

THE WALL STREET JOURNAL.

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What's News

Business & Finance

The Justice Department is near suing Fiat Chrysler and alleging the auto maker used illegal software to cheat on government emissions tests. **B1**

◆ A tax dispute between Australia and Chevron involving the firm's practice of financing its in-country unit could cost the company billions of dollars. **A1**

◆ The Supreme Court limited the ability of patent holders to bring infringement lawsuits in certain plaintiff-friendly districts in the U.S. **B3**

◆ China Life Insurance is buying a 95% stake in 48 commercial properties in the U.S. in a deal that values the portfolio at \$950 million. **B9**

◆ A troubled lender from Azerbaijan is shaping up to be a battleground for U.S. and European investors facing big losses on bondholdings. **B6**

◆ Apple and Nokia settled dueling lawsuits over what Apple should pay for intellectual property used in its iPhone. **B4**

◆ A group linked to North Korea is likely behind this month's global ransomware assault, a cybersecurity researcher said. **B4**

◆ China and Russia have joined forces to build a large passenger airliner designed to challenge Airbus and Boeing. **B3**

◆ Shares of real-estate investment trusts have slumped this year. **B9**

World-Wide

◆ U.K. police identified the bomber who killed 22 people and injured dozens of others outside a pop concert in Manchester as 22-year-old Salman Abedi. **A1**

◆ Ex-CIA director Brennan testified that U.S. intelligence agencies grew concerned after learning that Trump campaign associates had been in contact with Russian officials. **A6**

◆ Trump proposed a \$4.1 trillion spending blueprint that amounts to a sweeping overhaul of the government's safety-net programs. **A1**

◆ U.S. soldiers and aircraft killed seven al Qaeda fighters in Yemen in a ground-and-air operation. **A3**

◆ Japan took a decisive step toward a new law bolstering police powers to prevent terror attacks. **A5**

◆ Two Indonesian men were lashed with a cane as punishment for having same-sex relations. **A5**

◆ More than 700,000 foreigners who were supposed to leave the U.S. last year stayed beyond their visa terms. **A7**

◆ The eurozone's manufacturing sector added jobs at the fastest pace in 20 years while German businesses were more optimistic than at any time since 1991. **A5**

◆ New-home sales fell sharply in April, a potential sign of weakening in the U.S. market. **A7**

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WORLD NEWS

Big Brother Is Holding Foreign-Company Data



CHINA'S WORLD

By Andrew Browne

SHANGHAI—The all-seeing eyes of the Chinese state are focusing on businesses.

China is already rolling out an IT-enabled rating system to govern the behavior of individuals. Less attention is being paid to its other application: Big Brother is also harnessing big data to create

the world's most extensive system of corporate surveillance and control.

Think of it as the ultimate tool of Chinese state capitalism.

The Mercator Institute for China Studies, a German think tank, calls it "IT-backed authoritarianism."

Foreign companies had better get used to the attention, the institute warns in a new report. They are very much part of the Social Credit System intended to produce conformity not just with laws and regulations covering such things as factory emissions and worker safety, but also the state's long-range industrial plans.

The backbone of the system will be up and running by 2020. As it becomes more sophisticated, it will generate

foreign technologies with Chinese ones in areas from artificial intelligence to robotics and semiconductors. A firewall shuts out U.S. media giants.

If Deng Xiaoping's economic "open door" is indeed clanging shut, behind it lies an increasingly hostile environment for multinationals. They are now on notice to actively support Mr. Xi's grand statist project to turn China into a "manufacturing superpower."

The social-credit system of rewards and punishments is the enforcement mechanism.

To view it solely as a kind of Orwellian dystopia, though, would be a mistake.

Frauds and fakes plague the Chinese marketplace; better



A staff worker logged into a big-data platform in southwest China's Guizhou province on May 16.

balance between government control and commercial disruption that allows innovation to flourish.

Then there are IP concerns. Chinese authorities, openly committed to nurturing state-owned national champions, will wind up with troves of highly sensitive commercial data from foreign competitors. A data breach could be calamitous.

And how will the ratings be compiled? The suspicion of antiforeign bias will be hard to dispel. The National Development and Reform Commission, the main body overseeing the project, declined to comment.

It is unclear what the West can offer as a defense. The best hope of dealing with state capitalism is the Trans-Pacific Partnership, which the Trump administration has abandoned. The giant free-trade deal is intended to set new regulatory benchmarks in areas like the digital economy and the role of state-owned enterprises—domains not properly covered by the World Trade Organization. (The remaining 11 countries in the pact are struggling to keep TPP alive.)

As it is, foreign players in the world's fastest-growing technology and consumer markets will shortly find themselves looking over their shoulders at the whizzing numbers on their scorecards. When Big Brother is the regulator, their fortunes will be at the mercy of invisible eyes and mysterious algorithms.

foreign technologies with Chinese ones in areas from artificial intelligence to robotics and semiconductors. A firewall shuts out U.S. media

cator, Chinese and foreign companies watching their credit scores are more likely to fall in line behind state planning objectives, whether or not they make commercial sense. Already, car makers are under pressure to pour investments into clean-energy vehicles under a production-quota arrangement.

Dash cams aboard truck fleets will identify errant drivers. Digital feeds from e-commerce sites will expose glitches in customer service and payment irregularities.

Big data will capture infractions in real time, allowing instant downgrading of rolling credit scores. Yet this self-enforcing regulatory system is at the same time pernicious.

Eventually, predicts Mer-

cker, Chinese and foreign companies watching their credit scores are more likely to fall in line behind state planning objectives, whether or not they make commercial sense. Already, car makers are under pressure to pour investments into clean-energy vehicles under a production-quota arrangement.

The Mercator report, which draws on publicly available Chinese documents, predicts that the social-credit system "could become a powerful, big-data-enabled tool kit for monitoring, rating and steering the behavior of participants into a politically desired direction."

Of course, the system could end up wrecking the economy. Excessive regulation risks upsetting the deli-

return for the government's backing of business deals, including a merger of two Samsung companies in 2015. Mr. Lee's trial began in April. Mr. Lee has denied wrongdoing.

The court has completed one trial in connection with the scandal: that of Ms. Park's cosmetic surgeon, Kim Young-jae, who was given a suspended prison sentence of 18 months for lying under oath and for devising false medical records after treating Ms. Park.

South Korea's national corruption scandal has put a renewed focus on the close ties between the country's business and political elites.

South Korean President Moon Jae-in was voted into office this month on a wave of public outrage against the country's powerful family-run conglomerates, known as *chaebols*.

Mr. Moon has pledged to curb the *chaebols'* dominance through corporate-governance overhauls.

A spokesman for Mr. Moon declined to comment on the trial.

Amid a raft of allegations stemming from the corruption scandal, the country has been transfixed by Ms. Park's relationship with Ms. Choi.

Ms. Park, 65 years old, is the daughter of South Korea's longest-serving president, Park Chung-hee, a military ruler who set South Korea on a path of rapid economic development while suppressing democracy and human rights.

Ms. Park stepped into the political limelight as the country's first lady in 1974 after her mother was shot and killed by a North Korean sympathizer attempting to assassinate Ms. Park's father.

The former president's friendship with Ms. Choi stretches back four decades.

During a televised apology in October, Ms. Park described Ms. Choi as a close friend who "helped her during difficult times in the past."

Ms. Choi, through her lawyer, described Ms. Park as someone she "respects and looks up to."



Park Geun-hye, right, at the Seoul Central District Court on Tuesday.

who has been accused largely of meddling in state affairs, was indicted on additional charges, including colluding with Ms. Park to extract money from the Lotte and SK business empires.

According to prosecutors, Ms. Park wrongfully used her position as president to extort 77.4 billion won (\$69 million) from 18 conglomerates

through two foundations they say Ms. Choi controls.

Mr. Shin, the Lotte Group chairman, is the second conglomerate head to be indicted, after Samsung's Mr. Lee, who was jailed in February and indicted the following month on allegations of bribing Ms. Park. According to prosecutors, Mr. Lee paid the bribes in

return for the government's backing of business deals, including a merger of two Samsung companies in 2015. Mr. Lee's trial began in April. Mr. Lee has denied wrongdoing.

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those at issue in the 2004-2008 dispute. "I cannot say there is no spillover, but nor can you say there's a direct correlation in the outcomes either," he said.

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WORLD NEWS

Trump Sees Chance for Mideast Peace

BY CAROL E. LEE
AND RORY JONES

JERUSALEM—President Donald Trump said Tuesday that Israeli and Palestinian leaders are ready to strike a peace agreement, but both sides used the president's visit to voice the daunting obstacles that stand in the way of reaching it.

Israeli Prime Minister Benjamin Netanyahu took aim at Palestinian Authority President Mahmoud Abbas, castigating him for his condemnation of Monday's night's bombing in Manchester while the Authority helps administer a longstanding welfare program for families of Palestinian suicide bombers and those of Palestinian prisoners in Israeli jails.

"Well I hope this heralds a new change because if the attacker had been Palestinian and the victims had been Israeli children, the suicide bomber's family would have received a stipend from the Palestinian Authority," Mr. Netanyahu chided.

Standing in the West Bank town of Bethlehem beside Mr. Trump, Mr. Abbas reiterated longtime Palestinian demands for a Palestinian state alongside Israel's, with East Jerusalem as its capital.

Many lawmakers in Mr. Netanyahu's parliamentary majority reject that position, even as a starting point for negotiations.

Like Mr. Netanyahu, whom Mr. Trump met Monday for talks, Mr. Abbas was blunt in



President Donald Trump met with Palestinian Authority President Mahmoud Abbas on Tuesday.

stating Palestinian grievances: "Our fundamental problem is with the occupation and settlements and failure of Israel to recognize the state of Palestine."

Mr. Trump sought to strike a note of optimism, saying at the Israel Museum that he is "personally committed to helping both sides reach a peace agreement."

Both Mr. Netanyahu and the Palestinians, the president said, want peace, adding:

"Making peace, however, will not be easy. We all know that. Both sides will face tough decisions."

Mr. Trump hasn't committed his administration to the longstanding U.S. policy of a two-state solution to the conflict.

His refusal to do so—which White House officials have said is designed to give the two sides maximum room to negotiate—is an omission that frustrates Palestinians while

buoying right-wing Israelis.

He did, however, deliver a veiled criticism of the Palestinian welfare program, the Netanyahu government's latest bone of contention with the Palestinian Authority and the reason, it says, why it has no Palestinian partner for peace.

"Peace can never take root in an environment where violence is tolerated, funded and even rewarded," Mr. Trump said alongside Mr. Abbas in Bethlehem. "We must be resolute in condemning such acts in a single unified voice."

Israeli officials have been pressuring the U.S. to cut funding for the Authority while the it continues to participate in the program.

Palestinian officials argue that the payments are a social benefit to families and have so far appeared unwilling to restructure the system.

In meetings in Israel on Monday and with regional leaders over the weekend in

port for NATO was up 9 percentage points to 62% this year from 53% last year.

In the U.S., Mr. Trump's attacks have had an impact, with support for NATO now showing a strong partisan divide. According to Pew, 81% of liberals support the alliance, but only 48% of conservatives. The center noted that after Mr. Trump attacked the alliance, liberal support rose sharply, by some 23 percentage points, Pew said.

In previous Pew polls, Democrats have been more supportive of NATO than Republicans, but the divide hasn't been nearly so large.

The Pew study noted that support for NATO has been rising in various parts of the alliance. Canada, France, Germany, the Netherlands and Poland also showed similar gains to the U.S.

Support for the alliance in the U.K. and Spain has held steady.

—Julian E. Barnes

Saudi Arabia, Mr. Trump has attempted to advance his aim of reaching not only a peace agreement between the Israelis and Palestinians but also a regional alliance between Israel and its Arab neighbors.

"This trip is focused on that goal: bringing nations together around the goal of defeating the terrorism that threatens the world and crushing the hateful ideology that drives it," he said in the speech at the Israel Museum.

U.S. Air, Ground Forces Attack al Qaeda in Yemen

BY ASA FITCH

DUBAI—U.S. soldiers and aircraft killed seven al Qaeda fighters in Yemen in a rare ground-and-air operation, U.S. Central Command said, as the Trump administration steps up military pressure on the militant group.

The fighters of al Qaeda in the Arabian Peninsula were killed by small-arms fire and airstrikes in the early-morning raid in Marib province, Central Command said, adding that there were no U.S. casualties.

The U.S. has long carried out drone strikes against AQAP, but Tuesday's operation is the second known counterterrorism operation involving American air and ground forces in Yemen

since Donald Trump was sworn in as president. As many as 14 AQAP militants were killed in a U.S. commando raid on Jan. 29, an operation in which a U.S. Navy SEAL also died.

The raid comes as Mr. Trump visits the Middle East in his first overseas tour as U.S. president. His stop in Israel and the Palestinian territories came a day after his two-day visit to Saudi Arabia, which is leading a regional coalition fighting to oust Houthi rebels from the Yemeni capital San'a and restore President Abed Rabbo Mansour Hadi to the seat of the government.

The group claimed responsibility for the 2015 attack on the Paris offices of Charlie Hebdo, a satirical magazine, that killed 12 people, including two of France's best-known cartoonists.



Supporters of Houthi rebels protest the arrival of a U.N. special envoy at the San'a airport.

MOHAMMED HUWAIS/AGENCE FRANCE PRESSE/GTET IMAGES

Pontiff to Seek Common Ground With President at Vatican

Pope Francis and Trump aim to get past their public rancor but are left with few key points of agreement

BY FRANCIS X. ROCCA

VATICAN CITY—When President Donald Trump visits Pope Francis on Wednesday, at the halfway point of a trip the White House has cast as a pilgrimage of peace, the two leaders will have a chance to reset an acrimonious public relationship.

Yet the two men, famously divided on the pope's signature issues of migration and climate change, could struggle to find significant areas of agreement.

As of last week, representatives of the White House and the Vatican working on the agenda for the meeting had found few common policy priorities, according to someone familiar with the preparations.

Vatican meetings between pontiffs and heads of state are more stagecraft than hard-nosed politics. Wednesday's meeting carries extra weight given the public sparring

match last year, when the pope said Mr. Trump's opposition to migration made him "not Christian," and Mr. Trump shot back that questioning his faith was "disgraceful."

"They have a little fence-mending to do. They got off to a bad start," said Jim Nicholson, ambassador to the Holy See under President George W. Bush.

"Everyone knows there are areas of disagreement," said Cardinal Donald Wuerl of Washington. "It's just impor-

tant that they're getting together to say, 'What are some of the areas where we have common ground?'

Mr. Trump stands to gain, amid the many controversies besetting him at home, from images of a friendly encounter with the enormously popular pope. The Vatican is sensitive to the White House's concerns and eager to avoid anything that could appear like a scolding, according to someone familiar with the preparations.

Archbishop Paul Gallagher, the Holy See's secretary for relations with states, declined a request for an interview about the meeting.

The pope himself has sought to play down the tensions. When asked about the coming meeting with Mr. Trump, he said that "we need to look for the doors that are at least slightly open, to enter and talk about the things we have in common, and to go on. Step by step."

On the eve of his departure, Mr. Trump said: "I look forward to speaking with the pope about how Christian teachings can help put the world on a path to justice, freedom, and peace."

Abortion, an issue uniting the Trump administration and American Catholic bishops, is a point of common ground, but isn't a priority for the pope.

Pope Francis has made a priority of addressing global warming, describing it as a

real threat to life on the planet and calling for cutting fossil fuel use to stem it. The White House, to the contrary, is deciding whether the U.S. should withdraw in full from the Paris Agreement to cap emissions.

A main goal of Mr. Trump's foreign trip—out-

reach to the Muslim world—is in principle one that could appeal to Pope Francis, who has fervently promoted close relations with Islam. On Sunday in Saudi Arabia, Mr. Trump addressed leaders of dozens of Muslim countries on the need to confront extremist ideolo-

gies and promote a peaceful version of Islam.

That could offer a point of convergence with Pope Francis, who issued a forceful call against religiously inspired violence in a speech in Cairo, Egypt last month.

"That's a way to start a conversation," said Ken Hackett, U.S. ambassador to the Holy See under President Barack Obama. Mr. Trump "can say, 'I just came out of Saudi Arabia and you were just in Egypt.' That sort of thing can lead to common ground."

Pope Francis and Mr. Trump have both voiced concern for besieged Christian minorities in the Middle East, but the Vatican's call to increase aid for displaced Christians and other minorities in the region clashes with the White House's aim to cut budgets. The topic of Mideast peace is a thorny one, with Vatican diplomats wary of what they view as the Trump administration's pro-Israel tilt.

With the two differing on migration, only narrow areas of that theme, such as combating human trafficking, are likely to bring them together.

"The only way I can see them talking [about migration issues] is perhaps on the human trafficking thing," said Cardinal Daniel DiNardo of Galveston-Houston, president of the U.S. Conference of Catholic Bishops.

Other topics that traditionally unite Republican adminis-

trations and the Vatican could prove less fruitful this time.

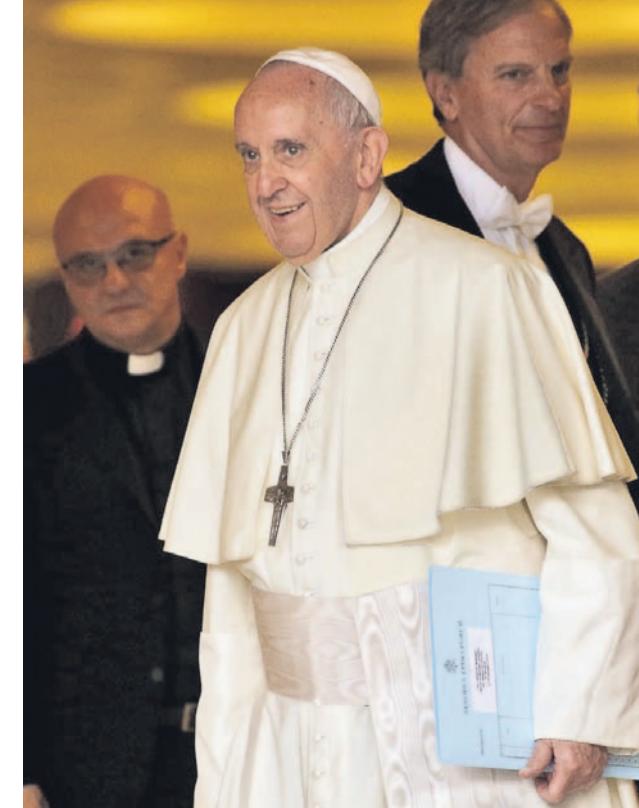
For instance, the U.S. bishops have welcomed President Trump's antiabortion stance and have expressed cautious optimism about his moves to exempt them from the contraceptive mandate of the Affordable Care Act, which requires employers to provide birth control to their employees, which they consider a violation of religious liberty.

But the two issues aren't likely to figure prominently in Wednesday's meeting. Pope Francis has generally played down such topics in his pontificate.

Abortion and religious liberty came up during President Obama's 2014 visit, following the urging of U.S. bishops. But that was before the departure of a high-ranking American from the Holy See's Secretariat of State left U.S. bishops without a strong advocate inside the Vatican.

The White House's announcement Friday that the president would nominate Callista Gingrich, wife of former House Speaker Newt Gingrich, as U.S. ambassador to the Holy See, removes one potentially awkward element from the meeting with the pope.

By moving to fill the job while many other ambassadorships and other posts in his administration remain unfilled, Mr. Trump shows the pope that he values Washington's relationship with the Vatican.



Pope Francis at the Vatican on Monday.

EVANDRO INETI/ZUMA PRESS

UK TERROR ATTACK

Bombing Renews a Security Conundrum

Police have tightened security cordons, but terrorists are now targeting perimeters

Monday night's bomb attack in Manchester again raises a problem that has confounded global-security authorities, particularly amid re-

By Robert Wall in London and Nick Kostov in Paris

cent attacks across Europe: How do you protect mass gatherings from terrorism?

For years, law enforcement agencies have responded to the heightened threat of attacks on high-profile or high-traffic targets with progressively tighter security cordons—adding metal detectors to entrances or bollards along access ways. At large sporting events and music venues, too, recent attacks have forced organizers to add strict and time-consuming screening.

That has altered tactics among terrorists, who have started to target the outer limits of that expanding perimeter. In Manchester, the bomber struck a vulnerable choke point through which people must traverse to enter or leave a venue.

"It is very difficult to protect these places that, by their very nature, have to be open and accessible to function," said Raffaello Pantucci, a counterterrorism expert at Britain's Royal United Services Institute. That has made them a new, go-to target for terrorists.

Details are still sketchy, but U.K. authorities said a suicide bomber set off his device in a public space in an enclosed foyer near one of the exits of the Manchester Arena. British Prime Minister Theresa May said the bomber, attacking concertgoers as they were leaving the arena following an Ariana Grande concert, "deliberately [chose] the time and place to cause maximum carnage."



Heavily armed police were on patrol in central Manchester in northern England on Tuesday, the day after a bomb attack killed at least 22 people at a concert.

The attack, which killed at least 22, has global security officials reassessing procedures. Belgian authorities said they would send their police a list of security measures for music festivals and big events. The French government has issued similar instructions to organizers of sporting and cultural events.

Security officials in the U.K. are facing the start of the country's summer season of sporting and cultural events. One of the country's biggest, the FA Cup final, is on Saturday. The soccer event's organizers said Tuesday that it was bulking up security around events. Fans have been advised to arrive early for security checks.

New York Governor Andrew Cuomo late Monday said law enforcement would step up security and patrols. The U.S.

Department of Homeland Security said additional security may be in place at public spaces or events.

While security staff in many places already check audiences and fans as they enter a venue, the Manchester attack could force planners to consider bolstering protection for people leaving as well. But security officials have wrestled with the benefit of ever more checks. Some argue that extending the perimeter of security around such events—just like at airports—simply moves potential targets, and doesn't eliminate them.

Venue management firm SMG, which runs the Manchester Arena, said the bombing took place outside the arena and referred further questions to the police. The arena is owned by private-equity firm Mansford LLP, which

also referred questions to the police. A British transport police spokeswoman said the public area where the blast occurred would typically be patrolled by the agency's officers.

The Global Counterterrorism Forum, a group involving 30 governments, including the U.S. and U.K., has been trying to devise ways to better safeguard such "soft" targets.

Even at facilities where tough security is the norm, such as airports, terrorists have increasingly found ways to target areas with fewer defenses. In January 2016, terrorists struck the Istanbul Ataturk Airport, Turkey's main aviation hub. Suicide bombers detonated their explosives in a publicly accessible area before security.

In March 2016, suicide bombers hit a subway stop

and the Brussels airport, also in areas that didn't require passing through security. While some high-risk airports, like Baghdad's, have responded in the past by extending their protected zones to include check-in areas and approaches, many aviation-security experts don't agree that helps.

Extending the perimeter in many cases moves vulnerability further away from the airport, but can also create new potential targets—where cars are checked before proceeding to the terminal, for instance, or as passengers queue for screening outside the check-in hall, instead of at security gates before departure gates. Instead, some airports have introduced scanning equipment to better monitor crowds and potentially spot bombs.

The vast size of some pub-

licly accessible spaces also proves a challenge. Days before last year's July 14 attack that killed 86 people in Nice, France, police and city officials had considered and then abandoned an idea to use concrete barriers around the area that had been cordoned off for the Bastille Day fireworks display, according to minutes of the meetings viewed at the time by The Wall Street Journal.

The French government was widely criticized for not sealing off the promenade or providing enough police presence to stop the truck sooner. An inquiry in January into the security measures that night found that the government couldn't be blamed for the loss of lives.

—Wiktor Szary and Valentina Pop contributed to this article.



A young girl spoke to police near Manchester Arena on Tuesday following the deadly terror attack.

Young People Among the Victims

BY SAABIRA CHAUDHURI AND DENISE ROLAND

As the death toll from the attack on a pop concert in Manchester, England, rose overnight, school officials confirmed the death of two young people, an 18-year-old and an 8-year-old, as the nation braced for more young casualties of the attack.

Police said Tuesday the attack had claimed 22 lives. The first confirmed victim, Georgina Bethany Callander, was 18 years old, according to a tweet from a friend. Eight-year-old Saffie Rose Roussos was also confirmed as having died in the bombing.

"The thought that anyone could go out to a concert and not come home is heartbreaking," said Chris Upton, head teacher at Tarleton Community Primary School, which confirmed Saffie's death.

A post on Facebook asking for information on Saffie had said the girl was missing after going to the concert with her mother and older sister. Saffie had dressed up in a white Ariana Grande T-shirt, a denim skirt and black leggings for the occasion.

"Saffie was simply a beautiful little girl in every aspect of the word," said Mr. Upton. "She was loved by everyone and her warmth and kindness



Georgina Bethany Callander

had at the school," said Bishop Rawstorne Church of England Academy, a school in Croston, England, at which Ms. Callander had studied.

At the time of her death, Ms. Callander was studying health and social care at Runshaw College in the town of Leyland, to the northwest of Manchester.

"Our deepest sympathies, thoughts and prayers go out to all of Georgina's friends, family, and all of those affected by this loss," the college said.

Ms. Callander's social-media accounts indicated that she was an avid fan of singers, actors and other celebrities, often traveling to meet or watch them perform. She appeared to be a devoted Ariana Grande fan who had met the star previously. A photograph of her with the singer was being shared widely on Twitter on Tuesday.

A Sunday post on Ms. Callander's Twitter account, directed at Ms. Grande's account, said, "So excited to see u tomorrow."

The hashtag #RIPHarmonizerGina was trending on Twitter on Tuesday as friends posted tributes and pictures of Ms. Callander. "Today was supposed to be one of the best days of her life," one friend tweeted. "It's still not hit me that Gina is gone," wrote another.

"Georgina was a lovely young student who was very popular with her peers and the staff and always made the most of the opportunities she

ATTACK

Continued from page A1
men struggling and cuffing him," said Majid Novin, proprietor of a nearby cafe.

It was the second terrorist attack in the U.K. this year and the deadliest since suicide bombers attacked the London transport system nearly 12 years ago, killing 52 people. Monday's bombing took place four years to the day after British soldier Lee Rigby was hacked to death outside an army barracks in London by two Islamic extremists.

In a televised address from Downing Street, Prime Minister Theresa May said Monday's attack stands out for its "appalling, sickening cowardice, deliberately targeting innocent, defenseless children and young people."

"Today, let us remember those who died and let us celebrate those who helped, safe in the knowledge that the terrorists will never win and our values, our country and our way of life will always prevail," she said.

Mrs. May met with the government's emergency committee and traveled to Manchester to meet with local leaders and authorities.

Security was heightened around the country. In Manchester, extra police were deployed and armed officers patrolled the city.

U.S. President Donald Trump expressed "absolute solidarity" with the British people. "So many young, beautiful innocent people living and enjoying their lives murdered by evil losers in life. I won't call them monsters because they would like that term," he said. "I will call them from now on losers, because that's what they are."

In its statement published online, Islamic State said it had planted an improvised explosive device to "terrorize the polytheists" in revenge for their "aggression toward Muslim countries." It identified the assailant only as a "soldier of the caliphate."

A U.S. official in Washington cast doubt on the claim, at least until more information was available. The official said the lack of details suggested

the group could be claiming the attack opportunistically, rather than having any real role in its planning.

In its literature, Islamic State has deemed children legitimate targets and identified public gatherings as potential areas for attacks, said Rita Katz, the director of the SITE Intelligence Group, which monitors jihadist groups.

Two of the members of the Islamic State cell that struck Brussels and Paris in 2015 and 2016 were in Manchester months before the attacks, but a spokesman for the Belgian federal prosecutor said the cases were unrelated.

In March, an attacker authorities said was inspired by Islamist extremism targeted the Parliament, killing five people. The man mowed down pedestrians on a London bridge and fatally stabbed a police officer outside Parliament before he was shot dead.

Monday's explosion went off near the box office around 10:33 p.m. local time in a public space outside the Manchester Arena, according to police. The venue is one of the largest concert arenas in Europe, with a capacity of 21,000.

It came shortly after Ms. Grande had closed her concert with the song "Dangerous Woman," witnesses said. The lights were on and people were leaving, playing and hitting pink balloons released during the show.

The cause of the noise wasn't immediately obvious to many in the crowd.

—Wiktor Szary, Robert Wall, and Karen Leigh contributed to this article.

"There was a bang. Because there were balloons all around the concert, everyone thought it was that," said Charlotte McCluskey, 13, who had been at the arena with her aunt. "Someone came on stage and told us it was just a balloon. Then people from the exits started running back in as we were running to the exit."

"The crowd sort of seemed to part, and people started running," added Dawn Moore, Ms. McCluskey's aunt.

Pictures taken on mobile phones showed concertgoers running from the arena. On social media, users posted dozens of photos of people missing after the explosion.

Ms. Grande tweeted early Tuesday, "broken. from the bottom of my heart, i am so so sorry. i don't have words." It wasn't known if she would go ahead with planned performances at London's O2 arena on Thursday and Friday.

Carol Bromfield, who came with her daughter Emily to see the concert, said she saw a young girl trampled in the surge as people rushed to flee.

"As we came out of the door, we could see the smoke coming round the auditorium, and we could see the blood on the floor," she added.

The bombing hit in the runup to national elections set for June 8. Mrs. May's Conservative Party and its main rival, Labour, said on Tuesday they would halt campaigning.

—Wiktor Szary, Robert Wall, and Karen Leigh contributed to this article.



WORLD NEWS

Japan Aims to Boost Antiterror Measures

By ALASTAIR GALE

TOKYO—Japan took a decisive step toward a new law bolstering police powers to prevent terror attacks, despite concerns about a possible erosion of civil liberties.

Hours after a suspected suicide bomber killed at least 22 people at a U.K. concert hall, Japan's lower house of parliament on Tuesday voted 338-121 for legislation that would increase authorities' power to prosecute those suspected of planning terrorist acts or serious crimes.

The bill now moves to the upper house of parliament, where it is likely to be passed thanks to the majority held by Prime Minister Shinzo Abe's ruling coalition.

Even if it is rejected there, it can be passed into law with a second vote in favor by the lower chamber.

Japan has suffered no major terror attacks by foreigners and few domestically launched incidents outside of nerve-gas poisonings by a religious cult in the mid-1990s that killed

around two dozen people.

However, Mr. Abe's government said the new legislation is needed as part of counter-terrorism preparations for the 2020 Summer Olympics in Tokyo and will enable Japan to ratify a United Nations convention to tackle organized crime.

"This is the perfect chance to demonstrate at home and abroad that Japan is proactive about tackling terrorism," said Toshihiro Nikai, a leader of Mr. Abe's ruling party.

The bill makes it a crime for an organized terror or criminal group to plan an offense such as a bombing, even if no bombing is carried out or attempted.

The bill names 277 offenses that are subject to prosecution for planning alone, overturning a traditional principle in Japanese criminal law that one must actually commit wrongdoing to be punished.

While the bill doesn't grant police any new investigative powers, critics said the result could be increased surveillance of groups planning pro-

tests, since police could more easily justify invasive tactics at an early stage.

Similar legislative proposals have failed three times in recent years.

The government says the bill would allow targeting only of organized criminals such as gangs of swindlers and international terror groups.

It says police wouldn't target legitimate activities of civic groups or labor unions.

The latest bill remains controversial, with more than three-quarters of respondents in a weekend poll conducted by Kyodo News agreeing that the government hadn't sufficiently explained the law's justification.

Last week, the U.N. special rapporteur for the right to privacy wrote a letter to Mr. Abe expressing concerns that the bill could "lead to undue restrictions to the rights to privacy and to freedom of expression."

Mr. Abe's ruling party and its allies together hold roughly two-thirds of both houses of parliament, giving the prime minister a strong hand to ad-



Protesters rallied against the proposed legislation at the National Diet building in Tokyo on Tuesday.

vance his conservative security agenda.

Two years ago, he pushed through a law enabling Japan's military to assist U.S. allies outside of Japanese territory, part of a program of more actively confronting security threats such as North Korea's nuclear-weapons program.

This month, Mr. Abe said he wanted to make the first revision of the constitution since it was introduced in 1947 to include recognition of the na-

tion's military, a contentious move in a country where many identify strongly with pacifism.

A series of recent gaffes by cabinet ministers and allegations by opposition parties that Mr. Abe used inappropriate political influence to help friends—which he denies—have inflicted only minor damage on the prime minister's approval ratings.

The recent Kyodo poll gave Mr. Abe's cabinet a 55% approval rating.

In response to criticism, the government reduced the number of crimes covered by the antiterror bill to 277 from 676 in an early draft.

The Mainichi newspaper in an editorial said the selection of crimes for inclusion was arbitrary, highlighting that one of the 277 offenses is picking mushrooms in protected forests. The government says criminal rings might generate funds from selling stolen fun-

gus.

Two Indonesian Men Caned for Same-Sex Relations

By ANITA RACHMAN

BANDA ACEH, Indonesia—Two men were lashed with a cane as punishment for having same-sex relations, part of a growing intolerance of sexual minorities that has marked the rise of more-conservative Islam in the world's largest Muslim-majority country.

The flogging on Tuesday marked the first time the cane has been used to punish same-sex relations in the province of Aceh, though it is used for other offenses there. Besides the two men, eight other offenders were whipped alongside the two, including a heterosexual couple punished for having intimacy outside marriage. That term covers being alone in a private place. They each received 27 lashes.

Aceh is the only province in Indonesia, an archipelago of 18,000 islands home to 250 million people, where Shariah, or Islamic religious law, forms the basis of the justice system.

The two men, identified as Muhammad Taufik, 23 years old, and Muhammad Habibi, 20, were given 83 lashes each before a crowd of 1,000 to 1,500 people in front of a mosque in the capital of Aceh province.

Though the public flogging for homosexuality was extreme and Aceh is markedly more conservative than the rest of the country, it is part of what activists say is growing persecution of sexual minorities in a country with a long tradition of religious tolerance.



The flogging of a man in Banda Aceh on Tuesday for having same-sex relations reflects the rise of more-conservative Islam in Indonesia.

On Sunday night, police in the cosmopolitan capital, Jakarta, arrested more than 140 men at a gay party at a sauna club. Those arrests, on accusations of violations of pornography law, fit a pattern of similar raids and arrests on private premises, activists said.

"Sadly, it coincides with the rise of intolerant Islamism in Indonesia," said Andreas Har-

sono, a researcher for Human Rights Watch. "It's time to question the notion that Indonesia is a moderate Muslim-majority country."

In front of the mosque, several hooded men wielding rattan sticks about three feet long took turns striking the backs of those punished, one by one, with a medical official present. The men stood, while the

women were allowed to sit. Those being punished wore long white tops. Messrs. Taufik and Habibi were offered drinks after 40 lashes. The men folded their hands tightly against the pain but didn't scream. There was no blood visible.

More conservative strains of Islam have taken hold in recent years in Indonesia and are increasingly felt in society

and politics. Tensions have been high going into the holy month of Ramadan, which starts this week.

The minority Christian governor of Jakarta was sentenced this month to two years in prison for blasphemy for making lighthearted remarks about a verse in the Quran that says Muslims shouldn't be governed by non-

HOTLI SIMANJUNTAK/EUROPEAN PRESSPHOTO AGENCY

Muslims. The case was a driving factor in his electoral defeat by a candidate backed by Islamic hard-liners in April.

The governor, Basuki Tjahaja Purnama, a close ally of President Joko Widodo, withdrew his appeal against his conviction and sentence on Monday. His family and legal team said on Tuesday that he didn't fear receiving a stiffer sentence but wished to defuse the tensions over his case. Islamic hard-liners mobilized crowds at times numbering hundreds of thousands against him during his election bid, and they are expected to use their increasing political influence in the presidential campaign in 2019.

Aceh, 1,100 miles northwest of Jakarta, was the last part of Indonesia to come under Dutch rule in the early 20th century. It was later in rebellion against the government for decades. A massive earthquake and tsunami struck the area in 2004.

Under a peace deal that ended the rebellion the following year, Aceh was allowed a great deal of legal autonomy. Always more conservatively Islamic than the rest of Indonesia, Aceh started passing Sharia-based laws around a decade ago, but the criminal code went into effect only in 2015.

"Homosexuality is strongly prohibited here. It's a disgrace, not just based on our law, but also our local culture," said Marzuki, head of the investigation team for Aceh's Sharia Police.

—I Made Sentana in Jakarta contributed to this article.

WORLD WATCH

BAHRAIN

Police Raid Home of Leading Shiite Cleric

Bahraini security forces shot and killed at least one demonstrator during a security operation that included a raid on the home of the kingdom's Shiite Muslim spiritual leader.

Ayatollah Isa Qassim wasn't among the 50 people arrested during the raid, which comes days after President Donald Trump said Washington's relationship with the Sunni-ruled kingdom—long strained over its human-rights record—would improve.

"The operation in Diraz was based on intel that several fugitives connected to serious acts of terrorism and the killing of a policeman were harbored in the village," a security official said, adding that six people were arrested from the cleric's home in the village.

Mr. Qassim faces expulsion from the kingdom after authorities revoked his citizenship last year for alleged links to Iran and fomenting violence, charges he has denied.

Rights activists say the move to revoke Mr. Qassim's citizenship was part of a wider crackdown by the Sunni-ruled kingdom on the mainly Shiite opposition, which had been demanding a bigger share in running the country.

Activists said one person identified as Mohammed Zein al-Deen was shot and killed by birdshot, adding that more than 100 other people were injured or suffered tear-gas inhalation, with some in serious condition.

The interior ministry said that 50 wanted people were arrested in the Diraz raid.

The operation took place two days after a Bahraini court convicted Mr. Qassim of financial corruption and sentenced him to a suspended one-year jail term, but the security source said the raid didn't target the cleric.

—Reuters

EUROZONE

Manufacturing Adds Jobs at Rapid Clip

The eurozone's economic recovery maintained its recent, stronger momentum in May as the currency area's manufacturing sector added jobs at the fastest pace in 20 years while German businesses were more optimistic than at any time since 1991.

Data firm IHS Markit said its composite purchasing managers index for the eurozone, based on a survey of 5,000 companies, was unchanged at 56.8 in May, remaining at a six-year high. A reading above 50 signals an increase in activity, while a read-

ing below signals a decline. Economists had expected the measure to fall slightly.

Separately, Germany's Ifo Institute said its measure of business sentiment rose to 114.6 from 113.0 in April, reflecting what it described as a "euphoric" mood.

The PMIs are the first measure of activity to cover the period since pro-European centrist Emmanuel Macron was elected president of France on May 7, easily defeating the anti-euro Marine Le Pen. Mr. Macron's triumph followed March elections in the Netherlands that saw Prime Minister Mark Rutte defeat anti-euro populist candidate Geert Wilders. The French and Dutch votes reduce the threat of a breakup of the currency area, with German elections due later this year almost certain to return a pro-euro government.

The composite PMI for France rose to 57.6 from 56.6 in April, reaching its highest level for six years. The German measure also increased, hitting a 73-month high, but growth slowed in some other parts of the eurozone.

IHS Markit said the readings for April and May are consistent with quarter-to-quarter economic growth of 0.7%. If realized, that would be the fastest expansion since the first three months of 2015.

—Paul Hannon

Germany and the International Monetary Fund late Monday found a formula on Greek debt that Greece couldn't swallow: Let's talk again after the German elections.

Greece is now expected to come under heavy pressure to accept, by mid-June, an agree-

By Nektaria Stamouli
in Brussels and Marcus Walker in Berlin

ment between its creditors to postpone further discussion about restructuring its €315 billion (\$353 billion) debt.

That outcome would keep Greece's debt crisis on the back burner until winter or possibly next summer, avoiding a flare-up that could unsettle politics in bigger European countries, but also closing off a path to economic recovery on which Greece's government had pinned its hopes.

At Monday's talks in Brussels, postponement of a debt deal proved the only way to bridge stubborn differences between the IMF and Germany. "It would solve everybody's problem," said one official involved in the talks. "Except for Greece's."

The IMF has said it won't lend Greece any more money until German-led eurozone

creditors say how they will lighten Greece's debt load. Germany, facing elections in September, doesn't want to spell out measures that imply heavy costs for its taxpayers. But Berlin also wants the IMF, a tough enforcer of economic overhauls in indebted countries, to rejoin the Greek bailout as a lender after a three-year hiatus.

The compromise, offered by German Finance Minister Wolfgang Schäuble, was for the IMF to say it will offer Greece a new loan program—but not actually disburse money until details of debt relief are agreed later. The IMF was willing. Eurozone finance ministers drafted a statement.

Greek Prime Minister Alexis Tsipras rejected the deal.

For Greece's embattled leader, the deal on offer meant no gain after much pain.

Now Athens is being offered only a fresh bailout loan from Europe to cover this summer's debt repayments.

The Greek premier is likely to push for a better deal from European leaders including German Chancellor Angela Merkel and new French President Emmanuel Macron, say officials from Greece and its creditors. But Ms. Merkel stands firmly behind the hard line taken by her finance chief Mr. Schäuble on Monday, people familiar with the matter said.

Greek Deal Faces Delays



Municipal contract workers protested in Athens on Tuesday.

SIMEON PANTZARTZIS/EUROPEAN PRESSPHOTO AGENCY

U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

Nice Goal, Mr. Trump. How Do You Get There?



Great leaders, whether of sports teams, companies or countries, set audacious goals to spur followers on to great accomplishments. But the goal isn't enough: A leader also needs a credible path to achieve it.

That's the problem with President Donald Trump's first budget. It sets a worthy objective of sustained 3% economic growth, but offers no rigorous plan, at least in what was released Monday, to back it up.

To listen to budget director Mick Mulvaney, the main thing holding the U.S. economy back is a bad attitude. Projections by the previous administration and the Congressional Budget Office of 1.9% long-term growth were "sad," he said Monday.

"That assumes a pessimism about America, about the economy, about its culture, that we're simply refusing to accept. We believe that we can get to 3% growth and we don't believe that's fanciful."

Mr. Trump—moving in the opposite direction of President Barack Obama—promises lower taxes and less regulation, which should increase business investment and thus worker productivity. Moreover, a less generous social safety net could prod some people back to work. More workers who are more productive are the ingredients of faster growth.

Yet there are good reasons independent economists think the U.S. can't return to its historic growth of 3%. The U.S. working-age population grew 1.2% a year from 1950 through 2000. With the baby boomers retiring and families shrinking, it will



Budget director Mick Mulvaney said the Congressional Budget Office's projections were 'sad.'

grow less than 0.3% a year over the next decade. To make a credible case for 3% growth, Mr. Trump has to identify some wellspring of workers or productivity, that is output per worker, that his predecessors have missed.

Mr. Mulvaney thinks prod-
ding many people off social
safety-net programs and
back to work will be good
for them, and for growth.

In principle, that's true, but the magnitudes are doubtful. About half of household heads on food stamps and three-quarters of those on Medicaid already work, says Robert Moffitt, an economist at Johns Hopkins University. At most, 13 million recipients of Medicaid and 6.5 million recipients of food stamps don't work (and the two groups overlap). The growth of people on disability insurance can be slowed with tougher eligibility, but

experience suggests getting existing recipients off is almost impossible.

When welfare was cut off in the 1990s for single mothers able to work, the share of those not working dropped by up to a third. That kind of effect on 13 million Medicaid recipients or 6.5 million food-stamp participants would generate only a modest, and one-off, boost to a labor force of 160 million. The effect on gross domestic product would be even more muted because, Mr. Moffitt notes, these workers have extremely low skills and thus productivity.

Nor would repealing the Affordable Care Act do the trick. The CBO estimates its health-insurance subsidies, which become less generous as wages rise, discourage work and would eventually reduce employment by two million. But little of that has

been felt yet, and in any case, the Republican replacement plan maintains some of those subsidies.

One safety-net reform that would meaningfully expand the labor force would be a higher retirement age for Social Security and Medicare. But Mr. Trump promised not to touch either and his budget, it declares, "does not."

He is also deporting more illegal immigrants, another restraint on labor force.

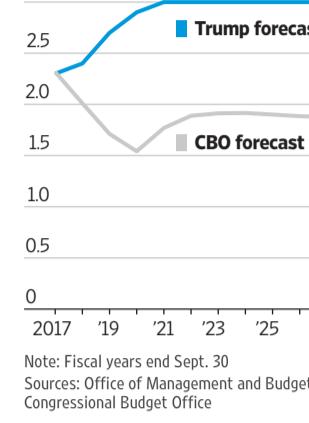
Lowering corporate tax rates in theory would make many more capital projects profitable, bolstering productivity meaningfully. But the budget doesn't include a tax reform plan. It merely assumes reform will be "deficit neutral," then simply extrapolates today's tax take, as a share of GDP, out for the next 10 years.

Mr. Trump has proposed steep cuts to personal and

It's All Up To Growth

Just by projecting higher economic growth, the Trump administration forecasts nearly \$600 billion more in annual tax revenue by 2027 than the Congressional Budget Office.

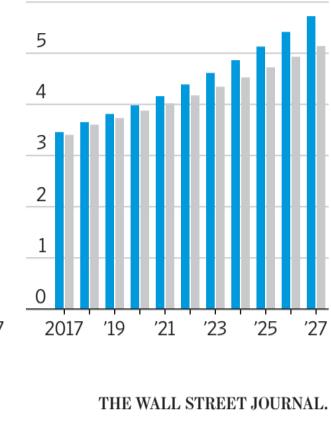
Projection of economic growth



Note: Fiscal years end Sept. 30

Sources: Office of Management and Budget; Congressional Budget Office

Projection of revenue



THE WALL STREET JOURNAL.

corporate tax rates that even optimists think will add trillions to the deficit. The Tax Foundation, a pro tax-cut think tank, reckons lowering the corporate rate to 15% as Mr. Trump wants would raise growth only to 2.3% from 1.9%, and that boost would peter out once all the newly profitable capital projects had been undertaken.

Even that is probably high. Most large U.S. trading partners have slashed their own corporate rates but none has enjoyed a noticeable growth dividend as a result. Businesses generally report that tax rates are unimportant in deciding whether to invest; customer demand is paramount.

Mr. Trump is intent on limiting regulation. As with taxes, this goes in the right direction, but the benefits are potentially slim.

Sam Batkins of the American Action Forum, a conservative think tank, says the administration has already slowed the production of

new rules, but actually repealing significant rules is hard because it requires Congress.

Marcus Peacock, a regulatory expert at George Washington University who advised Mr. Trump's incoming administration, recently told a conference, "They're looking for opportunities that are going to make existing regulations more efficient," such as through less paperwork.

Presidents are supposed to be optimists, and Mr. Trump would hardly be the first to fall short of his target. But a great deal is at stake with this one. Many of his other promises rely heavily on the 3% growth goal. For example, the budget is supposed to balance by 2027, with the help of nearly \$600 billion a year in added revenue attributable solely to a more aggressive growth forecast. Until Mr. Trump presents a credible vision for achieving that growth, the rest of his promises are best viewed with deep skepticism.

Ethics Watchdog Rebuffs Trump

BY REBECCA BALLHAUS

The Office of Government Ethics pushed back late Monday against a White House effort to block it from obtaining information about waivers granted to lobbyists serving in the administration, escalating tensions between President Donald Trump and the oversight agency.

On May 17, Mick Mulvaney, director of the Office of Management and Budget, questioned in a letter the Office of Government Ethics' authority to request more information about the waivers, which the administration can grant to lobbyists serving in violation of ethics rules.

"The unusual nature of your letter highlights OGE's responsibility to lead the executive branch ethics program with independence, free from political pressure," he wrote. "Accordingly, OGE declines your request to suspend its ethics inquiry." He said he expects agencies to comply with the order by June 1.

Mr. Shaub also noted the "highly unusual nature and distribution" of Mr. Mulvaney's letter, copies of which were sent to "hundreds of general counsels and designated agency ethics officials."

The tweet also linked to more than 200 pages of documents supporting the agency's assertion that the data request fell under its jurisdiction. The documents illustrated instances in which the White House had complied with previous such requests and lawmakers' support for the agency's ability to disclose such information.

Included in the document trove was a memo from the agency's associate counsel describing a May 17 call with an official in the White House Counsel's Office as "less collegial" than interactions with previous ethics officials.

Sen. Chuck Schumer of New York, the chamber's Democratic



Walter Shaub

leader, called Mr. Mulvaney on Monday evening to ask him to "respect the Office of Government Ethics' request to make public copies of waivers given to former lobbyists to work in the administration," the senator said in a statement Tuesday.

"I also expressed to Director Mulvaney my deep frustration with President Trump's failure to keep his promise to 'drain the swamp,' and he assured me that he would take my concerns under consideration," he said.

The Office of Government Ethics had requested information about the waivers in an effort to determine if Mr. Trump's administration was following federal ethics rules, including an executive order the GOP president signed in January requiring former lobbyists to recuse themselves from matters on which they had lobbied for two years after their appointment.

1.8% annual rate in the coming years. The Congressional Budget Office projects 1.9% growth.

Mr. Mulvaney said the budget proposals will help bring workers off the sidelines, in part by requiring them to have jobs to qualify for assistance programs such as food stamps, a change that is projected to save \$193 billion. He said the new paid parental-leave programs will help parents keep working.

"We believe that we can get to 3% growth, and by the way we do not believe that that is something fanciful," he said.

The budget would also limit eligibility for the earned-income tax credit and the child-tax credit, trimming \$40 billion of spending over the next 10 years, and would slash funding for disability insurance by \$72 billion.

The Federal Reserve projects the economy will grow at a

Worry Led to Russia Probe

BY BYRON TAU
AND JOSHUA JAMERSON

WASHINGTON—Former Central Intelligence Agency Director John Brennan testified Tuesday that contacts by Trump campaign associates with Russian officials raised concerns that the Kremlin could try to cultivate people close to President Donald Trump, shedding light on why federal agents began an investigation.

Mr. Brennan also disclosed that the intelligence community's alarm about Russia's interference in the 2016 election prompted him to warn his Russian intelligence counterpart last summer to stop meddling.

In testimony before the House Intelligence Committee, Mr. Brennan explained the basis for the Federal Bureau of Investigation counterintelligence investigation that was opened after the election, which is looking at potential collusion between Mr. Trump's campaign and Russia.

"I encountered and I'm aware of information and intelligence that revealed contacts and interactions between Russian officials and U.S. persons involved in the Trump campaign," said Mr. Brennan, the head of the CIA under former President Barack Obama.

Mr. Brennan said he didn't know if these contacts amounted to "collusion" with Russian officials but said that a common Russian intelligence

technique involves cultivating Americans as either witting or unwitting intelligence assets.

Mr. Brennan said he was concerned because of "known Russian efforts to suborn such individuals." Mr. Brennan also said the contacts picked up by U.S. intelligence justified the opening of an FBI investigation that has overshadowed the opening months of Mr. Trump's presidency.

"I know that there was a sufficient basis of information and intelligence that required further investigation by the bureau to determine whether or not U.S. persons were actively conspiring, colluding with Russian officials," he said.

Mr. Trump has denied that he or his campaign coordinated with any foreign entity, and Russia has denied meddling in the election. Mr. Trump has said continuing questions about his campaign's Russia contacts amount to a "witch hunt."

The FBI probe is now being headed by a special counsel, Robert Mueller, after Mr. Trump's firing of James Comey as FBI director raised questions about whether the president was trying to quash the Russia probe. Mr. Trump reportedly asked Mr. Comey to end an investigation into his embattled former national security adviser, Michael Flynn, and, according to a report in the Washington Post this week, asked intelligence-community officials to help try to bring an

end to the FBI investigation.

In a separate hearing Tuesday morning, Director of National Intelligence Dan Coats declined to confirm or deny that Mr. Trump had asked him to publicly state there was no collusion between the Trump presidential campaign and the Russian government, in response to the Washington Post report.

The Post reported Monday that the president asked Mr. Coats and National Security Agency Director Adm. Mike Rogers to publicly deny the existence of evidence of collusion.

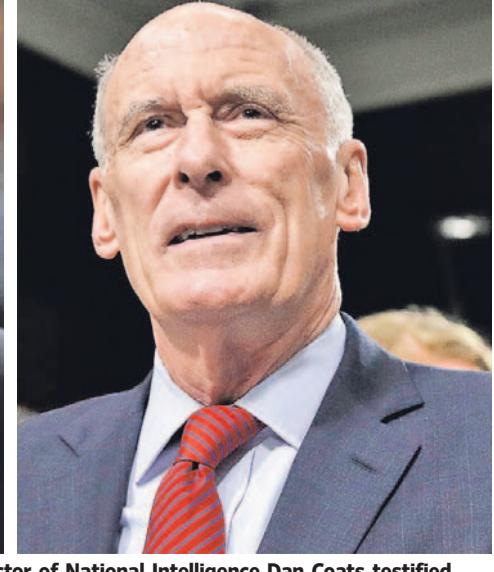
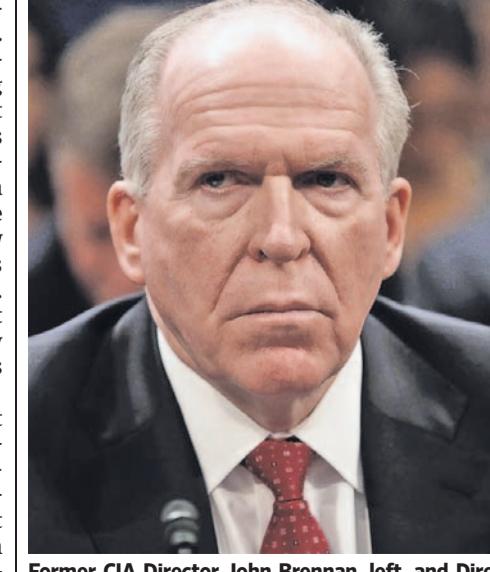
Mr. Coats said it wasn't appropriate to comment publicly about the topic in testimony before the Senate Armed Services Committee.

"We discuss a number of topics on a very regular basis," Mr. Coats said. "On this topic, as well as other topics, I don't feel it's appropriate to characterize discussions, conversations with the president."

The director was also asked if he knew of any efforts by the White House to interfere in other aspects of the Russia inquiry, including allegations the president asked Mr. Comey to ease off investigating Mr. Flynn.

"I am not aware of that," Mr. Coats said.

Mr. Brennan described a previously undisclosed warning to his counterpart in Russian intelligence, Alexander Bortnikov, the head of the FSB service, not to interfere in the U.S. election.



Former CIA Director John Brennan, left, and Director of National Intelligence Dan Coats testified before congressional panels on Tuesday about alleged Russian interference in the U.S. election.

BUDGET

Continued from page A1
anything like that once it gets through the House and Senate—it will take on a different complexion," said Neil Newhouse, a Republican pollster. "This is the opening bid in a six-part dance."

The primary driver of savings in Mr. Trump's proposal comes from more than \$800 billion in cuts to Medicaid, the federal-state health program for the poor, despite a pledge from the president on the campaign trail not to touch the program.

Mick Mulvaney, Mr. Trump's budget director, said Monday much of the savings will come from changes in

the GOP's health-care overhaul bill, which Mr. Trump supports. But the administration's budget would cut more than \$600 billion from Medicaid and the federal Children's Health Insurance Program on top of the \$250 billion saved from repealing and replacing the Affordable Care Act, known as Obamacare.

The plan also assumes that economic growth would reach 3% by 2021, and that would help balance the budget within 10 years. Many economists have questioned whether the economy can grow much faster than its current pace without long-term investments in programs that boost worker productivity or help expand the labor force.

The Federal Reserve projects the economy will grow at a

U.S. NEWS

Kentucky Hopes to Mine Ventures

By ARIAN CAMPO-FLORES

PIKEVILLE, Ky.—With coal production on the decline, one energy company is pursuing a project that might seem heretical in this eastern Kentucky mining region: a solar-energy farm.

Berkeley Energy Group and a subsidiary of the French renewable-energy company **EDF Energies Nouvelles** aim to begin building a \$100 million facility on a reclaimed strip mine next year. As the state's largest solar complex, it would produce as much as 100 megawatts of electricity. To fill an estimated 100 jobs that would be created, the partners would give priority to unemployed coal miners.

The project would "put miners back to work and diversify our holdings and diversify the region," said Ryan Johns, project development executive at Berkeley Energy. "It's kind of a new frontier for our area."

The solar farm is one of a string of ventures in recent years aimed at reviving a region decimated by job losses in the coal industry, including a drone-testing facility, a high-tech greenhouse and software-coding training programs. But even if all the projects succeed, employment isn't likely to return to previous levels. Pike County, where the solar farm is planned, has lost more than 2,500 coal-mining jobs since 2011, with the number of remaining jobs totaling 845 as of the first quarter of this year.

Though President Donald Trump has vowed to bring back coal jobs, many analysts are doubtful they will return because of systemic changes in

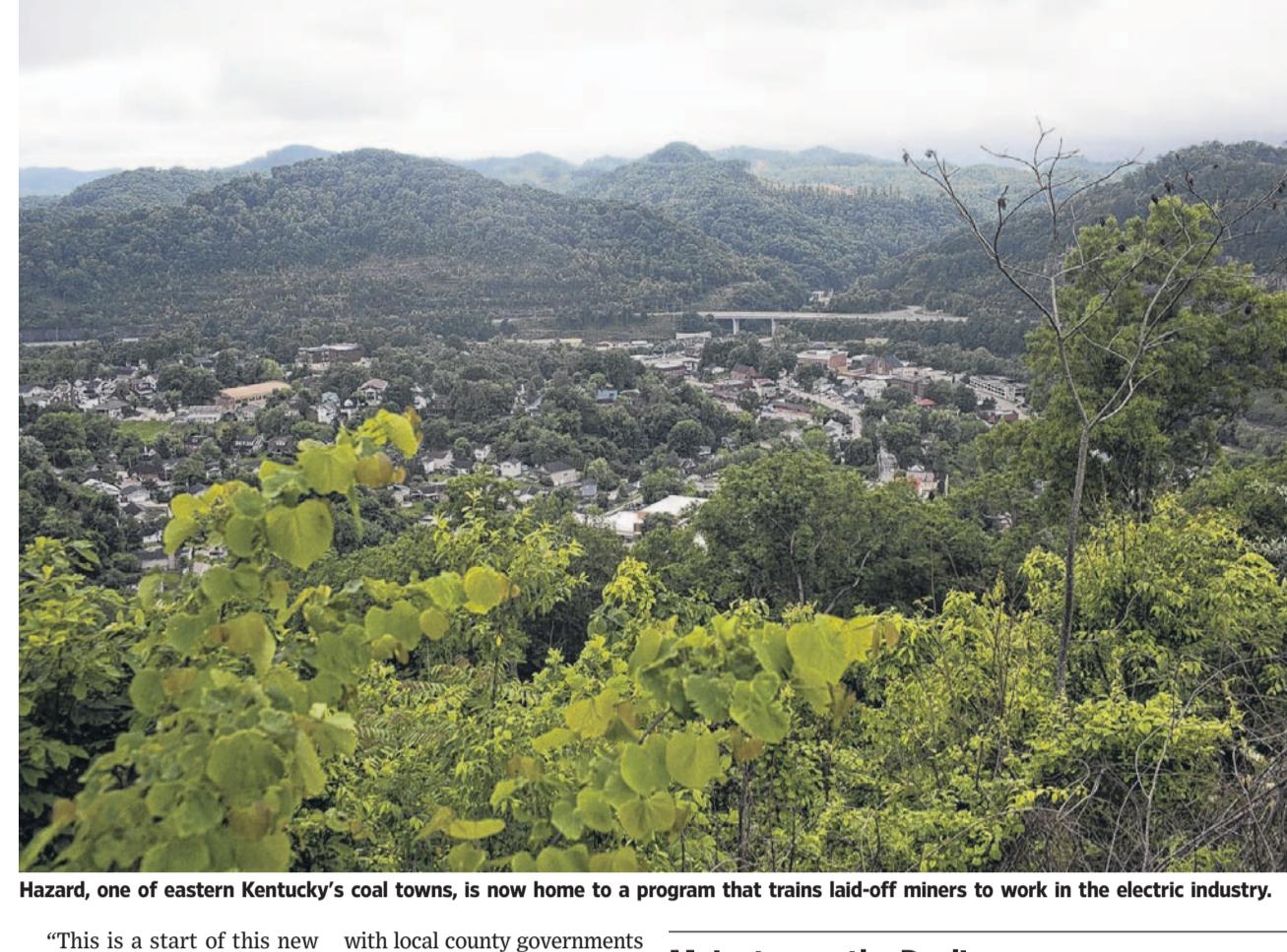
the energy market. Natural gas provides a cheap and plentiful alternative, and extracting eastern Kentucky coal has become expensive. That switch has sapped the region of 10,000 coal-mining positions over six years, according to state data.

"There's no silver bullet to solve this," said Peter Hille, president of the Mountain Association for Community Economic Development, citing a common refrain. "But there could be a thousand silver BBs."

His organization has funded or advised a variety of ventures, including Mountain Tech Media, a digital marketing company in Whitesburg. The 12-member, worker-owned cooperative provides marketing work to a growing portfolio of restaurants, festivals and tourism organizations.

Other groups are training people to write software code. Interapt, a Louisville technology company, created an intensive 32-week classroom and internship program in Paintsville that received federal and local funding, and pays \$400 a week. The first class, which started with 50 people selected from 800 applicants, just completed the program, and Interapt has offered jobs to 22 of them so far, said Chief Operating Officer Eric Seto. Others have found work elsewhere.

One Interapt hire is Anthony Hughes, who formerly ran an animation business in nearby Prestonsburg until the regional downturn from coal-job losses left him with just one customer. He now works as a developer at Interapt's Paintsville site and hopes one day to be a project leader.



Hazard, one of eastern Kentucky's coal towns, is now home to a program that trains laid-off miners to work in the electric industry.

"This is a start of this new ecosystem that we're trying to create here," Mr. Hughes said.

In Hazard, one of the principal coal towns in eastern Kentucky, the local community college has been training laid-off miners to work as linemen for the electrical-utility industry. So far, more than 180 students have completed the program, which has a 90% placement rate, said Jennifer Lindon, president of Hazard Community and Technical College.

Anthony Bowling, 51, enrolled in the program shortly after losing his coal-mining job in 2014. He said after years of working underground, it was difficult to adjust to a job climbing up utility poles in 100-degree heat. But he has grown accustomed to it and is happy with the pay—\$18 more an hour than he earned as a miner.

"I probably will never set foot in an underground coal mine again," he said.

The college has teamed up

with local county governments and other entities to create a local drone training and testing facility on a former strip mine.

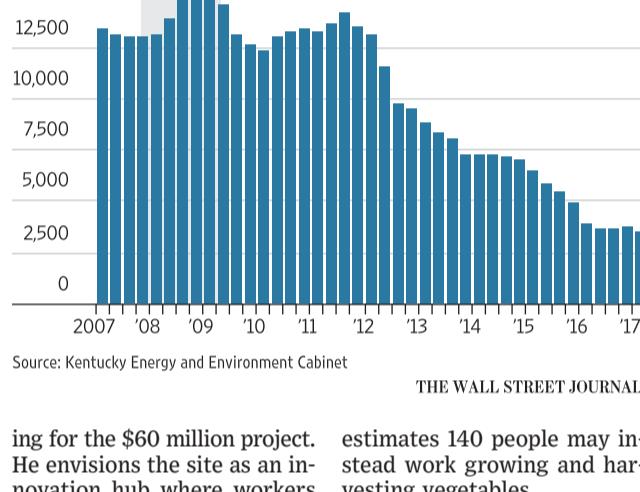
The area—secluded, with varied topography and devoid of air traffic—is well-suited to companies seeking to develop and test unmanned aerial vehicles, said Bart Massey, operations manager for the proposed \$11 million project. He said the complex could generate jobs in areas ranging from maintenance to engineering to 3-D printing of drone components.

In Pikeville, another key coal center, city leaders created an industrial park on a reclaimed surface mine outside town. One of the first tenants could be AppHarvest, an agricultural startup that seeks to build a 2-million-square-foot, high-tech greenhouse on the property to grow cherry, grape and vine tomatoes for sale in Kentucky and nearby states.

Chief Executive Jonathan Webb said he is raising fund-

Mainstay on the Decline

Coal-mining employment in eastern Kentucky, quarterly



Source: Kentucky Energy and Environment Cabinet

ANDREW SPEAR FOR THE WALL STREET JOURNAL

ing for the \$60 million project. He envisions the site as an innovation hub where workers can gather after hours to discuss and nurture other startup ideas.

At the site where tons of coal used to be extracted, he

estimates 140 people may instead work growing and harvesting vegetables.

"It is imperative that the area has economic diversification and attracts new investments from outside the state," Mr. Webb said.

Unions Bet Big on Workers Who Don't Yet Pay Dues

By ERIC MORATH

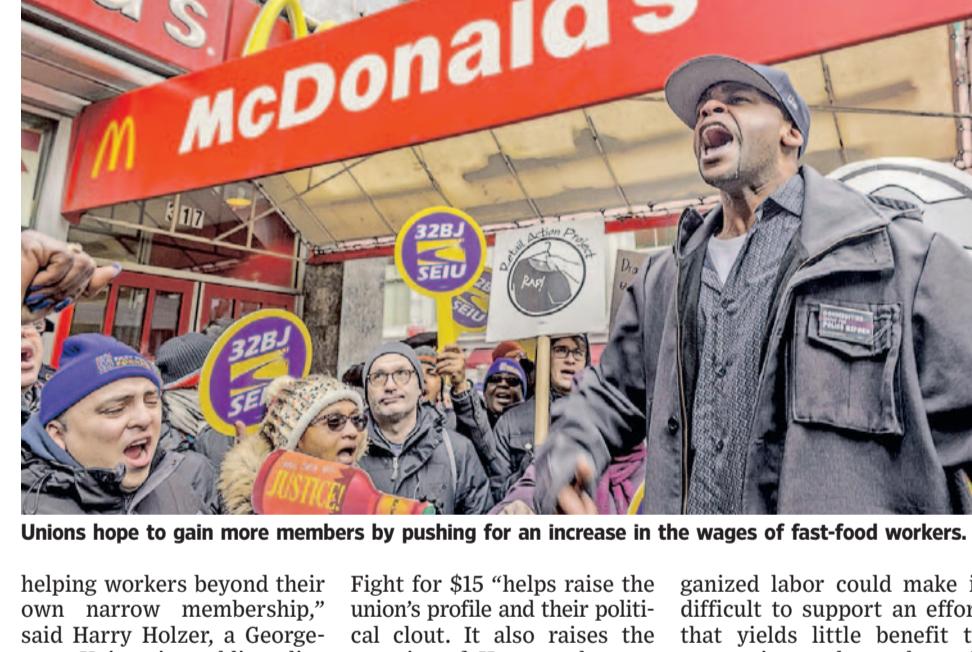
The union movement is placing a pricey bet as it racks up victories in a national push to raise minimum wages for fast-food workers: It's spending tens of millions of dollars in support of workers who can't collectively bargain and don't pay a penny in dues.

Those workers, who are preparing to march in protest Tuesday in the streets of Chicago ahead of a McDonald's Corp. shareholders meeting, have become the new face of the labor movement as they push for a \$15-an-hour minimum wage.

The question is whether they'll become the new face of union membership.

Labor organizations' "Fight for \$15" strategy, led by the Service Employees International Union, primarily benefits low-wage workers rather than traditional union members, such as manufacturing laborers, public-school teachers and nurses.

The SEIU is groping towards a new model—trying to come up with other ways of



Unions hope to gain more members by pushing for an increase in the wages of fast-food workers.

worker last year was \$1,004, or about \$25 an hour, according to Labor Department data. Median earnings of nonunion workers was \$802 a week.

The Fight for \$15, which emerged in late 2012 from a New York gathering of fast-food workers and SEIU organizers, has been successful.

Two of the most populous states, California and New York, are on the path to reach a \$15-an-hour minimum,

as are more than a dozen cities, including Seattle and Washington, D.C. And employers including Aetna Inc. and Wal-Mart Stores Inc. have pledged to lift starting pay for workers—all while the federal pay floor has remained \$7.25 an hour since 2009.

The SEIU sent more than \$16 million last year to about a dozen regional organizing committees and a related public-relations firm to run Fight for \$15 activities, according to filings with the Labor Department.

It has spent similar amounts each year since 2013, a sizable portion of its roughly \$300 million annual budget. And those amounts don't in-

clude millions more spent on everything from legal fees to international organizing efforts that may also benefit the Fight for \$15 campaign.

The stated goal of Fight for \$15 protesters is "\$15 and a union." They've had far more success with \$15. The movement has yet to yield any new dues-paying members in the fast-food industry.

A McDonald's spokeswoman didn't directly address the planned protests but said Monday that the company is committed to providing jobs and training to thousands of Americans, many of whom are entering the labor force for the first time.

The SEIU expects that the wage movement will eventually lead to unionized workers.

It sees organization of the low-wage food-service industry as the way to reverse the trend of declining union membership. Employment at fast-food restaurants grew twice as fast as overall payrolls last year. Union membership, meanwhile, has declined as a share of the workforce for three decades.

U.S. WATCH

HOUSE OF REPRESENTATIVES

GOP Border-Adjusted Tax Plan Faces Hurdle

The tax idea that has sparked a months-long corporate lobbying battle got its moment in the spotlight Tuesday at a House hearing, but its political future still looks dim.

Backers of border adjustment—taxing imports while exempting exports—are trying to rebuild support for the idea, which has come under attack from corporations, some antitax conservatives and Senate Republicans.

The proposal now sits in limbo, where House Republicans insist that it is essential to a major rewrite of the U.S. tax code but where the political obstacles seem nearly insurmountable. The Trump administration has been ambivalent and has said it can't back the plan in its current form. "It doesn't create a level playing field," Treasury Secretary Steven

Mnuchin said Tuesday at a separate event in Washington.

—Richard Rubin

ECONOMY

New-Home Sales Fall More Than Expected

New-home sales fell sharply in April, a potential sign of weakening in the market at a time of rising prices and limited inventories.

Purchases of new, single-family homes, which account for a narrow slice of all U.S. home sales, decreased to a seasonally adjusted annual rate of 569,000 in April, down 11.4% from March, the Commerce Department said Tuesday. The data have a margin of error of 10.5%, and the overall trend remains one of continuing improvement in the market. Before last month, sales had risen for three consecutive months.

—Laura Kusisto

and Sarah Chaney

SOUTH CAROLINA

Church Shooter to Appeal Conviction

A white supremacist sentenced to death for killing nine worshipers in a racist attack at a Charleston church has petitioned an appeals court for mercy. Attorneys for Dylann Roof filed notice Tuesday they were appealing his conviction and sentence to the Fourth U.S. Circuit Court of Appeals.

The federal judge who presided over Mr. Roof's trial had rejected his first appeal, ruling the conviction and death sentence for the 2015 massacre at Emanuel AME church should stand. Mr. Roof argued his crime didn't fit the definition of interstate commerce needed for a federal case. The judge ruled Mr. Roof used a telephone to call the church and the bullets and gun were manufactured in a different state.

—Associated Press

Thousands Stay Beyond Visa Terms

By LAURA MECKLER

WASHINGTON—More than 700,000 foreigners who were supposed to leave the U.S. last year stayed beyond the terms of their visas, though some of them later departed, the Department of Homeland Security said Monday.

That figure represents less than 1.5% of the more than 50 million visitors whose visas directed them to depart in fiscal year 2016, which ended Sept. 30. Though the vast majority of visitors left on time, the report suggests 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 overstayed their legal visas and that a

majority of newly arrived illegal immigrants came legally and then stayed past their return dates.

Congress has long pressed for a biometric entry and exit system to track foreigners. Biometric information is captured when people enter the U.S., but exit data is currently based on manifests from airplanes and ships that must be cross-referenced with other databases to ensure that visitors didn't obtain a new immigration status while they were in the U.S. Land crossings generally aren't counted, even though they represent the plurality of arrivals.

Efforts to track air exits using biometric data such as facial-recognition software are still being tested. The Department of Homeland Security said it is committed to completing a biometric system that would cover all visitors. The agency said it would ex-

pand biometric exit programs to seven additional airports in the coming months.

The list of people suspected of staying past their visas is shared with the Immigration and Customs Enforcement agency on a continuing basis, officials said. ICE officers target those deemed priorities for deportation, the agency says, such as those with criminal records.

The report also tallied the number of visa overstays based on type of visa as well as country of origin. It found that rates were much lower for countries whose citizens don't need a visa to come to the U.S. for a limited time. For instance, just 0.15% of visitors from Japan who came for business or pleasure stayed past their mandated exit dates. That compares with 13.71% of similar travelers from Afghanistan and 25.14% from Bhutan.

IN DEPTH

BAIL

Continued from Page One
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.

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.

Long history

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 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.

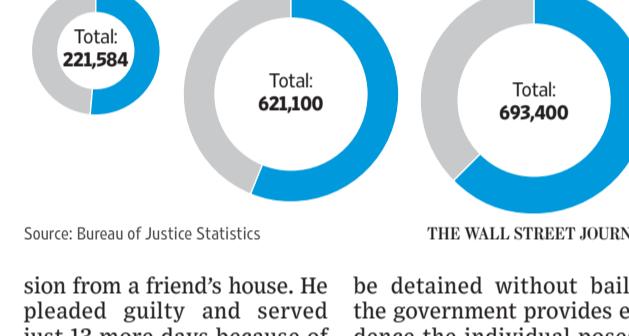
"If we are keeping in jail



Pierre Stokes was charged with shooting three people while out on bail. He is now being held without bail in Chicago's Cook County jail, and has pleaded not guilty.

Bail and Jail

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



Source: Bureau of Justice Statistics

THE WALL STREET JOURNAL.

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 that 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 such as 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.

"If we are keeping in jail

sion 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 who were 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 individual poses a flight risk. Judges can set conditions of release, such as requiring the defendant's family members to cosign 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 least \$14 billion a year on pretrial incarceration.

Mecklenburg County, N.C., had planned to raise \$240 million in 2009 to fund a new jail, but the jail population fell so much after the county began changing its bail practices that year the new facility was no longer needed.

Some sheriffs have raised concerns that eliminating

cash bail will reduce public revenue. In Illinois, which doesn't allow private bail bondsmen, county governments retain 10% of every bond paid even if a bond is refunded or charges are dropped.

Brian McFadden, a county 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.

Judges won't have adequate time or evidence to determine whether an individual poses a flight risk, they say, increasing the likelihood that too many people will be released.

Scoring system

New Jersey's new pretrial system allows judges to decide whether a defendant should be released based on a score calculated from the defendant's criminal history and other factors.

Critics have protested some recent release decisions, saying the scoring system overlooks factors such as the defendant's juvenile criminal history.

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

pledged 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 overhaul 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."

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 banista 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.

BANANA

Continued from Page One
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.



Amazon.com CEO Jeff Bezos wanted to provide free, healthy snacks to anyone in the neighborhood.

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 "bananager" 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.

Bananager 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 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

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,

LIFE & ARTS

WORK & FAMILY | By Sue Shellenbarger

Spare Yourself From Small Talk

What seems banal can turn into something more meaningful—and help your career—if you know how to steer the discussion

WE'VE ALL GOTTEN MIRED in banal small talk at some point. What if there were a way to avoid that conversational quicksand?

If someone says, "I just got back from vacation," three in four people give a dead-end reply like, "Boy, do I need one of those." A more inviting question, such as, "What was your favorite day like?" can keep the conversation from dying on the vine, according to research by Contacts Count, a Newtown, Pa., consulting and training firm that advises employers on networking.

Much of our day-to-day talk is a missed opportunity. The ability to draw others into meaningful conversations can determine whether people want to get to know you, or remember you at all. Failure to learn it can stall your career.

Vanessa Van Edwards had been attending networking events for several years during and after college when she realized she was having the same conversation again and again. "It went like this: So what do you do? Yeah. Where are you from. Yeah, yeah, been there. Do you live around here? Well, I'd better go get another glass of wine," says Ms. Van Edwards, a Portland, Ore., corporate trainer and author of "Captivate," a new book on social skills.

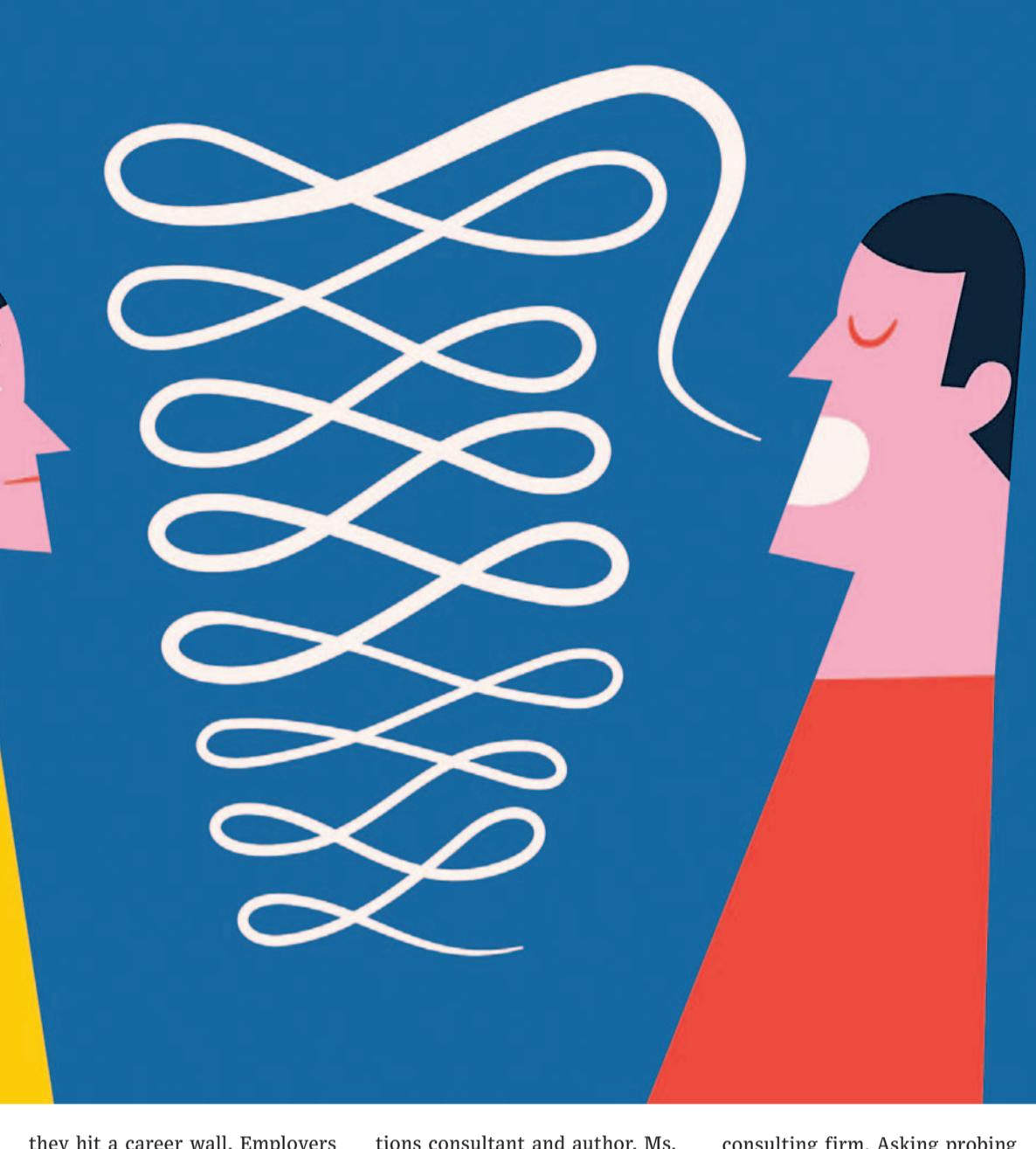
She started trying conversation-openers that jarred people a bit, in a pleasant way: "Have you been working on anything exciting recently?" Or, "Any exciting plans this summer?"

"If I'm feeling very brave, I ask, 'What personal passion projects are you working on?'" Ms. Van Edwards says. She began making contacts who followed up more often.

People are more likely to remember encounters that are emotionally charged, research shows. Opening lines that spark pleasure, such as, "What was the highlight of your day?" tend to spark conversations that are memorable and enjoyable, Ms. Van Edwards says.

Such openers also risk falling flat. Ms. Van Edwards recently asked a stranger she met on a business trip what he was working on that was exciting. The man replied that he hated his job and was going through a divorce. She salvaged the exchange by thanking him for being honest, empathizing and drawing him into brainstorming about what's it's like being stuck in a rut and how to escape it.

Only one in four people sees value in asking probing questions of strangers, based on a Contacts Count survey of 1,000 people. Doing so can be risky, says Lynne Waymon, the firm's CEO and co-author of a book on networking. "I'm demanding more of you



when I ask thought-provoking questions. I'm making an assumption that you're in this conversation to make something of it—that you're not going to see somebody across the room and say, 'Oh, I need to go talk to Susan or Bob,'" she says. "But the connections you make are going to be much more dramatic and long-lasting."

A valuable 17-year friendship for Bill Stokes, an executive recruiter, began when a woman he met at a fundraiser asked him, "What do you do to relax?" His reply, that he'd been raised on a farm and loved going to horse races, sparked a conversation about her hobby of rescuing retired racehorses in need of a home, and the friendship blossomed quickly, says Mr. Stokes, founder of the Washington Network Group, a Washington, D.C., executive group.

Many people who rely on small talk don't realize they lack critical conversational skills until

they hit a career wall. Employers can hire coaches or trainers to deliver a crash course in conversation to professionals who lack the skills to engage new clients or customers, or middle managers who lack the internal networks needed to rise to executive jobs.

**One expert's
conversational tactic:
Give a mundane topic a
more serious twist.**

Dianna Booher coached an attorney several years ago whose bosses wanted to promote her but didn't trust her to socialize with clients. "She was sharp in her answers" to acquaintances' opening questions, giving dead-end or one-word replies that made her seem arrogant, says Ms. Booher, a Colleyville, Texas, communica-

tions consultant and author. Ms. Booher brought the attorney to her office for coaching and recorded her practicing warmer responses that revealed more about herself. She soon learned to start conversations on a more inviting note.

Among the tactics Ms. Booher suggests is giving mundane topics a serious twist. If an accountant or lawyer says she's just returned from vacation, ask, "Can someone in a stressful job like yours ever really get away totally and shut down?"

Learning to start deep conversations can be a relief to the people who dread networking the most. Pamela J. Bradley says she's an introvert. Meeting strangers used to touch off an anxious voice in her head. The voice would scream, "I have a terrible time networking, or I have a terrible time remembering names," says Ms. Bradley, human-resources manager for Keiter, a Glen Allen, Va., accounting and

consulting firm. Asking probing questions turns down that voice and puts the spotlight on the other person, she says. Among her favorites is, "What's keeping you awake at night?" because it encourages clients to explain their most worrisome issues.

Such skills also make you happier. People who have more substantive conversations with others report a greater sense of well-being than those who engage in small talk, according to research led by Matthias Mehl, a psychology professor at the University of Arizona. Those findings, first reported in a 2010 study of 79 college students, have recently been replicated in a larger, unpublished study of 500 adults led by Anne Milek, a postdoctoral researcher working with Dr. Mehl.

It isn't clear whether people who are already happier have deeper conversations, or the conversations make people happier, but Dr. Mehl suspects each factor fuels the other.

HOME

TO BUILD A DISHWASHER, SUB-ZERO GETS THE DIRT

BY ELLEN BYRON

TO BUILD A NEW luxury dishwasher, Sub-Zero Group Inc. developers aimed to clean dirty dishes and ease marital discord.

And they came up with Cove, which Sub-Zero plans early next year to introduce as its first dishwasher. The luxury appliance maker, whose namesake refrigerators and Wolf stoves can top \$10,000, expects its new dishwasher to cost around \$2,000.

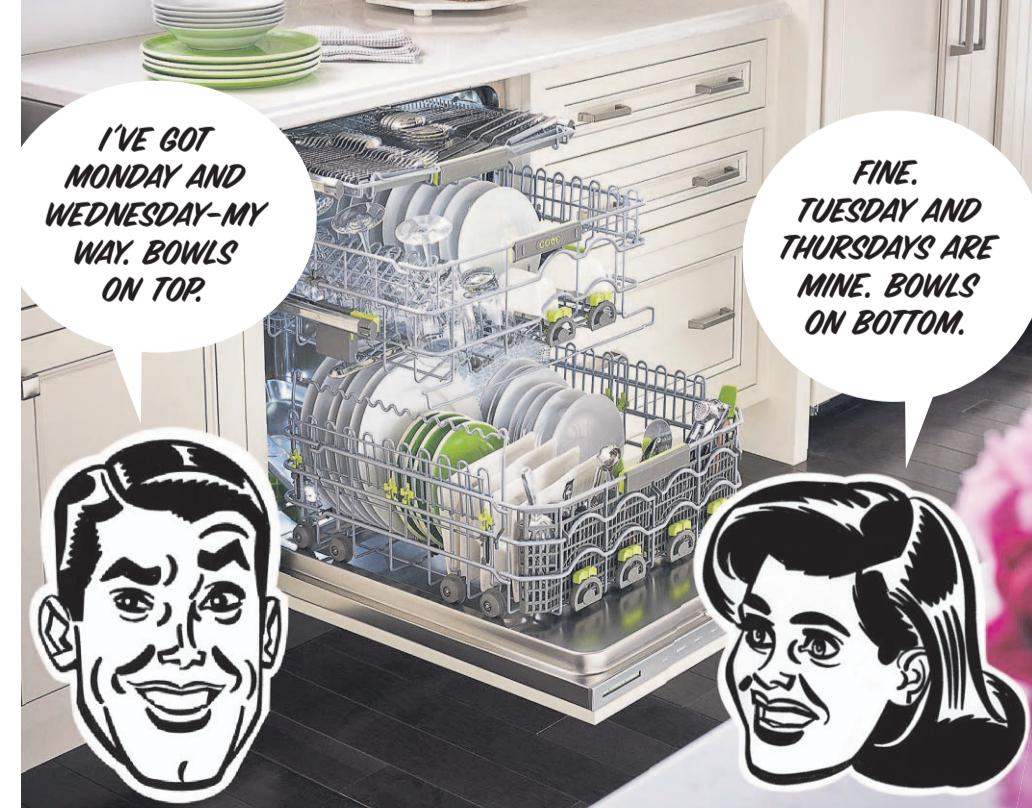
Loading the dishwasher is usually among the most contentious household chores. "When we asked the wife or the husband if the other loads it the right way, nine times out of 10 they said 'absolutely not,'" says Jeff Sweet, product marketing manager for Sub-Zero and Cove. So Cove made adjustable racks so everyone can load correctly. Bright green coatings mark areas of the racks that adjust to better accommodate many different dishes and arrangement quirks. "Children didn't use the dishwasher as much as their parents would like them to," Mr. Sweet says.

Consumers typically pick their stove or refrigerator first, and design the rest of the kitchen around one of those appliances. "The dishwasher just tags along," says Mr. Sweet. "And it's the hardest-working appliance."

The Cove dishwasher has more than 200 cycle options, 41 jets and three spray arms. Its marketers, though, choose the name Cove because they wanted to convey "a tranquil bay of water," the company says. Quietness is the most important feature to buyers, its research showed, and Cove dishwashers will be quiet, it promises, and have an "Extra Quiet" cycle that runs at a slower speed.

Sub-Zero views European luxury brands as its main competitors, so it says its dishwasher will better suit North American tableware styles. Americans tend to use deeper bowls, bigger platters, thicker stoneware, concave plates and larger lasagna pans and casserole dishes, says Brian Jones, Sub-Zero Group's director of marketing. Its target consumers drink a lot of wine, Cove developers learned. "We wanted to be able to put in as many wine glasses as it would allow," says Mr. Sweet. Shelves fold down to hold stemware on the top and bottom racks.

The launch has been delayed repeatedly. Sub-Zero started the project 10 years ago. But when the recession hit, the project was put on hold. It resumed in 2012. They expected to launch this year, but delayed again to adjust features including drying cycles and fine angles as well as make the controls that operate the wash cycles more intuitive.



OPINION

REVIEW & OUTLOOK

Jihad in Manchester

Britain suffered its second terrorist atrocity in as many months on Monday night. This time the result was the deadliest attack since the London Underground bombings of July 7, 2005. At least 22 are dead, many of them children, and 58 were injured.

Thousands of youngsters were at the Manchester Arena for a show by American pop star Ariana Grande. The attacker detonated his improvised device near the main foyer as the concert-goers were exiting.

Islamic State took credit for the attack on Tuesday, and authorities identified the attacker as Salman Abedi, a 22-year-old born in Manchester. The Manchester bombing follows the vehicular assault near Parliament in March. The perpetrator in that case was a petty criminal who had been a marginal suspect in a previous terror investigation but otherwise had slipped below the radar.

British security forces have a better record than many European governments in foiling terror. Prosecutors convicted 264 people on Islamism-related terror offenses between 1998 and 2015, according to an open-source study by the London-based Henry Jackson Society. The figures don't include many other cases that don't end in convictions and often remain classified.

Yet the lone-attacker terror increasingly favored by groups like Islamic State is a bedeviling challenge. This is why governments must tackle the problem at its roots in the often ill-assimilated and self-isolating Muslim communities in major cities like Manchester, Paris and Brussels.

Muslim integration is central to Europe's counterterror agenda.

British opinion surveys consistently find gaps between the attitudes of Muslims and the liberal ethos of the wider society, on everything from homosexuality to women's rights to anti-Semitism. One survey last year found that 7% of respondents support the idea of an Islamic caliphate while 4% believe terrorism is an acceptable form of protest.

While in real numbers that last figure only means 100,000 to 200,000 people, it's an alarmingly large pool of potential radicals and attackers. Promoting integration involves deeper questions about belonging and identity that don't have easy answers. But one way to start is to consistently enforce British laws in all communities.

National leaders have a role to play. Prime Minister Theresa May halted her re-election campaign and vowed "to take on and defeat the ideology that often fuels this violence." Speaking in Israel, President Trump condemned the "evil losers in life" who carry out such violence. That note about "losers" is welcome even as it's jarringly colloquial, since Islamists see themselves at the vanguard of a triumphant millennialist ideology. Leaders should look for opportunities to undermine that narrative.

Muslims will have to take ultimate responsibility for rooting out radicals in their midst. In Britain indigenous Muslim groups, such as the counterterror Quilliam Foundation, have made strides, but they often find themselves in the minority among imams and community leaders. So long as that continues, the failure of integration will pose a mortal threat to Europe.

Ending Kim Jong Un's Cyber Impunity

The world will have to take Pyongyang's hackers as seriously as its nuclear weapons and missile programs. That's one conclusion from Monday's release of evidence by a private cybersecurity firm that North Korean hackers are behind the WannaCry ransomware that froze computers and encrypted data around the world on May 12.

In its investigation Symantec found the digital footprints of the Lazarus Group, a hacking syndicate that took data from Sony Entertainment in 2014 and stole \$81 million from the Bangladeshi central bank last year. While computer forensics can't finger hackers with 100% certainty, the code, techniques and servers point to Pyongyang.

The Symantec findings come as Reuters published new details this week about North Korea's growing cyberwarfare capabilities. According to a former computer-science professor who defected in 2004, a unit within the country's spy agency hacks into foreign financial institutions to steal cash.

State-sponsored hacking for profit is unique to North Korea—a useful reminder that it isn't so much a country as a criminal syndicate operating for the benefit of the Kim family. As sanctions close off other avenues for earning foreign currency, Pyongyang will likely step up its cyberattacks.

The WannaCry worm demands that victims

Evidence suggests Pyongyang is behind the WannaCry ransomware.

pay in Bitcoin to get their data back. At least so far, it's not proving successful as a money-making venture, having extorted about \$100,000. But the North's hackers, who are recruited from the nation's best math and science schools, are capable and persistent. They appear to have built the worm in part with hacking

tools stolen from the U.S. government and released on the internet last month.

So far Pyongyang has suffered little retaliation for its cyberwarfare, which includes the hacking of a South Korean nuclear plant. After the Sony attack three years ago, Barack Obama promised to retaliate: "We will respond proportionally, and we'll respond in a place and time and manner that we choose." But the follow-through was overwhelming: A few North Korean institutions and individuals were barred from doing business in the U.S.

We called on the Obama Administration to support Rep. Ed Royce's bill to sanction banks facilitating North Korea's finances. After being blocked by Senate Democrats, that legislation was eventually signed into law last year. This month a new bill from Rep. Royce to toughen sanctions on the North's shipping and exports of slave labor passed the House with bipartisan support. That would be another good way to make Pyongyang pay a price for its criminal acts.

U.S. Voting-Rights Confusion

U.S. state legislatures have been trying to figure out how much they can or should consider race when redrawing political districts and on Monday the U.S. Supreme Court increased the confusion. In a 5-3 decision, the four liberals plus Justice Clarence Thomas struck down North Carolina's congressional map, ruling that the district lines were drawn in a way that disadvantaged black voters.

After the 2010 census, North Carolina Republicans drew up a congressional map that moved more black voters, who tend to vote Democratic, into two districts. Republicans said their motivation was partisan, with an eye toward improving Republican odds in other districts. Democrats challenged the law on grounds that by altering the concentration of black voters, the gerrymander violated the Constitution's guarantee of equal protection.

In her opinion for the Court, Justice Elena Kagan wrote that race was the predominant factor in redrawing the maps and that "a State may not use race as the predominant factor in drawing district lines unless it has a compelling reason" (*Cooper v. Harris*).

Yet under the 1965 Voting Rights Act, state legislatures are required to take race into account when drawing district lines. When North Carolina drew its maps, it sought preclearance from the Obama Justice Department. In its application, the state noted that the increase of black voters in District 12 to 50.66% from 43.77% "maintains, and in fact increases, the African-American community's ability to elect their candidate of choice in District 12."

Democrats argue that those numbers are evidence of impermissible concentration of black voters. But the legal uncertainty has created a tightrope for state lawmakers, who must find a balance between impermissible black vote dilution and impermissible black vote concentration. If they fail to take race into account when redrawing districts, they can fall afoul of the 1965 Voting Rights Act. If they take race into ac-

count too much they fall afoul of the Equal Protection Clause of the Constitution.

In his dissent, Justice Samuel Alito notes that the problem is complicated by the fact that race and political affiliation are highly correlated, making it hard to tell why a redistricting decision was made. "If around 90% of African-American voters cast

their ballots for the Democratic candidate, as they have in recent elections," Justice Alito wrote, "a plan that packs Democratic voters will look very much like a plans [sic] that packs African-American voters."

Justice Thomas's vote with the liberals is an extension of his consistent and principled absolutism on issues of race. Once the state conceded it had used race, even benignly, Justice Thomas was out. "I think North Carolina's concession that it created the district as a majority-black district is by itself sufficient to trigger strict scrutiny," he wrote.

The opinion is also notable for the fact that it gets all the Court's liberal justices on board with the argument that the use of race is always subject to strict scrutiny, not merely sometimes as they have argued in past cases. That could be tricky for liberals if a future case challenges Section 2 of the Voting Rights Act on grounds that it requires states to take race into account when redrawing their districts.

As Justice Thomas wrote in his magnificent 1994 opinion in *Holder v. Hall*, "few devices could be better designed to exacerbate racial tensions than the consciously segregated districting system currently being constructed in the name of the Voting Rights Act," and "our drive to segregate political districts by race can only serve to deepen racial divisions by destroying any need for voters or candidates to build bridges between racial groups or to form voting coalitions."

Meantime, the Court's decision is most likely to guarantee more litigation by Democrats, who are happy to use the courts as a way to maximize the opportunities for Democratic candidates, and race as a sword for partisan purposes.

The Pontiff and The President



Is Pope Francis the Donald Trump of popes?

The pontiff and the president meet for the first time at the Vatican on Wednesday. In the run-up to this meeting, the press has been playing up the contrasts: the brash billionaire who celebrates his wealth versus the humble Jesuit who calls the unfettered pursuit of money "the dung of the devil."

The irony here is that Pope Francis and President Trump are more alike than commonly supposed. The similarity begins with how insulting both can be to folks they disagree with. In his presidential bid, Mr. Trump turned name-calling into an art. Jeb Bush became "Low Energy Jeb," Marco Rubio "Little Marco," Ted Cruz "Lyin' Ted," and, most notable of all, Hillary Clinton "Crooked Hillary."

But the Holy Father casts a mean first stone himself. The same man who famously said who-am-I-to-judge had no problem—in the thick of a U.S. presidential election—anathematizing anyone who would even think of building a border wall as "not Christian." Scarcely a year later, just as Mr. Trump was being inaugurated, the pope was back at it, saying he didn't like "to judge people prematurely" even as he invoked Hitler as a warning about the danger of electing populist leaders.

Mr. Trump isn't the only one to feel the papal sting. Manifestly Pope Francis regards a good part of his own flock as deplorables. Whether he's warning Catholic women not to "breed like rabbits" or suggesting that anyone who disagrees with him must suffer from some psychological defect, there is something distinctively Trumpian about the way Pope Francis speaks about his critics.

With all this, the penchant for insults is not nearly as dispiriting as another Francis-Trump commonality that gets almost no attention: The zero-sum mentality each brings to the debate about trade and a liberalized global economy.

Mr. Trump famously rails against trade deals as helping foreigners at the expense of Americans. Long before he arrived in the Oval Office, he campaigned on the idea that U.S. companies were unpatriotic if they relocated factories overseas. In this cramped view, whether they labor in these factories on their home soil or come to America to find work, they are no more than job-stealers.

Alas, the pope is the other side of the same materialist coin. He treats commerce from North America as but the latest form of *yanqui* imperialism rather than the liberating investment ordinary Latin Americans so desperately need. He betrays not the slightest understanding

of the difference between a genuine free market—in which a little guy with a good idea can challenge the business status quo—and the crony variety that predominates in his native Argentina and much of his home continent.

Typical is the pope's railing against "unfettered" or "unbridled" capitalism—an abstraction that exists nowhere on this planet. Typical too is this line from his apostolic exhortation "Evangelii Gaudium," in which he excoriates a world where "it is not a news item when an elderly homeless person dies of exposure, but it is news when the stock market loses two points?"

Isn't this a perfect description of the silence on the human tragedy that is today's Venezuela, a once-rich nation whose people are now reduced to picking through garbage heaps to ward off starvation? The pope complains about "an economy that kills," but it isn't free-market Hong Kong where citizens are being killed by their economy. It's socialist Venezuela.

Donald Trump and Pope Francis may be more alike than anyone realizes.

For his part, Mr. Trump sees Mexican workers as a threat. But the Mexican people have as much of a moral right to compete for their place in a global economy as Americans do—which includes competing for U.S. investment and manufacturing. As for Mexicans coming to America to work, no one likes illegality, but Mr. Trump would have a far better time addressing the problem if he could first acknowledge the reality that, at least in free societies, human beings are assets and not liabilities.

Mr. Trump's low view of Latin American labor is matched by the pope's crude and materialist understanding of North American capital and capitalism. Never does it occur to Pope Francis that one reason economies supposedly based on greed do better by the poor than socialist or "third way" rivals is that, in a system of *voluntary* exchange, competition means that to succeed businesses must please their customers.

No one would ever confuse the Golden Rule with the breaking down of barriers that stop people from voluntarily exchanging their goods and services across borders. But for the poor struggling to build a future of hope and dignity and possibility for their families, the two are not as far apart as thought. The real tragedy of Wednesday's Vatican get-together is that neither the president nor the pope is in a position to let the other in on it.

Write to mcgurn@wsj.com.

America's Foreign Policy Crisis

By Walter Russell Mead

Watching Donald Trump on the world stage must be surreal for the academics, politicians, diplomats and soldiers of the foreign-policy establishment. They haven't been this alarmed since the Senate failed to ratify the Treaty of Versailles. Yet Mr. Trump is merely a symptom of America's greatest problem in international affairs, and the crisis in foreign policy will not disappear when he leaves office.

The roots of the problem go back to the late 1940s, when the U.S. set out to build a global order in the aftermath of World War II. America helped create a long period of integration and growth by rebuilding Europe, promoting development in the decolonizing Third World, encouraging free trade and providing safe passage for global commerce across the seas.

When the Soviet Union collapsed in 1991, the bipartisan foreign-policy establishment was united in seeing a historic opportunity to deepen the liberal order and extend it into the rest of the world. Yet the public had always been skeptical about this project. Jacksonians in particular believed that American global policy was a response to the Soviet threat, and that once the threat had disappeared, the U.S. should retrench.

After World War I, and again at the start of the Cold War, Americans had held great debates over whether and how to engage with the world. But that debate didn't happen after the Soviet collapse. Elites felt confident that the end of history had arrived, that expanding the world order would be so easy and cheap it could be done without much public support. Washington thus embarked on a series of consequential foreign-policy endeavors: enlarging NATO to include much of Central and Eastern Europe, establishing the World Trade Organization in the mid-'90s, promoting a global democracy agenda whenever possible.

American voters have never shared the establishment's enthusiasm for a foreign policy aimed at transforming the post-Cold War world. When given the choice at the ballot box, they consistently dismiss experienced foreign-policy hands who call for deep global engagement. Instead they install untried outsiders who want increased focus on issues at home. Thus Clinton over Bush in 1992, Bush over Gore in 2000, Obama

over McCain in 2008, and Trump over Clinton in 2016.

Today the core problem in American foreign policy remains the disconnect between the establishment's ambitious global agenda and the limited engagement that voters appear to support. As Washington's challenges abroad become more urgent and more dangerous, the divide between elite and public opinion grows more serious by the day.

The establishment is now beginning to discover what many voters intuitively believed back in the 1990s. Building a liberal world order is much more expensive and difficult than it appeared a quarter-century ago, when America was king. Further, Washington's foreign-policy establishment is neither as wise nor as competent as it believes itself to be.

Meantime, the world is only becoming more dangerous. North Korea threatens to take America hostage. The Middle East burns. Venezuela descends into chaos. Jihadist groups develop new capacities. A failing Russia lashes out. The European Union risks breaking apart. China presses toward regional hegemony. Trade liberalization grinds to a halt. Turkey turns away from democracy. And the U.S. still lacks a strong consensus on what its foreign policy should be.

Washington's foreign policy needs more than grudging acquiescence from the American people if it is to succeed. How to build broad support? First, the Trump administration should embrace a new national strategy that is more realistic than the end-of-history fantasies that came at the Cold War's conclusion. The case for international engagement should be grounded in the actual priorities of American citizens. Second, Mr. Trump and other political leaders must make the case for strategic global engagement to a rightfully skeptical public.

For much of the establishment, focusing on the Trump administration's shortcomings is a way to avoid a painful inquest into the failures and follies of 25 years of post-Cold War foreign policy. But Mr. Trump's presidency is the result of establishment failure rather than the cause of it. Until the national leadership absorbs this lesson, the internal American crisis will deepen as the world crisis grows more acute.

Mr. Mead is a fellow at the Hudson Institute, a professor of foreign affairs at Bard College, and editor at large of the American Interest.

OPINION

The New Foreign Policy, Same as the Old

By John Bolton

The White House decided last week to continue President Obama's waiver of significant economic sanctions against Iran. The news, coming hard on the heels of U.S. Secretary of State Rex Tillerson's April 18 certification that Iran is complying with the 2015 Vienna nuclear agreement, was both revealing and distressing. New missile-related sanctions, simultaneously imposed, were small consolation.

This continuity with Obama-era policies fits a larger pattern. Despite generally tougher rhetoric against Iran and North Korea—including the president's weekend speech in Saudi Arabia—the Trump administration's actions against the proliferation of weapons of mass destruction increasingly resemble its predecessor's.

Despite tougher rhetoric, Trump's actions on Iran and North Korea echo Obama's strategic vision.

Rhetoric doesn't faze Iran so long as the nuclear deal's goodies keep coming, and the ayatollahs have had the effrontery to complain they aren't flowing fast enough. Mr. Obama and Tehran crafted the Vienna accord in ways that front-loaded the benefits for Iran, intending to lock America and Europe into economic ties that would be too costly to untangle. Every passing day validates that strategy.

Meanwhile, Iran's violations—regarding uranium enrichment, heavy-water production, ballistic-missile testing and concealed military di-

mensions such as warhead development—continue unimpeded. Unexpected, unnecessary and divorced from reality, Mr. Tillerson's certification of Iranian compliance blindsided the White House, which responded by toughening up the final presentation but lacked the wherewithal to reverse the decision. Friday's election returning Hassan Rouhani to Iran's presidency changed nothing, since the nuclear and ballistic-missile programs are controlled by Supreme Leader Ali Khamenei and Iran's Revolutionary Guard Corps.

A similar policy continuity can be seen regarding North Korea. Unlike his predecessors, Mr. Obama didn't obsess over negotiations with North Korea (preferring to obsess over negotiations with Iran). Instead, he propounded the doctrine of "strategic patience," a synonym for doing nothing, which proved equally as dangerous as making foolish concessions. Predictably, Pyongyang took advantage of American passivity. It concentrated on making steady, significant progress on both nuclear weapons (a sixth test is reportedly being readied) and long-range missiles.

Mr. Trump's current policy differs little from that of Bill Clinton, George W. Bush or Mr. Obama, relying mistakenly on China to pressure Pyongyang. As before, Beijing is feigning pressure, but as yet there is no evidence it will be any tougher than is necessary to quiet America down. South Korea has just thrown Kim Jong Un a lifeline by electing a president eager to return to the "sunshine" policy—appeasement by another name. And the full scope of Pyongyang's cooperation with Tehran remains unknown.

Why do Mr. Trump's proliferation policies increasingly echo his predecessor's? Although Mr. Obama's aides derided Washington's foreign-



REUTERS

President Trump at the Arab-Islamic-American Summit in Riyadh, Saudi Arabia, May 21.

policy establishment as "the blob," they were part of it, and, progressively, so are Mr. Trump's. The failure to make decisive changes in policy during the administration's early days, coupled with delays in making presidential appointments in the national-security departments, is taking its toll. Washington's political distractions aren't helping.

Mr. Trump's "new" power elites are increasingly succumbing to (or were already adherents in good standing of) the conventional wisdom, as their respective agency bureaucracies define it. The "capture" problem (more pointedly known as "clientitis" or "going native") is hardly new. Jim Baker once wisely said about becoming secretary of state under President George H.W. Bush: "I intended to be the president's man at the State Department, not State's man at the White House."

The State Department is Washington's most sophisticated bureaucracy in capturing political appointees and acculturating them to accept existing

policies, but the military and intelligence bureaus are no slackers. The policies they pursued on Jan. 19, the day before Mr. Trump's inauguration, are the same they pursue on Jan. 21, and Jan. 22, and so on until their direction is changed. Pushing through that change is what presidential appointees are needed to do.

What is true in proliferation policy is also true more broadly. Example: Before Mr. Trump's current trip to the Middle East, senior administration officials repeated the mantra that Jerusalem's Western Wall was not "in Israel" because Jerusalem's final status remained to be negotiated. The White House responded that the wall is "clearly in Jerusalem"—a point no one has disputed for several thousand years.

Curiously, the State Department's incantation apparently never reached U.S. Ambassador to the United Nations Nikki Haley, who cheerily opined that the wall was in Israel. Likewise, Mr. Trump's campaign promise to move the U.S. Embassy from Tel Aviv

to Jerusalem remains in limbo, just like his predecessors' pledges did.

Despite the furor over Mr. Trump's purported Moscow connection, his administration's policy regarding sanctions on Russia over its Ukraine adventure is essentially the same as Mr. Obama's. When Mr. Trump exhorted NATO allies to meet their commitments to increase defense expenditures to at least 2% of gross domestic product, critics acted as if the barbarians had breached the gates of civilized national-security discourse. But Mr. Obama previously characterized many of these same allies as "free riders."

There are exceptions to this policy continuity. Proposed increases in Washington's defense budget are a major example. But even there critics such as Sen. John McCain have rightly argued that the increases need to be significantly larger.

But by default, and perhaps by accident, the Trump White House has left Mr. Obama's flawed and otherworldly strategic vision in place. It isn't enough for the administration to say that a strategy is being written. The strategy must come first, with the clerical task of writing it down coming last, reflecting what is actually being done day by day. That isn't happening.

The Trump administration hasn't yet passed the point of no return on these critical issues, but it is getting perilously close. Warning flags are multiplying. Ronald Reagan once said he wanted a Republican Party that stood for "bold colors, no pale pastels." Mr. Trump should get out his paintbrush.

Mr. Bolton is a senior fellow at the American Enterprise Institute and author of "Surrender Is Not an Option: Defending America at the United Nations and Abroad" (Simon & Schuster, 2007).

The Asia-Pacific Rebalance and Beyond

By Michael O'Hanlon

After a successful Middle East tour, it's time for President Trump to turn his attention back to the troubles in Asia. The U.S. needs a grand strategy for the region, one that encompasses both the military and trade—and some fresh thinking on North Korea.

The Trump administration is reportedly finalizing an \$8 billion military-investment plan for the Asia-Pacific region. Eight billion dollars over such a vast region won't go very far. It's roughly the cost of relocating to Guam about half the 18,000 Marines now on Okinawa. The additional funds will help the roughly 100,000 U.S. military personnel in the region do their job better, but that force will still be modest compared to China's two million strong military and North Korea's force of one million plus.

Even after the U.S. Navy achieves its goal of basing 60% of its total fleet (up from the current 50%) in the broader region by 2020, America's military presence in the region will be just a handful of ships greater than what it has there today.

An \$8 billion multiyear investment is roughly comparable to the average annual increase in China's military budget over the past decade—about \$10 billion a year more,

each and every year. China's defense spending, while still far short of America's \$600 billion defense budget, is now estimated to be in the \$200 billion range. Beijing also has the advantage of concentrating its military resources on just one portion of the world.

In order for Mr. Trump's military initiative to be effective, it must be embedded within a broader regional strategy. By 2020, total U.S. military spending for the Asia-Pacific may only be about \$10 billion greater than it was in 2010. Mr. Trump needs to ensure international access to the waters of the South China Sea and other regional waterways, including periodic freedom-of-navigation maneuvers and exercises in these waters.

But that's just the military. Other elements of U.S. national power are also hugely important in Asia. And these are currently not as robust.

Begin with trade and U.S. economic engagement in the region. Mr. Trump last year disavowed Mr. Obama's Trans-Pacific Partnership trade agreement and has since officially pulled out of it. While there's much to rethink in U.S. global economic policy, TPP wasn't part of the problem. Designed together with a community of rules-based market economies, TPP gave the U.S. a way

to counter countries such China that didn't respect intellectual-property rights or provide a level playing field for trade and investment.

The administration needs to revive TPP, or at least its essence. Brookings scholar David Dollar has suggested that the U.S. no longer allow Chinese state-owned enterprises to purchase

A Trump strategy for Asia would bolster trade and America's military presence, with a new approach to North Korea.

U.S. firms or other assets in certain sectors until Western firms gain equal access to China's market. Coupling such an idea with a modestly revised version of TPP that revisits issues such as patent duration and the enforcement of workers' rights could be a winning formula.

If the Trump administration insists on staying out of TPP, it could use the TPP text as the first draft for the regional bilateral trade deals it apparently favors. Thus the U.S. might wind up as part of a broader TPP community without being a formal member.

The Administrative Procedure Act is one of these laws. Congress had good reason to adopt it: In the modern world, regulations are akin in power to statutes, but agency heads aren't elected. Thus, before an agency can regulate or deregulate, it must generally provide notice and seek public comment.

The process ensures that all Americans—workers, small businesses, corporations, communities—have an opportunity to express their concerns before a rule is written or changed. Agency heads have a legal duty to consider all the views expressed before adopting a final rule.

Today there are several regulations enacted by the Obama administration that federal courts have declared unlawful. One is the Persuader Rule, which would make it harder for businesses to obtain legal advice. Even the American Bar Association believes the rule goes too far.

Last year a federal judge held that "the rule is defective to its core" and blocked its implementation. Now the Labor Department will engage in a new rule-making process, proposing to rescind the rule.

On North Korea, Mr. Trump's instincts are proving solid and his relationship with China's Xi Jinping holds much promise. Because there are no attractive military options for dealing with North Korea, the preferred strategy is through economic pressure.

Here China is the key. Its annual economic interactions with North Korea have grown to some \$6 billion a year. Beijing recently scaled back oil and coal shipments to Pyongyang in response to the latter's frequent missile and nuclear tests. China must now intensify that pressure while offering promises of relief should North Korea halt and ultimately roll back its provocative actions.

The U.S. may have to sanction Chinese firms doing business with North Korea in contravention of United Nations sanctions. However, there's a good chance Chinese cooperation can be gained without escalation, provided Washington and Beijing can develop an integrated strategy along with Seoul.

For decades, the outside world has demanded North Korea's complete denuclearization. That's the right long-term goal, but we haven't been making any progress toward it. North Korea now probably has 15 to 20 nuclear weapons, and has tested five devices. The last one,

detonated in 2016, had an explosive yield approaching that of the Hiroshima bomb.

Instead of aiming for complete denuclearization, the U.S. should talk quietly with Beijing, Moscow, Seoul and Tokyo about an interim deal to relax some sanctions in exchange for a verifiable freeze on nuclear and missile development, testing and production. South Korea's President Moon Jae-in would likely favor such an approach.

The final piece of a sound Trump strategy for Asia is in the diplomatic and development realms. Mr. Trump's modest military buildup for Asia mustn't be paid for with the deep cuts to the U.S. State Department or U.S. Agency for International Development as he has proposed. Fortunately, Congress seems likely to rethink any Trump proposal that would pursue a modest defense buildup paid for in the wrong way.

A Trump strategy for Asia that builds on Mr. Obama's rebalance but introduces some new and distinctive elements is within reach and could help the beleaguered new president change the subject in a way that would be good for him as well as his country.

Mr. O'Hanlon is a senior fellow at the Brookings Institution.

Deregulators Must Follow the Law, So U.S. Regulators Will Too

By Alexander Acosta

President Trump has committed—and rightly so—to roll back unnecessary regulations that eliminate jobs, inhibit job creation or impose costs that exceed their benefits. American workers and families deserve good, safe jobs, and unnecessary impediments to job creation are a disservice to all working Americans. As the U.S. Labor Department approaches this regulatory rollback, we will keep in mind two core principles: respect for the individual and respect for the rule of law.

America was founded on the belief

that people should be trusted to govern themselves. Citizens sit on juries and decide the fate of their fellow citizens. Voters elect their representatives to Washington.

By the same token, Americans should be trusted to exercise individual choice and freedom of contract.

At a practical level, this means Washington should regulate only when necessary. Limiting the scope of government protects space for people to make their own judgments about what's best for their families.

The rule of law is America's other great contribution to the modern world. Engraved above the doors of

the Supreme Court are the words "Equal Justice Under Law." Those four words announce that no one is above the law, that everyone is entitled to its protections, and that Washington must, first and foremost, follow its own rules. This means federal agencies can act only as the law allows: The law sets limits on their power and establishes procedures they must follow when they regulate—or deregulate.

The Administrative Procedure Act is one of these laws. Congress had good reason to adopt it: In the modern world, regulations are akin in power to statutes, but agency heads aren't elected. Thus, before an agency can regulate or deregulate, it must generally provide notice and seek public comment.

The process ensures that all Americans—workers, small businesses, corporations, communities—have an opportunity to express their concerns before a rule is written or changed. Agency heads have a legal duty to consider all the views expressed before adopting a final rule.

Today there are several regulations enacted by the Obama administration that federal courts have declared unlawful. One is the Persuader Rule, which would make it harder for businesses to obtain legal advice. Even the American Bar Association believes the rule goes too far.

Last year a federal judge held that "the rule is defective to its core" and blocked its implementation. Now the Labor Department will engage in a new rule-making process, proposing to rescind the rule.

Another example is the Fiduciary Rule. Although courts have upheld this rule as consistent with Congress's delegated authority, the Fiduciary Rule as written may not align with Mr. Trump's deregulatory goals. This administration presumes that Americans can be trusted to decide for themselves what is best for them.

As the Labor Department acts to revise the Fiduciary Rule and others, the process requires patience.

The rule's critics say it would limit choice of investment advice, limit freedom of contract and enforce these limits through new legal remedies that would likely be a boon to trial attorneys at the expense of investors.

Certainly, it is important to ensure that savers and retirees receive prudent investment advice, but doing so in a way that limits choice and benefits lawyers isn't what this administration envisions.

The Labor Department has concluded that it is necessary to seek additional public input on the entire Fiduciary Rule, and we will do so. We recognize that the rule goes into partial effect on June 9, with full implementation on Jan. 1, 2018. Some have called for a complete delay of the rule.

We have carefully considered the record in this case, and the requirements of the Administrative Procedure Act, and have found no principled le-

gal basis to change the June 9 date while we seek public input. Respect for the rule of law leads us to the conclusion that this date cannot be postponed. Trust in Americans' ability to decide what is best for them and their families leads us to the conclusion that we should seek public comment on how to revise this rule.

Under the Obama administration, the Securities and Exchange Commission declined to move forward in rule-making. Yet the SEC has critical expertise in this area. I hope in this administration the SEC will be a full participant.

America is unique because, for more than 200 years, its institutions and principles have preserved the people's freedoms. From administration to administration, respect for the rule of law has remained, even when Americans have been bitterly divided. Some who call for immediate action on the Obama administration's regulations are frustrated with the slow process of public notice and comment. But this process isn't red tape. It's what ensures that agency heads don't act on whims but only after considering the views of all Americans. Admittedly, this means deregulation must find its way through the thicket of law. Casting aside the thicket, however, would leave Americans vulnerable to regulatory whim.

The Labor Department will roll back regulations that harm American workers and families. We will do so while respecting the principles and institutions that make America strong.

Mr. Acosta is secretary of labor.

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LIFE & ARTS

MY RIDE | By A.J. Baime

It's Her Thing: A Strange '70s Volkswagen

Brenda Berys, the San Francisco-based director of events at Gigya, a tech company, on her 1973 Volkswagen Thing, as told to A.J. Baime.

You never know when a chance encounter is going to change your life. In 2006, I was walking through a parking lot in Miami when I saw this bright yellow car. I was immediately struck by it. By the end of that day, I had found the owner, who was this beautiful, eccentric blond woman. I said, "I want that car." She said, "Whoa! Settle down." We started talking, and we became instant friends.

Four years later, we both moved to the West Coast, and had the Thing shipped to East Palo Alto. We had the engine rebuilt, banged out all the dents, and got to work, hoping we could blaze future careers in the nonprofit world. We drove that car all over—a blonde and a redhead, sun shining, no roof. The Thing represented our new lives and all the good we were going to do for people.

For the few who recognized the car, it brought back all these memories of the 1970s. The Thing [not a nickname, this is the car's actual name] was a descendant of a German World War II vehicle, and it was only sold in the U.S. for about two years starting in 1973. The doors are detachable, the windshield folds down. It's not quite a dune buggy, not quite a Jeep. It's just...a Thing.

Soon after the Thing appeared in 1973, the federal government and Ralph Nader criticized it for not meeting safety standards. After just two years, sales ended in the U.S.

About five years ago, my friend moved away, but she left the Thing for me. Driving it is still so much fun. It feels like a go-kart on the road, and everywhere I go, VW enthusiasts come out of the woodwork to share their car stories with me. The Thing lacks every comfort and convenience, and it's broken down a million times. But still, its charm never wears thin.

Contact A.J. Baime at Facebook.com/ajbaime.

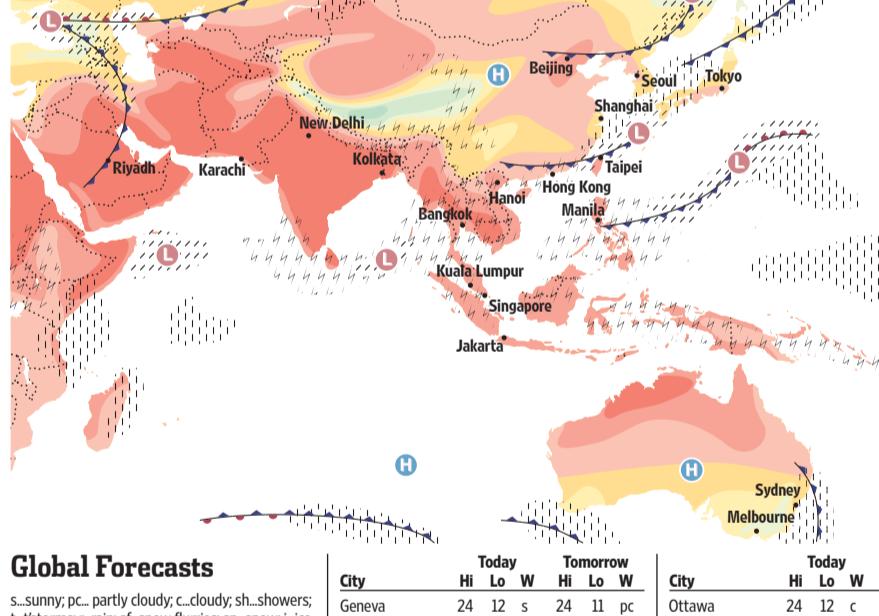


Brenda Berys, the San Francisco-based director of events at Gigya, a Silicon Valley tech company, with her 1973 Volkswagen Thing. All four doors pop off, and the windshield, above, flips down. A peek at the no-frills interior, bottom left.



ANGELA DECENZO FOR THE WALL STREET JOURNAL

Weather



Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers;

t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	21	11	c	22	12	pc
Anchorage	11	4	r	11	3	sh
Athens	25	16	t	25	16	pc
Atlanta	23	13	t	22	14	sh
Baghdad	35	19	s	36	20	s
Baltimore	21	14	pc	23	13	t
Bangkok	34	27	t	34	26	t
Beijing	34	17	s	30	15	s
Berlin	17	9	c	19	11	pc
Bogota	20	10	c	20	10	t
Boise	23	7	pc	20	8	pc
Boston	19	12	pc	15	12	r
Brussels	22	11	pc	23	12	pc
Buenos Aires	20	14	c	18	7	t
Cairo	31	20	s	32	20	pc
Calgary	10	7	r	14	4	r
Caracas	32	26	pc	32	26	pc
Charlotte	22	15	t	22	14	t
Chicago	16	11	sh	19	10	pc
Dallas	27	15	s	33	24	s
Denver	27	10	s	22	7	t
Detroit	22	14	r	20	13	sh
Dubai	38	26	s	39	28	s
Dublin	20	11	pc	23	13	s
Edinburgh	20	11	c	23	12	s
Frankfurt	20	11	c	23	11	pc

AccuWeather.com

The WSJ Daily Crossword | Edited by Mike Shenk



NON-PUZZLE | By Pancho Harrison

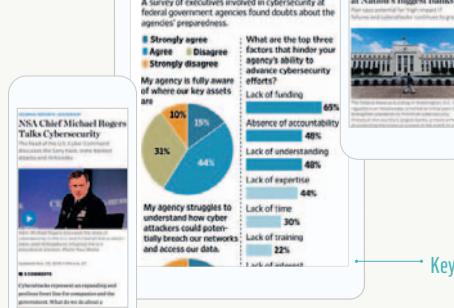
- Across**
- 1 Worker's compensation
 - 5 Company that bought about a million feet of blue ribbon in 1892
 - 10 Frat vowels
 - 14 Aphrodite's son
 - 15 Lou who produced Carole King's "Tapestry"
 - 16 Pluck
 - 17 Siesta for a Panera employee?
 - 19 Dreyfuss's "Close Encounters" wife
 - 20 Hearst kidnap gp.
 - 21 Sergeant Snorkel's dog
 - 22 Swiss miss of literature
 - 23 Nation on the Med.
 - 24 Marriage-age Mumbai boy, maybe?
 - 27 "The tiny little tea leaf tea"
 - 29 Sleeper, e.g.
 - 30 Saison avant l'automne
 - 31 Facilitate
 - 32 Romantic proposals
 - 35 Diploma?
 - 38 Constant
 - 41 He fought Darth Sidious
 - 45 Vatican vestment
 - 46 Article written by Engels
 - 47 Checked out
 - 49 Result of van Gogh's depression?
 - 53 Suffered from
 - 54 Put your foot down, perhaps
 - 55 Field (Shea Stadium's successor)
 - 56 Be off
 - 57 Initials of urgency
 - 58 "That dress looks great on you," maybe?
- Down**
- 1 Surfer's destination
 - 2 Its surface area is about 25% of what it was in 1960
 - 3 Kids' racers
 - 4 Jargon ending
 - 5 Danish, e.g.
 - 6 Supplement
 - 7 Open, in a way
 - 8 " who?"
 - 9 Average of due and quattro
 - 10 Spurred (on)
 - 11 Movie promo
 - 12 Show time
 - 13 Progress
 - 18 Weapon for Professor Plum
 - 22 Budget alternative
 - 25 Cupcake finishers
 - 26 Draped dress
 - 28 Longevity, so to speak
 - 32 Ukrainian port, to Ukrainians
 - 33 Corp. bigwigs
 - 34 Road reversals, in slang
 - 36 Gave a new look to
 - 37 "Regrettably..."
 - 38 Famed Vegas casino
 - 39 Passes
 - 40 Side by side
 - 42 Fictional general in the Venetian army
 - 43 Pets
 - 44 Try to tackle
 - 47 Restraint
 - 48 Buffalo's county
 - 50 Corp. divisions
 - 51 Give the business to
 - 52 Championship
 - 58 Rather firm?
 - 59 "Life of Pi" director
 - 60 Collected dust

Previous Puzzle's Solution



► Solve this puzzle online and discuss it at WSJ.com/Puzzles.

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Key gauges, trends, and data points

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THE WALL STREET JOURNAL.

Wednesday, May 24, 2017 | B1

Yen vs. Dollar 111.6680 ▲ 0.33%

Hang Seng 25403.15 ▲ 0.05%

Gold 1255.30 ▼ 0.43%

WTI crude 51.25 ▲ 0.23%

10-Year JGB yield 0.045%

10-Year Treasury yield 2.275%

Justice Department prepares to accuse car maker of evading emissions limits

BY MIKE SPECTOR
AND ARUNA VISWANATHA

The U.S. Justice Department is near suing Fiat Chrysler Automobiles NV and alleging the Italian-American auto maker used illegal software to cheat on government emissions tests, people familiar with the matter said, despite a recent proposal from the company to regulators on fixing the technology. Federal prosecutors were expected to file the civil lawsuit against Fiat Chrysler as soon as Tuesday, the people said.

The suit is expected to accuse Fiat Chrysler of using defeat-device software that al-

lowed roughly 104,000 2014-2016 model-year Jeep Grand Cherokee sport-utility vehicles and Ram pickup trucks to pass government emissions tests and then pollute far beyond legal limits on the road.

A lawsuit accusing Fiat Chrysler of using defeat devices would represent a significant escalation of government allegations first lodged against the company earlier this year in the closing days of the Obama administration.

The U.S. Environmental Protection Agency in January accused Fiat Chrysler of using and failing to disclose software that allowed illegal excess emissions but stopped short of calling the technology a defeat device designed to dupe regulators. Still, the alleged transgressions carried potential collective fines of roughly \$4.6 billion, regulators said.



The Fiat auto logo

Chief Executive Sergio Marchionne has dismissed comparisons to Volkswagen AG's admitted emissions cheating and said in January the company did "nothing, in our view, that is illegal." He accused regulators of "grandstanding" and trying to "lynch compa-

nies" over differences in how emissions software is calibrated.

Investigators across the globe are scrutinizing auto makers' emissions in the wake of Volkswagen's admission to conspiring for nearly a decade to mislead U.S. regulators with defeat devices on nearly 600,000 diesel-engine vehicles, a scandal that led the German company to plead guilty to criminal charges and agree to billions of dollars in penalties.

German prosecutors separately on Tuesday searched Daimler AG offices as part of a preliminary investigation into "known and unknown employees" of the company for alleged fraud and criminal advertising related to possible manipulation of exhaust-gas aftertreatment in cars with diesel engines, the auto maker said. Daimler said it was cooper-

ating with authorities.

A U.S. district judge on Wednesday is scheduled to hold a hearing to consider widespread lawsuits against Fiat Chrysler alleging emissions transgressions that are consolidated in a San Francisco federal court as part of a so-called multidistrict litigation case.

Fiat Chrysler on Friday said it had asked environmental regulators to certify 2017 model-year Jeep Grand Cherokees and Ram pickup trucks with diesel engines that featured updated software. The request came after months of discussions with the EPA and the California Air Resources Board, and included extensive testing of the vehicles, the auto maker said. The vehicles, while continuing to roll off production lines, have been held in storage awaiting regulatory approval to be sold.

Man vs. AlphaGo Match: Fans Lost

BY LIZA LIN
AND ALYSSA ABKOWITZ

WUZHENG, China—The event was billed as a battle pitting man against machine. Yet the rematch between the world champion in the ancient strategy game of Go, Ke Jie of China, and artificial-intelligence player AlphaGo also offered Alphabet Inc.'s Google, the machine's owner, the chance to raise its profile in China seven years after it abandoned its search business here.

However, as the first game began Tuesday, there was one hitch: Chinese audiences were largely unable to watch the live stream of the event on Alphabet's Google and YouTube websites, both of which have been blocked in the country since 2010 after the U.S. company refused to submit to government censorship.

On social media, Chinese Go fans expressed disappointment that the matches weren't live-streamed on sites they could view without using virtual private networks, or VPNs, that can circumvent the country's strict internet filters, known as the Great Firewall.

"What a pity and this could be such a good chance to promote this ancient game originated from China," one user said on China's Twitter-like platform Weibo.

"Why can't a Go game be broadcast? I don't get this," said another user.

A large entourage of Alphabet officials are here for the five-day event, including Eric Schmidt, the company's executive chairman. But they were hard-pressed to explain the event's lack of domestically accessible streaming, which has become ubiquitous in China.

"There is a lot of media interest so I'm hoping people will get to see this on various channels, however they need to do that," said Demis Hassabis, the chief executive and a co-founder of DeepMind, the Google subsidiary that created AlphaGo.

There were originally plans to stream the event live in China, but they fell through for reasons that weren't immediately clear, according to people with knowledge of the event.

One popular internet portal, Sohu.com, declined to say why it didn't live-stream the match. A representative said the site was still devoting extensive "words and pictures" to the event.

Shaun Rein, the founder of China Market Research Group, called it a "missed opportunity" for Google to build cache in China, given the buzz around the game and the fact that people under the age of 30 are avid consumers of live-streaming video here.

Hua Xueming, leader of the China National Go team, found at least one silver lining: Not seeing the match, she said, lends more of an air of mystery to it.

Please see GOOGLE page B4

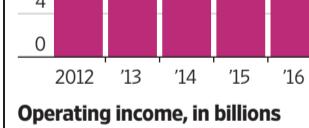


Journeying down a 'sacred river' at Disney World's new attraction that is based on the 2009 blockbuster film 'Avatar.'

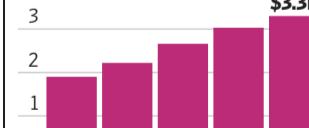
Walk in the Park

Disney has posted record profits recently in its parks and resorts division.

Revenue, in billions



Operating income, in billions



Source: the company

THE WALL STREET JOURNAL

Disney Hopes 'Avatar' Still Excites Park Goers

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

Please see AVATAR page B2

Amateur Sleuths Thrive in Oil-Data Field

BY GEORGI KANTCHEV

On a recent Sunday evening, Samir Madani had dinner with his family in suburban Stockholm, did the dishes and put his two children to bed.

Then he opened his laptop and started crunching U.S. oil-import data late into the night.

Mr. Madani, a technology executive who trades and researches crude as a hobby, is part of a growing group of oil sleuths who have sprung up to sate the market's voracious appetite for data and intelligence.

"So much of oil data is hidden and we're trying to make it accessible," said Mr. Madani, who runs a free oil-data website from his house. "Besides, there's so much drama in oil."

Dramatic gyrations in the price of oil in the past

three years have boosted demand for such services, intensifying competition in a market that for years had been dominated by governments, oil companies and a handful of big data providers.

The new entrants include both amateurs armed with an internet connection and a Twitter account, and professional services using shoebox-size satellites and sophisticated computer models. They

are crunching data on everything from Middle Eastern exports to U.S. drilling. Such statistics often move oil prices as they predict government releases on crude inventories or cover data black spots such as Chinese stockpiles and Iranian tanker movements.

With the proliferation of data sources, the oil industry is catching up to other sectors. Retail and commodity investors, for instance, have long had access to a wealth of sophisticated information on things like store traffic and crop yields. But the free fall in the price of oil—from more than \$100 a barrel in 2014 to around \$50 today—created new trading opportunities for hedge funds and day traders.

When Doug King started the Merchant Commodity hedge fund at RCMA Asset Management

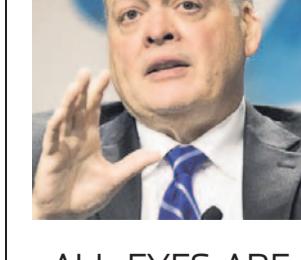
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Stockholm resident Samir Madani researches crude oil as a hobby.

FELIX OELLER FOR THE WALL STREET JOURNAL

INSIDE



ALL EYES ARE ON FORD'S NEW CHIEF

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AVATAR

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parks by a total of \$1 billion.

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 a 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.

Attendance at Disney's domestic parks has grown substantially.

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 Enter-

tainment 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 audience and earnings boost from new lands based on the boy wizard, according to people with knowledge of the deal.

Mr. Iger and then-parks chief Tom Staggs had brunch with Mr. Cameron and his producing partner, Jon Landau. They pitched their ideas to collaborate on a series of "Avatar" attractions in Animal Kingdom.

"They said they wanted to create totally immersive experience and that it would have an ethos behind it," recalled Mr. Landau. The film's message of conservation was important to Mr. Cameron, and Disney convinced him that it would be a good fit with the similarly themed Animal Kingdom.

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.

Mr. Chapek said that thanks to a marketing campaign by Disney, interest in Avatar theme-park attractions doesn't appear to be diminished by the delayed sequels, according to internal research. Merchandise sales, he added, have been robust during trial operations.

KENT PHILLIPS/DISNEY

The new attraction at Disney World features 'floating mountains.'

BUSINESS & FINANCE



U2 in concert in Pasadena, Calif., on Sunday. Vivendi's flirtation with a Universal IPO shows how the music industry has begun to turn the corner.

Vivendi Considers 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 suf-

fered steep declines in CD and download sales are 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 by 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.

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.

—Ethan Smith in Los Angeles contributed to this article.

SLEUTH

Continued from the prior page
ment in 2004, there were only a few outside data sources, he says. "We used to do our own data crunching by hand, it was a simpler time," said Mr. King, who now subscribes to several data services.

"The oil data industry has exploded," said Mr. King, chief investment officer at RCMA.

At least three new oil-data services companies are launching this year.

One is Kayrros, a Paris-based startup due to open for business in June. It aims to use computer algorithms to analyze satellite imagery, financial data and social news to come up with detailed estimates and forecasts for key oil numbers, says Antoine Half, a founding partner of the firm.

"A decade or more ago, it used to be people with binoculars sitting in a hotel watching tankers move in and out of the port," said Mr. Half, who is also a senior researcher at Columbia University's Center on Global Energy Policy.

A popular service such firms offer is tracking oil tankers. That gives, for instance, insight into how much crude members of the Organization of the Petroleum Exporting Countries are exporting after their deal last year to limit supply.

Another new entrant, **Vortexa**, promises real-time tracking of more than 94% of all oil cargoes globally. The firm was co-founded by a former head of trading technology at oil giant BP PLC.

Paris-based **Kpler** has 19 data "engineers" spread across offices in France, Singapore

Oil Sleuths

Oil data gatherers use a variety of technologies to match the market's voracious appetite for statistics and scraps of intelligence.

Satellites

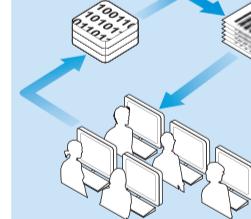


◆ Companies use satellites to monitor oil tankers as they criss-cross the seas

◆ That helps them reveal the location of Iranian oil tankers or how congested major oil ports are

◆ Some firms use shoebox-sized nanosatellites which can deliver more frequent imagery than traditional satellites

Infrared cameras



◆ Louisville, Ky.-based Genscape uses infrared cameras to measure the level of stored oil

◆ Those cameras are mounted on helicopters that fly around tanks around the world

◆ The market-moving data is usually released a few days ahead of government statistics

Computer algorithms



◆ Oil data firms use computer programs to analyze reams of data to come up with forecasts for key oil numbers

◆ Input sources include: satellite imagery, customs databases, shipping records, social news

◆ The data is then distributed via online portals featuring charts and live tanker tracking maps

Sources: the companies; staff reports

THE WALL STREET JOURNAL.

and Houston who use sources like shipbrokers and customs data and tiny nanosatellites, which can deliver more-f

BUSINESS NEWS

Ford CEO Tackles Challenges

New chief Jim Hackett earlier turned around University of Michigan's football program

BY ADRIENNE ROBERTS

Ford Motor Co.'s new boss doesn't have to sell a single car to win fans in the dozens of factory towns and suburban communities within a short drive of company headquarters. He already brought home Jim Harbaugh, coach of the University of Michigan's football team.

Ford Chief Executive Jim Hackett ran a major furniture company in the state for decades but wasn't widely known before taking the reins at Michigan's embattled athletic program in 2014. Turning around a college's sports department isn't a typical resume builder for an aspiring automotive chief, but it distinguished the 62-year-old executive in the race to succeed Mark Fields.

Bill Ford, the company's executive chairman, on Monday laid out a series of characteristics that Mr. Hackett brings to the job, including calling him a "transformational leader," visionary and "cultural change agent." Mr. Hackett is a former Ford board member and has been leading the company's Smart Mobility innovation unit for a year.

Mr. Ford, whose family has owned the Detroit Lions NFL football team since 1963, during a press conference also talked about Mr. Hackett's time as interim athletic director for the Wolverines and the bold move to lure a big name in football coaching. In addition to recruiting Mr. Harbaugh from the San Francisco 49ers NFL football team back to Michigan, where both men played football and where Mr. Harbaugh grew up, Mr. Hackett also secured a \$169 million sponsorship pact with Nike Inc. considered to be a landmark deal for college athletics.

"You can say, well is [the University of Michigan] relevant



Jim Hackett spoke Monday at Ford headquarters in Dearborn, Mich. He succeeds CEO Mark Fields.

vant to what Ford has got going on?" Mr. Ford said when announcing the company's leadership change. "He was walking into a very difficult and very public situation."

Mr. Hackett spent the bulk of his career steering furniture maker Steelcase Inc. He was recruited by University of Michigan President Mark Schlissel to serve as interim director of an athletic department in turmoil. The school's revered football program had been tarnished by a decade of mediocrity.

Mr. Schlissel said in an interview Monday that employees at the athletic department at the time were "unhappy and insecure."

Mr. Ford expects Mr. Hackett to re-energize the company's ranks of more than 200,000 employees. The auto maker is scrambling to confront Silicon Valley tech giants and startups edging in on the auto industry with electric vehicles, autonomous-car programs and other services.

Ford, an icon in American business and celebrated for not taking government bail-

outs during the financial crisis, was dented when Tesla Inc. surpassed it in market value in April. The development reinforced the view that Detroit is behind in the race to redefine the car business.

Mr. Ford said Steelcase's emergence as an industry powerhouse and innovator showed Mr. Hackett's business acumen.

Mr. Hackett spent the bulk of his career steering furniture maker Steelcase.

The job at Michigan "shows that Jim can be successful and operate in multi-environments," Mr. Ford added.

Before luring Mr. Harbaugh in December 2014, Mr. Hackett let the team play out the 2014 season to evaluate them, Mr. Schlissel said. Then, he aggressively courted Mr. Harbaugh in a recruiting process that captivated the sports world.

—Sara Germano contributed to this article.

Mr. Hackett also oversaw the signing of an outfitting deal with Nike 2015. The deal, which took effect last summer and is worth \$169 million through 11 years, brought the swoosh back to Ann Arbor, Mich., after the Wolverines sported Adidas AG apparel for nearly a decade.

"He owned the Nike deal," Mr. Schlissel said. He said Mr. Hackett took over one of the suites in the University of Michigan's football stadium during the off season and turned it into a war room. He had Nike, Adidas and Under Armour Inc. make proposals, and he laid out the details of the offers on display boards.

"He taught me it's not a matter of choosing dollars; it's about the relationship," Mr. Schlissel said. "He explained the process, his analysis, the goals and then gave us his recommendation. The process he went through was instructive."

The Michigan-Nike tie-up set the pace in an increasingly competitive college sports-licensing market.

Increasingly, Beijing and

China-Russia Venture Targets Boeing, Airbus

By TREFOR MOSS

SHANGHAI—China and Russia have joined forces to build a large passenger airliner designed to challenge **Airbus SE** and **Boeing** Co., in the latest sign of strengthening Sino-Russian ties.

State-owned aerospace giants **Commercial Aircraft Corp. of China** and Russia's **United Aircraft Corp.** say they are forming an alliance to build a 280-seat long-haul plane that will enter service in the mid- to late-2020s.

The deal was signed at a ceremony in Shanghai on Monday, formalizing plans set out in a 2016 memorandum.

China and Russia have been developing rival jets as they both seek to pry open Airbus and Boeing's duopoly in the single-aisle jet market. China's new C919 airliner flew for the first time in early May, while Russia's MC-21 is expected to conduct its maiden flight within the next few months.

Both aircraft face uncertain commercial futures, aviation analysts say, thanks to the American and European companies' dominance and their technical advantages, including greater fuel efficiency.

The airplane joint venture will be based in Shanghai, with a Russian chairman and a Chinese general manager, the partners said, and the aircraft will be built in the Chinese city. No financial details were disclosed.

The widebody jet market is forecast to be lucrative as global demand for air travel surges: Airbus estimates roughly 7,500 twin-aisle jets valued at more than \$2 trillion will be sold world-wide over the next two decades.



QIAI SHEN/BLOOMBERG NEWS

Ruling Curbs Patent Suits

BY BRENT KENDALL
AND JOHN D. MCKINNON

WASHINGTON—The Supreme Court limited the ability of patent holders to bring infringement lawsuits in courts that have plaintiff-friendly reputations, a major decision that could provide a boost to companies that defend against patent claims.

The high court, in an opinion by Justice Clarence Thomas, ruled unanimously that a specialized appeals court has been following an incorrect legal standard for al-

lens claims.

The federal district court in the rural Eastern District of Texas has been home to more than 30% of patent cases filed in recent years, including a significant number of lawsuits filed by firms that hold patents not to make products but for the purposes of asserting them in litigation. Some of those firms have been referred to derisively as patent trolls.

In the first quarter of 2017, the Eastern District saw more patent cases brought than all other district courts, and more cases by nonpracticing

others, including retail businesses, that have been sued in magnet districts for patent cases. Dozens of them signed briefs urging the Supreme Court to reach the conclusion it did.

"I think especially patent trolls are going to be more reluctant to go into the lion's den of the companies, [in districts] where they're located," said Maine lawyer Peter Brann, who filed a brief in the case on behalf of internet companies and retailers, including Adobe Systems Inc., eBay Inc., Macy's Inc., Oracle Corp., and Walmart Stores Inc.

Many big technology companies were pleased with the ruling, including Adobe. "Like many tech companies, Adobe deals with frivolous patent suits in places like the Eastern District of Texas because plaintiffs search for friendly courts," said Dana Rao, Adobe's vice president of intellectual property and litigation. "There's no place in the judicial system for the type of blatant forum shopping that is occurring in patent litigation today."

Despite the ruling's impact on the Texas court and on so-called patent trolls, neither was present in the actual case before the Supreme Court, which examined the proper venue for a lawsuit brought by the Kraft Foods subsidiary of Kraft Heinz Co.

Kraft sued **TC Heartland LLC**, alleging it infringed three Kraft patents on water-enhancement products.

Kraft sued in Delaware, another fairly frequent venue for patent cases, especially in the pharmaceutical industry. TC Heartland argued the case belonged in Indiana, where it was based.

Kraft was on the losing side of Monday's ruling but a spokesman said the company didn't believe "it has any impact on the ultimate outcome of the case."

Bill O'Connor, Heartland's vice president and general counsel, said the decision "will limit venue-shopping in patent litigation and facilitate an equitable litigation landscape."

Monday's ruling is a boost for technology companies and

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TECHNOLOGY

Hack Is Tied to Shadowy Group

By TIMOTHY W. MARTIN

A group linked to North Korea is highly likely behind this month's global ransomware assault, though the attack more closely resembles the behavior of a crime ring than a government-orchestrated campaign, a cybersecurity researcher said.

Cybersecurity firm Symantec Corp. said in a blog post late Monday that the WannaCry ransomware carried "strong links" to Lazarus, a group security experts suspect was behind last year's theft of \$81 million from the Bangladesh central bank and a 2014 hack of Sony Pictures Entertainment. U.S. officials have said they believe North Korea orchestrated the Sony attack—which North Korea has denied—and federal prosecutors are building cases that would accuse Pyongyang of involvement in the Bangladesh heist.

Cybersecurity researchers, including Alphabet Inc.'s Google unit, Kaspersky Lab ZAO and Comae Technologies, had previously drawn parallels between a variant of WannaCry and code used in previous attacks attributed to Lazarus. But those initial reports were cautious about drawing deeper conclusions about how the digital clues related to Lazarus or North Korea.

Little is known about Lazarus, though cybersecurity researchers say the group has been active since 2009. Its initial efforts were focused on Asia, but the group has begun targeting global banks.

Symantec's new analysis showed "substantial commonalities" with prior Lazarus attacks and WannaCry's tools and techniques, as well as network infrastructure used in the attack. That makes it "highly likely that Lazarus was behind the spread of WannaCry," the firm said. There were also smaller attacks using the WannaCry software in February, March and April, before a widespread assault this month that hit computer networks around the world.

Symantec didn't address whether North Korea was directly involved with the latest WannaCry assault. Cybersecurity experts have said the code in question could have been copied by various hackers, meaning the WannaCry malware could have originated from groups other than Lazarus. And even if Lazarus were the culprit, the group could have unleashed the malware without North Korean orders, they say. It is unclear who leads or funds Lazarus.

MANAGEMENT

Trip to Home Office Boosts Projects

By JOANN S. LUBLIN

How do far-flung employees win support for their projects from bosses at company headquarters? Well-timed travel may be the key.

A new analysis of business trips by 238 India-based inventors to their employer in the U.S. found those staffers were twice as likely to get the idea patented if they visited headquarters just before or during the Fortune 50 software concern's fiscal fourth quarter. That is when product managers were eager to finish spending their annual budgets.

Multinational companies with research centers far from their home countries don't always see significant payoffs from their investment because businesses lack efficient ways to fund innovative projects at those facilities, says Prithviraj "Raj" Choudhury, an assistant professor at Harvard Business School who conducted the research.

Study finds 'distant inventors lose out' when they can't make a well-timed pitch.

"Distant inventors lose out because they are not face to face at the right time with corporate decision makers," Mr. Choudhury explains.

Visiting inventors tracked for his study needed to confer informally with product managers at headquarters in order to stoke interest in innovative projects.

"It's like a beauty contest for patentable ideas," one inventor told the researcher. Inventors had their best chance to win funding during April, the initial month of their employer's fiscal fourth quarter, because product managers "risked losing the unspent funds the following year," according to the research paper, which Organization Science published this spring.

This software company now encourages U.S. product managers to visit its India R&D facility ahead of budget decisions, though there still is no formal mechanism, Mr. Choudhury says.

Cisco Systems Inc. takes a different approach. The Silicon Valley company gives its Globalization Center East in Bangalore, India, millions of dollars a year to spend on research, a company spokeswoman says. Some of the nearly 10,000 center staffers designed the ASR 901, network equipment for cellphone carriers that has become one of Cisco's fastest-selling products since its 2012 launch, she adds.



Teenage employees at a Roche Bros. supermarket in Millis, Mass. Lately, the chain has had to compete with summer-enrichment programs or extracurricular activities.



SIMON SINNARD FOR THE WALL STREET JOURNAL (2)

Teens Miss Out on Summer Jobs

A struggling retail sector isn't the employer it once was; plus, teenagers themselves are forgoing work

By IMANI MOISE

This summer, plenty of teens will be working at summer camps or taking enrichment courses. But few will be folding apparel or stocking shelves at the mall.

A retail-industry shakeout has made hourly jobs at chains like Gap Inc. and Abercrombie & Fitch Co. hard to come by this spring. A forecast from outplacement firm Challenger, Gray & Christmas Inc. suggests that the creation of retail jobs,

which have typically accounted for a quarter of teenage employment, won't pick up until back-to-school shopping gains steam in late July.

So far this year, retailers have announced plans to close thousands of stores, resulting in the loss of tens of thousands of hourly wage jobs. For teenage job seekers, that means getting more creative with the job search—or staying out of the labor market entirely.

Though the numbers of working teens has risen slightly in the last few years, overall teen employment has steadily declined for nearly

40 years, according to the U.S. Bureau of Labor Statistics. The rate of teen participation in the labor force during the month of July peaked in 1978 at 72%, falling to 43% last year.

The BLS links the decline to increased enrollment in summer school and heightened emphasis on extracurricular activities. In the bureau's most recent survey, less than 9% of teens who didn't have a job said they were interested in finding one.

The trend is setting off alarm bells for many who believe that teens are missing out on opportunities to learn the soft skills needed for their adult careers.

Hoping to save up money for a car, Danei Wesley applied for summer jobs at Wal-Mart, Forever 21 and Charlotte Russe stores near her hometown of Gary, Ind.

The 18-year-old, a rising sophomore at Indiana University Bloomington, followed up on each of her applications online, by phone or even in person, but was told in each case the position was already filled.

Looking closer to home

has proven successful for Ms. Wesley. A member of her church offered her a job for \$8 an hour at an Italian-ice store, and not long after, she found another job through the father of a cheer-squad teammate, tutoring children in math and science for \$9 an hour.

Large employers often assume teens lack the punctuality and professionalism needed on the job, said Nancy Snyder, chief executive of Commonwealth Corp., a Massachusetts-based nonprofit that helps find employment for teens. Ms. Snyder recommends that young job seekers follow Ms. Wesley's lead and try grocery stores or local mom-and-pop stores.

"Main Street businesses' hiring practices change with the economy," she said. "During the recession, they could hire more adults and probably did so. As the economy has recovered and the labor market has tightened, they are having a harder time finding adults and, therefore, more open to hiring teens."

In some cases, companies are struggling to attract the

Not Working

Rate of teenage participation in the labor force, July of each year



Source: Labor Department

THE WALL STREET JOURNAL

the grocery chain's workforce. John Melo, the company's vice president of human resources, said the number of job applications from teens has gone down slightly in the last decade. This summer, the supermarket hired 229 teens across its 20 locations to fill seasonal needs in Cape Cod and other popular summer destinations.

Tim Ryan, U.S. chief executive for accounting and consulting firm PricewaterhouseCoopers LLP, got his first job bagging groceries at a Roche Bros. store when he was 14. He stayed on for 10 years, stocking shelves and ringing up customers, and even worked weekends at the store during his first two years at PwC.

Messrs. Ryan and Melo note that entry-level positions like those at Roche Bros. are important for learning the ropes of professional life.

"There's a mentality that you want to build your resume for college, which is good," said Mr. Melo. "There are also a lot of schools that place a high value on work ethic."

BUSINESS WATCH

TATA MOTORS

Profit Tumbles 17% As Revenue Slips

Tata Motors Ltd. on Tuesday reported a 17% decline in profit as its commercial vehicle sales took a hit from the government's crackdown on cash and stricter emission rules.

Consolidated profit at the Mumbai-based parent of Jaguar Land Rover Automotiv PLC fell to 43.36 billion rupees (\$672 million) during the three months ended March 31, from 52.11 billion rupees a year earlier. That was above the 26.95 billion ru-

pees consensus estimate in a Thomson Reuters survey.

Consolidated revenue fell 3% to 787.47 billion rupees.

Tata Motors said "commercial vehicle segments witnessed muted demand due to weak replacement demand, subdued freight demand from industrial segment" and "lower than expected pre-buying ahead of the implementation of Bharat Stage IV emission norms."

Performance of the passenger vehicles segment, however, was strong thanks to robust demand for Tata Motor's recently launched Tiago and Hexa models.

Performance at its JLR unit also improved on strong sales for the F-Pace and Range Rover models.

—Anant Vijay Kala

ALEXION

Shake-Up Continues As 4 Executives Exit

Alexion Pharmaceuticals Inc. continued to turn over its top ranks following an internal investigation into sales practices, saying it is looking for a new chief financial officer after naming a new one late last year.

Alexion CFO Dave Anderson,

who joined the company in December after more than a decade as finance chief at Honeywell International Inc., plans to leave in August, the company said Tuesday. Mr. Anderson replaced Vikas Sinha, who abruptly resigned from the role last year along with Alexion's chief executive officer amid an internal investigation of sales practices.

Earlier this year, Alexion said it found senior management staff had pressured employees to get customers to order its flagship drug Soliris earlier than needed to meet financial targets. The disclosure followed an investigation into allegations made

by a former employee.

The drug company named Ludwig Hantson as its new CEO in March. Mr. Hantson replaced David Brennan, who had served in an interim capacity after former CEO David Hallal resigned.

Three other company executives—Alexion's chief commercial officer, its head of research and development, and its chief human resources officer—are also leaving the company, the firm said Tuesday. Alexion said it had hired Brian Goff as its new chief commercial officer, and that searches to replace other executives are under way.

—Bowdeya Tweh

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FINANCE & 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 largest U.S. 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 that 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 largest U.S. 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,



A Santa Clara County worker sorts ballots in San Jose, Calif. The \$320-billion-asset Calpers manages the state employee pension plan.

MARCO JOSE SANCHEZ/ASSOCIATED PRESS

chairman of the Illinois State Board of Investment, which oversees \$20 billion for state employees, judges and lawmakers.

The complexity results from a push by public pensions to boost investment profits to fill funding gaps that make it more difficult to handle 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.

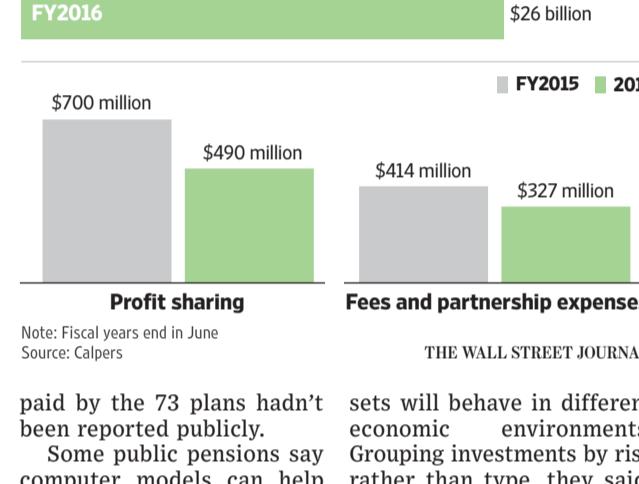
These alternative investments can be more difficult to value when compared with stocks and bonds, and typically mean higher fees for investors.

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

What Pensions Pay

Thanks in part to new computer modeling, Calpers is now able to determine the share of profits its private-equity managers take home.

Private-equity holdings in billions



Note: Fiscal years end in June

Source: Calpers

paid by the 73 plans hadn't been reported publicly.

Some public pensions say computer models can help manage their complex portfolios and predict how their as-

"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.

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.

In California, Calpers turned to computer models to understand its private-equity costs. Calpers has roughly \$26 billion invested with private-equity firms, which buy companies 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. Additionally, the information was 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 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. Earlier 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, 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.

FINANCE WATCH

BANKING

Chinese Regulator Faces Graft Probe

A high-ranking banking regulator has become the latest Chinese financial figure caught up in President Xi Jinping's long anticorruption campaign.

Yang Jiachai, assistant chairman of the China Banking Regulatory Commission, is under investigation on suspicion of a "serious violation of rules"—a euphemism for corruption—according to a brief statement posted Tuesday on the website of the Central Commission for Discipline Inspection, the ruling Communist Party's antigraft agency.

The banking commission didn't respond to a request to comment. Mr. Yang can't be reached and it is unclear whether he has a lawyer.

Mr. Yang spent over two decades at the People's Bank of China before joining the banking regulator in 2003, according to the statement.

The central government has been tightening the leash on financial regulatory bodies as part of a broad effort to reduce systemic risks and clamp down on irregularities in the banking, insurance and securities sectors.

—Yifan Xie

steadily added consortium members since then, with the group now totaling 80 banks.

—Paul Vigna

RETIREMENT

Fiduciary Rule in U.S. Takes Effect June 9

The U.S. retirement-savings regulation known as the fiduciary rule will take effect June 9 without further delay, Labor Department Secretary Alexander Acosta said Monday.

In an opinion piece for The Wall Street Journal, Mr. Acosta said "respect for the rule of law" precludes a further delay in next month's applicability date, which had been postponed from April 10 after President Donald Trump directed the department to re-evaluate the Obama-era regulation meant to protect retirement savings from conflicted investment advice.

Mr. Acosta wrote that the department didn't find a "principled legal basis to change the June 9 date while we seek public input."

The rule takes only partial effect on June 9. Brokers and insurance agents don't need to comply with certain parts of the regulation until Jan. 1, 2018.

—Lisa Beilfuss

PETRÓLEO BRASILEIRO

Oil Company Issues \$4 Billion in Debt

Brazilian state-controlled oil company Petróleo Brasileiro SA said Monday it issued \$4 billion in debt on international markets at the lowest interest average interest rate since 2013.

The notes are due 2022, 2027 and 2044, and Petrobras said it intends to use their net proceeds to pay down bonds coming due next year.

Petrobras, the world's most indebted oil company, has nearly \$30 billion in debt coming due in 2017 and 2018, including interest and principal.

Monday's bond sale was priced a week ago, which likely helped Petrobras to lock in the favorable interest rate. Since then, allegations of corruption against Brazilian President Michel Temer have called into question the leader's mandate as well as the future of his economic policies, which have aided Petrobras' deleveraging efforts.

—Paul Kiernan

R3 CEV

Bitcoin Tech Firm Raises \$107 Million

R3 CEV, one of many firms trying to capitalize on the technology behind the digital currency bitcoin, said Tuesday that it had raised \$107 million from a group of global banks including Citigroup Inc. of the U.S., Société Générale SA of France, and Mitsubishi UFJ Financial Group of Japan.

The fundraising is one of the largest rounds for a firm developing so-called blockchain technology and trails only the \$116 million raised by 21 Inc. in 2015. It occurred amid a burst of new interest this spring in bitcoin, alternative cryptocurrencies and the technology behind them. The price of bitcoin has more than doubled so far this year.

R3, based in New York, is looking to complete another round of fundraising later this year. The firm was launched with a consortium of nine banks in September 2015 and has

Fidelity CEO Cites Bitcoin Hurdles

BY SARAH KROUSE

Fidelity Investments' chief executive was planning to say in a speech Tuesday that the money-management giant underestimated how hard it would be to win widespread adoption of bitcoin as a digital currency.

Bitcoin and blockchain technology, which underpins the digital currency, have "a reasonable chance" of thriving, according to Abigail Johnson's prepared remarks for a speech at a technology conference in New York. But she asks "why is this so much harder than it seemed three years ago?"

The speech is a rare public appearance for Ms. Johnson since succeeding her father as Fidelity's chief executive in 2014, and her largest audience since she got the position. More than 2,000 people were expected at the digital-currency news service CoinDesk's Consensus conference.

Her remarks about bitcoin and blockchain technology are a reminder of how the financial-services industry is wrestling with the promise and drawbacks of cryptocurrencies

and distributed-ledger technology. Ms. Johnson is one of the highest-profile members of the financial-services industry to back bitcoin.

Ms. Johnson intended to urge the audience to make cryptocurrency and related technology more accessible for individuals and large institutions. "Too often we see bitcoin and blockchain technologies as solutions in search of a problem," Ms. Johnson planned to say, according to her prepared comments. "We

don't just need these systems to be technically better than the alternatives—we need them to be more user-friendly."

Fidelity has worked with bitcoin platform Coinbase Inc. to allow charitable giving in bitcoin, enabled bitcoin payments in its cafeteria and is studying applications for distributed-ledger technology.

Ms. Johnson said the firm will soon make it possible to display bitcoin assets held through Coinbase on Fidel-

ity.com.

Yet fewer than 100 employees have completed bitcoin transactions. Potential users of the technology are also confused or frustrated by it, according to her prepared remarks. Ms. Johnson's speech stopped short of making firm recommendations for ways to make the currency more mainstream.

Regulatory, security and risk-related issues are major barriers to broader adoption of bitcoin and related technology after a string of bad headlines for the cryptocurrency. Hackers behind the WannaCry cyberattack this month, which held for ransom computer files of hundreds of thousands of victims, demanded payment in bitcoin.

Transactions on the bitcoin network are recorded on the blockchain, a shared ledger, but those trading the currency don't have to disclose their identities. No agency regulates who buys and sells the currency. Bitcoin and other cryptocurrencies provide little visibility into users' identities to government overseers, a crucial component of use by financial firms.

Azeri Lender's Bankruptcy Plan Upsets International Bondholders

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, hit 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.

Azerbaijan's Finance Minister Samir Sharifov and IBA Chairman Khalid Ahadov were scheduled to present the details of its plan to international investors in London on Tuesday. Some are already complaining, arguing that

Azerbaijan might be intending to treat local creditors differently from them.

A group of unidentified investors said in a letter last week to the bank and the finance ministry that they were surprised by the bankruptcy filing, since some of them had been given assurances by Azerbaijan officials in January that 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 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.

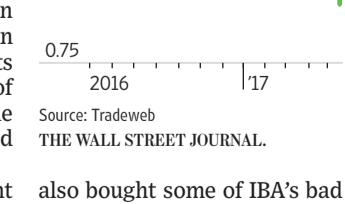
Azerbaijan, nestled between Iran and Russia on the Caspian Sea, has suffered a slump in its economy and in the value of its national currency, the manat, since oil prices started to decline sharply in 2014.

The Azerbaijan 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. 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.

Rude Awakening

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



Source: Tradeweb

THE WALL STREET JOURNAL.

FINANCE & MARKETS

A Pariah of Global Debt Market: Greece

Investors shy away from nation's bonds, even as prices sink, due to thin trading

BY JON SINDREU

Greek debt has been a great investment this year, in theory.

The reality is that almost nobody trades it, even with yields at a three-year low, so actually making significant money is all but impossible. The tiny volumes are also a sign that Athens has a long road ahead before it can borrow from investors again.

On Tuesday, yields on 10-year Greek government debt rose to 5.751% from 5.549% the previous day, according to Tradeweb, and comes after eurozone finance ministers failed to agree on the release of another round of bailout cash that Greece needs to keep paying bondholders this summer. Yields rise when bond prices fall.

Yet, there are few people trading these bonds.

Only €160 million (\$180 million) of Greek government bonds has changed hands on the country's HDAT electronic-trading platform this year, according to figures from the

Bank of Greece. That is a fraction of the levels before Greece ran aground in a decade-long economic crisis. All of the debt traded this year is about as much as was traded in half an hour, on average, from 2001 to 2007.

Moreover, trading volumes are lower this year than they were in 2016, underscoring the challenges the Greek government will face to stage a return to financial markets, even as officials plan the first bond issue in three years for as early as this summer.

J.P. Morgan Asset Management, a \$1.7 trillion money manager, is confident that Athens will ultimately get the funds, and it doesn't believe private investors will take any write-downs. But it doesn't own any Greek bonds.

"It's not really in the universe for us," said Mike Bell, the company's global market strategist.

One problem is that ratings firms still rank Greek debt as junk. This means it is off the radar for most money managers other than hedge funds and some domestic investors, said John Stopford, head of multiasset income at Investec Asset Management.

Indeed, the spread between the price that banks dealing in Greek bonds are willing to buy

the debt and the price at which they are willing to sell it is the widest among eurozone bonds, which is a further indication of a thin market.

This spread was 0.143 percentage point Tuesday, according to Tradeweb, compared with 0.053 percentage point for Portugal and 0.003 for Germany.

There isn't much to buy and sell in the first place, because most of Greece's debt is in the hands of international public

price on Greek bonds "tends to go one way very quickly."

While new issuance could increase investor confidence, Greek bonds have had false dawns before. The ability to buy and sell the debt picked up in 2014 after Greece issued \$4 billion in bonds, raising hopes that the country could return to global debt markets. But as Greek politics returned to crisis again the following year, liquidity evaporated.

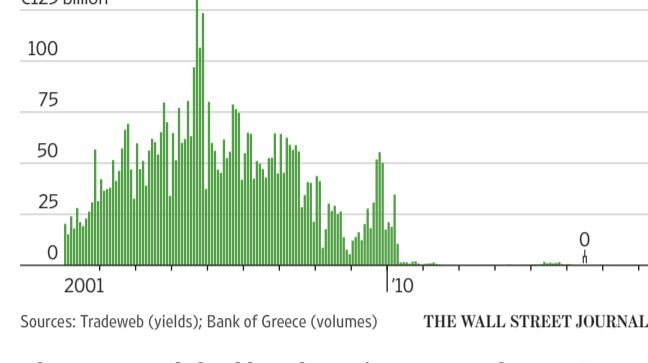
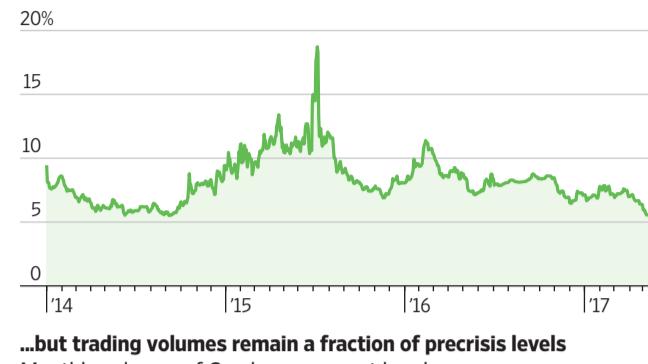
Even then, the €10 billion transacted in 2014, before it fell to €1 billion the next year, is trivial compared with the €630 billion of average transactions in the years leading up to the 2008 financial crisis.

Low volumes expose Greek debt to larger swings as negotiations with international creditors continue. Eurozone nations have locked horns with the International Monetary Fund, which is demanding further debt relief for Greece to participate in new loans. Yet, some analysts think that yields will remain contained as long as expectations remain that a deal will allow the European Central Bank to buy it as part of its stimulus programs.

"The market just isn't big enough and there isn't really any issuance," said Patrick O'Donnell, senior investment manager at Aberdeen Asset Management, which means the

Low Interest

Greek bonds are on a roll...
Yields on Greek 10-year government debt, prices move opposite to yields.



THE WALL STREET JOURNAL.

a larger reversal should not be in store as long as hopes about debt relief and ECB buying linger," said Christopher Rieger, an analyst at German lender Commerzbank AG.

—Christopher Whittall contributed to this article.

5.751%

Yield on 10-year Greek debt, up from 5.549% the previous day

institutions. Out of more than €300 billion in government debt, private investors hold only €36 billion of bonds. It's sort of a Catch-22: The market is shallow because there aren't any new bonds, but selling new bonds into a thinly traded market is hard for Greece.

"The market just isn't big enough and there isn't really any issuance," said Patrick O'Donnell, senior investment manager at Aberdeen Asset Management.

Indeed, the spread between the price that banks dealing in Greek bonds are willing to buy

bonds and their stock-market proxies on Tuesday.

Utilities stocks in the S&P 500, often thought of as bond-like because of their relatively high dividends, were 0.7% higher and were among the best-performing sectors in the broad index for the day. The S&P 500 real-estate sector, which includes real-estate investment trusts that distribute most of their income to shareholders, were up 0.4%.

Government bonds edged

higher, with the yield on the 10-year Treasury note falling

to 2.247% from 2.254% on Monday, according to Tradeweb. Yields fall as bond prices rise.

Elsewhere, the Stoxx Europe 600 rose 0.2%, led by gains in shares of banks and technology firms, as investors looked past a blast at a concert hall in Manchester late Monday.

The British pound was 0.1%

lower against the U.S. dollar, while some initial buying of havens such as government bonds, seen earlier in the session, eased.

"It's a tragedy," said Mike Bell, global market strategist at **J.P. Morgan Asset Management**, but it doesn't have "a read-through for markets."

Investors are looking ahead to the release of minutes of the U.S. Federal Reserve's May meeting on Wednesday.

Some investors are speculating that the central bank could hold interest rates steady at its June meeting after the recent decline in the dollar and Treasury yields. But others say the Fed is on track to continue raising rates.

Utilities, Real Estate Spur S&P 500; Asia Mostly Off

BY AKANE OTANI
AND CHRISTOPHER WHITTALL

Dividend-paying stocks lifted the S&P 500 Tuesday, putting it on course for a fourth consecutive session of gains.

TUESDAY'S MARKETS The broad index was up 0.2% at midday as shares of utilities and real-estate companies climbed. The Dow Jones Industrial Average was 28 points higher, or up 0.2%, to 20923 and the Nasdaq Com-

posite was up 0.1%.

Asian markets settled mostly lower, with the Shanghai Composite Index down 0.5% and the Shenzhen Composite Index losing 2.1%.

Japan's Nikkei Stock Average fell 0.3% and Australia's S&P/ASX 200 declined 0.2%.

U.S. stocks have been resilient in recent months to investors' concerns that political turmoil in Washington could push back the Trump administration's plans for policy changes such as tax cuts and fiscal stimulus. A strong cor-

porate earnings season and a largely stable economy are helping major indexes stay buoyant, investors and analysts say.

"First-quarter profits were clearly exceptional—not just better than what analysts forecasted—and I think that's the primary reason why this market just keeps driving higher," said Ed Keon, managing director and portfolio manager with QMA, a multiasset manager owned by Prudential Financial.

Investors lifted government

bonds and their stock-market proxies on Tuesday.

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THE FUTURE OF EVERYTHING

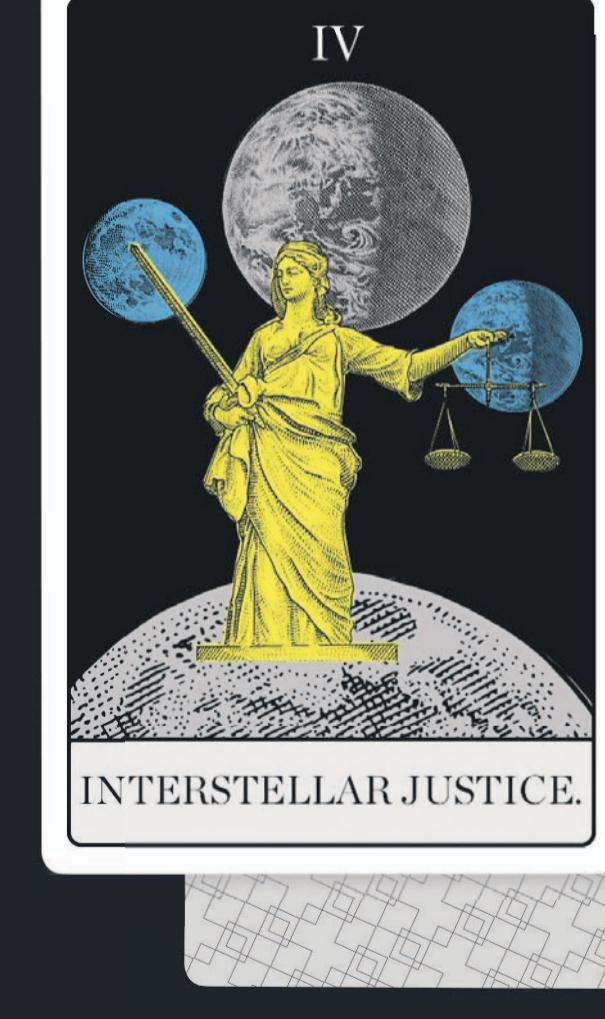
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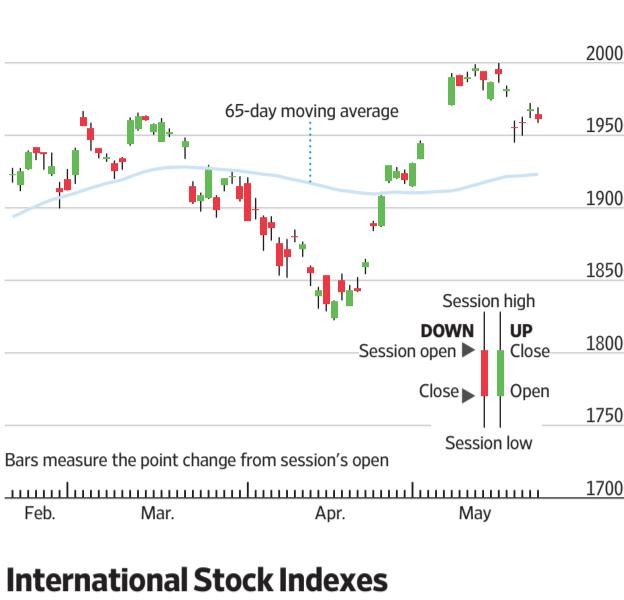
Read ambitiously

MARKETS DIGEST

Nikkei 225 Index

19613.28 ▼65.00, or 0.33%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

STOXX 600 Index

392.02 ▲0.88, or 0.22%

High, low, open and close for each trading day of the past three months.



International Stock Indexes

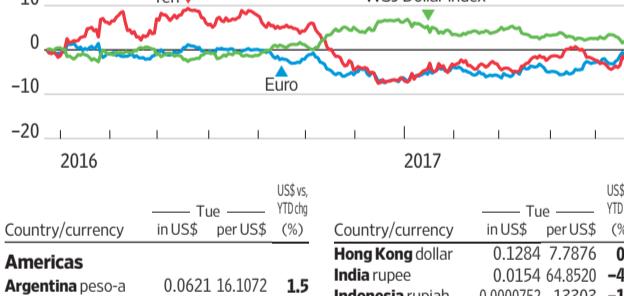
Data as of 12 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2762.70	1.72	▲0.06	2193.75	2193.75	2769.38	2769.38	9.3
	MSCI EAFE	1887.57	-5.77	▼-0.30	1471.88	1471.88	1956.39	1956.39	10.0
	MSCI EM USD	1003.35	-0.31	▼-0.03	691.21	691.21	1044.05	1044.05	26.8
Americas	DJ Americas	576.56	1.61	▲0.28	480.90	480.90	578.17	578.17	6.7
Brazil	Sao Paulo Bovespa	62557.54	884.05	▲143	48066.67	48066.67	69487.58	69487.58	3.9
Canada	S&P/TSX Comp	15494.38	35.92	▲0.23	13609.58	13609.58	15943.09	15943.09	1.4
Mexico	IPC All-Share	49102.70	159.24	▲0.33	43902.25	43902.25	50154.33	50154.33	7.6
Chile	Santiago IPSA	3668.71	17.49	▲0.48	2998.64	2998.64	3786.05	3786.05	13.8
U.S.	DJIA	20942.02	47.19	▲0.23	17063.08	17063.08	21169.11	21169.11	6.0
	Nasdaq Composite	6141.99	8.37	▲0.14	4574.25	4574.25	6170.16	6170.16	14.1
	S&P 500	2400.36	6.34	▲0.26	1991.68	1991.68	2405.77	2405.77	7.2
	CBOE Volatility	10.70	-0.23	▼-2.10	9.56	9.56	26.72	26.72	-23.8
EMEA	Stoxx Europe 600	392.02	0.88	▲0.22	308.75	308.75	396.45	396.45	8.5
	Stoxx Europe 50	3237.09	4.80	▲0.15	2626.52	2626.52	3279.71	3279.71	7.5
France	CAC 40	5348.16	25.28	▲0.47	3955.98	3955.98	5442.10	5442.10	10.0
Germany	DAX	12659.15	39.69	▲0.31	9214.10	9214.10	12841.66	12841.66	10.3
Israel	Tel Aviv	1419.18	-2.41	▼-0.17	1372.23	1372.23	1490.23	1490.23	-3.5
Italy	FTSE MIB	21415.74	97.16	▲0.46	15017.42	15017.42	21828.77	21828.77	11.3
Netherlands	AEX	528.17	0.32	▲0.06	409.23	409.23	537.84	537.84	9.3
Russia	RTS Index	1096.83	13.25	▲1.22	874.88	874.88	1196.99	1196.99	-4.8
Spain	IBEX 35	10916.30	122.90	▲1.14	7579.80	7579.80	11184.40	11184.40	16.7
Switzerland	Swiss Market	9061.76	-23.02	▼-0.25	7475.54	7475.54	9136.95	9136.95	10.2
South Africa	Johannesburg All Share	54548.91	31.85	▲0.06	48935.90	48935.90	54716.53	54716.53	7.7
Turkey	BIST 100	97717.48	1317.45	▲1.37	70426.16	70426.16	97776.33	97776.33	25.1
U.K.	FTSE 100	7485.29	-11.05	▼-0.15	5788.74	5788.74	7533.70	7533.70	4.8
Asia-Pacific	DJ Asia-Pacific TSM	1592.39	-8.10	▼-0.51	1308.52	1308.52	1603.06	1603.06	11.9
Australia	S&P/ASX 200	5760.20	-11.00	▼-0.19	5103.30	5103.30	5956.50	5956.50	1.7
China	Shanghai Composite	3061.95	-13.73	▼-0.45	2815.09	2815.09	3288.97	3288.97	-1.3
Hong Kong	Hang Seng	25403.15	11.81	▲0.05	19830.43	19830.43	25403.15	25403.15	15.5
India	S&P BSE Sensex	30365.25	-205.72	▼-0.67	25305.47	25305.47	30658.77	30658.77	14.0
Indonesia	Jakarta Composite	5730.61	-18.83	▼-0.33	4710.79	4710.79	5791.88	5791.88	8.2
Japan	Nikkei Stock Avg	19613.28	-65.00	▼-0.33	14952.02	14952.02	19961.55	19961.55	2.6
Malaysia	Kuala Lumpur Composite	1767.17	-7.78	▼-0.44	1614.90	1614.90	1778.65	1778.65	7.6
New Zealand	S&P/NZX 50	7384.70	-24.80	▼-0.33	6664.21	6664.21	7571.11	7571.11	7.3
Pakistan	KSE100	52146.97	773.46	▲1.51	36061.56	36061.56	52387.87	52387.87	9.1
Philippines	PSEI	7812.14	5.57	▲0.07	6563.67	6563.67	8102.30	8102.30	14.2
Singapore	Straits Times	3222.69	9.12	▲0.28	2729.85	2729.85	3271.11	3271.11	11.9
South Korea	Kospi	2311.74	7.71	▲0.33	1925.24	1925.24	2311.74	2311.74	14.1
Taiwan	Weighted	10007.84	10.58	▲0.11	8300.66	8300.66	10036.82	10036.82	8.2
Thailand	SET	1564.69	6.96	▲0.45	1384.26	1384.26	1591.00	1591.00	1.4

Source: SIX Financial Information/WSJ Market Data Group

Currencies

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



London close on May 23

US\$ vs. Yen
Country/currency Tue YTD chg (%)

US\$ vs. Euro
Country/currency Tue YTD chg (%)

US\$ vs. GBP
Country/currency Tue YTD chg (%)

US\$ vs. CHF
Country/currency Tue YTD chg (%)

US\$ vs. CAD
Country/currency Tue YTD chg (%)

US\$ vs. AUD
Country/currency Tue YTD chg (%)

US\$ vs. NZD
Country/currency Tue YTD chg (%)

US\$ vs. SGD
Country/currency Tue YTD chg (%)

US\$ vs. HKD
Country/currency Tue YTD chg (%)

US\$ vs. CNY
Country/currency Tue YTD chg (%)

US\$ vs. JPY
Country/currency Tue YTD chg (%)

US\$ vs. BRL
Country/currency Tue YTD chg (%)

US\$ vs. MXN
Country/currency Tue YTD chg (%)

US\$ vs. ARS
Country/currency Tue YTD chg (%)

US\$ vs. CLP
Country/currency Tue YTD chg (%)

US\$ vs. COP
Country/currency Tue YTD chg (%)

US\$ vs. IDR
Country/currency Tue YTD chg (%)

US\$ vs. ILS
Country/currency Tue YTD chg (%)

US\$ vs. KES
Country/currency Tue YTD chg (%)

US\$ vs. LBP
Country/currency Tue YTD chg (%)

US\$ vs. NGN
Country/currency Tue YTD chg (%)

US\$ vs. PAB
Country/currency Tue YTD chg (%)

US\$ vs. QAR
Country/currency Tue YTD chg (%)

THE PROPERTY REPORT

Blackstone Cozies Up to Mom and Pop

Asset manager is raking in the cash as it markets nontraded REIT to small investors

BY PETER GRANT

Blackstone Group LP amassed one of the world's largest real-estate portfolios by pulling in much more capital than competitors from big institutions such as pension funds, insurers and university endowments.

Now, it is taking its show to mom-and-pop investors and again blowing away its competition.

Blackstone in January launched its first nontraded real-estate investment trust, or REIT, a vehicle marketed to small investors as a way to participate in the commercial real-estate industry without the volatility of a traded REIT. Such vehicles have faced mounting criticism in recent years over high fees, poor disclosure and other problems.

Yet as of April, Blackstone Real Estate Income Trust Inc. had raised \$755.4 million, about 41% of all the funds the entire industry raised in 2017, far more than any competitor, according to Robert A. Stanger & Co., an investment bank that specializes in nontraded REITs.

"Blackstone burst out of the gate," said Kevin Gannon, a managing director at Stanger. "They became No. 1 in the space in short order."

Blackstone also has become a closely watched agent for change in an industry that is trying to move away from a past that is tangled up in



The nontraded REIT industry came under fire after Nicholas Schorsch's empire collapsed in 2014 over falsified accounting.

scandal and regulatory criticism. Like many of the new breed of nontraded REITs, Blackstone's vehicle is structured to align the interests of investors and management better than those of the past.

"This product...is about the right fees and structure and alignment," Jonathan Gray, Blackstone's head of real estate, said on a video on the REIT's website. He declined to comment because the REIT is in fundraising mode.

The alignment between REIT managers and investors is crucial today as the eight-year bull market in the commercial real-estate industry shows signs of slowing, critics say. Mistakes on reading mar-

kets could trigger losses, especially if values start to decline.

Some traditional nontraded REITs were excoriated because managers wouldn't be penalized for making bad investment decisions. That isn't the case with the Blackstone REIT.

"If things don't go well, Blackstone won't make as much," said Phil Owens, managing director of **Green Street Advisors**' consulting unit. "If things go really well, they make more."

Green Street has been a critic of nontraded REITs for their high fees, weak disclosure and lack of alignment. Mr. Owens said the Blackstone structure represents a big shift.

Nontraded REITs: How They Work

Nontraded real-estate investment trusts have had a roller-coaster history in recent years. Here is a summary of how they work, why they have been controversial and the changes taking place in response to criticism.

What are nontraded REITs?

They are investment vehicles that raise money from small investors and use those funds to buy office buildings, stores, hotels, warehouses and other commercial real estate. If all goes well, investors receive dividends from the income of those properties and profit when the REIT is liquidated, usually after a few years.

How are nontraded REITs different from traded REITs?

The main difference is that

the shares of traded REITs are bought and sold on stock exchanges such as those of other public companies. Some investors like being insulated from stock-market volatility.

When did nontraded REITs become popular?

They attracted tens of billions of dollars of investments in the early years of the economic recovery, partly because they offered high dividends in a low-interest-rate environment. But fundraising efforts have been hampered recently by criticism and regulatory investigations.

Why the criticism?

More than five years ago, the Securities and Exchange Commission and the Financial Industry Regulatory Authority increased their scrutiny of the industry because they believed nontraded REITs might not be adequately disclosing risks and costs. Some small investors weren't aware they were pay-

ing as much as 15% in upfront fees and that there was a chance they might not get all of their principal back.

What was the upshot of that scrutiny?

Finra has adopted new rules designed to improve disclosure. As a result of these rules, most new nontraded REITs have adopted new structures.

How have nontraded REITs performed?

Some have returned only a fraction of investors' principal when they liquidated. But most of the returns have been respectable partly because of the increasing value of commercial real estate over the past eight years. The average nontraded REIT has returned to investors 10.5% annually, including dividends, according to Green Street Advisors. But the average traded REIT has returned 13.7% during that same period, Green Street says.

New rules by the Financial Industry Regulatory Authority forced most industry players to change their fee structures, decreasing the incentive among financial advisers to sell them. A rule by the Labor Department, parts of which are set to take effect next month, would make financial advisers legally bound to act in the best interests of their clients.

In all, the entire nontraded REIT industry has raised only \$1.8 billion in 2017 as of the end of April, about the same as the first four months of 2016, the worst fundraising year since 2002, when the industry was in its early stages, according to Stanger.

REIT Stocks' Rally Fizzles

BY ESTHER FUNG

Shares of real-estate investment trusts have slumped this year as a postelection sugar rush wears off.

The S&P U.S. REIT Index has fallen 1.3% so far this year. It rose 4.2% last year. Meanwhile, the S&P 500 stock index has risen 6.9% so far this year, after a 9.5% increase in 2016.

REITs have had a tough time for most of the past two years as investors increasingly worried about rising interest rates, which make it more expensive for REITs to borrow.

After the election, the sector bounced higher as investors rejoiced over the prospects of a looser regulatory environment and fiscal stimulus. But the rally fizzled as investors began to worry anew about rising rates. What's more, concerns are growing that the commercial market

might have peaked, given that the sector had been a beneficiary of easy monetary policy for the past several years.

Concerns about a potential "border tax," meanwhile, are weighing on sectors that are more exposed to trade and U.S. dollar's strength to other currencies, such as retail and lodging REITs.

"While corporate profit growth recently turned positive again, hotel fundamentals haven't yet seen a boost in business demand," said Lukas Hartwich, an analyst at real-estate research firm Green Street Advisors. He said, however, that a pickup in demand could be seen in the summer as corporate profits continue to rise. Business travel accounts for three-quarters of demand of higher-quality hotels that REITs own.

To be sure, employment, inflation and wage growth in the

U.S. have remained at healthy levels, supporting demand for commercial and residential real estate.

And rising interest rates are usually followed by positive returns for REITs, said Brad Case, senior vice president of Research and Industry at the National Association of Real Estate Investment Trusts. "It's because the macroeconomy is strengthening, conditions are improving and that's a good thing for REITs," he said.

Yet within REITs, the prospects of some sectors are showing signs of fading. Retail REITs have been pressured by thousands of store closings as retailers that overexpanded two decades ago suffer from the move toward online shopping.

Industrial REITs haven't fared as well as the 31% total return the group recorded last year. Higher levels of construction activity could point



Concern is increasing that the commercial real-estate market in the U.S. might have peaked.

to the end of an earnings boom driven by scarcity of available warehouse space.

"E-commerce sales have skyrocketed and appear to have pushed demand for warehouse space over the edge, as construction spending on warehouse assets has esca-

lated considerably since early 2014," said Karina Estrella, an analyst at real-estate data provider Trepp Inc.

In all, more than 200 million square feet of industrial space was delivered last year and additional supply could stunt rent and occupancy

growth in the future, she said.

On the other hand, data-center landlords have outperformed other real-estate investment trusts as investors eye higher earnings from tenants beefing up their capacity to host online traffic and mobile transactions.



The less-flashy properties in China Life's latest deal include a FedEx distribution facility in Virginia.

China Life Buys U.S. Properties

BY PETER GRANT

China Life Insurance Group is buying a 95% stake in 48 commercial properties scattered throughout the U.S. in a deal that values the portfolio at \$950 million and highlights the growing appetite among foreign investors for real estate in markets they mostly have ignored until now.

The company, one of China's largest insurers, is buying the majority stake in the 5.5-million-square-foot portfolio from **ElmTree Funds LLC**, a private-equity firm based in St. Louis, ElmTree said.

ElmTree said it will keep a 5% stake and continue to manage the properties.

Foreign investors used to focus almost exclusively on trophy properties in major cities such as New York and San

Francisco. But lately, prices in those markets have gotten so high that foreign investors have started scouting less-popular locations.

"We're seeing more and more foreign capital coming into secondary and tertiary markets all across the country," said Jim Koman, managing principal at ElmTree Funds.

China Life was prohibited by the Chinese government from making investments in foreign property, but that lifted in 2012. Three years later, in its first U.S. deal, the company joined Ping An Insurance in buying a majority stake in a Boston development in the city's Seaport District.

China Life couldn't immediately be reached for comment.

Last year, China Life teamed up with New York developer Scott Rechler to purchase a 1.8-million-square-

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FUND NAME GF AT LB DATE CR NAV YTD -%RETURN- YTD 12-MO 2-YR

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MARKETS

'Leveraged' ETF Amplifies Brazil's Swings

Battered

A 48% one-day slide because of country's scandal shows risk of such investments

By BEN EISEN

Markets' reaction to the political tumult that rattled Brazil last week underscores the risks facing investors who use so-called leveraged exchange-traded funds in highly volatile areas in a bid to turbocharge their returns.

Even in the high-octane world of leveraged ETFs, the 48% drop in the **Direxion Daily MSCI Brazil Bull 3X Shares** on Thursday stood out. Its one-day fall was bigger than the drop in leveraged products tracking financial stocks during the 2007-09 recession, and it outpaced the wildest plunges in products that hold perpetually volatile gold-mining-company stocks, according to Charlie Bilello, director of research at Pension Partners. The ETF subsequently rebounded 18% on Friday, but dropped 7.9% on Monday.

By comparison, the **iShares MSCI Brazil Capped ETF**, which tracks the same index but doesn't have leverage, fell 16% on Thursday after reports that Brazilian President Michel Temer was allegedly involved in bribery. Mr. Temer said he was innocent.

The concept of using an exchange-traded product to multiply the returns of a given asset increasingly has been applied to riskier investments. In recent years, fund firms have created leveraged products tied to emerging markets like Russia and commodities such as crude oil. The Securities and Exchange Commission has increased its scrutiny of these types of products.

"High volatility and leverage don't mix very well," Mr. Bilello said. "It's interesting because the most popular ETFs

The percentage drop in the Direxion Daily MSCI Brazil Bull 3X Shares on Thursday was by far the largest drop ever for the ETF.

Daily percentage change in ETF price



Day traders started buzzing about the ETF last week.

Number of daily messages on StockTwits about the ETF



*Data through Friday

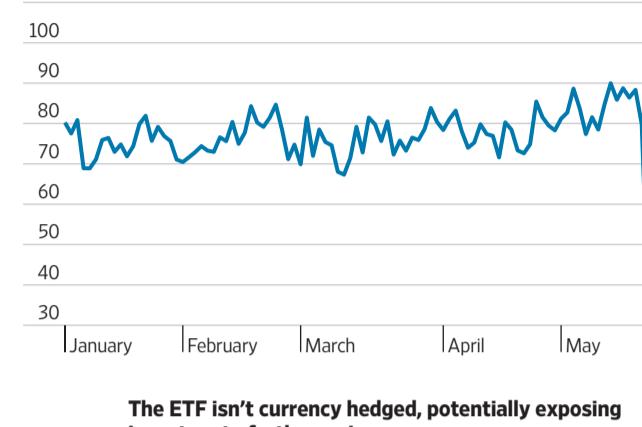
Sources: FactSet (price); Direxion (assets); StockTwits (messages); XTF, FactSet (emerging-market ETF assets); Tullett Prebon (real)

Investors who used a triple-levered exchange-traded fund to bet on a stock-market rally in Brazil last week suffered one of the largest-ever declines in an ETF, highlighting the risks of such wagers on volatile emerging-market economies. The appeal of the bet remains intact, as shown by the spike in the Brazil ETF's assets following last Thursday's price decline.

The assets in the ETF jumped to the highest ever Friday, boosted by inflows and a rebound in the underlying stocks.

Assets in the ETF*

\$120 million



The ETF isn't currency hedged, potentially exposing investors to further swings.

How many Brazilian reais one dollar buys

3.40 reais

3.35

3.30

3.25

3.20

3.15

3.10

3.05

|J|F|M|A|M

THE WALL STREET JOURNAL.

are the most volatile."

Leveraged ETFs deliver amplified price moves on a single day. Holding these products for days or weeks, especially when markets are volatile, can result in price swings that are exaggerated well beyond the stated two or three times leverage. For instance, the unleveraged iShares ETF is up 2% this year while its triple-leveraged ETF counterpart is down 17%.

In the case of this Brazil ETF, investors face another

risk: currency fluctuations. U.S. investors who buy international-stock ETFs trade their dollars for the local currency, effectively making them long both stocks and the real in this case. That means that even if Brazil's stocks rise, a falling real would erode the ETF's gains. The value of the Brazilian real fell 7.1% against the dollar Thursday and 0.3% Monday, though it rebounded 3.8% Friday.

Sylvia Jablonski, managing

director of capital markets for Direxion, the company that offers the ETF, said that while she wouldn't advise the product as a long-term investment, it can be a good trading tool.

After the size of the ETF roughly halved Thursday, investors put more than \$60 million of new money into the product Friday. When the ETF's share price rebounded that day, the size of the ETF ballooned to more than \$118 million, its largest ever, Direx-

on said.

"Someone is betting largely that Brazil is going to rebound after falling almost 50%," said Mohit Bajaj, director of ETF trading solutions at brokerage WallachBeth Capital.

Investors may have also piled in as part of a larger trade, according to Ms. Jablonski. Some may have bet against the unleveraged Brazil ETF or the stocks it holds, and then bought the leveraged version as a hedge.

Day traders, who often like to make bets around big market moves, buzzed about the leveraged ETF as the news unfolded.

On StockTwits, a popular forum for traders to discuss investment ideas, there were more than 900 messages on Thursday about the product and nearly 700 on Friday, up from virtually none the week before.

—Chris Dieterich contributed to this article.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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Noble Has Only One Option Left

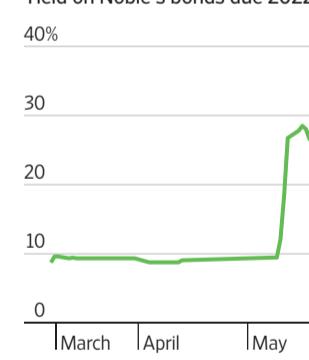
Commodities trader **Noble Group**'s long demise is entering a critical stage. The wonder is that this has come as a surprise to so many.

The Singapore-listed company's latest travails are the culmination of a yearslong struggle to shore up its financial position that began after a former employee criticized its accounting in early 2015. The has been extended since the company posted a \$130 million first-quarter loss, blaming misplaced coal-market trades, supposedly Noble's bread and butter. Overnight, S&P downgraded the company's debt to triple-C-plus: Noble's bonds now trade at 30 cents to 40 cents on the dollar, deeply distressed territory. The company's shares dove 30% Tuesday morning before being suspended. A Chinese white knight is no longer interested in taking a stake.

It is a sorry mess, made all the more galling by the fact that bankers, bondhold-

Last Ditch

Yield on Noble's bonds due 2022



Sources: Thomson Reuters; Reuters (photo)
THE WALL STREET JOURNAL.

ers and ratings firms have been loath to recognize Noble's parlous position. As recently as March, the company was able to raise \$750 million of fresh bonds. Coincidentally—or not—it was as bankers were trying to sell those bonds that talk of China's Sinochem investing in Noble first emerged. In another notable coincidence,



Noble Resources' offices in Singapore

much of the money raised from bondholders has gone toward paying down loans owed to some of the banks involved in the bond underwriting.

The underlying truth is that Noble now seems to exist merely to raise money from one set of lenders to pay off another. The company bled some \$300 million

of cash flows from operations in the first quarter. Having spent the past year or so selling most of its assets, Noble has few other options to raise new capital. And it now faces diminished cash-generation prospects. Yet it faces three large debt maturities, including \$656 million due in June and a further \$1.5 billion next year.

There will be pain to come. Hedge funds in Hong Kong that have sold reams of protection via credit-default swaps on Noble's debt are now sitting on large mark-to-market losses: The cost to insure against \$10 million of Noble's debt for five years having risen from \$626,000 earlier this month to \$5.2 million.

Without a miraculous improvement in commodity prices or a new strategic investor, Noble now seems likely to have to restructure its debt if it is to survive. Rolling over is no longer the solution. —Anjani Trivedi

OVERHEARD

The Maldives have been touted as "the islands you need to visit before they disappear."

Unfortunately, an affordable trip to the tropical paradise disappeared in just days, not decades.

Last week bargain-hunting site Dan's Deals alerted his largely Jewish readers to a bargain by **Emirates**, the airline owned by the government of Dubai.

He informed his readers that "Emirates is an excellent airline and there are no issues for Orthodox Jews."

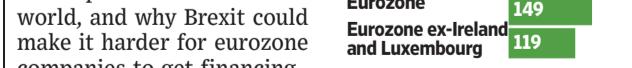
One-way flights from the Maldives to London last week were going for \$64—less than one-tenth of the usual airfare. A flight from the Maldives to New York was just \$142.

Emirates then canceled the tickets, leaving many people who paid for other flights and hotels stranded. Dan's Deals directed them to the Transportation Department to get reimbursed by Emirates.

Why European Companies Could Really Miss London

Rich Resources

Pensions, insurance and investment-fund assets as a percentage of GDP



Sources: Financial Stability Board, ECB, OECD
THE WALL STREET JOURNAL.

than 120% of gross domestic product if you exclude most assets of funds in Ireland and Luxembourg, which are popular places to register international investment funds that take money from the rest of the world and invest it outside Europe.

For comparison, this same institutional money pool in the U.S. amounts to about 240% of annual GDP and in the U.K. more than 250%.

European finance still relies more on traditional banking than capital markets, but total household deposits in the eurozone aren't greater as a proportion of GDP than those in the U.K. either.

A big reason for the differences is that eurozone countries simply haven't en-

couraged as much private savings as the U.K. and U.S. More Europeans rely on public pensions funded by current taxation.

Lossing access to the EU will hurt Britain through lost finance export revenue, but European companies will still have to find investors for funding.

The trouble within the EU is that the pools of capital and the rules governing them are still national, not European.

Vitor Constâncio, vice president of the European Central Bank, said in a speech Friday that national supervision of securities markets fragmented the application of EU laws.

Other issues that perpetuate financial borders within

the EU include the different national bankruptcy rules and procedures.

These financial borders are what makes it expensive and difficult for a company to raise equity or debt in, say, Germany and Italy at the same time, whereas now such deals are done where the money is in London.

The biggest, globally active EU companies might find it simplest to go straight to the U.S. capital markets, while smaller firms will be stuck with more expensive local markets or old-fashioned borrowing from banks.

The eurozone needs more savings that companies can access more efficiently if it is going to cut London off.

—Paul J. Davies

—Richard Barley