

# THE WALL STREET JOURNAL.

DOW JONES | News Corp

THURSDAY, MAY 18, 2017 ~ VOL. XXXV NO. 75

WSJ.com EUROPE EDITION

DJIA 20606.93 ▼ 1.78%

NASDAQ 6011.24 ▼ 2.57%

NIKKEI 19814.88 ▼ 0.53%

STOXX 600 391.14 ▼ 1.20%

BRENT 52.21 ▲ 1.08%

GOLD 1257.50 ▲ 1.82%

EURO 1.1138 ▲ 0.50%

## What's News

Business & Finance

Stocks, the U.S. dollar and government-bond yields slid as turbulence in Washington added to investors' doubts about passage of Trump's agenda. **A1**

◆ VW's CEO has been targeted in a probe of events leading up to the disclosure of the auto maker's emissions-cheating scandal. **B1**

◆ Britain's government sold the last of its Lloyds stake, almost a decade after the lender was bailed out. **B1**

◆ The U.K. high court ruled that senior bondholders should be paid first from some \$10 billion held by Lehman's European arm. **B1**

◆ China's yuan traded below the central bank's fix, a sign investors doubt the currency strength. **B7**

◆ China's Tencent said net surged 58% on solid growth in its core games and online-advertising businesses. **B4**

◆ Qualcomm sued the companies that make iPhones for Apple for failing to pay royalties on its technology. **B4**

◆ The SEC will reconsider its initial approval of a risky, leveraged ETF. **B7**

◆ Mexico's Grupo Lala emerged as lead bidder for yogurt maker Stonyfield. **B7**

◆ Ralph Lauren tapped P&G's top beauty executive to be its next CEO. **B3**

### World-Wide

◆ U.S. lawmakers are asking for evidence and documents related to controversies around Trump, including ex-FBI chief Comey's conversations with the president. **A1**

◆ A new computer attack and a hacking group's threat to release cyberweapons are fueling fears of another global technology assault. **A1**

◆ A Russian state-run bank financed a deal involving Trump's onetime partner in a Toronto office tower. **A3**

◆ Putin said his foreign minister didn't pass on any U.S. secrets, in a sardonic remark by the Russian leader. **A3**

◆ The White House planned to announce new sanctions against Iran aimed at its ballistic missile program. **A4**

◆ The U.S. and EU agreed to continue talks about a U.S. proposal to expand a ban on laptops in plane cabins. **A3**

◆ Sudan's leader, wanted on war-crimes charges, will participate in a summit to be attended by Trump. **A3**

◆ Macron named a moderate from the conservative Les Républicains party as French economy minister. **A4**

◆ Ireland's prime minister said he would step down as party and national leader. **A4**

◆ Chelsea Manning, who was convicted of leaking U.S. government secrets, was freed from prison. **A9**

Inside TRAVEL All The Best Airlines For Free Seats

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THURSDAY, MAY 18, 2017 ~ VOL. XXXV NO. 75

WSJ.com EUROPE EDITION

# Concern Spreads Into the Markets

Turmoil in Washington takes a toll on stocks, dollar and bond yields

By RIVA GOLD

Turbulence in Washington jolted markets out of an extended period of calm Wednesday.

Stocks, the U.S. dollar and government bond yields slid as investors pulled back from bets on the swift passage of President Donald Trump's agenda. Wagers that his policies would boost growth and inflation have been unwinding for months, but those moves accelerated Wednesday.

In one of the clearest signs of waning investor confidence, a closely watched measure of the dollar's value was on track to give back its post-election gains. Stocks fell around the world, with major U.S. stock indexes heading for their biggest declines in months.

The Dow Jones Industrial Average lost 372.82 points, or 1.8%, to 20606.93. The S&P 500 also fell 1.8% and the Nasdaq Composite lost 2.6%. The percentage losses in the S&P 500 and the Dow were the biggest since September.

The Stoxx Europe 600 shed 1.2% to 391.14, posting its largest daily drop since late

- ◆ Deal links a Trump partner, Russian bank..... A3
- ◆ Heard on the Street: How far can this sell-off go? ... B1
- ◆ Flight to quality hits U.S. Treasury debt..... B8

September, and Japan's Nikkei Stock Average posted its biggest decline since April.

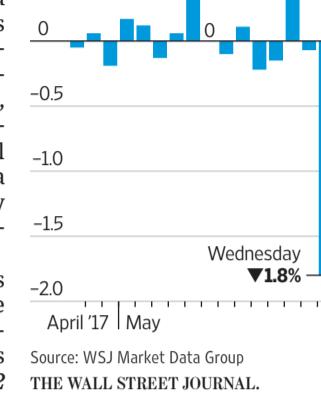
U.S. stocks have been close to record highs and few investors said they expect a major pullback, but many said they were increasingly worried about the implementation of proposed policies such as tax cuts, deregulation and infrastructure spending following a series of developments in Washington.

Some traders said Wednesday's selling was sparked by reports that President Donald Trump had allegedly asked then-FBI Director James Comey to back off the investigation of former national security adviser Michael Flynn, which prompted some congressional Republicans to call for further investigation. In a statement issued Tuesday evening, the White House denied the account.

"The bigger picture here is it puts another dent in the likelihood of getting a Congressional majority to pass Please see MARKET page A2

## Calm Is Broken

Daily change in S&P 500



THE WALL STREET JOURNAL.



President Donald Trump at the Coast Guard Academy in New London, Conn., where he gave the commencement address on Wednesday.

## HARD-LINER MOUNTS CHALLENGE IN IRAN

Election pits cleric against president who opened door to the West

By ASA FITCH AND ARESU EQBALI

TEHRAN—President Hassan Rouhani faces a hard-line opponent in a national vote Friday that is shaping up as one of the most contentious and consequential elections since the founding of the Islamic Republic in 1979.

The contest puts before Iranian voters two candidates with conflicting visions for the country—Mr. Rouhani, who has made an opening to the West, and a political newcomer wary of where such a path leads.

Ebrahim Raisi, a 56-year-old cleric with close ties to Iran's supreme leader, has emerged as a tougher-than-expected challenger, taking advantage of economic troubles and railing during campaign rallies against inefficient government and its fail-

ure to address corruption.

Mr. Raisi, supported by Iran's hard-line establishment, has used his campaign to criticize the signature accomplishment of Mr. Rouhani's first term: the 2015 nuclear deal with six world powers, including the U.S. The agreement lifted most economic sanctions and expanded oil exports.

The Obama administration pushed the nuclear deal, in part, because it believed the lifting of sanctions would allow Iran to eventually moderate its domestic and foreign policies, according to current and former U.S. officials.

The Trump administration has shifted

Please see IRAN page A10

◆ Trump administration to unveil new sanctions aimed at Iran's missile program..... A4

## Cyberattack Threats Continue Unabated

By ROBERT McMILLAN

A new fast-spreading computer attack and a hacking group's threat to release a fresh trove of stolen cyber-weapons are fueling fears among businesses and security experts of another global technology assault.

The new attack, called Adylkuzz, follows last week's WannaCry outbreak, which crippled computers in more than 100 countries over the weekend. Unlike its predecessor, Adylkuzz doesn't lock up computer screens, but slows down systems as it quietly steals processing power to generate a little-known digital currency called Monero.

By Wednesday, Adylkuzz

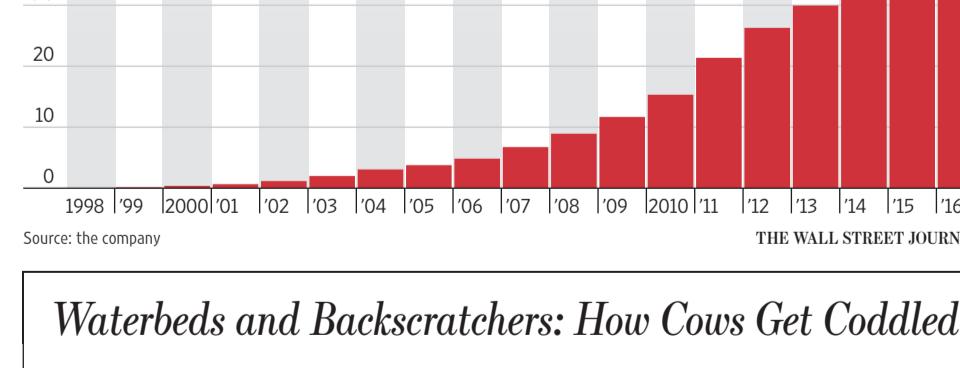
had infected several hundred thousand machines around the globe, according to Ryan Kalember, senior vice president with the security intelligence firm Proofpoint Inc. That is roughly the same count as WannaCry, which has largely stopped spreading, security experts said.

The news comes a day after a hacking group called the Shadow Brokers separately posted an internet message saying it would release a new trove of cyberattack tools next month. The group claimed to have software that would affect web browsers, routers, mobile phones and Microsoft Corp.'s Windows 10 operating system. Its first trove, which it

Please see HACK page A2

## Amazon Sets Its Sights on Australia

Amazon's international sales have grown in tandem with its entry in major foreign markets. **B4**



Source: the company

## Waterbeds and Backscratchers: How Cows Get Coddled

\* \* \*

U.S. farmers seek to boost milk production by pampering dairy cattle

By BENJAMIN PARKIN

Scott Beyer and his farmhands spend mornings scraping manure off the milking-parlor floor. In the nearby climate-controlled barn, cows are sleeping on water beds and munching on nutritionist-crafted meals while high-tech tags on their legs help

monitor their health.

"We try to make them live the high life," said Mr. Beyer, manager of Kelsay Farms outside Greenwood among the corn and soybean fields of central Indiana.

Many of America's dairy farmers have decided that a happy cow is a cash cow—that treating their cattle like dairy

queens yields more milk. They are playing soothing classical music in milking rooms, firing up fans and sprinklers to mimic spring breezes, and treating their cows to robotic back-scratching sessions.

American dairy cows are among the world's most productive. They produced 10.3

Please see COWS page A10

## Oracle #1 SaaS Enterprise Applications Revenue

#1

Oracle Cloud 14.5%

#2

Salesforce Cloud 12.4%

1,000+ Employees Segment, 2015

ORACLE®

oracle.com/applications

Source: IDC "Worldwide SaaS Enterprise Applications Market Shares, 2015: The Top 15 by Buyer Size," doc #US41913816, Dec. 2016; Table 4. For the purposes of this report, SaaS enterprise applications include the following application markets: CRM, engineering, ERP, operations and manufacturing, and SCM.

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## WORLD NEWS

CAPITAL ACCOUNT | By Greg Ip

# Full Employment Confronts U.S. With Trade-Offs



In April, when the unemployment rate dropped to 4.4%, it marked the completion of a slow and joyless recovery from the Great Recession.

Eight years on, the U.S. has effectively returned to "full employment," meaning unemployment can't go sustainably lower. In reaching this milestone, the U.S. has closed one troubled chapter for the economy while opening a fresh one with tricky new trade-offs for the Federal Reserve and President Donald Trump.

For years, low interest rates and hefty government budget deficits, whatever their downsides, had one clear upside: They created more jobs in an economy that desperately needed them. That is no longer true. At full employment, those economic policy choices become harder.

The Fed and Trump administration could try to push unemployment even lower and see what happens, but history isn't encouraging. Unemployment has been this low only twice since 1990 and both times an asset bubble and inflation pressures emerged and recession soon followed.

Unemployment of 4.4% today may not mean what it did in previous decades since it has been pushed down by an exodus of working-age

people from the labor force. Some economists think those workers might flood back when conditions are right, serving as a hidden reserve of labor to keep growth humming even when official unemployment seems low.

Employment as a share of the working-age population is still nearly 3 percentage points below its 2007 level. But this is deceptive. The share of workers over 54 years old, and thus more likely to retire early and drop out of the labor force, has grown since then.

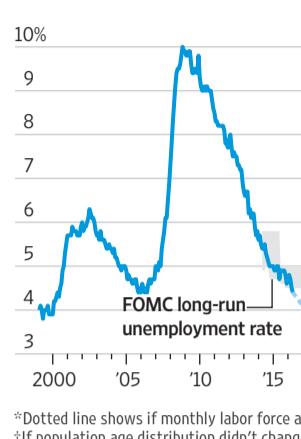
Economists at Goldman Sachs found that if the age structure of the population were frozen in 2007, then the employment-to-population ratio today would be much closer to its 2007 level. In other words, almost all of the job shortfall today can be blamed on demographics, not economic weakness. Most of any remaining gap probably reflects longstanding structural factors keeping some men out of work, such as disability, Goldman says.

Wage pressure, the usual sign of a tight labor market, had long been absent. Not anymore. Hourly earnings growth in the past year has picked up to 2.5% from near 2% for most of the expansion. A broader measure of private sector hourly wages and benefits was up 3.9% in the first

### A Fully Healed Labor Market

Unemployment is below its 'natural' level and headed lower, and aging has held back employment growth. Wages are picking up but productivity isn't.

#### Unemployment rate\*



\*Dotted line shows if monthly labor force and employment growth since 2015 continue at same rate through 2018

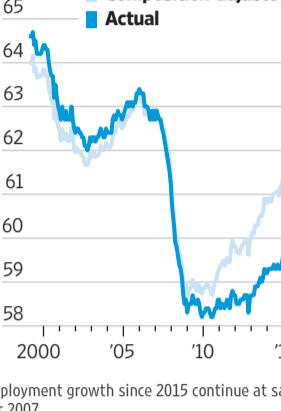
†If population age distribution didn't change after 2007  
Sources: Labor Dept. (unemployment, wages, productivity); Goldman Sachs (employment to population ratios); Federal Reserve (FOMC projections)

quarter from a year earlier. While disappointing compared with before 2007, this may be the new normal given sluggish worker productivity growth.

While 4.4% is below what Fed officials consider the natural unemployment rate, where price and wage pressures build, that doesn't mean inflation automatically accelerates. In fact, it's eased recently, so the natural unemployment rate might be even lower.

Yet the Fed is now playing

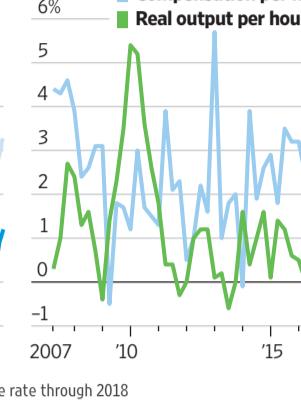
#### Employment as a percentage of population



Compensation per hour

Real output per hour

#### Annual percent change, compensation and productivity



Compensation per hour

Real output per hour

Mr. Trump's trade plans are similarly problematic. He thinks that lower trade deficits lead to stronger growth when, historically, no such relationship exists. In theory, choking off some imports and raising exports could add to output, but only if there are workers available to produce the additional goods. At full employment, they will increasingly have to be drawn from other sectors. Even manufacturers report struggling to fill many vacancies.

"Even if you manage to turn more protectionist trade policies into near-term positives for cyclical strength of the economy, it's not so sure that that's a good thing," says Jan Hatzizis, Goldman's chief economist.

So in the still uncertain event Mr. Trump does slash taxes or curb imports, he may temporarily drive unemployment even lower. That would force the Fed to eventually guide unemployment back up via much higher interest rates to prevent overheating. Since World War II, Goldman notes, whenever the unemployment rate has risen a third of a percentage point, it has kept going until the economy falls into recession. That doesn't mean it will happen now; yet it's an eventuality for which neither the markets, the Fed nor Mr. Trump seem prepared.

example, gained 30% between the election and the end of 2016, and was up another 8% between the start of the year and Mr. Trump's surprise firing of Mr. Comey last week.

Banks' initial postelection gains came on hopes that bank regulation would grow less strict, leading to greater returns of capital, a lighter tax burden and stronger economic growth. The turmoil in Washington now calls that into question.

Fund managers surveyed by Bank of America Merrill Lynch view a delay in U.S. corporate-tax overhauls as the fourth-biggest tail risk for markets, according to this

## MARKET

Continued from Page One

Trump's agenda," said R.J. Grant, director of equity trading at KBW Inc.

Financial adviser Ryan Wibberley said he has been taking a cautious approach to the stock market for the past several months. As his firm recruits new clients, he has been wary about putting that new money into stocks—in part because major indexes are near records, but also because of what has been happening in Washington.

Tuesday night's revelations felt different, said Mr. Wibberley, chief executive of CIC Wealth. "There's been smoke everywhere. This is the first time there's been fire."

He said he isn't making any quick shifts to his client portfolios, but he has identified what stocks he would like to purchase if stocks retreat to a certain level.

Wednesday's moves ended weeks of stability. The S&P 500 had closed with a daily percentage change of 0.5% or less for 15 consecutive sessions, the longest such streak since February 1969.

The CBOE Volatility Index, a measure of expected swings in the S&P 500 over the next 30 days, rose more than 30% by late afternoon Wednesday.

The ICE U.S. Dollar Index, which measures the dollar against a basket of six currencies, fell 0.6% by late afternoon and was on track for its lowest close since before the election.

Investors piled into assets they perceive as havens, sending gold up 1.8% to \$1,257.50 an ounce, and the yield on the benchmark 10-year Treasury note down to 2.216%, according to Tradeweb, from 2.329% Tuesday. Yields fall as bond prices rise.

Among market sectors, bank stocks were hit hardest: Financials in the S&P 500 were down about 3.2%, with shares of Bank of America and Morgan Stanley falling roughly 6% by late afternoon.

The KBW Nasdaq Bank Index of large U.S. commercial lenders was on track for its worst day since the Brexit selloff. The index was down 4.1% for the day and down 3.2% for the year by late afternoon.

Financials had one of the strongest runs in the wake of Mr. Trump's victory in November. Bank of America, for

month's survey.

In March, stocks pulled back as House Republicans stumbled in efforts to pass a health-care bill, with investors saying it added to doubts that Mr. Trump would be able to push through tax cuts.

While political swings may trigger volatility in the short term, longer term, they are unlikely to have a major effect on the U.S. stock market, said Kevin O'Nolan, multiasset portfolio manager at Fidelity International. "U.S. stocks trade off earnings; earnings are linked to growth, and I don't think it's going to have a meaningful impact on growth."

—Aaron Kurilloff and Corrie Driebusch contributed to this article.

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**Thorold Barker**, Editor, Europe  
**Grainne McCarthy**, Senior News Editor, Europe  
**Cicely K. Tyson**, News Editor, Europe  
**Darren Everson**, International Editions Editor

**Joseph C. Sternberg**, Editorial Page Editor

**Jacky Lo**, Circulation Sales  
**Andrew Robinson**, Communications  
**Jonathan Wright**, Commercial Partnerships

**Kate Vannbeck-Smith**,  
Global Managing Director & Publisher

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**Editeur responsable:** Thorold Barker M-17936-2003. Registered address: Avenue de Cortenbergh  
60/4F, 1040 Brussels, Belgium

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By web: <http://services.wsj.com>

By email: [subwsj@djwones.com](mailto:subwsj@djwones.com)

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## Protesters Rail Against Austerity Measures in Greece



STRIKE: Thousands walked off their jobs and marched through central Athens on Wednesday to protest against fresh austerity measures.

## HACK

Continued from Page One  
and Microsoft said was stolen from the National Security Agency, was dumped last month and used by WannaCry.

The threats highlight the growing risks of global assaults for businesses and governments posed by a nexus of mysterious hackers and powerful, government-crafted cyberweapons.

"In a few years we're going to be looking back and saying that 2017 was clearly a turning point," said Edward Amoroso, the former security chief at AT&T Inc. "That's when we started to see businesses affected. If your employees are coming in and they can't work, that's a big deal."

For companies looking to protect their systems, security experts agree on one piece of advice: install patches to Windows software now. Still, that may not be enough to stop the next attack. "There's no wall you can build that's high enough or deep enough to keep a dedicated adversary out," said John Carlin, a former cybercrimes prosecutor at the Justice Department.

Larger companies will need to step up their security training, patching and planning, he says. Smaller businesses may need to hand over security to companies that specialize in these services. "It's crazy to expect a mom-and-pop to on their own have to deal with cybersecurity issues," Mr. Carlin said.

Global computer security spending is expected to hit \$90 billion this year, an increase of 7.6% from last year, according to research firm Gartner Inc.

The Shadow Brokers' release of what it says are U.S. government hacking tools comes after WikiLeaks in March published a cache of alleged Central Intelligence Agency cybersecrets, offering a window into a world where the research and development of computer attacks has become increasingly professionalized.

The stage for the recent cyberattacks was set more than a decade ago. In the mid-2000s, Microsoft, embarrassed by a series of computer worm and virus outbreaks, began to comb through its software for bugs and develop new coding techniques designed to thwart hackers. At the same time, hackers discovered they could command large fees for their work.

Apple Inc., for example, pays \$200,000 for details on the most severe bugs affecting its software. Government agencies and private corporations often pay more, especially if the research includes "exploit code" that can be used in an attack. Last year, the U.S. Federal Bureau of Investigation paid more than \$1 million for a hacking tool that gave it access to the iPhone used by the gunman in the San Bernardino, Calif., attack.

This has helped pushed bugs underground, such as the one used in WannaCry. That means companies such as Mi-

crosoft are often unaware they exist, said David Aitel, chief executive at Immunity Inc., a computer-security services company. "There's a scarcity of high-quality attack tools," he said.

But if companies thought the risk of attacks had evaporated, WannaCry served as a wake-up call. While few victims appear to have paid the \$300 ransom WannaCry demanded, the software affected hundreds of thousands of systems, including networks at Renault SA and Britain's public health service. It not only rendered computers unusable but deployed encryption to make

on the Shadow Brokers' code used by WannaCry or similarly devastating code released by Shadow Brokers in April, said Robert M. Lee, chief executive of security consultancy Dragos Inc. And while it isn't known yet how dangerous any new releases might be, "everything the Shadow Brokers have talked about leaking so far has been legitimate," he said.

The NSA has declined to comment on the authenticity of the Shadow Brokers documents or the WannaCry attack.

A Microsoft spokeswoman said the company is aware of the new Shadow Brokers claim and that its security teams actively monitor for emerging threats. The company, whose Windows software is the most frequent target of attacks, is calling on governments to report software flaws rather than stockpiling or exploiting them.

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# WORLD NEWS

## Russia Bank Financed Deal Involving Trump Partner

VEB, a Russian state-run bank under scrutiny by U.S. investigators, financed a deal involving Donald Trump's one-time partner in a Toronto hotel tower at a key moment for the project, according to people familiar with the transaction.

By Rob Barry,  
Christopher S. Stewart  
and Brett Forrest

Alexander Shnaider, a Russian-Canadian developer who built the 65-story Trump International Hotel and Tower, put money into the project after receiving hundreds of millions of dollars from a separate asset sale that involved the Russian bank, whose full name is Vnesheconombank.

Mr. Shnaider sold his company's share in a Ukrainian steelmaker for about \$850 million in 2010, according to S&P Global Market Intelligence. According to two people with knowledge of the deal, the buyer, which hasn't been identified publicly, was an entity acting for the Russian government. VEB initiated the purchase and provided the money, these people say.

U.S. investigators are looking into any ties between Russian financial institutions, Mr. Trump and anyone in his orbit, according to a person familiar with the probe. As part of the investigation, they are examining interactions between Mr. Trump, his associates and VEB, which is now subject to U.S. sanctions, another person familiar with the matter said. The Toronto deal adds a new element to the list of known connections between Mr. Trump's associates and Russia.

After Mr. Shnaider and his partner sold their stake in the steelmaker, Mr. Shnaider injected more money into the Trump Toronto project, which was financially troubled. Mr. Shnaider's lawyer, Symon

Zucker, said in an April interview that about \$15 million from the asset sale went into the Trump Toronto project. A day later, he wrote in an email: "I am not able to confirm that any funds" from the deal "went into the Toronto project."

A spokesman for the **Trump Organization**, the family's real-estate firm, said Mr. Trump had no involvement in any financial dealings with VEB and that the Trump company "merely licensed its brand and manages the hotel and residences." VEB didn't respond to requests to comment.

Mr. Trump has said he has no dealings with Russia. "To the best of my knowledge, no person that I deal with does," he said in February. On Friday, Mr. Trump's lawyers released a two-month-old letter stating

**VEB has long been viewed as a vehicle for Moscow to fund politically important projects.**

that 10 years of his tax returns show little income, investments or debt from Russian sources beyond items already known to the public.

VEB has long been viewed by Russian analysts as a vehicle for the Russian government to fund politically important projects, including the 2014 Winter Olympics in Sochi. A VEB executive in New York was sentenced to prison last year after pleading guilty to conspiring to act in the U.S. as a Russian agent without notifying U.S. authorities.

In the wake of U.S. intelligence agency findings that Russian government-directed hackers interfered in the 2016 election, several agencies, including the Federal Bureau of Investigation, are conducting a counterintelligence probe into whether Mr. Trump's campaign

staff had any contact with Russian officials. Committees in the House of Representatives and the Senate also are investigating the matter. Russian authorities have denied any interference.

At the time of Mr. Shnaider's steelmaker deal, Russian President Vladimir Putin was chairman of VEB's supervisory board, and major deals would have been approved by him, according to a former Russian government official and several Russian government and economic experts. The bank later was placed on the U.S. sanctions list after Russia's intrusion into Ukraine and its annexation of Crimea in 2014. American entities are barred from financial involvement with the bank.

VEB made headlines when it emerged that its chairman met

with Mr. Trump's son-in-law, Jared Kushner, in December. A bank representative has said VEB's leaders met Mr. Kushner and numerous global financial executives as it developed a new strategy for the bank.

White House press secretary Sean Spicer has said Mr. Kushner's meeting was part of his role during the Trump transition as the "primary point of contact with foreign government officials."

The Toronto project was billed in 2007 as a joint venture between Mr. Trump and Mr. Shnaider and was projected to cost about 500 million Canadian dollars. Mr. Trump said at the time he would manage the hotel's operations and Mr. Shnaider planned to develop the tower, which also would include condominiums, through his company, **Talon Interna-**

**deal said VEB itself ended up with control of Midland's share of the steelmaker. At the time, Russian entities saw gaining control of large industrial assets in Ukraine as having strategic value to Russian political interests in the future, another investment banker with knowledge of the deal said.**

Mr. Zucker, Mr. Shnaider's lawyer, said Midland Resources "has never had any relationship with VEB" and "does not dictate where their purchasers borrow funds." He declined to identify the buyer, citing confidentiality provisions, other than to say it was

### tional Development Inc.

The project has been dogged by financial problems. In November, it entered insolvency proceedings, and a judge in March approved its sale.

Alan Garten, the Trump Organization's general counsel, said the company "was not the owner, developer or seller" of the project. While The Wall Street Journal and others reported in 2011 and 2012 that Mr. Trump had a minor ownership stake in it, Mr. Garten now says Mr. Trump "did not hold" equity and had no involvement with the financing.

Trump Toronto Hotel Management Corp. has received at least \$611,000 in fees from the project since 2015, federal financial-disclosure forms filed in May 2016 show. The forms don't disclose the company's total income from the deal.

Shortly after the project broke ground in 2007, about 85% of the units were presold. During the financial crisis, some buyers pulled out and others were unable to get financing, receivership documents show. Midland Resources Holding Ltd., then owned by Mr. Shnaider and a partner, was on the hook for cost overruns, the documents show.

**Midland Resources** had acquired its stake in the Ukrainian steelmaker, called **Zaporizhstal**, for about \$70 million after the collapse of the Soviet Union. The 2010 transaction to sell it was opaque. Midland transferred ownership of its portion of the steelmaker to the unnamed buyer through five offshore companies, according to Mr. Shnaider's lawyer and court documents.

The idea for the deal was brought to a top VEB executive by a former Ukrainian government official, according to an investment banker familiar with what happened. Although the buyer wasn't named, a steel trader with knowledge of the

## Russian Money

The 2010 sale of a Ukrainian steel mill provided money to Donald Trump's business partner in a Toronto real-estate development.



Russian President Vladimir Putin was the chairman of the supervisory board of...



...Vnesheconombank (VEB), a Russian state-run bank that provided financing to...



...Zaporizhstal, a Ukrainian steel mill. The stake was sold via Midland Resources Holding, the company of...



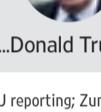
...an unknown investor, who used five offshore companies to purchase an \$850 million stake in...



...Alexander Shnaider, a Russian-Canadian developer who funded construction of the Toronto development of...



...Trump International Hotel and Tower, which paid licensing fees to...



...Donald Trump

Sources: WSJ reporting; Zuma Press (Shnaider, Putin and Trump tower photos); Agence France-Presse/Getty Images (Trump photo); Reuters (bank photo); Bloomberg (mill photo)

THE WALL STREET JOURNAL.

a "Ukrainian industrial group." Mr. Shnaider's companies continued to pump money into the Toronto tower as it struggled to stay afloat, according to his lawyer and later court documents. Later, Mr. Shnaider became embroiled in a legal battle with Mr. Trump's companies over management issues. The Trump Organization declined to comment.

In November, a Canadian judge placed the tower into receivership.

Recently, a judge approved the sale of the building to a California-based investment firm for about \$220 million.

## Putin Says Trump Divulgued No Secrets to Russians

BY THOMAS GROVE

Washington, controversy in which he plays a role.

"Personally, Putin likes the situation—he likes the chaos, and the chance to see a Western leader as a weakling," said Valery Solovei, a political analyst who teaches at Moscow State Institute of International Relations. "To a Russian, everything that is happening in Washington shows the weakness of Western democracy."

Russia's political elite had initially pinned hopes on Mr. Trump to lead the way to a rapid rapprochement with Moscow. But a burgeoning political scandal around the Trump presidential campaign's ties to Russia, and Mr. Trump's launch last month of missile strikes against Russian ally Syria, have made warmer ties between Moscow and Washington unlikely.

The Russia controversy engulfing the administration took on additional momentum after the firing of former Fed-



Vladimir Putin in jocular mood.

eral Bureau of Investigation chief James Comey and allegations that Mr. Trump passed on classified information to Mr. Lavrov in the White House meeting last week.

That meeting even raised concern among some national security commentators that the visiting Russians may have planted a listening device in

the Oval Office.

Secretary of State Rex Tillerson was asked by reporters at the start of a meeting with Algerian Foreign Minister Ramtane Lamamra about Mr. Putin's offer to send transcripts of Mr. Lavrov's meeting with Mr. Trump and whether the Russians have bugged the Oval Office.

"I would have no way to know that," he said.

While Russia seems unable to capitalize on the potential Mr. Trump's presidency once held for boosting Russia-U.S. relations, Russian observers say the White House disarray can be used for propaganda purposes to undermine Russians' views of American democracy.

Russian analysts say the controversy in Washington gives the Kremlin a freer hand in foreign policy. They say U.S. foreign-policy disarray gives Moscow more space to pursue its own policies in the Middle East and consolidate its diplomatic gains.

### Israel Plays Down Information Release

Official expresses 'complete confidence' in U.S. intelligence community before Trump visit

TEL AVIV—Israel played down the impact of sensitive Israeli intelligence information that President Donald Trump shared with Russian officials, as it prepared to host the U.S. president for a much anticipated visit next week.

Israeli Defense Minister Avigdor Lieberman and the country's intelligence and transport minister, Yisrael Katz, reaffirmed the U.S.-Israel alliance, with Mr. Katz on Wednesday saying he had "complete confidence" in the U.S. intelligence community.

U.S. officials on Tuesday said Israel was the source of information that Mr. Trump had disclosed to Russia's foreign minis-

ter and its ambassador to the U.S. during a meeting in the Oval Office last week.

Under an intelligence-sharing agreement between Israel and the U.S., the intelligence was meant only for U.S. officials. The information, which concerned a threat by Islamic State to airliners, was shared in such a way that could compromise the original source, officials said.

After U.S. officials acknowledged Israel's role in the incident, Mr. Trump and Israeli Prime Minister Benjamin Netanyahu spoke on the phone but didn't discuss the issue, focusing instead on the president's coming two-day visit to Israel and the West Bank, the premier's office said on Wednesday.

The visit, which starts Monday, will be the second stop on Mr. Trump's first overseas trip as U.S. president. He will first visit Saudi Arabia and later stop at the Vatican and in Brussels.

—Rory Jones

## EU Remains Skeptical Of Laptop Flight Ban

The U.S. government made its case to European officials on Wednesday on why it may expand a ban on laptops in airplane cabins to flights to the U.S. from Europe, despite strong opposition from the airline industry.

By Robert Wall in London and Valentina Pop in Brussels

Washington has been weighing whether to include flights arriving from Europe in an existing ban on passengers taking laptops and tablets on flights originating from 10 Middle East and North Africa airports. The Trump administration imposed the ban in March, citing security concerns.

European officials have expressed frustration over U.S. reluctance to share specific details about why it imposed the existing ban. U.S. Presi-

dent Donald Trump last week shared information on the threat to planes with Russian officials. The information had been collected by Israeli intelligence and was meant for U.S. eyes only, U.S. officials familiar with the matter said. National Security Adviser H.R. McMaster said the sharing of the information was "wholly appropriate."

No decision was taken on whether to expand the ban to other countries including Europe, a U.S. administration official said, adding Washington was still considering the possibility in light of threats and "innovative methods" terrorists are devising to smuggle explosives aboard planes in consumer devices.

Two European Union officials said the Europeans left the meeting in Brussels believing no expansion of the ban was imminent.

## Sudan Says Wanted Leader to Attend Talks

Sudanese officials said President Omar al-Bashir, wanted by the International Criminal Court on charges of genocide and other war crimes, will participate in a summit of Muslim leaders in Saudi Arabia that is to be attended by President Donald Trump.

By Nicholas Bariyo in Kampala, Uganda, and Margherita Stancati in Riyadh, Saudi Arabia

A foreign ministry official in the Sudanese capital Khartoum on Wednesday said Mr. Bashir would attend the Riyadh summit, convened by Saudi Arabia's King Salman to mark Mr. Trump's two-day visit to the kingdom, which starts on Saturday and inauguates his first overseas trip as U.S. president.

The U.S. isn't a member of the ICC, but in response to reports that Mr. Bashir will attend the summit, the State Department voiced its opposition.

"The United States has made its position with respect to Sudanese President Omar al-Bashir's travel clear. We oppose invitations, facilitation, or support for travel by any person subject to outstanding ICC arrest warrants, including President Bashir," a department official said in Washington.

Mr. Bashir's attendance at the summit could pose a diplomatic challenge for Mr. Trump, whose visit to Saudi Arabia is aimed at reassuring America's most important ally in the Arab world and sending a conciliatory message to Muslims in Middle East and beyond. After visiting Saudi Arabia, Mr. Trump is to travel to Israel, the Vatican and Brussels.

Rabie Abdelyat, a top official in Sudan's ruling National Congress Party, said Mr. Bashir would arrive on Saturday in the Saudi capital, adding that it wasn't clear whether he would meet Mr. Trump.

"The final program isn't yet

would represent Khartoum.

Mr. Bashir hasn't been included on the official list of invited officials. The kingdom began sending invitations to Muslim leaders last week and has been announcing the names of likely attendees in the official Saudi Press Agency.

Mr. Bashir, who has ruled Sudan since 1989, is the first person to be charged by the ICC for the crime of genocide in connection with his government's efforts from 2003 to 2008 to put down an insurgency in the southwestern region of Darfur. In addition to three counts of genocide, Mr. Bashir also faces five counts of crimes against humanity and two counts of war crimes.

The ICC issued warrants for Mr. Bashir's arrest in 2009 and 2010 but the Sudanese leader has continued to travel abroad to destinations where local authorities haven't enforced the warrants and turned him over to The Hague-based court.

President Omar al-Bashir

ASRAF SHAZLY/AGENCE FRANCE PRESSE/GTY IMAGES

President Omar al-Bashir

out, and arrangements are still under way, but President Bashir would welcome such a meeting," Mr. Abdelyat said.

In Saudi Arabia, the status of Mr. Bashir's attendance at the summit was unclear.

An official said Sudan was among the countries invited to attend the gathering but didn't say whether Mr. Bashir

## WORLD NEWS

# U.S. to Unveil New Iran Sanctions

Move is aimed at the country's ballistic missile program, American officials say

BY CAROL E. LEE

WASHINGTON—The Trump administration planned to announce on Wednesday new sanctions against Iran aimed at its ballistic missile program, according to senior U.S. officials.

The sanctions target seven individuals and entities, including two senior Iranian defense officials and a China-based network the U.S. says has supported Iran's ballistic missile program, a senior administration official said.

At the same time, the administration is taking a step ahead of Iran's elections and before President Donald Trump travels to the Middle East to meet with America's Gulf allies and Israeli officials to discuss new measures to counter Tehran's influence in

Also on Wednesday, the State Department released its report on Iran's human-rights record, emphasizing abuses in the country's prison system and its detention of foreign nationals, including American citizens, the official said.

The moves came just days ahead of Iran's elections and before President Donald Trump travels to the Middle East to meet with America's Gulf allies and Israeli officials to discuss new measures to counter Tehran's influence in

the region.

"The actions that the administration is taking today are intended to highlight that the United States moving forward intends to address all the various aspects of Iran's destabilizing and hostile behavior," the official said. "So the message today is that we continue to take action against these and other aspects of Iran's negative behavior that affect the United States' security and that of our allies."

The official said the U.S. had notified China of the pending sanctions.

The White House is currently reviewing its Iran policy, including the nuclear agreement.

One Iranian defense official who is sanctioned facilitated the sale of explosives and provided other support to Syria, the official said. Another is the director of an Iranian organization that is responsible for the Iranian regime's ballistic missile program.



Bruno Le Maire, Emmanuel Macron's economy minister.

## Macron Names Economy Minister

BY MATTHEW DALTON

PARIS—French President Emmanuel Macron named Bruno Le Maire, a moderate from the conservative Les Républicains party, as his economy minister, giving another top post to a right-leaning member of France's political establishment.

The appointment comes two days after he named Le Havre Mayor Édouard Philippe, also a member of Les Républicains, as his prime minister.

Mr. Macron appointed Jean-Yves Le Drian, the current French defense minister and a member of the Socialist Party, as his foreign minister, opting for continuity on his international affairs team at a time when France is involved in overseas conflicts in Syria and Ukraine.

The appointments show Mr. Macron continuing his outreach to French conservatives ahead of next month's legislative elections. Support from members of Les Républicains is likely to be key to allowing Mr. Macron to push his agenda through the National Assembly.

Mr. Macron's new party, La République En Marche, has announced 522 candidates to run in the June 11 legislative elections for the 577 seats in the National Assembly. While a number of Socialist lawmakers have agreed to join the party, members of Les Républicains have yet to sign up. If the party doesn't win an absolute majority, Mr. Macron will need backing from a mix of socialists and conservatives to control the assembly.

The appointment gives Mr. Le Maire a key role leading Mr. Macron's efforts to shake up France's tightly regulated economy. A former agriculture minister, Mr. Le Maire will have a broad role covering French industry and the government's finances. He ran for president last year but came in fifth in November's Les Républicains primary.

Crucially, Mr. Le Maire will be tasked with clearing France's budget with the European Commission, the European Union's executive arm, which enforces EU rules calling for governments to keep their deficits under 3% of gross domestic product. France's deficit has been over 3% since the financial crisis of 2008.

Mr. Macron named Lyon Mayor Gérard Collomb as interior minister, giving the socialist the job of leading France's counterterrorism efforts. As defense minister, he appointed Sylvie Goulard, a member of the European Parliament who joined Mr. Macron's party last year.

# Cover-Up Alleged in Investigation of Attacker

BY ZEKE TURNER

BERLIN—The city of Berlin on Wednesday accused its own police of covering up their failure to arrest the man behind last year's Christmas market terror attack on drug charges more than a month before his rampage in the German capital.

Berlin Interior Minister Andreas Geisel said a criminal complaint had been filed against the investigators in charge of tracking Anis Amri after documents were unearthed suggesting officers had recently altered records. The records, he said, showed the rejected Tunisian asylum seeker should have been arrested last November on serious narcotics charges.

Mr. Geisel didn't disclose the identities of the investigators or say how many were named in the complaint.

Authorities said Amri rammed a stolen truck into one of the capital's busiest Christmas markets on Dec. 19, killing 12 people. He escaped and traveled as far as Milan, where he was fatally shot by Italian police days later.

The accusation against the investigators raises fresh doubts about Germany's ability to tackle its most serious terror threat in decades. Amri was able to carry out the most devastating terror attack in recent German history even though he had been known to authorities for his criminal activities and radical Islamist views, and had been under close surveillance for six months.

Amri's truck rampage followed a string of smaller attacks by Islamist radicals in Germany since last summer that has forced the country to



A visitor in early January at a memorial to victims of the Dec. 19, 2016, terror attack at a Christmas market in Berlin.

tighten its security laws. But the number of terror investigations has since surged, leaving police and prosecutors stretched thin, security officials have warned, with new arrests occurring almost weekly.

The fact that many terror suspects arrived with the tide of migrants sweeping into Germany over the past two years has caught authorities off guard, complicated investigations and fueled criticism of the government's liberal refugee policy.

Authorities in North-Rhine Westphalia and Berlin, the two states where Amri spent

most of his time after arriving in Germany from Italy in 2015, have been under pressure to explain why he was able to move about freely despite his criminal activities and radicalism.

Officials so far have said none of the allegations against him would have warranted an arrest under German law.

Wednesday's revelations, however, seemed to contradict this defense.

Mr. Geisel told reporters that an independent investigator brought in to audit the police's work on Amri before the attack had helped uncover a document dated Nov. 1, 2016,

showing results of surveillance on the man's phone. In the document, Amri was described as being involved with "commercial-level, gang-related narcotics trafficking."

The evidence "would have been enough to order an arrest warrant," Mr. Geisel said. The charge comes with a minimum sentence of one year in prison.

Bruno Jost, the former federal prosecutor leading the audit, also uncovered a second document written on Jan. 17, 2017, but "apparently backdated to the first of November" describing Mr. Amri's actions as small-time drug

dealing—an offense that wouldn't have given authorities swift arrest powers.

"It's clear to say that we're dealing with concealment, a breach of duty, and it's clear to say on this basis, an arrest could have prevented this attack," Mr. Geisel said. "That's the scope we're dealing with here."

The state's criminal complaint against unnamed members of Berlin's criminal investigations squad allege "obstruction of justice, wrongfull investigation and breach of duty," Mr. Geisel said.

—Ruth Bender

contributed to this article.

# Ireland's Prime Minister Plans to Step Down

BY PAUL HANNON

Irish Prime Minister Enda Kenny said he would step down as leader of his party and the country, leaving it to his successor to try to minimize any damage caused by the departure of its neighbor, the U.K., from the European Union.

Mr. Kenny's decision to end his 15 years as leader of the right-of-center Fine Gael Party and six years as prime minister was expected. He had previously said he wouldn't lead the party into the next election, which must take place by February 2021.

His successor as party leader is likely to become prime minister, although that isn't guaranteed since the government relies on support from a number of independent lawmakers and the tolerance of the main opposition party.

While Mr. Kenny became the first leader of a eurozone austerity government to be re-



Enda Kenny said he hoped a successor would be chosen by June 2.

turned to office in May 2016, he did so by a slender margin. In a rare deal, the opposition Fianna Fáil party last year pledged not to bring down the government for a period of three years, after it became clear no alternative administration could be formed.

Mr. Kenny said on Wednesday that he hoped a successor would be chosen by June 2. He offered to remain in office while that person secured the support needed to become prime minister. The leading contenders are Simon Coveney, who entered Parliament from the same electoral district as his father, and the country's first openly gay cabinet minister, Leo Varadkar, the son of an Indian doctor.

The main challenge facing the new prime minister will be the U.K.'s departure from the EU. Ireland has closer economic, political and cultural ties with Britain than other

members of the bloc and expects the consequences of Brexit to be mostly negative. Mr. Kenny said this year that Brexit "poses unprecedented political, economic and diplomatic challenges for Ireland."

He leaves his successor in a strong position within the EU ahead of Brexit talks that will start after the U.K.'s June 8 election, having secured an acknowledgment of Ireland's "unique circumstances" from fellow bloc leaders.

There are other looming threats to Ireland's recovery from an economic crisis that began with the collapse of a property bubble from 2007. In

confronting that challenge, Ireland relied heavily on investment from U.S. companies. Some economists believe President Donald Trump's efforts to persuade U.S. firms to invest more at home could threaten a key pillar of Ireland's economic strategy.

"Uncertainty related to calls for a retreat from global integration is particularly relevant for Ireland given the open nature of the economy," the International Monetary Fund warned in its annual review of the country's economy, released Friday.

The new prime minister will likely have to navigate the continuing secularization of Irish society and the state. Mr. Kenny began talks that could lead to a referendum on repealing a constitutional ban on abortion in almost all circumstances, while there are growing calls to reduce the Catholic church's prominence in the educational and health systems.

The appointment gives Mr. Le Maire a key role leading Mr. Macron's efforts to shake up France's tightly regulated economy. A former agriculture minister, Mr. Le Maire will have a broad role covering French industry and the government's finances. He ran for president last year but came in fifth in November's Les Républicains primary.

Crucially, Mr. Le Maire will be tasked with clearing France's budget with the European Commission, the European Union's executive arm, which enforces EU rules calling for governments to keep their deficits under 3% of gross domestic product. France's deficit has been over 3% since the financial crisis of 2008.

Mr. Macron named Lyon Mayor Gérard Collomb as interior minister, giving the socialist the job of leading France's counterterrorism efforts. As defense minister, he appointed Sylvie Goulard, a member of the European Parliament who joined Mr. Macron's party last year.

## WORLD WATCH

## CENTRAL AFRICAN REPUBLIC Sectarian Violence Hits Northern Town

Fighting broke out in Central African Republic's northern town of Bria after several days of attacks in the southeastern city of Bangassou left at least 115 people dead, authorities said Wednesday.

The United Nations has warned that the sectarian violence that has plagued the country since late 2013 is now occurring in areas that previously had been spared.

The head of the Red Cross in Central African Republic, Antoine Mbao-Bogo, said his staff had

counted 115 bodies in Bangassou after hundreds of militia fighters from a predominantly Christian group known as the anti-Balaka attacked a Muslim district and the U.N. peacekeeping base there over the weekend.

At least 50 others were injured, Mr. Mbao-Bogo said. The U.N. reported more than 30 dead on Tuesday. Humanitarian agencies have called it incredibly difficult to retrieve corpses from the streets because of the ongoing insecurity.

The violence spread to Bria on Tuesday as fighting between the mostly Muslim Seleka rebels and the anti-Balaka left at least five dead and 29 injured, U.N. mission spokesman Hervé Ver-

hoosel said Wednesday. Peacekeepers intervened to separate the groups and restore calm.

A series of attacks in remote areas of the country in the past week have forced more than 15,000 people from their homes. More than 200 people have been killed.

—Associated Press

## SOMALIA Car Bomb Blast Kills Three Near Capital

Three bomb-disposal experts were killed in a car bomb blast west of Somalia's capital on Wednesday, police said.

The bomb detonated as the

experts were trying to dismantle a car laden with explosives that security forces seized in Wadajir district, Capt. Mohamed Hussein said.

There was no claim of responsibility for the blast. The Somalia-based al-Shabaab extremist group often claims responsibility for such attacks.

Al-Shabaab has vowed to step up attacks in Mogadishu and elsewhere after President Mohamed Abdullahi Mohamed announced a new offensive against the group.

Targets in recent months have included hotels, military facilities and checkpoints and areas around the presidential palace.

—Associated Press

## ICELAND

### Central Bank Cuts Key Rate to 4.75%

Iceland's central bank cut its key interest rate, responding to a strengthening of the nation's currency that is pressing down on inflation despite robust growth.

Sedlabanki Islands said it had lowered the interest rate on seven-day term deposits to 4.75% from 5%.

With the worst of the financial crisis long past, and a more recent threat of deflation fading, few developed-country central banks have contemplated rate cuts.

—Paul Hannon

## CANADA Manufacturing Sales Hit Record in March

Canadian manufacturing sales rose in March to a record, based on strength in the automotive and food-processing sectors. Miring the results were a weak advance in volumes and a downward revision to the previous month's data.

Factory sales advanced 1% on a seasonally adjusted basis to 53.85 billion Canadian dollars (US\$39.61 billion) in March. Statistics Canada said. That fell short of market expectations for a 1.3% increase, according to economists at Royal Bank of Canada.

—Paul Vieira

## WORLD NEWS

# Nepal Aims to Tap Into New Energy Flows

By DANIEL STACEY

KATHMANDU, Nepal—This Himalayan nation is betting that a new energy gold rush borne of its thousands of rivers and craggy peaks will establish it as a major Asian electricity source.

While India, Pakistan and China have all developed massive hydropower plants along the Himalayan mountains, Nepal's civil war and political instability scared off investment for decades.

Now, thanks to an inclusive peace process that allowed the country's main rebel leader to be elected prime minister twice, the focus is shifting to Nepal. Hydropower projects valued at billions of dollars are in progress, with geologists and investors scouring the landscape for more.

Government surveys show Nepal's abundant water resources can feasibly yield hydropower equal to more than 40% of U.S. output, a 40-fold increase from today. Officials project almost a third more hydropower capacity will come online this year. More than 100 projects under construction—more than 40 since last year—and others in development will yield at least a tenfold increase in the next decade to 10 gigawatts of power, they say.

"There's such an energy shortage that any project you build will find a market," said

Allard Nooy, CEO of InfraCo Asia, a development body funded by the U.K., Swiss and Australian governments that is financing one hydro project and seeking to develop two more.

Still, power companies don't face an easy ride. Among the hurdles are natural ones: earthquakes, landslides and inland tsunamis from glacial lakes as warmer temperatures prompt ice melt. Two years ago, a series of massive quakes killed 9,000 people and shattered the country.

Opposition from environmental groups is another difficulty. In the past, the World Bank and Japan's Asian Development Bank have withdrawn support for projects amid opposition from environmental groups.

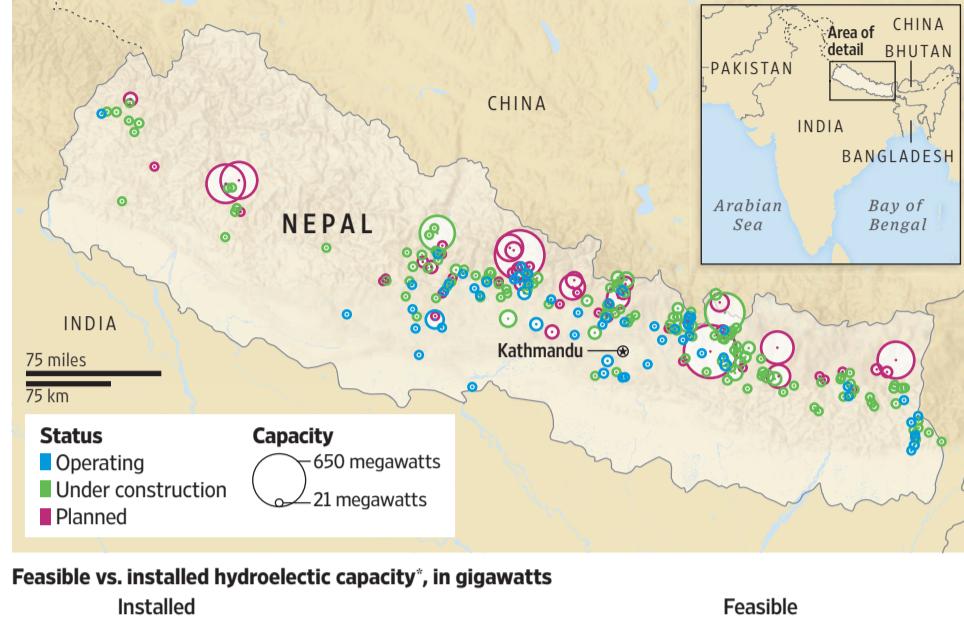
The risks are also political. Instability has led to 21 leaders in the past 20 years. A decadelong civil war killed more than 16,000 people.

But since the war ended in 2006, armed rebels have mainly swapped violence for politics. On Sunday, the poor nation of 30 million people held peaceful local elections, a vital step toward building a more stable democracy.

The greater stability has boosted momentum for rising investment in the Himalayas—a region dominated by Nepal, India and Bhutan that is considered the final development frontier in South Asia. Hydro energy projects are the biggest focus.

## Opening the Floodgates

Nepal plans to unlock the hydropower potential of the Himalayan mountains to sell electricity to neighbors like India and Bangladesh.



**Feasible vs. installed hydroelectric capacity\*, in gigawatts**

	Installed	Feasible
India	42.8	84.0
Nepal	0.9	43.0
Bhutan	1.6	24.0
Bangladesh	0.2   1.9	

Sources: Nepal's Ministry of Energy (map); National authorities; USAID \*Lastest available data

Note: Upper Solu Khola HPP is not shown

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"The only resource we have, like the Arabian countries have oil, is water," said Chhabhi Gaire, project manager at the Rasuwagadhi Hydroelectric Project, a 111-megawatt plant under construction near China's border.

Last year, investors began operating nine hydro plants with 140 megawatts of capacity in Nepal. The government hopes to double that pace this year, including finishing projects delayed by the 2015 quakes.

The effort is tough going, given Nepal's untamed terrain and the troubled political history.

The electricity demand is there. Nepal has faced rolling blackouts in recent years be-

cause of inadequate energy supply; nearby India, Bangladesh and Pakistan are growing rapidly and demanding more power. A shift to bigger projects aims to help address that need.

Now, Nepal is touting a string of large dams close to the China border. The first of these, the 456-megawatt Upper Tamakoshi project, funded by a group of Nepal's major banks and pension funds, is set to open in mid-2018 with a reservoir to enable energy generation in the dry season.

It is a risky project.

To the east, the dangerous glacial lake Tsho Rolpa threatens to burst its banks. To the west, the Gongar River routinely spits boulders the size of two-story buildings over the valley wall. A bridge the developers built over the Gongar was swept away in a flash flood during monsoon season. Landslides triggered by quakes swept away swaths of the access road. To keep working, project developers built a steel truss bridge and drilled a new road tunnel through a collapsed valley wall.

Moreover, the project is built on such volatile terrain that the turbines and delicate transmission equipment were buried 460 feet beneath the surface.

Still, Nepal forges ahead.

"There is no alternative to hydropower for countries like Nepal," said Ganesh Neupane, the Upper Tamakoshi project's deputy manager.

## U.N. Considers Pyongyang Sanctions

BY FARNAZ FASSIHI

UNITED NATIONS—The United Nations Security Council convened a closed-door, emergency meeting on North Korea, holding talks on new sanctions in response to the country's latest ballistic-missile test.

The U.S. and China were negotiating a resolution that would implement new sanctions and tighten existing penalties on Pyongyang, diplomats said. China is North Korea's main ally at the U.N. and has in the past advocated for direct negotiations rather than economic and military punishment.

U.S. Ambassador Nikki Haley said that the international community had to send North Korea a "no more" signal, adding that the U.S. would be willing to talk to North Korea only if the country abandoned its nuclear and missile programs.

"This is not play time. This is serious. These threats are not welcome," said Ms. Haley, speaking to reporters before the council meeting Tuesday.

Ms. Haley also said that the U.S. would be identifying countries that still supplied and supported North Korea and could target them for sanctions.

North Korea launched its seventh ballistic missile of the year on Sunday and the latest appeared to be its longest-range missile launch yet. The missile, which Pyongyang said was capable of carrying a heavy nuclear warhead, landed in the Sea of Japan.

The test came as international powers engaged in a carrot-and-stick strategy with North Korea. In the past few weeks, Washington had warned that another provocation could draw an unspecified U.S. reaction.

At the same time, President Donald Trump has said he would be willing to meet with North Korean leader Kim Jong Un in the right circumstances. South Korea's new president also announced a new policy shift that favored dialogue with North Korea and said he would work to ease military tensions.

South Korean Ambassador to the U.N. Cho Tae-Yul said that his country's response "remains as firm as ever" and that dialogue would be possible only if North Korea changed course.

"We cannot be in a 'wait and see' mode until the next provocation occurs," said France's Ambassador François Delattre.

# Seoul Names Chaebol Critic to Watchdog Role

BY EUN-YOUNG JEONG



JON SHIVV/ASSOCIATED PRESS

SEOUL—South Korea's new president named an outspoken critic of the country's family-controlled business empires to a key government post, a move that signals a tougher regulatory approach to conglomerates such as Samsung, Hyundai Motor and LG.

A spokesman for President Moon Jae-in said Wednesday that he had appointed Kim Sang-jo, a longtime advocate of corporate reform who is known as the "chaebol sniper,"

to head the Korea Fair Trade Commission, the country's antitrust watchdog.

Mr. Moon, the first left-leaning president in nine years, has pledged to curb the dominance of the large business groups known as *chaebols*, through clearer holding-company structures and by introducing measures that strengthen minority shareholders.

Some South Korean lawmakers, foreign investors and corporate-governance advocates argue that shaking up

the chaebols would allow for more innovation and give opportunities to smaller businesses.

Samsung, Hyundai Motor and LG—among the country's largest conglomerates—declined to comment on Mr. Kim's appointment.

Under Mr. Kim, the regulator is expected to aggressively curb common chaebol practices such as internal deals within conglomerates and the use of cross-shareholdings by family owners to expand their hold over companies. Mr.

Moon has pledged to establish a body within the commission to monitor chaebol activities.

For decades, Mr. Kim, a 54-year-old economics professor at Seoul's Hansung University, has been at the forefront of calls for change at the business empires that dominate Asia's fourth-largest economy.

Mr. Kim was a critic of a contentious merger between two Samsung affiliates in 2015 that he argued benefited the conglomerate's controlling Lee family at the expense of small shareholders.

# Islamic State Attacks Afghan TV Station

BY EHSANULLAH AMIRI AND JESSICA DONATI

KABUL—Islamic State gunmen broke into a television station in eastern Afghanistan, waging an hourslong battle that left at least 10 dead, including four attackers.

The assault on Wednesday was the first by a militant group on offices of a media organization in Afghanistan, where violence against journalists is on the rise. Years of war are inflicting an increasingly deadly toll on the population, with local journalists

becoming more vulnerable to threats by insurgents and local strongmen as the security situation in the country deteriorates.

The broadcaster that was attacked, Radio Television Afghanistan, has an office in central Jalalabad, a major city in Nangarhar province where Islamic State's Afghan affiliate has established a stronghold.

The attack started mid-morning when a suicide bomber blew himself up at the gates of the television building, allowing three gunmen to gain access to the offices in-

side, said Attaullah Khogyani, a spokesman for the provincial governor.

Afghan security forces responded and fought the attackers for three hours, he said. The attackers were all killed, along with four of the station's employees and two policemen, he added. A number of people were wounded.

Islamic State claimed responsibility for the attack in a statement distributed online, according to the SITE Intelligence Group, which monitors global jihadist activity.

It was the worst attack on

journalists in Afghanistan since January 2016, when the Taliban, the country's largest insurgency, bombed a bus carrying employees of one of Afghanistan's largest TV networks and killed seven people.

Nai, a nongovernmental organization that seeks to promote media freedom and independence in Afghanistan, recorded 80 attacks last year on journalists, the deadliest year since the Taliban were ousted by U.S.-led forces in 2001.

Among those killed when shell fire struck their vehicle

were American photographer David Gilkey, who worked for National Public Radio, and his Afghan colleague, Zabihullah Tamanna.

"We strongly condemn the attack on the RTA. We consider attack on the media [an] attack on people's voices and the foundation of democracy," said Najib Sharifi, the president of the Afghan Journalists Safety Committee.

Reporters Without Borders also condemned the attack, calling for the Afghan government to take concrete measures to protect journalists.

# Venezuelan Riot Police Exhausted on the Front Line

BY ANATOLY KURMANAEV

CARACAS, Venezuela—When Ana, a five-year veteran of the national police, finishes her night shift patrolling this city's dangerous slums, she often arrives home only to pick up her riot gear and head out again to confront rolling protests against Venezuela's embattled government.

On those front lines, she and her colleagues use tear gas and rubber bullets against increasingly desperate protesters armed with stones, Molotov cocktails and even bags of feces. The showdowns take place in scorching heat, and she says the authorities provide her with no food, water or overtime pay.

Ana, who like others cited in this article asked that her last name not be used for fear of official retribution, is one of about 100,000 Venezuelan security officers, mostly in their 20s, shielding the government of increasingly unpopular President Nicolás Maduro from escalating unrest.

She and many of her exhausted colleagues say they are wavering as protests enter a seventh week with no end in sight. "One day I will step aside and just walk away, blend into the city," she said. "No average officers support this government anymore."

The security forces' once fierce loyalty to Mr. Maduro's charismatic predecessor Hugo Chávez has largely given way to demoralization, exhaustion and apathy amid an economic collapse and endless protests, said eight security officers from different forces and locations in interviews with The Wall Street Journal.

Most of them say they want only to earn a steady wage amid crippling food shortages and a decimated private sector. Others say fear of a court-martial keeps them in line.

"We're just trying to survive," said Caracas police officer Viviane, a single mother who says she shows up for protest duty so she can feed her 1-year-old son. "I would love to quit but there are no other jobs."

A full-time Venezuelan police officer or member of the National Guard, the country's militarized police in charge of riot control, makes the national minimum wage of about \$40 a month at black-market exchange rates, the same as a cafe waiter.

"The security forces suffer the same as the rest of society from the economic crisis," said retired Maj. Gen. Miguel Rodríguez Torres, who commanded national police in the last wave of antigovernment unrest in 2014.

The current round of protests, triggered in late March by an attempt by judges allied with Mr. Maduro to dissolve the congress, have led to 43 deaths so far, mostly of protesters. Thousands of demonstrators have been arrested and hundreds are being tried in military courts for treason.

The epicenter of the protests has been the line where downtown Caracas meets the opposition-run eastern boroughs of the capital. Both sides view control of the city center as vital. The last large antigovernment march that managed to reach the presidential palace there led to a short-lived coup in 2002 against Mr. Chávez. The opposition says the increasingly isolated government is scared of losing control if a rally breaches its stronghold.

"This is a war of attrition," said Luis García, a student activist. "Whoever tires first will lose."

Most days follow the same pattern: An initially peaceful demonstration disintegrates into violence as security forces fire tear gas and rubber bullets to block the protesters' advance. The bulk of the demonstrators then flee, leaving the field to hundreds of hooded youths who call themselves the Resistance, build barricades and battle officers into the night.

"I feel exhausted from it all: the lack of sleep, the constant barrage of stones and Molotovs," said Gustavo, a 21-year-old national guardsman.

—Sheyla Urdaneta and Maolis Castro contributed to this article.



FERNANDO LLANO/ASSOCIATED PRESS

National Guard members shielded themselves from protesters' projectiles in Caracas this month.

THE WALL STREET JOURNAL

## PAID ADVERTISEMENT

# Xi's Belt and Road Vision Points Way To Global Prosperity

By XINHUA WRITERS  
WANG CONG AND MENG NA

A freight train loaded with French wines, automobile parts and agricultural products departs from Lyon at the beginning of a 16-day journey.

In just over two weeks, it will trek across Germany, Poland, Belarus, Russia and Kazakhstan, before arriving at its final destination, Wuhan in central China. The journey is three times faster than by sea, and the cost is about a fifth of air freight.

The 11,300-km Lyon-Wuhan railway that made it all possible is part of the Belt and Road Initiative proposed by Chinese President Xi Jinping more than three years ago.

The ambitious initiative - linking dozens of countries along a land-based Silk Road Economic Belt and an ocean-going 21st-Century Maritime Silk Road - is a crucial component of Xi's foreign policy.

Its name takes reference from a historic network of trails and caravan routes that linked the civilizations of Asia, Europe and Africa and transformed the nature of international trade links.

More than 2,000 years ago, China's imperial envoy Zhang Qian braved a world of uncertainties on a diplomatic mission to Central Asia, setting in motion an economic miracle.

In the centuries that followed, numerous trading posts cropped up along the Silk Road first opened up by Zhang, and an endless stream of goods and materials flowed in both directions. Ideas, technology, culture, and religions spread, creating a seamless network that truly connected East and West.

Now, with the world struggling to close a widening development gap while protectionism rears its ugly head, China wants to reinvigorate the heritage of these historic routes and transform them into a modern story of inclusive growth and cross-continent cooperation.

In September 2013, on a state visit to Kazakhstan, Xi first suggested that China and Eurasian countries join hands to build a Silk Road Economic Belt.

A month later, the Chinese



Left: A China Railway Express train to Europe arrives in Warsaw, Poland on June 20, 2016. XIE HUANCHI / XINHUA  
Right: Chinese President Xi Jinping and his Polish counterpart Andrzej Duda greet the China Railway Express train to Europe arriving in Warsaw on June 20, 2016. LAN HONGGUANG / XINHUA



President proposed in Indonesia to build a close-knit China-ASEAN community and offered guidance on constructing a 21st Century Maritime Silk Road to promote maritime cooperation.

The idea is to combine the rapidly expanding Chinese economy with the benefits of all parties involved through an inclusive platform.

"The Belt and Road connect economies in the Asia Pacific and Europe. China and the countries along the Belt and Road will share the benefits of the project such as bolstering the economy, improving people's livelihood and tackling crisis," Xi said in November 2014.

Thus far, his grand vision has been backed by concrete action, and the early harvests of the initiative are but a fraction of its potential.

Already, the initiative has had a noticeable effect on trade and investment. In 2016, China's combined imports and exports with countries along the Belt and Road amounted to some 913 billion U.S. dollars, over a quarter of China's total trade value that year.

As the clear benefits of the initiative become more obvious, doubts have begun to abate.

In the first quarter of 2017 alone, Chinese enterprises invested 2.95 billion U.S. dollars in 43 countries along the Belt and Road.

All in all, Chinese businesses have invested more than 50 billion U.S. dollars in Belt and Road

countries, and helped build 56 economic and trade cooperation zones, generating nearly 1.1 billion dollars in tax revenue and creating 180,000 local jobs.

With growing recognition of the initiative, misunderstandings have waned.

Belt and Road countries account for about 60 percent of the world's population and 30 percent of global GDP.

So far, the initiative has won support from more than 100 countries and international organizations, of which over 40 have signed cooperation agreements with China on Belt and Road.

The United Nations General Assembly, the UN Security Council, APEC and the Asia-Europe Meeting have all incorporated or reflected Belt and Road cooperation in resolutions and documents.

The establishment of the Silk Road Fund and the Asian Infrastructure Investment Bank (AIIB), which has recruited 70 members around the world, also provided new sources of support for the initiative.

With deepening friendships, hostility has diminished, and with increasing consensus, opposition has receded.

The Belt and Road Initiative is important to China, but it goes far beyond benefiting China alone.

It offers a solution to global economic difficulties and uncertainties worsened by a sluggish recovery, downturns in

trade and investment, a lack of growth momentum, and setbacks in globalization.

In Xi's own words, the Belt and Road Initiative originated in China, but has delivered benefits well beyond its borders.

Against today's global economic headwinds and rising risks of protectionism, the initiative gives hope that openness, shared development and cooperation will bring down walls and barriers.

China Railway Express trains to Europe now operate 39 routes across Eurasia.

The multi-purpose road-rail Padma Bridge, which is being built by a Chinese company, is expected to add 1.5 percent to Bangladeshi GDP when it opens in 2018.

The China-Pakistan Economic Corridor, meanwhile, will build a 3,000-km economic belt made up of roads, railways and energy infrastructure between the ports of Gwadar in Pakistan and Kashgar in China's Xinjiang.

As the helmsman of the world's second largest economy, Xi's active involvement in the initiative is indispensable for its success.

The Chinese president speaks on the Belt and Road during almost all of his foreign state visits.

Xi attended the opening ceremony of the Port City Project in Colombo, Sri Lanka in September 2014. At the side of Polish President Andrzej Duda, he also personally greeted the Chinese freight train to Europe in

Warsaw in June 2016.

In his latest tête-à-tête with U.S. President Donald Trump at Mar-a-Lago earlier this year, Xi told his U.S. counterpart that China would welcome the United States' participation in the Belt and Road Initiative.

But Xi's ambitions far transcend cement and steel.

Beyond trade and infrastructure, China's long-term goals for the Belt and Road also include policy coordination, financial integration and people-to-people bonds, all of which provide a new vision for the future of humanity.

"The initiative has become the linchpin connecting China's domestic and global ambitions," said Zheng Yongnian, director of the East Asian Institute at the National University of Singapore.

The Belt and Road is a strong driver for globalization, Zheng said, and the development-based globalization proposed by China means shared growth of all.

Chinese officials have repeatedly stressed that the Belt and Road is in essence an initiative for international cooperation, open to all like-minded countries and regions.

Just last month, Foreign Minister Wang Yi compared it to "a circle of friends" open to all countries that share the same goals, rather than an exclusive club.

With that in mind, the Belt and Road Forum for International Cooperation held in mid-May has been designed to expand consultation, to seek new ways to make joint contributions, and to ensure that the benefits are shared with all. The forum has translated the ambitious blueprint into a solid structure and turned a new page in the Belt and Road Initiative.

Twenty-nine foreign heads of state and government leaders have attended the forum. Other delegates include officials, entrepreneurs, financiers and reporters from over 130 countries, and representatives of key international organizations.

As President Xi put it, the Belt and Road is not a private driveway for a certain party, but a broad avenue on which all can march forward together.

Wang Cong and Meng Na are writers for Xinhua News Agency.

## Guangzhou ramps up its Belt and Road initiatives

By XINHUA WRITERS  
YU ZHONGWEN, SHANG XU,  
MA QIAN, MA XIAOCHENG

Since China announced its Belt and Road plans in 2013, Guangzhou has taken a lead in pushing the initiative forward.

A traditional trade center often referred to as China's "1,000-year-old business capital", Guangzhou is developing its infrastructure in-line with plans to connect China to Central Asia, Europe, Africa and The Middle East via a modern Silk Road.

To aid the development of Belt and Road, Guangzhou district governments are promoting innovation and entrepreneurship by hosting competitions involving participants from the likes of United Arab Emirates (UAE), Israel, and the United States, with the aim of selling the city to the international tech community.

Free trade zones (FTZs) are also top of the agenda for Guangzhou officials. Two years ago, the city's Nansha District entered a pilot program to promote foreign trade and investment. According to 2016 figures, the total import and export volume of Nansha's FTZ reached nearly 170b yuan (US\$24.66b), one fifth of Guangzhou's total volume.

To simplify paperwork for international businesses, Guangzhou has set up

administrative service centers across the city, often with historical ties to the Silk Road, including one in Pazhou, an ancient port that housed this year's Canton Fair. "The center is a window to display the city's policy, economy, culture, arts and investment environment," Jiang Wei, head of the Pazhou center, told Xinhua.

More than 360 companies from countries along the Belt and Road participated in this year's Canton Fair, organizers of the city's trade showcase said.

Following the launch of Belt and Road, Guangzhou has redoubled its efforts to expand its network. Since 2013, Guangzhou has established official ties with cities across the world including Ahmedabad, Incheon, Kinshasa, Phnom Penh, Prague, and Rabat.

"In recent years, with the development of the economy ... we have shared our development experience with cities along the Belt and Road," said Chen Jie, director of the Asian, African and Oceanian Affairs Division of Guangzhou Foreign Affairs Office.

"Last year, a special team was established to deal with affairs of Asia, Africa and Oceania, to facilitate cooperation between Guangzhou and cities along the Belt and Road," Mr Chen added.

More than 55 countries have now established consulates

in Guangzhou. "The Belt and Road initiative has injected new impetus in the economic and trade exchanges between Guangzhou and foreign cities," said Luo Zheng, director of the Comprehensive Division in the Commission of Commerce for the Guangzhou government.

Another area in which Guangzhou has stepped up its efforts is in upgrading its transport network to link the Belt and Road via air, land and sea.

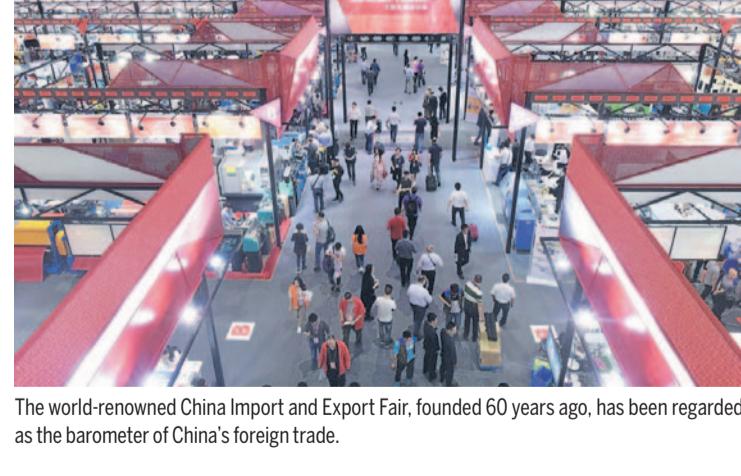
Guangzhou based China Southern Airlines is a central part of the city's plans to expand its Belt and Road network in the skies. The airline has a fleet of more than 700 passenger and cargo aircraft, according to Qu Guangji, deputy director general & SVP of the network and revenue management division for the airline's commercial steering committee.

As of April 2017, China Southern Airlines reached 68 cities and 38 countries along the Belt and Road, Mr Qu told Xinhua, adding the company plans to open new routes from Guangzhou to destinations along the road, including Johannesburg, Tehran and Islamabad.

These routes will already add to Guangzhou Baiyun International Airport's roster of destinations that includes 87 international cities, with 52 of these in 27 countries along the Belt and Road,



Pazhou Administrative Service Center, with an advantageous location in Guangzhou.



The world-renowned China Import and Export Fair, founded 60 years ago, has been regarded as the barometer of China's foreign trade.

according to data provided by airport officials to Xinhua.

The expansion of airport routes has been mirrored with development of Guangzhou's train network. In August 2016, the city launched its first weekly

cargo train to Europe, adding to its already significant shipping capacity and maritime trade.

Yu Zhongwen, Shang Xu, Ma Qian, Ma Xiaocheng are writers for Xinhua News Agency.

PAID ADVERTISEMENT

# Floral Whisper along the Silk Road

# GUANGZHOU, FLOWER CITY IN BLOOM

**Kapok, Jasmine, Lotus, Rose,Orchid:  
A Dynamic City Full of Contrasts**

With stamped letters from five countries along the silk road, accompanied by the floral whisper of the kapok, jasmine, lotus, rose and orchid; I, Guangzhou, would like to thank you all for nurturing my resplendence and charm with your openness, beauty, vitality, inclusiveness and friendliness, and for taking me back to the two-thousand-year history of myself.

I am your Guangzhou, the world's Flower City.



Facing the sea, with mountains as its backyard, and with the Pearl River passing through, Guangzhou is richly endowed by nature for developing commerce and trade. 2,200 years ago, the Maritime Silk Road started from this ancient port city and led to the rest of the world.

Guangzhou, a world famous port city, established itself as the main port of the Maritime Silk Road since the third century, acquiring its long standing reputation as a hub for trade and commerce. It was China's largest port during the Tang and Song dynasties, and China's only port open to foreign trade during the Ming and Qing dynasties.

Ibn Battuta, a Moroccan pioneer of travel and exploration, described the richness of the southern Chinese port in his travels. The scene he stumbled upon reveals the affluence of

Guangzhou Bay, where he saw numerous boats conducting trade and commerce.

The famous "Goteborg" merchant ship, a Swedish East Indian vessel one of the most state-of-the-art vessels arrived in Guangzhou three times in the early 16th century. Loaded with Chinese porcelain, silk, tea and other goods, it sailed back to the West. "Goteborg" became regarded as a symbol of Chinese and Western trade and cultural exchange.

The Maritime Silk Road had made Guangzhou affluent. When wandering around the city, one can easily find historical landmarks that demonstrate the long-standing prosperity of the maritime trade.

Displayed at the Archaeological Site Museum of Nanyue Palace (with over 2,200 years' history) and unearthed in Yuxiu District, Guangzhou, a number of historical treasures point to the historical wealth of the commerce industry through artifacts such as golden flower bubble ornaments from Mesopotamia, Persian-style silver box, African ivory, etc. Such a vast history allows Guangzhou to boast a highly developed trade infrastructure and support network.

Beijing Road, a pedestrian and shopping street located at the core of Guangzhou, dubbed the "Millennium Business City," and has been at the center of commerce through generations and five dynasties: South Han, Tang, Song, Ming and Qing.

Hidden in the hustling and bustling Liwan District, Guangzhou, there is the ancient "Hualin Temple." The stone monument with the inscription of Chinese characters "西来古岸", or Xi Lai Gu An in pinyin, literally meaning an ancient coast for people from the West; it marked the landing site of this eastward sea-voyage of the Indian monk Dharmma from Tianzhu (now India), who has been honored as the ancestor of the Chinese Buddhist Zen.

As the world becomes increasingly globalized and interconnected, Guangzhou is becoming a pillar of economic strength and vibrancy through the innovative "Belt and Road" Initiative, since it's the starting point of the Road (the 21st Century Maritime Silk Road). The city's strong foundation and the openness of its people will see it chart a course back to the world stage, making it a true jewel of the orient.

The ancient Port of Huangpu, located in Haizhu District, was once a major port when Guangzhou was the only city in China that was open to foreign trade. Historical accounts that describe "merchant vessels converging, and thousands of sails competing," allow people to easily visualize the grandeur of its formative years.

The scenic Lychee Bay, located in Liwan District, Guangzhou, was sometimes referred to as a "fairyland on earth" owing to its Cantonese cuisine and dim-sum feature in large banquets that were hosted for guests from across the world, making it a savory feast blending Chinese and western cultures.

The Maritime Silk Road, unfailing for over two thousand years, has brought Guangzhou continuous vitality.

Zhujiang New Town Central Business District (CBD), located in Tianhe District, Guangzhou, has become a world-class business hub, which had an output value totaling 270 billion yuan in 2016, ranking first in the list of China's urban CBDs. The area exemplifies Guangzhou's prosperity with clusters of skyscrapers, within which the "Flower City Square," the Pearl River and the Guangzhou Tower form a beautiful city hall complex.

The "Maritime Silk Road" is back in the spotlight.

As China's southern gate, Guangzhou is now making greater efforts on opening up, innovation and development with a particular focus on

world-class infrastructure. Guangzhou has a world-class harbor, airport, railway port and information port. With 170 sea routes and 151 international and regional air routes, it has long been connected to the world's five continents; 58% of the Internet service in China's mainland is docking with the world's Internet through Guangzhou.

In 2016, the city's GDP reached about 1.96 trillion yuan, around the same level as that of Singapore and Hong Kong. And its per capita GDP exceeded 20,000 U.S. dollars.

Guangzhou has always strived to be both open and innovative. The city's government has devoted itself with the task of building and expanding a network of sister cities – currently numbering 36 – on top of 29 "International Friendship" cities. And up to 57 countries have set up consulates across Guangzhou. Such outward looking efforts have brought both partnerships and foreign direct investment into Guangzhou.

The world-renowned "China Import and Export Fair", or Canton Fair, having been annually held in Guangzhou for 60 years, is known both as a symbol and barometer of the city's continuous success in foreign trade.

Guangzhou will continue to attract the attention of the world in the next few years. Fortune Global Forum 2017, World Routes 2018 and the World Ports Conference 2019 will be held in Guangzhou.



## U.S. NEWS

## Currency Rules for Nafta Are Weighed

Trump move barring manipulation would serve as a precedent for future trade talks

By WILLIAM MAULDIN

**WASHINGTON**—The Trump administration told senators it is considering adding rules barring currency manipulation to the North American Free Trade Agreement, according to congressional aides, a departure from past U.S. policy that could set a precedent for other trade deals.

U.S. Trade Representative Robert Lighthizer said in a Senate meeting Wednesday that he is looking at currency rules as a part of planned renegotiation of Nafta, the 23-year-old trade agreement that connects the U.S. economy with Canada's and Mexico's, the aides said.

An administration official confirmed the U.S. is looking at some sort of currency disciplines but didn't say whether the rules would be binding and enforceable through Nafta's dispute-settlement procedures.

Canada and Mexico haven't been the focus of U.S. criticism over currency, but adding currency rules to Nafta could set a precedent for including them in future negotiations with Asian trading partners.

Currency rules weren't in a previous draft of the administration's Nafta negotiating blueprint plan reviewed by



U.S. Trade Representative Robert Lighthizer, shown at his swearing-in on Monday, discussed Nafta at a Senate meeting on Wednesday.

ANDREW HARRER/BLOOMBERG NEWS

The Wall Street Journal in March.

"It is highly controversial, but I think it does make sense," said Fred Bergsten, founding director of the Peterson Institute for International Economics and co-author of a forthcoming book this year on currency manipulation.

"The link between exchange-rate movements is

very clear and very substantial. It's a lot more important than many of the other things that have been linked to trade policy," he said.

While U.S. manufacturers have complained about currency manipulation, groups representing sprawling multinational businesses say they are more concerned about tariffs and commercial rules of

the road than currency levels, which fluctuate up and down over time.

In the past two years, critics of U.S. trade policy have generated opposition to Washington's trade agreements by saying China and other countries manipulate their currencies in ways that have a bigger effect on their export competitiveness than tariff levels set

by trade deals.

Former President Barack Obama's administration didn't include enforceable currency rules in the Trans-Pacific Partnership, the 12-nation deal that Congress never ratified and President Donald Trump exited from in January.

At the time, U.S. officials said that trading partners were opposed to the rules, and

some worried that such guidelines, even if they are carefully tailored, could tie the hands of U.S. monetary policy in the future.

Instead, the TPP countries agreed to nonbinding guidelines and transparency procedures outside the agreement.

The issue of currency rules wasn't unexpected as a part of the new administration's trade policy. Mr. Trump has frequently blamed China for manipulating its currency, although his Treasury Department declined to declare Beijing a currency manipulator this year.

Economists say that China has actually been intervening to support the value of the yuan of late, rather than pushing it weaker to gain a trade advantage.

Trade legislation passed by Congress in 2015 directs the administration to look at currency issues in trade pacts. "Unless they address currency, they're not going to get trade agreements through the Congress," Mr. Bergsten said.

Mr. Lighthizer is set to attend a gathering of Asian leaders in coming days in Vietnam. The Trump administration is seen as unlikely to revive the TPP but could pursue bilateral talks with individual countries in the bloc.

In Canada, a spokesman for Foreign Minister Chrystia Freeland said Canada is ready to negotiate new terms for Nafta once formal talks begin.

—Paul Vieira in Ottawa contributed to this article

## TRUMP

Continued from Page One

The Judiciary Committee also sought any tapes of the conversation that might exist, and two panels requested Mr. Comey's in-person testimony.

"I think we need to hear from him as soon as possible in public to respond to the issues that have been raised in recent days," said Senate Majority Leader Mitch McConnell (R., Ky.), referring to Mr. Comey, in an interview with a member of The Wall Street Journal's editorial board.

Other lawmakers have said they want to see records concerning Mr. Trump's meeting last week with Russian officials, though no formal requests have been made.

Lawmakers are taking the aggressive steps following two significant media reports this week. The first maintained that Mr. Trump revealed sensitive counterintelligence information to Russian officials in an Oval Office meeting last week. The second said that Mr. Trump, in February, pressured Mr. Comey to drop his probe of former national security adviser Mike Flynn, based on a memo written by Mr. Comey at the time.

Mr. Trump fired Mr. Comey as head of the Federal Bureau of Investigation last week. The FBI has been investigating whether Russia interfered in the 2016 U.S. presidential election and whether associates of Mr. Trump colluded with Moscow.

The White House has denied that Mr. Trump asked Mr. Comey to back off an investigation into Mr. Flynn. And Mr. Trump and his aides have said the counterterrorism information the president shared with the Russians was appropriate.

Mr. Trump is scheduled Wednesday to meet with four candidates to succeed Mr. Comey, including Acting FBI Director Andrew McCabe and former Sen. Joe Lieberman, the White House said Wednesday. The other two are former FBI official Richard McFeely and former Oklahoma Gov. Frank Keating.

On Capitol Hill, the documents lawmakers are requesting could shed new light on the two controversies.

"We have an obligation to carry out our oversight, regardless of which party is in the White House," said House Speaker Paul Ryan (R., Wis.), pointing to the recent news reports that he said required "close examination" by Congress. "And that means, before

## Grads Told to Shrug Off Unfair Attacks

President Donald Trump advised graduates to "never give up" even when subjected to unfair attacks, in remarks at a commencement address Wednesday that came as he faces new questions over his conversations with fired FBI Director James Comey.

"Look at the way I've been treated lately, especially by the media," Mr. Trump said. "No politician in history has been treated more unfairly. You can't let them get you down."

The commencement address at the U.S. Coast Guard Academy marked the president's first public comments—

he stayed off Twitter Wednesday morning—after Tuesday evening's reports that he asked then-FBI Director Comey to end the agency's investigation of Gen. Michael Flynn, his former national security adviser, during a private dinner in February, as Mr. Comey recorded in a memo now being shared with reporters after his firing last week.

Mr. Trump has also faced fire over reports that he revealed sensitive intelligence during last week's Oval Office meeting with the Russian foreign minister.

In his comments Wednesday, the president focused on the value of overcoming adversity, but made no explicit reference to the most recent scandals. "Over the course of your life, you will find that things

are not always fair," Mr. Trump said. "You will find that things happen to you that you do not deserve."

Mr. Trump's opening words to the graduating class, ostensibly about their accomplishments and futures, not his, were heavy with political subtext, especially as the president spoke about the challenges of leadership.

"You have to act, and you have to act properly and you have to learn how to act under great pressure," Mr. Trump told the graduates, whom he praised for enlisting in the Coast Guard and defending the country's borders. "In the Coast Guard, you don't run from danger," Mr. Trump continued. "You chase it."

—Eli Stokols

touch with the former FBI director.

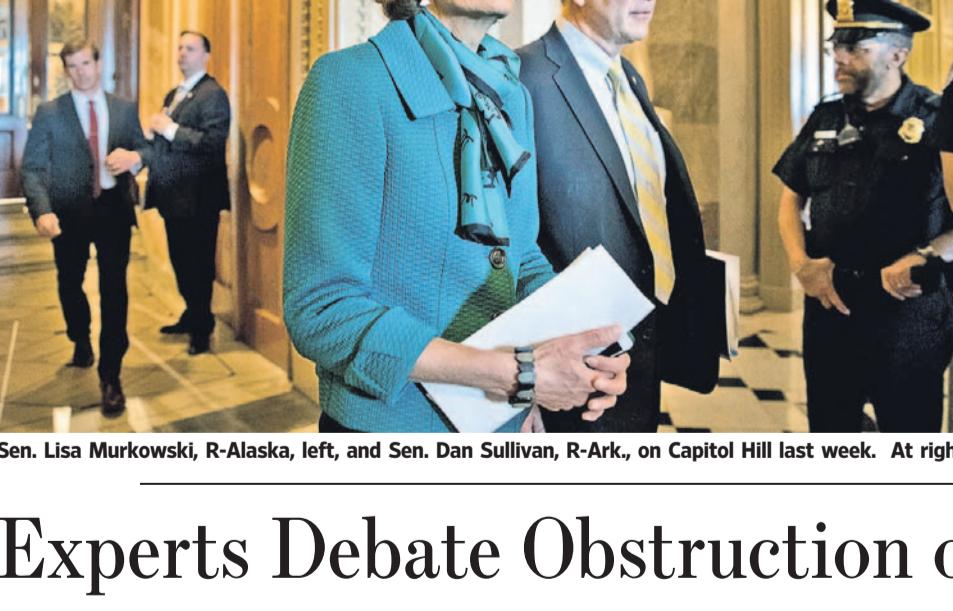
Russian officials have denied meddling in the U.S. presidential election. And Mr. Trump and his aides have denied any collusion with Moscow.

Democrats said the renewed oversight attempts by Republicans congressional leadership didn't go far enough.

"Given the gravity of the events that have occurred over the past few weeks, our committees should already be conducting robust and transparent investigations and oversight," said Rep. Elijah Cummings of Maryland, the top Democrat on the House Oversight Committee. "It is unacceptable that we continue ignoring these scandals—and that's exactly what they are."

House Democratic lawmakers are also trying to use a procedural maneuver to force a vote on legislation that would create an independent commission—looking to get several Republicans to cross the aisle and sign what is called a "discharge petition" to bring the matter directly to the House floor without the consent of the GOP leadership, which has resisted such measures.

—Andrew Ackerman and Janet Hook contributed to this article.



Sen. Lisa Murkowski, R-Alaska, left, and Sen. Dan Sullivan, R-Ark., on Capitol Hill last week. At right, Rep. Elijah Cummings, D-Md., speaks during a news conference Wednesday.



ALEX BRANDON/ASSOCIATED PRESS

## Experts Debate Obstruction of Justice in Comey Meeting

By JACOB GERSHMAN AND JOE PALAZZOLO

President Donald Trump's White House meeting with then-FBI Director James Comey about former national security adviser Mike Flynn has some lawmakers and legal experts saying the president may have crossed a criminal line and obstructed justice.

At the one-on-one meeting in February, Mr. Trump asked Mr. Comey to drop the Federal

Bureau of Investigation's probe into Mr. Flynn and his ties to Russia, according to a memo Mr. Comey wrote. Mr. Comey didn't drop the investigation, and Mr. Trump fired him this month.

The White House strongly denies Mr. Comey's version of the meeting, and Mr. Trump said in an NBC interview that he fired him for incompetence.

Which federal law targets obstruction of justice?

18 U.S. Code Chapter 73.

The law covers things from assaulting a process server to influencing jurors to obstructing criminal investigations.

Legislators extended the law's reach to cover acts interfering with FBI investigations in 1967. The change was meant to give prosecutors a tool to punish mobsters for targeting witnesses cooperating with federal agents against them.

How has the law been used?

Obstruction of justice"

may evoke evidence destruction or witness tampering, but courts have interpreted the federal law to cover a much broader expanse of conduct, giving prosecutors freedom to innovate.

Prosecutors need not show anyone succeed in obstructing justice to prove violations of the law, said Lisa Kern Griffin, a professor at Duke University School of Law. Nor must the investigation or proceedings that were obstructed lead to

criminal charges.

Can a sitting president be prosecuted for obstruction of justice?

No president has ever been charged with obstruction of justice. Legal scholars have debated the issue of presidential immunity. There isn't a consensus on whether a president can be indicted or first must be impeached or removed from office. The starting point is the constitutional text, which some interpret to in-

struct that impeachment should precede a criminal prosecution.

Did the president obstruct justice, according to Mr. Comey's version of events?

Legal experts say we don't know enough at the moment to say for sure. Pivotal to establishing obstruction—particularly in white-collar cases—is the element of intent: demonstrating the accused acted with the purpose of interfering with justice.

## U.S. NEWS

# Household Debt Reaches Milestone

BY BEN LEUBSDORF

The total debt held by American households reached a record in early 2017, exceeding its 2008 peak after years of retrenchment against a backdrop of financial crisis, recession and modest economic growth.

Much has changed over the past 8½ years. The economy is larger, lending standards are tighter and less debt is delinquent. Mortgages remain the largest form of household borrowing but have become a smaller share of total debt as consumers take on more automotive and student loans.

"The debt and its borrowers look quite different today," New York Fed economist Donghoon Lee said.

He added: "This record debt level is neither a reason to celebrate nor a cause for alarm."

The total-debt milestone, announced Wednesday by the Federal Reserve Bank of New York, was a long time coming. Americans reduced their debts

during and after the 2007-09 recession to an unusual extent: a 12% decline from the peak in the third quarter of 2008 to the trough in the second quarter of 2013. New York Fed researchers, looking at data back to the end of World War II, described the drop as "an aberration from what had been a 63-year upward trend reflecting the depth, duration and aftermath of the Great Recession."

In the first quarter, total debt was up about 14% from that low point as steady job gains, falling unemployment and continued economic growth boosted households' income and willingness to borrow. The New York Fed report said total household debt rose by \$149 billion in the first three months of 2017 compared with the prior quarter to a total of \$12.725 trillion.

The pace of new lending slowed from the strong fourth quarter. Mortgage balances rose from the final three months of 2016, while home-equity lines of credit were down. Automotive loans rose, as did student loans, but credit-card debt fell along with other types of debt.

The data weren't adjusted for inflation, and household debt remains below past levels in relation to the size of the overall U.S. economy. In the first quarter, total debt was about 67% of nominal gross domestic product versus roughly 85% of GDP in the third quarter of 2008.

Balance sheets look different now, with less housing-related debt and more student and auto loans. As of the first quarter, about 68% of total household debt was in the form of mortgages; in the third quarter of 2008, mortgages were roughly 73% of total debt. Student loans rose from about 5% to around 11% of total indebtedness, and auto loans went from roughly 6% to about 9%.

Mortgage lending to sub-prime borrowers has dwindled since the housing crisis in fa-



A recovery in the housing market helped to propel household debt to a record in early 2017.

vor of loans to consumers considered more likely to repay. In the first quarter, borrowers with credit scores under 620 accounted for less than 4% of mortgage originations, compared with more than 15% a decade earlier. Borrowers with credit scores of 760 or higher had about 61% of originations last quarter, versus about 24% in the first quarter of 2007.

Auto loans have remained relatively available to sub-prime borrowers, helping fuel the record vehicle sales of recent years as interest rates have been low. About a fifth of auto-loan originations last quarter went to borrowers with credit scores below 620, down from roughly 30% a decade earlier.

Still, standards have tight-

ened. The median credit score for auto-loan originations in the first quarter was 706, compared with 764 for mortgage originations. In the first quarter of 2007, the median scores were 678 for auto loans and 712 for mortgages.

Less than 5% of outstanding debt was delinquent at the end of the first quarter, little changed from late 2016.

## Leaker of Government Secrets Leaves Prison

BY SARA RANDAZZO

Chelsea Manning, the former Army intelligence analyst convicted of leaking government secrets, walked free from a Kansas military prison on Wednesday after serving seven years of a 35-year sentence.

President Barack Obama commuted the remainder of Ms. Manning's sentence in his waning days in office, causing an outcry from some Republicans and others who said it lessened the severity of the broad leaks.

The American Civil Liberties Union, which represents Ms. Manning, confirmed Wednesday that she had safely left the prison, as did an Army spokeswoman.

In 2010, Ms. Manning—then known as Pfc. Bradley Manning—released a trove of information to the website WikiLeaks and elsewhere that included video footage of a U.S. Army helicopter in Iraq firing on a group of people who turned out to include Reuters journalists. Other information handed over included incident reports from Afghanistan and Iraq and thousands of secret State Department cables.

Three years later, Ms. Man-

ning was found guilty at a court-martial of leaking hundreds of thousands of documents, one of the biggest classified leaks in U.S. history. In August 2013, soon after being sentenced to 35 years in prison, she said she wanted to begin hormone therapy and be known by the name Chelsea.

The Army agreed in 2016 to allow her to receive medical treatment for gender dysphoria.

"Whatever is ahead of me is far more important than the past," Ms. Manning said on Wednesday in a statement released by the ACLU. "I'm figuring things out right now—

which is exciting, awkward, fun, and all new for me."

In her first posts on social media after leaving prison, Ms. Manning displayed a photo of her feet with the comment "First steps of freedom!!"

Mr. Obama shortened Ms. Manning's sentence in January

along with those of hundreds of other inmates, including many nonviolent drug offenders serving long prison terms. The decision was criticized by Republicans, including House Speaker Paul Ryan (R., Wis.), who said Mr. Obama created "a dangerous precedent that those who compromise our national security won't be held accountable for their crimes."

Senior administration officials said at the time that Mr. Obama considered Ms. Manning's crimes to be serious, but weighed that she had faced justice and took responsibility for what she had done. Ms. Manning twice tried to commit suicide in prison.

Chase Strangio, a staff attorney with the ACLU who represents Ms. Manning, said Wednesday that "through extended periods of solitary confinement and up against the government's insistence on denying her medical care and existence as a woman, Chelsea has emerged with grace, resilience and an inspiring amount of love for others."

Army spokeswoman Lt. Col. Jennifer Johnson said on Wednesday that Ms. Manning is in an unpaid, active-duty status that gives her access to some medical benefits and other privileges.



Chelsea Manning, a former Army analyst then known as Bradley Manning, had handed WikiLeaks a trove.

## Health Law Helps Detection Of Cancers

BY PETER LOFTUS

A new study suggests the expansion of U.S. health insurance under the Affordable Care Act modestly improved the detection of certain cancers at earlier stages of disease.

The finding comes at a time when the Affordable Care Act, a signature achievement of former President Barack Obama, is under siege. President Donald Trump has promised to overturn it, and the Republican-controlled House of Representatives this month passed a bill that would repeal much of the 2010 law and replace it with provisions that critics say would erode insurance coverage.

Researchers with the American Cancer Society conducted an analysis using a national database of cancer diagnoses reported by U.S. hospitals. The researchers studied several cancers for which screening is recommended in certain at-risk populations: female breast cancer, colorectal cancer, cervical cancer, prostate cancer and lung cancer.

The researchers compared the rates of stage 1 diagnoses—typically before cancer has spread beyond its site of origin—for each of the cancers in a nine-month period of

**Modest gains were made in connection with breast, colorectal and lung disease.**

2013, versus a nine-month period of 2014. Two key provisions of the health law that took effect in 2014 expanded health insurance to millions of Americans: the expansion of many state Medicaid programs and the start of government-subsidized insurance plans.

The study found modest but statistically significant increases in rates of early-stage detection for breast, colorectal and lung cancers. Diagnoses for stage 1 breast cancer rose to 48.9% of all breast-cancer diagnoses in 2014 from 47.8% in 2013, according to results released Wednesday by the American Society of Clinical Oncology.

Stage 1 diagnoses for colorectal cancer rose to 23.7% in 2014 from 22.8% in 2013, and for lung cancer to 17.7% from 16.6%, the study found.

"With more people gaining insurance and access to screening services or access to physicians to report early symptoms, more cancers can be detected at earlier stages," said Xuesong Han, strategic director of health policy at the American Cancer Society and one of the study's lead researchers.

## U.S. WATCH

## WASHINGTON

### Erdogan Security, Protesters Clash

For the second year in a row, Turkish President Recep Tayyip Erdogan's visit to Washington has been overshadowed by the actions of his security team, which was accused Wednesday of taking part in an unprovoked attack on protesters in the U.S. capital.

District of Columbia police have joined forces with the Secret Service and State Department in an investigation of what Police Chief Peter Newsham said appeared to be an unprovoked and "brutal attack on peaceful protesters" that sent nine people to the hospital.

The attacks were captured on video and shared widely on social media, drawing denunciations from the State Department, U.S. lawmakers, the city's mayor and the police chief.

According to protesters and as shown by video of the attacks, a few dozen demonstrators marched to the Turkish ambassador's residence to protest Mr. Erdogan's first official visit to Washington on Tuesday to meet President Donald Trump at the White House.

The demonstrators included a mix of people opposed to Mr. Erdogan's sweeping crackdown on opposition lawmakers, journalists, diplomats and military officers. Since last summer's failed military coup, Turkey has detained more than 130,000 people accused of supporting a Turkish cleric living in Pennsylvania and accused by Mr. Erdogan of orchestrating the coup.

The demonstrators were met by a group of Erdogan support-

ers, Washington DC police, and members of the Turkish president's security detail.

Officials with Mr. Erdogan's office and the Turkish Embassy didn't respond to requests for comment.

—Dion Nissenbaum

## IMMIGRATION

### Arrests Rose Sharply In First 100 Days

During the opening months of the Trump administration, immigration agents significantly increased the pace of arrests of

people suspected of being in the U.S. illegally, while the share of those arrested who had no criminal record rose markedly, immigration officials said.

The figures quantify the stepped-up enforcement promised by President Donald Trump and his aides, who say they are enforcing the law as Congress intended. Advocates see an effort to frighten people and tear apart families, and the new data confirm accounts they have publicized about otherwise law-abiding undocumented immigrants being arrested and processed for deportation.

Overall, the number of arrests

jumped by more than a third and the portion without criminal records increased from 14% to 26% during the first 100 days of the administration, compared with the same span in 2016, according to Immigration and Customs Enforcement.

—Laura Meckler

## HEALTH

### FDA Warns on Some Lead Blood Tests

The Food and Drug Administration and the Centers for Disease Control and Prevention warned Wednesday that certain

tests for lead in the blood give inaccurately low results and said some children and pregnant or breast-feeding women should be retested. At issue are tests for lead in blood taken from people's veins, made by Magellan Diagnostics Inc. of North Billerica, Mass. Federal officials said that while the company has sold millions of tests in recent years, the great majority of them are heel-stick or finger-stick tests, and not of the type reported as inaccurate. Magellan didn't immediately respond to a request for comments and data.

—Thomas M. Burton



AFTERMATH OF TORNADO: Ron Bloomberg, who witnessed victim and neighbor Eric Gavin's body being recovered, embraces his girlfriend as he returns to his home in Chetek, Wis., after a tornado flattened a trailer park and nearby trees.

RICHARD TSONG-TAATARU/STAR TRIBUNE/ASSOCIATED PRESS

## IN DEPTH

## IRAN

*Continued from Page One*  
U.S. rhetoric and imposed new sanctions on Iran that target entities involved in Tehran's ballistic missile program and alleged human-rights abuses. It sees the election as a gauge of Tehran's future policies, but its antipathy toward Iran is unlikely to change regardless of who wins, a senior Trump administration official said.

Mr. Rouhani has during rallies referenced, though never directly, Mr. Raisi's alleged connections with Iran's deadly 1988 purges as a longtime member of the judiciary. He told a packed stadium in western Iran this month that voters wouldn't support candidates who "executed and jailed" fellow citizens.

Mr. Raisi hasn't addressed Mr. Rouhani's comments in interviews or speeches. A judiciary spokesman, responding to Mr. Rouhani's mention of executions, said Tuesday that Iran's judiciary has helped fight against terrorism.

"My record is that I was a soldier for this country," Mr. Raisi said Tuesday at a rally in Tehran. "My past was to push away the sinister shadow of terrorists from the country."

Until recently, the election appeared an easy win for Mr. Rouhani, who is seeking a second four-year term. But his popularity has ebbed since last year as Iranians failed to see economic benefits from the nuclear deal, polls show.

"The situation hasn't been good in these four years," said Ali Arjomandi, a 26-year-old medical student who attended a recent rally for Mr. Raisi.

Mr. Rouhani's support among likely voters was around 61%, according to the most recent polls by Washington-based International Perspectives for Public Opinion; Mr. Raisi was at 27% after Tehran Mayor Mohammad Ghalibaf dropped from the race and gave his support to Mr. Raisi.

Iran's hard-line factions have coalesced around Mr. Raisi, sending him to the campaign trail after a career spent behind the scenes.

Mr. Raisi has promised to create a million jobs a year, address a nearly 13% unemployment rate and revive financially troubled housing projects for the poor. His campaign message mirrors former hard-line President Mahmoud Ahmadinejad's in speeches that mix religion, politics and economics.

"In my childhood, I experienced the taste of poverty," he said in a television interview last month. "Being an orphan, I worked as child and a teenager, and I know how the deprived feel because I experienced it firsthand."

## Religious pride

A victory by Mr. Raisi would bolster his chances to succeed Iranian Supreme Leader Ayatollah Ali Khamenei, who served two terms as president in the 1980s, analysts said. The supreme leader decides most matters of state, while the president manages policy and serves as Iran's face to the world.

Few doubt Mr. Khamenei, 77 years old, is behind Mr. Raisi's rise. In recent



BEDIN TAHERKAH/EUROPEAN PRESSPHOTO AGENCY



BEHROUZ MEHR/AGENCE FRANCE PRESSE/GTY IMAGES

Left, supporters of presidential candidate Ebrahim Raisi cheer during a campaign rally in Tehran on Tuesday. Above, Iranian President Hassan Rouhani during a campaign event in the northeastern city of Mashhad on Wednesday. Voters go to the polls in Iran on Friday.

speeches, Mr. Khamenei has been critical of Mr. Rouhani's economic management, a view echoed by Iran's hard-line media outlets.

Mr. Khamenei appointed Mr. Raisi last year to oversee the Astan Quds Razavi, a charity worth billions of dollars that is central to state-controlled manufacturing and real-estate enterprises under Mr. Khamenei's control.

Some analysts aren't convinced Mr. Khamenei is wedded to Mr. Raisi as a successor. "It may be that he's a contender and Khamenei wants to take him out for a test ride," said Cliff Kupchan, the chairman of political-risk consultancy Eurasia Group.

At rallies, Mr. Raisi voices a message similar to Mr. Khamenei's, one that opposes dissent and appeals to emotions triggered by religious pride and Iran's perceived loss of prestige. It is a view associated with Iran's Islamic Revolutionary Guard Corps, an economic and military force that owns monopolistic companies and leads Iran's forces in Syria and Iraq.

Iran is the main Shiite power in the region—where Shiites are outnumbered by Sunni Muslim countries, led by Saudi Arabia and its Persian Gulf neighbors, most of which are close U.S. allies. These Sunni nations have increasingly battled against what they view as Iranian meddling—and what Iran sees as its role helping suppressed Shiites.

Iran's strategy, which has put it in conflict with the West, is carried out by the power Mr. Raisi is closest to—Mr. Khamenei and his inner circle, including the Revolutionary Guard.

Mr. Rouhani, 68 years old, is a regime loyalist, but he represents a more technocratic approach to governing that appeals to younger, wealthier and better-educated Iranians. Many in Iran were born after the revolution. Some want to move past the fervor that drove out the shah, triggered the 444-day hostage crisis at the U.S. embassy and frayed ties between the countries.

If Mr. Raisi wins, Iran's foreign policy would likely break from the Rouhani-led engagement that yielded Iran's agreement to put lim-

its on its nuclear program in exchange for sanctions relief. A victory by Mr. Raisi also could change Iran's view on foreign investment. Western companies, including Boeing Co., have made billions of dollars in sales to Iran since the nuclear agreement.

"Raisi appears to be much more in line with traditional hard-line Iranian thinking about the economy, namely, that integration with the West is costly, and comes with strings attached," said Behnam Ben Taleblu, a senior Iran analyst at the Washington-based Foundation For Defense of Democracies.

Mr. Raisi has promised to abide by the deal. But he might not be willing or able to persuade the Revolutionary Guard—which sees foreign competition as a threat to its economic power—give

up any market share, Mr. Taleblu said.

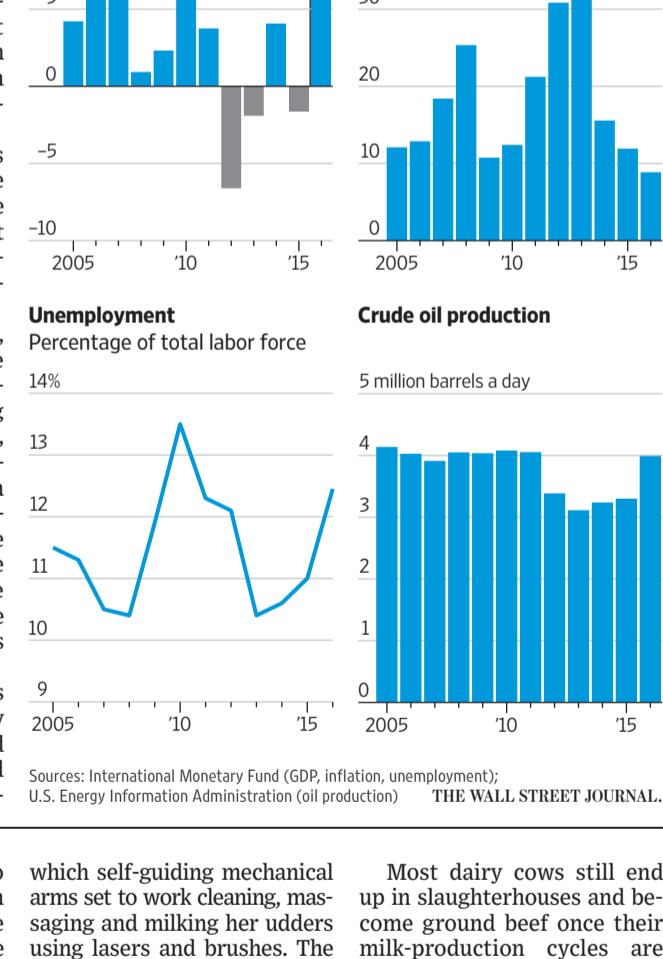
Mr. Rouhani has been blunt in his critique of the Revolutionary Guard. During the final presidential debate, he criticized the test-firing of a ballistic missile that carried the slogan, "Israel should be wiped off the Earth," soon after the nuclear deal took effect last year. He said at a rally that monopolies weren't good for Iran, a veiled reference to the Revolutionary Guard.

"We are at the edge of a great historical decision," Mr. Rouhani told supporters at a rally Saturday in Tehran. "Our nation this week will announce whether we return to 2012 or head to 2021, if it continues on the path of peacefulness or if it will choose tension."

Differences between the

## Lifting Sanctions on Iran

President Hassan Rouhani, seeking a second term in elections Friday, faces a hard-line opponent who has criticized Mr. Rouhani's signature achievement: the 2015 nuclear deal that lifted most economic sanctions and boosted oil exports. Mr. Rouhani's popularity has ebbed among voters who say they haven't seen the economic benefits.



Sources: International Monetary Fund (GDP, inflation, unemployment); U.S. Energy Information Administration (oil production)

two candidates stood out during Iran's three live TV debates. The first exposed Mr. Raisi's inexperience; he went on the attack in the last two. Mr. Rouhani mostly appeared polished, although criticism from hard-line candidates in the first debate seemed to put him off-balance.

Some voters welcome Mr. Raisi's promise to increase cash handouts despite strains on the government's budget. "We want him to save us from hunger and misery," said Ahmad, age 43, a father of five who works in a bakery. "What will my sons will do when they grow up? I want them to be able to earn money and get married and have children."

## Up the ranks

Mr. Raisi rose through clerical and judicial institutions. In the 1970s, he became a devotee of Ayatollah Ruhollah Khomeini, Iran's first supreme leader, while studying in Qom, home to Shiite Islam's most influential seminaries.

After the 1979 Islamic Revolution, Mr. Raisi became a member of the ruling clique, and in 1980 he began a decadeslong judicial career with his appointment as the assistant public prosecutor in Karaj, west of Tehran.

At age 23, Mr. Raisi reinforced his establishment ties by marrying the daughter of cleric Ahmad Alamolhoda, a close ally of Mr. Khamenei, the current supreme leader. The couple have two daughters. In the 1980s, Mr. Raisi became the deputy to the prosecutor in Tehran's Islamic Revolutionary court, a special judicial system known for handling politically sensitive cases.

In July of 1988, after eight destructive years of war with Iraq, Mr. Khomeini ordered that political prisoners be questioned by three-member panels made up of a cleric, prosecutor and intelligence official. Any prisoner who professed allegiance to the banned opposition groups was executed, according to international human-rights groups.

Thousands of people were believed killed, these groups say, although the precise number is unknown. Tehran

has long denied any such executions.

Mr. Raisi sometimes stood in as a prosecutor on a three-member panel with a religious judge and an intelligence ministry official, according to a report by the Abdorrahman Boroumand Foundation, a human-rights group based in Washington, D.C. Mr. Raisi hasn't responded to the report.

After Mr. Khamenei became Iran's supreme leader in 1989, Mr. Raisi's career began to advance. He became head of the judiciary's General Inspection Organization in 1994 and, a decade later, the first deputy head of the judiciary.

Mr. Raisi's best chance at beating Mr. Rouhani may come if hard-line organizers can get out the rural vote, which accounts for about 20% of the population and tends to vote conservative, said Mr. Kupchan, of the Eurasia Group.

If Mr. Rouhani wins, as most expect, he may be weakened by his public criticism of the Republican Guard and indirect references to the 1988 executions.

"He's the guy who attacked some of the core values of the Islamic Republic by airing dirty laundry," said Ray Takeyh, a fellow at the Council on Foreign Relations in Washington. "That creates problems for him in the next four years."

Mr. Khamenei said as the election approached that anyone who disrupts state security "should know that they will definitely be slapped in the face," a message that unrest won't be tolerated.

In 2009, Iranians demonstrated against the re-election of Mr. Ahmadinejad, and authorities arrested thousands of people who were led by supporters of defeated presidential candidate Mir Hossein Mousavi. Mr. Mousavi remains under house arrest.

Mr. Raisi, who was deputy head of the judiciary, promised at the time that those arrested would be dealt with "in a way that will teach them a lesson," according to the official Islamic Republic News Agency.

—Jay Solomon contributed to this article.

## COWS

*Continued from Page One*  
metric tons of milk per animal, on average, in 2016, according to the U.S. Department of Agriculture. That is enough for about 150 people for a year, and an almost 40% larger yield than two decades ago.

While operational efficiency and selective breeding play a big part, farmers and some researchers believe cow-coddling also is critical.

"Cow comfort is one of the main driving forces of our existence," said Mike McCloskey, chief executive of Select Milk Producers Inc., a cooperative that includes around 100 farms. "We have to keep them fine-tuned. They can't get stressed."

Homestead Dairy in Plymouth, Ind., is installing automated backscratchers and memory-foam mattresses in its new high-tech barn. The cows "are free to do whatever

they want, when they want to do it," says partner Brian Houin. The farmers say there is nearly always a line at the backscratcher.

At Valsigna Farms in Hilmar, Calif., managing partner Aaron Wickstrom sends Juno, a R2-D2-like robotic assistant, on laps around the barn delivering food to ensure his cows have something to eat at all times. Next on his wish list: the backscratchers. "A lot of it is just common sense," he says.

The robotic milkers allow the 700 or so cows more time for eating and taking siestas on their water beds. Farmers want their cows lying down a minimum of 12 hours a day, saying that maximizes milk output. The water beds protect their legs far better than hard floors.

Consumer demands for ethically sourced meat and dairy products are accelerating the trend toward better treatment of livestock. More dairy farmers now administer painkillers before cutting off horns, and tail removal is becoming less common.

which self-guiding mechanical arms set to work cleaning, massaging and milking her udders using lasers and brushes. The robot distracts the cow by dolloping out fresh feed. The process is over in a few minutes.

Each cow is milked about three times a day. If one tries to sneak in an extra session, the robot catches on and turns her away. A mechanical contraption scrapes away manure.

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Consumer demands for ethically sourced meat and dairy products are accelerating the trend toward better treatment of livestock. More dairy farmers now administer painkillers before cutting off horns, and tail removal is becoming less common.

Most dairy cows still end up in slaughterhouses and become ground beef once their milk-production cycles are over, usually after three to seven years.

These days, most of them don't have access to pasture, and many spend the majority of their lives indoors. A growing body of research shows that improved living conditions can reduce health problems and, by extension, improve productivity. Proper air circulation and drainage reduce sickness. Open-plan barns permit more movement and socializing among animals, reducing stress.

Animal-welfare advocates say some practices have improved. But Dena Jones, farm director at advocacy group Animal Welfare Institute, says the benefits "are undone, at least in part, by constant attempts to increase productivity by unnatural diet and increasing milking.... A high-producing cow is not necessarily a happy cow."

Gita Nagari Yoga Farm in

Port Royal, Pa., has taken its cow-welfare drive much further by letting their cows live to old age after their milk-production years are over. Cows at the farm, which is run by followers of the Hare Krishna religious movement, live out their days in the pasture, pushing around beach balls.

—We have to keep [the cows] fine-tuned. They can't get stressed.'

"They're very peaceful, and they have a transformative effect on the consciousness," says Kesi-mardana Dasa, one of the farm's managers. The farm, which doubles as a spiritual retreat, calls itself the first slaughter-free dairy in the U.S. It sells milk directly to consumers for \$14 a gallon, far above

the typical supermarket price. Conventional dairies say they would go out of business if their cow indulgence went that far. Just how far to go, however, is subject to debate.

Maurice Loehmer of Loehmer Dairy near Fresno, Calif., says he is all for making cows more comfortable, but he isn't going to be buying water beds anytime soon. When it comes to cows, he says, there is nothing more comfortable than sand. Many veterinarians agree.

Steve Maddox of Maddox Dairy near Fresno, Calif., ended up imposing silence in his milking parlor after employees fought over what music to play for the cows. Mr. Maddox prefers country, while his employees bickered over rock and Latin music. The only thing they agreed on—no politics, which he says agitated man and beast alike. "Doesn't matter if you're listening to MSNBC, Fox News or Glenn Beck," he says. "They just don't need it."

# LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

## The Best Airlines for Free Seats

Southwest and JetBlue outperform larger competitors with more generous programs, while American lags behind again

**BAD NEWS** for frequent fliers: The small movement to make it easier to cash in miles and points for seats is ending, and airlines may keep getting even stingier.

An annual survey of availability of the type of frequent-flier ticket most travelers use shows a drop to 72% this year from 77% in 2016. Many foreign airlines known for superior service and seating have gotten more tightfisted with award seats. Availability on U.S. airlines actually improved, according to consulting firm IdeaWorks, and overall U.S. airlines offered better award availability than the rest of the world, even though American is among the skimpiest of all airlines.

But that may be the only decent news for travelers for a while. "I suspect it's not going to improve," IdeaWorks president Jay Sorenson says.

Airlines are increasingly using frequent-flier programs to generate revenue instead of rewarding customers, he says. In addition, increased competition with rapidly growing discount airlines and Persian Gulf carriers has led to financial strains for big airlines outside the U.S. Demand for travel is strong, so airlines can choose: Sell the seat for cash or miles. More are choosing cash over miles. And few have followed Southwest and JetBlue to more transparent redemption of offering every seat with a price in cash or points, making it easier to score free seats.

"When airlines are financially successful, they have the bandwidth to do lots of things better. This is one of those things," says Mr. Sorenson.

Southwest and JetBlue topped a test of seat availability on 25 leading airlines world-wide. Delta and Alaska scored significantly better this year than 2016. Availability declined on United and American ranked ahead of only two of the 25 airlines.

Cathay Pacific, Emirates, Turkish and Air Berlin all posted a significant drop in availability. Qantas, Lufthansa, Air France/KLM and Air China had smaller declines.

IdeaWorks, based in Shorewood, Wis., shops online in March for two available award seats on each airline's busiest routes for travel dates June through October. The survey looks only for "saver level" awards—usually the minimum number of miles or points and subject to blackout dates and capacity controls. A U.S. domestic saver ticket is typically 25,000 miles. Seats available on partner airlines count.

The survey, sponsored by CarTrawler, is designed to look at how typical travelers use frequent-flier programs, not power users with elite benefits. As they have with many of their services, airlines have skewed frequent-flier perks to please business travelers who buy expensive tickets and squeeze

benefits for low-fare passengers. When Delta, United and American switched to giving out miles based on fare instead of distance, they created huge bonuses for top business fliers, for example.

Consumer frustration at finding awards weakened the marketing power of frequent-flier programs over the past decade. That led to some pledges from airlines to make their programs more rewarding so occasional travelers and millions of consumers with credit cards tied to airline miles will stay hooked. Availability climbed steadily in the IdeaWorks surveys from 2010 to 2016. But that ended with this year's results.

Airline filings with the **Securities and Exchange Commission** closely align with the survey's findings on award availability. Southwest, which had awards available for 100% of the queries made, reported that nearly 13% of its passenger traffic flew on Rapid Rewards program awards in 2016. At American, only 6.3% of passenger traffic flew on awards, including upgrades. Delta and United had just under 8%. Passenger traffic is measured by revenue passenger miles—one RPM equals one passenger flying one mile.

In the 2017 IdeaWorks survey, American's award availability dropped 2 points to 54%, ahead of only two airlines among the 25 surveyed.

American is looking at improving availability of saver awards, says Bridget Blaise-Shamai, vice president of customer loyalty. "We certainly don't set out to be the lowest by this measure and we certainly value and want to run a competitive program," she says. As for the percentage of RPMs on award travel being lower than Southwest, Delta and United, Ms. Blaise-Shamai says, "We recognize we have room to go and we're committed to making that happen."

In the availability survey, Delta rose nearly 6 percentage points this year to 74%, putting it in the middle of the pack globally.

When the IdeaWorks survey started in 2010, Delta had seats available on only 13% of queries made. "We've been working hard to improve that," says Karen Zachary, managing director of Delta's SkyMiles program.

Delta says in the past year it has made more awards available at its lowest pricing tier, which inter-



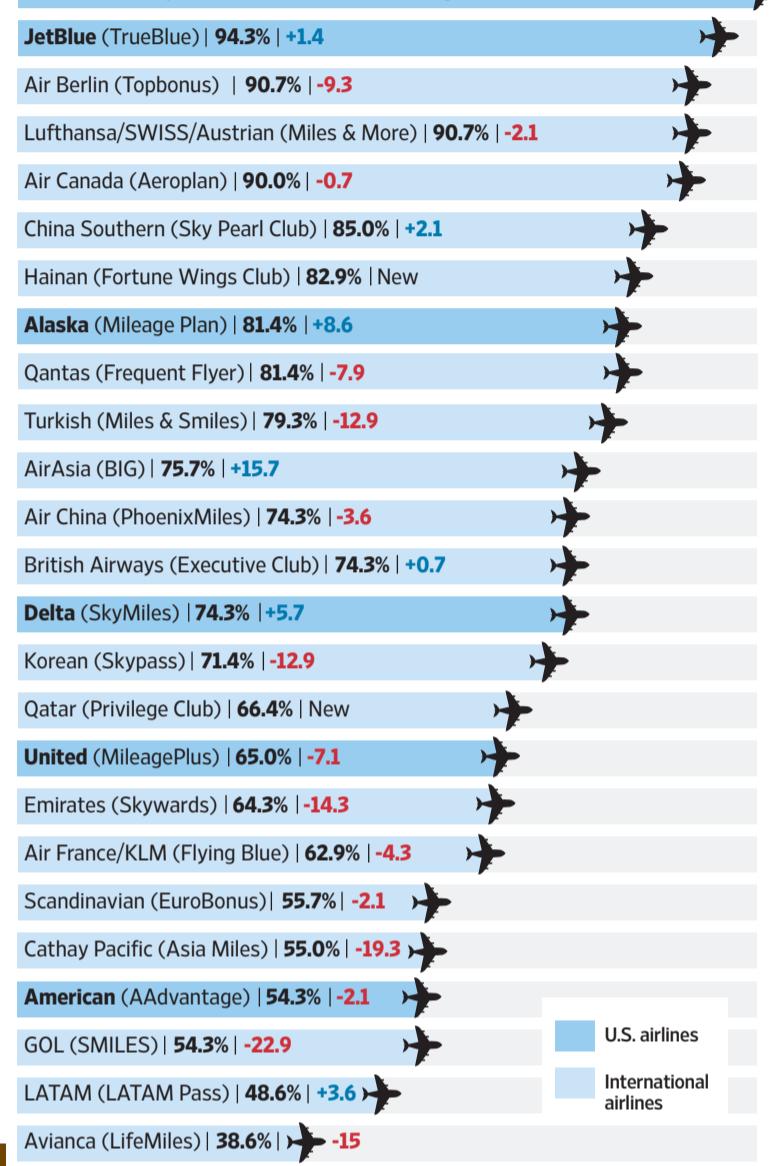
American has the stingiest program among U.S. airlines surveyed for coach 'saver' tickets. It says it plans changes to catch up to competitors.

nally Delta calls Level One, and has better matched pricing in miles with fares. The airline now runs mileage sales along with fare sales. In the 12 months ended in April, Delta customers redeemed 16% more tickets at Level 1, compared with the 12 months prior. Prices paid in miles for domestic tickets declined 3.3%, Ms. Zachary says.

### The Most Rewarding Rewards

Southwest and JetBlue again outperformed competition in a survey of frequent-flier award seat availability. The survey examined 25 airlines for itineraries from June to October 2017.

Airline (Program) | Percentage of seat availability | Point change from 2016



U.S. airlines

International airlines

Note: The research, sponsored by CarTrawler, looked for two seats on each airline's 10 busiest long routes and 10 busiest medium-length routes on 14 different round-trip dates between June and October.

Source: IdeaWorks

THE WALL STREET JOURNAL.

specially higher-fare business tickets, and sign up for more credit cards linked to Southwest, says Jonathan Clarkson, senior director of loyalty and partnerships at Southwest.

Mr. Sorenson says some airlines benefit in the survey from making awards available online from partner airlines. United, for example, had partner awards show up on 13 different airlines—helping its long-haul award availability. Other airlines have been more restrictive on what they put on their websites. Some make partner awards available only if consumers phone the airline. Others chose to restrict partner awards because the airline has to buy the seat on its partner to give it out as an award.

Most frequent-flier miles are earned now with credit cards and other paybacks from merchants. But the ones earned the old-fashioned way, sitting in an airplane seat, actually provide a princely return.

FROM TOP: ILLUSTRATION BY ROB WILSON; LARRY MACDOUGAL/ASSOCIATED PRESS

### FILM

## THE WINDING ROAD TO A GRATEFUL DEAD MOVIE

BY CARYN JAMES

**THE GRATEFUL DEAD** has long been an elusive subject for filmmakers. In the 1970s, the band, a rising counter-culture touchstone, was on tour, accompanied by a movie crew. Resisting a documentary about them, the musicians sabotaged the project by lacing the filmmakers' drinks with LSD so they couldn't focus a camera. That movie never was finished.

Amir Bar-Lev completed his documentary about the Dead, "Long Strange Trip," but it took the director more than a decade. "Long Strange Trip" premieres in theaters in New York and Los Angeles on May 26, and launches on Amazon on June 2.

The biggest obstacle, Mr. Bar-Lev says, was the Dead's communal philosophy, which extended to business decisions. That approach persisted after 1995, when the group ceased to exist following the death of Jerry Garcia, its best-known member. The Grateful Dead organization "moves in an ex-

tremely egalitarian, consensus-oriented way, which means that nothing ever happens," Mr. Bar-Lev says. In addition, the band is "mis-trustful of anything that would nail them down to one meaning, so a documentary film had strikes against it right there." Persistence, a shake-up at a record company and a nod from Martin Scorsese finally cleared the path.

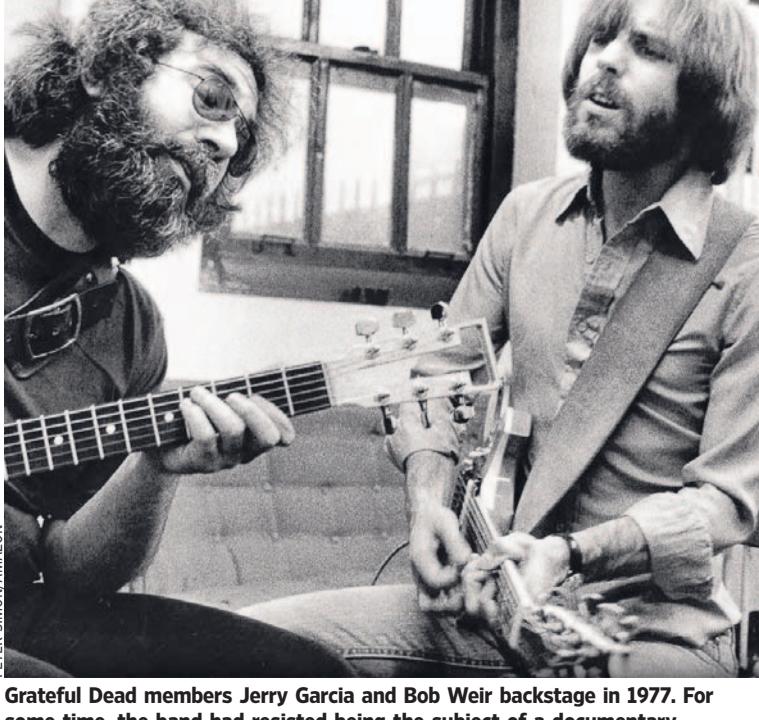
The Dead's legacy was thriving all along. David Browne, author of "So Many Roads: The Life and Times of the Grateful Dead," says,

"People sometimes think of them as a bunch of drug-taking hippies from San Francisco, which they were, but they also pioneered a lot of what we're seeing in the music business." They started their own record company, a model followed more successfully by others today, Mr. Browne says. They mailed newsletters to fans, foreshadowing how stars now use social media.

The four-hour "Long Strange Trip" spans the Dead's career, beginning with psychedelic concerts in the 1960s. Three decades later the group was among the creators

of blues-folk-rock music and a pioneer of rambling, improvisational sets. The film includes rare archival material and new interviews with band members Bob Weir, Phil Lesh, Bill Kreutzmann and Mickey Hart, as well as with roadies, lyricists and fans.

In 2003, Mr. Bar-Lev approached Alan Trist, who runs the Grateful Dead's music-publishing company. Mr. Trist responded enthusiastically but getting a green light from band members and executives in Grateful Dead Productions, which handles licensing and other business for the group, was tougher. In 2006 Rhino Entertainment took over management of the Dead's intellectual property, and resisted the film. Six years later, Mark Pinkus—who had become Rhino's manager for the Dead's properties and is now the company's president—introduced Mr. Bar-Lev to the band. They gave him preliminary approval. The Dead balked again several months into pre-production, and finally relented after Mr. Scorsese had joined as executive producer.



Grateful Dead members Jerry Garcia and Bob Weir backstage in 1977. For some time, the band had resisted being the subject of a documentary.

## OPINION

### REVIEW & OUTLOOK

## Loose Lips Sink Presidencies

The state of the Trump Presidency has been in perpetual turbulence, which seems to be how the principal likes it. The latest vortex is over Mr. Trump's disclosure of sensitive intel to the Russians—and whatever the particulars of the incident, the danger is that Presidencies can withstand only so much turbulence before they come apart.

The Washington Post reported Monday night that in an Oval Office meeting last week Mr. Trump relayed high-level "code word" classified material obtained from an ally to Russian Foreign Minister Sergei Lavrov and Ambassador Sergey Kislyak. Cue another Washington meltdown. The President took to Twitter on Tuesday morning to defend himself, claiming an "absolute right" to disclose "facts pertaining to terrorism and airline flight safety."

National Security Adviser H.R. McMaster put a finer point on it at a Tuesday press conference, though without denying key details. He said Mr. Trump's disclosure was "wholly appropriate" and didn't expose intelligence sources and methods.

Presidents sometimes share secrets with overseas leaders—even to adversaries such as the Soviets during the Cold War—if they conclude the benefits of showing what the U.S. knows will aid diplomacy or strategic interests. From media accounts and his tweets, Mr. Trump said something about Islamic State's laptop bomb threat to airlines. He may well have been trying to convince the envoys of the menace Islamic State poses to Russian lives and foreign-policy goals, like the Russian airliner that exploded over Sinai in 2015.

Then again, the Post story has Mr. Trump boasting about how great U.S. intelligence is and divulging the info on impulse to prove it. National-security officials also asked the reporters to withhold specifics about the item in question, presumably because further disclosure could undermine efforts to counter the threat or endanger the lives of human assets.

Reports emerged on Tuesday that the ally that gathered the material is Israel, and the revelation could endanger this and other intelligence-sharing relationships. The Israelis may hold back if they think their dossiers will be laundered through the U.S. to the Russians and then get passed to their Iranian and Syrian clients, and other foreign services may lose confidence in the U.S.

Lt. Gen. McMaster said he disputed "the premise" of the Post story, which was that Mr. Trump had done something wrong or unbecoming. He confirmed that Mr. Trump made the decision ad hoc "in the context of the conversation," not before the meeting. The problem is that even if the President's conduct was "wholly appropriate," the story's premise is wholly plausible.

## The Pebble Mine Victory

EPA Administrator Scott Pruitt is wasting no time broadcasting that an era of lawless environmental regulation is over. One of the best signals so far is the agency's agreement last week to let the Pebble Mine project in Alaska proceed through regular permitting and legal order.

The EPA and Northern Dynasty Minerals Ltd. announced a legal settlement Friday that finally gives the Pebble Limited Partnership the right to work with the federal government on an environmental analysis of its proposed mine. The Obama Administration stripped Pebble of that right in February 2014 when it issued a pre-emptive veto of what could be America's largest copper and gold mine. Pebble sued on solid legal grounds.

The Clean Water Act gives the Army Corps of Engineers the primary job of evaluating development projects. The EPA can perform a secondary review and veto a project—though only with cause. The Obama EPA developed its own fictional model of a mine and then vetoed the project before Pebble had a chance to go

The EPA settles a lawless, pre-emptive veto of an Alaska project.

through the Corps's review. Documents from freedom of information suits and legal discovery showed that EPA officials orchestrated opposition to the mine with environmental activists and native tribes. The other victim of this campaign was the state of Alaska, which owns the mine site but was cut out by the EPA.

The EPA's pre-emptive veto was the first in the history of the Clean Water Act, and a damaging precedent. It positioned the agency to become a superregulator able to kill any bridge, mine, pipeline or oil well before companies could make a case. Mr. Pruitt's reversal will unleash capital that has been on strike due to arbitrary regulation. No sane investor would risk years of financial and legal hardship in light of the federal treatment of Pebble, the Keystone XL pipeline or the Shell Arctic development.

The EPA agreement offers no guarantee that the Pebble Mine will be approved after state and federal reviews. But at least Alaska and Pebble stakeholders can get a fair hearing from a transparent federal process.

## America's Runaway Train

Democratic Governors are demanding that Washington recognize their sovereign powers under the Constitution, but their born-again federalism is often more convenient than principled. Consider California Governor Jerry Brown, who is importuning the White House to yield oversight of his state's bullet train.

On Friday the Governor sent President Trump a letter asking to "delegate to the state authority" under the National Environmental Policy Act. Mr. Brown cited an executive order by Mr. Trump directing the White House Council on Environmental Quality to identify "high-priority" public works and expedite procedures for "completion of environmental reviews and approvals for such projects."

California's high-speed rail authority has complained that construction is being delayed in part due to revisions by the Federal Railroad Administration to its environmental documents. The FRA has provided \$3.2 billion in seed funding for the 500-mile train, and an internal FRA analysis in November found that the first 118-mile stretch through the Central Valley was running 50% over budget and seven years behind schedule. Federal bureaucrats make nice scapegoats. But according to the FRA report, the big-

California indulges in some environmental doublespeak.

gest delays have been caused by the California rail authority's late paperwork.

Environmental litigation has also snarled construction, and the rail authority claims it needn't comply with the California Environmental Quality Act (CEQA). In 2014 the federal Surface Transportation Board exempted the bullet train from

CEQA, but a California appellate court subsequently held otherwise. The authority is now arguing before the California Supreme Court and Ninth Circuit Court of Appeals that federal environmental review pre-empts CEQA.

But wait—this appears to contradict the Governor's request that the feds cede authority over environmental reviews to the state. This would allow the rail authority to essentially grade its own homework. Everything is perfect, trust us.

California's rail authority has a history of cutting corners, and the Governor has helped it evade parental supervision. Last September Mr. Brown vetoed a bill passed unanimously by the state legislature that would have imposed increased accountability.

Meanwhile, the Governor is begging the Trump Administration for more federal cash to build the \$64 billion (and counting) boondoggle—but please, no strings attached.

We are asked to believe that President Trump, after having praised Mr. Comey numerous times for the way he conducted the Clinton investigation, decided to fire Mr. Comey for the way he conducted the Clinton investigation. All this just days after Mr. Comey decided to ramp up the FBI investigation into the Trump campaign.

## Invest in Counterterrorism To Reinvigorate NATO

By Anders Fogh Rasmussen

When NATO leaders sit down for dinner in Brussels next week, President Trump will have two items on his menu of demands for his European counterparts: greater defense spending and bolstering NATO's role in the fight against terror.

Europe's leaders may be inclined to placate his demands on spending by committing to continued increases in defense budgets, but will likely try to temper his ambitions on countering terror. This would be a mistake and a missed opportunity, given the scale of the terrorist threat emanating from the Middle East and North Africa.

Instead of limiting ambition, European leaders should encourage it. They could meet both of Mr. Trump's demands by substantially increasing NATO's funding for training activities.

That's why NATO leaders should agree to establish a common, billion-dollar counterterrorism fund, and to set up a fully operational counterterror and training headquarters. Both the fund and the headquarters would help NATO better plan and sustain missions that the European Union and United Nations are ill-equipped to perform: training local forces in difficult environments such as Iraq or, eventually, Libya.

Not only would this create a first line of defense against terrorist groups, it would also reduce the need to send NATO forces to do the fighting in these trouble spots.

NATO already has some funds allocated to building the defense capacity of partner states. However, it's no secret that those funds are very small. The fund dedicated to Iraq, for instance,

amounts to only a few million dollars—and not all pledges to such funds have been paid.

Training local forces may be cheaper than sending combat forces to far-flung theaters, but it still comes with a price tag.

From Afghanistan to Bosnia and Sierra Leone, successful training efforts take time—often beyond a 10-year horizon—and require money. Even a fund of \$1 billion would represent only 20% of what NATO spends annually in Afghanistan to train and support Afghan security forces. But it would be a start.

Increasing capabilities isn't just about spending money. NATO will need

to deploy trainers to such places as Iraq and Libya that moves the alliance away from its current small-scale advisory approach. This can only be achieved by establishing a full-fledged headquarters to create the infrastructure and capacity that NATO lacks today.

The good news is that NATO already has the elements of such a setup in its special-forces headquarters based in Mons, Belgium. Currently, it sits alongside NATO's normal structures and is mostly funded by the U.S. It would need to be fully integrated with NATO's military command structure so that it can

Funding for counterterror efforts abroad is the best way to meet demands for more European defense spending.

plan and operate complex missions effectively. Its first task should therefore be to launch a large-scale training exercise of Iraqi forces, and provide them with meaningful equipment that can make a difference on the ground.

This proposal won't be popular in some capitals. Paris and Berlin have traditionally been reluctant to deploy NATO to the Middle East, preferring a greater training role for the EU. But given the scale of the problem in that region and the level of danger often involved, all organizations—including NATO—should contribute according to their strengths.

At next week's summit, every effort will be made to show trans-Atlantic unity and to avoid any dissonance with an impatient U.S. president. But it would be a missed opportunity if the world's leaders merely fly to Brussels for dinner and a photograph. They can deliver a solution that puts NATO to work on countering terrorism and enables countries to augment their defense spending commitments for tangible security returns. Strengthening unity and enabling NATO to take the fight to the terrorists would be a win for the alliance and for Europe.

Mr. Rasmussen, a former prime minister of Denmark and secretary general of NATO, is the chairman of Rasmussen Global.

## LETTERS TO THE EDITOR

### Was Trump Right to Fire the FBI's Jim Comey?

In your editorial "Comey's Deserved Dismissal" (May 11), you indicate that he "committed more than enough mistakes . . . to be dismissed for cause." That may be correct, but you err in concluding that he has forfeited his credibility with his 2016 interventions.

In my prior career as a criminal defense attorney, I opposed Mr. Comey in one of his first trials as a young assistant U.S. attorney. Then, as throughout his legal career, his credibility and character were unquestionable by all who knew him, regardless of which side of the courtroom they were litigating. He demonstrated time and again that he could be trusted to do what he believed to be moral and correct in the pursuit of justice.

There is no doubt that his actions as the FBI director placed him in the middle of a political firestorm. However, no one has ever suggested, nor could they, that he acted based on political leanings or aspirations. In today's polarized Washington, that alone is a reason to commend and thank him for his efforts.

NOAH LIPMAN  
Holmdel, N.J.

its belief that this may be much ado about nothing, and it very well may be, then the administration's failure to comprehend that the optics of the situation work against it is pathetic.

Should this be the case, Mr. Trump either needs to fire his advisers or start listening to them—I'm not sure which.

JEFF BEAMER  
New York

Where was the outrage in July 2016? Mr. Comey clearly violated Justice Department protocols, first by announcing no indictment would be sought. Second, by characterizing actions by Secretary Clinton as reckless, and finally by misconstruing the law to require intent.

If the Obama administration had any courage, Mr. Comey would have been fired at the close of business on July 5.

FRANCIS G. KNIPE  
Torrance, Calif.

If making America great again means allowing the Russian media and not the American press into my White House, then I'll take the way it used to be ("Comey Sought to Expand Probe," page one, May 11).

MIKE COCKING  
Cedarburg, Wis.

The deepest fear of Sen. Chuck Schumer and the Democrats is the establishment of an honest and objective investigation of the Clinton email-server matter and the family foundation, the leaks to the media, the illegal unmasking of Trump team members and their own connection to a possible coverup.

The Democrats' constant outcry about President Trump and Russia is designed to keep attention diverted from the sins of their own people.

We await the appointment of a courageous and brilliant FBI director who will ignore the rattling cages and discover and expose the truth.

VICKI SEMPEK  
Omaha, Neb.

The best way to guard against eight years of a bad president is having 10 years of a good FBI director.

RICHARD PARKINSON  
Provo, Utah

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## OPINION

# The Struggle Behind Oil's Ups and Downs

By Daniel Yergin

**A** great struggle is unfolding in the world oil market. On one side are forces pushing to rebalance supply and demand; on the other, those pulling to recalibrate the business so that it operates at lower cost. That tension explains why the price keeps jumping toward \$60 a barrel and then falling back near \$40.

Oil prices collapsed at the end of 2014 because supply and demand had gotten out of whack. That year global supply grew 2.5 times as fast as demand. The shale revolution in the U.S. was a prime cause of the imbalance; American supply grew by 1.4 million barrels a day in 2014—60% of the entire increase.

**We likely won't see \$100 a barrel again. The industry has been recalibrated to a lower price level.**

The expectation was widespread in 2014 that Saudi Arabia would cut its oil output to keep prices up. But Riyadh tried that in the 1980s, only to see its own market share shrink dramatically.

"We will not make the same mistake again," then-Saudi oil minister Ali Naimi said two years ago. In particular, the Saudis made clear there would be no deal to cut output without participation by non-members of the Organization of the Petroleum Exporting Countries—especially Russia, the world's largest oil producer.

By the fall of 2016, lower prices had pushed supply down and stimulated demand, moving the two closer to balance. U.S. oil production had fallen by a million barrels a day. Around the world, spending on exploration and production for 2015–19 is 50% lower than what had been expected in 2014, before the price collapse. At the same time, demand grew in 2016 at almost double the 2014 rate.

Then in December, oil-exporting countries took the action that had been beyond reach in 2014: They agreed to cut production. "Oil revenues are...the main reason," Saudi Deputy Crown Prince Mohammed bin Salman said earlier this month on a Saudi-owned television station. Even Russia, whose rainy-day sovereign wealth funds were depleting rapidly, signed on. It also brought 10 other non-OPEC countries to the table.

With the market heading back into balance, this expanded group concluded that total cutbacks of just less than 1.8 million barrels a day would be sufficient to wear down the excessively large inventories overhanging the market. OPEC countries demonstrated remarkable compliance with quotas, in sharp contrast to previous efforts. By March, prices had rebounded 75% from their 2016 lows.

But since then, prices have fallen. Rebalancing is now colliding with the other force—recalibration of costs to a lower level of oil prices. This massive adjustment is reshaping the way the global oil industry works.

It first became evident in the U.S. The collapse in revenues, along with heavy debt burdens, led to multiple bankruptcies and the expectation that prices would be "lower for longer."



tion, efficiency and new ways of doing things? And how much is the result of dramatic cutbacks in spending, leading to head-count reductions and idle rigs and other equipment? What happens when the markets for people, equipment and services tighten?

As activity goes up, so will oil-field costs. That's already evident in today's hottest area for drilling—the Permian Basin in West Texas and New Mexico. Companies large and small, along with private-equity investors, are piling in. They've realized that shale technologies may make the Permian, in terms of recovery, the second-largest oil field in the world.

The effects are already visible. As drilling increases, tightness and bottlenecks are starting to become apparent in terms of manpower, supplies and equipment. Costs in the Permian could increase by 15% to 20% this year, whereas they will remain flat in most of the rest of the industry.

As oil producers get back to business all over the world, some of the big cost savings will be given back, which will support rebalancing—so oil prices will rise. But the entire business has been recalibrated to a lower price level.

An industry that had become accustomed a few years ago to \$100 oil now regards that as an aberration that won't recur absent an international crisis or a major disruption. The lessons about costs since the price collapse aren't going to go away. They are too powerful to forget, and too painful.

*Mr. Yergin, vice chairman of IHS Markit, is author of "The Prize" and "The Quest."*

Shale producers had no choice but to slash costs if they wanted to survive. In the process, they became more efficient, focused and innovative. A new well that might have cost \$14 million in 2014 now costs \$7 million. The gain in efficiency is so great that a dollar invested in U.S. shale today will produce about 2.5 times as much oil as a dollar invested in 2014, according to IHS Markit.

In 2014, many thought a drop in price to \$70 a barrel from \$100 would shut down U.S. production. It didn't. Today, new shale-oil wells can be profitable at \$40 to \$50 a barrel, and some companies claim even lower.

That makes possible a new surge in U.S. production—as much as 900,000 additional barrels a day over the course of this year. By next year, the U.S. is likely to hit the

highest level of oil production in its entire history.

This cost recalibration is happening everywhere, as a new analysis by IHS Markit shows. Canada's oil sands have always been among the highest-cost, yet some new projects can produce near \$50 a barrel. In Russia, costs have come down more than 50%. Even deep waters offshore can now produce at less than \$50. In March the CEO of the Norwegian company Statoil told the CERAWeek conference that owing to a wholesale redesign, a project in the North Sea that had originally required \$75 a barrel to be economical now needs just \$27 a barrel.

This recalibration will push up supply more than had been anticipated, at least in the next few years. But there's a big question. How much of the cost saving is the result of innova-

## Trump Tries a 'Waive-and-Slap' Approach to Tehran

By Mark Dubowitz  
And David Albright

**T**he Trump administration had no sooner renewed a waiver on U.S. sanctions against Iran's crude-oil exports Wednesday than it introduced a raft of new sanctions against the regime. Call it the waive-and-slap approach.

The oil-exports sanctions waiver, which will continue to temporarily allow Iran to sell its crude oil to international customers despite the statutory sanctions, had come due as part of the Iran nuclear deal. But their renewal is no sign that President Trump is flip-flopping on his campaign promise to "tear up" the deal. The Trump administration is currently conducting an Iran-policy review. The last thing Mr. Trump should do before this policy is finalized is to make drastic and premature decisions that could incite a diplomatic backlash.

Mr. Trump needs to take his time developing a comprehensive strategy to roll back and subvert Iranian aggression. Only once U.S. leverage is restored can he address the deal's fatal flaws. These include sunset provisions that give Tehran patient pathways to nuclear weapons and the missiles to deliver them; inadequate access for inspectors to Iranian military sites; unworkable con-

trols on Iran's overseas procurement for its nuclear and missile programs; poor assurance that Iran isn't cooperating with North Korea on nuclear-capable missiles and sensitive nuclear activities; and front-loaded sanctions relief.

Until such a strategy is in place, the administration appears to have found an elegant way to maintain pressure on Iran. While waiving oil sanctions for a further 120 days, on Wednesday the U.S. Treasury Department applied sanctions to a further four entities and three individuals from Iran and China for activities relating to the regime's ballistic-missile program. It's a clear message to foreign banks and companies looking to do business with Iran: You will be taking significant risks if you deal with a country still covered by a web of expanding nonnuclear sanctions.

This comes on top of Treasury's announcement Tuesday of new sanctions against Syria, Iran's closest Arab ally in the Middle East. Those sanctions targeted the family members, companies and a charity connected to Bashar Assad's regime bagman, Rami Makhluf.

In only four months, the Trump administration has applied sanctions to 281 individuals and entities associated with the Syrian regime and its henchmen, compared to a combined

total of 317 from the Obama and George W. Bush administrations. There also have been more than 40 new sanctions connected to Iranian missile and terrorism activities and the Islamic Revolutionary Guard Corp's Quds Force.

The U.S. State Department also released on Wednesday a report detailing Iran's human-rights abuses,

**A plan to waive some sanctions while expanding others buys time to devise a lasting Iran strategy.**

including its detention of U.S. citizens and other foreign nationals on false charges. This follows Monday's release by State of a report detailing Mr. Assad's industrial crematoriums in a prison complex where thousands of prisoners were summarily executed.

Last month, the Trump administration imposed two Iran-related human-rights sanctions, including one on Sohrab Soleimani—the brother of Qassem Soleimani, the head of the notorious Quds Force—for overseeing Iran's infamous Evin Prison. That's another stark warning to foreign companies: The Iranian regime

will also release a six-month report on Iran's compliance with the nuclear deal, including reporting on any noncompliance with the provisions of the deal, as well as Iranian missile, illicit financing and terrorist activities. At that time, the Trump administration should once again combine a temporary sanctions waiver with more nonnuclear sanctions measures and mechanisms to expose the Islamic Republic's dangerous conduct.

Proponents of the nuclear deal will point to the Trump waiver as an indication that the deal is work-

ing. It's not. Iran has committed numerous violations of its commitments under the nuclear deal relating to advanced centrifuge R&D, heavy-water caps and the denial of IAEA access to Iranian sites such as Sharif University, which is connected to previous undeclared nuclear activities.

Moreover, Iran has been exploiting many loopholes in the deal that border on violations or otherwise have a negative impact on U.S. national security. Even if these aren't yet a material breach, it's important to remember that the Iranian regime cheats incrementally, not egregiously, but that the sum total of that incremental cheating is eventually egregious.

The Iranian nuclear deal is a deeply flawed agreement. But it is the nature and behavior of the regime that is the overarching danger to the security of the U.S. and its allies. The Trump administration is wise to hold off on making big moves until it has devised a full strategy to confront this broader threat. Until then, waive and slap should become the norm for the foreseeable future.

*Mr. Dubowitz is the chief executive of the Foundation for Defense of Democracies. Mr. Albright is the president of the Institute for Science and International Security.*

## In Iran's Election, Americans Should Root for the 'Hard-Liner'

By Reuel Marc Gerecht

**I**n Washington there is a consensus that the re-election of Iranian President Hassan Rouhani is in the best interests of the U.S. Most find the self-avowed pragmatic cleric, who championed the 2015 nuclear deal, a less menacing choice than his "hard-line" opponent Ebrahim Raisi, who is rumored to be the preferred candidate of Supreme Leader Ayatollah Ali Khamenei.

But a victory for Mr. Rouhani, who appears destined to win unless Mr. Khamenei rigs the election in Mr. Raisi's favor, would be the worst possible outcome. Better than anyone, Mr. Rouhani can align Iran's factions

on major foreign-policy questions. Put another way, he is uniquely capable of fortifying the theocracy.

Mr. Rouhani and the supreme leader go way back. They worked together after the 1979 revolution to purge the Iranian army. Mr. Rouhani is also a founding father of the feared Iranian ministry of intelligence. He took the supreme leader's side in the brutal suppression of the pro-democracy Green Movement in 2009–10, which was probably the most dangerous time for the clerical regime since Saddam Hussein's invasion in 1980.

Despite the decades-old feud between him and Mr. Khamenei's praetorian, the Revolutionary Guard

Corps, Mr. Rouhani has tried to maintain amicable relations with senior officers, including Maj. Gen. Qasem Soleimani, the head of the expeditionary Qods Force and the overall commander of the foreign Shiite militias deployed to Syria and Iraq. Mr. Rouhani is as ardent a supporter of Iran's new Shiite imperialism as is Gen. Soleimani.

The supreme leader allowed Mr. Rouhani to run and win the presidential election in 2013 because he had confidence in Mr. Rouhani to keep down dissent, either through co-optation or oppression. Although Mr. Rouhani has hinted that he would like to release the leaders of the Green Movement, Mir-Hosein Mousavi and Mehdi Karroubi, from house arrest, he has studiously avoided the subject while in office. The supreme leader's preference for a muscular police state doesn't much trouble the president, although Mr. Rouhani would certainly prefer a more selective, less disruptive use of harsh methods.

Mr. Rouhani's big difference with the supreme leader has been over economics. The president has long been an advocate of Western investment. He has been explicit in his desire to play Europe off the U.S., and to use Western businessmen as lobbyists against renewed sanctions. He has been ably aided in this effort by Javad Zarif, one of the most talented, polished and mendacious foreign ministers the Islamic Republic has ever deployed.

Mr. Rouhani appears to believe that the regime can implement a version of China's success. Islamic authoritarianism can use foreign money

in a more capitalistic system to strengthen the state economically and militarily. He clearly doesn't believe Western investment necessarily breeds sedition. For him, theocracy and state capitalism aren't mutually exclusive.

**The 'moderate' Rouhani has made it too easy for American officials to deceive themselves.**

It ought to be clear that Washington isn't better off with a more powerful Islamic Republic, the ultimate objective of Mr. Rouhani. The Revolutionary Guards' budget is going up 24% this year. Although enormously appealing to Western businessmen and politicians, the moderation-through-trade argument that President Obama advanced during the nuclear talks isn't historically sound. Mr. Rouhani's mentor, President Ali Akbar Hashemi Rafsanjani, opened Iran's economy to Western investment in the 1990s while also boosting Iran's support for terrorism. As the French Marxist historian Maxime Rodinson pointed out, Islamic despotism and capitalism can coexist.

Washington would be far better off if a "hard-liner" won the presidential contest. It would make it more difficult for Congress and the Trump administration to deceive themselves about Iran's intentions. It would increase the distance between the Iranian people and their overlords, improving the chances that the Revolutionary Guards, who had difficulty shooting demonstrators in 2009, will splinter.

Opposition to clerical dictatorship will erupt again—the sooner the better given the nuclear deal's temporary restraints. Mr. Rouhani's promise is an illusion for those weary of the Middle East. Like a mirage on the desert's edge, this mullah beckons fools.

*Mr. Gerecht, a former Iranian-targets officer in the Central Intelligence Agency, is a senior fellow at the Foundation for Defense of Democracies.*

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Gerard Baker  
Editor in Chief

Matthew J. Murray  
Deputy Editor in Chief

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## LIFE & ARTS

TURNING POINTS | By Clare Ansberry

# One Family, Three Weddings

The Fogarty sisters are getting married within weeks; It takes a big family to pull it off without sibling rivalry and chaos

**ON SATURDAY,** Kathleen and Dan Fogarty's daughter Rachel will get married. It is their daughter Kelly's turn three weeks later. And three weeks after that, their daughter Juliette will get married.

These last few weeks have been a whirlwind of bridal showers, bachelor and bachelorette parties, altering dresses, making veils, cooking, cleaning, and shopping. It is doable but can be hectic, say the Fogartys, who live in Fort Wayne, Ind.

Long group texts help as does a calendar. So, too, does a big family. With eight children—five girls and three boys in 15 years—there is little time for pettiness and rivalry. They help each other without being asked. "We have this big support system," says Juliette. "I know I can call any sibling and say 'Oh my gosh, I need help,' and they would be at my side."

One brother is handling reception music. Their youngest sister, Rose, is baking more than 100 cupcakes for Rachel's wedding and 250 for Kelly's. Extended family is pitching in as well. A cousin, who is a graphic artist, made the wedding invitations for Juliette, as her wedding present. An aunt threw a shower for all three.

"The weddings will be beautiful and the receptions will be fun. Nothing over the top," says Mr. Fogarty. His daughters and their fiancés are handling most of the planning and costs and keeping them in line. "It's been pretty easy for me, at least."

The Fogartys are a close-knit family, who lived until a few years ago in a small town of Bryan, Ohio, home of Spangler Candy, which makes Dum Dums lollipops. They took vacations, pulling a camper behind them, once retracing Dan and Kathleen's honeymoon trip 35 years ago from Savannah, Ga., to Williamsburg, Va. Every Sunday, they hosted brunch for family and friends, workers on one side of the kitchen island and talkers on the other.

When their children started



graduating from college and going to work in bigger Fort Wayne, across the state line, the Fogarty's bought a three-bedroom house there for them. The four oldest sisters lived together at times. Rachel and Kelly still do. Over the years, they talked about the guys they were dating. "We talked about getting married and weddings. I don't think we thought we would get married three weeks apart. It just happened to work out that way," says Rachel.

It began last fall when all three became engaged within five weeks of each other.

On Oct. 2, Rachel, 29, was on a Sunday morning hike with her boyfriend Brent Bennett in Wisconsin, where his sisters live, when he asked her to marry him. Six days later, Kelly, 33, and her boyfriend Chris Whelan, who lives in Kentucky, met in Columbus and were walking along the river. The only thing that would make the day better, Mr. Whelan said, drop-



ping to his knee, was if Kelly would marry him. Four weeks later, on Nov. 11, in honor of Veterans Day, Juliette, 25, a nurse who lives in the Washington, D.C. area, and her boyfriend Michael Jackson went for a walk along the war memorials. Mr. Jackson said he would honor her and their family-to-be and asked her to marry him.

Rachel picked her wedding date

Kelly and Juliette Fogarty, above, try on their wedding dresses with Rachel, in the middle, who is getting married Saturday. (Rachel's dress was out for alterations.) Below, the Fogarty children in 1998 in Bryan, Ohio. From left: Christopher holding baby Nicholas, Kelly holding Rose, David, Rachel, Brigette and Juliette.

tropical theme. July is her favorite month. They will marry on July 1 at the Basilica of the Sacred Heart at the University of Notre Dame in Notre Dame, Ind. "We were like, Wow this is going to be pretty crazy," says Rachel of weddings three weeks apart. "But none of us wanted to push it out any longer."

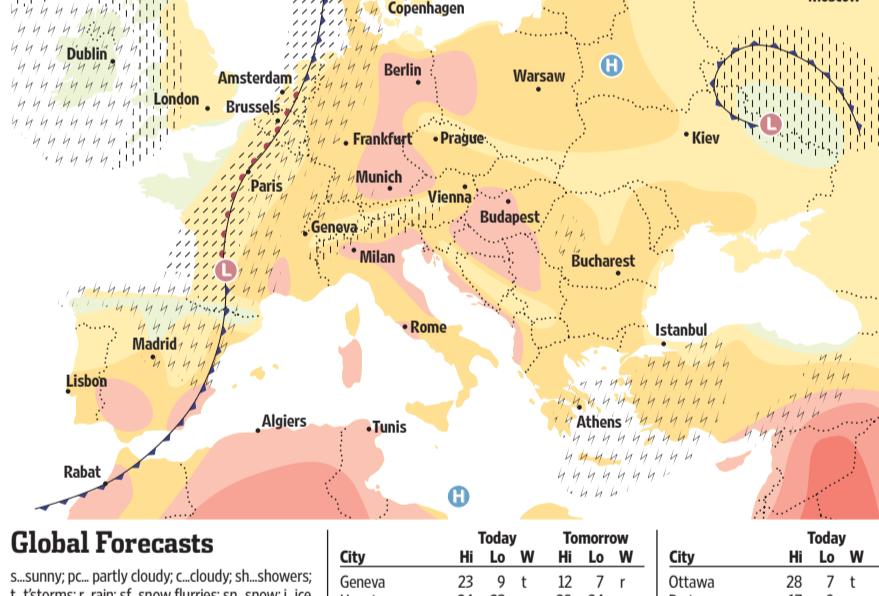
When the dates were picked, there was an "Oh dear moment," says Mrs. Fogarty. "I knew we would all pitch in and it wouldn't be up to me to do all the planning." She was more taken by the thought of three daughters leaving home, virtually at once.

On a recent weekend, Mrs. Fogarty and her five daughters attended a shower for Rachel on Saturday and hosted one for Juliette on Sunday. For Juliette's shower, one daughter hollowed out a pineapple and filled it with flowers—in line with Juliette's tropical theme—while another cut strawberries. "My girls and I are machines," says Kathleen, who was also one of five daughters.

Rachel and Kelly decided to use the same bridesmaid's dresses and the same silk bouquets to help keep costs down. Both are using their mother's vases, too, for centerpieces.

The Fogartys say they are happy their daughters have met and are marrying men that they both respect and love. Mr. Fogarty thinks about what it will be like walking each daughter down the aisle. He suspects he will feel a mix of joy and other emotions. "They are such a big part of my life," he says. He doesn't plan on writing father of the bride speeches, but will speak from the heart.

## Weather

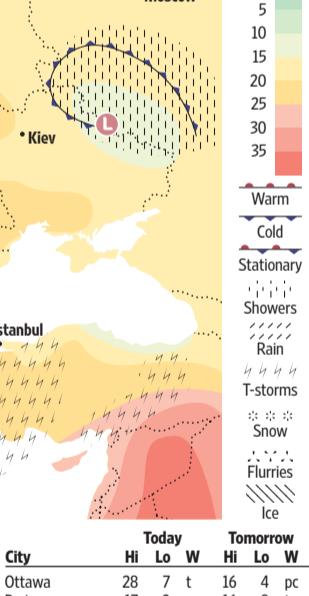


## Global Forecasts

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

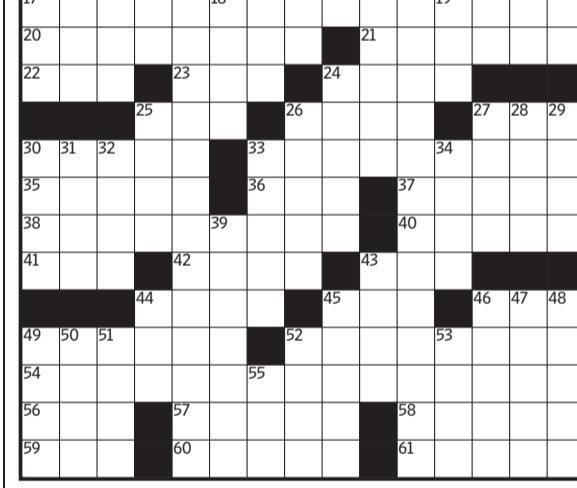
City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	17	12	r	15	9	c
Anchorage	13	6	c	12	6	pc
Athens	20	15	t	24	14	s
Atlanta	31	20	pc	32	20	pc
Bahrain	41	25	pc	27	17	s
Baltimore	33	20	s	31	15	t
Bangkok	32	25	t	32	26	t
Beijing	37	19	s	38	20	pc
Berlin	25	13	s	26	12	t
Bogota	20	10	pc	21	10	c
Boise	18	6	c	21	7	s
Boston	32	20	s	26	10	pc
Brussels	18	10	r	15	7	c
Buenos Aires	17	13	r	16	8	r
Cairo	35	21	pc	30	19	s
Calgary	16	4	t	18	6	pc
Caracas	32	26	pc	32	27	pc
Charlotte	30	19	s	32	19	pc
Chicago	26	7	c	15	10	pc
Dallas	33	22	t	31	22	t
Denver	6	1	r	6	-3	sn
Detroit	30	9	pc	19	9	pc
Dubai	40	27	s	39	29	s
Dublin	15	6	t	14	6	t
Edinburgh	15	6	pc	15	7	c
Frankfurt	25	14	t	16	9	t

## AccuWeather.com



City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Ottawa	28	7	t	16	4	pc
Paris	17	9	r	16	8	t
Philadelphia	33	21	s	32	15	t
Phoenix	31	18	s	31	19	s
Pittsburgh	31	18	s	23	13	t
Port-au-Prince	31	24	t	33	22	t
Portland, Ore.	21	10	pc	24	11	s
Rio de Janeiro	26	20	pc	21	20	r
Riyadh	40	28	s	41	30	s
Rome	25	15	c	24	13	t
Salt Lake City	13	5	sh	18	7	pc
San Diego	21	15	pc	23	16	s
San Francisco	22	11	s	25	11	s
San Juan	32	26	pc	31	25	pc
Santiago	10	2	sh	13	1	s
Santo Domingo	31	24	pc	31	23	p
São Paulo	20	15	c	19	17	r
Seattle	19	10	pc	21	11	s
Seoul	27	15	s	27	16	s
Shanghai	28	18	s	26	19	pc
Singapore	31	27	c	31	27	t
Stockholm	21	10	c	23	9	t
Sydney	21	16	pc	21	17	sh
Taipei	29	23	pc	29	22	pc
Tehran	30	19	s	33	22	s
Tel Aviv	30	21	s	27	19	t
Tokyo	21	16	pc	23	18	pc
Toronto	29	9	pc	17	7	pc
Vancouver	16	9	c	17	9	pc
Washington, D.C.	34	22	s	33	17	t
Zurich	23	12	t	13	7	r

## The WSJ Daily Crossword | Edited by Mike Shenk



## TAUTOLOGIES | By Greg Poulos

Across	25	Filming spot	43	Cub Scout group
1	Temple buildings	26	Talkative trucker	44
6	Swinton of "Doctor Strange"	27	Calico cat, generally	45
11	Clumsy fellow	30	Brother of Moses	Part of a solution, perhaps
14	Battle of the Atlantic vessel	33	More colorfully gaudy	46
17	It's what it is"	34	Singer whose name is Icelandic for "birch"	47
20	Hotbed of corruption	35	Punishment, symbolically	It is what "it" is
22	Targeted to the well-to-do	36	Gretzky, for most of the 1980s	57
23	Legal conclusion?	37	Obsessive anime fan	Form letters?
24	Backcountry dwelling	40	Lab in one's home, e.g.	58
25	Port on the Arabian Peninsula	41	Cut substantially	59
26	Chignon spot	42	Gold standard	Lab in one's home, e.g.
27	Spot for a flowerpot	43	Frasier's brother	50

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

Down	28	Moccasin's lack
1	One who's been cornered?	29
2	Members of the woodwind section	30
3	He vied with Odysseus for Achilles' armor	31
4	Capacity	32
5	One side of a relativity equation	33</td

# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, May 18, 2017 | B1

Euro vs. Dollar 1.1138 ▲ 0.50%

FTSE 100 7503.47 ▼ 0.25%

Gold 1257.50 ▲ 1.82%

WTI crude 49.07 ▲ 0.84%

German Bund yield 0.378%

10-Year Treasury yield 2.216%

## U.K. Sells Last of Its Lloyds Stake

Final divestment of crisis-era holding is a milestone for CEO Horta-Osório

BY FRANCESCO GUERRERA  
AND PORTIA CROWE

LONDON—The U.K. government has sold its last remaining stake in **Lloyds Banking Group** PLC, a watershed moment for the British lender almost a decade after it was bailed out for more than £20 billion at the height of the financial crisis.

The bank said that including dividends and share sales, the government has in total received £21.2 billion (\$27.4 billion), £894 million more than it put in.

The U.K. Treasury has been gradually selling shares for several years.



Lloyds Banking has become a retail and commercial lending powerhouse in the U.K. since its bailout in the financial crisis.

Jones's Financial News, said he isn't changing his focus.

"I don't think that investors should expect any significant change of direction," he said.

This credo means that despite its deep relationships with companies across the U.K., Lloyds won't expand its capital-markets offerings. For Mr. Horta-Osório, that type of risky business is no longer in the bank's DNA and cost structure.

"We leave businesses like trading equities and others to experts like investment banks," he said, with only a hint of a smile after the word "experts."

In London finance circles, Lloyds went from being a source of worries—or worse, the butt of jokes—to being hailed as a comeback story. It contrasts favorably with **Royal Bank of Scotland Group** PLC, the other big

British bank bailed out during the financial crisis. RBS is still majority-owned by the government, which is sitting on a large loss.

His performance at Lloyds means Mr. Horta-Osório is facing questions about the future. The chief executive job at **HSBC Holdings** PLC, a much bigger bank, will open up next year. Mr. Horta-Osório, 53 years old, is a perpetual CEO, having run his first bank when he was 29. When pressed on whether he wanted to stay at Lloyds, he said simply: "I am very happy."

Asked to elaborate, he didn't offer much more, mentioning the obvious tasks ahead: the integration of credit-card provider MBNA, whose £1.9 billion acquisition was announced in December; more technology investments; and the bank's next strategic Please see **LLOYDS** page B2

## OPEC Tries To Beat 'Shorts'

OPEC is trying harder than ever to win over big investors, but the group is finding that falling oil prices are making that a tough sell.

By Alison Sider,  
Timothy Puko and  
Laurence Fletcher

Dozens of hedge-fund managers and oil traders attended a series of closed-door meetings in recent months with OPEC leaders—the first of their kind, according to Ed Morse, Citigroup Inc.'s global head of commodities research, who helped organize some of the events.

Group officials made the case for how supply cuts from the Organization of the Petroleum Exporting Countries would reduce the global glut. Instead, stockpiles have remained stubbornly high, oil prices are down close to 10% from their February peak, and some hedge-fund traders are reeling.

Pierre Andurand, a French hedge-fund manager with a history of double-digit-percentage returns, met with a Saudi official from OPEC just before the Nov. 30 decision to cut production, said people familiar with the meeting. On the heels of a series of bullish bets, his main fund at Andurand Capital is down about 16% this year through May 5, according to a person who had seen the performance numbers.

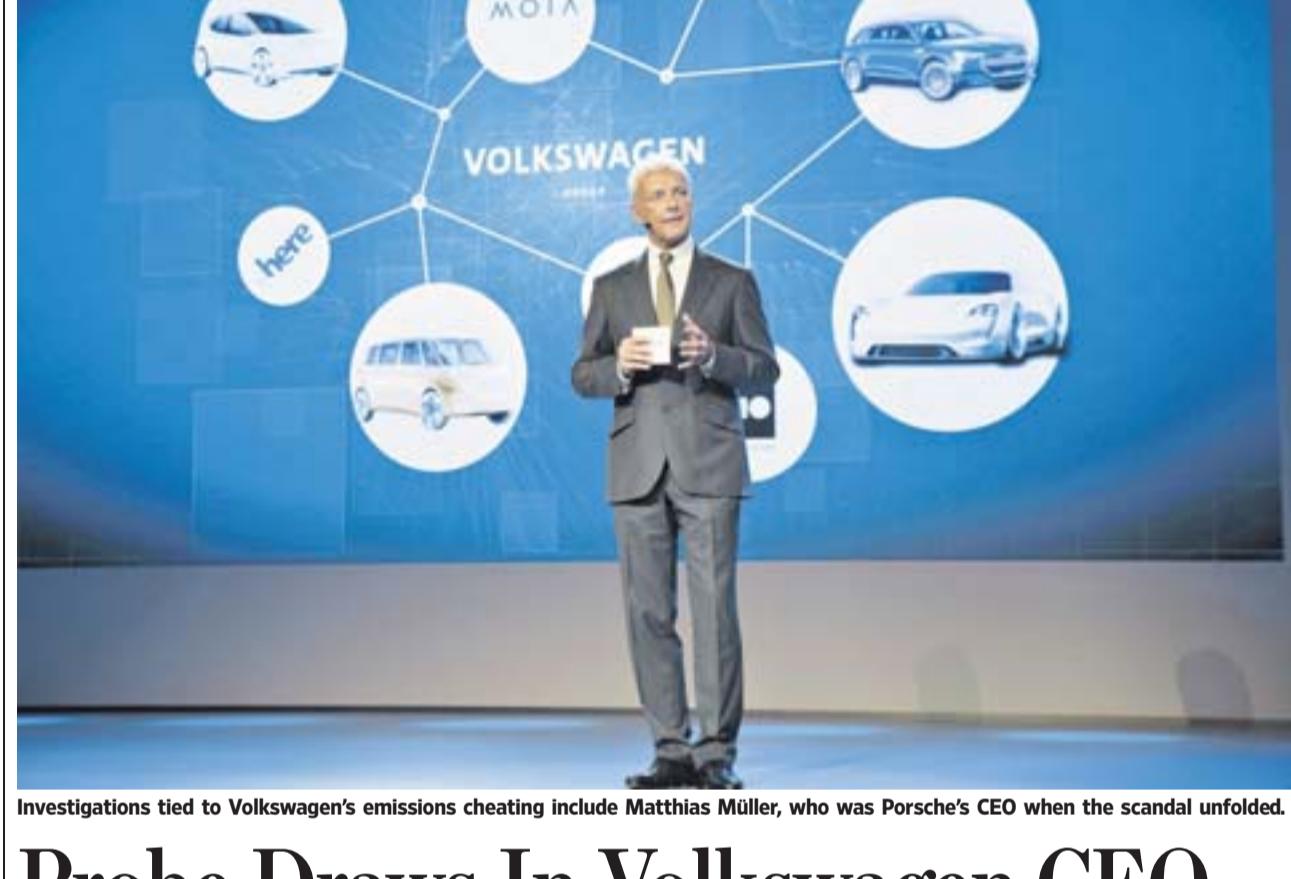
The oil group is now intentionally countering "shorts," funds that bet on falling oil prices, an OPEC official said. The official pointed to an announcement earlier this week that Russian and Saudi Arabian energy ministers would support another nine months of production cuts. It was a response to the recent fall in prices and designed to show how serious big producers are about cutting output.

"We are hitting back at the shorts," the official said. Oil rose 2.1% on Monday after the announcement.

Prices gave up some of those gains on Tuesday but turned higher Wednesday, rising 0.84% to \$49.07 a barrel after the U.S. Energy Information Administration reported that stockpiles continued to fall last week.

But many traders see any extension as OPEC's acknowledgment that the first round of cuts wasn't effective and further evidence that the group's influence on the market has become severely limited.

Please see **OIL** page B2



Investigations tied to Volkswagen's emissions cheating include Matthias Müller, who was Porsche's CEO when the scandal unfolded.

## Probe Draws In Volkswagen CEO

By WILLIAM BOSTON

BERLIN—Volkswagen AG Chief Executive Matthias Müller has been targeted for the first time in a probe of events linked to the disclosure of the company's emissions-cheating scandal, threatening the company's efforts to put the two-year-old saga behind it.

The state's prosecutor in Stuttgart confirmed Wednesday that Mr. Müller, his predecessor Martin Winterkorn and current Chairman Hans Dieter Poetsch had been under investigation since February on suspicion of stock-market manipulation in connection with

the scandal.

The Stuttgart probe doesn't allege that the executives are suspected of playing a role in the diesel scandal itself—a conspiracy to mislead regulators about the level of emissions produced by the car maker's diesel engines over several years.

Rather, the Stuttgart probe is looking into whether as members of **Porsche SE**'s board the individuals withheld information from investors about an unfolding U.S. investigation into the manipulation before it became public in 2015, causing Volkswagen's shares to drop and exposing

shareholders to big losses.

The revelation is bad news for Volkswagen, which has tried to draw a line under the scandal, in part by handing management to an untainted team led by Mr. Müller. It could also add momentum to thousands of investor lawsuits in Germany that are seeking more than €8 billion (\$8.9 billion) in damages from Volkswagen and draw the Porsche clan's family holding into the fray for the first time.

Porsche SE manages the 52% stake in Volkswagen AG held by the heirs of Beetle inventor Ferdinand Porsche since sports-car maker

Porsche AG was folded into Volkswagen in 2012. Volkswagen has pleaded guilty in the U.S. to conspiracy to commit fraud in connection with the emissions cheating and has agreed to pay nearly \$25 billion in fines, penalties, legal fees and compensation for customers.

"There is cause to believe that the accused were intentionally late to inform shareholders about the financial consequences, especially for shareholders of Porsche SE, of the software manipulation of diesel vehicles," the Stuttgart state's attorney said in a statement.

Please see **PROBE** page B2

## Lehman Creditors Fight Over \$10 Billion Left in Europe

By MARGOT PATRICK

LONDON—Lehman Brothers' collapse in the financial crisis left most of its creditors with deep losses. But Lehman's main European arm remains with about \$10 billion in extra cash, prompting a legal feeding frenzy for hedge funds and distressed-debt investors.

On Wednesday, the U.K. Supreme Court ruled that senior bondholders seeking interest payments of around \$7 billion should get those first, before \$1.6 billion in subordinated loans held by investment firms **Elliott Management Corp.** and **King Street Capital Management LP** are repaid.

An Elliott spokeswoman declined to comment; King Street couldn't be reached.

Several groups are battling for chunks of the cash, which is held by Lehman Brothers International Europe, so the final outcome for the subordinated loan holders and some

other junior creditors still isn't clear.

Lehman Brothers' chapter 11 filing triggered bankruptcy proceedings across the world—and disputes between liquidators handling its many subsidiaries over intercompany loans and guarantees. LBIE was unusual in having excess capital.

LBIE paid creditors around £12 billion (\$15.5 billion) and had an estimated surplus of £7 billion to £8 billion before the interest payments ordered by the court, according to a report by its administrator in April. Under U.K. law, creditors are entitled to 8% interest on claims—though bankrupt companies don't normally have enough cash to pay it.

In the U.S., Lehman Brothers Holdings Inc. had paid out around \$114 billion to creditors as of late last year. Bondholders so far have received around 40 cents on the dollar, resulting in big gains for hedge funds that bought the debt at steep discounts after the bank's collapse.



Exiting Lehman's headquarters in New York on Sept. 15, 2008, the day the firm filed for chapter 11.

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When the scandal unfolded, Mr. Müller was CEO of sports-car maker Porsche AG and a member of the supervisory board of Porsche SE

When U.S. investigators disclosed the scandal on Sept. 18, 2015, and charged Volkswagen with violating U.S. law, the German car maker's shares plunged, losing nearly half their value and causing billions of euros in share losses and causing the company to report its worst-ever loss in 2015.

day in November, according to FactSet.

The remainder of the S&P 500's gain came from steeper valuations—the index now trades at about 17.2 times expected earnings versus an already pricey 16.4 on election day. If investors completely lose confidence in the Republican's ability to deliver, this part of the gain could be wiped out. That would mean a roughly 5% decline from here.

That is a modest loss, but investors should remember that stock-market sell-offs are rarely that neat.

stores as early as this week or next, according to a person familiar with the matter.

A Wistron spokeswoman said the company doesn't comment on "market rumors or speculation."

With sales cooling in China—long an engine for Apple's growth—the Cupertino, Calif., company has been looking for new ways to build its brand in India. Apple has sought concessions on the taxes it pays to import some components, government officials say.

It is unclear how much the model might cost. Some Indian resellers already offer the iPhone SE for around \$320, less than the \$399 Apple charges in the U.S. Indian government officials hope the new price could be as much as \$100 lower than the current \$320. But Apple prefers to keep prices roughly consistent world-wide and aims to preserve its gross margins.

## HEARD

Continued from the prior page  
in part because of improving global fundamentals. The other driver was expectations of tax cuts and easier regulation boosting earnings.

You can separate the two by comparing the increase in profits versus the increase in valuation.

Profits are looking better: Analysts estimates for earnings at companies in the S&P 500 over the next year have increased 5% compared with where they were on election

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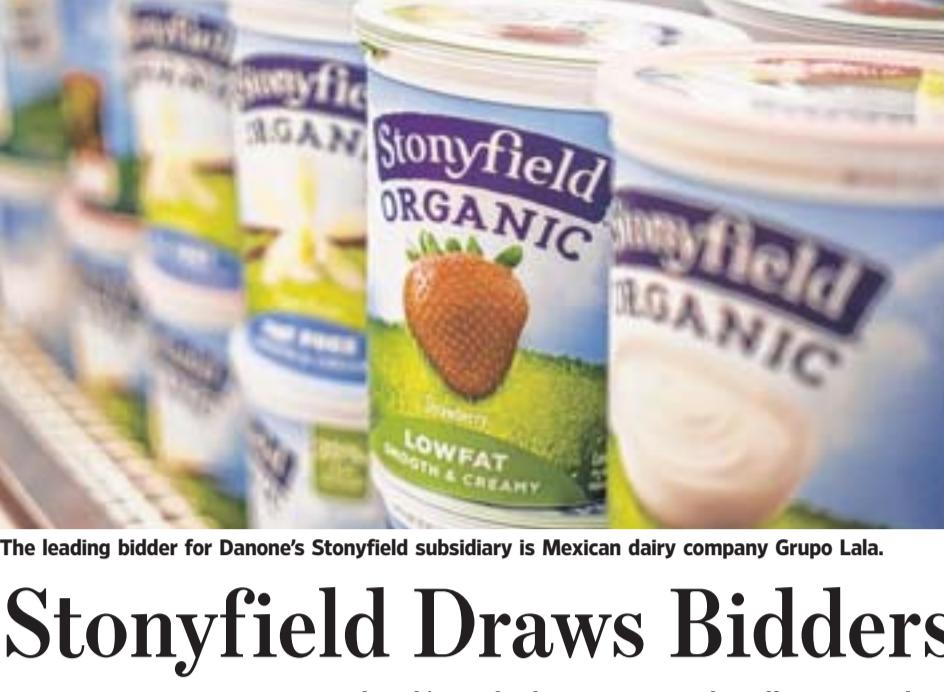
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## BUSINESS & FINANCE



RICHARD B. LEVINE/ZUMA PRESS

The leading bidder for Danone's Stonyfield subsidiary is Mexican dairy company Grupo Lala.

## Stonyfield Draws Bidders

BY BEN DUMMETT

AND DANA MATTIOLI

Mexico's Grupo Lala has emerged as the lead bidder for **Stonyfield Farm Inc.**, the well-known U.S. maker of organic yogurt.

Talks are at an advanced stage and deal could come before the end of the month, according to people familiar with the matter. The price the big Latin American dairy company might pay couldn't be learned. Negotiations could break down, and Grupo Lala could still be outbid.

**Inner Mongolia Yili Industrial Group**, China's largest dairy company, announced earlier this month plans to bid \$850 million for Stonyfield, a subsidiary of France's **Danone**.

strong change of direction," he added. "When you are pursuing a successful strategy, I think you have a different leadership style and a different type of objectives."

To those who criticize him for putting all of Lloyds's eggs in the U.K. basket, the Portuguese executive answers that, in the current regulatory environment, spreading the bank across geographies would be much worse.

In his view, the rule changes ushered in after the 2008 financial crisis are forcing banks to keep more capital within national boundaries to reassure local authorities they wouldn't be a burden on the taxpayer in the event of failure. As a result, banks' ability to move capital cheaply across countries is a thing of the past

one that offers yogurt, cheese and cream. In the first quarter, sales from this business increased by almost 39% from the year-earlier period while revenue from the milk business rose by 11%. A deal would also help Grupo Lala achieve its stated goal of expanding further into the U.S.

Last year, Stonyfield had revenue of \$370 million. The maker of organic and Greek-style yogurt was founded in 1983 and is considered a pioneer in feeding consumers' growing desire for simpler and more natural products.

Grupo Lala's pursuit of Stonyfield comes at a time when the Mexican company and food producers more generally face increasing pressure to offer healthier foods as consumer tastes change. Grupo Lala generates a little more than 60% of its sales from traditional milk products, but its faster-growing segment is the

and being in a lot of places at once has become a competitive disadvantage.

"The big strategic changes in banking are mainly related to much stronger regulation, much higher capital levels and a need from banks—fortunately, I would say—of having a much bigger focus on customers," he said. "I would argue that banks have really to focus on where they have their competitive advantages. Because to go into multiple countries now is not an advantage."

So far, this belief has paid off—Lloyds's shares have risen by more than 12% since Mr. Horta-Osório took the reins, more than those of rivals such as Barclays PLC and RBS. All three have underperformed the FTSE 100.

## Machine Maker Is Urged to Change

BY ANDREW TANGEL

An investment group wants to shake up Caterpillar Inc.'s audit committee, amid mounting scrutiny of the machinery giant's offshore tax strategy.

**CtW Investment Group**, an arm of union coalition **Change to Win**, issued a public letter on Wednesday asking shareholders to vote against three Caterpillar board members that the group says kept an inadequate watch over Caterpillar's tax strategy and outside auditor **PricewaterhouseCoopers LLP**.

Caterpillar has faced years of scrutiny over a strategy that shifted much of the profit from its lucrative replacement-parts business to a Swiss subsidiary. The strategy has lowered the company's U.S. tax bill. It has also drawn scrutiny, including an employee lawsuit, a U.S. Senate investigation and a federal criminal investigation that led to March 2 raids on Caterpillar's headquarters and two nearby facilities in Illinois.

CtW said the unions it represents collectively own 1.8 million shares, or 0.3% of Caterpillar stock. Shareholders are scheduled to meet June 14.

"Given their long tenure and the audit committee's lack of response, we question these directors' ability to provide adequate oversight of the ongoing federal investigation of the offshore tax structure and outside auditors," Dieter Waizenegger, CtW's executive director, wrote in the letter.

The investment group is targeting board members Daniel Dickinson, a private-equity executive; Dennis Muilenburg, chairman and chief executive of Boeing Co.; and William Osborn, former chairman and chief executive of Northern Trust Corp.

A Caterpillar spokeswoman declined to comment Wednesday. The company has previously said it was paying the taxes it owed and was cooperating with federal authorities.

Caterpillar didn't respond to requests for comment from the board members. PwC and a Boeing spokesman declined to comment.



MEZAR BALOUT/AGENCE FRANCE PRESSE/GETTY IMAGES

## OIL

Continued from the prior page

"In my view, it's the wrong response," Doug King, chief investment officer at RCMA Asset Management and manager of that firm's \$200 million Merchant Commodity hedge fund, said of extending the current cuts. "We're not seeing what we needed to see," he said. "They need to cut harder, right now."

Mr. Morse of Citigroup said he arranged introductions between OPEC Secretary-General Mohammad Barkindo and the more than 100 hedge-fund managers and other oil buyers who have met with Mr. Barkindo in Washington, D.C., New York and London since October.

The coordinated outreach was a new effort by the group to build bridges between its members and Wall Street, aiming to persuade investors that producers were serious about reining in supply, Mr. Barkindo said.

last year. That would replace much of what OPEC has taken off the market, analysts say.

In recent weeks, hedge funds have cut their bullish position on oil prices to the lowest level since November as a gasoline glut raised worries that demand could falter.

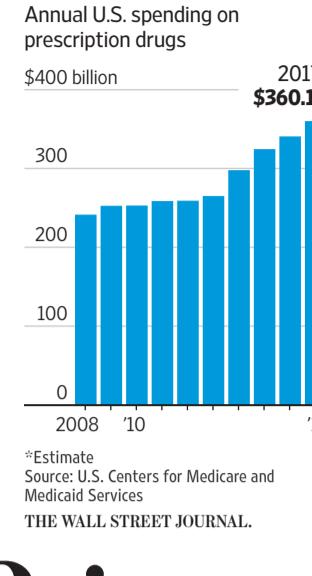
Mr. Andurand told investors in an April 24 letter reviewed by The Wall Street Journal that oil prices will reach new highs." But three weeks later, he had abandoned most of his bullish bets, said a person familiar with the matter.

## BUSINESS NEWS



David Ricks, CEO of drugmaker Eli Lilly, called many of the state initiatives 'totally wrongheaded.'

### Medicine Money



\*Estimate  
Source: U.S. Centers for Medicare and Medicaid Services

THE WALL STREET JOURNAL

# Ralph Lauren Picks Veteran of P&G as Its Chief

By BOWDEYA TWEH

Ralph Lauren Corp. is betting again on an outsider to run the company, this time tapping Procter & Gamble Co.'s top beauty executive to be its next chief.

The company said Wednesday that Patrice Louvet will become president and chief executive officer on July 17. He is also joining the company's board and will report to executive chairman and founder Ralph Lauren.

Mr. Louvet, 52 years old, is the second external pick to lead the company after Mr. Lauren stepped aside as chief executive in 2015. The designer-founder, whose family remains the company's largest shareholder, maintained titles as executive chairman and chief creative officer.

PhRMA opposes the Ohio measure, and last year with other business organizations filed a lawsuit contesting the validity of citizens' signatures, but the Ohio secretary of state later ruled there were enough signatures for the ballot measure to proceed. PhRMA is part of a coalition, Ohioans Against the Deceptive Rx Issue, that plans to run advertisements against the bill, a group spokeswoman said.

One of the more far-reaching state bills is under discussion in Oregon. The bill, introduced by state Rep. Nossle, would cap patients' out-of-pocket costs for medicine at \$100 or \$200 a month depending on the type of insurance plan. It would also require drugmakers to pay rebates to the state if a drug's price exceeds the median of the five highest prices charged in countries that are members of the Organization of Economic Cooperation and Development.

Drugmakers have blasted

the bill in legislative hearings.



Patrice Louvet will start in July.

portfolio to Coty Inc. for \$11.6 billion.

The sale left Mr. Louvet in charge of a much smaller business.

P&G said Wednesday that it would name a new head of its beauty division at a later date.

Unlike Mr. Larsson, Mr. Louvet doesn't have a fashion apparel background, which means he is less likely to clash with Mr. Lauren over design issues. But Citigroup analyst Kate McShane questioned whether he is "the right fit to manage significant secular shifts in the apparel/retail environment."

As a signing bonus, Mr. Louvet will receive \$3.4 million in cash plus a one-time equity award valued at about \$9.2 million in restricted stock and performance-based shares.

He will also receive an annual equity award with a target value of \$7.5 million. Mr. Louvet will receive a base salary of \$1.25 million and an annual bonus with a target of \$3.75 million, according to a company filing.

—Sharon Terlep  
and Joann S. Lublin  
contributed to this article

# States Battle Drug Prices

Bills seek to regulate costs and require manufacturers to justify increases

By PETER LOFTUS

Amid calls for curbs on U.S. drug pricing, some of the most aggressive legislative action is happening at the state level—and industry lobbyists are fanning out to fight back.

Lawmakers have introduced bills in about 30 state legislatures this year, seeking to regulate drug prices; to require manufacturers to justify price increases; or to form purchasing groups with other states to negotiate lower prices, according to the National Academy for State Health Policy, a non-profit policy group that has drafted model drug-pricing bills for state use. The group's funders include health insurers and the **Laura and John Arnold Foundation**, a non-profit that supports making drugs more affordable.

State lawmakers say high drug prices are hurting consumers and straining state budgets for Medicaid, public-employee health insurance, and inmate health care. Many of the bills have been intro-

duced by Democratic lawmakers, but some have been proposed by Republicans, such as one in Alabama that would create a state board to negotiate drug-price discounts.

"There's outrage, and people are expecting us to do something about it," said Rob Nossle, a Democratic state representative in Oregon spearheading a price-regulation bill the pharmaceutical industry views as one of the biggest threats.

Drugmakers oppose most of the bills, and have deployed officials and lobbyists to testify at legislative hearings and run advertising campaigns. The industry's biggest lobbying group, Pharmaceutical Research and Manufacturers of America, says it is "beefing up resources" to combat the state legislation.

In an interview, Eli Lilly & Co. Chief Executive David Ricks called many of the state bills "totally wrongheaded. The more price controls we have, there is evidence you'll have market distortions." Indianapolis-based Lilly has been criticized in recent months for boosting the list price of insulin. Its top insulin seller, Humalog, has more than doubled in price since 2011. The company says net prices of its drugs after rebates and discounts to customers haven't risen as high

as list prices.

The industry fought hard against state drug-price bills in 2015 and 2016—and was mostly victorious. Several states considered bills requiring drugmakers to disclose their research and other costs to justify price increases, but only Vermont enacted one last year.

In November, California voters rejected a ballot proposal to require state agencies to pay no more for prescription drugs than what the U.S. Department of Veterans Affairs pays; the VA gets one of the steepest discounts in the country. The drug industry spent more than \$100 million on advertising attacking the initiative.

The losses haven't stopped new bills from advancing. Maryland's legislature in April approved a bill that would allow the state attorney general to sue manufacturers of generic drugs for price increases deemed to be excessive; the governor is reviewing it, a spokeswoman said. A bill in Nevada would require manufacturers of certain diabetes treatments to disclose annually the cost of research and manufacturing of the drugs.

Ohio voters are scheduled to vote Nov. 7 on a ballot proposal that would require state agencies to pay no more than

the VA—a proposal similar to the failed California initiative. A group called Ohioans for Fair Drug Prices, which has received funding from the AIDS Healthcare Foundation, proposed the law and gathered enough citizen signatures to put the measure on the ballot.

PhRMA opposes the Ohio measure, and last year with other business organizations filed a lawsuit contesting the validity of citizens' signatures, but the Ohio secretary of state later ruled there were enough signatures for the ballot measure to proceed. PhRMA is part of a coalition, Ohioans Against the Deceptive Rx Issue, that plans to run advertisements against the bill, a group spokeswoman said.

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Drugmakers have blasted

# BHP Has Talks With Activist

By ROBB M. STEWART

off its U.S. oil business and adopt a consistent plan of buying back shares.

On Tuesday, Elliott said there was broad support among investors for a restructuring of BHP's petroleum business and general agreement that there should be a renewed focus on capital returns.

**BHP's CEO said the company overpaid to build a position in U.S. onshore shale.**

BHP has said it would review the plans and respond. It rejected Elliott's suggestions it was misleading in its earlier response and that it wasn't open to suggestions.

In his speech on Tuesday, Mr. Mackenzie said the petroleum business was core to BHP's growth plans but he acknowledged the company had overpaid and invested aggressively to build a position in the

U.S. onshore shale sector. The company has pivoted back toward conventional oil-and-gas production and while the shale business now expected competitive returns, BHP was open to discussing a sale of the assets, he said.

Elliott has a reputation for slowly grinding away at companies to push through changes.

In a shift, its plans now call for BHP to remain incorporated in Australia and to retain full Sydney and London listings, as well as Australian headquarters and a full Australian tax residence. That appears to address concerns in Australia after Treasurer Scott Morrison said any move to the U.K. would be contrary to the country's interest and would breach orders put in place by the government more than 15 years ago with the merger of Australia's BHP Ltd. and London-listed Billiton PLC.

Elliott instead said BHP's management should work harder to find a solution to the legacy structure.

—Scott Patterson in London contributed to this article.



GEOFFREY A. FOWLER & JOANNA STERN

TECHNOLOGY COLUMNISTS

# Ford Accelerates Cost-Cutting

By CHRISTINA ROGERS

Ford Motor Co. outlined new steps in its global cost-cutting efforts, saying it will reduce salaried workforce in key regions by 10% amid an accelerated attack on costs."

The push, expected to result in 1,400 job cuts in North America and Asia by September, comes as Chief Executive Mark Fields strives to provide more clarity to investors about the auto maker's strategy. Ford's share price has slumped during Mr. Fields's three-year tenure at the helm, and profit growth has ground to a halt as U.S. sales volumes plateau.

The reductions would contribute to a \$3 billion cost-reduction goal for 2017. Ford also said Wednesday that head-count cuts are under way or completed in Europe and South America.

Mr. Fields was recently

granted a \$2.5 million stock incentive by the board, which included the task of "developing a lean mind-set" at the company.

Ford, which has 200,000 employees worldwide, steadily increased its workforce as the U.S. market rebounded from the financial crisis and as a plan to expand in China unfolded. The Dearborn, Mich., auto maker has profited as demand for lucrative pickups and sport utilities surged amid lower gasoline prices.

The company's share price recently has been hovering at \$11, however, more than one-third lower than its level when Mr. Fields succeeded Alan Mulally in the summer of 2014. Ford's stock touched as low as \$10.75 on Wednesday, the lowest point since August 2015. Shares traded 1.1% lower at \$10.82 in Wednesday afternoon trading.

Ford, which employs 55,000 hourly employees, hasn't indicated any plans to cut that segment of its workforce.

Ford will offer employee buyouts in the U.S., China and other affected countries. Staff in several of the company's departments—including factory personnel, analytics, information technology and product development—are eligible for buyouts.

The Wall Street Journal on Monday was first to report Ford's plans to trim its salaried workforce.

Ford said Wednesday that it remains focused on "becoming as lean and efficient as possible" but didn't provide specifics on anticipated cost savings. Those figures will be outlined later this year, along with related personnel costs, which will be booked as special items in the third quarter, a company spokesman said.

Ford, which employs 55,000 hourly employees, hasn't indicated any plans to cut that segment of its workforce.

Geoffrey A. Fowler and Joanna Stern deliver distinctive coverage of the intersection between digital devices and culture. Their unconventional approach to product testing helps consumers make smarter decisions when navigating the ever-evolving technology landscape.

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Read ambitiously

Source: Pew Research Center, Political Polarization & Media Habits, 2014

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## TECHNOLOGY

WSJ.com/Tech

# Looking for Profit in Free Stock Trades

With no commissions, Robinhood tries a fee for premium service; millennials take notice

BY ELIOT BROWN

Four years ago, two 20-something Stanford math graduates set out to make stock-trading free with a sleekly designed app that would let anyone invest without paying fees.

The Robinhood app has soared in popularity among millennials, amassing more than two million users despite virtually no marketing. Investors poured tens of millions of dollars into the company, valuing **Robinhood Financial LLC** last month at \$1.3 billion.

Now the founders face a crucial test: Can Robinhood make money from all these freeloaders?

It is a tall order.

Not only is Robinhood forgoing money from commissions—a shrinking but still sizable source of revenue for traditional stock brokerages—but it also gets little revenue from other money sources at big brokerages because its users are so young. With a median age of 30 years old, they have little extra cash sitting in accounts and are trading far less money than their baby-boomer parents—two main areas of revenue for brokerages such as **E\*Trade Financial Corp.** and **TD Ameritrade Holding Corp.**

Instead, like countless Silicon Valley startups, it is using “free” as a hook, hoping to lure users and then convince a small percentage of them to buy a premium service. It is a risky game of scale that works only if Robinhood can capture



Vlad Tenev, co-founder of the investing app, aims to introduce his whole generation to the market.

a sizable piece of the market. Skeptics point out an old business joke: Sell at a loss and make it up on volume.

“It is a difficult way to make money,” said Richard Repetto, a brokerage analyst at Sandler O’Neill + Partners. “Other brokers have tried zero commissions and it hasn’t been possible for them.”

Robinhood co-CEO Vladimir Tenev says the company’s edge is its ability to keep overhead costs low—it has 80 full-time employees, shuns marketing and has automated some tasks—while continuing to grow through social media and word-of-mouth.

“We can become the dominant way that our entire generation gets introduced to the stock market,” Mr. Tenev said.

Robinhood plans to gradually add features that can bring in revenue via its Gold plan that costs a minimum of

\$10 a month—more for larger balances—and lets users make trades after hours and borrow capital. At \$120 or more a year, that amount can add up for small balances, so it is mostly appealing to traders who borrow. Mr. Tenev said revenue from Gold is growing 17% month to month, but he declined to specify numbers.

Mr. Tenev, 30 years old, met his co-founder, Baiju Bhatt, 32, at Stanford University while working on physics research projects. After graduation, they moved to New York and started a company that made software for hedge funds, an idea that didn’t take off.

Mr. Tenev said they were inspired by the Occupy Wall Street movement in 2011 to make financial services accessible to everyone regardless of income. They moved back to Palo Alto in 2012 and began

building Robinhood.

The app was launched in December 2014 and it spread rapidly through social media, passing one million accounts by mid-2016, a number that includes accounts that haven’t been funded.

Mohamed Al-Hendy, a third-year law student at the University of Texas at Austin, said he found out about the app from a friend’s Facebook post.

He had never traded stocks, but he liked the idea of trying it free.

“From there, I just kind of took the plunge,” the 25-year-old said. Mr. Al-Hendy said he invests money he makes during summer jobs in tech and biotech stocks, and subscribes to the \$10-a-month Gold plan because he likes the extended trading hours.

The rapid adoption among young stock traders enticed venture capitalists to invest

### Taking Stock

Robinhood Financial is trying to make stock trading free. Here’s how it compares with competitors

	Robinhood Financial	E*Trade	TD Ameritrade	Charles Schwab
Minimum balance	\$0	\$500	\$0	\$1,000
Commission per stock trade	\$0	\$6.95	\$6.95	\$4.95
Commission per mutual-fund trade	N.A.	\$19.99	\$49.99	\$76
Commissions as a percent of revenue*	0%	23%	32%	10%
Margin lending interest rate for \$10,000†	6%	9.25%	9%	8.50%
Extended hours trading and borrowing starting at \$10 a month	Made \$11 billion on interest income in 2016	Makes an average of \$2 per trade from order-flow fees	Interest from clients’ cash made up nearly 45% of 2016 revenue	

\*2016 †Robinhood charges a monthly fee based on the amount of cash eligible for margin trading

Source: the companies

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on young investors.

Brokerages typically earn interest on free cash sitting in clients’ accounts, a big business especially among older clients who have more of their wealth in cash. **Charles Schwab** reported that of its \$2.8 trillion in total client assets, about 13% was in cash at the end of 2016.

Another pool of revenue comes from “order flows,” in which brokerages reap fees by directing trades to companies such as Apex Clearing Corp. and the market-making arm of Citadel LLC, which bundle many small trades and get better prices than small retail traders. TD Ameritrade reports making an average of more than \$2 per trade in order flows, compared with “pennies” at Robinhood, Mr. Tenev said.

Meanwhile, two main ways that established brokerages make money are challenging for Robinhood, given its focus

## Tencent’s Net Profit Surges 58%

BY DAN STRUMPF

HONG KONG—Chinese internet giant **Tencent Holdings Ltd.** reported a steep rise in profit and revenue in the first quarter, notching solid growth in its core games and online-advertising businesses.

Tencent, China’s largest company by market capitalization and the world’s biggest videogame publisher by revenue, operates the popular social-media app WeChat. Its share price has soared 36% this year.

The company said higher revenue from some of its most popular online games helped boost net profit to 14.48 billion yuan (\$2.1 billion) in the three months ended in March, up 58% from a year earlier. Overall revenue was up 55% to 49.55 billion yuan.

“Our key platforms continue to grow robustly,” Chief Executive Officer Pony Ma told investors, pointing to the more than 900 million users of the WeChat social-media app. “We believe our video, news, literature and music services are each the largest in China as measured by usage.”

Already a major force in China, Tencent has been quietly raising its overseas profile through partnerships and investments. Last year it joined with Chinese investors to buy Finnish game developer Supercell Oy, maker of “Clash of Clans,” for \$8.6 billion. In March it disclosed a \$1.8 billion investment in electric-vehicle maker **Tesla Inc.**

Though it said little about the goals of its investment in Tesla at the time, Tencent on Wednesday said it sees the car maker as a partner in connecting more devices to the internet. “The automobile is becoming a smart device, and there will be much more connections between the physical world and the virtual world,” Tencent President Martin Lau said.

Earlier this week the company announced a big expansion of its music-streaming business with a licensing agreement with Universal Music Group. Tencent distributes music through its QQ Music, KuGou and KuWo services, and the deal makes it the main distributor in China for Universal records and artists.

## Amazon Makes Waves for Australia Retailers

**Amazon.com Inc.** is preparing to bring its full retail offering to Australia, signaling a major competitive threat to the country’s retailers and an important new beachhead for its global distribution network.

By Mike Cherney in Sydney and Laura Stevens in San Francisco

than Amazon shoppers in other countries with domestic operations. This has constrained Amazon’s challenge to online competitors such as eBay Inc. in Australia, as well as traditional retailers, which have until now been somewhat insulated from the demise of brick-and-mortar stores rippling across the U.S.

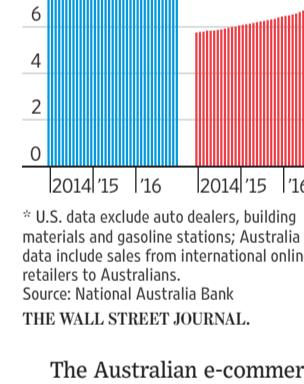
That could soon change. One analysis from Citigroup Inc. found that Amazon sales could grow from between 500 million Australian dollars (US\$371.3 million) and A\$700 million currently to A\$4 billion in the medium term, a significant chunk of the roughly A\$20 billion Australian e-commerce market. Electronics retailers are expected to be the hardest hit, with Citi lowering its long-term earnings-per-share forecasts for some Australian companies by more than 30%.

Australian retailers haven’t until now faced the kind of competition that would have forced them to invest heavily in their online offerings, said Citi retail analyst Bryan Raymond. Retailers in other countries have “been forced into it through Amazon or someone else pushing people that way,” he said.

Australians can already order products from Amazon overseas, but they typically pay higher prices for shipping and wait longer for delivery

### Lagging Behind

Online sales as a percentage of total trade\*



\* U.S. data exclude auto dealers, building materials and gasoline stations; Australia data include sales from international online retailers to Australians.

Source: National Australia Bank

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sales lag behind other developed countries, so there could be room for growth, making Australia an attractive market for Amazon as it seeks to expand its international footprint. The company is spending billions of dollars to secure growth in Mexico and India, and recently reupped its attempt to take on Alibaba Group Holding in China as it diversifies away from relatively saturated U.S. and European markets.

The Chinese market has proved tough to conquer. Amazon launched its Prime membership program there late last year, aiming to capitalize on Chinese consumers’ desire for products from overseas, but it has been fighting to gain share against entrenched local incumbents. India has been more of a success story, where Amazon is one of two market leaders. Still, it is facing increased competition there, too, after No. 1 Flipkart Group’s recent \$1.4 billion fundraising round.

Amazon has cited its rapid international growth as a reason for higher spending in recent quarters. The company takes varying approaches by market when it expands internationally and balances

growth carefully with management bandwidth, said Chief Financial Officer Brian Olsavsky on a recent earnings call.

“We pick our spots carefully,” he added.

In Australia, online sales were about 7% of total retail in 2016, compared with 11% in the U.S., 15% in the U.K., and 18% in South Korea, according to Euromonitor International. Canada, a country that is similarly vast and with a relatively low population like Australia, is also at 7%.

Australia could also fit into Amazon’s plan for a global transportation network that the company envisions will eventually compete with global logistics companies like United Parcel Service Inc. and FedEx Corp., according to people familiar with the matter. It has said it is leasing 40 planes and purchasing thousands of branded truck trailers, as well as building its first dedicated air-cargo hub in Kentucky.

Amazon has also formed a team to look at the future of autonomous vehicles, and it has already completed its first commercial delivery via drone in the U.K.

Amazon declined to comment on possible drone or autonomous-vehicle tests in Australia.

## Qualcomm Widens Litigation

BY TED GREENWALD

**Qualcomm Inc.** sued the manufacturers that make iPhones for **Apple Inc.** for failing to pay royalties on the chip maker’s technology, widening its legal battle with the world’s most-valuable company.

Qualcomm’s lawsuit, filed Wednesday in a federal-district court in San Diego, accuses **Compal Electronics Inc.**, **Foxconn Technology Group**, **Pegatron Corp.** and **Wistron Corp.** of breaching longstanding patent-licensing agreements with Qualcomm by halting royalty payments on Qualcomm technology used in iPhones and iPads. The suit seeks royalties they have withheld and a court order that the four Taiwanese companies continue to pay royalties according to their previous agreements with Qualcomm.

Qualcomm said the contract manufacturers are withholding iPhone royalties because Apple has refused to reimburse them, directed them not to pay and



The chip firm said iPhone makers failed to pay tech royalties.

agreed to indemnify them against any damages they may incur by failing to pay royalties to Qualcomm. They have continued to pay royalties for using Qualcomm’s patents in non-Apple products, the filing said.

Foxconn said the company was aware of the lawsuit between the two companies. Foxconn said it hadn’t received

any formal communications related to the lawsuit and didn’t have any further comment on the matter.

Compal, Pegatron and Wistron representatives didn’t respond to emails sent by The Wall Street Journal after working hours, nor did they pick up calls by the Journal after office hours.

Apple said last month that it suspended royalty payments because it hadn’t been able to work out a deal with the chip company. “We’ve been trying to reach a licensing agreement with Qualcomm for more than five years but they have refused to negotiate fair terms,” an Apple representative said.

The new lawsuit is the latest escalation in a dispute between Qualcomm, whose patents on key cellular communications technology enable it to collect royalties on nearly every smartphone made, and Apple, the world’s most-profitable smartphone maker.

—Liza Lin contributed to this article.

## BUSINESS WATCH

### FACEBOOK

#### EU Expected to Fine Firm Over WhatsApp

The European Union’s anti-trust watchdog is poised to fine **Facebook Inc.** on Thursday for giving “incorrect or misleading information” to investigators who were probing its purchase of chat app WhatsApp in 2014, according to people familiar with the matter.

The commission could fine the company up to 1% of its world-wide revenue. That could work out to as much as \$276 million based on Facebook’s 2016 revenue. The commission opened a formal investigation into the merger last December.

The EU’s decision wouldn’t reverse the merger or force fundamental changes to the way Facebook operates. On Tuesday,

France’s privacy watchdog fined Facebook €150,000 (\$166,245), alleging its privacy policy breaches French law.

—Natalia Drozdiak

### TARGET

#### Sales Slip 1.1% on Solid Profit Growth

**Target Corp.** sales continued to fall in its latest quarter and the retailer said it would invest billions in redesigning stores, launching exclusive store brands and lowering prices.

The Minneapolis-based company’s sales at stores open at least a year fell 1.1% in its fiscal first quarter ended April 29, reflecting in part lower foot traffic and average orders. Sales fell 1.1% to \$16.02 billion. Profit rose to \$681 million, or \$1.23 a share, from \$632 million, or \$1.05 a share, in the year-earlier period.

Target plans to invest \$7 billion over the next three years on store improvements, new brands and developing its digital and supply-chain capabilities.

—Khadeeja Safdar

## FINANCE & MARKETS

# Firms Raise Cash on Bitcoin Clones

By PAUL VIGNA

When tech startup **Gnosis** raised about \$12.5 million in April, the company didn't tap the typical Silicon Valley funding network of venture-capital firms or wealthy investors. Instead, it auctioned tokens online in a process called an initial coin offering. They sold out in 12 minutes.

These digital coins are essentially clones of the virtual currency bitcoin, which has come under scrutiny for its use in last week's global hacking attack. The newer coins are the proverbial next big thing in the world of cryptocurrencies, but also pose big risks to buyers.

The digital coins theoretically can be used to one day purchase services from issuers such as Gnosis, which is building a prediction market for things like companies' quarterly earnings and the price artwork will fetch at auction.

Most new coins, though, aren't equity in the companies issuing them; they often don't confer ownership rights. Nor do they give holders a claim or interest in a company's future profits. And if a startup fails, as is often the case, the coins will be worthless.

So the tokens are more like a crowdfunding campaign than traditional venture-capital financing. No matter. Buyers are snapping them up. In the first 15 days of May alone companies have collectively raised \$27.6 million this way, according to Smith & Crown, a digital currency and blockchain research firm. That compares with just \$3.5 million for all of May 2016.

For companies, the coins are a new source of quick funding. One early offering was in November from a startup called Golem, which billed itself as "Airbnb for computers." It essentially allows users to rent computing power, with the coin being necessary to get on the network. The Polish firm raised \$8.6 million in half an hour.

For now, many coin buyers

### Coins of the Wild West

The virtual currency bitcoin has been joined by dozens of new 'alt coins' that fund new startups but are very volatile.

	Market value, as of Tuesday	One-week return
Augur	\$169 million	-4%
Golem	163	-10%
Gnosis	134	+20%
Round	131	+287%
DigixDAO	88	+5%
Ionomi	65	+33%
TokenCard	17	-33%

Source: CoinMarketCap.com

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appear to be speculating the tokens will keep rising in value as they become more popular, allowing them to be sold for hefty gains. And the fervor around the coins has helped drive up the price of more established digital currencies like bitcoin and ethereum. Bitcoin surged over \$1,800 last week and is up more than 80% this year.

Even some big investors are interested. Tim Draper, a well-known Silicon Valley venture capitalist and early bitcoin believer, plans to buy tokens in a coming coin offering for Tezos, a startup co-founded by a former **Morgan Stanley** and **Goldman Sachs** trader.

"What you're doing is anticipating that the coin will become more important to people over time," Mr. Draper said. Investors are essentially buying software, he added, not an asset that confers any ownership rights or claims on profits.

But bottom-line returns aren't the only—or even main—reason he is getting involved. "It's a way of thinking about how society might evolve," he said.

So what could cause coins to gain value, other than speculators bidding up their price?

One possible way is if a coin-issuing company brings out a hot new technology product or software. New users would theoretically pay a premium to get access to that

product, driving up the value of the tokens bought earlier. In that vein, it is akin to joining a club a year or two before other people want in.

The knock on the coins is that the offerings are nothing more than the so-called greater-fool theory of markets playing out in the cryptocurrency world. "The investing public is mostly clueless," said Francis Pouliot, who runs an information center in Montreal called the **Bitcoin Embassy** and has been critical of the coin-offering trend.

Even coins from startups with good prospects could be "bad investment decisions," said Mr. Pouliot. For instance, a startup could eventually decide to cut the price of future tokens to boost the mainstream appeal of its product, hurting the value of outstanding coins.

Another concern is whether the coins will be regulated as investments. Companies issuing the coins consider them products because they can eventually be used to purchase goods or services.

Martin Koppelman, a 31-year-old cryptocurrency enthusiast who co-founded Gnosis in June 2013, said his firm consulted with accountants on its offering but isn't sure how regulators will react. "The worst thing that can happen is we have to pay a bunch of taxes and that would be fine," he said. The company plans to

use the proceeds to help build out its product.

The Securities and Exchange Commission declined to comment on regulation of the coins.

Others have been more cautious. Investment firm Blockchain Capital raised \$10 million in early April as part of a third round of fundraising. Its coin offering was structured as a traditional securities investment, and the firm consulted lawyers to make sure it adhered to securities laws.

More recently, waves of speculative buying have sharply driven up the value of obscure coins in a short amount of time, itself a worry. Gnosis's coins, for example, have tripled since they began trading on May 1, according to data from website CryptoCurrency Market Capitalizations.

Ondrej Pilny, an enthusiast who started a website to track coin offerings, has invested in several startups. He says he is attracted to their potential and the idea that they represent a new form of venture capital. Still, Mr. Pilny invests only what he is willing to lose "because cryptocurrencies and crypto assets are a very risky investment," he said in an email.

Olaf Carlson-Wee recently launched a hedge fund focused on investing in new coins. He, too, says there are big risks. "Most of these will fail," said Mr. Carlson-Wee. "Most of these are bad ideas from the beginning."

For investors with a venture-capital mind-set, such failures can be acceptable if one investment in a group is a big winner.

Mr. Draper, the venture capitalist, acknowledged coins aren't a typical bet for an investor like him, who has made big profits on investments in companies like Skype, Tesla and eBay. In some ways, "it's like a nonprofit investment," he said.

Despite that, Mr. Draper isn't viewing his investment as charity. "I think we're going to make a lot of money," he said.

# A Wall Street Cop Plans to Expand Its Red-Flag Alerts

By DAVE MICHAELS

WASHINGTON—Wall Street is cracking down on a common, manipulative trading technique after its self-regulatory organization began grading brokers on how much bad behavior it finds in their systems.

The Financial Industry Regulatory Authority, a private organization that polices the brokerage industry, began issuing report cards to brokers last year detailing potentially manipulative trading. Since then, Finra's surveillance department has seen 68% fewer alerts for "layering," a ruse that involves entering phony buy or sell orders with the goal of pushing the price in a direction that benefits a trader's positions.

Robert Cook, Finra's chief executive officer, at a conference on Wednesday said the organization will expand the report cards to include other surveillance alerts by the end of 2017.

"We're developing new red flags because we need to stay on top of this," Mr. Cook said in an interview after his

speech. "It's demonstrating to us that giving people information early can have potentially helpful effect for the markets."

Traders who engage in layering and spoofing, another type of manipulative trading, flood the market with fake orders that cause others to change their posted prices. The rogue trader then cancels the fake orders and profits by buying or selling at the artificially low or high prices they induced. Regulators have spotted the activity in both stock and derivatives markets.

Navinder Sarao, a British trader, pleaded guilty in November to spoofing in futures markets that earned him at least \$12.8 million in illicit profits. He was the second trader convicted of spoofing since the activity was made illegal by the 2010 Dodd-Frank financial-overhaul law.

Regulators said they linked Mr. Sarao's trading to the May 2010 "flash crash," which briefly erased almost \$1 trillion from U.S. stock-market value. He faces up to 20 years in prison for a wire fraud conviction and up to 10 years for spoofing.



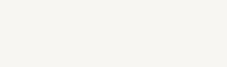
STEPHEN VOSS FOR THE WALL STREET JOURNAL



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## MARKETS DIGEST

### Nikkei 225 Index

**19814.88** ▼104.94, or 0.53%

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

Year-to-date  
52-wk high/low  
All-time high

▲ 3.66%  
19961.55  
38915.87

12/29/89



Bars measure the point change from session's open

Feb. Mar. Apr. May

### STOXX 600 Index

**391.14** ▼4.77, or 1.20%

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

Year-to-date  
52-wk high/low  
All-time high

▲ 8.22%  
396.45  
414.06

4/15/15



Data as of 4 p.m. New York time

### International Stock Indexes

Region/Country Index Close NetChg % chg 52-Week Range YTD % chg

World	The Global Dow	2739.05	-28.83	<b>-1.04</b>	2193.75	● 2769.38	8.3
<b>Americas</b>	<b>MSCI EAFE</b>	1885.83	-3.63	<b>-0.19</b>	1471.88	● 1956.39	9.9
	<b>MSCI EM USD</b>	1006.88	-8.17	<b>-0.80</b>	691.21	● 1044.05	26.8
<b>U.S.</b>	<b>DJ Americas</b>	566.99	-10.72	<b>-1.86</b>	480.90	● 578.17	4.9
Austria	<b>Sao Paulo Bovespa</b>	67418.10	-1266.40	<b>-1.84</b>	48066.67	● 69487.58	11.9
Belgium	<b>S&amp;P/TSX Comp</b>	15280.39	-262.94	<b>-1.69</b>	13609.58	● 15943.09	-0.0
France	<b>IPC All-Share</b>	48752.56	-707.06	<b>-1.43</b>	43902.25	● 50154.33	6.8
Germany	<b>Santiago IPSA</b>	3698.85	-29.15	<b>-0.78</b>	2998.64	● 3786.05	14.8
<b>EMEA</b>	<b>DJIA</b>	20606.93	-372.82	<b>-1.78</b>	17063.08	● 21169.11	4.3
Netherlands	<b>Nasdaq Composite</b>	6011.24	-158.63	<b>-2.57</b>	4574.25	● 6170.16	11.7
Poland	<b>S&amp;P 500</b>	2357.03	-43.64	<b>-1.82</b>	1991.68	● 2405.77	5.3
Russia	<b>CBOE Volatility</b>	15.14	4.49	<b>42.16</b>	9.56	● 26.72	7.8
<b>Asia-Pacific</b>	<b>Stoxx Europe 600</b>	391.14	-4.77	<b>-1.20</b>	308.75	● 396.45	8.2
Australia	<b>Stoxx Europe 50</b>	3245.06	-31.05	<b>-0.95</b>	2626.52	● 3279.71	7.8
China	<b>ATX</b>	3119.18	-27.23	<b>-0.87</b>	1981.93	● 3166.46	19.1
Hong Kong	<b>Bel-20</b>	3954.11	-56.47	<b>-1.41</b>	3127.94	● 4055.96	9.6
India	<b>CAC 40</b>	5317.89	-88.21	<b>-1.63</b>	3955.98	● 5442.10	9.4
Japan	<b>DAX</b>	12631.61	-172.92	<b>-1.35</b>	9214.10	● 12841.66	10.0
Greece	<b>ATG</b>	789.08	0.30	<b>0.04</b>	517.10	● 800.08	22.6
Hungary	<b>BUX</b>	34146.49	68.02	<b>0.20</b>	25126.36	● 34656.12	6.7
Israel	<b>FTSE MIB</b>	1419.73	-13.08	<b>-0.91</b>	1372.23	● 1490.23	-3.5
Italy	<b>FTSE 100</b>	21283.72	-504.18	<b>-2.31</b>	15017.42	● 21828.77	10.7
Netherlands	<b>AEX</b>	529.06	-6.70	<b>-1.25</b>	409.23	● 537.84	9.5
Poland	<b>WIG</b>	60133.08	-867.17	<b>-1.42</b>	42812.99	● 62666.49	16.2
Russia	<b>RTS Index</b>	1104.30	-8.65	<b>-0.78</b>	873.58	● 1196.99	-4.2
Spain	<b>IBEX 35</b>	10786.10	-196.30	<b>-1.79</b>	7579.80	● 11184.40	15.3
Sweden	<b>SX All Share</b>	583.71	-8.50	<b>-1.44</b>	443.66	● 593.34	9.2
Switzerland	<b>Swiss Market</b>	9001.60	-126.01	<b>-1.38</b>	7475.54	● 9136.95	9.5
South Africa	<b>Johannesburg All Share</b>	54001.94	-21.18	<b>-0.04</b>	48935.90	● 54704.22	6.6
Turkey	<b>BIST 100</b>	95724.95	-436.55	<b>-0.45</b>	70426.16	● 96629.15	22.5
U.K.	<b>FTSE 100</b>	7503.47	-18.56	<b>-0.25</b>	5788.74	● 7533.70	5.0
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1599.92	3.03	<b>0.19</b>	1308.52	● 1601.35	12.5
Australia	<b>S&amp;P/ASX 200</b>	5786.00	-64.50	<b>-1.10</b>	5103.30	● 5956.50	2.1
China	<b>Shanghai Composite</b>	3104.44	-8.52	<b>-0.27</b>	2806.91	● 3288.97	0.03
Hong Kong	<b>Hang Seng</b>	25293.63	-42.31	<b>-0.17</b>	19694.33	● 25371.59	15.0
India	<b>S&amp;P BSE Sensex</b>	30658.77	76.17	<b>0.25</b>	25230.36	● 30658.77	15.1
Japan	<b>Nikkei Stock Avg</b>	19814.88	-104.94	<b>-0.53</b>	14952.02	● 19961.55	3.7
Singapore	<b>Straits Times</b>	3224.10	-3.61	<b>-0.11</b>	2729.85	● 3271.11	11.9
South Korea	<b>Kospi</b>	2293.08	-2.25	<b>-0.10</b>	1925.24	● 2296.37	13.2
Taiwan	<b>Weighted</b>	10013.67	-17.82	<b>-0.18</b>	8095.98	● 10036.82	8.2

Source: SIX Financial Information/WSJ Market Data Group

### Currencies

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



Country/currency      Wed      YTD chg

Country/currency	Wed	YTD chg (%)
US\$ vs. Yen	1.56	-1.6
US\$ vs. Euro	1.01	-0.82
US\$ vs. WSJ Dollar index	1.00	0.00
Country/currency	Wed	YTD chg (%)
Hong Kong dollar	0.1284	7.7877
India rupee	0.0156	64.1249
Indonesia rupiah	0.0000751	1331.5
Japan yen	0.008981	111.34
Kazakhstan tenge	0.003191	313.5
Macau pataca	0.1251	7.9923
Malaysia ringgit-c	0.2313	4.3230
New Zealand dollar	0.6932	1.4426
Pakistan rupee	0.0095	104.825
Philippines peso	0.0201	49.770
Singapore dollar	0.7188	1.3912
South Korea won	0.0008931	1119.74
Sri Lanka rupee	0.0065492	152.69
Taiwan dollar	0.03315	30.165
Thailand baht	0.02902	34.460

Country/currency      Wed      YTD chg (%)

Country/currency	Wed	YTD chg (%)
Argentina peso-a	0.0640	15.6141
Brazil real	0.3224	3.1017
Canada dollar	0.7359	1.3590
Chile peso	0.001496	668.50
Colombia peso	0.003459	2890.65
Ecuador US dollar-f	1	1 unch
Mexico peso-a	0.0537	18.6148
Peru so	0.3057	3.2707
Uruguay peso-e	0.0356	28.070
Venezuela bolivar	0.098702	10.13
<b>Asia-Pacific</b>	<b>Argentina peso-a</b>	<b>0.0640</b>
Australia dollar	0.7429	1.3461
China yuan	0.1451	6.8912

Country/currency      Wed      YTD chg (%)

Country/currency	Wed	YTD chg (%)
Argentina peso-a	0.0640	15.6141
Brazil real	0.3224	3.1017
Canada dollar	0.7359	1.3590
Chile peso		

## FINANCE & MARKETS

# China Wealth Fund Targets U.S.

BY LINGLING WEI

BEIJING—China's sovereign-wealth fund is ramping up efforts to crack open the U.S. market, looking to seize on a recent thaw in the two countries' trade relationship.

"There is a potential for Chinese companies to make more investments in the U.S. and vice versa," said **China Investment Corp.** President Tu Guangshao in an interview. "We want to build up mutual trust."

Encouraged by U.S. President Donald Trump's meeting with Chinese President Xi Jinping in Florida in April, and a broad plan announced last week to reset the two nations' trade and investment relationship, Mr. Tu said the fund hopes to "significantly increase" its direct foreign investments in the U.S. in the next few years.

On Friday, the fund, which has more than \$200 billion in foreign assets, is opening a New York office, replacing what had been its only overseas representative office, in Toronto.

The move marks a shift in strategy: CIC had avoided a U.S. presence for years, frustrated by the investment environment there. "U.S. regulators have been hard on us," Mr. Tu said. "We can't even name one symbolic direct investment in America."

The fund, formed in 2007 as a way for China to diversify its stockpiles of foreign-exchange holdings, is closely watched by investors world-wide as a major source of capital and as a proxy for China Inc.'s ambitions on the world stage.

In the past few years, it has



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Tu Guangshao is president of China's sovereign-wealth fund.

sought to invest directly in U.S. real estate and infrastructure. But while U.S. holdings—mostly stocks and bonds—now exceed 40% of the fund's overseas portfolio, it has largely relied on outside asset managers such as **Blackstone Group** and **Carlyle Group** to invest in the U.S.

The fund has since 2011 used its Toronto presence to focus on energy- and resources-related deals in Canada and the U.S., but has pared its energy holdings in recent years as the resources boom ebbed. CIC has suffered losses on some of those deals, which hurt its annual returns for 2015.

Mr. Tu said CIC is now casting an eager eye at U.S. projects such as highways, rail lines and high-tech manufacturing plants, looking to generate steady, long-term returns.

He said CIC can become a stable source of long-term capital for U.S. infrastructure and manufacturing projects, and help U.S. companies expand

### Power Dip

Energy holdings have hurt CIC's recent returns on foreign assets.



Source: the company

THE WALL STREET JOURNAL

their footprint in the Chinese market.

A big reason for CIC's negligible direct holdings in the U.S., Mr. Tu said, is the "overly strict scrutiny and opaque investment-review process" U.S. authorities have applied to Chinese investors.

By comparison, he said, the

British government has been more welcoming, enabling the fund to make some big-ticket investments, such as in Heathrow Airport and the utility Thames Water.

Mr. Tu's remarks echo complaints from Chinese officials and executives of high barriers to entry in the U.S., and what they say is an unfair review process by the Committee on Foreign Investment in the U.S.—even if CFIUS doesn't formally block many bids.

Such criticism is mutual: American businesses have long expressed frustration over accessing China's markets.

Despite what Mr. Tu calls "very positive signals" recently, CIC's U.S. push faces a number of challenges. Of particular concern to CIC is the prospect the U.S. could single out Chinese investments for special scrutiny.

Such a move is part of changes to CFIUS that lawmakers from both parties are considering. There are also calls for assessing China's openness to U.S. investment in any given sector when evaluating Chinese investment in that sector. The Trump administration hasn't yet taken a position on possible changes to CFIUS.

Mr. Tu said CIC understands the need for the U.S. to conduct foreign-investment reviews for the purpose of safeguarding national security. But he urged U.S. authorities to improve the transparency of the process and avoid protectionism. "It's especially important that such scrutiny is not aimed at any single country or project," he said.

Regardless of any changes to CFIUS, many analysts say CIC likely will continue to be

subject to a higher level of scrutiny in the U.S. than private investors because of its ties to China's central government.

The trade plan, jointly announced by Washington and Beijing last week, indicates that the U.S. welcomes investment by Chinese entrepreneurs.

"That formulation leaves open the question of whether Chinese state investors are 'entrepreneurs,'" said Brad Setser, a senior fellow at the Council on Foreign Relations, a New York think tank. "I do not think we will know until there is a high-profile case where the administration has to weigh in."

The fund's stepped-up push for the U.S. market also comes as Chinese authorities have tightened controls over Chinese companies' outbound investments in a bid to curb capital outflows.

Mr. Tu said that given CIC's mandate to invest overseas, he sees "no impact" from the tightened controls.

He said Chinese authorities need to better regulate outbound investments while continuing to encourage companies to "go out."

Meanwhile, the fund also plans to make more direct investments in developing countries as part of Mr. Xi's so-called One Belt, One Road initiative intended to expand China's trade ties.

For instance, the fund, together with other Chinese firms, took a 65% stake in Kumpourt, Turkey's third-largest container port, for \$920 million in 2015.

—Bob Davis

contributed to this article.

# Investors Don't Buy Beijing's Yuan Fix

BY SAUMYA VAISHAMPAYAN

China's central bank is guiding the currency higher, but the country's investors seem unconvinced.

The **People's Bank of China** on Wednesday fixed the yuan at 6.8635 per dollar, the strongest since Feb. 17, only to have it weaken to 6.88 within minutes of the 9:30 a.m. opening of trading. It ended slightly down from Tuesday's close, despite the stronger fix.

The gap between the central bank's fix and where the currency then trades in the onshore market has widened in recent days. Wednesday's discount was the largest since January.

Such a gap "suggests that the onshore market is still not fully convinced that the Chinese yuan will remain strong," said Irene Cheung, a senior strategist for Asia at ANZ in Singapore, adding that the central bank's fix has been biased to yuan strength for a while.

There are several possible reasons traders are betting on a decline in the yuan, which has advanced nearly 1% against the dollar this year.

*The gap between the central bank's fix and where the currency trades has widened.*

While China's economic growth accelerated in the first quarter, many analysts still expect it to slow later in the year, which could lead the central bank to let the yuan weaken in an effort to boost exports. The latest industrial output and fixed-asset-investment data showed the economy may be losing steam.

And though investors have slashed their strong-dollar bets as they reconsider President Donald Trump's ability to deliver the tax cuts and fiscal stimulus promised during his election campaign, markets still expect more U.S. interest-rate increases this year. Without matching action by China, that could make the dollar more attractive to investors than the yuan.

The yuan doesn't trade freely within China. It is limited to a band extended 2% above and below the daily level set by the central bank, which is based on where it ended the previous session and its movement against a basket of currencies.

Another sign that people inside China think the yuan should be weaker than the central bank does comes from China UnionPay, an issuer of credit and debit cards. Its own exchange rate—which it says is based on transactions in its system, excluding charges or markups—puts the dollar at 6.9036 yuan, stronger than on the onshore market.

But in offshore markets, where the yuan trades more freely and overseas investors are more able to express their views, the idea that it should be weaker than the central bank's fix doesn't seem to have taken hold as strongly.

In the past, market participants have often looked at the divergence between the yuan's offshore and onshore rates to get a sense of sentiment on the currency.

During the frenzy of early 2016, the yuan weakened much more offshore than onshore, underscoring foreigners' bearishness on China. But that isn't the case now. The yuan is currently stronger offshore than onshore, as it has been for much of this year.

# SEC Rethinks Approval of New Leveraged ETF

BY DAVE MICHAELS  
AND CHRIS DIETERICH

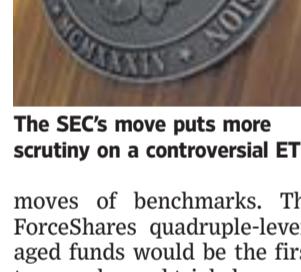
The Securities and Exchange Commission will reconsider its initial approval of a risky, first-of-its-kind exchange-traded fund that promises four times the daily price moves of S&P 500 futures contracts, according to people familiar with the matter.

The commission's decision means the earlier approval—given by the SEC's staff, not the politically appointed commissioners—has been put on hold and doesn't allow the ForceShares Daily 4X US Market Futures Long Fund and Short Fund to begin trading, the people said. The commission, which currently has three members, could reverse or uphold the staff's decision, but the move puts more scrutiny on a product approval that took many by surprise.

"I was surprised [the staff] let them go," said Amy Doberman, a partner at Wilmer Cutler Pickering Hale & Dorr LLP who was previously general counsel of ProShares, a leveraged ETF provider. "They are certainly not any less risky. I cannot imagine they are going to be any less susceptible to the impact of volatility that caused issues with the other [leveraged] funds."

The SEC's approval of the 4X funds on May 2 appeared to signal that the SEC's view of risky ETFs had changed after former Chairman Mary Jo White stepped down in January. Ms. White led an effort to crack down on the use of leverage by mutual funds and ETFs, but the approach wasn't popular with Republican lawmakers or regulators.

Leveraged ETFs employ derivatives to deliver two or three times the daily price



JONATHAN ERNST/REUTERS

The SEC's move puts more scrutiny on a controversial ETF.

moves of benchmarks. The ForceShares quadruple-leveraged funds would be the first to move beyond triple leverage.

There are 273 leveraged, inverse or leveraged inverse exchange-traded products on the market, with a collective \$44 billion in assets, according to market-data firm XTF. While that represents just 1.5% of the total \$2.9 trillion of U.S. ETF assets, many leveraged and inverse ETFs to clients.

ForceShares is a first-time ETF sponsor that worked with **ETF Managers Group** LLC, a firm that provides services to aid smaller sponsors in launching new ETFs. A principal at ForceShares couldn't be

reached for comment. A spokesman for ETF Managers Group declined to comment.

An SEC spokeswoman didn't respond to a request for comment.

In December 2015, the SEC proposed a rule that would have made it much more difficult for triple-leveraged and triple-leveraged-inverse ETFs to be sold as mutual funds to retail investors. The rule proposal sought to scale back the exposure that mutual funds could have to derivatives, which provide the fuel that allows leveraged funds to generate exponential returns. The rule could have resulted in closures or forced modifications of dozens of leveraged ETFs.

ForceShares' products wouldn't have been subject anyway because they aren't registered under rules that govern traditional mutual and exchange-traded funds.

The Commodity Futures Trading Commission will launch a financial technology innovation office to provide feedback and regulatory guidance to firms in the rapidly expanding sector as they work on new business models and services.

The office, which will be based in New York, seeks to modernize the agency's approach to regulating fintech, which includes everything from online lending to digital currencies. The project also aims to incorporate emerging technologies into the CFTC's own operations.

CFTC acting Chairman J. Christopher Giancarlo was set to announce the plan in a speech at the New York Stock Exchange on Wednesday after the closing bell. According to his prepared remarks, the innovation lab, dubbed "Guide-

Point," aims to detect "analog rules lost in a digital world."

"The objective of Guide-Point is simple—help fintech innovators engage with the CFTC and receive timely and meaningful feedback," according to Mr. Giancarlo's remarks.

The consultations might lead the CFTC to exempt some of the firms from regulations that don't apply to their business model, but they could also cause the agency to discover gaps in the regulatory framework, Mr. Giancarlo said on a call with reporters.

The agency's approach is similar to the "sandbox" from the U.K. Financial Conduct Authority, a system that allows both fintech startups and established companies to roll out a new product or business model on a limited basis without going through the process of getting full authorization.

—Andrew Ackerman  
contributed to this article.

### FINANCE WATCH

#### PRIVATE EQUITY

#### Cerberus Is Bidding For HSH Nordbank

The U.S. private-equity giant **Cerberus Capital Management** joined the race to buy Germany's **HSH Nordbank**, one of the world's biggest shipping financiers.

People with direct knowledge of the matter say Cerberus joined with **Apollo Global Management** and China's **Anbang Insurance Group** in conducting due diligence on HSH, which is 85%-owned by the German states of Schleswig-Holstein and Hamburg. The bank must be privatized by February, as part of a restructuring deal agreed on with the European Union. HSH took €1.99 billion (\$2.1 billion) of provisions for potential losses on shipping loans last year. Its total nonperforming shipping debt totaled about €9 billion.

—Costas Paris

#### BANKING

#### ABN AMRO Reports Higher Net Income

**ABN AMRO Group NV** reported a 30% rise in first-quarter profit, buoyed by growth in net interest income, saying it had made more progress in achieving financial targets set for 2020.

The Dutch bank's net in the three months to the end of March was €601 million (\$656.5 million), compared with €463 million a year earlier.

Net interest income rose to €1.6 billion from €1.55 billion, it said.

"We have been able to offset the low and negative rate environment and increase net interest income by growing all major loan books and lowering deposit rates. Fees were stable and other operating income was higher," Chief Executive Kees van Dijkhuizen said.

ABN AMRO's cost/income ra-

tio improved to 60.2% in the first quarter of 2017 from 66.9% a year earlier, while the return on equity increased to 13.2% from 11.1%.

—Razak Musah Baba

#### HIGH-SPEED TRADING

#### NYSE Gains Approval For 'Speed Bump'

U.S. regulators gave the **New York Stock Exchange** a green light to introduce a "speed bump" to one of its markets, a plan that was opposed by upstart rival **IEX Group Inc.**

An order released Tuesday by the Securities and Exchange Commission allows NYSE to add a delay of 350 microseconds, or millions of a second, to all stock trades on NYSE MKT, one of the Big Board's smaller sister exchanges.

IEX, made famous by Michael Lewis's 2014 book "Flash Boys," pioneered the speed bump as a way to foil certain high-speed trading strategies. NYSE's proposal, unveiled in January, was largely identical to IEX's 350-microsecond delay.

In approving the plan, the SEC overruled objections from IEX, which complained NYSE hadn't done enough to explain the thinking behind its proposal.

NYSE says it plans to add the speed bump to NYSE MKT as part of a broader relaunch of the exchange, scheduled for July 24. The exchange is also being renamed "NYSE American" as part of the overhaul.

—Alexander Osipovich

FABIAN BIMMER/REUTERS

HSH Nordbank is one of the world's biggest shipping financiers.

### CFTC Plans an Office For Fintech Innovation

BY GABRIEL T. RUBIN

The Commodity Futures Trading Commission will launch a financial technology innovation office to provide feedback and regulatory guidance to firms in the rapidly expanding sector as they work on new business models and services.

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Point," aims to detect "analog rules lost in a digital world."

# MARKETS

## Treasury Yields Slide as Political Worries Mount

By MIN ZENG

Demand for bonds jumped as U.S. political jitters drove investors to shed riskier assets, sending the yield on the benchmark 10-year Treasury note sharply lower.

The buying pushed down the 10-year yield to 2.216%, the lowest close in a month, from 2.329% Tuesday. Yields fall as bond prices rise. It was the yield's biggest one-day slide since June 27, 2016, when investors rushed into Treasury debt after the U.K.'s vote to leave the European Union.

Other haven assets also gained ground, ranging from government bonds in Germany and the U.K. to gold and the Japanese yen. The U.S. dollar fell more than 1% against the

yen, a large move for a heavily traded pair of currencies.

The catalyst for the latest round of flight to safety was news late Tuesday that U.S. President Donald Trump allegedly asked James Comey, director of the Federal Bureau of Investigation at the time, to back away from the investigation of former national-security adviser Michael Flynn. Some congressional Republicans called for a further investigation, but in a statement issued Tuesday evening, the White House denied the account.

"It is all about Trump," said Thomas Roth, executive director in the rates trading group at MUFG Securities Americas Inc. "The dollar is tanking as the world loses confidence in the U.S.'s sorry state of affairs."



The development followed Mr. Trump's surprise decision a week ago to fire Mr. Comey. Investors are concerned that

this political uncertainty is likely to make it more difficult for Mr. Trump to push through his ambitious fiscal agenda.

Mr. Trump's campaign promises of lower taxes, large infrastructure spending and lighter regulations have been the key factor driving investors to bet on stronger economic growth and higher inflation. The so-called Trump trade has been highlighted by investors selling Treasurys and buying securities such as stocks, corporate bonds, the dollar and emerging-market assets.

The tactic reflects investors' optimism that expansive fiscal policy would give the economy a strong boost at a time when the Federal Reserve has been tightening monetary conditions and giving the

economy less support than in recent years.

Confidence in the Trump trade has been waning over the past few months as investors have become less confident that Mr. Trump would be able to deliver a tax overhaul and other stimulus soon. The latest political drama adds to the uncertainty.

"The headlines do suggest the difficulty of marshaling support for a prosaic legislative agenda when such sensationalist headlines are sucking up all the oxygen and creating all-consuming news cycles," said Ian Lyngen, head of U.S. rates strategy at BMO Capital Markets.

After a big rise late last year, the 10-year Treasury yield has been falling this year. It was at 2.446% at the

end of 2016. There is "some further room for yields to fall in a more significant escalation of the current scandal, especially if it threatens to blunt efforts to reach a compromise between and within the current congressional caucuses," said Mr. Lyngen.

Some traders say Treasury yields are likely to post a steep drop if anxiety increases regarding whether Mr. Trump might face impeachment.

"The worst cases scenario of an actual impeachment, although still far-fetched, is picking up steam," said Anthony Cronin, a Treasury bond trader at Société Générale SA.

Still, analysts say high expectations of a rate increase next month reduces the risk of a big selloff in bonds.

## Hedge Funds Gain, but Investors Exit

By GREGOR STUART HUNTER

Hedge funds that invest in emerging markets are generating some of their best returns on record and increasing their assets to all-time highs. The trouble is, they aren't getting much love from investors.

Assets managed by emerging-market hedge funds rose to a record high of \$205.78 billion at the end of March, according to data from the Chicago-based Hedge Fund Research Inc. Yet the same data show that the first quarter of 2017 also marked the seventh consecutive period of outflows from funds that invest in fast-growing markets like China, India and Latin America, with nearly \$2 billion exiting.

The growth in hedge-fund assets has come in the wake of profitable trading in markets across developing countries. Stock markets from Hong Kong to Mumbai to Warsaw have been on a tear, while fears that President Donald Trump's election victory and higher U.S. interest rates would lead to

money pouring out of emerging markets have proved unfounded so far. Analysts say that correlations between stocks have also weakened, offering fund managers more opportunities to shine through smart trading.

HFR's index of emerging-market hedge funds is up 7.8% year to date, compared with a gain for the average hedge fund globally of just 3.1% through April, HFR's data show. Some emerging-market hedge funds are doing especially well: Those investing in India have generated gains of 22.1%, their strongest ever start to a year.

Yet emerging-market hedge funds are struggling to attract and maintain money in part because of an issue common to the fund-management industry world-wide: Investors often find they can get as good or better returns simply by putting their cash into funds that track common market indexes.

In the year through April, the average return from hedge funds invested in developing markets tracked by HFR beat the S&P 500's 7.2% gain. But

these returns still lagged behind the MSCI Emerging Markets Index, which rose 12.9% over the same period.

"Emerging-market equities appear to us to be only at the beginning of what may be a multiyear period of outperformance of U.S. stock markets," said Hersh Gandhi, managing director for Asia-Pacific at Man Group PLC, which manages \$88.7 billion. "The fly in the ointment may be that there has been substantial flow into emerging-market exchange-traded funds, futures and benchmark stocks over the past year, such that stocks with large benchmark weightings have already made substantial gains."

Cumulative inflows to emerging-market equities this year totaled \$27.8 billion as of May 11, according to data from EPFR Global.

Another impediment to more cash flowing into emerging-market hedge funds is that many are already closed to new investors. Hedge funds sometimes put a cap on how much money they take in, as their

performance can suffer if they expand beyond a certain size and other investors start to mimic their strategies.

With larger funds closed, investors are forced to seek out newer hedge funds with short track records. Finding good funds isn't always easy, said David Walter, head of Asian research at Pacific Alternative Asset Management Co., an Irvine, Calif.-based firm, which manages \$10 billion in assets. "You kiss a lot of frogs," he said.

Tim Wannenmacher, head of prime services for Asia Pacific at UBS Group AG, said investors are currently interested in equity funds trading in India, China and Southeast Asia.

But limits to how much can be invested in the region remained a constraint, he said.

Several fund closures have also hobbled the growth of Asia's hedge-fund industry this year. Owl Creek Asset Management, a New York-based hedge fund that manages \$2.58 billion, said last month in a regulatory filing that it will shut down its Hong Kong office and wind

down its Asia funds, after the departure of a key portfolio manager. Meanwhile, Man GLG closed an Asia-focused equity hedge fund in December as part of a product review.

Guard Capital Management, a Hong Kong-based hedge fund founded by former Goldman Sachs partner Leland Lim, said last month that it would return \$873 million in assets to investors just three years after it opened, a move that surprised many in the industry. The firm said the decision to close reflected a personal decision by Mr. Lim.

The total number of emerging-markets hedge funds has fallen slightly to 1,142 at the end of March from 1,154 at the end of last year, according to HFR.



U.S. political concerns are weighing on the dollar.

monetary-policy perspective, the European Central Bank's gradual exit from ultraloose policy is likely to steal the market spotlight from the U.S. Federal Reserve.

That is reflected also in the outperformance of European stocks, a narrowing in the gap between U.S. Treasury and German bund yields, and a slightly steeper yield curve in Germany than

in the U.S. That shift should attract cash into Europe, starting to reverse a long period of portfolio outflows that weighed on the euro, with a hint of a turn in balance-of-payments data at the end of 2016, UniCredit strategists note.

True, the ECB is likely to tread carefully. But its bond purchases face important political constraints, and thus

have a built-in limit. With deflation risks having faded, the pressure to exit from those purchases, and its negative rate regime, is building.

A stronger euro and higher bond yields will be a vote of confidence, as long as they don't shoot abruptly upward. ECB tapering could push the euro up to \$1.15, ING thinks.

Europe's politics remain a potential source of trouble. Italy is the obvious candidate for a new bout of worries about the euro's future. But an Italian election might not happen until next year, and the first channel for stress to show up will be in the euro-zone government-bond market, not in the currency.

For the dollar to regain some allure will probably require big positive shifts in how investors view Donald Trump's administration and the U.S. economy. In their absence and with the ECB moving center stage, the euro is in the driver's seat.

—Richard Barley

Swipe left for subprime? A high credit score won't just get you a better deal on that new car lease—it is also a big turn-on, at least according to a survey conducted by Bankrate.

They found that nearly four out of 10 adults think that knowing a potential partner's credit score would make them more or less likely to date that person. The proportion of women who thought that creditworthiness was important was significantly higher than men and it also was higher with college graduates than those with only a high school diploma.

While such direct financial questions may be considered rude on dating sites such as Tinder, at least one smaller competitor crossed that line: Creditscoredating.com.

Sadly, the site seems mired with ads for online pharmacies peddling erectile dysfunction drugs and, of course, "free credit score" sites cluttering the screen.

## The Euro Is in the Driver's Seat

The foreign-exchange market is transferring allegiances. The U.S. dollar has gone into reverse, and the euro looks like it could gain further yet.

That wasn't the script that many had for 2017, of course. The dollar was riding high, the euro was beset by populist threats, and parity was on the horizon. Now, the euro, at more than \$1.11, is up 5.9% against the dollar this year, versus gains of 4.9% for sterling and 5.3% for the yen, as of Wednesday afternoon in New York. The euro has climbed markedly out of its post-U.S.-election range in May.

The terms of the exchange-rate equation are shifting on both sides of the Atlantic. Political turbulence emanating from the White House, especially lately, and lackluster economic data have dented the enthusiasm for U.S. assets.

In Europe, political risk has receded and growth looks relatively buoyant. From a

monetary-policy perspective, the European Central Bank's gradual exit from ultraloose policy is likely to steal the market spotlight from the U.S. Federal Reserve.

That is reflected also in the outperformance of European stocks, a narrowing in the gap between U.S. Treasury and German bund yields, and a slightly steeper yield curve in Germany than

in the U.S. That shift should attract cash into Europe, starting to reverse a long period of portfolio outflows that weighed on the euro, with a hint of a turn in balance-of-payments data at the end of 2016, UniCredit strategists note.

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Spain's most troubled large bank has some interest from potential bidders, which is good as there seems little hope that Banco Popular Español will manage to find another route out of its problems.

Shareholders of the country's sixth-biggest bank by assets shouldn't hold their breath to get much value for their stock, however. Even the 71 European cents (79 U.S. cents) a share in Wednesday trading, just 27% of reported first-quarter book value, looks like a stretch.

The bank's main plan is to sell parts of its business that it doesn't want and raise fresh capital. The reason that is hard and that any bid is likely to be at a low price is

because Banco Popular needs a large amount of equity to repair its balance sheet. It must bolster provisions against bad loans and real-estate assets, and it is very low on capital. The provisions it has taken against its €19 billion of bad loans and €18 billion of problem property assets are lower than rivals.

By its own numbers, average provision levels among its best three rivals in Spain are 53% for loans and 55.5% for properties. Banco Popular has provisions worth 51.4% of its bad loans and just 38.5% of its problem real estate.

To get both of these portfolios up to the levels of its best three rivals would cost €3.3 billion. To lift coverage to 60%, which might be required

for a rival to buy Banco Popular, would cost €5 billion.

The trouble is that the bank's total common equity Tier one ratios\*

Banco Popular Español 7.3%

Banco Santander 10.7%

BBVA 11.0%

CaixaBank 11.5%

Banco de Sabadell 11.9%

Bankia 13.4%

\*First quarter of 2017

Sources: the companies; Bloomberg (photo)

THE WALL STREET JOURNAL.

Investors face a stark choice: put more money into a bank that raised €2.5 billion in fresh equity just last year, or take what they can get from a local takeover. An all-stock offer would at least give them a prospect of

enjoying some of the fruits of future recovery. That looks like their best outcome.

—Paul J. Davies

## Salvation Won't Come Cheap for Spain's Problem Bank

### Behind the Curve

Fully loaded, common equity

Tier one ratios\*



A branch of Banco Popular Español in Madrid