

# THE WALL STREET JOURNAL.

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## What's News

### Business & Finance

**A**mazon is pushing further onto the turf of its shipping partners UPS and FedEx, enabling small businesses to carry its packages in the last delivery leg to the consumer's door. **A1**

◆ **Facebook's probe** into potential misuse of user data is being hindered by difficulties in tracking where much of the data went. **B1**

◆ **Google is setting** new internal rules to limit the use of offensive language and personal attacks by employees against co-workers. **B1**

◆ **Oil prices reached** their highest level in over three years as supply threats loomed large. U.S. crude futures rose 3.2% to \$72.76 a barrel. **B1**

◆ **U.S. stocks declined** as trade tensions offset gains in energy shares. The Dow fell 165.52 points to 24117.59. **B1**

◆ **China's central bank** is letting the yuan weaken against the dollar while trying to prevent a destabilizing drop. **B1**

◆ **Ride-hailing firm Lyft** has raised new capital that doubles its valuation from last year to \$15.1 billion. **B1**

◆ **Comcast is exploring** tie-ups that could provide additional cash as it pursues an acquisition of Fox assets. **B1**

◆ **The Justice Department** conditionally approved Disney's proposed \$71.3 billion deal for key pieces of Fox. **B2**

◆ **The Bank of England** sounded an alarm on global debt markets, saying it sees pockets of risk. **B10**

◆ **Conagra plans to buy** Pinnacle Foods for about \$8.2 billion, a bet on the resurgence of the freezer aisle. **B3**

### World-Wide

◆ **Justice Kennedy announced** his retirement from the Supreme Court, setting the stage for a battle over the nation's constitutional direction, handing Trump the chance to cement the court's conservative course for years to come and stoking raw passions in both political parties ahead of midterm elections. **A1, A4B, A5**

◆ **The high court**, voting 5-4, barred public-employee contracts that require workers to pay union dues, dealing a blow to organized labor. **A1**

◆ **Trump backed away** from plans to create tough new restrictions on Chinese investments in the U.S. and U.S. tech exports to China. **A3**

◆ **North Korea is upgrading** its nuclear research center at a rapid rate, satellite image analysis suggests, despite its commitment to denuclearize. **A6**

◆ **Mattis met** with China's Xi to try to find common ground on security issues, but appeared to agree to disagree over the South China Sea. **A6**

◆ **Trump said** he will "most likely" meet with Russian leader Putin in a summit next month in Europe. **A7**

◆ **The House rejected** an immigration bill intended as a compromise between different wings of the GOP, defeating it in a 301-121 vote. **A4**

◆ **Former Fox News executive** Bill Shine is expected to take a senior communications role in the White House. **A3**

◆ **Poland softened** liberal measures that threaten prison for those who say the nation was complicit in the Holocaust. **A18**

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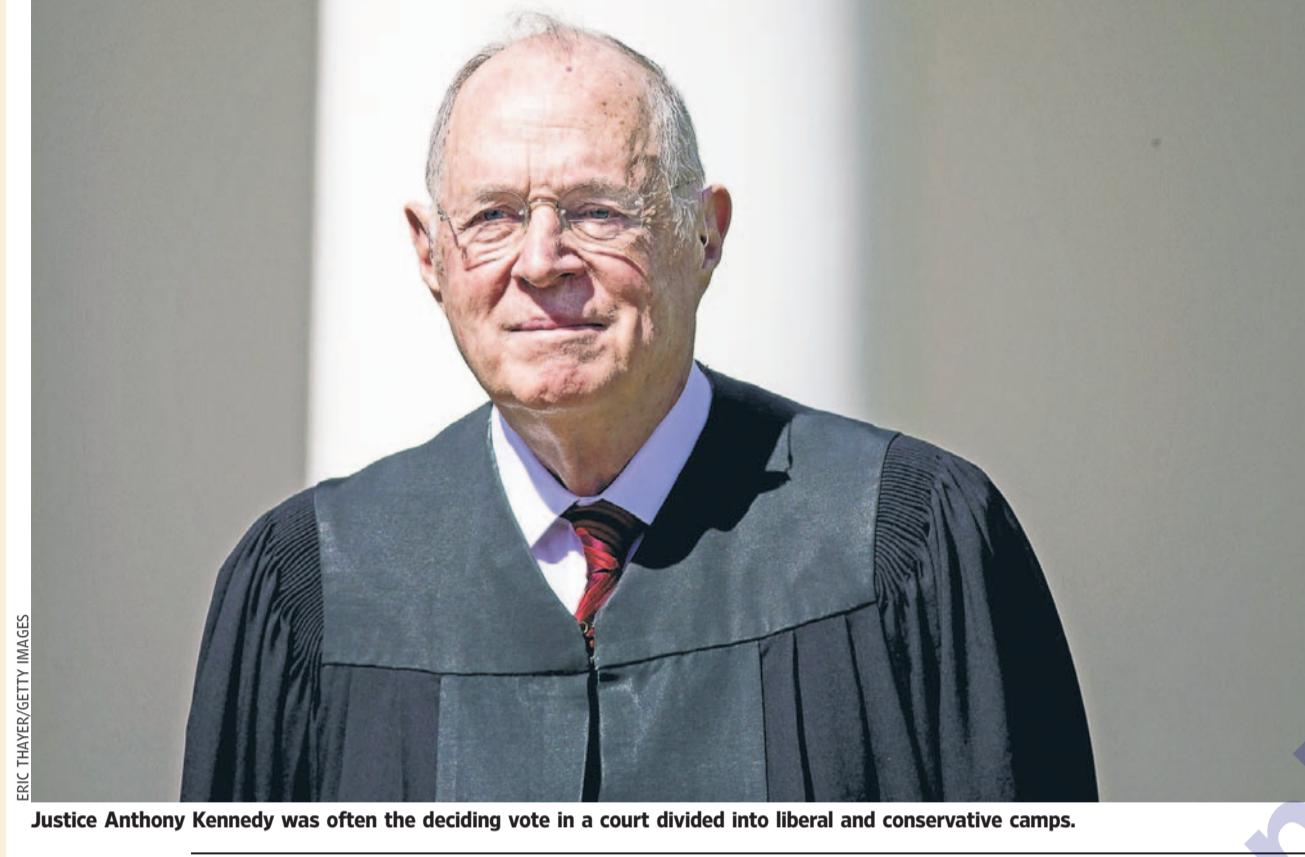
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# KENNEDY QUILTS COURT

*Justice's retirement opens pivotal vacancy before midterm elections*



Justice Anthony Kennedy was often the deciding vote in a court divided into liberal and conservative camps.

## Week's Events Draw Deeper Partisan Lines

By GERALD F. SEIB

Just when it seemed political life in America couldn't get more starkly divided—well, it just did.

**ANALYSIS** Events of the last few days already were rubbing emotions raw in both parties, setting up a November midterm election of exceptional passion and importance. Democrats were outraged by Supreme Court decisions that upheld a presidential travel ban aimed at Muslim countries and de-

clared public employees can't be compelled to pay union dues.

Republicans were outraged when White House press secretary Sarah Sanders was refused service in a Virginia restaurant, and a Democratic congresswoman, Maxine Waters, called for harassing Trump administration officials over the practice of separating illegal immigrant families at the Southern border.

The Democrats' liberal base was energized both by that family-separation con-

Please turn to page A4B

## Ruling on Public Unions Strikes at Labor Finances

By JESS BRAVIN

WASHINGTON—The Supreme Court barred public-employee contracts that require workers to pay union dues, dealing a severe blow to perhaps the strongest remaining redoubt of the American labor movement.

The 5-4 vote Wednesday, along conservative-liberal lines, overruled a 1977 precedent that fueled the growth of government-worker unionization even as representation has withered in private industry. More than

### Court Divide

- ◆ **Trump's list holds clues to nominee.....** A4B
- ◆ **Kennedy was key in notable decisions.....** A5
- ◆ **Groups brace for fallout from union ruling.....** A4B

one-third of government employees are unionized, compared with just 6.5% of those in the private sector, according to a January report from the Bureau of Labor Statistics.

The ruling's impact is likely

to stretch far beyond the workplace, sapping the political clout of unions such as the American Federation of State, County and Municipal Employees and the National Education Association that have provided funds, resources and activists largely to Democratic candidates.

In the 2016 election cycle, public-sector unions spent \$64.6 million on political activities, and 90% of that went to Democrats, according to the Center for Responsive Politics. The largest spenders were the

Please turn to page A4B

## Summit Is Planned For Trump, Putin

SQUARING THE CIRCLE: Vladimir Putin and U.S. national security adviser John Bolton, right, met in Moscow on Wednesday to lay the groundwork for a meeting next month between the Russian leader and President Donald Trump. **A7**



ALEXANDER ZEMLYANICHENKO/PRESS POOL

## How Much Manilow Is Too Much?

\* \* \* \* \*  
Rite Aid played the songs that made the neighbors cry

By KATHLEEN A. HUGHES

Barry Manilow, the singer-songwriter who has sold more than 85 million albums with '70s hits such as "Mandy" and "I Write the Songs," is in the midst of a flashy return to Las Vegas and other cities at age 75.

There are a few other places where, until recently, you could hear the popular crooner belting it out for free, all day long: some Rite Aid storefronts in San Diego, Hollywood and Long Beach, Calif.

Rite Aid employees say the intended audience wasn't customers. The drugstore chain has been testing since early this year whether playing a few of

Please turn to page A10

## Deadline Places Musk In 'Production Hell'

By TIM HIGGINS AND SUSAN PULLIAM

FREMONT, Calif.—Dressed in the same black Tesla Inc. T-shirt that he wore when he entered his car factory three days earlier, Elon Musk sat beneath fluorescent lights in a cluster of desks near the body shop.

On a chair next to him was a white caseless pillow that he used while sleeping on the floor under his desk. The billionaire CEO and chairman of the electric-car maker wasn't far from two general assembly lines making the Model 3 sedan, surrounded by the sound of banging metal.

Outside, under a giant makeshift tent, workers were also building sedans on a third, hastily constructed line.

"We made a lot of mistakes. That's why we're here," said Mr. Musk in an interview last week. He appeared calm, even upbeat at times, despite not

having left the factory in three straight days, trying to ensure the company will finally meet his goal of building 5,000 Model 3s a week—after two missed deadlines. Saturday is the latest deadline; an announcement about production capacity is expected within days after that.

Mr. Musk and Tesla are at a crucial moment as the company aims to mass-produce the Model 3 and transform from an unprofitable niche player into a profitable major auto maker. Tesla has about 40,000 employees and a market value of \$58 billion, rivaling General Motors Co.

A maverick entrepreneur, Mr. Musk helped revolutionize online payments by co-founding PayPal, built a rocket company, SpaceX, valued at \$21 billion, and with Tesla created a luxury brand popularizing electric-vehicle technology that auto makers

Please turn to page A10

## Amazon.com Drives Deeper Into Delivery

By LAURA STEVENS

SEATTLE—Amazon.com Inc. is pushing further onto the turf of its shipping partners United Parcel Service Inc. and FedEx Corp., enabling small businesses to carry its overflowing supply of packages in the all-important last-delivery leg to the consumer's door.

The online retail giant on Thursday said it is inviting entrepreneurs to form small delivery companies employing up to 100 drivers and leasing between about 20 and 40 Ama-

zon-emblazoned vans, an initiative that should help it rapidly build out its own delivery network across the country.

It is yet another major push by Amazon to gain more control over its own deliveries in a continued quest to build a vast freight and parcel shipping network. Amazon says it has to build out its own services simply to handle the surging number of online orders that UPS, FedEx and the U.S. Postal Service can't. More than \$4 of ev-

Please turn to page A7

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## U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

## Globalization Is Starting to Go Into Reverse



Around the world the gears of globalization are shifting into reverse.

Companies spent decades farming out every step of production according to where inputs—labor, infrastructure, know-how—were optimally located. Now, as trade barriers rise, they are grappling with how to localize production again.

**Harley-Davidson's** plans to move some production out of the U.S. to avoid European Union retaliatory duties is the tip of the iceberg.

German car manufacturers now export some models to the U.S. from Germany and export others from the U.S. to China. That doesn't make sense if the U.S. slaps tariffs on German-made cars and China imposes tariffs on U.S.-made cars. Last week, Airbus SE warned its U.K. operations could be threatened once Britain leaves the EU because it relies on the bloc's unified regulatory standards and free move-

ments of parts across borders. Bombardier Inc. said it would assemble some aircraft in Alabama instead of Canada to escape U.S. duties.

**A**s supply chains reorganize to serve local markets, the numbers of jobs gained and lost probably end up a wash. The real costs are more subtle: higher prices and fewer choices for consumers.

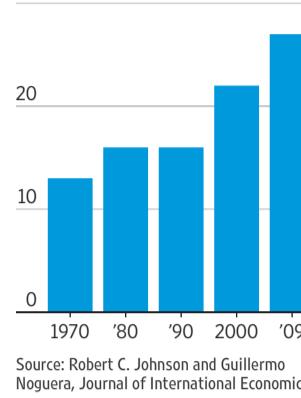
Pre-globalization, multinationals routinely produced locally for local markets, which avoided high tariffs but meant small production runs and high costs.

As trade barriers and transport costs fell, cross-border supply chains took shape. The U.S. and Canadian auto industries were integrated by the 1965 Auto Pact, then were joined by Mexico's with the North American Free Trade Agreement. In 1996, the Information Technology Agreement established global free trade in such products.

The benefits to consumers have been substantial, even

## Supply Chain Effect

Share of world export value originally added outside the exporter's country



Source: Robert C. Johnson and Guillermo Noguera, *Journal of International Economics* THE WALL STREET JOURNAL.

if they don't realize it. Consider, for example, that most cars sold in protectionist Brazil must be assembled there. As a result, a basic car sells for roughly 50% more than a comparable model in globalized Mexico.

Assembling an iPhone entirely in the U.S. out of U.S.-made components would add

up to \$100 to its cost, according to a 2016 article in *MIT Technology Review*.

And while globalization is routinely portrayed as bad for U.S. workers, the truth is more subtle. Routine, blue-collar jobs do get outsourced, but high-end research, marketing and design work gravitates to the U.S.

American multinationals account for 23% of U.S. private-sector employment, 53% of exports and 79% of research and development, and pay one-third more than the private-sector average, according to Dartmouth College economist Matthew Slaughter.

**T**he tax cut Congress passed and President Donald Trump signed last year was meant to enhance those U.S. strengths. Lowering the corporate tax, eliminating the taxation of foreign profits and imposing new penalties on profit-shifting incentivizes "these high-paying firms to perform more of their operations in the U.S.," the White House

Council of Economic Advisers wrote.

Rising trade barriers will counter those benefits.

The backlash against globalization long predates Mr. Trump, originating with China's entry into the World Trade Organization in 2001. Western companies used China as a base from which to export to the rest of the world, but China didn't reciprocate: It used a cheap currency and a web of domestic barriers to discourage imports.

Following the global financial crisis, more countries imitated China with inducements for local production.

General Electric Co., before its recent crackup, sought to localize more production, such as making locomotives in India for that market. Because of Asian tariffs, Harley-Davidson had already moved some production to India and plans to move some to Thailand.

Like China and India, Mr. Trump wants multinationals to produce locally what they sell here. But imposing tar-

iffs on existing supply chains is rife with unintended consequences. Canadian steel uses U.S. iron ore, so tariffs hurt both.

Beckett Gas Inc., a family-owned manufacturer of components for boilers, furnaces and water heaters, sells all over the world from its Cleveland-area factories. But Morrison Carter, the company's chief executive, says the tariff on steel, a critical input, gives his foreign competitors a 25% cost advantage. He is willing to bear some short-term pain for a long-term leveling of the playing field. But "we will move production to country of sale whenever possible if the tariffs begin to look permanent," he says.

Of course, supply chains that took years to take shape won't change location overnight. Businesses still hope the protectionist wave will burn itself out, and the logic of globalization will reassert itself. But a growing number are no doubt drawing up backup plans that look a lot like Harley's.

## U.S. WATCH

## BENGHAZI ATTACKS

## Libyan Militia Leader Gets Prison Term

A Libyan militia leader was sentenced to 22 years in federal prison for his role in the 2012 terrorist attacks in Benghazi that killed four Americans, including U.S. Ambassador Christopher Stevens.

Ahmed Abu Khatallah, 47 years old, was convicted by a jury in November in U.S. District Court of providing material support and resources to terrorists and several related charges. He was acquitted of the more serious allegations of murder and attempted murder.

Federal prosecutors described Mr. Khatallah as the mastermind of the attacks on the U.S. mission in Benghazi that began on the night of Sept. 11, 2012.

Mr. Khatallah was snatched by U.S. Special Forces and Federal Bureau of Investigation agents during a secret raid in 2014 and brought to the U.S. to stand trial.

Lawyers for Mr. Khatallah said the Libyan deserved only 15 years behind bars because he had been acquitted of the most serious charges and the jury had found that his conduct hadn't resulted in the Americans' deaths.

—Del Quentin Wilber

## ECONOMY

## Business Demand For Equipment Cools

Business investment in equipment is showing no signs of accelerating six months after U.S. lawmakers overhauled the tax system with the intent to spark such spending.

A proxy for such investment, new orders for nondefense capital goods excluding aircraft, decreased a seasonally adjusted 0.2% in May after a strong April increase, the Commerce Depart-

ment said Wednesday.

The capital-spending gauge has failed to increase for two straight months since August and September 2017. Soft business investment figures in May and a sharp decline in orders for motor vehicles and parts caused overall demand for long-lasting manufactured products to fall for a second straight month.

Orders for durable goods—products designed to last at least three years, such as washing machines and jet fighters—declined 0.6% in May from the prior month.

—Eric Morath

## HEALTH

## FDA Seeks to Curb Online Opioid Sales

Federal regulators are dialing up pressure on big internet companies to do more to prevent online sales of opioids as industry leaders met with government officials Wednesday.

Food and Drug Administration chief Scott Gottlieb said that the "easy availability of opioids online" has become "a major public health concern," according to prepared remarks.

FDA officials worry that as other avenues for obtaining opioids are being restricted, illegal online pharmacies are growing in significance. They also are increasingly concerned about online sales of fentanyl, a particularly powerful and dangerous synthetic opioid.

The agency recently warned operators of more than 50 online pharmacies to stop illegally marketing opioids. FDA officials have pointed to a 2015 study suggesting that revenues from illicit online drug sales soared in recent years, rising to as much as \$180 million in 2015 from between \$15 million and \$17 million in 2012.

—John D. McKinnon

## CORRECTIONS &amp; AMPLIFICATIONS

A photo that accompanied a Page One article on Tuesday about immigration policy showed a woman and her child near McAllen, Texas. The photo caption incorrectly said they were along a border bridge after being denied entry into the U.S. in Brownsville, Texas.

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

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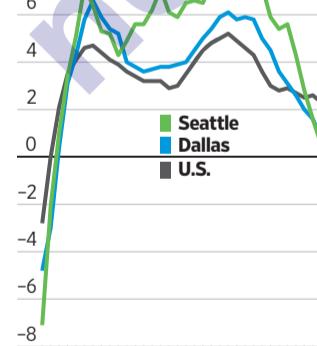
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## Flood of Supply Is Damping Rent Rises

BY LAURA KUSISTO

## Slump

Annual change in multifamily rents



Source: RealPage

THE WALL STREET JOURNAL

It is a great time for anyone looking to rent an apartment: Vacancy rates are rising, and there are little or no rent increases in many major cities.

For landlords, though, the U.S. apartment market suffered its worst spring since 2010, near the depths of the housing crisis. Driving this dynamic is a flood of new apartments and weakening demand.

Rents rose 2.3% in the second quarter compared with a year earlier, the smallest annual increase since the third quarter of 2010, according to data from RealPage Inc. released on Wednesday. Rental growth was flat in major cities with otherwise strong economies—such as Austin, Portland, Seattle, Dallas and Washington, D.C.—due to large amounts of new supply.

While average rents continued to grow, individual landlords cut rents in some markets. In addition, landlords are offering tenants incentives in-

platform.

Joshua Clark, an economist at Hotpads who was looking recently for an apartment in the Capitol Hill area in Seattle, saw the \$2,500 Amazon gift card offer. "I had my mouth open for a second," he said. "Seriously, a lot of my expenses would be covered for the year."

Landlords have enjoyed a record 32 straight quarters of annual rent growth on average, as the U.S. economy strengthened and millennials delayed homeownership. But the reports of slowing, which began in a few markets in late 2016, have intensified to the point that the balance is shifting toward renters and away from landlords.

Greg Willett, chief economist at RealPage, predicted average rents nationwide could flatten if current trends continue. "It's kind of telling as we look at some of these individual markets that are losing momentum, because they're important ones," he said.

Landlords didn't reply to an emailed request for comment; he hasn't done interviews since his nomination, which was announced in February.

Mr. Trump doesn't own the Waikiki Trump International Hotel and Tower. His business, in which he retains ownership,

The slowdown's cause primarily new supply. Developers responded to escalating rents by building the most new apartments in 30 years, sending a flood of new high-end units to downtown areas across the U.S. Developers are expected to add 300,000 new units over the next year across the country, Mr. Willett said.

At the same time, signs are emerging that renter demand is starting to wane because millennials are marrying, having children and buying homes or moving into single-family rentals.

Data released Tuesday from another apartment-data provider, Reis Inc., also showed a largely weak rental market in the second quarter. The national vacancy rate ticked up to 4.8% from 4.3% in the second quarter of 2017. The number of additional units that were rented fell to just more than 37,000 from nearly 53,000 a year earlier, suggesting demand was weaker.

Receives licensing income from his Waikiki concerns, including more than \$2 million in management fees last year, according to his most recent financial disclosure.

As commissioner, Mr. Rettig would oversee enforcement of the tax laws. Mr. Trump has said the agency has been unfairly auditing him. Tax professionals have praised Mr. Rettig's nomination, which breaks the mold of having a management expert run the IRS.

act location. He is likely to face questions about the property at a Thursday confirmation hearing in the Senate Finance Committee.

That property is a 50% interest in two units at the Waikiki Trump International Hotel and Tower, according to the committee memo, which was reviewed by The Wall Street Journal. Mr. Rettig purchased the asset in 2006, and the units were completed in 2009, according to the memo. The

A photo that accompanied a Page One article on Tuesday about immigration policy showed a woman and her child near McAllen, Texas.

The photo caption incorrectly said they were along a border bridge after being denied entry into the U.S. in Brownsville, Texas.

—Laura Kusisto

WASHINGTON—President Donald Trump's nominee to run the Internal Revenue Service owns real estate in a Trump-branded property in Hawaii, according to a Senate staff memo.

Charles Rettig, a California tax lawyer, had previously disclosed owning residential real estate in Hawaii valued at between \$1 million and \$5 million without including the ex-

act location. He is likely to face questions about the property at a Thursday confirmation hearing in the Senate Finance Committee.

That property is a 50% interest in two units at the Waikiki Trump International Hotel and Tower. His business, in which he retains ownership,

receives licensing income from his Waikiki concerns, including more than \$2 million in management fees last year, according to his most recent financial disclosure.

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## U.S. NEWS

# Virginia Suspect Faces Hate Charges

BY SADIE GURMAN

A man accused of killing a woman and injuring dozens of other people last summer by plowing his car into a crowd protesting white nationalists was indicted on federal hate-crime charges on Wednesday, in a case closely watched by civil rights activists who were unsure if Attorney General Jeff Sessions would pursue such charges.



**Alex Fields,** who was already facing state murder charges, was indicted on 30 federal charges.

A grand jury indicted James Alex Fields, 21 years old, on 30 charges, including one count of a hate crime resulting in the death of 32-year-old Heather Heyer and 28 other hate crimes involving attempts to kill other people.

The final count was for racially motivated violence at a protest. All of the victims were counterprotesters, many of whom held signs promoting equality and denouncing racism, the Justice Department said.

President Donald Trump was criticized in many quarters for initially suggesting an equivalence between the white supremacists and those marching against them.

On Wednesday, Mr. Sessions spoke of the Justice Department's determination to enforce civil rights. "We remain resolute that hateful ideologies will not have the last word," he said.

Some activists saw the case as a test of Mr. Sessions' commitment to civil rights, and the attorney general said the charges showed the Justice Department would actively defend those rights.

An attorney for Mr. Fields, who is already facing murder charges in state court, didn't return a call seeking comment.



The Trump administration has tried to use trade and investment measures to keep China from advancing in high tech. A worker inspects micromotors for cellphones.

CHINATOPIX/ASSOCIATED PRESS

# U.S. Retreats on New China Curbs

President Donald Trump backed away from plans to create tough new restrictions on Chinese investments in the U.S. and U.S. technology exports to China, defusing one fight with Beijing as American business officials try to head off a looming battle over tariffs.

By Bob Davis  
and Peter Nicholas  
in Washington,  
and Lingling Wei  
in Beijing

The White House opted for a less-confrontational approach with the U.S. economic rival and closer cooperation with Congress. The strategy was hotly debated within the administration for several days leading up to the decision, administration officials said.

Among the factors in Mr. Trump's decision: his own reservations about discouraging investment in the U.S. and his pique with a Wall Street Journal article reporting that the administration was moving to-

ward a crackdown on China, the officials said.

China experts say the White House decision to back away from a fight on investments and U.S. exports could provide an opening for renewed negotiations. With a July 6 deadline for tariffs approaching, prominent U.S. business executives are trying to ease the way for new discussions between Treasury Secretary Steven Mnuchin and China's top economic envoy, Liu He.

Among those urging talks is former Treasury Secretary Henry Paulson, who used to be Mr. Mnuchin's boss at Goldman Sachs Group Inc. and meets regularly with Mr. Liu. Blackstone Group Chief Executive Stephen Schwarzman is also acting as a back channel between the two governments, people familiar with the discussions said.

For now, no negotiations are planned before the deadline when the White House will impose the first round of tariffs on \$34 billion of Chinese imports. Beijing says it will retaliate dol-

lar for dollar.

Chinese President Xi Jinping has instructed various levels of government to prepare for a trade war, Chinese officials said. Northeastern provinces of Heilongjiang and Jilin, for instance, are stepping up efforts to encourage farmers to grow more soybeans—one of the biggest U.S. exports to China that would be subject to Chinese levies.

The Trump administration has complained that Beijing is forcing U.S. companies to transfer technology to Chinese firms. It has tried to use trade and investment measures to prevent China from advancing its goal of becoming a world leader in industries such as information technology.

The White House said on May 29 it would go through with twin plans to use new investment restrictions and U.S. export controls against China and Mr. Trump's advisers were preparing to move forward with the policies. But Mr. Mnuchin prevailed in a decision this week to rely on existing authori-

ties to restrain Chinese investment into U.S. high-tech industries.

Mr. Trump was angered by news stories, particularly a Journal article earlier this week, saying the administration was moving ahead with separate investment restrictions aimed at China. The article was based on interviews with administration

**\$34B**

The amount of Chinese imports subject to tariffs in first round

cial.

In a subsequent tweet, Mr. Mnuchin called the articles "fake news." During the day, the stock market fell sharply, providing additional impetus to ease off on China, said individuals familiar with the administration's thinking. "Those leaks were not helpful to the markets or not helpful to the process," Mr. Mnuchin said on CNBC.

Instead of creating new investment restrictions, the White House said it will continue to rely on an interagency group, the Committee on Foreign Investment in the U.S., which screens foreign investments to see if they endanger national security.

Mr. Trump punted as well on toughening export controls on Beijing. The White House had planned to announce new policies by Saturday. Instead, the White House asked the Commerce Department to study "issues related to the transfer of export of critical technologies," with no date to report its findings.

officials, but some in the administration say Mr. Mnuchin viewed it as a leak aimed at pressuring Mr. Trump to make a decision Mr. Mnuchin opposed.

On Monday, Mr. Trump told Mr. Mnuchin to "push back" on the reports and that he wasn't "leaning in that direction," according to a White House offi-

# Trump Places Bet on Measure to Boost CFIUS

BY KATE O'KEEFE

President Donald Trump, in withdrawing threats to impose new restrictions on Chinese investment, instead put his faith Wednesday in Congress, which is advancing its own legislation to toughen national security reviews of foreign deals.

The legislation, known as the Foreign Investment Risk Review Modernization Act, or FIRRMRA, would affect foreign firms seeking deals in the U.S. and American companies do-

ing business abroad by tightening the processes for vetting proposed inbound and outbound investment.

The measure would expand both the remit and resources of the Committee on Foreign Investment in the U.S., an interagency committee known as CFIUS, that advises the president on when to block foreign takeovers of U.S. businesses on national-security grounds.

The proposed legislation also would strengthen export controls to prevent critical

technologies from being transferred to foreign companies through partnerships struck overseas.

Though the new rules would apply to many transactions involving foreign companies, the bill is particularly aimed at curbing certain Chinese deals.

Critics have long singled out Chinese deals as posing risks to national security because the companies may be directed and subsidized by the government of China, an economic and military rival.

First introduced by Senate Majority Whip John Cornyn (R., Texas) and Rep. Robert Pittenger (R., N.C.) in November, the foreign-investment legislation could become law as soon as next month through the passage of a must-pass defense bill.

The Senate and the House, which have each passed different versions of the legislation, must pass identical bills before the measure can be sent to Mr. Trump for his signature into law or a veto.

The legislation, Mr. Trump said in a statement, "will provide additional tools to combat the predatory investment practices that threaten our critical technology leadership, national security, and future economic prosperity."

The bill would give CFIUS authority to vet the purchase or lease of real estate near sensitive U.S. facilities, review investments in which buyers take minority positions in U.S. firms and scrutinize deals structured to evade its jurisdiction.

# Harley-Davidson Defends Plan to Move Production

BY ANDREW TANGEI

Harley-Davidson Inc. has been riding a fine line between its American heritage and a future dependent on new customers abroad.

The Trump administration's trade agenda this week pushed the company to make another tough decision: shift production of motorcycles for sale in the European Union outside the U.S.

Now Harley is defending its planned shift amid complaints from critics, including union officials and President Donald Trump, who say the Milwaukee-based company is abandoning its U.S.-made bona fides.

"We'd rather not make investments to address these regulatory hurdles and take the profit hit, but we are doing so to protect European riders and our dealers," Harley's vice president for U.S. sales, Dave Cottle, wrote Monday in a memo to dealers reviewed by The Wall Street Journal. "We believe it is important to protect them, and this is a point perhaps missed by some people who want to

believe a simple headline because it's easier to do so."

That explanation didn't squelch criticism, including from Mr. Trump. "A Harley-Davidson should never be built in another country—never!" the president tweeted Tuesday.

Unions representing Harley workers also questioned whether Harley would eventually move more jobs overseas.

"Isn't Harley afraid that replacing 'Made in America' with 'Made in Thailand' will destroy their iconic brand?" said Rob

ert Martinez Jr., international president of the International Association of Machinists and Aerospace Workers, which represents workers at Harley plants, including one in Kansas City set to close by 2019.

Harley executives have

stressed their commitment to U.S. manufacturing while navigating shifting trade policies.

Mr. Cottle, in another memo to dealers Tuesday, noted Harley wasn't moving Kansas City production to Thailand. Rather, he said those operations were being consolidated into a York, Pa., factory to address excess U.S. capacity.

A Harley spokesman said Wednesday that the company remains committed to American manufacturing and selling only U.S.-made motorcycles in this country.

Tension between Harley and Mr. Trump is a contrast to early 2017, when Harley executives traveled to Washington to meet the new president. They hoped to establish a rapport with Mr. Trump, overcoming some internal concerns about how Harley should engage with his administration, according to a person familiar with the meeting.

The Harley spokesman said the company has met with U.S. presidents for decades to talk about its operations and U.S. manufacturing. He declined to comment on the 2017 White House meeting.



DREW ANGERER/GETTY IMAGES

The company said it is committed to U.S. manufacturing and selling only U.S.-made bikes there.

Mr. Shine isn't expected to be formally appointed communications director, a job that has been vacant since March. But he is likely to serve as a deputy chief of staff with responsibilities that include overseeing the White House communications office, the people said.

The White House discussions over Mr. Shine's expected role have shifted in recent days. Earlier Wednesday, people familiar with the discussions said he was expected to be tapped as communications director.

Fox News commentator Sean Hannity, who is close to Mr. Shine and to President Donald Trump, played a role in orchestrating the process, a person familiar with the matter said.

Mr. Shine didn't respond to a request for comment. His talks with the White House were first reported by Fox News.

Mr. Shine left Fox News last year amid a sexual-harassment controversy that led the company to part ways with its former chairman, the late Roger Ailes. Mr. Shine wasn't accused of harassment. Some Fox News talent and former executives alleged he ignored complaints about Mr. Ailes's behavior.

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## U.S. NEWS

# Election Upset Reveals Democrats' Plight

By JANET HOOK

The unexpected primary defeat of veteran New York Rep. Joe Crowley by a young progressive woman on Tuesday turns a spotlight on a Democratic conundrum: A party that gets political energy and a growing share of its votes from millennials and people of color has a congressional leadership team dominated by white senior citizens.

The upset victory by Alexandria Ocasio-Cortez, the 28-year-old daughter of parents of Puerto Rican descent who ran to the left of the 56-year-old, 10-term Democratic pow-

erbroker, was propelled in part by her call for a generational change in the district and her own party.

House Democratic Leader Nancy Pelosi (D., Calif.), at a press conference Wednesday, warned against drawing big conclusions about her future from a low-turnout primary in a heavily Democratic district. Asked if the results pointed to a demand for more young, progressive women in leadership, she responded: "I'm female. I'm progressive. What's your problem? Two out of three ain't bad."

Mrs. Pelosi, one of three top House Democratic leaders who

are in their 70s, has become a political target for Republicans and faced pressure in some quarters for her to step aside or make room for fresh blood in the leadership. When she was re-elected leader in 2016, 63 Democrats didn't vote for her. Some Democratic candidates in 2018 are declining to say they would support her for leader.

Democratic leaders have taken steps to give younger members a bigger voice: After the 2016 election, Mrs. Pelosi created a new leadership post for a junior member, and three relatively junior Democrats were chosen to share the job

of heading the leadership's communication arm.

The defeat of Mr. Crowley could give restive members a new outlet for their ambition: his leadership post of House Democratic Caucus Chair, a stepping stone for many party leaders, will be up for grabs.

But some discontents don't think a change in the No. 4 slot will be enough, and are still hoping for more far-reaching change. "I don't think that solves the problem," said Rep. Seth Moulton (D., Mass.). "I think it is time for an entire new generation of leadership."

Rep. Ro Khanna (D., Calif.) said he believed Mrs. Pelosi

would continue as leader after the midterms but that some members would want to be reassured that there would soon be a transition to a new generation of leaders.

The generational split among Democrats has ideological and racial overtones: The millennial generation as a group is more ethnically diverse and liberal than its elders. Ms. Ocasio-Cortez's campaign was a vivid example of how to reach and mobilize that electorate—not through old-school Democratic Party networking, but grass-roots organizing and social media.

It is unlikely that the Crow-

ley defeat portends a large wave of incumbent defeats, if only because the primary election season is more than half over. Progressive candidates have lost more competitive primaries than they have won when they went up against more-centrist candidates that were endorsed by the Democratic Congressional Campaign Committee.

One race to watch, however, is in Massachusetts' Sept. 4 primary, when longtime Rep. Mike Capuano is facing a stiff primary challenge from the left by Ayanna Pressley, an African-American member of the Boston City Council.

## Immigration Bill Defeated in House

By SIOBHAN HUGHES

WASHINGTON—The House overwhelmingly rejected an immigration bill intended as a compromise between different wings of the GOP, hobbling the party's efforts to address the issue ahead of the midterm elections.

The bill failed 301 to 121 on Wednesday, with all Democrats and 112 Republicans—almost half of the party's 235 House members—opposing the measure. The wide margin of defeat, rarely seen on the House floor, marked an embarrassment for GOP leaders and highlighted how divided both the party and the broader House are on a comprehensive immigration bill.

The compromise effort drew less support than a more conservative alternative that was defeated last week but which still garnered votes from 193 Republicans.

"We're frustrated" with the compromise bill's defeat, said Rep. David Valadao (R., Calif.), who represents a district where roughly three-fourths of the population is Hispanic. "If you gain a few yards, would you criticize someone who moved the ball in the right direction? This bill moved the ball in the right direction."

House Speaker Paul Ryan (R., Wis.) stuck with his promise to hold the vote but had braced for a loss after talks to win more votes failed a day earlier.

The legislation would have provided six years of renewable legal status to young im-

migrants brought to the U.S. as minors and living in the country without legal authorization, a group often known as Dreamers, and ultimately would have offered them a pathway to citizenship. It also would have provided \$23.4 billion for border security, ended a diversity-visa lottery program and cut family-based immigration—in line with goals laid out by President Donald Trump this year.

With Democrats viewing the measure as too harsh, Republicans were left to corral a majority from within their own party. But disagreements over conservative priorities, such as writing in new restrictions to prevent the young immigrants from sponsoring their parents for citizenship, left the bill well short of passage.

Mr. Trump, after declining to throw his full weight behind the bill, issued an all-caps tweet Wednesday morning that House Republicans should pass the "STRONG BUT FAIR" bill even if it would be blocked in the Senate, where a similar measure failed to pass this year. The push was seen as too little too late, and many Republicans blamed Mr. Trump's shifting positions on the legislation for dooming it to failure.

A hard-line approach to immigration helped propel Mr. Trump to the White House, but the collapse of the GOP immigration bill carries risks for Republicans in battleground districts. Many of those lawmakers have been pushing for relief for Dreamers.



Rep. Jeff Denham (R., Calif.), left, and Rep. Carlos Curbelo (R., Fla.), on Wednesday after the House rejected the immigration bill.

## Separated Families Await Answers

BY ARIAN CAMPO-FLORES  
AND LOUISE RADNOFSKY

A week after President Donald Trump halted the separation of families who crossed into the U.S. illegally, the process of reuniting the more than 2,000 children in custody with their parents has proved challenging.

The Department of Health and Human Services has the whereabouts of all the children in its care, and Immigration and Customs Enforcement has the information about the parents, but the two government departments are still trying to link the two, according to Jonathan White, from the office of the assistant secretary for preparedness and response at HHS.

"We are working to get all these kids ready to be placed back with their parents, get that all cleared up," HHS Secretary Alex Azar said Tuesday. HHS officials said 2,047 children are currently in its care, down slightly from 2,053 separated children as of June 20.

Officials couldn't immediately say where in the U.S. the children are, citing a "dynamic" situation. But they said they have always known the "whereabouts, status and well-being" of every child in the department's custody.

### Reuniting more than 2,000 children with their parents has proved challenging

children unless the minors are found to be in danger or the parents have consented.

The ruling follows a week in which many parents and immigration advocates expressed frustration over the infrastructure set up to facilitate communication between parents and children. A toll-free hotline set up to provide information about the children is frequently busy and often leads to a dead end, they said.

Other difficulties have arisen from a lack of coordination among federal agencies.

"Everyone is trying to work backwards to piece things together," said Wendy Young, president of Kids in Need of Defense, which works with unaccompanied immigrant children. "That's proving to be very painfully slow."

Ms. Young said HHS may know the names and locations of the children and ICE may have the same information for the parents, but connecting those two troves has been challenging.

The problem is that after separation, the children entered a different bureaucratic and legal process than their parents. The children are in the care of HHS's Office of Refugee Resettlement. The agency has a process through which it deals with unaccompanied children: They get placed in foster care or with a partner agency. And then a process is initiated to locate a parent or guardian who can take the child from their care.

After that, a multistep process begins that includes background checks, fingerprints and documentation to prove relationships. All of this is needed to ensure the children are safe, Mr. White said.

For separated families, the

administration said Tuesday it wouldn't seek to reunite children with adults who remain in detention because children can't be held with parents in federal immigration jails for more than 20 days, due to a court settlement.

As a result, parents can be reunited with their children only if they have been released from detention. Otherwise, children will remain under HHS's care until they can be released to close family members, such as siblings and grandparents, or family friends in the U.S.—a process that can take time.

Arnovis Guido said he was deported back to El Salvador last week without his 6-year-old daughter, who remains at a shelter in Arizona. He said he was separated from her soon after they were detained by authorities at the border and didn't make contact with her while in custody for nearly a month. He eventually agreed to leave without her, and is working with Raices, a nonprofit legal group, to have her either sent home or to his brother in Kansas.

Mr. Guido said she asked during a recent call: "Papi, why didn't you take me with you?"

—Melanie Gracye West and Ian Lovett contributed to this article.

## Ex-Playmate to Become Unlikely Men's Journal Cover Image

The publisher accused of buying and then suppressing a Playboy model's claim she had an affair with Donald Trump ordered one of its magazines to

By Joe Palazzolo,  
Nicole Hong,  
Lukas I. Alpert  
and Michael Rothfeld

feature the woman on its cover without her cooperation, people familiar with the matter said.

Current and former employees of publisher American Media Inc. said they believe Karen McDougal's planned appearance on the cover of September's issue of Men's Journal is intended to protect the company from a federal criminal investigation in New York. People familiar with the matter have said prosecutors in Manhattan are investigating whether American Media improperly coordinated with Michael Cohen, President Donald Trump's former lawyer, to buy

Ms. McDougal's story of the alleged affair and then not publish her account.

The company, whose chief executive David Pecker has described Mr. Trump as an old friend, said it purchased Ms. McDougal's story but sought her out principally as a model and fitness columnist.

An American Media spokesman said Tuesday the planned McDougal cover in Men's Journal was strictly a business decision, adding that the company had a contractual commitment to place Ms. McDougal on two magazine covers and "always intended to honor that commitment." Her first cover in 2017 sold well, the spokesman said.

The prosecutors are investigating whether American Media's August 2016 payment of \$150,000 to Ms. McDougal violated campaign-finance or other laws, according to people familiar with the matter. She has said she had a nearly

yearlong affair with Mr. Trump in 2006. Mr. Trump and the White House have denied the affair occurred.

Ms. McDougal's 2016 contract with American Media, which became public as part of a lawsuit she filed this year seeking to be released from the agreement, gave the company

lifetime rights to her story of a sexual relationship with an unidentified "then-married man." The contract also guaranteed both parties two magazine covers featuring Ms. McDougal and gave the company the option of using her as a fitness columnist.

Ms. McDougal has said the

contract with American Media was meant to silence her during Mr. Trump's presidential run.

By the time of her lawsuit, Ms. McDougal had no interest in being on the cover of Men's Journal, said a person familiar with the matter. American Media agreed to give Ms. McDougal back the rights to her story as part of an April legal settlement, but the company insisted that the Men's Journal cover go forward as planned.

The settlement gave American Media "the right, but not the obligation" to put Ms. McDougal on the cover.

Ms. McDougal hasn't participated in a photography shoot or interview with Men's Journal staff, according to American Media employees and a person familiar with the matter. The magazine's editors plan to use old pictures for the cover and to recycle archived content for a piece about Ms. McDougal's fitness routine, the employees said.

Ms. McDougal and her lawyer, Carol Heller, didn't respond to requests to comment.

Ms. McDougal would be a rare solo woman on the cover of the high-end men's lifestyle magazine, which typically showcases male celebrities such as actor Ben Affleck and television host Jimmy Fallon.

The Wall Street Journal reported last week that federal authorities have subpoenaed American Media as part of an investigation into whether Mr. Cohen sought to suppress damaging information about Mr. Trump during the presidential campaign, according to people familiar with the matter. Mr. Cohen has denied wrongdoing.

Some current and former American Media employees said they believe putting Ms. McDougal on the cover is meant to bolster the company's argument that it entered into the contract with the former Playboy model for editorial reasons rather than to benefit Mr. Trump's campaign.

Jay Gallagher and Greg Emmanuel, Men's Journal's chief revenue officer and chief content officer respectively, have told some employees they had unsuccessfully appealed to Mr. Pecker to reconsider placing Ms. McDougal on the magazine's cover, employees said.

Messrs. Gallagher and Emmanuel said they argued the McDougal cover could hurt the magazine's reputation and alienate hard-won advertisers, one employee said.

Mr. Emmanuel also told employees that Mr. Pecker made it clear he wouldn't reconsider his decision, some American Media employees said.

Mr. Gallagher referred a message seeking comment to American Media. Mr. Emmanuel didn't respond to a request to comment. The American Media spokesman denied that Messrs. Gallagher and Emmanuel raised concerns with Mr. Pecker.

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## U.S. NEWS

# Trump's List Holds Clues to Nominee

*Justice Anthony Kennedy's retirement gives President Donald Trump an opportunity to shift the Supreme Court in a more conservative direction. In November, the White House named 25 possible nominees; among the top contenders are:*

**THOMAS LEE**

The 53-year-old is an associate justice of the Utah Supreme Court, a position he was appointed to in 2010. While on the court, Justice Lee has written a number of high-profile opinions, including one that overturned a four-year-old adoption on grounds that a lower court had improperly terminated the birth-father's parental rights, and another striking down a law that allowed the state to increase a sentence based on an inmate's behavior at a state hospital.

From 1997 until his appointment to the Utah Supreme Court, Justice Lee served on the faculty of Brigham Young University's law school and served a short stint in Washington, D.C., as a

deputy assistant attorney general in the Justice Department's Civil Division.

**THOMAS HARDIMAN**

Judge Hardiman, 52, was cast into the spotlight in 2017, when he became Mr. Trump's runner-up for the vacancy taken by now-Justice Neil Gorsuch. Judge Hardiman joined the Third U.S. Circuit Court of Appeals in 2007 after serving as a district court judge in Pennsylvania for four years. Both appointments came from President George W. Bush.

In a decision he wrote, later affirmed by the U.S. Supreme Court, the appeals court held that a jail's policy of strip-searching all detainees, even those with minor alleged offenses, didn't violate the Fourth Amendment.

**AMY CONEY BARRETT**

Judge Barrett, 46, was nominated by Mr. Trump to the Seventh U.S. Circuit Court of Appeals in May 2017 and confirmed by the Senate in October. A graduate of Notre Dame Law

School, she clerked from 1998 to 1999 for Justice Antonin Scalia, then practiced law at a Washington, D.C., law firm before returning in 2002 to Notre Dame as a professor of constitutional law and federal courts. Judge Barrett is a member of the conservative Federalist Society.

Judge Barrett's Roman Catholic faith was a flashpoint in her appellate court confirmation proceedings last fall, as Democratic senators questioned whether her beliefs would improperly influence her. The senators asked Judge Barrett about a law review article she co-wrote in 1998 that argued Catholic judges are "morally precluded" from enforcing the death penalty. At the hearing, Judge Barrett said she believed judges shouldn't put their personal views above the law.

**AMUL THAPAR**

Judge Thapar, 49, born in Detroit, joined the U.S. Court of Appeals for the Sixth Circuit in May 2017 after being

nominated by Mr. Trump earlier that year. He previously served as a judge in U.S. District Court for the Eastern District of Kentucky. He also has served as U.S. attorney for Kentucky's Eastern District.

Last year, Senate Majority Leader Mitch McConnell (R., Ky.) said Judge Thapar was the second South Asian-American judge to serve on a federal circuit court. He called Judge Thapar a "qualified judge with an impressive legal mind."

Liberal groups have criticized the judge's approach in cases involving political contributions and sexual harassment.

**RAYMOND KETHLEDGE**

Judge Kethledge, 51, was nominated to the Sixth U.S. Circuit Court of Appeals by President Bush in 2007 and confirmed the following year.

He worked in private practice in Michigan from 1998 until his nomination.

Judge Kethledge authored what The Wall Street Jour-

nal editorial board described as the "Opinion of the Year" in 2014, rebuking the Equal Employment Opportunity Commission in a lawsuit alleging the for-profit education company Kaplan used credit checks on prospective employees to discriminate against minorities.

He wrote that the EEOC "brought this case on the basis of a homemade methodology, crafted by a witness with no particular expertise to craft it, administered by persons with no particular expertise to administer it, tested by no one, and accepted only by the witness himself."

**JOAN LARSEN**

Judge Larsen, 49, was nominated by President Trump to the Sixth Circuit Court of Appeals in May 2017 and confirmed by the Senate in November 2017.

Prior to her nomination, Judge Larsen served as an associate justice on the Michigan Supreme Court, where she was appointed in 2015 by Gov. Rick Snyder, a

Republican. In a now-defunct website, [justicejoan.com](http://justicejoan.com), Judge Larsen described her judicial philosophy this way:

"Judges should interpret the laws according to what they say, not according to what the judges wish they would say. Judges are supposed to interpret the laws; they are not supposed to make them."

**BRETT KAVANAUGH**

Judge Kavanaugh, 53, has spent the last decade on the country's second-most powerful bench, the U.S. Court of Appeals for the D.C. Circuit, as a George W. Bush appointee.

He subscribes to the late Justice Scalia's maxim that a judge's job is to interpret law, not to make law or policy. In legal essays and speeches, he has argued that the judicial branch needs simpler, more consistent methods for sorting out constitutional controversies, saying the law had become too manipulable and was leaving state regulatory powers unchecked.

—WSJ staff

## Decision Is Setback For Unions

*Continued from Page One*  
nation's two biggest teachers' unions and Afcscme.

Still, total spending by all labor unions, \$213.3 million in the 2016 cycle, was small relative to the \$3.43 billion spent by businesses. That business spending was split evenly between Democrats and Republicans.

Unions, which long have anticipated this day, have been preparing strategies to retain membership, but significant drops in support are likely.

Justice Samuel Alito, whose opinions have shaped the court's turn against public-sector unions, wrote for the majority.

"Compelling individuals to mouth support for views they find objectionable," even if they are part of collective bargaining that benefits that employee, affronts a "cardinal constitutional command," he wrote. Justice Alito quoted Justice Robert Jackson's 1943 opinion forbidding mandatory recitation of the Pledge of Allegiance in public schools: the government may not "force citizens to confess by word or act" any opinion.

"In most contexts, any such effort would be universally condemned," Justice Alito wrote, joined by Chief Justice John Roberts and Justices Anthony Kennedy, Clarence Thomas and Neil Gorsuch. Nothing about this particular context—states that had authorized public agencies to negotiate labor contracts similar to those in the private sector, and state and local bodies that approved such contracts—called for any different response, he said.

Plaintiff Mark Janus said he was "thrilled" that the Supreme Court has restored not only my First Amendment rights, but the rights of millions of other government workers across the country." Mr. Janus, a child-support specialist for the state government in Springfield, Ill., objected to a \$45 monthly payroll deduction for Afcscme Council 31, which negotiated the contract providing his wages and benefits.

"The right to say 'no' to a union is just as important as the right to say 'yes,'" said Mr. Janus, who was represented by the National Right to Work Legal Defense Foundation after Illinois Gov. Bruce Rauner, a Republican who initiated the case, was dismissed from the suit on procedural grounds.

For the court's liberals, the decision—on the final day of this term—capped a term replete with disappointment.

"There's no sugarcoating today's opinion," Justice Elena Kagan said from the bench. The majority, acting as "black-robed rulers overriding citizens' choices," had stopped "the American people, acting through their state and local officials, from making important choices about workplace governance," she said.

Joined by Justices Ruth Bader Ginsburg, Stephen

### Major Decisions

The Supreme Court's 2017-18 term has featured plenty of blockbuster cases, including several that could substantially affect everyday American life. Here are some of the highlights from this year's cases.



### Groups Prepare For Ruling's Fallout

**WASHINGTON**—The Supreme Court ruling enabling government workers to stop paying certain union fees threatens to weaken a major stronghold of the political left and will set off campaigns by conservative groups to persuade workers to opt out of their unions.

The court ruled that requiring an Illinois child-support worker to pay union fees violated his free-speech rights. The ruling is expected to affect an estimated five million government workers in 22 states who could stop paying such fees, known as "fair share" or agency fees, that fund unions'

collective-bargaining costs.

Lily Eskelsen García, president of the National Education Association, the nation's largest union with nearly three million members, called the decision "a blatant slap in the face for educators, nurses, firefighters, police officers and all public servants."

In anticipation of the ruling, the union had cut its budget by \$50 million and said it feared losing agency fees from 90,000 members. The nation's other primary teachers union, the American Federation of Teachers, estimated in an internal memo earlier this year that it could lose 20% or more of its total funding.

Conservative groups kicked off campaigns on Wednesday that have been months in the making to inform union members via direct mail, advertising

and websites that they can now opt out of paying dues.

The conservative Mackinac Center for Public Policy in Michigan said it would spend \$10 million during the rest of the year on efforts that include a national call center that went live Wednesday.

Lindsay Killen, the group's vice president of strategic outreach, said the group expected to field 40,000 to 60,000 calls from public employees in coming months, based on a campaign the Mackinac Center ran in Michigan after the state passed right-to-work laws in 2012. Over a three-year campaign, more than 100,000 public employees stopped paying dues, including 25,000 at the Michigan Education Association, she said.

—Michelle Hackman

Some 20 states, principally in regions such as the Northeast and Pacific Coast, permit governments to reach union agreements requiring employees within a bargaining unit either to join the union or pay it a fee for core services, such as negotiating and enforcing contracts.

Unions say they are necessary to prevent free riders—employees who receive the raises, benefits and job security a union contract offers but let co-workers foot the bill.

Although the government must respect many of its employees' constitutional rights, a line of Supreme Court precedent

gives public agencies more leeway when they act as employers.

The 1977 precedent that the court overruled, *Abood v. Detroit Board of Education*, reasoned that a public agency might find it beneficial to accept a union-security clause for the same reasons a private company might: ensuring labor peace. *Abood* held that objectors cannot be charged for union activities beyond collective bargaining, such as political campaigning.

But after the court tilted further to the right in 2006, with the appointment of Justice Alito, antiunion groups developed a challenge on the premise that anything a union does in relation to a government agency, including bargaining, is inherently political, because elected officials ultimately are responsible for its decisions.

A greater share of workers in government are union members than in the private sector.

### Rate of union membership



Source: unionstats.com

THE WALL STREET JOURNAL.

## Partisan Lines Deepen

*Continued from Page One*  
troversy and by the shocking victory of a 28-year-old progressive upset over a party leader in New York, leading them to believe more victories over the establishment are possible. The Republicans' Trump base was energized by its success in defeating an immigration bill in the House and by a Trump rally this week in which he again belittled the media and the "elites."

On Wednesday afternoon, the real shock wave hit. Supreme Court Justice Anthony Kennedy announced his retirement. That ensures a highly contentious effort in the coming weeks to replace him with a reliably conservative jurist. The vacancy thus raises the election-year stakes for both parties by reminding voters that winning control of the Senate this fall also means winning control of the process for confirming new justices.

Thus, the pot is boiling at a time when the country already is deeply divided in its views of President Donald Trump, the Senate is nearly evenly divided between the two parties, and the Supreme Court is split between liberal and conservative blocs. Little wonder, then, that political anxieties are running high.

"You have a country that is increasingly raw, where the emotions and actions and deeds and modes of interaction are increasingly raw," says Democratic pollster Mark Mellman. He adds: "I fear we are on the verge of an unraveling."

Rep. Leonard Lance of New Jersey, a Republican who is part of a bipartisan coalition of lawmakers urging colleagues to come together across party lines, acknowledges that some candidates will seek to stoke the divisions to their advantage this fall.

"I will not be campaigning that way," he says. He dislikes many of President Trump's acerbic tweets, but also is angry about Ms. Sanders, the White House press secretary, being refused restaurant service: "Perhaps that will continue. But I believe the public will reward people who believe in the center. And who conduct themselves appropriately."

Right now, though, the power and passion don't appear to be in the political center, but rather on the wings of the two parties. That was the message from the most stunning primary upset of the year, in New York's 14th House district, where a 28-year-old progressive named Alexandria Ocasio-Cortez came from no-

where this week to defeat a well-funded member of the Democratic establishment, Rep. Joseph Crowley.

That victory was the breakthrough the party's liberal wing had been seeking to show that energy had shifted to the left after the bitter disappointment of Hillary Clinton's presidential campaign defeat. Ms. Ocasio-Cortez had joined other Democrats in actively protesting the Trump administration's family-separation policy at the border. Perhaps more important, she ran on what is emerging as a standard liberal-policy agenda that includes opening the Medicare program to all citizens and providing tuition-free public college education.

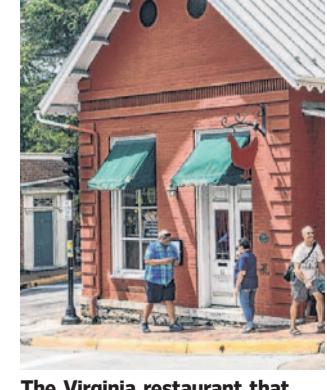
The new Supreme Court vacancy, meanwhile, promises to similarly energize the Republican Party's conservative base. Party leaders had been worried about an "enthusiasm gap," in which Democrats were more excited about November's election than were Republicans.

Now, though, they are counting on a fight over the president's appointment of another conservative Supreme Court justice to energize Republican voters who may not like Mr. Trump personally but appreciate his appointment of conservative judges.

The simple process of nominating a new justice already is stoking emotions. Senate Majority Leader Mitch McConnell announced that confirmation hearings on a successor to Justice Kennedy would be held this fall. That enraged Democrats, still smarting from Mr. McConnell's maneuver to block even hearings on a Supreme Court nominee in the final year of President Barack Obama's term, when he maintained that such an important choice shouldn't be made until after voters speak in a national election.

Sen. Chuck Schumer, the Senate's top Democrat, immediately argued that, by that standard, the Senate again should put off the nomination process until after the fall election.

Regardless of how that power struggle plays out, it provides yet another reason—as if it were needed—for passions to escalate on both sides of the partisan divide.



The Virginia restaurant that refused to serve Sarah Sanders

ASSOCIATED PRESS

## U.S. NEWS

# Kennedy's Key Role In Notable Decisions

By JOE PALAZZOLO

Justice Anthony Kennedy played a pivotal role in some of the court's most closely watched cases. Here are a few:

**Romer v. Evans (1996):** The high court, in a 6-3 ruling, struck down a voter-adopted law in Colorado that wiped out local protections from discrimination on the basis of sexual orientation. Justice Kennedy, establishing himself as a proponent of same-sex equality and paving the way for landmark gay rights rulings, ruled that Colorado's Amendment 2 violated the 14th Amendment's guarantee of equal protection.

**Roper v. Simmons (2005):** The court ruled 5-4 that imposing the death penalty on juvenile offenders violated the Constitution's Eighth and 14th amendments. Justice Kennedy, writing for the majority, pointed to a national consensus against capital sentences for minors.

**Boumediene v. Bush (2008):** The 5-4 majority ruled that terrorism suspects captured overseas and held indefinitely at the U.S. Naval Station at Guantanamo Bay, Cuba, could challenge their confinement in civilian courts. Justice Kennedy's opinion rejected the Bush administration's arguments that the naval base was beyond the reach of U.S. courts.

**Citizens United v. Federal Election Commission (2010):** The 5-4 majority, in an opinion written by Justice Kennedy, ruled that the First Amendment protects corporate speech in elections and struck down restrictions on how much money companies can spend in support of political candidates.

**Obergefell v. Hodges (2015):** The high court's 5-4 decision recognized the constitutional right of same-sex couples to marry, toppling laws around the country that defined marriage as between a man and a woman. Justice Kennedy, writing for the majority, held that the right of same-sex couples to marry is guaranteed by the 14th Amendment's Equal Protection and Due Process clauses.



Justice Anthony Kennedy, with President Ronald Reagan, after being sworn in on Feb. 18, 1988.

## Justice Defined Career At Center of Big Rulings

By BRENT KENDALL AND JESS BRAVIN

**WASHINGTON**—The retirement of Anthony M. Kennedy brings to an end the tenure of one of the Supreme Court's most consequential modern-day justices, the author of landmark rulings on gay rights, the death penalty and campaign finance and one of the last bearers of the case-by-case jurisprudence and old-fashioned politesse that once marked the court.

In his typically low-key manner, Justice Kennedy held his plans close Wednesday, surprising even fellow justices when he announced his retirement at their private gathering following the court's morning sitting. Then he made the short trip up Pennsylvania Avenue to hand deliver his resignation letter to President Donald Trump at the White House. "It is undeniable that he has had a monumental effect on the law," said his colleague on the high court, Justice Sonia Sotomayor, of his retirement.

The 81-year-old Justice Kennedy, an idiosyncratic conservative, spent much of his tenure situated at the ideological center of a court increasingly divided into liberal and conservative camps that are sharply, sometimes bitterly divided on

hot-button issues. His judicial leanings often left him in play for both sides, making him a pivotal figure in many of the court's most important rulings, and lawyers on both sides of a closely fought case often tailored arguments largely to him.

He was often described as the court's swing justice, a moniker he never embraced. "I hate that term," he said to laughter during an appearance in 2015 at Harvard Law School.

*He prioritized individual liberty even when it clashed with tradition.*

"The cases swing. I don't."

A native of Sacramento, Calif., Justice Kennedy was confirmed by the Senate on a 97-0 vote and joined the court in 1988. He was a more moderate nominee than President Ronald Reagan originally intended for the seat left vacant by the retirement of Justice Lewis Powell. But the president's two earlier nominations had failed.

For three decades, Justice Kennedy left an imprint on the high court few could match.

On the conservative side of the ledger, he was part of majorities that loosened campaign-finance restrictions, recognized individual gun-ownership rights and decided that voting-rights protections dating to the Jim Crow era imposed too heavy a burden on states in the modern-day South.

He wrote the court's 2010 opinion in *Citizens United v. Federal Election Commission*, which struck down longstanding restrictions on corporate and union political spending in elections. He also was part of the 5-4 conservative majority in *Bush v. Gore* that resolved the dispute in the 2000 presidential election.

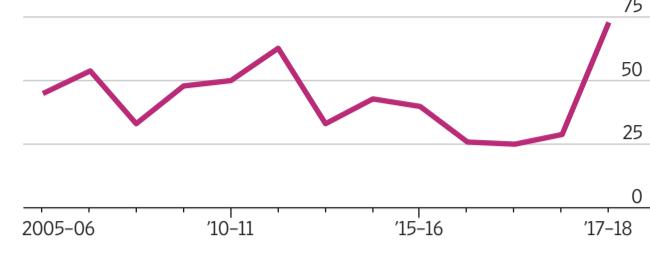
Justice Kennedy, however, joined with his liberal colleagues on an array of rulings that are likely to define his legacy—none more so than on gay rights. In 2015, he wrote the court's 5-4 ruling in *Obergefell v. Hodges* establishing that same-sex couples have a constitutional right to marry. He also authored decisions that struck down a U.S. law denying federal benefits to legally married same-sex couples and a Texas statute that made it a crime for two people of the same sex to engage in sexual activity.

The justice was the swing vote "in part because he was more of a judicial statesman

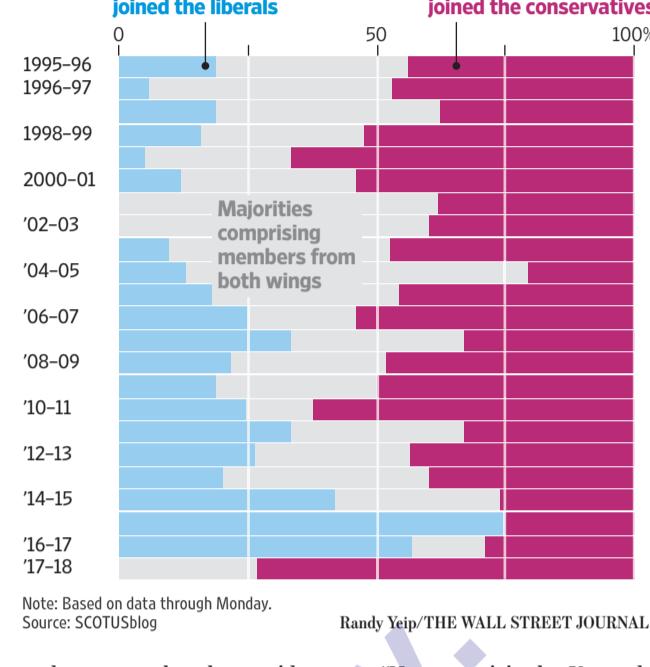
### Decisive Vote

In recent years Justice Anthony Kennedy frequently joined with the court's liberal wing in 5-4 decisions, but in the just-concluded term he mostly sided with his conservative colleagues.

Percentage of 5-4 cases decided in conservatives' favor



Percentage of 5-4 decisions by composition of the majority



Note: Based on data through Monday.

Source: SCOTUSblog

Randy Yeip/THE WALL STREET JOURNAL.

"Not surprisingly, Kennedy often divided the right, because the right has a divide within itself," Mr. McGinnis said.

Though Justice Kennedy mostly voted with them, Republicans could be suspicious of his leanings and his sometimes lofty sense of the judicial role. Staunch legal conservatives, both on and off the court, could be sharp in criticizing him when he strayed.

A Roman Catholic, Justice Kennedy found himself aligned with different blocs of justices depending on the type of abortion restriction under review. In 1992, he was part of a group of justices that reaffirmed, in *Planned Parenthood v. Casey*, the right to an abortion established in *Roe v. Wade*. In 2016, he joined with court liberals to strike down parts of a Texas law that had forced some abortion clinics in the state to close. But in 2007 he wrote the court's 5-4 opinion upholding a federal ban on so-called partial-birth abortions.

## Kennedy To Quit High Court

*Continued from Page One*  
fall," Mr. McConnell said on the Senate floor, adding, "We'll look forward to yet another outstanding selection."

Democrats, still furious over Mr. McConnell's refusal to consider President Barack Obama's nominee for a 2016 vacancy, Judge Merrick Garland, tried to stop an all-but-inevitable result. If Republicans wanted to give voters a say in the Supreme Court selection in 2016, the Democrats said, GOP leaders should do the same now.

"Millions of people are just months away from determining the senators who should vote to confirm or reject the president's nominee, and their voices deserve to be heard now," said Senate Minority Leader Chuck Schumer (D., N.Y.), "as Leader McConnell thought they deserved to be heard then."

The partisan intensity flowed in large part from the pivotal role Justice Kennedy has played over his 30 years on the high court. While most appointees in recent years have succeeded a like-minded predecessor, the 81-year-old Justice Kennedy, while conservative in nature, nonetheless has proved less predictable on many issues that have helped define modern American society.

His departure puts in play a range of major issues, with liberal rulings on access to abortion, gay rights, capital punishment and voting rights having been decided by his opting to part from fellow conservatives.

Supreme Court nominations in recent decades have become fodder for bitter public lobbying campaigns, as opponents seek embarrassing details on a nominee and supporters air ads on his or her behalf.

This year, the vacancy lands



Justice Anthony Kennedy was seated second from the left in this portrait last year, shortly after President Trump's first pick, Justice Neil Gorsuch, joined the court.

in the middle of a political climate that is already overheated. The approach of the first midterm vote since Mr. Trump's victory has produced harsh rhetoric, an array of demonstrations and protests, and political turmoil in both parties.

Polls suggest Democrats currently have an edge when it comes to voter enthusiasm given their widespread distaste for the president, but Republicans hope a court vacancy will drive more GOP voters to the polls, including some who may have misgivings about Mr. Trump but embrace his call for conservative judges.

Conservatives in recent years have pushed to groom and vet judicial candidates with ideological pedigrees. For many in the GOP establishment, it was Mr. Trump's pledge to delegate judicial selections to the White House

helped overcome their initial discomfort with the political outsider who in other fields relied on his gut rather than party orthodoxy.

Mr. Trump's first nominee, Justice Neil Gorsuch, was selected from lists assembled by leaders of the Federalist Society and the Heritage Foundation, two intellectual bulwarks of Washington's Republican leadership. Mr. Trump has promised that subsequent choices will follow from their rosters as well.

Leonard Leo, the Federalist Society executive who steered Justice Gorsuch's selection for the White House, immediately took a leave of absence Wednesday that allows him to reprise that role at Mr. Trump's side.

People who have spoken with Mr. Leo and others in the decision-making process said the calculus for the White House

now would include a strong preference for one of the six women on the existing lists as a means of shoring up support from two Republican women senators who have prominently bucked their party since Mr. Trump was sworn in, Sens. Susan Collins of Maine and Lisa Murkowski of Alaska.

Mr. Trump's list of 25 potential candidates includes judges Amy Coney Barrett of Indiana, Allison Eid of Colorado, Britt Grant of Georgia, Joan Larsen of Michigan, Margaret Ryan of Virginia and Diane Sykes of Wisconsin.

Ken Blackwell, who was the domestic policy adviser for Mr. Trump's transition team, described what he saw as a "breakthrough opportunity" for the president on Wednesday in the chance to ensure a historic first of seating an "ironclad

originalist" woman on the Supreme Court.

But that is far from the only consideration. Some inside the White House think Brett Kavanaugh, of the U.S. Court of Appeals for the District of Columbia Circuit, should be a leading candidate, a White House official said.

The vacancy also presents a rare rallying focus for an at-times-tumultuous administration that looks back at the Gorsuch nomination as one of its most seamless accomplishments to date.

Republicans on Capitol Hill likewise were eager to relive a rare episode in the Trump era of a united GOP. Justice Kennedy's departure comes amid battles over such issues as trade and immigration that are badly dividing the party in advance of the midterms, and some Repub-

lican candidates have suggested they would rather talk about judges than Mr. Trump's more provocative statements and tweets.

Across the aisle, Democrats promised vigorous resistance, after being stung in recent days by a series of 5-4 decisions that went against their positions on issues from immigration to abortion to unions.

But it isn't clear what Democrats can do to block a Trump nominee if the Republicans—who hold a 51-49 advantage in the Senate with Vice President Mike Pence casting tiebreaking votes—stick together now.

Many progressives, who showed muscle in the party in Tuesday's primaries, support blocking Mr. Trump's nominee by any means necessary.

—Peter Nicholas contributed to this article.

## WORLD NEWS

# North Korea Upgrades Nuclear Facility

Satellite images show no immediate effort toward denuclearization after Singapore summit

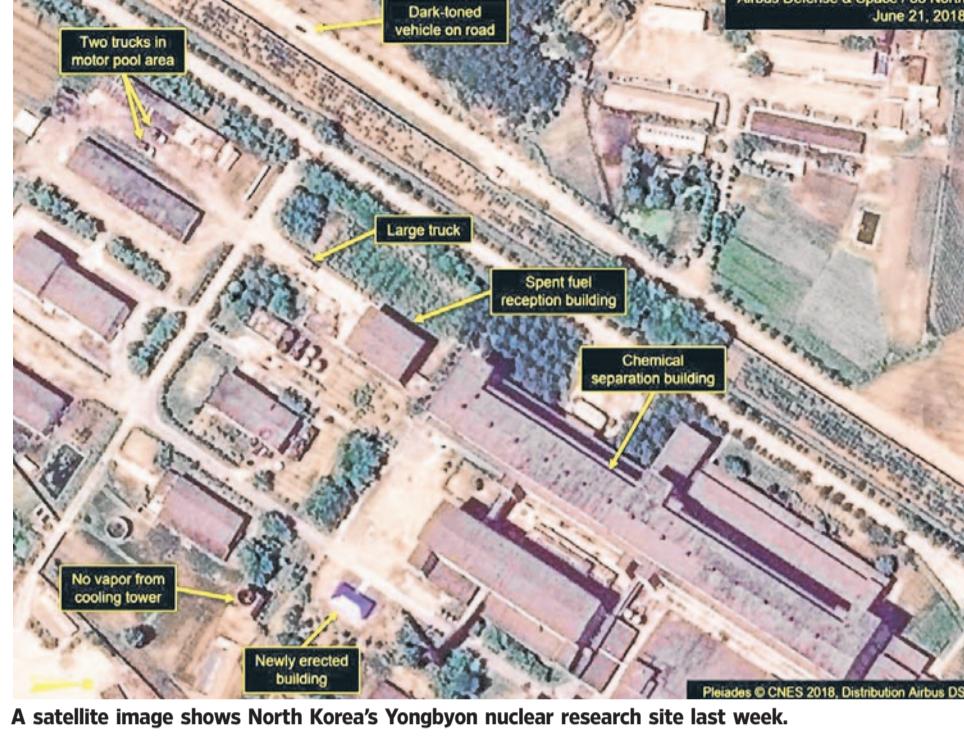
By JONATHAN CHENG

SEOUL—North Korea is upgrading its nuclear research center at a rapid pace, satellite imagery analysis suggests, despite Pyongyang's commitment to denuclearization at a summit with the U.S. this month.

The analysis from 38 North, a North Korea-focused website published by the Stimson Center in Washington, found that Pyongyang, in recent weeks, appears to have modified the cooling system of its plutonium-production reactor and erected a new building near the cooling tower. Construction could also be observed at the site's experimental light-water reactor, the report said.

The satellite pictures, captured on June 21, nine days after the Singapore summit meeting between President Donald Trump and North Korean leader Kim Jong Un, showed no immediate effort to begin denuclearization at North Korea's key nuclear research site.

Shortly after shaking hands with Mr. Kim on June 12, Mr.



A satellite image shows North Korea's Yongbyon nuclear research site last week.

Trump said the North Korean leader would return home to begin dismantling his country's nuclear program. "In fact, when he lands—which is going to be shortly—I think that he will start that process right away," Mr. Trump told reporters.

At a June 21 cabinet meeting, he said the two had agreed

to "immediately begin total denuclearization of North Korea."

The statement signed by the two leaders, however, says only that North Korea "commits to work towards complete denuclearization of the Korean Peninsula."

Mr. Trump said the process could take many years, but, in a

tweet posted after his return to the U.S. on June 13, he said: "There is no longer a Nuclear Threat from North Korea."

The 38 North report, which is based on commercial satellite imagery of North Korea's Yongbyon nuclear research site captured by Airbus Defense & Space, found that the

necessary infrastructure for operations at the experimental light-water reactor "appears externally complete."

It wasn't clear whether operations at the reactor had begun, the report said.

North Korea began work in 2010 on an experimental light-water reactor, which is several times as large as the plutonium-production reactor at Yongbyon. North Korea has said that it plans to use the new reactor for civilian electricity production. It could also be used to produce fissile material.

Some experts cautioned against relying solely on the satellite pictures as proof of duplicity on the regime's part.

Andrea Berger, a London-based senior research associate at the Middlebury Institute of International Studies at Monterey, Calif., said that the satellite imagery could show only what is happening on the outside.

"These infrastructure developments provide limited insight into the future direction of North Korea's nuclear program," Ms. Berger said.

Even so, she added, the photos "highlight the likelihood that North Korea has not pressed pause on its general nuclear and missile activities while talks are ongoing."

The 38 North analysts,

Frank Pabian, Joseph Bermudez and Jack Liu, said that they expected "business as usual" at the nuclear facility "until specific orders are issued from Pyongyang."

Ahead of the Singapore summit, North Korea invited journalists to watch it blow up its Punggye-ri nuclear test site in its mountainous northeast as a show of its good faith. North Korea didn't invite any experts, some of whom had said that the site was likely already unusable.

Mr. Kim had said in April that he considered the country's nuclear program complete, and that no further tests were needed.

At Yongbyon in May 2008, North Korea invited journalists to witness the destruction of a cooling tower as part of a rapprochement with the George W. Bush administration.

But within months, North Korea was threatening to reverse some of its steps toward denuclearization, and less than a year later it conducted its second nuclear test.

This time around, Secretary of State Mike Pompeo, who met Mr. Kim twice in Pyongyang before a third meeting in Singapore at the summit, has emphasized his belief that Mr. Kim was sincere in his pledges.

# South China Sea Divides Mattis, Xi in Beijing Talks

By GORDON LUBOLD AND JEREMY PAGE

BEIJING—U.S. Defense Secretary Jim Mattis met with Chinese President Xi Jinping on Wednesday to try to find common ground on security issues, but appeared to agree to disagree over the South China Sea.

The visit came as the Trump administration signaled that the U.S. wouldn't harden its position in the burgeoning economic conflict between the U.S. and China. The subject of trade came up briefly during Mr. Mattis's visit, but aides said he aimed to keep the conversation focused on security issues and didn't carry any particular message from Mr. Trump on trade.

Aides to Mr. Mattis described his meeting with Mr. Xi and other talks as positive and constructive, and aimed at expanding the military-to-military relationship. The meeting was part of a weeklong visit to Asia by Mr. Mattis that will include stops in Seoul and Tokyo.

The talks spanned a range of issues that included Beijing's concerns about Washington's relationship with Taiwan, the self-ruled island that China also claims, as well as the denuclearization of North Korea and



U.S. Defense Secretary Jim Mattis, second from left, walked with Chinese Defense Minister Wei Fenghe, gesturing, in Beijing.

peace talks in Afghanistan.

The longstanding disagreement between the U.S. and China over Beijing's militarization of the chain of islands in the South China Sea, not surprisingly, emerged as a top is-

sue, said aides to Mr. Mattis, who was making his first visit to China as secretary.

The Chinese have maintained their position that the island-building in the South China Sea, along with the con-

struction of military facilities in recent years and the more recent placement of weaponry on some islands, is purely for defensive purposes. Mr. Mattis reinforced the American position that the islands sit in in-

ternational waters and that China should follow rules-based, international law.

A senior American defense official who attended the meetings said the Chinese have changed the "facts on the

ground" in recent months and acknowledged the two sides simply don't see eye-to-eye on the issue. "We agree to continue the discussion," the official said.

For his part, Mr. Xi told Mr. Mattis that China would stick to the path of peaceful development as it grew into a strong, modern nation, but wouldn't compromise on territorial issues, according to Chinese state media.

"We will not take the path of expansionism and colonialism and will not cause chaos in the world," he said, according to state broadcaster China Central Television, while not referencing the South China Sea directly. The report quoted Mr. Xi as saying that China's attitude was "firm and clear" on sovereignty issues.

"Not one inch of the territory left by our ancestors can be lost," he said.

Mr. Mattis's visit comes just weeks after the Pentagon disinvited the Chinese from an important naval exercise in the Pacific Ocean, a signal to Beijing that the U.S. has growing concern about China's posture in the South China Sea. Chinese officials meeting with Mr. Mattis expressed "disappointment" over the rescinded invitation, reported by The Wall Street Journal last month.

## Indonesian Leader's Allies Win Regional Vote

By BEN OTTO

JAKARTA, Indonesia—Voters handed allies of President Joko Widodo victories in regional elections, easing pressure on the moderate leader from increasingly assertive hard-line Muslims ahead of his bid for re-election next year.

Tens of millions of Indonesians turned out on Wednesday for a six-hour peaceful vote for governors, mayors and other leaders in areas home to more than 150 million voters.

Unofficial counts showed allies of the religiously moderate Mr. Widodo or his party winning gubernatorial races in four of the five most populous provinces up for grabs.

Last year, voters ousted the Christian governor of Jakarta, a confidant of the president, in favor of a candidate with Islamist support, injecting uncertainty into Mr. Widodo's political position.

In West Java, Indonesia's most populous province and a stronghold of conservative Islam, early counts showed that Widodo ally Ridwan Kamil, an architect-turned-mayor, won a close race for governor after pairing with a deputy who brought greater Islamic credentials to his ticket.

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## WORLD WATCH

SYRIA

### Assad Forces Step Up Attack on Rebel City

Syrian forces backed by Russian airstrikes intensified an assault on the city of Daraa in their campaign to retake an opposition stronghold in Syria's southwest, as the U.S. backed away from enforcing a cease-fire.

Regime forces have killed dozens of civilians and destroyed several hospitals and rescue centers in the week since it began the offensive, according to rescue workers and a monitoring group. As many as 50,000 people have been displaced, the United Nations said.

Daraa is where protests against the regime erupted in early 2011 before spreading across the country and turning into a civil war.

—Raja Abdulrahim

MALAYSIA

### Luxury Goods Seized From Najib Homes

Police said they seized handbags, luxury watches and jewelry valued at as much as 11 billion ringgit (\$274 million) from residences linked to former leader Najib Razak as part of an investigation into alleged money laundering.

The inventory includes 12,000 pieces of jewelry with a total value of \$109 million. There are 567 handbags, including ones made by Hermès, Prada and Chanel. And there are 423 watches, mostly made by Rolex,



TENSE SEARCH: Thai rescuers sought 12 boys and their soccer coach, who went missing Saturday after entering a cave that became flooded.

and about 234 brand-name pairs of sunglasses.

Earlier, investigators said they recovered the equivalent of \$28 million—in 26 currencies—which is being held along with the jewelry under close watch at the country's central bank.

Investigators gathered the haul in a series of raids following Mr. Najib's election loss last month. Corruption allegations dogged the former prime minister throughout the campaign, especially questions about the \$4.5 billion that U.S. prosecutors say was siphoned out of state investment fund 1Malaysia Development Bhd., or 1MDB.

Mr. Najib and his wife, Rosmah Mansor, couldn't be reached to comment. Mr. Najib previously denied wrongdoing and was cleared during an earlier investigation.

—Yantoulra Ngui

JAPAN

### Abe Defends Couples Without Children

Prime Minister Shinzo Abe defended the right of Japanese couples to not have children, a day after a top ruling-party official called such a choice selfish.

The official's remark prompted a wave of opposition criticism, forcing Mr. Abe to clarify what his agenda to counteract Japan's shrinking population entails.

Opposition lawmakers accused the ruling party official of not respecting personal rights. Mr. Abe agreed, noting he and his wife have no children.

Japan's population was 126.5 million as of June 1, down 250,000 people from a year earlier, government data show.

—Peter Landers

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## WORLD NEWS

# Trump, Putin Plan to Hold Summit in July

President Donald Trump said he will "most likely" meet with his Russian counterpart, Vladimir Putin, in a summit next month in Europe.

*By Peter Nicholas in Washington and James Marson and Anatoly Kurmanov in Moscow*

The president is scheduled to attend a North Atlantic Treaty Organization summit next month in Brussels and is also planning to visit the U.K. He met twice with Mr. Putin last year on the sidelines of international conferences, but has yet to take part in a formal summit meeting with the Russian leader.

"I said it from Day One: Getting along with Russia and China and with everybody is a very good thing," Mr. Trump said. "It's good for the world, it's good for the U.S. It's good for everybody."

Mr. Trump's remark came soon after his national security adviser, John Bolton, met with Mr. Putin in Moscow at Mr. Trump's request to broker a meeting between the two leaders.

Mr. Trump said midafternoon at the White House that he would know the exact loca-



Russia President Vladimir Putin, U.S. national security adviser John Bolton and members of their delegations in Moscow on Wednesday

Mr. Putin earlier this month asked Austria's chancellor to organize a meeting with Mr. Trump in Vienna.

In public comments after their meeting, Messrs. Putin and Bolton said they hoped to improve relations, which have been damaged by disagreements over Russia's military interventions in Ukraine and Syria and Russia's meddling in the 2016 U.S. presidential election.

Mr. Putin said he thought the poor state of relations was "in large part the result of the internal political fight in the U.S.," adding that Mr. Bolton's visit gave him hope that the countries could revive their ties.

Messrs. Putin and Bolton discussed bilateral relations, global stability and nuclear-arms control but didn't address sanctions, said Mr. Ushakov, the Kremlin adviser. They also discussed the situations in Syria, Ukraine, Iran and North Korea, he said.

Mr. Bolton is the highest-ranking Trump administration officials to visit Moscow since former Secretary of State Rex Tillerson did so last year.

—Rebecca Ballhaus  
in Washington  
contributed to this article.

tion of the planned summit meeting later in the day. Asked what he hopes would come of the meeting, he said he expected the two would talk about Syria and Ukraine, among other subjects. He didn't respond to a question about whether he would raise the issue of Russia's interference in the 2016 presidential election.

In Moscow earlier, Mr. Bolton said he and Mr. Putin had discussed all bilateral issues the U.S. considers relevant, including Russia's interference in U.S. elections. That topic, he said, would also be discussed at the meeting between the two leaders.

The summit would likely be preceded by a meeting be-

tween Secretary of State Mike Pompeo and Russian Foreign Minister Sergei Lavrov, Mr. Bolton said.

The summit is to be held in a third country, Kremlin foreign-policy adviser Yuri Ushakov said, according to Interfax news agency, and would start with a one-on-one meeting between the presidents that

could last several hours and would focus on bilateral relations, Syria and arms-control issues.

Helsinki is among the locations being discussed for the summit, according to people familiar with the matter. Austria has also conveyed to the U.S. its willingness to host the summit, a U.S. official said.

## Rouhani Says Iran Will Resist U.S. Pressure

BY ARESU EQBALI

TEHRAN, Iran—Iranian President Hassan Rouhani urged his people to be strong, while his government tries to tamp down protests over economic woes as the country braces for new U.S. sanctions.

In a speech broadcast a day after the U.S. threatened to impose sanctions on countries that don't stop importing Iranian oil, the president didn't directly address the U.S. warning, which comes after Washington in May pulled out of the 2015 nuclear deal and re-

stored sanctions as it seeks to isolate Tehran diplomatically and economically.

"No wise or patriotic Iranian would bend to pressure, tyranny, unfair words and insult," Mr. Rouhani said Wednesday. He asked people to stand together and "bring the U.S. to its knees."

The speech comes in the wake of growing domestic pressure on Mr. Rouhani after days of protests against his government's handling of the economy. The International Monetary Fund expects Iran's gross domestic product

growth to slow this year after rebounding since the nuclear deal brought some sanctions relief, while the government has struggled to tackle double-digit inflation and unemployment.

The threat of fresh sanctions, meanwhile, has further weighed on the local currency, which has sharply weakened in recent months—disrupting trade and sparking a rare strike this week in Tehran's oldest bazaar that spread to scores of other local markets.

"It's easy to say why foreign currency is like this. Why

the market has become like this...but it will be a resistance with the highest cost that the people will have to pay. This will worsen our economy, culture and divide us more," Mr. Rouhani said.

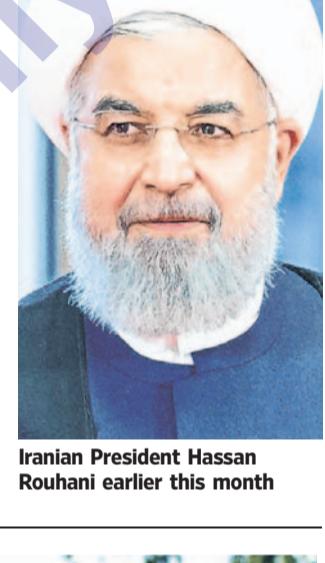
"We should show the world that we endure hardship but we won't trade our independence, democracy, Islam, our system or religion," he said.

Mahmoud Vaezi, the presidential chief of staff, said Mr. Rouhani has sent a letter to leaders of Britain, France and Germany, who along with Russia and China, are the other

countries in the nuclear deal, known as the Joint Comprehensive Plan of Action, laying out Tehran's expectations after the U.S. pulled out, state news agency IRNA reported.

The streets around Tehran's Grand Bazaar appeared to be calm on Wednesday after protests earlier this week over the struggling economy shook the capital.

The demonstrations came just months after widespread protests—the biggest since the so-called Green Movement protests of 2009—caught the government by surprise.



Iranian President Hassan Rouhani earlier this month

### FROM PAGE ONE

## Amazon Drives Into Deliveries

*Continued from Page One*  
ery \$10 spent online in the U.S. is on Amazon.com, and the number of its deliveries topped more than a billion last year, according to analyst estimates.

Still, Amazon has taken broad steps in recent years to poach some of the most desirable deliveries from its partners and could be on a collision course to one day compete directly with the shipping giants.

"There's so much growth here in parcel delivery that there's more than enough for everybody," said Dave Clark, Amazon's senior vice president of world-wide operations. "We need to build more of our own capacity."

Amazon expects that hundreds of entrepreneurs could sign up to help the company deliver packages the "last mile," which is typically the most expensive piece of an online order's journey. Amazon executives have been working for years on solving the puzzle of how to deliver parcels faster and cheaper than established players, according to people familiar with the matter.

The new initiative will give it a visible presence on the streets in bigger metro areas that could help it to start to resemble UPS, FedEx and the Postal Service. While the new service is unlikely to siphon packages from those partners in the immediate future, having even more delivery drivers will allow Amazon to make more of its own deliveries.

The number of packages Amazon needs to ship in the U.S. has more than doubled over the past five years to roughly 1.2 billion packages last year, according to estimates by supply-chain consultancy MWPVL International Inc. Projected growth is too much for existing delivery companies to handle, according to the people familiar with the matter.

Amazon has advanced deeply into logistics over that same period, building out more



Amazon is pushing to gain more control over its own deliveries.

than 70 delivery stations, buying more than 7,500 truck trailers, leasing roughly 35 aircraft to fly its wares around the country and expanding into ocean freight. Amazon spent \$21.2 billion on shipping world-wide last year, or about 12% of overall revenue.

Amazon already delivers some of its own orders in dozens of cities across the U.S. It has planned to launch a delivery service for businesses, dubbed Shipping With Amazon, this year that enables the

Amazon has faced uncertainty with its delivery partners in recent years.

company to pick up packages from businesses and ship them to consumers, people familiar with the matter said. The service, starting in Los Angeles, could undercut UPS and FedEx on pricing, these people have said.

At the same time, Amazon has increased the number of drivers who deliver for the company. It operates a service called "Flex" that empowers a fleet of citizen drivers who use their own cars and typically make faster deliveries. It has also contracted with many small delivery companies to drop off its packages in major metro areas, many in unmarked white vans.

But Amazon faces enormous obstacles to build out the infrastructure and personnel to

reliable delivery packaging on a broad scale and come close to taking market share from the big players. Amazon would require tens of billions of dollars in investment, analysts say, plus thousands of trucks, hundreds of planes and thousands of sorting centers to handle millions of packages a day.

Amazon has faced more uncertainty with its major delivery partners in recent years. In 2013, UPS's network was overwhelmed with last-minute online purchases at Christmas, causing some deliveries to be delayed and prompting an internal decision at Amazon that it had to build out its own delivery capabilities quickly, according to the people.

More recently, President Donald Trump has singled out the company's use of the Postal Service for its deliveries, criticizing the prices it pays and calling it "their delivery boy." The administration has ordered an audit of Amazon's business with the quasigovernmental agency. Amazon hasn't commented on the backlash.

While the Postal Service loses money, its disclosures show that its parcel business with Amazon and other retailers are a net benefit. A decline in first-class mail and other problems are triggering losses.

Analysts estimate Amazon ships roughly half of its more than one billion U.S. packages with the Postal Service. Even if rates go up by just \$1 a package, it could cost Amazon an estimated \$1.8 billion, according to Deutsche Bank analysts.

—Greg Bensinger  
contributed to this article.



I AM A VETERAN  
AND THIS IS MY VICTORY.

"My victory was admitting I had a traumatic brain injury and getting help." While on patrol in Iraq, Wade's Humvee struck an IED. With DAV, he's found the support he needs to overcome his injuries. DAV helps veterans get the benefits they've earned—helping more than a million veterans each year in life-changing ways. Support more victories for veterans. Go to [DAV.org](http://DAV.org).



FULFILLING OUR PROMISES  
TO THE MEN AND WOMEN WHO SERVED

## PAID ADVERTISEMENT

## Wells Fargo served over 433,800 meals over the holidays

The Wells Fargo Holiday Food Bank, a joint effort with United Way, collected more than 251,000 pounds of food nationwide in just over a month during the holidays, bringing Wells Fargo team members and community members together to fight hunger in the U.S.

Wells Fargo officially kicked off the effort on #GivingTuesday, Nov. 28, 2017, with a \$5 million grant to United Way. Through Dec. 30, 2017, the company placed specially marked collection bins in each of its approximately 5,900 bank branches and 44 other locations, and hosted a mobile pop-up food bank tour that visited 17 cities between New York and California.

"Each and every day our team members help customers improve their financial future so they can have a better life for themselves and their families," Mary Mack, head of Wells Fargo Community Banking and Consumer Lending, said. "Our Holiday Food Bank extended that type of support and compassion to the entire community at a time when the need for food is great."

In all, nearly 1,900 team members volunteered more than 7,340 hours over the holidays to support food banks and other food-related nonprofits — delivering meals, sorting food, and helping fight hunger in 36 states, the District of Columbia, and countries outside the U.S.

"Employees at 23 locations across New York City generously donated more than 30 large boxes of food to us," said Stephen Grimaldi, executive director of New York Common Pantry, a food pantry dedicated to reducing hunger throughout New York City.

Two apartment buildings and 11 grocery stores in the Hell's Kitchen neighborhood joined the effort so their tenants and customers could contribute to the Wells Fargo Holiday Food Bank effort, too.

"Wells Fargo is a valued ally of ours all year long," Grimaldi said, "and the additional holiday support means that fewer New Yorkers and their families will be hungry this winter."

## Wells Fargo ups donations to more than \$1 Million a day to charities

Wells Fargo & Company last year continued to invest in communities across the country through its philanthropy and volunteerism, donating more than \$286.5 million in 2017 to more than 14,500 nonprofits, the company announced.

The company's plan to target \$400 million in donations to nonprofits and community organizations in 2018 is an increase of approximately 40 percent from 2017. Wells Fargo already is one of the top corporate cash donors, ranking first among financial institutions and third among all U.S. companies in a 2016 report (most recent ranking) by The Chronicle of Philanthropy.

"We understand the important role we play in helping our communities, so we will continue to identify additional opportunities where Wells Fargo can make a difference," CEO, Tim Sloan said. "Wells Fargo's increased philanthropy will have a positive effect on the causes and communities we support and further enhance our Corporate Social Responsibility efforts, which will continue to focus on advancing diversity and social inclusion, creating economic opportunities in underserved communities, and accelerating the transition to a lower-carbon economy and a healthier planet."

## PAID ADVERTISEMENT

## Purple Heart vet gets home donated by Wells Fargo, refurbished by team member volunteers

On April 12, Wells Fargo team member volunteers came together at a house in Sanford, North Carolina — fixing a deck, pulling up nails, adding grout between bricks, and painting — to make the home move-in ready for a veteran they had never met.

The house, which Wells Fargo donated to Military Warriors Support Foundation, was refurbished by Wells Fargo team members and representatives from Military Warriors Support Foundation. It will be donated, mortgage free, through Military Warriors Support Foundation's Homes4WoundedHeroes program to Robert "Bobby" Henline, a U.S. Army veteran and Purple Heart recipient. Henline, who served from 1989 to 1992 and again from 2001 to 2011, suffered injuries in 2007 when a roadside bomb hit his vehicle in Iraq. More than 38 percent of his body was burned, and his left hand was amputated, resulting in 48 surgeries since then.

"Like most veterans, I don't like asking for help," Henline said. "But this was the perfect timing. I was in limbo with work and trying to have a base. You can't build your new chapter without a home base, and I can do that now. It means a lot."

Fourteen Wells Fargo team members and three of their friends and family spent time working on the interior and exterior portions of the home. The effort was through the Wells Fargo Housing Foundation's Team

Member Volunteer Program, which provides assistance to veterans beyond traditional homeownership. The foundation also provided a \$15,000 grant toward the home renovations.

This was the third time since the summer of 2017 that team members from the volunteer program worked on a military donation home. The team members who volunteered had varied reasons for giving back, but several of them did so because they have family members currently serving in the military.

"This is important to me," said Jennifer Parry, manager for the Wells Fargo branch in Sanford. "It touches my heart personally because I happen to be a military wife. I just know how much our men and women do in their service for our country, especially this gentleman here, Bobby. He has been through a lot as a wounded veteran. He definitely deserves for his country to give back to him, and I'm so grateful to be a part of it."

Jessica Willcox, a home mortgage consultant in Fayetteville, North Carolina, felt a close connection to the project because of her job and her role as the mom of a soldier. "I like to try to get as much time in the community as I can so I can meet the people around here," Willcox said.

"Being in the mortgage business, it kind of is a little more personal because it's a home that we're working on, so I was very excited to do this. It also makes me feel good because my son is in the Navy. I would like to think that if

something ever happened to him the community would reach out and do something similar."

Other team members said they volunteered because they felt compelled to donate their time. "It's the least I can do," said Patty Allred, a consumer loan underwriter in Raleigh, North Carolina. "You can give money, but to me, time is more valuable than money because you get the direct satisfaction of knowing exactly what you did."

Whatever their personal reasons for volunteering, the team members agreed that providing a home for a veteran made the effort even more special. "I believe those who've served our country really deserve a special place here," said Jordan Smitter, a business support consultant in Raleigh. "I'd be glad to do this for anyone, but even more so for somebody who's within the military. We really appreciate their service."

As for Henline, he said he was flattered that people who had never met him wanted to work on his home. "I'm a guy that's used to helping everybody else," Henline said. "For people who don't know me to volunteer for me, it's amazing."

Since establishing the Military Affairs Program in 2012, Wells Fargo has invested more than \$100 million to support military service members, veterans and their families through financial education, career transition and housing initiatives.

## 50 years of support, Wells Fargo commits another \$50 million to American Indian/Alaska Native communities

Wells Fargo has been serving American Indian/Alaska Native governments and communities for more than 50 years and currently provides capital and financial services to more than 200 tribal entities in 27 states, including tribal community development projects. "Wells Fargo appreciates the engagement we have had with our tribal customers over more than 50 years, and we respect the sovereignty of their nations," Jon Campbell, head of Corporate Responsibility and Community Relations for Wells Fargo said.

Wells Fargo has committed \$50 million over the next five years to help address the economic, social and environmental needs of American Indian/Alaska Native communities. The company will expand philanthropy programs, work to improve products and services that meet the financial and banking needs of American Indian/Alaska Native communities, award grants to national nonprofits serving these communities, and help create a greater awareness of their culture, history, and contributions.

"In the past few years, through dialogue with various tribal leaders and tribal members, we have learned a great deal about the specific needs and challenges faced by many of our stakeholders," said Jon Campbell. "And, with the commitment we announced today, we intend to help address some of those challenges in partnership with AI/AN leaders, governments, and tribal nonprofit organizations in ways that are intentional, relevant, and inclusive."

It will focus primarily on:

- Environmental sustainability: renewable energy projects and clean water programs.
- Economic empowerment: down payment assistance, affordable housing development, and other programs to advance homeownership; capacity building for American Indian/Alaska Native Community Development Financial Institutions to support small businesses and create jobs and asset-building programs to help individual tribal members create wealth through matched savings and other mechanisms; a customized financial capability curriculum; and postsecondary education programs and scholarships.
- Diversity and social inclusion: leadership and career development training; cultural awareness and language preservation programs.

## Re-affirming our commitment to communities

### Climate Action: Wells Fargo commits \$200 billion in sustainable financing by 2030

Wells Fargo will accelerate its commitments to tackling climate change with new plans to support low-carbon and conservation businesses.

The bank has pledged to spend \$200 billion over the next decade, 50 percent of which will go into renewable energy, clean technologies, sustainable transport, and green bonds. The remainder will finance sustainable agriculture, recycling, and conservation projects.

Wells Fargo CEO Tim Sloan broke the news during a keynote conference speech last week, commenting that the bank is "committed to taking a leadership role in supporting the transition to a low-carbon economy and promoting environmental sustainability through our products and services, operations and culture, and philanthropy."

The new commitment follows on from its 2012 goal of investing \$30 billion in clean technologies by 2020, which it met within three years.

Wells Fargo has also committed to greater transparency on the carbon

intensity of its portfolio, and it will regularly report on the impacts of its lending, in line with the recommendations of the Task Force on Climate-related Financial Disclosure.

"With this commitment, we are combining a strong financial goal with enhanced transparency and disclosure practices that we believe will lead to sector-wide progress on responsible, sustainable finance," Sloan added.

Mindy Lubber, CEO of the non-profit organization Ceres, said the bank's new commitments were "significant" and help contribute to the growing momentum within the financial sector to make more investments in clean energy.

"More and more investors and companies understand the economic imperative and strategic long-term benefits of keeping global temperature rise to well-below 2-degrees Celsius," she added.

Please visit [www.climateactionprogramme.org](http://www.climateactionprogramme.org) for more information.

### AHF: Wells Fargo Named Top Affordable Housing Investor

Wells Fargo has invested \$9 billion in low-income housing tax credit (LIHTC) equity over the last five years, making it the nation's largest affordable multifamily housing investor, announced bank leaders.

The ranking is based on research conducted by national accounting firm CohnReznick.

"There is a significant affordable housing crisis impacting the country right now," said Mark Myers, head of Wells Fargo Commercial Real Estate. "Demand for affordable rental housing continues to be extremely high with many people paying a disproportionate percentage of their income on rent. As the largest commercial real estate lender in the country, being able to help meet the need for more affordable living options for our customers and communities is a top priority for Wells Fargo."

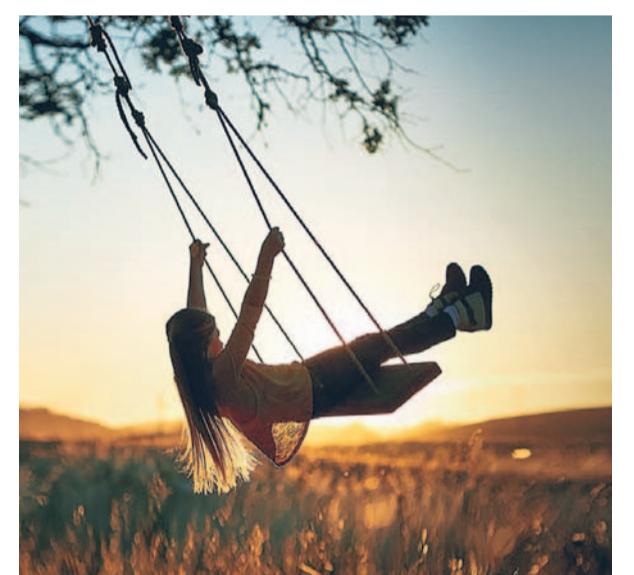
The \$9 billion total is for both 9% and 4% LIHTCs. Wells Fargo contributes debt and equity to support affordable multifamily housing and has financed

more than 180,000 units of affordable housing over the last five years.

The financial company has been investing in housing credits for more than 15 years and is one of the few banks active in both direct and fund equity investments, which increases the amount of capital used to build affordable housing for individuals and families.

In addition to LIHTC investments, Wells Fargo is an active lender to the affordable housing sector. Since 2014, it has lent \$9.6 billion for affordable housing properties by providing short-term construction, bridge, and permanent financing for affordable multifamily properties using its balance sheet as well as the Federal Housing Administration (FHA), Fannie Mae, and Freddie Mac programs.

Wells Fargo released its own affordable investment statistics. CohnReznick said it is not disclosing other individual investor data. (Reprinted with permission from Affordable Housing Finance.)



### Wells Fargo employees volunteered a record of 5,500 hours per day

In addition to corporate donations, Wells Fargo team members volunteered a record 2 million hours in 2017, valued at \$48 million (source - Independent Sector), which included 183,528 hours of service on 3,679 nonprofit boards supporting community revitalization and resiliency, homeownership, small business, food insecurity, and other global challenges. During the company's annual employee giving campaign, more than 65,300 team members pledged \$85 million in 2017 to 40,000 nonprofits. As a result, United Way Worldwide named the company's workplace giving campaign No. 1 in the U.S. for the ninth consecutive year.

"We couldn't be more proud of our Wells Fargo team members who, year after year, exhibit selfless commitment to strengthening the communities we serve and enriching the lives of others," said Wells Fargo President and CEO Timothy J. Sloan. "We honor the volunteerism, determination, and leadership of our team members, who are the cornerstone of our efforts to build a better bank for all communities. Their generosity underscores one of our company's most important core values and inspires the investments in communities across the country that we will continue to make."

"We're grateful to Wells Fargo and its team members for their growing investment and commitment to building stronger communities," said Brian Gallagher, President and CEO of United Way Worldwide. "Whether it's volunteer financial coaching, charitable giving through their workplace campaign, helping to fight hunger or supporting new job opportunities, Wells Fargo is leading across the board to make a difference in every community across America."

## IN DEPTH

# Too Much Barry Manilow?

*Continued from Page One*

Mr. Manilow's songs outside the stores, over and over, and loudly, would deter loiterers and panhandlers.

The tactic seems to have worked, but it also has mystified and annoyed neighbors and shoppers, who have been belting out their own feelings to store managers and on YouTube, Twitter and the social-networking service Nextdoor.com.

Lisa Masters, a former professional drummer who moved into a new apartment in Long Beach on April 1, says she had been worried about noise from the local bar scene. Instead, she heard Barry Manilow—at all hours, and at top volume.

She couldn't enjoy her patio or open her window without hearing "...oh Mandy..." "I thought some older man had died and left a Barry's Most Depressing Hits CD on repeat," she says. "I felt trapped in an episode of 'The Twilight Zone.'"

She eventually tracked the music to the corner Rite Aid. She says she called 800-Rite-Aid, and a regional manager called back and explained that neighbors had been complaining about the panhandlers, and that employees couldn't keep them away. The Manilow technique had worked in other locations, he said, and it was working in Long Beach.

"His attitude was: would we rather have panhandlers or Marnilow?" says Ms. Masters.

A Rite Aid spokeswoman said last week that customers had found it difficult to enter "a select few stores" because of loiterers, so Rite Aid was exploring various ways to make it easier, including the use of Barry Manilow. "We are in the early stages of exploring this approach and have not made any decision about the potential rollout of this to additional stores," she said.

The spokeswoman said Rite Aid has the right to play background music through a deal with a company that supplies it digitally. On Wednesday, after a version of this article appeared online, the music stopped at several Rite Aids, according to people who were there.

It isn't the first time music,



**A few Rite Aids in Southern California gave people hanging around outside a heavy dose of Barry Manilow.**

list says he has been ranked as the top-selling adult contemporary artist of all time, with 50 top 40 singles.

At the two Rite Aids in Long Beach, however, the volume on Mr. Manilow had been turned down in response to complaints, employees say. Ms. Masters says the store manager in Long Beach told her in April that Mr. Manilow would be placed on a timer, singing only from 8 a.m. to 8 p.m., and at a much lower volume. And Rite Aid had added some classical music to the Manilow mix.

Some customers had complained about missing the Manilow, one Long Beach employee says. He used to see people singing along and even dancing as they walked past the store.

At the Rite Aid in Gower Gulch Plaza in Hollywood, Mr. Manilow had been playing loudly since at least January.

John Fields, a record producer for the Jonas Brothers and Miley Cyrus, says he walked by the Rite Aid repeatedly when returning to his hotel from a recording studio. "I like Barry Manilow," he says. "But 'Mandy' was playing three nights in a row....It was so weird."

He posted a selfie video on YouTube as he walked outside

the store. "Somewhere Down the Road" is blasting. Mr. Fields muttered, "Another night with Barry Manilow."

He returned on June 18 and noted in another YouTube video that Mr. Manilow was still playing "loud and proud."

In late March, Debra DiGiovanni, a Los Angeles comedian, headed for the Gower Gulch Plaza Rite Aid. That's when she heard Mr. Manilow singing "I Write the Songs." The tunes didn't stop. So she sang along.

"It's one of those beautiful moments," she says. "I know all the words. When I was in my 20s we might have made fun of him, and now I'm in my 40s and he's nostalgic. It reminds me of Mom and Dad in a lovely way."

Some customers made bets on which song would be playing as they approached. Lynne Kirste and Fritz Herzog, both film archivists, were walking toward the store late last month when they took their usual bets. "Mandy" was playing.

"I won," said Mr. Herzog.

Others recommended keeping it all in perspective. "It's like a low grade migraine," said Cynthia Schick, a drug counselor who works near the Hollywood Rite Aid. "It's like living next to a waterfall."

# Elon Musk Endures 'Hell'

*Continued from Page One*

dismissed for years.

Mr. Musk, who will turn 47 years old on Thursday, sets a high bar with the hope that if he reaches a fraction of his goal, Tesla will be successful, people familiar with his thinking said. For all his success, Mr. Musk can be his own worst enemy, setting unrealistic expectations publicly and at times displaying an erratic management style that add to Tesla's challenges, say investors, former Tesla executives and close observers.

"Organization and execution is where he doesn't seem as good as other great leaders," said James Anderson, who oversees the Tesla investment at Baillie Gifford, the auto maker's third-largest institutional shareholder, which holds nearly 13 million shares. He is "divided" on whether Mr. Musk is the right leader for Tesla going forward but remains patient because of the potential.

"We are supportive for the moment but it's not necessarily permanent," Mr. Anderson said.

Tesla has fallen six months behind schedule on Mr. Musk's Model 3 production goal. The delays have stretched Tesla's cash position, led Moody's Investors Service to downgrade its debt and helped push its stock down 5.6% over the past year.

Mr. Musk stood onstage at a launch party for Tesla's Model 3 sedan and warned employees they would be in "production hell." He expected it to last six months or so. That was nearly a year ago.

He concedes some problems that led to the delay are of his own making. Asked if the "production hell" he predicted is self-inflicted, Mr. Musk

shrugged. "Most people are their own worst enemy," he said in last week's interview.

In the last year, as Tesla struggled to produce the Model 3, Mr. Musk brushed aside warnings from executives on production goals, complicated Tesla's assembly process and spooked Wall Street by jousting with analysts.

At least 50 vice presidents or higher have departed over the past 24 months, according to people familiar with the company, partly because of its acquisition of SolarCity Corp.

Some former executives say Mr. Musk's drive can be invigorating, making them feel part of a bigger goal to change the world. But that wears away as he grows increasingly impatient, sometimes blaming managers for missing his improbable goals, they say.

A night owl, Mr. Musk often fires off emails at odd hours. After some late-night meetings, he forwards messages to underlings detailing an issue, adding only the recipient's first name and a question mark.

Mr. Musk, whose other projects promise shuttles to Mars and tubes that whip people around the country, bristles at being told what's impossible. "People have said that my entire life; what else is new?" he said last week.

"They also said we couldn't land rockets." His venture Space Exploration Technologies, or SpaceX, did that in 2016.

At Tesla, Mr. Musk wanted to reinvent the assembly process as the company prepared to reveal the Model 3 in early 2016.

He began talking about "the machine that builds the machine" and envisioning a people-free factory that could churn out cars at a rate slowed only by air resistance.

Tesla had initially planned to gradually increase Model 3 production with the goal of making a total of 500,000 vehicles, including other mod-



**'We made a lot of mistakes. That's why we're here.'**

**Tesla Inc. CEO Elon Musk**

els, in 2020, according to people familiar with the plan. That would let new revenue from the mainstream car pay for Tesla's expansion, they said.

But Mr. Musk wanted to accelerate production after surprisingly strong interest in the Model 3—Tesla received 180,000 reservations in the 24 hours after announcing the car, which has a starting price of \$35,000.

His executives pushed back, warning it wasn't feasible because the design of the car wasn't yet locked into place, the robots and tooling needed to be ordered, and time was needed to work out inevitable kinks in the complicated assembly process until the end of 2017, say people familiar with the conversations.

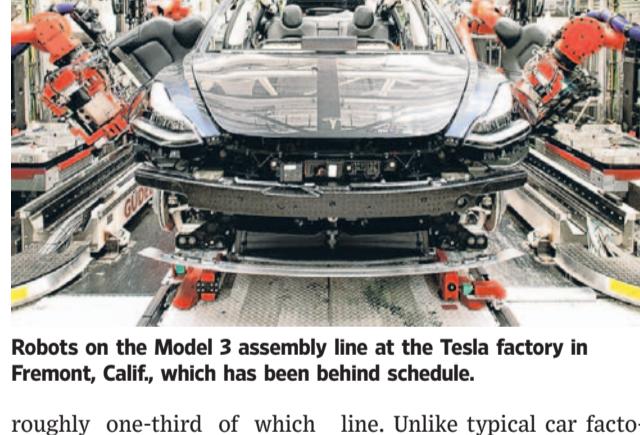
Mr. Musk sped forward, publicly declaring in May 2016 that Tesla would make as many as 200,000 Model 3 cars in the second half of 2017. Tesla ended up making about 2,700.

Mr. Musk, in last week's interview, defended his decision to advance the timetable. Some executives are looking to "externalize responsibility and say it was anything but their fault," he said.

He said if anything, he should have "constrained the time further" because Tesla would have discovered faster an approach that wasn't working and corrected course.

In July 2017, Mr. Musk announced production had begun and scaled back plans, promising 20,000 Model 3s in December. Tesla was still hand-building parts of the Model 3s in the early weeks of production. The body shop wasn't fully installed until September and took weeks of calibration to ensure robots avoided collision amid the ballet of welding the vehicle together.

Tesla installed 1,028 robots in its Fremont body shop,



**Robots on the Model 3 assembly line at the Tesla factory in Fremont, Calif., which has been behind schedule.**

roughly one-third of which were uniquely hung upside down so the company could cram more into the Fremont space.

Mr. Musk thought keeping the robots close to each other would boost efficiency, people familiar with the effort said.

**For all his success, Tesla CEO Elon Musk can be his own worst enemy.**

At Tesla's battery factory outside Reno, Nev., the designs for the automated robots were so complex they couldn't get the batteries made. In October, Mr. Musk camped at the factory, posting a video on social media of himself with a plastic cup of whiskey, roasting a marshmallow on the roof as he sang Johnny Cash's "Ring of Fire." He tweeted: "Production hell, -8th circle."

Tesla's Fremont factory struggled to implement Mr. Musk's dream of an automated conveyance system running beneath the general assembly

line. Unlike typical car factories where workers deliver parts to workstations, Mr. Musk wanted crates to shuttle parts to automated elevators that would lift the right number of pieces at the right time. Tesla invested \$80 million to \$90 million in an automated warehouse system, according to a person familiar with the effort, but engineers struggled to make it work.

Tesla ripped out part of the conveyor system and hired more workers to run parts around the factory. The company later used the conveyor for the makeshift assembly line under the tent outside to improve the odds of meeting the 5,000-a-week goal, believing it could handle, at most, 7,000 cars a week, according to a person familiar with the matter.

Mr. Musk concedes he relied too much on automation. "You really want to get the process nailed down and then automate, as opposed to assuming you know what the process will be, then automating that," he said in the interview.

Some of his atypical manufacturing ideas may still pay off. Tesla makes its own seats

for the Model 3, a move it says saves costs. And at the body shop, where the vehicles are welded together, Tesla estimates it may be able to save 36 people a shift by automating the process of loading some material into the line.

After Mr. Musk inflamed Wall Street in May during Tesla's quarterly financial call by cutting off analysts—"Boring bonehead questions are not cool," he said—he sought to make amends by calling some of Tesla's largest shareholders, including Baillie, Fidelity Investments and T. Rowe Price to assuage concerns, people familiar with the matter said.

Fidelity and T. Rowe declined to comment.

Mr. Musk has spread himself across other projects. A recent seven-day stretch saw him overseeing a SpaceX rocket launch, announcing a management reorganization at Tesla, criticizing the media on Twitter for covering the crash of a Tesla vehicle in Utah using driver-assistance technology, and appearing in Los Angeles to promote a side project, the Boring Co., to dig a tunnel beneath the city.

He acknowledged he is spread thin, but says he's focused on the production goal.

"I'm feeling good about things," he said. "I think there's a good vibe—I think the energy is good; go to Ford, it looks like a morgue." He said he just learned the phrase "What's your vibe?" from his new girlfriend, the musician known as Grimes.

Earlier in the day, Draymond Green, the Golden State Warriors star fresh off winning an NBA championship, stopped by the factory.

Later that day, Mr. Musk flew to Salt Lake City to recruit artificial-intelligence talent at a conference. He planned to return to Fremont a few hours later.

## High Hopes

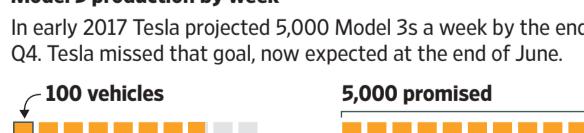
Tesla has missed Elon Musk's projections for how many Model 3 cars it could make.

### Quarterly vehicle production by model type



### Model 3 production by week

In early 2017 Tesla projected 5,000 Model 3s a week by the end of Q4. Tesla missed that goal, now expected at the end of June.



100 vehicles

793 a week at end of Q4 2017

2,020 a week at end of Q1 2018

Source: the company

Stephanie Stamm/THE WALL STREET JOURNAL

# GREATER NEW YORK

## Victory Stuns New York Politics

Ocasio-Cortez's primary win signals a change in priorities and demographics

BY KATIE HONAN

With her landslide win in Tuesday's congressional primary, Alexandria Ocasio-Cortez, a hard-left-leaning upstart, toppled a powerful incumbent and upended the way Democratic politics play out in New York City.

Ms. Ocasio-Cortez, 28 years old, never ran for office before her victory over Rep. Joe Crowley and bypassed the traditional route for aspiring politicians. Most hopefuls work their way through the local Democratic clubs or pay their dues to party officials. But Ms. Ocasio-Cortez forged a defiantly different path when she took on Mr. Crowley, a Queens kingmaker, who has been in Congress for nearly 20 years.

"She proved that the traditional county checklist is irrelevant," City Councilman Jimmy Van Bramer, who represents parts of the congressional district, said Wednesday.

She won with 57% of the



Alexandria Ocasio-Cortez won the primary with 57% of the vote.

vote in the district, which includes parts of the Bronx and Queens.

A former volunteer for Vermont Sen. Bernie Sanders's 2016 presidential run, Ms. Ocasio-Cortez embraced her outsider role, combining a strong social-media presence with neighborhood canvassing. The Bronx native said when knocking on doors, she found people con-

cerned about affordable housing and immigration. They were hungry for change, she said.

"Our seat hasn't been challenged in 14 years," she said last week. "I was shocked that no one had stepped up."

Before his defeat, Mr. Crowley had his eye on succeeding California Rep. Nancy Pelosi as the House's Democratic leader. He also is the boss of the Queens

### Alexandria Ocasio-Cortez

**Age:** 28

**Lives:** Parkchester, in the Bronx

**Born:** the Bronx

**Raised:** Westchester County

**Family:** Mother was born in Puerto Rico; father is from the South Bronx.

**Attended:** Boston University; earned undergraduate degrees in economics and international relations.

**Worked:** Community organizing for the National Hispanic Institute and bartender at Flats Fix in Manhattan's Union Square.

man representing his Woodside, Queens, district. He was elected to Congress in 1998.

Mr. Crowley has won easily ever since, but there were signs of a sea change during this year's primary. The district covers parts of western Queens and the Bronx, diverse neighborhoods that are nearly half Hispanic and have predominantly immigrant populations.

Amid the changing demographics, there also was a movement of political engagement, particularly after the election of Republican President Donald Trump. Ms. Ocasio-Cortez is a member of the Democratic Socialists of America.

"There is a new wave of political activism going on in the community," Councilman Danny Dromm, who represents parts of Queens, said Tuesday. "I think that the Democratic organization in Queens County does not know this district and I think that was a big part of it."

For Mr. Van Bramer, her win torpedoed the idea that candidates have to wait their turn. "Crowley is the machine. The machine was perceived as the problem, and she ran against the machine," Mr. Van Bramer said. "She came for the king...Now there is no king."

## Citi Bike To Expand As L Train Woes Begin

BY LARA KORTE

Citi Bike plans to put thousands of new wheels on Manhattan and Brooklyn roads next year to ease the pain of subway riders facing a major shutdown on the L train line.

Mayor Bill de Blasio announced the plan Wednesday, saying the city is committed to strengthening Citi Bike to alleviate coming mass-transit woes.

"Over the next year, riders can expect to see more bikes, docks, and pedal-assist bikes, and temporary valet stations that will together help meet demand during the L train shutdown next year," Mr. de Blasio said in a statement.

Citi Bike will add more than 1,200 new bikes and 2,500 docks next spring as the city prepares for the 2019 closure of the L train's East River tunnel, which connects the line between Manhattan and Brooklyn.

The new Citi Bikes will be concentrated in Manhattan between Canal Street and 59th Street and in Brooklyn's Williamsburg neighborhood.

The plan includes the addition of 1,000 electric pedal-assist bikes with rechargeable batteries, designed to make climbing steep bridges easier, in Williamsburg and lower Manhattan. It also will include up to 10 "valet" stations, designated drop-off sites in the city's busiest areas where Citi Bike employees will corral extra bikes.

Soli Shin, a Manhattan-based commuter who uses the L line daily, said she is likely to start taking the bus or walking when the train closes.

"But I think it's a good thing that they're putting the bikes out in general," she said, while waiting for the train at the Sixth Avenue station.

A portion of the L line, which runs from Eighth Avenue in Manhattan to Canarsie in Brooklyn, will close in early 2019 for an estimated \$800 million to \$1 billion overhaul of the tunnel. A total of 400,000 daily riders use the L train, according to city officials. More than 225,000 of those riders commute between Manhattan and Brooklyn, and 50,000 just in Manhattan.

Citi Bike launched in 2013 and operates 12,000 bikes at more than 750 stations in New York. The new bikes represent about a 10% expansion.

## Teenager Killed in a Brutal Stabbing Is Mourned in the Bronx



Lesandro Guzman-Feliz, above, was buried Wednesday after a service at Our Lady of Mount Carmel in the Bronx. The 15-year-old was slashed in the neck with a machete on June 20 by a group of men outside a Bronx bodega in an apparent case of mistaken identity. Eight suspects have been arrested. Some mourners wore Yankees pinstriped jerseys in a nod to the teen's favorite team. Outside the church, the crowd chanted, 'Justice for Junior!'

## Manhattan Apartment Inventory Rises, as Sales Dip Persists

BY JOSH BARBANEL

A slump in the Manhattan apartment market deepened during the second quarter, as sales slowed, inventory rose to levels not seen in years, and properties took longer to sell.

Fewer buyers were on the hunt and attendance fell at open houses, brokers said.

Overall, sales decreased by 10.8% compared with the second quarter in 2017, according to a Wall Street Journal analysis of city property records. "We are at the tail end of the great correction that began 18 to 24 months ago," said Leonard Steinberg, president of Compass brokerage.

Sales began to slide in the second half of 2016, a shift that many brokers and analysts attributed at the time to uncertainty over the presidential election. But the weakness has

persisted, despite falling unemployment, a booming economy, a historically high stock market and strong Wall Street bonuses.

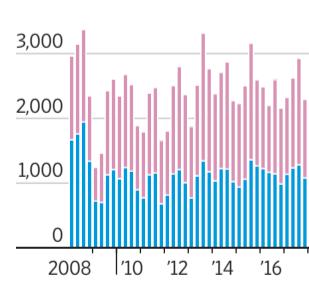
More recently, the slump has been attributed to modestly rising interest rates, and uncertainty about the impact of federal tax changes that reduce the deductibility of high state and local taxes, including the property tax in New York.

Now, many brokers are acknowledging that the Manhattan market has been in a prolonged correction as buyers push back against high prices that have risen year after year. The median price of an apartment rose by more than 40% between 2011 and 2017.

This year in the second quarter, the median price on a Manhattan apartment was down 9.2% from a record-high price set in the second quarter

### Slowing Down

Manhattan apartment sales



Source: WSJ analysis of New York City property records

THE WALL STREET JOURNAL

of 2017, though much of the decline was due to slower sales of the most expensive new luxury condominium developments.

The median price was \$1.085

million in the second quarter, according to the Journal's analysis, the lowest median price since the fourth quarter of 2016. Prices slipped by 4.2% for resales of condos, and by 0.9% for co-ops, which include many lower-priced apartments.

The analysis is based on sales filed with the city's Department of Finance through June 25. The pace of sales includes all sales as of five days before the end of each quarter.

Contributing to the uncertainty is the rising number of unsold listings, which hit at least a six-year peak of 7,487 at the end of May, according to UrbanDigs.com, a listing and real-estate data site. That was up 31.8% from May 31, 2017, and 40% from the same date in 2016.

Noah Rosenblatt, a broker and the founder of UrbanDigs, said sellers of more expensive

apartments, priced between \$5 million and \$20 million, have reduced asking prices by 15%-20%. He said some buyers were spooked by the "negative perception" of the federal tax law changes and mortgage-rate increases, which may give other buyers an opportunity to swoop in and make favorable deals.

"I think we have already corrected," he said. "You are not paying peak prices, the market has already come down. You can negotiate and you do have options." But he said his data also showed a new weakness among lower-priced units, those listed under \$2 million, a sector that has seen few effects of the slowdown because of a limited supply of apartments.

Another measure of the market's weakness is the increasing length of time it takes to sell a typical apartment at

the current pace of sales.

A new report of listings by brokerage Brown Harris Stevens found that this metric, known as the absorption rate, rose to 8.2 months in Manhattan during May, up 30% from the same period in 2017. That was the highest rate since May 2012, said Gregory J. Heym, the chief economist at Brown Harris Stevens and Halstead.

Pamela Liebman, the president and chief executive of brokerage Corcoran, said many potential buyers are staying on the sidelines, some because of high prices and others who may be pausing to rethink the value of buying an expensive home.

Despite the buyer slowdown, many properly priced properties, including expensive ones, are selling, said Hall Willkie, a co-president at Brown Harris Stevens.

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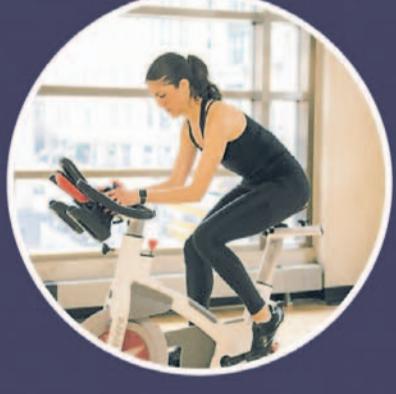
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# LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

## This Fee Exists for No Apparent Reason

Beware 'carrier-imposed fees' on international flights when searching for frequent-flier award tickets; why hide a fare as a fee?

**OF ALL THE MANEUVERS** airlines make with ticket pricing, this one may be the most devious.

On international tickets, many carriers break their price into "base fare" and "carrier-imposed fees," lumping the fee with government taxes and fees. The carrier fees began as fuel surcharges a decade ago. But now they appear truly arbitrary.

They aren't tied to distance traveled—fees are often the same for flights from Europe to New York and Los Angeles. They vary wildly by direction of travel. Business-class tickets on British Airways between New York and London have a \$1,006 carrier-imposed charge if the round-trip begins in New York, but only \$381 if the round trip originates in London.

The surcharge can be much bigger than the fare itself. A \$638 Virgin Atlantic round trip between New York and London breaks down to a fare of only \$93, a carrier-imposed surcharge of \$320 and government taxes of \$225. A British Airways basic economy ticket lists the fare at \$13 and "taxes, fees and carrier charges" at \$545 for a total of \$558.

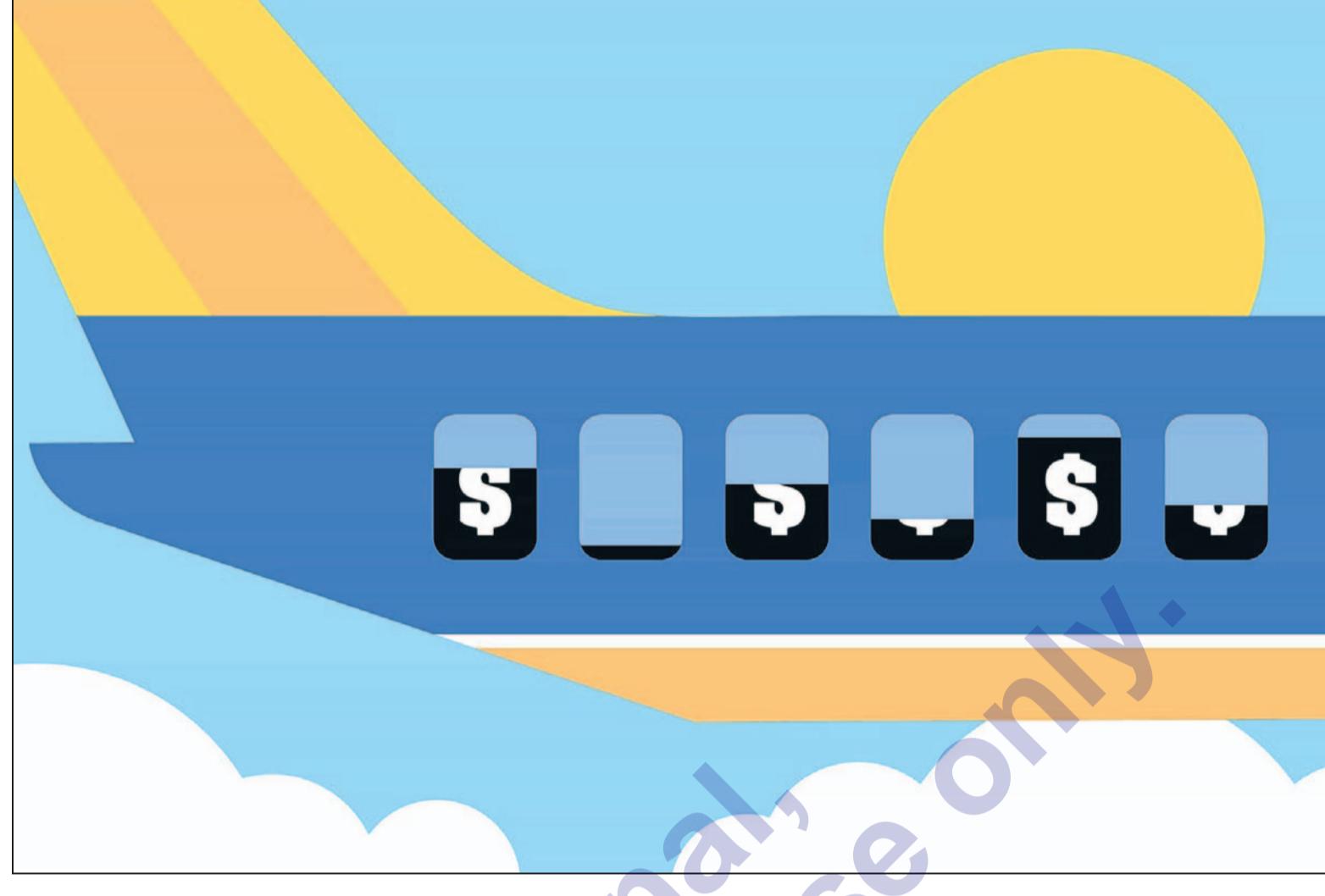
And sometimes they fluctuate just like fares. Lufthansa recently told a customer its fee can waver from day to day on the same flight. A spokesman says that's based on fluctuating ticket prices, exchange rates, "market-specific conditions" and special offers.

Since regulators told airlines they could no longer call the fees fuel surcharges, the industry has been reticent to discuss what the charges are really for and why airlines adopt the unusual pricing structure. Some carriers have said the surcharges partially cover costs beyond the company's control. But base fares do that, too.

Breaking out a significant chunk of the fare and calling it a fee lumped with taxes makes the tax bite look far bigger on tickets. A curious traveler has to drill down to see the breakdown between airline charges and government or airport assessments. It's not always obvious that an "international surcharge" goes to the airline.

Surcharges typically don't change how much tax a traveler pays on cash tickets. And it doesn't impact how many frequent-flier miles you collect for a flight on an airline that pays out miles by price instead of distance. Those carriers give out miles based on total fare. The shiftiness can change how big a discount corporations get from negotiated fares if the discount comes off base fare only, though most companies make sure they're getting discounts on the total airline portion of the fare.

The most significant impact is on frequent-flier awards. Many airlines charge the fee on frequent-flier award tickets along with required government taxes and fees. The "free" ticket you buy with miles may require an additional \$400,



\$500 or more—most of that pocketed by the airline. The British Airways website says its highest taxes, fees and carrier charges amount across all routes round trip has been \$910 in economy class.

Sometimes you can pay the surcharges in miles. Lufthansa allows you to spend an extra 15,000 miles to cover all taxes, fees and surcharges.

Airlines don't publish any sort of chart or schedule of their international fees. And they're reluctant to talk about the fare structure as well.

British Airways declined a request to discuss the charges but offered a statement saying all prices customers see include all charges and the carrier-imposed charge is clearly identified during the booking process on its website. (You have to click on "fare breakdown.")

Lufthansa also declined to talk about the charges but responded to emailed questions. Asked why the surcharge is lumped with government taxes and airport fees instead of with the airline's fare, Lufthansa said it displays a "transparent breakdown." (You click on a link and see International/Domestic Surcharge on a list of taxes in the same font, followed by Customs User Fee.) "Customers are made aware that the breakdown does not only include government taxes and fees but also airline surcharges," the airline said.

When European carriers intro-

### Carrier-Imposed Confusion

Many airlines add cash surcharges to international frequent-flier award tickets, called 'carrier-imposed fees.' But the prices are all over the map:

#### Distance Isn't an Issue

New York-Frankfurt on Lufthansa: \$320 in coach  
Los Angeles-Frankfurt on Lufthansa: \$320 in coach

**Where you begin your trip does matter**

New York to Venice round-trip on Delta: \$0  
Venice to New York round-trip on Delta: \$282 in coach

Note: All fares from June 20 searches.

#### Which airline is actually doing the flying matters

London to New York round-trip on American Flights 101 and 100: \$0

London to New York round-trip on American Flights 6138 and 6141 (operated by British Airways, below): \$269



\$420 in taxes and fees. Almost \$300 of that \$420 goes to the airline, not any government.

Delta says it began adding the surcharge several years ago, but won't say why. Delta responded to questions with a statement noting that the all-in price for a booking is always displayed. "Surcharges may be driven by competitive factors in the marketplace, which differ in the U.S., Europe and all around the globe," Delta said.

The fees make cashing in miles for international trips tricky. One of the benefits of global alliances is the ability to redeem miles on partner airlines. But the price of a trip can vary significantly depending on which airline is actually doing the flying.

Consider a trip from San Jose, Calif., to London using American AAdvantage miles. Book it using American flights—a connection in Chicago or Dallas will get you there—and you'll spend 60,000 miles plus \$189.81 in government taxes and fees. Book nonstops on British Airways using your AAdvantage miles and it's 60,000 miles plus \$545.31. British Airways collects \$320.

"I look upon these as loyalty killers. They grease the bottom line, but they have a chilling effect on loyalty," says Jay Sorenson, a frequent-flier program consultant and president of Wisconsin-based IdeaWorks Co., who has studied carrier-imposed charges.

## TELEVISION

### UNDER-THE-RADAR 'POWER' KEEPS GROWING



'Power' strikes a chord with fans who 'like people who are damaged,' says Curtis '50 Cent' Jackson, left, who stars in the show with Joseph Sikora and Omari Hardwick.

BY JOHN JURGENSEN

**WHEN THE STARZ** drama "Power" premiered in June 2014, it stood out as one of the few major television shows on the air that focused on black characters, predating such series as "black-ish," "Empire" and "Atlanta."

Now as "Power" enters its fifth season, it represents a rarity of a different sort: a veteran TV series whose audience has kept growing. With every new season, "Power" added more than a million viewers to its audience. Last season, each episode had an average 9.3 million viewers within seven days of airing, on all viewing platforms, nearly double the 4.7 million viewers who watched during the first season.

The pulpy drama stars Omari Hardwick as James St. Patrick, a New York businessman who moonlights as the drug lord "Ghost." "Power" ranked third among premium cable series in household ratings last year, behind HBO's "Game of Thrones" and Showtime's long-running "Shameless."

Despite its strong performance, "Power" is the underdog," says Naturi Naughton, who plays Ghost's wife, Tasha. At the start of the new season, set to begin on Sunday, the cou-

ple is trying to recover from the murder of their daughter as they form uneasy alliances to get revenge on a common enemy.

"Power" has won several awards honoring black performers and producers, including this year's NAACP Image Award for outstanding drama series, along with acting prizes for Ms. Naughton and Mr. Hardwick. But it hasn't been nominated for the industry's highest-profile prizes, the Emmys or the Golden Globes.

The people who make the TV show say its popularity is more valuable than trophies. But that hasn't stopped executive producer and star Curtis Jackson, also known as rapper 50 Cent, from demanding more respect for "Power."

In tweets and Instagram posts to millions of followers, he aimed expletive-filled messages at the Golden Globes over what he considered nomination snubs, took shots at "Empire" and engaged in mock feuds with "Power" creator Courtney Kemp.

"Power," Mr. Jackson says, is "not a rap record, but I know the audience is conditioned to embrace those beefs. It's the competitive nature of the art form."

On the show he plays Kanan, a deadly ex-convict and former mentor to Ghost in the

Please turn to page A12



## LIFE &amp; ARTS

## ART REVIEW

# Shimmering Black History Brought to Life

BY JAMES PANERO

**BORN ON THIS** Chicago city's South Side, Charles White (1918-1979) was already a star of the Black Chicago Renaissance, a Midwestern version of the Harlem Renaissance, by his early 20s. At the time, the artist kept a sketchbook that is one of the first objects in his illuminating retrospective—his first major show in over 35 years—now open at the Art Institute of Chicago. That small book can be easy to miss, but it is worth close inspection.

White's prodigious talents are already manifest in these pages. Here are studies ranging from the dancers of Degas to the statues of the Baule, a people of Ivory Coast. Here are confident drawings in charcoal, pastel, ink, graphite, pen, and watercolor. Here is a portrait of Langston Hughes that includes "his autograph," as White annotates with an arrow. And finally here are White's own "theories on teaching art," where he writes: "Learn to draw the figure, to compose and express ideas clearly, dramatically. Style will come by itself as a matter of course."



Charles White's 'Our Land' (1951), above, 'Harvest Talk' (1953), top right, and 'Sound of Silence' (1978), below

White emerged at a moment of foment in 1930s black Chicago. His challenge was finding the style that best represented the struggles of African-Americans and the working class, and pursuing it in an era increasingly estranged from the craft of illustration. With a lifelong focus on draftsmanship, which also included astonishing achievements in printmaking, White was a radical progressive with a retrograde talent.

Curated by Sarah Kelly Oehler of the Art Institute and Esther Adler of the Museum of Modern Art, "Charles White: A Retrospective" highlights the connections among his roots, his ideas and his art. A map in the exhibition includes points of interest that stretched from his South Side home to the main branch of the Chicago Public Library, where his working mother often deposited him as a child. Here, through books such as Alain Locke's "The New Negro," White first engaged with the neglected storylines of black America.

This native son attracted early acclaim in Chicago. White went from a Saturday scholarship student at the Art Institute at age 13 to major commissions for murals of black history in his 20s. When the State of Illinois sponsored the "American Ne-

gro Exposition" to celebrate the 75th anniversary of the 13th Amendment in 1940, White's drawing "There Were No Crops This Year," a swirling graphite illustration of two downcast figures holding an empty sack, received top prize.

White created cycles of visual mythology out of black American history. Take, for example, his mural commissioned for Virginia's Hampton Institute and completed in 1943 showing the "Contribution of the Negro to Democracy in America." This packed composition inspired by Diego Rivera's Detroit Industry Murals (and shown here only in reproduction) includes numerous historical figures led by an avenging angel fighting against the anti-democratic forces of bondage. White's studies for the work depict Denmark Vesey and Paul Robeson as luminous figures in pencil, their faces seeming to reflect light as though rendered in metallic relief. A similar study of Sojourner Truth and Booker T. Washington reveals White's sensuous all-over line, seen in the wood grain above Washington's head and in the folds of Truth's headscarf.

White's talents brought him from the heartland to the coasts. He became immersed in the Harlem Renaissance and then the worlds of black and blacklisted Hollywood. In 1965 he took an influential teaching position at the Otis Art Institute, which he held for the remaining 14 years of his life. By traveling to New York's Museum of Modern Art in October, and then to the Los Angeles County Museum of Art in February 2019, "Charles White: A Retrospective" will follow the artist's personal migration.

But White never changed political direction. His worldview spanned the Old Left of the 1930s and the New Left of the 1960s and '70s. A journey in 1951 to the Soviet Union even included a special trip to the Republic of Georgia to visit the birthplace of Joseph Stalin. The sojourn exposed him to Socialist Realism and upended his own style, which thereafter became more rounded and naturalistic, focused less on historical figures and more on contemporary images of work and toil. A later turn to collage-like compositions, borrowing neo-Dada tropes and Surrealist symbolism, connected his final work to Afrofuturism and the Black Arts Movement.

One might wonder where White's talents would have taken him had his interests in black experience not become enmeshed in class politics. Nevertheless, just as White gave vision to black history, so is art history rightfully rediscovering White's vision. "I try to find and search for answers to three questions," he said in 1971. "Who am I? What am I? Why?" Thanks to this probing exhibition, we can follow his search.

**Charles White: A Retrospective**  
Art Institute of Chicago, through Sept. 3

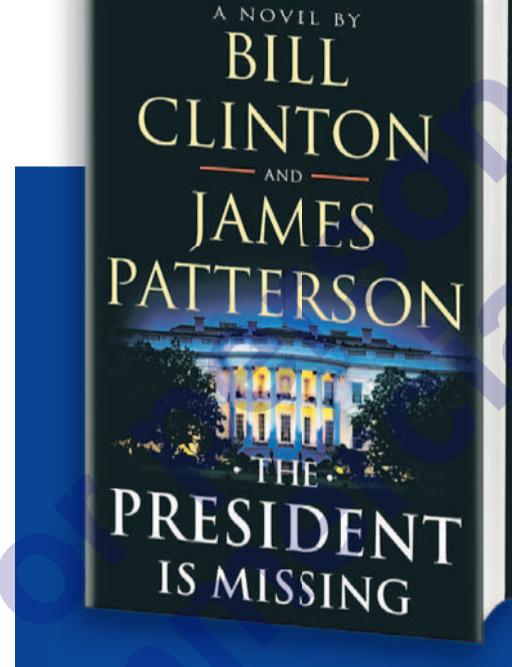
*Mr. Panero is the executive editor of the New Criterion.*



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## SPORTS

## WORLD CUP

# The World Cup Curse Hits Germany

**THERE ARE STILL** nearly three weeks of soccer here. The World Cup isn't canceled. But for the first time since 1950, the latter stages of the game's most important tournament will unfold without the game's most reliable team.

Germany, the defending champion, is out of the World Cup.

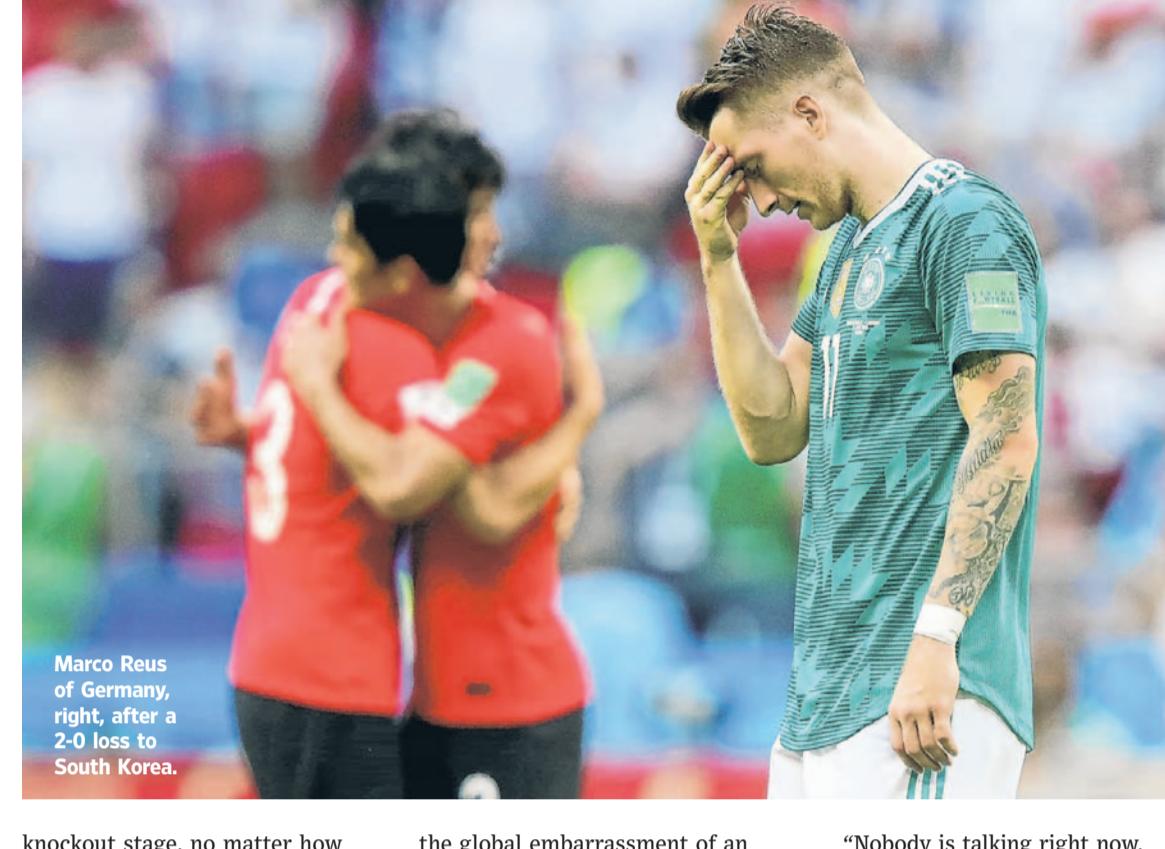
The team was condemned to a short flight home on Wednesday afternoon with a 2-0 defeat at the

*By Joshua Robinson in Moscow and Andrew Beaton in Ekaterinburg, Russia*

hands of South Korea in Kazan, deprived of a spot in the round of 16. Just four years ago, Germany had lifted the trophy in Brazil as the result of a 14-year campaign to rebuild its national team from the ground up. Taking its place will be Mexico, which survived a 3-0 defeat to Sweden to advance.

"The disappointment is just huge," Germany's manager Joachim Löw said. "In this tournament we didn't deserve win the World Cup again. We didn't deserve to be in the round of 16."

When South Korea scored its first goal against Germany—the product of a 93rd-minute defensive calamity—Mexico was on the brink of historic disaster 600 miles away at Ekaterinburg Arena. But, despite trailing 3-0, Mexican fans burst into spontaneous, sombrero-flinging celebration. A victory for South Korea guaranteed that Mexico would advance to the



ALEXANDER HASSENSTEIN/GETTY IMAGES

knockout stage, no matter how grisly its loss to the Swedes.

Now, with Sweden and Mexico advancing out of Group F, the soul-searching will begin again for Germany. They hadn't only won the 2014 World Cup. They had made the semifinals of every major tournament since 2006. Germany is now the third straight champion to follow World Cup triumph with

the global embarrassment of an exit after the group stage.

Not that many in world soccer will feel sorry for the Germans. In Moscow, where Brazil was preparing to face Serbia, yellow-clad fans broke into chants of "Bye bye Germany." Even as far away as the streets of Rio de Janeiro and São Paulo, jubilant supporters honked their horns in celebration.

"Nobody is talking right now, everyone has sunk into silence, deeply disappointed," Germany's general manager Oliver Bierhoff said. "We had it in our own hands."

Now, Germany faces an endless stream of questions. One will be whether Löw, one of the longest-serving managers in international soccer, deserves to remain in charge. He took over after the

2006 World Cup and shepherded a group of talented young players as they grew into world-beaters.

But some time after the 2014 triumph, Löw's high-intensity, high-pressing style went stale. The players no longer seemed to have the legs or the desire for it.

That much was apparent from Germany's opening match in this Russian campaign, a 1-0 defeat to Mexico. The Germans only snatched a victory in the second with a stunning late winner that left them improbably in control of their own destiny at this Cup.

That's when Germany did something decidedly un-German: it panicked.

All of the team's best-laid attacking plans turned to chaos. South Korea, meanwhile, bent without breaking.

"Yesterday we said there was only a 1% chance to beat Germany, so I told my players that it was really a last-ditch effort for them," South Korea manager Shin Tae-yong said. "And I thought about what mistakes Germany could make."

In the 93rd minute, Kim Young-gwon emerged from a mix-up in the German defense to slam home a stray ball and trigger a Mexican celebration hundreds of miles across the continent.

Three minutes later, South Korea notched a second goal. With that loss, Germany was going home. But Mexico, the day's other loser, at least found some consolation: at least one more match in Russia.

*—Paulo Trevisani contributed to this article.*

They have also scored the exact same number of goals, the second tie-breaker.

The next decider is the "fair play" tiebreaker, which calculates how many yellow and red cards a team has been issued—which means England now sits above Belgium by virtue of its superior disciplinary record. It's entirely possible that the winner of the group could be decided by which team racks up more yellow cards on Thursday, with the team tallying the most getting an easier draw in the knockout stage.

Southgate reiterated Thursday that his team will be going out to win. In a tournament that has already featured its share of surprises, he said, it makes little sense to look too far down the road.

"We will have strong opponents to face whatever happens," Southgate said. "We have not won a knockout game at the World Cup since 2006, so why we would be plotting our path to the semifinal is beyond me."

## TV Listings

**Thursday, June 28**  
(All times Eastern)  
10 a.m.: Senegal vs. Colombia (FOX)  
10 a.m.: Japan vs. Poland (FS1)

2 p.m.: England vs. Belgium (FOX)

2 p.m.: Panama vs. Tunisia (FS1)



CLIVE BRUNSKILL/GETTY IMAGES

England has been in top form in Russia with two wins in two matches.

well as the runner-up from Group H, which could be Colombia. Its chances of progressing to the semi-final would be just 14% according to FiveThirtyEight's Soccer Power Index, which updates each team's World Cup chances in real-time.

By contrast, finishing in second place would put England into a quadrant with the likely Group H winner Japan, as well as Switzerland and Sweden, where it would have a roughly 20% chance of making the semifinals.

Ordinarily, these sorts of calculations are too tricky to plot out in advance. The final round of games

in each World Cup group are played simultaneously, meaning most teams are still fighting to qualify for the knockout stage.

But England's matchup with Belgium is the rare instance where both teams have already advanced.

Making all this even more intriguing is that England wouldn't need to lose to Belgium to finish as runner-up and earn a spot in the weaker half of the draw.

England and Belgium both have identical records of two wins from two games, but they also boast identical goal differentials, the first tie-breaker used to separate teams.

## NBA

## WITNESSES TO THE DECISION

BY BEN COHEN

**THE GYM WAS** silent by the time Sam Barrett walked into his local Boys and Girls Club on the hot summer night in 2010 when it had, somewhat incredibly, become the center of the basketball universe.

He was late. Barrett took a seat, looked around and couldn't help but notice a man wearing sunglasses indoors, which is how this 13-year-old sports nut from Greenwich, Conn., realized that he was inches away from Kanye West. It was not quite what he was expecting when he found out he'd be in the small crowd that watched LeBron James announce where he would take his profound talents.

"This," he thought, "is such an odd scene."

The event known as The Decision has become only more of an oddity since then, especially now that James has the entire league wondering once again if he'll be in Cleveland next season.

He may leave. He may stay. But whatever he does this time will simply be a decision, not The Decision, and that's a reflection of how much both James and the NBA as a whole have changed over the last eight years. He will not be announcing his choice in a television special.

That any of this ever happened is hard to fathom. But if you rewatch The Decision today, it's not only James who is hardly recognizable. The other people in the room are, too. The boys and girls at the Boys and Girls Club are men and women now.

The problem for almost everyone who

came on July 8, 2010, to witness the bizarre spectacle, including future NBA player Donovan Mitchell, was that they couldn't actually see anything. They weren't allowed inside the building.

Gabby Laconna, an 11-year-old girl from Stamford, was one of the lucky few invited to take a seat behind LeBron James. She'd been playing basketball at camp in the morning when her counselors asked if she wanted to stick around for the Decision that night.

"I thought it would be on a TV," Laconna said. "I didn't know LeBron was actually going to be there."

Barrett and his buddies were still on their way over when James, who was 25 years old at the time and clearly terrified, shook hands with Jim Gray. They had piled into Hunter Frantz's mom's car after their baseball game and rushed across town while still in their uniforms. They slipped through a backdoor with seconds to spare until the dramatic reveal.

There were tens of millions of people hanging on James's every word at that point. The only people in the dark about The Decision were the ones sitting within earshot of him.

"We couldn't hear anything," said Rebecca DeCarlo.

Once they heard the boos outside, they were pretty sure he wasn't coming to the New York Knicks. (They were also pretty sure he wasn't coming to the Knicks because they were the Knicks.) Only during the commercial break were they able to surmise that he'd come all the way to Greenwich to say he'd chosen the Miami Heat.

But the convenient thing about being



among boys and girls is that James found himself surrounded by some of the only basketball fans on earth who weren't bitter. They didn't know how to be.

As they smiled for a photo together, James noticed the shortest person in the room, a 7-year-old girl named Gracen Barter, standing in front of him and struggling to be seen. He picked her up and, like so many of his teammates over the years, put her on his shoulders.

Barrett tried to get his attention in the mayhem afterward by shouting the first thing that came to his mind: Why didn't you choose the Nets?

"He glared at me and kept walking," he said. "I was like, yeah, I probably wouldn't have gone to the Nets, either."

His friends tried their luck with Kanye West instead.

"I think we asked for a mixtape or something like that," Frantz said. "We got denied."

James was vilified as soon as he left the Boys and Girls Club, and he didn't help himself by using his Miami introduction to predict not one, "not two, not three, not four, not five, not six, not seven" championships. (His prediction was not accurate.) The Miami Heat lost in the NBA Finals that year in large part because James had an inexplicable clunker of a series, and the basketball world rejoiced in collective *LeBronfreude*.

Others who were in the room where The Decision happened don't really talk about it anymore. Enough time has passed that Gabby Laconna sometimes forgets she was there. It isn't a frequent topic of conversation among her college friends anyway.

"A lot of people don't know what The Decision was," she said. "We were so young."

LARRY BUSCA/GETTY IMAGES

## OPINION

## Teeing Off on Trump



Why blame Maxine Waters?

The combustible, tenured congresswoman from California is being run through the tut-tut wringer for calling down her version of jihad on an elected president.

"If you see anybody from that cabinet in a restaurant, in a department store, at a gas station," Rep. Waters said in her normal habit of discourse—a shout—"you get out and you create a crowd and you push back on them."

This isn't an original thought. Ever since the election returns unexpectedly said Donald Trump had defeated Hillary Clinton, the left hasn't needed



The Red Hen restaurant in Lexington, Va.

"This feels like the moment in our democracy when people have to make uncomfortable actions and decisions to uphold their morals."

Psychologists will study for years how a candidate and now president whose substantive threat to "our democracy" consists mainly of unprecedented boorishness drove normally temperate people into a frenzy.

Classical conservatives, including the Founders, have warned that a society too far gone on political obsessions and animosities would put its ability to function at risk. We're just about there, unable or not even willing to let political normality exist.

When the right tips over, it mostly gets grouchy, spending its energies defining people out of conservatism. The problem for the Democratic Party is that its left wing's frenzies can turn ugly. If politics doesn't go their way, they go into the streets, or invade a restaurant to shriek at a cabinet secretary.

Over the past week or so, two activist groups in Oregon—Occupy ICE PDX and Direct Action Alliance—have shut down the federal immigration-service building in Portland. "If they arrest us on federal property," said one organizer, "we'll shut the roads down. You can't stop us."

Our politics are putting a lot of pressure on voters, who are expected to sort it all out. When they enter the voting booth—this November and in two years—the choice will be more complicated than picking between a president who tweets insults and tens of thousands of left-wing Democrats promising "we'll shut the roads down." But if the choice is between two brands of incivility, the Democratic version generally loses.

*Write henninger@wsj.com.*

## When voters have to choose between left and right incivility, Democrats will lose.

marching orders from Maxine Waters. The American left is always cocked, locked and ready to go into the streets, shout someone down, confront, harass and punish.

A week after the election, thousands of anti-Trump activists, some carrying pictures of Donald Trump and Hitler, shut down highways and blocked commuters going home during rush hour around New York and other cities. On Inauguration Day, they fought cops in the streets of Washington.

The Trump decision to separate migrant children from their parents flipped a familiar switch. Activists from the Democratic Socialists of America burst into a crowded D.C. restaurant to scream at

Richard Nixon in part rode the "law and order" issue into the White House during a publicly disordered time. Ronald Reagan ran on order, too.

Eventually, Democrats saw they would continue to lose elections if they nominated left-wing presidential candidates like George McGovern or Walter Mondale, and so they turned to centrist Southern governors such as Jimmy Carter and Bill Clinton.

For today's Democrats, the centrist Southern governor option is gone. As of this week, President Trump's opponent in 2020 will be a man or woman of the Democratic left.

The X-factor for the Democratic path back to national power is Donald Trump. The always-whirling Mr. Trump is capable of spinning himself off his gyroscope. What he has going for himself is that his opponents are crazed. Mr. Trump knows this, because he keeps feeding their mania.

The Trump opposition justifies what it says and does—such as equating the border actions with Auschwitz—as a moral imperative. The restaurant owner who drove out Sarah Sanders announced:

## Trump Plots to Erase His Tax Cut

By Karl Rove

President Trump is justifiably proud of passing tax reform last December, telling audiences "because of our tax cuts, you can keep more of your hard-earned money." He's right: American taxpayers will save \$75 billion this year and \$189 billion next year, according to the Joint Committee on Taxation.

Yet the president's tariffs on imports could negate much of the tax relief he's been bragging about. These levies are not paid by foreign countries or companies. They are passed on to American consumers in the form of higher prices for either foreign or U.S.-made goods.

The Trump tariffs are now clawing back tax savings at a rate of roughly \$10.6 billion per year. The levies already in place include 25% on steel (imports in 2017 were an estimated \$23.4 billion), 30% on solar panels (\$8.5 billion), 10% on aluminum (\$18 billion) and 20% on washing machines (\$1.8 billion).

That's chump change compared with what may be coming. On July 6, a 25% tariff kicks in on 818 Chinese imports worth \$34 billion, costing Americans another \$8.5 billion a year. If China

retaliates, Mr. Trump has said he'll slap a 10% tariff on an additional \$200 billion of Chinese exports. The president warned last week that if Beijing responds a second time, he could levy a tariff on \$200 billion more in Chinese exports. And an administration proposal for a 25% tariff on 284 Chinese exports to the U.S., whose value was \$16 billion in 2017, is pending.

**Your paycheck may be bigger, but tariffs will take a bite out of it.**

When the European Union imposed tariffs on selected American goods after being hit with U.S. steel and aluminum tariffs, Mr. Trump threatened a 20% tariff on cars imported from the EU. The administration hasn't been clear whether this would hit only auto sales—whose value in 2017 was \$43.4 billion—or also include parts, valued at \$14.5 billion.

As if this weren't bad enough, on May 23 Commerce Secretary Wilbur Ross ordered an investigation into whether imports of foreign-made cars, sport-utility vehicles, vans and light trucks

threaten "national security." If the administration finds that Toyotas, VWs and Range Rovers are a danger to the U.S., Mr. Trump reportedly will ask for up to a 25% tariff on all imported autos and car parts. With these valued at \$324 billion in 2017, it could cost Americans \$81 billion a year.

All these actions add up to \$19 billion a year in new tariffs already levied or pending, and potentially up to \$125 billion a year more from additional tariffs the administration has threatened. Most of this money will come from Americans' family budgets, erasing a large share of their savings from the tax cut.

Some of the price will also be paid in job losses. The president will have trouble escaping blame for this. Pennsylvania Sen. Pat Toomey confronted Mr. Ross at a recent hearing about the plight of Allegheny Technologies, a Pittsburgh metals company. It imports specialty steel not commercially available in the U.S. The administration's new steel tariff could cost 100 workers their jobs if Allegheny doesn't get a tariff exemption.

Retaliatory tariffs levied by foreign countries will cause U.S. companies to move jobs overseas. Just as Harley-Davidson is seeking to keep its

European sales from being slammed by the EU's retaliatory tariffs, Kraft Heinz may move some production to Canada to keep ketchup sales there from being hit with a new Canadian tariff.

If the goal is a level playing field, tariffs are not the answer. One alternative: The Trump administration should reconsider its aversion to litigating these disputes before the World Trade Organization. In 2017, Bloomberg found the U.S. had an 86% success rate for its trade complaints at the WTO. America now has 117 cases pending at the global body.

One filed in March by the Trump administration challenges China's theft of U.S. intellectual property.

Mr. Trump chose a politically popular and economically productive path by embracing pro-growth tax reform. But the wave of tariffs he's imposed or threatened could erase the progress he's made—not only for family budgets but for his political fortunes.

*Mr. Rove helped organize the political-action committee American Crossroads and is the author of "The Triumph of William McKinley" (Simon & Schuster, 2015).*

## A Righteous U.N. Secretary-General

By Abraham Foxman and Scott Lasensky

The United Nations has long been hostile to the Jewish people, but Secretary-General António Guterres, who took office 18 months ago, has taken steps to change that.

He speaks with moral clarity. "A modern form of anti-Semitism is the denial of the right of the State of Israel to exist," he told the World Jewish Congress in April 2017. "The State of Israel needs to be treated as any other state, with the same rules." When a biased U.N. report about Israel was published last year, he lost no time in ordering it withdrawn.

A native of Portugal, he has acknowledged his own country's history of extreme bias against Jews. He has affirmed

the connection of the Jewish people to the land of Israel, and to Jerusalem. "Anyone visiting Israel is left with no doubt that it has fulfilled the rights and national aspirations of Jews throughout generations," he said in August 2017 in Israel at the Museum of the Jewish People.

**António Guterres takes the lead against anti-Semitism.**

There were encouraging signs at the U.N. even before Mr. Guterres's appointment. The U.N. General Assembly initiated a Holocaust commemoration program and condemned Holocaust denial. The U.N. recognized Yom Kippur as an official holiday.

In 2015, the General Assembly held its first-ever meeting on anti-Semitism. And with America's lead, institutionalized barriers to Israel's full participation, most notably its exclusion from regional and thematic groups, have been steadily breaking down.

Yet much remains to be done. The quest for a comprehensive Arab-Israeli peace is incomplete. Mr. Guterres can play a vital role stewarding global relief and development efforts for the Palestinians, especially in Gaza, ensuring accountability and that international funds reach the Palestinian people.

He can also step up efforts to fight the surge in global anti-Semitism, using his bully pulpit and the resources of his office. He can strengthen the U.N.'s modest Holocaust commemoration and education program.

He can also regularize the U.N.'s engagement with the Jewish people through scheduled, not ad hoc, consultations with a broadly representative set of community leaders.

A full reversal of attitudes and actions will take time. But the Jewish people are patient—and fortunate to have strong allies like the U.S. We look to Ambassador Nikki Haley to build on the work of her predecessors and previous administrations and achieve lasting change at the U.N.

*Mr. Foxman, a former national director of the Anti-Defamation League, is head of the Center for the Study of Anti-Semitism at New York's Museum of Jewish Heritage. Mr. Lasensky, a former U.S. diplomat, is a visiting fellow at Israel's Institute for National Security Studies.*

BOOKSHELF | By Joseph C. Sternberg

## Monetary Mavericks

## Unelected Power

By Paul Tucker  
(Princeton, 642 pages, \$35)

A book about central banking that begins with Britain's vote to leave the European Union, America's election of Donald Trump as president and Continental Europe's rising populism is starting in the right place. That alone gives Paul Tucker's *"Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State"* a claim as one of the more perceptive books on his subject in recent years.

We should be alarmed that a mass-market subgenre of books on central banking is developing at all. Readers have been treated lately to popular histories of the U.S. Federal Reserve (Roger Lowenstein's *"America's Bank"* in 2015); accessible scholarly analyses of the Fed's unwieldy inner workings (Peter Conti-Brown's *"The Power and Independence of the Federal Reserve"* in 2016); and any number of memoirs and screeds by or directed at current and former central bankers around the world.

These books are undoubtedly fascinating for bankers and newspaper columnists of a certain disposition, but the question arises: Aren't central banks supposed to be less interesting than this? The promise of the modern central bank is that it will make its corner of the economic-policy world technocratic and academic—in a word, boring.

The lesson of the past decade is that this promise is a lie. The developed world's four major central banks—the Fed, the Banks of England and Japan, and the European Central Bank—have executed a series of extraordinary policy maneuvers to rescue us from the 2008 financial panic, with debatable success. These include ultralow or negative interest rates; the purchase of sovereign debt in mind-boggling quantities; forays into commercial debt, equity and real-estate markets; and ventures into mortgages, small-business loans and other similar instruments. Central banks have also taken on vast new supervisory powers over the financial system. Each of these measures has had profound effects on our economies: debtors win, savers lose; large, bond-issuing companies get credit, smaller firms don't; owners of assets accumulate wealth, wage earners see their salaries endangered by inflation. Such distributional choices are normally left to elected leaders, but no one elects a central bank.

Mr. Tucker reminds us how this happened. He places the development of modern central banking firmly within the wider story of administrative governance in the 20th century and its expansion at the expense of electoral accountability. "Central banks might well be the current epitome of unelected power," he writes, "but they are part of broader forces that have been reshaping the structure of modern governance." His brief account of the Fed's history starts not at the usual spot—the 1907 panic and its aftermath—but with the creation of the Interstate Commerce Commission, in 1887, taken by some as the first step in the development of America's modern bureaucracy. The Fed itself was created in 1913; Mr. Tucker notes that the Federal Trade Commission was born only a year later. One could add that other turning points in the Fed's history—its further centralization in 1935 and an accord with the Treasury Department entrenching its independence in 1951—were also high-water marks for technocracy. Other central banks in the developed world had similar theoretical origins.

## The question is not whether recent interventions by central banks were effective, but whether they were legitimate.

The question now is not whether these central-bank interventions have worked but whether they can be viewed as legitimate. On this Mr. Tucker offers the most compelling recent exploration of the constitutional problems posed by an independent central bank in a democracy. "The people's tolerance for the inevitable disappointments and frustrations of government is greater when they can vote out their governors," he notes. Politicians had hoped that independent central banks would help shield them from public anger, but may ironically be leading voters to punish them instead, via Brexit or Mr. Trump, for the consequences of central-bank decisions. Still, surely it's better for our democracy that we all know whom to blame for what.

Mr. Tucker's exploration of this constitutional thicket is evenhanded, even admitting that there are virtues to central-bank independence. Most important, he notes that in a world of fiat money such as ours, hiving off monetary policy from the executive branch in theory preserves the taxing authority for the legislature and prevents the executive from taxing via inflation. That's something, anyway.

It all makes for a thought-provoking read. One minor quibble is that, despite the considerable evidence that Mr. Tucker marshals, his recipe for imbuing central banks with legitimacy seems implausible. His "principles for delegation"—including the principle of delegating authority to an independent agency like a central bank only if "the policy instruments are confidently expected to work, and there exists a relevant community of experts outside" the agency to judge its success or failure—are unsatisfyingly abstract, given the strength of the political currents he describes.

A bigger problem is that the book's length, organizational infelicities and jargon-laden prose make it less compelling as a polemic than it ought to be. Too often the narrative thread gets lost in a flurry of bulleted lists and theoretical digressions. And while "central bank independence" is a wretched mouthful, abbreviating it to "CBI" throughout an entire book isn't much better. Voters are rightly angry that the political and economic order in the West has stopped working for too many people, and Mr. Tucker offers a window into the dysfunctions at the heart of the failure. If a lay reader finds *"Unelected Power"* difficult going at times, we should hope that politicians, academics and journalists digest his insights and deploy them to inform an overdue debate about the whys and wherefores of central banking.

*Mr. Sternberg, a member of the Journal's editorial board in London, is writing a book about millennials in the post-2008 economy.*

## OPINION

## REVIEW &amp; OUTLOOK

## The Court After Kennedy

**A**nTHONY KENNEDY acted in the best interests of the Supreme Court and his own legacy Wednesday by deciding to step down after 30 years as an Associate Justice. The fight to replace him was always going to be titanic, and by retiring on July 31 he gives a Republican President and Senate an opening to nominate and confirm a replacement with the best chance of keeping the Court tethered to the Constitution.

The raw political reality is that Democrats will refuse to confirm any nominee likely to be chosen by Donald Trump if they win Senate control in November. They are still furious that Senate Republicans refused to confirm Merrick Garland in 2016 after the death of Antonin Scalia, and the political left would insist that they return the favor through 2020, and 2024 if they have to.

That could leave the Court with eight Justices for as long as three years or more, with a 4-4 ideological split on many contentious issues. The Court now has a chance for a full complement again by the start of its October term. The 81-year-old Justice Kennedy has done right by the country and the Court.

A Republican nominee also offers the best chance to sustain Justice Kennedy's legacy, despite the fear and loathing you hear on the left. Democrats are already predicting the demise of abortion rights, the end of gay marriage, and no doubt we'll be hearing about the revival of *Dred Scott* before the confirmation hearings on Justice Kennedy's replacement are over. But that overlooks the entirety of Justice Kennedy's jurisprudence, which is far richer than the cultural cases like *Planned Parenthood v. Casey* and *Obergefell v. Hodges* for which he is celebrated on the left.

Justice Kennedy's jurisprudence has provided the fifth crucial vote in numerous cases defending the First Amendment's right to free speech and religious liberty, the *Heller* decision on gun rights, and property rights.

He wrote the majority opinion in *Citizens United* that has prevented politicians from strangling political speech with campaign-finance regulation. For a stirring defense of free speech, see his concurrence this week in the 5-4 *Becerra* decision that protected anti-abortion pregnancy clinics from having to recommend the name and phone number of abortion providers. He was also the fifth vote in the 5-4 *Zelman* decision that upheld an Ohio school voucher program. Without his vote, these and dozens of other cases would have reduced core constitutional freedoms.

Justice Kennedy's other great contribution has been support for federalism and the proper

**The consequential jurist has done the country a favor by retiring.**

understanding of the separation of powers. He wasn't the "swing" Justice who sustained ObamaCare; that was Chief Justice John Roberts. Justice Kennedy would have correctly tossed out the entire Affordable Care Act as a violation of the Commerce Clause. He was also the fifth vote to overturn provisions of a federal gun law for violating the Tenth Amendment that protects states' rights (*Printz v. U.S.*)

Justice Kennedy was sometimes too willing to intrude into questions best left to the political branches, such as abortion and national security (*Boumediene v. Bush*, on rights for enemy combatants). His decisions on racial preferences were a particular muddle that a new Court will have to clarify.

Yet Justice Kennedy's record is far better and more consequential than that of other Justices nominated by GOP Presidents such as William Brennan, Harry Blackmun, John Paul Stevens and David Souter.

\* \* \*

As for the Court after Justice Kennedy, we doubt it will overturn his precedents on abortion or gay marriage. Even with a new conservative Justice, Chief Justice Roberts remains a legal and political wild card, and we use those words advisedly. He will certainly not want the Court to overturn the gay marriage case so soon after it was decided, lest it make the Justices seem too political.

As for *Roe v. Wade*, the abortion case was a legal travesty and should be overturned. But the Court has upheld its core right so many times that the Chief Justice and perhaps even the other conservatives aren't likely to overrule *stare decisis* on a 5-4 vote. The likelier judicial path would be to allow the states modestly more room to regulate abortion while preserving the right.

Our point is that replacing Justice Kennedy should not be the legal war to end all wars. A single Justice will not turn the Court sharply to the right, and Republican Senators should not be intimidated by hyperbolic Democratic claims designed to fire up their voters for the November election.

President Trump made an excellent choice in Justice Neil Gorsuch, and the list of judges provided by adviser Leonard Leo and his White House counsel contains stellar names. (The one name we'd add is Jeff Sutton of the Sixth Circuit Court of Appeals.) The lesson of the Gorsuch selection is that a nominee with impeccable legal credentials and no skeletons can make it through even a sharply divided Senate. Republicans should seize the rare privilege that Justice Kennedy has given them.

## The Supreme Court's Banner Year

**T**he Supreme Court concluded a blockbuster term on Wednesday with a landmark ruling upholding the First Amendment rights of public workers. Justice Neil Gorsuch's first term on the Court and Anthony Kennedy's last turned out to be a banner year for constitutional liberties.

The Court saved its most anticipated decision for last as a 5-4 majority in *Janus v. AFSCME* overturned the Court's flawed 1977 *Abood* decision that allowed states to require workers who don't belong to a union to pay "agency fees" to support collective bargaining. As Justice Samuel Alito explains in the majority's opinion, *Abood* is an anomaly in the Court's First Amendment jurisprudence.

Conservatives on the Court have been chipping away at *Abood* for some time. In 2016 the Court heard a case by California teacher Rebecca Friedrichs to annul *Abood*. But Antonin Scalia's death resulted in a 4-4 split. President Trump's appointment of Justice Gorsuch last year has now allowed the Court to rectify its 40-year constitutional error.

Credit is due Illinois Governor Bruce Rauner who had the courage to launch the challenge while tangling with the state's formidable government unions. After a district court ruled that the Governor lacked standing, child support specialist Mark Janus intervened, claiming the American Federation of State, County and Municipal Employees (AFSCME) used his agency fees to advocate for government policies that he opposed.

Mr. Janus was charged for the union's lobbying, advertising, membership conventions and other services unrelated to collective bargaining. The union also bargained for wage and tax increases, which are political questions since they affect the public fisc. Other government unions have taken positions in bargaining on climate change, sexual orientation, gender identity and minority religions.

The Warren Burger Court based its creaky *Abood* decision on two cases involving private employers, which are not bound by the Bill of Rights. But a government's compulsion of speech raises significant First Amendment concerns. "The idea of public-sector unionization and agency fees would astound those who framed and ratified the Bill of Rights," writes Justice Alito.

Public unions argued that maintaining "labor peace" and avoiding free riders justify these constitutional infringements. But there are less restrictive ways for governments to achieve these interests. Unions could forgo the benefits of exclusive representation and states could limit collective bargaining.

**The Justices protect public workers from coerced union fees.**

*Abood*, Justice Alito underlines, cited no credible "evidence that the pandemonium it imagined would result if agency fees were not allowed," and neither do the unions. Justice Elena Kagan in her dissent joined by the three other liberals invokes various policy rationales for upholding agency fees, but none warrants infringing workers' fundamental First Amendment rights.

In anticipation of the Court's ruling, unions and Democrats who rely on their contributions have tried to make it harder for workers to keep their money. But the *Janus* majority wisely required that employees "clearly and affirmatively consent before any money is taken from them."

Despite the wails you are hearing from Democrats, *Janus* won't spell the end of public unions. Government unions continue to exist in the 28 states that already prohibit agency fees, though they have less money to spend on political advocacy. They must be more responsive to their members while politicians must be more responsive to taxpayers. This is a policy win all around.

\* \* \*

The Court's *Janus* ruling follows two other crucial First Amendment victories. In *Masterpiece Cake*, the Court ruled that states must show respect for religious beliefs that conflict with their laws. And in *National Institute of Family and Life Advocates v. Becerra*, the Court held states cannot conscript private entities into serving as their mouthpiece.

Other decisions this term vindicate the judiciary's responsibility to protect individual liberty by maintaining the separation of powers. In *Jesner v. Arab Bank* and *Hawaii v. Trump*, the Court showed deference to executive power in foreign policy. And its punt on two partisan gerrymander challenges avoided a disastrous judicial intervention into the political purview of state legislatures.

Supporters of free markets also have reason to cheer since the Court rebuked the antitrust (*Ohio v. American Express*) and trial bars (*Epic Systems Corp v. Lewis*). The year's most troubling decision is the 5-4 *Carpenter* ruling in which Chief Justice Roberts and the four liberals expanded the Fourth Amendment to data collection on cellphones but with unclear guidance. The four dissenters struck telling legal blows so this issue is a long way from settled.

The Supreme Court's year wasn't successful because it achieved this or that policy outcome. It succeeded because the Court defended the core liberties and structure of the Constitution from those who would subvert it for their preferred policy outcomes.

## The Boeing Workers Were Right to Unionize

Regarding your editorial "A Machinist Break-in at Boeing" (June 20):

You imply that the National Labor Relations Board election among highly skilled and licensed employees at Boeing's facility in South Carolina was improper. Nothing could be further from the truth. Under U.S. labor law, employees—not the company—get to petition the NLRB for a unit of any size that is appropriate. Despite the company's vigorous opposition, the NLRB regional director found that the unit chosen by the workers was legal and appropriate under the new legal standard adopted by the current Republican-majority NLRB, and scheduled an election. Requests by the company to stop the election or impound the

ballots were rejected by the NLRB.

Instead of honoring its employees' vote to form a union, Boeing intends to use its money, resources and clout to prevent, or at least delay, these workers from having a voice in their workplace. The Journal's claim that unionization will intrude "into work practices and its inevitable impact on morale and plant operations" is rhetoric pushed by management consultants who make billions of dollars advising companies on how to keep their workers from exercising their rights. It doesn't reflect the reality of the unionized workplace or the aspirations of the Boeing workers who have chosen to join a union.

The Journal and the Boeing Co. should respect the workers' freedom to choose their own union at Boeing in South Carolina and support efforts to enhance the lives of these workers, their families and their community.

ROBERT MARTINEZ JR.  
International president  
International Association of  
Machinists and Aerospace Workers  
Washington

## CORRECTION

In *Pereira v. Sessions*, the U.S. Supreme Court rejected an agency's interpretation of an immigration statute. This was misstated in the June 25 op-ed "Regulatory State Has a Bad Day in Court."

## Pepper ... And Salt

THE WALL STREET JOURNAL



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## LETTERS TO THE EDITOR

## There Simply Is No South-Border Holocaust

Jay Winik's powerful "Trump's Critics Desecrate the Holocaust" (op-ed, June 22) is a strong reminder of what the Jews went through during those terrible times. Going a step further, I assert that comparing today's problem of illegal immigrants with the nightmare of Nazi Germany trivializes the Holocaust.

It is a pity that today's children are suffering. However, their parents have made the decision to place them in this situation. The Jewish parents living in Europe had no choices. The Holocaust was in a class by itself. There is nothing similar.

ETHEL SCHER  
Bronx, N.Y.

My twin sister and I are among the fewer than 5% of Jews from Holland who were deported to concentration camps and survived (about 5,000 out of 107,000). We are quite possibly the last surviving twins, having spent over a year in Bergen-Belsen (where 50,000 died, including Anne Frank). Mr. Winik is accurate in every detail. And comparing anything to the cruelty, scale, scope and wholesale, industrial-style killing of approximately six million Jews is indeed "obscene." Of course we have

an intractable immigration problem and any solution will be an imperfect one, but we didn't initiate it.

When we finally stepped on American soil in the early morning of Jan. 1, 1947, it was only after a year of applying for visas and submitting affidavits from relatives who certified they would accept full financial responsibility for our support.

I fly the American flag at my home every day.

STEVEN HESS  
Rochester, N.Y.

William Styron, in "Sophie's Choice," understood the horrific dilemma that any mention of the Holocaust involves when he wrote: "I have been haunted, I must confess, by an element of presumption in the sense of being an intruder upon the terrain of an experience so bestial, so inexplicable, so undetectably and rightfully the possession alone of those who suffered and died, or survived it."

Styron's exquisite humility concerning the mention of the Holocaust is something beyond the grasp of President Trump's critics.

RICHARD SHERMAN  
Astoria, N.Y.

## Price Opacity Limits Optimal Use of HSAs

Regarding Scott W. Atlas's "Health Savings Accounts for Everyone" (op-ed, June 20): My family has had an HSA for over a decade. With the savings on insurance premiums going into that fund, we were able to pay for chiropractic visits we otherwise couldn't have afforded. Between those visits and our annual physicals, we have been very fortunate to be a healthy crew.

However, as I tried to call around to specialists' offices to compare prices for a visit for my husband, I discovered the huge downside to HSAs and insurance: No one will give you prices. If I had specific insurance code, they would be happy to tell me the cost. But they would not tell me the code for the initial consultation because "it depends on what the doctor orders."

This left us in a Catch-22. How could we know if we could afford to address this issue without knowing what it would cost? How can we be a part of driving down medical costs if we cannot compare prices?

Another lesson I learned is that

in the doctor's office, when the doctor is frightened about an urgent issue, which could be life-threatening or not, the doctor will order expensive tests. And the patient, struck by the urgency expressed, will acquiesce and schedule the tests without checking prices.

I love our HSA. I would not go back to traditional insurance if I had an option. However, for HSAs to be a real change agent in the cost of medical procedures, the insurance industry's convoluted pricing structure must also be reformed.

MICHELLE LEITCHY  
West Lafayette, Ind.

The tax benefits of HSAs should also be noted: contributions which may be made tax free or are tax deductible, investment income from HSAs grows tax free and withdrawals are nontaxable if used for qualified medical expenses.

JOE O'CONNOR, CPA  
Arlington Heights, Ill.

## The Boeing Workers Were Right to Unionize

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## OPINION

# The Rule of Law Prevails in the Travel-Ban Case

By David B. Rivkin Jr.  
And Lee A. Casey

**T**he judicial “resistance” to President Trump suffered a well-deserved defeat in the Supreme Court’s “travel ban” ruling, *Trump v. Hawaii*. At issue was Mr. Trump’s order limiting entry to the U.S. of nationals from eight (now seven) countries that are unwilling or unable to cooperate sufficiently in U.S. antiterrorist screening efforts. The plaintiffs challenged the order on several grounds, arguing that it exceeded the president’s authority and was animated by anti-Muslim bias, violating the First Amendment. (Six of the eight covered countries are mostly Muslim.) The court upheld Mr. Trump’s order 5-4.

## Dissenters cite the views of former officials, a radical departure from American constitutional norms.

Whatever one thinks of the travel ban as policy, the ruling is an important victory for the rule of law. Federal trial and appellate courts have persistently enjoined Mr. Trump’s orders, defying clear Supreme Court precedent supporting his power to limit the entry of aliens. The decision has removed all doubt that the president’s orders are lawful under both the Immigration and Nationality Act and the Constitution.

The justices made short work of the plaintiffs’ statutory claims, affirming that the Immigration and Nationality Act’s plain language gives the president the power to deny “any aliens or any class of aliens” entry to

the U.S. whenever he finds that letting them in “would be detrimental” to U.S. interests. This provision, Chief Justice John Roberts wrote, “exudes deference to the President in every clause.” Mr. Trump’s proclamation, the justices concluded, was “well within this comprehensive delegation.” The court also concluded that a “searching inquiry” into the president’s justifications for the order, such as the lower courts in this case conducted, is inconsistent with both the statute and “the deference traditionally accorded the President in this sphere”—namely “international affairs and national security.”

The plaintiffs’ constitutional arguments fared no better. They asserted the order was motivated by a personal “animus” toward Islam and therefore violated the First Amendment’s Establishment Clause. Although the ban includes North Korea and Venezuela, the plaintiffs argued that it disfavored Islam. As evidence of animus, plaintiffs cited Mr. Trump’s various statements during the campaign suggesting that Muslims should not be permitted to enter the U.S. “until our country’s representatives can figure out what is going on.”

The court readily distinguished this case from the domestic application of the Establishment Clause. When presented with “the typical suit involving religious displays or school prayer,” courts engage in probing scrutiny of the motivations and effects of government actions. If there is evidence of official animus toward believers (or nonbelievers), that usually dooms the government’s defense.

But *Trump v. Hawaii* involves “a national security directive regulating the entry of aliens abroad.” The Constitution vests the determination



Protesters outside the Supreme Court Tuesday, when the decision came down.

JIM LO SCALZO/EUROPEAN PRESSPHOTO AGENCY/SHUTTERSTOCK

of whether, when and under what conditions aliens can enter the United States in Congress and the president. The courts’ proper role in immigration, and in foreign policy more broadly, is sharply limited. Many presidential actions are not subject to judicial review, and judges give substantial deference to those that are. The court traditionally upholds presidential authority to exclude aliens from entry so long as the president articulates a “facially legitimate and bona fide” reason. The justices reaffirmed that standard.

At the government’s invitation, however, they also engaged in an unusual—and not precedent-setting—hypothetical consideration of the travel order under the more stringent, though still highly deferential, “rational basis” standard. The question here was whether there was “a justification independent of unconstitutional grounds.” The high court found the justification in the order’s stated purpose: “preventing entry of

nationals who cannot be adequately vetted and inducing other nations to improve their practices.” The ruling noted that the order did not mention religion, reflected “the results of a world-wide review process,” and affected only 8% of the global Muslim population. It also pointed out that all of the designated countries had been identified as national-security risks by Congress or past presidents. Even if there was animus—a question the majority did not resolve—that would not be fatal so long as that independent justification exists.

Finally, the justices took the opportunity to overrule *Korematsu v. U.S.* (1944), which had permitted President Franklin D. Roosevelt’s internment of Japanese-Americans during World War II. Mr. Trump’s order has often been compared to that shameful episode. But FDR imprisoned American citizens without due process and for no reason other than their ethnic heritage. Mr. Trump’s order applies only to aliens outside the U.S., who have no

constitutional right to enter the country.

The four liberal justices dissented, concluding that Mr. Trump’s statements about Muslims were sufficient to constitute an impermissible religious bias that should invalidate the order, as if it were a domestic Establishment Clause case. Justice Sonia Sotomayor, joined by Justice Ruth Bader Ginsburg, also brushed aside the court’s precedents deferring to the president’s judgment on international affairs and foreign policy. The Sotomayor dissent disputed Mr. Trump’s policy conclusions about the dangers of inadequate vetting, citing the views of various “national-security officials” from previous administrations. The dissenting justices’ reliance on the views of former officials is a radical departure from constitutional norms.

Justice Clarence Thomas raised an important point in his concurring opinion. He challenged the growing trend in which individual district court judges—whose jurisdiction extends only to a single state or part of a state—issue “universal” injunctions that purport to apply nationwide. He questioned the constitutionality of this practice and indicated that if it continues, the court will have to stop it.

In upholding Mr. Trump’s order, the Supreme Court has reaffirmed the basic principle that judges must stay their hands when evaluating the discretionary decisions of the president or Congress in areas the Constitution reserves to the political branches.

*Messrs. Rivkin and Casey practice appellate and constitutional law in Washington. They served in the White House Counsel’s Office and Justice Department in the Reagan and George H.W. Bush administrations.*

## America Can Ride the 21st Century’s Waves of Change

By George P. Shultz

**T**he world is experiencing change of unprecedented velocity and scope. Governments everywhere must develop strategies to deal with this emerging new world. They should start by studying the forces of technology and demography that are creating it.

Change is the raw material of history. What gnaws at me now is the speed of change. In the last century, machines performed as instructed. Today, they can be designed to learn from experience, by trial and error. This will improve productivity—but it will also accelerate workplace disruption.

Societies usually had time to adjust to economic revolutions. In the early 20th century, American farm-workers fell from half the population to less than 5% as agriculture was mechanized. We were able to establish a public school system to retrain those workers’ children for jobs in the cities. But today, the rapid destruction of old jobs and simultaneous creation of new ones means that the workers themselves must adapt.

There are now 6.7 million “unfilled jobs” in America. Filling them with both new and newly displaced workers will test both education

(particularly K-12, where the U.S. continues to fall behind) and the flexibility of workers to pursue new occupations. Community colleges and similar institutions can help, on a time scale more attuned to new technology’s rapidity. They deserve strong support.

Another force of change that needs to be understood more fully is the information and communications revolution, which is making governance more difficult. Information is everywhere—some of it accurate, some of it deliberately inaccurate. We have ceaseless and instantaneous communication to everybody, anybody, at any time. People can easily find out what is going on, organize around it, and take collective action—and they do.

Autocrats respond by using the same technology for surveillance and repression as they try to govern this new form of diversity by suppressing it. Democracies have too often become trapped in short-term reactions to the vocal interests that most effectively capture governance infrastructures. Both responses have produced sharp declines in trust toward institutions. In the long run, neither will work.

Fundamental changes in the technological means of production will furthermore allow goods to be

produced on demand, near where they will be used, in ways that can unsettle international order. Sophisticated use of robotics alongside human colleagues, plus 3-D printing and unexpected changes in the distribution of energy supplies, have implications for our security and economy.

### Fasten your seat belt. From work to warfare to welfare, technology is transforming the world.

Similar manufacturing advances also diffuse military power—through ubiquitous sensors, inexpensive and autonomous drones, high-powered nanoexplosives, and less costly access to space through microsatellites. These developments empower smaller states and even individuals, eroding incumbent powers like the U.S. of their current advantage. We will increasingly need to be vigilant that our words and deeds aren’t revealed to be backed by empty threats.

Against this, the world’s population is undergoing its own dramatic reordering just as emerging

technologies hint at a potential new deglobalization.

In developed countries, fertility is decreasing as life expectancy is increasing. This reduces the working-age population and increases the cost of pensions and care for the elderly—requiring government budgets that increasingly crowd out other productive investments. The populations of many of today’s major powers—Japan, Germany, Russia, even China—are set to shrink. Notably this isn’t the case for the U.S., Canada, and Australia, all countries with a long history of immigration. Will these trends continue?

In developing South Asia and in Africa, however—where most of the growth in world population comes from—persistently high fertility rates aren’t sufficiently matched by economic growth. These same regions also feel a disproportionate impact from natural disasters, human and agricultural diseases, and resource scarcities. That disparity underlies the global movement of peoples, setting off a populist turn in world politics.

So what should we do about all of this? We should think local and global.

Technology and demography can’t be halted; they will always go forward. The U.S. will need to find ways

to adapt domestically, but if these trends are handled well the prospects for America to benefit are remarkably bright. I think in particular of how the Founders addressed the problem of governance through their own time of change by leaning more on the diversity of individual states and localities—governments whose ears were closer to the ground, so that they were more nimble.

Meanwhile, America’s allies and adversaries are likely to struggle with many of these changes, more than the U.S. will. America’s own global leadership will face growing demands. The more we can understand other countries’ situations, the stronger our foundation for constructive national and international engagement will be.

The 21st century’s waves of change are being driven by technology, not by the humanities. But, to move beyond these disruptions, we have to think through this change in human terms.

*Mr. Shultz, a former director of the Office of Management and Budget, and secretary of the Treasury, of labor and of state, is a distinguished fellow at Stanford University’s Hoover Institution. He is a co-editor of “Beyond Disruption: Technology’s Challenge to Governance” (June 2018, Hoover Institution Press).*

## There’s No ‘Jungle Force.’ Who Needs a Space Force?

By Michael O’Hanlon

**P**resident Trump recently directed the Defense Department to create a sixth branch of the military: a Space Force. Given the importance of satellites to modern combat, the idea has a certain appeal. But there are serious arguments against it. Since a major reorganization like this would require congressional action, there’s time to weigh the downsides before rushing into anything.

The mere fact that space is a distinct geographic and operating domain does not decide the question.

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Sure, space is huge, far larger than all the other spheres of warfare put together, even if one simply counts the distance from Earth to the geo-synchronous satellites some 22,000 miles up. But the depths of the world’s oceans are immense, too, and the U.S. does not have a separate submarine force. The world’s jungles are massive, yet the Pentagon handles them, when necessary, with a blend of special and conventional forces from the main military branches.

Major government reorganizations are hardly a panacea, and they do not even guarantee favorable

outcomes. After 9/11 the U.S. established an Office of the Director of National Intelligence to lead the country’s separate 16 intelligence agencies. That change may finally have achieved net benefits, but it took a decade of disruption to get it right. The creation, around the same time, of the Department of Homeland Security required huge effort and produced much chaos. It probably did not improve the performance of the agencies now under its umbrella, including everything from the Coast Guard to the Transportation Security Administration to the Border Patrol.

### Notable & Quotable

*From Justice Anthony Kennedy’s concurrence in *Nifla v. Becerra*, June 26 (citations omitted):*

The California Legislature included in its official history the congratulatory statement that the Act was part of California’s legacy of “forward thinking.” But it is not forward thinking to force individuals to “be an instrument for fostering public adherence to an ideological point of view [they] find unacceptable.” 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; to confirm that history since then shows how relentless authoritarian regimes are in their attempts to stifle free speech; and to carry those lessons onward.

Until 2002 the U.S. military had a separate space command, Spacecom, which had comparable standing to the major combatant commands

### In evaluating Trump’s proposal, governmental reorganizations after 9/11 should counsel caution.

(such as the Central, Pacific and European commands). But after 9/11, the Pentagon decided it needed a new command, called Northcom, to improve national security within the U.S. and the rest of North America. By statute, the military had to eliminate one command to create another. At that point Spacecom was deemed unnecessary. Its responsibilities were woven into the broader Strategic Command instead.

Most of the pieces to build a new Space Force would likely have to come from the Air Force, which has the preponderance of the military’s responsibilities for space launch and operations. But the Air Force is already modestly sized, with somewhat more than 300,000 active-duty uniformed personnel (and nearly 200,000 in its Guard and Reserve). It is far smaller than the Army, with almost half a million active-duty troops and another half-million in its Guard and Reserve.

Breaking the Air Force into two would result in one entity about the size of the Marine Corps and

another much smaller. Are we sure the result would be a stronger voice for space issues?

As the late Carl Bildt argued in his classic book, “The Masks of War,” the Air Force has historically defined itself around the cutting-edge technology it develops and operates. Space systems and operations have a natural home there.

Air and space operations will need to be linked closely. Satellites fly in predictable orbits, making them fairly easy to target, and launching them is expensive enough without the added weight of defenses. As such, the U.S. will need backups for today’s satellites. One solution could be to stop relying on a few big satellites and instead launch many smaller, redundant ones. But part of the answer will likely have to be deploying more backup systems on airplanes and unmanned aerial vehicles and integrating them with whatever fractions of satellite fleets can survive in a combat environment. It is not clear how breaking the Air Force into two would more effectively achieve this goal.

Sure, take Mr. Trump’s proposal for a Space Force seriously. There’s nothing wrong with having him tee up the idea for analysis and debate. But the initial evidence seems to tilt strongly against it. There’s no air in space, but the Air Force may still be best positioned to defend America’s interests there.

*Mr. O’Hanlon is a senior fellow at the Brookings Institution.*

## WORLD NEWS

# Italian Populist's Tough Talk Resonates

European nationalists embrace Salvini over anti-immigrant stance, pressuring Merkel

BY GIOVANNI LEGORANO

ROME—Matteo Salvini, having established himself as Italy's leading populist firebrand, is now making political waves in Europe.

The leader of the anti-immigration League party and interior minister is blocking migrant-laden boats from landing in Italy, challenging European Union rules on asylum, and adding to the pressure on Germany's beleaguered chancellor, Angela Merkel.

Mr. Salvini, 45 years old, is emerging as a key player in a network of European nationalist politicians who want a tougher immigration crackdown. His growing clout in Rome, and Italy's role as a gateway to Europe for migration from Africa, are making him a dangerous adversary for Ms. Merkel as she struggles to work out a common EU approach on migration.

Immigration policy is the central battleground in Europe's deepening political di-

vide. A centrist, pro-European Union establishment is seeking to reassure voters that cooperative measures can curb migration flows while spreading the burden of taking in refugees fairly. Antiestablishment political insurgents, particularly on the far right, are denouncing EU efforts as a failure and seeking to sweep away longtime incumbents such as Ms. Merkel.

European populists have been in close contact to develop common positions. Some politicians in Italy, Austria and Germany have called for an "axis of the willing" to combat illegal immigration.

"Italy has stopped bowing its head and obeying," Mr. Salvini said this month after blocking a ship bearing asylum seekers from landing. He has long accused Italy's centrist politicians of doing what Germany and EU authorities wanted, including by continuing to take in asylum seekers from Africa, who are often brought across the Mediterranean on rescue ships after taking to sea in rickety boats.

His rhetoric has shocked many Italians, drawing accusations of xenophobia. On June 18, he called for counting and registering the Roma minority, while deporting some. "Unfor-



Interior Minister Matteo Salvini, right, looks on as Premier Giuseppe Conte addresses the lower house.

from his prolific social-media posts to his "Italians First" campaign slogan.

His first major foray into European politics came last week, when he said Italy wouldn't agree to take back migrants from Germany to help relieve pressure on Ms. Merkel.

Ms. Merkel has been facing intense pressure from Bavarian conservatives in her ruling coalition who want to close Germany's borders to asylum seekers already registered in another EU country.

The German leader is pushing for voluntary arrangements under which asylum seekers would be sent back to countries such as Italy where they first landed in Europe. The rift in Ms. Merkel's government over the issue is so deep as Berlin is rife with speculation the chancellor could fall.

Mr. Salvini is demanding that the rest of Europe take more migrants off Italy's hands.

"The destiny of Merkel hangs partly on how much Italy is willing to concede," said Federico Santi, an analyst at political risk consultancy Eurasia Group. "The problem is greater for Germany than for Italy. Salvini is gaining, while Merkel sees her position under threat."

tunately we will have to keep the Italian Roma," he told a local television station.

Since 2011, more than 750,000 refugees and other migrants have reached Italy after being rescued in the Mediterranean. The number of arrivals has fallen sharply in the past year as Libya, with Italian encouragement, has cracked down

on movement through its territory. Only about 16,500 people have landed in Italy this year.

When EU leaders try to find answers to Europe's migration problems at a Brussels summit on Thursday, Italy will be represented by Prime Minister Giuseppe Conte. But Mr. Salvini and his League are the real power behind the new govern-

ment in Rome, overshadowing their more moderate partners, the 5 Star Movement.

The League's popularity continues to grow, reaching around 28% in the latest opinion polls, compared with 17% in March elections.

Mr. Salvini's provocative style carries strong echoes of U.S. President Donald Trump,

## EU Immigration Negotiations Take On New Urgency

BY VALENTINA POP

BRUSSELS—A European Union summit long planned to focus on the bloc's patchy asylum policies has assumed unexpected urgency, as a political crisis threatens German Chancellor Angela Merkel's government and Italy refuses to admit migrants rescued at sea.

EU leaders gathering in Brussels on Thursday and Friday for their quarterly meeting are grappling with the political impact of people attempting to cross the Medi-

terranean Sea from Africa. The issue is sparking renewed controversy even though arrivals in the first five months of this year were 77% lower than in the year-earlier period, according to EU data.

The leaders are expected to agree in principle on creating so-called disembarkation areas in African countries along the Mediterranean coast, to which most migrants rescued at sea would be sent. The idea gathered support from half of the bloc's leaders at a preparatory summit on Sunday.

**Ms. Merkel's coalition partner set a Sunday deadline for a European solution.**

While details of the arrangement must still be agreed on and questions remain over the safety of such migrant zones in unstable North African countries, the agreement could provide enough of a win

for the anti-immigrant Italian government to accept a German demand linked to Ms. Merkel's political survival.

The chancellor's coalition partner has set a deadline of Sunday to reach a European solution to the migration problem, or it could trigger a government collapse.

EU leaders are likely to agree to take measures to stop asylum seekers who are registered in one EU country from applying for asylum in another. This could help Ms. Merkel because it would acceler-

erate the return to Italy of migrants who first arrived there before moving to richer Germany to seek asylum.

Under current EU rules, Italy is responsible for asylum seekers only for six months. If in that period a person isn't returned from Germany, the German government can no longer send that person back.

Italy has refused to accept asylum seekers back from Germany as long as new migrants are landing on its shores.

In recent weeks, Italy and Malta have denied access to

their ports to three ships that had rescued hundreds of migrants shipwrecked off the Libyan coast. International law says ships are obliged to rescue people and carry them to the nearest safe port.

Given security risks in Libya, ships in recent years have generally brought rescued migrants to Italian ports. Libya's security remains unstable, but Europe has funded and trained the Libyan coast guard to catch and take back migrants who attempt to leave in dinghies and small boats.

## For U.K. Fishermen, Brexit Comes With a Catch

Many who supported leaving European Union fear being sunk by regulations that aren't going away

BY JENNY GROSS

NEWLYN, England—Nothing drives fishermen here crazier than having to comply with European Union quotas by dumping perfectly good fish back into the sea while other Europeans working nearby keep their catches.

"Quite often, we're working on our grounds, surrounded by foreign vessels who have got more right to fish than we have in our waters," said David Stevens, a 43-year-old fisherman in Newlyn, the largest port in England by weight of fish sold. He blames the EU's quota rules for causing the industry to flounder. "We just want to manage what's in our waters."

Fishermen from Newlyn, in the southwestern county of Cornwall, and around the U.K. say they voted for Brexit as a chance to unshackle the fishing industry from such regulations.

But a year into negotiations, many of them feel betrayed: Voting to give lawmakers in London, rather than in Brussels, a say isn't translating into guarantees they will get more of the catch. A recent agreement keeps the U.K. bound to the EU quota system for some time once the U.K. leaves the bloc.

Several fishermen said they are worried the government is using the industry as a bargaining chip to secure a good deal for more lucrative sectors, such as banking or manufacturing. The government says it is looking out for fishermen and their interests.

The U.K.'s storied fishing industry contributed just £740 million (\$981.5 million) to the British economy in 2017, less than half of a percent of gross domestic product, and the sector employs fewer than 12,000 fishermen, according to government figures.

But fishing carries social, cultural and historic significance in the U.K., with its rich maritime tradition. And the industry has had an outsize influence on the Brexit debate as a symbol of Brussels' imposition on Britain.

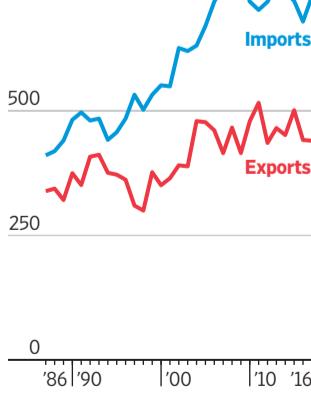
The problem for the U.K. fishing industry is that three-



### Choppy Seas

British seafood imports have outpaced exports, and the domestic fishing industry is shrinking.

Volume of U.K. fisheries trade, in thousands of metric tons\*



\*Includes fish products

Source: U.K. Marine Management Organization

U.K. is that it exports most of the seafood it catches and imports most of what it eats—and its imports are mostly from outside of the EU, so EU tariffs could significantly damage Britain's fish exports, according to a report by the Blue Marine Foundation, a London-based organization that advocates for sustainable fishing.

Fishing is likely to be one of the most difficult aspects of continuing negotiations on Britain's future relationship with the EU, said Luis González García, a London-based lawyer specializing in international trade.

"The industry is expecting a certain outcome, and if they don't get it, there will be an issue in getting the agreement ratified," Mr. García said. "A big problem is managing expectations."

Tom McClure, a 51-year-old fisherman who exports between 50% and 80% of the fish he catches on any given day to the rest of the EU, said he voted to remain in the EU and worries Brexit will mean high tariffs on exports, which would be damaging to his business.

"We're so low on the list of priorities," Mr. McClure said.

## Poland Softens Harsh New Libel Law

BY MATT SURMAN AND DOV LIEBER

Poland unexpectedly backed down on a controversial libel law that sparked objections from the U.S., Israel and others, softening measures that threaten prison to those who say the nation was complicit in the Holocaust.

The law passed this year but sparked an outcry from critics, particularly in Poland's ally Israel, which argued it whitewashed history and would stifle free speech and academic research. It came as the nationalist Polish government and others in the European Union are pushing against the bloc's liberal consensus and as far-right parties and concerns about anti-Semitism have been on the rise.

Wednesday's retreat marks a rare concession by the ruling Law and Justice Party, which has stood by a series of controversial decisions even under diplomatic pressure, including a shuffling of its top court that the EU's executive has warned is grounds to revoke the country's voting rights.

The law originally imposed a fine and imprisonment of up to three years for those who untruthfully accuse the Polish population of responsibility for any war crimes, including the Nazi genocide. But Parliament voted overwhelmingly in favor of removing criminal penalties and the amendments are expected to be signed into law by the president.

Israeli Prime Minister Benjamin Netanyahu said the Polish reversal followed a meeting and "not a small number" of phone chats with his Polish counterpart on the issue, noting the "storm of dissatisfaction in Israel and the international community."

Prime Minister Mateusz Morawiecki asked lawmakers to amend the law, but maintained that it had been successful because it had raised international awareness that Poles were victims of the Nazis.



Many fishermen in Newlyn, whose harbor is seen at top, say they voted for Brexit to unshackle the industry from regulations. Tom McClure, above, voted to remain in the EU.

quarters of the fish British fisherman pull out of the water is sold to the EU, since many of the fish found in British waters, such as mackerel and herring, aren't traditionally popular in the U.K.

The EU has made plain the trade-off it expects: access to British waters for European boats in return for access to European markets

for British-caught fish.

That is a microcosm of contentious Brexit negotiations. While voters thought Brexit would give them more control, the tight economic ties between Britain and its neighbors are limiting the U.K. government's room to maneuver around EU rules.

European waters are regarded as a common re-

source, and boats from across the region can operate off any EU member's coast. But British fishermen say the U.K. isn't fairly represented in British boats' share of fishing quotas.

The EU says its quota system is designed to prevent species from being overfished and to allow fair competition.

Another difficulty for the

## TECHNOLOGY: FORD JOINS WITH BAIDU TO DEVELOP DIGITAL SERVICES B4

# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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**Internal probe finds some developers are now out of business or won't cooperate**

BY DEEPA SEETHARAMAN

**Facebook** Inc.'s internal probe into potential misuse of user data is hitting fundamental roadblocks: The company can't track where much of the data went after it left the platform or figure out where it is now.

Three months after Chief Executive Mark Zuckerberg pledged to investigate all apps that had access to large

amounts of Facebook data, the company is still combing its system to locate the developers behind those products and find out how they used the information between 2007 and 2015, when the company officially cut data access for all apps.

Mr. Zuckerberg has said the process will cost millions of dollars.

One problem is that many of the app developers that scooped up unusually large chunks of data are out of business, according to developers and former Facebook employees.

In some cases, the company says, developers con-

tacted by Facebook aren't responding to requests for further information.

Facebook is now trying to forensically piece together what happened to large chunks of data, and would then attempt to determine whether it was used in a way that needs to be disclosed to users and regulators.

In cases where the company spots red flags, Facebook said it would dispatch auditors to analyze the servers of those developers and interrogate them about their business practices.

Ime Archibong, Facebook's vice president of product partnerships, said most developers

have been "responsive" but noted that the process requires a fair bit of detective work on their end. "They have to go back and think about how these applications were built back in the day," Mr. Archibong said.

Facebook said in May it had suspended 200 apps for potentially violating its rules. Mr. Archibong declined to provide a detailed update on the status of the investigation or identify the 200 apps that were suspended.

Over the years, Facebook itself at times tried to build systems that would allow the company to track down user information gleaned from the

developer platform—but those efforts failed in part for technical reasons, former employees said.

Facebook's app investigation is a response to broader criticism over revelations this year that data-analytics firm Cambridge Analytica improperly accessed and retained user data obtained from Aleksandr Kogan, a psychology professor at the University of Cambridge.

The data, which was gathered by Mr. Kogan and his associates through a personality-quiz app, was used by the Trump campaign in 2016. Facebook eventually notified

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**Barreling Ahead**

Signs of falling crude supplies have sent oil prices back to multiyear highs.

\$75 a barrel



Source: SIX  
THE WALL STREET JOURNAL.

## Oil Soars As Supply Worries Increase

BY BENJAMIN PARKIN AND STEPHANIE YANG

Oil prices reached the highest level in more than three years Wednesday, as threats to global supply loomed large even as major oil exporters increased production.

West Texas Intermediate futures rose 3.2% to \$72.76 a barrel on the New York Mercantile Exchange, the highest close since November 2014. Brent crude, the global benchmark, rose 1.7% to \$77.62.

Prices have notched fresh highs as traders fear that global crude supply could decline faster than expected, driven by harsh rhetoric from the U.S. government on Iran sanctions and a surprising drop in U.S. crude inventories.

On Tuesday, a senior State Department official said the U.S. expects countries to cut all oil imports from Iran by Nov. 4, boosting crude prices by more than 3%. The rally continued on Wednesday after the U.S. Energy Information Administration reported crude stockpiles declined by 9.9 million barrels last week, the biggest weekly reduction since 2016 and more than triple the amount that analysts had predicted.

An agreement last week by the Organization of the Petroleum Exporting Countries to increase production by about 600,000 barrels a day did little to assuage concerns over supply risks. Prices retreated last week ahead of the gathering between OPEC and other major producers like Russia but jumped nearly 5% after the group decided to raise production by less than many had expected.

"It's like the OPEC meeting never happened," said Michael Cohen, head of energy markets research at Barclays PLC.

## Google Reins In Workplace Debate

BY DOUGLAS MACMILLAN

Google is trying to quell the debates roiling its workforce by setting internal rules designed to limit offensive language and personal attacks against fellow employees.

In guidelines sent to employees, Google said it would discipline who discriminates against or attacks colleagues or engages in discussions that are "disruptive to a productive work environment," according to a copy reviewed by The Wall Street Journal.

The rules aim to curb so-called trolling—in which people are deliberately provocative or offensive online in order to elicit strong reactions—as well as "blanket statements about groups or categories of people."

For Google, which has long prized its culture of open debate, the rules present fresh challenges about how to police employee speech while continuing to encourage free expression and unconventional thinking.

Google, a unit of **Alphabet** Inc., gives its roughly 80,000 employees a number of digital tools with which to share and argue over ideas internally. Even in Silicon Valley, its Mountainview, Calif., campus is seen as a bastion of free-wheeling discourse.

Yet of late the search giant has struggled to keep those debates under control. Over email discussion groups and a message board called Memegen, employees have waged verbal wars over all manner of social and political beliefs. Many insiders increasingly see these as a

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## Conagra to Buy Frozen-Food Rival Pinnacle Foods for \$8.2 Billion

Year-over-year change in quarterly sales by category

**U.S. largest frozen food companies**

Company	Market share	Notable brands
Nestlé	13.6%	DiGiorno, Nestle, Häagen-Dazs
Conagra/Pinnacle	9.1	Healthy Choice, Hungry-Man
Tyson	6.6	Tyson chicken, Jimmy Dean
Unilever	5.2	Ben & Jerry's, Breyers, Talenti
Kraft Heinz	3.4	Ore-Ida, Cool Whip, Bagel Bites
General Mills	2.4	Totino's, Pillsbury
Schwan's Co.	2.2	Red Baron, Freschetta, Tony's pizza
Kellogg	2.1	Eggo waffles, Morningstar Farms
Rich Products	1.4	Carvel, Jon Donaire, SeaPak, Farm Rich
Wells Enterprises	1.3	Blue Bunny Ice Cream

Note: Conagra's fiscal year 2018 ended May 27; Pinnacle's fiscal year ended April 1

Sources: Euromonitor (frozen food sales); the companies (change in sales); Nielsen, RBC Capital Markets (top companies)

**MORE THAN TV DINNERS:** The combined company would become the second-largest frozen-food business in the U.S. B3 and B12.

## Uber Rival Lyft Drives Up Valuation

BY GREG BENSINGER

Ride-hailing firm **Lyft** Inc. has raised new capital that doubles its valuation from last year to \$15.1 billion and gives it more firepower as bigger rival **Uber Technologies** Inc. tracks toward an initial public offering.

Lyft said it raised \$600 million primarily from existing investors, about six months after raising \$1.5 billion at an

\$11.5 billion valuation. It was valued at \$7.5 billion in April 2017.

The new round is being led by asset manager **Fidelity Investments**, which has poured some \$800 million into Lyft, and includes hedge fund **Senator Investment Group** LP and others.

The investment should help Lyft keep apace of Uber, which raised \$1.25 billion in new capital in January from Soft-

Bank Group Corp. and has said it is planning to seek an IPO in next year's second half.

Lyft has weighed its own IPO, according to people familiar with the matter, though it may not beat Uber to the punch. With Uber valued recently at \$72 billion as part of a settlement granting equity to **Alphabet** Inc.'s Waymo, its IPO is likely to be one of the largest in recent memory.

Both companies are battling

for the future of transportation, investing billions in yet unproven self-driving vehicles and snapping up technology and competitors that offer rentable bicycles and scooters for shorter hops within urban centers.

Lyft gained U.S. market share last year as Uber struggled with a series of scandals and legal setbacks. However, Lyft's market share leveled in

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## Comcast Seeks More Cash for Fox Bid

BY AMOL SHARMA AND DANA MATTIOLI

**Comcast** Corp. is exploring tie-ups with other companies or private-equity investors that could provide additional cash as the cable giant pursues a costly acquisition of 21st Century Fox's entertainment assets, according to people familiar with the situation.

Comcast, which is bidding for the coveted media assets against rival **Walt Disney** Co., has no immediate plans to tap such funding sources, but it may look to do so should the bidding reach extremely high levels—in the \$90 billion range or so, the people said.

A strategic investor could team up with Comcast, taking on the U.S. Fox assets that are in play—including the Twentieth Century Fox studio and regional sports networks—while leaving Comcast with international businesses such as European pay-TV giant Sky PLC and Star India.

It isn't clear who potential strategic partners might be. Tech companies or traditional media outfits could be candidates, one of the people familiar with the situation said.



The cable giant is looking for a possible strategic investor.

Earlier talks between Comcast and Amazon.com Inc. ended without a partnership, The Wall Street Journal has reported.

Disney and Fox gained conditional U.S. antitrust approval for their deal on Wednesday. The two companies had reached a \$52.4 billion all-stock deal in December, which Comcast topped June 13 with a \$65 billion all-cash offer. Comcast took pole position once

again last week, agreeing to a revised merger pact with a \$71.3 billion price and a target of a 50% stock consideration.

Comcast is reviewing all options, including coming back with a substantially higher offer or even dropping out of the bidding, the people familiar with situation say.

Comcast doesn't feel pressure to act immediately, since Disney and Fox have indefinitely postponed a shareholder

meeting that had been scheduled for July 10, the people say.

Fox News and Fox broadcast network aren't part of the deal and would be spun off into a new company if a deal is reached with either bidder.

**21st Century Fox** and Wall Street Journal parent News Corp share common ownership.

Fox's board chose to stick with a Disney deal not just because of the price, but also other factors including the potential regulatory risks of a Comcast tie-up, according to a proxy filing this week. Comcast concluded that the path was cleared for its proposed deal when a federal judge on June 12 shot down the Justice Department's attempt to block AT&T Inc.'s takeover of Time Warner Inc., according to people close to the cable company.

But Fox thinks regulators could still raise concerns about a deal with Comcast that could lead to a rejection, delay in deal approval or significant divestitures, according to

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RESTAURANTS, B3



### BANK OF ENGLAND WARNS ON DEBT

CREDIT MARKETS, B10

China's Central Bank Acts As Yuan Hits 6-Month Low

BY SAUMYA VAISHAMPAYAN AND SHEN HONG

China's central bank is allowing the yuan to weaken against the dollar while trying to prevent the kind of sharp devaluation that could have a destabilizing effect on its economy.

That balancing act was on display Wednesday. The yuan

◆ Beijing is unlikely to use Treasurys as weapon..... B12

fell to a more-than-six-month low against the dollar before the People's Bank of China appeared to intervene to stem the decline.

Allowing the yuan to fall, analysts say, is one way Beijing could try to counter growing

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## BUSINESS & FINANCE



The government said that in acquiring Fox's entertainment assets, Disney must sell off the company's regional sports networks.

## Disney's Fox Deal Clears Hurdle

BY ERICH SCHWARTZEL  
AND KEACH HAGEY

The U.S. Justice Department approved Walt Disney Co.'s proposed \$71.3 billion acquisition of 21st Century Fox assets on the condition that Disney divest itself of Fox's regional sports networks.

The approval on Wednesday gives Disney an assist in its battle with Comcast Corp. for control of crucial pieces of Rupert Murdoch's entertainment empire. The conditions placed by the Justice Department still allow Disney to absorb the parts of Fox that are viewed as valuable for its long-term strategy, namely the company's movie and television studio, as well as its stake in the Hulu streaming service.

The Justice Department said the transfer of Fox's regional sports networks to Disney would likely result in higher prices for sports programming on cable; as a result, Disney agreed to shed the 22 sports networks.

"American consumers have benefited from head-to-head competition between Disney and Fox's cable sports programming that ultimately has prevented cable television subscription prices from rising even higher," said U.S. Assistant Attorney General Makan Delrahim.

Disney said that it would have 90 days to sell the sports networks if and when it closes on the Fox deal.

Disney and Fox's initial all-stock pact in December, valued at \$52.4 billion, was a prelude to a bidding war. Earlier this month, Comcast put in an unsolicited \$65 billion all-cash bid for the assets, prompting Disney to boost its offer to a \$71.3 billion mix of cash and stock.

The Wall Street Journal reported Wednesday that Comcast was exploring partnerships with other companies and private-equity partners in case it needs more cash for another round of bidding. Such a partnership could involve offloading some assets such as the

sports networks, potentially easing some of the regulatory hurdles that a Comcast-Fox deal would face.

Both Disney and Comcast are vying for premier media assets that include the Twentieth Century Fox film and television studio, a stake in streaming service Hulu and international businesses such as Star India and European pay-television giant Sky PLC.

Fox News and the Fox broadcast network aren't for sale and would be spun out into a separate company with other assets. 21st Century Fox and Wall Street Journal parent News Corp share common ownership.

Disney executives have maintained that their tie-up with Fox would face an easier time with regulators. Disney's deal represents a horizontal merger, in which direct rivals combine, whereas Comcast's offer would marry separate parts of the distribution and production food chain. The regional sports networks were expected to be a sticking point for regulators.

Comcast already has begun discussions with Justice Department officials about their proposed Fox deal, and the cable giant's executives believe their timeline for regulatory approval will be swift, people close to the company have said.

Fox's film and television library is envisioned as a significant part of Disney's plan to launch a direct-to-consumer streaming service next year that pipes the studio's programming straight into the home. Disney has completed several high-profile acquisitions in the past several years, including Marvel Entertainment and Lucasfilm Ltd., but the company has never had to engage in a public bidding war.

A Fox acquisition also would be the biggest purchase in Disney's history. To finance the pricier deal, Disney said it wasn't expecting to complete a \$20 billion share-repurchase plan it announced in December with its \$52.4 billion bid.

—Brent Kendall

contributed to this article.

## Comcast Seeks Cash For Bid

Continued from page B1  
to the filing.

Fox felt the Disney deal would have an easier time in Washington and is already making progress toward antitrust approval, the filing said.

A partnership with private equity may be more likely for Comcast's bid, some of the people familiar with the situation said.

One benefit of teaming up with a strategic investor: Comcast could offload some U.S. assets like the sports networks or studio, nullifying or substantially reducing any regulatory uncertainty, one of the people familiar with the situation said.

If anything makes T-Mobile's plan to take over Sprint unique, it is the administration's relative silence. DOJ and FCC officials have dropped hints that they are open to allowing the deal, but the White House has yet to publicly comment on it.

People close to the companies say executives live in fear of a presidential tweet about the transaction and will consider it a win if the White House stays silent.

AT&T's failed bid for T-Mobile in 2011 amid Obama administration opposition came up often during the hearing. Antitrust hawks argue that derailed transaction forced the market's four national wireless carriers to cut prices more aggressively, helping consumers.

Messrs. Claure and Legere argued the market has changed since 2011. The companies plan to use savings from shared resources to invest in fifth-generation service. That 5G technology promises broadband-level data rates, which the companies say customers can use to drop landline internet service entirely.

The companies are also touting their plan to more quickly expand wireless service outside cities and add jobs, arguments that could appeal to lawmakers from rural states.

Both Disney and Fox must weigh the risks of ratcheting up the bidding. The notion of Comcast pursuing a major transaction has weighed on its shares this year.

If Comcast chooses to use its stock as a currency to reduce the debt load in a deal, that could be interpreted as a U-turn by Wall Street. Its chief financial officer in April said Comcast was unlikely to use stock as a currency with its shares under pressure.

Disney also must manage its investor base. The entertainment giant is making a big gamble that buying Fox's assets will help it build a direct-to-consumer streaming business that can rival that of Netflix Inc.

Regardless of how they structure a deal, Disney and Comcast would each be carrying enormous debt loads. If any of their projections about the future—including the rate of decline of cable TV sub-

scriptions, or "cord-cutting"—were significantly off base, they could be under financial stress.

Under its earlier \$65 billion offer, Comcast was already on track for a combined \$170 billion in debt, which would make it the second-most-in-

Both Disney and Fox must weigh the risks of ratcheting up the bidding.

debt in the world behind AT&T Inc., according to Moody's Investors Service.

Moody's said that Comcast's offer was "credit negative" and it put certain Disney notes on review for downgrade following the company's subsequent topping offer.

The proxy filing this week

laid out new details on how Disney and Fox responded to the latest offer from Comcast. Disney told Fox it would be willing to raise its offer through a revised merger pact, but that offer would be nullified if Fox's board determined the Comcast proposal could result in a superior offer. In that event, Disney would have the right to simply match Comcast's offer, according to the filing.

Kevin Mayer, a top Disney executive, also told 21st Century Fox Chief Financial Officer John Nallen that any leak or disclosure of the potential Disney proposal would result in no proposal being made.

On June 19, Disney Chief Executive Bob Iger and Mr. Mayer met with Fox Executive Chairman Rupert Murdoch and Mr. Nallen in London. Fox's board approved Disney's offer the next day.

—Shalini Ramachandran contributed to this article.

## Lyft Drives Valuation Higher

Continued from the prior page recent months to around 24%, or 27% when not including Uber's Eats food delivery service, according to Second Measure, which tracks credit-card transactions. Lyft said in May it held 35% of the U.S. ride-sharing market.

The two San Francisco companies are battling on several fronts. Lyft last year moved into its first international market, Canada, and has eyed expansion into Europe and Latin America, according to people familiar with the matter.

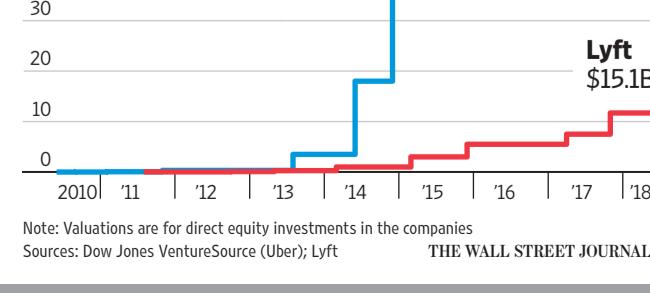
Lyft and Uber also are racing to develop self-driving vehicle technology that they believe could dramatically improve the profitability of ride-sharing and reduce traffic fatalities.

Both firms have filed applications in San Francisco for permits to operate electric scooters on city streets and are working on partnerships with public agencies to list transit times on their apps.

Uber bought Jump, an electric bicycle company, for around



The new funding round doubled the company's valuation from last year. A Lyft driver hub in New York.



Note: Valuations are for direct equity investments in the companies

Sources: Dow Jones VentureSource (Uber); Lyft

THE WALL STREET JOURNAL.

## BUSINESS NEWS

# Conagra Plans to Acquire Pinnacle

Companies are placing a bet on growth in the frozen-food business in the \$8.2 billion deal

BY ANNIE GASPARO

**Conagra Brands** Inc. plans to buy **Pinnacle Foods** Inc. for about \$8.2 billion, placing a critical bet on the recent resurgence of the freezer aisle.

The deal, which brings together brands like Healthy Choice frozen meals and Birds Eye frozen vegetables, would create a conglomerate with about \$11 billion in annual sales and the second-largest frozen-food business in the U.S. behind Nestlé SA, the companies said Wednesday.

"Building scale in frozen is our top priority," Conagra Chief Executive Sean Connolly said in an interview. "Frozen does have, and always had, tailwinds behind it."

Frozen-food sales have been a surprising growth area in the struggling packaged-food

industry in recent months. As companies modernize older brands and create new ones, microwavable meals and vegetable medleys have been attracting younger, more health-conscious shoppers.

Yet the market reaction suggests there are questions about long-term success of frozen food when consumers' gravitation toward fresh food continues to gain momentum. Conagra's shares closed down 7.3% and Pinnacle's fell 4.3% Wednesday.

"While the frozen category has been supported by product innovation led by Conagra and Pinnacle recently, it is unclear if there is enough demand to support the growth of frozen foods over the long term," said Bernstein analyst Alexia Howard.

Companies selling mainstay packaged foods across the industry are struggling to attract and retain shoppers seeking fresher, more natural foods. They are also under pressure from grocery-store giants like Walmart Inc. and

Kroger Co., who want the food manufacturers to reduce prices, make investments in their supply chains and spend more on marketing in stores.

Mr. Connolly said in the interview Wednesday that due to a lack of innovation in prior years, brands had started to "atrophy." He said: "We had lots of cleanup to do."

*Frozen-food sales have been a growth area in the packaged-food industry recently.*

Since he took over three years ago, Conagra has focused on revamping Healthy Choice by using simpler ingredients and recyclable packaging and developing higher-quality Banquet meals that can command higher prices. And in the past year, Conagra's frozen and refrigerated brands' sales have risen each quarter,

including a 5% pop on a comparable basis in the latest quarter.

Pinnacle's frozen-food business, which besides Birds Eye includes Hungry-Man meals and Gardein vegetable burgers, has also swelled thanks to new products like vegetable-based rice substitutes and the continuing success of microwavable steamer bags. Sales of Pinnacle's frozen foods rose 7.5% in its latest quarter, which it reported in May.

This stands in contrast to a decade ago when frozen foods were under pressure as consumers shifted to grocery stores' prepared meals and prechopped, refrigerated produce. Big brands like Nestlé's Lean Cuisine and Conagra's Healthy Choice didn't react quickly enough.

Conagra's and Pinnacle's wide swath of brands extends well beyond frozen foods, however. Conagra's Peter Pan peanut butter and Hebrew National hot dogs and Pinnacle's Vlasic pickles and Duncan Hines cake mixes are among

the many household names that the companies have been investing in to better align with consumer trends.

By combining forces, they could also save money and gain leverage with retailers in the areas where they overlap, such as frozen foods, buttery spreads and other groceries. Conagra said the deal would generate \$215 million in annual savings by the end of 2022.

Conagra is assuming about \$2.7 billion worth of Pinnacle's debt in the deal, bringing the total deal value to \$10.9 billion. The deal values Pinnacle at \$68 a share.

In the latest quarter, Conagra's sales rose 5.6% to \$1.97 billion, while earnings climbed 35% to 50 cents a share on an adjusted basis, topping analysts' expectations. Conagra reported Wednesday.

—Cara Lombardo and Waverly Colville contributed to this article.

◆ Heard on the Street: This frozen-foods deal is hot. B12...

# General Mills Job Cuts to Total 625

BY ALLISON PRANG AND ANNIE GASPARO

**General Mills** expects to have cut as many as 625 jobs by next spring as the company looks to reduce costs amid challenges with its yogurt and baking products.

The maker of Cheerios and Nature Valley granola bars reported an increase in sales in its fiscal fourth quarter, but a drop in profit due to restructuring and impairment charges.

General Mills said a majority of the positions were eliminated in the latest quarter, including some that were open at the time and others that required laying off or reassigning people.

"This is part of our resource agility," Chief Financial Officer Don Mulligan said. "At the same time...we are adding roles in growth areas." He pointed to its Asia, e-commerce and data-analytics businesses.

Packaged-food makers have struggled to figure out what consumers want to eat as shoppers turn away from the companies' mainstay products and look for options seen as healthier and less processed.

General Mills' Yoplait yogurt business has underperformed recently, with U.S. yogurt sales falling 5% in the quarter ended May 27 on top of declines the two previous quarters. The company has launched products, including an all-natural, lower-calorie yogurt that it hopes will bring back customers.

Sales at General Mills rose 2.2% to \$3.89 billion. Profit declined 13% to \$354.4 million, or 59 cents a share, as the company recorded more than \$150 million in restructuring and impairment costs.

General Mills also cut profit and sales expectations for three smaller brands it has bought over the past six years.

Net sales for the company's U.S. meals and baking division fell 2% in the quarter, but rose by 2% in both its U.S. snacks and cereal divisions.

General Mills said it expects cost-cutting plans to be finished by the end of fiscal 2019. The company had about 38,000 employees as of May 28 last year.

General Mills has raised its pricing recently, through strategies such as selling smaller boxes of cereal at a higher price per ounce. Shares of General Mills, down 22% in the year to date, fell 0.7% on Wednesday.

—Austen Hufford contributed to this article.

# Chipotle Spices Up Menu in Bid for Revival

BY JULIE JARGON

**Chipotle Mexican Grill** Inc.'s new chief executive is borrowing from the playbook he used running Taco Bell to help revive the struggling burrito chain.

Brian Niccol told investors Wednesday that he plans to make changes to Chipotle's menu, to market those foods more cleverly and to boost digital sales by installing pickup shelves in restaurants where customers can collect mobile orders. "We will make the brand more culturally relevant," he said.

Mr. Niccol promised, however, to not completely upend the simple menu and business plan that company founder Steve Ells adhered to before stepping down in March.

Chipotle is planning to introduce more snack foods and a "happy hour" promotion between 2 p.m. and 5 p.m., with \$2 tacos and the beer and margaritas it sells at most of its restaurants. There will be a similar offer for late-night customers. The chain is testing quesadillas, nachos and avocado tostadas.

Chipotle, which has struggled for more than two years to win back customers after a series of food-safety scares, also plans to offer a new loyalty program, roll out a new tag line and engage with con-



Under its new chief executive, the burrito chain plans to offer more snack foods and close up to 65 underperforming stores.

sumers more on social media.

The CEO said he is bringing more discipline and focus to the company by closing as many as 65 underperforming stores and cutting layers of management.

Investors have set high hopes for Mr. Niccol, sending

Chipotle shares up nearly 80% since his appointment. On Wednesday, shares in the company fell nearly 3% in after-hours trading.

Already, Mr. Niccol has shaken up Chipotle's insular culture, hiring a new marketing chief and head of human

relations. He said he is also hiring new field managers from outside the company. In another culture shift, he is moving Chipotle's corporate headquarters from Denver to Newport Beach, Calif., not far from his old Taco Bell office.

Mr. Niccol also said he isn't

planning to add a breakfast menu at the moment. Instead, he is opening Chipotles earlier and closing them later. He said many customers crave burritos outside the chain's standard hours of 10:30 a.m. to 10 p.m.

"We will lean in to the strengths we have," he said.

# Roku Offers TV Networks Place to Sell Targeted Ad Space

BY ALEXANDRA BRUELL

viewed on Roku TVs or streaming devices.

**21st Century Fox**, AT&T Inc.'s WarnerMedia and **Viacom** Inc. have signed on to sell TV ad inventory in Roku's "Audience Marketplace," where they will be able to use its viewing data to help advertisers target specific customers.

"Over-the-top distribution

has been a key audience driver for Turner's portfolio of premium content, with Roku being one of the pre-eminent partner platforms," said Larry Allen, vice president of ad innovation and programmatic solutions at Turner, which is part of WarnerMedia. "Participating in Roku's Audience Marketplace gives us access to rich insights and enhanced au-

dience targeting capabilities."

Roku, which sells devices that stream TV programming, has growing ambitions in the advertising business. The company reported first-quarter revenue of \$75 million from its platform business, which includes advertising and content services like licensing and accounts for 55% of the company's revenue.

Roku's initiative is one of several aimed at updating the antiquated TV ad business. Fox, Turner, Viacom and Comcast Corp.'s NBCUniversal recently created a consortium to help advertisers figure out which shows are likely to reach specific audiences. AT&T also has considered creating a marketplace for TV and digital ad inventory.

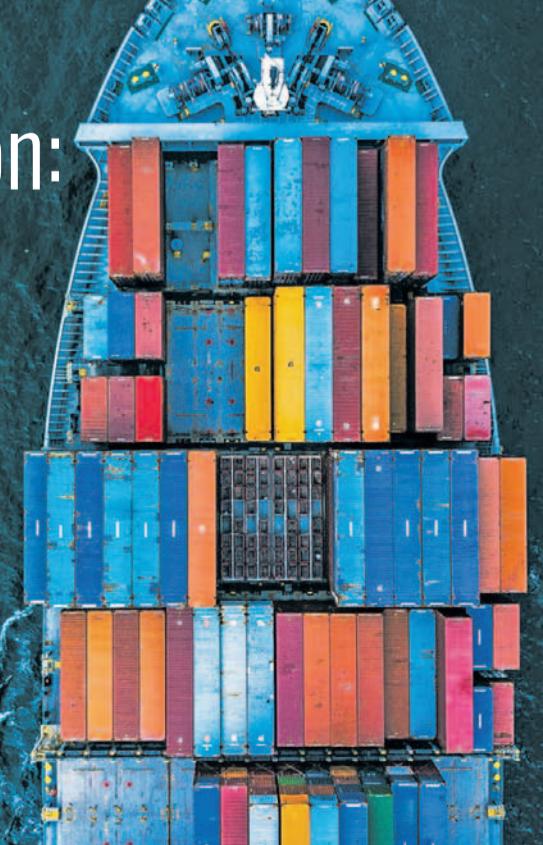
It isn't clear how much commercial space the media companies will be willing to sell in the Roku marketplace.

TV networks typically allocate two minutes of ad time per hour to distributors for sale to local advertisers. The networks sell national ads aimed at broad groups of people in their portion of the programming.

**KPMG** WSJ CUSTOM STUDIOS

## New trade disruption: What companies need to know

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Marianne Rowden, President and CEO of the American Association of Exporters and Importers, will moderate the discussion on July 18 at 2 p.m. EDT with the following panelists:



Rufus Yerxa  
President,  
National Foreign  
Trade Council



Amie Ahanchian  
Managing Director,  
Trade & Custom Services,  
KPMG LLP



Andy Siciliano  
Partner and U.S. Leader,  
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## TECHNOLOGY

WSJ.com/Tech

# Ford Finds Some Help in China

Search giant Baidu will work with auto maker to develop in-car digital services

BY AISHA AL-MUSLIM

**Ford Motor** Co. plans to team up with Chinese internet-search provider **Baidu** Inc. to develop new artificial intelligence technology and digital services, as the auto maker looks to catch up with competitors and regain footing in the world's largest auto market.

Ford Motor (China) Ltd. and Baidu have signed a letter of intent to explore ways the two companies can collaborate in the Chinese market, including on technology and digital services for connected cars and digital marketing, Ford said on Wednesday.

The agreement builds on an existing partnership. Last year, Ford joined the Chinese search giant's open-source platform for self-driving software. Known as Apollo, the platform is similar to Google's Android system for smartphones.



The Chinese company has already developed an autonomous-driving system and has enlisted Ford.

ships across the globe. The company recently announced that it was exploring a strategic alliance with Volkswagen AG, including developing commercial vehicles.

Under their new agreement, Ford and Baidu will work together on in-vehicle "infotainment" systems and digital services for Ford vehicles in China, using Baidu's DuerOS conversational AI platform, which includes natural-language understanding and voice and image recognition.

The companies are also looking to set up a joint "connectivity lab" and explore opportunities in cloud computing, such as integration with Transportation Mobility Cloud, the open cloud-based platform being developed by Autonomic, a subsidiary of Ford Smart Mobility. Ford and Baidu also plan to explore ways to team up on targeted digital marketing.

Separately, Baidu said Wednesday that its board of directors has authorized a share repurchase program of up to \$1 billion over the next year.

—Christina Rogers contributed to this article.

The new alliance could be a big win for Ford, which is lagging behind rivals in the Chinese market when it comes to in-car technology and connectivity. The partnership could help boost Ford's brand image in the country, where the auto maker's joint-venture sales continue to slide amid stiff competition from both local and foreign brands.

Once a highly profitable business for Ford, its Chinese operations posted a loss in the first quarter, in part because of the company's inability to appeal to the technology-loving Chinese consumer.

Ford Chief Executive Jim Hackett is working to expand the auto maker's expertise in new digital and connected-car services by forging partner-

## Facebook Searches for User Data

Continued from page B1 around 87 million users that their data may have been improperly shared with Cambridge Analytica, though many questions remain about that incident as well.

Facebook was blocked from accessing Cambridge Analytica servers by the U.K. government and doesn't yet know what data the now-defunct company may have stored.

The results of Facebook's internal probe could have far-reaching ramifications as lawmakers worldwide continue to hold hearings and contem-

plate tougher regulation of social-media platforms like Facebook.

Sen. John Thune (R., S.D.), the chairman of the Senate Commerce Committee, said at a hearing this month that Facebook "remains under the microscope" and that lawmakers continue to examine potential measures to protect user privacy.

Some developers say they have little incentive to respond to Facebook's requests to cooperate with the probe, either because they are out of business, have moved on to other projects, or are uneasy about allowing another company to look at their servers and the way their apps are constructed. Such intellectual property is "the lifeblood" of a developer's business, said Morgan Reed, president of ACT | The App Association, a



Most developers are 'responsive,' Facebook's Ima Archibong says.

trade group that represents more than 5,000 app makers and connected-device companies.

In addition, Facebook doesn't have legal authority to force developers to cooperate.

"They can't really compel

these developers to hand over information," said Ian Bogost, a professor at Georgia Institute of Technology. "This is not a federal inquiry about a crime or something. It's a private company. What are the consequences?"

Mr. Bogost is also a game developer, and he built a game for the Facebook platform called Cow Clicker. He said Facebook hasn't contacted him about conducting a full-scale audit of Cow Clicker, which drew about 180,000 users.

The internal investigation is a sign of what Mr. Archibong, echoing other Facebook executives, described as a massive cultural shift within Facebook to focus more on "enforcement as a key component" of its system.

Previously, executives have said, the emphasis was on growth and connecting more users to one another around the world.

Facebook has said its probe will start with apps that had user bases of around 100,000 people or more or apps that pulled extensive data about a smaller group of people.

## Google Reins In Debate

Continued from page B1  
drain on productivity and a barrier to conducting business.

Google has punished employees for online posts that violate its employee code of conduct, but the new community guidelines, which were sent to employees last week but hadn't been previously reported, are the first set of rules explicitly geared toward governing discussions on the forums and across the company's campus. The rules are broad, asking employees to respect one another and honor Google's values, and they leave room for interpretation about what type of conduct is prohibited, a review of the guidelines shows.

Google finds itself in a situation similar to that at many universities, which have long tried to strike a balance between permitting free speech and maintaining civil discourse, said Lisa Nishii, a professor of management at Cornell University's IRL School.

The alternative to issuing guidelines would be giving employees the impression that anything goes, which could undermine Google's efforts to promote a culture of inclusion and respect, Ms. Nishii said. "On the one hand they say inclusion is important but if on the other hand they allow incivility to continue, it would amount to inconsistent messages."

The move also follows a controversy in which some Google employees protested the company's involvement with an effort code-named "Project Maven," which involved helping the Pentagon identify and track potential drone targets through artificial intelligence. Google decided not to seek renewal of the contract, drawing criticism from some who contend the company was putting the politics of certain employees over national security.

—Yoree Koh and Kirsten Grind contributed to this article.

## HARRY'S

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## MANAGEMENT

# Working Moms Often Miscalculate Costs

Many leave workforce after underestimating time, money required to bring up children

BY LAUREN WEBER

Kerry Fender didn't plan to leave her job after her daughter was born.

She had worked out an 8-month maternity leave with the Catholic school in Silicon Valley where she worked. "My employer was supportive, I liked what I did, and I loved my co-workers," said Ms. Fender, 38 years old. "I had all of that going for me."

But Ms. Fender hadn't counted on other factors, including how her commute would balloon to three hours a day as she shuttled between home, work and her baby's day care. When her daughter's cold turned into a five-month bout of bronchitis for Ms. Fender, there was no family close by to help. Within months, Ms. Fender and her husband, the founder of a data-science startup, decided she should quit.

New research suggests that women frequently underestimate the time, money and effort it takes to raise children and have a career at the same time, leading many to invest in their skills and then reluctantly leave the workforce when the true costs of being a working mother become clear.

Some women in their prime childbearing years might have "misplaced optimism" about their employment prospects after having children, said Jessica Pan, an economist at the National University of Singapore and one of the authors of "The Mommy Effect: Do Women Anticipate the Employment Effects of Motherhood." She wrote the paper, submitted to the National Bureau of Economic Research,



Claire Vogeley left an administrator job in North Carolina State University's alumni office to focus on raising her son, born last year.

women reported spending almost double the time—between 20 and 22 hours—on child care, while noncollege graduates had increased their share to around 16 hours.

Many big firms are allowing new parents to take more time off and adding benefits such as subsidizing backup child care to help working parents cope with their dual roles. Yet these benefits are hardly the norm for U.S. employers, so they extend to relatively few workers, according to the Pew Research Center.

To be sure, some women enthusiastically give up good jobs to be stay-at-home parents. Others are foregoing motherhood, with the number of babies born in the U.S. last year falling to a 30-year low, according to federal data.

Pay differences also play a part in such decisions. Men often outearn their wives, making it more practical in many couples for the woman to quit her job when family circumstances get complicated.

Claire Vogeley, a single mother for years to a daughter who is now 13, married for a second time in 2015 and had a son in 2017. She planned to return to her administrator job in North Carolina State University's alumni office, but her husband, a computer engineer, lost a job that let him work from home. His new one required over eight hours a day at an office, and the loss of his flexible work situation made day-care pickups for their son suddenly unworkable.

"To be honest, my husband outearns me significantly," said Ms. Vogeley, 38. "If we were going to be losing a salary, mine was the one to lose."

On her last day, Ms. Vogeley brought home her 'assistant director' nameplate. "I thought, 'This could be the pinnacle of my career,'" she said. "I may never reach this point again."

with Ilyana Kuziemko and Jenny Shen of Princeton University and Ebonya Washington of Yale University.

Since around 1990, they found about 2% of 18-year-old women who participate in a University of Michigan survey of young Americans said they expect to be stay-at-home mothers at the age of 30. Yet 15% to 18% of American women become homemakers by age 30, suggesting that many expected to combine work and motherhood and then reversed course.

Women's likelihood of working shortly after having a child in the U.S. falls by a range of 28 to 40 percentage points, and by 38 percentage points in the U.K., and barely

recovers over the next five to 10 years relative to similar women without children, the economists found after examining government surveys. Less than half of the U.K. departures were predicted by women a year earlier.

Women are awarded 57% of all bachelor's degrees and a majority of master's and doctorate degrees in America, according to the U.S. Department of Education. Even though they work at higher rates than those without college educations, labor-force participation for women with undergraduate and graduate degrees has declined since 2000, according to the Brookings Institution.

The "Mommy Effect" re-

searchers offer a provocative explanation: The true costs of motherhood are tough to anticipate. When asked in a U.S. government survey, 60% of women with bachelor's de-

*Some women might have 'misplaced optimism,' economist Jessica Pan says.*

grees and children under the age of 6 agreed with the statement that "being a parent is harder than I thought it would be." Fewer than 40% of men with college degrees and

children under age 6 agreed.

The costs of working motherhood range from financial ones such as child-care expenses—which rose by more than half in inflation-adjusted dollars between 1985 and 2011, according to census data—to less quantifiable ones, such as the pressure some women feel to breast-feed even when that requires the time-consuming act of pumping milk at work.

The authors cite an earlier paper from researchers at the University of California, San Diego, that found in the early 1990s mothers between the ages of 25 and 34 of all education levels spent between 11 and 13 hours a week on child-care activities. By the early 2000s, college-educated

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## BANKRUPTCIES

## UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

In re: SUPERCANAL S.A., : Chapter 15  
Debtors : Case No. : 18-1869 (MG)

## RULE 2002 NOTICE OF PETITION FOR RECOGNITION OF A FOREIGN PROCEEDING

## AND MOTION FOR AN ORDER GRANTING RECOGNITION AND RELATED RELIEF IN AID OF A FOREIGN PROCEEDING

PLEASE TAKE NOTICE that on June 21, 2018, Eduardo Marcelo Vila the appointed foreign representative (the "Foreign Representative") in the above-captioned chapter 15 case (the "Chapter 15 Case") and its judicial reorganization, a Concursal Prevalencia (the "Concursal Case" or "Concursal Proceedings"), pursuant to Title II, Chapters I through VI of the Argentine Reorganizations and Bankruptcy Law No. 24,522 (as amended) ("Argentine Insolvency Law") before the National First Instance Commercial Court No. 20 (Juzgado Nacional de Primera Instancia en lo Comercial No. 20) in Buenos Aires, Republic of Argentina (the "Argentine Court"), filed (i) a petition for recognition of the Foreign Proceeding (the "Petition") under chapter 15 of title 11 of the United States Code, (the "Bankruptcy Code") and (ii) the Foreign Representative's Petition for Order Granting Recognition of Foreign Main Proceeding, Enforcing the Endorsed Reorganization Plan, and Granting Certain Related Relief (the "Recognition Motion").

PLEASE TAKE FURTHER NOTICE that the Bankruptcy Court has scheduled a hearing before the Honorable Judge Martin Glenn of the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, New York 10004, on **July 18, 2018 at 2:00 p.m.** (prevailing Eastern time) to consider approval of the Petition and granting of the relief requested in the Recognition Motion (the "Recognition Hearing"), including recognition of the Foreign Proceeding as a foreign main proceeding under chapter 15 of the Bankruptcy Code.

## PLEASE TAKE FURTHER NOTICE that the Bankruptcy Court may order the scheduling of a case management conference to consider the effectuation of the filing of the Concursal Case.

## PLEASE TAKE FURTHER NOTICE that any response or objection to the Petition or the Recognition Motion must be filed in accordance with the Bankruptcy Code, the Local Rules of the United States Bankruptcy Court for the Southern District of New York, and the Federal Rules of Bankruptcy Procedure, in a writing that sets forth the bases therefor with specificity and the nature and extent of the respondent's claims against the Debtor. Such response or objection must be (a) filed elec-

tronically with the Court on the Court's electronic case filing system in accordance with the rules as provided in General Order M-399 and the Court's Procedures for the Filing, Signing and Verification of Documents by Electronic Means (copies of each of which may be viewed on the Court's website at <http://www.nysb.uscourts.gov>); (b) delivered to the Chambers of the Honorable Judge Martin Glenn United States Bankruptcy Judge, One Bowling Green, New York, New York 10004-1408; and (c) served upon (i) Clifford Chance US LLP, 31 West 52nd Street, New York, New York 10019 (Attn: Jennifer C. DeMarco and Sarah N. Campbell); (ii) Seward & Kissel LLP, One Battery Park Plaza, New York, New York 10004 (Attn: Andrew Silverstein and Robert Gayda); (iii) all other parties that request notice in the Chapter 15 Case prior to the date of the Concursal Proceedings and all other parties that the Bankruptcy Court may direct in each case as to be actually received by each of them no later than 4:00 p.m. (prevailing Eastern time) on July 11, 2018. All parties in interest opposed and wishing to object to the verified petitions or the request for relief contained therein or in the Recognition Hearing at the time and place set forth above, if no response or objection is timely filed and served as provided above, the Bankruptcy Court may grant the relief requested by the Foreign Representative without further notice or hearing.

PLEASE TAKE FURTHER NOTICE that copies of the Petition and the Recognition Motion and certain other pleadings filed contemporaneously therewith are available by (a) accessing the Bankruptcy Court's Electronic Case Filing System, which can be accessed from the Bankruptcy Court's website at <https://ecf.nysb.uscourts.gov> (a PACER login and password are required to retrieve a document), or (b) by emailing or calling Bucky Knight at Bucky.Knight@CliffordChance.com and +1 212 878 8185 or Sarah Campbell at Sarah.Campbell@Clifford-Chance.com and +1 212 878 3427.

This announcement is not an offer for sale of securities or sold in the United States or elsewhere or an exemption from registration under the U.S. Securities Act of 1933, as amended. Neither Superca-

nal S.A. nor any of its affiliates intend to register any portion of any offering or conduct a public offering of securities in the United States.

The last four digits of the Debtor's taxpayer regis-

stration numbers are (252-6). The Debtor's execu-

tive headquarters is located at Lisandro de la Torre

150, Mendoza (5500) Mendoza, Argentina.

## BUSINESS OPPORTUNITIES

## BUSINESS OPPORTUNITY

ABC Services, Inc. is soliciting competing offers for a bulk sale of assets of CBRITE, Inc. A technology and product company with a portfolio of more than 100 patents based upon its Metal Oxide Thin Film Transistor (MOTFT) technology. CBRITE products for the following markets:

• Advanced Digital X-Ray Imaging: 2D and 3D Systems for Medical and Security

• Bio Sensors (Lab on a Chip) for Liquid Biopsy Non-Invasive Cancer Testing

• Next Generation Backplanes for TFT-LCD and AMOLED Displays

All bids must be accompanied by a good-faith deposit of no less than \$750,000. Minimum bid: \$2,000,000 Cash.

**BID DEADLINE:** Friday, July 27th

**SALE DATE:** Tuesday, July 31st

For Information: Charles Klaus, ABC Services, Inc. (949) 922-1211 | [cklaus@sbcglobal.net](mailto:cklaus@sbcglobal.net)

A lawsuit has been filed against you.

Within 21 days after service of this summons on you (not counting the day you received it) — or 60 days if you are the United States or a United States agency, or an officer or employee of the United States described in Fed. R. Civ. P. 12 (a)(2) or (3) — you must serve on the plaintiff an answer to the attached complaint or a motion under Rule 12 of the Federal Rules of Civil Procedure. The answer or motion must be served on the plaintiff or defendant's attorney, whose name and address are:

Brian C. Riopelle, Esq., Steven G. Popp, Esq., McGuireWoods, LLP, Gateway Plaza, 800 East Canal Street, Richmond, Virginia 23219-3916

Charles E. Lipsey, Esq., Finnegan, Henderson, Farabow & Dunner, LLP

Two Freedom Square, 11955 Freedom Drive, Reston, Virginia 20190-5675

If you fail to respond, judgment by default will be entered against you, unless you file a defense in the complaint. You also must file your answer or motion with the court. Date: 6/21/2018

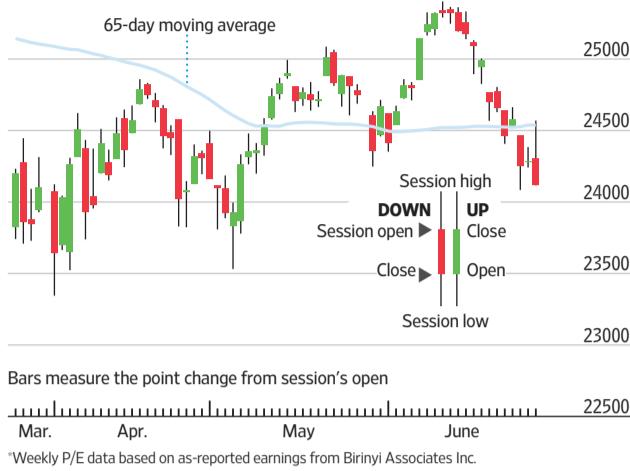
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## MARKETS DIGEST

## EQUITIES

## Dow Jones Industrial Average

**24117.59** ▼165.52, or 0.68%  
High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Current divisor 0.14748071991788

Last 23.30 Year ago 20.88

Trailing P/E ratio 23.30 20.88

P/E estimate \* 16.18 18.17

Dividend yield 2.25 2.32

All-time high 26616.71, 01/26/18

## S&amp;P 500 Index

**2699.63** ▼23.43, or 0.86%  
High, low, open and close for each trading day of the past three months.



Last 24.30 Year ago 24.09

Trailing P/E ratio \* 24.30 24.09

P/E estimate \* 17.36 18.76

Dividend yield 1.89 1.95

All-time high 2872.87, 01/26/18

## Nasdaq Composite Index

**7445.08** ▼116.54, or 1.54%  
High, low, open and close for each trading day of the past three months.



Last 26.10 Year ago 26.15

Trailing P/E ratio \* 26.10 26.15

P/E estimate \* 21.35 21.33

Dividend yield 0.93 1.10

All-time high 7781.51, 06/20/18

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

## 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	S&P	500 Index	MidCap 400	SmallCap 600
Industrial Average	24569.02	24115.82	<b>24117.59</b>	-165.52	-0.68	26616.71	21287.03	<b>12.4</b>	-2.4	<b>10.4</b>
Transportation Avg	10547.45	10330.30	<b>10331.58</b>	-143.38	-1.37	11373.38	9021.12	<b>8.6</b>	-2.6	<b>7.8</b>
Utility Average	714.08	706.27	<b>712.51</b>	4.57	<b>0.65</b>	774.47	647.90	<b>-0.1</b>	-1.5	<b>8.7</b>
Total Stock Market	28624.08	28131.04	<b>28131.35</b>	-274.68	-0.97	29630.47	24958.26	<b>11.2</b>	1.7	<b>8.5</b>
Barron's 400	747.58	733.91	<b>733.92</b>	-10.61	-1.43	760.51	629.56	<b>12.9</b>	3.2	<b>8.2</b>

## Nasdaq Stock Market

Nasdaq Composite	7610.67	7444.17	<b>7445.08</b>	-116.54	-1.54	7781.51	6089.46	<b>19.4</b>	7.8	<b>13.6</b>
Nasdaq 100	7128.77	6968.30	<b>6969.67</b>	-98.52	-1.39	7280.70	5596.96	<b>21.1</b>	9.0	<b>15.8</b>

## S&amp;P

S&P	500 Index	2746.09	2699.38	<b>2699.63</b>	-23.43	-0.86	2872.87	2409.75	<b>10.6</b>	1.0	<b>8.7</b>
	MidCap 400	1975.58	1942.80	<b>1942.81</b>	-22.30	-1.13	2003.97	1691.67	<b>10.7</b>	2.2	<b>8.2</b>
	SmallCap 600	1036.70	1017.26	<b>1017.36</b>	-15.95	-1.54	1052.40	817.25	<b>18.2</b>	8.7	<b>11.5</b>

## Other Indexes

Russell 2000	1671.47	1640.42	<b>1640.45</b>	-28.07	-1.68	1706.99	1356.90	<b>15.1</b>	6.8	<b>8.6</b>
NYSE Composite	12594.46	12412.01	<b>12412.07</b>	-98.48	-0.79	13637.02	11699.83	<b>5.1</b>	-3.1	<b>4.0</b>
Value Line	577.31	567.66	<b>567.67</b>	-6.90	-1.20	589.69	503.24	<b>8.1</b>	1.0	<b>3.5</b>
NYSE Arca Biotech	4784.44	4634.65	<b>4635.89</b>	-134.38	-2.82	5018.28	3787.17	<b>17.5</b>	9.8	<b>3.2</b>
NYSE Arca Pharma	528.10	521.31	<b>521.32</b>	-4.90	-0.93	593.12	514.66	<b>-3.9</b>	-4.3	<b>-3.8</b>
KBW Bank	105.55	103.43	<b>103.47</b>	-1.40	-1.34	116.52	89.71	<b>9.6</b>	-3.0	<b>9.5</b>
PHLX® Gold/Silver	81.01	79.93	<b>79.93</b>	-0.55	-0.69	93.26	76.42	<b>-2.8</b>	-6.3	<b>7.3</b>
PHLX® Oil Service	157.99	152.74	<b>155.31</b>	4.40	<b>2.91</b>	170.18	117.79	<b>20.4</b>	3.9	<b>-8.4</b>
PHLX® Semiconductor	1343.47	1300.11	<b>1300.51</b>	-32.89	-2.47	1449.90	1020.51	<b>21.9</b>	3.8	<b>23.0</b>
Cboe Volatility	18.19	14.76	<b>17.91</b>	1.99	<b>12.50</b>	37.32	9.14	<b>78.6</b>	62.2	<b>8.5</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
SPDR S&P 500	SPY	11,663.0	269.68	0.33	<b>0.12</b>	271.57	269.23
iShares Gold Trust	IAU	5,905.1	12.01	0.01	<b>0.08</b>	12.03	12.00
Vanguard MBS	VMBS	4,425.4	51.41	...	unch.	51.41	51.41
GGP	GGP	3,582.5	20.56	...	unch.	20.56	20.54
Van Eck Vectors Gold Miner	GDX	3,096.3	21.78	-0.03	<b>-0.14</b>	21.81	21.77
Tallgrass Energy GP CIA	TEGP	2,686.0	23.29	...	unch.	23.53	23.15
Invesco QQQ Trust I	QQQ	2,221.0	169.99	0.26	<b>0.15</b>	170.01	169.63
ENSCO PLC	ESV	2,129.0	7.06	0.01	<b>0.14</b>	7.14	7.05

## Percentage gainers...

Company	Symbol	PEDEVO	PED	676.9	3.25	0.88	<b>37.13</b>	3.64	2.18
Huntsman	HUN	Huntsman	HUN	166.6	30.42	1.16	<b>3.95</b>	30.42	29.26
Immunomedics</td									

## COMMODITIES

WSJ.com/commodities

## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract	Open	High	Low	Settle	Chg	Open interest
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.							
June	2,9645	2,9955	2,9645	2,9895	-0.0075	809	
Sept	3,0200	3,0270	2,9845	3,0075	-0.0080	131,994	
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.							
June	1255.50	1255.50	1252.30	1252.80	-3.80	82	
Aug	1260.50	1261.90	1252.20	1256.10	-3.80	320,866	
Oct	1265.90	1267.40	1258.20	1261.90	-3.70	14,077	
Dec	1271.30	1273.80	1264.20	1268.00	-3.80	100,474	
<b>Feb'19</b>	1276.50	1277.90	1271.80	1274.10	-3.80	16,078	
Dec	...	...	1305.70	1305.70	-3.90	4,104	
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.							
Sept	954.20	957.60	935.00	943.90	-10.80	20,081	
Dec	951.60	951.60	932.20	939.20	-10.70	1,853	
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.							
July	868.80	869.40	852.10	858.30	-13.00	12,127	
Oct	872.10	872.70	856.00	862.00	-12.70	71,601	
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.							
June	16,280	16,295	15,945	16,151	-0.09	5	
July	16,280	16,295	15,945	16,151	-0.09	39,272	
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.							
Aug	70.70	73.06	70.56	72.76	2.23	405,874	
Sept	69.44	71.48	69.28	71.26	1.98	266,610	
Oct	68.30	70.19	68.14	69.96	1.80	190,628	
Dec	67.21	68.90	67.03	68.61	1.44	298,191	
<b>June'19</b>	67.43	66.07	64.49	65.68	0.92	146,828	
Dec	62.75	64.04	62.63	63.59	0.64	198,448	
<b>NY Harbor ULSL (NYM)</b> -42,000 gal.; \$ per gal.							
July	2,1382	2,1853	2,1300	2,1772	0.0482	18,084	
Aug	2,1413	2,1890	2,1324	2,1796	0.0471	103,414	
<b>Gasoline-NY BOPB (NYM)</b> -42,000 gal.; \$ per gal.							
July	2,0867	2,1383	2,0766	2,1336	0.0590	28,388	
Aug	2,0691	2,1180	2,0580	2,1103	0.0536	129,393	
<b>Natural Gas (NYM)</b> -10,000 MMBtu; \$ per MMBtu.							
July	2,955	3,007	2,950	2,996	.057	3,981	
Aug	2,944	2,998	2,941	2,981	.050	203,009	
Sept	2,918	2,970	2,918	2,951	.044	169,687	
Oct	2,924	2,974	2,924	2,955	.042	173,692	
<b>Jan'19</b>	3,159	3,197	3,155	3,180	.031	116,355	
April	2,675	2,697	2,673	2,695	.021	120,469	

## Agriculture Futures

<b>Corn (CBT)</b> -5,000 bu.; cents per bu.							
July	352.00	356.50	351.50	352.50	...	142,195	
Dec	372.50	377.25	372.25	373.25	...	714,204	
<b>Oats (CBT)</b> -5,000 bu.; cents per bu.							
July	241.00	255.25	237.00	254.00	12.75	483	
Dec	240.25	245.00	236.75	244.75	6.00	2,971	
<b>Soybeans (CBT)</b> -5,000 bu.; cents per bu.							
July	868.00	878.00	866.00	867.50	.25	59,379	
Nov	888.50	897.75	886.25	889.00	1.50	397,291	
<b>Soybean Meal (CBT)</b> -100 tons; \$ per ton.							
July	333.30	338.30	332.80	333.90	.20	24,344	
Dec	332.20	336.60	330.30	331.50	-.10	189,909	
<b>Soybean Oil (CBT)</b> -60,000 lbs.; cents per lb.							
July	28.91	29.18	28.89	29.01	.07	30,475	
Dec	29.53	29.84	29.52	29.68	.09	221,996	
<b>Rough Rice (CBT)</b> -2,000 cwt.; \$ per cwt.							
July	1247.50	1251.00	1169.00	1170.00	-.80	835	
Sept	1119.00	1157.00	1109.50	1148.00	30.50	6,366	
<b>Wheat (CBT)</b> -5,000 bu.; cents per bu.							
July	470.00	482.85	467.75	479.50	10.00	22,186	
Sept	483.00	492.25	481.75	488.50	5.50	191,433	
<b>Wheat (KCI)</b> -5,000 bu.; cents per bu.							
July	532.00	536.25	527.00	527.00	-.55	3,924	
Sept	545.50	550.00	540.50	541.25	-.45	25,954	
<b>Wheat (MPLS)</b> -5,000 bu.; cents per bu.							
July	532.00	536.25	527.00	527.00	-.55	3,924	
Sept	545.50	550.00	540.50	541.25	-.45	25,954	
<b>Rough Rice (CBT)</b> -2,000 cwt.; \$ per cwt.							
July	1247.50	1251.00	1169.00	1170.00	-.80	835	
Sept	1119.00	1157.00	1109.50	1148.00	30.50	6,366	
<b>Wheat (CBT)</b> -5,000 bu.; cents per bu.							
July	470.00	482.85	467.75	479.50	10.00	22,186	
Sept	483.00	492.25	481.75	488.50	5.50	191,433	
<b>Wheat (KCI)</b> -5,000 bu.; cents per bu.							
July	532.00	536.25	527.00	527.00	-.55	3,924	
Sept	545.50	550.00	540.50	541.25	-.45	25,954	
<b>Lumber (CBM)</b> -5,000 bu.; cents per bu.							
July	532.00	536.25	527.00	527.00	-.55	3,924	
Sept	545.50	550.00	540.50	541.25	-.45	25,954	
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.							
Aug	70.70	73.06	70.56	72.76	2.23	405,874	
Sept	69.44	71.48	69.28	71.26	1.98	266,610	
Oct	68.30	70.19	68.14	69.96	1.80	190,628	
<b>Dec</b>	67.21	68.90	67.03	68.61	1.44	298,191	
<b>June'19</b>	67.43	66.07	64.49	65.68	0.92	146,828	
Dec	62.75	64.04	62.63	63.59	0.64	198,448	
<b>Gasoline-NY BOPB (NYM)</b> -42,000 gal.; \$ per gal.							
July	2,1382	2,1853	2,1300	2,1772	0.0482	18,084	
Aug	2,1413	2,1890	2,1324	2,1796	0.0471	103,414	
<b>Gasoline-NY BOPB (NYM)</b> -42,000 gal.; \$ per gal.							
July	2,0867	2,1383	2,0766	2,1336	0.0590	28,388	
Aug	2,0691	2,1180	2,0580	2,1103	0.0536	129,393	
<b>Natural Gas (NYM)</b> -10,000 MMBtu; \$ per MMBtu.							
July	2,955	3,007	2,950	2,996	.057	3,981	
Aug	2,944	2,998	2,941	2,981	.050	203,009	

## BIGGEST 1,000 STOCKS

**How to Read the Stock Tables**

The following explanations apply to NYSE, NYSE Arca, NYSE American and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq BX (formerly Boston), Chicago Stock Exchange, Cboe, NYSE National and Nasdaq ISE. The list comprises the 1,000 largest companies based on market capitalization. Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume. Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

**Wednesday, June 27, 2018****Net****Stock Sym Close Chg****Stock Sym Close Chg**

## &lt;

## BANKING &amp; FINANCE

# U.K. Central Bank Warns On Debt Risk

By JASON DOUGLAS

LONDON—The Bank of England sounded an alarm Wednesday over global debt markets, saying it sees pockets of risk to the stability of the financial system in sectors including U.S. corporate borrowing, risky loans in Britain, foreign-currency lending and emerging markets.

The warning comes as the global economy faces multiple challenges, as major central banks led by the Federal Reserve step back from the easy-money policies of the past decade and as trade tensions escalate.

"The recent tightening in global financial conditions could be a precursor to a much more substantial snap-back in world interest rates and more challenging bank, corporate and sovereign funding conditions," BOE Gov. Mark Carney said at a press conference, adding that growing protectionism "could sap some of the current strength of the global economy."

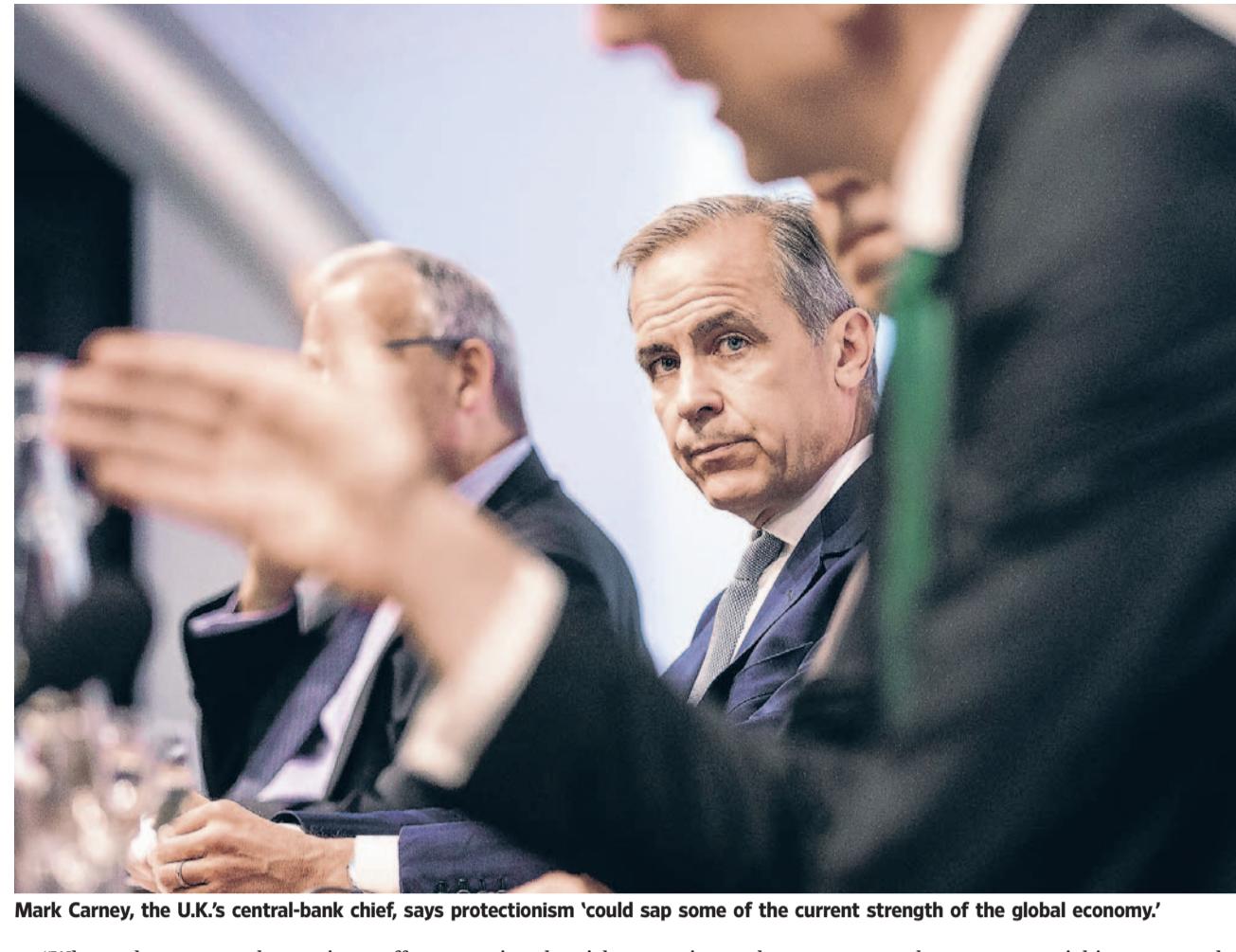
The U.K. central bank said in its twice-yearly financial stability report that the risks to financial stability worldwide have increased in the

past six months. Officials cited several threats, including renewed unease over Italy's ability to pay its debts and perennial worries about borrowing in China.

They also voiced particular concern about the U.S., where corporate borrowing has ballooned to 290% of first-quarter earnings, according to BOE calculations. Rising indebtedness has been accompanied by looser lending standards, leading to a surge in high-risk lending, the central bank said, a large share of which is being parceled into securitized assets sold to investors worldwide.

Borrowers may struggle to repay their loans if interest rates continue to rise or global growth falters, the BOE said.

Officials voiced similar worries about emerging markets, where governments and the private sector have loaded up on dollar-denominated debt and face a squeeze from a rising greenback and higher U.S. interest rates. British banks' exposure to major emerging markets excluding China amounts to around 15% of their total assets, the BOE said.



**Mark Carney, the U.K.'s central-bank chief, says protectionism 'could sap some of the current strength of the global economy.'**

"Where borrowers have taken advantage of market conditions to raise their debt levels, an adjustment in market prices could expose a debt overhang, giving rise to risks to financial stability," it said.

The warning highlights renewed unease in policy circles over the risks of heavy indebtedness, which critics of central banks say they have helped fuel by pinning interest rates to the floor for years

in an effort to revive sluggish economies. Still, central banks, including the BOE, take comfort from postcrisis changes designed to ensure the banking system can better withstand unexpected economic and financial shocks.

The BOE reiterated that its stress tests suggest British banks are strong enough to withstand a disorderly U.K. exit from the European Union. But Mr. Carney stepped up

warnings that more work needs to be done—especially by EU authorities—on issues such as the legal framework for derivatives to prevent disruption to the provision of financial services if there is an abrupt break. The U.K. is scheduled to leave the EU in March 2019.

"The EU has not yet indicated their solution to these fundamental issues which would be expected to have

more material impacts on the costs and availability of finance on the continent in the unlikely event of a disorderly Brexit," Mr. Carney said.

Negotiations continue between London and Brussels over the terms of Britain's EU exit. Several critical issues remain unresolved, including future customs arrangements, product regulations and cross-border financial services.

# Fed's Ability to Fine-Tune Interest Rates Is Tested

By KATY BURNE

The Federal Reserve recently tweaked how it sets short-term interest rates in an effort to keep them from drifting too high—but an increase in its benchmark raises questions about its ability to keep borrowing costs in check.

The Fed's benchmark federal-funds rate, which sits in a target range of between 1.75% and 2%, is creeping closer to its ceiling despite an adjustment at the central bank's last meeting that was designed to keep it closer to the middle. The benchmark now sits at 1.92%, and the Fed would like to see it closer to its 1.875% midpoint.

The fed-funds rate serves as a benchmark for rates across the broader financial system, influencing everything from mortgages and auto loans to the cost of financing the U.S. government. The rate's rise could prompt worries about the Fed's ability to exert control over short-term rates and, by extension, the cost of borrowing by U.S. businesses and households.

The central bank voted to lift the fed-funds rate by a quarter of a percentage point

the precise dynamics remain unclear," Louis Crandall, an economist at research firm Wrightson ICAP, wrote in a note to clients Monday. He added another change "could be needed by year-end" to avoid "inadvertent technical complications" in the Fed's rate setting.

Representatives for the Fed's board in Washington and the Federal Reserve Bank of New York, which implements decisions on rates, had no comment.

In the past, the Fed has said it doesn't mind if the fed-funds rate veers toward either end of the target range, so long as it stays within it. The central bank's recent moves show officials are still fine-tuning their rate-setting strategy following a financial crisis that drastically altered how they implement monetary policy.

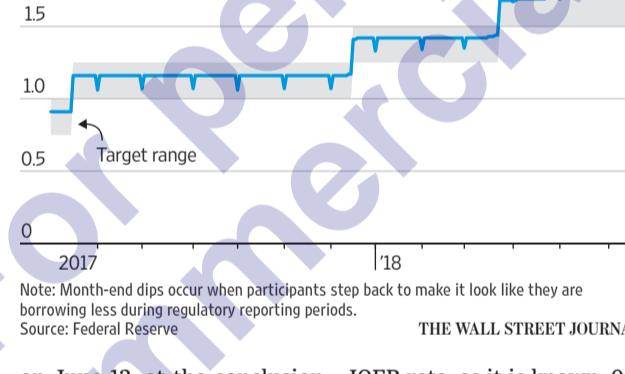
Fed Chairman Jerome Powell this month acknowledged the recent run-up in the benchmark and announced measures to push the rate "closer to the middle."

The central bank voted to lift the fed-funds rate by a quarter of a percentage point

## Climbing Higher

The Federal Reserve's benchmark interest rate is rising toward the top end of its target range, despite central-bank efforts to push it toward the middle.

### Effective federal-funds rate, with target



THE WALL STREET JOURNAL.

on June 13, at the conclusion of its two-day policy meeting. At the same time, it lifted the "interest on excess reserves" rate, which it pays on the reserves banks park at the central bank, by a fifth of a percentage point to 1.95%. It was the first time since the Fed started raising rates in late 2015 that it didn't lift both by the same amount.

The decision to set the

IOER rate, as it is known, 0.05 percentage point below the Fed's 2% ceiling was meant to keep the effective fed-funds rate, the daily weighted average, from floating too close to the top.

Mr. Powell has left open the possibility of moving to exert more control over the policy benchmark by tweaking IOER again.

"We don't expect to have to

do this often or again, but we're not sure about that," he said at a press conference after the June meeting. "If we have to do it again, we'll do it again."

The recent rise in the fed-funds rate has several causes, traders say.

A deluge of Treasury issuance at the start of this year helped drive up rates on overnight repurchase, or "repo," loans between banks.

Lenders in the fed-funds market, Federal Home Loan Banks that Congress created to support U.S. housing finance, in the past largely avoided using their cash for repos.

Now they see repos as an attractive investment.

Bank reserves, meanwhile, have been shrinking since the Fed started reducing its asset portfolio, reversing a bond-buying spree.

The relative scarcity in reserves could force banks to pay more for loans and impose "additional upward pressure" on the fed-funds rate, Mr. Crandall said.

Daily volumes in the fed-funds market last week fell to about \$60 billion. Normally

they are closer to \$90 billion, and in 2007, they were around \$200 billion.

The fed-funds market is now "a sliver of a market" with "marginal players, rather than a reflection of real dynamics in the economy," said Joseph Abate, a money-markets analyst at Barclays PLC.

Dwindling fed-funds volumes haven't bothered the Fed since the crisis, and it isn't clear they do now. But Mr. Abate said excessively low volumes could at some point impede the central bank's ability to influence the market that determines its benchmark.

Mark Cabana, a short-term rates strategist at Bank of America Merrill Lynch, said the "idiosyncratic nature" of the fed-funds market "raises questions about its use as the Fed's key policy target."

Fed officials have discussed alternatives to their policy rate in the past.

The minutes of a November 2016 Fed meeting revealed the central bank considered replacing the fed-funds benchmark under certain conditions, such as an environment in which short-term rates were more likely to gyrate.



Apple is among the technology giants that have some of the largest overseas profit stashes.

# Repatriation Frenzy Is Just Starting

By CHELSEY DULANEY

U.S. companies have brought home only a sliver of their more than \$2 trillion in profits stashed overseas, a sign that this year's corporate-spending spree on things such as buybacks and new equipment is only just beginning.

Companies also are using the money to pay down debt, strike deals and boost investment in their own businesses. Capital spending rose about 20% from a year earlier in the first quarter, according to S&P

Global Ratings.

It appears to be working. U.S. companies repatriated roughly \$217 billion in the first quarter, up about \$50 billion from the fourth quarter. Tech giants such as Apple, Alphabet and Microsoft—which have some of the largest overseas profit stashes—have announced plans to ramp up returns to shareholders via buybacks and dividends.

Companies also are using the money to pay down debt, strike deals and boost investment in their own businesses. Capital spending rose about 20% from a year earlier in the first quarter, according to S&P

Companies already spent a record \$189 billion on buybacks in the first quarter, up about \$50 billion from the fourth quarter. Tech giants such as Apple, Alphabet and Microsoft—which have some of the largest overseas profit stashes—have announced plans to ramp up returns to shareholders via buybacks and dividends.

Companies also are using the money to pay down debt, strike deals and boost investment in their own businesses. Capital spending rose about 20% from a year earlier in the first quarter, according to S&P

Dow Jones Indices.

Share buybacks have helped support U.S. stock markets in recent months. When a company buys back its stock, it lowers the outstanding share count and boosts per-share earnings.

An acceleration in repatriation also could add fuel to the dollar's recent rally as companies swap profits held in foreign currencies into the U.S. currency. Data from Bank of America Merrill Lynch shows corporations have recently ramped up dollar purchases, while the greenback is up 1.7% this month against a basket of peers.

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To handle the increased deal flow, the bank also plans to en-

large its Chinese investment-banking team, Mr. Hall said. It will hire a few dozen bankers across all levels over the next two to three years, he said. For now, the reorganization will apply to just the China team, though it could serve as a model for other regions later.

Global banks have been elevating Asia-based executives in certain sectors as deals bubble up. Citigroup Inc. earlier this month gave a top role in its global financial-institutions group to an Asia-based banker. One of its most senior bankers in the region until recently also served as the global co-head for technology investment banking, while its Asia mergers-and-acquisitions head is the co-head for global cross-border M&A. Morgan Stanley in January appointed an Asia-based banker to be its global co-head of consumer retail investment banking.

JPMorgan last month applied to Chinese regulators to launch a joint-venture brokerage on the mainland in which it would hold a 51% stake. Guidelines released in April permit foreign companies to own 51% of securities joint ventures, up from 49% previously. The limit is expected to be eliminated entirely in three years.

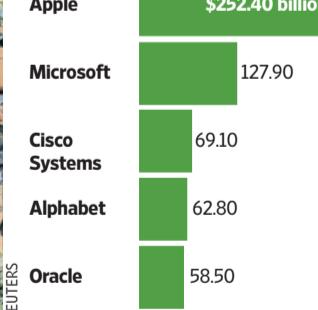
Note: Data includes cash, short-term and long-term liquid investments held by the companies' foreign units at the end of 2017.

Source: S&P Global Ratings

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## Stockpiling

Tech giants hold the most cash overseas.



Note: Data includes cash, short-term and long-term liquid investments held by the companies' foreign units at the end of 2017.

Source: S&P Global Ratings

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# JPMorgan Shifts Its Chinese Operations

By JULIE STEINBERG

JPMorgan Chase & Co. is reconfiguring its investment-banking operations in China ahead of anticipated regulatory changes and a swell of new business.

The bank is changing how it categorizes its teams of bankers, who were formerly assigned to sector groups such as health care and industrials, said John Hall, JPMorgan's co-head of investment-banking coverage for Asia Pacific.

The bank in recent weeks has created seven new groups underpinned by the technology sector. They include financial services and technology, encompassing blockchain and mobile-banking clients, and new mobility, including bike-sharing companies.

Traditional investment-banking industry groups no longer "align well," Mr. Hall said. The bank is changing the structure to cater to so-called new-economy companies in China, which are on track to be valued at hundreds of billions of dollars in the next few years and have kept bankers busy in recent months on private fundraising, initial public offerings and other transactions.

To handle the increased deal flow, the bank also plans to en-

## MARKETS

# Stocks Retreat on Trade Worries

Investors pare risk ahead of holiday; energy stocks benefit from crude rally

By RIVA GOLD  
AND DANIELLE CHEMTOB

U.S. stocks turned lower as lingering trade tensions offset gains in shares of energy companies.

Investors have been weighing mixed signals this week from the U.S. and China about the future of their trading relationship, which some worry could hurt

**WEDNESDAY'S MARKETS** the outlook for global growth.

President Donald Trump suggested he would scrap plans for new restrictions on Chinese investment in U.S. technology and rely mainly on existing tools to guard against the purchase—and theft—of innovations vital to the U.S. economy.

Technology and internet stocks led the declines in Wednesday's session, which saw the Dow Jones Industrial Average swing 441 points from its high to low.

"There's still some anxiety in the marketplace that maybe the president or somebody in the government is still going to give some scrutiny over China," said Mohit Bajaj, director of ETF trading solutions at bro-

kerage WallachBeth Capital. "I just think people are going to continue to shave off risk as we go into the [July 4] holiday," he added.

Major indexes opened higher, and all 11 sectors of the broad S&P 500 climbed earlier in the day, but just three—energy, utilities and telecommunications—ended the session with gains.

The blue-chip index lost 165.52 points, or 0.7%, to 2411.75, after earlier rising as much as 286 points. The S&P 500 shed 23.43 points, or 0.9%, to 2699.63 as its technology sector fell 1.5%. The tech-heavy Nasdaq Composite lost 116.54 points, or 1.5%, to 7445.08.

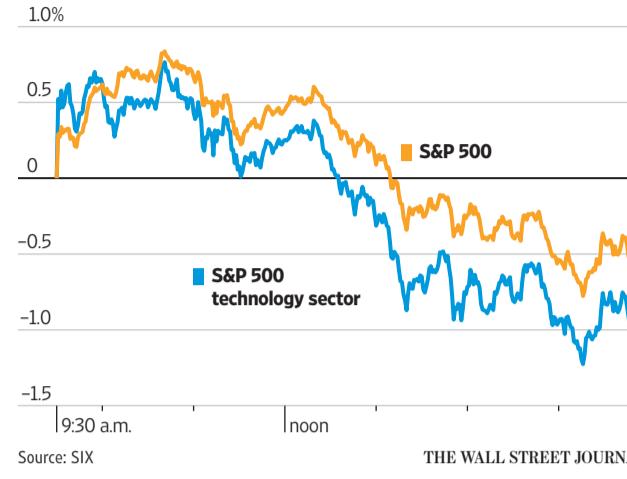
Energy stocks in the S&P 500 were a bright spot, rising 1.3%. U.S. crude added 3.2% to \$72.76 a barrel, its highest settlement value in more than 3½ years. The gains added to Tuesday's 3.6% climb after the U.S. threatened to slap sanctions on countries that don't stop importing Iranian oil by early November.

Strong global demand coupled with restrained supply—even with last week's decision from major oil-exporting countries to increase global output—could propel the sector even more this year, said Jeff Schulze, investment strategist at ClearBridge Investments, which manages \$140 billion in assets.

"There's a lot of positive reasons for energy to continue

## Tech Trouble

Shares of technology companies were among the day's worst performers in the S&P 500.



Source: SIX

THE WALL STREET JOURNAL.

performing, and this is the beginning of a much bigger move higher," he said.

In company news, shares of **Conagra Brands** were among Wednesday's biggest decliners, tumbling \$2.78, or 7.3%, to \$35.45 after the company said it would buy **Pinnacle Foods** for \$8.2 billion in cash and stock. Pinnacle dropped 2.91, or 4.3%, to 64.95.

The Justice Department approved **Walt Disney's** proposed \$71 billion acquisition of **21st Century Fox** assets Wednesday. Shares of **Comcast**, which is in competition with Disney to acquire the entertainment company, fell 49 cents, or 1.5%, to 32.29.

The dollar and U.S. government bonds—investors' favored haven assets of late—climbed as stocks slumped. The yield on the benchmark 10-year U.S. Treasury note fell to 2.827% after settling at 2.882% Tuesday. Yields move inversely to prices.

The decline in bond yields pressured financial stocks in the S&P 500, which slipped 1.3%. Lower yields can weigh on banks' net interest margins, a key measure of lending profitability.

China's Ministry of Commerce on Wednesday said it is closely watching potential U.S. moves to restrict Chinese investment amid signs of intensifying trade tensions between

the two countries.

Separately, China's central bank guided the yuan to a six-month low against the dollar, sending the Chinese currency tumbling. The yuan's drop has accelerated since trade threats between China and the U.S. escalated in the middle of June.

The brewing trade tensions are the latest complication for the world's second-largest economy, where recent economic data point to signs of slowing growth.

"Throw on top of that they're in a trade war with the largest global economy, and it tends to dampen things, especially for expectations that have gotten very ambitious for the start of the year," said Frank Rybinski, chief macro strategist at Aegon Asset Management.

Mark Stoeckle, senior portfolio manager of Adams Diversified Equity Fund, said the uncertainty is frustrating for investors trying to figure out how to respond.

"We've chosen to determine that the best thing for us to do is wait to get more facts," he said. "Reacting to unknowns is not a terribly good investment strategy."

Elsewhere, the Stoxx Europe 600 added 0.7% after recovering from earlier losses. Weakness in Asian stocks continued Wednesday. Early Thursday, Japan's Nikkei was down 0.4%, Hong Kong's Hang Seng was up 0.1% and the Shanghai Composite was down 0.2%.

# Treasurys Advance; Auction Goes Well

By DANIEL KRUGER

U.S. government-bond prices rose Wednesday as investors focused on the risk that rifts between the largest global trading partners could widen, potentially slowing economic activity around the world.

The yield on **CREDIT MARKETS** the benchmark 10-year Treasury note fell to 2.827%, the lowest closing level since May 31, from 2.882% Tuesday. Yields fall as bond prices rise.

Yields fell even as the Trump administration appeared to back away from imposing restrictions on Chinese investment in the U.S. as investors and analysts said it was likely that the move was more likely to reflect tactics than a substantive policy change.

The Trump administration has decided that relying on existing laws updated by Congress and dropping consideration of alternative approaches that would have allowed the White House to impose stricter limits on its own "is the best approach to protect U.S. technology," a senior administration official said Wednesday.

The Treasury's auction of \$36 billion of five-year notes Wednesday was met with strong demand, following Tuesday's sale of \$34 billion of two-year notes which attracted investor demand in line with recent averages.

While investors and analysts have expressed concern with the rising size of U.S. government-bond sales needed to fund last year's \$1.5 trillion tax cut, "it's difficult to look at that as supply indigestion," said Ian Lyngen, head of U.S. government bond strategy at BMO Capital Markets.

## AUCTION RESULTS

Here are the results of Wednesday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

### FIVE-YEAR NOTES

	\$96,120,100,300
Applications	\$40,493,394,000
Accepted bids	\$36,395,800
*noncompetitively	\$0
Auction price (rate)	99.563565 (2.71%)
Interest rate	2.625%
Bids at clearing yield accepted	83.93%
Cusip number	9128284U1

The notes, dated July 2, 2018, mature on June 30, 2023.

### ONE-YEAR, 10-MONTH FRNs

	\$44,700,477,700
Applications	\$16,000,077,700
Accepted bids	\$7,477,700
*noncompetitively	\$0
Spread	0.033%
Bids at clearing yield accepted	48.96%
Cusip number	9128284K3

The floating-rate notes, dated June 29, 2018, mature on April 30, 2020.

# Relieved Investors Lift Dollar

By ORLA McCAFFREY

The dollar rose as investors reacted to reports that the White House may be easing its stance on restricting Chinese investment in the U.S.

The WSJ CURRENCIES Dollar Index, which measures the U.S. currency against a basket of 16 others, rose 0.6% to 88.51. The euro fell 0.8% against the dollar to \$1.1554.

The Trump administration decided to rely on existing laws to restrict Chinese investment in the U.S., dropping consideration of alternative approaches that would have let the White House impose stricter limits on its own.

That news came as a relief to investors concerned that an intensifying trade conflict between the U.S. and China could slow global growth and eventually hurt the U.S. economy.

The dollar also rose against a broad range of emerging-market currencies on concerns that continuing trade tensions are starting to dent growth in China, the world's second-largest economy.

In late New York trading, the dollar was up 2.4% against the South African rand, 1.1% against the Mexican peso and 1.6% against the Brazilian real.



Allowing the yuan to fall is one way the People's Bank of China could try to counter pressure from the U.S. on trade, analysts say.

## Yuan Hits Lowest in 6 Months

Continued from page B1

pressure from the U.S. on the country's trade practices, with tariffs on billions of dollars worth of Chinese exports due to come into effect early next month. A weaker yuan versus the dollar would make China's exports more competitive, offsetting some of the tariff effect.

However, a sudden yuan devaluation could prove dangerous for China. It would risk a destabilizing capital flight, as happened after Beijing last allowed a sudden drop in the currency in August 2015. It also could heighten tensions with the Trump administration; the U.S. president often criticized China's currency policies during his campaign.

While macroeconomic factors argue for a weaker yuan, Beijing is having to balance that with a desire not to let the decline run out of control.

"It's a delicate balance [for Chinese policy makers]...due to the rising downside risk domestically for economic growth and the trade tensions brewing on the external front," said Aidan Yao, a senior emerging Asia economist at AXA Invest-

ment Managers in Hong Kong.

The yuan doesn't trade freely like the dollar or Japanese yen. Instead, China's central bank allows the currency pair to trade 2% above and below its reference rate each day. While many currencies have fallen against the dollar in the past two months, the yuan's drop has accelerated since trade threats between China and the U.S. escalated in the middle of June.

On Wednesday, the yuan dropped as much as 0.9% against the dollar in mainland China during the Asian morning, with one dollar buying 6.6159 yuan. That put the Chinese currency at its weakest level since Dec. 19 on an intraday basis, according to Wind Info.

At least one state-owned bank, which has traditionally acted as the central bank's agent when it intervenes in markets, sold large amounts of dollars after the U.S. currency breached the 6.60 level against the yuan, traders said.

"The kind of dollar selling from that bank was so aggressive that we knew instantly that it must be from" the central bank, said a Shanghai-based senior currency trader at an Asian bank.

The People's Bank of China didn't immediately respond to a request for comment.

The Chinese authorities seem willing to let the yuan continue to weaken. But by also

## Turnaround

How many Chinese yuan\* one U.S. dollar buys



Scale inverted to show the weakening yuan

D | J | F | M | A | M | J |

2017 18

Offshore

Source: Wind Info

THE WALL STREET JOURNAL.

intervening in markets, they are sending a message to investors that they want to keep the situation under control, traders said.

"The speed [at which] the yuan fell earlier today was obviously considered too fast from the authorities' point of view," said a Shanghai-based head of currency trading at a domestic bank.

Before trading began on Wednesday, China's central bank had set the dollar's reference rate at 6.5569 yuan, which meant the yuan was 0.6% lower than the day before—its biggest drop since Jan. 9, 2017. The fix, which reflects the previous day's close and the movement of currencies overnight, put the yuan at its weakest

level since Dec. 25. On Thursday the fix was 6.5960 yuan, down another 0.6%.

The weaker fix followed a slump in the yuan's value against the dollar on Tuesday. In a sign of Beijing's tolerance of a weaker currency, traders pointed to an article published in the state-run Securities Daily on Wednesday, in which the paper quoted analysts as defending the yuan's recent slide.

"Moderate [yuan] depreciation is reasonable. It can leave some room for China to respond to the trade situation, so it's not a bad thing," wrote the Securities Daily.

The Chinese central bank had exacerbated the yuan's swoon on Sunday when it announced steps to free up more than \$100 billion for banks to boost lending. At the same time, the Federal Reserve appears committed to tighten monetary policy further thanks to a strong economy, a divergence that should weigh on the yuan.

Still, Chinese policy makers don't want to let the yuan weaken too much in case it triggers another cycle of capital outflows, which took place after the yuan's 2015 devaluation.

Mr. Yao said that if the policy makers begin to worry about the scale of yuan depreciation from monetary easing, they could rely on other tools to boost growth, including infrastructure spending.

## Losing Luster

Gold settled at a 2018 low on Wednesday.

### Front-month Comex gold price

\$1,375 a troy ounce



## MARKETS

## China Unlikely to Use Treasurys as Weapon

BY DANIEL KRUGER

Intensifying trade tensions have U.S. investors parsing China's possible responses to the latest Trump administration salvos, concerned about everything from escalating tariffs to currency devaluation.

One thing nervous investors shouldn't worry about, some analysts say, is China dumping its \$1.18 trillion of U.S. government bonds.

The nightmare scenario is that China, which owns about 8% of the U.S. government's public debt, could drive down bond prices by unloading even part of its hoard. Such a move would likely send interest rates paid by the U.S. sharply higher.

Treasurys are a benchmark that helps set rates for mortgages, business loans and consumer debt, and such a move could drive up borrowing costs throughout the economy.

A decision by China to sell Treasurys could be the economic equivalent of "mutually assured destruction," said Mark McCormick, head of currency strategy at TD Securities.

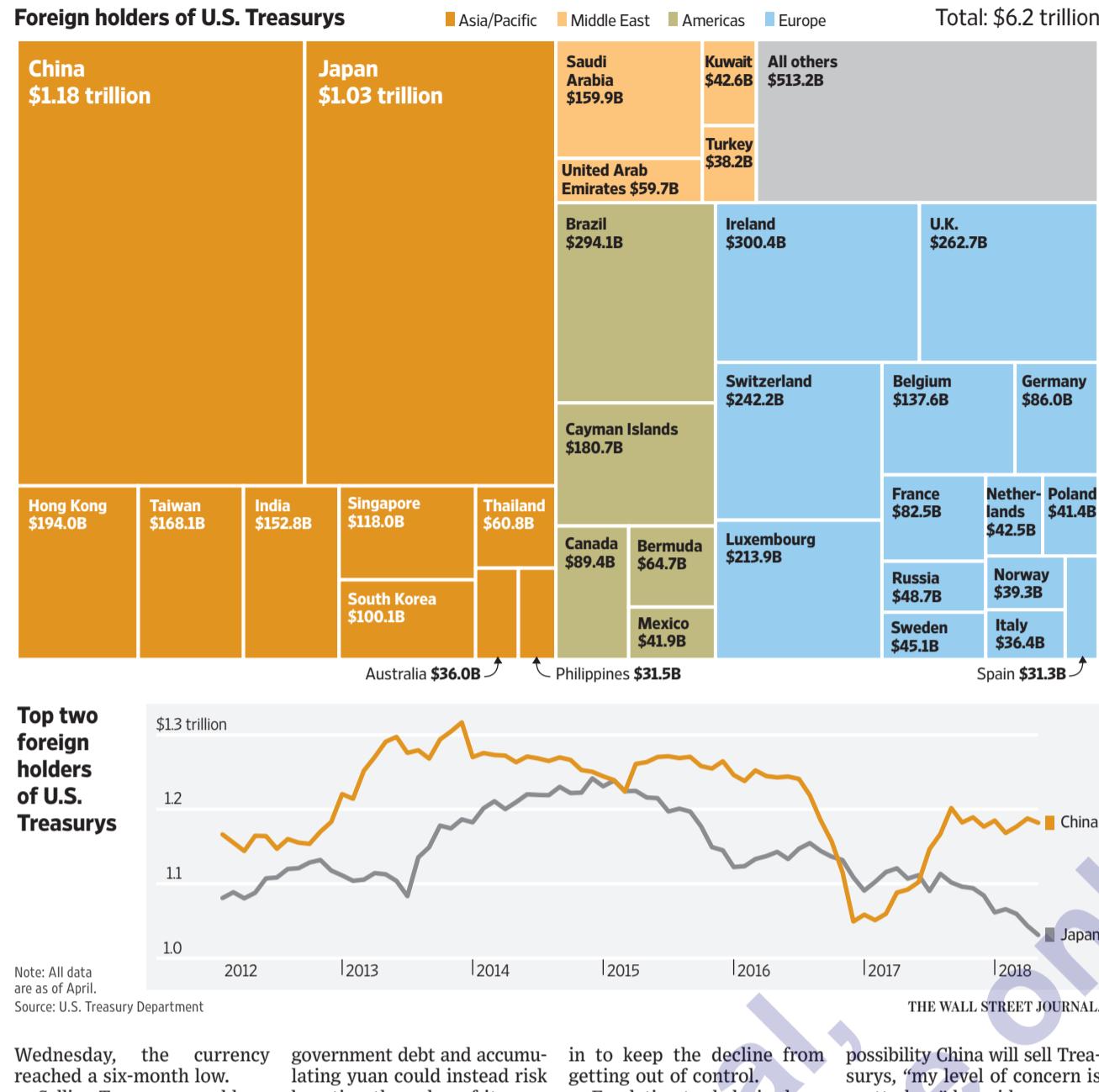
So China would be loath to weaponize its financial assets, analysts say.

For starters, driving down prices on U.S. government bonds would erode the value of any securities China continued to hold. It could also damage the value of China's other extensive dollar-denominated holdings, such as corporate bonds and stocks.

The move also could prove counterproductive in other ways. Because China exported \$505 billion of goods to the U.S. in 2017 and imported \$130 billion, analysts have noted that President Donald Trump has more targets for tariffs than Chinese President Xi Jinping.

So instead of imposing additional tariffs, some said China could respond by devaluing the yuan.

Indeed, China recently has allowed the yuan to trade lower against the dollar. On



China wanted to sell its Treasury portfolio, it might not prove to be that effective a strategy. Mr. Setser estimates that if China were to sell all of its \$1.18 trillion of Treasurys, along with about \$100 billion in custodial accounts held abroad, it would raise the yield on the 10-year Treasury note by as little as 0.3 percentage point.

The most likely way for China to retaliate against U.S. tariffs without raising trade levies of its own would be to tighten regulations and increase inspections of U.S. businesses operating in China, making the climate less hospitable, several analysts said.

The Defense Department assessed the national-security risks posed by China's bondholdings in 2012 and found the threat of the country dumping Treasurys not credible.

Many analysts believe China would prefer to see the value of its currency against the dollar remain stable. While a weaker currency could help shore up the economy's export sector, it could also raise the risk of capital flight.

Between 2014 and 2016, Chinese currency reserves declined as investors moved money offshore. Officials sold roughly \$200 billion of Treasurys to help support the value of its currency. During that period, Treasurys rallied and yields fell.

There would also be a longer-term risk for China, several analysts said. The use of the country's bondholdings and currency in a trade fight could hurt China's push to have the yuan adopted by large central banks as a global reserve currency.

Such a move could damage whatever trust investors have begun to place in the currency as a long-term store of value, Mr. McCormick said. "This is something the U.S. understands, which is why they're probably pushing the envelope a little" and making such large threats about tariffs, he added.

Wednesday, the currency reached a six-month low. Selling Treasurys would upset that plan. China for years has used dollars accumulated by running trade surpluses to purchase Treasurys. This is part of a strategy to prevent the yuan from appreciating, analysts and economists said.

That helps keep China's exports affordable to consumers around the world. Selling U.S.

government debt and accumulating yuan could instead risk boosting the value of its currency, making China's exports relatively more expensive.

Such a move also could send shock waves throughout the global economy, unleashing currency volatility that China's central bank could be unable to contain. While the yuan fell Wednesday, China's central bank appeared to step in to keep the decline from getting out of control.

Escalating trade levies have the potential to slow global growth, one reason the yield on the benchmark 10-year Treasury note has slipped from an almost-seven-year high of 3.109% in May, said Jeff Klinzelhofer, who manages bond portfolios at Thornburg Investment Management.

While he can't rule out the possibility China will sell Treasurys, "my level of concern is pretty low," he said.

Selling dollar assets and repatriating yuan would add to China's trade problems and "help address U.S. trade problems" by hurting the value of the dollar and making U.S. exports cheaper, said Brad Setser, an economist at the Council on Foreign Relations.

Some argue that even if

## HEARD ON THE STREET

FINANCIAL ANALYSIS &amp; COMMENTARY

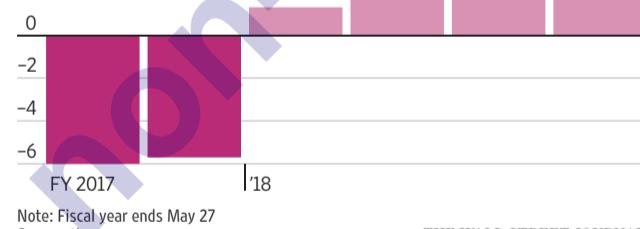
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## This Frozen-Foods Deal Is Hot

## Appetizing

Conagra's refrigerated and frozen foods, change in comparable sales from a year earlier



showed comparable sales in its refrigerated and frozen business rising 5.2% from a year earlier.

Pinnacle Foods also has a rapidly growing frozen business with brands like Birds Eye vegetables. Putting the two together will create a frozen-foods giant with market share second only to Nestlé.

Producing and shipping frozen foods is expensive, leading analysts to believe

there would be substantial cost synergies from a merger. Against these expectations, Conagra's announced target of \$215 million in cost synergies by 2022 appears conservative.

Perhaps Conagra is understating the savings, but bullish analysts may also have gotten ahead of themselves. On a conference call, Conagra Chief Executive Sean Connolly explained that facilities for freezing fresh vege-

tables—as Pinnacle does—are different from those that produce frozen meals like Conagra's, so the overlap is more limited than many analysts expected.

Nonetheless, the advantages of the tie-up could be substantial. Creating a frozen-foods juggernaut will help drive better deals with distributors and retailers.

Finally, the multiple that Conagra is paying looks reasonable, even without assuming any synergies, at 16.5 times trailing earnings before interest, taxes, depreciation and amortization. That compares with multiples of around 20 times for Campbell's acquisition of Snyder's-Lance and Hershey's purchase of Amplify Snack Brands.

Conagra and Pinnacle are already standout performers.

Together they will be a formidable competitor to the biggest global brands like Kraft Heinz and Nestlé.

Others should follow their example before they fall further behind.

—Aaron Back

## OVERHEARD

How significant is the relaxation of Facebook's ban on cryptocurrency advertising?

"I believe history will show that this decision to lift the ban will prove to be another catalyst for the unstoppable cryptocurrency revolution," said Nigel Green, the British head of a financial consulting firm.

Mr. Green last month pilloried Warren Buffett when the Berkshire Hathaway CEO said cryptocurrencies would "come to a bad end."

Will a bit of Facebook ad magic change that? Since January, the month the ban was enacted, premier cryptocurrency bitcoin had its value drop from over \$17,000 to around \$6,000. Cause and effect are unclear, though.

When is the last time one saw an ad anywhere online for, say, the Swedish krona?

The one fiat currency alternative that has paid advertising, mostly in the form of commercials on cable news, is gold. Its dollar value has dropped by about 15% in the past five years.

## Micron Still Has Strong Memory

What goes up must come down. There is a difference between a soft landing and a hard fall, though.

Most investors in the memory-chip market tend to bet on the latter, and for good reason. But DRAM prices lately have shown an unprecedented stability.

That has been great for Micron Technology, which derives about 70% of its revenue from DRAM. But its shares have retreated since the company posted record-breaking results last week, indicating a fear that memory prices have peaked.

Micron faces challenging comparisons going into its next fiscal year, but UBS analyst Tim Arcuri notes that major memory producers are taking a "more anticipatory approach" to DRAM supply that limits the potential downside.

Another boon is the server market, driven these days by huge investments in data centers. Those facilities are just now starting to make use of artificial intelligence and Micron CEO Sanjay Mehrotra says AI-enabled servers require six times the amount of DRAM compared with standard servers.

Mr. Arcuri estimates the server market will make up 22% of DRAM volume this year with memory demand by this segment still growing in the double-digit range next year.

That doesn't mean chip prices won't fluctuate. Another risk is a trade war with China and new memory-producing companies being established there. Even with the recent weakness, Micron's share price is up 27% this year, leading large-cap chip stocks.

It doesn't take much fear to chip away at those sorts of gains. —Dan Gallagher

## Tariff Talk Slams the IPO Window Shut for Car Makers

Luxury-car makers are in the eye of the trade storm unleashed by President Donald Trump. One consequence is that hoped-for IPOs of Aston Martin, Volvo Cars and possibly Jaguar Land Rover are looking unlikely, even though most brands are reporting record sales.

All three European luxury brands have reportedly explored initial public offerings. Aston Martin in February said it was considering an IPO. Zhejiang Geely, the Chinese company that bought Volvo Cars from Ford Motor in 2010, has hired banks for a potential float, according to Reuters last month. And last year,

Bloomberg reported that Indian group Tata Motors was considering taking Jaguar Land Rover public, having bought the British manufacturer in 2008.

The luxury-car market is extremely strong. And the success of Ferrari's IPO has made industry executives reconsider the old wisdom that big is beautiful for auto makers. Ferrari stock has more than doubled since Fiat Chrysler took it public in 2015, and it attracts a far richer valuation than peers.

But it is hard to imagine these IPO projects progressing while Mr. Trump continues to target car imports from Europe. The U.S. presi-

dent repeated threats of a 20% tariff on car imports from the European Union on Friday, when EU tariffs on motorcycles, whiskey and other American products went live—itself a retaliation for U.S. steel and aluminum tariffs.

On Tuesday, he tweeted that his team was finishing its study of tariffs on cars from Europe.

Smaller European manufacturers are particularly exposed to the threat of tariffs because they typically don't have U.S. factories, while America is a big market for luxury cars. Only a few elite car brands—possibly only Ferrari—have the pricing power to pass the extra cost

on to their customers. Motorcycle maker Harley-Davidson, which has the same problem in the opposite direction, said Monday it wouldn't increase prices in response to EU tariffs, even though this will cost it up to \$100 million a year in the short term. It hopes to eventually get around the tariffs by moving production overseas, probably to Thailand.

Larger European luxury manufacturers such as BMW and Daimler have U.S. factories, but still rely on open borders. Typically, they make SUVs in the U.S. and sedans in Europe, and ship them back and forth as demand requires.

The U.S. tariffs may never happen. One interpretation is that the threats have more to do with negotiations over the North American Free Trade Agreement than the EU's 10% tariff on U.S. car imports or the new tax on Harleys.

The EU may be able to give Mr. Trump a deal by reducing its tariff to the current U.S. level of 2.5%—a move that would mainly benefit German manufacturers.

But betting against a trade war looks increasingly risky. A few months ago, the IPO window looked open for smaller car makers. Tariff talk has slammed it shut.

—Stephen Wilmot