

THE WALL STREET JOURNAL.

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WSJ.com EUROPE EDITION

DJIA 20894.83 ▲ 0.43%

NASDAQ 6133.62 ▲ 0.82%

NIKKEI 19678.28 ▲ 0.45%

STOXX 600 391.14 ▼ 0.09%

BRENT 53.87 ▲ 0.48%

GOLD 1260.70 ▲ 0.64%

EURO 1.1235 ▲ 0.25%

What's News

Business & Finance

Ford named Jim Hackett, who heads the auto maker's Smart Mobility unit, to succeed Mark Fields as CEO amid a stock slump. **A1**

◆ OPEC is likely to extend and perhaps deepen output cuts because the group hasn't been able to drain superhigh levels of oil in storage. **A1**

◆ Huntsman and Clariant agreed to merge, creating a chemical company valued at about \$14 billion. **B1**

◆ Arconic agreed to give Elliott three board seats, ending a bruising battle with the hedge fund days before a shareholder vote. **B3**

◆ Vivendi's CEO said the French conglomerate could float a minority stake in its Universal music unit. **B1**

◆ Citigroup and Nasdaq are teaming up to link the bank's business-payments service to the blockchain networking technology. **B7**

◆ Disney is set to open an attraction based on the "Avatar" movie, in its biggest U.S. theme park expansion in over a decade. **B3**

◆ China's JD.com said it is developing drones that can deliver 1-ton shipments for the retailer. **B4**

◆ Economic growth in developed countries slowed sharply in the first quarter, the OECD said. **A5**

World-Wide

◆ Flynn will decline to cooperate with a Senate request for documents, invoking his right against self-incrimination. **A1**

◆ Trump met with Netanyahu in an effort to restart peace talks, but he faced Israeli concerns about an arms deal with Saudi Arabia. **A3**

◆ Israel agreed to economic measures aimed at improving the lives of West Bank Palestinians. **A3**

◆ Trump became the first serving U.S. leader to visit Jerusalem's Western Wall. **A4**

◆ Rouhani's re-election as Iran's president threatens to put the U.S. on a collision course with Europe over policy toward Tehran. **A4**

◆ Turkey summoned the U.S. envoy to protest what it called "aggressive" actions by U.S. security toward Erdogan's bodyguards. **A4**

◆ North Korean leader Kim's call to mass-produce a new missile underscores the country's rapid progress on missile technology. **A5**

◆ The White House is set to roll out a budget proposal calling for large cuts to social programs and higher military spending. **A6**

◆ A bomb exploded at an army-run hospital in Bangkok on the third anniversary of Thailand's military coup, injuring over 20. **A5**

Inside CEO COUNCIL: ASIA, B5

Japan's Abe Talks Trump

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Ford Motor Changes Leadership

As car maker's stock slumps, Mark Fields is out as CEO and Jim Hackett moves up

bility innovation unit. The shuffle ends Mr. Fields's three-year tenure at the helm of the Dearborn, Mich., auto maker, where during 28 years at the company he developed a reputation as a hard-charging manager.

Ford Chairman Bill Ford Jr. said the car company his great-grandfather started in 1903 needs a fresh set of eyes. In an interview, Mr. Ford said he expects the 62-year-old Mr. Hackett to reinvent and re-energize the business.

"We need speed [in] decision making," Mr. Ford said.

By John D. Stoll,
Christina Rogers
and Joann S. Lublin

He said Mr. Hackett needs to take "hard actions" to address underperforming parts of the business and he needs to "really invest in the performing parts of the business." Mr. Ford didn't address specific departments or regions.

The chairman said Mr. Hackett, a one-time Ford board member, is expected to "be in this job for a good long period—he's got the energy for it." Mr. Ford noted that part of the job will be "to teach and groom the next generation."

Himself a former chief executive of Ford, Mr. Ford said the

auto maker faces challenges as the industry pivots from conventional cars and trucks to new forms of manufacturing, including parts made with 3-D printers, and new types of transportation, including autonomous vehicles.

Mr. Ford, long a supporter of Mr. Fields, didn't directly comment on the departing CEO's performance, but acknowledged the company has room for improvement in communicating with Wall Street and other constituents. Ford's share price is down nearly 40% from when Mr. Fields succeeded Alan Mulally in 2014.

This year, the company's market value slipped behind that of Tesla Inc., the electric-vehicle startup. That development, along with tension in management ranks, shook directors' confidence in the company's direction and prompted discussion of a leadership change, according to people familiar with the matter.

Ford shares were ahead by 1.5% at \$11.03 in afternoon trading on Monday.

Mr. Hackett is known for clear communication and taking bold action. He made waves in the Detroit area in 2014 when, as interim athletic director for the University of

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Trump Visits Jerusalem's Western Wall



DISPUTE IN SPOTLIGHT: Donald Trump is the first sitting U.S. president to visit the wall, a shrine on land Israel considers its own but that Palestinians want as part of a future capital city. The White House doesn't acknowledge that the wall is in Israeli territory. **A4**

CASH BAIL? MORE OFTEN COURTS SAY NO

Cornerstone of U.S. justice system is losing favor, much to dismay of bail-bond industry

By NICOLE HONG
AND SHIBANI MAHTANI

More U.S. cities and states are reducing their reliance on cash bail, rejecting the long-standing notion that money should determine whether arrested individuals are locked up until trial.

The movement is upending a cornerstone of the American criminal-justice system and threatening to deal the most severe blow to the multibillion-dollar bail-bonds industry since it began in the late 1980s.

In an overhaul that went into effect this year, New Jersey began a new statewide bail system that essentially eliminates cash bail, compelling judges to detain—or release—defendants before trial

based on their risk to public safety rather than their ability to pay. Voters in New Mexico passed a similar amendment to the state constitution late last year.

In California and Texas, the two states where courts have historically set the highest bail amounts, lawmakers have introduced bills that would significantly change their bail systems. Starting July 1, judges in Maryland will have to consider alternatives to cash bail for nonviolent defendants.

Driving the overhaul efforts is a growing recognition by judges and others that the current system unfairly incarcerates people solely because they can't afford bail amounts as low as \$100, creating over-

Please see BAIL page A8

Coup Trials Begin in Turkey



PARADE: Suspects in July's coup attempt head to trial in Ankara in a crackdown that has drawn ire abroad. Tensions are rising over a clash between Turkish guards and protesters in the U.S. last week. **A4**

Stored Oil Is the Problem OPEC Just Can't Remedy

OPEC is likely to extend and perhaps even deepen its production cuts for one main reason: It has failed to drain superhigh levels of oil in storage enough to raise prices significantly.

By Georgi Kantchev,
Sarah McFarlane
and Benoit Facon

On Sunday, Khalid al-Falih, energy minister for the Organization of the Petroleum Exporting Countries' top producer, Saudi Arabia, said OPEC and its production-cutting allies need to keep holding back output for another nine months. The group's top lead-

ers meet in Vienna on Thursday to make a decision.

"We are all ready to consider other creative suggestions that may emerge to between now and May 25," Mr. Falih told reporters in Riyadh.

OPEC's predicament underscores the powerful role global oil inventories now play, after years of being a technical detail that some traders ignored. With more data available than ever, oil storage has joined shale production as a symbol of a global glut of crude that has knocked OPEC on its heels.

"The production deal was a risky maneuver by OPEC," said Antoine Halff, senior researcher at Columbia University.

sity's Center on Global Energy Policy. "By choosing a storage target, they set themselves up for failure."

Almost six months after OPEC's 13 members and 11 other big producers pledged to cut about 2% of global oil supply, stored crude has only recently begun falling and still remains at historically high levels.

Brent crude, the global benchmark, gained 0.5%, to \$53.87 a barrel, on Monday, but prices remain below the levels reached in the days after the production cut's announcement and short of the \$60-a-barrel target that Saudi

Please see OIL page A2

The Latest Disruption By Amazon

* * *

Seattle Is Split Over 1.7 Million Free Bananas

By LAURA STEVENS

SEATTLE — Amazon.com Inc. has transformed businesses including retailing, filmmaking and data storage. But no one anticipated the bananas.

It started with a brainstorm from founder and CEO Jeff Bezos that Amazon should offer everyone near its headquarters—not just employees—healthy, eco-friendly snacks as a public service. After considering oranges, Amazon picked bananas, and opened its first Community Banana Stand in late 2015.

It has since expanded to

Please see BANANA page A8

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WORLD NEWS

Lessons for President in a Reagan Scandal

**CAPITAL JOURNAL**

By Gerald F. Seib

In late 1986, Ronald Reagan was overseeing a presidency in deep trouble.

Because of the Iran-Contra scandal, his job-approval ratings had plunged 16 percentage points in less than two months. His administration was under investigation by both an independent commission and a court-appointed independent counsel, and there was serious talk of impeachment.

Yet by the time he left office two years later, Mr. Reagan had pulled out of the ditch and overseen a historic makeover of relations with the Soviet Union. He rode out of office with a robust 63% job-approval rating.

What happened? And are there any lessons in this rebound for the Trump administration as it stumbles through the inquiry into Russia's role in the 2016 presidential election?

The key to Mr. Reagan's survival came in early 1987, when he launched a significant makeover of his team,

bringing in a new set of Washington pros. He adopted a disciplined approach of allowing the Iran-Contra investigations—painful though they were—to play out without interference, while focusing his own energies on achieving some modest domestic legislative victories and more significant diplomatic achievements.

Equally important, his aides and his wife convinced a reluctant president to tell the nation, not once but twice, that he accepted responsibility for the Iran-Contra problem. "We convinced Reagan—and it was worse than 10 root canals—that he had to do a mea culpa to the American people," recalls Ken Duberstein, who was among the group brought in to revive the Reagan presidency and later became White House chief of staff.

There are, of course, significant differences between the problems facing Mr. Reagan then and President Donald Trump now. The Iran-Contra scandal erupted well into Mr. Reagan's second term and involved a substantive policy disagreement with Congress, while the questions over Russian election-year role turn on what happened during the campaign and shortly after he entered office.

The key lesson, though, may be one that Mr. Trump seems to be resisting. Whereas Mr. Trump appears eager to derail inquiry into the Russian question—firing FBI Director



President Ronald Reagan during a White House news conference on Nov. 25, 1986.

James Comey amid his investigation and regularly belittling the idea that there is anything worth examining at all—Mr. Reagan came to conclude that the air would be cleared only if he allowed both Justice Department and subsequent congressional probes to play out to their natural conclusions.

"Iran-Contra" was shorthand for a covert effort by the Reagan national security team to sell weapons to Iran, and then funnel the proceeds to arm the Contra rebels fighting the leftist government of Nicaragua. Both ends of this transaction—selling arms to Iran

and giving military assistance to the Contras—contravened prevailing laws, so the whole operation was an elaborate effort to defy congressional intent.

Mr. Reagan, it turned out, approved the sale of arms to Iran out of a humanitarian impulse: In return for the weaponry, the Iranians helped free American hostages held in Lebanon. But he appeared to be unaware that the proceeds were being used to arm Nicaraguan rebels.

Little of that was clear as word of the operation was exploding in late 1986. At the end of November, the Reagan

administration publicly acknowledged that money had gone to the Contras; fired Oliver North, the National Security Council staff member behind the operation; and appointed a special commission led by former Sen. John Tower to examine what had happened.

But real damage control began a couple of months later, when Mr. Reagan cleaned house. He accepted the forced resignation of his White House chief of staff, Donald Regan, and replaced him with former Sen. Howard Baker, a widely respected Washington veteran. Mr. Baker, in turn,

brought along Mr. Duberstein as his deputy, and, eventually, Gen. Colin Powell as national security adviser and longtime national security figure Frank Carlucci as defense secretary.

The new team sought to resolve the Iran-Contra questions while also separating Mr. Reagan from them. A special channel was set up in the White House counsel's office to handle Iran-Contra issues, freeing the rest of the White House to focus on the other pieces of the Reagan agenda.

The new team also convinced Mr. Reagan to stop making offhand comments about Iran-Contra, which kept the controversy swirling without resolving it. Increasingly, presidential attention was focused on reshaping relations with the evolving Soviet Union, which produced a set of historic summit meetings with Soviet leader Mikhail Gorbachev and a landmark 1987 agreement on intermediate-range nuclear arms.

Along the way, congressional investigations were launched alongside the independent-counsel inquiry. Eventually a handful of Reagan aides were indicted and convicted of various transgressions—and later pardoned by President George H.W. Bush.

Mr. Reagan, though, survived, and even thrived. Whether Mr. Trump can adopt a similarly open yet disciplined approach is the question of the hour.

world's oil-refining capacity is outside the OECD, in countries such as China and India, where accurate storage data are difficult to come by.

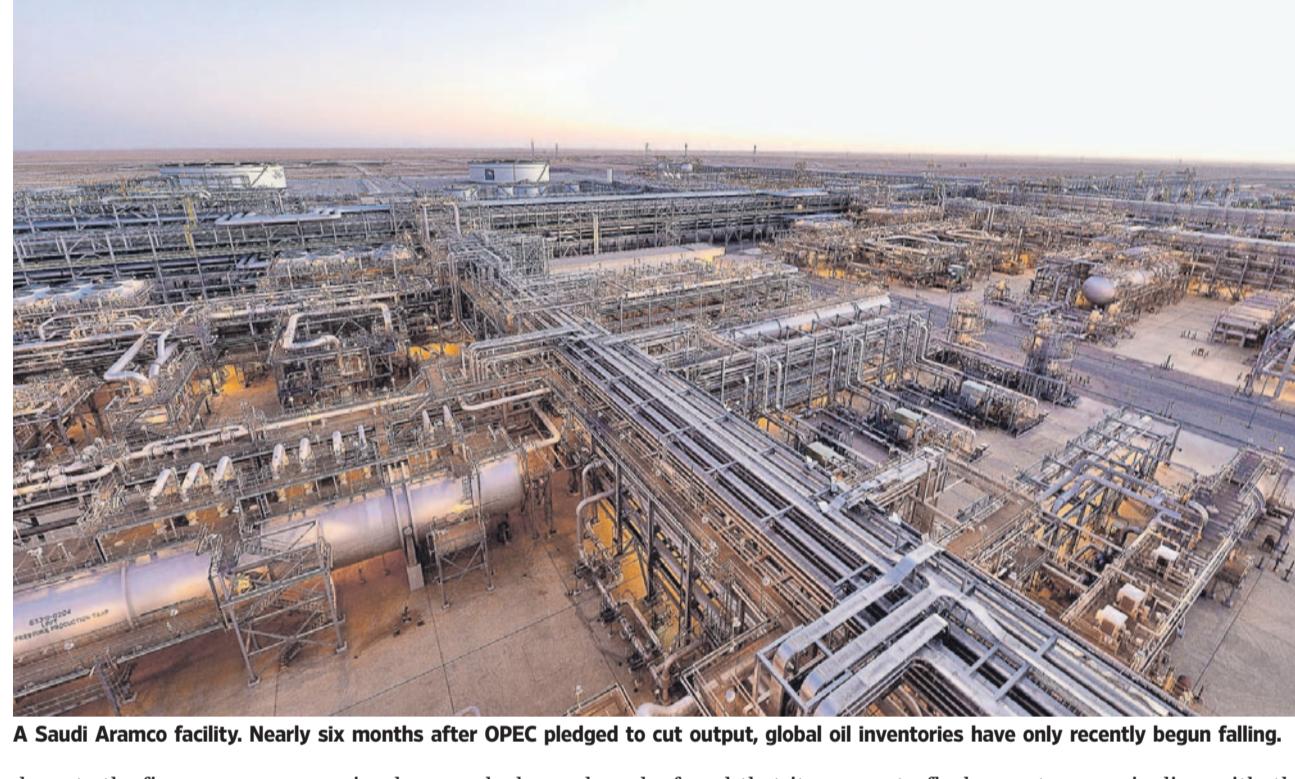
China made significant inventory drawdowns early in the year followed by large inventory builds to recover to an oil stock level of 783 million barrels as of May 17, according to data from global storage-monitoring firm Ursa Space Systems Inc., which monitors 75% of China's storage capacity.

Saudi Arabia's stocks rose 2.3%, or 6 million barrels, over February and March, according to the Joint Organisations Data Initiative, a group based in Riyadh that compiles oil-industry information. According to Kpler, stocks appear to be falling in major oil-storage hubs in the Caribbean and South Africa.

There is also less oil being held in giant tankers at sea, an expensive way to hoard oil but one that became common during the glut. According to Kpler, the volume of oil held on ships had fallen about 23% from December to 91.1 million barrels at the end of April.

"If they continue to fall, that will give the market some new confidence," said Harry Tchilinguirian, head of commodity markets strategy at BNP Paribas SA.

—Summer Said and Margherita Stancati contributed to this article.



A Saudi Aramco facility. Nearly six months after OPEC pledged to cut output, global oil inventories have only recently begun falling.

SAUDI ARAMCO/REUTERS

Continued from Page One

OPEC leaders say they want to reduce storage levels in the Organization for Economic Cooperation and Development—a club of industrialized countries like the U.S.—to a five-year average. An OPEC official said commercial oil stocks in industrialized countries were about 276 million barrels above the latest five-year average in March compared with 300 million barrels in November.

About 550 million barrels of crude and oil products have been added to the world's stocks since 2014, when prices began sinking, said Christopher Baker, a member of the executive committee at large oil trader Vitol Group. OPEC leaders have said they want to siphon off more than 300 million barrels of crude oil from OECD stocks, which reached records of over three billion barrels last year.

But OECD stocks continued increasing in early 2017 and fell in March by just 32 million barrels, according to the International Energy Agency, a global adviser to oil-consuming places such as the U.S., India and Europe. Even if the OPEC and non-OPEC cuts are extended into the second half of 2017, stocks won't draw

down to the five-year average this year, the IEA said.

An OPEC official said the group's plan was beginning to work and needed more time.

"Stocks are now coming down," the official said.

The official said OPEC was also concerned about high inventories in 2008 and 2009, when the global economic cri-

sis depressed demand and prices, sending storage levels higher.

Storage levels eventually fell, and prices rose, in 2009 as the crisis abated and oil-demand growth returned.

OPEC's focus on storage levels comes as U.S. shale producers are able to withstand low prices. The group has

found that its power to flush oil out of storage is limited.

One of the main culprits might be OPEC itself. The group ramped up output just before the cuts were slated to start in January, adding to the world's already vast oversupply.

According to data from oil-tanker tracking firm Kpler, OPEC's January-to-April ex-

ports were in line with the year-earlier period.

"OPEC itself delayed reaching the inventories goal by increasing production late last year," said Olivier Jakob, managing director of consulting firm Petromatrix.

OECD storage is only a slice of what investors are looking at. More than half of the

world's oil-refining capacity is outside the OECD, in countries such as China and India, where accurate storage data are difficult to come by.

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FORD

Continued from Page One

Michigan, he recruited NFL coach Jim Harbaugh to lead Michigan's vaunted football program.

Over 30 years at Steelcase, Mr. Hackett reshaped the company's workplace offerings, dispensing with cubicles and embracing open offices.

At Ford he has overseen the formation of the unit responsible for experimenting with car-sharing programs, self-driving ventures and other programs aimed to help the 114-year-old auto maker better compete with Uber Technologies Inc., Alphabet Inc. and other tech giants looking to edge in on the auto industry.

Jim Farley, recruited by Ford from Toyota Motor Corp. and credited with turning around European operations, will also be given a new prominent role. Mr. Farley, 54, will work directly under Mr. Hackett as a potential successor, according to multiple people briefed on Ford's plans.

A group of other executives will be reassigned.

Mr. Hackett is known for an easy and straightforward style reminiscent of Mr. Mulally, a longtime Boeing Co. executive

recruited to run Ford in 2006. Mr. Mulally addressed the turmoil that permeated Ford's management ranks at the time, sold off business units and shored up the balance sheet.

Mr. Mulally left Ford in 2014 as the company was on a winning streak. He benefited from a revamped product line that was built while avoiding the bankruptcies that hit Detroit rivals General Motors Co. and Fiat Chrysler Automobiles NV's Chrysler unit in 2009.

Mr. Fields, a turnaround artist known for overseeing revivals in Ford's operations on several continents and within various business units, was a top lieutenant under Mr. Mulally and Bill Ford's pick as the successor.

Mr. Fields couldn't be reached to comment.

When Tesla overtook the market capitalizations of GM as well as Ford this year, it underscored how far behind Detroit is perceived to be in the race to

develop new technology.

Uber, Google, Tesla and others are racing ahead with programs, including electric vehicles, ride-hailing services and the development of vehicles entirely capable of driving without human intervention.

Mr. Fields had been planning to launch driverless cars early next decade, but Ford is far behind Tesla and GM on electric-car development.

Executives also have struggled to explain how Ford will make money on services other than developing, producing and selling automobiles.

Ford has posted a series of solid profits under Mr. Fields, aided by renewed demand for pickups and sport-utility vehicles that deliver higher margins and do well in an era of cheaper gasoline. Mr. Farley, meanwhile, helped deliver more than \$1 billion in profit in Europe last year, with the favorable result coming as GM exited that region due to persistent losses and a lack of confidence in its German Opel unit.

Mr. Fields, however, has struggled with Wall Street. Analysts and investors have routinely questioned the company's ability to weather the next industry downturn. Criticism has increased as U.S. auto sales plateau and Ford's market

share slides.

One of several auto-industry outsiders recruited by Mr. Fields, Mr. Hackett was installed to be instrumental in helping Ford's moves into transportation-related services.

Ford's Smart Mobility unit has made some initial moves under Mr. Hackett's direction, hiring van-shuttle service Chariot and joining with a bike-sharing firm.

In an interview with the Journal last year, Mr. Hackett said he wasn't interested in being a chief executive again but was available to help Mr. Fields think through tough challenges.

During the interview, Mr. Hackett explained that traditional car-building consumes substantial capital and returns relatively slim margins. In so-called mobility services, he said Ford could eventually earn far more attractive margins if it hired the right software engineers and designers.

The auto maker has been

projecting 20% margins in the mobility-services business, but hasn't outlined when that would be achieved. Its North American unit is Ford's most profitable, returning about 10% operating margins under the best conditions.

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Mark Fields, above, hired Jim Hackett, his successor as CEO.

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WORLD NEWS

Trump Meets Netanyahu in Push for Peace

President hopes to restart stalled talks between Palestinian and Israeli leaders

BY CAROL E. LEE
AND RORY JONES

JERUSALEM—President Donald Trump met with Israeli Prime Minister Benjamin Netanyahu on Monday in an attempt to build on two days of talks in Saudi Arabia about a regional thaw between Arabs and Israelis, but the effort faces early headwinds amid concerns among some Israeli officials about new U.S. arms deals with Persian Gulf states.

"We have before us a rare opportunity to bring security and stability to this region and to its people," Mr. Trump said after arriving at Tel Aviv's Ben Gurion airport. "We can only get there by working together. There is no other way."

In a meeting with Mr. Netanyahu, Mr. Trump said of Saudi leaders, "Their feeling toward Israel is really very positive," and that relations between the two countries are being shaped by a mutual desire to counter Iranian aggression.

"It's forcing people together in a very positive way," Mr. Trump said. "I could see a much deeper path to friendship with Israel and...a lot of it's spurred on by what's happening in Iran."

Standing by Mr. Trump's side late in the day, Mr. Netanyahu praised what he called "the reassertion of American

leadership in the Middle East" and added, "For the first time in my lifetime I see a real hope for change."

Earlier in the day, Mr. Netanyahu credited Mr. Trump's hard line toward Iran with creating an atmosphere more ripe for peace.

And Mr. Netanyahu also expressed hope that one day he could fly between Tel Aviv and Riyadh, as Mr. Trump had done. Saudi Arabia doesn't recognize Israel's right to exist, even though it has privately worked with the country in recent years.

In his first overseas trip as president, Mr. Trump aims to advance his administration's goal of helping broker a peace deal between Israelis and Palestinians after decades of conflict, and to prod Israel and its Arab neighbors to agree to new security cooperation measures in an attempt to counter Iran's influence in the region.

Mr. Trump is focusing on pressuring Israeli and Palestinian leaders to negotiate in good faith. White House officials say leaders from both sides have agreed in principle to direct talks, though it is unclear if or when those would begin.

On Tuesday Mr. Trump will travel to the West Bank for a meeting with Palestinian Authority President Mahmoud Abbas.

Despite the hopeful words, progress on the budding rapprochement between Israel and the Arab world risks coming undone by a growing list of disagreements between Israel and the U.S. During Mr.



U.S. President Donald Trump and Israel Prime Minister Benjamin Netanyahu speak after Mr. Trump's arrival in Tel Aviv on Monday.

Trump's visit to Riyadh, the U.S. and Saudi Arabia signed a new \$109 billion arms deal and agreed to commit to a further \$350 billion over a decade.

The U.S. has long committed to maintaining Israel's superior defense capabilities compared with its neighbors in the Middle East in a policy known as "Qualitative Military Edge." The Obama administration agreed to \$3.8 billion in annual military aid last year, increasing the size of the

package for a 10-year period. Israel's energy minister Yuval Steinitz on Sunday questioned the size and scope of the Saudi deal.

"Hundreds of millions of dollars in arms deals is something we need to get an explanation for," he told Israeli media in comments confirmed by his spokeswoman. "We need to ensure Israel's qualitative military edge is maintained."

Secretary of State Rex Tillerson said that the deal wouldn't affect the longstand-

ing U.S. commitment to Israel's security and that the threat of Iran and radical extremism is helping bring Israel closer to Arab states.

"That is unifying," Mr. Tillerson told reporters during Mr. Trump's flight. "I think it allows countries that have had deep differences to look at the situation and realize that in many respects our threats are common to all of us."

Mr. Tillerson said the president and other U.S. officials could address any concerns the Israeli government has about the deals.

"There has been nothing entered into with the arms sales agreements with the Kingdom of Saudi Arabia or any of the other countries that do not fully allow us to fulfill our commitments to Israel and the longstanding security arrangements we have with Israel," he said.

Ties between the U.S. and Israel under Mr. Trump, while far warmer than in recent years, have been tested since revelations this month that the president shared classified information with Russian officials that Israel had provided.

Israeli officials last week played down the impact. They said the U.S. and Israel hadn't agreed the information could be passed on, but that Israel had confidence in the intelligence relationship.

Mr. Trump also visited on Monday the Church of the Holy Sepulchre and the Western Wall, which lies in territory that Israel captured from Jordan in the 1967 Middle East war, land that Israel considers its own and

that Palestinians want as part of a hoped-for future capital city. The White House has refused to acknowledge that the wall is in Israeli territory, instead saying it is located in Jerusalem.

The Israeli and U.S. administrations are also at public odds over delays in Mr. Trump's proposed move of the U.S. Embassy from Tel Aviv to Jerusalem and the status of the Western Wall.

The White House's official position, reiterated by Mr. Tillerson on Monday, is that the wall is in Jerusalem.

Israeli officials want the U.S. to move the embassy to effectively recognize Jerusalem as Israel's capital despite opposition in the international community.

Mr. Trump has decided not to make any decision immediately, out of concern that it would derail efforts on peace talks, White House officials have said.

The Israeli government's security cabinet Sunday agreed to measures that include allowing construction of Palestinian residences in the area of the West Bank under Israeli control, Mr. Netanyahu's office said, a controversial issue for right-wing Israelis who don't want to give up the land.

The government also agreed to smooth operation of border crossings from the West Bank into Israel; determine land that could be used for Palestinian industrial use; and examine an extension of a train line from Israel to the Palestinian territory that could increase com-

merce and the flow of people between them.

Israel Offers to Ease Palestinians' Living Conditions

BY RORY JONES

The security cabinet said it would create a committee to manage the measures over a three-year period.

White House officials have said that improving the lives of Palestinians is a key policy goal, as the Trump administration looks to bring the two sides together. The president has made such concessions a key tenet of his peace platform since taking office in January.

Husam Zomlot, the Palestinian diplomatic representative to Washington, welcomed the Israeli moves as long as they are genuinely enacted. But he expressed skepticism that Israel would follow through with the measures given that Mr. Netanyahu won't express support for a two-state solution.

"Whenever there is an international movement towards political solution, Israel approves a set of reversible measures," Mr. Zomlot said. "If Ne-

tanyahu really wants to show good will, [he could] endorse a peace agenda and the two-state solution."

Israeli conservative opposition to the measures illustrates the delicate task facing Mr. Trump.

Lawmakers from the right-wing Jewish Home party voted against the measures at the cabinet meeting, according to a person familiar with the matter.

Influential Jewish Home leader Naftali Bennett doesn't

support the establishment of a Palestinian state, and has said that he will support U.S.-brokered talks only if they don't include offering concessions to Palestinians.

He has made implicit threats to pull out of Mr. Netanyahu's

coalition government should the Israeli leader make overtures to Palestinians or commit to Palestinian statehood.

His party's departure from the coalition could precipitate its collapse.

Mr. Netanyahu didn't commit to a Palestinian state in a February meeting with Mr. Trump, the last time the two leaders met.

Both Mr. Netanyahu and Palestinian Authority President Mahmoud Abbas face domestic pressure not to take steps toward appeasement.

The Palestinian Prisoners Club, a nongovernmental group that helps Palestinian prisoners inside Israeli jails, organized a general strike Monday across the entire West Bank to coincide with Mr. Trump's visit.

Government offices and public transport closed in solidarity with hundreds of Palestinian prisoners currently on their 36th day of a hunger strike for better conditions in Israeli jails.



An Israeli soldier Monday fired tear gas toward Palestinians protesting Israeli jail conditions.

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WORLD NEWS

Europe, U.S. Face Rift Over Iran Policy

BY JAY SOLOMON

WASHINGTON—The landslide re-election of Iranian President Hassan Rouhani threatens to put the Trump administration on a collision course with Europe over future policy toward Tehran.

European officials hailed the news of Mr. Rouhani's win as heralding a more moderate path for Iran over the next four years. But President Donald Trump, speaking to Muslim leaders in Saudi Arabia, sought to rally the international community behind a new campaign to push back Iran's influence in the Middle East.

Indeed, Mr. Trump signaled a significant hardening of the U.S. position toward Iran, suggesting only the removal of its theocratic leadership could stabilize the region.

"Until the Iranian regime is willing to be a partner for peace, all nations of conscience must work together to isolate Iran...and pray for the day when the Iranian people have the just and righteous government they deserve," Mr. Trump said.

Mr. Rouhani, a pragmatic Islamic cleric, secured a second



Iran President Hassan Rouhani in May. Mr. Rouhani won a second term on a campaign platform of greater openness to the West.

past four years, despite Mr. Rouhani's more pragmatic politics and the landmark nuclear agreement, called the Joint Comprehensive Plan of Action, or JCPOA, forged between global powers and Iran in 2015. They point to Mr. Khamenei and the IRGC as pushing these policies.

Trump administration officials privately worry Mr. Rouhani's re-election could help shelter Iran's hardline factions from the increased financial and military pressure the U.S. seeks to exert. Indeed, European leaders roundly applauded his victory and outlined a policy toward Iran diametrically opposed to Mr. Trump's.

"#EU ready to continue work for full JCPOA implementation, bilat engagement, regional peace, and meet expectations of all people in #Iran," European Union foreign policy chief, Federica Mogherini, tweeted on Saturday.

The Trump administration is currently conducting an interagency review of its overall Iran policy, including whether to maintain U.S. support for the nuclear agreement.

On Wednesday, the admin-

istration extended the life of the nuclear deal by granting sanctions waivers to companies and countries trading oil with Iran. But the White House also imposed new financial penalties on Iranian and Chinese firms allegedly involved in developing Tehran's ballistic missile program.

Mr. Trump's hardline position on Iran is dividing traditional U.S. allies and adversaries alike.

The Arab states and Israel have embraced the American leader's toughening position. The U.S.'s announcement on Saturday of more than \$100 billion in arms sales to Saudi Arabia and the United Arab Emirates is largely seen as aiding their efforts to challenge Iran's growing military arsenal and support for proxies in key Arab countries.

Mr. Trump has already increased military support for Saudi and UAE military operations in Yemen, which pit their militaries against the Iran-backed Houthi militia. His administration also twice attacked the forces of Syrian President Bashar al-Assad, a close Iranian ally, something the Obama administration didn't do.

"If Iran wants to be a normal country and wants others to treat it like a normal country, it has to act in accord with international law and the values and the morals of the international system," Saudi Foreign Minister Adel al-Jubeir said Saturday, in response to Mr. Rouhani's win. "But this is not the Iran we see."

The EU, China and Russia, key players in the nuclear talks, have told the Trump administration they won't support any effort by the U.S. to renegotiate or abrogate the nuclear deal.

Despite tough rhetoric, members of Mr. Trump's cabinet aren't ruling out holding high-level talks with Iran on the nuclear deal and other strategic issues. Secretary of State Rex Tillerson has suggested in the past he might try to toughen the terms of the landmark deal.

"I've never shut off the phone to anyone that wants to talk or have a productive conversation," Mr. Tillerson said in Riyadh on Saturday. "At this point, I have no plans to call my counterpart in Iran, although, in all likelihood, we will talk at the right time."

Western Wall Visit Exposes Differences

BY RORY JONES AND CAROL E. LEE

JERUSALEM—President Donald Trump on Monday became the first serving U.S. leader to visit the Western Wall, a shrine holy to Jews that has emerged as a source of discord between the U.S. and Israel.

The disagreement between the two allies over sovereign claims to the wall touches on a profoundly sensitive subject—not only for Israel but for other Middle East nations, including Jordan, Egypt and Gulf states. It comes as Mr. Trump is trying to broker a peace deal between the Israelis and Palestinians as well as a broader warming of relations between Israel and its Arab neighbors.

The wall lies in territory that Israel captured from Jordan in the 1967 Six-Day War, land that Israel considers its own and that Palestinians want as part of a hoped-for future capital city.

The White House has refused to acknowledge that the wall is in Israeli territory, instead saying it is located in Jerusalem.

Israeli media last week reported that Israeli Prime Minister Benjamin Netanyahu requested to join Mr. Trump at the Western Wall, but was told by U.S. officials organizing the trip that the wall wasn't in Israeli territory.

Mr. Netanyahu's office then issued a statement saying it was shocked by the reported U.S. comments. The **State Department** responded by questioning the accuracy of Israeli media reports that outlined a bitter argument between Israeli and U.S. officials.

"All indications are U.S. officials' actions were in accordance with longstanding U.S. policy on coordination for such official visits to Jerusalem," the State Department said in a statement.

Secretary of State Rex Tillerson on Monday again refused to say the wall is inside Israel. "The wall is part of Jerusalem," he said on a plane to Tel Aviv from Riyadh.

Mr. Trump was accompanied to the wall by a Jewish rabbi. Wearing a kippah head covering, he placed his right hand on the wall and rocked back and forth, seemingly in prayer. He then left a personal note in the crevices of the wall, a common gesture by guests at the holy shrine.

The Western Wall is the last of the four walls that once abutted the Temple Mount compound in Jerusalem's Old City, where the second Jewish temple stood.

The Temple Mount, known as Haram al Sharif to Muslims, is also now the location of the Al Aqsa mosque, one of Islam's holiest sites.



Protesters were beaten during a Washington rally against Recep Tayyip Erdogan on May 16, the same day people gathered there to support the Turkish president, right.

Turkey Summons U.S. Envoy Over Clashes

BY NED LEVIN AND FELICIA SCHWARTZ

Turkey's Ministry of Foreign Affairs summoned the U.S. ambassador to protest what it called "aggressive and unprofessional actions" by U.S. security toward Turkish bodyguards during President Recep Tayyip Erdogan's visit to Washington last week.

Clashes involving Turkish security personnel, supporters of Mr. Erdogan, protesters, and District of Columbia police sent nine people to the hospital.

Mr. Erdogan's visit was marred by competing accounts

from U.S. and Turkish officials about the violent confrontation, and tensions between the two sides have continued to escalate over the incident.

Local police, U.S. lawmakers and demonstrators said members of Mr. Erdogan's security detail took part in an unprovoked attack on protesters outside the Turkish ambassador's residence in Washington.

The U.S. State Department said it summoned the Turkish ambassador last week to express its concern over the incident, which D.C. police, the Secret Service and the State Department are investigating.

The summoning of U.S. Am-

bassador John Bass on Monday added to Turkey's challenges of the prevailing narrative in Washington by casting blame on U.S. security personnel for unprofessionalism outside the Turkish Embassy, as well as unspecified "lapses of security" throughout Mr. Erdogan's visit.

The Ministry of Foreign Affairs called for an investigation into the behavior of U.S. security toward the bodyguards of Turkish Foreign Minister Mevlut Cavusoglu in front of the Turkish Embassy, which it said was "contrary to diplomatic rules and practices." It wasn't clear whether

that criticism covered the incident outside the ambassador's residence, which is in a different location.

The ministry also condemned "the inability of U.S. authorities to take sufficient precautions at every stage of the official program." A spokesman for the ministry declined to further specify Turkey's complaints, pending the investigation it requested.

Last week, the Turkish Embassy said Turkish-Americans who had gathered to greet and support Mr. Erdogan had responded in self-defense to aggressive provocations by protesters. The embassy didn't

mention the Turkish security detail. A narrative of the incident published by Turkey's state-run Anadolu news agency said the fight started after protesters threw water bottles at Turkish citizens.

Mr. Bass reiterated strong U.S. concerns about the violence in his meeting with Turkish officials on Monday, a senior State Department official said.

Mr. Bass and Turkish officials didn't agree on what prompted the outbreak of the violence, the official said.

"We're looking into what happened, and we want to understand what happened and why," the senior official said.

Pope Francis Seeks a Truce With Rebel Priests

Pontiff moves to bring traditionalist Society of St. Pius X back into the fold, raising some concerns

BY FRANCIS X. ROCCA

ROME—Pope Francis is edging closer to reconciliation with a breakaway traditionalist group, a possible coup for a liberal pope who could succeed where his more conservative predecessors failed.

It is the pope's Nixon-to-China moment: His credibility with progressive Catholics has given him more leeway to reach out to the other side, like President Richard Nixon's overture to Communist China.

But the prospect of bringing the Society of St. Pius X—known as SSPX—back into the church has alarmed some conservatives and liberals, for different reasons.

SSPX has vexed the Vati-

catholic since French Archbishop Marcel Lefebvre, a critic of the modernizing changes brought to the church by the 1962-65 Second Vatican Council, founded it in 1970.

Archbishop Lefebvre opposed the end of the Latin Mass—a move he regarded as a damaging rupture with the church's millennial traditions—and the Vatican's more open stance to other religions. He argued that Cathol-

icism is the only true faith and that Catholic officeholders are duty bound to make sure it is favored by the state.

In 1988, Archbishop Lefebvre and another prelate ordained four SSPX bishops without permission from Pope John Paul II, incurring

excommunication for themselves and the new bishops. Since then, all three popes have worked to bring SSPX back. Pope Benedict XVI lifted restrictions on celebration of the Latin Mass, which had been replaced by worship in local languages in an effort to increase lay participation.

Pope Benedict also lifted the excommunications of the four illicitly ordained bishops.

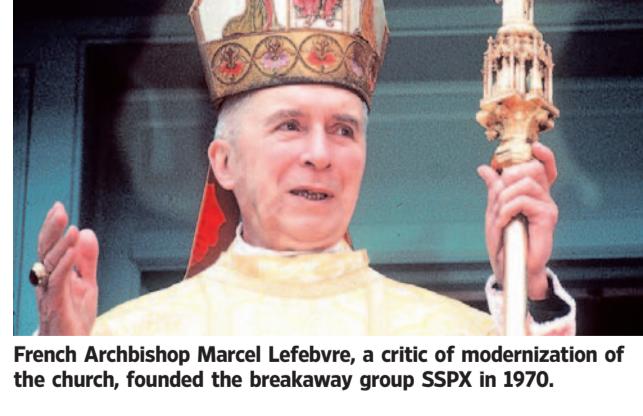
But SSPX leaders and members remained wary of losing their autonomy under Vatican jurisdiction and adamant about their opposition to certain tenets of Vatican II.

The rehabilitation of SSPX bishops led to an explosive controversy after one of the prelates, Bishop Richard Williamson, turned out to be a vocal Holocaust denier.

A reconciliation seemed imminent in 2012, the last full year of Pope Benedict's reign, until talks broke down.

Now, under Pope Francis, who has been more willing to overlook differences, prospects for reunification are more favorable.

SSPX leader Bishop Bernard Fellay, who took over after Archbishop Lefebvre's death in 1991, didn't respond to requests to comment.



French Archbishop Marcel Lefebvre, a critic of modernization of the church, founded the breakaway group SSPX in 1970.

ASSOCIATED PRESS

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WORLD NEWS

North Korea's Tests Boost Threat

Speedy development of new missile reflects Pyongyang's mastery of key technologies

BY JONATHAN CHENG

SEOUL—North Korean leader Kim Jong Un's call to mass produce a relatively new missile it test-launched for the first time just three months ago underscores the isolated country's rapid progress in building up a range of capabilities for its growing missile arsenal.

While most U.S. policy makers remain concerned about North Korea's ability to deliver a nuclear-tipped missile to the continental U.S., the speedy development of the Pukguksong-2, or the Polaris-2, highlights how quickly North Korea is mastering other critical missile technologies that are making Pyongyang a bigger threat to the U.S. military and its allies in East Asia.

The missile, while not designed to reach beyond most of the U.S. bases in South Korea and Japan, can be fired with almost no preparation time from the back of a mobile launcher, giving North Korea more stealth in its launches, as well as the ability to retaliate in the case of a strike against it, experts say.

The North first publicly tested the Polaris-2 in February, in a successful launch of a missile that it said it had adapted from a submarine-launched ballistic missile it



North Korean leader Kim Jong Un inspects the intermediate-range ballistic missile Pukguksong-2's launch test in this undated photo.

KCNA/REUTERS

launched last year.

It test-launched the Polaris-2 again in April, the same month it paraded the missile through the streets of central Pyongyang for the first time.

On Monday, Mr. Kim declared the Polaris-2 "very accurate" and ordered mass production of the missile for military deployment, the state-run Korean Central News Agency reported.

The head-turning progress, just three months from first public test to mass production, is a reminder of North Korea's commitment to its missile program, in defiance of international condemnation

and sanctions pressure.

"The North Koreans put their best brains on this one," said Joshua Pollack, a senior research associate at the Middlebury Institute of International Studies in Washington.

The declaration of success with the Polaris-2, which the U.S. calls the KN-15, comes just a week after North Korea launched a new missile, the Hwasong-12—which experts say is capable of flying 2,800 miles, more than enough to reach the U.S. base in Guam and farther than any weapon that North Korea has successfully fired to date. Both the Polaris-2 and Hwasong-12 are

capable of carrying nuclear warheads, North Korea said.

The Polaris-2 has a shorter range than the Hwasong-12, flying roughly 310 miles in each of its two successful launches. The Polaris-2 missile was fired on Sunday at a steeper-than-usual trajectory, and would have flown 780 miles if it were launched at a lower angle, David Wright, codirector of the Global Security Program at the Union of Concerned Scientists, wrote in an analysis of the launch.

But unlike the Hwasong-12 and the vast majority of the missiles in North Korea's arsenal, the Polaris-2 is a solid-fueled missile. Traditional liquid-fueled missiles require substantial fueling time, making them potential targets for a pre-emptive U.S. airstrike.

In contrast, solid-fueled missiles such as the Polaris-2 can be wheeled out on the back of a truck and fired with virtually no fueling time. That gives North Korea more capabilities.

If the Polaris-2 is reliable, said Daniel Pinkston, a North Korea expert and professor at Troy University in South Korea, "it gives them greater survivability since the launch preparation time is greatly reduced compared to liquid-fueled missiles."

Bomb Blast at Bangkok Hospital Injures More Than 20 on Coup Anniversary

BANGKOK—A bomb exploded at an army-run hospital in Bangkok on Monday, the third anniversary of a military coup, and authorities said more than 20 people were wounded.

Investigators found remnants of batteries and wires at the scene of the blast on the ground floor of Phramongkutklao Hospital, said Srivara Ransibrahmanakul, Thailand's deputy national police chief.

It wasn't clear who was behind the explosion or if it was linked to the anniversary of the 2014 military coup that overthrew a democratically elected government.

But the army chief, Gen. Chalermchai Sittisart, said it appeared that the explosion and two earlier blasts in recent weeks used similar explosive materials and were likely part of an attempt to disrupt the government.

"All of this was conducted with the goal of creating disorder to the administrative work of the government and NCPO," he said, referring to the National Council for Peace and Order, the official

name of the ruling junta.

But he cautioned that "we shouldn't conclude anything yet" about who was behind the attack.

The blast wounded 21 people, one of them severely, said Lt. Gen. Saroj Kewkajee, a hospital official.

Phramongkutklao is a military-run hospital that is also open to civilians. At right, Thai soldiers secured the hospital as a patient was escorted out.

Since the 2014 coup, at least six explosions have occurred in Bangkok.

Last week, a bomb went off in front of the National Theater, wounding two people. In April, a similar explosion took place in front of an old government lottery office, also wounding two.

Those blasts used similar explosives but did far less physical damage than Monday's bomb, the army chief said.

"This bomb was meant to cause casualties as it was packed with a large number of nails," Gen. Chalermchai said.

—Associated Press



WORLD WATCH

OECD

Growth Slowed In First Quarter

Economic growth in developed countries slowed sharply in the first three months of 2017, as the U.S., the U.K. and France experienced weak starts to the year.

The Organization for Economic Cooperation and Development on Monday said the combined economic output of its 35 members during the first quarter was 0.4% higher than in the final three months of 2016, slowing from the 0.7% rate of growth recorded at the end of last year.

The slowdown underlines the still anemic nature of the recovery from the global financial crisis and the recession that followed.

—Paul Hannon

FRANCE

Macron and Putin To Meet Next Week

President Emmanuel Macron will meet Russian President Vladimir Putin next week, their first meeting since Mr. Macron accused Moscow of meddling in the French presidential election.

Mr. Putin will travel to Versailles outside Paris on May 29 for an exposition commemorating the 300th anniversary of Russian Emperor Peter the Great's visit to Paris in 1717.

In February, Mr. Macron accused Russia's state-sponsored media of spreading smears about his character. Days before the election, a cache of emails and documents stolen from Mr. Macron's political party was

posted anonymously on the internet. French officials and some cybersecurity experts suspected Russian agents in the hacking.

The Kremlin denied that it was responsible for the hacking or that it tried to smear Mr. Macron.

—Matthew Dalton

GERMANY

Bundesbank Snubs Trump's Tax Plans

The central bank said U.S. President Donald Trump's tax plans would likely hurt the U.S. economy and lead to a 30-percentage-point increase in the U.S. debt-to-gross-domestic-product ratio within a decade.

The comments, published Monday in the bank's monthly

report, represent a rare critique by the Bundesbank of U.S. economic policy and come amid tensions between Berlin and the new administration in Washington, which has attacked Germany's persistent trade surpluses.

Mr. Trump has yet to spell out his tax-reform plans in detail, but a blueprint published last month suggests he would slash the corporate tax rate to 15% from 35% and reduce some income and estate taxes.

The plans face a battle in Congress, where many lawmakers worry they would add to already-large budget deficits.

Citing its own economic modeling, the Bundesbank argued that any short-term boost to growth from the tax overhaul

would quickly fade.

—Tom Fairless

EUROZONE

Berlin, Paris to Found Common Area Panel

The German and French finance ministries will set up a joint working group to make proposals for strengthening the eurozone, German Finance Minister Wolfgang Schäuble said after a meeting with new French Economy and Finance Minister Bruno Le Maire in Berlin.

"We have a wide, common understanding about the tasks that lie before us," Mr. Schäuble said Monday. "And we agree that Germany and France share a joint responsibility...to be the

motor of European integration."

The working group will make proposals on issues such as fiscal convergence and the coordination of economic policies before French and German ministers meet in July, Mr. Le Maire said.

—Ruth Bender

ECB

Weidmann Warns on Stimulus Withdrawal

The European Central Bank shouldn't wait too long before withdrawing its large monetary stimulus, German central bank President Jens Weidmann warned, wading into a debate about how quickly the ECB should signal a policy shift.

Speaking in the German city of Bochum, Mr. Weidmann argued that the ECB's easy-money policies are currently appropriate because underlying inflation in the 19-nation eurozone—excluding volatile food and energy prices—remains weak.

If the region's economic recovery continues, however, the ECB "will move closer toward normalizing" its policy mix, the Bundesbank president said.

Pressure has been building in Northern Europe for a policy change from Frankfurt as the region's economy picks up. Eurozone inflation recently accelerated to 1%, within the ECB's target range, after languishing close to zero for years.

But top ECB officials have yet to signal they are ready to change course and start winding down their monthly €60 billion (\$67 billion) bond-purchase program, known as quantitative easing or QE.

—Tom Fairless



THEIR SHARE: Tunisians face security forces at a petroleum plant to demand jobs in the sector.

FATHI NASRI/AGENCE FRANCE PRESSE/GETTY IMAGES

Old-Age Funding At Issue in U.K. Vote

BY JASON DOUGLAS

LONDON—U.K. Prime Minister Theresa May on Monday signaled a partial reversal on flagship plans to finance elderly care announced only last week, after a flurry of weekend opinion polls suggested the policy was eroding a double-digit poll lead over the main opposition Labour Party.

The about-face, over an election issue seemingly far down the pecking order from major challenges including Brexit, highlights how sensitive Mrs. May is to shifts in the public mood ahead of the vote June 8.

Mrs. May's ruling Conservatives in their election manifesto Thursday unveiled proposals to set a minimum amount an individual and their family can retain after paying for their old-age care.

In the U.K., although health care is covered by the state-run National Health Service, all but the poorest must finance most old-age care needs out of their own pocket, with taxpayers shouldering any shortfall if the cash runs out. Voters were angered by spiraling costs that quickly exhausted many families' resources.

The Conservatives proposed that, instead, the state pick up the tab while the individual is alive and then recoup the cost of their care from their estate after death. The manifesto said that no matter how high the cost of their care, the state had to leave their heirs with at least £100,000 (\$130,370).

Conservatives slip in polls after unveiling a plan critics called 'dementia tax.'

The party argued that this "floor" was fairer than capping the total cost an individual must pay at £72,000, a proposal the previous administration of Prime Minister David Cameron had pledged to bring in by 2020.

Speaking to the BBC on Thursday, Health Secretary Jeremy Hunt said such a cap disproportionately benefited the very well-off. "We're dropping it because we've looked again at this proposal and we don't think it's fair," he said.

Voters, though, seemed to see it differently. Polling conducted May 18 and 19 by pollster YouGov PLC found 40% of respondents opposed the Conservatives' elderly-care policy, which opposition parties painted as a "dementia tax" on frail voters. The same poll found 49% of voters who were asked opposed Conservative plans to ditch a so-called triple lock that ensured pensioner benefits rose by at least 2.5% a year, regardless of earnings or inflation.

The YouGov survey of 1,925 adults reported that, among those certain to vote, support for the Conservatives had fallen to 44% May 19, from 49% May 12, while Labour support increased, to 35% from 31%. The nine-point gap was the smallest Conservative lead of the election campaign, YouGov said. Other pollsters reported a similar narrowing in the Conservatives' lead over Labour since the manifesto launch.

Mrs. May on Monday said that keeping a cap on care costs will now be among the options for debate in Parliament if the Conservatives win June 8, even though it wasn't in the party's manifesto. She denied this represented a U-turn by her government.

Mrs. May has sought to keep voters' attention on the coming Brexit negotiations, which she says her Labour rival, Jeremy Corbyn, a veteran left-winger who has never held a government job, wouldn't be able to handle.

In a message on his official Twitter account, Mr. Corbyn said the care episode showed a government "in chaos and confusion."

—Wiktor Szary contributed to this article

U.S. NEWS

White House to Focus on Taxes, Budget

Russia investigation is a distraction as the administration tries to push its policy agenda

BY PETER NICHOLAS
AND BYRON TAU

WASHINGTON—President Donald Trump is thousands of miles away, but his policy agenda faces tests at home this week as he tries to shift the focus from Russia investigations to his plans for boosting American military power and overhauling the tax code.

The White House on Tuesday will roll out a budget proposal that calls for large cuts to social-safety-net programs such as Medicaid and food assistance while increasing Pentagon and border-security spending.

While Mr. Trump visits Pope Francis in Rome on Wednesday, Treasury Secretary Steven Mnuchin in Washington will testify about Mr. Trump's 2018 budget plan before the House Ways and Means Committee. The same congressional panel will hold a separate hearing devoted to a tax overhaul aimed at reduc-

ing rates and speeding job growth—a centerpiece of Mr. Trump's campaign message.

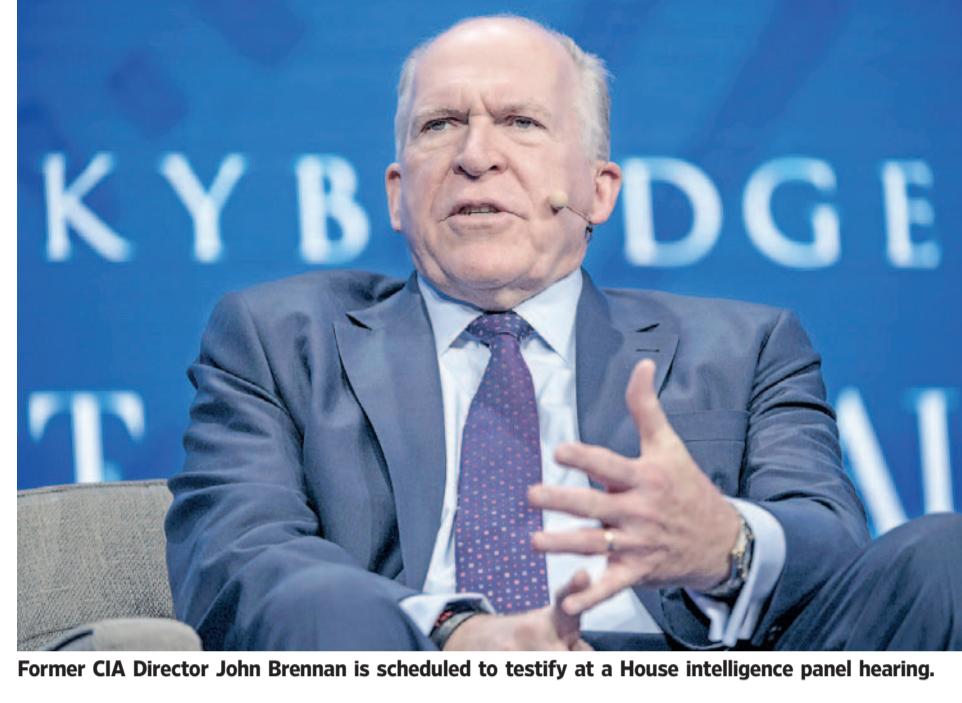
Following revelations about Mr. Trump and Russia over the past two weeks, the White House and congressional Republican leaders are eager to show that they can deliver on policy promises.

"People in the country need to know that we are busy at work trying to solve their problems," House Speaker Paul Ryan (R., Wis.) said. "So I realize that there's a lot in the media these days. That doesn't seize up Congress. That doesn't stop us from doing our jobs, to work on people's problems."

A potential danger for the Trump administration is a report coming out this week from the Congressional Budget Office. The nonpartisan CBO will release its evaluation of the health-care bill the House narrowly passed on May 4 after an intense lobbying push by the White House.

The analysis could influence the bill's fate in the Senate by giving lawmakers a fuller picture of how much the measure will cost and how many people might lose insurance coverage.

Meanwhile, the congressional machinery devoted to the



Former CIA Director John Brennan is scheduled to testify at a House intelligence panel hearing.

drama, with Mr. Comey facing questions about a memo he wrote saying that Mr. Trump asked him to back off an investigation into former national security adviser Michael Flynn.

Asked whether he had said any such thing to Mr. Comey, Mr. Trump told reporters at a news conference last week: "No. No."

Many presidents in modern times have endured distracting investigations that threatened to derail their agendas. Former Republican President Ronald Reagan faced the Iran-Contra scandal, while Democrat Bill Clinton dealt with long-running inquiries into the real-estate deal known as Whitewater and the probe into his affair with Monica Lewinsky.

Last week, the Justice Department named former FBI Director Robert Mueller as a special counsel to head the investigation arising from allegations that Russia interfered in the 2016 election.

The Senate Intelligence Committee is also preparing for a hearing with former Federal Bureau of Investigation Director James Comey after Memorial Day. A date hasn't been set but the hearing is expected to be a moment of high

Russia probe continues.

A high-profile witness will appear before the House Intelligence Committee this week as part of the panel's investigation into alleged Russian interference in the 2016 election, including questions about how the intelligence agencies under the Obama administration came to the determina-

with the Kremlin.

John Brennan, the former Central Intelligence Agency director under President Barack Obama, will testify publicly on Tuesday—a hearing that is expected to shed new light on how the intelligence agencies under the Obama administration came to the determina-

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cutters say lower rates should be the priority to generate growth, even if it means lower tax revenue.

What happens if Congress can't agree on a budget?

No.

The party is divided among those who prioritize defense spending, balancing the budget and cutting taxes. Placating each of those groups will be very challenging, especially in the Senate, where any three Republicans can derail the process. The defense hawks are chafing under years of budgetary caps. Budget balancers want the plan to erase the annual deficit within 10 years, if not sooner. The tax

cappers capped the size of President George W. Bush's tax cuts.

Will it be easy for Republicans to agree on a budget?

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U.S. NEWS

Democrats Enlist Veterans for 2018

By REID J. EPSTEIN

WASHINGTON—Democrats now believe more congressional districts will be competitive in next year's midterm elections than once thought and they have a strategy to try to capture at least some of them: run military veterans as candidates.

Democrats must win at least a net 24 seats in 2018 to take a majority in the House. With Republican President Donald Trump less popular at this point in his term than any president in modern history, Democratic officials believe between 75 and 100 House districts will be in play then—dozens more than previous estimates.

These candidates can frame their effort as a continuation of their national service.

As candidates, veterans can frame their effort as a continuation of their national service. They also allow Democrats to appeal to parts of the electorate that have fled the party in recent elections. It recalls their strategy in 2006, when they took control of the House by fielding candidates who could appeal to voters in more-conservative districts.

Already, the party is running veterans in competitive congressional districts across the country: Fifteen veterans have launched 2018 House campaigns, and 10 more may enter races by this summer, Democratic officials said.

"It is time that Democrats genuinely show that we can have a bigger tent and not just be entirely defined by the old liberal left," said Massachusetts Rep. Seth Moulton, a Marine

combat veteran of the Iraq war who is leading the party's recruiting effort among veterans.

Told that Democrats believe 75 to 100 districts will be in play next year, Matt Gorman, the National Republican Congressional Committee communications director, laughed. "They are undefeated in moral victories," Mr. Gorman said.

The Democratic Congressional Campaign Committee has spoken with about 300 potential 2018 candidates, an official said, though dozens will compete against each other in primary contests.

For the first time this year, the DCCC is working with VoteVets, a liberal political-action committee with which the party's House campaign arm has often been at odds. VoteVets, which in the past has backed Democratic veterans in primary challenges, is now targeting competitive general-election races.

"Veterans have a chance to carry districts that other Democrats won't be competitive in," said Jon Soltz, the VoteVets founder and chairman. "They're less political and they're not career politicians and they're not Washington."

In April, Illinois Sen. Tammy Duckworth had a meeting with Mr. Moulton, VoteVets and the DCCC to coordinate recruiting and financial efforts.

"Ever since I first ran, people were saying, 'We didn't know there were Democrats in the military,'" said Ms. Duckworth, who lost both of her legs in Iraq and was first elected to the House in 2012.

Of the 80 military veterans serving in the House, just 19 are Democrats, and the overall number of veterans in Congress is the lowest since before World War I, according to Seth Lynn, executive director of Veterans Campaign, a nonpartisan group that trains veterans to run for office.



New developments rise in Long Island City, N.Y., in May. Housing construction in the urban core has been stronger than normal.

RICHARD B. LEVINE/ZUMA PRESS

Housing Shortage Worsens As Millennials Favor Cities

By LAURA KUSISTO

The rush of young people to U.S. cities over the past few years is partly to blame for America's worsening housing shortage.

In some of the country's largest and most prosperous markets, such as New York, San Francisco, Boston and Los Angeles, housing construction has been stronger than normal in the urban core but weaker in the suburbs, where new housing can be built abundantly and more cheaply, according to an analysis released Monday by BuildZoom, a website for construction contractors.

That is a problem because suburbs are typically the main drivers of housing construction.

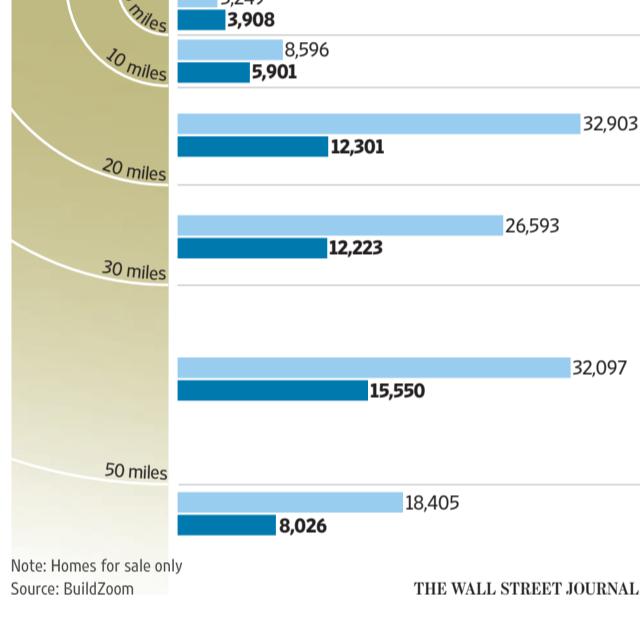
For decades during the late-20th century, suburbs were the place to build, as urban cores suffered from high crime, poor schools and stagnating or shrinking populations.

But preferences have changed among young people, many of whom want to live closer to transit, restaurants and their workplaces. The share of young, educated people living in the urban core of Washington, D.C., for example, increased 8.6 percentage points between 2000 and 2014, according to Jed Kolko, chief economist at job-search site Indeed and senior fellow at the Terner Center for Housing Innovation at the University of California, Berkeley. Portland, Ore., and Chicago each saw increases of 6.4 percentage points.

"The expensive cities tend

City Living

Housing developers are putting much more focus on urban markets and less on the suburbs and exurbs than they did in 2000.



Note: Homes for sale only
Source: BuildZoom

THE WALL STREET JOURNAL.

to be shifting toward a paradigm that says having a better location is better than having a fresher, greener, newer place," said Issi Romem, chief economist at BuildZoom.

As builders have shifted focus toward trendier urban markets and away from cheaper suburbs, they have produced less housing overall than they otherwise might have. While starter-home construction has bounced back in recent months, it remains far from reversing this long-term trend.

At the same time, high land costs in central cities have

pushed developers to focus on higher-end housing geared toward high earners instead of younger people just starting out.

The shift helps explain one of the most vexing aspects of the housing recovery: New homes are getting more expensive and yet there are fewer of them being built than in past cycles.

While new home sales within 5 miles of the centers of 10 of the country's priciest and most densely populated metropolitan areas have surpassed levels from 2000, they remain more than 50% below

where they were in 2000 when you go more than 10 miles out. The year 2000 is often used as a benchmark for a normal market, before the boom and bust of the mid-2000s.

To be sure, the study looks only at for-sale housing. More of what tends to be produced in city centers is for rent. What's more, demand for starter homes has been bouncing back in recent months, as millennials get married, have children, and get fed up with rising rents.

The BuildZoom analysis shows that in metro areas where land is less expensive and there are fewer land-use restrictions, exurban starter homes are making a comeback.

In Austin, Texas, for example, 35.6% of new residential sales in 2015 was located more than 20 miles from the center, up from 12% in 2000. Indeed, exurban areas saw a threefold increase in new home sales between 2000 and 2015 with areas 5 to 20 miles from the urban core experiencing a drop.

The takeaway, Mr. Romem says, is that pricey cities need to loosen land-use restrictions in core areas where there is more demand. Allowing for more high-rise condo buildings would make it economical to produce starter homes in these areas as well.

"Do you care about preserving things the way they are, so that only wealthy people can continue buying in, or do you want to [encourage more density], so that housing is more affordable for everyone?" he asked.



Sen. Tammy Duckworth is helping to coordinate the recruitment of fellow veterans and Democrats to contest House seats.

Jury Selection Begins in Bill Cosby's Trial

By KRIS MAHER

PITTSBURGH—Jury selection in the sexual assault case of comedian Bill Cosby began Monday, hundreds of miles across Pennsylvania from where the trial is scheduled to begin in two weeks.

Judge Steven O'Neill, who will preside over the trial, is overseeing the selection of jurors at the Allegheny County Courthouse in Pittsburgh following concerns raised by Mr. Cosby's lawyers that he couldn't get a fair hearing from people in the Philadelphia area, which has been saturated with coverage of the case.

Twelve jurors and six alternates will be bused 300 miles east to Norristown, Pa., for the trial scheduled to begin June 5. Mr. Cosby, 79, was charged by the Montgomery County District Attorney with aggravated indecent assault for allegedly assaulting Andrea Constand in his Cheltenham, Pa., home outside Philadelphia in 2004.

Ms. Constand, a former Temple University employee, has said she was there to ask for career advice but that Mr. Cosby assaulted her after giving her wine and pills in order to help her relax. A civil case was settled for undisclosed terms in 2006.

Mr. Cosby has said he is in-

nocent and that any sexual contact that occurred was consensual. He faces up to 10 years in prison if convicted.

Last week, Mr. Cosby said in an interview on SiriusXM radio that he doesn't plan to take the stand during his trial. He declined to discuss the allegations pending against him and said some of his legal troubles "may very well be" the result of racism.

On Monday, the star of 1980s hit sitcom "The Cosby Show" entered the Alcourt House wearing a tan sport coat and walking with a cane.

Nearly 50 women have come forward saying they

were assaulted by the entertainer. He has denied the allegations, and the statutes of limitations in many cases have expired.

Mr. Cosby's lawyers sought an outside jury in a filing late last year, arguing that media coverage in New York and elsewhere had branded him a "monster" and "sexual predator," among other things.

The pitchforks came out in full force in the fall of 2014, when comic Hannibal Buress called Mr. Cosby a rapist during a stand-up show in Philadelphia. Mr. Cosby's lawyers wrote in a December 2016 court filing.

His lawyers also said prospective jurors in Montgomery County had been subjected to negative publicity about the case when it was featured in campaign ads in the 2015 election for Montgomery County district attorney.

Prosecutors didn't oppose choosing jurors from another location, known as a change of venue but they did object to shifting the trial to a new location. They argued that because "he is a celebrity who is alleged to have committed nearly 50 sexual assaults," Mr. Cosby couldn't expect to find a site where people are "completely oblivious" to the case.



Bill Cosby arrives at the Allegheny County Courthouse for jury selection in his sex-assault trial.

U.S. WATCH

HOMELAND SECURITY

Visitors Stay Past Visas, Says Report

More than 700,000 foreigners who were supposed to leave the country last year stayed beyond the terms of their visas, though some of them subsequently departed, the Department of Homeland Security reported Monday.

That figure represents a small slice—fewer than 1.5%—of the more than 50 million visitors whose visas directed them to depart in fiscal year 2016.

Though the vast majority of visitors left on time, in conjunction with a similar report issued last year, it suggests that a substantial number of people are living in the U.S. illegally who arrived with legal papers.

Most of the attention around illegal immigration involves people who cross into the U.S. illegally, but experts say more than 40% of the estimated 11 million undocumented people here overstayed their legal visas and that a majority of newly arrived illegal immigrants came legally and then stayed past their return dates.

—Laura Meckler

TEXAS

Bill on Transgender Bathroom Clears Wall

Texas lawmakers have moved closer to passing a bill that would restrict bathroom use for trans-

gender students, reviving the controversial issue.

Under the bill, which was approved overwhelmingly Sunday by the Republican-controlled House of Representatives, students in traditional public and charter schools would have to use the bathroom and locker room of their "biological sex."

If the measure becomes law, Texas would join North Carolina as the only two states to enact legislation that limits bathroom use by transgender people.

—Dan Frosch

SUPREME COURT

North Carolina District Lines Struck Down

The Supreme Court Monday found that North Carolina's congressional map was drawn by Republican lawmakers to disadvantage black voters, upholding a lower court that ordered the state to redraw two oddly shaped districts including portions of Durham and Charlotte.

"A state may not use race as the predominant factor in drawing district lines unless it has a compelling reason," Justice Elena Kagan wrote for the 5-3 majority.

Justice Clarence Thomas, among the court's most conservative members and its only African-American, joined liberal Justices Ruth Bader Ginsburg, Stephen Breyer and Sonia Sotomayor in the majority opinion.

—Jess Bravin

IN DEPTH

BAIL

Continued from Page One

crowded jails at great cost to taxpayers. Others contend changing the system will improve public safety by preventing those charged with violent crimes who have access to cash from paying their way out.

Momentum for change is coming from both sides of the political aisle. Critics of cash bail range from former Democratic Attorney General Eric Holder to Republican New Jersey Gov. Chris Christie.

Legal challenges

In addition, nearly two dozen lawsuits have challenged the constitutionality of setting cash bail without considering an individual's ability to pay it, leading to new procedures in several places. Last month, a federal judge in Houston ordered Harris County, Texas, to stop detaining misdemeanor arrestees if they can't afford bail, finding the practice violates the Constitution's equal-protection rights against wealth-based discrimination. An appellate court is expected to review the case.

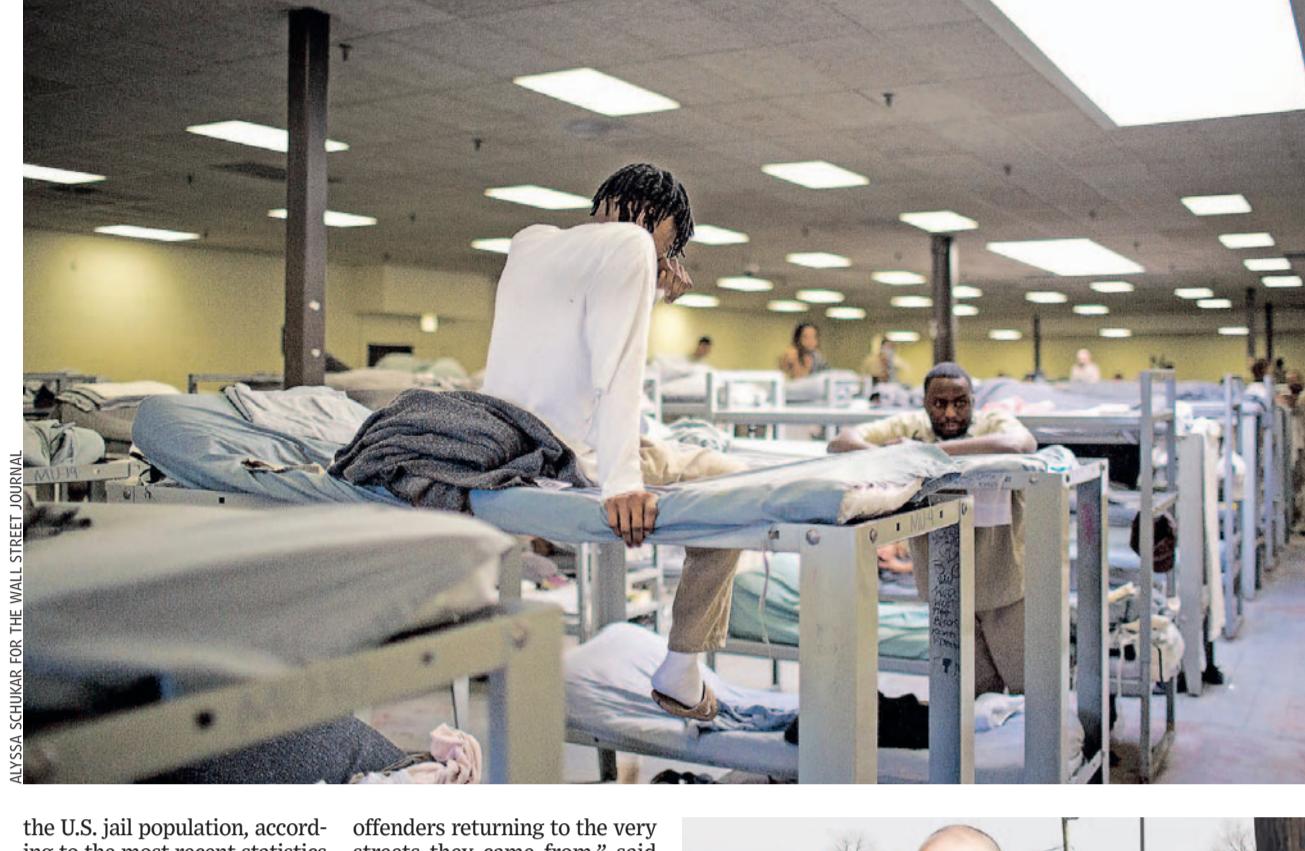
The private bail-bonds industry is resisting the push, arguing that a money deposit is still the best way to ensure a defendant's appearance in court.

Since at least 1835, judges in the U.S. have required arrested individuals to put down money, also known as a bail or bond, as an incentive to appear in court. Defendants who can pay are released, while those who can't remain in jail until trial or until they plead guilty. In most instances, the money is refunded after the cases are resolved, if the defendant makes every court appearance.

Judges typically set bail based on the severity of the charged offense, although bail practices vary widely by state and even by county. Many county judges still use bail schedules, which set dollar values for specific crimes, such as, in San Francisco, \$5,000 for driving with an invalid license.

In most states, those who can't make bail can hire a private bail bondsman, who will charge the defendant a nonrefundable fee in exchange for posting bail.

Nearly 500,000 people are awaiting trial in U.S. jails, most of whom are there because they can't afford bail, according to the Pretrial Justice Institute, a nonprofit advocacy group. Since 1990, the number of defendants in jail awaiting trial has more than doubled, accounting for nearly 80% of the increase in



ALYSSA SCHUKAR FOR THE WALL STREET JOURNAL

the U.S. jail population, according to the most recent statistics from the Justice Department. Jails, unlike prisons, hold people awaiting trial or serving short sentences after conviction.

Whether an accused individual should be deprived of his or her freedom before trial is one of the most important decisions in the criminal-justice system, judges said in interviews. One study showed that people who spend even three days in pretrial detention are more likely to plead guilty, lose their jobs, detach from their families and commit crimes in the future.

"If we are keeping in jail people on the basis of the accident of their wallet rather than on the basis of the risk they pose, that's just complete irrational folly for us to do that as criminal-justice policy," said Truman Morrison, a senior judge on the D.C. Superior court.

Those who argue the current cash-bail system allows dangerous criminals with access to money to roam free before trial point to defendants like 26-year-old Pierre Stokes of Chicago.

In June 2015, Mr. Stokes paid \$9,000 to gain release from Cook County jail after he was arrested on a gun charge and aggravated assault. Less than a year later, while out on bail, he shot three people, police say. He is back in jail without the option of bailing out and has pleaded not guilty to the charges. In an interview in the jail's maximum-security ward, he said he has been wrongly accused.

"We continue to see violent

offenders returning to the very streets they came from," said Cara Smith, chief policy officer for Cook County Sheriff Thomas Dart. His office is proposing legislation that would expand the circumstances under which prosecutors can detain someone without bail, including a wider range of gun offenses. The bill unanimously passed in the Illinois senate on May 5 and is being debated in the house.

Other bail critics contend the system leaves too many poor, nondangerous defendants spending long stretches in jail without any finding of guilt or innocence. They are bothered by cases like the one involving Johnnie Smith.

Mr. Smith, 41, who police say had no history of violence and a below-average IQ, spent 534 days in Cook County jail because he couldn't afford to pay a \$100 bond after stealing a television from a friend's house.

He pleaded guilty and served just 13 more days because of his long stretch of pretrial detention.

Instead of using cash bail, many jurisdictions are now releasing low-level offenders and using phone calls to remind them of court appearances. For higher-risk defendants, courts often use electronic monitoring, including ankle bracelets, and require in-person check-ins.

Advocates of reducing the use of money bail point to practices in Washington, D.C., and in federal courts as possible models.

The District of Columbia in 1992 became the first jurisdiction in the U.S. to eliminate cash bail. Last year, almost 95% of individuals arrested there were released without posting money, while the others were detained after being deemed a high risk to public safety. Among the released individuals, 88% made every court appearance, and 89% weren't rearrested during their release, according to the D.C. Pretrial Services Agency, which supervises defendants awaiting trial. Only 1% of those released were rearrested for a violent crime.

Federal courts hardly ever use cash bail. Under the federal system, defendants can be detained without bail if the government provides evidence the



BRYAN ANSELM FOR THE WALL STREET JOURNAL

individual poses a flight risk. Judges can set conditions of release, such as requiring the defendant's family members to co-sign a bond, often backed by property, in which they would forfeit their assets if the defendant fails to appear in court.

Researchers have estimated that jailing someone frequently costs taxpayers between \$80 and \$150 a day, while monitoring a defendant released pretrial costs between \$5 and \$15 a day.

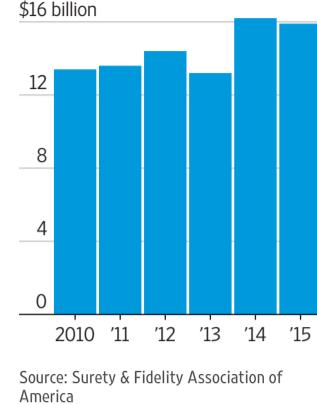
The Pretrial Justice Institute estimates the U.S. spends at

administrator for Sangamon County, Ill., said funds from bail payments contribute \$200,000 to the county budget. Defendants who use the jail and court system should share the cost burden, and paying bail is a way for them to have "some skin in the game," Mr. McFadden said. The county, he said, has begun releasing nonviolent suspects without bail, under supervision.

Opponents of overhauling bail say detaining defendants solely based on their risk to public safety is unrealistic.

Threatened Industry

Size of the private bail-bonds industry, by face value of bonds posted nationally



Source: Surety & Fidelity Association of America

THE WALL STREET JOURNAL

Left, a nonviolent offenders' dormitory within Illinois's Cook County Department of Corrections. Below, New Jersey bail bondsman Kirk Shaw. 'We have very little business at all,' he said. 'No one is coming in.'

Christopher Wilson, a 20-year-old registered sex offender who was arrested in January for allegedly soliciting sexual favors from an 11-year-old, had been released by a state judge after receiving a low score under New Jersey's new bail system. After local prosecutors appealed the decision, the judge in March ordered Mr. Wilson detained until trial. He has pleaded not guilty.

Mr. Wilson's case became part of New Jersey's bail debate. Advocates of overhauling bail say his return to jail shows the process gives judges the flexibility to change their release decisions. Bail-bonds industry lobbyists say the case shows the new system is causing local residents to fear for their safety.

Jeffrey Clayton, executive director of the American Bail Coalition, a trade association for insurance companies that underwrite bail bonds, said it would be a "make-or-break year" for cash bail. Earlier this year, he traveled to six state capitals—in California, Nevada, Connecticut, New York, Colorado and Texas—in 11 days to try to stop overhauling efforts.

He said he is hopeful the Trump administration will slow momentum for changing bail procedures, including by cutting back on Justice Department grants that help jurisdictions experimenting with new bail systems.

A spokesman for the Justice Department declined to comment.

Bail agents are pouring money into lobbying. Since 2011, bail-bonds companies and insurers have donated more than \$288,000 to the campaigns of Maryland state legislators, including the chairman of the Senate Judicial Proceedings Committee. The state senate recently passed a bill undercutting a court rule that sought to eliminate cash bail in Maryland.

Kirk Shaw, a bail bondsman in Hackensack, N.J., said business is the worst it has been since he joined the industry in 1980. He has gone from six full-time staffers last year to two part-timers this year.

"We have very little business at all," he said. "No one is coming in."

make sure she can pick up one or two pieces of the fruit. She has become something of an office banana evangelist, offering her co-workers so many they have told her to stop.

A sign next to the stands suggests taking one. (The sign also appropriates a saying from another fruit: "A banana a day keeps the doctor away.") Most visitors take two. Others take close to a dozen, claiming they have hungry co-workers—never, of course, that they hanker to bake banana bread after work. Some post photos on Instagram feeding the bananas to their dogs. The stand offers dog treats for four-legged friends.

"We're banistas, we're not really banana police," explains Mr. Mountcastle, standing beside the wooden wagon on a recent rainy Wednesday.

Mr. Bezos is known to stop by his brainchild banana stand. Once, Mr. Mountcastle offered him a banana fact (banistas share a new one every day): What do you call a cluster of bananas? Answer: a hand.

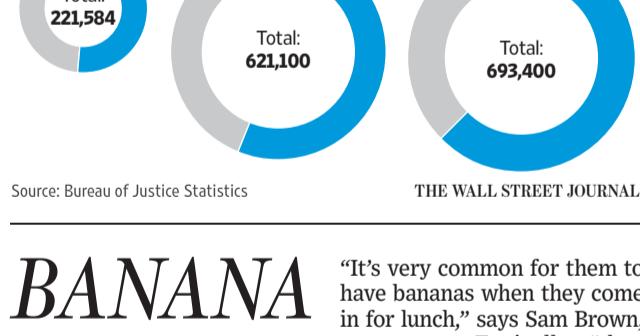
He then asked the CEO what a single piece of the fruit is called. "A finger," Mr. Bezos answered correctly.

"I also would have accepted banana," said Mr. Mountcastle.

BAIL AND JAIL

As bail amounts have risen, so has the proportion of people in jail who haven't been convicted.

■ Convicted ■ Unconvicted



Source: Bureau of Justice Statistics

BANANA

Continued from Page One two stands on its corporate campus, which sprawls across several blocks in downtown Seattle, and says it has given out more than 1.7 million free bananas.

The response has been split. Most Amazonians like them. Other workers say it is now hard to find bananas in stock at nearby grocery stores. And some eateries in a two-block radius of the stands are feeling squished.

Anar, a vegetarian cafe next door to Amazon's banana stand, slashed purchases of bananas, which it offers sliced as a yogurt topping for \$1, because customers are ordering them less. Manager Hadley Jouflas suspects many grab a free Amazon banana to top off takeout orders.

The cafe has sought instead to change its banana strategy, including featuring a banana-based vegan eggnog and a chocolate banana drink—both hits.

"People have bananas on the brain," Ms. Jouflas says.

At Local Public Eatery, a restaurant next to the original banana stand, customers have slipped up on their manners.

"It's very common for them to have bananas when they come in for lunch," says Sam Brown, a manager. Typically, "they eat it at their table," along with whatever food they order. About three to four whole bananas are left behind each day, and they bus away even more peels.

Carly Knox, the manager at Jujubeet, a juice bar five minutes by foot from the original stand, says people jokingly ask if the bananas are free. "Unfortunately, we cannot give those out as freebies," she says. In this case, the "Arrested Development" line that many Amazon fruit patrons quote just isn't true: "There's always money in the banana stand!"

Amazon has traditionally been more frugal with its perks than other tech companies, which offer dry cleaning, haircuts, cold-brew coffee, nap pods and in-house yoga classes, among other things.

Software developer John Krah recently joined Amazon from a startup that set out a full fruit basket, cereal and milk every day. He thinks "bananas are enough." Now he skips grocery stores in favor of the Amazon stand, saying the economics work.

"Buying one banana is relatively expensive on a unit

price, like a dollar," Mr. Krah says, holding up a banana.

"Banistas" oversee the wooden cart operation, stacking up a selection of fruit, which range from green to bright yellow, as fast as passersby can take them. They move about 8,000 a day, Monday through Friday, at the two stands, according to Amazon. Eric Mountcastle, who was promoted last year from front desk receptionist to "banista" and team leader, keeps

a spreadsheet tracking demand.

Apples and other thin-skinned fruit typically need to be washed and are often wrapped, creating trash.

"As far as the health codes go, you can hand out bananas and oranges, because they come in their own packaging," says John Schoettler, Amazon's vice president of global real estate and facilities, which include the banana stands. The stands have a compost bin for

peels.

Banana manager Mr. Mountcastle says he frequently fields requests for other types of fruit. "A lot of people have been wanting avocados lately," as well as pears, he says. "Citrus is also very expensive. Bananas aren't." Amazon buys the bananas from a local supplier.

Kelsey Wildstone, an Amazon data center engineer, lives a few blocks away and has changed her route to work to



THE WALL STREET JOURNAL

LAURA STEVENS/THE WALL STREET JOURNAL

make sure she can pick up one or two pieces of the fruit. She has become something of an office banana evangelist, offering her co-workers so many they have told her to stop.

A sign next to the stands suggests taking one. (The sign also appropriates a saying from another fruit: "A banana a day keeps the doctor away.") Most visitors take two. Others take close to a dozen, claiming they have hungry co-workers—never, of course, that they hanker to bake banana bread after work. Some post photos on Instagram feeding the bananas to their dogs. The stand offers dog treats for four-legged friends.

"We're banistas, we're not really banana police," explains Mr. Mountcastle, standing beside the wooden wagon on a recent rainy Wednesday.

Mr. Bezos is known to stop by his brainchild banana stand. Once, Mr. Mountcastle offered him a banana fact (banistas share a new one every day): What do you call a cluster of bananas? Answer: a hand.

He then asked the CEO what a single piece of the fruit is called. "A finger," Mr. Bezos answered correctly.

"I also would have accepted banana," said Mr. Mountcastle.

LIFE & ARTS

FITNESS

Five Small Steps To Keep Sweating

BY RACHEL BACHMAN

Many of us vow to get to the gym—then life intervenes. But 21% of U.S. adults do manage to get enough exercise, and these people have some common traits and habits.

They are consistent but not rigid. They have open minds about what defines “exercise.” And they have different motivations than the weary conscripts who enroll at the gym on New Year’s Day.

Here are habits of those who exercise frequently that just might help the rest of us:

**They work out at the same time most days.**

A study published in April in the British Journal of Health Psychology examined 181 people who exercised an average of 300 minutes a week—twice the federally recommended minimum.

Most of those people picked a regular time to work out and stuck with it.

“When things become predictable you don’t

need to invest in much thought,” says the study’s lead author, Navin Kaushal, a postdoctoral fellow in preventive medicine at the Montreal Heart Institute, University of Montreal.

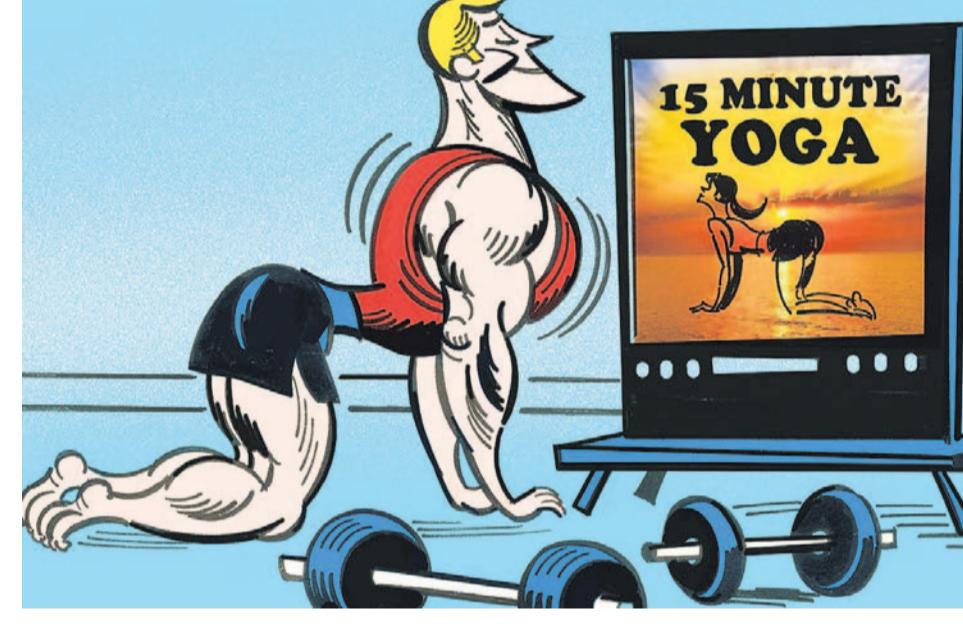
Putting yourself in a certain environment at a certain time every day “brings up a mental script of the behaviors and you go into autopilot.”

**They have a streamlined pre-exercise routine with visual cues.**

In another study published in 2017 and led by Dr. Kaushal, new gym members were asked to create cues to prompt them to exercise. A cue might be laying out running clothes, shoes and headphones on

a dresser. The plan is that when a runner wakes up, he sees the cues, dresses and dashes out the door.

After eight weeks, members of the study’s experimental group were 1.7 times more likely to meet physical-activity guidelines than those in a control group.

**They’re more flexible than infrequent exercisers about how long or vigorously they exercise.**

Active people are less likely to have all-or-nothing definitions of physical activity, according to a study soon to be published in BMC Public Health. The study looked at 40 women, 11 of whom said they exercised at least three times or two hours a week.

“The old-school belief was, you set a goal, it’s a bull’s-eye. You hit it or you miss it,” says the

study’s lead author, Michelle Segar, director of the University of Michigan’s Sport, Health, and Activity Research and Policy Center. “But life is messy. When you’re more flexible, you’re able to shift your position, your stance, do something less. It removes the psychological punishment of ‘Oh, I failed.’”

If a frequent exerciser’s workday spills into her hourlong spin class, for instance, she might still hit the gym to pedal 20 minutes on her own.

They’re more likely to exercise for pleasure than for weight loss or other long-term health goals.

A study published in 2016 in the Journal of Consumer Research recruited 61 gymgoers at a University of Chicago weight room. Researchers randomly sorted them into two groups and gave each group six exercise options, such as biceps curls or dead lifts.

People in one group were told to choose the exercise they most enjoyed, while the people in the other group were told to choose the exercise most useful for their health goals. Both groups were instructed to do as many sets of their selected exercise as they could.

People who chose an exercise for enjoyment completed an average of 29 reps, compared with 19 reps for those who chose the exercise they thought would help them with health goals. That was true even though the

two groups chose similar exercises with similar amounts of weight.

“If I really care about having a healthy heart, that’s what gets me to the gym,” says Kaitlin Woolley, the study’s lead author and a Ph.D. candidate at the Booth School of Business at the University of Chicago. “But that’s not what keeps me there.”

**An increasing number of active people are widening their definition of exercise.**

Many people think exercise has to last at least 30 minutes and make you sweaty and exhausted. Dr. Segar’s ongoing research suggests that frequent exercisers increasingly view things like walking meetings and family bike rides as things that “count” as exercise.

Steve Rabinowitz, a 41-year-old government analyst in Greenbelt, Md., has been working out about five days a week since he turned 40. He mostly does high-intensity interval training work-

outs using a free site called Fitness Blender, but recently tried Pilates and ballet-inspired barre workouts and enjoys them.

“I push myself when I feel like I can, but when I can’t, that’s OK too,” he says. “I really try to listen to my body.”

During a recent work training he attended, Mr. Rabinowitz climbed five floors of stairs to a meeting room eight times over two days—sometimes sprinting, sometimes walking. He says he enjoys exercise more since he’s expanded his options.

MONEY LAUNDERING is typically meant to describe the process of scrubbing funds of their origin. That term could also be applied to the literal cleaning of Benjamins.

According to a recent study, bacteria of many forms cling to dollar bills. One expert, Emily Martin, an assistant professor of epidemiology at the University of Michigan School of Public Health, explains which bugs may be money-hungry and when it’s worth worrying about critters in the ATM.

A Pathway for Pathogens

American paper money is made from a blend of linen and cotton, which makes notes porous, with “lots of nooks and crannies for things to get stuck in,” says Dr. Martin. As dollars move from person to person, each owner’s bacte-

ria signature can be transferred onto the bill and feast on residual oils from sticky fingers.

A recent study found more than 3,000 types of bacteria on bills in circulation, though the epidemiologist says most of what was found is part of our world’s bacterial ecosystem. “We carry so much bacteria, we are used to fighting them,” Dr. Martin says. Problems arise, she says, “when bacteria get into places they shouldn’t.”

Tiny Little Bugs

Among the critters found are the germs that cause acne. Typically the skin cells a person sheds onto inanimate objects are laced with bugs, but with little nutritional value in a dollar bill, they can only survive a couple of days on deposited skin scales and oil, Dr. Martin says.

“The bacteria you’ll find on a bill is more reflective of the last

person who touched it than everyone who ever touched it,” she says. One slightly concerning bug found on dollar bills is *Acinetobacter baumannii*, which can lead to pneumonia or meningitis, but it’s mostly a cause for concern in hospital settings.

“Typically the numbers of bacteria found on a bill aren’t large enough to cause infection, and these aren’t necessarily the same strains that are resistant to antibiotics anyway,” Dr. Martin says. Plus, “our skin is an excellent barrier.” Healthy people shouldn’t worry about their dirty money causing disease, she says, unless the skin is broken.

Don’t Lick the Bill

People whose immune systems are compromised due to chemotherapy or other illnesses should take some precautions when thumbing a stack of worn \$20 bills.

“You shouldn’t touch anything that’s handled often and then touch an open wound or put your hand in your mouth,” Dr. Martin says. Washing hands frequently with soap and water should get rid of any residual germs—or other substances, like cocaine, which has been found on money in many studies—that may hitchhike on bills.

Dr. Martin runs a lab and is surrounded by germs all day. She doesn’t give a second thought to who is riding the coattails of Abe, Andrew or Benjamin. “I’d worry more about what flu virus is being sneezed in your direction,” she says. Still, she cautions, money doesn’t belong everywhere. “Please don’t lick the bill or put it up your nose,” which is a breeding ground of microbes, she says.



BURNING QUESTION

CAN HANDLING MONEY SPREAD GERMS?

BY HEIDI MITCHELL

MONEY LAUNDERING is typically meant to describe the process of scrubbing funds of their origin. That term could also be applied to the literal cleaning of Benjamins.

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OPINION

REVIEW & OUTLOOK

The British Entitlement Backtrack

It took less than a week for Theresa May to abandon the best idea in the British Conservatives' platform. The Prime Minister announced on Monday that the Tories won't attempt to overhaul entitlement spending on old-age care if they win next month's parliamentary election.

The reform was a cornerstone of the Tory manifesto released all of four days earlier. Retirees currently receiving medical and other personal care in their own homes have the bulk of their costs covered by taxpayers, while those who need to move into nursing homes must sell their homes and use the bulk of the proceeds to fund their care.

The Tory plan would have factored in the value of a care recipient's home when means-testing in-home care. This in turn would fix two big injustices. First, it would have ended the double standard under which those who require nursing-home care are expected to use the value of their homes to pay for it, while those who require at-home care get to pass their homes to heirs as taxpayers fund their care. Second, the reform would have meant that younger workers would no longer be forced to subsidize in-home care for the elderly who can afford it.

Spooked by an outcry from candidates who are afraid of the reaction from the Tories' older voter base, Mrs. May now says her party will merely conduct a "consultation" on the question. It won't help the Tory backbone that polls over the weekend showed Labour catching up to Mrs. May, with now only a nine percentage-point gap

The Tories drop a reform they should have been able to sell to the young.

between the two, compared to an earlier Tory lead of 20 points.

What a botched opportunity. Mrs. May's plan would have directed spending toward the genuinely needy when inflation-adjusted government care spending has fallen by 8% since 2010. Labour campaigners branded this a "dementia tax"—but only because the left equates any withdrawal of a subsidy to a tax. The Tory reform would have allowed people to remain in their homes during their lifetimes, recouping care costs only after death. Further, it exempted the first £100,000 (\$130,400) of an estate, four times the current cut-off that applies to those entering nursing homes.

This gave the Tories an opening to combine a free-market disdain for subsidies for the wealthy with the left-wing mantra that "the rich" should pay their fair share. The political failure to sell this to young voters is stunning. The main problem is that the Tories have given up on Margaret Thatcher's free-market beliefs in favor of "living wages," child-care subsidies and fuel-price caps. It's hard to sell a major entitlement reform when the rest of your platform tells voters you think they're entitled to a litany of government-mandated handouts.

British voters don't trust Labour leader Jeremy Corbyn, so Mrs. May is still the favorite to prevail on June 8. But this embarrassing reversal is a warning to center-right parties: The more you adopt the entitlement mentality of the left, the less your ability to advance the major reforms that Western economies—and their taxpayers—need.

A Republican Survival Strategy

Republicans in Congress can't control President Trump's rolling controversies, but they are getting plenty of bad advice on how to handle them. Democrats and Never Trumpers agree that the GOP should denounce Mr. Trump, try to remove him from office, and if that fails wait for the Pelosi Democratic Congress to arrive in 2018. This is supposed to be requisite punishment for trying to work with a duly elected if deeply flawed President.

We trust Republicans will reject this counsel of suicide, because there is a better way: Get on with passing the agenda they campaigned on. The Trump investigations will proceed at the same time, and Republicans can respond to new facts as they develop. Whatever happens on the other end of Pennsylvania Avenue, Republicans have an obligation to fulfill their reform mandate while they still have the political power to do so.

* * *

This has the added advantage of being good for the country. The U.S. has struggled with subpar economic growth for more than a decade, and Republicans won in part because they said they'd do better.

Tax reform and deregulation are prime opportunities to unlock the growth and business investment that increase middle-class incomes. On ObamaCare, the GOP can provide relief from surging insurance premiums and diminished choices by replacing the failing entitlement with a more market-based system.

Confirming conservative judges would correct for President Obama's progressive tilt on the federal bench and perhaps restrain the runaway administrative state. And rebuilding the military is crucial to U.S. security in a world of increasing threats.

Going on policy offense is also the best defensive politics. Democrats want to talk about Mr. Trump all the time because they know this gives the public the impression that nothing else is happening in Washington. Paralysis is their strategy.

If Republicans start to move on policy, they automatically change at least some of the political conversation away from Mr. Trump. Debating tax cuts sure beats discussing Mike Flynn. Democrats would have no choice but to respond on the issues, and even the media would have to cover the tax and health debates. OK, maybe

The best defense against Trump scandals is to pile up policy victories.

not the media, but that would also mean less relentless opposition on policy.

Speed is also increasingly vital as Mr. Trump's difficulties mount. Perhaps he'll recover if the Russia charges are overblown, but the news could also get worse and the media will play up every detail as potential impeachment fodder. Republicans can't wait for Mr. Trump's approval rating to rise.

Health care and tax reform would ideally both pass this year so their impact would be visible in 2018. The tax cut should be effective immediately so it doesn't delay investment decisions as businesses wait for lower rates to kick in later; no phase-ins as with the 2001 George W. Bush tax cut.

Republicans also have to assume they'll contest next year's midterms with an unpopular President and a Democratic base eager to repudiate him by retaking Congress. Republicans are bound to suffer some collateral damage if the Trump scandals are still florid, but that's all the more reason to have something else to talk about. The best defense against scandal by association with Mr. Trump is to point to accomplishments that Republicans and independents will support. That's also the only way to get enough GOP voters to the polls.

Democrats and the Never Trumpers will continue to berate Republicans for not being sufficiently anti-Trump, but Republicans shouldn't apologize for trying to work with a GOP President on shared goals. His character flaws aren't theirs. Republicans in Congress ran on their own agenda, and House Republicans won millions of more votes than Mr. Trump did. They have every right to follow through on that agenda.

It would certainly help if Mr. Trump behaved better and controlled himself, but Republicans can't count on that. Their best option is to plow ahead anyway and present Mr. Trump with legislation to sign. That's what Democrats did when they controlled Congress while they investigated Richard Nixon, and they piled up significant policy wins.

No one knows how the various Trump investigations will play out, but Republicans can adapt and criticize or defend as new facts arise. Whatever happens, they'll be in a stronger position if they don't squander their current majorities as Democrats hope they will.

American Charter Uprising

One reason public schools in big cities are so lousy is union control of local school boards. This has long been true in Los Angeles, but last week charter-school advocates dealt a major blow to the failing status quo by winning a majority on the district's Board of Education.

The Los Angeles Unified School District has some of the country's lowest-performing public schools. In 2015 only one in five fourth-graders rated proficient on the National Assessment of Educational Progress. While Los Angeles boasts more charter schools than any district in the country, they still account for merely 16% of enrollment. Two years ago the Great Public Schools Now initiative, which is backed by the Eli and Edythe Broad Foundation, set a goal of enrolling 50% of the district's students in charters. The unions naturally went nuts.

As union schools lose students (and thus taxpayer funds) to charters, the school board has become even more reactionary. Last month the board voted to support three bills before the

Voters in L.A. elect a pro-reform majority on the local school board.

state legislature in Sacramento that aim to limit autonomy for charter schools. One would prevent charters from appealing rejections by local school boards to county and state boards. The appeals process is one reason charters in Los Angeles have been able to expand despite school-board resistance.

Anti-charter board members have tried to convince parents that rising graduation rates show that traditional public schools are improving. But the real explanation is that the board dumbed down graduation requirements and allowed students to pass courses with a D grade. Half of last year's graduating seniors were ineligible for state public universities, according to the education nonprofit The 74.

Unions tried to vilify pro-charter candidates Nick Melvoin and Kelly Gomez by portraying them as tools of Donald Trump, though both were endorsed by President Obama's Education Secretary Arne Duncan and the state's progressive former Senator Barbara Boxer. There's nothing progressive about failing low-income minority kids.

Venezuela on the Verge of Civil War



AMERICAS
By Mary
Anastasia
O'Grady

Venezuelan strongman Nicolás Maduro is responding to mass demonstrations by selectively killing civilians. If, as a result, some branch of the military breaks with the regime, the country will descend into civil war. But until then it's a one-sided slaughter.

It's also a Cuban proxy war. More than a dozen high-ranking Cuban officers are said to be in Venezuela, along with thousands of Cuban intelligence agents. Their job is to keep Venezuelan army officers under constant surveillance to prevent the feared military uprising to restore democracy. If the international community wants to head off disaster, a good place to start would be in Havana.

On Thursday Miami's El Nuevo Herald reported it has a recording of Venezuelan generals—at a meeting in Barquisimeto three weeks ago—"giving orders to use snipers to control demonstrators." According to the Herald they did so "with the argument that they find themselves on the threshold of a civil war."

Maybe the generals know something not yet acknowledged publicly—that the commitment to Mr. Maduro among the nation's soldiers and police is breaking down.

It happened once before, in April 2002, when snipers backing the regime picked off protesters during a demonstration in Caracas. When some members of the army refused to help then-President Hugo Chávez crack down on the crowd, he was forced to step aside, albeit temporarily.

Once back in power, Chávez accelerated the recruitment and arming of paramilitaries. Thousands now show up at antigovernment protests, firing weapons into crowds and using their motorcycles to run down demonstrators.

If the Cubans remain the power behind the throne, there will be no one to stop these trained killers from slit-

ting the throats of the opposition.

The possibility of a break inside the armed forces seems to be on the rise. As the Journal's Anatoly Kurmanov reported on Wednesday, National Guard riot police are worn down from taking on thousands of street protesters almost daily since the beginning of April. Rank-and-file soldiers also are

not immune to the hardship and hunger caused by Mr. Maduro's senseless economic policies. They say they too are underpaid and underfed.

The dictatorship is clearly worried about this and recognizes it will lose a war of attrition. One source in Caracas who marched in the streets Thursday observed a noted increase in regime repression.

In recent weeks government enforcers also have launched attacks on lower middle-class neighborhoods where Maduro critics live. They break down gates and doors, rampage

through apartment complexes, fire tear-gas canisters through windows and loot homes.

On May 7 the Venezuelan newspaper El Nacional reported that between April 4 and May 5 the National Guard, together with National Bolivarian Police and chavista militia, invaded 11 different residential areas in Caracas. One family of four in the El Paraíso district, requesting anonymity, told of how they cowered together in a bathroom for eight hours to keep from being asphyxiated by the tear gas that had inundated the rest of their apartment.

It wasn't the first blitz on the building complex known as Terrazas del Paraíso. On April 19 pro-government thugs smashed an iron grille to get in and rob one of the neighbors. On April 26 civilian-clothed militia entered the complex and fired rubber bullets, injuring some residents. "But it was to frighten us, because they didn't steal anything," one of the victims told the newspaper.

The commitment to Maduro among soldiers and police is breaking down while Cuba continues to call the shots.

On May 11 El Nacional reported that since this most recent wave of protests began, state security forces and paramilitary have engaged in similar violence and theft against 13 condominiums in six cities including Maracay, Valencia, Barquisimeto and Mérida. Forty-seven people have been killed in the violence perpetrated by the anti-riot squads and paramilitary madmen since early April.

This is state terrorism. But it may not have its intended effect. Most of the country is solidly against the government, and this includes low-income Venezuelans, once the base for *chavismo*. Paradoxically the repression seems to be strengthening opposition resolve. Perhaps Venezuelans have reached a tipping point. They will get new elections and freedom for political prisoners, or are ready to die trying.

The brutality also may be eroding the confidence of the men and women in uniform. Many seem not to have the stomach for the cruelty their Cuban handlers expect from their South American protégés. On May 5 opposition leader Henrique Capriles said 85 members of the armed forces, including some young captains and sergeants, had been detained by the regime for criticizing the repression. On May 19 a member of the National Guard was arrested in Táchira for having crossed over to defend protesters.

The international community has the power, through sanctions, to rein in Cuba. If it fails to do so, the Venezuelan opposition will be massacred.

Write to O'Grady@wsj.com.

Israelis and Palestinians, Working Together in Peace

By Oded Revivi

President Trump has described the conflict between the Israelis and the Palestinians in terms of a business negotiation. Days after taking office he told The Wall Street Journal that Middle East peace would be "the ultimate deal."

Mr. Trump might be onto something. Conventional wisdom for almost a century has dictated that for peace to prevail, Israelis and Palestinians must be physically separated. But separation is one of the main reasons the conflict drags on interminably. Peace is fostered over generations, through personal bonds and even business relationships.

Most Israelis and Palestinians don't interact with someone from the other side on a daily basis. The exceptions are the 450,000 Israelis and more than one million Palestinians who live side by side in Judea and Samaria, or what many call the West Bank. The tens of thousands who work together every day in the area's 14 industrial zones have built the closest bonds.

During his visit to Israel this week, Mr. Trump should drop in on a business like Lipski Plastics in the Barkan Industrial Park, some 15 miles east of Tel Aviv. Half the company's workers are Palestinian and half are Israeli. They eat, laugh and solve problems together. The Palestinians at Lipski make four times the average wage in the autonomous Palestinian areas. Many are in senior management, with dozens of Israeli employees beneath them.

Muslim, Christian or Jew, these people return home each day with a sense of accomplishment knowing that they can provide for their families with dignity and pride.

Islands of peace like Barkan show what could be achieved on a massive scale by a leader with true vision. Sadly, for decades these examples have been largely ignored or boycotted because of the flawed notion that any Israeli pres-

ence in Judea and Samaria is an impediment to peace.

Prime Minister Benjamin Netanyahu has proposed to restart negotiations with the Palestinian Authority and offered the possibility of further investment in industrial zones bordering Palestinian towns and villages. Businesses like Lipski Plastics may not be as glamorous as an international peace summit, but they are far likelier to yield serious dividends in the long run.

Opportunity, not separation, will bring order to the region.

The new White House has already brought a fresh perspective to the Middle East. Mr. Trump's special envoy, Jason Greenblatt, broke with decades of failed U.S. State Department policy by meeting in March with a delegation of Israeli residents of Judea and Samaria. He also met with young Palestinians and Israelis from across the political, religious and socioeconomic spectrum.

These meetings demonstrated a genuine attempt to understand the reality on the ground, something that has been lacking in international diplomatic efforts for decades. This is how peace will be built.

Millions of Americans voted for Mr. Trump because they were tired of business as usual. They saw him as a blue-collar billionaire who empathized with them and could get them back to work. If Mr. Trump really wants to broker peace between the Israelis and the Palestinians, he will need a lot of patience. Like the skyscrapers that bear his name, this deal will have to be built from the ground up, one brick at a time.

Mr. Revivi is chief foreign envoy of the Yesha Council, which represents the 450,000 Israeli residents of Judea and Samaria.

OPINION

The Unraveling Trump-GOP Bargain

By Alan S. Blinder

Republicans in Congress appear to have struck a Faustian bargain with President Trump: They turn a blind eye to his antics, ethical lapses, possible Russian ties and sheer incompetence. In return, he supports their hard-right agenda to shred the social safety net and cut taxes on the rich.

But now—after the clumsy firing of FBI Director James Comey, the alleged obstruction of justice, the unconscionable revelation of sensitive intelligence to Russia, assorted other Trump misdeeds and gaffes, and the appointment of Robert Mueller as special counsel—the bargain may be unraveling. Thank heaven.

The pact's last best hope may be the American Health Care Act, a truly cruel piece of legislation already passed by the House. Getting the bill or something similar through the Senate would fulfill Republicans' pledge to "repeal and replace ObamaCare"—though not with "something great," as President Trump promised.

How, amid the chaos, will the House and especially the Senate find time to agree on legislation?

Rather, the AHCA would be something horrible for tens of millions of Americans who would lose their health insurance or have their Medicaid coverage eviscerated. Only the richest would get "something great": hundreds of billions in tax cuts.

Fortunately, the AHCA now looks like a long shot. Republican senators say they won't accept the House bill but will write their own from scratch, and several major provisions



White House budget director Mick Mulvaney, right, at the U.S. Government Publishing Office plant in Washington on May 19.

of the House version are anathema to GOP moderates. Further, the Senate has notoriously narrow bandwidth and relatively few legislative days to deal with what's already, or soon will be, on its plate.

Such as the budget. In March the White House released its "skinny budget," so named because it covers only appropriated funds (a minority of spending) and is extremely light on details. For example, it calls for slashing U.S. State Department funding by 28% but doesn't say how. Presumably the answers will come in the real budget, due out Tuesday.

Will the president's budget, or any budget, pass? Bet against it. Remember, for years Congress has been too tied up in knots to pass a budget. Besides, another foolish confrontation over the debt ceiling looms this fall. Lawmakers will somehow have to squeeze these and other matters into schedules crowded with investigations, maybe even impeachment proceedings.

The debate over the president's budget will be highly partisan. The

proposal is expected to include sharp cuts in social spending, just as a succession of budgets suggested by now-Speaker Paul Ryan have done for years. Why? Well, there's plain mean-spiritedness. But Republicans also want the cuts to pay a fraction of the cost for what Mr. Trump has called "the biggest tax cut in the history of our country"—though it would also be the most regressive tax cut in its history.

The one-page tax reform "plan" the administration released last month was mostly empty space. If you omit the hortatory language at the top and bottom of the page, it included exactly 107 substantive words about tax reform. (I counted.) Example: Under "Business Reform," the administration says it will "eliminate tax breaks for special interests." Oh? Which ones?

Experts cannot estimate the effects, such as how much tax revenue would fall, since the plan is mostly blank space. But heroic guesstimates based on Mr. Trump's campaign proposals suggest tax revenue

would fall by \$5 trillion to \$6 trillion over 10 years—and a lot more thereafter. Republicans will doubtless try to cover up this huge cost with trumped-up growth forecasts and legislative chicanery.

Then there's the crowded congressional calendar again. Big tax proposals are hugely contentious and require enormous congressional time and energy. How, amid the Trumpian chaos, the health-care debate and more, will the House and especially the Senate find time to agree on a tax bill? A month ago, I was convinced Republicans would find a way to pass tax cuts, though not tax reform. Now, even that is in doubt.

Finally, the parts of the GOP's ambitious deregulatory agenda that require legislation may also fall by the wayside. One important victim, I hope, is the 591-page Choice Act, the "repeal and replace" of the Dodd-Frank financial reforms. The legislation passed the House Financial Services Committee on a straight party-line vote on May 4, but that may be as far as it gets.

The big "choice" the bill makes is to allow Wall Street to return to the Wild West atmosphere that existed before the financial crisis. It would exempt big banks from many regulations if they hold 10% capital; it imagines that a bankruptcy court could handle a gigantic financial failure like Lehman Brothers; it would cripple the Consumer Financial Protection Bureau; and it would push the Federal Reserve to follow a mechanical rule for monetary policy. And more.

The Choice Act never would be missed. Neither would the rest of the Faustian bargain.

Mr. Blinder is a professor of economics and public affairs at Princeton University and a visiting fellow at the Brookings Institution. He was formerly vice chairman of the Federal Reserve.

Ukraine Stands Firm With Crimea's Tatars

By Pavlo Klimkin

May marks a cruel anniversary in Ukraine. Seventy-three years ago this month, more than 240,000 ethnic Tatars were deported from Crimea. The still-fresh historical wound has since been reopened, with Russia's illegal annexation of the Ukrainian territory in 2014 and Moscow's continued repression of the Tatar community.

The 1944 deportation, personally supervised by Stalin, was one of the most rapid and brutal in history. The Crimean Tatars were given just 30 minutes to gather their most personal belongings before being whisked away by car to train stations from which they were sent to the eastern regions of the Soviet Union.

Our people share a long and painful history of oppression at the hands of Russia.

The lack of accommodation and food there, the hostile climate and the rapid spread of diseases resulted in the deaths of almost half the total number that had been forced from their homes. In 1956, many Crimean Tatars were released from the "Special Settlement Camps." But it wasn't until 1991, after Ukraine gained independence, that the ban on the Tatars returning to their native land was finally lifted.

In an effort to restore a remnant of its empire, Russia has recently resorted to using repressive politics against the pro-Ukrainian Crimean Tatars, who oppose most vocally the Kremlin's land grab on the peninsula. This time, Russia isn't systematically removing the entire Crimean Tatar population. Instead, it is using fear, intimidation and coercion to force them out.

Prominent Crimean Tatar politicians have been exiled, imprisoned and subjected to psychological abuse. Ilmi Umerov, the deputy chairman of the Tatars' legislative body, has said that "Russia must be forced to leave Crimea and Donbas." For these outspoken words, he has been forcibly committed to punitive psychiatry. That, of course, was another of Stalin's favorite methods.

To resist Russia's human-rights abuses, Ukraine has joined the international campaign "Let My People Go" and called for the release of Mr. Umerov and others imprisoned illegally. But he still faces criminal charges for "calling for the violation of the territorial integrity of Russia."

The Russian authorities are also employing tactics similar to the ones they used in Chechnya, such as forced disappearances. A young man will go out with some friends; they see him forced into a car by masked men; he is never seen or heard from again. I have heard such reports countless times. The threat that this fate could happen to anyone is just one way Russia retains its hold over the Crimean peninsula.

We continue our efforts with the International Court of Justice. In April the court ruled that Crimean residents had suffered abuse at the hands of Russia, the de facto authority, and subsequently ordered it to "refrain from maintaining or imposing limitations on the ability of the Crimean Tatar community to conserve its representative institutions, including the Mejlis; [and] to ensure the availability of education in the Ukrainian language."

More recently, the Council of Europe's Committee of Ministers called the illegal annexation of the peninsula a challenge to peace and democratic security in Europe and urged the Russian Federation to end its human-rights abuses there.

I have pledged that we will continue our fight and I am calling on our friends and partners to stand by Ukraine to help reverse the illegal occupation and annexation of the peninsula. It is only then that the decadeslong tragedy of the Crimean people can finally be drawn to a close.

Today free men and women everywhere must identify with the plight of the Crimean Tatars. Only then can Russia be forced from its criminal, bullying ways, and justice and dignity can prevail.

Mr. Klimkin is Ukraine's minister of foreign affairs.

The Market's Tough Love Delivers

By Andy Kessler

Foot Locker's stock imploded on Friday—crashing down \$12, or 17%. It happens all the time, one of the great features of the stock market. A week earlier, Snap, which went public two months ago, saw a chunk of value disappear. It dropped almost 25% overnight after the social-media firm revealed that sales were up only 5% and the number of users was a little light—oh, and that it had lost \$2.2 billion. That's billion with a "b." Even if you take out one-time costs, the company lost \$200 million on \$150 million in sales. Impressive.

Did I mention CEO Evan Spiegel got a \$750 million bonus for taking the company public? Investors who bought the stock didn't want to ruin the party, figuring it was going to turn into the next Facebook. Snap's stock was selling at 44 times future sales, on the expectation that growth and profits were coming. Or not. After lousy earnings, investors basically shouted, "Enough!"

No one sits around and says, "we need to teach Snap a lesson." Rather, it's the collective selling that sends the message. That same day, CEO Travis Kalanick of Uber, another company with gargantuan losses and personnel issues, tweeted and then deleted, "Thank God we're not public." But Uber should be public. If only for the discipline of the public markets that its board of directors refused to impose.

Many people think the stock market is a cesspool of Wall Street greed. I look at it differently. To me, the stock market is the greatest enforcer ever invented. No person controls the market. Investors separately make decisions every day to buy and sell. But collectively they enforce discipline on corporations. Buy and sell orders have more sway over CEOs than corporate boards, Congress or any White House.

United Airlines stock fell 6.3% before the market even opened after it

"reaccommodated" a passenger, in the wording of its CEO. Twitter's stock is down almost 75% from its 2014 peak and has been in the penalty box since early last year after revelations of lame user growth. Yelp was pummeled by a 28% drop a few weeks back and is now exploring markets beyond reviews. The stock market gets the job done.

If only government had the discipline that traders impose on companies.

Going public also provides CEOs the cheapest form of capital: You issue pieces of paper giving claim to a share of future profits. You can use that capital to do anything and don't ever have to pay it back. But if you want more, you'd better get yourself on a path to growth and profits. It's that simple.

But the Faustian bargain is that you live by the rules of the enforcer: Feed success, starve incompetence. That's it. Markets provide cheap capital to those that can grow productively and profitably, and make funds expensive for the rest. This is how capital is allocated efficiently. The more human hands touch the process, the worse the outcome (see Chrysler, Solyndra).

No one likes layoffs. No one looks forward to closing divisions or firing CEOs. Instead, the stock market does the dirty work, mimicking Col. Jessup—Jack Nicholson's character in "A Few Good Men"—who says, "You don't want the truth because deep down in places you don't talk about at parties, you want me on that wall. You need me on that wall."

As Amazon stock hits all-time highs 20 years after its initial public offering, retailers are getting whacked. You'd think they'd have seen it coming, but the stock market sent the wake-up call. Sears

peaked in 2007 and has since been starved of capital. Macy's peaked in July of 2015. J.C. Penney halved in the past six months. Both Target and Dick's Sporting Goods were down last week, and both are scrambling to upgrade stores and increase digital sales.

The enforcer shakes up politicians, too. On Sept. 29, 2008, the Dow Jones Industrial Average fell 777.68 points on news that Congress had rejected the bank-bailout bill.

Message sent. The Troubled Asset Relief Program was signed into law Oct. 3. That's action. The Brazil stock market dropped 10% on Thursday with troubles surrounding the country's president. In the U.S. the Trump bump hasn't let up, but investors got queasy on news of a special prosecutor.

We used to have the same enforcer in the debt market. When federal deficits got too large, the so-called bond vigilantes would squawk, driving interest rates up and forcing some budget discipline on Washington.

Those days are long gone, aren't they? The Ben Bernanke-Janet Yellen regime at the Federal Reserve maintained interest rates at virtual zero. As Phil Gramm and Thomas Sargent pointed out on these pages last week, the Fed bought more than half of Obama-era Treasury debt. With no discipline, Congress spent like a Snapchat teen with a stolen credit card. We need the enforcer back on that wall, giving Congress the Foot Locker treatment.

Mr. Kessler writes on technology and markets for the Journal.

The U.S. Can Get Assange

By Seth Lipsky

Julian Assange is all smiles after Sweden dropped its rape charge against him. He may be hoping to make it to Ecuador, which is unlikely to extradite him to America. Then again, we could always seize him and spirit him to the U.S. to face justice. We wouldn't have to resort to the extradition process. The Supreme Court might even prefer it that way.

Take it from Chief Justice William Rehnquist, who wrote the opinion in *U.S. v. Alvarez-Machain* (1992). It suggests that if America has a hand in kidnapping a culprit from foreign shores to bring him to justice in the U.S., the Supreme Court isn't going to be too particular.

I've written about this over the years, including in 2009, when Scotland freed Abdelbaset Ali al-Megrahi to go home to Libya. He'd been convicted for his role in bringing down Pan Am 103 in 1988. It struck me that America ought to capture Megrahi and bring him before an American court. President Obama could have acted under the precedent in the case of Humberto Alvarez-Machain, a Mexican physician.

The doctor was indicted for his alleged role in the murder of a U.S. Drug Enforcement Administration agent, Enrique Camarena Salazar. He was accused, as Rehnquist put it, of "prolonging agent Camarena's life so that others could further torture and interrogate him." On April 2, 1990, the doctor was, as Rehnquist put it, "forcibly kidnapped from his medical office in Guadalajara, Mexico, to be flown by private plane to El Paso, Texas, where he was arrested by DEA officials."

A U.S. district court concluded that the DEA was responsible, even though its agents weren't personally involved. Dr. Alvarez claimed his abduction, in Rehnquist's paraphrase, "constituted outrageous governmental conduct." A dainty

district court and the Ninth Circuit appeals bench were prepared to free Dr. Alvarez.

The Supreme Court was made of sterner stuff. It did cite a precedent,

U.S. v. Rauscher, which blocked the prosecution of a defendant brought to America from England for a crime not covered in the extradition treaty between the two countries. The court took the view that once the U.S. proceeded under an extradition treaty, it was bound by its terms.

But the court also cited *Ker v. Illinois* (1886), which involved a thief, Frederick Ker, who'd been convicted in Illinois but fled to Peru, only to be brought back to court by a Pinkerton agent. Rehnquist wrote that Ker's "presence before the court was procured by means of forcible abduction from Peru." But because he wasn't brought back via extradition, the court rejected his claims to rights under extradition law.

Which brings us to Mr. Assange. If his plan is to slink to Ecuador and if the U.S. really wants him, it might do better by avoiding extradition and turning to its secret services to airlift him to stand trial in America.

Even if America kidnaps him, that might not be the end of the story. Witness the denouement of the saga of Dr. Alvarez-Machain, who was put on trial in the same district court that shrank from trying him originally. The judge acquitted him before the case went to the jury. Dr. Alvarez-Machain then sued America and the Mexicans who'd kidnapped him in league with the DEA. That case, too, went to the Supreme Court, where in 2004 Dr. Alvarez-Machain lost unanimously.

It's not clear the U.S. wants to put Mr. Assange on trial. If it does, though, the moral of *Alvarez-Machain* is that it doesn't have to be squeamish about how it gets him here, even if he's hiding south of the border.

Mr. Lipsky is editor of the New York Sun.

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THE WALL STREET JOURNAL.

Tuesday, May 23, 2017 | B1

Euro vs. Dollar 1.1235 ▲ 0.25%

FTSE 100 7496.34 ▲ 0.34%

Gold 1260.70 ▲ 0.64%

WTI crude 50.73 ▲ 0.79%

German Bund yield 0.398%

10-Year Treasury yield 2.254%

Huntsman Joins With Clariant

Tie-up forms \$14 billion chemicals giant in industry increasingly marked by mergers

Huntsman Corp. and Switzerland's **Clariant** AG struck a deal to merge, creating a chemicals giant worth about \$14 billion as companies in the industry seek ways to cut

By Ben Dummett,
Dana Mattioli
and Dana Cimilluca

costs and boost revenue.

The deal, which comes after The Wall Street Journal reported the talks Sunday, entails Clariant shareholders owning about 52% of the new entity, and Huntsman investors owning the rest—based on their current values. Huntsman Chief Executive Peter Huntsman will retain his job title at the new company, with Clariant CEO Hariolf Kottmann taking the chairman role. The new group, with board repre-

sentation evenly split, will be called HuntsmanClariant.

Shares of Huntsman were off 1% at \$26.44 in afternoon trading on Monday, while shares of Clariant climbed 3.1% in Swiss trading.

The deal would create a trans-Atlantic company valued at about \$20 billion including debt. Its array of chemical products would include polyurethanes, pigments, automotive fluids, additives and resins that are used across industries ranging from aerospace to agriculture to household cleaning.

Together Huntsman, which is based in Woodlands, Texas, and its Swiss merger partner would operate in more than 100 countries and employ about 32,000. Combined they would generate annual revenue of more than \$13 billion. Huntsman still plans to spin off its Venator pigments and additives business through an initial public offering this summer.

The Huntsman-Clariant tie-up comes amid a period of consolidation in the chemi-



Peter Huntsman, left, and Clariant's Hariolf Kottmann in Zurich Monday.

ARD WIEGMANN/REUTERS

cals industry as companies seek to cut costs by eliminating overlapping operations and products, and identify new sources of revenue by tapping new markets and customers. Such deals also enable companies to combine resources for product research and development.

"Combining our companies should give us more stable and steady earnings, in-

creased margins and new growth opportunities," Mr. Huntsman said in an interview. "For either side to get to a \$20 billion enterprise value would take many, many years of organic growth." He added that the deal will "double our reach without stressing the balance sheet."

Another benefit of the Huntsman-Clariant tie-up, the companies said, is a

broader, more-balanced geographic footprint. So-called synergies from combining operations could reach \$400 million a year.

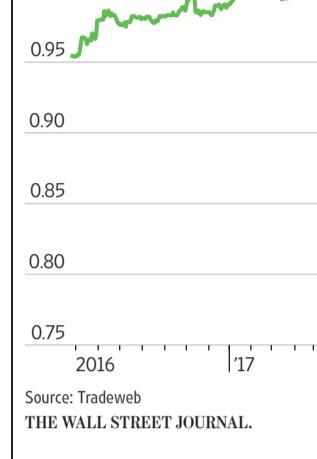
U.S. paint and coatings maker PPG Industries Inc. is in a battle to acquire Dutch rival **Akzo Nobel** NV for \$27 billion in cash and stock. Its advances have been repeatedly rebuffed, and the next week or so is expected to be crucial in determining whether the deal happens. Meanwhile Praxair Inc. and Germany's Linde AG are trying to complete their merger to create the biggest industrial-gas player with a market value of more than \$66 billion.

The lack of major revenue growth last year by Huntsman and Clariant demonstrated the challenging environment that the chemicals industry faces. Huntsman reported a 6% revenue decline to \$9.66 billion in 2016, hurt in part by soft demand and difficulty raising prices for some products. The company's additives and other

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Rude Awakening

International Bank of Azerbaijan's 2019 Eurobond, daily closing price



Source: Tradeweb

THE WALL STREET JOURNAL.

Bankrupt Lender's Debt Plan Draws Fire

By MARGOT PATRICK

LONDON—A troubled lender from Azerbaijan is shaping up to be a battleground for U.S. and European investors facing big losses on bondholdings.

State-owned International Bank of Azerbaijan, or IBA, filed for bankruptcy in New York on May 11, battered by bad loans and the oil-price rout.

It wants to restructure \$3.3 billion of debt to help it get back on its feet, according to a proposal accompanying the bankruptcy filing.

Azerbaijani Finance Minister Samir Sharifov and IBA Chairman Khalid Ahadov are scheduled to present the details of its plan to international investors here Tuesday. But some are already complaining, arguing that Azerbaijan may be intending to treat local creditors differently from them.

A group of unnamed investors said in a letter last week to the bank and the finance ministry they were surprised by the bankruptcy filing, since some of them had been given assurances by Azerbaijani officials in January the government would continue supporting the bank financially.

The Wall Street Journal has reviewed the letter, which is from the law firm of **Shearman & Sterling LLP**.

The identities of investors couldn't be learned.

An IBA spokesman didn't immediately respond to a request for comment. A ministry of finance spokesman couldn't be reached.

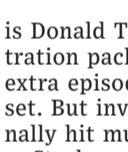
Government-sponsored bailouts of banks have been highly contentious for foreign investors recently. In Portugal, several investors are suing the central bank for removing €2 billion (\$2.24 billion) in bonds for repayment at **Novo Banco SA**, a lender carved out of the former Banco Espírito Santo.

Azerbaijan, nestled between Please see BANK page B2

STREETWISE

By James Mackintosh

It's Time to Bring Back Pre-Trump Playbook

 A week is a long time in politics, and last week the reality TV show that

is Donald Trump's administration packed in enough extra episodes to fill a box set. But investors have finally hit mute.

Stocks remain strong, although not because of bets on tax cuts, easier regulation or an infrastructure boom.

In fact, quite the opposite. Stocks that should benefit from lower corporate taxes, cuts to red tape or infrastructure building have seen bets against them leap this year. J.P. Morgan strategist Nikolaos Panigirtzoglou calculates that relative to marketwide short positions—bets on a falling price—there is now more shorting of stocks that should be tax-cut winners than before the election.

Stocks in S&P 500 high-tax companies that ought to be the biggest winners from lower taxes have this year given back all their early postelection outperformance and more, according to **Goldman Sachs** calculations. Similarly, smaller companies have underperformed bigger rivals, which tend to be better able to manipulate loopholes in the tax code.

Investors don't think Mr. Trump will be impeached. But he was already finding it difficult to get his policies through Congress, and last week's White House shenanigans will make it harder still.

Even before the latest episodes of "All the President's Tweets," speculators had been paring bets on the dollar, and it has now completed a full reversal of its postelection gains against developed currencies.

Mr. Panigirtzoglou estimates dollar bets overall are now flat, with speculators positioned for the euro to gain.

So what should worry investors?

The biggest support for markets as the Trump trade evaporated was the widespread belief in synchronized global growth. Europe, the U.K. and Japan have surprised economists with the strength of their recoveries this year. In the eurozone there is even optimism about

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Blake Harvey, CEO of a New York communications firm, works in an office he leased from Servcorp just down the hall from his employees.

ADRIENNE GRINNELL FOR THE WALL STREET JOURNAL

CEOs Take Their Offices Back

By VANESSA FUHRMANS

The lofty building Jordan Hamad moved his tech-advisory firm into four years ago had the trappings of a startup idyll: open floor plan, polished concrete floors, custom-built communal tables.

Soon, the 33-year-old founder of **Chairseven** says he craved something else: walls and a door.

The floors, it turned out, damped none of the sound. Instead of constantly trading ideas, he and his team often wore noise-canceling headphones to block out the din.

For private meetings or calls,

he would sequester himself in the noisy printer room or at home.

"It was, 'Yay, we have

this great space, but I can't re-

ally use it,'" he said.

Now as he moves the company from Portland, Ore., to New York, Mr. Hamad has joined a cadre of bosses chucking the egalitarianism of working alongside their employees for the old-fashioned private office. Their open-office revolt, they say, is less about reclaiming the corner office than about needing a quiet place to think.

"People will say it's so cool to have the CEO right next to you, but at the end of the day your team sometimes needs their space and you need yours," says Mr. Hamad, who has leased a private office for himself and co-working space for other staff.

Bosses like him are swimming against the workplace

tide. Nearly 70% of U.S. office spaces are open-concept, according to the International Facility Management Association, compared with 64% two decades ago. Led by CEOs such as Michael Bloomberg, AB InBev NV's Carlos Brito and Zappos.com Inc.'s Tony Hsieh, more executives have ditched the corner office for an open desk to project camaraderie with the masses.

But as employees and managers squeeze closer together, productivity and morale have suffered.

In a review of more than 100 studies of work environments, British researchers found that despite improving communication in some instances, open-office spaces hurt workers' motivation and

ability to focus.

Employees seeking privacy resort to conference-room squatting or ducking into "focus" booths, quiet refuges that companies are increasingly building into open offices.

CEOs have the license to go further. For seven years, Blake Harvey and his employees at his New York communications firm, Lawrence Blake Group, toiled together in co-working spaces. His staff sometimes felt self-conscious working under their boss's gaze. When he was worried about the business, there was no hiding. "If I was a little down, they could see that, and that affects the whole team," he says.

So when the firm signed a few new clients this year, he

Please see CEO page B2

Vivendi Sounds Out Music IPO

By NICK KOSTOV

PARIS—A resurgent music industry, fueled by the rise of streaming services, is tempting the parent company of **Universal Music Group** to cash in with a public stock offering.

In an interview, Vivendi SA Chief Executive Arnaud de Puyfontaine said the French media conglomerate could float a minority stake in the music company, a departure from its longstanding opposition to selling any part of California-based Universal.

"This is not a sacred cow," Mr. de Puyfontaine said, adding the firm has no imminent plans to carry out the initial public offering.

Vivendi's flirtation with a Universal IPO shows how the music industry has begun to turn the corner on nearly two

decades of decline. Record labels that once suffered steep declines in CD and download sales are now growing again as **Spotify** and other services pay license fees for the rights to stream songs from their libraries.

"I remember the people a few years ago who explained to us that music was a dying business and would never recover," Mr. de Puyfontaine said. "I have a good memory, and facts are proving them wrong."

Universal Music has been a bright spot for Vivendi as subscription-based streaming is emerging as a possible business model for the music industry, with growth outpacing declines in physical music sales and digital downloads. Universal and its rivals—Warner Music Group Corp. and Sony Corp.'s Sony Music Entertainment—rake in

royalty payments whenever listeners access their songs through the streaming services.

In 2016, the industry's global revenue from recorded music grew 6% to \$15.7 billion, the largest year-over-year gain since the International Federation of the Phonographic Industry started tracking the market in 1997. The rise owed largely to a 60% increase in streaming revenue, which now amounts to \$3.9 billion.

While label executives are relieved to see industry revenues rise, they also recognize that a single year of robust growth is hardly a guarantee that their fortunes have reversed.

Among other issues, Spotify and its rivals have never reported a profit. To change that, those services may need to lower the royalty rates they pay music companies

like Universal.

The nascent recovery "does not erase 15 years of declines, or continuing uncertainty about the future," Cary Sherman, CEO of the music industry's U.S. trade group, wrote in a blog post earlier this year.

Mr. de Puyfontaine, however, said that Vivendi's stock is undervalued in part because

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Arnaud de Puyfontaine said a Universal Music offering is possible.

it doesn't reflect the true value of the music unit. Some investment banks pitching the idea of a float value the unit at up to €20 billion (\$22.5 billion), Vivendi General Counsel Frederic Crepin told shareholders last month. Analysts value the unit at closer to €13 billion.

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Top Court Constrains Patent Claims in U.S.

BY BRENT KENDALL

WASHINGTON—The Supreme Court on Monday limited the ability of patent holders to bring infringement lawsuits in courts that have plaintiff-friendly reputations, a decision that could bolster companies defending against patent claims.

The high court ruled unanimously that a lower court has been following an incorrect legal standard for almost 30 years that made it possible for patent holders to sue in almost any U.S. jurisdiction. Instead, the Supreme Court said, claims of patent infringement must be brought in the state where a corporate defendant is incor-

porated.

The ruling could shift patent-infringement laws out of some federal districts, including in east Texas, that have been home to large numbers of patent cases because patent holders believed those courts provided a favorable venue for their claims.

Monday's ruling sided with Indiana-based **TC Heartland** LLC, which argued the previous rules had spurred abusive patent litigation. The firm had been sued by a subsidiary of **Kraft Heinz** Co. over three patents for water-enhancer products. The suit was filed in a Delaware federal court, another frequent venue for patent cases.

Vivendi's top investors. "It would be something just to tell the analysts: 'Look, my share price is undervalued.'"

Vivendi's shares have risen about 3.7% since Mr. Bolloré became chairman three years ago, and investors and bankers say they are still skeptical about how Vivendi's strategy to build a media giant focused on Southern Europe will pan out.

By comparison, France's blue chip index is up 18% over the period and the index tracking European media stocks has gained 15%. That is despite Vivendi giving back €8 billion in cash to shareholders through special dividends and share buybacks.

But Mr. de Puyfontaine is unfazed. He stressed that Vivendi has an edge on competition because of its combination of owning content, building partnerships with telecom companies to distribute that content, and having data on how its customers consume that content.

"We are proving day after day that our businesses are working together, and that they are creating much greater value for Vivendi than the sum of our parts," Mr. de Puyfontaine said.

—Ethan Smith in Los Angeles contributed to this article.

MUSIC

Continued from the prior page

Vivendi has undergone a deep transformation in the past three years, but Mr. de Puyfontaine and Vincent Bolloré, Vivendi's chairman and main shareholder, have yet to convince investors that the company has promising growth prospects. Two years ago, Vivendi ignored calls from an activist shareholder to unlock value by selling some or all Universal.

Investors also say that floating a stake in Universal could complicate Vivendi's attempts to find synergies between its music, film and television and videogame assets. It could become a distraction, adding a regulatory burden and increasing the time that Lucian Grainge, Universal's CEO, would have to spend on Wall Street investors' concerns.

Mr. Bolloré met with Mr. Grainge in California last week but didn't discuss a possible IPO, according to people familiar with the matter.

A Universal spokesman declined to comment.

"It can make some sense to increase the value of its shares, but it makes no sense in terms of its global strategy," said an analyst for one of

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—Ethan Smith in Los Angeles contributed to this article.

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BANK

Continued from the prior page

Iran and Russia on the Caspian Sea, has suffered a slump in its economy and in the value of its national currency, the manat, since oil prices started their sharp decline in 2014.

The Azerbaijani government has since propped up IBA with a series of capital injections and now owns all of its equity through the ministry of finance and a state-owned financial firm.

The state-owned financial firm, Agrarcredit, has also bought some of IBA's bad loans.

Yet investors had been confident that a \$500 million se-

nior Eurobond would be fully repaid.

That bond, which comes due in 2019, was trading just above 100 cents on the dollar before the bankruptcy filing, according to Tradeweb data. It plunged to below 80 cents afterward and on Monday closed at 83.14.

Holders of that bond, according to FactSet data, include funds from **Fidelity Investments**, **Franklin Templeton Investments** and **Ashmore Group**. The firms didn't immediately respond to requests for comment. It isn't clear if they are involved in the letter objecting to the preliminary plan.

The letter warned investors could file an objection to the Chapter 15 proceeding in New

York.

If the bank receives Chapter 15 protection, it would be shielded under U.S. bankruptcy laws from investor lawsuits.

"Any restructuring of the bank—to the extent it is strictly necessary—must be devised and implemented in a fair and impartial manner and with input and buy-in from the international investor community," the Shearman & Sterling lawyer wrote.

Moody's Investors Service estimates IBA creditors will have to write off at least 20% of the face value of their debt in the restructuring.

The debt includes trade-finance facilities and the Eurobond due in 2019, as well as subordinated loans and a \$1

billion deposit by Azerbaijan's sovereign-wealth fund. On Friday, Moody's put Azerbaijan's sovereign credit rating on review for downgrade because of the restructuring plan.

"While the intention to restructure the bank was announced in 2015, the mode of restructuring outlined last week was unexpected and could imply that Azerbaijan's credit profile is weaker than we had previously expected," the Moody's analysts said.

The bank's problems are also creating political tensions in the region. The state pension fund of nearby Kazakhstan is owed \$250 million by the bank, according to IBA filings. That debt will also be subject to restructuring, according to the filings.

BUSINESS & FINANCE



STEELCASE

Steelcase's Jim Keane, right, in his prototype office pod, where he retreats when he needs to focus.

Steelcase Inc., maker of office furnishings. Last year, he and the rest of Steelcase's leadership team worked in their own open-style wing, his desk semi-enclosed by partitions.

He has since moved to a 5-by-8-foot pod in the company's innovation center. He retreats to it when he needs to focus or switch mental gears between meetings. Otherwise, he is out on the floor, with customers and employees, or in other enclaves for meetings.

"It's not about status or privilege," he says of the pod, a prototype with still-exposed two-by fours. "This is a space where you do certain kinds of work."

Open offices are so popular among tech companies that when **CircleCI**'s founders moved the software-testing startup from an open space in San Francisco to one with 25 closed offices in 2014, it paid half the market rental rate,

says co-founder Paul Biggar. In Silicon Valley, many people are "playing startup," he says, emulating the open spaces of tech giants such as Google Inc.

In reality, he says, engineers need quiet places to concentrate—and so does he. "I love the private office," he says. Alas, CircleCI outgrew its private-office oasis and, after failing to find a larger one, returned to the open fray last fall. "There is a lot of [searching for] empty conference rooms now," he says wistfully.

DEAL

Continued from the prior page performance-enhancing chemical products posted the biggest revenue decline both for the year and in the fourth quarter when competitive market conditions and lower average selling prices weighed on results.

Clariant fared better, posting revenue of 5.85 billion Swiss francs (\$5.96 billion) last year, up 2% when measured in local currencies, or 1% in Swiss francs. The company attributed that revenue gain to relatively strong growth in Asia, the Middle East and Africa, which helped to offset a weaker performance in North

America, Europe and Latin America. The company said demand for higher-margin specialty industrial and consumer chemicals used in products such as laundry detergent and aircraft deicing fluid was particularly strong.

Both companies' shares have nevertheless performed well, helping set the stage for the merger, which came together in a matter of a few weeks after years of on-and-off discussions, a person familiar with the matter said. Each company had a market value of roughly \$7 billion as of Friday.

"This is...the right time" for the deal as the companies aim to broaden their global reach and bolster R&D capabilities, Mr. Kottmann said.

The deal brings together two of the most-recognized names in the chemicals industry. And both have incorporated deal-making as a key part of their strategies to expand.

Huntsman's roots date back to 1970, when Jon Huntsman Sr. founded Huntsman Container Corp. Since then, the company has had a series of acquisitions and joint ventures

in Europe, India and China as part of its global expansion plans.

Clariant was formed in 1995, a spinoff from the chemical company Sandoz, whose history dates back to Basel in 1886. Clariant has also been an active acquirer, targeting deals in the U.S. and Europe to broaden its portfolio of specialty chemicals.

Citigroup and UBS Group AG served as Clariant's financial advisers on the deal, while Homburger and Cleary Gottlieb Steen & Hamilton were Clariant's legal advisers. BofA Merrill Lynch and Moelis & Co. were financial advisers to Huntsman. The company relied on Kirkland & Ellis, Bar & Karrer and Vinson & Elkins for legal advice.

The tie-up comes amid a period of consolidation in the chemicals industry.

Huntsman's roots date back to 1970, when Jon Huntsman Sr. founded Huntsman Container Corp. Since then, the company has had a series of acquisitions and joint ventures

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BUSINESS NEWS

Disney Park Taps 'Avatar'

BY BEN FRITZ

Walt Disney Co. is betting that the most successful movie of all time will help its theme-park business continue a hot streak eight years after the film came out.

The media giant this week opens Pandora—World of Avatar, a \$500 million attraction at Walt Disney World's Animal Kingdom near Orlando, Fla., the biggest expansion of one of its American theme parks in more than a decade. Based on James Cameron's 2009 movie "Avatar," which grossed nearly \$2.8 billion, Pandora is part of a multibillion-dollar effort by Disney to expand its theme parks around the world.

The spending is a sign of Disney's confidence that it can keep its parks and resorts business growing even after the division posted record profits recently. Operating income grew 73% between fiscal 2012 and fiscal 2016 to \$3.3 billion. Revenue in the same period rose 31% to just shy of \$17 billion.

It is also something of a gamble. The movie, which has been out of the public eye for years, owed at least some of its success to then-ground-breaking technology, and it lacks the marketable characters of Disney blockbusters like "Frozen."

Disney executives say the quality of the park's attractions will draw people to Pandora regardless of their interest in the film that inspired it.

Five years ago, Disney executives indicated they had reached a peak in annual capital spending. After a brief lull, though, such expenditures have again accelerated, with parks investment doubling to \$4.2 billion a year between fiscal 2013 and 2016. Much of that is due to the opening last year of the \$5.5 billion Shanghai park, in which Disney holds 43% interest. But the company has also increased its annual investment in its two domestic parks by a total of \$1 billion.



Part of a new park attraction based on the 2009 movie 'Avatar' at Walt Disney World in Florida.

Disney has new "Star Wars" lands in the works at Disney World near Orlando and Disneyland in Anaheim, Calif., as well as a "Toy Story"-themed land at Shanghai Disneyland, "Marvel" and "Frozen" lands at Hong Kong Disneyland, and rides based on "Finding Nemo," "Beauty and the Beast" and "Big Hero Six" in Tokyo. The company also is planning "long-term investment" in Disney Paris, Chief Executive Robert Iger said on a recent earnings call.

Disney wants to expand its parks business and also represent as many of its franchises as possible, said Robert Chapek, chairman of its parks and resorts business.

Attendance at its domestic parks has grown substantially, with a rising number of days when Walt Disney World and Disneyland parks have had to turn away guests. To address that issue, the company last year introduced seasonal pricing at its domestic parks and launched Shanghai Disneyland in June with a similar policy.

As a result, attendance at its domestic parks fell 1% in fiscal 2016, the first drop since

fiscal 2010, but per-capita guest spending increased 7%; the company doesn't disclose the actual per-guest figure, just the change.

The 12-acre "Avatar" attraction marks an effort to increase both capacity and guest spending. Disney hopes it will turn Animal Kingdom, one of four parks at Walt Disney World, from a place where guests typically spend a few hours to one where they can spend a full day. It features a flight simulator, a river journey and a huge mountain that appears to float in the air.

"It was not a park that had a lot of demand in the evening," said Mr. Chapek.

Disney made a deal with Mr. Cameron's Lightstorm Entertainment and studio **Twentieth Century Fox**, owned by **21st Century Fox**, in 2011, before it bought "Star Wars" and before "Frozen" had made its debut. The company pursued the rights aggressively, driven in part by frustration it had let the rights to "Harry Potter" go to competitor **Universal Studios**, which had a large attendance and earnings boost from new lands based on the boy

wizard, according to people with knowledge of the deal.

Disney agreed to pay Fox and Lightstorm tens of millions of dollars a year, in addition to a cut of "Avatar" merchandise sales, according to people with knowledge of the agreement. It also has rights to open "Avatar" rides at its other parks, though none are planned.

At the time of the deal, the parties expected a sequel to "Avatar" would be released by the time the theme park opened. But due to delays, the first of a planned four sequels won't come out until 2020.

That has raised concerns about whether tourists will be as drawn to the theme-park area the way they are to rides based on newer hits like "Guardians of the Galaxy."

In addition, the success of "Avatar" was due as much to its 3-D technology as to the characters and world that have informed the new attractions. "Avatar" merchandise didn't sell well around the movie's release, said a person with knowledge of the matter. A Fox spokesman declined to comment on merchandise sales.

Arconic Reaches Truce With Fund

BY DAVID BENOIT AND DANA MATTIOLI

Arconic Inc. struck a deal to give hedge fund **Elliott Management** Corp. three seats on its board of directors, ending a bruising five-month battle days before a shareholder vote.

Under the agreement, Elliott will receive board spots for three of its nominees, while Arconic keeps three of its own nominees, with one current director stepping down.

Elliott, which advocates an overhaul of the \$12 billion maker of parts for airplanes and automobiles, wanted four of the seats. Arconic was formerly part of aluminum giant **Alcoa** Inc.

Prior attempts at a deal broke down over the roles Elliott's nominees would play on board committees and how long Elliott would agree not to wage another fight.

The two sides were negotiating over the weekend ahead of Thursday's annual meeting, where shareholders are set to fill five seats on the company's 13-member board.

Elliott appeared poised to win at least two at the meeting in Purchase, N.Y. The hedge fund had locked up around 20% of the vote and won endorsements from influential proxy-advisory firms.

The settlement brings to a close one of the most intense activist battles in recent years. Elliott launched its campaign in January and immediately called on the company to fire longtime Chief Executive Klaus Kleinfeld, citing missed profit forecasts and lackluster stock performance.

Mr. Kleinfeld resigned unexpectedly in April after sending a vaguely threatening letter to Elliott founder Paul Singer.

A board shake-up could have a profound effect on Arconic, as the new directors will select the company's next

CEO and determine its trajectory for years to come. It also could further embolden activist investors, who have become ever more aggressive in their pursuit of higher returns.

Elliott launched its Arconic campaign just months after the company's split from Alcoa and a year after it installed three of Elliott's handpicked nominees on the board. After Mr. Kleinfeld stepped down, the hedge fund pressed ahead with its bid for four board seats.

In its defense, Arconic said it has changed more than nine directors over the past 16 months, including Elliott's three picks in 2016, and argued that the hedge fund's attempts to nominate four more directors would give too much sway to a single shareholder.

Elliott Management will receive board spots for three of its nominees.

Monday's deal puts one of Elliott's nominees on the board committee looking for Arconic's new CEO. In addition, Arconic will consult with Elliott as it selects a new leader.

Larry Lawson, a former chief executive of Spirit AeroSystems Holdings Inc. and Elliott's pick for CEO, will be among the candidates, the company said.

The deal doesn't require Elliott to sign a peace agreement that would head off future fights, as Arconic had sought in prior talks. But a future battle seems unlikely now that Elliott has picked six of Arconic's 13 directors.

Arconic won't form a new committee on the board to oversee operations, as Elliott had requested.

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TECHNOLOGY

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Retailer Focuses on Heavy-Duty Drones

JD.com's goal is to deliver shipments weighing 1 ton or more in central China

BY BRIAN BASKIN AND LIZA LIN

China's Shaanxi province is famous for being the start of the Silk Road, an ancient trade network where silk and spices were transported by camel across the Asian continent.

Soon, the central Chinese province will be recognized for a different form of transport.

Chinese e-commerce provider JD.com said Monday it is developing heavy-duty drones capable of delivering payloads weighing 1 ton or more, which it plans to deploy in Shaanxi.

JD, China's No. 2 e-commerce company after Alibaba Group Holding Ltd., in 2016 started delivering small packages via drone as a way to bring online orders to shoppers in remote rural villages. Its fleet of about 30 drones has already been bringing shipments to customers in the remote areas of Beijing, and in Sichuan, Jiangsu, Shaanxi and Guizhou provinces, which are home to more than 230 million people.

The larger drones would also ferry goods in the other direc-



JD.com drone transports goods between distribution centers in Jiangsu province in June 2016.

proponents predicting they won't see widespread use until at least 2020. Regulations are less of an issue in China, home to the world's largest civilian drone maker and where commercial drones are already widely used in farming. Local governments have offered up their airspace for drones and helped fund research. An arm of Shaanxi's government is covering part of the roughly \$150 million JD plans to invest in the province, where the retailer will also locate the headquarters for its logistics operations.

Heavyweight drones have their own set of problems. Where a small drone can be launched from almost anywhere, larger models need dedicated landing pads. Big, heavy drones can also be noisier, making them unwelcome in residential neighborhoods. Their extra size and weight also raise the potential damage from a crash, requiring extra motors, backup flight control systems and other fail-safes.

"The larger the vehicle and the higher the potential risk to people or property, the more redundancy and reliability you need," said Ben Marcus, chief executive of AirMap, which helps drone operators navigate airspace.

Giant military drones and

other unmanned aircraft have been in use for decades, Mr. Marcus said, but it is only recently that companies have begun exploring their commercial use. However, the bulk of investment is going toward smaller drones because "last-mile" delivery to customers' homes is usually the most expensive leg of the supply chain, he said.

In China, unauthorized drones have also caused flight delays in several cities this year, leading authorities to introduce tighter regulation.

JD's Chairman Richard Liu sees drones as a way to reach millions of potential customers outside China's major cities, an enormous market in which it competes fiercely with Alibaba. In one Chinese province, Mr. Liu said he plans to build 150 drone delivery sites within the next three years.

Delivery costs in Chinese cities are inexpensive, as order densities are high and labor costs are low. However, in the rural areas, shipments are fewer and the road infrastructure is less developed, making deliveries inefficient and costly. JD, which operates its own logistics network, first sends order parcels from its warehouses to delivery stations, where the drones pick them up and send them to villages for distribution.

BUSINESS NEWS

Firms Are Winning Fight Over Adjusted Earnings

BY TATYANA SHUMSKY

Companies are winning over the **Securities and Exchange Commission** in their use of unofficial accounting figures, a year after a crackdown on the practice.

Medtronic PLC and **Coca-Cola** Co. are among the 35 out of 51 companies that have successfully demonstrated to the regulator that their adjusted earnings figures aren't misleading investors.

That outcome highlights how the complexities and nuances in corporate accounting are complicating the SEC's job in policing earnings. For example, some companies are vulnerable to customer lawsuits that can blur the line between an occasional expense and a regular cost necessary to operate the business.

Similarly, a restructuring plan announced in one year can bleed across several years, clouding the distinction between a discrete cost and a re-

curring expense.

An SEC spokeswoman declined to comment.

Large companies have the money and resources to lay out a successful, detailed defense of disputed accounting practices.

The agency last May issued new guidelines on the use of adjusted earnings and other figures inconsistent with U.S. Generally Accepted Accounting Principles. The move came amid concerns that these figures can misrepresent company performance and often furnish investors with a rosier picture of results by excluding unusual charges or the impact of currency swings.

The regulator questioned dozens of companies on whether some of these adjustments exclude regular business expenses and could be misleading, according to an Audit Analytics analysis for The Wall Street Journal. In 69% of cases the SEC backed down and concluded its conversations with the company without forcing a significant change to its adjusted earn-

ings presentation.

"What is reasonable to exclude and how do you decide what is normal?" said Paula Hamric, national assurance partner at accounting firm BDO USA LLP. "Even SEC staff haven't been able to answer that, other than on a case-by-case basis."

Medtronic in a Nov. 4 letter defended omitting restructuring costs from adjusted earnings after the SEC asked whether it was misleading because it excludes regular business expenses. "Restructuring charges are not necessary to operate the business and are not necessary to generate revenue," said Karen Parkhill, CFO of the medical-technology company, in a letter to the regulator.

The SEC scored many victories early in its push against the proliferation of non-GAAP metrics. More than a quarter of S&P 500 companies voluntarily changed their press releases to report standard results first after the SEC updated its guidance last year.

Moreover, 29 out of 42 companies that were ques-

tions about their use of so-called tailored revenue metrics, another non-GAAP figure forbidden by the new rules, changed their presentation of results to satisfy the SEC's concerns, according to Audit Analytics data.

The challenge for the SEC lies in drawing a distinction between outliers and regular business expenses, when many fall into a gray area. Coca-Cola told the SEC that

what may at first appear to be recurring business expenses are in fact unique charges. The beverage maker adjusted its 2016 results for costs from an overhaul and subsequent divestment of its bottling plants in Germany. It also excluded nonroutine charges such as severance pay, consulting fees and write-offs linked to a cost-cutting program expected to end in 2019.

"We believe these restructuring charges and charges re-

lated to our productivity and reinvestment program are not representative of the company's underlying operating performance and thus are appropriately excluded," said Larry Mark, controller, in a letter to the SEC in October.

A Coca-Cola spokeswoman declined to comment. A spokesman for Medtronic said in an email that the company "responded directly and openly" to the SEC.

BUSINESS WATCH

WORLD RUGBY

NBCUniversal Buys Television Rights

NBCUniversal has reached a deal to televise the next two Rugby World Cups in an attempt to make a sport that is wildly popular in other parts of the world more mainstream in the U.S. The seven-year agreement with World Rugby includes guaranteed payments of just under \$10 million but includes profit-sharing that could boost its value if the sport continues to grow, according to people with knowledge of the deal.

Under the terms, NBC and its sister networks will televise the 2019 World Cup in Japan, and the 2023 event, which will likely take place in Ireland, France or Italy. In addition, the company has gained the rights to international championships in women's rugby and the seven-man version of

the sport, with the next Rugby World Cup Sevens set for San Francisco in 2018.

—Matthew Futterman

PHILANTHROPY

Fortescue Founder To Donate Millions

Andrew Forrest recast the global iron-ore industry by building a tiny Australian company into the world's fourth-biggest miner of the commodity. Now, inspired by American billionaires Mark Zuckerberg and Warren Buffett, he wants to energize philanthropy in his country.

Mr. Forrest, the founder and chairman of **Fortescue Metals Group** Ltd., said Monday he would give 400 million Australian dollars (\$US298 million) to fund campaigns against cancer and slavery, as well as improving child education. It represents the largest philanthropic donation

ever made by a living Australian.

Mr. Forrest said his donation would be in cash and wouldn't require him to reduce his more than 30% stake in Fortescue, valued at around A\$5 billion.

—Rob Taylor

LEECO

Founder to Step Down From Video Unit

The billionaire founder of Chinese technology and entertainment company **LeEco Holdings** is stepping down as chief executive of its listed video unit after an investor had called for stronger corporate governance.

Jia Yueting will remain chairman of Leshi Internet Information & Technology Corp., according to a Shenzhen Stock Exchange filing. Representatives for LeEco didn't respond to requests for comment.

—Alyssa Abkowitz

CATHAY PACIFIC

Airline to Lay Off About 600 Workers

Cathay Pacific Airways Ltd. said it would lay off about 600 people as it grapples with tough competition and bad bets on oil prices. The cuts are part of a broader restructuring.

Cathay said it would cut about 190 managers and 400 nonmanagerial jobs, representing 25% and 18% of each category, respectively. No pilots or cabin crew will be affected, it said.

—Joanne Chiu

Cathay said no pilots will be affected by the latest layoffs.

ANTHONY WALLACE/AGENCE FRANCE PRESSE/GETTY IMAGES

Airbus Gets Ethics Help

BY ROBERT WALL

LONDON—European plane maker **Airbus** SE has established a new compliance review group led by outsiders amid allegations of corruption being investigated by British and other fraud watchdogs.

It is the second time in less than five years Airbus has sought outside help to clean up its internal processes after fraud allegations surfaced. Some of the issues that led to the compliance review in 2012 are still under scrutiny, including the company's actions in a more than \$1 billion dollar deal to sell Eurofighter Typhoon combat jets to Austria a decade earlier.

The establishment of the new compliance panel was triggered by the latest controversy that first surfaced a year ago around Airbus's use of middlemen to win commercial plane deals. The panel, which will report to Chief Executive Tom Enders and the board,

will have an open-ended advisory role.

"To embed irreproachable behaviors in all our business undertakings sustainably, we must take a hard look at both our systems and our culture," Mr. Enders said Monday in a written statement announcing the latest review.

Austrian officials said Mr. Enders is one of the people it is investigating in its probe, which is examining whether the company overcharged the government for the sale of military planes. Airbus has denied wrongdoing and said it was cooperating with authorities.

The Austrian probe is one of several corruption investigations Airbus is battling. The British Serious Fraud Office has been examining alleged bribery by an Airbus subsidiary in business dealings in Saudi Arabia for several years. Airbus launched a compliance review in 2012 amid concerns over the Austrian deal and the British probe into the actions

of its subsidiary in Saudi Arabia. At the time, it said it had tightened its compliance procedures and taken other steps.

In 2016, Britain's SFO also began investigating Airbus's possible misuse of middlemen in winning plane deals. French officials also are probing the use of third-party intermediaries used during the sale of commercial airliners. Airbus has also said it had hired forensic accountants to help review what happened and has frozen payments to third-party consultants.

The new compliance review panel will include David Gold, who also reviewed compliance proceedings at Rolls-Royce Holdings PLC. The British aircraft-engine maker at the time was under scrutiny by fraud investigators.

An Airbus official said the company wasn't asked to take the action but was trying to demonstrate it is taking tangible steps to improve ethics performance.

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Japan's Abe Talks Trump

How the prime minister views the next steps

Japan has seen an economic revival in recent years. But now it faces an uncertain world, as North Korea makes increasingly aggressive moves and the mood in the U.S. turns against free-trade deals.

To assess the progress Japan has made and look ahead, The Wall Street Journal's Gerard Baker sat down with the prime minister of Japan, Shinzo Abe, who spoke through a translator. Edited excerpts follow.

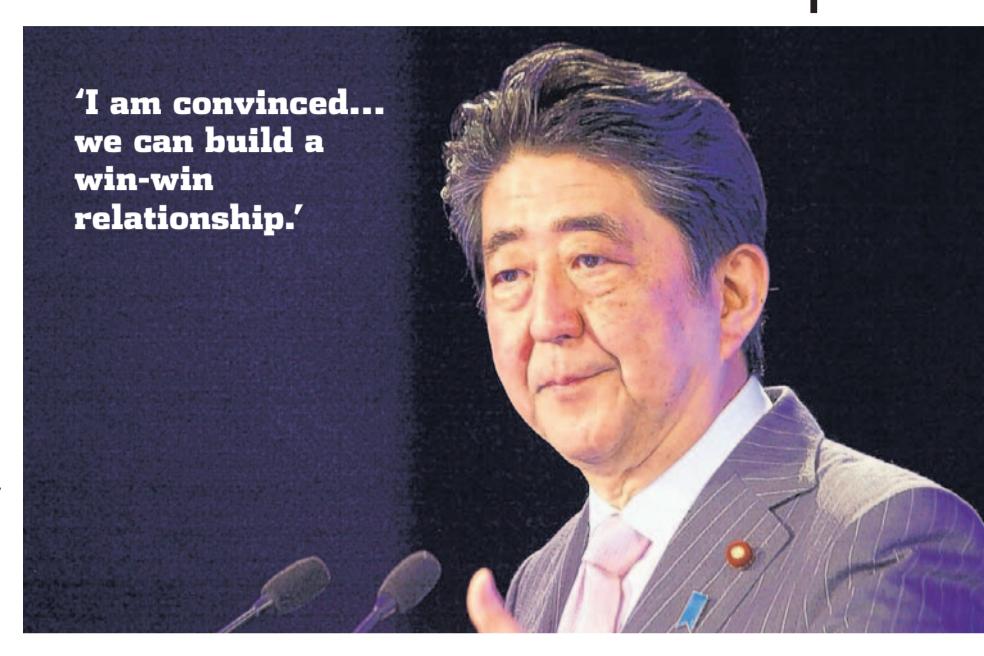
The path of progress

MR. ABE: It has been more than four years since I retook the government. Japan before that was enveloped in a mood of pessimism, a sense of resignation. The economy was in deflation. I promised to bring Japan back. What have the results been?

During the past four years, through our economic policies, nominal GDP has grown by 9.5%. Employment, which decreased by 290,000 jobs in the previous administration, rose by 1.85 million during these four years. The unemployment rate is at 2.8%, almost full employment. Wage levels will rise and the exit from deflation will draw nearer.

My policy is to put the economy first, to exit from deflation and to keep pursuing the three arrows of monetary, fiscal and structural reform to those ends. This policy is absolutely unchanged. Economic growth in Japan and a stable livelihood for our people cannot be realized unless we cooperate and collaborate with the global economy.

Ensuring peace and security is the foundation for this. To that end, my consistent position is to strengthen the Japan-U.S. alliance and to broaden the range of diplomacy with nations of the Asia-



ARON KREMER/DOW JONES

Pacific. Last month, Vice President Pence and Deputy Prime Minister Aso held the first Japan-U.S. economic dialogue and agreed to continue consultation on common strategy on trade and investment rules and issues.

Of course, we cannot allow ourselves to let down our guard. Despite strong warnings by the international community, North Korea once again has pushed ahead with the launch of a ballistic mis-

sile. The threat from North Korea has risen one step further. Terrorism is spreading across the world. We shall have to maintain our alert and reinforce global collaboration in an unprecedented way. Without peace and stability, there can be no growth or prosperity.

Talking with Trump

MR. BAKER: You've had a chance to meet twice with President Trump since he was

elected. By all accounts you struck up a good relationship, and you've talked about the importance of the U.S.-Japan relationship. But you weren't able to persuade him to back off his campaign promise to withdraw the U.S. from the Trans-Pacific Partnership. And he's spoken very critically about TPP, indeed about international trade arrangements with other countries.

Japan still has a very, very large trade surplus with the United States. Are you confident that you can get a constructive trading relationship with the United States?

MR. ABE: I am convinced that economic cooperation can be expanded between Japan and the United States and that we can build a win-win relationship. I explained to him the current status of Japan-U.S. trade. For example, in the past there was trade friction between Japan and the U.S. in the automotive industry. But now Japanese companies are building factories in the U.S., ensuring many jobs in the U.S. and contributing to the development of the U.S. economy. Or to take another example, you won't find cases of us expanding market share by selling cheaply when currencies

fluctuate. I explained to President Trump that the trade and economic environment between Japan and the U.S. has greatly changed in this way, and he understood me well. We agreed that Japan and the U.S. should work toward free and fair rules.

MR. BAKER: Is there a possibility for a bilateral U.S.-Japan free-trade agreement at some time in the Trump administration?

MR. ABE: We need to discuss what is best, keeping various options in mind. I fully acknowledge President Trump's position on multilateral arrangements. But I have explained many times to him why it matters to create free and fair rules in a multilateral setting given the supply chains that exist today. President Trump listened earnestly, without any expression of annoyance.

MR. BAKER: There's a lot of concern that the U.S. may not be as engaged in these important Asian economic and security conversations as its traditional allies, Japan perhaps most of all, would like it to be. Are you concerned about that?

MR. ABE: Since the Trump ad-

ministration began, I think the commitment to the security of Northeast Asia has in a sense strengthened. For example, in the case of North Korea, the Trump administration is truly tackling the situation seriously.

MR. BAKER: In the last three years, North Korea has tested more missiles than it had in the previous 30 years. The U.S. seems to be still relying on China to exert pressure on North Korea. Is the approach through China the most effective way to get North Korea to back off this increasingly aggressive posture?

MR. ABE: Already Japan, the United States and many other countries impose economic sanctions on North Korea through United Nations resolutions. Today, it is said that China accounts for more than 80% of overall trade with North Korea. I believe that China, by playing its role properly, can change North Korea's policies. If a nuclear test is conducted, we will need additional economic sanctions. We will have to pursue further U.N. resolutions. On this count as well, China should properly take action and China should understand fully.

Reaching Out

How Japanese feel about some aspects of global engagement

In matters of foreign policy, Japan should...

Take into account the interests of its allies, even if it means making compromises

48%

Follow its own national interests, even when its allies strongly disagree

40%

Neither/both equally

4%

Don't know/didn't answer

9%

Japan's involvement in the global economy is...

A good thing because it provides the country with new markets and opportunities for growth

58%

A bad thing because it lowers wages and costs jobs in Japan

32%

Neither

2%

Don't know/didn't answer

9%

Source: Pew Research Center survey of 1,000 adults in Japan, conducted April 26 to May 29, 2016

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The Banker's Viewpoint

Haruhiko Kuroda on economic inequality, protectionism and monetary policy

Monetary policy can stymie or enhance free trade and global economic growth. And one of the biggest influencers of monetary policy in the world is the Bank of Japan. Gerard Baker, editor in chief of The Wall Street Journal, sat down with the bank's current governor, Haruhiko Kuroda, to discuss the populist backlash against globalization, the rise of economic nationalism, and the economic health of the world. Edited excerpts of their discussion follow.

MR. BAKER: Governor, you just got back from a G-7 finance ministers and central bank governors meeting in Bari, Italy. Economists such as yourself have argued for a very long time that global economic integration and cooperation has been very good for global growth and has lifted incomes, particularly in parts of the world like Asia. If we're going to see a revival of economic nationalism, a rolling back of economic integration, what does that mean for the economy, Japan's economy in particular?

MR. KURODA: In Italy we discussed economic growth and

inequality. This is a very topical agenda faced by many countries, including G-7 countries, and we agree that free trade actually contributed to reducing global inequality.

But at the same time, it is true that in the last couple of decades, inequality within each country has increased. We discussed how to address this issue in each country. Now, protectionism, I don't think it will contribute to reducing inequality. Trade restriction would decelerate global trade, and that would dampen global growth. Without growth, living standards cannot be raised. I think it is well understood that free trade is key for global growth and continued improvement of living standards of the people.

At the same time, in the last couple of decades, a very defined, delicate, intertwined global supply chain has developed, not just in Asia, but in the Western Hemisphere as well as Europe. And without this extensive supply chain, any economy cannot prosper. If any country introduced a protectionist measure, that would hurt that country and hurt the world economy. So I

don't think that protectionists are likely to prevail in the world.

MR. BAKER: To be fair, the critics—especially people like Donald Trump—say they're not protectionists. They want to encourage trade. What they argue is that the trade deals over the past 20 years, many of them—the World Trade Organization, the North American Free Trade Agreement—have been unfair, because they haven't been genuinely free-trade deals. Countries have been able to exploit opportunities. China in particular, Japan is also criticized in this way. Whereas the U.S. in particular runs a massive trade deficit and has seen a lot of manufacturing jobs disappear.

So people are arguing that trade itself is maybe not the problem. It's actually unfair trade and the fact that some countries give themselves unfair advantages. How do you address that?

MR. KURODA: There are many detailed economic analyses already made by trade economists and they show that the WTO round of negotiations to improve free trade in the world actually haven't resulted in any major negative impact on the U.S. economy.

But some economists argue that after China joined the WTO, China expanded its global trade, and, in some countries, a too-rapid expansion of Chinese exports to their economies might have had some negative impact.

But, that said, I really don't think WTO has created the huge problems. In general, I think free trade has contributed. And I don't think any particular economy has made a negative impact on the U.S. economy.

MR. BAKER: In the past six months, there has been significant



ARON KREMER/DOW JONES (3)

cantly increased optimism about the U.S. economy in particular. The stock market has done extremely well. There are expectations of much stronger growth on the back of a tax cut, and maybe infrastructure spending and various other things associated with deregulation and the Trump administration. That seems to have helped the background for the Federal Reserve, which has been tightening policy and looks like it's going to be tightening possibly further.

Where does that leave the rest of the world and, in particular, Japan?

MR. KURODA: Actually, the world economy, including the U.S. economy, started to recover from the bottom by the middle of last year—well before the U.S. presidential election. I agree that the market has anticipated that under the new administration more aggressive economic policies would be implemented so that the U.S. economy could grow faster. That also means interest rates might rise faster than expected before. That might also have implications for exchange rates.

But if you carefully look at those market data, interest rates and the dollar haven't risen so much.

MR. BAKER: Not since that initial rise—

MR. KURODA: That's right.

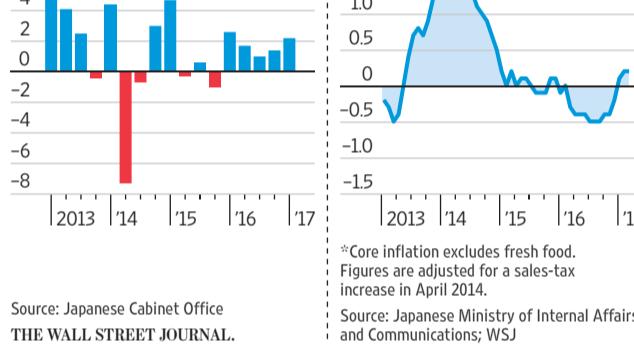
MR. BAKER:—in November.

MR. KURODA: The Federal Reserve would normalize its monetary policy in view of a very strong U.S. economic outlook, this year, next year, and that would be good not just for the U.S. economy but for the world economy. So I'm not very much concerned. Because that reflects a strong economic recovery.

On the other hand, Europe and Japan are lagging behind. The Japanese economy is growing by about 1.5% now, and is expected to continue to grow like that. Our inflation rate is still quite low. So our monetary policy is targeted at price development. That is to say to achieve the 2% price-stability target at the earliest possible time.

Where Japan Stands

Indicators of Japanese economic growth and inflation



Source: Japanese Cabinet Office

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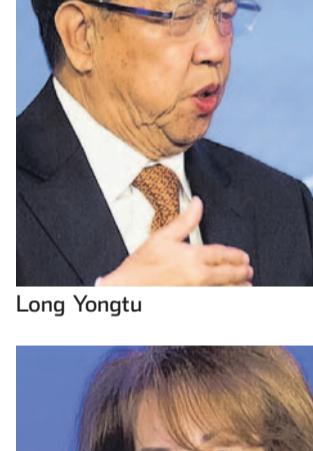
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Putting China in Perspective

Charlene Barshefsky and Long Yongtu on misconceptions about the impact of China's entry into the WTO

China's entry into the World Trade Organization in 2001 was the beginning of a new era of globalization. But now there's a popular backlash against globalization in the West. What happened? And what comes next?

The Wall Street Journal's Andrew Browne spoke with two central actors in the WTO drama, Charlene Barshefsky, trade representative under President Bill Clinton, and Long Yongtu, China's vice minister of commerce from 1997 to 2003. Edited excerpts follow.



Long Yongtu

MR. BROWNE: Steve Bannon, the senior White House adviser, says globalists gutted the American working classes and created a middle class in Asia. And he's right, isn't he?

MS. BARSHEFSKY: No, I don't think he's right. If you go back to the mid-1990s, you saw a China that was already growing at about 8%, 8.5% a year, with the world's largest standing army, a nuclear power, a permanent member of the U.N. Security Council, a fifth of the world's population, a reformist premier, Zhu Rongji, and willing to orient toward the West.

In the course of doing the WTO negotiation, China opened its market. The U.S. didn't alter its trade regime, nor did any other country alter its trade regime. As in any WTO negotiation, it is the acceding country that needs to reform its economy.

The key point is that, in the context of a country as large as China entering, were there protections built into the agreement to prevent, for example, unexpected surges of imports? And indeed, there were—a mechanism almost never used by the very industries Steve Bannon is pointing to, although it would've been entirely protective of their interests.

MR. BROWNE: The U.S. had a trade deficit of something like \$80 billion in 2000. And within a decade, it is tripled. What did you get wrong?

MS. BARSHEFSKY: Remember that we have a substantial services surplus with China. That's point one. Second point is that the trade deficit is a function of macroeconomic factors. Principally, the difference between what Americans save, which is nada, and investment, which is plentiful. Americans could save more. The deficit would go down.

We could discourage inward investment. The deficit would go down. I can't imagine why we would discourage inward investment. What does have to be fixed is a China that has stopped the process of economic reform and opening and that, instead, has put in place

a spate of measures that are zero sum. They're highly mercantilist and discriminant against U.S. and foreign companies. That's what has to be fixed.

MR. BROWNE: Minister Long, can you take us back to the years leading up to China's accession to the WTO? There was huge resistance from conservatives within the Chinese system to opening up.

MR. LONG: The benefit of the WTO agreement for China isn't that China increases its trade. The most important thing is that the trade agreement triggered and accelerated internal domestic reform. At the time, all the Chinese import-exporters were monopolized by a few dozen state-owned trading companies and ministries. But once we accepted the terms of liberalizing, then tens of thousands, hundreds of thousands of Chinese enterprises start getting into the business of import-export.

You can trade directly with Americans, with Europeans, with all these Asians. So that gave a great acceleration of the trade volume of Chinese import-export.

MR. BROWNE: For some years after WTO accession, China artificially kept the value of its currency low to boost exports. Was that the plan all along?

MR. LONG: I do not believe that. The trade terms give a free hand to Chinese companies to compete with the rest of the world. Other countries are facing very, very strong competition from their Chi-

nese counterparts. I think this is their problem.

MR. BROWNE: Bill Clinton suggested China's accession to the WTO was the start of a period of liberalization, that the country would become more open, more transparent, more rules-based. What happened is WTO accession marked the high-water mark of liberalization in China. What happened?

MS. BARSHEFSKY: First of all, it can't be U.S. policy that poor countries should remain poor because that is somehow advantageous to the United States. And it can't be U.S. policy that we should discourage poor countries from reforming and making their market more attractive for fear that the U.S. can't compete with low-wage countries.

So what happens when poor countries become more attractive venues? No. 1, trade flows increase, which is clearly the case. The question for the United States is, how do we maintain our competitiveness, recognizing that trade flows do increase aggregate GDP?

On the question of job loss, there is no question that trade is, in part, responsible for job loss in the United States, but a tiny fraction relative to automation and innovation in the U.S. When people lose their jobs, either for trade or for technology but no fault of their own, the United States has an obligation to undertake programs that assist them.

MR. BROWNE: Minister Long, do you agree with Ambassador Barshefsky's contention that reform in China has sputtered out or is sputtering?

MR. LONG: I don't believe that economic reform in China has been stopped or slowed down. For instance, the size of the economy of China is now eight times larger than the time that China acceded to WTO. And there are 200 million Chinese in the middle class. We can hardly make any serious mistakes to upset the growth.

Second, before China's WTO accession, we were short of laws and rules in many places, so senior officials would make a decision: "Yes, this we can do." But now, you have to see whether the decision is inconsistent with laws and rules. And people say, "No, this reform measure isn't inconsistent with laws." With the internet also, people are getting so many different views. That gives a lot of pressure to allow reform measures.

I think the Chinese leadership is still very determined to push for economic reform. But we have to ensure that it will benefit most of the people. It isn't reform for reform's purpose.

FINANCE & MARKETS

Citigroup, Nasdaq Team Up on Blockchain Project

By TELIS DEMOS

Citigroup Inc. and **Nasdaq** Inc. are forging a partnership to match up the blockchain with real money.

The two companies said they have been working together, along with technology startup **Chain** Inc., for months to link Citigroup's business-payments services to Nasdaq's blockchain platform that has been used for activities such

as buying and selling shares of private companies.

For blockchain, the move represents a notable chapter in its development.

Blockchain is the peer-to-peer networking technology first developed to transfer ownership of the virtual currency bitcoin between people.

Bitcoin's value has soared this year, crossing over \$2,000 in recent days. But it still hasn't found widespread trac-

tion in traditional banking. The recent WannaCry computer attack asked for ransom payments in bitcoin.

With the partnership, a blockchain is connecting to one of the largest and most established bank money-transfer systems. And it gives big banks a way to earn fees helping new networks facilitate business payments if traditional settlement or invoice systems are disrupted.

Overall, banks, exchanges, and other financial firms have poured more than \$1 billion into projects and startups using forms of the underlying blockchain technology, according to Greenwich Associates.

The aim, still mostly in the early stages, is to be able move things such as stocks, derivatives and other assets between two parties much more cheaply than with existing systems.

But without bitcoin or an-

other digital currency, however, those systems might be missing a crucial ingredient: money. Efforts to create digital versions of dollars and other government-backed currencies are in their infancy.

Starting last year, Citigroup and Nasdaq began working together to match up Nasdaq's Linq blockchain platform to Citigroup's Treasury and Trade Solutions unit, which moves trillions of dollars globally in

business payments. Both firms are investors in San Francisco-based Chain, and have worked with the startup in their blockchain efforts.

The new system links Citi-Connect, a tool that can be used to manage large-sum payments across borders and across currencies, to blockchains—in this case Nasdaq's Linq. This speeds up a key part of the usual multiday settlement process for trades.

FINANCE WATCH

CITIGROUP

Bank in Settlement Of U.S. Investigation

Citigroup Inc. has agreed to pay less than \$100 million to settle a yearslong money-laundering investigation, the bank and government agencies said Monday.

The bank reached a settlement with the U.S. Justice Department and U.S. attorney's office in Boston for \$97.44 million, with no sanctions against Citigroup and a so-called nonprosecution agreement, according to the bank and Justice Department. The investigation centered on activity in the bank's Banamex USA unit.

As part of the agreement, Citigroup admitted that Banamex USA violated the Bank Secrecy Act from at least 2007 until at least 2012.

The agreement is far less than previous money-laundering settlements with large banks and is one of the first to emerge since the change in presidential administrations. Other deals with big banks have often topped \$1 billion and involved so-called deferred prosecution agreements or criminal guilty pleas.

Citigroup said in a statement that it was "pleased to resolve these matters."

The bank said it would be finished with winding down Banamex USA by June 30.

"Among our most serious obligations as a bank is to achieve the strongest possible system for anti-money-laundering and sanctions compliance to protect the integrity of the financial system," the bank added.

—Emily Glazer
and Telis Demos

SUGAR

China's Tax Surges On Some Imports

Beijing is nearly doubling its tax on some imported sugar—further weighing down one of the worst-performing commodities of 2017.

Saying that an investigation had found that imports have seriously damaged China's sugar industry, the Ministry of Commerce said the tax on imports beyond the first 1.95 million tons a year will be raised to 95% from the current 50%, effective immediately. After a year, the rate will fall to 90%; after two years, to 85%.

The tax on the first 1.95 million tons will remain 15%.

China is the world's largest sugar importer. Combined official and illegal imports rose 60% in the three years through Sept. 30, the U.S. Agriculture Department estimates.

Official imports for the current crop year, ending Sept. 30, were projected to reach 3.5 million tons.

—Lucy Craymer

GOLDEN AGRI-RESOURCES

Unit Seeks Increase In Palm-Oil Output

PT Smart, a unit of Singapore-listed **Golden Agri-Resources** Ltd., will start planting two new types of palm oil commercially in 2022, in a change that could potentially bolster the company's yield by 25%.

The new varieties could increase annual output to 10 metric tons of crude palm oil per hectare from as much as eight tons currently.

At its maturity, the Eka 1 seedlings could yield 10.8 tons per hectare, and the EKA 2 seedlings 13 tons, said Smart President Director Daud Dharmso. Smart manages 488,000 hectares of planted area.

The new varieties also have a shorter harvest time of 24 months, compared with the average 30 months of the varieties currently planted in Indonesia.

—I Made Sentana

Quad 204 North Sea, UK

45 mboed peak production,
net to BP

Third of seven major project start-ups in 2017

The world's largest harsh water floating production vessel, based west of Shetland, will extend and expand the recovery of oil from the Schiehallion field area through to 2035.

Status: Completed

bp.com/7in2017

Revealing a major project start-up

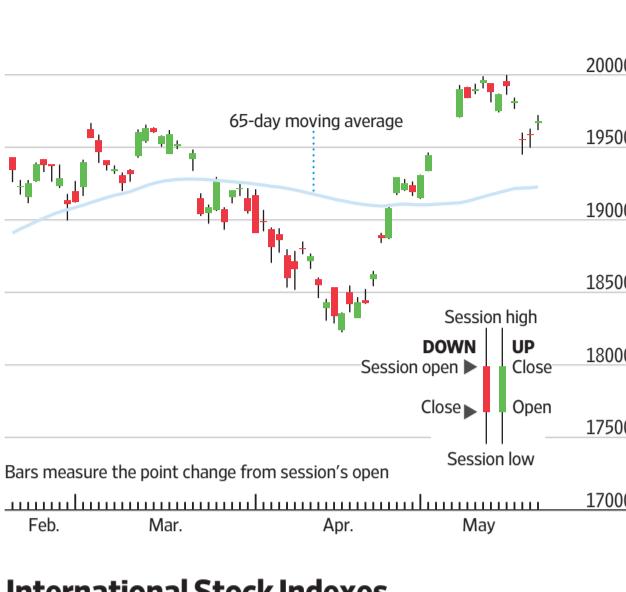


MARKETS DIGEST

Nikkei 225 Index

19678.28 ▲ 87.52, or 0.45%

High, low, open and close for each trading day of the past three months.

Year-to-date
52-wk high/low
All-time high2.95%
19961.55 14952.02
38915.87 12/29/89**STOXX 600 Index**

391.14 ▼ 0.37, or 0.09%

High, low, open and close for each trading day of the past three months.

Year-to-date
52-wk high/low
All-time high8.22%
396.45 308.75
414.06 4/15/15**S&P 500 Index**

2394.02 ▲ 12.29, or 0.52%

High, low, open and close for each trading day of the past three months.

Data as of 4 p.m. New York time

Last Year ago
Trailing P/E ratio 23.44 23.49
P/E estimate * 18.41 17.51
Dividend yield 1.98 2.20
All-time high: 2402.32, 05/15/17**International Stock Indexes**

Data as of 4 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	YTD % chg
World	The Global Dow	2759.69	11.36	▲ 0.41	2193.75	● 2769.38 9.2
	MSCI EAFE	1891.13	8.38	▲ 0.45	1471.88	● 1956.39 10.2
	MSCI EM USD	1004.35	8.68	▲ 0.87	691.21	● 1044.05 26.5
Americas	DJ Americas	574.92	2.83	▲ 0.49	480.90	● 578.17 6.4
Brazil	Sao Paulo Bovespa	61426.95	-1212.35	-1.94	48066.67	● 69487.58 2.0
Canada	S&P/TSX Comp	15458.46	...	Closed	13609.58	● 15943.09 1.1
Mexico	IPC All-Share	48970.98	-96.49	-0.20	43902.25	● 50154.33 7.3
Chile	Santiago IPSA	3654.45	-7.12	-0.19	2998.64	● 3786.05 13.4
U.S.	DJIA	20894.83	89.99	▲ 0.43	17063.08	● 21169.11 5.7
	Nasdaq Composite	6133.62	49.92	▲ 0.82	4574.25	● 6170.16 13.9
	S&P 500	2394.02	12.29	▲ 0.52	1991.68	● 2405.77 6.9
	CBOE Volatility	10.90	-1.14	-9.47	9.56	● 26.72 -22.4
EMEA	Stoxx Europe 600	391.14	-0.37	-0.09	308.75	● 396.45 8.2
	Stoxx Europe 50	3232.29	-3.63	-0.11	2626.52	● 3279.71 7.4
Austria	ATX	3193.58	32.13	▲ 1.02	1981.93	● 3193.58 22.0
Belgium	Bel-20	3895.83	-53.61	-1.36	3127.94	● 4055.96 8.0
France	CAC 40	5322.88	-1.52	-0.03	3955.98	● 5442.10 9.5
Germany	DAX	12619.46	-19.23	-0.15	9214.10	● 12841.66 9.9
Greece	ATG	788.53	4.36	▲ 0.56	517.10	● 800.08 22.5
Hungary	BUX	34875.75	39.95	▲ 0.11	25126.36	● 34975.81 9.0
Israel	Tel Aviv	1421.59	-0.89	-0.06	1372.23	● 1490.23 -3.3
Italy	FTSE MIB	21318.58	-248.94	-1.15	15017.42	● 21828.77 10.8
Netherlands	AEX	527.85	0.93	▲ 0.18	409.23	● 537.84 9.2
Poland	WIG	61024.86	284.91	▲ 0.47	42812.99	● 62666.49 17.9
Russia	RTS Index	1083.58	-4.17	-0.38	873.58	● 1196.99 -6.0
Spain	IBEX 35	10793.40	-42.00	-0.39	7579.80	● 11184.40 15.4
Sweden	SX All Share	582.78	0.25	▲ 0.04	443.66	● 593.34 9.0
Switzerland	Swiss Market	9084.78	62.27	▲ 0.69	7475.54	● 9136.95 10.5
South Africa	Johannesburg All Share	54517.06	89.76	▲ 0.16	48935.90	● 54704.22 7.6
Turkey	BIST 100	96400.03	1252.69	▲ 1.32	70426.16	● 96629.15 23.4
U.K.	FTSE 100	7496.34	25.63	▲ 0.34	5788.74	● 7533.70 4.9
Asia-Pacific	DJ Asia-Pacific TSM	1599.66	13.59	▲ 0.86	1308.52	● 1601.62 12.4
Australia	S&P/ASX 200	5771.20	43.80	▲ 0.76	5103.30	● 5956.50 1.9
China	Shanghai Composite	3075.68	-14.96	-0.48	2815.09	● 3288.97 -0.9
Hong Kong	Hang Seng	25391.34	216.47	▲ 0.86	19809.03	● 25391.34 15.4
India	S&P BSE Sensex	30570.97	106.05	▲ 0.35	25230.36	● 30658.77 14.8
Japan	Nikkei Stock Avg	19678.28	87.52	▲ 0.45	14952.02	● 19961.55 3.0
Singapore	Straits Times	3213.57	-3.35	-0.10	2729.85	● 3271.11 11.6
South Korea	Kospi	2304.03	15.55	▲ 0.68	1925.24	● 2304.03 13.7
Taiwan	Weighted	9997.26	49.64	▲ 0.50	8300.66	● 10036.82 8.0

Source: SIX Financial Information/WSJ Market Data Group

Currencies

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



London close on May 22

US\$ vs.
Country/currency
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FINANCE & MARKETS

China Yield Curve Gets Distorted

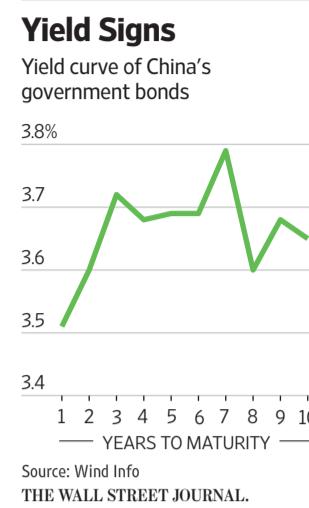
Seven-year return on government bonds rises to 3.79%, above five, 10-year securities

BY SHEN HONG

SHANGHAI—China's \$1.7 trillion government-bond market is turning ever weirder.

In a fresh sign of the nerves among investors caused by Beijing's campaign this spring to make Chinese markets less risky, the yield on seven-year government bonds rose to 3.79% on Monday, above the yield on both five-year and 10-year bonds.

The highly unusual move means that China's government-bond yield curve now resembles a triangle, with the seven-year yield at its highest since October 2014. Yield curves show the interest rates investors are willing to receive when they buy bonds of different



Source: Wind Info
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vestors demand higher yields on bonds that have longer to go until maturity.

An inverted yield curve usually reflects investors' pessimism about a country's long-term growth and inflation prospects. But in China, few are predicting prolonged deflation or recession, despite signs that the economy could slow this fall.

Instead, the market's latest quirk has come about partly because trading in Chinese government bonds of some maturities, such as the seven-year, tends to be quite low in volume. That trend has been exacerbated in recent weeks amid strenuous efforts by Chinese regulators to tame speculative investment using heavy levels of borrowed funds. As investors have sold off their bonds, or simply stopped trading them, price movements have become more erratic.

"It's mostly due to the fact that the seven-year bond is

less liquid. That's why its yield can be easily pushed up in a selloff," said Wang Jing, deputy general manager of the fixed-income department at Shenzhen-based China Securities Credit Investment Co.

The yield-curve anomalies also have their roots in long-standing structural flaws in China's bond market, already the world's third-largest and pivotal to Beijing's effort to modernize the way its economy is financed.

Contributing to the lack of demand in seven-year bonds, for example, is the fact China's government-bond futures market, where investors can hedge their cash bondholdings, has contracts for five-year and 10-year bonds only, Mr. Wang said. Similarly, trading in China's interest-rate swaps, another popular derivatives product, is active only up to five years, said a Shanghai-based senior trader at a local mutual fund.

In contrast, the prices of benchmark 10-year government bonds are cushioned by demand from long-term investors such as insurance firms and banks, said Suan Teck Kin, an economist at United Overseas Bank in Singapore.

The recent price distortions in China's bond market also betray structural issues such as the lack of a diverse group of participants, including foreign investors, Mr. Suan said.

According to data provider Wind Info, foreign investors hold 754.8 billion yuan (\$109.6 billion) of bonds in China's domestic market, representing 1.3% of the total. A more diverse investor base would bring in fresh perspectives to the market, potentially allowing for better price discovery.

Even among domestic investors, Chinese banks are the overwhelmingly dominant force, accounting for one-third of the market's total trading volume, analysts say.

Earnings Help Lift Indexes In U.S.

Gains in technology and industrial shares boosted U.S. stocks Monday, sending the S&P 500 to a third consecutive session of gains.

By Alexander Osipovich and Riva Gold

Growth in corporate earnings and signs of economic strength have helped mitigate investors' recent concerns about MONDAY'S Trump administration's woes, some analysts said. That helped many view the drop for last week as a buying opportunity.

Of the 95% of S&P 500 companies that have reported results so far for the first quarter, 75% have beat earnings-per-share estimates, according to FactSet.

"It's quite encouraging how we bounced back from that wobble last week," said Ian Williams, strategist at brokerage Peel Hunt. "It underlines very strong bottom-up corporate-earnings performance across all major developed markets."

The Dow Jones Industrial Average rose 89.99 points, or 0.4%, to 20894.83 on Monday. The S&P 500 advanced 0.5% and the Nasdaq Composite rose 0.8%.

News that Saudi Arabia and the U.S. were expected to agree to business deals and potential investments valued at \$300 billion pushed up a range of companies. Shares of Boeing added 1.6%, while Lockheed Martin climbed 1.5%. Blackstone Group surged 6.8% after Saudi Arabia agreed to commit \$20 billion to the private-equity giant's new infrastructure fund.

The Stoxx Europe 600 Index fell 0.1% to 391.14.

Beijing Aims to Lift Private Investment in Oil Sector

BY BRIAN SPEGELE

BEIJING—Seeking to build national champions to rival the likes of Exxon Mobil Corp., China is moving to boost private investment in its oil companies and may be willing to cut their workforces in the process.

China's oil and gas sector has been struggling under a combination of low energy prices and a weaker economy, sapping the sales and profit of its state-owned energy companies.

A new policy road map, unveiled late Sunday and backed by the Communist Party's Central Committee and the government's cabinet, indicated leaders are considering more aggressive action to make state-owned companies operate more like global peers.

Market forces "should play a decisive role in resource al-

location," the state-run Xinhua News Agency quoted the over-haul plan as saying.

The government offered eight general targets, including better managing oil imports and exports, upgrading refineries and boosting reserves.

Details are expected in coming months, said Lin Boqiang, who researches energy policy at Xiamen University in Fujian province.

According to Xinhua's account, the newly released plan pledges to solve "problems left over from history" and allow state-owned oil and gas companies "to lose weight and be fit," suggesting job reductions, Mr. Lin said.

Cutting oil-sector jobs, whether through layoffs, restructuring or attrition, would mark a change for Beijing, which has hesitated to do that for fear of social instability.

PetroChina Co., the listed

arm of China National Petroleum Corp., employs about 500,000 people, about seven times as many as Exxon, despite reporting similar revenue in 2016.

"It's the first time they talked about allowing the oil companies to really cut their force," Mr. Lin said of the government's plan.

The oil sector was an early target of an anticorruption drive led by President Xi Jinping that significantly reduced the political clout of state oil companies such as PetroChina and China Petroleum & Chemical Corp. It diminished their ability to resist opening the industry to more competition.

Changes since President Xi took over include allowing privately owned refiners to import crude oil directly, a break with the past that brought them into tighter competition

with state-owned companies.

That shift has rippled worldwide as foreign oil suppliers and trading houses from Russia to Europe lined up to do business with new customers.

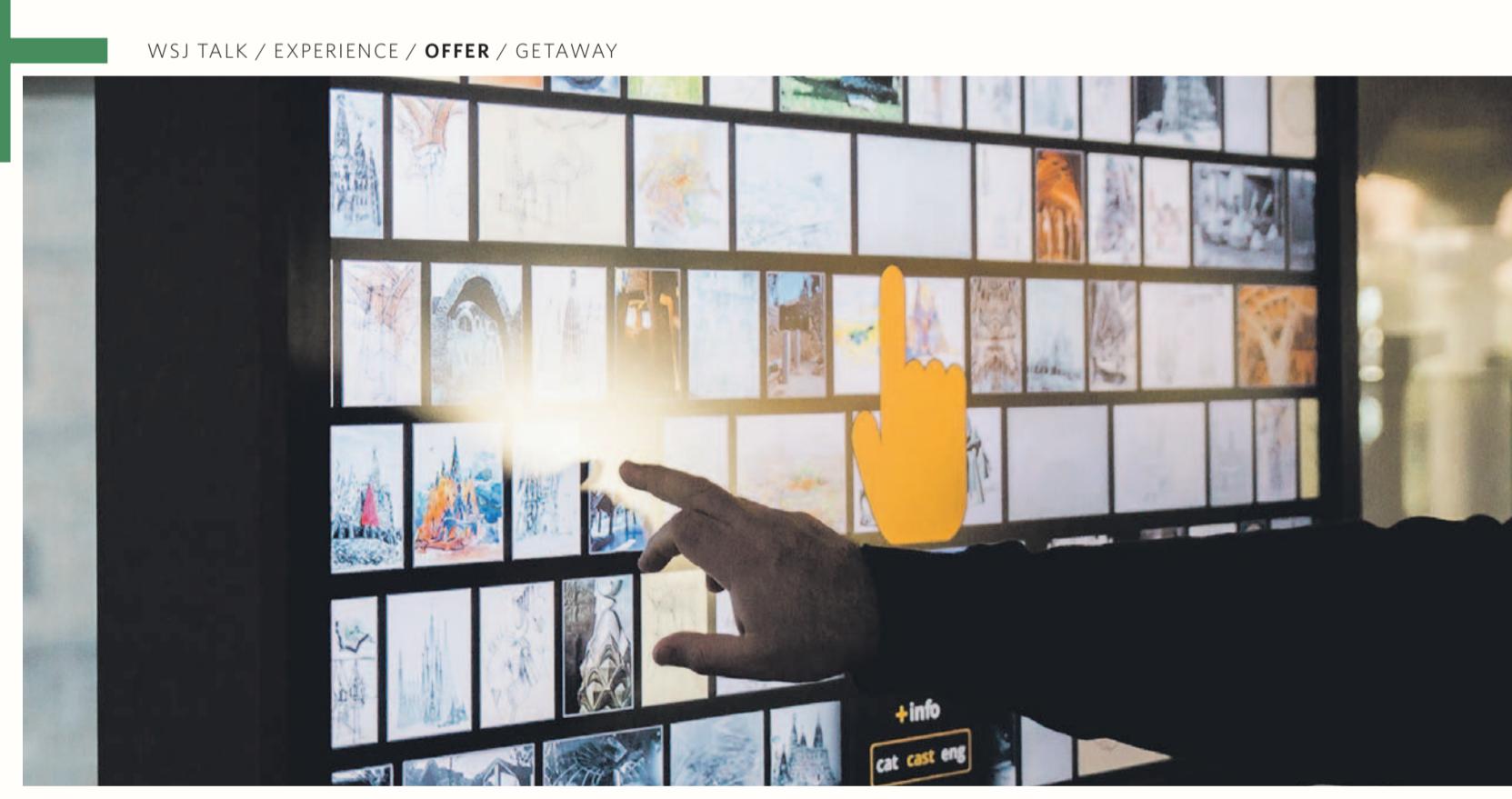
Under the newly released plan, the government also said

it is committed to carrying out more "mixed-ownership reform" sectorwide. The government has been experimenting for several years with letting more outside investors take minority stakes in parts of state-owned industry.



A Sinopec refinery in China. Chinese officials want state-owned energy companies to operate more like their global peers.

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MARKETS

Only Robots Can Tally Fees Calpers Pays

BY HEATHER GILLERS
AND DAWN LIM

THE QUANTS

Machines and their masters are the undisputed new kings of Wall Street

The nation's largest pension plan has 380 people overseeing roughly \$320 billion in assets. But when one of its top officials was asked during a board meeting how much in performance fees was paid to private-equity managers, he had to acknowledge no one knew.

"We can't track it today," said Wylie Tollette, chief operating investment officer of the California Public Employees' Retirement System, at the 2015 meeting. The disclosure surprised board member JJ Jelincic, who said: "If you can't track them they are kind of hard to manage."

Only algorithms could find the answer. A software program developed by outside firms determined at the end of 2015 that Calpers had paid \$3.4 billion in performance fees over the past quarter-century to the private-equity firms that managed its money. In 2016, that number was \$490 million.

As the nation's largest public pension funds plunge deeper into complicated investments as a way of chasing returns, they are relying more on machines to make sense of it all. Some executives worry that a greater dependence on databases, coding and other quantitative tools creates the false impression that they have a better handle on their investments than they actually do.

"If you're using software to deal with the complexity in your portfolio, maybe you should simplify your portfolio first," said Marc Levine, chairman of the Illinois State Board of Investment, which oversees



A Santa Clara County worker sorts ballots in San Jose, Calif. The \$320-billion-asset Calpers manages the state employee pension plan.

\$20 billion for state employees, judges and lawmakers.

The complexity results from a push by public pensions to boost investment profits as a way of filling funding gaps that make it more difficult to fulfill future obligations to retirees.

Of the 73 largest state-sponsored plans, 44 had more than 20% of their assets in alternative investments such as private equity, hedge funds, real estate and commodities as of 2014, according to a recent report from the Pew Charitable Trusts.

These alternative investments can be more difficult to value when compared with stocks and bonds, and typically mean higher fees for investors.

The added complexity also makes it more difficult to be transparent about what is being paid, according to Pew, which estimates that \$4 billion in fees paid by the 73 plans hadn't been reported publicly.

Some public pensions say computer models can help manage their complex portfo-

lios and predict how their assets will behave in different economic environments. Grouping investments by risk rather than type, they said, exposes dangers that might otherwise remain hidden.

"You can look at your portfolio and say 'Oh wow, I've got a lot more inflation risk than I should have or a lot more credit risk than I should have,'" said Robert T. Bass, a BlackRock Inc. managing director, who provides software that conducts this analysis for pension funds. "Maybe I should take that down a little."

In Fairfax County, Va., new software programs allow public pension-fund managers to plug their assets into a computer and ask what they should buy if, say, they want better protection against inflation.

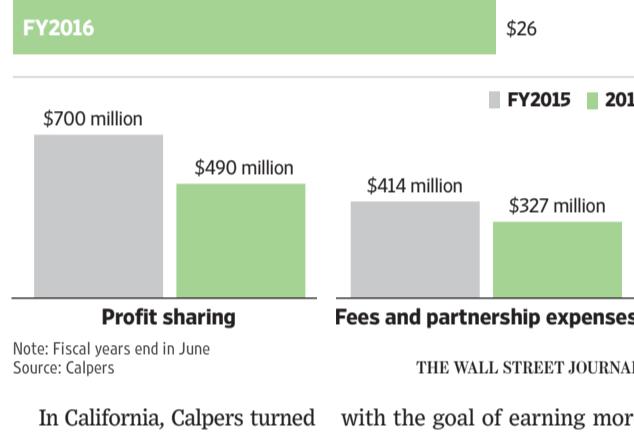
"You can put in what you want to solve for at the outset," said Andy Spellar, senior investment officer for the county's \$3.7 billion employee retirement system.

Pension Pay

Thanks in part to new computer modeling, Calpers is now able to determine the share of profits its private-equity managers take home.

Holdings

in billions



Note: Fiscal years end in June

Source: Calpers

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with the goal of earning more in a later sale or public offering. They typically charge pension-fund clients a management fee of 1% to 2% of assets and a performance fee of as

much as 20% of the gains when they sell companies for a profit.

Calpers was long unable to separate one set of fees from the other, relying in part on a set of spreadsheets to keep track of the data. The information was also stored in a range of different formats, making it difficult to aggregate and analyze.

It took five years to develop a new data-collection system that relies on private-equity managers to fill out new templates describing their various fees. A data and accounting firm then compiles the information and feeds it into the software program.

The new quantification is changing the way Calpers operates, one official said. It is "motivating us to explore alternative ways of investing in private equity that might have less of a fee burden," Mr. Tollette said in an interview.

But the system hasn't solved every problem; not all private-equity managers give Calpers the data it needs.

Some critics also say the way Calpers presents the new data can be confusing. This month, for example, Calpers showed its board a chart illustrating that management fees and expenses paid for investments had fallen to \$638 million in fiscal 2016 as compared with \$1.04 billion in fiscal 2011.

But that \$402 million difference excluded \$121 million in management fees and "partnership expenses" such as legal and auditing costs, referencing these additional charges in a footnote. Calpers in a press release last week touted the drop without mentioning the extra charges.

A spokesman said Calpers will correct the press release.

"The transparency has not increased," said Mr. Jelincic last week, the board member who first asked about the private-equity data in 2015. "In fact, to some extent, it has decreased."

HEARD ON THE STREET

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Another Gloomy Day For Amgen

Nothing is going right for Amgen these days.

Amgen and partner company UCB announced late-stage trial results for its experimental osteoporosis treatment, Evenity, on Sunday. While the drug worked, Amgen noted a higher incidence of heart-related side effects than previously expected. Amgen now says the drug is unlikely to win approval from the Food and Drug Administration this year.

Analyst consensus had called for roughly \$1 billion in peak sales for the drug by 2025, according to Leerink Partners. That is a fairly small number compared with Amgen's total sales of nearly \$23 billion annually.

But the latest disappointment came after two bigger blows: Amgen said in its first-quarter earnings that sales of its top drug, anti-inflammatory treatment Enbrel, fell 15% in the first quarter. The other bad news was disappointing data for its new anti-cholesterol drug, Repatha. Sales for the drug have been well below investor expectations.

Amgen shares trade at about 12 times forward earnings, according to FactSet. That is near a two-year low, and dirt cheap if the company can return to meaningful sales growth, which analysts predict won't occur until 2020.

Given Amgen's history of shareholder returns, buying and waiting for the turnaround might be a lucrative trade. The problem is, no one really knows where that growth will come from. And with Amgen's string of recent disappointments, the time and pain might be too much for most investors to bear.

—Charley Grant

This Deal Has Good Chemistry

Huntsman and Clariant think they offer the perfect mix: a \$14 billion merger of equals without overlapping businesses or rivalries but with huge cost savings.

Investors are excited about this chemical tie-up. But they should ask exactly where the \$400 million cost savings are going to come from.

The two companies announced their deal Monday morning. The all-share transaction will see Huntsman investors get about 48% of the combined company, which will be listed in Switzerland and New York.

Clariant shareholders get the larger share, and the Swiss company brings better recent revenue growth, less than half the net debt, a better stock-price valuation and a recent market capitalization that suggests it should get 53.5% of the combined group rather than 52%.

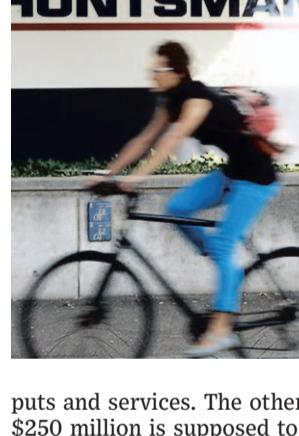
But what Clariant shareholders give up on ownership is tiny compared with

Chemical Reaction

Forward price/earnings multiples



Note: As of 11 a.m. Monday in New York
Sources: FactSet; Reuters (photo)



zerland and an operational one in Texas. Further, the companies make different chemicals in different factories and they don't expect to cut staff or production facilities, either.

The other slight wrinkle is debt. Huntsman's larger burden will give the combined group net debt worth more than 2.6 times its 2016 earnings before interest, taxes, depreciation and amortization. That could mean Clariant losing its investment-grade rating and so higher interest costs.

But the cost savings and Huntsman's planned eventual \$2 billion sale of its pigments and additives business, Venator, would cut that ratio to less than 1.5 times, better than either group today.

Cost savings are key to this deal and potentially tricky. The good news is that even if the groups only find half of what they aim for, that still looks like good chemistry.

—Paul J. Davies

Baidu Falls Behind in Video Race

Millions of Chinese people already spend much of their waking hours staring at smartphone apps from the country's biggest technology companies, Alibaba, Tencent and Baidu. Still, they want to squeeze even more time from users—to watch videos.

As the race intensifies, Baidu could continue to be left behind.

The big three have all spent billions of dollars on their online video businesses in recent years. Now, they are trying sinking money into original content to boost subscription revenue. Tencent, for example, saw its content costs and agency fees rise by 44% to \$1.1 billion last quarter, mostly because of spending on videos. E-commerce giant Alibaba lost nearly about \$1.5 billion on digital entertainment in the past year.

Baidu arguably has the most at stake, having fallen behind the other two in investor popularity: Tencent's share price has almost tripled in three years, yet Baidu's shares are only 20% higher.

Baidu's spending on content, mostly on videos, already surged 91% in the first quarter, and it plans to double its outlay over the course of 2017. Its video subsidiary struck a deal this year to distribute some of Netflix's original content.

Still, the odds seem tilted against Baidu. While its revenue rose 7% in the first quarter, Alibaba and Tencent posted gains of more than 50%. Their stronger core businesses should allow them to splurge more on videos.

Baidu came up short at China's previous internet party. It may miss out on the next one, too. —Jacky Wong

Ford's New Leader Won't Bring Quick Fixes

Tech Trouble

Share-price performance



Source: WSJ Market Data Group

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