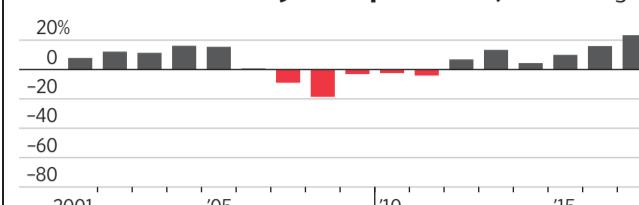


Reality Winner, after court on Tuesday, faces over five years in prison. MICHAEL HOLAHAN/THE AUGUSTA CHRONICLE/ASSOCIATED PRESS

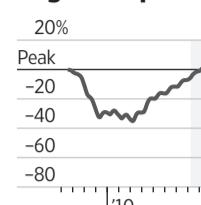
## Pre-Crisis Peaks

Home prices have recovered to their 2006 levels in half of the markets in the Case-Shiller home price index. Some markets:

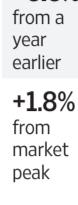
S&P Case-Shiller 20-city home price index, annual chg.



Chg. since peak



+6.6% from a year earlier



+1.8% from market peak

+10.9% from a year earlier



+21.0% from market peak

+7.4% from a year earlier



-4.2% from market peak

+13.1% from a year earlier



+30.8% from market peak

+8.6% from a year earlier



+52.1% from market peak

+12.7% from a year earlier



-23.9% from market peak

+6.8% from a year earlier



-21.3% from market peak

+20.1% from market peak

+10.9% from a year earlier



+21.0% from market peak

+7.4% from a year earlier



-4.2% from market peak

Note: Change measured since each market's individual prerecession peak.

Source: S&P Dow Jones Indices

THE WALL STREET JOURNAL.

## House Prices Rise, but Gains Are Smaller

Home-price gains moderated slightly in April, a sign that rising mortgage rates may be putting pressure on what consumers are able and willing to pay.

The S&P CoreLogic Case-Shiller National Home Price Index, which measures average home prices in major metropolitan areas across the U.S., rose 6.4% in April, down from a 6.5% year-over-year increase in March.

While the price gains lost a bit of momentum last month, prices continue to grow faster than both incomes and inflation. Half of the U.S. housing markets are above their 2006 peaks. (Accounting for inflation just three markets are above that peak.)

The biggest price gains are concentrated in the West. Seattle saw a 13.1% annual gain in April, compared with a year earlier, while Las Vegas prices increased 12.7% and San Francisco saw a 10.9% increase.

"One factor pushing prices up is the continued low supply," said David Blitzer, managing director at S&P Dow Jones Indices.

—Laura Kusisto

## U.S. WATCH

### LAW ENFORCEMENT

#### Report: Women See Bias in Federal Jobs

Women in federal law-enforcement agencies are underrepresented in leadership, promoted less often than men and reluctant to report discrimination because they distrust the process or fear retaliation, the Justice Department's watchdog said in a report released Tuesday.

Most women who participated in Inspector General Michael Horowitz's review believe bias and favoritism, rather than merit, drive personnel decisions.

The report looked at the Federal Bureau of Investigation; the Bureau of Alcohol, Tobacco, Firearms and Explosives; the Drug Enforcement Administration; and the U.S. Marshals Service. It cov-

ered the period from fiscal year 2011 through 2016.

In the survey of more than 8,000 employees, 22% of all women and 43% of female criminal investigators said they had faced gender discrimination.

Many said they were reluctant to formally complain.

Each of the agencies told the inspector general's office they had taken steps to change.

—Sadie Gurman

### ECONOMY

#### Consumer Confidence Got Dimmer in June

Americans view the economy with some of the highest levels of optimism in years, but their rosy outlook has dimmed as they look to the future.

That note of caution pushed

an index of consumer confidence to 126.4 in June from 128.8 a month earlier, the Conference Board said Tuesday. Economists surveyed by The Wall Street Journal expected a reading of 128.1.

The overall index hit a 17-year high in February and remains just a touch off that mark. But an index of expectations fell this month to the lowest level since December.

—Josh Mitchell

### FEDERAL FINANCES

#### Report Warns About Rising Federal Debt

Rising interest rates will put increasing pressure on government finances and push interest payments to record levels in the coming decades, the Congressio-

nal Budget Office said Tuesday.

In its annual long-term budget report, the CBO said an improving economy and rising levels of federal debt would increase debt payments from 1.6% of gross domestic product in 2018 to 3.1% in 2028 and 6.3% in 2048, which would be the highest level ever.

Those payments would help push overall federal spending to 29% of GDP for the first time since World War II.

While that is still relatively low by historical standards, continued federal deficits during that time would raise interest payments owed by the government. As a result, Congress and future administrations could have difficulty responding to unexpected economic crises, according to the report.

—David Harrison

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## U.S. NEWS

# Trump and Trade Loom in North Dakota

By JANET HOOK

**FARGO,** N.D.—President Donald Trump, capping a week of campaign appearances for Republicans in tough midterm elections, travels Wednesday to North Dakota, where a GOP Senate candidate is being boosted by the president's popularity but potentially hurt by his controversial trade policies.

Mr. Trump is campaigning for Rep. Kevin Cramer, whom he lobbied to run for the Senate in a state that the president won by 36 percentage points in 2016. Mr. Trump remains popular here. Even Democratic Sen. Heidi Heitkamp, who faces Mr. Cramer in her run for a second term, brags in her campaign ads about how often she votes with the president.

The Trump rally in Fargo is the latest midterm campaign event the president has held for Republicans. Over the past week, he has made stops in Minnesota, Nevada and South Carolina. North Dakota is a proving ground for how Democrats in Trump country hope to survive in 2018: on the strength of their own personal brand, a local focus and studied distance from the national party.

The Senate race is shadowed by the growing threat of a trade war that could hurt North Dakota's export-dependent farmers, and Ms. Heitkamp is working to align herself with them.

"There is a lot of anxiety out there," she said over coffee with farmers at a restaurant in Fargo. "I get up every

morning thinking about rural America."

Mr. Cramer, a three-term congressman and former chairman of the state GOP, campaigns as a staunch ally of the president. He is walking a delicate line between

## Soybeans are the state's No. 1 export and China is their No. 1 destination.

backing Mr. Trump and offering sympathy to anxious constituents, many of them involved in agriculture.

"I don't like tariffs but I don't think it's appropriate to

undercut the authority of the president," Mr. Cramer, 57 years old, said. "I do my part to influence him."

Soybeans are the state's No. 1 export, generating about \$1.1 billion in 2016, according to the latest figures from the U.S. Agriculture Department. China is the No. 1 destination for those soybeans, according to the North Dakota Soybean Council.

After the Trump administration in mid-June finalized plans to impose tariffs of 25% on \$50 billion of Chinese products, China said it would retaliate with 25% penalties on a range of U.S. goods including soybeans. Though the tariffs in both countries are set to take effect July 6, U.S. farmers have already seen a drop in prices.

"Soybeans are be-

ing used as a tool, and it's affecting us in a negative way," said Craig Olson, a soybean farmer and Trump supporter in Colfax.

Tom Campbell, a potato farmer who dropped his own Senate bid and is now a Cramer backer, warned that if the economic fallout of a trade war hits during fall harvest it could hurt Mr. Cramer. "If there is huge retaliation in the soybeans market, the timing could work against him," said Mr. Campbell, a state senator.

Realizing the concern, Mr. Cramer recently assembled a group of farmers to meet with Commerce Secretary Wilbur Ross to voice their concerns.

Ms. Heitkamp, 62, is well-known from decades of holding public office, including state attorney general and tax

commissioner. Mr. Cramer is well-known, too. As North Dakota's only House member, he has campaigned across the state.

While Mr. Trump is rallying with Mr. Cramer on Wednesday, Ms. Heitkamp wants her supporters to work on a phone bank rather than demonstrate. "You can go out and yell and scream and hold up a sign or you can get people out to vote," she said.

Ms. Heitkamp stresses her efforts to work across the partisan aisle. One ad quotes a Republican colleague calling her "stronger than battery acid." Another cites an analysis showing she voted with the president more than half the time—far from the anti-Trump rallying cry heard from other Democrats in 2016.

# General Electric Aims to Be More Decentralized

By THOMAS GRYTA

**General Electric** Co. was the iconic conglomerate—its stock soaring ever higher as it added businesses and complexity. Now, it is reversing course, scaling back the size and power of its headquarters and aiming to inject more authority into its shrinking group of businesses.

The approach reflects a philosophy that too much central management is rarely good for a diversified company, and a view that the structure certainly wasn't working for GE.

GE's stock has fallen by half in the past year, erasing \$100 billion in market value.

Chief Executive John Flannery, who spent much of the past decade of his GE career overseas, said his time abroad helped him understand the challenges of operating thousands of miles from decision makers. His aim, he said, is to decentralize the company's decision making and resources and run GE with its businesses as the "center of gravity."

The strategy is a departure for a company that has long been run by larger-than-life figures, from Jack Welch to Jeff Immelt.

"I came into the job with a lot of notions about things that I would want to do differently," Mr. Flannery said in an interview.

To start, he has pushed for common metrics across different businesses to help with easier comparisons. He has made changes so workers spend less time on internal issues and reviews. He also has drastically cut down on meetings. "Little or no meetings wherever possible," he said.

Mr. Flannery took over as CEO last summer after a 16-year run by Mr. Immelt, who significantly transformed the company. Mr. Immelt bought and sold many businesses and led a massive expansion into overseas markets. He left amid pressure to improve profits and boost its stock price.

"GE remains a formidable company," Mr. Immelt said in a statement Tuesday, noting it built leadership positions in its health-care, aviation, power and other business over many years.

In 1982, when Mr. Immelt joined the company, GE operated 135 factories in 25 foreign countries. As of this year, it has 348 plants spread across 43 countries. The company

employed about 313,000 workers around the globe at the end of 2017, with about a third of its staff based in the U.S.

Mr. Flannery said he was influenced by his experience working for GE Capital in Asia where his boss gave him autonomy to make major decisions. The setup, he said, helped the organization move more swiftly while also in-

creasing accountability for people who were closest to the businesses.

The streamlined philosophy pairs well with one of GE's biggest shareholders, activist Trian Fund Management, an investment fund with a co-founder on GE's board. The firm has encouraged other large companies to split into pieces and preaches that con-

glomerates need to justify their value to investors.

A sprawling structure can make it hard to efficiently run a business, Mr. Flannery said, because of the time necessary to communicate with far-flung colleagues in different time zones.

The model Mr. Flannery describes is less like Berkshire Hathaway Inc., which acts like

a holding company for its companies, and more like Danaher Corp., a smaller health-care-focused conglomerate with a thin corporate layer and a culture relying on metrics such as cash and inventory levels.

Danaher's former CEO, Larry Culp, joined GE's board in April and on Tuesday was named the lead independent director.

## GE CEO on Strategy And a Smaller HQ

In an interview with The Wall Street Journal, General Electric Co. Chief Executive John Flannery talked about the thinking behind his strategy to turn around the struggling conglomerate. Edited excerpts:

**WSJ: You're separating health care. Why are you keeping power? And why not let investors choose—or is that something that you would consider in the future?**

Mr. Flannery: This is the plan. We're finished. This is the way we're going to go forward, to answer your question directly.

The second thing is this, this is a dramatic change in the company. It's a dramatic change in the portfolio, it is a dramatic change in the way we run the company. So this is not an insignificant change.

The third thing is, we really looked at what is the best way for the businesses to flourish. We didn't start with any preconceptions of we should keep things together or we should not keep things together, as I said from the outset. Everything's on the table, with no preconceptions and no sacred cows.

If you look at health care, Baker Hughes and transportation, we concluded they could grow fastest and create the most shareholder value for our owners outside of the GE complex.

## WSJ: What's the logic behind the pieces that stay inside GE?

Mr. Flannery: Unlike health care and Baker Hughes, there is significant shared technology.... We get technology for GE fan blades for aircraft engines that we put into the renewable business, so there's a lot of technology sharing back and forth, and we feel they can innovate and share investment in ways other parts of the company couldn't.

**WSJ: After your 11-month review, do you feel like you've turned over every stone?**

Mr. Flannery: Yes, we have gone to the four corners of the company, looked at everything. I'm highly confident we've got our arms around everything. We're taking steps, you know

where we have seen issues along the way, we've stepped into them, we faced them.

**WSJ: How about the more recent news of being removed from the Dow Jones Industrial Average? Does it mean GE has changed, or is it the Dow that has changed?**

Mr. Flannery: Listen, you know being a member of the Dow is a big part of the company's history.... It's not going to be what defines us today or in the future. We're going to define ourselves in the future. The teams and how we perform and how we deal with customers, how we invest in the things we do right now—that's what writes the story for GE.

—Thomas Gryta

from a top-down approach to a culture where the business units are the center of gravity.

"This is a company that's been run from the center for decades," said Mr. Flannery, a GE lifer who spent most of his three decades at the company in its finance business. "We're basically inverting that and pushing out resources, investment capability."

The catch: There won't be that many units for the smaller headquarters in Boston to manage. GE will still be a major company with tens of thousands of workers and dozens of factories around the globe, but it will be focused around its power, aviation and renewable-energy businesses. These units accounted for more than \$70 billion of GE's revenue last year. The announcement confirmed an earlier report by The Wall Street Journal.

"This is the way we're going to go forward," Mr. Flannery said in an interview. "It's a dramatic change in the portfolio, it is a dramatic change in the way we run the company."

GE said it would reduce its dividend payout after the

spinoff of its health business and will need to pump more funds into its struggling finance arm next year.

On Tuesday, the company said it plans to shrink its headquarters operations by making \$500 million in additional costs cut by the end of 2020. Mr. Flannery didn't say how many jobs would be affected. The company employed about 313,000 people at the end of 2017, two-thirds of them outside the U.S.

Trian Fund Management LP, the activist investor that has a GE board seat, welcomed the changes. "Trian supports the strategic initiatives announced today by GE and believes that these initiatives will create substantial value for shareholders," a spokeswoman said. The fund has suffered hefty losses since its initial \$2.5 billion investment in 2015.

Credit analysts at S&P warned Tuesday they may downgrade their rating on GE, which had more than \$100 billion in net debt last quarter. S&P applauded GE's restructuring plans and decision to reduce debt, but said the planned

spinoff of its health unit "reduced diversity and cash flow." A one-notch downgrade to A is possible, S&P said.

The fortunes of GE's biggest units diverged in recent years, raising questions about its conglomerate structure and leadership. The power business has struggled with slack demand and plunging profit, prompting

## Downward Jolt

GE's share performance since John Flannery was named CEO in June 2017



Source: SIX  
THE WALL STREET JOURNAL

thousands of job cuts. But the aviation unit is riding strong orders for its new jet engines and generating nearly half of the company's industrial profit.

GE has also been grappling with problems in what remains of GE Capital, including surprise losses at a legacy long-term-care insurance business. Under the latest plan, GE will further reduce lending at GE Capital and the parent company will make a \$3 billion contribution to the finance division in 2019.

Sales and profit have been rising at the health-care unit, which brought in about 16% of companywide sales, or \$19 billion, last year. The business produces magnetic resonance imaging machines and other equipment sold to hospitals as well as laboratory supplies for biotech firms. Both Mr. Flannery and Mr. Immelt once ran GE's health-care business.

GE plans to sell 20% of the division, the company said, and later distribute the remainder to its existing shareholders. The newly separate company would also assume \$18 billion in liabilities from its parent. The separation will likely take 12 to 18

months, GE said.

GE expects to exit its investment in Baker Hughes over the next two to three years. GE merged its oil-and-gas business with Baker Hughes in 2017, leaving GE with a two-thirds stake in the enlarged public company.

The Baker Hughes deal was one of the last major moves by Mr. Immelt, the former CEO, who led GE for 16 years and left last summer amid pressure to boost profits and revive the stock price.

The company's decision to spin off health care and separate Baker Hughes comes a month after Mr. Flannery agreed to leave the railroad locomotive business in an \$11 billion deal. Earlier this week, GE agreed to sell its gas-engine business for about \$3 billion. For more than a year, it has also been looking to sell its century-old lighting business, which traces its history to Thomas Edison.

"I have no nostalgia for the way things have been," Mr. Flannery told investors last month at an industry conference. "If there's a better way to do things, we'll do them."



## Shrunken GE Plans More Sales

Continued from Page One

business, forcing GE to slash its dividend and profit goals.

GE shares have tumbled by half in the past year, erasing more than \$100 billion in wealth. Last week, it was ousted from the Dow Jones Industrial Average, a perch it had held since 1907.

GE stock rose 7.8% Tuesday to \$13.74—it's best gain in three years. The company now has a market value of \$120 billion, compared with a peak of \$594 billion in 2000, when GE was the most valuable U.S. company.

The rookie CEO received advice from an overhauled board, which has several new names, including an activist investor whose playbook is to break up companies. Along with shedding businesses, Mr. Flannery said his plan calls for GE to change how it is run, shifting

from a top-down approach to a culture where the business units are the center of gravity.

"This is a company that's been run from the center for decades," said Mr. Flannery, a GE lifer who spent most of his three decades at the company in its finance business. "We're basically inverting that and pushing out resources, investment capability."

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## WORLD NEWS

# Bank Exodus Squeezes Iranian Economy

Fearing sanctions, firms back away, complicating funding for trade and handling of payments

By BOENOT FAUCON  
AND SARAH MCFARLANE

Foreign banks that kept Iran trading oil through previous sanctions are pulling out under pressure from the latest round of U.S. restrictions, hitting a lifeline of Iran's economy.

Even banks with no direct U.S. exposure are refusing to deal with Tehran, fearing they will be cut out of the dollar-based global financial system.

With no international banks to fund trade and handle payments, Iranian businesses will struggle to buy and sell with the outside world, even as China, the European Union and India say they want that to continue.

In May, President Donald Trump pulled the U.S. out of the 2015 Iran nuclear deal and vowed to reimpose economy-crushing sanctions on Tehran.

Several large foreign refin-

ers have already said they are considering scaling back Iranian oil imports. Other companies are reluctant to invest, while those exporting goods to Iran are struggling to repatriate payments from the country. All say that is because banks won't deal with Iran, and many of those lenders cite their need to access U.S. dollars for refusing such trade. Europe's state-backed lenders and central banks are leery of their governments' requests to help companies trade with Iran, people familiar with the matter say.

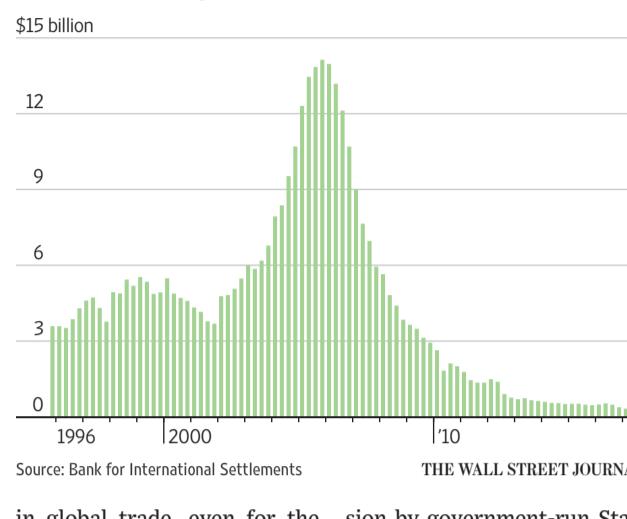
Almost all trade in oil, Iran's main export, is in dollars. Banks' reluctance to help may be taking a toll on Iran's oil exports, analysts say. Exports have fallen to an average of 2.2 million barrels a day this month, compared with 2.7 million barrels a day in May, according to data from London-based consultancy Vortexa.

The dollar has been the global currency of choice for decades, and its dominance of finance has increased in recent years.

"The centrality of the dollar

## Down to a Trickle

U.S.-dollar-denominated loans and deposits to Iran from banks, amounts outstanding



Source: Bank for International Settlements

European refiners, which buy around a third of Iran's oil exports, are also dropping out. Italy's Saras SpA is considering no longer buying Iranian oil because its banks don't want to finance such trades, according to company officials. A Saras spokeswoman said it had made no final decision on Iran.

Big European banks had long stopped dealing with Tehran. Many have bad memories. France's BNP Paribas, for instance, was fined a record \$9 billion by the U.S. for violating Iran and Sudan sanctions in 2014.

Now, the host of small banks that continued dealing with the Islamic Republic are either restricting trades with Iran or stopping them altogether.

European officials have asked the region's central banks and state-run lenders to step in where private lenders are reluctant to deal with companies working with Iran, according to people familiar with the matter. So far these institutions have mainly pushed back, the people say.

Among the reasons: Central banks need access to dollars.

"The most important challenge now is to find solutions on banking and finance, because legitimate trade and investment need banking partners and financing models that work," EU foreign policy chief Federica Mogherini said in a recent speech.

The ubiquity of the dollar ensures a measure of U.S. jurisdiction over banks that have no dealings in America.

Global trade in U.S. dollars has been rising, according to Swift, the payment-services company. In 2017, the dollar accounted for 85% of global trade based on the value of letters of credit issued, up from 81% two years earlier.

During a visit to Germany last week, Andrew Peek, the official in charge of Iran at the U.S. State Department, reminded those dealing with Iran about the risks they are facing.

"The goal is as little economic involvement as possible, the maximum economic pressure," he told reporters on a conference call.

—Tom Fairless  
and Laurence Norman  
contributed to this article.

## U.S. Ties Sanctions To Iran Oil

Continued from Page One  
tration's earlier effort to wean the world off Iranian oil over several years.

But the senior official said on Tuesday that President Donald Trump's administration doesn't plan to issue any waivers and would instead be asking other Middle Eastern crude exporters over the coming days to ensure oil supply to global markets.

The tactic is likely to further escalate geopolitical tensions between the U.S. and other nations as the Trump administration pits itself against allies and other major economies over its nearly unilateral policy toward Iran and a host of challenges on trade.

Oil prices immediately jumped on the news, with West Texas Intermediate crude for August delivery ending 3.6% higher at \$70.53 a barrel on the New York Mercantile Exchange. That marked the highest level since May, when the White House said it would pull out of the 2015 Iran nuclear accord—which the U.S. and other major countries reached with Tehran to curb its nuclear development—and would reimpose crushing sanctions on one of the world's largest oil suppliers.

"We will certainly be requesting that their oil imports go to zero without question by Nov. 4th," the official said of other countries' purchases of Iranian oil. While the administration won't rule out issuing sanctions waivers in the future, the official said, its predisposition is: "No, we're not going to do waivers."

"We view this as one of our top national-security priorities," the official said.

The move is likely designed to spur greater global compliance with U.S. sanctions. Most major importers of Iranian crude have balked at Washington's new economic offensive against Tehran.

Two weeks ago, Andrew Peek, deputy assistant secretary of State for Iran and Iraq, said the U.S. was prepared to issue waivers if countries made major



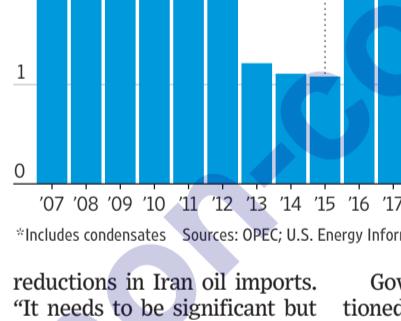
A tanker and support vessel sail in the Persian Gulf. Iran currently exports 2.2 million barrels a day.

### Clamping Down

Iran's oil exports were beginning to recover after the lifting of sanctions under the 2015 nuclear deal. New U.S. sanctions, which include prohibitions on Iranian oil exports, could reverse those gains. Oil prices

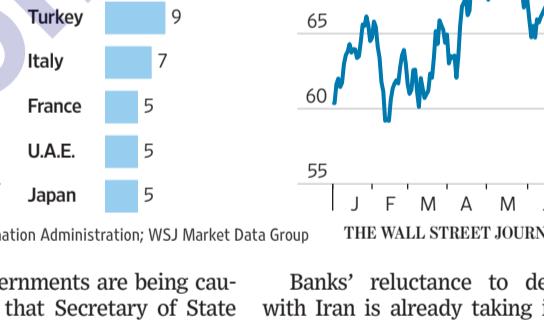
rose Tuesday on news the administration plans to ban all foreign purchases of Iranian crude in November.

#### Iran's oil exports, in millions of barrels a day\*



\*Includes condensates Sources: OPEC; U.S. Energy Information Administration; WSJ Market Data Group

#### Share of Iran's oil exports, by destination, 2017



Governments are being cautioned that Secretary of State Mike Pompeo and the White House "aren't kidding about this," the official said. China and India, two of the largest buyers of Iranian crude, "will be subject to the same sanctions that everybody else is if they engage in those sectors of the economy."

The Trump administration, in pulling out of the nuclear accord and reimposing sanctions on Iran that hit not just the oil sector, but also the banking, shipping, trade and insurance markets, said it wants to force Tehran to radically overhaul its nuclear and military posture in the region.

Top administration officials from the State and Treasury departments have jetted around the world in recent days to persuade other countries to cut use of Iranian crude and warn them that any companies, banks or traders that handle Iranian oil face U.S. penalties, including the risk of being frozen out of U.S. markets. The senior State Department official said allies in Europe and Asia already had been warned, and trips to China, India and Turkey were in the works.

Banks' reluctance to deal with Iran is already taking its toll on Tehran's oil exports. Exports have fallen to an average of 2.2 million barrels a day this month, compared with 2.7 million barrels a day in May, according to data from London consulting firm Vortexa.

European refiners, which buy around a third of Iran's oil exports, are also dropping out. Italy's Saras is considering no longer buying Iranian oil because its banks don't want to finance such trades, according to company officials. A Saras spokeswoman said it had made no final decision on Iran.

They have already started buying more oil from Saudi Arabia, Russia and Iraq to make up for upcoming reductions in Iranian oil.

Meanwhile, economic woes have triggered a new round of protests in Iran, posing a challenge to President Hassan Rouhani's government as it struggles to tackle persistent inflation and unemployment.

Mr. Pompeo warned last month that Tehran would face "the strongest sanctions in history" if it didn't yield to U.S. demands that it temper its nuclear and regional ambitions. He also suggested the Iranian public could take matters into its own

hands.

The administration's more aggressive stance on sanctions could bolster its leverage over Tehran, but it also complicates the White House's other diplomatic and political priorities.

The move puts particular pressure on major trans-Atlantic allies that import hefty amounts of crude from Iran at a time when Mr. Trump is ratcheting up tensions with European nations over trade and seeking their support for his other foreign-policy goals.

—Benoit Faucon,  
Laurence Norman  
and Michael R. Gordon  
contributed to this article.

# Fight Over Libyan Oil Threatens Country's Fragile Peace Efforts

BY JARED MALSIN

CAIRO—A rogue military commander who oversees the eastern half of Libya has handed control of vital oil facilities to a rival of the U.N.-backed government in Tripoli, potentially escalating the country's yearslong civil war.

The announcement by Field Marshal Khalifa Haftar's forces on Monday injected fresh uncertainty into the global oil market and sets up a possible showdown between a government allied with the commander in the country's east and the rival government in the western capital Tripoli, which is backed by the U.S. and the United Nations.

If it holds up, the decision

would be one of the most serious blows in years to the Tripoli government and to efforts at reunifying Libya, which descended into turmoil following the uprising that toppled Moammar Gadhafi in 2011.

Rival Libyan leaders including Mr. Haftar and Prime Minister Faiez Serraj had agreed at a summit in Paris in May to hold elections by year's end as a path toward ending the political deadlock.

"The probability of heightened violence has gone up as a result of the announcement," said Jalel Harchaoui, an associate focused on Libya at North Africa Risk Consulting.

"We could also witness a process by which Libya would drift toward a more profound

partition," he said.

The declaration by Mr. Haftar's forces, known as the Libyan National Army, followed more than a week of fighting in Libya's oil heartland that cut crude production and sparked massive fires at storage facilities. This week, his forces said they wouldn't hand control of Libya's Mediterranean Sea oil terminals to the National Oil Co., which is affiliated with the government in Tripoli.

Instead, the group announced the ports would be under the control of a different body, also called the National Oil Co., affiliated with the rival eastern government allied with Mr. Haftar.

The Tripoli-based National Oil Co. rejected the decision,

saying it would pursue legal action against anyone buying Libyan oil outside its auspices. The U.N. and Western powers have recognized the Tripoli state oil firm as the only legal seller of Libyan oil.

Like the central bank, the National Oil Co. is a core Libyan institution that international officials hope will one day be handed to a reunified Libyan government. Observers fear that

attempts to undermine those institutions could fatally damage attempts to reunite the country.

The company's chairman, Mustafa Sanallah, said he was communicating with foreign oil companies to ensure no oil would be exported from the eastern terminals without Tripoli's approval.

"We have the legitimacy," he said. "They cannot succeed."

The Tripoli-based government called the move "illegitimate" in a statement, while the rival eastern government said it backed the decision.

Mr. Haftar had brought some stability to Libya's oil production in recent years with previous agreements to put eastern oil ports under the direction of Tripoli. But in re-

cent weeks, renewed fighting over control of the oil ports has scrambled the situation.

The Haftar faction claimed to have repelled an assault by an array of armed groups including one loyal to Ibrahim Jathran, the leader of a group known as the Petroleum Facilities Guards. Mr. Jathran's forces lost control of the oil terminals to Mr. Haftar's forces in 2016.

The recent fighting cut production by more than 450,000 barrels a day, according to the Tripoli-based National Oil Co. In previous months, crude production had hovered below a million barrels a day. Oil prices were up 0.5% on Tuesday at \$74.93 a barrel for Brent, the international benchmark, in part because of the Libyan outages.

## WORLD NEWS

# Migration Barely Figures in Mexico Vote

**Central Americans don't settle in country; campaigning focuses on corruption, violence**

BY JOSÉ DE CÓRDOBA

MEXICO CITY—As Mexicans prepare to cast ballots Sunday in an election dominated by anger over endemic violence and corruption, few voters are talking about the wave of Central American migrants that has transfixed the American public in recent days.

The basic reason: The vast majority of migrants crossing Mexico have no intention of settling here.

"Mexico is not their destination," said José Antonio Crespo, a political analyst at Mexico City's CIDE university. "At the end of the day, Mexican voters are worried by our own problems—corruption, violence and the economy."

Mexicans have been shocked by President Donald Trump's longstanding hostility toward undocumented migration and his plans to erect a wall along the border.

But even as controversy intensified in the U.S. this month after the Trump administration began prosecuting illegal migrants and separating migrant children from their parents, the issue has barely surfaced on the agendas of the country's presidential candidates.

"It's not on the public radar," said Andrew Selee, president of the Washington-based Migration Policy Institute. "It's been a blip on the screen, politically."

While Mr. Trump has said Mexico does little to stop immigrants from reaching the



A Salvadoran woman looking over the Rio Grande toward the U.S. from a shelter in Reynosa, Mexico, a city where gang violence is common.

U.S., Mexico has deported more Central American migrants than the U.S. in each of the last three fiscal years, according to an analysis of U.S. and Mexican official statistics by the institute.

In April, Mr. Trump also criticized the Mexican government for not stopping and sending back a caravan of 1,200 Central American migrants seeking to get to the U.S. border. The caravan disbanded after the Mexican government offered humanitarian visas to those who wanted to apply for asylum in Mexico, as others proceeded to the U.S.-Mexico border. Mr. Trump deployed National Guard troops to the border later that month.

Last week, Mexican Foreign Minister Luis Videgaray said Mexico doesn't promote illegal immigration and condemned the Trump administration's policy of separating migrant children from their parents as "cruel and inhumane."

Mexico's own southern border, with Guatemala, remains very porous, despite Mexico's efforts in recent years—largely at the prodding of the U.S.—to increase security personnel and dramatically boost the number of migrants it deports. While the U.S. pushes for still more controls to stanch the northern flow, some domestic critics of Mexico's immigration policy say the country doesn't do enough to provide asylum

to people in fear of their lives, said Tonatiuh Guillén, an immigration expert and former president of the Colegio de la Frontera Norte.

Most migrants trying to sneak to the U.S. from Mexico are fleeing gang violence, lack of jobs and grinding poverty in Honduras, El Salvador and Guatemala. They must embark on a treacherous 2,500-mile trek across Mexico to reach the opportunities and safety of the U.S.

Leading presidential candidate Andrés Manuel López Obrador has visited several U.S. cities over the past year to voice support for Mexican migrants living in the U.S., who are also eligible to vote in

Mexico's presidential election.

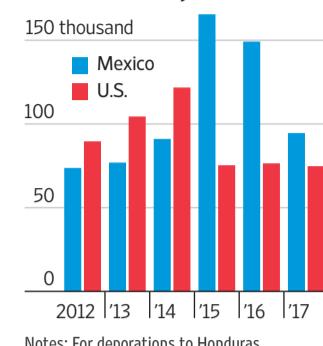
But little attention is devoted to the more than 250,000 Central American migrants who cross Mexico every year on their way to the U.S. Few of them stay.

About 100,000 people from Central America's so-called Northern Triangle live in Mexico, according to estimates from the Colegio de la Frontera Norte. More than 4.5 million people of Salvadoran, Guatemalan and Honduran origin live in the U.S., according to U.S. Census Bureau estimates.

For Central Americans fleeing violence and badly paid jobs, Mexico doesn't offer much relief. In Reynosa, a mi-

## Southern Crackdown

Mexico has deported more Central American migrants than the U.S. in recent years.



Notes: For deportations to Honduras, Guatemala and El Salvador; doesn't include voluntary or assisted returns; for fiscal years ending Sept. 30  
Source: Migration Policy Institute

THE WALL STREET JOURNAL.

grant hub across the Rio Grande from McAllen, Texas, killings and shootouts are almost daily occurrences as rival drug gangs fight turf wars to control key routes to smuggle drugs and migrants. Extortion is common and the city's streets, lined with boarded-up storefronts, are deserted at night.

Other border towns in Tamaulipas state such as Nuevo Laredo and Matamoros have also been engulfed by criminal violence.

Immigrants seeking to cross the Mexican border with the U.S. are easy targets for the drug gangs, who often kidnap them and hold them for ransom. In 2010, in the single worst massacre of Mexico's drug war, members of the vicious Zetas cartel in Tamaulipas killed 72 undocumented migrants who were headed for the U.S.

—Juan Montes and Santiago Pérez contributed to this article.

# South American Soccer Fans Draw Fire Over Behavior

BY LUCIANA MAGALHÃES AND SAMANTHA PEARSON

SÃO PAULO, Brazil—South America's World Cup teams have rallied from a shaky start, but the region is facing fresh embarrassment from its fans' conduct.

Over the past week, scandals have erupted at home over lewd pranks. South American men have played on women in Russia—incidents that women's rights activists hope will prove to be a turning point in this region's culture of machismo.

In Brazil, prosecutors opened a criminal investigation into a group of fans from the soccer-mad nation for slandering after they filmed themselves dueling a woman in Russia into chanting obscenities about herself in Portuguese, a language she appears not to have understood.

Colombia's government has

also condemned its own nationals during the tournament for filming themselves tricking foreign women into repeating sexist comments in Spanish, in an act that it said "not only degrades women, but insults other cultures, our language, and our country."

Similar videos have been posted to social media of Latin American men harassing foreign female fans and flight attendants, smuggling liquor into games, as well as making homophobic chants.

"In a connected world where content can be shared with such speed, the violation of women's rights will no longer go unnoticed or escape political and social repercussions," said Nadine Gasman, the United Nations Women Representative to Brazil, urging organizers of big events to take gender issues more seriously.

FIFA, the sport's governing

body, banned an Argentine fan from attending any more games in Russia after he recorded an offensive video. Mexico's soccer federation was also fined \$10,000 last week by FIFA because of homophobic chants by fans.

The backlash against fans'

bad behavior has been fierce in Brazil. The government, as well as the military police, the Brazilian Bar Association, and scores of television and music stars have released statements condemning the videos that went viral after the men shared them with friends back

home. In Russia, an online petition started by activist Alena Popova that has gathered thousands of signatures has called on Russian authorities to prosecute the Brazilians involved.

The type of obscene comments in the videos are commonplace in soccer games, bars and elsewhere here. About four in every 10 Brazilian women say they have been a victim of sexual harassment, according to a study by the Datafolha polling agency in January. But the videos have touched a raw nerve, particularly as the country frets about its image during the tournament after its mortifying 7-1 loss to Germany in the semi-finals of the 2014 World Cup, which was held on home turf.

"Brazil is still hurting after the last World Cup...we have an open wound about who we are," said Debora Diniz, an anthropologist and founder of a Brazilian women's rights group.

The backlash also comes as feminist groups are gaining momentum in Brazil following the international #MeToo movement and a similar campaign in neighboring Argentina.

For the Brazilian fans involved, "it was only a joke without consequences," said Bianca Madeira, 22, who sells T-shirts at a São Paulo shopping mall. "But it was horrible what they did....It was degrading," she said of the most widely shared video featuring a group of Brazilians and one foreign blond woman during a drunken street party in Russia.

Many agreed that it would likely deter Brazilians from making sexist comments in the future, even if only publicly.

"After this, men will be more careful but it doesn't mean they will change," said São Paulo resident Hermes Marques Canabrava, 56, who owns a small printing business.

# Spain Opens First 'Stolen Babies' Trial

BY JEANNETTE NEUMANN

MADRID—A 49-year-old woman took the stand Tuesday to accuse an elderly gynecologist of abducting her days after she was born and handing her to an infertile couple, in the first trial over what thousands of Spaniards allege was an extensive conspiracy to steal and sometimes sell babies.

Inés Madrigal told a three-judge panel in Madrid that the woman she had always considered her biological mother confessed to her before she died that a gynecologist named Eduardo Vela had given her a baby in June 1969. Dr. Vela told her to act as if Inés were her birth child and provided no clues about the baby's origin, the court heard.

Ms. Madrigal is one of thousands of Spaniards who allege they were swept up in a murky plot that has its roots in the dictatorship of Francisco Franco, who ruled Spain from 1939 until his death in 1975. Spanish officials at homes for unwed pregnant women and hospital clinics allegedly took newborns from mothers who were considered leftists or communists and gave them to families connected to the Franco regime. The practice later morphed into a network to traffic babies for money, prosecutors and some academics say, and carried on when Spain transi-



A doctor is accused of giving a baby to an infertile couple in 1969. Protesters outside the Madrid court.

tioned to democracy after Franco's death.

Organizations of parents who say their babies were taken from them have grown increasingly vocal in the past decade as more allegations emerged. Ms. Madrigal's case is the first trial in what many Spaniards refer to as the "stolen babies" scandal. Statutes of limitations, poor documentation and a slow judicial process have prevented other cases from reaching trial.

Fuencisla Gómez, 71, and Fernanda Álvarez, 74, were standing outside the courts Tuesday

with dozens of other activists who said they hoped the trial would lead to the release of documents that could help them find their own children.

Ms. Gómez said she gave birth to a healthy baby girl in 1971 at the clinic run by Mr. Vela, the gynecologist on trial. A nurse carried off the baby and returned shortly to say the newborn had died, but didn't let Ms. Gómez or Mr. Alvarez see the body.

"For me, my daughter never died," Mr. Álvarez said. "It was a kidnapping."

Mr. Vela has denied allega-

tions that newborns were taken from their parents at his clinic in Madrid. On Tuesday, the 85-year-old sat in court in a wheelchair and appeared disoriented during the trial, unable to answer basic questions about the clinic he ran. He is accused of abducting a minor, staging a birth and falsifying documents.

In 2011, Ms. Madrigal received the results of a genetic test that showed she wasn't related to the mother who had raised her, though her birth certificate, which was signed by Mr. Vela, said otherwise.

The European Union set a target date to begin membership talks with Macedonia next year but warned the country would have to pursue domestic reforms for negotiations to start.

The decision, which came after 10 hours of discussions in Luxembourg, offers conditional support for Macedonian Prime Minister Zoran Zaev. He sealed

## WORLD WATCH

### HORN OF AFRICA

#### Old Foes Ethiopia, Eritrea Break the Ice

In the first formal diplomatic contact in two decades, officials from Eritrea met with their Ethiopian counterparts, a potential turning point in a long border dispute.

A rapprochement between the countries would dissolve a fault-line that has isolated Eritrea, complicated alliances and fragmented the conflict-prone Horn of Africa, where Western powers are invested militarily and deploy billions in humanitarian aid.

The Eritrean delegation, headed by the foreign minister, Osman Sale, was greeted at the airport in Ethiopia's capital, Addis Ababa, by the new reformist Ethiopian Prime Minister Abiy Ahmed, who earlier this month unexpectedly said he wanted to resolve the dispute.

—Matina Stevis-Gridneff

### MACEDONIA

#### EU Sets Date For Membership Talks

The European Union set a target date to begin membership talks with Macedonia next year but warned the country would have to pursue domestic reforms for negotiations to start.

The decision, which came after 10 hours of discussions in Luxembourg, offers conditional support for Macedonian Prime Minister Zoran Zaev. He sealed

an agreement this month with Greece on changing his country's name to North Macedonia, an issue which had long blocked the country's EU and North Atlantic Treaty Organization path.

The prospect of starting membership talks could boost his hopes of overcoming domestic opposition to win approval for the name in a referendum after the summer. It could take another 18 months for detailed negotiations to begin.

Tuesday's discussions among EU ministers underline the reluctance within Europe about further expansion at a time when the bloc is riven by internal divisions on issues ranging from upholding the law to migration.

—Laurence Norman and Nektaria Stamouli

### AUSTRALIA

#### Legislators Tighten Law Against Spying

Australia is set for the biggest tightening of counterespionage safeguards in years after lawmakers backed legislation that will criminalize foreign meddling in domestic politics.

A top Australian intelligence official warned in January that espionage and foreign interference are occurring in the country at greater levels now than at the height of the Cold War.

China signaled it sees itself as the main target of Australia's tougher stance.

—Rob Taylor

## WORLD NEWS

# Turkish Court Hears Appeal of Journal Reporter

BY THOMAS GROVE

A Turkish court heard an appeal Tuesday in the case of Wall Street Journal reporter Ayla Albayrak, who was convicted last year of engaging in terrorist propaganda for an article she wrote about violence in southeastern Turkey.

The Gaziantep appeals court requested additional information and set a new hearing date of Oct. 2.

The 2017 decision sparked an outpouring of criticism internationally from free speech advocates over the beleaguered state of press freedoms in Turkey, where President Recep Tayyip Erdogan has further cracked down on journalists in the aftermath of a failed coup against his government in July 2016.

The case is one of Turkey's first tests of press freedom following an election on Sunday that secured Mr. Erdogan's grip on a greatly expanded and more powerful presidency.

Legal action against Ms. Albayrak began after the Journal's website published her article on Aug. 19, 2015, "Urban Warfare Escalates in Turkey's Kurdish-Majority Southeast." The article and accompanying video reported on the state of a conflict in Silopi, Turkey, between Turkish security forces and the outlawed Kurdistan Workers' Party, or PKK. The PKK has been banned by Turkey, the U.S. and the European Union, all of which consider the group a terrorist organization.

The hearing at the regional court in Gaziantep is the first since Ms. Albayrak was sentenced to 25 months in prison in October. Ms. Albayrak, who was not required to be present at the hearing, is not in Turkey.

"I will never give up on pursuing the legal process until the very end, as I have not done anything illegal," Ms. Albayrak

said before the hearing. "Quite the opposite, I'm proud of the piece of reporting that prompted this."

The Wall Street Journal has praised Ms. Albayrak's work and offered a full-throated defense of the article it published, maintaining it stood up to the newspaper's most rigorous journalistic standards.

"It remains intolerable that this conviction looms over a professional and respected journalist who provided independent, objective reporting on Turkey. We remain undeterred in our support for Ayla and for press freedom as we look to the appellate court to overturn this injustice," said Matt Murray, editor in chief of The Wall Street Journal.

Since the failed coup, authorities have cracked down on critical reporting, and Turkey is currently the world's top jailer of journalists with estimates of more than 140 journalists in prison, said Freedom House, a free speech advocacy group.

Ms. Albayrak's appeal is being argued on the grounds that the article was fair and balanced and that the statute of limitations to bring charges had passed.



Ayla Albayrak, a reporter for The Wall Street Journal



Pakistani military leaders at a parade in March. The military denies accusations of press censorship and political interference.

AAMIR QURESHI/AGENCE FRANCE PRESSE/GETTY IMAGES

## Military, Media Clash in Pakistan

BY SAEED SHAH

ISLAMABAD, Pakistan—A Pakistani newspaper recently discovered the new limits of press freedom here after it published an interview with ousted Prime Minister Nawaz Sharif in which he questioned the military's counterterrorism efforts.

Soldiers confiscated copies of the Dawn newspaper in army-controlled regions, officials harassed its distributors, and cable TV networks dropped the group's TV news station, the company says.

Pakistan's powerful military is stifling the media ahead of a July 25 election, part of a power grab that seeks to ensure a pliant government emerges from the polls, say human-rights groups, politicians and media personnel.

"I've not seen this before under any democratic rule, not even under martial law," said Hameed Haroon, Dawn's CEO and president of the All Pakistan Newspapers Society, which represents newspaper owners. "They seek to influence the election results, influ-

ence the national narrative and liquidate the press."

The military declined to comment. But it has denied accusations of press censorship or political interference, and says it supports democracy.

The armed forces have staged several coups in the past. But since democracy was restored in 2008, critics say the military has focused on gaining influence over civilian spheres from behind the scenes.

That effort gained momentum over the past couple of years as Mr. Sharif's government clashed with the armed forces over his desire to make peace with India and his call for action against jihadist groups operating from Pakistan.

The media has long been an irritant to the military.

In periods of martial law, the military imposed official censorship, with Pakistan's state broadcaster a prime target. Now, with an abundance of private media, more subtle forms of censorship and self-censorship pervade, reporters and lawmakers say.

"There has been a system-

atic, creeping coup. The powers have been taken over by the security establishment," said Farhatullah Babar, a recently retired opposition senator. "Without taking over a single television station, the media has been tamed."

In this election, the military seeks to boost the party of Mr. Sharif's toughest challenger, Imran Khan, to ensure that Mr. Sharif's party loses its majority in parliament and must

*'There has been a systematic, creeping coup,' said a former lawmaker.*

forge a coalition, say Mr. Babar and analysts.

Both the military and Mr. Khan's party—which brought the lawsuit that led to Mr. Sharif's court-ruled ouster and his current corruption trial—dismiss any links to one another.

TV stations have mostly

avoided covering a new protest movement lambasting the military for human-rights abuses of the Pashtun ethnic minority. Dozens of the protest movement's followers have been charged, including with sedition.

Many newer private news channels are owned by industrial tycoons outside the media, the journalists say. Those owners won't often take a stand on editorial freedom, and some openly support the military's stance, these people say.

In practice, the military contacts many TV channel owners about content it finds troubling, who in turn convey editorial direction to their journalists, say reporters at several channels, adding that the military also exercises influence over some hirings and firings at the stations.

Cable distribution is also manipulated through its owners. The owners of four cable TV local distribution companies told The Wall Street Journal that they have been told directly by security officials to take particular channels off the air in recent months.

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## IN DEPTH

# Refugee Issue Costs Merkel

*Continued from Page One*  
immigration or closes the border to certain immigrants. Failure could bring about a collapse of her fragile coalition.

It is a remarkable setback for Ms. Merkel, a politician once viewed by many in Europe as the continent's anchor of stability and a leader of the liberal West. At an informal meeting last Sunday, Ms. Merkel failed to persuade her EU counterparts to take back immigrants who had made their way to Germany after already applying for asylum elsewhere. Now she is left with one last chance to extract an agreement at an EU summit on June 28 and 29.

The domestic rebellion, launched two weeks ago by Horst Seehofer, interior minister and chairman of the Christian Social Union, the Bavarian sister party to Ms. Merkel's larger Christian Democratic Union, came as a shock in Berlin, but it had been brewing for months in Germany's affluent and traditionalist southern state.

## Demographic fears

Fueled by discontent over Ms. Merkel's liberal policies, the antiestablishment Alternative for Germany, or AfD has been making inroads into CSU heartlands, raising the political temperature and forcing the conservatives to tilt to the right. The arrival of over 1.4 million asylum seekers in Germany since 2015 has stoked fears of a swift demographic change, coupled with anxiety over reports of rising migrant crime and revolt over the huge costs of managing the crisis which has been estimated to over €20 billion a year.

Three years on, many of the migrants still live in temporary housing scattered across the country, affecting communities even in remote rural areas. Larger cities have seen the demographic mix in some neighborhoods change almost beyond recognition.

These tensions were on full display last week in this picture-perfect Bavarian town of 15,000, where African and Middle Eastern migrants can be seen loitering around the railway station and in parks, out of work and often struggling to get a place in German courses.

The AfD had hired the Dorfen Inn, a beer hall facing onto the medieval marketplace, for an evening of discussions about ending Ms. Merkel's liberal refugee policy. With both critics and supporters of the chancellor in attendance, the communal tables dotted with beer jugs and schnitzel plates soon turned into a microcosm of the debates that are tearing at the country's political fabric.

"I think we need to change the current immigration policy and quick," said Reinhold Mayer, a retired aircraft engineer and longstanding CSU supporter who said he was considering switching to the AfD. Ms. Merkel's policies, he said, had been the biggest factor in the rise of far-right populism from Eastern Europe to Austria and Italy.

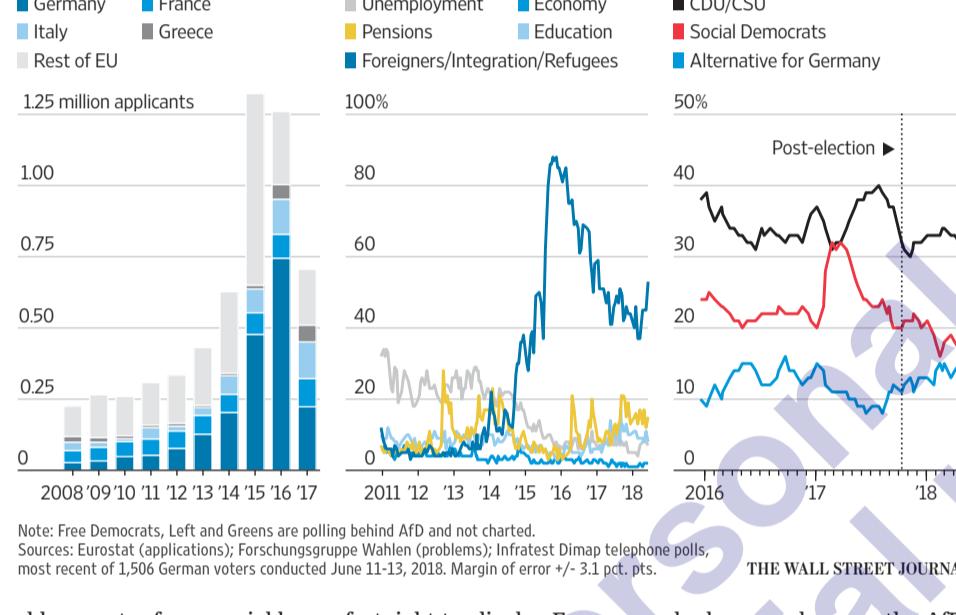
Jakob Niemeyer, a 31-year-



The picturesque town of Dorfen, in Germany's Bavaria state, is riven by an immigration debate that could cost Angela Merkel her job.

## Ripple Effect

As asylum applications surged, Germans began to view migration as the most important problem facing the country, translating into support for the antiestablishment Alternative for Germany party.



Note: Free Democrats, Left and Greens are polling behind AfD and not charted.  
Sources: Eurostat (applications); Forschungsgruppe Wahlen (problems); Infratest Dimap telephone polls, most recent of 1,506 German voters conducted June 11-13, 2018. Margin of error +/- 3.1 pct. pts.

old carpenter from a neighboring village, disagreed loudly. "The AfD is a fascist party," he thundered, "and we will not tolerate fascism here."

Such scenes have been playing across Bavaria for months. And as an October election in the state approaches, they have been causing alarm in Munich, the ornate capital of a state the CSU has been ruling almost uninterruptedly since the end of World War II.

Opinion polls show the AfD is set to rob the CSU of its absolute majority at the poll and become its first viable right-wing challenger in postwar history.

## Simmering dispute

With the CSU growing restless and defensive, it just needed a spark for the simmering dispute among German conservatives over immigration to catch fire. That spark came two weeks ago, when Ms. Merkel abruptly vetoed a 63-point plan by Mr. Seehofer designed to broadcast a tightening of immigration law to his home base in the south.

After days of backstage negotiations failed to achieve a compromise, Mr. Seehofer said he would give the chancellor a

fortnight to clinch a European deal to end the flow of newcomers into the continent. Should she fail, he would implement his plan, which Ms. Merkel said she would treat as insubordination.

Since ousting the CSU would end the government's

Interior Minister Horst Seehofer has issued an ultimatum to the chancellor.

parliamentary majority, a clash would almost certainly mean the collapse of Ms. Merkel's fourth government just 100 days after it started.

Back in Dorfen, Martin Sichert is the walking embodiment of Mr. Seehofer's worst fears. A longstanding CSU supporter,

he has now become the AfD's leader in Bavaria.

Mr. Sichert reaped thunderous applause from the beer-hall audience when he told them his party rejected multiculturalism because the success of a country depended on the mentality of its people, something he wanted to preserve from migrant influence.

"People here stand at a red light even when there are no cars around," Mr. Sichert told supporters. "It is this mentality that provides for top quality in manufacturing and governance."

In an interview, Mr. Sichert said that he had always voted conservative, until Ms. Merkel made it impossible for him to support her policies. "More and more people feel the same. The AfD was born out of the CSU, because CSU ceased to be the party of the people," Mr. Sichert said.

Many in the top echelons of the CSU—and in some quarters of Ms. Merkel's CDU—share his analysis.

One of those mainstream conservatives who fear too generous an immigration policy is feeding extremist ideas is Edmund Stoiber, a former state premier of Bavaria and one-time CDU-CSU candidate

for chancellor.

The conflict over immigration in Europe, he said, "is the biggest challenge to liberal democracies and radical forces are swelling because voters have lost faith in traditional politicians."

Mr. Stoiber cited the rise of populist movements in countries affected by mass migration, including Italy, where a populist coalition has taken power, and Sweden, where a far-right party rooted in neo-Nazism, the Sweden Democrats, could win a majority at the September elections.

"We are at a crossroads," he said. "Merkel's 2015 decision has caused a deep division in Europe and a realignment of the political landscape in many European countries."

Police statistics for 2017 showed crime had fallen in Germany since the peak of the refugee crisis, but that refugees, asylum seekers and illegal migrants, who represent about 2% of the population, accounted for 14.2% of perpetrators. Reports about isolated offenses by migrants ranging from rape to murder to aborted and successful terror plots have become a daily staple of the tabloid press, contributing to a hardening of opinions about migrants.

**Free rent**

By the end of 2017, a full three years after the peak of the refugee crisis, some 84% of the 700,000 Syrians currently in Germany were living on benefits, according to recent statistics by the Federal Labor Agency. More than a quarter of the six million recipients of the basic form of income support—which comprises free rent, heating, legal representation and a monthly cash allowance for food and other essentials—were non-EU migrants.

A Kantar Public poll published June 23 showed that 61% of Germans supported CSU's proposal to tighten the border regime and 57% wanted to slow down immigration because they were worried about integration.

The CSU and CDU have been political Siamese twins for most of the postwar years, contesting national elections as one party and sharing a

parliamentary group. But the bitter row over Ms. Merkel's migration policy is sapping their ability to run the country at a time of global turbulence, and stretching their union to a breaking point.

Founded in the aftermath of World War II, the CSU had among its guiding principles the fact that it would never let a rival party emerge on its right. In a state that long ago turned from agricultural backwater to industrial powerhouse, home to such global conglomerates as BMW AG and Siemens AG, it sees itself both as robustly conservative and a guarantor of freedom and the rule of law.

## Fair hearing

While the chancellor has gradually tightened the rules governing immigration over the past three years, she has clung to the principle that no one seeking protection in Germany should be denied a fair hearing.

In Deggendorf, near Munich, where the AfD got a fifth of the votes at last September's federal election—more than six points above its national score—this principle shapes day-to-day life.

An asylum center there hosts hundreds of recent arrivals, many from Africa, often with no identification papers. Few stand a chance of gaining asylum in Germany because they are typically judged to be economic migrants rather than war refugees or political dissidents. Also, many of them already applied in Italy or elsewhere before arriving here, disqualifying them for protection in Germany under European law.

On paper, rejected asylum seekers should be swiftly deported. But most linger on, shielded by bureaucratic inertia, lack of resources or sympathetic judges.

A 20-year-old man from Sierra Leone who calls himself Mahmud said he had sailed from Libya on a rubber dinghy along with dozens of other migrants last summer; they were rescued and brought to a port in Sicily, where he registered as an asylum seeker.

Dressed in a branded polo shirt and baseball cap, a thick gold chain resting on his chest, Mahmud said he applied for asylum in Italy, claiming his life was in danger at home. But he said he didn't wait for a decision and instead moved on to Germany because Italy provided no opportunity for people like him. He is now stuck in limbo, living on benefits at the shelter but unable to work.

"They are not treating us right here," he said. "I think it is the politicians' fault."

It is people like Mahmud that Mr. Seehofer and Markus Söder, Bavaria's state premier, now want to turn back directly at the border, even though that would mean erecting new checkpoints to slow down EU crossings that are now unimpeded, and, say critics, an element of racial profiling to screen out noncitizens.

Ms. Merkel's refusal to comply has fueled frustration beyond the CSU and even beyond Germany.

"The disorderly immigration of 2015 was a fundamental mistake," Mr. Söder wrote in an op-ed in the *Die Welt* daily last week. "Citizens want a safe Europe, which protects their cultural identity."

"Apparently I have a different understanding of the English language than the FDA has," he says. When he heard about the added-sugars line, he first thought it wouldn't apply to his real maple syrup and would help him compete against imitation-maple table syrups.

Then he discovered maple syrup and honey are considered added sugars. He tweeted a photo at Dr. Gottlieb this month showing the nutrition facts on a hot-dog bun package. "How on earth is all the sugar in my maple syrup 'added sugar,'" he wrote, "but some of the sugar in these hot dog buns is not?" He didn't get a response, he says.

The FDA proposed a compromise earlier this year: a symbol on the added-sugars line with a footnote explaining that the sugars are naturally occurring.

Producers weren't satisfied. There isn't much space on packages, and consumers often don't read or trust nutrition information outside the label, says Ms. Clark of Dutch Gold Honey, who calls the proposed symbol a "dagger."

"It's not like a big cereal box," she says. "We don't have room."

# Syrup Rule Vexes Vermont

*Continued from Page One*

"It's not fair to the maple-syrup producers. It's not fair to the consumers either."

For the nation's largest maple syrup producer, nothing less than a pillar of the state's reputation is at stake.

"This issue gets the core of Vermont's brand," says Anson Tebbetts, the state's Secretary of Agriculture, Food and Markets, whose family farm has a maple sugar house. "We've taken tremendous pride in the fact that Vermonters produce a pure product that has no additives. A label stuck on it saying it has added sugar would just add confusion."

The FDA's new rule says its definition of added sugars "includes sugars that are either added during the processing of foods, or are packaged as such, and include sugars (free, mono-

and disaccharides), sugars from syrups and honey."

By the government's definition, pure honey and maple syrup themselves are added sugars because, like table sugar or high-fructose corn syrup, they add calories to the diet but few or no nutrients.

Maple syrup and honey makers worry the label might lead consumers to think they've added sugar. "We have never added sugar to pure maple syrup," says Mr. Folino, who with his wife owns Hillsboro Sugarworks in Starksboro, Vt.

They are among producers asking the FDA to exempt them or change the label.

More than 3,000 comments poured in to the FDA in recent weeks on the new rule and a proposed compromise—many at the urging of Vermont Attorney General T.J. Donovan, who directed Vermonters to a webpage titled "100% Pure: Maple and Democracy."

"Are you people insane?" wrote one. "Your proposed rule will completely undermine consumers' faith in the purity of honey and maple syrup."

FDA Commissioner Scott

Gottlieb, who has said he makes maple syrup at home, tweeted on Thursday that the agency has "heard the concerns," and "will advance a new approach to how we treat maple syrup and honey under the new nutrition facts label." An FDA spokeswoman declined to comment on what that approach might be.

Producers say the label could sap revenue if consumers confuse their brands with cheaper pancake toppers or honey adulterated with other sweeteners.

"There's a lot of consumer confusion already about this," says Jill Clark, vice president of sales and marketing at Dutch Gold Honey Inc., a honey packer in Lancaster, Pa.

The added-sugars notation is among changes unveiled in 2016 by first lady Michelle Obama in the first overhaul in two decades of nutrition-facts labels. The changes include listing calories in bolder type and servings in sizes people actually eat. They become mandatory in 2020 for large companies and 2021 for smaller firms.

Added sugars are on the FDA's list because eating lots of sugar increases the risk of obe-

sity and cardiovascular disease, the FDA says. On the Nutrition Facts label, the line falls under "Total Sugars," which include sugars in fruit, 100% fruit juice or milk. The FDA says it based its definition of added sugars on the latest U.S. dietary guidelines, which call for Americans to consume no more than 10% of daily calories from added sugars.

Bonnie Liebman, director of nutrition for the Center for Science in the Public Interest, a consumer-advocacy group that

petitioned the agency to include added sugars, says producers can clear matters up by simply adding "100% pure" to their product labels or listing their ingredients next to the nutrition-facts label.

"The maple syrup and honey industries have the power to fix the problem with no help from the FDA or Congress," she says.

It comes back to semantics for Roger Brown, co-owner of companies Slopeside Syrup and UnTapped in Richmond, Vt.

"Apparently I have a different understanding of the English language than the FDA has," he says. When he heard about the added-sugars line, he first thought it wouldn't apply to his real maple syrup and would help him compete against imitation-maple table syrups.

Then he discovered maple syrup and honey are considered added sugars. He tweeted a photo at Dr. Gottlieb this month showing the nutrition facts on a hot-dog bun package. "How on earth is all the sugar in my maple syrup 'added sugar,'" he wrote, "but some of the sugar in these hot dog buns is not?" He didn't get a response, he says.

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"It's not like a big cereal box," she says. "We don't have room."



Dave Folino of Hillsboro Sugarworks, here tapping a tree, says of the labeling rule: 'Anyone with any sense would go, "that's dumb."'

PAUL REYNOLDS/PHOTOGRAPHY

# GREATER NEW YORK

## El Chapo Wants His Trial Moved

The alleged drug kingpin is seeking to be tried in Manhattan, instead of Brooklyn.

BY CORINNE RAMEY

A federal judge Tuesday indicated he is considering moving the trial of alleged drug kingpin El Chapo from Brooklyn to Manhattan, after his lawyers argued the security measures needed to transport him from jail could prejudice potential jurors.

The arguments came during a hearing for Joaquín Guzmán, better known as El Chapo, who is scheduled to be tried on drug charges in Brooklyn this fall.

U.S. District Judge Brian Cogan has scheduled jury selection

for Sept. 5 and said Tuesday he would tell jurors the trial would last four months.

In January 2017, Mr. Guzmán was extradited from Mexico to New York, where he faces charges of leading a continuing criminal enterprise and other drug-related crimes. From 1989 through 2014, prosecutors claim, Mr. Guzmán led a cartel that imported massive amounts of illegal narcotics into the U.S. He also conspired to murder people who posed a threat to his business, prosecutors said.

Mr. Guzmán, who faces up to life in prison, has pleaded not guilty.

On Tuesday, Mr. Guzmán, wearing a collar around his neck, walked into a federal courtroom in Brooklyn.

Mr. Guzmán, who twice escaped from maximum-security



Joaquín 'El Chapo' Guzmán is transported over the Brooklyn Bridge.

prisons in Mexico, is being held in a high-security area of the Metropolitan Correctional Center, a federal jail lower in Manhattan. When he is transported

from Manhattan to Brooklyn for court hearings, officials close the Brooklyn Bridge for his motorcade, which his lawyers say includes law-enforcement offi-

cials, armored cars and emergency-response vehicles.

This spectacle, lawyer A. Eduardo Balarezo argued, would prejudice jurors. Even if the jurors themselves weren't caught in the resulting snarled traffic, they likely would have family or friends who would be, he said.

In court documents, prosecutors have argued that moving the trial is unnecessary and that it is possible to find an impartial jury.

While discussing evidence, Mr. Guzmán's lawyers gave a hint as to one possible defense. They suggested that Mr. Guzmán wasn't the boss of the drug enterprise. A prosecutor said that even if Mr. Guzmán wasn't leading the enterprise, the government only needed to show he supervised five or more people.

## MTA Postpones Platform Safety Program

BY PAUL BERGER

The Metropolitan Transportation Authority has postponed a test of platform barriers that would prevent people from jumping, falling or being pushed onto subway tracks, the agency's transit chief said.

The MTA planned to award a contract in July for a pilot project to install screen doors on the platform of the L line's Third Avenue station in Manhattan.

Instead, the authority will shift the \$30 million budgeted for the pilot toward installing four elevators at the Sixth Avenue station on the same line, making it accessible to people with mobility difficulties.

"I absolutely want to do a platform screen door trial," New York City Transit President Andy Byford told The Wall Street Journal. "But I think this is a better and more important use of the funding right now."

The "half-height" barriers would have run along both platform edges with sliding gates located where train doors open, according to MTA documents. In addition to preventing people from falling onto tracks, the barriers reduce the spread of litter in the system, which can cause track fires.

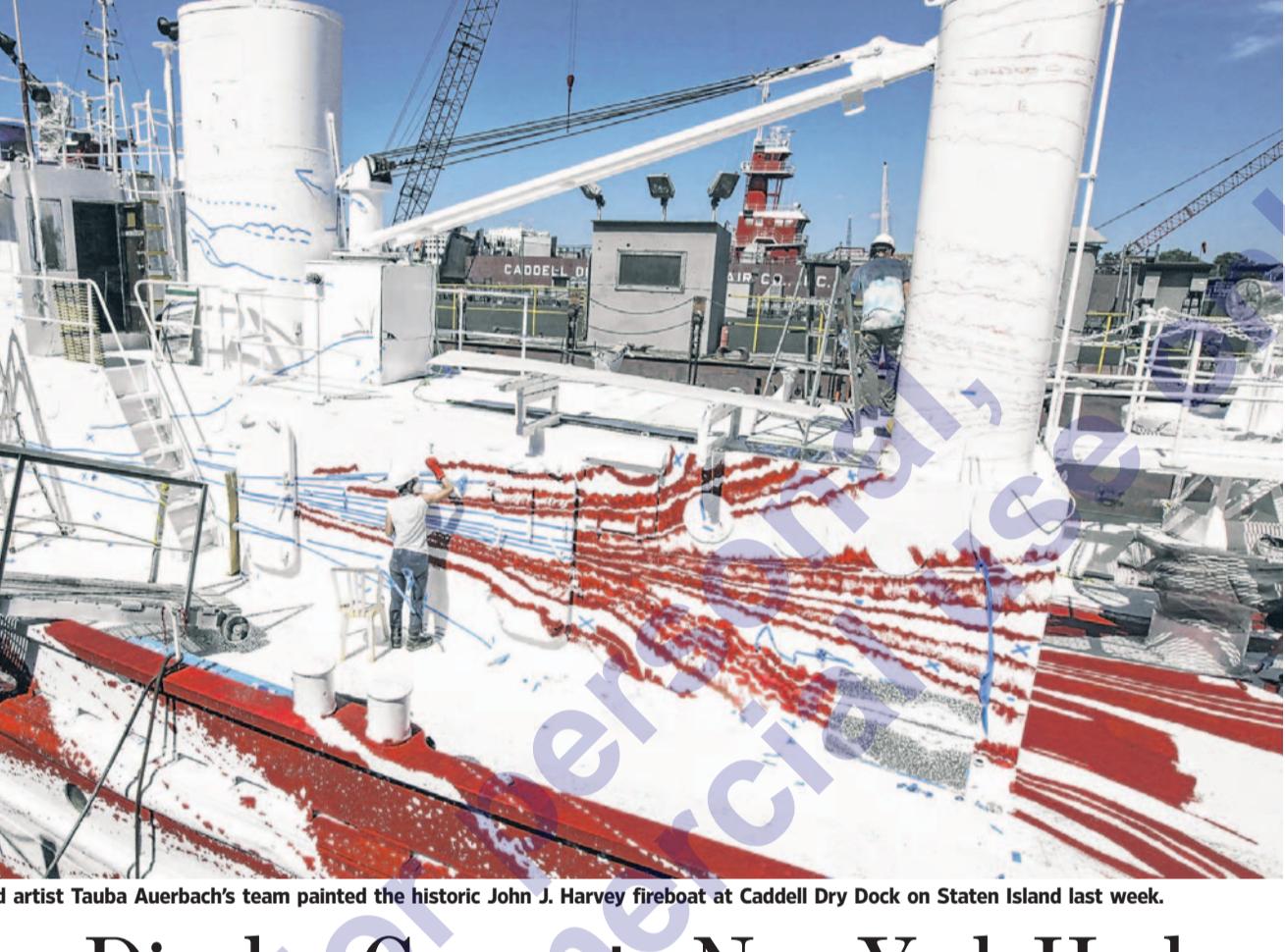
Some MTA commissioners had been at the forefront of calls for platform screen doors. "It shouldn't be either, or," said Commissioner Charles Moerdler. "In my view, they are a potential saver of lives."

On an average weekday in May, 31 trains were delayed because of unauthorized people on the tracks and 33 trains were delayed because of fire, smoke or debris, according to MTA data. That represents about 2.3% of weekday delays that month.

The MTA will test platform doors at another station, Mr. Byford said, adding that he didn't know when that might happen, but said it wasn't years away.

The pilot program's postponement comes as the MTA seeks funding for a plan to modernize the agency's subway and bus systems at an estimated cost of \$43 billion during the next 15 years. The proposal includes installing a new signal system across hundreds of miles of track and adding elevators to hundreds of stations.

**Four subway elevators will be installed on the L line instead of testing barriers.**



Members of New York City-based artist Tauba Auerbach's team painted the historic John J. Harvey fireboat at Caddell Dry Dock on Staten Island last week.

## A Dazzling Display Comes to New York Harbor

BY LARA KORTE

A little-known naval disguise used in World War I is returning to New York Harbor, and getting a modern twist.

The technique—known as "dazzle"—was the opposite of stealth. Bold geometric patterns painted on ships made the vessels' size and distance hard to estimate, making it difficult to target them.

"It was an unusual type of camouflage that was invented in the first World War not to hide vessels but to confuse German submarines looking at them," Emma Enderby, curator for Public Art Fund, said of the dazzle style. "I think that's perhaps one of the most unique aspects of dazzle is that it's kind of hiding in plain sight."

The return of dazzle camouflage to New York is part of a partnership between Public Art Fund, a New York-based nonprofit that commissions free public exhibitions, and 14-18 NOW, a U.K.-based arts program marking the centenary of World War I. The project, which opens to the public on Sunday, has commissioned the painting of the historic John J. Harvey fireboat. The vessel will be painted in a contemporary dazzle style.

Traditional dazzle ships,



A U.S. troop transport ship employed dazzle camouflage that made it difficult for the enemy to target.

described by early 20th-century journalists as a "futurist's bad dream," were designed by British artist Norman Wilkinson, and consisted of contrasting patterns and intersecting shapes. Although the unique design originated in the U.K., the patterns were later adopted by the U.S. Navy.

According to Public Art Fund, the boats were at one time located on the Hudson River.

Tauba Auerbach, the lead artist on the project, has reimagined this concept into a fluid design dubbed "Flow

Separation." Ms. Auerbach used a technique known as marbling, created by floating inks on a fluid bath before transferring them onto paper, to come up with the pattern for the John J. Harvey.

"I wanted to retain what I thought were the most important features in the 'technology' of dazzle—the buzzing high contrast, the stripe-y repetition," Ms. Auerbach said in an email.

The red and white pattern on the John J. Harvey is designed to confuse range finders, the optical instruments of

ship. The crew often spent 10 or more hours a day on a Staten Island dry dock, wearing respirators, hard hats and gloves, while hand-painting the delicate fluid details.

The John J. Harvey was launched in 1931 and operated for the Fire Department of New York until it was retired in 1994. The fireboat temporarily was called out of retirement on Sept. 11, 2001, and has since functioned as a museum and education center.

The contemporary artworks commissioned by 14-18 NOW are meant to give artists and the public an opportunity to connect with the war that ended 100 years ago.

The program, which has been producing public art works for the past four years, is in its final months. The dazzling of the John J. Harvey is the first U.S.-based artwork symbolizing the late entrance of the American military into World War I.

The boat will be on display from July 1 to May 12, 2019, at various locations around New York Harbor. Boat trips will take place on weekends, July 13 to Sept. 23. The exhibit is free and open to the public.

For more information on tickets and locations, visit [PublicArtFund.org](http://PublicArtFund.org).

## Board Boosts Rents on Regulated Apartments

BY JOSH BARBANEL

Bill de Blasio burnished his reputation as the most-protectorial mayor in years on Tuesday, as the New York City Rent Guidelines Board once again voted to approve one of the smallest rent increases for nearly one million rent-stabilized tenants.

The board approved increases of 1.5% on one-year leases and 2.5% on two-year leases, slightly more than last year's boost, and the largest during Mr. de Blasio's tenure.

The rent rises would apply to leases that take effect beginning in October.

"Rents should be as low as possible. Period. While the Board fairly factored in the data in making its decision, housing affordability will always be a challenge the Mayor takes dead aim at every day of his administration, across every front," a spokeswoman for Mr. de Blasio said.

Before Mr. de Blasio took office in 2014, the board hadn't seen an increase of less than 2% for one-year leases

since it was founded in 1969.

But in the past four years there were two rent freezes on one-year leases, a 1% increase and a 1.25% increase last year. With this year's vote, rents have risen an average of 0.75% each year.

Before the vote Tuesday, tenants loudly demanded a freeze in rents or even a reduction, while building owners more quietly complained that increases for rent-regulated tenants weren't keeping up with the costs of operating a building.

"The de Blasio-controlled

RGB has now provided landlords with two rent freezes and pathetically insufficient rent increases," said Joseph Strasburg, president of the Rent Stabilization Association, which represents 25,000 owners of rent-regulated buildings.

Sheila Garcia, a community organizer and a tenant representative on the board, said studies show that landlord net operating income on buildings with rent-stabilized apartments continue to rise.

"Tenants are continuing to hurt," she said.

The decision also follows a partial settlement the MTA reached with a coalition of block associations and disability-rights advocates, which sued the agency in federal court over the looming shutdown of a key part of the L subway line.

The MTA will close the line for 15 months beginning in April 2019 from Bedford Avenue in Brooklyn to Eighth Avenue in Manhattan. During the closure, the MTA will repair an East River tunnel that was damaged during superstorm Sandy. The platform doors were supposed to be installed at Third Avenue during the shutdown.

The coalition seeks to block the MTA's and the city's shutdown-mitigation plan, which includes turning over 14th Street in Manhattan to buses. Residents are concerned about increased congestion, noise and pollution.

The coalition also accused the MTA of not doing enough to meet federal requirements to make stations accessible. The group dropped the accessibility part of its suit in return for the MTA agreeing to install elevators at the Sixth Avenue station. Arthur Schwartz, who is leading the suit, said the coalition would continue its litigation.

An MTA spokesman didn't respond to questions about the suit.

## GREATER NEW YORK

## GREATER NEW YORK WATCH

NEW YORK CITY

**Mayor Reaches Deal With Public Workers**

New York City and its largest public-employee union reached a tentative contract agreement on Tuesday, as the U.S. Supreme Court is poised to hand down a decision that could affect collective bargaining.

Mayor Bill de Blasio announced the deal, which would give the roughly 100,000 employees of District Council 37 a 2.25% wage increase starting Sept. 26, and a 3% raise by Oct. 26, 2019. The labor pact covers 44 months and includes a retroactive raise of 2% from Sept. 26, 2017.

Henry Garrido, executive director of DC 37, called the contract "responsible" and said it was negotiated with the anticipated high court decision in mind.

Mr. de Blasio said the contract "respects our workforce and their needs, while also recognizing the needs of our taxpayers."

—Katie Honan

NYPD

**Acquaintance Rapes To Get More Priority**

The New York Police Department said Tuesday that its Special Victims Division will carry out all acquaintance and domestic sex-crime investigations even after an immediate arrest is made, no longer relying on precinct detectives to gather evidence and complete such investigations.

The department announced the change in its response to a highly critical report by New York City's Department of Investigation in March that accused top brass of failing to adequately staff the division.

The Department of Investigation said in its report that NYPD officials didn't prioritize rapes in which a victim was acquainted with the suspect because they relied on precinct-level detectives to handle part of the investigations.

—Zolan Kanno-Youngs

**METRO MONEY** | By Anne Kadet

**Hedge Fund 101: Don't Be Cheap**

Last fall, after trailing the market for eight years, Whitney Tilson closed his once-highflying hedge fund. So what's he up to now? Teaching others how to start a hedge fund.

"I did it, and I screwed it up. So I can teach you both things. What to do, and what not to do," the 51-year-old recently told me.

His \$2,000, one-day "How to Launch and Build an Investment Fund" seminar is pitched at stock pickers who didn't go to Harvard or intern at Goldman Sachs, said Mr. Tilson, who did go to Harvard and worked in the nonprofit sector before launching his fund, Kase Capital Management, from his Manhattan bedroom in 1999.

"There are super-talented investors who didn't come down that narrow track, and good luck getting a job in the hedge-fund industry if you didn't," he said.

His most recent seminar was held at the swanky New York Athletic Club on Central Park South in Manhattan.

Most of the students on hand said they worked in finance, but their ranks included a fashion stylist, an aerospace engineer and a real-estate broker. There were 13 men and three women. Half were white.

"In 20 years of business, this is the most diverse room I've ever been in," Mr. Tilson said. "It's usually all guys who look like me!"

Mr. Tilson said he started his fund after enjoying success with his personal portfolio, including a big bet on AOL. "I was a bull-market genius," he said. "I was so full of myself I decided to run other people's money."

He had several advantages: He was living rent-free in an apartment belonging to



his wife's grandparents. And his wife, a lawyer, was earning six figures.

Don't try this at home, he advised, unless you have three years of living expenses in the bank. Still, he noted, there are few barriers to starting a fund. He launched his with \$1.1 million raised from his parents and in-laws. He said he spent just \$18,000 the first year on expenses such as a computer, cellphone and travel.

The morning's seminar presentation covered logistical issues. When it comes to fees, Mr. Tilson recommended charging the usual 20% of returns plus a 1.5% management fee. "It's an obscene and unusual fee structure, but it's the industry standard," he said.

To raise one's profile, Mr.

Whitney Tilson says mistakes led to the end of his fund. Now he teaches others how to avoid pitfalls.



should have attracted more business, he said. He regrets not hiring a marketing pro: "I was a stupid cheapskate in so many ways."

During lunch, Bronx real-estate broker Ovan Morrison told me the seminar had inspired him to get serious about starting his own fund. No one in his circle has \$100,000 to invest, he said, but they likely would contribute smaller sums. "I feel like I've seen the promised land, being in this environment. And I can't turn back," he said.

After lunch, we got to the fun part: How to raise a billion dollars. Start with friends and family, followed by high-net-worth individuals, Mr. Tilson said. The institutional money comes later.

Cultivate personal relationships with investors, he advised. Buy them gifts and bake them cookies. Give them your cellphone number.

The final topic was investor presentations and letters. Mr. Tilson showed examples of what not to do, including an investor update from a fund manager who went on for eight pages about his pet position. "If you're an obsessive lunatic, hide it from your investors," he advised.

Mr. Tilson said he's determined to avoid repeating his cheapskate mistakes with his new Manhattan-based venture, Kase Learning. He's hired three employees to manage and market his seminars. "I hope I've got the tiger by the tail," he said.

anne.kadet@wsj.com

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# LIFE & ARTS

WORK &amp; FAMILY | By Sue Shellenbarger

## Smart Ways to Switch Jobs Quietly

More employees, especially millennials, are willing to jump to a new company, but there are many ways that can go wrong

**YOU MAY HAVE** noticed a colleague taking longer lunch breaks lately, or making a lot of trips to the dentist.

That may be a millennial looking for a new job.

Employees ages 21 to 38 have been changing jobs three times more often than other workers, according to a 2016 Gallup study of two million people. And the churn may be accelerating, some career coaches and recruiters say. Motivated by historically tight labor market and slow wage growth, some 43% of young workers are poised to quit within two years, up from 38% last year, says a 2018 Deloitte survey of 10,455 millennials.

Looking for a new job discreetly, without damaging your standing at your current employer, requires some savvy.

That can be difficult in an age of social media. Joshua M. Evans once thought he had conducted the perfect job search. After a recruiter contacted him via LinkedIn, he told colleagues he had to leave for a lunch meeting, then drove his car to a Target parking lot to change into a suit before the interview. (Job seekers in most industries still suit up for interviews, reasoning that it's better to be overdressed than underdressed.)

When Mr. Evans later approached his boss to give notice, his manager interjected, "Let me guess: You're leaving," and named his new employer.

To his dismay, Mr. Evans realized he hadn't turned off notifications to his LinkedIn network. His boss had seen him connect to the recruiter and two managers at his new employer, creating "a very awkward situation," says Mr. Evans, 35, an author and owner of Culture Consulting Associates, a Houston human-resources firm.

Posting your résumé on job sites risks outing you if your employer looks for candidates with similar skills.

Avoid using your employer's phone, email or computer to job-hunt. Some bosses keep tabs on those activities.

Mike Wisby also learned the importance of discretion. The marketing specialist, who is 34, told his boss at a previous employer that he was planning to take a new job, but the formal offer he expected never came. The conversation "changed the dynamic right away," he says. His former boss was hurt and began joking nervously about losing him, and repairing the relationship took some time.

When Mr. Wisby started inter-



ELLEN WEINSTEIN

viewing again recently, he told his boss, Josh Rubin, that he was seeing a dentist. Both workplaces allow casual dress, so Mr. Wisby merely subbed khakis for his usual jeans. When he later resigned, Mr. Rubin, owner of Post Modern Marketing, a Sacramento, Calif., marketing firm, says he was stunned.

Although he's disappointed to lose him, Mr. Rubin says he would have handled the process the same way if the roles had been reversed.

Many employers see keeping a job search secret as a gesture of respect, he says.

But some job seekers err by making attention-grabbing excuses for being away. One of Michael Sunderland's subordinates at a former employer told him he needed time off to attend an obstetrician appointment with his pregnant wife. He forgot that his online calendar was shared with colleagues and posted on it his actual plans—"interview with Company X."

The next day, Mr. Sunderland, managing director of Full Stack Talent, a Tampa, Fla., tech-recruit-

ing agency, asked the employee how his wife was doing. He listened while the man told a tale about what the doctor said—then reminded him that his calendar was shared. While he remained friends with the employee, Mr. Sunderland says he never fully trusted him again.

More employers see changing jobs as a sign of the prized ability to learn quickly and adapt to rapid change, says Gary Burnison, CEO of the executive-search giant Korn Ferry and author of "Lose the Resume, Land the Job." If you've spent more than a decade at a company without expanding your skills or responsibilities, he says, "people start to wonder, 'Are you stale?'"

Mr. Burnison advises researching where you want to work and targeting top picks. Then tap your network to find an insider to introduce you to hiring managers.

Continue to give 100% on the job. Debra Boggs, 32, managed to hide a cross-country job search several years ago by traveling on a Sunday, interviewing early Monday and returning to her job online and by phone while traveling home the same day. Ms. Boggs is co-founder of a Scarborough, Maine, executive résumé-writing firm.

If caught en route to an interview, "pretend nothing out of the ordinary is happening," says Simon Brown, 35, a Washington, D.C., media-relations manager. He was riding the subway to a job interview, decked out in a suit on a 95-degree day, when he ran into a co-worker. "Why are you so dressed up?" she asked. Mr. Brown said he had personal business and changed the subject. "It never came up again," he says.

Plan what to say if your boss asks if you're looking, says Patti Johnson, CEO of PeopleResults, a Dallas human-resources consulting firm. A former colleague of Ms. Johnson's on a previous job

wound up admitting to her boss that she intended to resign before she had landed the new job she wanted.

"In the spirit of trying to be transparent, she got ahead of herself," Ms. Johnson says.

Instead, "cultivate an air of someone who is always actively engaged in your profession," going to seminars and events, says Teri Coyne, a senior executive coach in New York with GetFive, an outplacement and career-services firm. If the boss asks if you're looking, say, "I'm always open to conversations," but having conversations doesn't mean you're planning to leave, she says.

### Tips for the Stealthy Job Seeker

#### DO

- Cultivate an image of being actively engaged in your profession, whether you're job-hunting or not.
- Keep giving 100% on the job throughout your search.
- Plan what to say if your boss asks if you're looking around.
- Turn off LinkedIn notifications to your network about new contacts and updates to your bio.

#### DON'T

- Allow your interest in new projects or plans to wane.
- Use your employer's computer, email, phone or copier for your job search.
- Try to cram a job interview into a one-hour lunch break.
- Allow yourself to be drawn into a conversation about quitting before you're ready.

### MUSIC

## GRAMMYS BROADEN THE PLAYING FIELD

BY NEIL SHAH

**THE GRAMMY AWARDS** is expanding the number of nominees for its top awards to eight from five, a move intended to broaden the kinds of artists it recognizes and one that could result in more female, country and rock musicians up for high-profile prizes.

The Recording Academy, which runs the industry's annual music awards, on Tuesday notified its 24,000 members of the change. It will apply to four categories, starting next year: Album of the Year, considered the most prestigious Grammy; Record of the Year, devoted to song performers, producers and engineers; Song of the Year, which recognizes composers and songwriters; and Best New Artist.

Most of the Recording Academy's 80 other awards, which don't attract as many contenders, will stick with five nominees.

In a statement, Neil Portnow, president of the Recording Academy, said the change "creates more opportunities for a wider range of recognition in these im-

portant categories and gives more flexibility to our voters."

It is similar to the 2009 decision by the Academy of Motion Picture Arts and Sciences to expand the Best Picture category at the Academy Awards to include up to 10 films. With more popular nominees up for big trophies, the embattled Grammys telecast could also gain viewers—this year it drew its smallest TV audience since 2009.

The Grammy awards have long been criticized for being out of touch with current tastes, but the event came under additional pressure this year for the dearth of female nominees and honorees, something that could change with expanded categories.

Alessia Cara, who won Best New Artist in January, was one of the few women receiving an award during the televised program. Lorde was the sole female nominee for Album of the Year and the only nominee who wasn't allowed a solo performance. Mr. Portnow attracted additional criticism following an interview in which he said women in the indus-

Please turn to page A12



Alessia Cara won the Grammy for Best New Artist in January, one of the few women receiving an award during the televised program. The Recording Academy plans to feature more nominees in that and other categories next year.



## LIFE &amp; ARTS

## ART REVIEW

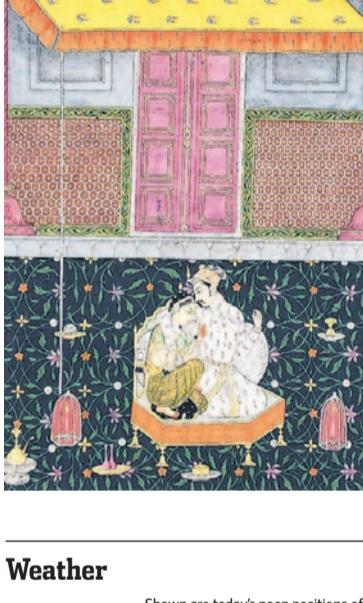
# Stories Told in All Their Splendor

BY LEE LAWRENCE

*San Diego*

**BACK IN 1990**, the San Diego Museum of Art received more than 1,400 works representing just about every school, region and style of South Asian painting. Bequeathed by Edward Binney 3rd, heir to the Crayola fortune, it is one of the best collections of its kind outside India. Currently, a selection of some 90 works from the late 16th through 19th centuries illustrates stories from literature, poetry and oral traditions while at the same time showcasing the variety within South Asia's painting tradition. Together, the show and catalog of "Epic Tales From Ancient India" provide an education and a visual journey that takes us from rambunctious battles against enemies human and demonic to quiet, tender love scenes; from intrigues and trickery to imaginative renderings of divine interventions in worldly affairs. A case in point: To show how gods helped a king bear sons, an artist working in a North Indian court around 1770 depicted a miracle in the "Ramayana" most imaginatively. Priest to the left, king to the right, and between them, only half embodied within the flames of a ritual fire, a clone of the priest proffers a dish of magical, son-producing food.

Such paintings typically acted as illustrations in books whose pictorial design was orchestrated by the head of a workshop. Here, however, we follow storylines via folios plucked from books made at different times and places. The story of the Hindu god Krishna, for example, begins with a scene painted around 1830 in north India. Nothing seems unusual about people gathering in a white marble palace, until we spot the bodies of four boys lying in a pile and a man about to dash a fifth onto the bloodied rock beside them. The killer is after Krishna and the peo-

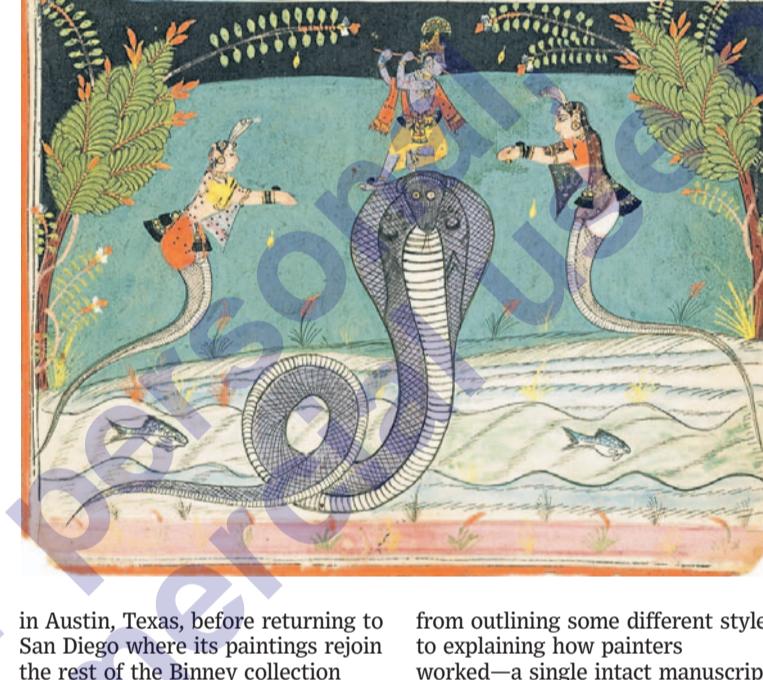


THE SAN DIEGO MUSEUM OF ART; EDWIN BINNEY 3RD COLLECTION

ple inside are prisoners, yet the scene is restrained in composition and subdued in palette.

Subsequent episodes painted some 75 miles away and 120 to 140 years earlier, by contrast, burst with exuberance and color as they depict Krishna swallowing the flames of an encircling forest fire or multiplying himself to dance with many a maiden at once. Similarly, in a section devoted to the Persian "Shahnama," sumptuously gilded and richly painted pages made in a Deccani court in south-central India around 1610 segue to simpler, charming depictions made in the north some 10 years later.

In some cases, we dip only briefly into a Mughal emperor's history, a Sufi romance or a classic like the "Mahabharata." But a welcome surprise is an entire section devoted to Ragamalas, illustrations for texts on musical modes. Starting in the late 15th century, artists began expressing the emotional tenor of various modes through stories about the anticipation, passions and trials of lovers. In one, we feel the quickening of daybreak as a lover slips away; in another, the trusting stillness of a couple holding each other; in yet a third, the madness of a woman betrayed. In many Ragamalas, lovers reunite by day's end, echoing the circuit the show itself has made, traveling to the Princeton University Art Museum in New Jersey and the Blanton Museum of Art



in Austin, Texas, before returning to San Diego where its paintings rejoin the rest of the Binney collection and where Marika Sardar, the museum's then associate curator of Southern Asian and Islamic Art, conceived it.

The danger of a thematic show in which the works hopscotch across the timeline and map of art history is that it fails to impart a feel for the illustrated manuscript as a work of art. But just as the introductory section provides helpful context—

from outlining some different styles to explaining how painters worked—a single intact manuscript hints at that original experience. Made in Mysore around 1840, it is a copy of the 10th book of the "Bhagavata Purana," a compendium of stories related to the Hindu deity Vishnu and his avatars. Displayed open, it is a reminder that the very act of turning a page is akin to pulling back a curtain to peer into another world.

In this case, we happen upon a

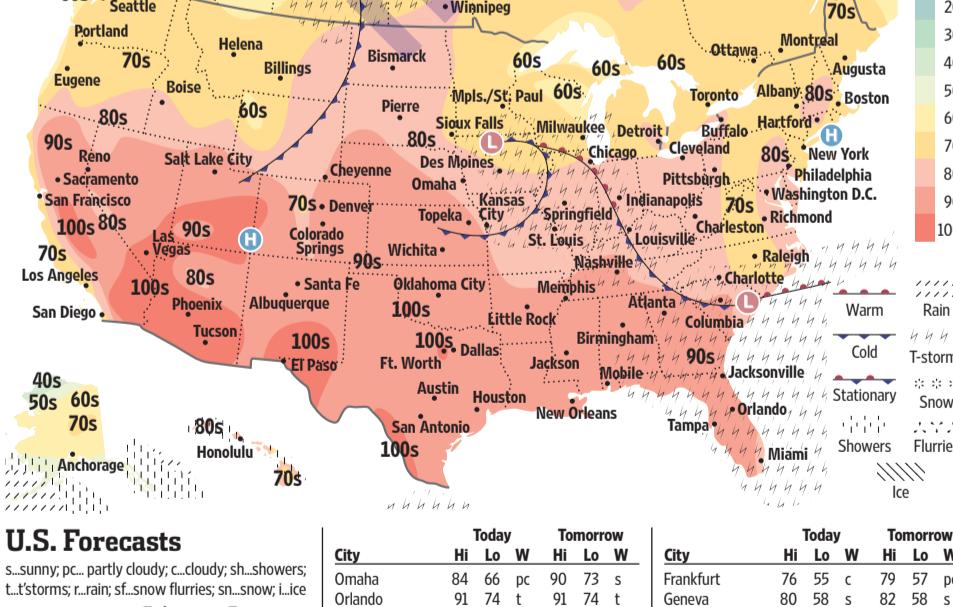
crucial moment in a battle between Balarama and the Kauravas who have abducted his nephew, Krishna's son. A dramatic double-page spread shows Balarama yanking on a long plow, unmooring his enemies' city. Filling the right-hand page, buildings surrounded by fortified walls tilt out of kilter, breaking through the painting's border. On the left, the town's central building plunges toward the waters of the Ganges while, in the top register, men beseech Balarama.

Thanks to an interactive screen, we can scroll through all the illustrated scenes that precede and follow this one. This reminds us that every painting here stands in for a larger corpus, just as each scene presented stands in for myriad ways its story may have circulated—through temple reliefs, dance performances, evenings of storytelling, musical gatherings, and, of course, countless other folios in countless other books.

**Epic Tales From Ancient India**  
The San Diego Museum of Art, though Sept. 3

*Ms. Lawrence writes about Asian and Islamic art for the Journal.*

## Weather



## U.S. Forecasts

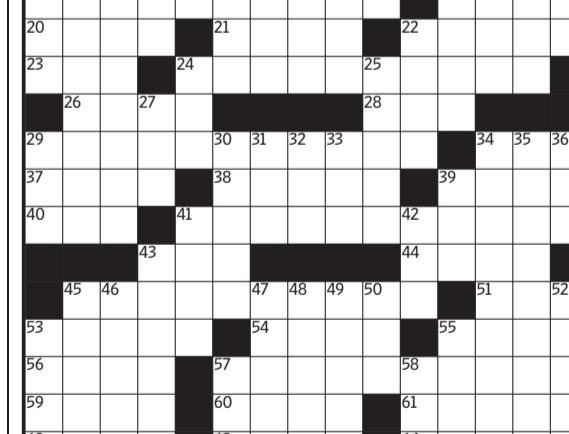
S=sunny; pc...partly cloudy; c...cloudy; sh...showers; t,tstorms; r...rain; sf...snow flurries; sn...snow; l...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Anchorage	62	48	c	58	50	c
Atlanta	92	75	t	92	75	t
Austin	97	73	pc	98	75	pc
Baltimore	80	64	pc	80	68	pc
Boise	83	56	s	93	60	s
Boston	76	61	s	79	65	s
Burlington	78	58	s	80	63	pc
Charlotte	84	68	t	90	72	t
Chicago	80	69	t	80	66	pc
Cleveland	84	70	pc	82	68	t
Dallas	98	79	pc	100	79	pc
Denver	96	62	s	98	65	pc
Detroit	81	70	pc	82	66	t
Honolulu	88	76	sh	88	76	pc
Houston	94	75	pc	95	75	pc
Indianapolis	80	71	t	85	65	t
Kansas City	89	70	t	95	75	s
Las Vegas	110	84	s	109	82	s
Little Rock	93	75	s	94	75	s
Los Angeles	80	63	pc	80	63	pc
Miami	89	78	t	88	76	t
Milwaukee	70	64	t	74	63	pc
Minneapolis	72	63	t	81	68	pc
Nashville	91	74	t	91	74	t
New Orleans	91	78	t	90	77	t
New York City	77	65	s	79	69	pc
Oklahoma City	92	74	s	96	74	s

## International

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	70	53	pc	77	59	pc
Athens	77	67	t	78	66	t
Bahrain	111	82	s	112	84	s
Bangkok	91	79	t	89	79	t
Beijing	98	74	s	101	73	s
Berlin	73	53	pc	74	60	pc
Buenos Aires	61	43	pc	64	44	s
Dubai	101	85	s	102	87	s
Dublin	72	53	pc	74	53	s
Edinburgh	71	53	pc	75	55	pc

## The WSJ Daily Crossword | Edited by Mike Shenk



## SEX SYMBOL | By Herre Schouwerwou

## Across

- 1 Shelter adoptee
- 2 \*Shuttle adoptee
- 3 Shah Jahan's capital
- 4 Make like an unhappy baby
- 5 Alluring quality
- 6 Painter's estimation
- 7 \*They're seen under the stars
- 8 Stalagmite creator
- 9 Rio de Janeiro
- 10 Boxers Muhammad and Ali
- 11 Fletcher's product
- 12 Mack the Knife composer
- 13 Pool workout
- 14 Time off, in mil. slang
- 15 University of Miami's mascot Sebastian, e.g.
- 16 Mileage meter prefix
- 17 Decorated pitchers
- 18 TV Tarzan portrayer Ron
- 19 \*Film in which Elvis sang "Rock-A-Hula Baby"
- 20 Festooned as an October prank
- 21 Thunder and Lightning, e.g.
- 22 Where to put down roots
- 23 Sicilian postcard subject
- 24 Escalator aid
- 25 \*Elizabeth Taylor trademark
- 26 \*Special effects background
- 27 Computer-controlled game character
- 28 Judge's cry
- 29 Vivacious quality
- 30 Housekeeper's headache
- 31 \*Directory with a "walking fingers" logo
- 32 Key words?
- 33 Co. making holiday arrangements
- 34 St. Valentine's Day
- 35 \*Fanning of "The Beguiled"
- 36 Waiting at a light
- 37 Narrow neckwear choices
- 38 Judge's cry
- 39 Vivacious quality
- 40 Housekeeper's headache
- 41 \*Special effects background
- 42 \*Film in which Elvis sang "Rock-A-Hula Baby"
- 43 Computer-controlled game character
- 44 Breaks ground

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

- 29 Shout-outs from Rocky
- 30 Improv performance
- 31 Valuation
- 32 Post's opposite
- 33 Sweet drink suffix
- 34 Mil. leader
- 35 Like some rap and snowboarding
- 36 Takes a lot of shots?
- 37 Mob biggie
- 38 Frat address
- 39 X, at times
- 40 Reason for a limp, maybe
- 41 Essential element
- 42 See 20-Across
- 43 Words to the audience
- 44 Virginia in the bookstore
- 45 Choreographer Alvin
- 46 Flottante (classic French dessert)
- 47 In no longer
- 48 Not kosher
- 49 Fairness-in-the-workplace org.
- 50 YouTube upload, briefly
- 51 Last O.G. network

## Previous Puzzle's Solution



## SPORTS

BY JOSHUA ROBINSON

**MOSCOW** AMERICAN SOCCER fans had eight months to mull the question. Between the time the U.S. national team collapsed in World Cup qualifying last October to the moment the tournament kicked off here, they needed to decide which team to side with in the U.S.'s absence.

For many, the answer was more obvious than a sombrero on the subway: American fans should support their neighbor to the south, Mexico. But they ran into vocal opposition from fans who think cheering for El Tri amounts to high sports treason. After all, Mexico is the U.S.'s fiercest soccer rival—decades of hostility between the teams couldn't simply be suspended for the summer. And that equation doesn't even factor in real-world political sensitivities between the countries on issues like immigration.

Now, with Mexico heading into the knockout rounds, the topic has become as divisive as any in the game, right up there with debates on instant-replay and whether it should be called football or soccer.

"We are a relatively young soccer-playing nation," said former U.S. national team defender Alexi Lalas, who is working as an analyst for Fox. "So everything has to be a referendum on what we're doing wrong."

To be clear, the first thing that went wrong was not qualifying for the Cup. The U.S. had made the tournament seven consecutive times since 1990 until it stumbled against Trinidad and Tobago. But the question of which team to support when fans are bereft of their main rooting interest soon proved more fraught than expected.

"I would never jump on the Mexico bandwagon," said Tim Atchison, a 56-year-old software engineer from Boston, who has followed the U.S. national team to around a dozen countries. "I just

really don't like the team."

Atchison has experienced the rivalry first hand. He has stood in the away section of Mexico City's famously rowdy Estadio Azteca on three separate occasions for U.S. games, when he and his friends were "showered with beer and who

knows what else," he said.

That it has become a debate at all, in fact, speaks to the unique circumstances of U.S. soccer fandom. Italy fans, who are also spending the summer at home, would never dream of cheering on their old rival France. The same

goes for Dutch fans, who would rather jump into a canal than root for their German neighbors.

The conversation exploded earlier this month when former U.S. star Landon Donovan appeared in a Wells Fargo advertising campaign with a scarf that read "My other

team is Mexico."

Twitter did not take it well. Neither did some of his former teammates. Carlos Bocanegra and Oguchi Onyewu, who have a combined 179 appearances for the U.S., criticized him publicly both for supporting a rival and appearing to profit from the U.S.'s absence. Former national-team forward Taylor Twellman piled on, too, tweeting "I'd rather cut off my toe than root for [Mexico]."

Even his Mexican-American former teammate Herculez Gomez posted, "You can hate El Tri—this doesn't mean you have anything against Mexicans."

But rooting for Mexico to make a deep run may not be quite as much of a betrayal as it sounds. In fact, it could improve the U.S.'s World Cup chances in four years' time. At least, that's what an article published in March in Psychological Science appears to suggest.

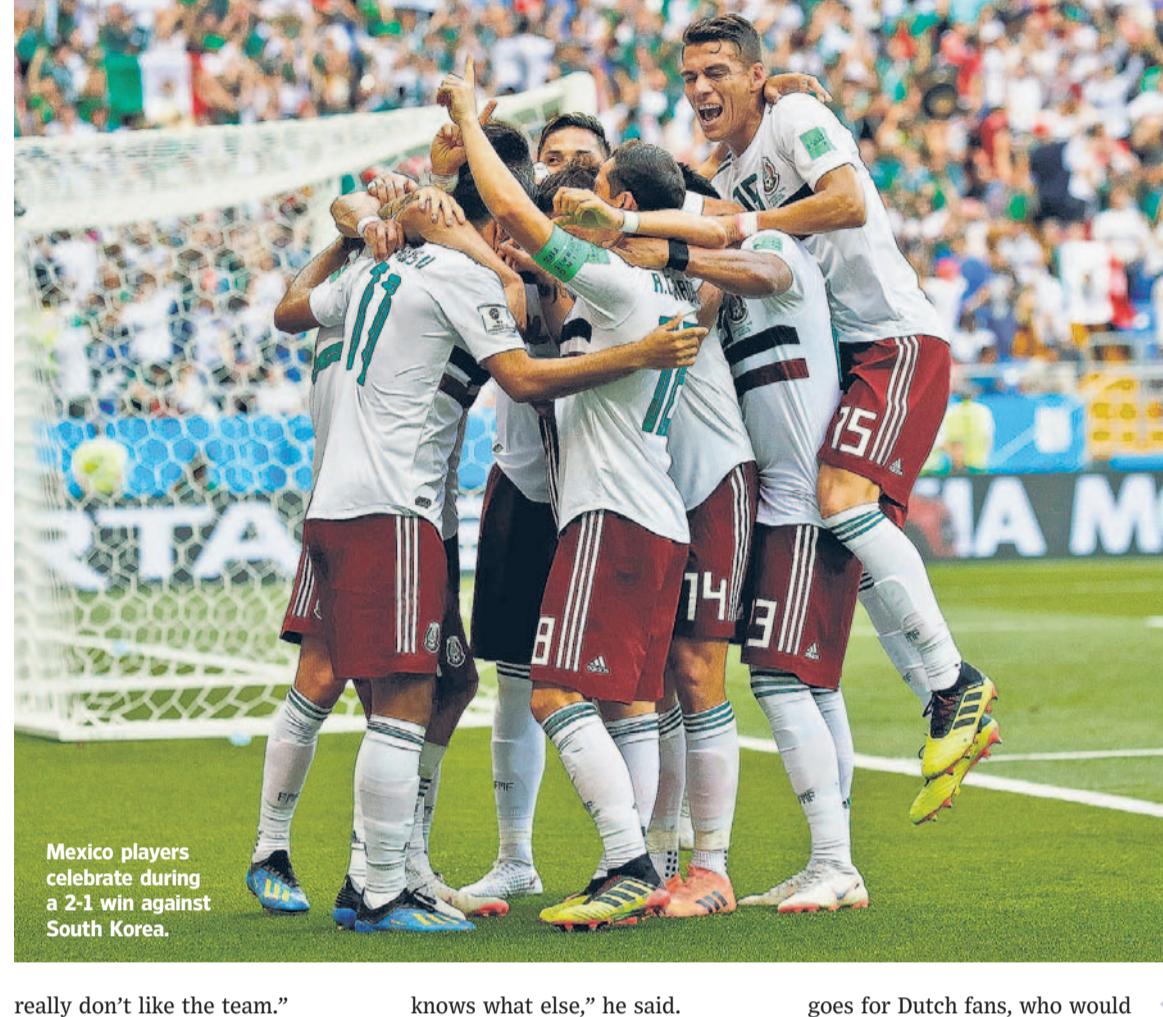
The authors, Brian Pike and Adam Galinsky of Columbia University and Gavin Kilduff of New York University, studied 34 seasons of NCAA men's basketball tournaments, as well as postseasons in the NBA, NFL, NHL and Major League Baseball to analyze how success of a team's rival impacted the team's future performance. Their findings showed that a strong performance by a team's rival was positively associated with an uptick in the team's performance in the following postseason.

"What we believe is that seeing your rival succeed is very motivating because you feel like: 'That should be me celebrating up there,'" Pike said.

Mexican supporters milling outside El Tri's match with South Korea last week said that if the situation were reversed, they would happily support their neighbor to the north.

"I feel, right now, a lot of tension between Mexico and the U.S.," said Erika Campos, 28, from Torreon, Mexico, and soccer "does bind people together."

—Jonathan Clegg and Andrew Beaton contributed to this article.



JASON CAIRNDUFF/REUTERS

Mexico players celebrate during a 2-1 win against South Korea.



Marcos Rojo, front, celebrates with Lionel Messi.

YANN LEV/ZUMA PRESS

## ARGENTINA 2, NIGERIA 1

## LATE GOAL SAVES ARGENTINA

BY JONATHAN CLEGG

**ST. PETERSBURG, RUSSIA** THE SCOREBOARD clock showed four minutes remaining, Argentina's World Cup hopes were hanging by a thread, and the eyes of the world were locked on Lionel Messi.

The greatest player in the game had already lit up this match once, scoring an exquisite goal to open the scoring. Now, in what may be his final World Cup appearance, with his country facing a humbling early exit, and as Argentina swarmed forward for one last attack, it seemed as though every last person inside the stadium was watching and waiting to see what Messi would do.

Which was unfortunate for Nigeria.

Because while five Nigerian defenders surrounded Messi, blocking off his route to goal, no one had caught sight of Marcos Rojo, the Argentina defender, ambling into the box behind him, where he now stood completely unmarked on the penalty spot. The ball came in from the right, Rojo met it unmarked on the penalty spot, and with a swing of his right foot sent a thumping volley into the corner of the net, he sent Argentina into the World Cup knockout round.

With the win, Argentina beat out Nigeria for second place in Group D and will now face France in the round of 16.

"I told the lads I was going to

score," Rojo said afterward, making him one of the few people on the planet who predicted that the crucial breakthrough would come not from Argentina's star player, but its central defender. "We needed it. Now the World Cup can start for us."

Through the first 12 days here in Russia, Messi had been all but invisible, Argentina had been utterly shambolic, and it appeared both of them would soon be sent home, having failed to make a meaningful mark on the tournament.

But with three touches of the ball here, Messi finally announced his presence to the rest of the world. In the 14th minute, Ever Banega sent a high, hanging pass toward the area, which Messi controlled on his thigh, touched with his right foot, and then sent an emphatic shot into the right corner of the Nigeria goal with a blinding shot.

The finish was vintage Messi. And if the all-around performance still wasn't the best he can produce, it was a lot closer to it than he had shown previously in Russia. Messi came into the game with no goals, a missed penalty, and in his last outing against Croatia, having touched the ball fewer times than his goalkeeper.

For Argentina's manager Jorge Sampaoli, who has made Messi the undisputed focal point of his team, the return to form was a welcome sight. "We have worked hard as a team so that Messi could produce the sort of performance he did today," Sampaoli said.

But for France, which will face Argentina for a place in the quarterfinal in Kazan on Saturday, Messi's belated emergence might not be so heartwarming. "We are going to play a team with fantastic individuals," Sampaoli said of the matchup. "But with Lionel [playing like this] we still have dreams of doing something important in Russia."

## TV Listings

Wednesday, June 27

(All times Eastern)

10 a.m.: Mexico vs. Sweden (FOX)

South Korea vs. Germany (FS1)

2 p.m.: Serbia vs. Brazil (FOX)

Switzerland vs. Costa Rica (FS1)

## WORLD CUP

## Debate Divides U.S. Fans

Without an American team in the Cup, is it OK to root for Mexico?

BY BRIAN COSTA AND ZOLAN KANNO-YOUNGS

**AMONG THE MANY** people with a vested interest in the legalization of sports betting in the U.S. is a 35-year-old man living in the Washington, D.C., area. An internet marketer by day, he bets around \$15,000 on a typical night through an offshore website called BetUS, which masks its identity on his credit card statements to avoid legal scrutiny. He receives his winnings through a reloadable MasterCard prepaid card.

Yet as states create a legal sports gambling infrastructure following a U.S. Supreme Court ruling in May, this man said he is likely to remain loyal to his preferred illegal sportsbook. "One thing the legit sites won't be able to compete with is avoiding taxes," he said.

The ruling striking down a federal ban on sports betting has been viewed as a threat to the future of an underground market run by local bookmakers and offshore websites. But interviews with gamblers, a bookie and legal experts suggest that legal sports betting will not simply replace illegal sports betting.

The American Gaming Association estimates that Americans illegally wager \$150 billion a year on sporting events, 30 times the amount legally wagered in Nevada and Delaware in 2017. That disparity could start to change dramatically in the near future—New Jersey and Delaware have already implemented sports gambling, with

Rhode Island, Mississippi and West Virginia set to join them soon. Yet not all of the illegal market is expected to move aboveboard.

"The legalization of sports betting is not the death knell by any stretch of the imagination to the underground sports betting economy," said Daniel Etna, co-chair of the sports law group at Herrick Feinstein LLP.

Etna cited uncertainty about the level of convenience legal betting will offer, the potential difficulty of placing bets across state lines and the fees that states will seek to impose on sportsbooks. Pennsylvania, for instance, has proposed a 36% tax on gaming revenue. Sports leagues are seeking their cut in the form of "integrity fees." Those costs figure to be passed on to gamblers.

"For me, someone who's placing \$10 on a bet, that \$1 is kind of a big difference," said a 24-year-old Brooklyn man who bets on sports through a bookie. "I still think I would go the legal route because of the ease of it but someone like me, or someone who's not betting a lot, it will make a big impact."

Illegal sportsbooks retain strengths that their legal competitors may struggle to match. For people who bet with local bookies, these include the ability to make wagers without making an initial deposit, as is otherwise typically required, and the face-to-face nature of transactions. With bookies or offshore sportsbooks—which are based in such countries as Antigua and Barbuda and Costa Rica—bets are generally untrace-

able, which has benefits beyond avoiding taxes.

"Do you really want a record that you are gambling thousands of dollars?" said Jeremy Saland, a former Manhattan prosecutor and criminal defense attorney who represents clients involved in alleged gambling enterprises. "Could this information fall into the hands of divorce attorneys when one spouse is going after the assets of another? Business partners? Potential clients? People want to keep a lid on gambling whether it's legal or not."

Saland likened it to the marijuana market. Even as some states have legalized the sale of the drug, a multi-billion-dollar underground market for it has endured.

Betting illegally, however, does pose risks for gamblers. The D.C.-area internet marketer said he placed bets for years with Bovada, a popular offshore betting site. Then one week, he went on a tear, turning a \$500 deposit into \$12,000 in winnings in a couple days. He said Bovada promptly refunded his deposit, claiming it didn't go through, and invalidated his winnings. The company did not respond to phone and email requests for comment.

Such risks are why some bookies have survived the rise of online sportsbooks. Their personal appeal may yet allow them to survive the rise of legal sports betting.

"Honestly, in simpler words," said a 22-year-old man in Boston who recently worked as a bookie. "It's just so much easier to deal with people like me."



Bettors line up at Monmouth Park in Oceanport, N.J.

WAYNE PARRY/ASSOCIATED PRESS

## OPINION

## A Foreigner's Guide to Trade War

BUSINESS WORLD  
By Holman W. Jenkins, Jr.

If there's one way the man and his moment truly meet, and not propitiously, it's the coming together of Donald Trump's longstanding and profound misunderstanding of trade with the excessive powers Congress carelessly granted the president in this regard. Mr. Trump is perhaps further away than some critics think from blowing the modest boomlet his tax and regulatory reforms have eked out of the Obama economy. But he's closer than he himself seems to know.

That boomlet underlines an obvious lesson: American prosperity is made at home, without Washington needing to worry unduly about the foolish trade policies of others.

Meanwhile, his counterparts in Europe and Asia have some inkling of the U.S. calendar. They can look ahead and rate the chances that, by this time next year, Mr. Trump will be embroiled in an impeachment drama with a Democratic Congress.

But still—with all that said, Europe is an idiot not to nix the 10% car tariff that Mr. Trump complains about. American manufacturers are not keen on developing autos for the European market anyway. GM made a deliberate decision to retreat from building cars for consumers who face

\$8 gasoline prices, preferring to shelter behind America's own egregious 25% "light truck" tariff.

The Japanese would be smart to repackage their promises of agricultural liberalization from the Trans-Pacific Partnership and offer them as a basis for negotiations with Mr. Trump.

The Chinese would be smart to propose a reciprocal investment treaty with the U.S. Technology would pour in and boost China toward the success it should want—based not on stealing yesterday's know-how, but pioneering tomorrow's.

If his foreign interlocutors haven't figured out Mr. Trump's strong suit by now, they should ask Kim Jong Un. It consists of taking modest or provisional concessions and trumpeting them into major victories for one Donald Trump. Offer Mr. Trump an inch. Let him interpret as a mile. He will proclaim peace and good times for all even if the negotiations are just beginning.

If this makes Mr. Trump sound like a dope, think again. He understands that mood and confidence matter as much as specific policy accomplishments in an economy as big, diverse, self-starting and self-sufficient as ours.

He inherited a benefit when the markets woke up after Election Day 2016 and realized the 2008 crisis was finally over, along with the antibusiness, pro-regulation penchants of the Obama years.

He perhaps should have left well enough alone, but he naturally wants to put his stamp on the recovery for his own political benefit and for the symbolic benefit of his voters who rightly or wrongly believe they have been hurt by trade and immigration.

Never mind that bearing the costs now are those selfsame voters, like the Harley employees who learned this

Celebration and symbols are what Trump wants.

You should too.

week their jobs would be disappearing due to trade retaliation. Polls show that Mr. Trump is actually getting good marks (for now) on his handling of the economy.

Mr. Trump speaks as if trade is zero-sum, but other leaders are no less obtuse, showing less sense than North Korea's Mr. Kim did. When Mr. Trump tossed out the idea of a tariff-free relationship between the U.S. and Europe, how could his G-7 partners not jump on it, pronounce Mr. Trump a statesman for the ages, and set in motion a negotiation that may or may not lead to something, someday, let's find out later?

As Casey Stengel famously said, "Can't anybody here play this game?" Besides, even these governments must finally see the nonviability of a world order

built on America being every country's sugar daddy.

We have yet to meet the voter who, though he or she may have supported Donald Trump as a handy and necessary antidote to Washington's static dysfunction and voluminous self-regard, actually believes there's anything coherent or deeply considered about his policy thinking.

Is Mr. Trump a manifestation of the problem or the solution? We've been puzzling over this question for three years.

Some useful quotes have arrived lately to help light the way. Mr. Obama's volatile flunky, Ben Rhodes, points out in his memoir that, shorn of its more arresting rhetoric, Mr. Trump's campaign against Hillary Clinton in 2016 was identical to Mr. Obama's in 2008: "She's part of a corrupt establishment that can't be trusted to bring change."

In a recent interview with C-Span's Brian Lamb, Yale historian John Lewis Gaddis noted the Obama administration's obliviousness to Middle America's loss of confidence that "their children would do better than they did." Mr. Trump "thinks you have to break things up before you can fix them," Mr. Gaddis added. Whether Mr. Trump has the "capacity to build anything new and how much of it is just destructive, it seems to me remains to be seen."

With Mr. Trump's policy of provoking trade confrontations, the time for seeing is fast approaching.

BOOKSHELF | By Konstantin Kakaes

## Robots At the Front

## Army of None

By Paul Scharre  
(Norton, 436 pages, \$27.95)

**P**aul Scharre's most vivid memory of four Army combat tours is of a man he did not shoot. "I was on a mountaintop in Afghanistan with two other Rangers," he writes. "We saw a young man . . . working his way along a spur toward our position. . . . I raised my rifle and peered through my scope." The man, Mr. Scharre realized, was a goat herder, and so he retreated without pulling the trigger. In "Army of None" Mr. Scharre, who after leaving the Army led autonomous-weapons policy at the Pentagon, considers how war will change if such life-or-death decisions are made by weapons rather than by humans.

Mr. Scharre traces the roots of autonomous weapons to the Civil War-era Gatling gun, which could fire dozens of times faster than earlier rifles. Though the gun could not sense or respond to its environment, it automated the process of "loading bullets, firing, and ejecting cartridges." It illustrates his point that "the line between automatic, automated, and autonomous systems is . . . blurry." In 1914, Elmer Sperry, a prolific inventor, first tested an autopilot that used a gyroscope to control an airplane's flight. In the early 1950s, the U.S. Air Force, frustrated by the limitations of remote radio controls, developed a radar guidance system for pilotless planes that enabled them to autonomously follow terrain. But it needed pre-loaded topographical maps to work.

In the 1980s, the U.S. Navy, Mr. Scharre says, deployed a "loitering anti-ship missile that could hunt for, detect, and engage Soviet ships on its own." It was never used and was never particularly useful. Mr. Scharre quotes a retired Navy officer who says it was "a weapon we just didn't want to fire," because it couldn't tell the difference between warships and other ships that it might happen upon.

Advances in sensor capability, computational power and algorithmic ingenuity have diminished that reluctance. The set of technologies that constitute autonomy are now in the midst of a growth spurt. In 2013, an airplane autonomously landed on an aircraft carrier for the first time; in 2014, a helicopter sought and found a clear space in which to land and landed in it; in 2015, a Navy test program completed the first successful autonomous midair refueling.

Frustratingly, insofar as "Army of None" has a thesis, it is that further debate about autonomous weapons is needed. Mr. Scharre is not wrong, but his book is a poor jumping-off point for such a debate, despite his credentials. He raises many of the moral, practical and philosophical issues that autonomous weapons pose but offers few clear answers. Again and again, he hedges or contradicts himself. Autonomous weapons offer "potential benefits and dangers"; deploying them "would be a weighty risk, but it might be one that militaries decide is worth taking"; "autonomous targeting would change humans' relationship with killing in ways that may be good and may be bad." Legal questions are clear, in murky ways. Treaties banning biological weapons and land mines are successes that don't work. The Pentagon is the largest actor in the robotics revolution but doesn't lead it.

Autonomous weapons are becoming a common feature of modern war, raising practical and philosophical issues that remain to be solved.

The book's overriding flaw is that Mr. Scharre succumbs to what David Mindell, an engineer and historian at MIT, has called the "myth of replacement." Mr. Scharre writes that "by removing the human from the vehicle, [robots] lose the most advanced cognitive processor on the planet: the human brain." But as Mr. Mindell has emphasized, "autonomy is human action removed in time"—human judgment is still very much involved in designing and implementing the algorithms. Mr. Scharre notes this idea in passing but goes on to credulously praise the decision-making acumen of both military officers and algorithms, and does a poor job analyzing the relationship between them. "Unlike people, autonomous weapons would be incapable of violating their programming," he writes, as if computer bugs and viruses didn't exist.

His book is marred by other errors of fact and judgment. He blithely characterizes military reconnaissance drones as "noncontroversial," despite vigorous debate about their use. Elsewhere he writes that "there are no laws against firing weapons from a drone, provided it's done on private property." But at least eight states have laws prohibiting armed drones. Mr. Scharre says the Air Force has had no combat drone programs after 2006 and is "not pursuing air-to-air combat drones." But the Air Force has openly acknowledged multiple research efforts into such drones.

Mr. Scharre's history can also be shaky. "In the interwar period between World War I and World War II," he writes, "Germany was more successful in capitalizing on innovations in aircraft, tanks, and radio technology and the result was the blitzkrieg—and the fall of France." Yet as the eminent historian Ernest May wrote: "France and its allies turn out to have been better equipped for war than was Germany, with more trained men, more guns, more and better tanks, more bombers and fighters." He continues: "The Maginot Line, the chain of fortifications on France's border with Germany, was . . . evidence of faith that technology could substitute for manpower. It was a forerunner of the strategic bomber, the guided missile, and the 'smart bomb.'"

For all its global systems of armament, communication and information-gathering without precedent or peer, the U.S. has fallen short of victory in its recent wars in Afghanistan and the Middle East. Despite having fought in these conflicts, Mr. Scharre hardly mentions them in the book. "Used the right way, intelligent machines could save lives by making war more precise and humane," he writes. But he never questions the idea that such a right way exists, nor does he seriously examine the merits of spending hundreds of billions of dollars on high-tech weapons.

His faith is that of André Maginot, who argued that technological innovation would be cheaper, more effective and more sparing of the lives of soldiers than deploying a "wall of chests." Like Mr. Scharre, Maginot served his country honorably. He was shot at Verdun and received France's highest decoration for bravery. Later he was minister of war. He was indisputably brave and bureaucratically capable. But was France better off for his advice?

Mr. Kakaes is a senior fellow at New America who writes about science and technology.

## Are the Ends Worth the Means at the Border?

POLITICS & IDEAS  
By William A. Galston

Politics is a struggle for power. It is also a moral enterprise. Without the power to act, the best-honed moral sensibility is politically inert. But without a moral compass, power is empty and dangerous. Successful politicians understand how to navigate this tension.

Morality applies to ends and means. Some ends are so completely wrong that no choice of means can redeem them. There is no right way to carry out a genocide.

But even if a goal is morally acceptable, some ways of attaining it may be unacceptable. There are wrong ways of conducting a just war. Politicians sometimes discover that there are no ways of attaining their goals that can pass a moral test, in which case they must either modify their objectives or flout norms of conduct.

This brings us to the current debate over immigration. President Trump has established a policy of "zero tolerance" for would-be immigrants who cross the U.S. border illegally. The practice of separating children from their parents was intended to bolster this policy.

Let us set aside two disputed issues—whether zero tolerance is a morally acceptable goal and whether family separation was in fact

promoting it—to focus on what really drove the debate over the administration's tactics. By a very wide margin, the American people find the practice of separating parents and children morally unacceptable, however effective it might be. Many Americans who favored the president's goal could not go along with his chosen means. In the end, a man who believes that retreat is weakness and that weakness is a cardinal sin was forced to back down. Such is the force of moral sentiments in countries where leaders are required to listen to their citizens.

The question now is whether there are any acceptable means to the end of zero tolerance. Housing illegal immigrants together with their children in fenced-off areas will remind many Americans of the camps the government established for Japanese-Americans during World War II. Nor can we simply deport people with credible asylum claims, even if they cross the border illegally. A misdemeanor offense isn't weighty enough to override a possibly legitimate fear of persecution or death. If we send people facing such prospects back to their home countries without considering their claims, we will be violating domestic and international law and their blood will be on our hands.

One thing is clear: Failing to invest adequately in the apparatus for administering immigration law raises the odds that enforcing it will

generate moral problems. Our mechanisms for adjudicating claims are hopelessly clogged, with waiting times measured in years. Can we justly detain asylum seekers and their families this long?

Texas Sen. Ted Cruz acknowledged the force of this question when he introduced a bill last week that would keep parents and their children together while doubling the number of immigration

Judges and providing an expedited 14-day review process for asylum seekers. President Trump rejected this approach, declaring that "we have to have a real border, not judges."

This is a classic false choice: Even if an impenetrable wall could be built, it would contain doors that must open for asylum seekers. Once they present themselves, we have no choice but to consider their claims fully, on the merits. We cannot rightly subject these individuals to indefinite detention while this process grinds on as it does now. This is the moral force of the maxim that "justice delayed is justice denied." This is why the Constitution guarantees not only fair but speedy trials.

Courts and legislatures have recognized these considerations in our criminal justice system. Only some philosophers question the propriety of punishing wrongdoers. But there are limits. The Constitution prohibits cruel and unusual punishments, which may well rule out extended periods of solitary confinement, and it recognizes the right to counsel. It insists that no "person"—not citizen, person—should be deprived of life, liberty or property without due process of law.

In immigration policy, the question is not whether we should have "open borders." Rather, it is what we are prepared to do to safeguard our borders without abandoning our commitment to the rule of law. At some point, President Trump will have to acknowledge that even a wall would not be a substitute for the judges and lawyers that keep immigration policy consistent with the rule of law.

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The case made its way to the Missouri Supreme Court, which held that the injured fan could get his day in court because being injured by a flying hot dog is not a risk that is tied to the "essential character" of watching the Royals play.

But is that so? Baseball is a business. Teams are struggling to put bodies in the seats. Baseball moves too slowly for many youngsters and lacks the NBA's glitz. Mascots are part of a team's efforts to address the well-reported crisis in attracting and retaining fans. If it takes the Phanatic rubbing a bald fan's head to keep fans

interested during the tedious breaks every half-inning, then his activities are intertwined with those on the field.

Of course the essential character of baseball, as a sport, does not include airborne hot dogs. But as the Royals argued, such high jinks are part of the essential character of attending a game in person today. Going out to the ballgame is not what it was when men sat in the stands wearing fedoras.

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During a 2009 Kansas City game, the Royals' mascot, Sluggerrr, an adorable furry lion, tossed a hot dog—behind his back—into the stands. An unlucky Royals fan chose the wrong moment to look at the scoreboard. The hot dog hit him in the eye. He suffered a detached retina.

It would be a trifecta of Americana—baseball, hot dogs and litigation. But suppose Ms. McVay changes her mind. Could she win? Surprisingly, or perhaps not, the law has spoken to the very issue of baseball-mascot-propelled hot-dog liability.

A court got it wrong when it said a fan could sue the Royals over an errant frank.

## Flying Hot Dogs Make Bad Law

By Randy Maniloff

Kathy McVay was struck in the face by a flying object while attending a Major League Baseball game in Philadelphia. In interviews after the incident, Ms. McVay looked as if she'd gone a few rounds with Floyd Mayweather.

But the flying object was not a baseball. Ms. McVay's shiner was caused by an airborne hot dog, wrapped in duct tape. The collision took place amid the Phillie Phanatic's hot-dog launch, in which the team's longtime green and furry mascot uses what resembles a rocket launcher to propel wieners into the stands between innings. The device would not appear out of place at a Bastille Day parade.

Ms. McVay has indicated that she does not plan to take legal action. If she did,

litigation ensued. It was alleged that the Royals failed to train Sluggerrr how to throw hot dogs into the stands safely. (Though the team apparently could train the massive carnivore not to eat the hot dogs.)

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Sluggerrr's mistimed hot dog toss made bad law, even though a jury ultimately absolved the Royals of liability. Let's hope, for the Phanatic's sake, Kathy McVay doesn't eat the hot dogs.)

Mr. Maniloff is an attorney at White and Williams, LLP in Philadelphia and an adjunct professor at Temple University Law School.

## OPINION

## REVIEW &amp; OUTLOOK

## The Supreme Court Rises Above

**D**onald Trump is so polarizing that a test of his Presidency is whether American institutions can keep their bearings and hold to principle despite the passions of the moment. Five Supreme Court Justices did the country a service on Tuesday by sticking to the Constitution and rule of law on executive power rather than succumb to the temptation to rebuke an unpopular President's dubious policy.

A 5-4 majority upheld Mr. Trump's third "travel ban" from 2017 that restricted entry to America from eight countries. The ban in our view isn't necessary, and the Court made no judgment on the policy merits. But Chief Justice John Roberts and four conservative Justices found that the ban falls well within the President's core national-security powers. This is less a victory for Mr. Trump than for the ability of future Presidents to defend the country.

Hawaii (*Hawaii v. Trump*) argued that Mr. Trump exceeded the authority delegated to him by Congress in the Immigration and Nationality Act (INA) and that his order was a pretext for excluding Muslims. But the Chief Justice ruled that the INA grants the President broad discretion to restrict the entry of aliens whenever he finds it "would be detrimental to the interests of the United States."

The initial travel ban was an ill-conceived mess, but by the third try the Administration had done its due diligence. The government conducted a painstaking review of countries' vetting procedures, information-sharing and security risks. Homeland Security tailored travel restrictions from the eight countries—Chad, Iran, Libya, North Korea, Syria, Venezuela, Yemen and Somalia—based on these considerations.

The President directed Homeland Security to review the restrictions every 180 days—Chad has since been removed—and establish a process so citizens from the covered countries can seek waivers. Mr. Trump's 12-page order "is more detailed than any prior order a President has issued," the Chief notes.

Hawaii claimed the President's authority is limited to "temporarily" halting the entry of a discrete group of foreigners engaged in harmful conduct, but this limit is nowhere in the law. Past Presidents including Barack Obama and Bill Clinton "have repeatedly suspended entry not because the covered nationals themselves engaged

in harmful acts but instead to retaliate for conduct by their governments," the Chief Justice writes. The 43 suspension orders issued prior to the litigation did not specify a precise end date.

The plaintiffs fall back on the charge that the order violates the Constitution's Establishment Clause, which prohibits the government from discriminating based on religion. They flog Mr. Trump's statements on the campaign trail calling for a "total and complete shutdown of Muslims entering the United States."

But judges must rule on actual policy, not a candidate's campaign statements. The order makes no mention of religion and thus is "facially neutral," the Chief writes. Under the Court's long-standing precedents, the policy must therefore be accorded deference as long as it has a rational basis—as this one does.

In their dissent, Justices Sonia Sotomayor and Ruth Bader Ginsburg note that some former government officials disagree with the necessity of the President's order. But as the Chief reminds his colleagues, "we cannot substitute our own assessment for the Executive's predictive judgments on such matters."

Chief Justice Roberts also upbraids the two liberal dissenters for the cheap shot of hauling in the Court's regrettable *Korematsu* decision upholding internment camps for Japanese-Americans during World War II. "Whatever rhetorical advantage the dissent may see in doing so, *Korematsu* has nothing to do with this case," the Chief writes. A "forced relocation of U.S. citizens to concentration camps, solely and explicitly on the basis of race, is objectively unlawful and outside the scope of Presidential authority."

In a separate dissent, Justices Stephen Breyer and Elena Kagan almost seem to be going through the legal motions so they don't have to join the majority and hand a victory to Mr. Trump. And in a pointed concurrence, Justice Anthony Kennedy essentially delivers a lecture to political leaders—that means you, Mr. Trump—to respect such constitutional liberties as freedom of religion.

No doubt the five Justices will be vilified as abettors of Mr. Trump, but someone had to tell judges on lower courts that they can't abandon the Constitution to settle political scores. The majority's ruling protects the separation of powers that is fundamental to ordered liberty.

## Free Speech Wins One

**O**ne of the more compelling issues of our time is the assault on traditional free-speech protection in the U.S., a right currently under pressure on many university campuses. On Tuesday the Supreme Court issued an important decision, *National Institute of Family and Life Advocates v. Becerra*, reasserting the inviolability of those speech protections.

In this case the threat was from the state of California. Under California's FACT Act, licensed clinics that offered pregnancy services as an alternative to abortion were required to notify clients that California provides free or low-cost abortions, and to provide a phone number for those providers.

Writing for the 5-4 majority, Justice Clarence Thomas says the law requires the services to advertise abortion, "the very practice that petitioners are devoted to opposing." The California law, he writes, compelled the services to provide a "government-drafted script" and thus violates their First Amendment rights.

The Ninth Circuit Court of Appeals had upheld the law on grounds that normal free-speech protections didn't apply because the statute regulated "professional speech." Justice Thomas was unequivocal in stating that speech does not lose its protections "merely because

it is uttered by 'professionals.'

It is also worth noting that something else was going on here beyond whether a state can dictate speech for professional service providers. The California licensing law was written so that it applies only to clinics that are opposed to abortion. In a stirring concurrence, Justice Anthony Kennedy makes clear what is at stake in laws such as California's that single out ideas or speech with which it disagrees.

He says the law's specific nature "suggests a real possibility that these individuals were targeted because of their beliefs." He goes on to note, "The California Legislature included in its official history the congratulatory statement that the Act was part of California's legacy of 'forward thinking.'"

In reply, Justice Kennedy writes, "It is forward thinking to begin by reading the First Amendment as ratified in 1791; to understand the history of authoritarian government as the Founders then knew it." He concludes: "Freedom of speech secures freedom of thought and belief. This law imperils those liberties."

Strong stuff. Anyone aware today of the pressure being brought on disfavored speech or ideas, whether on campuses or in state legislatures, should welcome the *Becerra* ruling.

## Trump's Motorcycle Club Revenge

**W**hen it comes to misguided revenge, Sons of Anarchy has nothing on Donald Trump. The President's own

### Harley-Davidson wants to live to ride another day. Cue the rage.

big part of its brand, and there was always the risk of Mr. Trump's Twitter vigilantism.

Meanwhile, Harley is dealing with union backlash for opening a production plant in Thailand while closing one in Kansas City. Harley made that hard call after Mr. Trump withdrew from the Trans-Pacific Partnership last year, though that agreement would have reduced foreign tariffs on American-made motorcycles. Mr. Trump's TPP decision made it harder for Harley to compete in the Asian market while still using U.S.-based steelworkers and machinists. Cause, meet effect.

We remember how Barack Obama railed against Anthem for raising insurance premiums when Democrats were distorting the health-care market. One might expect that Mr. Trump, supposedly savvier about business realities, would understand how corporations have to make tough choices to survive bad policies. Mr. Trump should rage against the man in the mirror who is the reason for Harley's choices.

Taxed if you do, taxed if you don't. In retaliation for Mr. Trump's steel and aluminum tariffs, the European Union raised tariffs on U.S.-made motorcycles to 31% from 6% last week. The \$2,200 price hike would be a deal-breaker for many would-be Harley bikers in Europe and would damage the company's sales.

As motorcycle sales in the U.S. continue to decline, Harley knows it needs to reach a global market. So the company was left with two choices: Avoid the tariff by moving operations abroad, or pay the new EU tax, which will cost

the company \$90 million to \$100 million each year. Keep in mind that Harley is already paying \$15 million to \$20 million more for manufacturing this year because of Mr. Trump's tariffs on metal.

Harley chose to live to ride another day, but you can bet its executives didn't make the decision to relocate lightly. Harley's American ethic is a

cause, meet effect.

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## LETTERS TO THE EDITOR

### On Motivating Workers, Public and Private

Jason Riley's assessments of public employees don't match my own experience ("My Lazy Summer as a Public Employee," Upward Mobility, June 20).

I've worked in the private and public sectors. As a result of difficult budgets, our state employees had to do significantly more with fewer colleagues with whom to share the burden. Ironically, during difficult economic times the work of government employees increases as they have to help more of their fellow citizens. And during those times, there are insufficient resources to fully staff government departments.

Our public employees do incredibly important work. And the overwhelming majority of them do it in a way that should make the rest of us proud.

JACK MARKELL  
Wilmington, Del.

Mr. Markell was governor of Delaware 2009-17.

The public-employee mind-set Mr. Riley describes is why taxpayers are revolting against the status quo in federal and state bureaucracies and against additional tax hikes. No private organization could get away with this behavior.

TIMOTHY L. BEAL  
Finksburg, Md.

Mr. Riley's story brings to mind the tragedy that occurred here in Michigan because of similar behavior. The story about Flint's poisoned water is well known. Flint was buying potable water from the city of Detroit. It

stopped doing so because of the high cost. During the course of Detroit's bankruptcy, it was revealed that the Detroit Water and Sewerage Department had some 1,700 employees and only needed 231. No wonder the price was high.

ROBERT W. THOMPSON  
Alpena, Mich.

Jason Riley is amply supported by numerous studies when he points to the abysmal performance of municipal services. As a New York City official in 1970, struck by the low efficiency of the sanitation department, I compared its solid-waste collection work to that of the private carting industry, commonly believed to be dominated by organized crime, and found the latter, astonishingly, to be roughly twice as productive as the former.

Subsequently, as a professor, I and others examined that common (and easy-to-study) municipal service in randomly selected cities throughout the U.S., comparing municipal service with service by private contractors hired by the city. The result showed municipal collection was 32% more costly than contract collection for the same level and quality of service, and the difference was due primarily to excess labor. This became the start of the privatization movement, which generally corroborates the large advantage of competitively awarded contract services over monopolistic government services.

EM. PROF. E.S. SAVAS  
Baruch College  
City University of New York  
Tenaflly, N.J.

### It Makes No Sense to Cut LWCF's Funding

Your editorial "A Spending Embarrassment" (June 21) on the rescissions package notes that I voted against advancing the bill because it targeted funding already promised for the Land and Water Conservation Fund (LWCF).

The LWCF isn't, as you suggest, a "slush fund" or a "land grab." Nor is it a piggy bank Washington should raid at its convenience. Instead, it is a rare example of an effective government program that costs taxpayers nothing and benefits them entirely.

The LWCF is far and away our nation's most successful and important conservation program. Over five decades it has helped support more than 42,000 federal and state outdoor recreation projects, preserving America's irreplaceable natural, historic and cultural landmarks. In North Carolina it has helped preserve places like the Great Smoky Mountains and the Blue Ridge Parkway, but every state has local investments supported

by the LWCF. Most of the fund's work helps ensure access to existing federal lands, so people can easily enjoy hiking, hunting, fishing and camping.

Fiscal hawks, like myself, can applaud the fact that the LWCF operates at no burden to taxpayers. It's almost entirely funded by a small percentage of oil-drilling receipts, reinvesting the revenue back into our country. Considering outdoor recreation generates nearly \$900 billion in consumer spending and \$63 billion in federal tax revenue each year, that's a good deal for the American people.

Unless Congress acts, this important program will expire in about 100 days. Permanently reauthorizing the LWCF would help avoid funding debates around individual projects by providing a stable, long-term commitment.

My vote was about keeping our promises.

SEN. RICHARD BURR (R., N.C.)  
Winston-Salem, N.C.

### ACLU Isn't Backing Away From Free Speech

Regarding Wendy Kaminer's "The ACLU Retreats From Free Expression" (op-ed, June 21): For nearly 100 years, the ACLU has been at the forefront of battles for free speech. We will continue to defend the speech rights of the unpopular, whether we agree with them or not. Wendy Kaminer's concerns are refuted not only by the very document she cites, but by the ACLU's actions in continuing to defend those who express views contrary to our own.

The ACLU has not changed its longstanding policy of defending speakers with whose views we strongly disagree. At this moment we are representing Milo Yiannopoulos in his free-speech case against the Washington, D.C., transit authority and a student group in San Diego penalized for publishing a satire of "safe spaces" that some students and faculty deemed offensive. We have defended the rights of anticoercive advocates, homophobic Westboro Baptist Church picketers and of the Washington Redskins to trademark a name offensive to many Native Americans. Our representation of clients is not a blanket endorsement of their beliefs. We can and do defend in court the rights of those whose views we openly denounce.

David Cole  
American Civil Liberties Union  
New York

We developed the case selection guidelines mentioned by Ms. Kaminer to address the conflicts between the many cases we consider, such as between privacy and women's rights, gay rights and religious freedom, and speech and equality. The guidelines do not dictate how and when we take cases. They expressly reaffirm that free-speech rights "extend to all, even to the most repugnant speakers—including white supremacists—and pursuant to ACLU policy, we will continue our longstanding practice of representing such groups in appropriate circumstances to prevent unlawful government censorship of speech."

DAVID COLE

American Civil Liberties Union  
New York

Wendy Kaminer confirms what has been obvious for years, that the ACLU values some civil liberties for some people more than others.

Freedom of religion, especially for traditional Christians, is obviously at the bottom of the ACLU value hierarchy, to be respected only when it does not conflict with any other civil liberty.

JAMES G. RUSSELL

Midlothian, Va.

### Pepper ... And Salt

THE WALL STREET JOURNAL



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LORETTA REDD  
Santa Barbara, Calif.

## OPINION

# ObamaCare Can Be Worse Than Medicaid

By John C. Goodman

This year will be the last in which uninsured Americans are forced to pay ObamaCare's penalty for lack of coverage. The change—part of the GOP's tax reform—comes as relief on the demand side of health insurance. Yet nothing has changed on the market's supply side. Without additional reforms to ObamaCare's restrictions on insurers, millions of Americans will continue to choose from a limited range of lackluster plans.

Many of the country's top hospitals are off limits to patients covered by ObamaCare's current plans. Take Houston's MD Anderson Cancer Center, which was named America's best

## No exchange plan covers care at the MD Anderson Cancer Center in Texas or Mayo Clinic in Minnesota.

cancer-care hospital by U.S. News & World Report in 13 of the past 16 years. The hospital's website suggests that it takes even Medicaid, but it doesn't accept a single private health-insurance plan sold on the individual market in Texas.

Since Blue Cross of Minnesota withdrew from the individual market in 2016, the state's Mayo Clinic—once cited by President Obama as a model for the nation—has been off limits to Minnesotans covered by ObamaCare exchange plans. Memorial Sloan Kettering appears out of bounds for every exchange plan in New York. Both of these hospitals are open to some Medicaid patients, though Mayo's chief executive has predicted publicly that Medicaid patients may

eventually have to queue behind their privately insured peers.

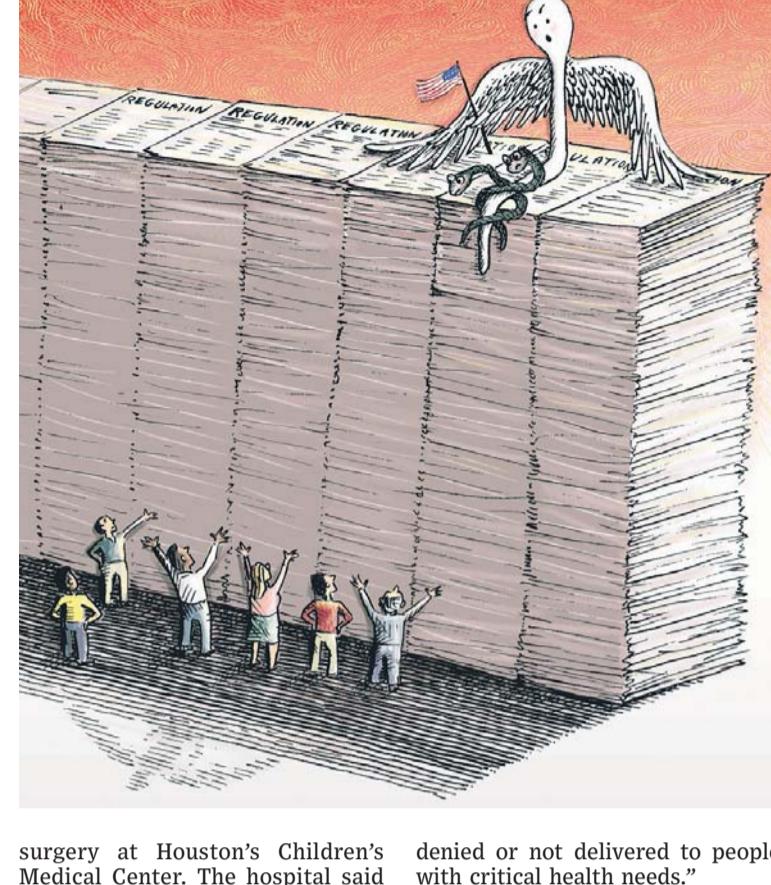
Think about these developments. When Mr. Obama promised to insure the uninsured, what kind of insurance was he talking about? Most people, and maybe even the president himself, imagined it would look like a typical employer plan or a standard Blue Cross individual policy. Who imagined that the only products available would be more limited than Medicaid?

When Blue Cross of Texas first entered the Dallas exchange in 2014, its plan looked a lot like the plans it sold to employers. The coverage extended to virtually every hospital in the Dallas-Fort Worth area, including the prestigious University of Texas Southwestern Medical Center. But after sustaining huge financial losses, the insurer retreated the following year to a more restrictive plan that treated UT Southwestern as an out-of-network hospital. That meant patients faced steep out-of-pocket expenses on top of an already large deductible. The following year UT Southwestern was excluded entirely. The same process has repeated across the country, as insurance titans like Aetna, Humana and UnitedHealth Group have retreated from market after market.

Meanwhile, the remaining insurers are offering products that look a lot like Medicaid. Centene, a Medicaid contractor, stepped in to pick up more than half the U.S. counties that had no insurer for 2018. Medicaid contractors like this may be the only insurers that can survive in the ObamaCare exchanges.

Centene's core product is Medicaid managed care. About 90% of its exchange enrollees get premium subsidies, and many rotate in and out of its Medicaid plans.

In a controversial 2014 decision, a Centene health plan canceled a child patient's emergency brain



BARBARA KELLEY

surgery at Houston's Children's Medical Center. The hospital said its success rate for the surgery was close to 90%, while hospitals nationwide average only 47%. The insurer claimed the hospital was out of its network for the patient's plan but relented after its decision was criticized in the media.

Anecdotes like this one account for much of what's known about the care of seriously ill patients under ObamaCare. But this month the Dallas Morning News published the results of a yearlong investigation into Medicaid in Texas. The paper uncovered hundreds of cases in which "essential medical care was delayed,

denied or not delivered to people with critical health needs."

Many of the insurers that provide Texas' Medicaid plans offer similar coverage in the ObamaCare exchanges. One of Centene's subsidiaries has the state's highest rate of appeals for denials of care under Medicaid, but it offers plans with similar coverage to exchange enrollees.

What's driving this race to the bottom? The problem starts with the community rating system, which requires insurers to charge the same premium to all comers regardless of health status. This gives insurers an incentive to seek healthy buyers and avoid sick ones. Since healthy people

tend to pick the cheapest plan, and sick buyers are much likelier to look carefully at coverage details, plans with low premiums and narrow coverage networks are suited to attract the healthy buyers insurers want.

What about risk adjustment, the ObamaCare mechanism that is supposed to transfer funds from plans with healthier enrollees to plans with sicker ones? The program's administrators don't always assess risk properly. When ObamaCare's risk adjustment undercompensated insurers, they passed along the cost to certain patients through higher out-of-pocket charges, according to a 2016 study by Harvard and University of Texas economists. Insurers also have an incentive to spend not a penny more on the plans than the risk-adjusted compensation they get for enrollees, meaning such plans tend to offer restrictive coverage.

Problems on the buyer side of the market also hamper risk adjustment. Since the mandate to buy insurance has dozens of loopholes and has been enforced weakly, millions of healthy people choose to remain uninsured. When they get sick, however, they often enroll and choose the gold and platinum plans with the most generous coverage. These latecomers usually cause insurers to pay out much more in coverage than the insurers receive in premiums and subsidies. Companies like Centene have a solution to that kind of buyer behavior: They don't offer gold or platinum plans.

Congress should be examining these kinds of problems—rather than searching for ways to bail out the insurance companies that helped create this broken system.

*Mr. Goodman is president of the Goodman Institute for Public Policy Research and author of "Priceless: Curing the Healthcare Crisis" (Independent Institute, 2012).*

## Trump Doesn't Regret the Border Controversy—Sobbing Kids or No



What's the point of having immigration laws if the government doesn't enforce them?

Presumably, that was the thinking behind the Trump administration's "zero tolerance" policy for prosecuting parents who enter the country illegally with their children. Yes,

large majorities of Democrats and Republicans continue to view immigrants as a net positive for the country. But the president speaks for more Americans than his critics want to acknowledge when he expresses deep frustration with people who flout immigration laws.

Kirstjen Nielsen, the secretary of homeland security, calmly explained to a reporter last month that family separation policies are widespread and commonplace. "We do it every day in every part of the country," she told National Public Radio. "In the U.S. we call that law enforcement. We call that protecting our communities and our children." Ms. Nielsen is correct, of course, though you might have missed the news

story buried on page A14 of the New York Times supporting her contention.

"Advocates for criminal justice reform have argued that Americans appalled at the treatment of immigrant families at the border should realize that prosecutors and the police routinely separate children from their parents," wrote the Times. "It happens when parents or children are arrested, it happens when incarcerated women give birth—it can even be triggered when a pregnant woman fails a mandatory drug test, or when a child skips school." The administration has been getting pounded by the press for a law-enforcement policy that is both rational and widespread. And you wonder why President Trump won't give up tweeting?

Logic and reason were never going to compete with those heart-wrenching images of sobbing little children that have flooded cable news and social media, so it was inevitable that the White House would have to revisit the "zero tolerance" approach to deterring illegal immigration. Don't believe for a second, however, that

Mr. Trump has any regrets. The whole idea was to keep the immigration issue alive in the run-up to the November midterm elections, and it succeeded. The White House is looking for ways to get Trump voters to the polls even though the president isn't on the ballot, and talking about illegal immigration has never failed to scare up the base.

### Revisiting 'zero tolerance' was inevitable. Still, the debate keeps immigration alive for the midterms.

The president's critics, for their part, are determined to take the low road to November. Rep. Maxine Waters of California nicely summed up the strategy at a rally in Los Angeles on Saturday, when she called on her fellow Democrats to harass administration officials at department stores and restaurants and gas stations. "You tell them they're not welcome anymore, anywhere," said the congresswoman.

Shaming the president and his supporters didn't work out too well for Hillary Clinton in 2016, yet liberals are doubling down on the tactic and hoping for a different outcome in the fall. We'll see, but on issues like immigration and trade, Mr. Trump has done nothing more than try to fulfill his political promises. He is an unabashed immigration hard-liner who campaigned as one. You can call his border policies unnecessarily harsh and potentially counterproductive but by now they're about as surprising to voters as this morning's sunrise.

The administration said Monday that it has temporarily suspended prosecutions of illegal-immigrant adults caught with their children, which is good news for anyone who believes that separating families and caging children isn't necessary to secure the border. Effective alternatives to detentions exist for people fleeing violence in their home countries, and the White House ought to consider them.

Fatma Marouf, a law professor at Texas A&M, recently told Forbes magazine that some of the same methods used by law-enforcement

agencies to monitor citizens on parole could be employed to ensure that more refugees seeking asylum actually show up for their scheduled court appearances.

In addition to doing a better job of keeping asylum seekers current about hearing dates and the consequences of noncompliance, Ms. Marouf said that "releasing people on bond or into electronic monitoring programs are alternatives." Significantly cheaper alternatives, it turns out. Housing an individual in a detention facility can cost \$180 a day, but a person can be monitored with a tracking device for just \$8 a day.

According to a Department of Homeland Security report released in November, nearly 100% of asylum seekers tracked electronically showed up for hearings and otherwise complied with their release conditions.

Why not expand what works? Limiting the movement of people using ankle bracelets and Global Positioning System devices is far from ideal, but it also would be temporary and for most people the lesser evil to endure while lawmakers in Washington continue to kick the can on immigration.

## The VA Continues a Centuries-Long History of Scandal

By Rebecca Burgess

When Veterans Affairs Secretary David Shulkin was ousted earlier this year, most of Washington wrote it off as another result of President Trump's chaotic management style. Perhaps, but the change also reflects the state of pandemonium long associated with the VA. Caring for veterans has never been a straightforward task in the U.S.

Since its elevation to a cabinet-level department in 1989, the VA has shed secretaries faster than the Praetorian Guard knocked off Roman emperors. Seven of its nine

confirmed secretaries have resigned out of frustration or over scandal. The secretary's employment background hasn't made a difference. Whether he came from the military, medicine, the corporate world or Congress, the result has largely been the same: Exit stage right, with little applause from veteran-service organizations or the broader public.

Scandals plagued veteran affairs before an official agency even existed. Fraud, overspending and waste nearly ended the relatively modest veterans pension program in 1820. The same trio of ills showed up in post-Civil War veterans programs.

By 1921 Congress established the Veterans Bureau, which consolidated the majority of existing veterans programs. President Harding nominated Col. Charles Forbes to lead the bureau, and Congress tasked him with building hospitals. Forbes promptly squandered the bureau's budget, was relieved of his duties, and served time at the U.S. Penitentiary in Leavenworth, Kan., for conspiracy to defraud the U.S. government.

In 1924 Brig. Gen. Frank T. Hines attempted reform, reorganizing the Veterans Bureau into six services—medical and rehabilitation, claims and insurance, finance, supply, planning, and control. By 1930, feeling political heat from the American Legion and Veterans of Foreign Wars, President Hoover decided that more was necessary to "coordinate Government activities affecting war veterans." He created the Veterans Administration as an independent federal body, replacing three bureaus then separately overseeing all veterans programs. Two years later tens of thousands of veterans protested at the Capitol in what became known as the Bonus March.

Hoover's reorganization essentially created the modern VA. Under his administration, the agency overshot demand for hospital beds. The glut fueled the VA practice of expanding health benefits to veterans without service-connected injuries to justify increases in congressional appropriations. That often-overlooked decision still fuels contemporary debates about veterans care. Does "providing care" for veterans

mean VA hospitals ought to provide cradle-to-grave care for anyone affiliated with the nation's uniform? Or should they focus on responding to a defined set of service-related injuries?

The Veterans Health Administration, created by Hoover, remains the VA's largest division—and its most visibly troubled. Yet the Veterans Benefits Administration spends the most money and badly

### Fraud and waste plagued veteran pensions in 1820. Since then the problem has only expanded.

needs reform. It faces an enormous backlog of claims, operates under an anachronistic disability model, and chronically miscommunicates with veterans regarding benefits.

Meantime, the National Cemetery Administration cares for 3.6 million graves and supports a network of national, state and tribal burial grounds. Many of them can no longer accommodate veterans wishing to be buried there, partly due to an expanding legal definition of "veteran."

The VA secretary is supposed to direct all of this—plus 20 or so other offices. He's accountable for a \$188.65 billion budget and the second-largest federal agency, serving nine million veterans directly. And he must do so within the parameters of a collective-bargaining agreement

made with the American Federation of Government Employees, to which more than 250,000 VA employees belong. He also must defer to the Merit Systems Protection Board, a quasi-judicial, largely independent body guarding the rights of senior-level employees.

How does this system serve America's veterans? Poorly, as the revolving door of VA secretaries implies. But Congress and several presidents haven't helped much. They tend to see veteran issues through the lens of lobbying efforts by veteran-service organizations. There's a reason a former VA official once called reforming the agency the "fourth, nuclear rail" of American politics. Each branch of government has favored expanding the parameters of "providing care" but avoided answering what the end goal of that care is. Nor have they given the VA secretary and his staff clear instructions on what they ought to prioritize to achieve it.

Little wonder that qualified prospective nominees decline offers to lead the agency and those who take on the task have short tenures. As currently constituted, the VA is simply ungovernable. A century removed from its formal origins, now is the time to rethink the agency from the bottom up. The president, Congress and veteran service organizations must be willing to think practically, rather than politically, about this problem.

*Ms. Burgess manages the Program on American Citizenship at the American Enterprise Institute.*

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## TECHNOLOGY: AMAZON AND AMEX LAUNCH A SMALL-BUSINESS CARD B4

# BUSINESS & FINANCE

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## Uber Wins Lifeline in London

**British court grants probationary license after firm apologizes for its past misdeeds**

BY SAM SCHECHNER  
AND KILEY ROACHE

LONDON—A British court granted **Uber Technologies Inc.** a probationary license to operate in London, a victory for the ride-hailing company as it attempts to resolve allegations of corporate misbehavior before its planned initial public offering next year.

Judge Emma Arbuthnot on

Tuesday gave Uber a 15-month private-hire license to operate a car service in the British capital, after the company spent much of a two-day hearing admitting and apologizing for past misdeeds and promising that its corporate culture had changed.

Last September, Transport for London, the regulator, had refused to renew Uber's license, citing a "lack of corporate responsibility." It alleged Uber had misled it and courts about the functioning of its app, and avoided referring serious incidents, such as sexual assaults, to the police. Uber appealed the decision, and has

been allowed to operate during that process.

Judge Arbuthnot said the 15-month license should give authorities enough time to determine whether the company was making good on its promise to better work with local governments, while "ensuring the public is kept safe." London's customary private-hire license is five years.

"We will continue to work with TfL to address their concerns and earn their trust," Tom Elvidge, Uber's general manager for the U.K. and Ireland, said after the ruling.

Despite the short leash, Uber's new London license

provides a measure of relief in one of the company's largest markets, with about 3.6 million active users, roughly 5% of its global tally of 75 million. The legal victory also validates the ride-hailing giant's new strategy of playing nice with local regulators and laws as part of a broader cultural shift pushed by company Chief Executive Dara Khosrowshahi.

For years, Uber had expanded quickly by barreling into local markets and challenging local regulators who opposed it, saying they were applying antiquated laws to protect local taxi monopolies. But that strategy exacted a

growing toll, leading to bans and other legal setbacks in the U.S. and Europe, followed by a series of scandals—including accusations it used software dubbed Greyball to evade regulators in some jurisdictions.

"We did some things, in hindsight, that were pretty stupid," Uber's lawyer, Thomas de la Mare, said in court on Tuesday.

Mr. Khosrowshahi, who became CEO last August, has sought to repair the damage, meeting with government officials, rolling out a new set of what he calls "cultural norms" for the company, and running

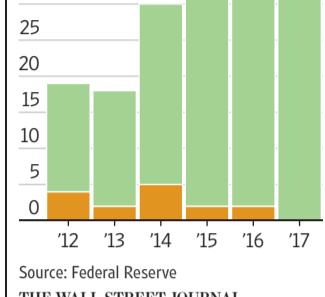
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### Low Stress

Since 2014, when five of 30 banks failed, nearly all banks have passed the Fed's exams.

■ Plans rejected ■ Plans accepted

35 firms



Source: Federal Reserve

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## Fed Nears Dropping Grading of Big Banks

BY RYAN TRACY

WASHINGTON—The Federal Reserve is moving toward eliminating passing and failing grades for its stress tests of the nation's largest banks, replacing them with a capital ratio that the lender must meet during the following year.

On Thursday, when the second round of stress-test results is released, there is still a chance a bank could fail the exam, which tests whether banks could continue lending during a severe recession. As soon as 2019, regulators are likely to turn to the ratio.

The changes, set in motion during the Obama administration and continuing under President Donald Trump, reflect the Fed's uneasiness with surprising bankers and financial markets with bad news, such as **Citigroup Inc.**'s unexpected stress-test failure in 2014.

The modifications also demonstrate how Fed officials have grown more comfortable with big banks' risk-management chops after the 2008 financial crisis exposed significant weaknesses. Last year, no banks failed, the first time that happened since the Fed began disclosing annual results in 2012.

For banks, the changes promise less risk to their reputations and less urgency to invest in passing the tests, which can cost companies hundreds of millions of dollars in compliance costs.

The Fed has been steering "a gradual course away from the potential for public shaming," said Michael Alix, a former Fed official who works as a consultant advising banks at PricewaterhouseCoopers LLP. Instead, he said, the Fed is moving back to the way it typically addressed risk-management issues in the past: privately.

Bank regulators historically have worried about bashing banks in public because it could fuel perceptions that a firm is in trouble, leading to the destabilizing "runs" on banks that regulators are trying to prevent.

Stress tests have been an exception. Officials created the tests during the crisis to increase public confidence in banks. The 2010 Dodd-Frank financial law made annual testing mandatory for large banks, and in 2012 regulators began disclosing individual bank results.

After Citigroup failed in 2014—along with four other firms—Chief Executive Michael Corbat told colleagues, "If we don't get this right, we don't deserve to stay in business."

Citigroup passed the next year's test and Mr. Corbat kept his job.

The current Fed grading system has two parts: A quantitative exam estimates whether bank capital levels stay above regulatory requirements. A qualitative portion looks at more subjective questions, including the quality of a bank's internal data or board of directors.

A slip-up on either part means the bank fails, and it doesn't receive the Fed's approval to increase the profits

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## Stocks in China, Europe Caught in Crossfire

BY RIVA GOLD  
AND SHEN HONG

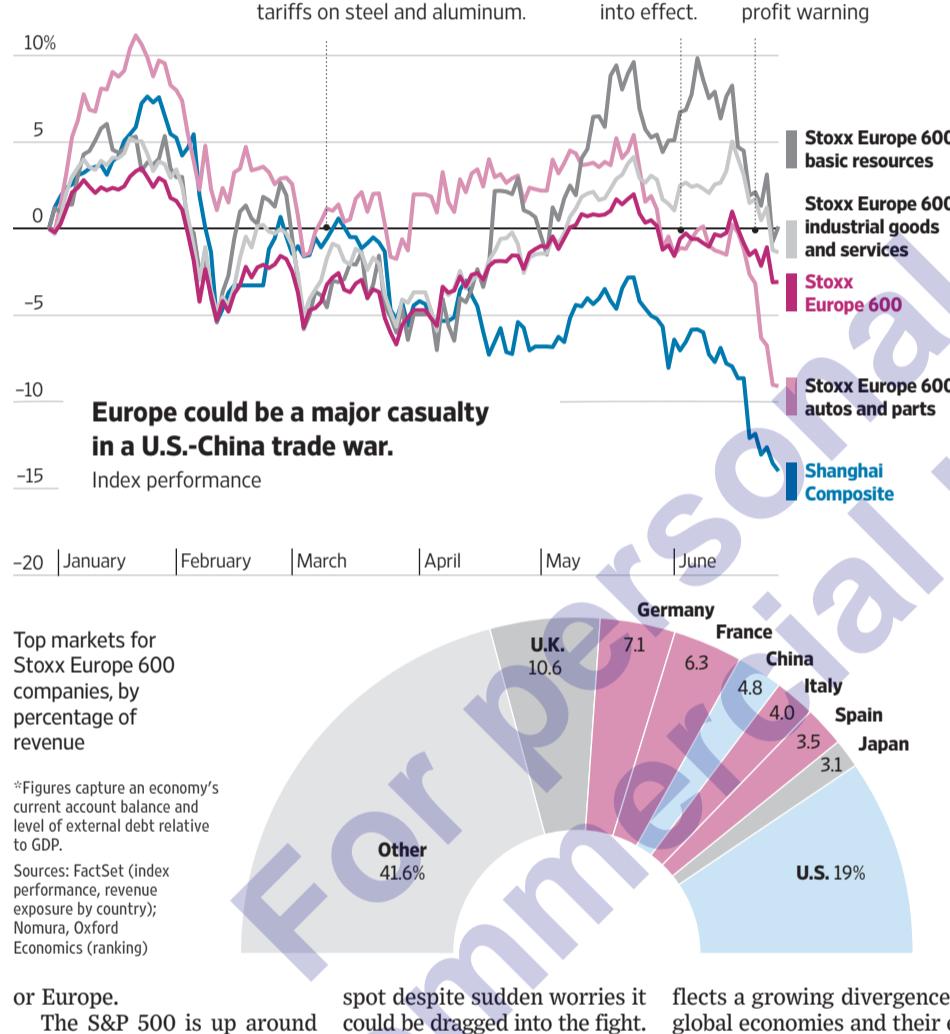
China's main stock benchmark entered bear-market territory Tuesday as trade tensions continued to reverberate and investors grew more concerned about the world's second-largest economy.

A further lurch downward for the Shanghai Composite Index brought it 20.1% below a two-year high reached on Jan. 24, breaching the 20% level that defines a bear market. The move followed a tumultuous Monday for U.S. markets that had investors scrambling to decipher competing trade talk from the White House about a potential escalation of restrictions against China or possibly technology companies globally. Early Wednesday, the Shanghai benchmark was down slightly.

"The trade conflict between the U.S. and China has turned out to be more protracted and more fierce than we had expected," said Victoria Mio, Hong Kong-based chief investment officer for China at Robeco, a Dutch asset-management firm.

The scariest place to be in such a battle, though, may be stocks in Europe. In recent weeks, investors have withdrawn billions of dollars from European equity and bond funds, concerned trade frictions could dent an already fragile economic recovery in a region heavily exposed to international trade.

The result: While the U.S. has initiated the trade conflict, its markets are so far holding up better than those in China



Economies ranked by relative fragility from a trade-driven deceleration in global growth

Netherlands	10.0
Ireland	8.9
Germany	5.7
Russia	4.9
Japan	4.7
Spain	4.7
South Korea	4.2
France	4.2
Brazil	4.0
China	3.5
U.K.	3.3
Canada	3.1
Australia	3.1
U.S.	2.6

A higher number means greater exposure\*

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spot despite sudden worries it could be dragged into the fight. The tech-heavy Nasdaq Composite is up nearly 10% so far in 2018, even after stocks such as **Netflix Inc.**, **Facebook Inc.** and **Amazon.com Inc.** took a drubbing Monday.

The market performance re-

flects a growing divergence in global economies and their exposure to trade.

Goods and services exports, for instance, make up 27% of the euro area's gross domestic product and 21% for China but just 12% for the U.S., according to data from the Euro-

pean Central Bank.

The U.S. economy continues to post strong growth and unemployment is at record-low levels.

In China, by contrast, there are worries growth is starting to weaken: Data for May

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HEARD ON THE STREET | By Spencer Jakab

## GE's Moves Buy It Some Time

**Curb your enthusiasm about General Electric.**

The transformative moves the conglomerate announced Tuesday morning were well received but only propelled its shares to levels last seen eight trading sessions earlier.

Some of the enthusiasm is warranted, though not because there are tangible signs that the conglomerate is turning itself around.

Instead, Chief Executive John Flannery has managed to

strike a balance between avoiding panic while buying time to reduce financial strain.

For example, cutting the dividend, after it was halved last year, might have been seen as a sign of a cash crunch. But that is exactly what GE is doing with the sale of 20% of its health-care unit and the subsequent spinoff of the rest. Management said that the new company's payout ratio will be in line with peers and thus fairly low, while the remaining company will cut its dividend to reflect its smaller size.

Likewise, acknowledging that its 62.5% stake in oil-field-services company **Baker Hughes** will be sold over two or three years relieves some

pressure on that company's share price. This will be the biggest source of new cash for GE. Taking it slow will allow GE to realize more value in a company formed less than a year ago.

The key number in GE's machinations is 2.5—the multiple of debt to earnings before interest, tax, depreciation and amortization it hopes to achieve by 2020, down from 3.5 today. That is achievable but rests on some sleight of hand and wishful thinking.

To offset the drop in the denominator—losing health-care and other units will sap about \$1.5 billion in Ebitda—GE will load \$18 billion in

debt and pretax pension liabilities onto the new health unit. It also will raise cash from disposals and the dividend cut. But the numbers only work if its troubled power unit starts to turn around and if GE succeeds in trimming another \$500 million in costs.

Another move designed to reassure is a \$3 billion contribution to its finance unit. The timing and relatively modest sum, for now, don't mean its troubles or cash needs are over, but they don't smack of panic.

Tuesday's moves were

perhaps designed to impress credit analysts more than stock pickers.

S&P praised GE's moves, yet didn't rule out a one-notch downgrade. By focusing their attention on a specific leverage figure two years in the future, GE has bought itself time.

GE's shares are still nearly 60% lower than in the summer of 2016. Except for a brief spell during the financial crisis when its existence was in doubt, one has to go back 20 more summers to get back to the same share price.

Mr. Flannery has taken the necessary steps to start GE's turnaround by buying the company time. It will be a long journey.

**Power Failure**

GE share price

\$60

50

40

30

20

10

0

Monthly

1995 2000 2010

Source: FactSet

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**TOP HOME BUILDER CALLS DEMAND SOLID**

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### WWE GETS A TOP PRICE FOR TV RIGHTS

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**Beijing Recruits in U.S. To Narrow Tech Gap**

By Li Yuan

pacts created by China's demand for cutting-edge technologies and its deep pockets. "We've gathered you all here to explore new opportunities for cooperation," said Ye Tianchun, speaking in Mandarin.

More than 300 people, the majority of them Chinese and Chinese-Americans, showed up to hear Mr. Ye, who guides China's research into semiconductors.

So many came that the opening banquet didn't have enough food and seats, leading Mr. Ye to ask the attendees to share.

China is laying ambitious plans to be a technology power.

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Arbuthnot, Emma.....B1	Flannery, John. A1,A6,B1
B	Barlow, Greg.....R3
Beckwitt, Richard.....B2	Fleck, George.....R13
Berger, Rich.....R2	Francisco, Francisco.....B5
Bertram, Jo.....B4	Frederick, Randy.....B13
Block, Carson.....B13	Glackin, Mary.....R8
Browning, Bill.....R2	Goldfarb, Alexander.....B6
C	Caporella, Nick.....B3
Capra, Joe.....A2	H Hassell, Richard.....R2
Chapman, Helen.....B4	Kalanick, Travis.....B4
Cook, Rick.....R2	Khosrowshahi, Dara.....B1
Corbat, Michael.....B1	Kincaid, Richard.....R2
Costerg, Thomas.....B2	Kumbier, Michelle.....A2
Croft, Helma.....B13	L Levine, Alan.....B13
Culp, Larry.....A6	Levinson, Arthur.....B3
Cutler, Seth.....R8	Lie, Anders.....R6
D	De La Mare, Thomas.....B1
Dudley, Bob.....B3	Lumb, Ryan.....B6
E	Elvidge, Tom.....B1
Esteky, Sina.....R5	Lyngren, Ian.....B13
F	Falk, Tom.....B5
Malhotra, Anupam.....R3	M Malhotra, Anupam.....R3
McCormick, Mark.....B13	Mildon, Peter.....R3
Miller, Stuart.....R2	Miller, Stuart.....R2
Millul, Jeremy.....B12	Wani, Ahmad.....R8
Mio, Victoria.....B1	Zarif, Rasqeq.....R7

## BUSINESS & FINANCE



The company said 'solid fundamentals' in the housing market, including higher selling prices, contributed to its quarterly earnings growth.

# Lennar Boosted by Strong Demand

BY ALLISON PRANG AND BOWDEYA TWEH

**Lennar** Corp. said strong demand for new homes and higher selling prices drove earnings growth in the most recent quarter, as the nation's largest home builder reported it has so far shaken off concerns about rising interest rates and construction costs.

Lennar executives worked to assure analysts on its earnings call Tuesday that it wasn't experiencing declining demand in the market, noting that customers are still able to afford homes and that the U.S. economy and job growth have been good.

"While there's a lot of focus in the press on rates going up... wage growth is real and it's happening out there," Chief Executive Richard Beckwitt told analysts. "Confidence is solid. So we put all those things together and we don't

look at the headlines. We operate our business. And the business is strong."

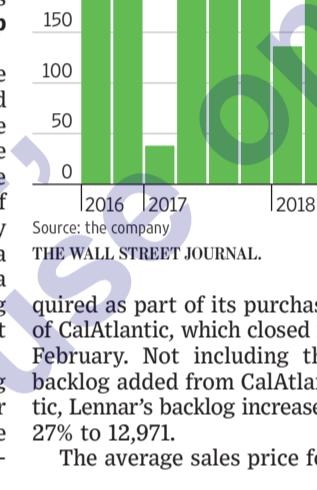
Shares of Lennar rose 4.9% on Tuesday after the company reported its latest quarterly results were helped by what Executive Chairman Stuart Miller called "solid fundamentals" in the housing market. The report also helped lift shares in fellow home builders **D.R. Horton Inc.**, **PulteGroup Inc.** and **NVR Inc.**

Lennar's results also came after federal data released Monday showed an increase in sales of new homes for the month of May. The Commerce Department said purchases of newly built single-family homes rose 6.7% from a month earlier, or 14.1% from a year ago. Sales of existing homes, however, declined last month.

Lennar said its backlog nearly doubled from a year earlier to 19,622, reflecting the more than 6,000 homes ac-

### Home Improvement

Lennar's quarterly net earnings



new orders rose 11% to \$418,000 in the three-month period ended May 31.

"Concerns about rising interest rates and construction costs have been offset by low unemployment and increasing wages, combined with short supply based on years of underproduction of new homes," Lennar's Mr. Miller said in prepared remarks.

Lennar's second-quarter profit rose 45% to \$310.3 million, or 94 cents a share. Excluding costs related to the acquisition and other items, the company made \$1.58 a share, beating estimates of 45 cents a share from analysts polled by Thomson Reuters.

Home-building revenue rose 75% to \$5.06 billion, driven by the purchase of home builder CalAtlantic. Overall revenue rose 67% to \$5.46 billion.

Lennar acquired CalAtlantic to help increase its scale and control costs for items such as land and materials.

## World Cup Assists Videogame Feature With Big Score

BY SARAH E. NEEDLEMAN

The World Cup will settle national bragging rights in the world's most popular sport for the next four years.

In the world of digital sports, it is also behind a boast for a less-heralded accomplishment: a videogame feature topping \$1 billion in annual revenue, not from the sale of \$60 games themselves but of virtual goods peddled during gameplay.

In the expected videogame victory comes from **Ultimate Team**, a mode of play in **Electronic Arts** Inc. sports titles

in which gamers build their own all-star teams. It didn't exist a decade ago, but the feature already is as integral to Electronic Arts as some of its top-selling games, underscoring the growing power of virtual goods in the industry.

It also has drawn the attention of a handful of legislators and regulators who are probing whether the real-world trading of virtual-game goods violates gambling laws.

In **Ultimate Team**, people build their dream squads by acquiring virtual packs of random athletes—hoping to score rare talents such as

Cristiano Ronaldo—an experience akin to amassing a baseball-card collection. People use the cards, which can be acquired free through gameplay or purchased, to build squads for competing in matches online.

Electronic Arts, commonly known as EA, introduced **Ultimate Team** in 2009 for its **FIFA** soccer game, adding it to other sports games in later years. EA, which released a free **FIFA** update timed to the World Cup, expects the tournament to boost engagement in the game, already its best-selling franchise and where Ul-

timate Team is played most.

Investors think so, too. "EA has been one of our better performers year to date," said Ben Thomas, founder of Waycross Partners LLC in Louisville, Ky. The firm invested about 4% of its \$100 million long-short fund in the company toward the end of last year.

Mr. Thomas, who cops to playing **Ultimate Team** with his son, said Waycross bought shares in EA "basically anticipating the World Cup would increase bookings."

The last time EA publicly disclosed how much money

Ultimate Team made was January 2017, when it said the property generated \$800 million in revenue over the prior 12 months. EA in May said more than 70% of people who buy its \$60 annual sports games play **Ultimate Team**.

Analysts believe **Ultimate Team** this year will top \$1 billion, with some estimates as high as \$1.4 billion.

Isaac Joslyn of Newport, Wales, said he spends the European equivalent of about \$400 to \$650 a year on **FIFA Ultimate Team**. He has been playing for almost eight years.

"When I was younger, I enjoyed collecting cards," said the 22-year-old, who works as a driveway paver and bartender. "**Ultimate Team** is similar to that."

The moneymaking feature is in the same family as the industry's controversial "loot boxes," which regulators in some countries have likened to slot machines.

Belgium and the Netherlands examined the 2018 installment of **FIFA**, among other games, to determine whether some gamers' trades of virtual goods conflict with local gambling laws.



A Michigan Fiat Chrysler plant. Investors worry the next target in the trade battle could be cars.

asset allocation at **Voya Investment Management**.

Even if Europe can avoid direct tariffs, the global supply chains that European companies rely upon for components could suffer.

"Europe is very sensitive to trade and to the global economy," said Thomas Costerg, economist at Pictet Wealth Management. "Europe is always caught in the crossfire," and always suffers more when there is a hit to global growth.

An unexpected profit warning from Daimler AG last week brought home to investors the direct risks to Europe. The German car manufacturer said Chinese retaliatory import duties on vehicles built in the U.S. would hit sales and profits. The European auto sector fell for

eight straight sessions through Tuesday.

So far in June, shares of Italian-American **Fiat Chrysler Automobiles**, which generates 53% of its revenue in the U.S. according to FactSet, have fallen 15%, while **Volkswagen AG** has lost 10% and **Bayerische Motoren Werke AG** shed 8.1%. The auto sector makes up 14% of Germany's benchmark DAX index.

"We think that the warning from Daimler...is a line in the sand," **Voya's** Ms. Reinhard said.

Bank of America Merrill Lynch estimates U.S. car tariffs at 25% could lower euro-area GDP by at least 0.3%, excluding any second-round effects on investor confidence, business spending and changes in other export markets.

But it isn't only Europe's cars that have deep ties to the U.S. and China. Those two countries make up a combined 24% of the Stoxx Europe 600's revenue, according to FactSet, meaning the index is exposed to any slowdowns in their economies.

Investors are betting this could hurt the region's corporate profits. Fund managers withdrew around \$17 billion from European equities in May and June and \$8 billion from European bond funds, according to data from the Institute of International Finance and EPFR Global. U.S. assets now make up 58% of global fund portfolios, the highest since before the presidential election in 2016, according to the IIF data.

—Mike Bird contributed to this article.

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## BUSINESS NEWS

# WWE Price Tag Soars for TV Shows

BY JOE FLINT

**World Wrestling Entertainment Inc.** has signed new five-year television rights deals with **Comcast Corp.'s USA Network** and **21st Century Fox's Fox Sports** that more than triples the fees it was receiving in its previous deal.

Under the terms of the deals, the annual average rights fees for the shows "SmackDown" and "Raw" will jump to \$468 million under the new pact compared with \$130 million from the previous agreement, people familiar with the matter said.

The new agreements take effect in the fall of 2019.

Driving the higher price tag was Fox's desire to land one or both of the properties for its sports and broadcast platforms.

Comcast had been the exclusive home of both shows for several years. This time Fox wrestled "SmackDown" away from Comcast.

WWE said that as a result of the new pact, it projects its world-wide revenue from content fees to grow to an average of \$542 million in 2021 from \$235 million this year.

A WWE spokesman declined to comment on the terms of the Comcast and Fox deal. 21st Century Fox and Wall Street Journal parent News Corp share common ownership.

Fox plans to put "SmackDown" on its broadcast network starting in October. Friday has always been a challenging night to program with entertainment shows but "SmackDown" is popular with a hard-to-reach segment, young men, who are loyal to the show.

# Maker of LaCroix Draws Questions

SEC sought information on two proprietary sales metrics; beverage company declined

BY JENNIFER MALONEY

Two news releases by LaCroix maker **National Beverage Corp.** recently caught the attention of the Securities and Exchange Commission, which in January asked the company to clarify what its billionaire chairman and chief executive, Nick Caporella, meant when he wrote that the company had "magnified" two proprietary sales metrics to create "growth never before thought possible."

The following day, a release described a VPO calculator "flashing solid green numbers as we bring FY2017 to close."

The SEC asked the Fort

Lauderdale, Fla.-based company to provide "a discussion of these measures along with comparative amounts or explain why you do not believe this disclosure is necessary," according to securities filings.

In correspondence with the agency disclosed in those filings, National Beverage declined to provide the requested figures.

"This information is as secretive as the formulas of our beverages and should not be disclosed to our competition," Gregory Cook, the company's controller, wrote in a response to the SEC.

The metrics are used to set goals for certain customers and not for the company as a whole,

he added. The agency said in May that it had completed its review of the matter.

An SEC spokeswoman declined to comment. National Beverage Corp. didn't immediately respond to a request for comment.

National Beverage has seen sales of its flavored seltzer soar as consumers ditch soda for more healthful options. Its market-leading LaCroix brand represented 19% of sales in the sparkling-water category in the four weeks ended June 3, according to trading firm Susquehanna Financial Group. PepsiCo Inc. in February launched a competitor called Bubly.

As LaCroix's popularity has grown, so has curiosity about what is inside its bright, multicolored cans. The company has cultivated an aura of mystery around the drinks, saying the flavors are derived from "natural essence oils."

The CEO wields significant power over the beverage maker. Mr. Caporella owns 73.5% of the company's shares, according to the company's 2017 proxy statement.

Earlier this month, National Beverage changed its corporate charter to allow shareholder removal of directors without cause and eliminate the need to garner minority shareholder support for a merger or acquisition.

National Beverage's shares closed down 4.6% on Tuesday.

## Kraft Heinz Calls Cheez Balls Back for an Encore After a 12-Year Absence



Kraft Heinz Co., bowing to years of pleas from snackers, on Tuesday said Planters Cheez Balls and Cheez Curls will return on a limited engagement to store shelves next month. Canisters of Cheez Balls and Cheez Curls will roll out on grocery store shelves nationwide and online, starting at a suggested retail price of \$1.99.

## BUSINESS WATCH

## SONIC

### Chain to Expand Mobile Ordering

**Sonic Corp.** plans to expand mobile ordering across its system after a successful test in the third quarter, becoming the latest restaurant chain to turn to mobile tech to boost traffic and speed up customer service.

The company said in its second-quarter earnings call that service times to customers were averaging under two minutes from arrival until they get their food during the test.

Sonic has said that its stall-and-park format is "optimally suited" for mobile ordering ahead, as compared with traditional drive-throughs.

—Austen Hufford

ment in Matternet, with participation by **Swiss Post, Sony Innovation Fund and Levitate Capital.**

Matternet, which became the world's first company to receive authorization to launch unmanned aerial-vehicle operations over densely populated areas in Switzerland in 2017, has joined with Swiss Post for on-demand deliveries of medical samples to hospitals in Switzerland, Boeing said.

Matternet in May was selected to participate in a joint U.S. Department of Transportation and Federal Aviation Administration program aimed at accelerating integration of unmanned aircraft into national airspace.

—Colin Kellaher

man and Chief Executive Arthur Levinson, will be responsible for research and early development until 2022 and will advance collaboration projects through Phase 2a through 2027.

Google and AbbVie, the North Chicago, Ill., biopharmaceutical company, launched the initial \$1.5 billion partnership in 2014.

—Colin Kellaher

## BHP BILLITON

### BP Awaits Feedback On BHP Shale Bid

Having bid for **BHP Billiton's** U.S. shale business in recent weeks, energy major **BP PLC** is awaiting feedback, said Chief Executive Bob Dudley on the sidelines of the World Gas Conference in Washington, D.C.

"I think 60 companies participated in the first round and we haven't heard since then," Mr. Dudley said. It's not clear whether BHP Billiton will hold a second round of bids with a selected group or if it will make a decision based on the first round, he added.

BHP, the world's largest listed mining company by market value, decided to sell its shale assets in August last year after months of investor pressure.

—Sarah McFarlane

### Venture With Calico Receives an Infusion

**AbbVie Inc.** and Calico, a life-science company backed by Google parent **Alphabet Inc.**, on Tuesday said they would each invest an additional \$500 million to extend their collaboration on new therapies for patients with age-related diseases, including neurodegeneration and cancer.

The companies said Calico, led by former Genentech Chair-



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Matternet has joined with Swiss Post for on-demand deliveries of medical samples to hospitals.

## TECHNOLOGY

# Tesla Battery Ignited Twice After Crash

By MARIA ARMENTAL

The battery in a Tesla Inc. Model S car involved in a fatal crash in Florida last month reignited twice after firefighters extinguished the initial blaze that consumed the vehicle on impact, according to a preliminary report from the National Transportation Safety Board issued Tuesday.

The report is part of the federal agency's examination

of the fire in the electric car's lithium-ion battery and the emergency response to it.

According to the report, the Tesla vehicle was traveling at 116 miles an hour seconds before it lost control near a sharp turn where the speed limit was 30 mph and the advised speed was 25 mph. Roadside warning signs include a flashing beacon.

The NTSB is examining several crashes involving Tesla vehicles, including a fa-

tal crash in March near San Francisco that prompted questions about the safety of the company's Autopilot driver-assistance system.

The NTSB's preliminary report on that incident, which was released this month, said that Autopilot had prompted the driver to grab the steering wheel more than 15 minutes before the collision, but apparently not in the moments before the crash.

The NTSB said when it initiated the investigation into the Florida crash that it didn't expect to look at Autopilot because it didn't seem that the system had been engaged.

The agency has been looking at how battery fires in electric vehicles can be particularly challenging to emergency responders because they tend to reignite.

In the Florida crash, which occurred on May 8 in Fort Lauderdale, the driver and front-seat passenger were killed after the Tesla sedan veered off the roadway and into a concrete wall, bursting into flames, local police said. A third passenger was thrown from the car and taken to the hospital.

Lauderdale, the driver and front-seat passenger were killed after the Tesla sedan veered off the roadway and into a concrete wall, bursting into flames, local police said. A third passenger was thrown from the car and taken to the hospital.

A Tesla representative declined to comment Tuesday. The company had said that it was working with local authorities and noted that high-speed collisions can result in

fire "regardless of the type of car."

The NTSB, which isn't the auto-industry regulator but has significant influence over transportation safety, has yet to determine a likely cause of the crash.

According to witnesses, the driver crossed into the left lane to pass another vehicle and lost control as he tried to move back into the right lane.

*—Tim Higgins contributed to this article.*

## China Recruits In the U.S.

Continued from page B1

erhouse, aiming at dominating the industries of the future, from artificial intelligence to biotechnology and robotics, to make the nation, in the words of President Xi Jinping, "a global leader in innovation."

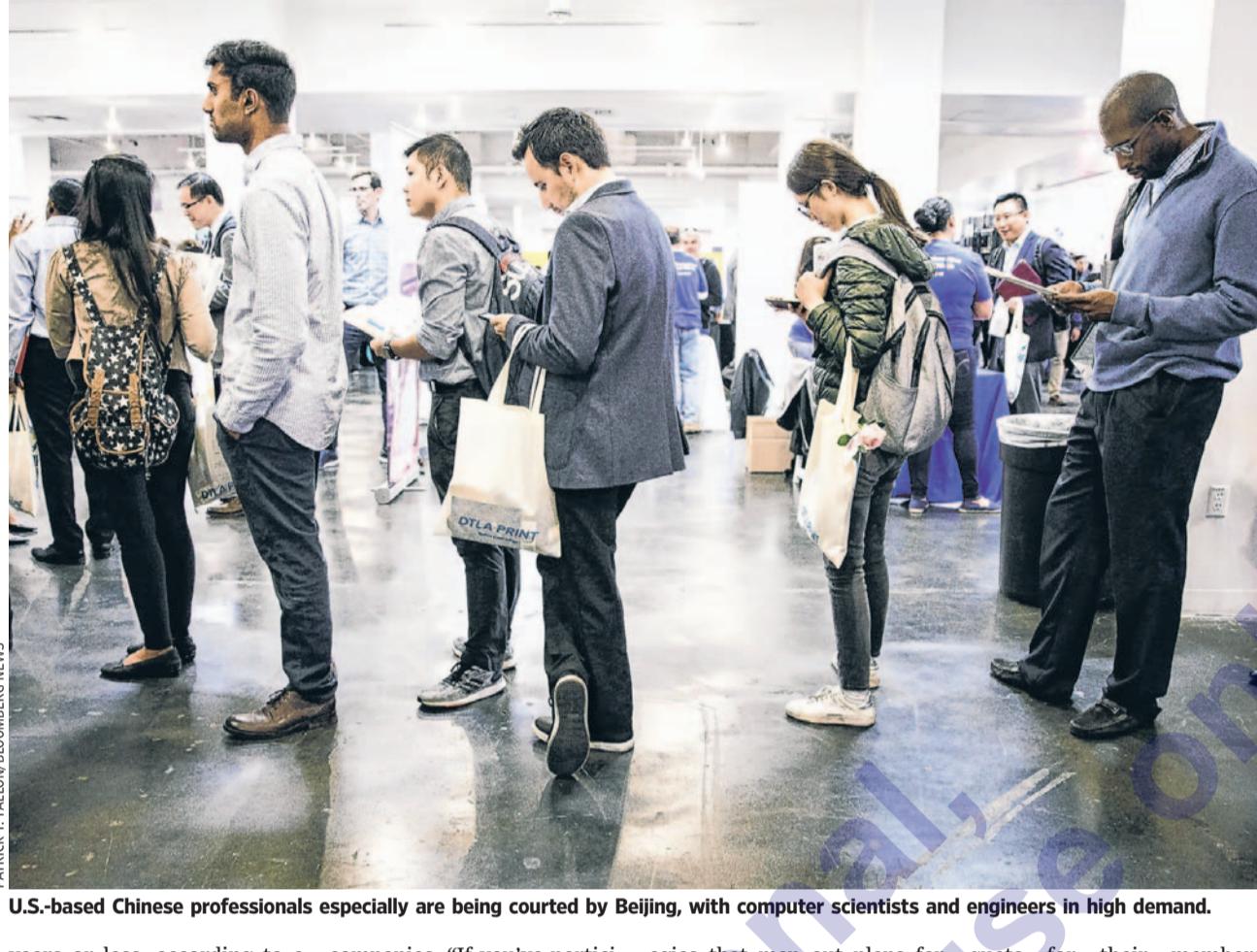
That effort has the U.S. worried. The Trump administration has prepared new restrictions to block firms with at least 25% Chinese ownership from buying companies involved in what the White House calls "industrially significant technology," according to people familiar with the plans. President Donald Trump suggested Tuesday those restrictions may be scrapped, and instead existing tools will be used to limit access to U.S. technology by Chinese firms.

Recent reports from the Trump administration have pointed to conferences like the one Mr. Ye spoke at and the presence of Chinese tech companies in Silicon Valley as channels for poaching talent and luring startups to China. A visa clampdown is also being considered to limit access to American trade secrets on the part of Chinese scientists, students and companies in the U.S.

For now, companies are well positioned to keep recruiting.

Big Chinese tech companies like e-commerce giant Alibaba Group Holding Ltd. and search engine Baidu Inc., have research-and-development outfits in Silicon Valley. A three-story building called Z Park, established by a Beijing government company, was set up to serve as a hub for Chinese tech companies and venture-capital firms.

Computer scientists and engineers are in high demand and tend to job hop frequently. Employees at some of the biggest U.S. tech firms switch jobs on average after at two



**U.S.-based Chinese professionals especially are being courted by Beijing, with computer scientists and engineers in high demand.**

years or less, according to a survey last year by Paysa Inc., which tracks compensation in the tech world.

After completing her computer engineering doctorate at a prestigious university in China, Gu Junli headed to Silicon Valley. She interned at Google's headquarters, then joined chip maker Advanced Micro Devices Inc., where she worked on big data and artificial intelligence applications before going to Tesla Inc. as lead expert for the electric-vehicle maker's autopilot unit.

Less than two years later, in October, Ms. Gu jumped again, to Xiaopeng Motors, a Chinese electric vehicles startup backed by Alibaba, where she is vice president for autonomous driving, based in Palo Alto, Calif.

Her experience, she says, makes her a catch for Chinese

companies. "If you've participated in creating a product, you'll know where the pain points and the complexity lie," Ms. Gu says. "If you haven't done anything about it, you won't know where to start."

**Several big Chinese technology companies have R&D operations in Silicon Valley.**

Such career moves tend to be personally opportunistic, but they also fit with the Chinese government's organized effort to close the gap in leading technologies.

Recruitment is a priority in a handful of recent national strat-

egies that map out plans for mastering a dozen cutting-edge fields, including aviation, information networks and new-energy vehicles as well as robotics.

"Engineers are about the only thing that can be transferred seamlessly between the U.S. and China," says Zhou Yunkai, a China native, Google veteran and co-founder of Silicon Valley-based head-hunting startup Leap.ai, which uses artificial intelligence to match users with potential jobs.

Chinese, many of them graduates of top U.S. and Chinese universities, are a huge presence in the area, providing engineering manpower for Facebook Inc., Alphabet Inc.'s Google and other marquee American tech firms. During the Lunar New Year, alumnae chapters from China's top engineering schools hold ban-

quets for their members across the Bay Area.

When Leap.ai was founded two years ago, it initially intended to serve the wider tech community. As it turned out, its users are predominantly Chinese, says co-founder Richard Liu, also a Google veteran.

Leap.ai doesn't disclose its total number of users, but about 70% are engineers and at least half are Chinese.

Recruiting key personnel is an effective way to try to close a gap between competitors, according to engineers and human resources managers. American companies have come to legal blows over talented engineers who jump ship to competitors, as Uber Technologies Inc. and Google offshoot Waymo LLC did in their efforts to develop autonomous driving systems.

Which cryptocurrency firms will get to advertise on the platform will be up to Facebook's discretion. The company didn't detail the criteria it plans to use.

"Eligibility may be subject to such conditions and restrictions as Facebook may decide," the company says on its cryptocurrency product onboarding request form.

Facebook said its initial ban on cryptocurrency ads was "intentionally broad" as it worked to "detect deceptive and misleading advertising practices." The company promised to revisit the policy once it had conducted a sweep of existing ads that violated its prohibition on financial products associated with scams.

Promotional efforts for cryptocurrencies have come under fire from federal and state regulators in recent months.

In November, the Securities and Exchange Commission warned investors about the risks of celebrity-backed ICOs and encouraged investors to "research potential investments rather than rely on paid endorsements from artists, sports figures, or other icons."

Before the crackdown, celebrities including Paris Hilton and the retired boxer Floyd Mayweather Jr. had appeared in ads touting crypto products.

Some fraudulent ICOs shut down by regulators don't even bother to pay celebrity endorsers, or even refer to them by their names or titles when using their photos.

Texas securities regulators shut down a coin offering last month that included "client testimonials" along with photos of Prince Charles and Jennifer Aniston.

Another scheme shut down by Texas regulators featured a photo of Supreme Court Justice Ruth Bader Ginsburg and former U.S. solicitors general as the ICO's purported legal team. None of these celebrities or government officials were involved in the ICOs.

An analysis by The Wall Street Journal last month found that one in five digital coin offerings shows hallmarks of fraud.

As part of its investor education efforts, the SEC even created its own fraudulent ICO website—dubbed HoweyCoin, a tongue-in-cheek reference to a famous securities-law case—to demonstrate how easy it is to separate unwitting investors from their money.

People who click on the "Buy Coins Now!" link are taken to an SEC webpage that says: "If you responded to an investment offer like this, you could have been scammed—HoweyCoins are completely fake!"

## AmEx-Amazon Credit Card Aims at Small Firms

By ANNAMARIA ANDRIOTIS

American Express Co. is joining with Amazon.com Inc. to launch a credit card for small businesses, an arrangement that could advance the card company's efforts to deepen its ties with small and midsize companies.

It is the card company's first

co-branded partnership with Amazon, and the online retailer's first small-business card.

The deal gives AmEx a giant partner in its effort to woo more small-business customers and gain a bigger share of their business. AmEx, one of the largest small-business card issuers in the U.S., said earlier

this year that it hoped to become the leading payments and working-capital provider for small and middle-market companies.

The company reported \$11.4 billion in global small-business credit-card balances for the first quarter, a 14% increase from the previous year.

AmEx has ramped up lend-

ing to small businesses in recent years. In 2017, it rolled out a new type of loan for small businesses that can be used for consolidating debt and equipment purchases, among other expenses.

The partnership adds AmEx to Amazon's current card lineup.

Amazon has separate deals

with JPMorgan Chase & Co., which issues Amazon consumer credit cards that can also be used for purchases on Amazon and almost anywhere else, and with Synchrony Financial, which issues credit cards that are mostly limited to Amazon-only purchases.

*—Laura Stevens contributed to this article.*

## Uber Gains London License

Continued from page B1  
a series of advertisements in the U.S. and elsewhere apologizing for the company's checkered past.

Tuesday's decision could provide a template for how Uber can seek forgiveness in other legal battles going forward. "Uber has been forced to overhaul the way it operates not just in London but across the world," said London Mayor Sadiq Khan, who supported the decision to deny Uber a license last year.

The mayor applauded changes to how Uber now reports crime.

Mr. Khosrowshahi's new Uber was on full display in the London courtroom this week. In its arguments, Uber lawyers and employees not only acknowledged that it "fully accepts" London's decision to deny it a license last fall; in a legal filing, the company disavowed its own effort to per-

suade the regulator to reverse its decision by enlisting Londoners to sign a petition.

"I regret our initial public reaction to the immediate media focus after the decision," read a statement in the filing attributed to Mr. Elvidge. "Our reaction spoke of the frustrations (many self-inflicted) that we felt and not of the understanding that we should have shown."

During the proceedings,

Uber emphasized a new policy to report all serious incidents to the police, as well as broader changes to its corporate governance and culture. In its legal filing, Uber said it ran workshops on Uber's cultural norms for every employee, and uses a system called "cultural champions," in which staffers are nominated by peers for good behavior.

Representatives of Transport for London said the regu-

lator took a "neutral but skeptical" stance toward Uber's changes, adding that past behavior provides important context about whether bad behavior will be repeated.

"It certainly works better when an operator is seeking permission rather than forgiveness," testified Helen Chapman, the licensing official who had sent the letter rejecting Uber's license renewal in September.

A tense point for Uber was the question of whether it still employed too many people who had overseen its admitted mistakes, such as sending false information to the regulator and a British court about how its app records bookings.

Uber's Mr. Elvidge pointed to the departures of former Northern Europe general manager Jo Bertram, in addition to former CEO Travis Kalanick. But when questioned, Mr. Elvidge added that many of the same leaders from when the company was denied its London license were still employed by the firm, "albeit in different positions."

Laurel Powers-Freeing, a former senior adviser to the Bank of England whom Uber appointed as its U.K. chairman as part of its overhaul, said in court Monday that a process of corporate change is "a marathon, not a sprint."

In her decision, Judge Arbuthnot said that Ms. Powers-Freeing's testimony helped ease some of her concerns about granting a new license, and characterized Uber's recent behavior as "a more mature approach."

*—Stu Woo contributed to this article.*



PETE SUMMERS/SHUTTERSTOCK/ZUMA PRESS

**The ride-hailing company apologized for past misdeeds and promised its corporate culture had changed.**

## Facebook To Accept Crypto Ads Again

By GABRIEL T. RUBIN

Cryptocurrency peddlers are being let back into valuable social-media advertising space after Facebook Inc. eased an outright ban on ads from the industry.

The tech company put a blanket ban on such ads in January after a spike in the price of bitcoin and other cryptocurrencies led to a proliferation of new cryptocurrency products—some legitimate, others scams. Companies including Alphabet Inc.'s Google, Twitter Inc. and Snap Inc.'s Snapchat soon followed with their own bans.

Facebook will maintain its ban on advertising initial coin offerings, which have soared in popularity recently.

In an ICO, a company creates a new virtual coin or token and offers it for public sale.

Which cryptocurrency firms will get to advertise on the platform will be up to Facebook's discretion. The company didn't detail the criteria it plans to use.

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## BUSINESS NEWS

# Parker Drilling Looks to Tame Debt

BY SOMA BISWAS

**Parker Drilling** Co., which provides drilling rigs and tools to oil and gas producers, has reached out to a group of its bondholders to initiate talks to address its heavy debt load and a coming bond maturity, according to a person familiar with the matter.

The Houston-based company has suffered from years of tepid drilling activity outside the U.S. and in Alaska, where the company earns a majority of its revenue.

Parker Drilling is looking for ways to reduce its \$578 million debt burden and possibly extend its maturity, the person said. While the company is facing a \$225 million bond maturity in 2020, it has a number of options to push out or even pay down its debt partially, noted another person familiar with the matter.

Parker Drilling is working with **Moelis & Co.** and **Kirkland & Ellis LLP** to find ways to reduce its debt, while a group of bondholders has hired **Houlihan Lokey Inc.** and **Akin Gump Strauss Hauer & Feld LLP**, according to people familiar with the matter.

The drilling-services company is challenged by its high debt levels relative to its cash flow and "exposure to the volatile contract drilling industry," Moody's Investors Service said in a January report.

Parker Drilling's lenders, **Bank of America Corp.**, **Wells Fargo & Co.** and **Barclays PLC**, cut access to a revolving asset-based loan to \$80 million from \$100 million last year, according to filings. The company is still sitting on \$118 million in cash and has access to \$50 million of its \$80 million revolver loan. The \$80 million revolving line of credit also matures in January 2020.

Product can be embarrassing to buy, but demand grows as U.S. population ages

BY SHARON TERLEP

It was an intimate gathering: a fire pit, cocktails, a small group of women who had never met before and a senior scientist from **Procter & Gamble** Co.

In the backyard of a rented house in Phoenix, Emily Saksa, the P&G executive, encouraged the women to talk about their jobs, hobbies and lives at home.

Several minutes in, a divorcee in her late 50s said what Ms. Saksa had come all the way from Cincinnati to hear. After months of struggling with bladder leaks, the woman set out to buy underwear liners designed for incontinence. Walking down an aisle stocked with adult diapers and incontinence pads, she froze, and left without buying anything.

One by one, the other invitees shared similar tales.

"It was like a switch had flipped, and there was this huge cathartic thing that happened," Ms. Saksa said of the gathering a few years back.

At least one-third of American women experience some sort of bladder problem, from occasional leaks to full incontinence, independent researchers say. But fewer than one in six use a product to help manage the condition, according to P&G and **Kimberly-Clark** Corp., the two main makers.

That is why P&G, maker of household goods like Tide detergent and Pampers, waded into a market dominated by an entrenched competitor. Kimberly-Clark entered the market in the 1980s with the launch of Depend, and its products account for more than half of U.S. sales.

"It gave me goose bumps," Fama Francisco, who runs P&G's feminine-care division, said of data showing potential category growth. "Thank god we entered when we did."



Procter & Gamble has been working hard since 2014 to cut into the market dominance of Kimberly-Clark and its Depend brand.

Incontinence products are highly profitable. Competitors are scarce. The customer base is growing as the population ages. And yet many people who could use them don't.

Both P&G, which entered the incontinence market in 2014 with the launch of Always Discreet pads and adult diapers, and Kimberly-Clark are pouring money and time into closing the gap.

"We nailed the solution but haven't cracked the code of how to get consumers into the category," said Kimberly-Clark Chief Executive Tom Falk.

Companies have long grappled with how to address the embarrassment associated with buying certain products, whether condoms or drugs that treat conditions like flatulence and erectile dysfunction. Company marketers say adult diapers are a harder sell, in part because of their association with aging and because,

unlike drugs for erectile dysfunction, they aren't prescribed by a physician.

P&G's entry into the incontinence market was disappointing. Despite a marketing blitz and prominent placement on store shelves, sales were slower than expected, and the company found many consum-

ers to stores to observe shoppers. What they found: P&G's decision to put "adult underwear"—the name it chose over "diapers"—in small letters on the packaging, a tactic to help shoppers avoid embarrassment around buying the product, had backfired.

Shoppers, they found, tended to rush nervously through the incontinence aisle. And people with poor eyesight couldn't read the label.

Sales picked up in 2016 after P&G adjusted the marketing and packaging, including increasing the font size. P&G also went to work on a higher-end adult diaper called Always Discreet Boutique. The company enlisted fashion designers to create a garment reminiscent of fancy lingerie and purchased the right to a portfolio of fashionable patterns.

Sales of Boutique, which cost 60% more than the basic product, now account for 20% of P&G's adult-underwear sales. Last year, P&G accounted

for 11% of a nearly \$2 billion U.S. market for incontinence products, while Kimberly-Clark still controls about 53% of the market, according to Euromonitor. The category has grown 30% since 2013, according to IRI, a Chicago-based market-research firm.

Kimberly-Clark had the run of the market for decades. The Irving, Texas-based company, which also makes Huggies diapers and Kleenex tissues, in 2010 launched an ad campaign with the tag line "One-in-three like me," aimed at normalizing bladder leaks.

The company also spent big on a tampon-like incontinence product. Called Poise Impressa, it went on sale in 2015. Despite an enthusiastic reception from women who tried the product in focus groups, sales disappointed once Impressa hit stores. The company has since scaled back efforts while it comes up with a new marketing strategy for the product.

*At least one-third of American women experience some sort of bladder problem.*

ers didn't know the P&G product existed.

P&G overhauled its marketing, switching from a campaign featuring women dancing to "Shake Your Groove Thing" to a spot with one woman talking into a camera about bladder leaks.

The company dispatched

## THE GERALD LOEB AWARDS

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# THE PROPERTY REPORT

## Just Turn the Key and Settle In

Furnished apartments attract rising demand as renters take break from household tasks

By JOSH BARBANEL

Devon Patterson's furnished apartment in a luxury Manhattan building came with mid-20th-century furniture, champagne flutes and a cocktail mixer along with dishes, towels and cable television.

"I can just enjoy New York and not feel locked in by my furniture, my cable and my internet," said Mr. Patterson, a visual-effects production manager, on a long-term temporary stay in New York for work on a Disney movie.

The furnished-rental housing market has been growing, despite competitive jolts from industry disruptors such as Airbnb and other startups.

Demand has historically been driven by corporations that book stays for employees who are relocating or in town for extended periods. People also often stay in furnished apartments when they have been displaced from their homes by fires or floods or are undergoing medical treatment.

But there has also been new demand over the past decade from the shift among many Americans from owning homes to renting homes. Some renters don't want to buy furniture for a rental apartment or deal with the cable company, tasks that a corporate rental provider typically handles.

Last year, revenue in the corporate-housing market—where apartments are typically leased for at least 30 days—rose 13% to \$3.62 billion, according to the Highland Group, a hotel consulting firm that studied the market for the Corporate Housing Providers Association, a trade group. It was the fifth consecutive year of growth.

The number of available apartments nationwide offered for long-term corporate rentals rose 6.5% to 71,201 last year. The average daily rate was up 7.3% to \$161.

Corporate housing is a niche market, where businesses such as National Corporate Housing, based in Denver, and Oakwood Worldwide,



### Rising Rates

The U.S. corporate housing rate paid per room sold is rising while the overall unit supply hasn't surpassed 2007 levels.



Devon Patterson, inset, at the furnished apartment, top, he shares in Manhattan with his fiancée, Malia Haunfeler, and Oz the dog.

tomers don't want to be bogged down with housing decisions, or spend time paying utility bills, she said.

"We are not only seeing millennials and a younger generation who don't want to own a home somewhere," she said. "Empty-nesters are doing the same thing."

Mark Skinner, a Highland Group partner, said "there is growth in the units that are being marketed to people who want to write only one check."

The furnished-rental market faces competition from vacation-home rentals listed on Airbnb and vacation-rental websites such as VRBO.com.

There is also competition for corporate furnished apartments from new players such as theblueground.com, which provided Mr. Patterson's light-filled, one-bedroom apartment for a

rent of about \$6,000 a month, including utilities, in Manhattan's East Village. The furnished rent is about 25% more than the same apartment was listed for unfurnished last December, though monthly rates are higher for shorter stays.

Blueground was founded in Athens in 2013, and is active in Dubai and Istanbul as well. It moved into New York last year, and says it now leases 50 apartments a month there.

Mr. Patterson put his furniture into storage on the West Coast a few years ago, and then moved to London and then New York to work on his current film project. He expects to stay in his East Village apartment, with his fiancée, Malia Haunfeler, and dog, Oz, for about 10 months. "The first night I moved in I felt right at home," he said.

## REITs Hit Milestone In Hiring Women

By ESTHER FUNG

The real-estate investment trust sector has named a record number of women to board positions in 2018, a sign that this mostly male-dominated industry is reacting to pressure on American corporations to diversify their management.

Of the 94 REIT directors newly elected during the spring proxy season, 49—or 52%—are women, according to a study by Ferguson Partners, a professional services firm specializing in executive and board recruitment. It was the first time men comprised less than the majority of the new directors, Ferguson Partners said.

REITs also did much better than the overall market. In 2018, 32% of newly elected directors in the Russell 3000 are women.

The report looked at 192 REIT board compositions as of each company's annual shareholder meeting in 2018. In 2017, 41% of newly elected directors to REIT boards were women, Ferguson Partners said.

But REITs, like most industries, still have a long way to go when it comes to gender diversity. Only eight REITs currently have female chief executives, according to Ferguson Partners.

Overall, just 17.5% of all directors on REIT boards are women, up from 14% in 2017. There are 32 REITs, or 16.7% of the 192 REITs, with no women board members, down from 21% in 2017, according to Ferguson Partners. The majority of the REITs, 69.3%, have one or two women on their boards.

*Of the REIT directors newly elected in the spring proxy season, 52% are women.*

"To be frank, the REIT industry is not the most enlightened group when it comes to diversity around the table," said Bill Ferguson, chief executive of Ferguson Partners.

The real-estate industry for years had a reputation for machismo and inconsistent workplace attitudes even as other businesses began to admit a greater number of women to their executive ranks and board rooms.

Top REIT executives and shareholders used to pay lip service to more female representation with little to show for results. Some REITs justified the absence of women on their boards by claiming that a more extensive search would be needed to find qualified candidates, said Mr. Ferguson.

But REITs are starting to adjust outdated recruiting standards to consider a deeper slate of viable candidates. Thirty out of the 49 new women directors appointed in the last 12 months have no prior board experience, said Mr. Ferguson. This criterion had been a hindrance to bringing more female directors on board.

"They're now recognizing it can be done, and that having women on the board is a huge value-add," said Mr. Ferguson.

Part of this change came from pressure from investors using their heft to compel companies to search more deeply and broadly when recruiting new directors. Institutional investors such as State Street Global Advisors and BlackRock Inc. said they would vote against corporate boards that lack female directors. Other investors such as Arjuna Capital and Pax World Investments have called for companies to bridge gender pay gaps.

Meanwhile, studies have shown links between having a greater number of women in the boardroom and stronger long-term financial performance. Diversity provides firms with access to different skill sets, improved transparency and wards against aggressive accounting, according to some studies.

## Disney, Firm in Talks on Housing for Trainees

By KEIKO MORRIS

One of the largest real-estate investment trusts that focuses on student housing has cut a tentative deal with Walt Disney World Resort to develop and operate housing for 19,000 students who participate in the resort's training program for cooks, entertainers, costumers, ride operators and other park employees.

If the deal is completed, American Campus Communities Inc. said it would build and own a \$615 million housing development outside Orlando, Fla. The housing would primarily serve trainees attending the so-called Disney College Program and other similar programs that provide workers for Walt Disney Co.'s nearby sprawling theme parks.

A deal hasn't been completed, and American Campus and Disney declined to comment on the talks because negotiations are continuing. But American Campus earlier this month said it had signed a "letter of intent" with Disney and has informed investors of some of the details of the proposed transaction.

The multibuilding project includes two 25,000 square-foot amenity buildings with classroom space, fitness centers, four swimming pools and a number of meeting and event spaces. The units will include a "variety of configurations and price points," according to an investor presentation on American Campus's website.

Bus transportation will be provided to Walt Disney World Resort's locations, which include four theme parks and two water parks. The Disney College classrooms will be "located within the community and provide unprecedented integration between participants, the com-



American Campus and Disney have a tentative deal to develop and operate housing for 19,000 students.

munity and the Walt Disney World Resort," the investor presentation says.

Student housing has become a more popular commercial-property class in recent years, with many college enrollments growing, stoking demand. The sector is considered more recession-resistant than other commercial-property types, which is a growing concern for investors with the bull market in property in its ninth year.

Shares of REITs focused on student housing have suffered in recent years along with the entire REIT sector. But student-housing companies have outperformed other asset classes such as retail and suburban office. Over the past 10 years, student housing outperformed offices, strip centers, malls and hotels, said Ryan Lumb, an analyst at Green Street Advisors, a real-estate research and analysis firm.

American Campus shares

were at \$42.99, down 31 cents, or 0.7%, on Tuesday. The stock is up 4.8% for 2018 but below its record above \$54 in 2016.

Student housing has been especially popular among private investors. Greystar Real Estate Partners on Monday said it is acquiring Education Realty Trust, with 45,000 beds across 25 states, for roughly \$4.6 billion including debt, or \$41.50 a share.

Earlier this year, Harrison Street Real Estate Capital, a major Chicago-based real-estate investment firm sold a 22-property portfolio for \$1 billion to a joint venture formed by Scion Group, Singapore sovereign wealth fund GIC and Canada Pension Plan Investment Board.

Still, the possible deal between American Campus and Disney has raised some concerns among analysts because Disney College isn't a typical university. The theme parks rely on tourism and face dif-

ferent risks and supply-and-demand forces than institutions focused on pure education.

Investors generally don't like REITs to have a variety of property types. For example, Vornado Realty Trust joined private-equity firms Bain Capital and KKR & Co. in taking Toys "R" Us private for \$6 billion in 2005. Investors were skeptical, and the bet, which fell outside Vornado's core business, didn't pay off. The toy retail chain filed for bankruptcy last September.

American Campus Communities "will face a burden of proof with REIT investors that generally prefer pure-play companies," said a report by Green Street Advisors.

A spokeswoman for American Campus said the proposed deal with Disney "is completely within our core competency" since the company would be "serving the same student demographic that we

serve at colleges and universities." She also said the Disney deal might "serve as a model" for American Campus when considering demand from other large corporations needing "housing solutions."

Demand at Disney's theme parks has been strong lately. More than 38.8 million people visited its domestic locations in 2017, an annual increase of about 1.3%, according to the Themed Entertainment Association trade group.

Disney has invested more than \$15 billion in the past five years on expansions. New attractions include "Toy Story Land," set to open in Florida later this month, and a Star Wars themed area scheduled for late 2019.

Disney's training programs are competitive, with more than 70,000 applying annually, according to the investor presentation, and about 27% of applicants accepted each year.

The proposed development would be on a 75-year ground lease of land near Lake Buena Vista, Fla., owned by a Disney subsidiary. It would be completed in phases, with the first portion expected to open in May 2020 and the full development finished in May 2023.

American Campus anticipates a 6.8% yield after the property stabilizes, according to company documents.

The project plays into American Campus's expertise in managing student housing, said Alexander Goldfarb, managing director at Sandler O'Neill + Partners LP. It has experience in operating and maintaining properties where there is a full turnover of occupants every year, he said. "There are a whole bunch of reasons why [American Campus's] expertise is very applicable in this case," Mr. Goldfarb said. "I think they are going where there is yield opportunity."

## BUSINESS NEWS



Warren Buffett's hometown paper, the Omaha World-Herald, is among the investment firm's holdings.

## Berkshire Hathaway Hires Help for Its Newspapers

BY NICOLE FRIEDMAN

News publisher Lee Enterprises Inc. said Tuesday it will manage dozens of daily and weekly newspapers owned by Warren Buffett's Berkshire Hathaway Inc. beginning next month.

Davenport, Iowa-based Lee, which owns newspapers and other print products in 21 states, said it will implement revenue strategies consistent with how it manages its own operations. Berkshire will continue to own the newspapers, which are currently held in a unit called BH Media Group Inc.

Lee's shares rose 21% to \$2.90 on Tuesday.

Under the agreement, which has an initial term of five years, Lee will receive an annual fee of \$5 million, plus a percentage of adjusted annual earnings over \$34 million, according to a securities filing.

Lee said it expects to earn about \$50 million in total fees over five years. In its latest fis-

cal year, Lee had operating revenue of \$566.9 million.

The arrangement underscores Mr. Buffett's disappointment with his newspaper division, which he has said declined faster than expected due to a loss in advertising and subscription revenue.

Lee will manage print and digital operations for BH Media's 30 daily newspapers, 47 paid weekly newspapers and 32 other print products. Two Berkshire-owned media properties aren't included in the deal: the Buffalo News, which is managed separately from BH Media, and Miami TV station WPLG.

BH Media Chief Executive Terry Kroeger will stay at Berkshire for a short transition period, according to a person familiar with the arrangement.

Mr. Buffett's investment company acquired most of its newspapers, including his hometown Omaha World-Herald, in 2011 and 2012. At the time, Mr. Buffett expressed op-

timism that local newspapers would resist some of the pressures facing larger papers in the digital age.

In recent years, however, Mr. Buffett has said that expectation was wrong. For most U.S. newspapers, "it's difficult to see how the print product survives over time," he said at the Berkshire annual meeting in Omaha, Neb., in May. "We'll keep looking to see if there is a way to do it."

In a Tuesday press release, Mr. Buffett praised Lee's growth in digital market share and revenue. "Although the challenges in publishing are clear, I believe we can benefit by joining efforts," he said in a statement.

Berkshire's newspapers have already experienced rounds of layoffs. BH Media had 3,719 employees at the end of 2017, down from 4,194 the prior year, according to Berkshire's annual report.

—Colin Kellaher contributed to this article.



## NEW HIGHS AND LOWS

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The following explanations apply to the New York Stock Exchange, NYSE Arca, NYSE American and Nasdaq Stock Market stocks that hit a new 52-week intraday high or low in the latest session. % CHG-Daily percentage change from the previous trading session.

Tuesday, June 26, 2018

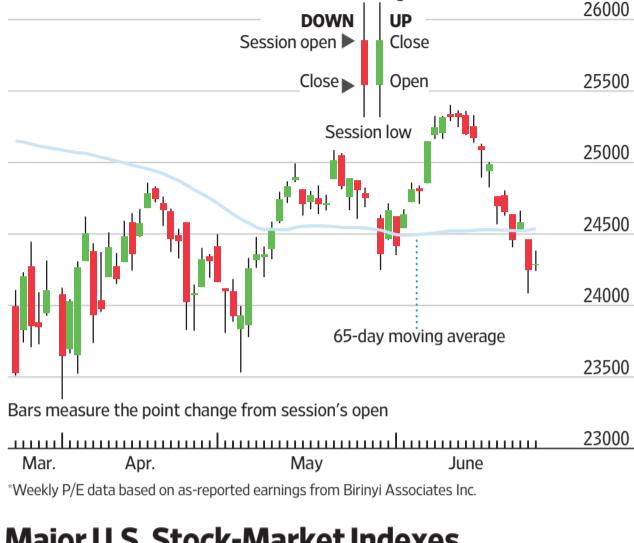
Highs		52-Wk %		Stock Sym Hi/Lo Chg		52-Wk %		Stock Sym Hi/Lo Chg		52-Wk %		Stock Sym Hi/Lo Chg		52-Wk %		Stock Sym Hi/Lo Chg		52-Wk %		Stock Sym Hi/Lo Chg		52-Wk %									
AeonCapSec	AEH	26.52	-0.2	Celcius	CELC	27.03	-1.5	FiestaRestaurant	FRGI	28.15	-3.3	PerformanceFood	PFGC	37.95	-2.3	UGI	UGI	52.48	-0.3	CNH Indl	CNHI	10.41	-0.5	FourSeasonsEduc	FEDU	5.35	-0.2				
AeroVironment	AVAV	62.66	-0.8	ChampionsOncology	CSBR	7.30	-5.9	FirstEnergy	FE	36.51	-0.4	PrimoWater	PWRR	19.23	-2.5	US Foods	USFD	4.58	-0.9	FrontierComm	FRD	6.00	-0.2	Olin	OLN	28.26	-1.2				
AirT	AIRT	35.08	-0.4	ChemBioDiagn	CEMI	10.85	-2.4	FoxFactory	FOFX	47.50	-3.3	ProQR Therap	PQRQ	7.45	-0.7	XenetixBiosci	XBIO	8.95	-3.5	GlobeInnovatech	GLOB	1.49	-0.1	OncoLyticsBio	ONCY	5.33	-5.0				
AllstatePhdG	ALLP	26.03	-0.3	ChinaCustRelat	CCRC	28.31	-10.8	Freshpet	FRPT	26.50	-20.0	PublicStorage	PSA	229.72	-1.5	XerisPharm	XERS	22.37	-3.6	PPDF	PPDF	5.65	-2.5								
AltisourcePortf	ALSP	33.17	-2.5	CleanEnergys	CLAR	8.35	-2.5	Galo	GAIA	22.75	-1.3	PureCycle	PCVO	10.25	-3.6	Regenexogen	RGENX	74.40	-4.4	PerkinElmer	PKD	0.31	-5.4								
AltaGas	ATG	11.04	-0.2	ColombusMcKinn	CIMCO	44.70	-2.3	GeneralFin	GFIN	13.20	-1.6	LifeStorage	LSI	98.02	-0.5	REGENEX	REGEX	74.00	-4.4	CheckpointPhsp	CPTK	2.25	-3.3	Perspecta	PRSP	20.22	-2.5				
BlueHillsSnpC	BHBC	22.70	-2.0	ConvergeOneWt	CWONW	1.48	-5.8	FiestaRestaurant	FRGI	28.15	-3.3	MercentIntl	MERC	17.75	-4.0	RICM	RICM	9.35	-9.5	CincoFins	CINCF	67.06	-1.6	PrincipalFin	PFG	53.99	-1.2				
Bonsteel	BSAN	30.07	-0.1	Corvita	CAACW	1.02	-1.83	FoxFactory	FOFX	47.50	-3.3	Naveen	NVEC	135.00	-3.2	Repigen	REPGEN	47.26	-2.0	FrontierComm	FRD	6.00	-0.2	OncolyticsBio	ONCY	5.33	-5.0				
Bottonline	EPAY	50.53	-1.7	Costco	COST	214.26	-0.8	Fry's	FRT	47.50	-3.3	ProQR Therap	PQRQ	7.45	-0.7	Genentech	GENE	141.58	...	CelllecterBiosci	CLRB	0.65	-5.5	PerkinElmer	PKD	0.31	-5.4				
BovisMedical	BVX	4.48	-9.3	CyPoint	CYRX	15.15	-2.2	Galo	GAIA	22.75	-1.3	PublicStorage	PSA	229.72	-1.5	Hologic	HOG	47.50	-3.3	CheckpointPhsp	CPTK	2.25	-3.3	Perspecta	PRSP	20.22	-2.5				
C&F Fin	CCFI	65.90	-0.8	CubeSmart	CUBE	32.76	-2.6	GAIA	GAIA	22.75	-1.3	Naterra	NTRA	20.00	-5.2	LifeStorage	LSI	98.02	-0.5	GreenSky	GSKY	22.04	-5.0	Principalfin	PFG	53.99	-1.2				
CTI BioPharma	CTIC	5.36	-1.5	DarlingMedeng	DAR	20.36	-2.7	GenomicHealth	GHDX	5.97	-2.7	NatStorage	NSA	30.74	-3.0	MarineProducts	MPX	17.91	-4.6	GlobeInnovatech	REGENEX	74.00	-4.4	CheckpointPhsp	CPTK	2.25	-3.3	Perspecta	PRSP	20.22	-2.5
CTS	CTS	36.65	-1.5	DebtMaturity	DEST	6.84	-2.2	GenomicHealth	GHDX	5.97	-2.7	NatStorage	NSA	30.74	-3.0	MercentIntl	MERC	17.75	-4.0	Regenexogen	REGEX	74.00	-4.4	CincoFins	CINCF	67.06	-1.6	Principalfin	PFG	53.99	-1.2
Curo	CORO	27.10	-0.7	DiamondCorp	DRC	64.80	-0.2	GenomicHealth	GHDX	5.97	-2.7	NetEnterprise	NEEQ	17.45	-0.1	Repligen	REPGEN	47.26	-2.0	FrontierComm	FRD	6.00	-0.2	OncolyticsBio	ONCY	5.33	-5.0				
Cal-MaineFoods	CALM	51.75	-1.1	Dodge & Cox	DODGX	64.00	-2.3	GenomicHealth	GHDX	5.97	-2.7	NextEnergy	NEEQ	17.45	-0.1	Repigen	REPGEN	47.26	-2.0	FrontierComm	FRD	6.00	-0.2	CelllecterBiosci	CLRB	0.65	-5.5	PerkinElmer	PKD	0.31	-5.4
BlueHillsSnpC	BHBC	22.70	-2.0	EastWestCorp	EACOW	1.02	-1.83	GenomicHealth	GHDX	5.97	-2.7	NextEnergy	NEEQ	17.45	-0.1	ShuttlePharm	RYTM	35.79	-5.9	CheckpointPhsp	CPTK	2.25	-3.3	GreenSky	GSKY	22.04	-5.0	Principalfin	PFG	53.99	-1.2
Bonsteel	BSAN	30.07	-0.1	EnduraCorp	ENDU	1.02	-1.83	GenomicHealth	GHDX	5.97	-2.7	NextEnergy	NEEQ	17.45	-0.1	ShuttlePharm	RYTM	35.79	-5.9	CheckpointPhsp	CPTK	2.25	-3.3	GreenSky	GSKY	22.04	-5.0	Principalfin	PFG	53.99	-1.2
Bottonline	EPAY	50.53	-1.7	Entergy	ETR	21.85	-0.7	GenomicHealth	GHDX	5.97	-2.7	NetEnterprise	NEEQ	17.45	-0.1	ShuttlePharm	RYTM	35.79	-5.9	CheckpointPhsp	CPTK	2.25	-3.3	GreenSky	GSKY	22.04	-5.0	Principalfin	PFG	53.99	-1.2
BovisMedical	BVX	4.48	-9.3	Epistar	EPIS	14.95	-0.2	GenomicHealth	GHDX	5.97	-2.7	NetEnterprise	NEEQ	17.45	-0.1	ShuttlePharm	RYTM	35.79	-5.9	CheckpointPhsp	CPTK	2.25	-3.3	GreenSky	GSKY	22.04	-5.0	Principalfin	PFG	53.99	-1.2
C&F Fin	CCFI	65.90	-0.8	Equity	EQYI	36.03	-3.15	GenomicHealth	GHDX	5.97	-2.7	NetEnterprise	NEEQ	17.45	-0.1	ShuttlePharm	RYTM	35.79	-5.9	CheckpointPhsp	CPTK	2.25	-3.3	GreenSky	GSKY	22.04	-5.0	Principalfin	PFG	53.99	-1.2
FranklinRcs	FRCS	32.46	-0.7	Equity	EQYI	36.03	-3.15	GenomicHealth	GHDX	5.97	-2.7	NetEnterprise	NEEQ	17.45	-0.1	ShuttlePharm	RYTM	35.79	-5.9	CheckpointPhsp	CPTK	2.25	-3.3	GreenSky	GSKY	22.04	-5.0	Principalfin	PFG	53.99	-1.2
FreepointMcM FC	FCM	16.25	-0.51	Equity	EQYI	36.03	-3.15	GenomicHealth	GHDX	5.97	-2.7	NetEnterprise	NEEQ	17.45	-0.1	ShuttlePharm	RYTM	35.79	-5.9	CheckpointPhsp	CPTK	2.25	-3.3	GreenSky	GSKY	22.04	-5.0	Principalfin	PFG	53.99	-1.2
FreseniusMed	FMS	50.45	-0.01	Equity	EQYI	36.03	-3.15	GenomicHealth	GHDX	5.97	-2.7	NetEnterprise	NEEQ	17.45	-0.1	ShuttlePharm	RYTM	35.79	-5.9	CheckpointPhsp	CPTK	2.25	-3.3	GreenSky	GSKY	22.04	-5.0	Principalfin	PFG	53.99	-1.2
Baird Funds	B	10.52	-1.9	Equity	EQYI	36.03	-3.15	GenomicHealth	GHDX	5.97	-2.7	NetEnterprise	NEEQ	17.45	-0.1	ShuttlePharm	RYTM	35.79	-5.9	CheckpointPhsp	CPTK	2.25	-3.3	GreenSky	GSKY	22.04	-5.0	Principalfin	PFG	53.99	-1.2
AggBdInst	AGBD	10.52	-1.9	Equity	EQYI	36.03	-3.15	GenomicHealth	GHDX	5.97	-2.7	NetEnterprise	NEEQ	17.45	-0.1	ShuttlePharm	RYTM	35.79	-5.9	CheckpointPhsp	CPTK	2.25	-3.3	GreenSky	GSKY	22.04	-5.0	Principalfin	PFG	53.99	-1.2
CorBdInst	CORBD	10.85	-1.9	Equity	EQYI	36.03	-3.15	GenomicHealth	GHDX	5.97	-2.7	NetEnterprise	NEEQ	17.45	-0.1	ShuttlePharm	RYTM	35.79	-5.9	CheckpointPhsp	CPTK	2.25	-3.3	GreenSky	GSKY	22.04	-5.0	Principalfin	PFG	53.99	-1.2
BlackRock Funds A	B	10.85	-1.9	Equity	EQYI	36.03	-3.15	GenomicHealth	GHDX	5.97	-2.7	NetEnterprise	NEEQ	17.45	-0.1	ShuttlePharm	RYTM	35													

## MARKETS DIGEST

## EQUITIES

## Dow Jones Industrial Average

**24283.11** ▲ 30.31, or 0.12%  
 High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Mar. Apr. May June

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

## S&amp;P 500 Index

**2723.06** ▲ 5.99, or 0.22%  
 High, low, open and close for each trading day of the past three months.



Mar. Apr. May June

## Nasdaq Composite Index

**7561.63** ▲ 29.62, or 0.39%  
 High, low, open and close for each trading day of the past three months.



Mar. Apr. May June

## Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
	Dow Jones	Industrial Average	Transportation Avg	Utility Average	Total Stock Market	Barron's 400	Nasdaq Composite	Nasdaq 100	MidCap 400	SmallCap 600
<b>Dow Jones</b>	24384.21	24241.22	<b>24283.11</b>	30.31	<span style="color: green;">0.12</span>	26616.71	21287.03	<b>13.9</b>	-1.8	<b>10.6</b>
<b>Industrial Average</b>	10549.67	10420.03	<b>10474.96</b>	-46.27	<span style="color: red;">-0.44</span>	11373.38	9021.12	<b>11.6</b>	-1.3	<b>8.3</b>
<b>Transportation Avg</b>	712.95	705.57	<b>707.94</b>	0.07	<span style="color: green;">0.01</span>	774.47	647.90	<b>-1.8</b>	-2.1	<b>8.4</b>
<b>Utility Average</b>	28498.16	28309.48	<b>28406.03</b>	74.50	<span style="color: green;">0.26</span>	29630.47	24958.26	<b>13.3</b>	2.6	<b>8.8</b>
<b>Total Stock Market</b>	746.07	739.19	<b>744.54</b>	5.25	<span style="color: green;">0.71</span>	760.51	629.56	<b>16.3</b>	4.7	<b>8.7</b>
<b>Barron's 400</b>										

## Nasdaq Stock Market

Nasdaq Composite	7597.49	7527.00	<b>7561.63</b>	29.62	<span style="color: green;">0.39</span>	7781.51	6089.46	<b>23.0</b>	9.5	<b>14.2</b>
Nasdaq 100	7108.45	7040.06	<b>7068.20</b>	30.02	<span style="color: green;">0.43</span>	7280.70	5596.96	<b>24.6</b>	10.5	<b>16.4</b>

## S&amp;P

S&P	500 Index	2732.91	2715.60	<b>2723.06</b>	5.99	<span style="color: green;">0.22</span>	2872.87	2409.75	<b>12.6</b>	1.8	<b>9.0</b>
	MidCap 400	1970.96	1956.44	<b>1965.11</b>	4.21	<span style="color: green;">0.21</span>	2003.97	1691.67	<b>13.2</b>	3.4	<b>8.6</b>
	SmallCap 600	1035.82	1025.21	<b>1033.31</b>	7.47	<span style="color: green;">0.73</span>	1052.40	817.25	<b>21.9</b>	10.4	<b>12.1</b>

## Other Indexes

Russell 2000	1672.16	1656.12	<b>1668.53</b>	11.02	<span style="color: green;">0.66</span>	1706.99	1356.90	<b>18.9</b>	8.7	<b>9.2</b>
NYSE Composite	12544.78	12466.12	<b>12510.55</b>	28.95	<span style="color: green;">0.23</span>	13637.02	11699.83	<b>6.8</b>	-2.3	<b>4.3</b>
Value Line	575.80	571.38	<b>574.57</b>	2.46	<span style="color: green;">0.43</span>	589.69	503.24	<b>10.7</b>	2.2	<b>3.9</b>
NYSE Arca Biotech	4819.00	4723.54	<b>4770.27</b>	-20.20	<span style="color: red;">-0.42</span>	5018.28	3787.17	<b>23.8</b>	13.0	<b>4.2</b>
NYSE Arca Pharma	528.33	525.33	<b>526.22</b>	-2.05	<span style="color: red;">-0.39</span>	593.12	514.66	<b>-3.2</b>	-3.4	<b>-3.5</b>
KBW Bank	105.52	104.13	<b>104.87</b>	-0.64	<span style="color: red;">-0.61</span>	116.52	89.71	<b>13.0</b>	-1.7	<b>10.0</b>
PHLX® Gold/Silver	80.71	79.68	<b>80.48</b>	-0.04	<span style="color: red;">-0.05</span>	93.26	76.42	<b>-1.6</b>	-5.6	<b>7.6</b>
PHLX® Oil Service	151.54	147.33	<b>150.92</b>	2.28	<span style="color: green;">1.54</span>	170.18	117.79	<b>17.9</b>	0.9	<b>-9.3</b>
PHLX® Semiconductor	1339.91	1326.50	<b>1333.40</b>	5.36	<span style="color: green;">0.40</span>	1449.50	1020.51	<b>27.2</b>	6.4	<b>24.1</b>
Cboe Volatility	17.54	15.10	<b>15.92</b>	-1.41	<span style="color: red;">-8.14</span>	37.32	9.14	<b>43.9</b>	44.2	<b>4.3</b>

\$ Nasdaq PHLX

Sources: SIX Financial Information; WSJ Market Data Group

## Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 50,000 shares.

## Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
Alerian MLP ETF	AMLP	4,860.4	10.38	0.06	<span style="color: green;">0.58</span>	10.39	10.26
SPDR S&P 500	SPY	4,606.4	271.86	0.26	<span style="color: green;">0.10</span>	272.03	270.98
General Electric	GE	3,366.5	13.82	0.08	<span style="color: green;">0.58</span>	13.85	13.64
Pfizer	PFE	2,930.0	36.38	...	<span style="color: red;">unch.</span>	36.48	36.36
Ford Motor	F	2,680.6	11.54	0.02	<span style="color: green;">0.17</span>	11.55	11.51
Invesco QQQ Trust I	QQQ	2,436.9	172.29	0.22	<span style="color: green;">0.13</span>	172.49	172.06
PG&E	PCG	2,426.4	42.62	...	<span style="color: red;">unch.</span>	42.79	42.62
Microsoft	MSFT	2,401.5	99.20	0.12	<span style="color: green;">0.12</span>	99.80	99.05

## Percentage gainers...

Danaos	DAC	75.7	2.15	0.35	19.44	2.35	1.85




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## COMMODITIES

WSJ.com/commodities

## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract	Open	High	hilo	Low	Settle	Chg	Open interest
Copper-High (CMX)	-25,000 lbs.; \$ per lb.	2,990.5	3,000.0	2,990.5	2,997.0	2,997.0	0.050	642
June		2,990.5	3,000.0	2,990.5	2,997.0	2,997.0	0.050	642
Sept	3,007.5	3,021.5	2,998.0	3,015.5	3,015.5	3,015.5	0.060	120,124
Gold (CMX)	-100 troy oz.; \$ per troy oz.	1,267.20	1,267.20	1,257.50	1,256.60	1,256.60	-9.00	108
June	1,267.20	1,267.20	1,257.50	1,256.60	1,256.60	1,256.60	-9.00	108
Aug	1,267.30	1,269.40	1,256.40	1,256.40	1,256.40	1,256.40	-9.00	329,151
Oct	1,273.10	1,275.00	1,262.60	1,265.60	1,265.60	1,265.60	-9.10	13,755
Dec	1,280.00	1,281.00	1,268.20	1,271.80	1,271.80	1,271.80	-9.10	98,966
Feb'19	1,284.20	1,284.20	1,275.70	1,277.90	1,277.90	1,277.90	-9.20	15,736
June	1,290.50	1,292.30	1,289.10	1,290.40	1,290.40	1,290.40	-9.20	4,242
Palladium (NYM)	-50 troy oz.; \$ per troy oz.	1,623.80	1,635.00	1,614.00	1,625.00	1,625.00	-0.078	54,183
June	1,623.80	1,635.00	1,614.00	1,625.00	1,625.00	1,625.00	-0.078	54,183
Sept	1,634.40	1,658.50	1,625.30	1,654.70	1,654.70	1,654.70	-0.30	20,492
Dec	1,632.30	1,651.00	1,623.90	1,649.90	1,649.90	1,649.90	-0.30	1,662
Platinum (NYM)	-50 troy oz.; \$ per troy oz.	1,868.90	1,872.30	1,859.40	1,871.30	1,871.30	2.50	20,335
July	1,868.90	1,872.30	1,859.40	1,871.30	1,871.30	1,871.30	2.50	20,335
Oct	1,872.00	1,876.50	1,862.20	1,874.70	1,874.70	1,874.70	3.70	64,878
Silver (CMX)	-5,000 troy oz.; \$ per troy oz.	1,210.80	1,212.90	1,209.00	1,212.90	1,212.90	-0.070	1
June	1,210.80	1,212.90	1,209.00	1,212.90	1,212.90	1,212.90	-0.070	1
July	1,632.00	1,635.00	1,614.00	1,625.00	1,625.00	1,625.00	-0.078	54,183
Crude Oil, Light Sweet (NYM)	-1,000 bbls.; \$ per bbl.	87.40	89.50	85.20	89.50	89.50	-0.078	54,183
Aug	68.20	70.91	67.72	70.53	70.53	70.53	2.45	403,197
Sept	67.21	69.58	66.77	69.28	69.28	69.28	2.24	263,834
Oct	66.39	68.40	65.98	68.16	68.16	68.16	1.98	189,319
Dec	65.63	67.32	65.25	67.17	67.17	67.17	1.70	290,507
June'19	63.51	64.89	63.21	64.76	64.76	64.76	1.40	146,947
Dec	61.82	63.08	61.58	62.95	62.95	62.95	1.31	195,904
NY Harbor UlSD (NYM)	-42,000 gal.; \$ per gal.	2,108.00	2,140.80	2,084.00	2,129.00	2,129.00	.0286	24,959
Aug	2,111.60	2,144.60	2,087.60	2,132.50	2,132.50	2,132.50	.0283	105,736
Gasoline-NY RBOB (NYM)	-42,000 gal.; \$ per gal.	2,056.00	2,087.80	2,029.00	2,074.60	2,074.60	.0231	38,259
Aug	2,037.40	2,069.30	2,010.90	2,056.70	2,056.70	2,056.70	.0228	127,543
Natural Gas (NYM)	-10,000 MMBtu's; \$ per MMBtu.	3,142.00	3,156.00	3,127.00	3,149.00	3,149.00	.005	116,478
April	2,675.00	2,675.00	2,658.00	2,674.00	2,674.00	2,674.00	.004	120,438

## Agriculture Futures

	Contract	Open	High	hilo	Low	Settle	Chg	Open interest
Corn (CBT)	-5,000 bu.; cents per bu.	1,201.3	1,201.3	1,198.0	1,201.3	1,201.3	-0.050	1,201.3
July	1,201.3	1,201.3	1,198.0	1,201.3	1,201.3	1,201.3	-0.050	1,201.3
Dec	1,231.0	1,231.0	1,227.5	1,231.0	1,231.0	1,231.0	-0.050	1,231.0
Oats (CBT)	-5,000 bu.; cents per bu.	1,240.0	1,240.0	1,239.00	1,241.25	1,241.25	.25	797
July	1,240.0	1,240.0	1,239.00	1,241.25	1,241.25	1,241.25	.25	797
Dec	1,256.50	1,256.50	1,255.75	1,258.75	1,258.75	1,258.75	.25	2,882
Soybeans (CBT)	-5,000 bu.; cents per bu.	1,273.5	1,273.5	1,272.50	1,275.75	1,275.75	.25	1,275.75
July	1,273.5	1,273.5	1,272.50	1,275.75	1,275.75	1,275.75	.25	1,275.75
Dec	1,284.00	1,284.00	1,282.50	1,287.50	1,287.50	1,287.50	-.08	391,177
Soybean Meal (CBT)	-100 tons; \$ per ton.	1,294.00	1,294.00	1,291.25	1,296.00	1,296.00	.80	37,345
July	1,294.00	1,294.00	1,291.25	1,296.00	1,296.00	1,296.00	.80	37,345
Dec	1,303.00	1,303.00	1,300.40	1,302.60	1,302.60	1,302.60	-.14	184,695
Soybean Oil (CBT)	-60,000 lbs.; cents per lb.	1,298.00	1,298.00	1,289.00	1,298.00	1,298.00	-.01	42,611
July	1,298.00	1,298.00	1,289.00	1,298.00	1,298.00	1,298.00	-.01	42,611
Dec	1,305.00	1,305.00	1,295.80	1,304.50	1,304.50	1,304.50	-.03	220,370
Rough Rice (CBT)	-2,000 cwt.; \$ per cwt.	1,274.50	1,274.50	1,271.00	1,283.00	1,283.00	.12	1,274.50
July	1,274.50	1,274.50	1,271.00	1,283.00	1,283.00	1,283.00	.12	1,274.50
Dec	1,281.00	1,281.00	1,273.00	1,289.00	1,289.00	1,289.00	.12	1,289.00
Wheat (CBT)	-5,000 bu.; cents per bu.	1,291.00	1,291.00	1,287.50	1,298.00	1,298.00	.04	1,298.00
July	1,291.00	1,291.00	1,287.50	1,298.00	1,298.00	1,298.00	.04	1,298.00
Dec	1,298.00	1,298.00	1,291.00	1,302.50	1,302.50	1,302.50	.12	1,302.50
Wheat (KCO)	-5,000 bu.; cents per bu.	1,291.00	1,291.00	1,287.50	1,298.00	1,298.00	.04	1,298.00
July	1,291.00	1,291.00	1,287.50	1,298.00	1,298.00	1,298.00	.04	1,298.00
Dec	1,298.00	1,298.00	1,291.00	1,302.50	1,302.50	1,302.50	.12	1,302.50
Wheat (MPLS)	-5,000 bu.; cents per bu.	1,291.00	1,291.00	1,287.50	1,298.00	1,298.00	.04	1,298.00
July	1,291.00	1,291.00	1,287.50	1,298.00	1,298.00	1,298.00	.04	1,298.00
Dec	1,298.00	1,298.00	1,291.00	1,302.50	1,302.50	1,302.50	.12	1,302.50
Wheat (SH)	-5,000 bu.; cents per bu.	1,291.00	1,291.00	1,287.50	1,298.00	1,298.00	.04	1,298.00
July	1,291.00	1,291.00	1,287.50	1,298.00	1,298.00	1,298.00	.04	1,298.00
Dec	1,298.00	1,298.00	1,291.00	1,302.50	1			

## BANKING &amp; FINANCE

# Abraaj Races to Sell Funds by Sunday

The Dubai-based private-equity firm **Abraaj Group** has told investors and creditors it needs to sell four funds to **Colony Capital Inc.** by Sunday to survive, but some are moving to oppose the deal, people familiar with the matter said.

*By Nicolas Parasie  
in Dubai and  
Will Louch in London*

The Colony deal, announced last week, was billed by Abraaj as a rescue plan, but some investors and creditors have told the firm that it is moving too quickly, that they don't have the deal terms or enough time to properly assess the transaction and that better offers may be available, the people said.

Skeptical parties that voiced concerns include the World Bank, which has invested in a \$1 billion Abraaj health-care fund; Kuwait's pension fund and **Auctus Fund Ltd.**, which owns \$300 million

in loans made to Abraaj, the people said.

An Abraaj spokeswoman said the sale of four funds to Colony would "ensure that a premium set of assets and teams can move ahead in a stable and secure fashion, while continuing to deliver value for investors."

She declined to comment on "confidential discussions with our investors."

After Los Angeles-based investment-management company Colony agreed to buy four of Abraaj's funds for an undisclosed amount, Abraaj told investors it wanted the deal approved before Sunday as it needed money from the sale to keep the company afloat—though it didn't say why July 1 was an important date, two of the people familiar with the matter said.

Colony hasn't set a deadline for the purchase but is concerned that as time passes, the risk increases that "people lose

confidence and things begin to unravel," according to a person familiar with the matter.

Colony has been in talks with investors about the details of the proposed deal, including its structure, this person said.

There have been other offers.

**Cerberus Capital Management LP** earlier this month, before the Colony deal was announced, offered \$125 million to acquire the private-equity business of Abraaj, according to people familiar with the matter; The Wall Street Journal reported. **Abu Dhabi Financial Group** said it also made an offer.

Abraaj managed almost \$14 billion at its peak last year but has started selling off its business as it grapples with accusations of misusing investor money, including commingling funds. Abraaj denies the accusations. Abraaj has told investors that it is struggling to pay the rent it owes for its flagship office in Dubai's glitzy finan-

cial center, the people said.

The Colony deal needs the backing of 75% of investors in each of the four funds and the approval of a court in the Cayman Islands, Abraaj's corporate home, where it is undergoing debt restructuring. It isn't clear if the opposition has enough clout to stop the deal.

Investors in Abraaj's funds include some of the world's largest development finance institutions, U.S. pension plans and asset-management giants, including Hamilton Lane. Abraaj raised cash from investors to buy companies and later sell them at a profit, focusing on businesses in the developing world and pitching its investments as a way to make money while helping the poor.

Société Générale SA and a number of Dubai-based lenders make up Abraaj's biggest bank creditors. Abraaj owes its creditors more than \$1 billion, people familiar with the matter have said.



Founder Arif Naqvi's firm managed almost \$14 billion at its peak.

MARK LENNIHAN/ASSOCIATED PRESS

## End Nears For Grading Big Banks

*Continued from page B1*  
it returns to shareholders through dividends or share buybacks. The bank can still make previously announced payouts.

The Fed in April proposed changing the first, quantitative part of future stress tests. Under the proposed process, if the Fed decides a bank's capital levels are low, the bank would face a higher capital requirement during the following year. To comply, bankers may have to limit shareholder payouts—the same effect as failing the test today, but with a less explicit public rebuke.

The second piece of the Fed's pass-fail system also is fading. In 2017, the Fed stopped issuing qualitative grades to banks with less than \$250 billion in total assets and less than \$75 billion in assets in nonbank businesses. As a result, about half of the 35 firms taking this year's tests don't face the qualitative grade.

Fed officials haven't proposed scrapping the qualitative grade for the largest banks, including global behemoths such as **Wells Fargo & Co.** and **Deutsche Bank AG**, whose U.S. unit is subject to the stress tests. But they intend to do so.

Fed Chairman Jerome Powell said last year, before he took the central bank's helm, that banks have made progress and "we're getting to the point where qualitative supervision of risk management can



A general strike in protest of President Mauricio Macri's business-friendly policies sent Argentine stocks lower Monday and Tuesday.

## Analyst Arrested On Insider Charges

BY MARIA ARMENTAL

An S&P Global Ratings financial analyst and two friends were arrested Tuesday on charges of illegally profiting from inside information on **Sherwin-Williams's** 2017 Valspar acquisition.

In related criminal and civil complaints filed in Manhattan federal court, Sebastian Pinto-Thomaz, the S&P analyst, was accused of tipping off Abell Oujaddou, co-owner of the Marie Robinson Salon, and Jeremy Millul, a New York jeweler, about the deal after Sherwin-Williams reached out to the ratings firm about the deal's potential impact on its credit rating.

Messrs. Oujaddou and Millul, the SEC says, used that information to trade on Valspar before the deal was announced. By the time they sold their holdings after the deal was announced, Mr. Oujaddou made about \$192,000 in illegal profit and Mr. Millul about \$107,000, according to the complaint.

The three men, whom the authorities describe as long-time friends, were being held pending a court hearing and couldn't be reached for comment late Tuesday. It wasn't immediately clear who their lawyers were.

A spokesman for S&P said Mr. Pinto-Thomaz has been suspended and the firm is cooperating with the authorities.

"We hold our employees to the highest standards of honesty and integrity and take adherence to our compliance policies very seriously," S&P spokesman John Piecuch said in an emailed statement. He declined to comment further.

Calls to Messrs. Oujaddou's and Millul's workplaces weren't returned.

When asked by regulators about the trading, U.S. Attorney Geoffrey Berman said in a statement that Mr. Pinto-Thomaz "painted himself into a corner, falsely denying any relationship with" Messrs. Oujaddou and Millul.

The three have been charged with securities fraud and conspiracy and face additional civil violations in the continuing investigation.

## Argentina Has Political Test in Store

### Macri's Mixed Bag

Argentina President Mauricio Macri passed a big test with global investors after his policy responses helped stem the peso's slide and enabled

*By Julie Wernau in  
New York and Alberto  
Messer in Buenos Aires*

the country to rejoin a popular emerging-markets index, attracting foreign capital back to the market.

But those same business-friendly stances have enraged many locals and could imperil his chances for re-election next year. Without Mr. Macri in charge, some investors say, they worry that Argentina could revert to the more populist policies that they say ended the economy and led to a massive government default.

"How stable is the political environment? How stable are the reforms that have been enacted?" said David Tawil, president of Magellan Capital, who invests in Argentine stocks.

In the latest sign that a backlash to Mr. Macri's policies is spooking the markets, the MSCI Argentina stock index dropped 5% on Monday after a union organized a general strike. The union actions

no longer be part of the stress test." Fed Vice Chairman for Supervision Randal Quarles said in April this "is something we should consider."

Fed officials can still put pressure on banks; they just wouldn't do so as publicly.

The banking industry has praised some aspects of the proposed changes and criticized others.

Two former Fed economists at the Clearing House Association of large banks in May called the Fed's quantitative proposal "a clear improvement" that nevertheless "makes capital requirements very volatile," because the test results fluctuate from year to year.

The Fed is reviewing public comments on the draft quantitative changes, which officials hope to implement for the 2019 exams. That would mean next year's tests include only pass-fail grades based on subjective factors, not banks' numerical scores.

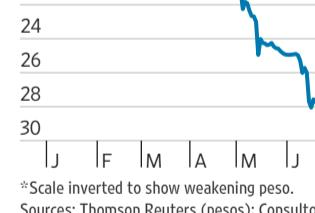
Next year's tests may also include fewer firms with less than \$250 billion in assets, as the Fed acts on new congressional authority to exempt those banks from the tests entirely.

That would leave the largest banks taking the 2019 tests, with the Fed still able to fail them for subjective reasons.

Fed officials haven't said when they intend to stop issuing pass-fail grades to those firms.

Argentina President Mauricio Macri's policies have helped steady the peso but have turned off many voters.

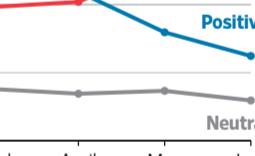
**How many Argentine pesos one U.S. dollar buys\***



\*Scale inverted to show weakening peso.

Sources: Thomson Reuters (pesos); Consultora de Imagen y Gestión Política (voter views)

**Voter views on Argentina's president**



THE WALL STREET JOURNAL.

disrupted transportation and prevented some businesses from operating after activists blocked roads. Stocks fell an additional 1.6% on Tuesday.

The strike's organizers meant to protest against Mr. Macri's policies, such as cutting government subsidies and imposing pay caps, that his opponents blame for widespread inflation, higher utility bills, and layoffs.

Argentina was a pariah among international investors for 15 years following an \$80 billion default in 2001. When

Mr. Macri came to office in 2016, he settled with investors and returned the country to international debt markets, issuing record amounts of debt in an attempt to rebuild the economy.

Mr. Macri's drop in approval came after Argentina suffered a market meltdown starting in April. The peso slid more than 30% against the dollar and the central bank raised interest rates to 40% to halt that slide.

Global investors were rattled but backed his approach.

Mr. Macri successfully appealed to the International Monetary Fund for a \$50 billion bailout package and replaced the country's unpopular Central Bank governor. His economic policies helped convince index provider MSCI Inc. to readmit the country to its popular emerging-markets index, a move that is expected to attract billions of international investment to the country's stock market.

Most notably, Mr. Macri didn't follow his predecessors by resorting to currency controls. That was key to MSCI's decision to upgrade the country, the index company has said.

While those moves appeared to have helped stabilize the currency, they are unpopular with many citizens.

Argentina's deal with the IMF includes austerity measures that will force the government to spend less. Analysts say that is likely to move the country into a recession at a time when many voters are already unhappy that the administration has reversed populist policies that subsidized the lives of Argentine citizens for things like electricity and transportation.

THE WALL STREET JOURNAL.

## Bet Against Qualcomm-NXP Deal

BY GUNJAN BANERJI

One investor made a gigantic options bet this week that China could quash Qualcomm's \$44 billion bid to buy **NXP Semiconductors NV**, the world's largest developer of chips for automobiles.

An options trade on NXP stock costing \$32 million changed hands Monday, according to data provider Trade Alert. It consisted of buying put option contracts on the company expiring in January, while also selling puts that expire in July and August.

Put options confer the right to sell stock at a given price

later in time, known as a "strike." Traders can tap options to make directional bets or protect their stock portfolios.

Approval by China would remove the last hurdle for a deal that has been at a standstill for months. Qualcomm has obtained eight out of the nine necessary antitrust approvals for the deal. The deal is critical for Qualcomm—a dominant player in chips for smartphones, a business that has plateaued in recent years. NXP would allow the San Diego-based company to tap into the rapidly expanding sector of automobile chips as cars become more equipped with

technology.

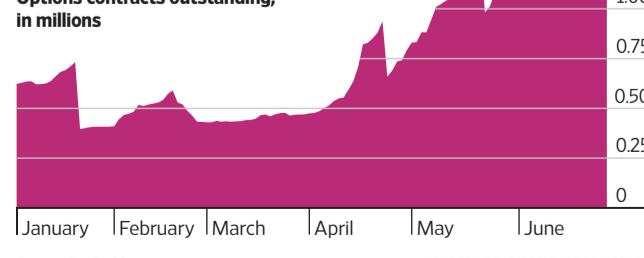
Chinese regulators have expressed concerns that the merged company could crowd out domestic businesses. But in May, as U.S.-China trade tensions eased, Chinese authorities indicated they intended to wrap up their review and approve the transaction. Then this month, the Trump administration moved ahead with tariffs against Beijing, causing investor jitters that momentum for obtaining approval has stalled.

Qualcomm raised its bid for NXP to \$127.50 a share in February. NXP shares are trading about 14% below that level,

### On the Rise

NXP options have been popular among traders in 2018.

**Options contracts outstanding, in millions**



indicating significant doubt among investors about the deal's completion.

It is possible the new trade "hedges a large long-share position," wrote Henry Schwartz,

Trade Alert's founder, in a note Monday. It could also be "an outright wager that Qualcomm may be forced to walk away as the July 25 deadline approaches."

## MARKETS

# Treasurys Stabilize As Yields Inch Up

By DANIELLE CHEMTOB

U.S. government bonds were little changed Tuesday as financial markets stabilized following a volatile session Monday.

The yield on **CREDIT MARKETS** 10-year U.S. Treasury note settled at 2.882% compared with 2.875% Monday. Yields rise as bond prices fall.

Trading was muted after conflicting messages from within the Trump administration over trade policy jolted markets Monday, sending yields on short- and long-term bonds lower and pressuring stocks around the world.

"The Treasury market isn't taking the day off, but it is just sort of trading quietly as it begins to think about the end of the quarter," said Jim Vogel, interest-rate strategist at FTN Financial.

Many investors and analysts are worried that an escalation in trade tensions could slow economic growth.

"Given that previous economic tailwinds appear to be fading and we now have trade-war-related headwinds building, I suspect that the market will quickly start to look through this part of the cycle and start to worry about what comes next," said Ian Lyngen, head of U.S. rate strategy at BMO Capital Markets.

Consumer-confidence data released Tuesday could be one early sign that tighter trade



American Express fell as it said it and Amazon.com would launch a credit card for small businesses. The company's promotional space at NBA All-Star Weekend 2018.

EMMA MCINTYRE/GETTY IMAGES FOR AMERICAN EXPRESS

# Dow Climbs, Powered by Oil Stocks

Sector gets lift from higher crude prices; GE rises 7.8%, biggest increase since 2015

By GUNJAN BANERJI

Gains in shares of energy companies pushed U.S. stocks higher.

Energy stocks rose with oil prices after a senior State Department official said the administration expects all countries to stop imports from Iran by November or risk sanctions.

**TUESDAY'S MARKETS** The Dow Jones Industrial Average gained 30.31 points, or 0.1% to 24283.11. The S&P 500 added 5.99 points, or 0.2%, to 2723.06 while the Nasdaq Composite rose 29.62 points, or 0.4%, to 7561.63.

Energy shares posted the biggest gains among the S&P 500's 11 sectors, rising 1.4%. **Chevron** added \$1.55, or 1.3%, to \$124.16, while **Exxon Mobil** climbed 90 cents, or 1.1%, to 80.64 in the Dow industrials.

U.S. crude for August delivery climbed 3.6% to \$70.53 a

barrel, its highest close in more than a month.

Company-specific news also spurred stock moves Tuesday. **General Electric** climbed 99 cents, or 7.8%, to 13.74 in the wake of an announcement that it is to jettison its ownership in oil-services firm Baker Hughes and spin off its health-care unit in a strategy shift that will see it focus on power and aviation. It was the stock's biggest percentage increase since April 2015.

Shares of **American Express** lost 33 cents, or 0.3%, to 98.21 as the company said it was joining forces with **Amazon.com** to launch a credit card for small businesses.

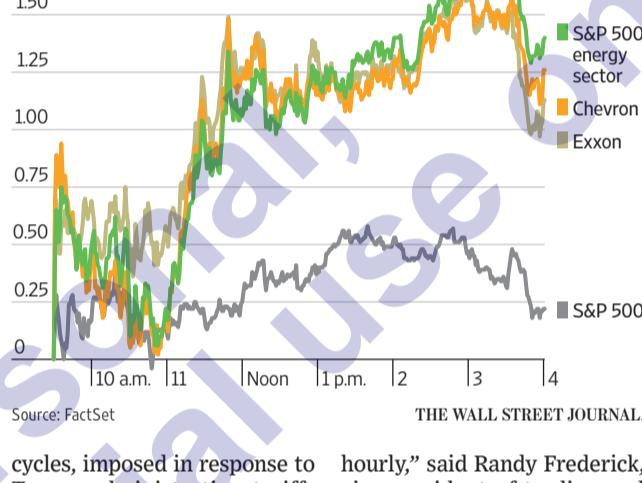
Tuesday's moves marked a reprieve after trade concerns jolted markets Monday, dragging major U.S. indexes to their worst day in months.

Those worries eased following White House adviser Peter Navarro's Monday afternoon comments on CNBC that analysts said helped assuage fears of an all-out trade war.

Against that backdrop, **Harley-Davidson** announced plans late Monday to shift more production overseas to avoid European Union tariffs on motor-

## Energetic

The energy sector led advances in the S&P 500 on Tuesday.



Source: FactSet

cycles, imposed in response to Trump administration tariffs on European steel and aluminum. The motorcycle company's shares fell 25 cents, or 0.6%, to 41.32 Tuesday as President Donald Trump warned the company against the move, posting their fourth day of declines.

"Things coming out of Washington are causing the market to swing daily, if not

hourly," said Randy Frederick, vice president of trading and derivatives at the Schwab Center for Financial Research.

Chinese President Xi Jinping recently remarked that his country would "punch back" against trade restrictions, further spooking investors already fearful of the prospect of a full-blown global trade war.

The Shanghai Composite Index entered a bear market,

closing down 0.5% at a fresh two-year low.

The Chinese yuan declined 0.5% against the dollar, after hitting its weakest level this year Monday following remarks from the Chinese central bank that it would reduce the amount of cash it requires banks to hold in reserve, allowing them to boost lending.

The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, rose 0.3%.

With the yuan under pressure in recent weeks, analysts have discussed the prospect of Beijing devaluing its currency in the event U.S. tariffs begin to squeeze the world's second-largest economy. Analysts were expecting the yuan to come under further pressure but weren't forecasting a repeat of 2016, when the currency fell 7% during the year.

Some said the recent turbulence was here to stay, despite calmer markets on Tuesday.

"Protectionism and the dollar strength are driving the market right now," said Eddie Perkin, chief equity investment officer at Eaton Vance. "I think you might see a little bit of more volatility."

# Crude Rises as Iran Export Cut Looms

By DAN MOLINSKI AND STEPHANIE YANG

U.S. oil prices jumped more than 3% to above \$70 a barrel Tuesday after a senior official said Washington expects all countries to cut oil imports from Iran to zero by November or risk sanctions.

Light, sweet crude for August delivery ended 3.6% higher to \$70.53 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, rose 2.1% to \$76.31.

Iran exports more than 2 million barrels a day of oil. President Donald Trump in May withdrew from a nuclear deal with Iran and reimposed sanctions that seek to force companies not to buy any Iranian oil.

The State Department official who spoke Tuesday said the U.S. doesn't plan to issue any temporary waivers to nations for a few months, even if they are showing efforts to cut their purchases gradually, noting the U.S. wants Iran shipments to be "zero" by Nov. 4.

"Basically what the govern-



Expected large weekly drawdowns in U.S. oil inventories contributed to Tuesday's gains.

ment is saying is they're going to apply various financial sanctions and/or in other ways make it very unattractive for anyone to buy oil from Iran," said Alan Levine, chief executive at Powerhouse in Washington. "When that news hit the market, crude rallied."

The prospect of plunging Iranian exports outweighed early market concerns on a report from Bloomberg News that

Saudi Arabia planned to pump a record amount of crude in July.

"It's a story of the shock absorbers at this point," said Helima Croft, global head of commodity strategy at RBC Capital Markets. "The more the Saudis bring on now, the less that's left to deal with any other crisis. And we have proliferating crises."

One such area of concern is

Libya, with oil exports threatened by rising political tensions.

"You have no margin for error if you're going to be this aggressive on Iran with the Libyan backdrop," Ms. Croft said.

Analysts also point to expectations for large weekly drawdowns in U.S. oil inventories as a reason for Tuesday's gains.

—Christopher Alessi

contributed to this article.

# Dollar Index Advances

By DANIEL KRUGER

The dollar rose Tuesday as stocks edged higher and investors sought safety as trade tensions between the U.S. and its largest trading partner, China, show few signs of cooling.

The WSJ Dollar Index, which measures the U.S. currency against a basket of 16 others, rose

**CURRENCIES** 0.3% to 88.01.

The dollar rose 0.6%

against the Chinese yuan and 0.5% versus the euro.

The dollar rose with U.S. stocks Tuesday, a day after some of their worst declines in months. Trade concerns have rattled markets recently, dragging down major indexes on Monday.

The Trump administration has been laying the groundwork to prevent Chinese firms from gaining access to advanced U.S. technology, restricting both investment from and exports to China. Chinese President Xi Jinping recently said that his country would "punch back" against trade restrictions, spooking investors already fearful of the prospect of a full-blown global trade war.

"It's partly a China story," said Mark McCormick, a currency strategist at TD Securities. The dollar recently has also "been correlating a bit more with" stocks, he said.

Concerns about the tenor of trade discussions, and signals from the recent decline in the Chinese yuan versus the dollar are weighing on the euro, which "just feeds into the dollar divergence narrative," Mr. McCormick said.

# China's TAL Challenges Short Seller's Harsh Words

By STEVEN RUSSOLILLO

U.S.-listed shares of **TAL Education Group** jumped as much as 6% Tuesday after the Chinese company struck back against a well-known short seller, saying an internal review found no evidence that supports his allegations of fraud and inflated earnings.

The company, which has a \$19 billion market cap, was the subject of a 70-page report by Carson Block of **Muddy Waters** a few weeks

ago. The report labeled TAL "a real business with fake financials." He alleged that the after-school tutoring firm in China has overstated its net income by 44% for at least the past two years, calling it an Enron-style fraud.

Shares fell 10% on June 13 after Mr. Block's report came out and have yet to recover. Short sellers like Mr. Block aim to profit from price declines. Before his report, TAL's stock had risen over 50% for the year.

Mr. Block blasted TAL's response.

"We note that TAL has not

even attempted to rebut any of our conclusions," Mr. Block said in a statement to The Wall Street Journal. "TAL's claim that it could complete an investigation into serious fraud allegations in just 12 days is a farce. TAL's conduct evidences an almost complete lack of respect for U.S. markets, and a belief that its management can never be held accountable."

Mr. Block's San Francisco-based Muddy Waters rose to fame in 2011 after it revealed

fraudulent practices at Chinese forestry company Sino-Forest Corp., which ended up filing for bankruptcy the following year.

Muddy Waters has a history of investigating Chinese companies.

Johnny Kin Man Wong, an equity analyst at Jefferies, wrote earlier this month that the fraud claims "would cast concerns over TAL's integrity should management be unable to provide a satisfactory explanation."

## MARKETS

## Natural Gas Is Heating Up With Summer

By STEPHANIE YANG

Low supplies of natural gas could lead to higher prices this summer as Americans begin to flip on their air-conditioning units, boosting demand for the energy source.

Stockpiles of natural gas—made plentiful by the U.S. shale boom—have become depleted after an extended winter this year increased demand for heating homes. Booming U.S. exports of gas also have absorbed excess inventories, and analysts say cheap prices have made it more popular for power generation, compared with more expensive sources like coal.

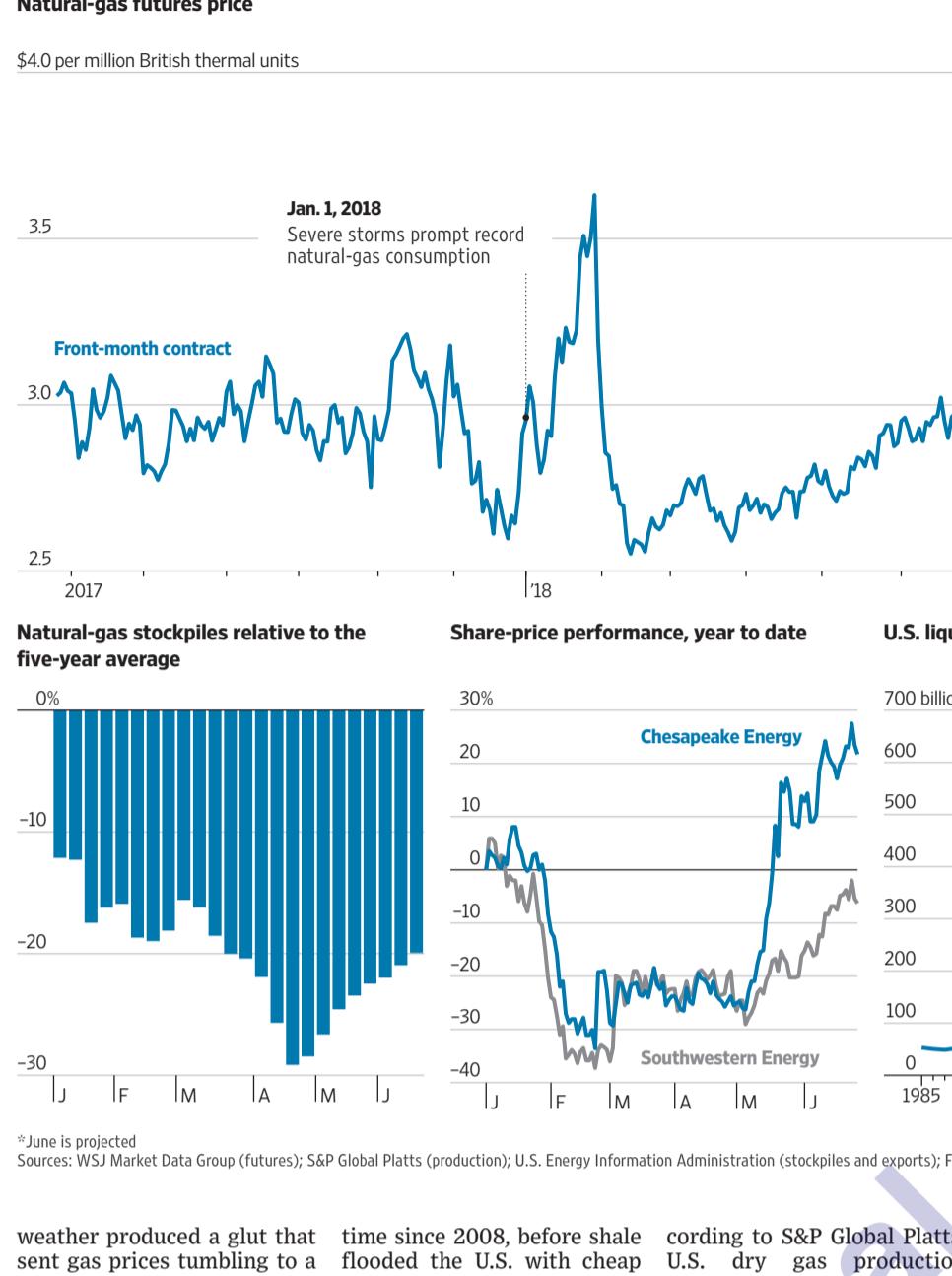
Natural-gas consumption generally rises in the summer months as cooling needs drive energy demand. But this year, the amount of natural gas in storage started June at the lowest level since 2014 for that time of year and the second-lowest level in a decade.

Now, with weather forecasts into July showing hotter-than-average temperatures across the U.S., consumers could see a pop in prices. Already, a significantly hot June has pushed natural-gas futures near the closely watched level of \$3 a million British thermal units, recently hitting the highest price since January.

"As we get deep into summer months, we get volatility," said Nicholas Koutsoftas, a portfolio manager at Cohen & Steers. "Any deviation from the norm will cause big moves in the natural-gas market."

Extreme cold in January led to record natural-gas consumption and withdrawals from storage extended into April due to unseasonably cool weather. Now the amount of energy required to cool buildings in June is on track for its second-highest level since 1981, according to Bespoke Weather Services.

It is a far cry from two years ago when the relentless growth of U.S. shale and mild



\*June is projected  
Sources: WSJ Market Data Group (futures); S&P Global Platts (production); U.S. Energy Information Administration (stockpiles and exports); FactSet (share prices)

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weather produced a glut that sent gas prices tumbling to a 14-year low.

Traders are betting that the summer will end with significantly less natural gas in stock. On London's Intercontinental Exchange, EIA end-of-storage index futures indicate bets that October will end with about 3.525 trillion cubic feet of natural gas, which would be the lowest for that

time since 2008, before shale flooded the U.S. with cheap energy.

"It's amazing what this market has absorbed to be here," said Jacob Meisel, chief weather analyst at Bespoke. "Temporarily, you could see weather exacerbate this further."

This comes as U.S. producers are churning out more natural gas than ever before. Ac-

cording to S&P Global Platts, U.S. dry gas production climbed to a record 78.2 billion cubic feet a day in May. The U.S. Energy Information Administration forecasts that number will rise even further to average 81.2 bcf/d in 2018.

One game-changer has been increasing demand overseas: U.S. companies are sending more natural gas abroad. Exports of liquefied natural gas

nearly quadrupled last year to total more than 700 billion cubic feet, according to the EIA.

"U.S. producers are now relevant on the global stage and not just the local stage," said Dan Pickering, head of the asset-management arm of Tudor, Pickering, Holt & Co. "We've got a lot of supply, but we've got new demand sources."

As more export facilities start operations, traders are

banking on growing shipments to help underpin the market. Earlier this year, natural-gas prices for 2019 softened after Freeport LNG pushed back its expected start date, one illustration of how vital exports have become, analysts said.

"With the country now open to exports, you can't become too lean on these inventory levels," said Teri Viswanath, managing director of natural gas analysis at S&P Global Platts. "That certainly has caused the market to reconsider that *laissez-faire* attitude that traders took earlier in the season."

A sustained rise in prices could reverse longer-term trends in consumption, and cooler-than-expected weather could also negate the need for additional power this summer.

And natural-gas prices haven't surged because the market is still counting on producers to replenish stores ahead of another demand boost next winter.

Shale drillers capitalizing on higher oil prices also could flood the market with more supply, as they produce more natural gas as a byproduct. Earlier this year, volatility in the natural-gas market fell to a 22-year low.

"There's a perception that supply growth will really help alleviate any constraints you may have seen with such low inventories," said Nina Fahy, head of North American natural gas at Energy Aspects.

As prices have stabilized near \$3, some investors have regained confidence in U.S. natural-gas producers. In the past three months, shares of Chesapeake Energy Corp. and Southwestern Energy Co. have gained 61% and 21%, respectively.

"There's a meaningful offset to the production growth that we're witnessing, and at some point the market's going to have to come to grips with this," said Zane Curry, an analyst at Mobiust Risk Group.

## HEARD ON THE STREET

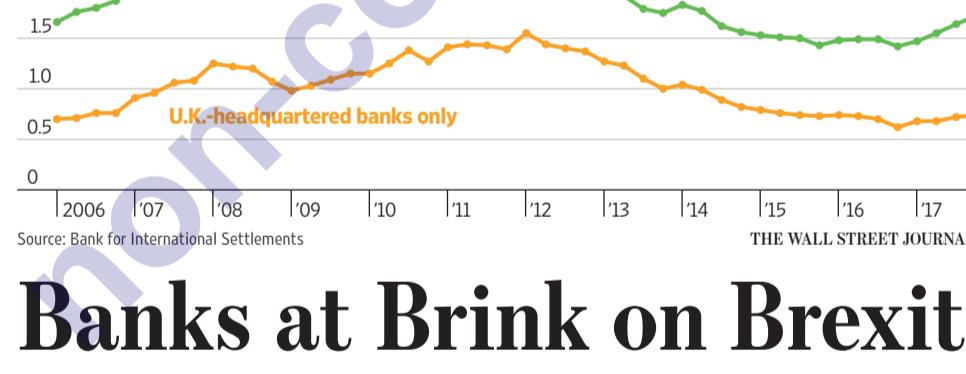
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## OVERHEARD

**Hub Trouble** Outstanding euro-denominated loans from banks in the U.K.



Source: Bank for International Settlements

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## Banks at Brink on Brexit

There is a serious game of chicken going on in European finance and each side just told the other they need to blink.

The face-off is between banks and European authorities over how much banks should prepare for Brexit. It is a classic moral-hazard problem: Banks seem to be hoping that politicians will be forced to give them a pass because finance is too important to suffer major disruption.

But the European Banking Authority, which writes the rules, and the European Central Bank's regulatory arm, which enforces them, both warned banks this week that time is running out.

Britain's exit from the European Union at the end of March 2019 will bring an end to agreements that allow banks to operate seamlessly between the U.K. and continental Europe. To continue operations, banks need a replacement trade deal or other legal settlement. And while a deal could still be struck in time, the chances of a hard split are mounting.

That would mean major disruption for the banking and securities trading industry. Loans, derivatives contracts and even banks' own bonds and capital securities

could suddenly face higher capital charges or be deemed ineligible.

London is Europe's financial center, so lots of business would be hit. British, U.S. and European banks have \$1.7 trillion of euro-denominated loans outstanding from U.K.-based arms, according to the Bank for International Settlements, much of which may have to

be moved to an EU-licensed bank. Then there is about €750 billion (\$873.62 billion) of loans in the other direction, according to the EBA.

In derivatives, more than 90% of all euro-denominated interest-rate swaps are cleared through London-based LCH. Without a post-Brexit deal, this would become a nonqualifying venue, increasing capital charges for continental European users.

There is a lot work—and therefore cost—involved in making sure all these busi-

nesses and more can function if the U.K. splits from Europe with no new trade agreement. Banks in the International Capital Markets Association are begging EU and U.K. politicians to come up with a joint statement that would ensure all existing cross-border contracts remain valid, whatever the outcome of the Brexit talks.

That sounds like a simple answer, but the EBA thinks it just isn't possible. It told banks Monday that preparing for a bad Brexit is hard but not impossible and that they just need to get on with it. Meanwhile, the ECB reminded banks that if they need extra approvals to operate in the EU, they must apply by the end of the second quarter. That means Friday.

Big banks have done quite a lot of preparation, but EU authorities fear it isn't enough and worry that time will run out. Banks are reluctant to keep spending money if—as hoped—the U.K. and EU agree at least a transition deal.

So far, at least, investors aren't fretting about severe disruption. But the way talks have been going, the chances of a financial accident are bigger than they think.

—Paul J. Davies

**90%**

Euro interest-rate swaps cleared through London-based LCH

be moved to an EU-licensed bank. Then there is about €750 billion (\$873.62 billion) of loans in the other direction, according to the EBA.

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There is a lot work—and therefore cost—involved in making sure all these busi-

## It May Be Time to Bet on Weak Yuan

Chinese markets are in trouble once again.

China's currency is down nearly 1% against the dollar from Friday's close, wiping out the yuan's gains for the year, after the People's Bank of China cut reserve requirements for banks over the weekend. Slowing growth and rising trade tensions are pummeling Chinese shares, with the Shanghai Composite entering a bear market Tuesday. And rising defaults are testing the country's gargantuan debt market.

To investors with a long memory, this may sound uncomfortably familiar. The last big yuan selloff, beginning in mid-2015, was heralded by a historic stock-market collapse, a rash of corporate bond defaults and Chinese monetary easing. China's currency will probably come under further pressure. But a 2016-style blowout—when the currency dropped 7% over the year—may be avoided.

Big capital outflows have yet to reappear. As in 2015, the U.S. and Chinese central banks are moving in opposite directions, making yuan assets less attractive. Investors owning Chinese rather than U.S. 10-year government bonds pocketed a measly 0.6-percentage-point yield premium in May, the smallest since late 2016.

Still, Chinese banks purchased a net \$19 billion of foreign exchange in May, compared with sales of more than \$100 billion in late 2015—a sign that investors remain relatively happy to hold yuan.

One reason is that investors are more confident in Beijing's ability to defend the currency, thanks to tough capital controls put in place after the 2015 debacle.

A more compelling reason:

The most important yuan-denominated asset, Chinese real estate, is still doing rather well. By late 2015, housing prices in many small and medium-size cities had been falling for 18 straight months. By contrast, Chinese housing prices have gained steam in recent months.

But foreign investors still look too sanguine on China's currency. Prices for offshore nondeliverable yuan forwards, used to speculate on the Chinese currency, put it at 6.6 against the dollar one year ahead, only marginally weaker than the current spot price of 6.5.

That sort of complacency looks risky. China is now gradually easing monetary policy, while the Federal Reserve is tightening. Trade tensions are rising, and China posted its first current-account deficit since 2001 in the first quarter. Growth will probably slow further in the second half.

Panic or no panic, a weaker Chinese currency in the months ahead still seems likely.

—Nathaniel Taplin

## Bricked Up

Chinese property prices, change from a month earlier



Source: CEIC

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# THE FUTURE OF CITIES

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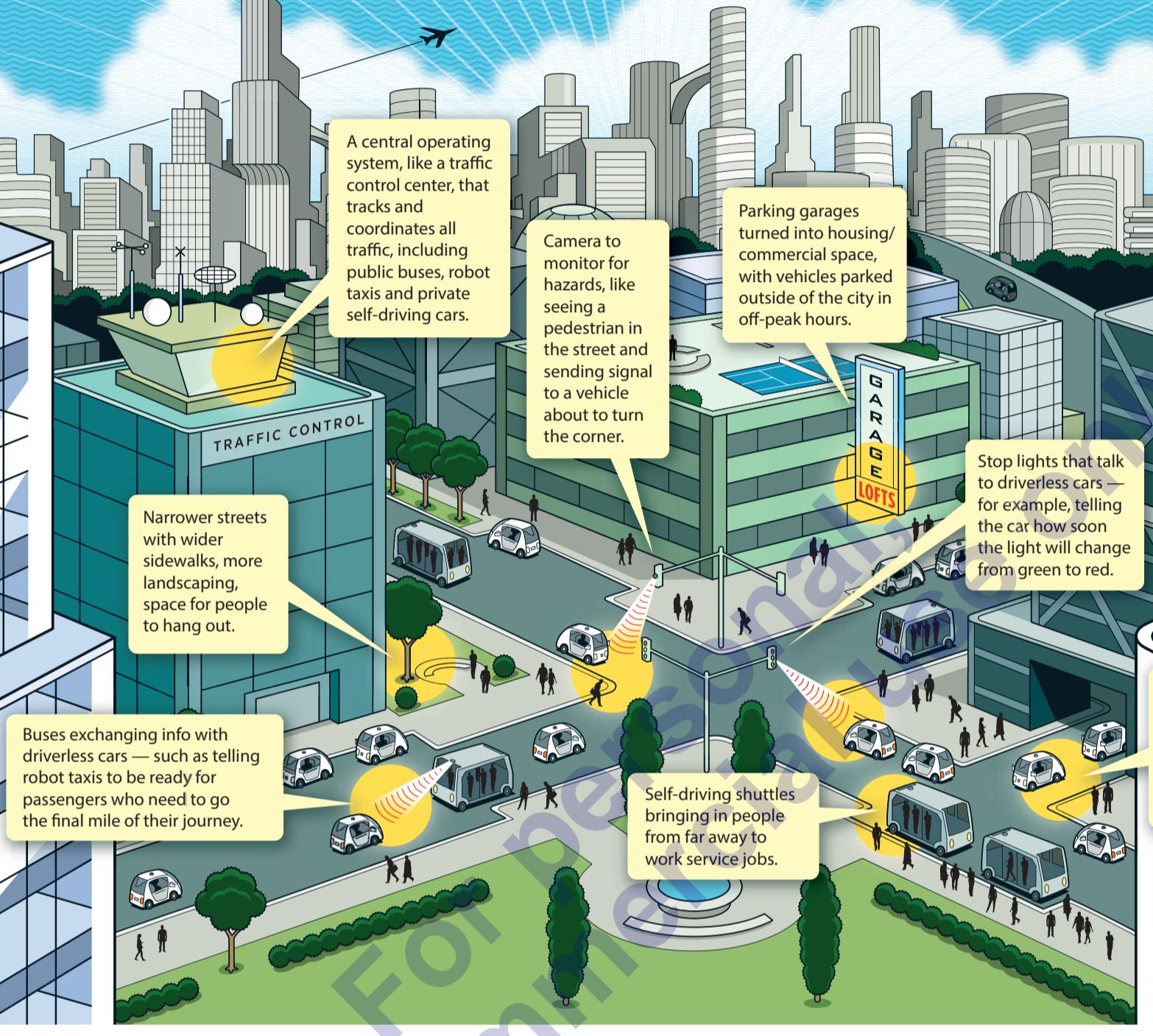
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Wednesday, June 27, 2018 | R1

## What Driverless Cars Will Bring to Cities

City planners say self-driving cars could mean better public transit, more green space and less congestion. But also: more urban sprawl and greater inequality.



PETER & MARIA HOEY

BY TIM HIGGINS

**A**S THE ARRIVAL OF driverless cars gets closer, cities are scrambling to get ready. And for good reason: The driverless car promises to reshape the urban landscape as we know it.

Little wonder, then, that the potential changes are creating excitement—and fear—among city planners. As they host test fleets of robot vehicles and figure out how to rework ordinances to prepare for the autonomous future, they're imagining what life is going to be like when the streets are filled with cars that can largely think for themselves.

Some see an opportunity to create on-demand public transit that gets people where they're going faster and reaches more of the population. Or open up streets for more green space and greater walkability. Or redirect traffic to make it easier to hold functions like farmers markets.

But, even as they acknowledge the promise, others see possible problems. They warn that robot cars could encourage greater urban sprawl and cut into funding for public transit, widening the divide between the haves and have-nots. And driverless cars won't be replacing all human-driven cars overnight, meaning an awkward mix of robots and humans sharing roadways.

Whatever the future holds, it will very likely be arriving soon.

"It wouldn't surprise me if by the end of 2019 we have autonomous vehicles readily part of people's lives," says Steve Adler, the mayor of Austin. His city was the first outside of California where Alphabet Inc.'s Waymo, then a Google project, tested early versions of its self-driving technology. He adds, "The technology is coming sooner than people think."

Here's a look at some of the changes that may be in store for cities.

### SMARTER PUBLIC TRANSPORTATION

Some urban planners envision integrating autonomous cars with existing public transit, making the whole system more flexible and responsive.

A likely starting place is on-call robot taxis married with smartphone apps that let users plan the most efficient routes across town. For instance, a commuter might check the app and see that the quickest path is taking a rental bike to the train station, riding for 20 minutes, then finishing up with a robot taxi for the final 2 miles to the destination.

In another combination of autonomous vehicles and transit, vehicles would actually anticipate commuters' needs. The startup Moovit, which tracks anonymized user data to create a real-time picture of public-transit use, could use such data to help robot taxis know where and when to deploy to meet demand, predicts co-founder and Chief Executive Nir Erez. The operating system might see that 300 people are on board a commuter train set to arrive at noon. So it would send enough robot taxis to the station to cover the probable number of taxi riders, based on past usage statistics.

Robot cars could also help riders in underserved areas. After being used for private trips during rush hours, the cars could be deployed in parts of the city with limited public transportation so that residents could use them for essential travel, perhaps even subsidized by the city to reduce cost.

These setups offer a rare chance for a strong public-private partnership in transit—because companies have a financial stake in keeping the cars as full as possible, just as cities want to offer residents as many commuting options as they can.

"We're going to want [that car] running all of the time at capacity," says Glen De Vos, chief technology officer at auto-tech supplier Aptiv PLC. "If you bolt on public-transportation services on top of [private service], it gives you a bigger customer base and more opportunity to essentially be running those vehicles at capacity all time."

For cities, which often don't have the latest technology, creating the infrastructure to allow such a network takes preparation. In Las Vegas, Aptiv has joined with Lyft Inc. to test self-driving cars to better understand what's required to make a ride-hailing system work with robots.

"A lot of times, people completely overlook that the municipality will play a critical role in how all of this is implemented," according to Mr. De Vos.

One of the open questions about how the technology will ultimately be used is whether robot vehicles will be more like a public utility, with cities deciding where and when the vehicles operate, or whether these vehicles will be more akin to chauffeured cars operated by private robots.

In January, Ford Motor Co. announced it acquired a startup called Autonomic to help

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## JOURNAL REPORT | THE FUTURE OF CITIES

# Green Buildings. Literally.

'Biophilic' designs incorporate elements of nature both outside and inside. It's aesthetically pleasing—and makes people feel, and perform, better

BY KEN WELLS

MOST PEOPLE, when they think of "green" buildings, take that to mean structures built with energy conservation in mind. But, increasingly, buildings are becoming literally green, as cities and companies around the world embrace biophilic design—the concept of surrounding buildings with nature, even on their upper floors, and bringing the outdoors indoors by including natural elements in their interior design.

Planted terraces that wrap around buildings, indoor man-made water features such as ponds and waterfalls, plantings that can cover entire interior walls, cascades of windows to maximize natural light—all are key elements of biophilic design, as are expanded views of nature itself.

Aesthetics are clearly a driver of the biophilic movement, but it is also motivated by the bottom line. Biophilic design can result in significant energy savings, and research indicates that employees in buildings designed with biophilic elements not only feel better about their workplace but perform better, too. For example, a landmark 2003 study of 100 employees in a call center of the Sacramento Municipal Utility District showed that workers who sat with views of nature handled up to 12% more calls per hour than those who had no view.

## Plants everywhere

Clif Bar & Co.'s state-of-the-art bakery in Twin Falls, Idaho, is in the vanguard of the movement. Its profusion of windows, skylights and tubes designed to bring sunlight deep into building interiors bathe the facility in gentle natural light. Wall-size projections of nature bring images of mountains, rivers and forests into the bakery's core. An imposing stone interior corridor is designed to mimic the Snake River Canyon, one of the most stunning geographic features of the West.

And there are plants every-



DAVIDE PIRAS/STEFANO BOERI ARCHITETTI

where: Low-maintenance plants decorate the light-filled common areas where workers gather, giving these indoor spaces an outdoor feel. Outdoors, a number of patios used by employees for breaks and dining are planted with or surrounded by drought-tolerant native plants, including more than 570 trees and 5,700 shrubs and grasses. The bakery also was sited to offer unimpeded vistas of the nearby mountains of the Sawtooth National Forest.

The idea behind the design of the \$90 million, 300,000-square-foot bakery, completed in 2016, was to make it "the kind of place all of us would like to work," says Rich Berger, vice president of engineering and food supply for the maker of organic energy bars and snacks based in Emeryville, Calif.

Bill Browning, a founding partner of Terrapin Bright Green, a New York-based consulting firm focused on sustainable development, is among America's leading biophilic experts. He has been consulting with companies including Walmart and Marriott International's Westin Hotels & Resorts to bring biophilic design into their building plans.

Walmart teamed up with Mr. Browning as he first began to explore how bringing elements like abundant natural

light into retail workspaces could improve not only productivity but also sales. From experiences with a prototype green store that featured abundant natural light, the company began to find that sales per square foot were significantly higher for departments located in the daylight sections of stores than in those with artificial light, according to a joint report by Mr. Browning and the company.

At Westin, "we believe people have an innate need to interact with nature," and so the company gears all of its design with biophilic principles in mind, says George Fleck, the chain's vice president of global brand marketing and management.

He points to one of Westin's newest properties, the five-story, 116-room Westin Buffalo in Buffalo, N.Y. The hotel incorporates planted walls, soaring banks of windows and exposed wooden beams into its common areas and decorates its guest rooms with carpets, walls and art suffused with earthy tones and replicating patterns of nature.

## Health and profit

A pivotal piece of research backing up the premise of biophilic design is a 1984 study published in the journal *Science* that found that a suburban Pennsylvania hospital's gallbladder-surgery patients



The Bosco Verticale apartment towers in Milan (left) have about 800 trees on their terraces. In Singapore, the ParkRoyal hotel has almost 4 acres of lush terraces, many with water features.

who had views of green space from their rooms had shorter recovery times than those who didn't. Many other studies have since confirmed such health benefits.

Today, the Khoo Teck Puat Hospital in Singapore, completed in 2010, features vast indoor courtyards of tropical plants surrounding patient areas. Fins along the building's exterior channel prevailing northeast winds into the building, enhancing airflow by 20% to 30% and reducing the need for air conditioning.

Singapore is also home to one of the pioneers of biophilic design, the architectural firm WOHA, founded by Wong Mun Summ and Richard Hassell in 1994. The WOHA-designed ParkRoyal on Pickering hotel in Singapore, part of the Pan Pacific Hotels Group, features almost 4 acres of lushly planted, self-sustaining terraces interlaced with waterfalls, ponds and other naturalistic features.

The 367-room hotel has been largely sold out since it opened in 2013, and suites go for more than \$500 a night. "It's a project that shows that an investment in green design can translate into real profit," says Mr. Hassell.

WOHA is working on 14 biophilic projects in seven countries, according to Mr. Hassell. One of them is a park and classroom cluster as part of a

new campus for the Singapore Institute of Technology that will cocoon campus buildings in an urban forest.

## Awards for innovation

Biophilic design has earned some prestigious recognition.

The dual towers of the Bosco Verticale apartment complex in Milan are clothed in staggered terraces featuring about 800 trees—enough to cover a 3-acre forest. The project won Europe's International High-rise Award in 2014 for the continent's most innovative building.

While designing buildings with huge green spaces, green walls and terraced gardens can be challenging—using trees requires building in load capacity—some projects get around that by the choice of plants they use. At One Central Park in Sydney, hydroponic plants require no soil and minimal water to thrive, alleviating the issue of structural overloading. The mixed residential and commercial building features a series of hanging gardens that clad the exteriors of its two residential towers with more than 85,000 plants, and includes 22 interior green walls.

Green walls add only modest costs to new construction, since bringing in water and drainage is no more complicated than installing the necessary plumbing. As for maintenance, "our focus has been

on building walls where there is minimal plant loss and therefore a lower cost of operation over time," says Richard Kincaid, founder of Chicago-based Sagegreenlife, which specializes in green-wall construction.

In the U.S., biophilic projects are popping up across the country. Among the notable ones is a project by CookFox Architects of New York that has transformed a blocky five-story parking garage adjacent to the city's High Line elevated green space into a light-filled, 10-story office complex that is nearing completion.

With the High Line as inspiration, "the idea was to rethink the site for the biophilic workplace of the future," says Rick Cook, a CookFox founder. "Every single floor will have access to outdoor spaces and gardens."

"An outdoor garden begins on the second floor, north-face terrace and rises to connect the second-, third- and fourth-floor terraces with a wide stairway that features planting beds and integrated seating," Mr. Cook says. "Each floor above also features a terrace in varied locations," he says, and to top it all off, "there are rooftop gardens at the 11th and 12th floors."

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# What Driverless Cars Will Bring to Cities

Continued from the prior page

create a so-called Transportation Mobility Cloud that could essentially serve as an air-traffic control center for a city trying to manage different transportation providers, such as public buses and privately owned robot taxis.

Traditionally, each mode of transportation has been trying to ensure it is working in the most efficient way possible, says Marcy Klevorn, president of Ford Mobility. "You can't solve the problem by having everything optimized for itself," she says. "One of the things we want to do is help the different modes of transportation talk to each other."

## LESS PARKING, MORE SPACE

Autonomous cars can drop people off and then go somewhere else to park—or to shuttle other people around. That means less need for parking space, which could open up huge possibilities for space-crunched downtowns. Some cities have as much as 30% of land devoted to cars for roads and parking, according to Brooks Rainwater, director of the Center for City Solutions at the National League of Cities.

Some see the advent of autonomous cars as the spark to reimagine a city with pedestrians at the center of development—whether that involves making wider sidewalks, adding green space and parks or converting former downtown parking-garage towers into housing or retail space.

Another change could be in the design of buildings. Half of a new building's footprint is typically devoted to parking, says Ryan Snyder, a principal at consultancy Transpo Group and a faculty member at the University of California, Los Angeles, urban-planning department. If fewer spaces are needed for autonomous cars, those spaces could be turned into retail or living space—potentially leading to lower costs for residents and businesses.

## CHANGING STREETSCAPES

As autonomous vehicles take over the roads, they will learn to coordinate traffic flow. Autonomous vehicles could be directed to pull out of the way of emergency vehicles or public buses to create virtual lanes for those higher-priority vehicles, for instance.

But cities could also begin to use streets and sidewalks in a more flexible way, changing the dynamic of communities, Mr. Snyder says. For instance, streets could more easily be used for events like farmers markets, because automated vehicles could find routes around the

blocked-off areas without causing traffic jams.

Sidewalks might also change in front of large office buildings, as robot taxis and shuttles pick up and drop off huge numbers of passengers. Planners may create wider pick-up and drop-off zones, perhaps indented to allow traffic to flow easily around them. The curbs may also have sensors that can notify an autonomous vehicle when it is safe to pull over, says Grayson Brulte, who advises governments on driverless technology.

## Drivers of Change

Analyses of long-range transportation plans for the 50 largest U.S. cities just two years apart found a jump in the number of cities planning for big technology-based changes.

■ Plans mentioning autonomous vehicles

■ Plans addressing transportation network companies such as Uber or Lyft



Source: National League of Cities THE WALL STREET JOURNAL.

## THE CONGESTION QUESTION

Some proponents of driverless cars believe the shared vehicles will cut down on clogged streets.

Research by Larry Burns, the former head of research and development for GM and a consultant for Waymo, suggests that a community needs only a small number of robot taxis to handle its transportation needs. In research for Columbia University's Earth Institute, he found that if a city's population density is greater than 750 people per square mile—the level of most U.S. cities—then it can ensure service with a fleet of robot vehicles amounting to just 15% of its current total of conventional cars.

But some experts aren't so sure robotic cars will ease congestion. Bruce Schaller, an expert in transportation planning, published a report last year that suggested ride-hailing services

in New York City added to congestion on the road, even as the number of taxi trips decreased, as people gravitated away from public transportation. He says that there's a real concern that autonomous vehicles will lead to lower fares and more riders, creating "more trips in already-congested cities."

In Austin, Mr. Adler says he's generally positive about autonomous technology's potential benefits but says he could envision it leading to greater congestion problems. For instance, he imagines a resident who typically takes three children to different events and runs errands in a single vehicle. In a future with driverless cars, the resident might decide to send each child to those activities in separate robot cars while using another vehicle to run the family errands.

## NEW REVENUE STREAMS

Governments, which already tax gasoline and car purchases, may likely turn to taxing autonomous vehicles for using the roads, through perhaps a usage fee.

One idea that has emerged is a so-called zombie-cars tax, which was first proposed in Massachusetts last year, that would aim to tax vehicles on a per-mile fee to avoid people letting their cars drive around empty.

Mr. Snyder, the urban-planning consultant, for example, suggests cities might charge a fee to have curb access in high-traffic areas or give preference to vehicles with multiple people, such as a shuttle.

## DRIVING THE RICH AND POOR APART

While some believe enhanced public transportation will provide benefits for communities that have limited public transit now, others worry the technology might favor the rich.

Lauren Kuby, a City Council member in Tempe, Ariz., which had seen a test fleet of Uber Technologies Inc.'s self-driving vehicles, says she's intrigued by the possible benefits of the vehicles. But she fears that AVs could encourage sprawl, especially if people own their own AVs." In this scenario, Ms. Kuby says, "AVs could siphon off ridership from public transportation, eroding revenue, which then justifies cutting service, hurting those who depend on it but who cannot afford the higher cost of ride-sharing AVs."

Similarly, Richard Florida, an expert in urban planning and a professor at the University of Toronto, expects that autonomous cars will push the poor from middle suburbs out to exurbs, because the ease of using the cars will lure

wealthy people to move to suburbs that haven't seen reinvestment in more than a generation.

"Self-driving cars are likely to make those [middle suburbs] more valuable and turn them from working-class areas to more upscale areas," he says. "You'll get a metropolitan area where more and more of the less-fortunate population is pushed out to the periphery."

There are also concerns that self-driving vehicles will cost people their jobs, such as those who currently drive taxis, Ubers or public buses. But many companies believe that humans won't be displaced entirely soon, noting that there will be a need for people to maintain the fleets and monitor them.

## A MATTER OF SAFETY

Perhaps the biggest unknown for driverless vehicles—and the thing that could most delay their arrival—is safety, a renewed concern after a test vehicle by Uber was involved in a fatal crash earlier this year in Tempe.

Columbus, Ohio, was picked in 2016 by the U.S. Department of Transportation as a test city for advanced transportation technology. The city planned to deploy an autonomous shuttle around an indoor-outdoor shopping complex. But it has reconsidered the route after realizing some of the current technology's limits.

The problem was that the vehicles they were looking at couldn't go fast enough to keep up with traffic, and the city was concerned about the need to make a left-hand turn against traffic, a driving move that has proved difficult for developers to implement safely, says Brandi Braun, the city's deputy innovation officer. The program is now re-evaluating where to deploy such shuttles.

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## JOURNAL REPORT | THE FUTURE OF CITIES

# Cities Hope for Big Benefits From Tiny Houses

They expect these homes will appeal to renters and others on a limited budget

BY LISA WARD

CITIES ARE starting to think small when it comes to housing.

Many cities have previously discouraged homeowners from building small cottages or apartments on their properties with zoning ordinances that made it nearly impossible to have them in areas designed for single-family homes.

But increasingly, municipalities such as Austin, Texas, Boston, Boulder, Colo., Los Angeles, and Portland, Ore., see these small units as a way to appeal to renters and others on limited budgets who otherwise can be shut out of a city's more desirable areas. The hope is the units will rent for less than larger single-family homes and allow more people to live within the city limits.

"Not everyone needs or wants to live in a 2,500-square-foot home," says Anthony Flint, a senior fellow at the Lincoln Institute of Land Policy. "It increases the supply and diversity of a city's housing stock, so there are more choices to suit different housing needs."

## Small spaces

Mini-homes, granny flats and carriage houses—technically referred to as accessory dwellings—are usually only a few hundred square feet. They have their own kitchen and bathroom and function as a separate living quarters from the main unit. Designs vary. Some look like miniature versions of the main house, others are long, open spaces similar to a mobile home, while still others could be attached to or even part of the main dwelling. The hope is that the new units will create additional housing while maintaining the neighborhood's look and feel.

## Secondary Market

Since Austin, Texas, eased rules on secondary dwellings in November 2015, the number of building permits issued for such housing has surged. Permits for the 12 months ended June 20 of each year:

2013	49
2014	117
2015	139
2016	221
2017	279
2018	373

Source: City of Austin

THE WALL STREET JOURNAL.



Portland, Ore., eased rules on secondary dwellings like this one, saving homeowners about 10% on construction costs.

Their size, however, can run afoul of local zoning ordinances. Throughout the U.S., many city neighborhoods are zoned for single-family homes, which can constrain homeowners who may want to add a rental unit to their property. Local ordinances often dictate lot and building size along with density requirements.

Portland in 2010 began exempting accessory units from certain fees associated with new construction, like charges for water, sewage and street access. Homeowners putting units in their backyards now save about 10% of the overall construction cost, or \$8,000 to \$11,000, the city estimates.

"It creates more options for renters," says Morgan Tracy, a project manager for Portland's residential infill project. People willing to live in smaller spaces have more access to desirable city neighborhoods with shops, public transportation, libraries

and other important amenities—neighborhoods that had previously been zoned for single-family residences, Mr. Tracy says.

Similarly, in 2015, Austin eased the requirements for accessory dwellings in certain neighborhoods. It reduced minimum lot size and the space required between buildings, and eliminated requirements for driveways. More accessory-dwelling building permits were issued in 2017 than in 2014, according to the city. But, Ming-ru Chu, an Austin city planner, says, "It's not clear how affordable rents for these new units actually are and if the new units/properties are even rented or if they end up being sold."

In fact, the jury is still out in general on whether such units will do much to ease housing prices where it's most needed. The Oregon Department of Environmental Quality looked at

rental prices for accessory dwellings in the state and found the units tend to rent for slightly more than apartments of similar size in nearby neighborhoods, though about 20% of the dwellings are rented free or below market value.

Jake Wegmann, an assistant professor at the University of Texas at Austin's School of Architecture, says research shows that if older and unregistered secondary dwellings are included in an analysis, prices drop below market rent. He theorizes that prices will continue to fall as more units come on the market and the existing stock begins to age.

A report by several groups including the University of California at Berkeley's Terner Center for Housing Innovation and the University of Texas at Austin surveyed owners of accessory dwellings in Portland, Seattle and Vancouver and found the average unit rented

for about \$1,298 a month (with about 58% of respondents saying they rented the unit for below market rates) and cost on average about \$156,000 to build.

"There is no cost of land. A lot in a central neighborhood can go for hundreds of thousands of dollars," says Mr. Wegmann, a co-author of the Terner Center report.

## Boston's program

Meanwhile, Boston's Housing Innovation Lab recently embarked on a small pilot program studying the feasibility of tiny houses and granny flats. This spring it built a 360-square foot prefabricated house at Boston's City Hall, designed to be quickly and cheaply inserted into backyards and vacant lots.

The home took a five-person team five hours to build and cost about \$50,000, says Marcy Ostberg, director of the

innovation lab. Ms. Ostberg is also intrigued by the idea of homeowners leasing their backyards to existing tiny-house owners.

The idea came from Sharon Day, 59 years old, who built a tiny house for \$65,000. Her house has a rain barrel, water filtration, a composting toilet and runs on solar power. Ms. Day is talking with city officials in Somerville and East Boston about creating a small community of such homes on vacant lots or even on brownfield sites.

In Boston it can cost \$1,200 a month to rent a room where you are still sharing a bathroom and a kitchen, says Ms. Day, who adds that her initial outlay to build a tiny home was much more palatable than buying an apartment.

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# ID HELP FOR THE HOMELESS

Blockchain may solve a problem that vexes the vulnerable

BY TOMIO GERON

A NEW PILOT project is trying to use blockchain—the technology at the heart of bitcoin—to help the homeless get the support they need.

With limited personal security, homeless people often have identification cards and other important papers lost or stolen. That makes it harder for them to get medical services, substance-abuse treatment or the housing that gets them off the streets. And those who help the homeless are often unable to get them replacement papers quickly because of red tape and unwieldy record-keeping systems.

Blockchain, which lets multiple parties share verified and encrypted data, could be an answer. A collection of city agencies and other groups in Austin, Texas, is testing a service called MyPass that stores key documents on the blockchain, where they can't be lost or stolen. The documents can then be accessed by homeless people via cellphone, computer or text message and shared among health-care workers and government agencies.

"The goal is to empower [the homeless] with that information and allow them to have ownership and autonomy of [their data] and use it to garner services," says Sly Majid, chief service officer for the city of Austin.

## A frustrating reality

For the homeless, the loss of ID or other documents can have profound consequences. In one study of homeless who didn't have photo ID, 51% were denied Supplemental Security Income benefits, 53% were denied food stamps, 54% were denied access to shelters or housing, and 45% were denied Medicaid or medical services.

Many states require multiple proofs of identity to get a new identification, such as a Social Security card, birth certificate or utility bills, which homeless people may not have.

When the homeless "lose documents or ID they have to literally start over" and reapply, says Timothy Mercer, director of global health at Dell

Medical School, one of the institutions backing MyPass. "Blockchain solves that problem. It's encrypted securely and can be accessed in the cloud. It doesn't rely on vulnerable paper-based systems."

MyPass, which started in February and now has 20 to 25 homeless people and a few service providers participating, is still being developed and tested. But here's how organizers envision it working.

To get service at a provider such as a health clinic, a homeless person would sign in with a password or another login tool, using a computer or mobile phone at the clinic office.

The person could then show an ID or document on MyPass to prove his or her identity.

Homeless people also could use MyPass to show the clinic a document such as a health test from another provider. Or they could send the document to the clinic in advance—say, from a computer at a library—or allow the clinic to access it.

If the program works as organizers hope, homeless people would be able to access important services more easily and be less likely to fall through cracks in the system.

For service providers, it would mean an easier and faster way to access critical individual data. Currently, many local agencies and health providers use their own computer networks and paper forms.

"Sadly, in this day and age, we still rely on paper-based release of information and faxes of medical records," says Dr. Mercer. "I get patients who are quite astounded by the fact that we still operate in the way we do that they have to sign a form, and records get faxed a week later."

With MyPass, the documents could be entered into a single system accessible by multiple providers, boosting efficiency and cutting costs, says Anjum Khurshid, director

of data integration at the department of population health at Dell Medical School.

For instance, a clinic might request the result of a blood test. The agency that did the test could use MyPass to upload the data to the blockchain, where it would be encrypted, and after the patient approved, the clinic could view or download the information.

## Working out problems

The program, which received funding from Bloomberg Philanthropies' Mayors Challenge and includes a number of city agencies, charities and other institutions in Austin, is trying to address a number of questions.

Among them are how individuals could recover access to their account if, for example, they lost their password, and who would help them manage those issues. There are several ways to solve those problems, like having two other verified users of the system, such as representatives of city agencies, vouch for an individual's identity, says Ashish Gadnis, chief executive of BanQu Inc., which developed the technology used in the pilot program.

Programs similar to MyPass are being used elsewhere for other at-risk communities. Minneapolis-based BanQu provides similar blockchain services for organizations working with Somali refugees in a camp in Kenya. The technology records their identity documents, as well as employment history, among other things.

Other groups are using blockchain as well. The United Nations' World Food Program, for instance, uses the technology to help refugees prove their identity and verify some transactions.

"The ultimate vision is people are able to manage their own data," says Robert Opp, director of the innovation and change-management division at WFP. "This is something we'd really like to see in the future for the most vulnerable people in the world."

**Mr. Geron is a Wall Street Journal reporter in San Francisco. He can be reached at [tomio.geron@wsj.com](mailto:tomio.geron@wsj.com).**

# There Are Park Benches. And Then There Are Smart Park Benches.

BY MIKE CHERNEY

SYDNEY—The bench in your local park may soon know that you're sitting on it.

"Smart" benches are popping up in cities and suburbs around the world. In a Sydney suburb, a town is about to install park benches and tables with sensors that track when and how often residents are using them. Town officials say the data will tell them whether a bench or table isn't being used, or is broken, thus helping them redesign public spaces and speed up repairs.

The nearly \$500,000 trial, funded in part by an Australian government grant, is one of many projects in different countries deploying smart furniture in parks and public spaces. A U.S.-based company, **Changing Environments** Inc., offers a solar-powered bench that comes with phone chargers and sensors that measure nearby activity. A British company, **Strawberry Energy**, has installed similar benches around London.

Future cities will use sensors on everything from parking spaces to water meters to "crunch numbers on big items like utility consumption, traffic, public transport, power use," says Christian Tietz, senior lecturer in industrial de-

sign at the University of New South Wales, and co-leader of the Sydney suburb trial. "We don't want to look at the big stuff. We want to look at microenvironments."

In the past, to measure how many people use a particular area of a park, officials have typically relied on surveys or dispatched observers—methods that are time-consuming and expensive. In contrast, the sensors will use mobile networks to automatically send data to park managers in real time.

The Sydney suburb's local government, the Georges River Council, will test two types of sensors supplied by a private company, Street Furniture Australia. One type of sensor will count foot traffic using Wi-Fi to determine how many devices are in the area; the other will measure vibrations on a bench caused when someone sits on it or moves it.

Both methods have their advantages. Counting devices in an area will miss children or anyone else not carrying a smartphone or tablet. But the vibration sensor, affixed under a bench, will register not just if someone sits on it but also if a heavy bag is set down on it. Researchers plan to gather data for six months.

Other items in the trial include internet-connected trash bins, which will signal when they are full and if there is a fire inside, and a bench and table that will include phone-charging and power outlets.

Sign at the University of New South Wales, and co-leader of the Sydney suburb trial. "We don't want to look at the big stuff. We want to look at microenvironments."

In the past, to measure how many people use a particular area of a park, officials have typically relied on surveys or dispatched observers—methods that are time-consuming and expensive. In contrast, the sensors will use mobile networks to automatically send data to park managers in real time.

The Sydney suburb's local government, the Georges River Council, will test two types of sensors supplied by a private company, Street Furniture Australia. One type of sensor will count foot traffic using Wi-Fi to determine how many devices are in the area; the other will measure vibrations on a bench caused when someone sits on it or moves it.

Both methods have their advantages. Counting devices in an area will miss children or anyone else not carrying a smartphone or tablet. But the vibration sensor, affixed under a bench, will register not just if someone sits on it but also if a heavy bag is set down on it. Researchers plan to gather data for six months.

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trash bins, which will signal when they are full and if there is a fire inside, and a bench and table that will include phone-charging and power outlets.

# Paths to Success for Walkable Communities

For new towns, old suburbs and central cities, the same lessons apply



Carlton Landing in Oklahoma aims to follow the model of pedestrian-friendly streets and dense, mixed-use development.

BY NEAL TEMPLIN

**THE WALKABLE** movement has picked up its pace.

Since construction began on Seaside, Fla., and other communities in the 1980s, developers have built hundreds of towns where residents can live, play and sometimes work without pulling their cars out of the garage. Many destinations that matter to residents—stores, parks, schools, restaurants and churches—are within a five-minute walk.

Many new developments are stand-alone, like the first wave of walkable projects. But planners have also been using the same principles in recent years to help reinvigorate an estimated 750 aging suburbs or dying shopping centers, according to Ellen Dunham-Jones, co-author of the book "Retrofitting Suburbia."

Pulling off these communities is far trickier than a stand-alone development. For instance, municipalities often have to rewrite their building codes to permit the blend of uses essential for walkable communities.

In the meantime, architects, developers and city planners have learned a lot about what works and doesn't work when it comes to creating walkable communities—whether stand-alone or not. Here's some of what they have learned.

## Keep Pedestrians Safe

This may sound obvious. But consider that in most con-

ventional subdivisions, traffic engineers aim to create road systems that quickly move cars out of the neighborhood.

By contrast, town planner Susan Henderson, of Albuquerque, N.M., wants to slow down traffic speeds so that streets become safer and more walkable.

"I want it safe for the kids to play in the street," says Ms. Henderson, who has planned communities including The Waters, located near Montgomery, Ala.

Ms. Henderson designs streets as "skinny" as possible so that drivers aren't comfortable going over 15 miles an hour, and pedestrians are more at ease walking near traffic. She doesn't use speed bumps, saying that they aren't necessary in such properly designed streets.

Ideally, Ms. Henderson says, streets in walkable communities are kept to a mere 32 feet across—compared with 38 to 40 feet for a typical suburban road. Main streets with retail shops are tougher to gauge simply by width. These streets can be as wide as comparable suburban thoroughfares, but they are redesigned to make them more pedestrian-friendly, such as putting parking lanes on the sides or maybe grassy medians down the middle.

Another common tactic to make walkers feel more comfortable around traffic: trees that separate the sidewalk from the street.

Block length must also be finely calibrated to encourage walking. If blocks are longer

than 300 feet—about the length of a Manhattan block—Ms. Henderson says, pedestrians have trouble taking an efficient, direct route to destinations.

## Make Walking Interesting

Every building in a walkable community should have "a gift to the street"—that is, something that captures a walker's attention, says Miami-based urban planner Steve Mouzon.

For houses, the gift can be as simple as a flower garden or a bench in the front for walkers. For commercial buildings, it might be an interesting window display.

The village of Providence in Huntsville, Ala., where Mr. Mouzon is the town architect, encourages builders to use gates that are set back 3 or 4 feet from fences around homes to give a more welcoming feel, and create variety in the architecture.

Another town where Mr. Mouzon is the architect—Beachtown, near Galveston, Texas—takes a different approach. The homes are built on stilts because hurricanes scour the area, so when homes have fences the town encourages builders to construct arbors over the gates.

The goal is to fill space between the houses—which are as high as 16 or 17 feet in the air—so that the buildings fit together pleasingly, and thus encourage walking. (The fences themselves are gentle on the eyes; they can be only

40 inches high and most are picket or rail design.)

In addition, there were fears that the home height would cut the connection between occupants and those passing by. So, the developer required all homes to have front porches that were set back the right distance so that people on the street could talk to people above without straining their neck, says Beachtown founder Tofiq Shirazi.

Resident Sally Greer says that she and her husband were sitting on the porch the other day when a neighbor walked by. "He heard our voices and came over, and we chatted for a while," she says.

## Give People Places to Go

Every block in Seaside is designed to give the walker a destination within sight. Many of the streets end in pavilions leading to the beach, and the

town nestles around a central square with bustling restaurants, a grocery store and other commercial uses.

Of course, such commercial destinations can't spring up from the outset. Rather, the gestation period can be decades, as villages build up a critical mass of residents to support retailers.

Carlton Landing in Oklahoma plans to have 3,000 homes but will take 30 years to complete. For now, it has 180 completed homes—enough to support a small pizza restaurant, two food trucks, plus 10 pop-up shops that open on weekends.

"We see retailing as something you have to incubate," says town founder Grant Humphreys. Architect Andrés Martín Duany, who designed both Seaside and Carlton Landing, says that it takes around 25 years before walkable communities are "hitting on all cylinders."

## Pack a Lot In

Higher population density is key for making neighborhoods vibrant, says urban planner Jeff Speck, author of the book "Walkable City." The real payoff comes when neighborhoods have at least 10 housing units per acre, Mr. Speck says.

That's the level needed to sustain street retail, which means residents can walk rather than drive to shop or dine. Residents in such neighborhoods cut their driving roughly in half from typical suburbia, he says.

Mr. Speck is now working on Water Street Tampa, a \$3 billion, 53-acre walkable development near the hockey arena in downtown Tampa, Fla. The developer plans to build 3,500 additional apartments and condominiums, 2 million square feet of new office space, plus restaurants and hotels. The project also has wide sidewalks and shade

trees intended to encourage walkers.

"Our hope is you accomplish everything you want to do in a day without getting in a car," says James Nozar, chief executive officer of Strategic Property Partners, the developer.

## Want Scale? Add Transit

Cities and urban planners are turning their focus from walkable neighborhoods to walkable cities. But they're learning that for the idea to work, they must build in links to mass transit—or else people will eventually need cars to get around.

Southern California adopted a plan in 2016 that includes \$550 billion in mass-transit spending through 2040 while subsidizing high-density developments. The hope is to create communities that use walking and biking for short commutes and mass transit for longer ones, says Hasan Ikhrata, executive director of the Southern California Association of Governments.

Two-thirds of car trips there are less than 3 miles, Mr. Ikhrata says.

"That tells me if you have good facilities to walk and bike, a lot of those trips will be done with walking and biking," he says.

Farther north, urban planner Peter Calthorpe has proposed a similar approach for the 45-mile stretch of El Camino Real highway between Daly City and San Jose.

He says the historic highway is currently an unsightly parade of strip malls. Mr. Calthorpe believes that it can be transformed into walkable communities with retail at ground level and apartments above. Residents would commute to jobs on light rail or a high-speed bus lane.

**Mr. Templin** is a writer in New Jersey. Email him at [reports@wsj.com](mailto:reports@wsj.com).

# Going Up? So Might Your Risk

BY HEIDI MITCHELL

PEOPLE APPARENTLY take the idea of the heights of power literally.

So says a group of researchers who found that being on the higher floors of a building tends to make people feel more powerful—which may lead them to take bigger financial risks.

"We know that people who are taller take more risks, and we have a sense that people who are risk takers gravitate toward high-elevation activities like skydiving, but I wanted to understand if the reverse is true in a controlled environment," says Sina Esteky, an assistant professor of marketing at the Farmer School of Business at Miami University in Ohio, and the lead researcher for the recent paper published in the Journal of Consumer Psychology.

In one of five studies that make up the paper, Dr. Esteky looked at investment and returns data from 3,147 hedge funds, as well as elevation from street level of their offices. He found that the higher the office location, the more risk the funds would take, as measured by their volatility across a one-year period. Still, he says, there was quite a bit of "noise" in the data. For example, Dr. Esteky says he didn't totally control for factors such as the relative experience of fund managers.

In the second study, a research assistant entered a

glass elevator in a 73-story building with a stranger going all the way up or all the way down, and offered each person a choice: invest in a safer lottery with a 50-50 chance of winning \$50 or \$100, or in a riskier lottery with a 50-50

chance of winning either \$20 or \$130. "We found that people who were going up were twice as likely to choose the riskier lottery," Dr. Esteky says.

A similar study Dr. Esteky conducted at a business school compared people on the ground floor versus the mezzanine level of the building and found that being even two floors off the ground led people to take more risks.

In a follow-up study, Dr. Esteky asked 260 participants in 22 states to take a picture of their views to confirm their elevation and sightlines. He then offered each of them \$70 and asked if they wanted to keep it or bet it on an investment in which the chance of total loss was 66%. Those who had elevated views were more likely to choose the risky investment, while those in windowless spaces—regardless of which floor they were on—were more reluctant to do so. The results suggest "the elevation-risk affect only works

when people have a view, and it is elevated," says Dr. Esteky.

Dr. Esteky sees a few practical applications for his research, which builds on previous studies demonstrating that people associate elevation with power and that a sense of power increases risk taking.

Marketers promoting ventures with perceived risk, like casinos, could use technology such as geo-tagging or location-based apps to target prospective consumers while they are at high elevations, he says. Urban planners, too, should consider elevation when determining where to put high-stakes decision makers such as judges, surgeons and financial planners, he says. "Architects should make sure that important decisions that affect people's money, lives or futures are made in as unbiased spaces as possible," he says. That may mean thinking twice about the top-floor executive suite with expansive views.

The United Nations says that by 2030, 60% of the world's population will live in cities—many working in skyscrapers.

"If you have that many people working on the 70th floor, that is going to impact society long term," Dr. Esteky says, adding that the effect would be subtle and nuanced but ubiquitous nonetheless. "Urban planners need to be mindful of the design of these cities," he says.

**An elevated view may lead to greater financial risk-taking.**

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**An elevated view may lead to greater financial risk-taking.**

**Ms. Mitchell** is a writer in Chicago. She can be reached at [reports@wsj.com](mailto:reports@wsj.com).

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## JOURNAL REPORT | THE FUTURE OF CITIES

# To Reduce Traffic Deaths, Look to Sweden

One concept that works: focus on lowering the number of fatalities rather than crashes

BY JOHN D. STOLL

TRAFFIC FATALITIES remain stubbornly high in the U.S., fueled by distracted and drunken driving, more miles being driven and a spike in pedestrian deaths.

How can the U.S. get those numbers down? The answers may be found in Sweden.

In that country's two biggest cities—Stockholm and Gothenburg—fatalities have remained essentially flat over the past five years even as road use has steadily risen. The rate of people severely injured or killed in traffic accidents nationwide has tumbled by about two-thirds since officials there started rethinking the problem two decades ago.

## Intractable errors

Anders Lie, a traffic specialist at the Swedish Transport Administration, says his country has managed to make its roads safer through its unconventional approach to traffic oversight: focusing less on reducing crashes and more on reducing fatalities.

"People will make errors and mistakes all the time," Mr. Lie says. Thus, he says, traffic laws and infrastructure need to be designed with those errors in mind.

In the U.S., people often walk or bike alongside cars legally traveling 45 miles an hour, Mr. Lie says. A better speed limit in such zones would be 25 mph, he says, citing research published by the Swed-



Sweden uses simple ways like roundabouts and guardrails to reduce deaths and serious injuries.

ish Transport Administration in conjunction with the European New Car Assessment Program, an association of governments and consumer and motoring groups that tests vehicles and sets crash standards.

The risk of a pedestrian being killed by a vehicle traveling 18 to 25 mph is "very very small," he says, citing the same research. Speeds in that range are acceptable for residential areas, he says. But city traffic, he says, should be capped at 30 mph, and free-way traffic at 50 mph.

Various states or cities in the U.S. have plans to upgrade roads or enact laws to address road-safety problems. The National Highway Traffic Safety

Administration informed Congress last month it has initiated a study on car crashes.

The Swedish government, meanwhile, has set a long-term goal of zero fatalities and a target of 220 fatalities by 2020, or a 13% reduction from 2017's 253 fatalities. That would mean less than one death a day, down from more than two a day in 1990.

## Grounded in science

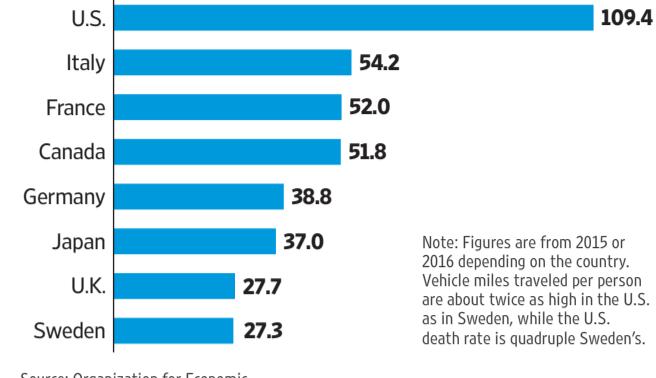
Many strategies being deployed in Sweden are simple but grounded in science: lower speed limits, tougher drunken-driving laws, a more-rigorous approach to driver's education. Redesigning roads can be more effective than attempt-

ing to change driver behavior, officials have found. Sweden has invested heavily in installing guardrails, which reduce the potential for head-on collisions, and roundabouts, which eliminate accidents typical of crossroad-type intersections. Mr. Lie says that on wide roads where median guardrails have been added, and where previously nothing divided the opposing lanes, fatalities have plunged 80%.

Sweden also puts pressure on manufacturers to act in the social good by making cars with top-notch safety systems. These include such features as automatic braking, which senses an object ahead and brakes even if the driver

## Road Toll

Road-accident deaths per million inhabitants for selected nations



Source: Organization for Economic Cooperation and Development

Note: Figures are from 2015 or 2016 depending on the country. Vehicle miles traveled per person are about twice as high in the U.S. as in Sweden, while the U.S. death rate is quadruple Sweden's.

THE WALL STREET JOURNAL.

doesn't, and lane-keeping assist, which reads the lines on the road and prevents the car from weaving over them by controlling steering. These capabilities don't always prevent mistakes, but they go a long way in mitigating their impact.

## Distracted driving

One of the biggest causes of mistakes, in Sweden and elsewhere, is also one of the most difficult to fix. Sweden only recently banned the use of handheld mobile phones in cars, requiring drivers to talk on a hands-free connection. This is seen as a Band-Aid for distracted driving, though. Mr. Lie doesn't expect a significant impact on fatalities. Similarly, regulatory efforts and technological advances around the world appear to have accomplished little to reduce accidents due to distracted driving.

Additional safety questions will no doubt arise with the increasing number of driverless cars predicted for the future, though many hope that autonomous cars will be safer and less mistake-prone than human-driven cars.

For now, Mr. Lie says, officials need to consider the costs of making human-dominated roads as safe as possible. "You have to calculate whether we are prepared to sacrifice so much that we would have to invest to eliminate crashes today," he says.

"If you want to go to zero accidents," Mr. Lie says, "your sacrifices would have to be very, very big."

**Mr. Stoll is a Wall Street Journal reporter in Detroit and writes the Full Disclosure column. Email him at [john.stoll@wsj.com](mailto:john.stoll@wsj.com).**

# Public Art Isn't Always Meant to Stay Very Long

Cities can save money—and limit controversy—by commissioning works to be on display for a short time

BY DANIEL GRANT

IN LATE FEBRUARY, the canal waterfront of Scottsdale, Ariz., was brightened by "Desert Sun," an illuminated sculptural piece, and a colorful set of giant tops with seating for those who wanted to spin. By the end of April, both artworks had been taken away.

When it comes to public displays of art, many cities are deciding that shorter is better. Some cities are finding that temporary contracts—renting an artist's work instead of buying it—make it possible to cut costs, compared with the expense of purchasing and maintaining, say, a statue for permanent display. Short-term agreements can also help avoid controversy that modern art sometimes inspires. Experts say there tends to be less opposition when community members know an unconventional work will be up for only a short time.

From a purely aesthetic viewpoint, installing and replacing public art on a regular, short-term basis can also keep a city looking new.

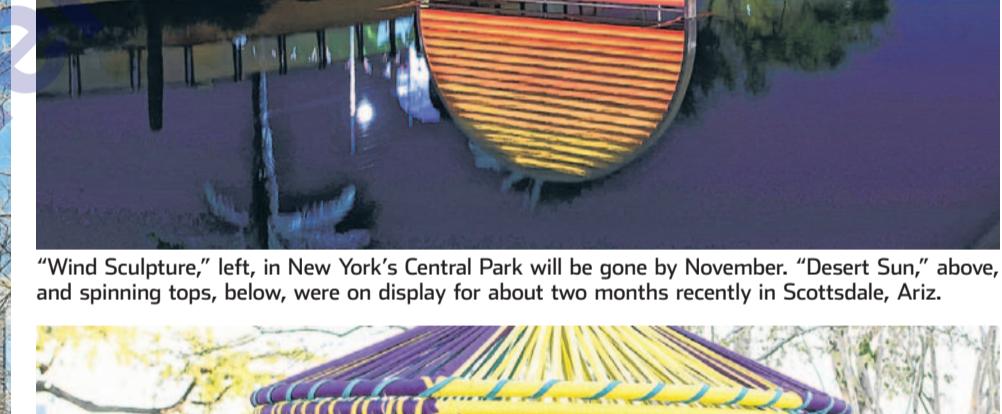
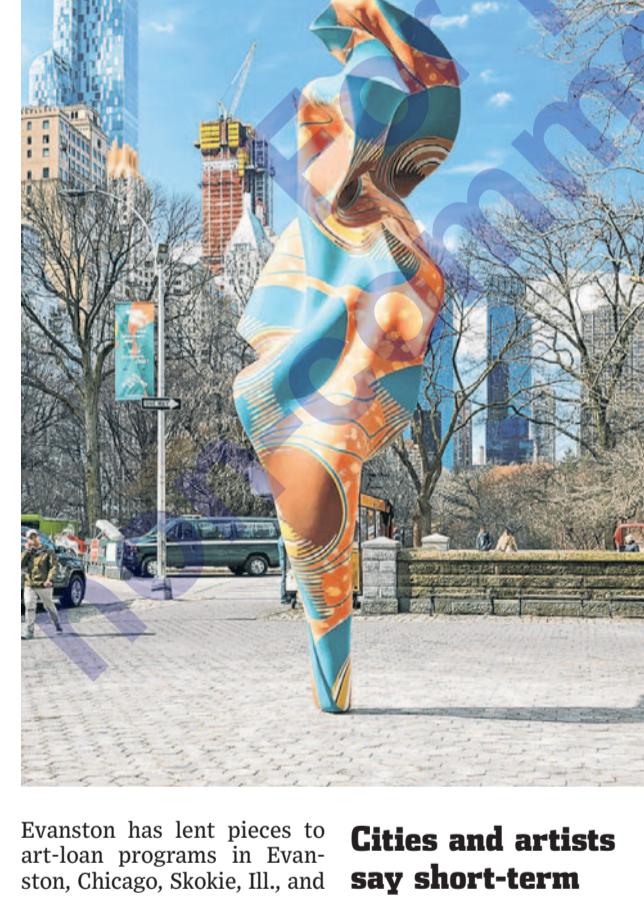
"We don't want everything up for 25 years," says Kim Curry-Evans, director of the nonprofit Scottsdale Public Art, which put up "Desert Sun" and the spinning tops as part of its temporary-art program. Another work, Lee Yun Qin's installation "Moonflower," which consists of flower sculptures that glow as the evening sets in, was up for just four days in 2017.

## Both parties benefit

The amount of money cities pay artists varies widely. But whatever the amount, cities and artists say they both benefit from the short-term programs. The city of Evanston, Ill., for instance, has a program in which artists lend large-scale pieces for display on city-owned sites for two years.

The artists are paid \$2,000 a year, and sometimes the city helps pay to transport artwork from their studios to the outdoor sites. That "economically makes sense," says Jennifer Lacik, cultural-affairs coordinator in the city manager's office. "We get a really good deal getting these beautiful pieces for 24 months," and the artists get what amounts to a two-year exhibition.

Sculptor Janet Austin of



"Wind Sculpture," left, in New York's Central Park will be gone by November. "Desert Sun," above, and spinning tops, below, were on display for about two months recently in Scottsdale, Ariz.



## Cities and artists say short-term programs benefit them both.

the artists also are responsible for repairs.

"We've had a few, limited instances of damage, mostly graffiti that was easy for the artists to remove," says Debra Garcia y Griego, director of the city's Arts Commission. "There was one instance of vandalism where someone really went at a metal sculpture, but the artist repaired it and put it back on display."

Replacing art faster can also be a shot in the arm for businesses in the area. Indeed, each new unveiling becomes an event that can draw people to a city's downtown or a little-used public space. Often, these are interactive, engaging pieces of art that get people talking or lend themselves to being shared on social media.

"You want to create a sense of urgency, which wouldn't really be practical with a work of permanent public art," says Kate Levin, director of the

Bloomberg Philanthropies Public Art Challenge, which supports temporary art projects that address civic issues. Most of the projects receiving Bloomberg grants last between one month and two years.

"Two years is the right length of attention span for a complicated project," Ms. Levin says. Bloomberg has helped fund artworks on such issues as police-community relations in Spartanburg, S.C., and property abandonment in Albany, Schenectady and Troy, N.Y., where artists illuminated windows from the insides of vacant buildings, which were not open to the public, to spark discussion about renovations.

## Taking more risks

Help from other private foundations is available as well. The Oakland-based Kenneth Rainin Foundation supports temporary public art in San Francisco and Oakland.

"Temporary art projects are able to be more 'experimental,' because they don't last very long," says the foundation's director of art strategy and ventures, Shelley Trott. "Permanent public art projects tend to be more conservative."

Others agree that temporary works draw less controversy. "People aren't thinking that they are going to have to put up with something they don't like forever," says Lillian Hsu, director of public art for the Cambridge, Mass., Arts Council, which sponsors both long-term and temporary art installations. ("We don't say 'permanent,' because nothing lasts forever," she says.)

Similarly, temporary art typically comes without the often lengthy approval process that long-term installations require. With a permanent work, "the approval process is drawn out, as you have to solicit opinions from one group

after another and make changes based on those opinions," says Nicholas Baume, director and chief curator for the nonprofit New York-based Public Art Fund. "What you end up with is art by committee, which is dangerous for art."

Keeping the time frame short allows the New York fund to "work with more artists and more emerging artists," Mr. Baume says. "We can take more risks."

The fund uses a variety of sites around the city's five boroughs. In March, it installed a colorful, 23-foot-tall sculpture at the southeast corner of Central Park, called "Wind Sculpture." The piece resembles blowing fabric, and will be gone by the end of October.

**Mr. Grant is a writer in Amherst, Mass. Email him at [reports@wsj.com](mailto:reports@wsj.com).**

## JOURNAL REPORT | THE FUTURE OF CITIES

# Pizza Delivery Gears Up for a Driverless Era

Pizza companies are testing autonomous vehicles. But some kinks remain to be worked out.

BY TIM HIGGINS

THE YEAR 2018 may be remembered as the time when the big pizza companies of America picked sides in the great robot-car race.

On one side, **Domino's Pizza** Inc. doubled down on a partnership with **Ford Motor Co.** earlier this year, saying it would be part of the auto maker's test run for how driverless delivery vehicles would operate in Miami. The two conducted a short test of pizza deliveries in Ann Arbor, Mich., last year.

The Domino's announcement came on the heels of **Yum Brands** Inc.'s Pizza Hut joining sides with **Toyota Motor Corp.** in a similar robot-car pact.

The partnerships were touted by car companies looking for any edge in the development of driverless vehicles that could transform the way people get around and take deliveries in cities around the world. For the pizza companies, they're a way to keep up with technology that could make deliveries cheaper and more efficient, potential benefits that have caught the attention of companies in a range of businesses.

Most visions of driverless cars have highlighted robot taxis. But many experts are starting to see around-town deliveries as an especially promising arena for driverless cars, and it may even develop sooner than robot taxis.

#### Fewer design worries

In some ways, deploying a driverless vehicle for packages may be easier than a robot taxi, because designers can optimize the vehicle for safety

without worrying about things like hard braking making passengers uncomfortable. They also don't have to worry about the messy human interactions of a taxi service, such as passengers getting sick in the back seat.

In addition, the type of deliveries that are likely to be most common in the early days of driverless-vehicle service—along constant routes



during off-peak hours and at slow speeds—reduce the complexity and risk of the autonomous driving, says Rasheq Zafar, a consultant and former head of business innovation at Mercedes-Benz Research & Development North America, in Silicon Valley.

"The problem that we are solving has more flexibility" than the challenge of ferrying people around, says Dave Ferguson, co-founder of **Nuro Inc.**, which aims to develop an electric delivery vehicle that has no room for human occupants and instead has special compartments for groceries and other items.

Nuro has plenty of competition. Toyota and **Volkswagen AG** have both shown early models of electric autonomous vehi-



FORD (2)

Many customers in the Domino's-Ford driverless trial in Ann Arbor wanted to talk to the vehicle.

cles that look more like boxes on wheels than cars. Executives foresee them being used for deliveries. **Daimler AG**'s Mercedes-Benz brand has shown a concept cargo van that uses robotics to organize the cargo while the van is in route to make the handoff to the delivery man easier.

Artie Starrs, president of Pizza Hut U.S., envisions a driverless vehicle that would allow a person to make pizzas on the way to the customer. Pizza Hut aims to test an autonomous vehicle in the U.S. in 2020 with Toyota, he says.

"We're dedicating real resources to this," Mr. Starrs says. "What we're trying to do at Pizza Hut is get the ovens closer to the front door."

It isn't just pizza companies,

of course, interested in the technology. **FedEx** and **United Parcel Service** are following developments closely, and **Amazon.com** has a team exploring the technology as well.

Juan Perez, UPS's chief information and engineering officer, told investors last year he imagines the company may one day deploy a fleet of autonomous vehicles each morning that can adjust routes based on weather, traffic conditions and pickup requests. A person would ride along to deliver packages to the door.

#### What customers think

Ford and Domino's early work has been aimed at trying to understand how customers might interact with a robot car, especially if the vehicle is delivering something without a human on board to get the delivery to the recipient's doorstep.

Last year, the companies conducted a monthlong trial in Ann Arbor, and the big ques-

tions revolved around whether customers would be put off by the idea of having to walk outside and collect a pizza from the back of a car.

Customers who ordered pizza using the chain's online app were asked if they wanted to be part of the test. About 100 trips were conducted. For this test, all cars had a driver on board, but the driver was instructed not to take part in delivering the pizzas or interact with customers. The customers were surveyed afterward about the experience.

They liked it, the companies said. They liked not having to talk with a human or feeling required to tip, according to Ford.

But the test also showed some logistical issues, such as the cars having trouble finding a place to park or navigating to the correct entrance of an apartment complex.

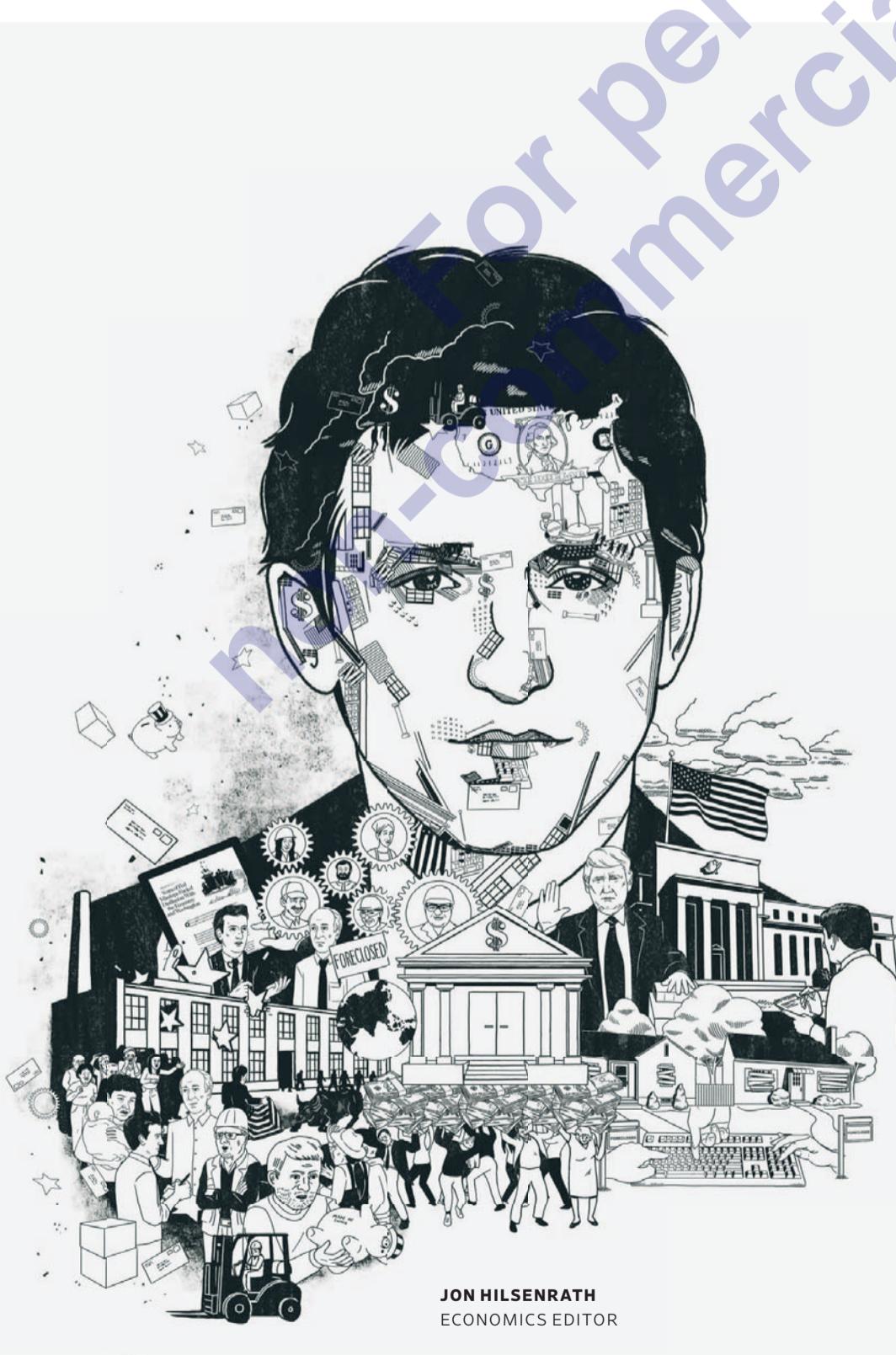
And while customers liked the lack of human contact, many still wanted some kind

of interaction. "A lot of people wanted to talk to the vehicle," says Kevin Vasconi, Domino's chief information officer.

Another surprise that highlighted a kink to be worked out: Parents would order a pizza for their children before leaving for a night out on the town. Unfortunately, the robot car was programmed to contact the phone that ordered the pizza to alert the customer that dinner had arrived, a hitch that could result in some failed deliveries.

Domino's commitment to a new round of testing with Ford in Miami is a sign of the pizza maker's dedication to exploring the technology. "Domino's believes in a future that will have autonomous delivery vehicles in it, and we want to be a leader in that area," Mr. Vasconi says.

**Mr. Higgins** is a Wall Street Journal reporter in San Francisco. He can be reached at [tim.higgins@wsj.com](mailto:tim.higgins@wsj.com).



JON HILSENARTH  
ECONOMICS EDITOR

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## JOURNAL REPORT | THE FUTURE OF CITIES

# AI Helps Cities Predict Natural Disasters

New tools aim to forecast storm and earthquake damage, improving emergency response

BY AILI MCCONNON

**IN APRIL 2018,** a major storm hit Ontario, bringing torrential rain, an inch of ice and wind gusts up to 60 miles an hour. More than half a million people lost power.

Within four days, **Hydro One**—Ontario's largest distribution utility—restored power to its customers' homes and businesses. By contrast, after a major storm in 2016, it took six days to restore power.

Give artificial intelligence some of the credit. Hydro One used an electrical-outage prediction tool developed by **International Business Machines** Corp. that combines AI technology and the resources of IBM's Weather Co. subsidiary. The tool helped predict the severity of the storm and the locations that would be hardest hit, so Hydro One knew where to position 1,400 front-line staff who were needed to restore power and to handle the nearly 130,000 customer calls that came in during the outage.

#### Improving accuracy

IBM's outage-prediction tool is also being used, with 70% accuracy, by other cities throughout North America to predict power outages as far in advance as 72 hours before storms are expected. The outage-prediction tool gets more accurate in the final hours before a storm as it incorporates real-time updates.

"During severe weather events, every hour of advance notice counts and helps minimize the impacts," says Mary Glackin, head of weather business solutions at IBM.

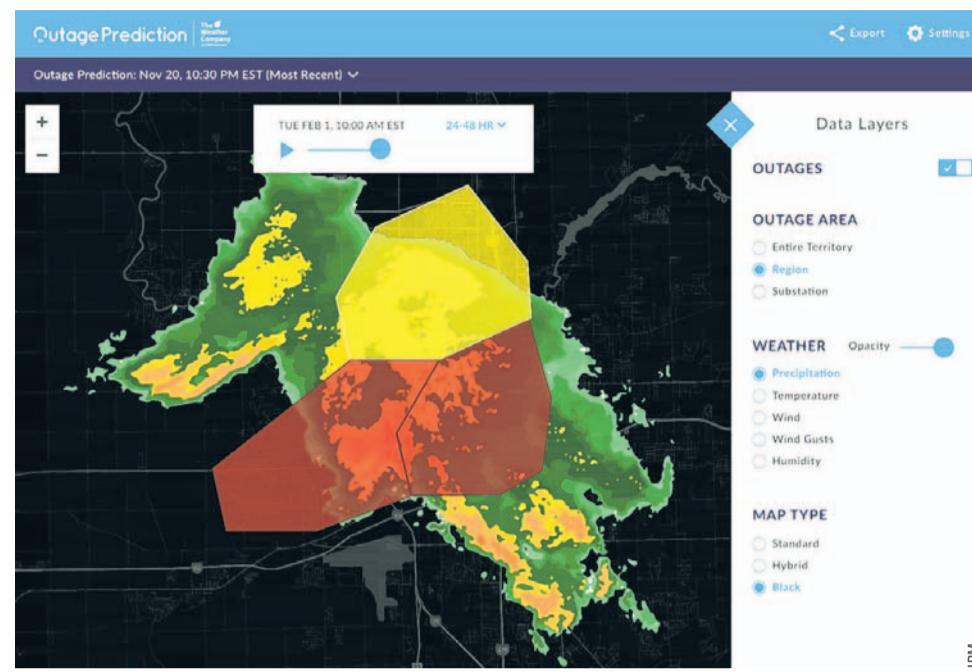
Many companies and universities are developing AI tools to help cities better predict and prepare for weather events and natural disasters. In the U.S., weather and cli-

mate events caused \$1.5 trillion in damage from 1980 to 2017, according to the National Oceanic and Atmospheric Administration. When cities can predict more accurately the severity of weather, natural disasters and which areas will be affected most, they can better allocate resources to prepare for relief efforts such as restoring power or evacuating residents at risk.

Weather forecasting has improved dramatically since the early 2000s, thanks to the dramatic increase in cheap sensors that track weather data and the increased capacity of computers to process the plethora of data from sensors, radar, satellite and other sources. New AI systems can comb through years of historical data from storms, hurricanes and earthquakes to detect patterns and better predict new events and their impact.

Forecasting becomes even more accurate—and more useful to teams that respond as natural disasters unfold—when it can incorporate real-time information. A startup in Palo Alto, Calif., One Concern, has developed an AI tool used by some emergency-response centers and other government agencies in California to plan for the impact of earthquakes on a block-by-block basis. Emergency-response centers in Los Angeles, San Francisco and Woodside all confirmed they use the tool.

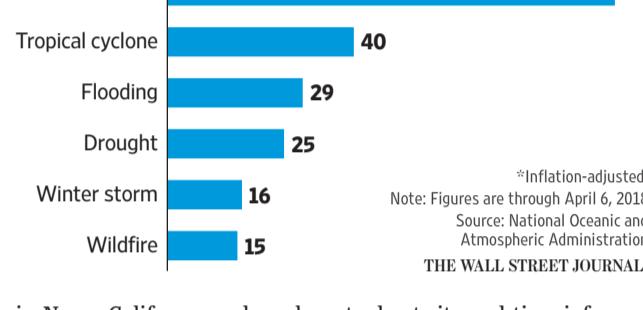
The company's founder, Ahmad Wani, says he started to think about developing such a tool after a severe flood left him stranded on the roof of his home in Kashmir for a week. The rescue effort was so slow and poorly organized, "I realized there was a lack of science in disaster response," Mr. Wani says. Similarly, Mr. Wani saw a basic flaw in relying on 911 calls after an earthquake struck



An IBM simulation shows an overlay of predicted power-outage levels, in yellow and red, on a storm radar. Outage predictions begin up to 72 hours before a storm hits, helping utilities plan.

#### When Trouble Is Brewing

The number of billion-dollar\* weather and climate disasters in the U.S., 1980 to 2018



\*Inflation-adjusted.  
Source: National Oceanic and Atmospheric Administration

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in Napa, Calif., near where he now lives. Many of the people in the worst-hit areas had lost cell coverage and weren't able to call 911, he says.

These experiences, Mr. Wani says, led him to work on a tool for getting help quickly to where it is needed most urgently.

#### First 15 minutes

Now, within the first 15 minutes of an earthquake, the One Concern platform makes calculations that try to predict how bad the damage is in specific blocks of a city. The AI

tool gets its real-time information on the strength of the earthquake and its location from sensors and damage reports. The system also is trained on data from hundreds of past earthquakes throughout the U.S., and each new quake gives it more data to help it become even more accurate in its predictions.

One Concern's platform is meant as a tool for emergency responders who ultimately decide how to best respond in light of limited resources and competing priorities, says Mr. Wani. The tool is hosted in the

cloud so disaster-response teams can access it with any device, whether a desktop projecting it onto a large screen during a training session, or on smartphones if crews are out in the field during a natural disaster.

#### 'Vulnerable people'

"We make it easier to understand where vulnerable people are likely to have been adversely affected, so rescuers can know who is likely to need saving and what unique conditions they might face," Mr. Wani says.

Michael Dayton, a deputy director in San Francisco's Department of Emergency Management, says his department has used the tool for two years now and says it has improved their "ability to respond quickly and understand where precious resources are needed most."

This summer, One Concern plans to roll out a flood-damage prediction tool that attempts to show how much water will accumulate and where it will flow up to five days in advance of potential storms.

Researchers at universities

throughout the world, meanwhile, are developing other AI systems that can better predict dangerous weather, including tornadoes, hail, lightning and severe wind. Such projects leverage the increased number of sensors available, including those on airplanes that provide turbulence data, which can provide helpful hyperlocal information.

There are experiments using social media and crowd-sourced data to supplement data from sensors as well. In a 2018 paper published in the journal Computers and Geosciences, a team at the University of Dundee in Scotland reported developing a flooding monitoring tool using information from Twitter and the crowdsourced app MyCoast, which asks people to submit flood photos.

Using hundreds of photos from regular citizens, the AI system could potentially determine flooding in a given area much more quickly than relying on human staff to monitor all at-risk areas at once. The researchers say their AI system was 70% accurate in recognizing flooding.

Some roadblocks still exist before wide-scale adoption of AI tools to predict and prepare for weather events and natural disasters will occur, says Seth Cutler, an environment and water program manager at research firm Frost & Sullivan. For one, greater standardization is needed between technologies and platforms so that sensors and systems can communicate effectively with one another, says Mr. Cutler.

"It can also be hard to get utilities and cities to invest millions in extreme weather prediction and prevention systems when it's not clear yet what return these systems will have," Mr. Cutler says.

"What jurisdiction pays, and to whose benefit? Is this a public good of a city, state, country?" he adds.

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