

# THE WALL STREET JOURNAL.

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FRIDAY - SUNDAY, MAY 12 - 14, 2017 ~ VOL. XXXV NO. 71

WSJ.com EUROPE EDITION

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# Trump Planned to Dismiss Comey

President offers new account of firing FBI director, contradicting his aides' statements

By MICHAEL C. BENDER  
AND BYRON TAU

WASHINGTON—President Donald Trump said he had already made up his mind to fire James Comey as FBI director before receiving guidance from the Justice Department earlier this week, contradicting previous accounts from White House officials about how he reached the decision.

"Regardless of [the] recommendation, I was going to fire Comey," Mr. Trump said in an interview Thursday with NBC News.

The president's description conflicted with statements from several White House officials, who said repeatedly on Tuesday and Wednesday that Mr. Trump didn't make his final decision until receiving a letter on Tuesday from Deputy Attorney General Rod Rosenstein that was deeply critical of Mr. Comey's leadership at the Federal Bureau of Investigation.

Mr. Rosenstein met with Mr. Trump on Monday, where they discussed Mr. Comey's job performance. At the White House's prompting, Mr. Rosenstein wrote a memo to the president detailing his concerns about Mr. Comey's con-

BRENDAN SMIALOWSKI/AGENCE FRANCE PRESSE/GETTY IMAGES



Deputy Attorney General Rod Rosenstein, left, on Capitol Hill after a meeting with Sens. Richard Burr and Mark Warner on Thursday.

duct. On Thursday, Mr. Rosenstein pressed the White House to correct what he felt was an inaccurate depiction of the events surrounding Mr. Comey's dismissal, according to a person familiar with the conversation.

The president's termination

letter to Mr. Comey, sent Tuesday, cited memos he had received from Attorney General Jeff Sessions and Mr. Rosenstein.

In the NBC interview, Mr. Trump also said he asked Mr. Comey on at least one occasion whether he was under in-

vestigation. The FBI has been investigating whether the Russian government interfered in the 2016 presidential election and whether associates of Mr. Trump colluded with Moscow.

"I actually asked him, yes," Mr. Trump said in the inter-

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### Firing Fallout

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## China Bonds Send Fresh Stress Signal

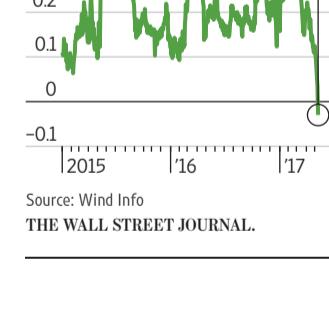
By SHEN HONG

SHANGHAI—China's \$1.7 trillion government-bond market is exhibiting a new sign of stress: The yield on longer-term debt has fallen below that on shorter-term debt—an anomaly that some traders are blaming on Beijing's efforts to reduce financial risk.

Early on Thursday, the five-year yield rose to 3.71%, breaking above the 10-year yield for the first time since records began—even though the latter, at 3.68%, was near a 25-month

### Bond Bend

Yield spread between 10-year and five-year Chinese government bonds, in percentage points



Source: Wind Info

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high. Yields rise as bond prices fall.

Such a "yield-curve inversion" defies market logic that bonds requiring a longer commitment should compensate investors with a higher return. Inversion usually reflects investor pessimism about a country's long-term growth and inflation prospects. When the U.S. Treasury yield curve inverted in 2006 and 2007, most analysts cited Asian central banks' buying of longer-dated U.S. government debt.

But in China, while growth has been slowing and inflation has been relatively subdued, few are predicting prolonged deflation or a recession.

"Many of us are scratching our heads for an explanation because this kind of curve inversion is absolutely not normal," said Wang Ming, a partner at Shanghai Yaozhi Asset Management Co., a bond fund that manages 2 billion yuan (\$290 million) in assets.

The answer seems to lie in Beijing's recent campaign to tamp down the burgeoning shadow-banking sector, whose growth is due in large part to so-called wealth-management products; the amount of such products outstanding has ballooned to \$4.2 trillion in the

## U.S. Weighs Expansion Of Airline Laptop Ban

Airlines around the world are bracing for a possible expansion of a laptop ban in aircraft cabins to include many

By Susan Carey,  
Robert Wall  
and Doug Cameron

routes from Europe to the U.S., a move that would vastly complicate the handling of millions of passengers.

Representatives of the three top U.S. airlines were set

to meet with national security officials late Thursday in Washington to discuss threats to aviation security and possible pre-emptive measures, according to people familiar with the matter. The meeting with John Kelly, secretary of the Department of Homeland Security, is part of the agency's continuing discussions with airlines and other aviation stakeholders about "existing and emerging aviation threats," according to one

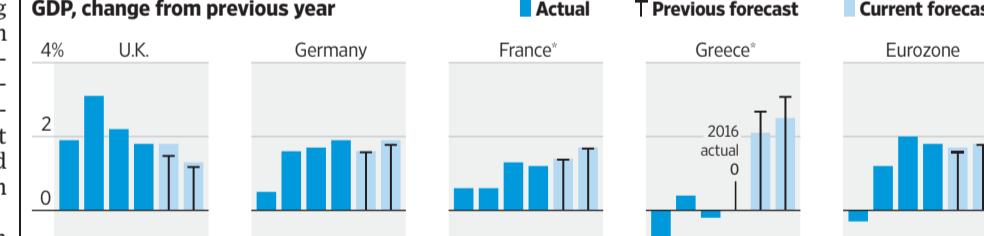
Trump administration official.

The Department of Homeland Security said Wednesday that an expanded ban "is under consideration," while a White House official said that no final decision had been made.

Expanding a ban on large electronics such as laptops and tablets could affect a

Please see LAPTOP page A4

◆ Emirates Airline battered by Trump travel ban ..... B2



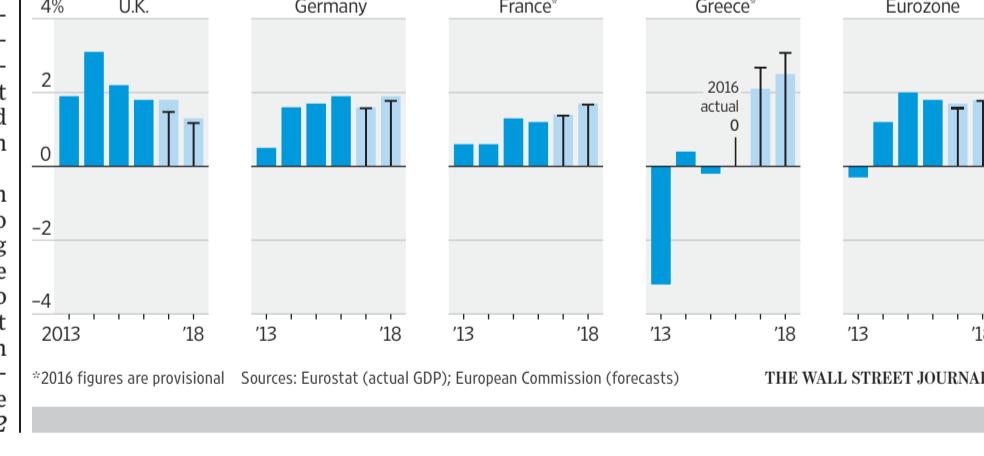
\*2016 figures are provisional Sources: Eurostat (actual GDP); European Commission (forecasts)

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### Improving Recovery

Europe's economic performance is forecast to broadly strengthen, despite headwinds from Brexit and uncertainty over U.S. policies. A4

### GDP, change from previous year



\*2016 figures are provisional Sources: Eurostat (actual GDP); European Commission (forecasts)

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HOW TO TAKE CINEMATIC PHONE VIDEOS

OFF DUTY, W1

By STU WOO

LONDON—Masayoshi Son, the founder and chief executive of Japanese telecommunications and internet giant SoftBank Group Corp., is making another big bet—this time on a nascent technology that might take years or decades to bloom.

Improbable, a London-based startup that makes virtual worlds for videogames and simulations of the real world, said Thursday that it raised \$502 million in a SoftBank-led funding round. Improbable said SoftBank would take a board seat and non-controlling stake in the startup, but didn't disclose

the deal's terms. The company said that based on the funding round, investors now value it at more than \$1 billion, though didn't give further details.

The deal fits broadly into Mr. Son's recent interest in artificial intelligence. He has said that the promise of AI

Please see DEAL page A2

## The Internet's Grossest Subculture: Pimple-Popping Videos

\* \* \*

Millions tune in to watch professionals terminate unsightly skin blemishes

By SHIBANI MAHTANI

Lynn Barnes often went home filled with stress from working 14-hour days at an insurance call center. So she developed a nighttime relaxation ritual.

First, a small glass of milk and a cup of hot tea. Then some cross-stitch or crocheting. After crawling into bed, she searched YouTube for the newest pimple-popping videos, which made her troubles melt away.

"I've woken up with my cellphone on my face because I fell asleep watching," says Ms. Barnes, 55 years old, of Virginia Beach, Va. She retired in 2015 but says she still watches blackhead extractions

A comedone extractor Sandra Lee, a dermatologist in Southern California who calls herself Dr. Pimple Popper, has amassed 2.5 million subscribers on YouTube, 2.4 million Instagram followers and 56,200 followers on Twitter.

Her most popular video, featuring a giant blackhead removed from an 85-year-old woman, has been watched 29 million times since 2015.

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## WORLD NEWS

# Reversal Marks a Power Play in Saudi Arabia



### MIDDLE EAST CROSSROADS

By Yaroslav Trofimov

RIYADH—The future course of Saudi Arabia hinges on whether last month's sudden decision to reverse unpopular austerity measures will come to be seen by its people as a sign of weakness or a sign of wisdom.

Deputy Crown Prince Mohammed bin Salman rolled out the deep pay cuts for government employees in September as part of his ambitious plan to overhaul the kingdom's economy and wean it off dependence on oil.

These changes came in parallel with his drive to liberalize Saudi society, one of the world's most conservative, by curtailing religious police and by introducing concerts and other entertainment previously considered un-Islamic.

With most working Saudis employed by the government sector, the effect was painful. Protests quickly spread on social media, which offers a platform for expressing

dissent in a society where criticism of the government isn't usually tolerated.

The military was also affected and, amid a continuing war in Yemen, the grumbling in the ranks began undermining morale, according to officers. It didn't help that there was little change in the royal family's own ostentatious lifestyle. By late April, hashtags calling for street protests began trending on Twitter—sometimes in conjunction with complaints about social liberalization.

**T**hat's when the Saudi government abruptly reversed course. The monarchy didn't just restore everyone's pay. It also reimbursed the cuts of previous months, giving millions of Saudis an unexpected cash windfall.

King Salman's decree announcing the restoration was made on the same day he shuffled the government. The move was widely seen as strengthening his 31-year-old son Mohammed bin Salman at the expense of the official successor to the throne, the king's nephew, Crown Prince Mohammed bin Nayef, who is 57.

"In Saudi Arabia, loyalty to the regime is tied to the wealth-distribution economy that was put in place since the discovery of oil," said Madawi al-Rashid, a Saudi scholar at the London School of Economics. Mohammed bin Salman, she added, "was jeopardizing his chances of



A banner in Riyadh of King Salman, center, son Mohammed bin Salman, left, and Mohammed bin Nayef.

becoming future king because his name was being associated not with prosperity but with austerity so far."

At stake is the succession in the House of Saud—and the extent to which the kingdom will be able to push through with overdue economic and social changes.

Prince Mohammed bin Nayef, a longtime interior minister credited with ending a wave of al Qaeda terrorist attacks in the kingdom, controls Saudi Arabia's security apparatus and has long maintained close links with Washington—

one of his sources of strength.

Last month's shuffle included appointing Mohammed bin Salman's younger brother, fighter pilot Khaled bin Salman, as ambassador to Washington, and naming a confidant of the deputy crown prince, Maj. Gen. Ahmed Asiri, as deputy head of intelligence.

"It was a soft coup that is laying the ground for Mohammed bin Salman to take over," a Western diplomat said.

While the reversal of austerity measures may shore up Mohammed bin Salman's popularity in the immediate fu-

ture, the diplomat cautioned, it also means that urgent economic reforms will take more time to bear fruit. That, in turn, postpones the moment when the young prince could claim concrete achievements—something that would be necessary to consolidate support within the royal family and leapfrog Mohammed bin Nayef in the succession line.

Saudi officials insist that popular discontent had nothing to do with the reversal of pay cuts. Mohammed bin Salman himself addressed this sensitive point last week, say-

ing in a rare TV interview on Saudi-owned al-Arabiya channel that the rebound of oil prices rather than public pressure spurred the decision.

"The deficit is falling below our expectation, so why would we carry on the austerity measures?" he asked.

Critics of Mohammed bin Salman inside the kingdom dismiss such an explanation, considering that oil prices remain relatively low. They complain that both steps—suddenly imposing the pay cuts and reversing them just as suddenly—were recklessly executed. The reversal, in particular, may imperil the government's future ability to govern, they warn.

"Mohammed bin Salman has now shown that they will capitulate when there is pressure," said a prominent Saudi who, like many in the older generation, favors Mohammed bin Nayef, and who wouldn't speak openly to avoid reprisals for criticizing the prince.

Supporters of the young prince counter by saying he should be applauded for recognizing a mistake and for moving quickly to rectify it.

"Mohammed bin Salman is trying to change a flat tire when the car is going at full speed," said Saudi businessman and political analyst Ahmad al-Ibrahim. "If he takes a wrong decision, he will come back and change things again. The world is not used to a Saudi Arabia like this."

## BONDS

### South African Authorities Struggle to Douse Protests



HOT TOPIC: A policeman in Finetown tried to put out a fire after demonstrators burned tires to block a road, as violent protests for better housing widened.

## DEAL

Continued from Page One  
The inversion is a form of mispricing in the bond market," said Liu Dongliang, senior analyst at China Merchants Bank. "The fact that no one is taking the bargain despite the higher yield on the five-year bond just shows how depressed investors' mood is."

The narrowing of the 10-year bond's yield premium has been particularly conspicuous since April 12, when The Wall Street Journal reported China's banking regulator had warned lenders not to engage in speculation that creates bubbles and prevents money from flowing to more-productive parts of the economy.

Weak demand for a five-year government bond issued Wednesday further damped interest, traders said. Total bids amounted to 1.8 times the new bond's 36 billion yuan issue size, lower than the normal ratio of around two times.

"It's really difficult to predict when the sell-off or such anomalies will end because China's bond market is reacting to the regulatory crackdown only and is no longer reflecting economic fundamentals," said China Merchants Bank's Mr. Liu.

But access to investment capital has restricted startups here, as it has in other aspiring tech "hubs" outside Silicon Valley.

Mr. Son is bringing new heft to U.K.'s global tech bona fides. His \$100 billion tech fund is based in London. His bet on Improbable is another vote of confidence.

The U.K. has already raised its profile in the field of artificial intelligence research after Google in 2014 snapped up DeepMind, an AI startup founded by Cambridge alumni. Before being bought by Google, it gobbled up two other startups founded by Oxford grads.

In a statement, SoftBank Managing Director Deep Nishar said Improbable's real-world simulations "will help us explore disease, improve cities, understand economies and solve complex problems."

A SoftBank spokesman declined to make Mr. Son available for an interview.

Founded by University of Cambridge graduates in 2012, Improbable currently focuses on videogames. It created a platform that lets developers of multiplayer online games create virtual worlds that adhere to real-world constraints such as population growth,

traffic flow and the spread of diseases. The company then generates revenue from clients for its work.

Improbable co-founder and Chief Executive Herman Narula pointed out a recent mini-crisis at a videogame using his platform as an example. "At one point, the

beetles didn't mate at a certain rate and it collapsed part of their world's ecology," said Mr. Narula, the 29-year-old son of an Indian construction magnate.

Mr. Narula said Improbable would continue to focus on gaming, but was branching out into real-world applications.

He believes that government agencies and utility companies would be interested in Improbable's technology, because it can show how small changes in a city can affect traffic, telecommunications and infrastructure. He said Improbable's

product could help in disaster preparation, simulating how millions of people would move, make phone calls and use electricity during a tsunami or terrorist attack, for example.

Improbable provides only the platform for such simulations. Its clients would feed information to create the simulations.

Mr. Narula said he met with SoftBank representatives before flying to Japan to meet Mr. Son, who quizzed him on the technical details of Improbable's product. He said the two had similar visions of the future, for the most part. "Masa has a 300-year plan," Mr. Narula said. "I'm not that ambitious. I have a 50-year plan."

Improbable said existing investors Andreessen Horowitz, the Silicon Valley venture firm, and Horizons Ventures, the fund of Hong Kong billionaire Li Ka-shing, made

follow-up investments alongside SoftBank's contribution.

Improbable plans to use the investment to speed up its growth and hire more people in its London and San Francisco offices.

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# WORLD NEWS

## Kurd-Led Force Cleared to Move on Raqqa

BY MARIA ABI-HABIB  
AND RAJA ABDULRAHIM

BEIRUT—A Kurdish-led military force backed by Washington and now approved by Damascus is closing in on Islamic State's stronghold of Raqqa after taking the strategic Tabqa Dam nearby.

The Kurd-dominated Syrian Democratic Forces captured Tabqa on Wednesday, a day after the U.S. pledged to arm the fighters. On Monday, the Damascus government for the first time endorsed the group's battle against Islamic State, with Syrian Foreign Minister Walid al-Moallem complimenting the SDF's fight against Islamic State at a press conference in Damascus, describing the force as legitimate.

The SDF is now the only ground force with both U.S. and Syrian government approval in the fight against Islamic State as the offensive on Raqqa draws near. The group has long co-existed with the Syrian government, unlike

U.S.-backed factions that Damascus deems terrorists.

Islamic State's loss of the dam on the Euphrates River about 30 miles southwest of its Syrian seat of power is a major blow to the terror group, which held the structure for more than three years. The U.S. long worried the militants would rig the dam with explosives, allowing it to unleash floods on the surrounding population and American-backed forces.

The SDF launched its attack in March from numerous fronts on the town of Tabqa and its nearby dam, which provides water and electricity for hundreds of thousands of people. After weeks of battle, the SDF negotiated the withdrawal of dozens of Islamic State militants from the area to protect the dam infrastructure, according to the U.S. Central Command.

In March, Islamic State accused the U.S. of launching airstrikes on the dam, saying it caused potentially devastating



Fighters from the Kurd-dominated Syrian Democratic Forces patrol a street in Tabqa.

damage.

As the Kurdish-led fighters supported by U.S. Special Operations Forces on the ground inch closer to Raqqa, the question of who will hold the city the day after it falls is becoming

more urgent. Turkey, a member of the North Atlantic Treaty Organization, and its Syrian Arab rebel allies oppose the rival Kurds leading the battle and fear they will try to hold on to the majority-Arab

city after it is captured.

Arab rebels particularly distrust the YPG, the Syrian Kurdish militia that dominates the SDF, because it has used the U.S.-backed fight against Islamic State to take over a large

HAWAR NEWS AGENCY/ASSOCIATED PRESS

swath of territory across northern Syria—including predominantly Arab cities and towns—with the expressed goal of carving out a semi-autonomous Kurdish region. The rebels and opposition activists have long accused the YPG of colluding with the Syrian regime for its own benefit.

U.S. President Donald Trump has made clear he opposes the expensive nation-building missions that have historically accompanied U.S. counterterrorism operations to support local governments and prevent insurgents from returning.

For these reasons, Western diplomats say the post-capture plan is for the SDF to hand over the administration of Raqqa to a local civilian council friendly to the Syrian regime. That council could eventually transfer control of the city back to the regime, these diplomats said.

—Nour Alakraa  
and Noam Raydan  
contributed to this article.

## Seoul Casts Doubt on 'Comfort Women' Deal

BY JONATHAN CHENG

SEOUL—New South Korean President Moon Jae-in told Japanese Prime Minister Shinzo Abe that a 2015 deal to resolve a dispute over Korean women forced into sexual service for Japanese soldiers during World War II was "unacceptable" to most South Koreans.

Mr. Moon's remarks Thursday are likely to rekindle an emotionally charged issue between the two close U.S. allies as Washington seeks to coordinate global action against the nuclear threat from North Korea.

Separately on Thursday, Mr. Moon said in a telephone call with Chinese President Xi Jinping that a standoff over South Korea's deployment of a U.S. missile-defense system that Beijing opposes would be more easily resolved if North Korea were to make no further provocations.

That remark hews more closely to Washington's position on the issue than his oft-stated position during the campaign that he would seek to review the decision process behind the installation of the missile-defense system, suggesting the possibility of more alignment with the U.S.

On the campaign trail, Mr. Moon had said that South Ko-

rea should scrap its deal on the so-called comfort women, forged by Mr. Abe and then-South Korean President Park Geun-hye to "finally and irreversibly" resolve the issue.

Under the accord, which the U.S. encouraged, Mr. Abe apologized and Japan supplied ¥1 billion (\$8.8 million) in government funds to support the surviving comfort women.

However, some South Koreans, including some of the surviving comfort women, fiercely opposed the deal. Civic groups set up a statue commemorating the women outside the Japanese consulate in the South Korean city of Busan and demonstrated outside another one in Tokyo.

All major candidates for South Korea's presidency supported a renegotiation or a canceling of the deal.

A Japanese government spokesman said Mr. Abe told Mr. Moon that both sides should seek to properly manage their bilateral relationship, including the comfort women agreement, but he said they didn't go into details on that specific issue.

Mr. Abe said he wanted to create a "future-oriented" relationship with the new Korean administration.

—Alastair Gale in Tokyo  
and Min Sun Lee in Seoul  
contributed to this article.



A freight train crosses the Kazakh border into China at Alashankou, a trading outpost in the country's far northwest.

## China Revives an Old Trading Route

Beijing invokes globalization with its return of a cargo-rail link to Europe

BY TREFOR MOSS

ALASHANKOU, China—The trains chugging along the ancient Silk Road through this gateway city to the West are growing in numbers and freighted with geopolitical significance.

China's reboot of old trade routes—President Xi Jinping's signature foreign-policy initiative, known as One Belt, One Road—was designed to link Chinese companies with overseas markets. Four years on, it is emerging as the cornerstone of China's bid to be the guarantor of globalization at a time when protectionist winds are blowing abroad.

Mr. Xi is likely to tout that theme when he welcomes leaders from about 30 countries to a belt-and-road summit in Beijing that starts on Sunday. Chinese state media have described the project as a "wide and open avenue for all."

"There aren't many ambitious international visions on the world stage right now," said Jonathan Hillman of the Center for Strategic and International Studies, a U.S. think tank. "One Belt, One Road is one of them."

For all the hype, a relatively modest share of the major infrastructure investments pledged by China have

become reality. China's slowing economy and mounting debt load risk interfering with Beijing's ability to finance its sweeping effort to cement trade routes with two-thirds of the world's population—in Asia, the Middle East and Europe.

One solid example of Mr. Xi's globalist outreach, however, is China's use of existing Eurasian railways to transport high-value goods between China's remote northwest and Europe.

After Mr. Xi launched his grand trade plan in 2013, China began consolidating a maze of railroads into three primary routes, coordinated regular timetabled service and simplified customs procedures. Beijing backed the project—the "belt" as opposed to the ocean-shipping "road" portion—with lavish cost-cutting subsidies.

Alashankou, a far-flung outpost in China's northwest, is the primary exit point for Europe-bound trains and the quintessential belt-and-road boomtown. Its population has tripled to 32,000 in five years and new public projects include a sports complex and an opera center, said Wang Yong, the local deputy Communist Party secretary.

In the vast emptiness of this desert region, long-dis-

tance trade is the main life-line. Mr. Wang said 1,220 Europe-bound trains rumbled through here last year, a small but growing part of the town's rail traffic.

Trains carrying consumer electronics and auto parts toward European cities like Hamburg, Warsaw and Rotterdam return with sports cars, baby food and Scotch whisky. Authorities recently added

China aims to send 5,000 loaded freight trains to Europe every year by 2020.

routes including Xiamen to Moscow, Yiwu to Tehran, and Xi'an to Budapest. China Railway Corp. signed a deal in April to streamline service with rail operators in six European countries.

In recent years, China has sent about 3,700 trains to Europe, almost half in 2016, as the rate accelerates. It has set an annual target of 5,000 trains by 2020.

"There were doubts about the viability of doing this," said Michael White, international marketing manager at UPS. But now, he said, the

momentum is undeniable.

There are still plenty of challenges, including whether the rail component of Mr. Xi's vision can thrive if Beijing curbs its subsidies. Another is persuading European companies; about three times as many goods-laden trains leave China as return to it.

"It's not easy to start a new service, even though it's all being supported by the [Chinese] government," said Oscar Lin of U.K.-based OneTwo-Three Logistics. The company operated London-to-China train service in April in a publicity coup for Mr. Xi's globalization drive.

Rail freight will never supplant ocean transport: A container ship can handle 100 times the cargo of a train.

But for quick delivery of high-value goods—such as products from consumer electronics makers HP Inc. and China's TLC—shipping containers by rail is ideal, logistics companies say.

DHL says it would cost about \$5,000 and take three weeks to send a 20-ton container by rail to Hamburg from Chengdu in southwestern China. By air, it costs \$30,000 and takes a week; by ocean, \$2,000 and seven weeks.

—Junya Qian  
contributed to this article.



In South Korea, a statue served to protest the accord with Japan.

## South Korea Corporate Dynasties Face Possible Overhauls

BY TIMOTHY W. MARTIN  
AND EUN-YOUNG JEONG

SEOUL—South Korea's new president, like his predecessors, promised to loosen the hold that powerful, family-run business empires such as Samsung have over the economy, and he has rare opening to accelerate change.

President Moon Jae-in has vowed to reform South Korea's chaebols "gradually, but fully." How extensive those changes are by the end of his five-year term will be determined in large part by his ability to overcome political challenges and the economic entrenchment of the conglomerates.

Mr. Moon, sworn in Wednesday as the country's first left-leaning president in nine years, rode a wave of populist frustration over a bribery scandal that rocked

the country's business and political elite, from his predecessor to top Samsung officials.

Revamping these dynastic enterprises has been a popular campaign promise in the past.

Though the chaebols once lifted the nation out of poverty, they are now seen by many South Koreans as hindering growth and competitiveness of smaller businesses.

Past presidents haven't produced substantial changes to the ownership structures or transparency of conglomerates such as Samsung, LG and Hyundai Motor due to opposition from pro-business conservative lawmakers and lobbying groups.

Things could be different under Mr. Moon. His tough talk about revamping the chaebol system faces a better shot of succeeding now due to public outcry over how economi-

cally powerful a handful of conglomerates have become.

Mr. Moon also is under pressure to respond to public discontent over the corruption

scandal that resulted in the jailing of former president Park Geun-hye and Samsung's de facto leader, Lee Jae-yong. Both have denied wrongdoing

and their trials are continuing.

"Even though at one point the chaebols were too important to touch, now the dynamic has changed," said Troy Stangarone, a senior director at the Korea Economic Institute in Washington.

Mr. Moon has said he wants conglomerates to move to clearer holding-company structures and reduce use of so-called treasury shares that have been critical voting blocs to help push through generational transfers of power.

The Federation of Korean Industries, a lobbying firm representing some chaebols, said it looks forward to the new government's efforts "to pave a path for economic growth through integration and reform."

Some South Korean lawmakers and corporate-governance experts say shaking up

chaebols would reduce their clout and help to diversify the economy by making it easier for new firms to compete—and potentially create more jobs and spur innovation.

In moving to diminish their dominance, Mr. Moon will face resistance from pro-business conservative lawmakers. While several bills are circulating with lawmakers to further regulate the chaebols, legislating would require support from the pro-business conservative bloc.

During the election campaign, Mr. Moon's main conservative rival, Hong Joon-pyo, pledged to relax regulations for conglomerates.

Mr. Moon's party holds 120 out of 300 seats in the National Assembly. The combined voting power of the three progressive parties falls short of the 60% needed to pass non-budget bills in plenary session.

### Chaebol Control

South Korea's five largest conglomerates accounted for more than 10% of the country's economic output in 2015.

	CONGLOMERATE ADDED VALUE*, IN TRILLIONS OF WON	NUMBER OF COMPANIES	SHARE OF GDP
Samsung	59.8	52	4.09%
Hyundai Motor	34.7	43	2.37
SK	25.7	77	1.75
LG	23.8	49	1.62
Lotte	11.3	72	0.77

\*Amount of value created = difference between the cost of production and cost to the consumer

10 trillion won=\$8.83 billion

Source: CEO Score

THE WALL STREET JOURNAL

## WORLD NEWS

# With Revenue Up, Germany Set to Spend

Politicians debate how to use cash generated by high tax returns, or how much to return

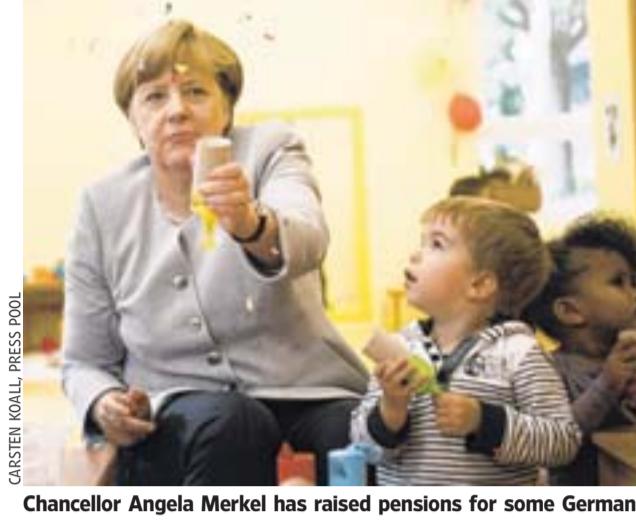
BY ANDREA THOMAS

BERLIN—This year's election could herald a bonanza for German consumers.

With the country's coffers overflowing, the competing candidates are brimming with ideas about how to spend the money—or how much of it to give back.

Tax-revenue estimates released on Thursday showed the strong economy and labor market would deliver a €54.1 billion (\$58.7 billion) windfall through 2021, underlining the firepower at politicians' disposal. If they deliver on their pledges, this could be good news for the U.S., the EU and the international organizations that have been urging Germany to loosen its purse strings for years.

In a sharp departure from past elections, the candidates in September's election have lined up spending proposals—including free child care, higher unemployment benefits and infrastructure investment—and tax cuts that could bring German voters tens of billions of euros extra a year—



Chancellor Angela Merkel has raised pensions for some Germans.

year, some economists say.

"The sky appears to be the only limit," said Holger Schäfer, economist with the business-funded IWF economic institute.

For years, Germany ignored calls from the U.S., the International Monetary Fund and the European Commission to spend more as a way to reduce its large current-account and trade surpluses and help the embattled economies of its eurozone neighbors.

While Germany's change of mind comes late, economists say it could give a welcome fillip to the budding recovery in the euro area. More domestic

spending would mean more internal demand, with positive spillover effects for neighboring economies, they have argued.

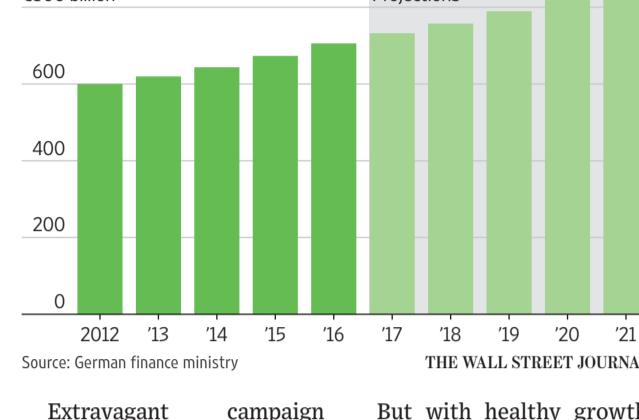
It could also go some way to defusing criticism of Germany in France, where many politicians, including President-elect Emmanuel Macron, have called for more expansionary economic policies in Berlin to help the region.

The European Commission predicted in its spring forecasts on Thursday that Germany's current-account surplus would ease to 7.6% of gross domestic product in 2018 from 8.5% of GDP in 2016.

### Rolling in Money

Germany's public coffers are overflowing with money.

#### German tax revenues



Source: German finance ministry

THE WALL STREET JOURNAL.

spending ideas are the center-left Social Democrats, now junior partners in Ms. Merkel's ruling coalition. The party has promised more funding for training and education, infrastructure investments and child care as well as cuts in health-insurance contributions. Economists put the combined stimulus at €30 billion a year.

Ms. Merkel's conservative bloc has suggested grants for home buyers with children and reducing and eventually abolishing nursery fees. It also wants €15 billion a year in tax cuts for small- and middle-income earners, and Mr. Schäuble has said Berlin may have to react to mooted corporate-tax cuts in the U.S. and the U.K.

In the opposition, the pro-business Free Democrats want to cut taxes by €30 billion a year. Others, including the anti-establishment AfD and the Left Party, want to focus spending on families, from one-time cash benefits for newborns to free day care and a near doubling in child benefits. The Greens have said they would earmark an extra €12 billion for families on low incomes and single parents.

The promised benefits boost received a mixed welcome from German economists, many of whom say Germany already spends too much on welfare.

Extravagant campaign pledges are the stuff of democracy, but they haven't been a dominant feature of German elections for almost two decades, as politicians stressed the need to save money and repay ballooning public debts.

In the first decade of the century, the government took an ax to the welfare state, slashing benefits and entitlements. Since then, Chancellor Angela Merkel has raised pensions for some people but otherwise maintained the status quo. And German taxpayers and businesses haven't seen substantial tax cuts since the mid-2000s.

But with healthy growth, near-full employment and now three years of budget surpluses, priorities are shifting.

Finance Minister Wolfgang Schäuble on Thursday announced a rise in the government's countrywide tax-revenue estimate that he said created leeway for tax cuts. His ministry expects the budget to remain in surplus at least until 2018 after last year's record €24 billion profit, and the country's public debt, which has been shrinking for the past five years, is set to fall below 60% of GDP by 2020.

Leading the competition for

## LAPTOP

Continued from Page One

large number of U.S. carriers like American Airlines Group Inc., Delta Air Lines Inc., United Continental Holdings Inc., as well as European flagships that fly trans-Atlantic routes, including Deutsche Lufthansa AG, and British Airways. It would also affect what is expected to be a bumper summer of U.S. travel to Europe, fueled by the strong dollar and increasing trans-Atlantic flights.

The initial ban of large electronic devices from passenger cabin on flights two months ago applied to nine airlines that operate to the U.S. from Egypt, Jordan, Kuwait, Morocco, Saudi Arabia, Turkey, Qatar and the United Arab Emirates. The ban didn't directly affect any U.S. airline, but dented overseas airlines' demand for U.S. flights.

50

Approximate number of flights a day affected by initial U.S. ban.

U.S. authorities are concerned that an explosive device hidden in an electronic device could be manually triggered in the cabin, or use power sockets in the plane to detonate it, according to people familiar with airline security concerns.

The initial ban was a response to "evaluated intelligence," the U.S. government said at the time, but offered no further details.

Airlines officials, meeting in groups in recent days about or the possibility of new restrictions, said they were struggling to prepare because of uncertainty over the nature and scope of the restrictions.

A wider ban would be a "a logistical nightmare" due to larger numbers of passengers affected and higher numbers of fliers making connections, according to one U.S. airline.

Air France-KLM SA said it is closely monitoring the subject, but added that there is "no information confirming the ban and potential modalities of it."

For years, airlines have recommended electronics with lithium batteries be car-

ried in the cabin to make it easier for staff to deal with any fire from the devices, even though electric power is now available at each seat on many planes. Aircraft builders have said jets aren't certified to withstand a major lithium-battery fire in the cargo hold, and some safety experts have said storing potentially hundreds of devices and their lithium-ion batteries there could pose its own safety risks.

On Tuesday, Violeta Bulc, the European Commission's transport chief, sent a letter to Mr. Kelly and Elaine Chao, the secretary of the U.S. Transportation Department, urging them to work with Europe on aviation security, long an area of cooperation. "It is in our common interest that we work together...in advance of any potential application of new security measures to air carriers operating from the EU to the U.S.," the letter said.

Officials in Europe are increasingly frustrated by what they say is a lack of U.S. engagement on a vital security issue. "Given the environment we are in today, effective security is more than ever conditioned on international cooperation and intelligence sharing. Yet, this is not what is happening," said Olivier Jankovec, director general of airports industry trade group ACI Europe. Mr. Jankovec called the development "worrying" given security concerns.

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For years, airlines have recommended electronics with lithium batteries be car-

In London these days, most developments in Europe are seen through the prism of Brexit. The result of the French presidential election has therefore boiled down to this: Will Emmanuel Macron be good or bad for the U.K. in its imminent negotiations over leaving the European Union?

Paris's first response to London is likely to be 'This isn't about you.' The president-elect has other fish to fry. He must work to build a majority in the National Assembly in next month's elections. Then his first international priority will likely be to rebuild France's relationship with Germany.

On the face of it, Mr. Macron will be a hard-liner over the negotiations. Calling Brexit a crime at one point, he said Britain couldn't enjoy EU rights as a nonmember or the EU would fall apart.

Despite this, there was relief in London that Mr. Macron won. The real worry in Whitehall was a victory for the fiercely anti-EU Marine Le Pen that would have pitched the bloc into so much turmoil that divorce negotiations would have become nigh impossible.

But is Mr. Macron just—as Maurice Chevalier once said about old age—better than the alternative?

After Mr. Macron's victory on Sunday, his chief economic adviser, Jean Pisani-Ferry, said the U.K. and France had "a mutual interest in keeping prosperity" and maintaining their very important security and defense relationship.

But he said while Mr. Macron had no wish to punish Britain, the president-elect was "not the sort of man who would implicitly agree to a dismemberment of the EU."

This suggests Mr. Macron won't want to create incentives to leave the bloc and therefore won't veer from the standard EU line that the U.K. can't have a more advantageous relationship with the EU outside the bloc than

BRUSSELS BEAT | By Stephen Fidler and Bertrand Benoit

# France Adds Yet Another Brexit Angle



Emmanuel Macron outside 10 Downing Street in February, before he was elected French president.

### Macron Still Short Of a Full Roster

PARIS—French president-elect Emmanuel Macron fell short of naming all of his candidates for June's legislative elections on Thursday, as his fledgling En Marche movement tried to find a balance of veterans and fresh faces in an influx of applications.

En Marche had said Monday it would name all 577 candidates for the legislative elections on Thursday, a key step in Mr. Macron's attempt to strengthen political backing for his plans to overhaul the country.

It still has until May 19 to name its candidates, but with elections on June 11, that leaves

parties with little time to organize their campaigns.

En Marche—founded barely a year ago—was submerged by a wave of over 19,000 applicants, including from political heavyweights Mr. Macron may have to rely on to build coalitions in parliament.

On Thursday, it was ready to name only 428. Beyond the difficulties of assessing so many applicants, En Marche also wants to leave the door open to figures from the center-right who have been reluctant to cross over to the party, secretary-general Richard Ferrand said. "We want to be able to welcome the broadest possible coming together," Mr. Ferrand said.

—William Horobin and Noémie Bissière

on limiting the ability of Britain's financial-services industry to do business with EU and eurozone clients.

Several Berlin officials said this week that Paris was eager to encourage City of London businesses to move operations and jobs to the continent. Berlin, however, is skeptical that Paris, Frankfurt or Luxembourg can match the competence and critical mass of the City. By restricting the access of EU companies to the City, they fear, the 27 remaining member states could end up raising the cost of doing business in Europe.

This concern is consistent with Germany's wish to strike a balance between softening the economic impact of Brexit and deterring any country tempted to follow the U.K.'s example.

But the chief Brexit concern for German officials now is hardly Mr. Macron, but Mrs. May. They worry she might be underestimating the technical and legal complexity of separating Britain from the EU, which could prove a bigger obstacle to an orderly Brexit than the political differences. In the German view, London should be worried less about Paris and more about clarifying what it needs to do at home.

it does inside.

Politics at home in France suggests an even tougher attitude. With the traditional political parties there in disarray, the main opposition over Mr. Macron's five-year term is likely to come from Ms. Le Pen's ranks. His incentive in the talks may thus be to play up difficulties to demonstrate that leaving the bloc is a very bad idea.

In an interview this week with the BBC, Mr. Pisani-Ferry also said France and

the U.K. had "divergent interests in some aspects of the negotiations." In an email exchange afterward, Mr. Pisani-Ferry declined to draw on what those "divergent interests" were.

One obvious area of divergence stands out: financial services. German officials, while conceding they know little directly of Mr. Macron's intentions, believe he is likely to adopt the departing French government's hard line on Brexit, particularly

## WORLD WATCH

### EUROPEAN UNION

#### Bloc Raises Forecast For Economic Growth

The European Union raised its 2017 economic-growth forecast, saying the bloc's revival is strengthening despite geopolitical risks that could undermine its fifth year of recovery.

Gross domestic product in the 28-country EU will grow 1.9% in both 2017 and 2018, the bloc estimated on Thursday, up from its February forecast of 1.8%.

—Emre Peker

### UNITED KINGDOM

#### Central Bank Ties GDP Rise to Brexit

The Bank of England forecast steady if unspectacular growth for the U.K. in the years ahead—provided the country's exit from the European Union goes smoothly. The central bank estimated that gross domestic product growth in the U.K. would increase slightly to 1.9% in 2017, as a pickup in exports and business investment helped offset a squeeze on consumer spending from rising prices.

—Jason Douglas

### SPAIN

#### Lawmakers Vote To Exhume Franco

Lawmakers voted to exhume the remains of dictator Francisco Franco, reigniting a debate about whether digging up Spain's dead will open old wounds. The symbolic parliamentary vote is underscoring the longstanding division among Spaniards about how to remember Franco, whose rule was marked by the imprisonment of opponents and summary executions.

—Jeannette Neumann

### LITHUANIA

#### President Supports U.S. Troop Presence

President Dalia Grybauskaitė said she wants a continued presence of U.S. troops in her country as Russia builds up its forces in the region and prepares for military exercises in September. In an interview on Thursday, a day after meeting U.S. Defense Secretary Jim Mattis, Ms. Grybauskaitė said she was in talks with the U.S. and other countries on securing Lithuania's airspace.

—Julian E. Barnes



GAME OVER: A Russian court convicted blogger Ruslan Sokolovsky, center, of inciting religious hatred and gave him a 3½-year suspended sentence for playing PokéMon Go in a church.

# U.S. NEWS

## Account of Comey Firing Was Disputed

WASHINGTON—Deputy Attorney General Rod Rosenstein pressed White House counsel Don McGahn to correct what

By Del Quentin Wilber,  
Aruna Viswanatha  
and Rebecca Ballhaus

he felt was an inaccurate White House depiction of the events surrounding FBI Director James Comey's firing, according to a person familiar with the conversation.

Mr. Rosenstein left the impression that he couldn't work in an environment where facts weren't accurately reported, the person said. The deputy attorney general objected to statements by White House aides citing Mr. Rosenstein's critical assessment of Mr. Comey's job performance to justify the firing.

Mr. Rosenstein, who had been confirmed by the Senate just two weeks earlier, met with President Donald Trump on Monday, when they discussed Mr. Comey's job performance. At the White House's prompting, Mr. Rosenstein on Tuesday wrote a memo to the president detailing his concerns about the director's conduct.

In that letter, Mr. Rosenstein never expressly recommended that Mr. Comey be fired. Instead, the 12-paragraph letter is deeply critical

of Mr. Comey's handling of an investigation into former Secretary of State Hillary Clinton's use of a private email server to conduct public business. Mr. Rosenstein concluded that the FBI had lost the public's trust and that "the director cannot be expected to implement corrective action."

The president's termination letter to Mr. Comey, written on the same day, began by pointing to the memos he had received from the attorney general and deputy attorney general, and offered no further explanation for his decision to fire him.

Mr. Rosenstein grew more distressed when, in television interviews that evening, White House advisers reiterated that the decision was made in response to the Justice Department's recommendation.

Asked Tuesday why Mr. Trump was firing Mr. Comey four months into his term, senior counselor Kellyanne Conway said: "Well, I would point them to the three letters that were received today."

Sarah Sanders, a White House spokeswoman, told Fox News Tuesday that Mr. Trump had reacted after receiving a "clear and direct and very strong recommendation from the deputy attorney general."

Ms. Sanders, on MSNBC the following morning, said the reason for the dismissal was



Deputy Attorney General Ron Rosenstein objected to White House aides' use of his comments regarding FBI Director James Comey.

"real simple...The deputy attorney general made a very strong recommendation."

Wednesday morning, Vice President Mike Pence, speaking to reporters at the Capitol, repeatedly pointed to Mr. Rosenstein's letter while describing the president's decision.

Mr. Rosenstein called Mr. McGahn and urged them to correct the record.

In a Wednesday afternoon news briefing, Ms. Sanders started to shift the White House narrative.

Asked about the tipping point in Mr. Trump's decision to dismiss Mr. Comey, she responded: "He'd lost confidence in Director Comey, and, frankly, he'd been considering letting Director Comey go

since the day he was elected."

Asked if Mr. Trump had directed Mr. Rosenstein to write a recommendation that Mr. Comey be fired, she said, "No."

Later that evening, the White House circulated a timeline of events leading up to Mr. Comey's dismissal that had been written by the Justice Department.

The timeline didn't mention Mr. Rosenstein's letter until the fourth bullet point and said Mr. Trump had been "strongly inclined" to remove Mr. Comey after watching his testimony in front of a Senate panel last week.

On Thursday, President Mr. Trump said he had already made up his mind to fire Mr. Comey before he received a letter from Mr. Rosenstein, in

contrast to statements from White House officials on when the decision was made.

"Regardless of [the] recommendation, I was going to fire Comey," Mr. Trump said in an interview Thursday with NBC News.

By the time Mr. Comey testified last week before a Senate panel about his handling of the Clinton email probe, saying he would make the same choices again even though it made him "mildly nauseous" to think he might have affected the election result, Mr. Trump was "strongly inclined to remove him," a White House official said.

Senate Minority Leader Chuck Schumer (D., N.Y.) on Thursday demanded further explanation for the firing of

Mr. Comey. He said on the Senate floor that he would soon be sending Mr. Rosenstein a letter with a list of questions the lawmaker said he wanted answered publicly.

Mr. Rosenstein won the backing of most Senate Democrats when he was confirmed to his position late last month in a 94-6 vote.

Mr. Schumer said Thursday that Democrats voted for Mr. Rosenstein "because he had a reputation for integrity" and assured them that he would act independently at the Justice Department.

"The events of the last week have made many of us question that belief," Mr. Schumer said.

—Michael C. Bender  
and Kristina Peterson  
contributed to this article.

## Trump Officials Accept Vote-Hack View

By BYRON TAU

WASHINGTON—Several top Trump administration intelligence officials told a Senate panel they accept the conclusion of a report earlier this year that says Russia undertook data thefts and hacking during the 2016 election—a finding President Donald Trump has questioned.

At a Senate Intelligence Committee hearing Thursday, Director of National Intelligence Dan Coats submitted a statement concluding that Russia "has assumed a more aggressive cyber posture" in recent years.

"This aggressiveness was evident in Russia's efforts to influence the 2016 U.S. election and we assess that only Russia's senior-most officials could have authorized the 2016 U.S. election-focused data thefts and disclosures,

based on the scope and sensitivity of the targets," Mr. Coats wrote in his statement.

Mr. Coats, a former senator from Indiana, was nominated as director of national intelligence in January by the incoming president.

Sen. Mark Warner, a Virginia Democrat and vice chairman of the Senate Intelligence Committee, asked the intelligence-community leaders if they accepted a January report from the Obama administration that Russia had attempted to interfere in the



Director of National Intelligence Dan Coats, left, and CIA Director Mike Pompeo on Thursday.

presidential election through a campaign of disinformation, data thefts and leaks. The report also concluded that the effort was aimed at boosting Mr. Trump and damaging his Democratic opponent, Hillary Clinton.

In response to his question, the heads of the Central Intelligence Agency, Federal Bureau of Investigation and National Security Agency all simply said "yes." All serve in the Trump administration, though the acting FBI leader, Andrew McCabe, and head of the NSA,

Adm. Michael Rogers, were elevated under former President Barack Obama.

The January report didn't draw any conclusions about whether the outcome of the election was affected by the Russian propaganda and hacking campaign, nor has any evidence been uncovered that systems involved in vote counting were tampered with.

But Mr. Trump has been reluctant to accept the conclusions of the January report, produced in the final days of the Obama administration.

Mr. Trump, in a January statement after he was briefed by intelligence agencies on their findings, said: "While Russia, China, other countries, outside groups and people are consistently trying to break through the cyber infrastructure of our governmental institutions, businesses and organizations including the Democrat National Committee, there was absolutely no effect on the outcome of the election, including the fact that there was no tampering whatsoever with voting machines."

In the interview, the president described Mr. Comey as a "showboat" and a "grandstander." He said the FBI was in turmoil and hasn't recovered.

At the White House, Sarah Sanders, principal deputy press secretary, played down any differences in the accounts of how Mr. Trump reached his decision to fire Mr. Comey.

"In Washington, we finally had something that I think we should have all been able to agree on, and that was that Director Comey shouldn't have been at the FBI," she said.

Meanwhile, on Capitol Hill, Andrew McCabe, the FBI's acting director, sought to reassure the public that the agency's work on the politically sensitive Russian investigation would remain unaffected by Mr. Comey's dismissal.

Mr. Lighthizer was most recently a Washington partner at law firm Skadden, Arps, Slate, Meagher & Flom LLP.

One of his first acts will likely be to begin negotiations with Mexico and Canada to rewrite the 23-year-old Nafta, which Mr. Trump has branded "a disaster," and which he has been eager to overhaul since taking office in January.

Trade law has blocked the administration from launching those talks without a confirmed trade representative, so Mr. Lighthizer's confirmation will now allow the process to move forward.

campaign staff coordinated with Russia during the election, citing the need to maintain secrecy around a continuing investigation.

Pressed by senators, Mr. McCabe testified he would report to Congress if there was any effort to interfere in the FBI's Russia probe. Mr. McCabe declined to say whether Mr. Comey had told Mr. Trump he wasn't under investigation.

"I can't comment on any conversations the director may have had with the president," Mr. McCabe said.

His testimony also contradicted White House assertions that Mr. Comey had lost the support of rank-and-file FBI employees and had become a distraction. Mr. McCabe said respect for the former FBI head ran deep within the bureau and that he hadn't lost support within the ranks.

"Director Comey enjoyed broad support within the FBI and still does to this day," Mr. McCabe said.

Democrats and some Republicans have expressed concerns about the timing of the firing and have asked whether Mr. Comey was fired because he was intensifying the Russia probe. Mr. Comey told super-

'Director Comey enjoyed broad support within the FBI and still does to this day.'

ors at the Justice Department that he wanted more resources for the probe, according to people familiar with the matter. The Justice Department denies that more resources were requested, and Mr. McCabe also cast doubt on that assertion during his testimony Thursday.

Separately, Mr. Rosenstein—who is in charge of overseeing Russia probe—huddled behind closed doors Thursday afternoon with the Republican chairman and Democratic vice chairman of the Senate Intelligence Committee. The purpose of their meeting was to coordinate on issues related to the separate Senate and FBI investigations under way.

Committee Chairman Richard Burr (R., N.C.) and Vice Chairman Mark Warner (D., Va.) expressed confidence Thursday that their Senate investigation would continue despite any setbacks.

"This investigation will go forward and will be completed," Mr. Burr said.

## Senate Confirms Lighthizer as Trade Chief

By JACOB M. SCHLESINGER  
AND NATALIE ANDREWS

WASHINGTON—The Senate confirmed Robert Lighthizer to serve as U.S. Trade Representative, paving the way for the Trump administration to launch a renegotiation of the North American Free Trade Agreement, and accelerate more broadly plans to reorient American trade policy.

While most of President Donald Trump's nominees have cleared a divided Congress by narrow margins with mainly Republican support, Mr. Lighthizer on Thursday won significant backing from Democrats as well. That is a sign that, even as the opposition party battles the White House on much of its agenda, they are eager to work with Mr. Trump to beef up trade enforcement to curb imports

and pry open foreign markets—and to craft policies aimed at curbing the U.S. trade deficit.

The vote was 82-14. Three Republicans joined 10 Democrats and Independent Sen. Bernie Sanders of Vermont in voting no.

Oregon Sen. Ron Wyden, the top Democrat on the committee overseeing trade policy, took to the floor before the vote to express his support, saying "It is clear that Mr. Lighthizer not only understands how the global trading system works, but also how it sometimes breaks down....He understands the challenges that trade cheats pose for American workers and businesses."

Republicans, in contrast, were more wary of the nominee and the policy shift his confirmation heralds. Utah Re-

publican Orrin Hatch, the chairman of the Senate Finance Committee, also backed Mr. Lighthizer but openly voiced concerns about the changes the new administration may try to make to Nafta, which has wide support from the American business community and states near the Mexican border. "I told Mr. Lighthizer there are definitely opportunities to update and improve Nafta, but it is important that the administration follow the spirit of the Hippocratic oath: First do no harm," Mr. Hatch said on the Senate floor.

In contrast with many other Trump appointees who have had little prior experience in government, Mr. Lighthizer, 69 years old, is a Washington trade-policy veteran, having worked as a staffer for the Senate trade committee and as

a deputy United States Trade Representative under President Ronald Reagan in the 1980s. In those roles he was a free-trade skeptic, and helped to negotiate trade agreements aimed at curbing Japanese imports.

Mr. Lighthizer was most recently a Washington partner at law firm Skadden, Arps, Slate, Meagher & Flom LLP.

One of his first acts will likely be to begin negotiations with Mexico and Canada to rewrite the 23-year-old Nafta, which Mr. Trump has branded "a disaster," and which he has been eager to overhaul since taking office in January.

Trade law has blocked the administration from launching those talks without a confirmed trade representative, so Mr. Lighthizer's confirmation will now allow the process to move forward.

Speaking just two days after Mr. Comey was fired, Mr. McCabe revealed few new details about the state of the FBI investigation into whether any of Mr. Trump's associates or

those at the Justice Department that he wanted more resources for the probe, according to people familiar with the matter. The Justice Department denies that more resources were requested, and Mr. McCabe also cast doubt on that assertion during his testimony Thursday.

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## U.S. NEWS

# Millennials Revive Starter-Home Sales

BY LAURA KUSISTO  
AND CHRIS KIRKHAM

After sitting on the sidelines for a decade, millennials are buying homes en masse, promising to kick the already strong housing market into higher gear.

Virtually all major builders are migrating away from the luxury homes that dominated the early years of the economic expansion and are focusing on lower price points to cater to this burgeoning clientele.

"There's an increasing confidence level in that part of the market," said Gregg Nelson, co-founder of California home builder Trumark Cos. "The recovery is finally starting to take hold in a broader way."

The share of first-time buyers fell to 32% in 2015, its lowest level in nearly three decades and down from a historical average of about 40%, according to the National Association of Realtors. That number climbed back up to 35% last year.

The housing recovery has been divided, as the luxury market has soared in recent years while the more affordable end of the market has struggled to make up for lost ground. Tough lending standards, slow wage growth, growing student-debt obligations and a newfound fear of ownership have combined to crimp demand among millennials in particular. The return of the starter-home market means the housing bifurcation is finally starting to narrow.

Demographers generally define millennials as people born

### Moving In

Share of Fannie Mae mortgages from first-time buyers



Source: Fannie Mae

THE WALL STREET JOURNAL.

between roughly 1980 and 2000.

"They're crawling out of their parents' basements, they're forming households and they're looking to buy," said Doug Bauer, chief executive of Tri Pointe Group Inc., which operates in eight states.

The return of first-time buyers allays fears that millennials would eschew homeownership and provides a long-awaited infusion of new demand to the market. These new buyers could also be a boon to the overall economy by driving builders to construct more homes. But demand is ramping up as supply is already tight and price growth is significantly outstripping wage gains.

Some 854,000 new-owner households were formed during the first three months of the year, more than double the 365,000 new-renter house-



PATRICK T. FALLON FOR THE WALL STREET JOURNAL

The share of first-time home buyers hit a nearly three-decade low in 2015 but improved last year.

holds formed in the period, according to Census Bureau data. It was the first time in a decade that more households chose to own than rent compared with a year earlier, according to an analysis by home tracker Trulia.

In Orange County, Calif., Trumark's Mr. Nelson said he has been selling entry-level homes at nearly double the rate of his higher-end properties.

He is even gaining confidence to build homes in more-far-flung locations. The company is about to begin construction on a 114-home project in the Inland Empire east of Los Angeles and another development in Manteca, Calif., about 80 miles east of San Francisco. Both ar-

eas were hard-hit during the housing crash and were among the slowest to recover.

Outside Las Vegas, Tri Pointe has introduced a new-home design that is specifically targeted to millennial buyers, featuring indoor-outdoor patios and deck spaces, as well as a separate downstairs bedroom-and-bathroom suite that could be rented out to a roommate. Mr. Bauer said the homes, geared toward first-time buyers, have been selling more rapidly than pricier homes.

Joey Liu, a 28-year-old technology worker, purchased his first home in San Jose, Calif., this year. He said it is more expensive than renting but that he is getting to the stage in life where it was time

to buy.

"A lot of friends of mine bought a home, so I started thinking maybe it was time to buy a home and stop paying rent," said Mr. Liu, who settled on a three-bedroom townhouse for \$690,000. He plans to rent out a room to help with the expenses.

He had three housewarming parties to celebrate his newfound status. "This is my first house, so it definitely feels different," he said.

In the first quarter of the year, 31% of the speculative homes built by major builders were smaller than 2,250 square feet, according to Zelman & Associates. That is up from 27% a year ago and 24% in the first quarter of 2015.

"Most builders really pre-

ferred to stick straight down the fairway, right at the corner of Main and Main. They were afraid to go back into the rough where they built a lot of homes in the prior cycle," said Alan Ratner, senior home-building analyst at Zelman.

Builders said that while they are taking a chance by building homes farther out and starting construction before they have a buyer under contract, it remains a far cry from the mid-2000s.

"One of the misconceptions is that, here we go again, this is another 2005, 2006 where all these builders are going to build hundreds of thousands of homes. We're not going crazy," said Brent Anderson, vice president of investor relations at Arizona-based Meritage Homes Corp. Mr. Anderson said that last year the company was building four to five speculative homes per community and is now up to 6.4 on average.

Some 42% of the mortgages acquired by Fannie Mae so far this year were to first-time buyers, up from 31% at the recent low in 2011 and 38% in 2015.

Fannie, which acquires about one-third of single-family mortgages, defines first-time buyers as anyone who hasn't owned a home in the past three years.

Building executives said one challenge is that many people are buying first homes later in life, meaning they have higher incomes and greater expectations molded by years of living in luxury downtown rentals.

They also appear wary of driving farther out to get more space.

## Economists Assay Trump Outlook

BY JOSH ZUMBRUN

One of the most watched economic forecasts in Washington will come later this month when the White House releases its budget.

Here is what it would look like if done by economists surveyed by The Wall Street Journal.

Over the course of the next decade, the estimated cost of many items on President Donald Trump's wish list will depend critically on his own team's projections for economic growth, unemployment and interest rates.

According to longstanding custom, however, the White House budget differs from most economic forecasts in one crucial way. Most forecasters estimate the path for the economy they believe is most likely, taking into account that many political promises will never come to fruition. But White House forecasts are an estimate of what the economy would be like if the president's full agenda were implemented.

To establish a baseline of what a reasonable forecast might look like under Mr. Trump, respondents to The Wall Street Journal's monthly survey of forecasters provided their own estimates of the economy if all of Mr. Trump's initiatives were enacted.

If the president's agenda were enacted, forecasters on average think long-run gross-domestic-product growth could rise to 2.3%, an 0.3 percentage point increase from their 2% baseline. Unemployment would average 4.4% instead of 4.5%. Interest rates set by the Federal Reserve would be about a quarter-point higher. Short-term rates would be about 3.1%.

Early on, White House officials reportedly considered



AlphaPoint had openings in April. U.S. joblessness would fall slightly under one budget forecast.

penciling in growth rates as high as 3.2% a year. But the respondents to the Journal's survey—a mix of academic, financial and business economists who regularly produce professional forecasts—say numbers so high will be hard to attain, because the policies under consideration just might not pack that punch.

Key Trump initiatives, which face a challenging road through Congress, include overhauling the health-care system, simplifying the corporate tax code, cutting income taxes, rewriting regulation and investing in the nation's infrastructure.

"If you were to assume that such initiatives get passed later this year, there should be positive economic benefits, especially for 2018," said Chad Moutray, chief economist of the National Association of Manufacturers.

Over the course of a de-

cade, 3.2% growth would leave the economy nearly \$2 trillion larger than 2.3% growth. So the lower estimates of economists are significant.

"Fewer regulations may raise long-term growth 0.1% to 0.2% by stimulating productivity growth," said Niranjan Behravesh of IHS Markit Economics. "It should have hardly any effect on the long-term unemployment rate and inflation rates."

It is "hard to quantify, but measures would not boost long-term productivity," said Ian Shepherdson of Pantheon Macroeconomics. "But they probably would push up both short- and long-term interest rates."

The White House always has some incentive to put forth overly optimistic numbers.

The White House staff generally believe in the wisdom and benefits of the president's agenda. And if growth

rates are boosted and unemployment comes down, it does wonders for budget projections. Tax revenue climbs and spending on programs such as unemployment or Medicaid may dwindle.

In recent months, economists' forecasts for the coming year haven't changed much. They expect growth for this year of 2.2%, down from 2.4% in the March survey.

"Infrastructure spending is great, but it has to be paid for and that creates drag," said Amy Crews Cutts, the chief economist of Equifax. "The proposed tax breaks won't stimulate the economy nearly enough to pay for themselves let alone fund other new initiatives, which leads to deep cuts in the long run."

The survey of 59 economists was conducted from May 5 to May 9. Not every economist answered every question.

## PIMPLE

Continued from page A1

Dr. Lee says she started uploading videos of her work to her Instagram account about 2½ years ago after noticing that some patients' relatives wanted to watch her do procedures such as the removal of an inflamed cyst.

As her online fan base grew, someone pointed her to the "Popping" area of the Reddit online community, where people share their own pimple-popping videos. "I could be their queen!" Dr. Lee recalls thinking.

Long before the internet era, comedian John Goodman grossed out audiences of the 1978 movie "Animal House" when he stuffed his mouth with food and punched his cheeks. It spurred at a rival Omega Theta Pi fraternity member. "I'm a zit. Get it?" said Mr. Goodman's character, John "Bluto" Blutarsky.

amy Wechsler, a dermatologist and psychiatrist in New York, says the satisfaction that comes from watching a pimple pop is almost universal, especially if it's your own pimple.

"Pimples are ubiquitous. The majority of our population has or had pimples, so it is a shared desire to rid oneself of them," says Dr. Wechsler, who was invited on "The Tyra Banks Show" in 2006 to teach safe pimple-popping.

David Pizarro, a Cornell University psychology professor who studies disgust, likens the videos to squirm-inducing horror movies and roller coasters. "People seek out negative emotions if they can experience them in a safe way," he says. For some people, the satisfaction of an exploding zit outweighs its gross factor.

Devon Kanzler, 21, a student at UCLA, says she loves the instant gratification the videos deliver. "You see a problem, and then the problem is addressed, and it is gone!" she says. "This has conflict, this has resolution, everything you want."

Stay-at-home mom Rachel Lewis, who lives near Boston,

says she watched her first pimple-popping video when she had a "little thing" on her back and wanted to find out what it might be. After it was gone, she kept returning to a variety of zit-popping YouTube channels.

"I watch them incognito. When someone comes up behind me, I'll shut it real quick," says Ms. Lewis, 47. "It is almost like watching porn."

Paisley Rae, who runs her own landscaping business in Cundy's Harbor, Maine, saves screenshots of her favorite videos to show her fiancé, even though he is disgusted by them.

"When I scroll through pictures, it's all Maine sunsets and landscapes—and then suddenly a photo of a cyst that looks like a hard-boiled egg," says Ms. Rae, 26. "I probably should delete it. People get weirded out."

Zoe Talman, 22, began watching pimple videos in 2012, or the "pre-Dr. Sandra Lee days," as she puts it. Videos usually were low-quality and shot at home.

Dr. Lee's fans credit her with transforming the genre. Her videos look squeaky-clean, and she narrates each procedure from start to finish.

Dr. Lee's online popularity has attracted patients to her Upland, Calif., clinic from as far away as Saudi Arabia and South Africa, she says. Nonemergency appointments are backlogged by three or four months.

She was recently nominated for the Shorty Awards, which honor the best content creators and producers on social media. In the science, technology, engineering and mathematics category, she beat Elon Musk, the Tesla Inc. chief executive, but eventually lost to Bill Nye, the Science Guy.

YouTube stars with millions of subscribers often attract big-name advertisers and sponsorship deals, but that hasn't happened with Dr. Pimple Popper, perhaps because of the bloody cyst pops. That frustrates her.

"Some people feel like this is a joke, which annoys me a little bit," says Dr. Lee, 46. "This is what I do. People are interested. This is real life."

## U.S. WATCH

### WHITE HOUSE

#### Review of Election Process Is Planned

President Donald Trump signed an executive order on Thursday launching a review of the federal election process, the White House said.

The president ordered a bipartisan commission appointed by his administration to review policies related to voter registration, voter fraud and voter suppression, White House principal deputy press secretary Sarah Huckabee Sanders said. The commission will

be led by Vice President Mike Pence, with Kansas Secretary of State Kris Kobach serving as vice chair, Ms. Sanders said.

Mr. Trump won the White

House in November with a majority in the Electoral College—which counts state-by-state results—but he lost the popular vote by 2.9 million votes. Mr. Trump has maintained that large-scale voter fraud distorted that nationwide tally.

Independent experts say there is no evidence backing up Mr. Trump's assertions.

—Louise Radnofsky and Michael C. Bender

### ECONOMY

#### Price Gauge Signals Inflation Is Building

A gauge of U.S. business prices rose to the highest level in five years, another sign that inflation pressure is accelerating.

The producer-price index for final demand, measuring changes in the prices U.S. companies receive for goods and services, increased 2.5% in April from a year earlier. The advance marked the index's steepest climb since February 2012, the Labor Department said.

Excluding often-volatile prices

for food and energy, the index grew 1.9% in April from a year earlier. Import prices, another gauge for inflation, accelerated 4.1% in April from a year earlier, the Labor Department said Wednesday.

Though energy prices are still a factor concerning inflation, "we're seeing it more generally because of the tighter labor market and greater pricing power for businesses," said Gus Faucher, chief economist at PNC Financial Services Group.

Producer prices in April increased a seasonally adjusted 0.5% from March.

—Sarah Chaney



Devin Kanzler watches zit-popping videos to relax after a long day.

# BOOKS

'Great leaders never accept the world as it was and always work for the world as it should be.' —Condoleezza Rice

## Still Worth Fighting For

### Democracy

By Condoleezza Rice

Twelve, 482 pages, £27.26

BY MAX BOOT

**IN HIS SECOND** inaugural address in January 2005, George W. Bush declared that "it is the policy of the United States to seek and support the growth of democratic movements and institutions in every nation and culture, with the ultimate goal of ending tyranny in our world." Democracy has been in retreat ever since.

In its annual Freedom in the World survey, Freedom House reports that 2016 marked "the 11th consecutive year of decline in global freedom," with small setbacks reported in states such as Poland and Hungary and big setbacks in the Central African Republic, Turkey, Bahrain and Venezuela, among other places.

This is a trend unlikely to cause much concern in the current administration. President Donald Trump has had nothing but praise for strongmen: He has called Abdel Fattah Al Sisi of Egypt a "fantastic guy"; Vladimir Putin of Russia a leader "doing a better job than Obama"; Kim Jong Un of North Korea a "smart cookie"; and Xi Jinping of China a "terrific person." He's even praised Rodrigo Duterte of the Philippines, whose death squads have killed at least 7,000 people, for his war on drugs, and Recep Tayyip Erdogan for his victory in a rigged referendum that was widely seen as the death knell of Turkish democracy.

In "Democracy: Stories From the Long Road to Freedom," Condoleezza Rice, Mr. Bush's national-security adviser and secretary of state, does not knock Mr. Trump or even mention him by name, but she does deliver a plea for the current Republican administration not to eschew the democracy agenda that defined the last one.

She readily acknowledges that democracy has been on the defensive since the failure of the 2011 Arab Spring. But she hasn't given up hope of freedom spreading and doesn't



TOP DIPLOMAT Former U.S. Secretary of State Condoleezza Rice speaks in Kiev, Ukraine, in 2005.

AGENCE FRANCE PRESSE/GETTY IMAGES

think that the U.S. government should either.

"If there is cause for optimism, it is in recognizing that people still want to govern themselves," she writes, citing examples such as democracy activists in Hong Kong and mainland China who "risk persecution and arrest if they press their cause." And she knocks down the old argument that democracy can take root only in certain cultures: "It was once thought that Latin Americans were more suited for caudillos than presidents; that Africans were just too tribal; that Confucian values conflicted with the tenets of self-rule. Years before that, Germans were thought too martial or subservient, and—of course—the descendants of slaves were too 'child-like' to care about the right to vote.

Those racist views are refuted by stable democracies in places as diverse as Chile, Ghana, South Korea, and across Europe."

Having set the scene, Ms. Rice offers a brisk survey of various countries that have undergone dem-

ocratic transitions—or tried to—beginning with Russia and Poland, continuing to Ukraine and Kenya, and concluding with Middle Eastern states such as Egypt and Tunisia. Her focus is on countries where she

FARC guerrillas in the 1990s and early 2000s even though Colombia was already a democracy. But she doesn't include any discussion of the 1980s transition to democracy made by authoritarian states such as the

A former secretary of state pleads for the current Republican administration not to eschew the democracy agenda that defined the last one.

has had a personal connection. As a Sovietologist by training, she has the deepest knowledge of the former Soviet states, an expertise that is obvious in her nuanced discussion of the end of the Cold War, but she also draws on her experience as a policy maker to discuss the Middle East.

Ms. Rice's predilection for the personal touch makes for some odd choices about what to cover. She includes Colombia's battle against

Philippines, South Korea, Taiwan and Chile, even though these countries are the best examples of how the U.S. can nudge its allies on the road to freedom.

Her desire to write of firsthand experience really pays off when she recounts the American civil-rights struggle from her perspective as a young African-American girl growing up in segregated Alabama. As few others have done, she connects the civil-rights movement—what she calls

"America's second founding"—with the global spread of democracy.

Ms. Rice's passion is also evident when she discusses a very different topic—the Bush administration's struggles to implant democracy in Iraq. She notes that Iraq's descent into civil war in 2006 was "the low point for me—professionally and personally," and she takes justifiable pride in President Bush's "gut-wrenching decision" (of which she was initially skeptical) to respond with a surge rather than a withdrawal. With considerable understatement, she writes of President Barack Obama's failure to keep U.S. troops in Iraq past 2011: "It is a pity, because Iraq was on its way to a better future."

Ms. Rice concludes with some sensible if hardly novel generalizations about how to democratize successfully: "work with what is there" (i.e., "existing arrangements must be taken into account"); "first presidents matter" (Nelson Mandela was better than Boris Yeltsin); "politics must connect to the people" rather than simply deliver benefits for a new group of political insiders; and, perhaps most important, "it all takes time."

On the last point, she notes: "The messiness, the fits and starts, the imperfections are all a part of the process—they were for the United States, and they will be for every country that sets out on the road to democracy."

In spite of the inherent difficulties, Ms. Rice ends with a ringing call for democracy promotion. "Democratic institutions are the best hope for humankind—including for the Middle East. Stability born of tyranny is a false stability," she writes, adding: "If democracy is in recession across the world, we need to make every effort to reinvigorate it." That was once conventional wisdom. Now it is no longer conventional but remains wise. Ms. Rice should be commended for standing firm on democratic principles despite the travails of the past decade.

*Mr. Boot is a senior fellow at the Council on Foreign Relations and author of "The Road Not Taken: Edward Lansdale and the American Tragedy in Vietnam."*

## The Pied Piper of MI5

### Agent M

By Henry Hemming

PublicAffairs, 354 pages, \$28

BY RICHARD DAVENPORT-HINES

**HENRY HEMMING** has found a peach of a subject. Typically, English eccentrics are futile, self-indulgent loners who make nothing but a passing show. But the little-known spy Maxwell Knight (1900-68) made a lasting difference. He was a sort of Pied Piper of Hamelin who used his weird, sympathetic powers of charm and patience to become one of the great 20<sup>th</sup>-century spymasters.

The man who taught a blue Amazonian parrot to imitate the sounds of a cork being drawn from a bottle and of wine being poured stood outside the range of human normality. As a child he nursed wounded creatures, rescued orphaned birds, tamed rats, and cherished lizards, hedgehogs, worms and toads. The same quality of watchful empathy enabled him as an adult to understand the kinks of human nature.

Knight grew up in a characterless district of south London. His father was a small-time lawyer and spendthrift who died when Knight was 14. His guardian then condemned him to a brutal adolescence on a training ship for merchant seamen. In early manhood he worked as a lowly clerk in a government ministry and as the sports master of a school for boys. He lived in an apartment in the staid London suburb of Putney with his mother and a baboon, became a jazz fiend, took clarinet lessons from Sidney Bechet and kept a bear who, when Knight exercised her in the suburban streets on a chain, was mistaken for an overgrown puppy.

In the mid-1920s, Knight came to work for George Makgill, a hard businessman of the sort who metaphorically liked his breakfast eggs boiled in widows' tears. Makgill was a Freemason who ran a secretive antiunion and antiforeigner outfit called the Industrial Intelligence

limited extent, during World War II, he was involved in monitoring the numerically small and very cranky pro-Nazi cells in Britain. In the 1950s he combined his MI5 work with a busy career as a television and radio broadcaster of programs about pets and wildlife.

There are abundant books—often headline-grabbing, crassly sensationalized and full of hoary half-truths—about English espionage and counterespionage. "Agent M," by contrast, is full of new material,

and deadly informant for Knight inside the Communist Party of Great Britain. Until now, Pollard has been best known for his detection of the crimes of a notorious book forger and thief named T.J. Wise.

Agent M/2 is identified by Mr. Hemming's superb detective work as Mona Maund, a spinster from a land-owning family. Another of Knight's agents was Jimmy Dickson, a civil servant who toiled in one of the duller government departments as well as a former fascist paramilitary, a fast-talking, chain-smoking womanizer and a failed actor who wrote pulp thrillers. An even odder character dug up by Mr. Hemming is E.G. Mandeville-Roe, a devout fascist who nevertheless acted as MI5's informant on far-right plotters and a furious anti-Semite who grew a Hitler moustache while spying on behalf of the Board of Deputies of British Jews.

Gray, Maund, Pollard, Dickson and others came from right-wing and often upper-middle-class backgrounds. It was a measure of Knight's oddness of mind and devious skill that he trained conventionally minded conservatives and avowed fascists to assimilate into communist organizations. They kept their cover by saying the right things, going to the right places and knowing the right people. These complicated deceptions required the trickiest tradecraft but often brought great payoffs.

For too long popular historians have echoed the narrative offered by defecting spies such as Guy Burgess and Kim Philby who wished to damage the reputations of the British security services. According to this travesty, MI5 was class-bound, inflexible, snobbish, obtuse and incompetent. Mr. Hemming vindicates a maligned organization. He has managed the great feat of producing a rattling good read that is also a major piece of revisionist history.

*Mr. Davenport-Hines is the author, most recently, of "Edward VII: The Cosmopolitan King."*

He kept a pet bear, studied clarinet with Sidney Bechet and ran spies within both far-left and far-right groups.

After 11 years his wife died of a probably accidental overdose of barbiturates.

After Makgill's death in 1926, Knight and his wife managed a country hotel without much satisfaction to themselves or their guests. In 1929 he was approached by Desmond Morton of MI6—later Churchill's intelligence adviser and favorite spook—to join a new counterespionage network against Soviet spies in Britain. Knight began to run sub-agents reporting on both far-left and far-right extremists.

Initially he split his services between Special Branch (part of London's Metropolitan Police) and the Special Intelligence Service (SIS), which was the British counterpart to the CIA. In 1931 he was transferred to MI5, which was a badly funded knockoff of the FBI. For the next 30 years, until his retirement in 1961, he specialized in placing agents inside the British communist party. To a

fresh interpretations and uncompromising integrity. Mr. Hemming writes in a relaxed, sometimes almost too conversational, way that might make readers underestimate the depth of his research or the novelty of his discoveries. As someone who knows the archive well, I can say that he has been heroically pertinacious. His patience, his memory for small details and his ingenuity in connecting them are astounding.

Only one of Knight's agents has hitherto been named. "Miss X"—an informant embedded in the British communist party who in 1937-38 entrapped Percy Glading, the leader of a spy ring stealing naval armaments secrets from a government ar-

senal—has long been known to have been Olga Gray. Mr. Hemming, however, retells the story of her lonely, nerve-racking undercover work with brio. She was first recruited during a lawn game at a summer garden party. "In the moments that followed, Olga had to make a life-changing decision," Mr. Hemming writes. "It is possible that she put down her putter."

But Mr. Hemming's great coup is to identify a score of Knight's agents who have hitherto been known by



SPYMASTER EXTRAORDINAIRE  
Maxwell Knight.

COURTESY OF JOHN DICKSON

such designations as M/1 and M/2. In doing so, he has transformed our knowledge of MI5 recruitment, procedures and successes.

M/1 turns out to have been an eminent English bibliophile and scholar, Graham Pollard, who had been a pupil at the school where Knight was sports master. Pollard won a top history scholarship to Oxford University in 1922, a year after his presumed first meeting with Knight. At Oxford he joined the decadent Hypocrites Club and beat fellow hypocrite Evelyn Waugh in a spitting contest. Probably at Knight's instigation, he then proclaimed himself as an Oxford communist and proceeded to become an invaluable

## BOOKS

'What a curious picture it is to find man . . . going underground to escape the consequences of his own folly.' —J. William Fulbright

# The Nuclear Winter White House

### Raven Rock

By Garrett M. Graff

Simon & Schuster, 529 pages, £21.81

BY HOWARD SCHNEIDER

**TALK ABOUT** a deep state. Garrett M. Graff's "Raven Rock: The Story of the U.S. Government's Secret Plan to Save Itself—While the Rest of Us Die" is an encyclopedic chronicle of how the American government, for more than 60 years, has prepared for nuclear attack, most notably with bunkers underground and inside mountains to shelter government officials and other personnel—men and women who could retaliate against the enemy with nuclear weapons and begin to rebuild society. "Raven Rock" contains everything one could possibly want to know about these seemingly still-continuing measures to confront Armageddon.

COG—continuity of government—is the acronymic *idée fixe* that has underpinned these doomsday preparations. A bunker was installed in the White House after Pearl Harbor, but the nuclear age (particularly after the Soviet Union successfully tested an atomic bomb in September 1949) introduced a nationwide system of protected hideaways, communications systems, evacuation procedures and much else of a sophistication and ingenuity—and expense—never before conceived.

In 1950, during renovations to the White House, a new "secret" bomb shelter was built beneath it, with a 4-inch-thick door that "opened into a shower room, to allow occupants to rinse off radioactive fallout," Mr. Graff writes. President Truman issued an executive order in 1950 creating the Federal Civil Defense Administration. The agency dispatched Alert America convoys throughout the nation—"costumed staffers dressed as Bert the Turtle handed out pamphlets and literature"—and produced films and brochures. "Signs posted in every New York taxicab," Mr. Graff says, "explained that in the event of an enemy attack, the cab would immediately pull to the curb and disgorge its passengers."

Strategies for evacuating government VIPs began in earnest in the early 1950s with the construction of Raven Rock, an "alternate Pentagon" in Pennsylvania near what would become known as Camp David, and Mount Weather, a nuclear-war sanctuary in Virginia for civilian officials. Both would be modernized over the years and would become, in effect,



THE GREENBRIER

**DOOMSDAY HIDEAWAY** A concealed entrance to the congressional bunker at the Greenbrier resort in West Virginia.

subterranean cities. "The two facilities," according to Mr. Graff, "would serve together as the core of the government's Doomsday planning for the next seven decades."

Every subsequent president would be involved with COG concerns. President Eisenhower took the planning very seriously but was pessimistic about its merit, dubious about whether the nation—or the world—would survive a nuclear war between America and the U.S.S.R. In 1957, when a report that he had ordered urged a "massive shelter-building program," the president dissented, Mr. Graff notes, arguing that "widespread serious planning for a nuclear exchange was a waste of finite resources." Nevertheless, during his administration COG planning continued apace. In 1959, construction began on a secret refuge for Congress underneath the Greenbrier, a resort in West Virginia. In the event of an attack, members of Congress would have been delivered by special train and

housed in dormitories with name-plated bunk beds.

The most important COG-related activities during the Kennedy administration came during the Cuban Missile Crisis in October 1962, the closest America has come to a nuclear war. Not only was the military mobilization chaotic—"one pilot bought fuel for his bomber with his personal credit card"—but VIP evacuation measures were, for the most part, a debacle: "In many cases, the plans for what would happen after [a nuclear attack on the U.S.] were so secret and so closely held that they were almost useless." During the Johnson administration, presidential succession was addressed with the passage of the 25th Amendment, which "delineated a clear process to declare a president unable to serve, as well as a clear process for the president to resume power once recovered."

Jimmy Carter, at least initially, immersed himself in the COG world. Evacuation drills were conducted, and Mr. Carter, according to Mr.

Graff, "scheduled regular telephone calls with military field commanders, in part to familiarize the military leaders with the president's voice and manner of speech." The Air Force also acquired, for the president's use, four Boeing 747 "Doomsday planes" with state-of-the-art communications technology, which were nicknamed "Air Force One When It Counts." Mr. Carter personally inspected Raven Rock and Mount Weather—even though he indicated in his diary that, during a nuclear war, "my intention is to stay here at the White House as long as I live to administer the affairs of government, and to get Fritz Mondale into a safe place, underground or in a command airplane."

Probably the most fraught 24 hours in the history of COG worrying occurred on Sept. 11, 2001, when al Qaeda terrorists attacked the World Trade Center and the Pentagon. COG projects and training had been ceaselessly initiated and honed for a half-century; but, as Mr. Graff

writes with impressive understatement, "the U.S. government [wasn't] prepared very well at all." Fighter planes were dispatched to head off a hijacked aircraft heading toward Washington, but as one pilot later disclosed, "I reverted to the Russian threat. . . . I'm thinking cruise missile from the sea. . . . No one told us anything."

While Vice President Dick Cheney had been swiftly hustled to the White House bunker, "those officials outside the bunker, even high-ranking ones, had little sense of where to go, whom to call, or how to connect back to the government," Mr. Graff

The president's bunker was equipped with a 4-inch-thick door and a shower to rinse off fallout.

writes. But there were enough people in the bunker to deplete the oxygen supply and raise the carbon-dioxide level, and so "nonessential staff" were ordered to leave. When House Speaker Dennis Hastert tried to call Mr. Cheney on a secure phone, he couldn't get through. He later said, "To use the secure phone, you have to push a button and turn a key. On that dreadful day I couldn't make the thing work. No matter what I did, I couldn't connect with the vice president."

When President George W. Bush heard the news about the attacks that morning, he was in Florida. He was whisked into Air Force One, which, Mr. Graff notes, "took off at 9:54 a.m., with no specific destination in mind." It would eventually land, and the president would address the country. But "Air Force One's limitations"—it wasn't one of the Doomsday planes—"came into stark relief." For one thing the plane's communications systems were woefully inadequate for what was required on 9/11. "On the worst day in modern U.S. history," Mr. Graff writes near the end of his exhaustingly detailed account (I sometimes felt buried alive under its mass of data), "the president of the United States was, unbelievably, often less informed than a normal civilian sitting at home watching cable news." There was more of the same that day. In retrospect, the nation was fortunate that the catastrophe wasn't worse.

*Mr. Schneider reviews books for newspapers and magazines.*

# How Your Brain Digests Your Dinner

### Flavor

By Bob Holmes

Norton, 310 pages, \$26.95

BY STEVEN POOLE

**IF, LIKE ME,** you've always assumed that flavor is something that resides in foods, this fascinating book will add chewy philosophical complications to mealtimes. Flavor, as Bob Holmes demonstrates elegantly, exists nowhere but in the mind of the eater. And so modern culinary and physiological science revives the old idealist philosophy. To exist is to be perceived, said Bishop Berkeley. And to have flavor is to be eaten.

Let's break it down. Taste occurs on the tongue, which is sensitive to five basic tastes: sweet, salt, sour, bitter and umami. (Five, that is, at the latest count: We meet in these pages some scientists who suggest that "fat" is another basic taste, and yet more are proposed.) But flavor also depends in great part on the sense of smell: specifically "retro-nasal olfaction," the wafting of food odors up into the nose from the back of the throat. This is why food seems so bland when we have a head cold, though, as Mr. Holmes points out with characteristic acuity, our habit of calling it "tasteless" is the opposite of the truth: what we are experiencing is "taste alone, in isolation, with smell taken out of the equation."

To create what we experience as flavor, you have to combine taste and smell, add the factors called mouth-feel (crunchiness, creaminess and so forth) and then take into account the eater's own psychological expectations—which seem not only to change

the conscious experience of eating but actually to change the sensory perceptions themselves: What is known as expensive, for instance, or is poetically described, will taste better. Only when all these streams are synthesized in the mind can we talk about flavor—and we humans may, as the author suggests, be the only animals to experience it.

Mr. Holmes, a correspondent for *New Scientist* magazine, pursues his reporting among biologists, flavorists at food companies and speakers at scientific conferences, keeping the story moving with a pleasant cheerfulness. (I suspect he took a sly

pleasure in referring to someone as "a CIA-trained chef," the agency in question here being the Culinary Institute of America.) The author even has his own genome sequenced, in order to demonstrate the variation of DNA on flavor experiences. It turns out he has a variant in the gene TIR3 that makes people less sensitive to sweet tastes, so he finds pleasant a sugar concentration that others would find disgustingly syrupy. (Other genetic variants contribute to some people being what are called "supertasters," who are more sensitive to bitterness: to them, cilantro tastes like soap.)

As well as genetic variation, of course, cultural variation can affect taste. Different groups carve up the universe of millions of potential flavor-inducing molecules: I think the

Argentinian fabulist Jorge Luis Borges, who wrote a celebrated surreal taxonomy of animals, would have approved of the various terms for smells used by the Jahai tribe of Thailand, which include "edible," "fragrant" or "attractive to tigers."

When you eat something, Mr. Holmes writes, you're "engaging more brain systems than for any other behavior." But what that

agreements, places where evidence is insufficient and holes in our current understanding.

Some of these holes lurk in surprising places: It is apparently still not understood, for example, just how the tongue senses the salty and sour tastes. It is very pleasant to know, however, that there is a solid scientific reason why red wine and steak make such a happy match.



GETTY IMAGES

means, exactly, and whether it follows that eating is therefore the most important or sophisticated thing we do, is very unclear. (It certainly seems possible that sight-reading a piano piece, or reading a Russian novel, provides more of a beneficial neural workout.)

Luckily, there is relatively little of this vague cheerleading in "Flavor," at least compared to many books that draw on brain science.

Since "most kitchens have recourse to pure chemical seasonings" in the form of salt, sugar or vinegar, there is no good reason why a cook shouldn't also keep a bottle of monosodium glutamate on hand as well. (The idea that MSG makes you sick, he demonstrates, originated in

a single 1960s letter to a medical journal speculating about "Chinese restaurant syndrome.") On the other hand, purists may be drawn to one particularly interesting chapter on the scientific battle to restore flavor to supermarket tomatoes, and why they got that watery way in the first place. (Since the 1970s, breeders have selected for maximum yield, producing tomatoes that have fewer sugars and volatile aroma molecules.)

The author's overarching advice, by the end, is one with which we are by now familiar in all kinds of contexts: Be mindful. We can all, he says, get better at appreciating flavor. Pay heed to what you are eating, and you will enjoy it more. The only exception seems to be that of hot chili peppers. As one researcher points out to the author, traditional techniques for cooling the mouth, such as taking a swig of milk or olive oil, don't really help much. Instead, the scientist cheerfully suggests: "Go kick a brick wall or take a hammer to your thumb. You'll forget all about your tongue." So it seems that, in extremis, anti-mindfulness beats paying attention.

Smug foodies will not be comforted when Mr. Holmes points out that, according to the available studies, organic food does not generally taste any better, or when he straightforwardly points out that,

since "most kitchens have recourse to pure chemical seasonings" in the form of salt, sugar or vinegar, there is no good reason why a cook shouldn't also keep a bottle of monosodium glutamate on hand as well. (The idea that MSG makes you sick, he demonstrates, originated in

the merriment of all.)

*Mr. Poole is the author of "Rethink: The Surprising History of New Ideas" and "You Aren't What You Eat."*

## BOOKS

'I believe in my mask—The man I made up is me / And I believe in my dance—And my destiny.' —Sam Shepard

# Not Written But Real

### Sam Shepard: A Life

By John J. Winters

Counterpoint, 432 pages, £23.36

BY ETHAN MORDDEN

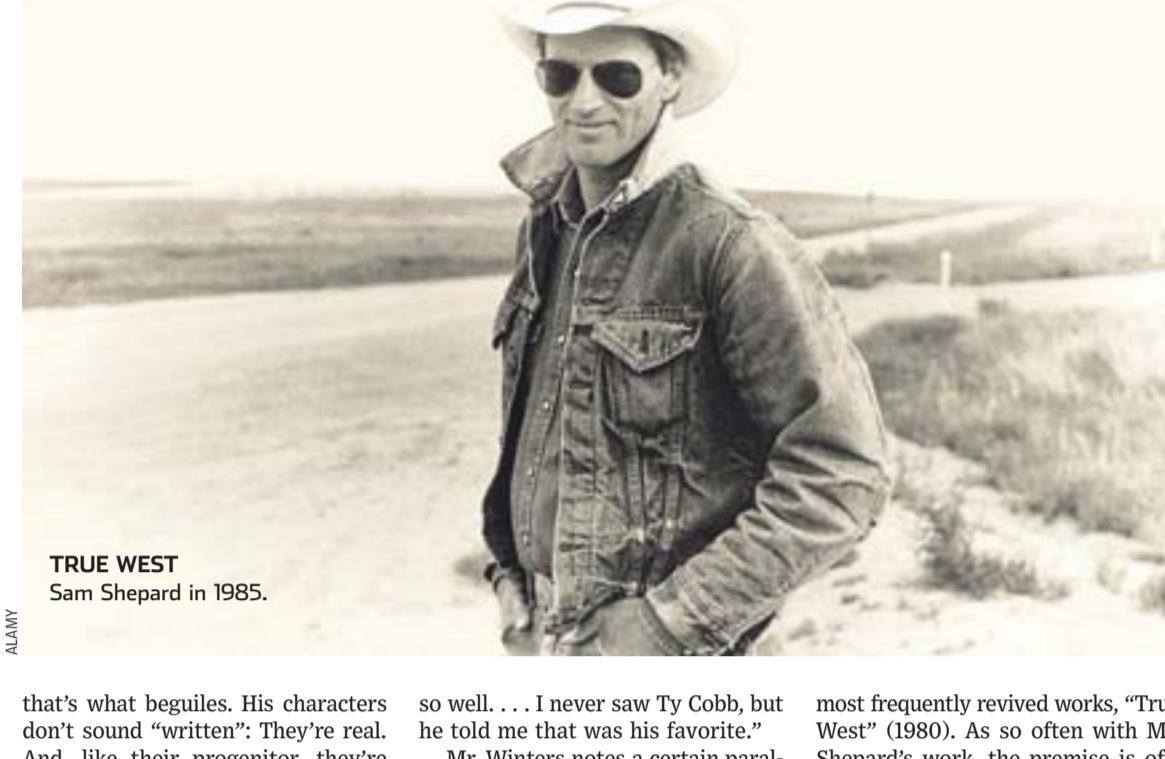
**THE LIGHTS COME UP** on a blindfolded cowboy in jeans and a T-shirt strapped into an electric chair. He speaks of a pickup truck he intends to buy and of horse breeding. He falls silent for a full minute, then starts up again with "Dude says he can give me a deal on that blue truck." After more of this, the lights fade and, as they go to black, the chair lights up, the cowboy is dead and the play is over.

Or consider the saga of an outstandingly dysfunctional family, one that takes in adultery, incest and the murder of a baby. Half the time no one knows who anyone is, though most of the characters are closely related. You could die in the living room and no one would notice.

These are, respectively, "Killer's Head" (1975) and "Buried Child" (1978), two of the many plays of Sam Shepard, plays that concentrate on drifters, dreamers, incompetent criminals and various masterminds of the obtuse and unseemly, all acting as if they are omnipotent in their domain when in fact they can scarcely find their way downstairs. Mr. Shepard tells of inhospitable places, usually rotten motel rooms, where everyone's on the move, going absolutely nowhere.

Born in Illinois in 1943 but raised mainly in Southern California, Mr. Shepard became, bit by bit, the poet of the uncelebrated class and the voice of the American West. His legend has him, as a teenager, getting into the rambunctious trouble befitting a future visionary—joy riding in stolen cars and insulting authority figures. But, as John J. Winters tells us in his excellent biography, Mr. Shepard had much the same high-school life as most of his generation, going out for sports, joining the 4-H Club and even appearing in the musical comedy "Finian's Rainbow." He can at least claim a rough relationship with his hard-drinking father, and a final blowup between them led to Mr. Shepard's lighting out, in 1963, for New York, the capital of the experimental-theater movement.

Writing came easily to him. "He was good and he was lucky," Mr. Winters explains. Mr. Shepard himself says: "The stuff would just come out, and I wasn't really trying to shape it or make it into any big thing." Yet



TRUE WEST

Sam Shepard in 1985.

that's what beguiles. His characters don't sound "written": They're real. And, like their progenitor, they're thoroughly unpredictable. Fall asleep on a couch and someone might well sneak up and shear off your hair—as happens in "Buried Child." Mr. Shepard, says Mr. Winters, "can be shy, difficult, reserved, obstreperous, openhearted, taciturn, sentimental, social, isolated, funny, angry, inspired, dull, brilliant and ordinary."

He is also tall and handsome, which is why he's not only a playwright but a movie star, even earning an Oscar nomination for playing pilot Chuck Yeager in "The Right Stuff" (1983) and starting a family with fellow Hollywood celebrity Jessica Lange. He's the counterculture's Gary Cooper, with the thousand-yard stare of the bedrock American hero but the playful glitches of the mischief-maker.

Mr. Shepard seemed uniquely in tune with the outlaw worldview of the Vietnam era. His characters do battle with destiny on the Shakespearean level—and destiny is your tyrannical father, forever declaring wars on you and calling for regime change in your life. In these plays, no family member is safe. The violence is overt, yet there is no Hitchcockian undertow of menace. His people—like the cowboy in the electric chair in "Killer's Head"—converse for the most part in the language of the everyday as they lurch discursively from one theme to another. In "The Rock Garden," a woman tells how her father liked to dine alone. "He ate with the cats in the attic," she says. "He had a lot of cats. He had one called Ty Cobb because it played ball

so well. . . . I never saw Ty Cobb, but he told me that was his favorite."

Mr. Winters notes a certain parallel between Mr. Shepard and Harold Pinter, and both playwrights do avoid plot-driven scenarios, preferring to let us listen to their characters and see where they take us. Pinter's art, however, focuses on banal people speaking eccentrically, while Mr. Shepard presents eccentrics uttering banalities.

**Shepard's plays tell of inhospitable places, where everyone's on the move, going absolutely nowhere.**

Still, his plays, like Pinter's, are anything but banal. Mr. Winters quotes actor Gary Sinise on "Buried Child": "It has all the elements—mystery, horror and pain—and it's hysterically funny. [Mr. Shepard] doesn't write things that are all logical and linear. Just like life, he leaves many questions unanswered."

In the preface to "Sam Shepard: A Life," the author warns us that his book "is not an examination or analysis of Shepard's work." Nevertheless, while guiding us through the comingings and goings of his subject's story, Mr. Winters gives us a good sense of the more interesting plays—"Curse of the Starving Class," "The Tooth of Crime," "The Mad Dog Blues"—and how they relate to "his ideas, and his life."

Mr. Winters is especially good on the backstage of one of Mr. Shepard's

most frequently revived works, "True West" (1980). As so often with Mr. Shepard's work, the premise is offbeat: Two brothers switch places, though one is a settled middle-class family man who writes screenplays and the other a typical Shepard ne'er-do-well who dabbles in burglary.

As Mr. Winters looks in on different productions of the play, we see the difficulty for the actors, who must harmonize two such disparate backgrounds. How can they be brothers? Casting is everything: At New York's Public Theater in 1980, with Tommy Lee Jones and Peter Boyle, the production did not work, but Gary Sinise and John Malkovich made the piece a hit in Chicago and New York in 1982. More recently, "True West" attracted extra attention on Broadway when John C. Reilly and Philip Seymour Hoffman alternated in the two roles from one performance to another, thereby affirming the elusive link between the two siblings.

Mr. Winters has an interesting story to tell, and he recounts it ably, bringing us close to a figure who, he admits, avoids intimacy. Maybe that's why Mr. Shepard has lasted so long, evading the typical Hollywood fame spiral—"Get me Sam Shepard!" "Get me a Sam Shepard type!" "Who is Sam Shepard?"—by writing naturally, acting naturally, living naturally. Working on the film "Cold in July" (2014), he made no diva demands. "Shepard's needs were simple," Mr. Winters tells us. "A lamp, a chair, and a desk for his typewriter."

Mr. Mordden's most recent book is "When Broadway Went to Hollywood."

### SCIENCE FICTION: TOM SHIPPEY

## Here Be Dragons

### TWO STRANGE

worlds, like but not like ours. Two heroines, rising from Cinderella status to become pivots of imperial politics. Two increasingly complex scenarios, in which readers must immerse themselves to get full value. The comparison between two new fantasy novels, both trilogy openers, or maybe series openers, invites one to wonder what's necessary for good epic fantasy.

Depth is the answer. It's vital to have that feeling of perspectives being opened, of there being a real world that surrounds the story, so that you always want a bit more of it. One way to create this expansiveness is by using what people nowadays call "paratext," supplementary information conveyed directly outside the narrative. Mark Lawrence's "**Red Sister**" (*Harper Voyager*, 467 pages, £14.99) opens with a section setting out the tribes of the people of Abeth and the grades of the Sisters of the Convent of Sweet Mercy. The latter is a martial order, as you might have guessed, though it also includes Mystic Sisters, who walk the Path. What's the Path? One of those things you have to read on to find out . . .

Two fantasies that, like all good fairy tales, create a sense of yearning in the reader.

Deborah A. Wolf's "**The Dragon's Legacy**" (*Titan*, 487 pages, £16.99) begins more conventionally with a map, which looks rather like the one of the world of the far past in Robert E. Howard's tales of Conan the Barbarian, with strange names superimposed on shapes that are fairly familiar. Ms. Wolf's map seems to be centered on the Red Sea, Egypt, India and China are recognizable, and there's a quasi-Greece off to the north. Ms. Wolf also opts for a long glossary that introduces us to bonesingers and dreamshifters, lionsnakes and daespawn, reavers—they're insectoid humans with venomous bites—and a great deal else.

Magic is vital to epic fantasy, and so is the idea of nonhuman intelligent competitors—Ms. Wolf has not only dragons (not quite in focus in this volume), but also dragon relatives in the shape of wyverns, myrmeces and intelligent sabertooths.

So how do humans fit in? Mr. Lawrence's "**Red Sister**" opens with a bang: Two hundred mercenaries have been sent to hunt down one nun. A 9-year-old girl mounts the steps to the gallows to be hanged. She morphs into the nun, and the story tells us how she is shaped from victim into killing machine. It's a training story, in a way like Harry Potter's at Hogwarts. Classes, punishments, rivalries and in the background, but coming closer, the secret past of little Nona as she grows (like Conan) to be a shaker of thrones.

"The Dragon's Legacy" likewise starts with a just-graduated heroine, a teenage warrior facing new challenges. But Sulema also has a hidden past, a connection to the Dragon King of Atuan, the not-quite-Greece of this world. There's a sense in the book, deeper buried than in Mr. Lawrence's, of some cataclysmic world-shift soon to be triggered, when the dragon wakes.

What do such stories do for their readers, and why have they become possibly the most popular literary form of this generation? Like fairy tales, fantasies offer a sense of potential. With the right training, we too could become, not Snow Whites or Cinderellas, but terrifying, invulnerable super-Rambo's, even the gentlest of us. Couldn't we?

And again like fairy tales, stories like these generate a sense of yearning. Wouldn't it be great to live in a world full of intelligent animals, that you could have a relationship with—especially dragons? And to be in a world where magic works, even if it takes a shaman to work it? Beats the daily commute, that's for sure.

But to appreciate these scenarios fully, you have to surrender to the domination of the author, and trust that he or she isn't just freewheeling. Otherwise you lose that precious sense of depth, which J.R.R. Tolkien, J.K. Rowling and George R.R. Martin were all able to sustain over multiple books. Mr. Lawrence and Ms. Wolf are off to a good start so far.

### FICTION CHRONICLE: SAM SACKS



NEARLY 2,500

years separates the Greek tragedian Aeschylus' trilogy "The Oresteia" from Colm Tóibín's novelistic retelling, "**House of Names**" (*Viking*, 275 pages, £14.99), a gap of time that has sharpened the unfamiliarity of a story that, even by the standards of ancient mythology, was already plenty strange. In brief, it goes like this: While sailing to Troy, Agamemnon, the commander of the Greeks, appeases some annoyed deities and ensures a favorable wind by sacrificing

Colm Tóibín reimagines an ancient Greek story of primal taboos and unnatural slaughter.

ing his daughter Iphigenia. When, 10 years later, he returns home victorious, his vengeful wife, Clytemnestra, aided by her lover, Aegisthus, murders him in the bath. Agamemnon's surviving children, Orestes and Electra, eventually repay the deed by killing Clytemnestra.

Writers have on occasion reprised this tale of primal taboos and unnatural slaughter—Eugene O'Neill's Civil War-era drama "Mourning Becomes Electra," for instance, and Jonathan Littell's ghastly Holocaust fiction "The Kindly Ones." But literature today typically prizes realism and psychological subtlety. Mr. Tóibín is exemplary of modern methods, a careful, Jamesian portraitist of exquisite finesse and understatement. What has brought him to the bloody House of Atreus?

The answer has to do with motherhood, and the love and hatred it arouses. It's a theme whose variations Mr. Tóibín has explored in the story collection "Mothers and Sons"; in the novel "Nora Webster," about a small-town Irish widow modeled after his own mother; and even in the novella "The Testament of Mary," narrated by the angry and heartbroken mother of Jesus.

"House of Names" alternates among the points of view of Clytemnestra, Orestes and, to a lesser extent, Electra. Clytemnestra is fiercely determined to mete out justice to Iphigenia's killer, but her wrath is colored by despair at the thought that there is no divine sanction to her retribution.

"There is no one among the gods to whom I appeal. I live alone in the shivering, solitary knowledge that the time of the gods has passed." She can only carry out her plan by recruiting the help of Aegisthus, which splinters her family further, as he immediately asserts control over the palace and sends Orestes into exile.

The teenage Orestes spends much of the book in a remote compound hiding from Aegisthus' henchmen, accompanied by a character that Mr. Tóibín has invented, a decisive and politically savvy young man named Leander. Orestes is a curious figure—fate is grooming him to be a killer, yet he's naive and passive by temperament, and when he does avenge his father, the murder seems like the action of a sleepwalker. "More and more," he thinks after the fact, "his killing of his mother seemed almost unreal to him, something that no one mentioned, as though it had not happened."

A feeling of spectral unreality

characterizes "House of Names," as if it were all a dark Freudian dream, hazily imagined rather than fully inhabited. Mr. Tóibín has traded out the rage and horror of "The Oresteia" for ambivalence and disquiet. His adaptation is as finely written as any of his books, but it occupies an artistic

space that the old woman would give her a break and die already.

Ms. Mizumura's frank, talky novel confronts the emotional and financial toll of looking after an ailing parent. Mitsuki's mother, Noriko, was a vain and energetic social climber who clawed her way to an elite station in Japanese society. But now that she's bedridden—beneath

the fanciest linens available—her "unceasing quest for exhilaration" merely torments her. Mitsuki's marriage is on a rocky downslope as well. She finds out that her husband has been industriously cheating on her for years.

It's the opposite of a storybook tale, yet Ms. Mizumura has tricked it out in the fashion of a 19th-century page-turner. Conceived, she states in a prefatory note, as "an homage to the dying tradition of serial novels," it first appeared in installments in a Japanese newspaper in 2010 and 2011. The 66 chapters are brief, emotionally combustible and, in Juliet Winters Carpenter's translation, liberally strewn with clichés (blood freezes, people stop in their tracks and reach for the stars). There are also fascinating asides about the history of the serial novel in Japan,

because Mitsuki believes that these fairy-tale melodramas were responsible for shaping her mother's acquisitive personality and may have contributed to her own marital unhappiness. So Ms. Mizumura craftily mixes the old with the new, creating a highly readable throwback to popular dime novels that replaces gilt with guilt and romance with real talk.



UNEASY A gold funerary mask found at Mycenae in 1876 that was initially thought to be Agamemnon's.

nether region, lacking the archetypal power of the ancient dramas and the plausibility of realism.

"Kill me!" demands a hospitalized old woman in Japanese writer Minae Mizumura's novel "**Inheritance From Mother**" (*Other Press*, 447 pages, £23.99). "There's no point in going on living this way, so just kill me!" Since this isn't Aeschylus, her middle-aged daughter Mitsuki demurs, but in her heart, as she cares for her mother through injury, illness and se-

## OPINION

### REVIEW & OUTLOOK

#### Rod Rosenstein's Justice

**N**ixon. Watergate. Tuesday night massacre. Coup. Dictator. Impeachment. Those are the words political elites are throwing around after President Trump's firing of FBI Director James Comey, and that's in the news stories. The meltdown reflects the temper of the times and hostility to Mr. Trump, but it also ignores the need to repair the damage that Mr. Comey has done to the Justice Department and FBI.

Most of the political class loathes this Administration, and so the natural default is that it must be lying about the reasons for Mr. Comey's dismissal. If you're invested in the Trump-Russia collusion theory of the 2016 election, you assume this is a coverup. The references to Mr. Comey's handling of the Hillary Clinton investigation are an excuse, a deception, a Big Con.

Not that the White House does much to rebut these claims. A terse 6 p.m. press release doesn't answer many questions. Neither Attorney General Jeff Sessions nor Deputy AG Rod Rosenstein held a press conference to explain their memos recommending dismissal. Mr. Trump managed to inject his ego even into his dismissal letter to Mr. Comey, saying that "I greatly appreciate you informing me, on three separate occasions, that I am not under investigation."

And on Wednesday the White House descended into a leak-fest with aides depicting Mr. Trump as raging at Mr. Comey even as he was conflicted about firing him. This crowd couldn't sell gold bars to inflationists.

\* \* \*

Yet for those willing to take Mr. Rosenstein's memo seriously, there are good reasons for canning Mr. Comey that don't trade in conspiracy. And his arrival at Justice may also explain the timing of Mr. Comey's firing.

Mr. Rosenstein was confirmed by the Senate only two weeks ago, and one of his obvious first tasks was to dig into the Russia probe because Mr. Sessions has recused himself. Senate Democrats demanded this during the confirmation hearing as they pressed him to name a special counsel. This also meant contemplating the role and responsibility of Mr. Comey and the FBI in the Justice Department hierarchy.

One concern of longtime prosecutors and former Justice officials is that Mr. Comey became a force unto himself. He didn't tell Attorney General Loretta Lynch until the last minute that he would hold his July press event exonerating Mrs. Clinton. His excuse afterward was that Ms. Lynch was compromised after meeting with Bill Clinton on an airport tarmac. But then what about Deputy AG Sally Yates? What was she, a potted plant?

Federal Judge and former Deputy AG Lawrence Silberman laid out these and other concerns in these pages on Feb. 24. His conclusion—that Mr. Comey's "performance was so

inappropriate for an FBI director that I doubt the bureau will ever completely recover"—resonated widely across the government.

#### The Deputy AG had good reasons for Trump to fire James Comey.

highly critical of Mr. Comey's violation of Justice Department standards. Mr. Rosenstein clearly understood he had to re-establish supervisory control over the FBI as a matter of accountable government.

This is one of the reasons we advised Mr. Sessions in January to seek Mr. Comey's resignation, and if he refused, to recommend that Mr. Trump fire him. The timing would have been better with the change of Administrations. But Mr. Sessions had to recuse himself from the Russia probe, and the scenario we recommended eventually took place when Mr. Rosenstein arrived.

Many will now believe that Mr. Rosenstein must also be part of the coverup, but nothing about his career suggests that is how he'd behave. He was confirmed 94-6 even in this era of polarized politics because Democrats respected his record as a U.S. Attorney under Presidents Bush and Obama. Radical thought: Maybe Mr. Rosenstein really believes the FBI needs a director who isn't a political rogue.

\* \* \*

Democrats are now demanding that someone other than Mr. Rosenstein name a special counsel for the Russia probe, but any decision should still be his and we hope he resists—again for the integrity of the Justice Department. Mr. Comey is again the best example to avoid.

As Deputy AG under George W. Bush, Mr. Comey named his pal Patrick Fitzgerald as a special counsel to investigate the Valerie Plame leak. Mr. Comey thus ducked personal responsibility while garnering plaudits in the press and from Democrats. The case fizzled to a perjury rap against Scooter Libby that has been discredited by subsequent evidence.

There's no reason to think that Mr. Rosenstein can't honestly supervise the Russia probe with the help of a new FBI director with a reputation for independence. One strong candidate would be Stuart Levey, a lawyer now in private business who ran the Treasury's counterterrorism finance operations for Presidents Bush and Obama. He is highly respected, and Mr. Obama considered him for the FBI before his unfortunate choice of Mr. Comey.

Modern Washington wants to distill every dispute into a binary fight for power, every decision as a calculation about political gain. But sometimes there are other principles at stake, and not everyone is a partisan hack. It's always possible Mr. Rosenstein believes he was acting in the best interests of the FBI, the Justice Department, and the country.

#### Guns for the Syrian Kurds

**D**onald Trump inherited bad and worse options for dealing with Syria. This week the President selected one of the less bad ones by approving a plan to arm Syrian Kurds combating Islamic State.

The Pentagon on Wednesday said it's preparing to deliver the first cache to the Kurdish Peoples' Protection Units, or YPG. The weapons are intended to bolster the Kurdish fighters as they set out to dislodge the caliphate from its "capital" of Raqa. Washington already provides the YPG with air cover and special-operations assistance.

The arms transfer will solidify the YPG's position as the main American proxy on the ground in Syria, not that there are many alternatives. There is no comparably reliable partner in the areas where the YPG fights.

The Kurdish fighters have also proved themselves on the battlefield. On Wednesday they took control of Taqba, 33 miles west of Raqa and home to Syria's largest dam. Their successes going back to 2014's battle of Kobane have led the Pentagon to conclude that the fastest way to liberate Raqa is in cooperation with the Kurds.

There are risks to arming the YPG. Kurds make for poor liberators in Arab areas such as Raqa. Kurdish forces can defeat Islamic State militarily outside traditionally Kurdish areas, but it's harder for them to hold and govern territories that are majority Sunni Arab. The YPG does have Arab allies in its ranks, and the Pentagon should insist that Arabs take the lead in Raqa.

#### The Drug Lobby's In-House Hygiene

by multiple other drug makers.

The pricing furor started with expensive cures for diseases like Hepatitis C, but the critics must have realized that assailing state-of-the-art treatments for unmet medical needs wasn't a good look. Their targets shifted to bad actors like Marathon Pharmaceuticals or Martin Shkreli's former outfit whose business model is jacking up prices for old medicines.

These outliers don't represent the larger industry, which sinks about \$60 billion annually into the risky search for new therapies. The pricing scolds won't notice, but the Americans who may one day benefit from this R&D should be thankful PhRMA is self-policing.

#### Prime Minister Corbyn



POLITICAL ECONOMICS  
By Joseph C. Sternberg

A mystery of this season's parliamentary campaign in Britain is why people aren't more worried about Jeremy Corbyn. Yes,

polls show the unreconstructed leftist is leading the Labour Party out of contention in the June 8 vote. But radicals of his ilk pride themselves on playing the long game, and it's worth considering that he might be playing that game much better than the pundits think he is.

Consider what were presented as his two big gaffes this week. The first and lesser of the two was his refusal to be drawn into a categorical statement that he would pull Britain out of the European Union. Mr. Corbyn describes the Brexit question as "settled" and rules out a second referendum. But he also dodged repeated questions from a reporter on whether he would definitely leave the EU no matter what deal results from negotiations with Brussels.

His ambiguous Brexit position infuriates most political activists. Centrist Labour worthies and some portion of the rank-and-file are desperate for a leader who promises to thwart Brexit. Brexiteers on both the right and the far left distrust his perceived failure to promise that Brexit really will happen.

But ordinary voters? Maybe they don't care as much about Brexit as the London media think they do. Polls over the past month have found wavering support for Brexit as formal negotiations with Brussels get under way, with Leave and Remain pulling even at around 45%.

The issue that most concerns voters is health care and the National Health Service, according to a survey released by polling firm Opinium last week. Brexit comes second. The NHS ranks as the bigger worry even among respondents who say they voted to leave the EU. And more of those who listed health care as their main concern trust Labour on that issue than trust the Tories, 36% to 23%.

At this point one should start worrying that Mr. Corbyn is the smartest politician in Britain. By running a campaign that will try to sidestep Brexit, he's staking a claim on the economic disquiet many analysts believe motivated the Brexit referendum vote as a protest against an out-of-touch London elite. He's positioning a far-left Labour party as the next channel for that popular frustration after Brexit fails to improve living standards, as it probably will.

That impression is bolstered by the second and more serious putative gaffe, the leak late Wednesday of a draft Labour manifesto that appears to represent the unbound Corbyn. The document, perhaps released prematurely to discourage dilu-

tion by Labour moderates, promises re-nationalization of railroads, billions of pounds of additional spending on the NHS and social care, education and government jobs, with no realistic prospect of paying for it all.

Critics branded the document the "most expensive suicide note in history." They're right about the expensive part. The program's spending would blow a hole in public finances exacerbated by the revenue collapse that would follow as tax hikes discourage investment and push wealthy individuals offshore. This fiscal irresponsibility supposedly bolsters Tories' claims to be the more competent party.

The last time Labour tried Mr. Corbyn's program, in 1983, it failed miserably. But that's because Margaret Thatcher was in office, and her agenda was reversing the decline of the 1970s and delivering prosperity to growing numbers of Brits.

**Labour doesn't need to be competent. It only needs to seem more in-touch than Brexit-traumatized Tories.**

Today's Tories, under Prime Minister Theresa May, are consumed with their own Brexit psychodramas at the expense of persuading voters on core economic matters closer to home. So while Conservatives fret about whether Brussels tried to influence the election by leaking news that an early summit went poorly, they have little to say about the squeeze households feel from inflation due to exceed 3% this year as wages stagnate. And that's before voters notice that elite Brexiteers seem to think this is evidence that Brexit and its concomitant devaluation of the pound are working.

As a consequence, the Tories are losing important arguments about the role of the state in the economy and about public finances. Mrs. May has co-opted an old Labour plan to cap household energy prices. Meanwhile, 78% of respondents in a YouGov poll last week said they'd support increasing the amount of tax "the richest" have to pay. It's as if Mr. Corbyn were running unopposed on these issues.

Mr. Corbyn's genius, if that's what it turns out to be, is in recognizing that maybe he doesn't need to be competent or even entirely sane. He and his comrades only need to be there in 2022, on the other end of a Brexit process unlikely to go well for many British households, with smug "I told you so" smiles and a program that, as disconnected from economic reality as it may be, seems more connected to the worries of normal people than the Brexit-traumatized Tories will appear.

#### LETTERS TO THE EDITOR

#### Productivity Growth Is Essential for America

Regarding Marie-Josée Kravis's "The Great Productivity Slowdown" (op-ed, May 8): I'm a manufacturing manager with 30 years of working experience. While many of the causes of low or reverse productivity measurements raised in the article contribute to the issue, I believe that the simplest and most important cause wasn't mentioned—other investment priorities.

Since available investment dollars are limited, investments in productivity gains have to compete with other priorities on the top and the bottom of the profit equation. At the top end, investments in product development can bring revenue increases that outweigh potential productivity gains from the same level of investment.

On the bottom end, many investments are required to meet regulatory requirements, volume increases and just to maintain previous productivity gains with new, higher-content products. These investments on the bottom end are required to enter the marketplace.

Investment dollars are scarce after the higher-priority investments are covered. There were times when I worked in the auto industry when the return on investment threshold for a productivity-improvement project was 400% a year. Even at such a high threshold, there were more qualifying projects identified than there were investment dollars to fund them.

#### Democratic Party Needs a Big Dose of Reality Therapy

The Democrats are concentrating on demonizing President Trump because they refuse to own up to their own egregious mistakes in the 2016 election ("Capital Journal: Democrats Ponder New Tactic Against Trump," World News, May 2). At some point their obstructionism (not "resistance") isn't going to work because American voters who have been left behind by the Democratic Party aren't going to be completely fooled by a party with no ideas on how to move the country forward. Nor will that base be fooled by a party that has no desire to work with any other political party, including its own moderate base.

VIVIENNE SMITH  
Lakewood Ranch, Fla.

Productivity has suffered because available investment capital is being applied to meet compliance, regulation and tooling requirements to simply enter the market or being applied to higher return opportunities.

Productivity can be increased by lowering compliance costs and decreasing taxes to make more capital available for more investment opportunities.

BONNIE BONNER  
Denver, N.C.

Has anyone thought to look at the labor participation rate in America, which remains at 40-year lows? And why is that? Milton Friedman said it best: "If you pay people not to work and tax them when they do, don't be surprised if you get unemployment." Until we stop paying people not to work, the labor participation rate and productivity won't improve.

NICK CHICKERING  
Whitefish, Mont.

Positive investor and consumer sentiment can boost the economy and trigger a virtuous cycle of investment and growth, but tax policies that drive U.S. corporate assets offshore result in misleading economic data and growth depressants that establish a negative context for sentiment. Ms. Kravis recommends deregulation, tax reform to spur capital investment and infrastructure investments as policies to break the great productivity-growth slowdown. She suggests that even if productivity winds are no longer at the U.S. economy's back, it makes no sense for Washington to point what amounts to a great wind turbine of unproductive policies at the economy's face.

Maybe the skeptics are right and no productivity good will come out of policies that favor investments in capital and labor, but even a low-probability chance to stop trillions of dollars of GDP leakage offers a compelling risk-reward profile.

BILL HOGAN  
Savannah, Ga.

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## OPINION

# Where Has All the French Talent Gone?

By Philip Delves Broughton

**O**ver the past two decades, France's best have abandoned home. Once they would have tap-danced their way through careers in and out of the public and private sectors—a job at the Inspection Générale des Finances followed by a stint in banking, then back into government before settling in at the top of some state-sponsored industrial giant.

**F**rance's brain drain has deprived the country of political talent. Maybe Macron's reforms can coax them back home.

But some time after the opening of the Channel Tunnel in 1994, during the long drear of the Jacques Chirac years, they began to leave. All those graduates of Paris's famed *lycées*, Henri IV and Stanislas, and the products of its vaunted *grandes écoles* looked at what France had to offer and hoofed it, some for New York, a few for Silicon Valley, and a great thundering herd for London.

They have earned millions as hedge-fund traders and investment

bankers, or by setting up businesses free of the mind-bending constraints of French employment law. London has prospered from their presence. They have bought townhouses in South Kensington and filled the private schools with hordes of little Xaviers and Sylvies. If some enterprising PR company were to set up a cross-Channel croissant-making contest, the winner would be as likely to come from Mayfair as from the Marais.

So if you wonder how a mysterious 39-year-old with only a brief record of public service can find his way to the French presidency, one answer is that his generation's talent pool has been drained by emigration. Emmanuel Macron achieved his ascent while the best of his class were off elsewhere. He won the support of 93% of French voters living outside the country. In that number were many who in an earlier era might have proved stiff opposition on the campaign trail.

It never used to be this way. Past presidents such as Valéry Giscard d'Estaing, François Mitterrand and even Mr. Chirac were epitomes of a certain kind of Frenchman: Mr. Giscard d'Estaing, all floppy-limbed aristocratic disdain; Mitterrand a cryptic Socialist with a history as smoky and convoluted as France's own; and Mr. Chirac a swaggering clan chief of indiscernible political



GETTY IMAGES

Emmanuel Macron achieved his ascent while the best of his class was abroad.

or personal morality.

Their careers had exposed them to all the glories and contradictions of French public life, to reversals and compromises, and to years of sharp-elbowed political fights. They were the winners of a Darwinian struggle among France's finest. When they ventured out into the world, no one doubted they represented the sharp end of French political talent—that unique blend of charm, technocratic bludgeoning and devilish self-interest. You would back them in any fight, whether it was with the Ger-

mans to remake EU rules, a union boss to settle a strike or a West African potentate to ensure the privilege of French oil companies.

This hasn't been the case since. Nicolas Sarkozy spun his wheels, enveloping his presidency in pointless noise and smoke. François Hollande has done very little at all. They are arguably the two worst presidents of the Fifth Republic so far. The last relic of that bygone era of French leadership is Alain Juppé, Mr. Chirac's prime minister and now the long-serving mayor of Bordeaux, who

has been thwarted time and again from making the final leap to the Elysée Palace.

Mr. Macron triumphed as a Frenchman who had decided to stay, when his education and opportunities might easily have led him to leave. He could have joined the quarter of a million French citizens living in London. But he didn't. He stayed and took advantage of an emptied political field, in which midgets loom like giants.

He is now seeking to repopulate that field, hastily putting together a list of candidates to stand for his new En Marche party in next month's parliamentary elections. The names read like the mythical everyman and everywoman candidates that political parties crave: a farmer, a lawyer, a former head of the police rapid-intervention force, the deputy director of a hospital in Toulouse. They are supposed to represent a new and untainted generation in French politics.

It would be a far greater achievement if he could persuade the hundreds of thousands who have left to come back. To renounce their easy foreign lives and re-create the kind of truly competitive political leadership France once had, and which it so badly needs once again.

*Mr. Delves Broughton is an author and former Paris correspondent for the Daily Telegraph.*

## Whoever Wins Iran's Election, Its Religious Minorities Lose

By Kristina Arriaga

**W**hat will Iran's May 19 presidential election mean for the Baha'i, the country's largest non-Muslim religious group? Given that every candidate was handpicked by Supreme Leader Ayatollah Khamenei's Guardian Council, the answer is simple: Nothing good.

The Islamic Republic considers the Baha'i faith heretical because it was founded after the death of the Prophet Muhammad, who is perceived in Islam as the final prophet. Since its founding 1979, the Iranian regime has taken this theological assertion to a violent extreme and used it to intensify persecution of Baha'i believers.

Discrimination against this community, which numbers around 300,000, is codified into Iranian law. The group is banned from careers in the military and is often denied other employment since many companies don't want to run afoul of the authorities. Baha'i cannot legally leave property to their heirs.

Tehran makes it impossible for the Baha'i to practice their faith openly. Unlike other minority religious groups such as Christians, Jews and Zoroastrians, Baha'i aren't recognized in the Iranian Constitution. They are therefore legally forbidden from establishing places of worship or independent religious associations.

Government officials at all levels won't recognize Baha'i marriages as they do for Muslims, Christians, Jews and Zoroastrians, and make it almost impossible for Baha'i to obtain death certificates. Baha'i cemeteries, holy places and community properties often are confiscated or desecrated. Many religious sites have been demolished, primarily by elements of the Iranian Revolutionary Guard Corps.

But employment and religious worship barriers are the least of the Baha'i's problems. Since 1979, Iran's security and intelligence agencies have executed more than 200 Baha'i leaders. Over the past year, pro-government media outlets have published hundreds of articles that vil-

ify the Baha'i and encourage violence against them. In September, two men stabbed to death Farhang Amiri, a Baha'i member, outside of his home in Yazd in central Iran. Both men confessed to killing him for being an "apostate."

**As another national vote approaches, leaders of the Baha'i faith languish in Tehran's prisons.**

While the government rarely brings these attackers to justice, it routinely arrests and jails innocent Baha'i. Nearly 1,000 Baha'i have been arbitrarily arrested over the past decade alone. At least 90 remain imprisoned for religious "crimes." Over the past year alone, dozens have been arrested.

Sunday marks the ninth anniversary of the imprisonment of six of the "Baha'i 7": Jamaloddin Khanjani, Afif Naeimi, Saeid Rezaie, Behrouz

Tavakkoli, Vahid Tizfahm and Fariba Kamalabadi. These Baha'i leaders are serving 20-year sentences based on groundless charges ranging from espionage to "corruption on the earth." Thanks to a 2013 change in Iran's penal code that reportedly allows sentences to be served concurrently, not consecutively, all seven should be released next year. The U.S. Commission on International Religious Freedom, or USCIRF, on which I serve, urges their immediate release.

I am personally working on behalf of the two female members of the Baha'i 7, Ms. Kamalabadi and Mahvash Sabet. Ms. Sabet is a 64-year-old educator with two grown children. Fired from her job as a school principal for her religious faith, she joined an underground teaching movement for fellow Baha'i, the Baha'i Institute for Higher Education, where she worked for 15 years before her arrest.

Ms. Kamalabadi is a 54-year-old psychologist, teacher and mother of three. Banned as a Baha'i from studying at a public university, she obtained a master's degree from the

Advanced Baha'i Studies Institute, where she joined Ms. Sabet to teach Baha'i youth. Along with the other five imprisoned Baha'i leaders, both of these women have languished in prison for nearly a decade in deplorable conditions.

Iran's election next week holds little hope for the Baha'i or for other religious minorities. It holds scant hope for the hundreds of Sunni and Sufi Muslims and Christians incarcerated for religious reasons, including Maryam Naghash Zargaran, on whose behalf USCIRF Commissioner Cliff May is advocating. And it holds no hope for Jews and Zoroastrians, who also suffer discrimination.

How will we know when real change arrives? We will know when Tehran immediately releases the Baha'i 7 and all other religious prisoners of conscience, and when it replaces religious repression with religious freedom for every Iranian.

*Ms. Arriaga serves as a commissioner at the U.S. Commission on International Religious Freedom.*

## It's Curtains for the James Comey Show

That is an apt metaphor—a kind of reality TV—for everything the dazed public is reading and hearing now about James Comey, the federal investigation into a Russian connection with the Trump campaign, and reveries about Watergate.

But I know where to begin: with the news in March 2015 that Secretary of State Hillary Clinton created a private email server in 2009.

Hillary's email server is the reason for James Comey's rise, and why he has fallen. One could populate a political graveyard with figures who by choice or chance have sailed into the Clintons' personal Bermuda Triangle.

Add to that graveyard former Attorney General Loretta Lynch, whose tarmac tête-à-tête with Bill Clinton about "grandchildren" amid the server scandal caused Mr. Comey to misbelieve, fatally, that he was thereby made independent of any authority.

Again, quoting Deputy Attorney General Rosenstein: "The FBI director is never empowered to supplant federal prosecutors and assume command of the Justice Department. There is a well-established process for other officials to step in when a conflict requires the recusal of the Attorney General."

But what about the infinity of words produced Wednesday by the press, quoting Democrats and even themselves, that Mr. Trump fired Mr. Comey to subvert the FBI's investigation of the president's Russia entanglements? We say "entanglements" because nowhere has it been made remotely clear what the Trump-Russia connection may have been. What we read, endlessly, is that some strand or crumb "suggests that . . ."

As with Hillary's server, there is a Rosetta Stone for the Russia story. It is the Barack Obama/Loretta Lynch decision in January to sign rules permitting the National Security Agency to disseminate "raw signals intelligence" to 16 other intelligence agencies without privacy protections for individuals.

Two months later, the New York Times reported that Obama administration officials had done this to dispense information across the intelligence bureaucracies "about possible contacts between associates of President-elect Donald J. Trump and Russians."

Of course, those "contacts" leaked into the water-collection barrels of the entire Washington press—either from officials inside 17 U.S. intelligence agencies or from

Obama officials themselves, such as it-wasn't-me Susan Rice.

The predictable tumult from the Obama-originated mass leaks then intimidated Congress into sending the House and Senate intelligence committees chasing after these "suggestions" of collusion.

**He becomes the latest to disappear into the Clintons' personal Bermuda Triangle.**

Beyond Mike Flynn and Carter Page, why haven't we seen more leaks pushing past the original stories? Why have the leakers gone silent, unless they leaked everything they had? Indeed, why hasn't there been a megadump into the press by now of all the original NSA "raw signals intelligence" à la the Pentagon Papers?

Instead, calls are now bubbling up from this swamp—what else can you call it?—to appoint a special prosecutor, presumably to get to the bottom of the Russian collusion swamp, though without subpoena powers in Moscow.

No one outside Washington should be misled by the choruses calling for an "independent" prosecutor. This is special pleading.

For the political class it relieves them of responsibility for policing their own neighborhood. The media likes these prosecutors because they become Inspector Javerts, melodramatically chasing their targets for years, more often than not destroying reputations. The Justice Department's guidelines make clear these special prosecutors are accountable to virtually no one. They don't produce justice; they endanger it.

The "Trump is Nixon" narrative will rattle on, but it is a sideshow. The Trump White House can take care of itself (maybe). The serious issue revealed in all this—the server, the leaks, the investigations—is about institutional accountability, not just at the FBI, but across the intelligence bureaucracies, their masters in government, Congress and the media.

The American public deserves better than this endless Beltway spectacle. Rod Rosenstein deserves credit for saying that the road back to public seriousness had to start with firing James Comey.

*Write henninger@wsj.com.*

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## Notable & Quotable: Rosenstein's Letter

*From the memo prepared by Deputy U.S. Attorney General Rod Rosenstein regarding former FBI Director James Comey:*

The Federal Bureau of Investigation has long been regarded as our nation's premier federal investigative agency. Over the past year, however, the FBI's reputation and credibility have suffered substantial damage, and it has affected the entire Department of Justice. That is deeply troubling to many Department employees and veterans, legislators and citizens.

As you and I have discussed . . . I cannot defend the Director's handling of the conclusion of the investigation of Secretary Clinton's emails, and I do not understand his refusal to accept the nearly universal judgment

that he was mistaken. Almost everyone agrees that the Director made serious mistakes; it is one of the few issues that unites people of diverse perspectives.

The Director was wrong to usurp the Attorney General's authority on July 5, 2016, and announce his conclusion that the case should be closed without prosecution. It is not the function of the Director to make such an announcement. At most, the Director should have said the FBI had completed its investigation and presented its findings to federal prosecutors.

Compounding the error, the Director ignored another longstanding principle: we do not hold press conferences to release derogatory information about the subject of a declined criminal investigation. Deroga-

tory information sometimes is disclosed in the course of criminal investigations and prosecutions, but we never release it gratuitously. The Director laid out his version of the facts for the news media as if it were a closing argument, but without a trial. It is a textbook example of what federal prosecutors and agents are taught not to do.

The way the Director handled the conclusion of the email investigation was wrong. As a result, the FBI is unlikely to regain public and congressional trust until it has a Director who understands the gravity of the mistakes and pledges never to repeat them. Having refused to admit his errors, the Director cannot be expected to implement the necessary corrective actions.

## LIFE & ARTS

### ART REVIEW

# A Dubious Giacometti Makeover

BY ERIC GIBSON

London

**THERE IS MUCH** to celebrate in the Giacometti retrospective that opened Wednesday: its comprehensiveness and the inclusion of so many rarely or never seen works, in particular the newly restored plaster "Women of Venice" (1956) on view for the first time in 60 years. All this makes it a must-see event—the more so since, given the fragility of many of the plasters, it's one unlikely to be repeated.

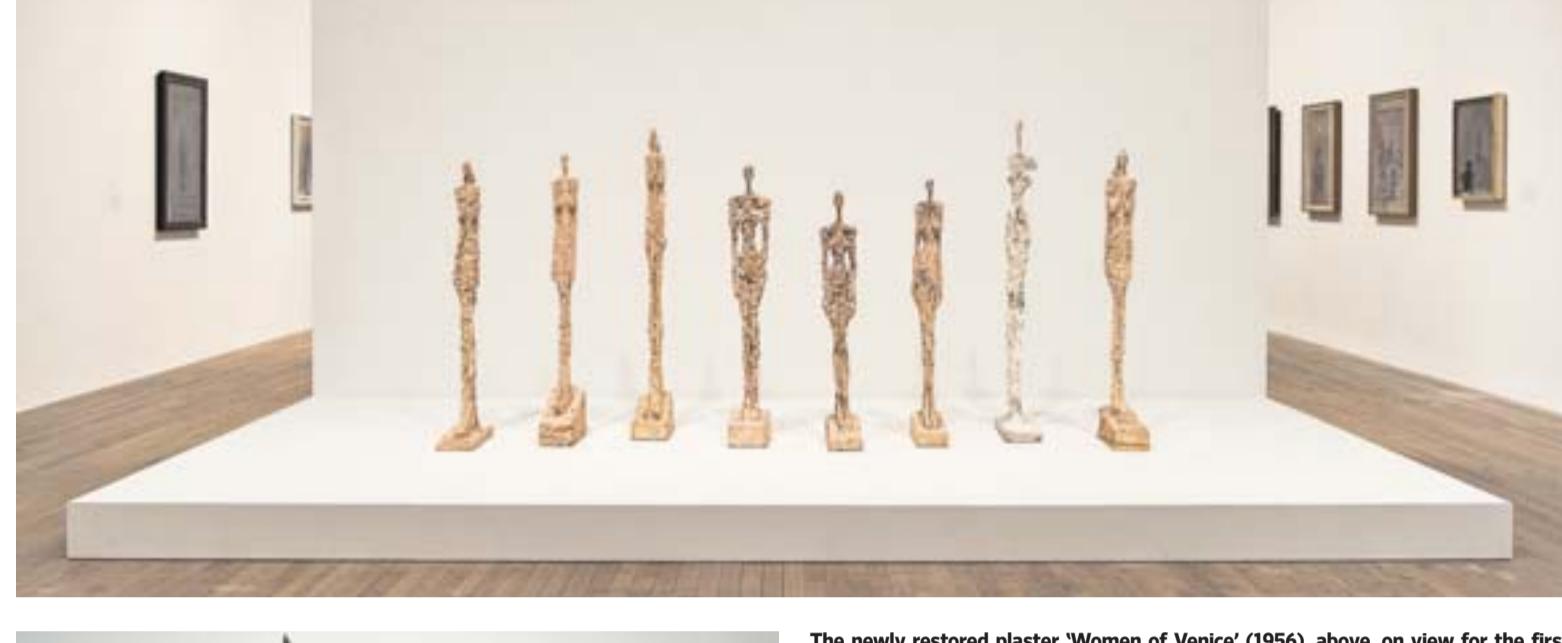
It's a pity, then, that this revelatory exhibition is marred by the effort by the curators—Frances Morris and Lena Fritsch of the Tate Modern and Catherine Grenier and Mathilde Lecuyer of the Fondation Alberto et Annette Giacometti, Paris—to make Giacometti into an artist he wasn't, and by the ensuing distortions of the historical record.

Born in Borgonovo, Switzerland, Alberto Giacometti (1901-1966) briefly studied art in Geneva before moving to Paris in the early 1920s. There he produced abstract and semi-abstract sculptures in a Surrealist vein on themes of sexual violence, such as "Woman With Her Throat Cut" (1932).

Work making lamps and other decorative objects at the same time for a furniture designer provoked a crisis around 1935. Giacometti felt there was no difference between those objects and his sculptures. So beginning in the 1940s he returned to first principles, abandoning the invented language of modernism to copy what he saw. The aim was to represent the human figure as it appeared to the eye, frontally from a specific distance and within the space that surrounded it.

Thus resulted his signature images: tall, slender, almost hallucinatory figures that "read" only at a distance, and which at close range devolve into scabrous agglomerations of matter. The task was, as he often said, "impossible," yet one that occupied him for the rest of his life.

The central premise of the exhibition, which consists of more than



FROM TOP: TATE PHOTOGRAPHY; ALBERTO GIACOMETTI ESTATE, ACS/DACS, 2017



The newly restored plaster 'Women of Venice' (1956), above, on view for the first time in 60 years, and the bronze 'Woman With Her Throat Cut' (1932), left.

250 sculptures, paintings and graphic works, is that Giacometti was far more ad hoc in his approach to materials and techniques than previously thought. A sculpture in plaster is traditionally an intermediary stage on the way to the "final" stage in bronze. Giacometti looked on it as artistically equal, continuing to model the plaster after a bronze had been cast, even painting or drawing on it.

This point is vividly made through telling juxtapositions, such as that of two 1962 busts, the bronze and plaster versions, of his wife, Annette. The play of light and shadow across the plaster brings out the lumps, gouges and other traces of the artist's hand, making us almost eyewitnesses to Giaco-

metti in the studio.

Unfortunately, such insights come at a price: the show's "repositioning" of Giacometti as an artist relevant to the present moment. Thus at the press preview, Ms. Morris drew parallels between Giacometti's "nonhierarchical" approach to materials and current artistic practice. She goes further in the catalog, taking a slap at earlier writers who have "tended to collude in isolating the artist from his context" and instead arguing for him as "a man who was fiercely involved in politics, embedded in a brilliant artistic community filled with poets and writers...and who absorbed everyday life from the ring-side of the café"—in other words, just like one of today's politically committed, network-savvy artists.

This leads to some pretty strange turns. Evidently to align Giacometti with contemporary taste that sees no distinction between "high" and "low"—fine art, popular culture and straight kitsch—the wall text informs us that "Giacometti did not think of his design works as insignificant, and on several occasions they influenced his practice as a sculptor, and vice versa." The crisis of the '30s goes unmentioned, an astonishing airbrushing of history.

And presumably to paint him as socially engaged, the curators have dredged up the old saw about Giacometti's isolated, ravaged-looking figures being emblems of post-World War II Existential angst. This nostrum was first promulgated in a 1948 essay on the artist by Jean-Paul Sartre, who knew nothing about art.

Worst of all, Giacometti's singular aesthetic is all but written out of the presentation, with scarcely any attempt to explain to the visitor why his work looks the way it does—why some figures are minuscule and others life-size, why in the later works the torsos are massive and lumpy but the heads dispropor-

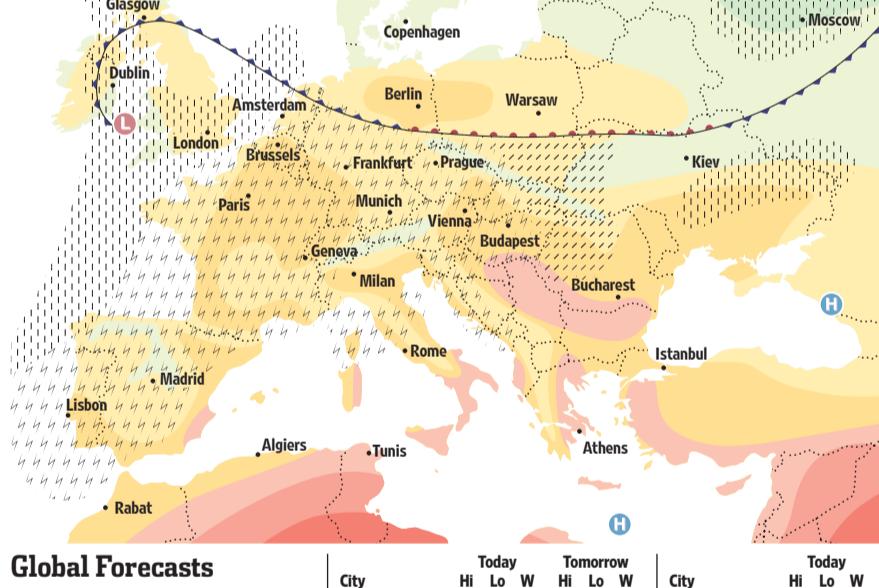
tionately small and finely wrought. To understand what Giacometti was really up to, ignore the spurious "repositioning" wall texts and watch the documentary showing the artist working and talking in his studio that runs on a continuous loop toward the end of the exhibition.

There in fact is a sense in which Giacometti relates to the present moment, but it's one few in the art world would want to acknowledge. He personified T.S. Eliot's dictum that "the progress of an artist is a continual self-sacrifice, a continual extinction of personality." As such, Giacometti is a rebuke to the spectacle-driven, play-to-the-gallery art of Jeff Koons, Damien Hirst (currently the toast of Venice) and others, in which personality, ever front and center, is the art's indispensable coefficient. Against this, Giacometti's example has never been more relevant—or necessary.

**Giacometti**  
Tate Modern, though Sept. 10

*Mr. Gibson is the Journal's Arts in Review editor.*

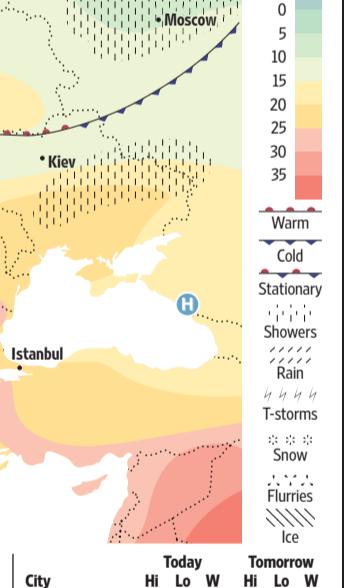
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### Global Forecasts

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	18	12	sh	18	10	t
Anchorage	15	6	s	12	5	r
Athens	27	21	pc	32	22	s
Atlanta	27	16	r	24	13	t
Bahrain	39	21	s	37	21	pc
Baltimore	13	8	r	14	9	r
Bangkok	32	27	t	33	26	t
Beijing	31	13	s	29	12	s
Berlin	21	12	t	20	12	t
Bogota	18	10	sh	18	10	sh
Boise	14	3	c	13	3	pc
Boston	11	7	c	11	8	c
Brussels	20	12	t	19	10	c
Buenos Aires	18	13	sh	20	11	c
Cairo	32	19	s	35	21	s
Calgary	21	5	pc	16	3	pc
Caracas	30	27	pc	31	26	pc
Charlotte	26	15	c	23	12	t
Chicago	18	7	pc	23	11	pc
Dallas	26	15	pc	28	16	s
Denver	25	9	pc	29	9	pc
Detroit	17	7	c	20	10	pc
Dubai	37	29	s	38	31	s
Dublin	15	8	s	16	7	r
Edinburgh	15	10	c	16	9	sh
Frankfurt	21	12	c	22	12	t

### AccuWeather.com



### The WSJ Daily Crossword | Edited by Mike Shenk



### DRIVING YOU CRAZY | By Matt Gaffney

The answer to this week's contest crossword is an automotive no-no.

#### Across

- It has a curved bill
- Made swirling motions
- Jake Tapper's employer
- Ready to be served
- TV producer
- Prime minister who met with Trump in February
- Boxer's target, often

► Email your answer—in the subject line—to [crossovercontest@wsj.com](mailto:crossovercontest@wsj.com) by 11:59 p.m. Eastern Time Sunday, May 14. A solver selected at random will win a WSJ mug. Last week's winner: Claire Chatto, Parrish, FL. Complete contest rules at [WSJ.com/Puzzles](http://WSJ.com/Puzzles). (No purchase necessary. Void where prohibited. U.S. residents 18 and over only.)

- 61 Rocketry substances  
64 Halloween shout  
65 Leah of "The King of Queens"  
66 Love for Laver  
67 Aniston, to friends  
68 Tchaikovsky swan  
69 Alma mater of Prince William  
**Down**  
1 "My guesstimate is..."  
2 Adult beverages, casually  
3 Wedding day acquisition  
4 Clinch  
5 Sevilla setting  
6 FedEx alternative  
7 Woodland female  
8 "Need You Tonight" band  
9 One many layers above teachers, derisively  
10 Reindeer name  
11 Has room for in the budget  
12 13-Down's org.  
13 Brooklyn baller  
18 Fiction fan  
22 "Are \_\_\_ pair?" (Sondheim lyric)  
25 Oscar winner for "A Fish Called Wanda"  
26 Kosovo neighbor  
28 Meccan, e.g.  
**Puzzle Contest**  
1 "Mr. Robot" airer  
31 Athletes often break them  
32 1982 title role for Williams  
33 California city that reverses to a kind of poem  
34 Electronic "Jeopardy!" champion of 2011  
36 Fund  
40 Dr. Seuss's real name  
41 Madiba's party  
43 Turned the wheel  
46 Sauce source  
47 No benchmark  
49 Bly who went around the world in 72 days  
52 "Poplars" painter  
53 First part  
54 Famed astrophysicist  
56 1960 Olympics host  
58 Cornfield fun  
59 War on Poverty wager, for short  
60 "The Gold-Bug" author  
62 Abyss  
63 Otoroh-laryngologist, in 18 fewer letters

#### Previous Puzzle's Solution

JAVA	EPCOT	ILKS
ALEX	XOUTS	CANE
WORLD	DHERI	AGESIE
SUN	RATES	OLETA
DECALS	TBAR	LUKE
ANDRE	TEAS	BIINGWI
BOA	SWICHHI	NPR
ETTA	ALLOT	TASTY
LIEBRIE	ICY	NAUT
MAILS	TAHOE	SCHNOZ
ITGOESUP	PANDDOWN	BEES
COHN	UTERINE	ENID
ANTE	MUSIC	

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# BUSINESS & FINANCE

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FTSE 100 7386.63 ▲ 0.02%

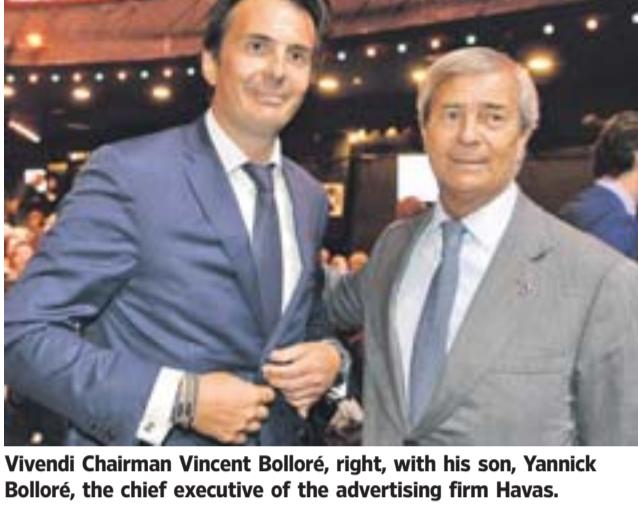
Gold 1222.70 ▲ 0.44%

WTI crude 47.83 ▲ 1.06%

German Bund yield 0.433%

10-Year Treasury yield 2.400%

## Vivendi Aims at Control of Havas



ERIC PIERMONT/AGENCE FRANCE PRESSE/GTET IMAGES

Vivendi Chairman Vincent Bolloré, right, with his son, Yannick Bolloré, the chief executive of the advertising firm Havas.

By NICK KOSTOV

PARIS—Vivendi SA offered to buy a €2.36 billion (\$2.56 billion) stake in advertising group **Havas** SA from the media conglomerate's own chairman, Vincent Bolloré.

Vivendi's offer to buy the 60% stake Mr. Bolloré owns values the ad firm at €9.25 a share, a premium of 8.8% over Wednesday's closing price. Mr. Bolloré controls Vivendi with a stake of more than 20%.

The power Mr. Bolloré exercises over both companies leaves little doubt the offer will be accepted. Vivendi said it aimed to reach a binding agreement with the Bolloré

family holding company Groupe Bolloré "as soon as possible." Vivendi would then offer the same terms to Havas's outstanding shareholders.

Groupe Bolloré said it "welcomed the offer."

For years, Mr. Bolloré has used his stake at Havas to call the shots, installing his son Yannick Bolloré as the firm's chief executive.

If approved, the deal would allow Vivendi to become a vertically integrated media and advertising behemoth, capable of courting advertisers, making ads and producing the media in which to run them. It would also give Vivendi added heft and expertise in data ana-

lytics, new creative formats and consumer science.

Vivendi officials said Havas will continue to bid against other ad companies for access to Vivendi's portfolio of content production and distribution assets, including Universal Music Group.

Still, a potential tie-up could create conflicts of interest. Advertisers have long trusted agencies to act as honest brokers in deciding where their ads appear. Havas and other agencies buy ad space and then pass the cost on to the client after taking a cut.

Rival ad groups question how Havas can continue play—  
Please see VIVENDI page B2

## Uber Suffers Europe Setback

By NATALIA DROZDIK

BRUSSELS—An influential adviser to Europe's highest court delivered a big blow to **Uber Technologies** Inc. on Thursday, recommending the court rule the U.S. ride-hailing company should be regulated as a transportation company, not an online platform as Uber had argued.

The recommendation isn't binding, but the European Court of Justice typically—but not always—sides with such advice. If it does in this case later this year, it would effectively end Uber's long-fought legal attempt to lighten its heavy regulatory load across the Continent, where municipalities, national governments and regulators have sought to hold it to often strict rules and licensing requirements that apply to transportation companies, such as taxi services.

Uber has been embroiled in numerous legal battles with taxi companies and regulators around the world, but the scrutiny has been especially intense in Europe. There it has faced local or national bans on at least some of its services in Italy, Germany, Belgium, the Netherlands, Spain and Hungary.

Uber has long tried to fight local transportation laws by saying it isn't a transportation company at all.

Under current EU law, transportation regulations are exempt from some EU-wide directives, giving countries more of a free rein to regulate those companies. But online services are granted freedom from some kinds of regulatory intervention, such as strict licensing requirements.

"The service offered by Uber cannot be classified as an 'information society service,'" said Maciej Szpunar, an advocate general at the ECJ, referencing the legal designation for online services. "Uber can thus be required to obtain the necessary licenses and authorizations under national law."

In his opinion, Mr. Szpunar said Uber should be regulated as a transport company because transportation offers the primary economic value behind Uber's service. The California firm also controls the economically important aspects of the service, such as the price of rides, he said.

"We have seen today's statement and await the final ruling later this year," said Uber spokeswoman Marloes van der Laan, adding that being designated a transportation company wouldn't change the way it is already regulated in most EU countries.

—Laurence Norman contributed to this article.

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MARK LENNihan/ASSOCIATED PRESS

## CHINESE DAIRY FIRM TO BID ON STONYFIELD

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## European Shopping Spree in U.S.



DREW ANGERER/GETTY IMAGES

Swedish fast-fashion retailer Hennes & Mauritz has 484 U.S. stores. An H&M clothing store on Fifth Avenue in New York last fall.

**H&M, Zara are among retailers snapping up stores as American counterparts retrench**

By SAABIRA CHAUDHURI

LONDON—European retailers hungry for growth are pushing deeper into the U.S., with some using the overexpansion of their American counterparts as a chance to pick up consumers and prime locations.

"We're not in all the malls we want to be in yet," said Nils Vinge, head of investor relations for Swedish fast-fashion retailer **Hennes &**

**Mauritz AB.** "There is still opportunity for physical stores."

H&M opened a net 16 new stores in the three months to Feb. 28, bringing its total number of U.S. stores to 484. Competitor Zara, the **Inditex** SA-owned fast-fashion chain, also continued to boost its American presence, opening a net 10 stores through 2016, bringing its U.S. total to 78 as of Jan. 31.

The expansion comes as American retailers, pressured by online shopping and cutthroat competition, are closing stores at a record pace.

Credit Suisse estimates retailers will close more than 8,600 locations around the U.S. this year, which

would surpass the number of closings during the 2008 financial crisis.

Already this year 19 retailers including Payless Inc. and RadioShack Corp. have filed for bankruptcy protection, compared with 18 in all of 2016, according to **S&P Global Market Intelligence**.

Despite this, the \$274 billion U.S. apparel market—the world's largest, according to **Euromonitor**—remains an attractive next step for European retailers looking to expand.

"A lot of peers are closing down and leaving their stores, which of course opens up opportunities," Mr. Vinge said on a March investor call.

After **Eastern Outfitters**

LLC filed for bankruptcy, **Sports Direct International** PLC last month swooped in to buy the Meriden, Conn.-based company's 50 Bob's Stores and Eastern Mountain Sports for \$101 million. Sports Direct, the U.K.'s largest sports clothing and equipment chain, said the move would give it a footprint in U.S. bricks-and-mortar retail."

As recognition of newer European retailers has grown in the U.S., so has their foothold. Discount clothing retailer **Primark** brought its brand of cheap chic to the U.S. in 2015, Please see STORES page B2

◆ Macy's shares slide as results disappoint..... B2

## Chinese State Firms Funded Metal Cache

By SCOTT PATTERSON

Money from state-run Chinese companies was used to help finance the buildup of a massive aluminum stockpile that has crisscrossed the globe, depressed prices and sparked a criminal investigation in the U.S., according to business records, emails and

people with direct knowledge of the transactions.

Any such involvement by these entities could further strain relations between China and the U.S., which says Beijing undercuts global competition by giving government assistance to its commodity companies.

Aluminum is among sev-

eral commodities that the Trump administration has singled out for potential protectionist policies against cheap Chinese imports.

Financing through the deep pockets of Chinese state-run companies could explain how enormous aluminum stockpiles that have captivated the global metals industry were paid for.

State-owned enterprises in China, known as SOEs, enjoy low-interest government loans and other subsidies and rank among the largest companies in the world.

The stockpile in question involves nearly a million tons of aluminum products from China that began accumulating outside a factory in a Mexican desert.

A Wall Street Journal article tied the cache to billionaire Liu Zhongtian and his aluminum company, **China Zhongwang Holdings** Ltd. Last year, much of the pile and other aluminum linked to Mr. Liu was transported to Vietnam, the Journal reported.

His apparent goal, American competitors allege in federal complaints, was to disguise the origin of the metal, which could have faced tariffs as high as 374% in the U.S. Mr. Liu's former attorney wrote in a 2012 email that the Chinese businessman was planning for retirement in Switzerland by moving assets out of China, where citizens can move only a limited amount of money out of the country.

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IMAGINECHINA/ASSOCIATED PRESS

The aluminum stockpile has been linked to Liu Zhongtian and his firm China Zhongwang Holdings.

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## Emirates Slumps; Payouts Withheld

By NICOLAS PARASIE

**DUBAI—**Emirates Airline said profit plunged in its latest fiscal year, reflecting in part weak business travel and a drop in bookings to the U.S. tied to recent Trump administration travel directives.

Emirates said the downturn will force it to withhold dividend payments to its Dubai government-controlled owner for the first time in more than 20 years—a sudden reversal for an airline that has grown into the world's largest international carrier by passengers.

Profit for the fiscal year ended March 31 fell to \$340 million from \$1.94 billion the year before, while revenue was flat at \$23.2 billion.

**Profit for the year ended March 31 fell to \$340 million from \$1.94 billion.**

Emirates bookings to the U.S. slumped in January when President Donald Trump imposed a ban on immigration from several Muslim-majority countries. Bookings have been slow to recover even though U.S. courts have suspended the ban over concerns about its legality.

The airline, known for its luxury offerings in first and business class, said it won't pay a dividend to its owner, the Investment Corporation of Dubai, for the first time since fiscal 1996. It is a major setback for one of the world's most ambitious carriers, which has stoked controversy with

its rapid expansion and ability to steal traffic from U.S. and European rivals.

Emirates' chairman, Sheikh Ahmed bin Saeed Al Maktoum, said the airline's investments in recent years helped it "weather the destabilizing events which have impacted travel demand during the year."

Sheikh Ahmed cited a long list of issues for the airline, including Europe's immigration challenges and terror attacks, Britain's vote to leave the European Union and U.S. travel policies. The sluggish oil-and-gas industry and its effect on business confidence in the region added to difficulties, he said, as did currency devaluations in parts of Africa.

Emirates' profit decline underlines how the Trump administration's efforts to limit immigration from several Muslim-majority countries and ban laptops on some U.S.-bound flights from the Middle East have taken a toll on airlines in the region. Emirates last month said it would cut the number of its flights to five U.S. cities in response to U.S. policies.

"One of the biggest challenges we faced were the actions taken by the U.S. government relating to the issuance of entry visas, heightened security vetting, and restrictions on electronic devices in aircraft cabins," according to Emirates' annual report. Those measures "had a direct impact on consumer interest and demand for air travel into the U.S.," the company said.

The Dubai-based carrier is the oldest and biggest in that trio of major Persian Gulf airlines that includes Etihad Airways and Qatar Airways.

they lose neutrality in their recommendations."

In an interview last year, Yannick Bolloré described the conflict as "marginal" because Vivendi represents 0.5% of Havas's revenue and Havas's clients account for 0.9% of Vivendi's revenue.

An agreement between the firms to keep the media-buying arm of Havas separate from Vivendi's media unit will remain in place, according to a Vivendi spokesman.

"It's back to the '80s," said Publicis Groupe SA Chief Executive Maurice Lévy. "I'm not sure advertisers will like that

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EUROPE

## BUSINESS & FINANCE

# Macy's Extends Its Swoon

Retailer's results fall short amid dwindling foot traffic at brick-and-mortar stores

BY SUZANNE KAPNER AND ANNE STEELE

**Macy's** Inc.'s troubles showed no sign of abating as the department store reported another quarter of falling sales, ahead of a flurry of results from other retailers battling similar problems with store traffic and online competition.

During the April quarter, sales at Macy's stores open at least a year declined 5.2%, worse than the 3% decrease analysts expected, according to Consensus Metrix, marking the ninth straight quarter that same-store sales have fallen.

Shares of the company dropped 17% to \$24.28 in afternoon trading as profit also dropped.

"Don't count us out, we're not dead," Karen Hoguet, Macy's chief financial officer, said in an interview. The company is rolling out several initiatives that it expects to lift sales, including reconfigured shoe and fine-jewelry departments, she added. "While we'll be operating fewer stores, we have the opportunity to make our stores better."

The government is expected on Friday to release its monthly retail sales data, with economists expecting a 0.5% increase for April following two months of declines. Ms. Hoguet said that despite an uptick in sales in March and April from an unusually weak



A Macy's store in Bowling Green, Ky., in March. The company's stock has been pummeled.

February, Macy's wasn't banking on a rebound in consumer spending this year.

**Kohl's** Corp., which on Thursday reported declines in same-store sales, also saw improvements in sales and traffic as the quarter progressed, according to Chief Executive Kevin Mansell.

February same-store sales declined around 8%, while same-store sales in the combined March-April period were down just 1%. Mr. Mansell said February could have been affected by the slower-than-usual receipt of tax refunds.

The retail sector is in focus on Wall Street over the next few days, with **Nordstrom** Inc. scheduled to report results Thursday afternoon, followed

by **J.C. Penney** Co. on Friday and **Home Depot** Inc., **Target** Corp. and **Wal-Mart Stores** Inc. next week.

Foot traffic continues to dwindle at brick-and-mortar stores as shoppers increasingly opt to make purchases online. Retailers have responded by shutting stores and cutting jobs.

"The past year will be remembered as one of the most challenging periods for 'brick and mortar' retailers," **Sears Holdings** Corp. Chief Executive Edward Lampert wrote in a blog post Thursday.

Macy's early this year said it would eliminate more than 10,000 jobs and detailed plans to close dozens of stores after another weak holiday season,

further signaling that department stores have lost their once-central place in American retailing.

In all for the first quarter, Macy's posted a profit of \$71 million, or 23 cents a share, down from \$116 million, or 37 cents a share, a year earlier. Overall sales fell 7.5% to \$5.34 billion, below expectations of \$5.47 billion, in part owing to store closings.

Still, Macy's backed its 2017 guidance for total sales to be down between 3.2% and 4.3%.

Kohl's said inventory management helped it improve its bottom line in the first quarter despite lackluster sales. Gross margin widened and adjusted earnings per share beat Wall Street estimates by a dime.



Dublin-founded Primark opened a store in 2015 on the former site of Filene's Basement in Boston's Downtown Crossing.

are unlikely to be helped by rising store closures since they tend to look for prime locations such as top-tier malls, where business remains strong.

Amsterdam-based Scotch & Soda has opened three to four new outlets every year since its first U.S. store appeared in New York City in August 2010. The hip, midrange label now

has 25 stores in cities including Miami, Chicago, San Francisco and Los Angeles. "Based on our positive business performance in the U.S.A., we are currently considering ramping up the rollout pace," a spokesman said.

**Reiss** Ltd., a favorite of Kate Middleton, took a more cautious approach as it entered the U.S. market, opening just eight stand-alone locations in cities like New York and Boston since 2005. But the family-owned British retailer has been bolder recently: Reiss opened two stores in New York last year and earlier this year opened one store in Miami. Superdry, which has 20 stores in the U.S., is also accelerating its expansion. The British casual clothing brand plans to open five stores over the summer and five more in the fall.

## STORES

*Continued from the prior page* opening a store on the former site of **Filene's Basement** in Boston's Downtown Crossing. The Dublin-founded retailer, which will open its eighth U.S. store in June in Braintree, Mass., recently expanded its first U.S. store by 20% to about 93,000 square feet, saying awareness of the Primark brand had grown.

"Some international retailers see this as a great opportunity to get into markets they couldn't afford or [to] accelerate expansion," said Brandon Famous, a senior managing director focused on retail in the Americas for real-estate services company CBRE Group Inc. But, he added, many smaller international brands

found evidence for.

"Many factors are demonstrably silly, or are highly correlated versions of the same idea," he said. "Where I get worried is about overreaction [to the paper] and the cynicism it breeds."

Investors are still likely to be confused. There are well over 100 value and high-dividend ETFs in the U.S. alone, tracking large, small or mid-size stocks, based on different definitions and often combined with other factors such as momentum, quality or low volatility. Intelligently choosing between them would mean examining how indexes are constructed and comparing to the long-term academic studies to see which methodology was

best; in practice, for most investors, there is little more to go on than a few years of performance data and fees.

Worse still, the markets are reasonably efficient. If it turns out that shares usually rise just after Christmas or fall on Mondays when it rains in New York, traders will quickly find a way to profit from the anomaly, and it will disappear.

The danger for investors who have piled into "smart beta" ETFs betting on value or quality is that exactly this happens. Small-capitalization companies stopped outperforming after the landmark study identifying the so-called small-cap effect in 1981, for example, and haven't looked good since (see chart).

## STREET

*Continued from the prior page*

A lot depends on exactly how the factors are implemented, though, and the researchers dismissed one of the industry-standard Fama-French factors as statistically insignificant: Companies with high operating return on equity don't outperform meaningfully on their tests. Other measures of return on equity did outperform sufficiently, however, underlining the sensitivity of some factors to how they are defined.

One lesson for investors is to be careful about trying to make money by repeating what seems to have worked in the past. If it was so easy, everyone would do it and it would stop working.

Investors are still likely to be confused. There are well over 100 value and high-dividend ETFs in the U.S. alone, tracking large, small or mid-size stocks, based on different definitions and often combined with other factors such as momentum, quality or low volatility. Intelligently choosing between them would mean examining how indexes are constructed and comparing to the long-term academic studies to see which methodology was

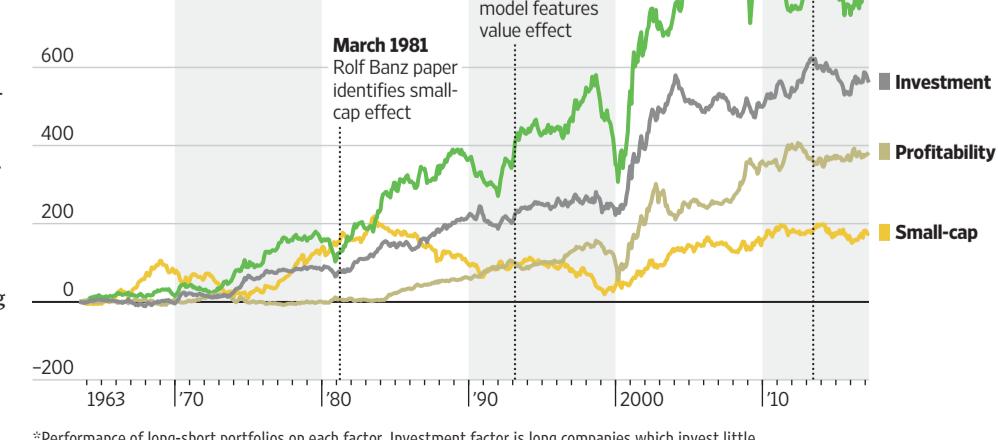
Any factor that might keep working after discovery has to be hard to arbitrage away. For quality, a story can be told of get-rich-quick investors overpaying for sexy high-growth companies, but not—until recently—for shares of boring providers of steady profits. Whatever the story, the more popular the factor becomes with investors, the smaller its outperformance will be in the future.

Messrs. Hou, Xue and Zhang provide a handy dismissal of factors that didn't even work well in the past. But ultimately no one knows whether even previously robust factors like value and momentum will keep working.

## Factors to Beat the U.S. Market

Academics often identify stock anomalies that have beaten the market in the past. Many were simply wrong, according to a new study, but some stopped working after publication and others turned out to be weaker than thought.

### Factor cumulative outperformance\*



## BUSINESS NEWS

# VW Gets Court OK To Settle Another U.S. Case

BY SARA RANDAZZO

Volkswagen AG cleared a key hurdle in resolving a civil case in the U.S. over its diesel-emissions crisis, winning court approval for a roughly \$1.2 billion deal to compensate drivers of larger, more expensive cars equipped with cheating devices.

U.S. District Judge Charles Breyer in San Francisco gave his blessing Thursday to the deal, which involves around 82,500 vehicles with 3-liter engines, including newer Volkswagen, Audi and Porsche cars and sport-utility vehicles.

The 3-liter settlement brings Volkswagen's tab for civil payments in the emissions scandal to around \$174 billion, U.S. Justice Department attorney Joshua Van Eaton said in court. Taken together, the series of deals "sends the message to Volkswagen and to others who would consider gaming the system that it does not pay to cheat," Mr. Van Eaton said.

Robert Giuffra, an attorney for Volkswagen, said that the company is nearing the end of the road in resolving its diesel issues in the U.S. "We have made things right with...the environment, with consumers, and with regulators," he said. The scandal came to light in late 2015.

Resolution of the civil case comes after another federal judge ordered the German auto maker in April to pay a \$2.8 billion criminal fine as part of a plea deal with U.S. prosecutors. The company continues to face a criminal probe in Germany.

The 3-liter deal, which was given initial approval in February, offers a mix of buybacks for older models and the prospect of an emissions modification for the rest. If a modification doesn't win government approval, Volkswagen must buy back all the vehicles, which could increase its price tag from \$1.2 billion to as much as \$4 billion.



Volkswagen is still reeling from its diesel-emissions scandal.

Less than 1% of consumers included in the deal objected to its terms or chose to opt out, plaintiffs' lawyer Elizabeth Cabraser said in court, adding that more than 70% of affected drivers have already registered to take part. "We are faced with a very high level of participation," she said.

State and federal agencies also took part in the deal, which requires Volkswagen to put an additional \$225 million toward environmental remediation efforts, on top of \$2.7 billion already agreed to in earlier settlements.

Separately, Judge Breyer also gave final approval to a \$327.5 million settlement with German parts supplier Robert Bosch GmbH that resolves civil allegations that the company helped create the so-called defeat device software for use during emissions testing. An attorney for Bosch said the money is ready to be disbursed.

"The court finds the settlements are fair, adequate and reasonable," Judge Breyer said.

The defeat devices made the vehicles appear to be compliant with emissions standards when in reality they were emitting illegal levels of pollutants. Volkswagen has admitted to installing the software on nearly 600,000 diesel-powered vehicles in the U.S. and some 11 million vehicles globally.

# Businessman Wins Big, Again

Howard Jonas just sold another tech startup, this time to Verizon for \$3.1 billion

BY THOMAS GRYTA AND DREW FITZGERALD

Howard Jonas has struck gold. Again.

The businessman and telecom speculator has agreed to sell one of his companies, a long-struggling wireless venture, to **Verizon Communications Inc.** for \$3.1 billion.

The deal's price nearly doubled in recent weeks after a bidding war broke out between Verizon and **AT&T Inc.**

It is a big premium for an obscure company called **Straight Path Communications Inc.** that has just nine employees and has yet to build out a network.

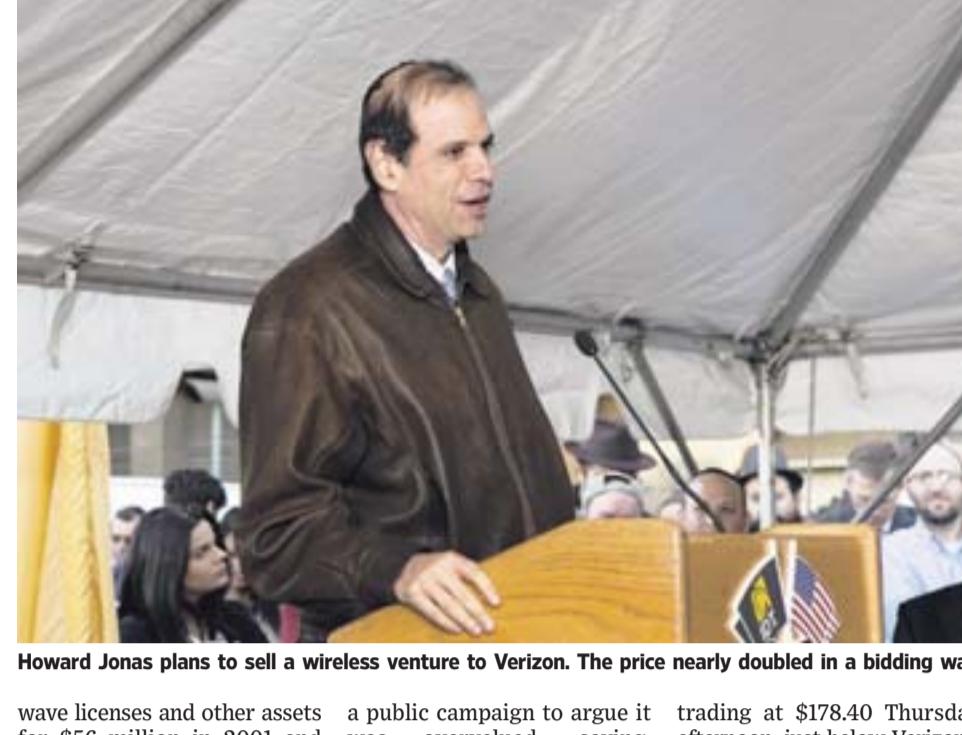
And it is another windfall for Mr. Jonas, who made a splash in 2000 by selling a stake in internet-calling company Net2Phone for more than \$1.1 billion in cash to AT&T.

"We don't sell things unless someone comes along and gives us an outrageously good price," Mr. Jonas said in an interview Wednesday. He spun off Straight Path in 2013 and owns more than 70% of its voting shares through a trust, according to a securities filing.

The 60-year-old cut his teeth selling hot dogs in the Bronx, N.Y., at the age of 14, studied economics at Harvard and eventually moved into the phone business with the founding of long-distance provider IDT Corp. in 1990.

He used the windfall from his Net2Phone deal to fund an array of ventures including looking for shale oil in Mongolia, publishing "Star Trek" comic books and trying to cure cancer.

One of these forays led to the creation of Straight Path. IDT bought a swath of U.S. air-



Howard Jonas plans to sell a wireless venture to Verizon. The price nearly doubled in a bidding war.

wave licenses and other assets for \$56 million in 2001 and 2002 from Winstar Communications Inc., which had filed for bankruptcy protection.

The thinking was the Winstar assets would allow IDT to expand its telecom offerings to customers, but the business didn't develop as expected and led to losses that eventually piled up to \$300 million, Mr. Jonas said.

"If you asked me two years ago what was the worst mistake I made in business, I would have said Straight Path," he said this week.

The business was spun off in 2013 with a handful of employees and Mr. Jonas's son Davidi running it.

Few people were interested in Straight Path's portfolio of licenses in extremely high frequencies because they don't travel far or penetrate walls and can even be disrupted by moisture in the air.

Hedge funds bet against the stock. The shares tumbled in October 2015 when one investor, Kerrisdale Capital, started

a public campaign to argue it was overvalued, saying, "Straight Path is a bubble, driven by hype, misconceptions, and wishful thinking."

Although Straight Path's airwaves were once considered mostly useless, analysts now say they may play a crucial role in ultrafast, high-capacity 5G networks that are in

*Straight Path's airwaves, once of little value, may be vital to 5G networks.*

development. Mr. Jonas expects they will be used for high-speed connections between cellular sites on the edge of a network and the core landline network.

Since going public, Straight Path's stock had traded mostly below \$30, but rose above \$220 in recent days as the bidding war took hold. It was

trading at \$178.40 Thursday afternoon, just below Verizon's bid valuing the company at \$3.1 billion.

"The value of spectrum is what a buyer is willing to pay," said Craig Moffett, senior telecom analyst at MoffettNathanson. The bidding war for Straight Path shows just how much the carriers want to own this nationwide swath of frequencies, which "may soon be the foundation of their entire strategy," he said. Mr. Jonas and his fellow investors won't see all of that payoff.

Verizon's tab will include \$85 million in fines and 20% of the sale proceeds, a penalty Straight Path in January agreed to pay federal regulators for failing to put all the licenses to use in an active network.

When the Winstar bet didn't work out for 15 years, Mr. Jonas said he didn't think about selling. He was surprised, however, when a bidding war erupted for Straight Path, saying he was happy

with the initial agreement with AT&T for \$1.6 billion.

Despite his repeated success, Mr. Jonas doesn't fit the stereotype of a New York investor. Mr. Jonas says "he can't say no" or fire people and has twice failed at retirement. He is unapologetic about his frequent use of complex controlling stock structures in his companies to maintain his influence.

At IDT he controls 70% of the vote, according to a 2016 securities filing. "Shareholder interest isn't always the most important thing," he said in a Wall Street Journal interview in 2015.

He has family members scattered throughout his businesses, including some of his nine children. His son Shmuel is chief executive of IDT, while Davidi runs Straight Path.

Another son, Michael, was involved in the search for shale oil in Mongolia and is chairman of cellphone ring-tone maker Zedge, which was spun off from IDT in 2016.

His son-in-law is chief operating officer for Genie Energy Ltd., his power and oil-related company. His sister Joyce Mason is general counsel of IDT. A nephew, Jacob Jonas, is spearheading IDT's technology developments.

Mr. Jonas's latest interest is far from telecom: Drug developer Cornerstone Pharmaceuticals Inc. is taking up 90% of this time. The Cranbury, N.J., company is testing a treatment targeting pancreatic cancer and certain blood cancers. Earlier this year, the Food and Drug Administration gave approval for the drug to move further into human testing.

With the windfall from Straight Path, Mr. Jonas now doesn't have to search for partners to help fund development of the drug.

"We had this cancer company we couldn't fund," he said. "I'm just going to write the checks myself."

# Chinese Dairy Pursues U.S. Yogurt Maker

BY WAYNE MA

BEIJING—China's largest dairy company is preparing an \$850 million bid for U.S.-based **Stonyfield Farm Inc.**, which makes organic and Greek-style yogurt, a product that is increasingly popular with upscale consumers in China.

**Inner Mongolia Yili Industrial Group Co.** said it would seek to buy all of Stonyfield, which is a subsidiary of French dairy company **Danone SA**.

The statement was made Thursday in a filing to the Shanghai Stock Exchange.

Yili, China's largest dairy company by sales, cautioned in the statement that the bid might not be successful, but didn't elaborate.

Last month, Yili scrapped a bid to buy a 37% stake for \$679 million in Hong Kong-listed China Shengmu Organic Milk Ltd. after it failed to get Chinese regulatory approval, China Shengmu said in a regu-

latory filing.

Yili booked a net profit of 5.66 billion yuan (\$820 million) on sales of 60.61 billion yuan in 2016.

Stonyfield's organic and Greek-style yogurt products are gaining appeal in China as consumers become more health conscious, according to data provider Euromonitor International.

Chinese companies have been acquiring Western companies in part to gain exper-

tise. China's WH Group bought U.S.-based Smithfield Foods Inc. for \$4.7 billion in 2013, and its meat factory in Zhengzhou uses U.S. pork and techniques to make sausage.

The perceived safety of Western brands is also a selling point with Chinese consumers who have endured a series of tainted-food scandals.

Yili already leads in yogurt sales, according to Euromonitor, adding that the company has introduced organic and

low-sugar varieties.

Danone said earlier this year that it made a "strategic decision" to sell Stonyfield as part of an agreement with the U.S. Department of Justice to win approval for its \$10 billion acquisition of U.S. organic-foods producer WhiteWave Foods Co.

A Danone spokesman declined to comment on Thursday.

—Nick Kostov contributed to this article.

## METAL

Continued from page B1

Mr. Liu and China Zhongwang, one of the world's biggest aluminum manufacturers, have repeatedly denied any connection to aluminum stockpiles in either Mexico or Vietnam. They say they have violated no laws. China Zhongwang has said it had no knowledge of the attorney or his email about Mr. Liu's retirement and questioned its authenticity. The attorney's law firm says it no longer represents Mr. Liu.

Complaints about the stockpiles helped spur investigations by the Department of Homeland Security and Justice Department, people familiar with the matter say.

Those authorities are examining whether companies tied to Mr. Liu and China Zhongwang committed civil or criminal violations by routing aluminum through Mexico to mask its origin in China to avoid tariffs, according to court records and people familiar with the investigation.

Mr. Liu and his company have said producing, shipping and storing massive amounts of metal would cost so much as to be financially disastrous. About \$5 billion of aluminum from companies associated with Mr. Liu has ended up stockpiled in Vietnam, according to shipping records and people familiar with the matter. But money from Chinese SOEs could make such an undertaking more economically feasible.

A complex web of transactions involving Chinese SOEs and firms affiliated with Mr. Liu—outlined in documents



The stockpile in question involves nearly a million tons of aluminum that was stored in Mexico.

### How Arrangements Enabled Purchases

The arrangements involving Chinese state-owned enterprises allowed U.S. business Eric Shen to purchase aluminum in a variety of ways.

For example, invoices reviewed by The Wall Street Journal indicate that two of the SOEs, **CEIEC** and **Great Dynasty**, sold over 1,400 tons of aluminum for over \$7 million in late 2012 to **GT88 Capital**. GT88 Capital is a Singapore trading company run by Mr. Shen and whose parent

company was owned by Liu Zhongtian, according to Mr. Liu's attorney at the time. Mr. Shen was also able to use money from the arrangement to purchase **China Zhongwang** aluminum from other sources. Mr. Liu denies any relationship with firms run by Mr. Shen.

Although it isn't known where the firms procured the aluminum, the SOEs have been among China Zhongwang's biggest customers. It isn't known whether the SOEs were aware of plans to stockpile the metal in Mexico, but the invoices indicated the aluminum's destination was Mexico. —Scott Patterson

Mr. Liu could maintain control of the aluminum while masking its Chinese origins.

According to documents reviewed by the Journal and people familiar with the matter, some financing for the alu-

minum shipped to Mexico from China was linked to three Chinese SOEs that specialize in electronics and industrial businesses: **CEIEC Ltd.**, **Great Dynasty** and **China Machinery & Equipment Co.**

China Machinery said it signed contracts agreeing to procure machinery for China Zhongwang affiliates, which it said is "part of normal, compliant trading business." The company said its business complies with all laws and regulations and protects proprietary information.

CEIEC and Great Dynasty declined to comment.

China Zhongwang announced a deal with the three SOEs in October 2011 in a press statement, saying it signed a \$3.8 billion plan with them to build a new aluminum factory outside Beijing.

The same month, China Zhongwang also struck another deal with U.S. businessman Eric Shen, giving him control of how cash from the factory deal was spent, according to a previously undisclosed 2011 contract reviewed by the Journal. Mr. Shen says in a court filing he helped Mr. Liu move aluminum around the world to circumvent tariffs. Mr. Liu denies having a business relationship with Mr. Shen.

Under separate deals reviewed by the Journal, the SOEs agreed to pay Mr. Shen's trading companies to find and procure equipment for the factory. The SOEs agreed to retrofit it for the aluminum factory and get reimbursed by China Zhongwang.

But Mr. Shen's companies never purchased aluminum machinery, according to people familiar with the matter. Much of the cash instead was used to purchase China Zhongwang aluminum, a permissible use of the money under the side agreement's broad terms, these people said.

—Kersten Zhang in Beijing contributed to this article.

## TECHNOLOGY

WSJ.com/Tech

# Microsoft Gives Windows an Upgrade

Operating system's new edition will let users use applications across many devices

BY JAY GREENE

SEATTLE—Microsoft Corp. on Thursday announced plans for the next update to its Windows 10 operating system, a version that will include technology to bridge applications across devices—even those running Apple Inc.'s iOS and Alphabet Inc.'s Android.

The Fall Creators Update of the operating system will include "Pick Up Where You Left Off," a feature that will allow users to finish editing a docu-

ment, for example, on an iPhone that they started on a Windows PC.

The feature requires Cortana, Microsoft's digital assistant app, to run on each device. Apple offers a similar feature, called Handoff, though it works only on devices running operating systems from that company.

Microsoft unveiled the new Windows offerings during day two of Build, its annual conference for developers who create applications and services that run on top of Microsoft's technologies.

The software giant also debuted the Windows Mixed Reality motion controller, a device that gamers and others can use as they play in virtual

worlds.

The gadget doesn't require hardware, known as markers, installed on the walls around the user to sense movement. Instead, the controller tracks movement using sensors in the device and in a headset paired with it.

Acer Inc. plans to sell a headset and motion controller bundle for \$399 this holiday season, Microsoft said. Other manufacturers will offer the new device, too. Microsoft said developers in North America who want to build mixed-reality applications can preorder an Acer headset for \$299 or one from HP Inc. for \$329 starting today, with delivery scheduled for this summer.

The new Windows update,

which Microsoft said will be available later this year, will more deeply embed Microsoft's web-based file storage OneDrive into the OS. Windows will include OneDrive Files on Demand, a feature the company said will give users the ability to access documents from the service without having to download them, even when they aren't connected to the web.

The company declined to say if those new Windows capabilities would be available to other web-based storage services from companies such as Box Inc. "We're not discussing that," said Windows Developer corporate Vice President Kevin Gallo.

The update is part of Micro-

soft's plan to refresh the operating system roughly every six months. Microsoft announced plans for the current version of Windows, the Creators Update, last fall, and began rolling it out to customers last month.

On Wednesday, Microsoft disclosed there are now 500 million devices running Windows 10. Thursday, the company said more than 300 million people use the nearly two-year-old operating system every day, and do so for more than 3.5 hours a day on average.

Last week, Microsoft unveiled a streamlined Windows variant, called Windows 10 S, aimed primarily at the education market. Windows 10 S

only permits users to run apps obtained through Microsoft's online Windows Store, which the company says makes the devices more secure and easier to manage.

The Windows Store, though, has lacked some popular apps, and Microsoft is racing to include them.

At Build on Thursday, Terry Myerson, executive vice president of the Windows and Devices Group, said Apple's iTunes will come to the Windows Store by the end of the year. Last week, Microsoft announced plans to add Spotify.

Microsoft also said the store would include new apps from Autodesk and SAP, which could appeal to corporate customers.

CHINA CIRCUIT | By Li Yuan

## Facebook In China? Better Hire More Staffers

To get Facebook unblocked in China, Chief Executive Mark Zuckerberg has tried everything from lobbying Chinese leaders to taking a run past smoggy Tiananmen Square. Facebook's recent difficulties with violent videos posted to the social network are giving Mr. Zuckerberg a taste of what it would be like to operate in China.

Facebook's latest problem, a live video of a man in Thailand killing his 11-month-old daughter stayed online for 24 hours before being removed. As a result, Facebook said last week that it will add 3,000 more people to review content, bringing the total to 7,500.

Chinese social media cackled in response to the news, with many comments noting that China has plenty of censorship experience to offer. "Come learn from us," ran one post on the popular microblogging platform Weibo.

There's a vast difference between trying to get rid of fake news and violent videos and the severe censorship imposed by an authoritarian government. Content banned in China goes beyond the violent and pornographic to include the politically unacceptable. China's sophisticated internet censorship system employs filtering technologies and squads of actual police and requires private companies to self-censor—or risk losing their business licenses.

If Mr. Zuckerberg is serious about getting unblocked in China, he might want to consider the advice of Chinese counterparts about what it takes to survive in such a restrictive environment.

A Facebook spokeswoman says the company remains interested in entering the China market and yet to make any decision "on our approach to China."

According to Chinese executives, effectively monitoring online content comes down to three things: lots of bodies and multiple layers of monitoring, plus the help of



Facebook CEO Mark Zuckerberg took a run through Beijing last year. Facebook remains interested in entering the China market.

artificial intelligence.

Facebook's announced total of 7,500 content reviewers might sound like a huge commitment of resources, but Chinese executives say it would be far from adequate to meet government standards in China.

Inke, a live-streaming video app, has 1,000 full-time employees monitoring live videos—from big events such as concerts to clips of daily life such as a woman eating a bowl of noodles.

Though the two-year-old startup won't disclose its current tally of active users, a year ago it said 50 million users have downloaded the app and activated accounts.

Facebook by contrast has

1.9 billion monthly active users.

"If Facebook were in

China, it would have to hire

at least 20,000 reviewers for

videos alone," says Feng

Yousheng, Inke's founder and chief executive.

Mr. Feng says Facebook

would need many times

more than that number if it

had to police photos and text as Chinese social media do.

While it's cheaper to outsource, as Facebook is partly doing, live-streaming app Douyu's 800 reviewers are all staff members, to ensure rigorous monitoring, says Chief Executive Chen Shaojie.

Douyu attracts more than 20 million viewers and over 50,000 streamers on average every day. During the 7 p.m. to 11 p.m. traffic peak, the team monitors over 20,000 streams of live video nearly simultaneously.

At Douyu's monitoring center in the central city of Wuhan, Mr. Chen says, each reviewer monitors as many as 10 screens, each carrying a different live stream. Every five seconds, the reviewer clicks the computer mouse and a new batch appears on the 10 screens.

It's a significant expense for all online content firms. On average, the live-streaming startups pay the reviewers, mostly fresh university graduates, between 3,000

yuan and 5,000 yuan (\$435 and \$725) a month, aside from the costs of office space, payroll taxes and other expenses.

Artificial intelligence offers a way to augment human monitoring. Douyu's Mr.

Chen says the company's first layer of monitoring is image-recognition technology to screen pornographic and other problematic images. Douyu investor **Tencent Holdings**, a social-media and games powerhouse,

developed the technology for videos on its QQ and WeChat messaging platforms, which have 1.75 billion active accounts combined—on par with Facebook.

The technology is still in its early days; it can take two minutes or longer to flag a suspect image, according to Mr. Chen. Any decision to shut off a stream is made by a human reviewer, he says.

Tencent is working with **Kneron**, a San Diego startup, to develop software that can

detect emotions and behavior, according to Kneron founder Chunchen Liu, an AI scientist who has worked at **Qualcomm** and **Samsung**.

Tencent declined to comment.

Among the trickiest of tasks Tencent set was raising the accuracy of the program to 98% from 95% in detecting when someone unfurls a protest banner, says Mr. Liu. "It took us almost two months," he adds.

The Chinese executives envy Facebook's freedom to decide what content it polices and how. Censoring content is a life-or-death matter for their businesses.

With their greater experience, Inke's Mr. Feng says, perhaps Facebook should consider offshoring. "It can put its monitoring team in China. We can help. Their monitoring task is so much easier than ours," he says.

Follow Li Yuan on Twitter @LiYuan6 or write to li.yuan@wsj.com.

## BT Takes An Ax to Jobs and CEO Pay

BY RORY GALLIVAN

LONDON—**BT Group PLC**, reeling from an accounting scandal at its Italian business and other issues, said Thursday it will cut 4,000 jobs and pay no bonus to its chief executive.

The telecommunications and television provider, one of the U.K.'s best-known companies, said the moves come as it accelerates cost cuts in areas including global services, which provides communications services to businesses around the world.

The global-services business includes BT's Italian operations, which were responsible for a £530 million (\$686 million) write-down after the discovery of yearslong "improper" accounting practices and transactions. They led to the suspension of several executives who have since left the business.

Chief Executive Gavin Patterson said a review of global services found BT no longer needs to own so many assets around the world.

Global services accounts for nearly one-quarter of BT's revenue, with the rest mainly coming from fixed-line, cellphone, internet and TV services in the U.K. BT owns much of the U.K.'s telecommunications infrastructure, a legacy from being the state-owned telecom monopoly until the 1980s.

*The company said its CEO and exiting finance director won't receive bonuses.*

The company said Mr. Patterson and exiting finance director Tony Chanmugam won't receive a bonus for the year ended March 31.

The decision on compensation followed the problems in Italy in addition to issues related to the U.K. infrastructure business Openreach and other challenges, the company said.

Mr. Patterson will receive £1.3 million for the period, down from £5.3 million the previous year, while Mr. Chanmugam's total payment falls to £258,000 from £2.8 million.

BT said it also will wring savings out of the technology, services and operations division, which operates its networks, platforms and information-technology systems.

The company reported pre-tax profit of £440 million in the three months to end-March, down 48% from £845 million in the same period the previous year, on a 9.9% rise in revenue to £6.12 billion.

The final dividend rises 10% to 10.55 pence a share. BT said dividend growth will be lower in the current year.

BT also trimmed its current-year forecast for earnings before interest, taxes, depreciation and amortization to a range of £7.5 billion to £7.6 billion, against a previous prediction of around £7.6 billion.

## BUSINESS WATCH

BOMBARDIER

### Executive Chairman Plans to Step Down

**Bombardier** Inc. said that Pierre Beaudoin agreed to step down from his executive role amid an investor revolt but that he will remain chairman of the beleaguered transportation company.

Mr. Beaudoin, 54 years old, will resign as executive chairman effective June 30, following opposition to his re-election by some of Canada's largest funds, but he will remain as nonexecutive chairman. A spokesman for the company on Thursday said that it won't name a new executive chairman.

Mr. Beaudoin, whose family has voting control of the company through multivoting shares, received 92% of the votes in a shareholder vote at the company's annual shareholder meeting in a Montreal suburb Thursday. Four major Canadian pension funds had opposed his re-election, citing governance concerns about the company,

which has struggled with production delays and other setbacks. It has asked for and received more than \$1 billion in government financing since 2015.

—Paul Vieira

and Jacquie McNish

NISSAN

### Slowdown in the U.S. Poses Earnings Risk

**Nissan Motor Co.** warned that a slowing U.S. car market and rising costs would weigh on earnings this fiscal year.

Japan's second-largest car company by sales said net profit would fall 19% to ¥535 billion (\$4.7 billion) in the year ending in March.

Nissan forecast sales to grow in every market but the U.S., where it expects to sell roughly the same number of vehicles as last year. "In the U.S. we took a conservative view considering the market outlook and intensifying competition," said Hiroto Saikawa, who took over as chief executive from Carlos Ghosn in

April. Mr. Ghosn retained his other role as Nissan's chairman.

The decline in profit is exacerbated by the sale of Nissan's stake in auto-parts maker Calsonic Kansei Corp., which added ¥80 billion to Nissan's bottom line in the fiscal year that ended in March 2017. Without that boost, profit would have been expected to decline 8%.

—Sean McLain



LUCY NICHOLSON/REUTERS

Pierre Beaudoin will resign as Bombardier's executive chairman.

ALTICE

### Core Operating Profit Rises on U.S. Results

**Altice NV**, the telecommunications and cable holding company owned by billionaire Patrick Drahi, reported a rise in quarterly core operating profit, driven by a strong performance from its businesses in the U.S. that it

is preparing for an initial public offering of stock.

Altice said first-quarter group adjusted earnings before interest, taxes, depreciation and amortization rose 9.5% from a year earlier to €2.24 billion (\$2.43 billion). Revenue rose 3.2% to €5.93 billion.

Mr. Drahi has stitched together a cable empire spanning from Israel to the Dominican Republic, making his fortune through a series of debt-fueled acquisitions that were followed quickly by cost reductions.

Mr. Drahi built the fourth-largest telecom operator in the U.S. through the takeovers of regional competitor **Suddenlink** and New York-based Cablevision, which he combined to make **Altice USA**. Core operating profit in that business jumped 31% in the first quarter.

Altice last month filed paperwork for its U.S. arm to go public as it seeks currency to finance more acquisitions.

Altice didn't report a quarterly net profit figure.

—Nick Kostov

## FINANCE & MARKETS

# Two Sigma Tees Up a Global Play

By ALEXANDER OSIPOVICH

As the high-speed trading industry endures a wrenching period of consolidation, Two Sigma Securities is looking to come out on top.

The secretive firm, an affiliate of the \$45 billion quantitative hedge fund **Two Sigma Investments**, said this week that it had agreed to buy the global options market-making business of **Interactive Brokers Group** Inc., which helped pioneer electronic trading in the 1980s.

The deal is designed to push Two Sigma Securities—a relative upstart founded in 2009—into the big leagues, alongside global giants such as **Citadel Securities** LLC, which account for a huge portion of trading activity in the U.S. and overseas.

"Over time, I see us expanding into other asset classes and other geographies," Two Sigma Securities Chief Executive Officer Simon Yates said in an interview.

Scale has become more important for high-speed trading firms as the industry struggles with unfavorable market conditions, especially low volatility, which reduces their ability to profit from price swings. The revenues of such firms from U.S. stock trading were an estimated \$1.1 billion last year, down from \$7.2 billion in 2009, according to research firm Tabb Group.

The tough environment has spurred deal making. Virtu Financial Inc. announced last month its \$1.4 billion agreement to acquire rival KCG Holdings Inc.

New York-based Two Sigma Securities says it trades more than 300 million shares daily, which means it handles from 4% to 5% of the shares that change hands each day in U.S.



Two Sigma Investments is buying the global options market-making business of Interactive Brokers.

Ryan Christopher Jones for THE WALL STREET JOURNAL

markets.

By comparison, Citadel accounts for about 20% of U.S. daily volume, and Virtu expects to have a market share similar to Citadel's if it completes its acquisition of KCG.

Two Sigma Securities enjoys such huge volumes, in part, because it takes part in a controversial practice called "payment for order flow," meaning it pays online brokerages such as TD Ameritrade Holding Corp. and Charles Schwab Corp. to execute orders submitted by individual investors.

Critics have attacked the practice because of fears that it lets high-speed traders exploit mom-and-pop investors. Trading firms and brokers that engage in the practice say it results in better prices for investors.

It is also a key source of profits for high-speed traders. Electronic traders that lack ac-

cess to retail order flow must face off against other ultrafast traders on exchanges.

That exposes them to the risk of buying or selling shares in the split second when a price is about to turn against them.

With payment for order flow, that scenario is much less likely to happen because the electronic traders are facing slower, less savvy retail investors.

"If you're a market maker, payment for order flow is really essential," Mr. Yates said. "If you don't do it, you lose access to retail flows, which is an important part of the market."

Virtu's bid for KCG was also partly motivated by the value of KCG's large retail-facing business.

Market-making is a core strategy for high-speed trading firms. It involves buying and selling the same assets in

large quantities and collecting a small "spread" from the difference between the buying and selling price.

Speed is crucial for market makers, which adjust their trades in millionths of a second as market conditions fluctuate.

But Two Sigma Securities is less focused on speed than some rivals, according to Mr. Yates.

Instead, it derives its competitive advantage from powerful computer models, Mr. Yates said. Trading strategies based purely on speed are "now a break-even business," he said.

With the acquisition of Interactive Brokers' market-making arm, called **Timber Hill**, Two Sigma Securities would continue its push from equities into options. It also bought KCG's options platform last year. Mr. Yates said his firm expects to start paying

for retail order flow in options, a business it isn't currently involved in.

The Timber Hill deal, expected to close in September, also positions Two Sigma Securities to go global. The firm has just one office, in New York, though its parent company has offices overseas. Meanwhile, Timber Hill is active on exchanges in Asia and Europe.

Mr. Yates said the unit he oversees is walled off from its owner, Two Sigma Investments, which employs dozens of Ph.D. scientists to craft trading algorithms based on the torrents of digital information streaming around the world, including news reports and Twitter.

Customer trading data from Two Sigma Securities isn't shared with the hedge-fund parent company, Mr. Yates said.

Even the access cards used by employees of Two Sigma Investments to enter the firm's headquarters in SoHo won't get them into the areas that house the market-making arm, he said.

Founded in 2001, Two Sigma Investments is among the top destinations for quantitative trading experts, said Evan Zivotovsky, a New York-based recruiter specializing in hedge funds.

"Two Sigma is mostly always in the mix when speaking to the best candidates from both Wall Street and Silicon Valley," he said.

Mr. Yates is betting the Timber Hill deal will pay off when volatility returns, rewarding market makers that have survived the wave of consolidation.

"It is a tough time for the industry," he said. "But I have reasonable confidence that it is a cyclical industry."



Brian Duperreault in 2012

## Alumnus Of AIG Is Set to Get CEO Job

By JOANN S. LUBLIN  
AND LESLIE SCISM

American International Group Inc. plans to name Brian Duperreault—a one-time lieutenant to former CEO Maurice R. "Hank" Greenberg—as the firm's chief executive officer, according to people familiar with the matter.

Mr. Duperreault, 70 years old, is the founder and CEO of Bermuda-based **Hamilton Insurance Group** Ltd. Mr. Duperreault and AIG are working out final details of his employment contract but are very close to final agreement, according to the people.

"He is going to get the job," said one of the people familiar with the situation.

AIG has faced a tumultuous six months. Just a few weeks after the firm posted disappointing fourth-quarter results, CEO Peter Hancock in March said he would resign from the insurance giant after less than three years at the helm. Many board members were unhappy about setbacks in the company's plan for boosting profitability, while several also feared a potential fight with AIG shareholder and activist investor Carl Icahn.

Mr. Hancock agreed to stay until a successor was found.

Representatives for AIG and Mr. Duperreault declined to comment.

Mr. Duperreault spent just over two decades at AIG before leaving to run three other companies. His résumé includes a widely praised turnaround of consulting and insurance-brokerage firm **Marsh & McLennan Cos.**

In returning to AIG, Mr. Duperreault will face the challenge of improving its financial results at a time of fierce industry competition. The insurance conglomerate has paid off a nearly \$185 billion U.S. government bailout extended during the global markets meltdown of 2008, but had to sell many of its businesses to repay taxpayers.

AIG's profit margins have notably lagged behind many of the insurer's rivals since its near collapse.

AIG executives are carrying out a two-year strategic plan unveiled in January 2016—in response to pressure from Mr. Icahn.

Many goals are on track to be achieved, such as cutting costs and returning \$25 billion to investors, through dividends and share buybacks, analysts have said.

AIG board members don't expect their new leader to change the current strategic direction at the giant insurer, the people said.

Mr. Duperreault was at AIG in the years when Mr. Greenberg was transforming it from a mediocre property-casualty insurer into a powerhouse with financial-services operations that spanned the globe.

The Bermuda-born Mr. Duperreault, a mathematics major at Saint Joseph's University in Philadelphia, had joined AIG's actuarial department in the early 1970s and rose through the ranks to become one of its most senior executives.

He left in 1994 to run **ACE Ltd.**, a specialty insurer.

## UNICREDIT

### Net Result Improves

**UniCredit** SpA posted a first-quarter net profit, a comeback after a large fourth-quarter loss that reflected a cleanup of its balance sheet.

The bank said first-quarter profit was €907 million (\$986 million), compared with a year-earlier €406 million. In the fourth quarter, the bank posted a loss of €13.56 billion.

The fourth-quarter loss was mainly the result of €12.2 billion in one-time charges for bad-loan provisions and other items.

Net interest income dropped by 2.5% from a year earlier to €2.56 billion, while fees and commissions were up 4.5% to €1.48 billion.

The bank is pushing to gener-

ate higher fees and commissions. Proceeds from lending have been severely hit by ultralow interest rates.

—Manuela Mesco and Giovanni Legorano

#### ASSICURAZIONI GENERALI

### Insurer Reports Decline in Profits

**Assicurazioni Generali** SpA said first-quarter net profit dropped by 9% from the year-earlier period, mainly because of lower investment gains and higher taxes.

The Italian insurer said net profit was €535 million (\$581 million), compared with €588 million in the 2016 period.

Generali said that the decline in profit was mainly due to lower realized gains of around

€100 million, particularly in its bonds and real-estate portfolio, which the insurer said was consistent with preserving the future value of investments amid market volatility.

The company also said its tax burden increased to 30.7% for the quarter from 28.5% for the year-earlier period.

—Giovanni Legorano

#### CRÉDIT AGRICOLE

### Earnings Triple

French bank **Crédit Agricole SA** said first-quarter net profit more than tripled from a year earlier, aided by its fixed-income business and a pickup in loan demand.

Net profit rose to €845 million (\$918 million) from €227 million. This year's results beat

analysts' expectations for a profit of €701 million, according to the data provider FactSet.

In the year-earlier quarter, the bank booked a €448 million charge to restructure part of its debt and help cut costs. Revenue rose 24% to €4.7 billion.

Like French rivals **BNP Paribas** SA and **Société Générale** SA, Crédit Agricole benefited from a rebound in bond trading.

—Noémie Bisserebe

#### ITAÚ UNIBANCO

### Bank Negotiates Over Stake in Broker

**Itaú Unibanco Holding** SA, one of Brazil's largest banks in terms of assets, is in advanced talks to acquire a 49% stake in

local investment broker **XP Investimentos**, according to a person close to the deal.

If the purchase goes ahead, Itaú will pay about 6 billion reais (\$1.9 billion) for the stake, which is currently owned by U.S.-based private-equity firm **General Atlantic**, the person said. XP will likely cancel an initial public share offering it had planned if the deal is completed, the person said.

XP is controlled by its founder, Guilherme Benchimol, and a group of partners who together hold a 51% stake in the company.

It started in 2001 as a brokerage and expanded into portfolio management. It also has a unit that advises corporate clients on debt and equity operations.

—Luciana Magalhaes



FREDERIC J. BROWN/AGENCE FRANCE PRESSE/GETTY IMAGES

The \$2 billion in cuts is in addition to other planned reductions.

Wells Fargo's shares fell around 1.5% in early trading Thursday, more than other big-bank stocks. The bank is under pressure to improve its financial performance following relatively disappointing first-quarter results.

The bank said Thursday that it expects to operate at the low end of both target ranges this year, although it left unchanged the two-year period, while revenue dropped, missing analyst expectations.

Following those results, Chief Executive Timothy Sloan told analysts that expenses are "outside our range." At Thursday's event, Mr. Sloan said the efficiency metrics were "completely unacceptable."

Wells Fargo's efficiency has suffered since its sales scandal. The bank said in presentation materials for its investor day that it expects an efficiency ratio—expenses as a percent of revenue—this year of 60% to 61%. That is worse than the two-year target it set last year of 55% to 59%. The bank said its efficiency ratio was also

hurt by lower loan growth and higher funding costs.

Last year, Wells Fargo also set two-year targets for return on efficiency and return on assets.

The bank said Thursday that it expects to operate at the low end of both target ranges this year, although it left unchanged the two-year period, while revenue dropped, missing analyst expectations.

In terms of the scandal, the bank said in presentation materials that its settlement related to sales practices reduced first-quarter loan origination volume by 3%.

Mr. Sloan, finance chief John Shrewsbury and other Wells Fargo executives were due to make presentations throughout Thursday as part of the bank's investor day. The announcement of additional cost cuts was contained in presentation materials for Mr. Shrewsbury the bank posted online ahead of the event.

## U.S. Weighs a Revamp Of Fannie and Freddie

By ANDREW ACKERMAN

WASHINGTON—The Trump administration and a bipartisan group of U.S. senators are working to address an issue that has gone unresolved for nearly a decade: how to overhaul **Fannie Mae** and **Freddie Mac**, the mortgage-finance giants the government took over in 2008.

The Senate Banking Committee has begun behind-the-scenes work on how to revamp the companies. The senators want to develop a framework to decrease the government's outsize role backstopping the nation's \$10 trillion mortgage market. On Thursday, the panel heard testimony from Mel Watt, the director of the Federal Housing Finance Agency, which controls Fannie and Freddie, in the first step of a process that could play out in coming months.

It remains unclear if policy

makers can overcome philosophical differences and hammer out a final deal. Conservative Republicans have called for a private market with no new federal guarantees. Some centrist Republicans and many Democrats have said a federal role is needed to preserve liquid markets for the popular 30-year fixed-rate mortgage that drives home buying.

The Trump administration's desire to jump-start an overhaul is giving a boost to Senate lawmakers, who aim to advance a bipartisan plan to revamp the companies later this year, according to Senate aides and advocates who want to see the companies weaned off government control. Senate Democrats have told their Republican colleagues that an overhaul would garner much more bipartisan support than other GOP priorities, such as rollbacks to Dodd-Frank regulations, these aides said.

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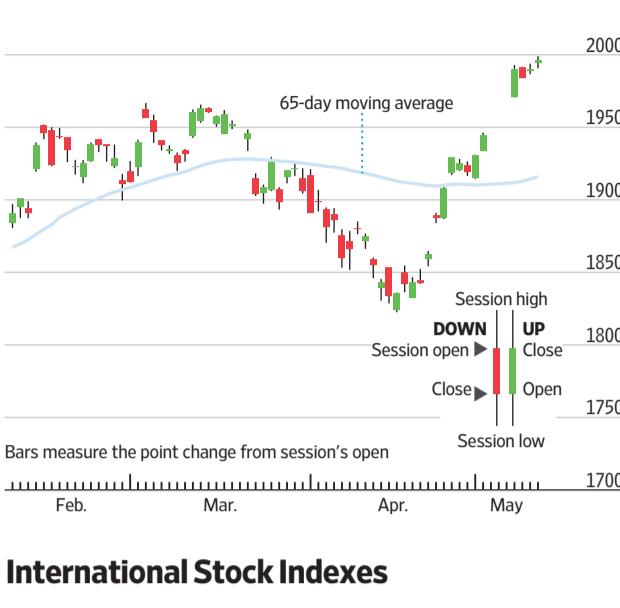
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## MARKETS DIGEST

### Nikkei 225 Index

**19961.55** ▲ 61.46, or 0.31%

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



Bars measure the point change from session's open

### STOXX 600 Index

**394.39** ▼ 2.06, or 0.52%

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



### S&P 500 Index

**2394.44** ▼ 5.19, or 0.22%

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



Data as of 4 p.m. New York time

Last Year ago

Trailing P/E ratio 23.76 23.66

P/E estimate \* 18.44 17.59

Dividend yield 1.97 2.20

All-time high: 2399.63, 05/10/17

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

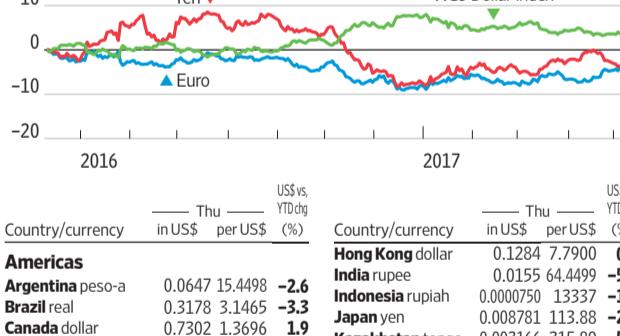
### International Stock Indexes

Region/Country	Index	Data as of 4 p.m. New York time					
		Close	NetChg	% chg	52-Week Range	Close	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2742.18	-4.93	<span style="color: red;">-0.18</span>	2193.75	2755.95	8.5
	<b>MSCI EAFE</b>	1858.57	-4.22	<span style="color: red;">-0.23</span>	1471.88	1956.39	8.3
	<b>MSCI EM USD</b>	1001.75	6.66	<span style="color: green;">0.67</span>	691.21	1044.05	26.1
<b>Americas</b>	<b>DJ Americas</b>	575.71	-1.58	<span style="color: red;">-0.27</span>	480.90	577.99	6.5
Brazil	<b>Sao Paulo Bovespa</b>	67518.17	168.44	<span style="color: green;">0.25</span>	48066.67	7203	12.1
Canada	<b>S&amp;P/TSX Comp</b>	15545.64	-87.57	<span style="color: red;">-0.56</span>	13609.58	15943.09	1.7
Mexico	<b>IPC All-Share</b>	49533.86	-396.68	<span style="color: red;">-0.79</span>	43902.25	50154.33	8.5
Chile	<b>Santiago IPSA</b>	3691.09	-3.73	<span style="color: red;">-0.10</span>	2998.64	3786.05	14.5
<b>U.S.</b>	<b>DJIA</b>	20919.42	-23.69	<span style="color: red;">-0.11</span>	17063.08	21169.11	5.9
	<b>Nasdaq Composite</b>	6115.96	-13.18	<span style="color: red;">-0.22</span>	4574.25	6133.00	13.6
	<b>S&amp;P 500</b>	2394.44	-5.19	<span style="color: red;">-0.22</span>	1991.68	2403.87	7.0
	<b>CBOE Volatility</b>	10.53	0.32	<span style="color: green;">3.13</span>	9.56	26.72	-25.0
<b>EMEA</b>	<b>Stoxx Europe 600</b>	394.39	-2.06	<span style="color: red;">-0.52</span>	308.75	395.45	9.1
	<b>Stoxx Europe 50</b>	3251.15	-12.61	<span style="color: red;">-0.39</span>	2626.52	3264.56	8.0
Austria	<b>ATX</b>	3076.37	0.71	<span style="color: green;">0.02</span>	1981.93	3093.83	17.5
Belgium	<b>Bel-20</b>	4004.17	-36.86	<span style="color: red;">-0.91</span>	3127.94	4055.96	11.0
France	<b>CAC 40</b>	5383.42	-17.04	<span style="color: red;">-0.32</span>	3955.98	5442.10	10.7
Germany	<b>DAX</b>	12711.06	-46.40	<span style="color: red;">-0.36</span>	9214.10	12783.23	10.7
Greece	<b>ATG</b>	797.16	5.19	<span style="color: green;">0.66</span>	517.10	799.16	23.9
Hungary	<b>BUX</b>	33858.88	192.60	<span style="color: green;">0.57</span>	25126.36	34334.92	5.8
Israel	<b>Tel Aviv</b>	1422.53	2.42	<span style="color: green;">0.17</span>	1372.23	1490.23	-3.3
Italy	<b>FTSE MIB</b>	21482.52	-70.29	<span style="color: red;">-0.33</span>	15017.42	21696.78	11.7
Netherlands	<b>AEX</b>	534.24	-1.42	<span style="color: red;">-0.27</span>	409.23	537.84	10.6
Poland	<b>WIG</b>	61598.78	-241.13	<span style="color: red;">-0.39</span>	42812.99	62666.49	19.0
Russia	<b>RTS Index</b>	1105.83	-5.81	<span style="color: red;">-0.52</span>	873.58	1196.99	-4.0
Spain	<b>IBEX 35</b>	10861.40	-173.40	<span style="color: red;">-1.57</span>	7579.80	11184.40	16.1
Sweden	<b>SX All Share</b>	589.88	-1.65	<span style="color: red;">-0.28</span>	443.66	593.04	10.3
Switzerland	<b>Swiss Market</b>	9064.88	-24.92	<span style="color: red;">-0.27</span>	7475.54	9121.10	10.3
South Africa	<b>Johannesburg All Share</b>	54114.00	-140.35	<span style="color: red;">-0.26</span>	48935.90	54704.22	6.8
Turkey	<b>BIST 100</b>	95114.06	-1080.14	<span style="color: red;">-1.12</span>	70426.16	96491.03	21.7
U.K.	<b>FTSE 100</b>	7386.63	1.39	<span style="color: green;">0.02</span>	5788.74	7447.00	3.4
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1587.32	6.54	<span style="color: green;">0.41</span>	1308.52	1587.75	11.6
Australia	<b>S&amp;P/ASX 200</b>	5878.30	2.90	<span style="color: green;">0.05</span>	5103.30	5956.50	3.8
China	<b>Shanghai Composite</b>	3061.50	8.72	<span style="color: green;">0.29</span>	2806.91	3288.97	-1.4
Hong Kong	<b>Hang Seng</b>	25125.55	110.13	<span style="color: green;">0.44</span>	19694.33	25125.55	14.2
India	<b>S&amp;P BSE Sensex</b>	30250.98	2.81	<span style="color: green;">0.01</span>	25230.36	30250.98	13.6
Japan	<b>Nikkei Stock Avg</b>	1961.55	61.46	<span style="color: green;">0.31</span>	14952.02	19961.55	4.4
Singapore	<b>Straits Times</b>	3271.11	21.14	<span style="color: green;">0.65</span>	2729.85	3271.11	13.6
South Korea	<b>Kospi</b>	2296.37	26.25	<span style="color: green;">1.16</span>	1925.24	2296.37	13.3
Taiwan	<b>Weighted</b>	10001.48	33.16	<span style="color: green;">0.33</span>	8053.69	10001.48	8.1

Source: SIX Financial Information/WSJ Market Data Group

### Currencies

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



Source: Tullett Prebon, WSJ Market Data Group

### London close on May 11

Country/currency	US\$ vs.		
	Thu	in US\$	YTD chg (%)
Country/currency	Thu	in US\$	YTD chg (%)
Europe			
Bulgaria leva	0.5557	1.7996	<span style="color: red;">-3.2</span>
Croatia kuna	0.1464	6.831	<span style="color: red;">-4.8</span>
Euro zone euro	1.0868	0.9202	<span style="color: red;">-3.2</span>
Czech Rep. koruna-b	0.0409	24.467	<span style="color: red;">-4.7</span>
Denmark krone	0.1460	6.8477	<span style="color: red;">-3.1</span>
Hungary forint	0.003504	285.40	<span style="color: red;">-3.0</span>
Iceland krona	0.009498	105.28	<span style="color: red;">-6.8</span>
Norway krone	0.1163	8.5966	<span style="color: red;">-0.6</span>
Poland zloty	0.2577	3.8808	<span style="color: red;">-7.3</span>
Russia ruble-d	0.01755	56.992	<span style="color: red;">-7.0</span>
Sweden krona	0.1126	8.8833	<span style="color: red;">-2.5</span>
Switzerland franc	0.9932	1.0068	<span style="color: red;">-1.2</span>
Turkey lira	0.2794	3.5792	<span style="color: red;">1.6</span>
Ukraine hryvnia	0.0378	26.4225	<span style="color: red;">-2.4</span>
U.K. pound	1.2876	0.7766	<span style="color: red;">-4.1</span>
Middle East/Africa			
Bahrain dinar	2.6516	0.3771	<span style="color: red;">-0.01</span>
Egypt pound-a	0.0554	18.0533	<span style="color: red;">-0.4</span>
Israel shekel	0.2770	3.6095	<span style="color: red;">-6.2</span>
Kuwait dinar	3.2803	0.3049	<span style="color: red;">-0.7</span>
Oman rial	2.5977	0.3850	<span style="color: red;">-0.003</span>
Qatar rial	0.2746	3.641	<span style="color: red;">0.02</span>
Saudi Arabia riyal	0.2666	3.7505	<span style="color: red;">-0.01</span>
South Africa rand	0.0749	13.459	<span style="color: red;">-2.5</span>
Commodities			
Corn (cents/bu)	CBOT	369.25	<span style="color: red;">-4.50</span>
Soybeans (cents/bu)			

## FINANCE & MARKETS

# Apple Gives Taiwan Shares a Lift

By ESE ERHIERIENE

Taiwan's main stock index finished at a 17-year high Thursday and closed above 10000 points after two months of testing the milestone, as continued iPhone-related hopes bolster the trade hub's growth prospects.

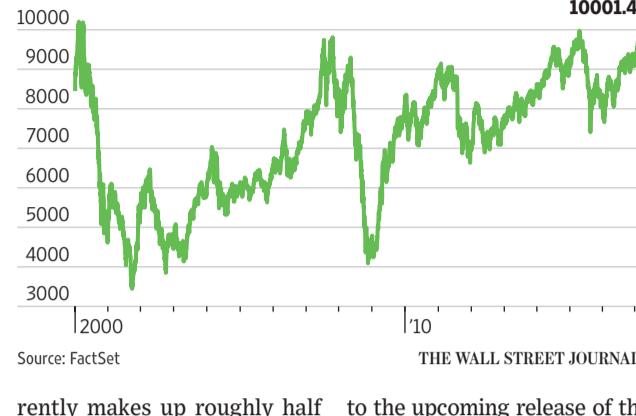
The Taiex stock index ended Thursday up 0.3% at 10001.48, and has gained 8.1% this year. It has risen steadily for the past year after bottoming out just below 8000 last May. Strong global demand for consumer electronics and technology products has been fueling gains, Commerzbank said recently.

Taiwan's exports have risen for seven consecutive months from a year earlier, including April's 9.4% growth amid an 11% increase in electronics components.

While the Taiex has moved above 10000 points during intraday trading recently, it always fell back before the close. The last time it closed above 10000 points was in 2000, just before the U.S. tech-stock bubble burst. Tech cur-

### Taiex Takeoff

Hope for strong demand for electronic components made in Taiwan is boosting the index.



Apple's performance. Hopes surrounding the coming iPhone have helped stoke Apple shares in recent months. But if before the projected September unveiling of the new handset there doesn't seem to be a wow factor, Apple's stock likely won't be the only one that pays the price.

Other risks also loom for Taiwan stocks. "Lingering uncertainties surround [President Donald] Trump's trade policy stance," Commerzbank noted as an example.

Still, investors remain broadly positive on the outlook for Taiwan tech stocks. Those companies' customers reach far beyond Apple to include heavyweights in South Korea and China, among other locales.

"We still quite like the tech sector overall," said Caroline Yu Maurer, head of Greater China equities at BNP Paribas Investment Partners. The firm is overweight on just TSMC amid caution on some companies' valuations after the recent rally, she said, but is always looking for companies to invest in.

—Kevin Kingsbury contributed to this article.

# Earnings News Hits U.S. Stocks

By AKANE OTANI AND RIVA GOLD

U.S. stock indexes pulled back Thursday, as disappointing earnings reports put pressure on shares of consumer-discretionary companies.

The Dow Jones Industrial Average fell 23.69 points, or 0.1%, to 20919.42 on Thursday. The S&P 500 and the Nasdaq Composite

**THURSDAY'S MARKETS** both shed 0.2%.

In Europe, the Stoxx Europe 600 slid 0.5% to 394.39, weighed down by declines in shares of banks, oil-and-gas companies and technology firms.

Major U.S. indexes initially headed toward one of their biggest declines of the month as retail stocks slid, then pared losses heading into the afternoon.

While individual stocks have sold off following corporate earnings reports, stock indexes have barely budged in recent sessions—a trend investors have attributed to data showing the U.S. economy is on solid footing.

Consumer-discretionary shares in the S&P 500 were off 0.6% in afternoon trading, one of the worst-performing sectors in the broad index, after retail giants including Macy's and Kohl's posted tepid quarterly results. Shares of Macy's closed down 17% and Kohl's dropped 7.9%.

Government-bond prices edged higher Thursday, with the yield on the 10-year U.S. Treasury note slipping to 2.400%, according to Tradeweb, from 2.414% Wednesday. Yields fall as bond prices rise.

Elsewhere, the British pound was down 0.4% against the U.S. dollar at \$1.2894 after the Bank of England kept its rates unchanged on Thursday and forecast steady growth for the U.K. in the coming years.

# OPEC Takes Gloomier View on Oil

By SUMMER SAID

OPEC boosted its forecast for oil-production growth from countries outside the cartel by more than 60%, the latest evidence surging U.S. production is dragging down efforts to raise prices.

In a monthly report, the Organization of the Petroleum Exporting Countries raised its estimate of 2017 production growth from non-OPEC producers to 950,000 barrels a day over last year's volume, up from last month's forecast of 580,000 barrels a day.

The new forecast is based largely on higher-than-expected output growth by U.S. shale-oil producers and Canadian oil-sands operations.

Both need relatively high oil prices to be profitable, and gains in recent months have given them an incentive to produce more.

For the U.S. alone, OPEC raised its outlook for production growth by 285,000 barrels a day to 820,000 a day compared with last year. It now estimates the U.S. will produce 14.45 million barrels a day this year of total liquids, which includes crude and similar substances.

"U.S. oil and gas companies have already stepped up activities in 2017 as they start to increase their spending amid a recovery in oil prices," OPEC's research department said in the report. "In addition to the growth in the U.S., higher oil

production is expected in Canada and Brazil."

The rise in non-OPEC supplies will reduce demand for OPEC's oil this year to 31.9 million barrels a day, down from last month's forecast of 32.2 million barrels a day, the report said.

The rising non-OPEC production, and reduced demand for OPEC oil, underscore the dilemma the cartel faces as it tries to boost oil prices by limiting its production. A six-month agreement struck in November between OPEC and some non-OPEC suppliers capped output, but the resulting rising oil prices prompted North American producers—who didn't sign on to the agreement—to pump more.

Now, OPEC is debating an extension to the earlier output reduction.

OPEC said its production declined by 18,000 barrels a day in April from a month earlier to average 31.73 million barrels a day.

The group's biggest producer, Saudi Arabia, has already said that the output-restriction deal could be extended to the end of 2017 or possibly longer.

OPEC said that stockpiles in the most industrialized nations increased from the fourth quarter by 31 million barrels to just over 3 billion, or 276 million barrels above the five-year average. This indicates that the group's efforts to reduce inventories to their

### Deeper Cuts

Change since December in OPEC crude-oil production, in millions of barrels a day



five-year norm haven't paid off.

"Continued rebalancing in the oil market by year-end will require the collective efforts of all oil producers to increase market stability," OPEC said.

THURSDAY, MAY 25, 2017 | LONDON

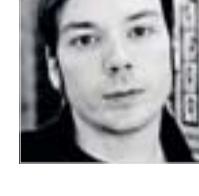
WSJ Pro's Cybersecurity Executive Forum will bring together senior figures from industry and government to discuss how senior executives can best prepare for hacking threats, manage breaches and work with government cybersecurity authorities and regulators. The forum will offer insights, practical advice, case studies and workshops tailored to the needs of executives and managers.

### SPEAKERS



#### ELIZABETH DENHAM

U.K. Information Commissioner  
**Information Commissioner's Office**



#### JOHN 'FOUR' FLYNN

Chief Information Security Officer  
**Uber**



#### MIKKO HYPPONEN

Chief Research Officer  
**F-Secure**



#### CHERI MCGUIRE

Group Chief Information Security Officer  
**Standard Chartered Bank**



#### DAVID OMARD

Visiting Professor,  
Dept. of War Studies  
**King's College, London**



#### DAVID WOOD

Executive Director  
**BGS Ltd.**

To request an invitation, go to [CYBER.WSJ.com](http://CYBER.WSJ.com)

## MARKETS

# Junk-Bond Yields Just Keep Going Down

Debt considered riskier is still outperforming other sectors even with central banks a worry

By MIKE BIRD  
AND CHRISTOPHER WHITTALL

Global bonds have been rattled by improving growth prospects, but in one of the riskiest parts of the market, junk-rated credit, yields are still falling to all-time lows.

That has left this market looking expensive to some investors, particularly given the potential for central banks to tighten monetary policy and trigger a selloff.

In Europe, yields on junk-rated bonds hit their lowest level on record this week. The U.S. high-yield sector is also outperforming other bonds, with yields falling toward the lows reached in mid-2014. Yields move inversely to prices.

High-yielding debt has been swimming against the so-called reflation trade since November, when expectations of higher inflation and growth triggered a selloff in many bonds.

Investors are still buying junk bonds because the expectation of better growth reduces the likelihood of companies defaulting on their debt. In the U.S., a recovery in commodities prices has lifted a market brimming with oil and mining companies. Funds are also chasing the extra income that these bonds offer.

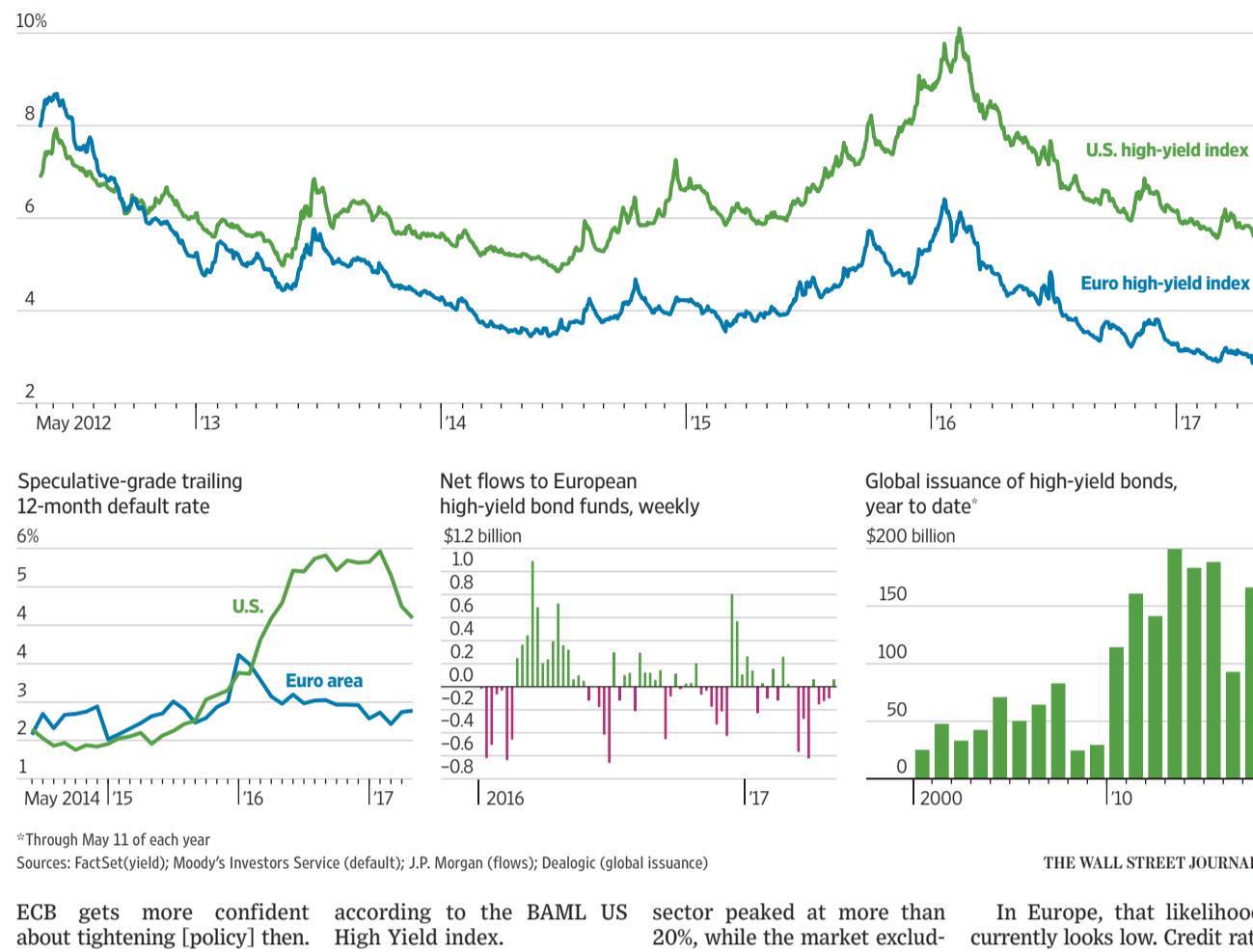
But that income has been pushed to historic lows at a time when there are risks that the Federal Reserve and European Central Bank will tighten the monetary policy that has been so supportive of this market, including the ECB's huge bond-buying program.

"It's been a massive move," said Jeff Mueller, a portfolio manager at Eaton Vance. "There is some concern about that."

If the Fed hikes and the

### Not-So-High Yield

Even as expectations for higher interest rates have driven government-bond yields higher, junk-bond yields have hit new lows in Europe.



\*Through May 11 of each year  
Sources: FactSet(yield); Moody's Investors Service (default); J.P. Morgan (flows); Dealogic (global issuance)

ECB gets more confident about tightening [policy] then what you're being compensated for right now is pretty skinnny," he said.

The average yield on the €283 billion (\$307.6 billion) Bank of America Merrill Lynch Euro High Yield index fell to an all-time low of 2.58% Wednesday. That is down from 4.2% last July, when eurozone government-bond yields reached their lowest levels. Yields on U.S. junk bonds have fallen, too, from an average of 6.13% at the start of the year, to 5.66% on Wednesday,

according to the BAML US High Yield index.

A large part of the rally in U.S. high-yield bonds has been due to commodity-focused companies, particularly in oil and gas. Though oil futures have recently slipped below \$50 a barrel, they are still way above the \$26 lows that last year triggered a selloff in U.S. junk-rated debt. More than 10% of the U.S. high-yield index is issuance from energy companies, more than twice the European level.

In February 2016, yields on U.S. junk bonds in the energy

sector peaked at more than 20%, while the market excluding those companies was yielding around 8.5%. Now, yields on energy-sector junk-rated bonds are around 6.5%, only a percentage point higher than the broader market. Junk bonds are those of companies with a below-investment-grade credit rating.

Government bonds largely move on the outlook for where central banks will set interest rates. But junk bonds are swayed by other factors, too, particularly their perceived likelihood of default.

In Europe, that likelihood currently looks low. Credit rating firm Standard & Poor's expects the default rate on speculative-grade bond issuers to be just 2% in 2017, below the 3.3% average since 2002.

Better prospects for global growth will continue to soothe investors' fears of default.

But as the European economy heats up and political risks recede in the region, investors believe that the ECB is more likely to unwind its stimulus efforts—including its corporate bond-buying program.

Central-bank buying of

higher-quality corporate bonds helped to fuel the high-yield sector, as investors moved further down the ratings ladder to look for better returns.

"The favored trade of the year has been to drop down the credit ratings," said Chris Telfer, portfolio manager at ECM Asset Management.

Many investors and analysts are expecting the ECB to begin winding down its stimulus measure in coming meetings. The central bank has bought €83.4 billion of corporate debt since it announced this stimulus program in March of last year.

Not everybody agrees that central banks are about to torpedo this market.

Jonathan Butler, head of European leveraged finance at PGIM Fixed Income, said investors understand the ECB will start tapering its bond buying when the eurozone economy recovers.

Mr. Butler sees few major "bumps" ahead for high-yield bonds. "Europe is growing again. We've got low default rates. On a risk-adjusted basis, it looks reasonable...where is the shock going to come from?" he said.

Still, Mr. Butler's firm is reducing the amount of high-yield debt it holds in portfolios that allow it.

"It's no longer the screaming buy it used to be. That makes life tougher," he said.

Other investors have also been reducing their holdings, believing that many of the gains are over.

Toby Nangle, Columbia Threadneedle's co-head of asset allocation, reduced the holding of European high-yield bonds in his £579.3 million (\$749.5 million) Dynamic Real Return fund from 15.1% to 5.7% in the year to March 2017.

"The fundamental credit quality hasn't deteriorated in Europe," said Mr. Nangle, "but valuations have moved sharply over the last 12 months."

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

### European Stocks Near Breakthrough

Peak Europe? The Stoxx Europe 600 index is close to a level where previous ascents have repeatedly stalled. But earnings and global growth could help Europe keep climbing.

The Stoxx Europe 600 at 394.39 is now 4.75% below its record close of 414.06 set in April 2015. It was only then that the index passed the high-water mark set in 2000.

In fact, the index has only closed above 400 on 55 occasions. Each time the index has reached this level, there has been a big setback: In 2000, the dot-com bust; in 2007, the global financial crisis. The run-up in early 2015 was fueled by speculation around quantitative easing but undermined by continued dismal earnings.

The most recent gains for European stocks can be attributed to relief at the outcome of the French elections. But that is really just a catalyst. The underlying outlook is more positive than when the previous record was set.

European earnings have been a disappointment for years now. But the first-quarter results season so far has been strong. Crucially, earnings estimates for 2017 have been upgraded slightly, while recent years have seen consistent downgrades by this point, Morgan Stanley notes.

Europe should also benefit as a play on global growth, given the region's exposure to emerging markets.

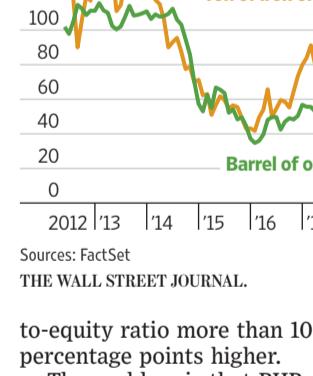
At the peak in 2015, the Stoxx 600 traded on a lofty 17 times forward earnings; it is now at 15.6 times.

If the index is to decisively break into new territory, European companies will need to keep delivering good news.

—Richard Barley

### BHP's Fight to Keep It Together

#### Crunch Time



Sources: FactSet

THE WALL STREET JOURNAL



Iron ore stockpiled in Port Hedland, Australia

As for BHP's argument about the benefit to investors, total shareholder returns have lagged behind Rio's over both the past five years and 20 years.

Right now, iron ore is selling off on signs of slowing Chinese growth, while oil has been flitting around \$50 a barrel. If oil truly crushes iron and copper in the years ahead, then BHP's bet will pay off, particularly for its low-cost conventional wells. But given the continuing explosion in U.S. fracking activity, that is far from guaranteed.

Meanwhile, investors who view BHP as an unwieldy hybrid of petroleum and metals businesses might prefer the company to stick to its mining knitting, investing wisely at the bottom of the metals price cycle and sending more cash their way—rather than down shale-oil wells—at the top. Absent clear evidence that its oil business is a must-have, the onus is now on BHP to prove its worth.

—Nathaniel Taplin

### OVERHEARD

It is a "let them eat cake," or perhaps a "let them eat honey-roasted peanuts," moment. One of the world's richest men says that despite passenger complaints, and bruises, U.S. airlines are succeeding because they are giving the ho pollo what they want—cheap flights.

Warren Buffett is cashing in on that business strategy. Berkshire Hathaway owns shares in four major airlines, including United Continental and Southwest, which are trading at the highest levels in decades. Surveys show passengers place more importance on price than service.

That doesn't mean he thinks the experience is pleasant.

Mr. Buffett likened U.S. commercial flights to "cattle cars" in a CNBC interview on Monday. And, despite his famously frugal ways, flying comfort is one area where he doesn't cut corners. Berkshire's corporate jet, once called "The Indefensible," was renamed "The Indispensable."

### Italy's Battered Banks Find Some Love as EU Risk Fades

If Italian banks were Europe's next big worry, even that seems to be fading.

Riskier banks from Italy and other weaker eurozone economies are coming in from the cold following the French election, which eased concerns for now about the eurozone's future.

Investors appear to be rotating out of larger European banks and the big insurers that have been reliable dividend payers.

That was underlined in Italy Thursday by the mirrored reactions to results from UniCredit, the country's biggest bank by assets, and Generali, its biggest insurer.

The former was among the best performing Euro-

pean stocks after its recent balance-sheet clean out and €13 billion (\$14.1 billion) capital raise allowed it to produce much better profit than expected.

Generali hit expectations and announced a plausible plan to tune up European asset management, designed to grow its funds and ultimately double its contribution to group profit by 2020. But its shares still slipped 2.5%.

The divergence underscores the gains made by bank stocks in Italy and Greece and by smaller banks in Spain in recent days since a strongly pro-EU candidate won the French presidency over an anti-EU extremist.

Investors can put political

concerns aside for a while and look instead at banks' underlying performance. Interest income may be pinched in the eurozone's negative-rate environment, but Italy's struggling borrowers are putting less strain on bank balance sheets.

There was a good sign of the country's broader recovery in UniCredit's strong results: a big slowdown in the formation of new bad loans.

UBI Banca, Italy's fourth largest bank by assets, also reported a slowdown in new bad loans Wednesday as did Italy's No. 2 bank, Intesa Sanpaolo, last week.

At Generali, a slip in first-quarter profit was largely

#### Periphery Plays

Share-price performance



Source: FactSet

THE WALL STREET JOURNAL

earns on its assets in the longer term. That matters when the average yield is just over 3%, but the yield on new bond investments is only about 2%.

The hunt for better yields and management fees is behind Generali's plan to overhaul its asset-management business.

One big element of this will be getting more funds for real-estate, private-debt and private-equity investments. Its real-estate investments yield more than 5.5%.

The plan is fine, but as Europe's breakup risk fades, what investors really want now are the higher returns from those recovering banks.

—Paul J. Davies

The wine  
many people  
mistake for a  
mere mixer



W4

# OFF DUTY



Gas vs.  
electric: two  
motorbikes go  
head to head

WS

EATING | DRINKING | STYLE | FASHION | DESIGN | DECORATING | ADVENTURE | TRAVEL | GEAR | GADGETS

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## A Video Auteur, You?

Blurry, shaky videos are all the rage, but do you really want to preserve your precious memories as a pixelated mess? Here, an easy guide to making your everyday footage more Spielbergian



J.C.

BY MICHAEL HSU

**G**IVEN HOW MUCH TIME I spend obsessively hate-watching crappy videos on Instagram and Snapchat these days, you'd think I'd be sold on the whole vernacular of smartphone video. In truth, I'm anything but.

Look, I'm fully aware that the off-the-cuff footage we record with our phones isn't supposed to be perfect. I get that the shaky shooting style conveys immediacy and realism. But I'm also concerned that we're trading our memories—hazy and fallible yet rich—for snippets of digital mush. We will end up with years of babies' first steps, girls' nights out and improbable holes-in-one preserved as nothing more than jittery blurs.

Not to sound alarmist, but I believe we're on the cusp of a collective mnemonic catastrophe.

The good news? We can easily save ourselves. Shooting a great video isn't much more difficult or time consuming than shooting a bad one. We just have to decide to do it.

This all hit me recently while I was watching a clip I'd recorded of my daughter's birthday. I had flubbed my duties as designated family videographer on a few prior occasions. (Once, I somehow failed to tap the record button and wasn't actually filming when I thought I was. Another time, my phone ran out of storage.) When this birthday rolled around, I'd learned my lesson: I triple checked that my phone was in working order. I scouted the ideal spot to stand—close to the action but not so near that I'd get in the way of the festivities.

Singing commenced. Candles flickered. Then came the momentous inhale and subsequent gale, followed by seven ten-drills of smoke and my daughter's ear-to-ear grin.

Did I notice the can of whipped cream crowding the frame

Please turn to page W2

## OFF DUTY

# CINEMATIC HOME FLICKS

Continued from page W1

as all this was happening? No, because I hadn't taken the time to check the composition before recording. In hindsight, I estimate that moving the offending canister out of the frame would have taken seven seconds.

I'm not saying we need to film our every backyard barbecue with Terrence Malick-like reverence. But if we're going to bank our memories to the cloud, don't we owe it to ourselves to make the videos as

### AUTEUR THEORIES // PRO TIPS ON SHOOTING SUPERIOR SMARTPHONE VIDEOS

#### Lose Your Jitters

"Be aware of the image while shooting, and notice if the shot is too jumpy. You can tell how much it's moving by looking in the corner of the frame. Move the camera smoothly and rather slowly. It'll feel like you are moving too slowly while shooting, but later, when you look at what you've shot, you'll find it looks right."

—Eleanor Coppola, director of "Paris Can Wait," in theaters this week

#### Ban the Pan

"I think people do too much panning—standing in place and pivoting your body. I really don't get it. Panning is hard on the eyes. It makes you nauseous. Instead, walk toward or away from someone or move to the left or the right. Use your feet to be your own camera dolly." —Barry Sonnenfeld, a director on "A Series of Unfortunate Events"

#### Go Wide

"The big one is obviously whether to shoot with the phone horizontal versus vertical. It's infuriating as a cinematographer to see vertical, but I just don't see us winning this battle. Nobody holds their phone horizontally, ever. But just shoot horizontally! This matches how we see the world. Our eyes are side by side." —Kieran Crilly, cinematographer of the Oscar-winning documentary "The Lady in Number 6"

#### Film With Abandon

"Use your smartphone camera to create video that breaks the rules. Once, I turned my camera on and ran as fast as I could along a dry grassy field." —Ms. Coppola

#### Move On Up

"Audio is also key to distinguishing better video. If people are talking, get close. Or better yet, use a plug-in mic." —Director Morgan Neville, whose series "Abstract: The Art of Design," was filmed in part on an iPhone.

#### Leverage Canine Talent

"What's really fun is to shoot video of your dog biting down on a ball that squeaks, because when you play it back in slow motion, it sounds exactly like a whale. Shooting footage of your dog making funny sounds in slow motion—that's a big one for me."

—Mr. Sonnenfeld

—Edited from interviews by Chris Kornelis

competent and vivid as they can be?

A bunch of you are likely with me on this. "Yeah," you're thinking, "I am going to start taking great video!" But something is telling you that, as gung-ho as you may be now, the next time you pull your phone out of your pocket, you'll fall back to your old ways. Taking the time to frame your shot properly may be easy, but somehow you won't bother.

Travel writer Paul Theroux has described the act of snapping photos as "a way of forgetting." Indeed, researchers have found that people who photographed art in a museum remembered fewer details about the works than those who hadn't—perhaps because by stepping behind the camera, we step out of the moment. When I need a kick in the pants to take better video, I remind myself that hitting record doesn't supplement memories; it supplants them.

Once you delve seriously into the craft of smartphone videography, you'll find a sea of specialized equipment to buy, most with steep learning curves: anamorphic lenses to give your shots a cinematic depth of field, pricey Steadicam-like devices for capturing expert tracking shots. But you needn't spend a lot of money or learn what "desqueezing" video entails to considerably up your game. There are plenty of easy steps you can implement tomorrow, as well as practical add-ons to tap your inner Spielberg.

To start, keep in mind that all the basic rules of photography apply when filming on a smartphone: If you're shooting people, hold the camera high to avoid the unflattering up-the-nose view. Don't leave too much space above your subjects' heads (step closer if you need to). Avoid recording someone standing directly in front of a bright light or window—which will backlight your subject. If you're tracking scampering puppies or other fast-moving objects, don't center them in the frame—leave some extra space in the direction they're moving, so they don't feel like they're about to run off the screen.

This is a no-brainer, but try to hold your phone straight, people. Admittedly, it's easier said than done. If you botch this and are kicking yourself after the fact, don't sweat it. You can manually tilt the clip using the Chromic app for iOS (free, \$5 for full version).

The beauty of smartphone videography is that you don't have to know a thing about exposure settings or focusing to do it at least semi-right. If the area you want to zero in on looks blurry or too bright or dark, just tap it and let the software do the rest.

And if you're going to use your phone primarily as a camera, make it just a camera. When recording a video more than a few minutes long, put your phone on airplane mode. The Wi-Fi and cellular components can make subtle noises that you definitely don't want to memorialize along with your child's cello recital.

Last, less is often more. As tempting as it may be to swoop and pan, you'll find your videos a lot less tiring to watch if you keep your camera still. A small tripod like the GripTight ONE GP Stand (\$35, joby.com) will allow you to set and forget it.

### STEADY ON // THREE WAYS TO SMOOTH YOUR SHOTS WITH A SELFIE STICK



**GRIPPING DRAMA** You don't have to be a narcissist to adore the selfie-stick. It's one of the handiest tools for shooting jingle-free video of others (not yourself). The key is to hold the stick with two hands and to keep your elbows locked against your body.



**SMOOTH MOVES** Use your selfie stick to record a tracking shot by walking sideways. No matter how smooth your gait, you'll get some jitter, but that is easily remedied by running your video through a stabilization app. Emulsi (\$3 for full version) for iPhone works wonders. If you're on Android, try the stabilization feature of Google Photos (free, feature available only in Android app).



**ZOOM TIMES** The same technique as above applies for a track-in shot: Walk gingerly toward your subject while holding your selfie-stick firmly with two hands.

ARTHUR MOUNT; NETFLIX (SONNENFELD); F. MARTIN RAMIN/THE WALL STREET JOURNAL (ACCESSORIES)

### LIGHTS, CAMERA ACCESSORIES, ACTION! // THREE EASY-TO-POCKET GADGETS TO BESTOW YOUR PHONE'S CAMERA WITH SERIOUS CHOPS



#### The All-Encompassing Lens

Want to squeeze more into your shot without having to frantically pan back and forth? Attach the **Amir 2-in-1 Professional HD Camera Lens Kit** (\$29, [amazon.com](http://amazon.com)), which includes a 0.6x superwide-angle lens as well as a 15x macro lens. Not only does it excel at capturing sprawling landscapes, it comes in handy when you can't back up far enough to frame everything you want (like your child's 60-member elementary-school orchestra). This admittedly imposing lens may be larger than other clip-on models, but it significantly expands your view with minimal distortion—at a price that's hard to beat.

The near-universal design allows it to work with pretty much any smartphone.



#### The Degrabbling Mic

You've probably watched videos where everyone sounds like they're talking under a pillow. The probable culprit? The videographer's hands. Because the smartphone's mics sit across from the camera lens, they're easy to block as you try to hold the phone steady. The cure is simple: Grip your phone by the long edges, away from the mics. In noisy environments, it also helps to attach a stereo external microphone, like the **Shure MV88** shown (\$150, [shure.com](http://shure.com)), which is compatible with newer iPhones, or the **AmpRidge MightyMic S** (\$50, [ampridge.com](http://ampridge.com)), which works with most smartphones that have a headphone jack. These will highlight sounds that are directly in front of them, accentuating what's visible in the frame.



#### The Shot-Saving Light

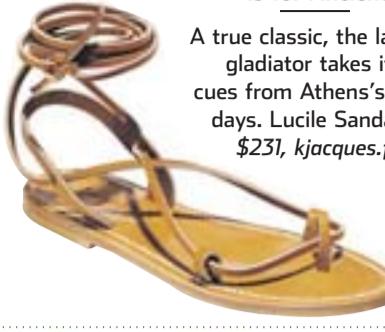
Smartphones are getting eerily good at recording in low light, but they still struggle to shoot in very dark locations (trendy restaurants, outdoor garden parties on moonless nights). In these situations, outfit your phone with a clip-on light, like the **Pickogen Flash** shown above (\$18, [amazon.com](http://amazon.com) for **Universal Clip-On Mini LED Light**) or **Amir 2-in-1 Cellphone Lens with Beauty LED** (\$17, [amazon.com](http://amazon.com)). Their LEDs cast a glow that's adequate for filming but not blindingly bright. Just make sure to stick close to your subject—a couple of feet away at most—as the lights aren't powerful enough to illuminate from a distance.

## OFF DUTY

A

is for Ancient

A true classic, the lace-up gladiator takes its cues from Athens's glory days. Lucile Sandals, \$231, [kjjacques.fr](http://kjjacques.fr)



B

is for Birkenstock

Give this summer wardrobe workhorse an upgrade with metallic leather. Gizeh Sandals, \$135, [birkenstock.com](http://birkenstock.com)



C

is for Cactus

A rare species in the sandal world but far from dry. Xacactus Sandals, \$945, [Manolo Blahnik](http://ManoloBlahnik.com), 212-582-3007



D

is for Denim

Artfully frayed one-straps are the footwear equivalent of your favorite cutoffs. Lola Sandals, \$695, [gianvitorossi.com](http://gianvitorossi.com)



E

is for Embellished

A flood of beads dresses up the shower slide. Sandals, \$995, [lanvin.com](http://lanvin.com)



F

is for Platform

Elevation without the aches. Effortless as summer should be. Flap Sandals, \$625, [robertclergerie.com](http://robertclergerie.com)



H

is for Hirsute

If Cookie Monster got a pearly makeover, it might resemble this fuzzy friend. Slides, \$950, [miumiu.com](http://miumiu.com)



I

is for Island

A festive, fruity topping adds flair to breezy white dresses. Tropical Tara Sandals, \$695, [charlotteolympia.com](http://charlotteolympia.com)



J

is for Jazzy

With a dance-till-dawn heel, this shoe would earn the approval of Zelda Fitzgerald and her ilk. Francesco Russo Sandals, \$990, [net-a-porter.com](http://net-a-porter.com)



K

is for Knotted

Tied-up leather nuptials high-fashion returns, especially in a burnished gold hue. Sandals, \$650, [alumnae.nyc](http://alumnae.nyc)



L

is for Logo

Icons never go out of style. Case in point: this emblematic 'H' flat from Hermès. Oran Sandals, \$690, [hermes.com](http://hermes.com)



M

is for Mismatched

Now sanctioned by Céline, odd couples are no longer a misstep. Sandals, \$790, [Céline](http://Celine.com), 212-533-3700



O

is for Over-the-Top

More is never too much in sandal form—even with beads, feathers, studs and animal prints. Voo Doo Sandals, \$1,250, [Aquazzura](http://Aquazzura.com), 347-328-0080



Q

is for Quilted

A Chanel bag translated into summery footwear. Sandals, \$995, [Chanel](http://Chanel.com), 212-355-5505



S

is for Sporty

The outdoorsy Teva, elevated to go beyond the trails. Sandals, \$495, [Prada](http://Prada.com), 212-334-8888



## Open-Toe Season

With sandal styles proliferating like dandelions, the time is right for an A-Z guide. Here, 26 fresh, fun pairs—plus a few summery nail-polish combinations

BY CHRISTINE WHITNEY

IT'S UNCLEAR IF there's a scientific correlation between temperature and the expressiveness of accessories. But as the weather heats up and women show more skin, they seem to gravitate to more conspicuous trimmings. "Shoes especially need to make more of a statement," said Jennifer Mankins, owner of Brooklyn-based boutique chain Bird.

She's referring mostly to sandals, the alpha-shoes of summer footwear. Ms. Mankins, who recently opened a Los Angeles outpost, is stocking more designs than ever this season—from Loeffler Randall's floral-print platforms to one-strap Birkenstocks in unexpected colors like olive and turquoise.

Sandals certainly deliver more free-

dom, both physically (no more suffocated toes) and aesthetically (with their endless fantasias on strappiness). Stephanie von Watzdorf, founder and creative director of summery, bohemian label Figue, thinks sandals hold an emotional draw. Currently she's pulled in by metallics and hot colors, which can be dressed down for day and up for evening; cue flowy dress. We reserved "T" in our A-Z for her tasseled Scaramouche sandals in icy blue.

While you can't err with a simple slide, a more dramatic pair can really make a summer look. "Why is someone going to pick up another sandal?" asked Ms. Von Watzdorf. "It has to have something about it that is different." We found 26 footloose pairs that tick all the boxes.

T

is for Tasseled

Tassels add a dash of bohemian whimsy. Jewel colors, optional. Scaramouche Sandals, \$225, [Figue](http://Figue.com), 631-527-5111



U

is for Understated

Subtle, classic and go-anywhere, a one-strap, low block-heel is a staple. Sereno Sandals, \$228, [mgemi.com](http://mgemi.com)



V

is for Venetian glass

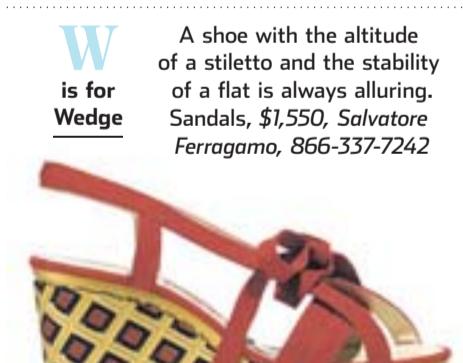
The work of Italian glass-master Carlo Scarpa provided inspiration for this high-art pair. The Row Sandals, \$1,050, [barneys.com](http://barneys.com)



W

is for Wedge

A shoe with the altitude of a stiletto and the stability of a flat is always alluring. Sandals, \$1,550, [Salvatore Ferragamo](http://SalvatoreFerragamo.com), 866-337-7242



X

is for XX

Chromosomes, that is. It doesn't get more feminine than a pretty, crystal-encrusted silk flat. Cinderella should have been so lucky. Mia Sandals, \$690, [oscardelearenta.com](http://oscardelearenta.com)



Y

is for Yellow

The sunshiny hue is an instant mood-and outfit-enhancer. Paul Andrew Sandals, \$495, [Stanley Korshak](http://StanleyKorshak.com), 214-871-3600



Z

is for Zebra

A simple sandal shape like this can temper a zebra print's wildness. Sri Sandals, \$875, [sergirossi.com](http://sergirossi.com)



LACQUER SUPERIOR // SANDALS AND PEDICURES GO TOGETHER LIKE PB & J. HERE, OUR EXPERT TIPS ON MATCHING SHOES AND POLISH SHADES



Nude + 'Nostalgia'  
Hues like 'Nostalgia' (\$18, [jinsoon.com](http://jinsoon.com)) are universally flattering and amp up a nude sandal's leg-lengthening effect.



Sport + 'Shut Up and Dance'  
Temper the sweaty connotation of Teva-like sandals with a hot pink a la 'Shut Up and Dance' (\$20, [deborahlippmann.com](http://deborahlippmann.com)).



Gingham + 'Gitane'  
A glossy, vixenish red like 'Gitane' (\$28, [chanel.com](http://chanel.com)) takes folksy gingham from sweet to considerably sassy.



Ancient + 'African Violet'  
Classics, like the natural-hued strappy flat, can get staid. Update them with the pop of 'African Violet' (\$36, [tomford.com](http://tomford.com)).



Over-the-Top + 'Optic White'  
The unexpected power of 'Optic White' (\$27, [dior.com](http://dior.com)) stands up well to Aquazzura's intense maximalism.

## OFF DUTY

ON WINE LETTIE TEAGUE



# The Wine Lover's New (Old) Best Friend

**WHEN I TOLD** a friend I was writing a column about vermouth, she responded with surprise. "But vermouth isn't wine!" she replied. In fact, this venerable, spice-infused, fortified drink is made from wine. Christopher Tracy, winemaker of Channing Daughters Winery in Bridgehampton, N.Y., told me that quite a few visitors to his tasting room were taken aback by this news as well. "But they love it when they taste it," he said.

Mr. Tracy is one of a new breed of American vermouth makers producing novel and exciting versions of an old staple. While some, like Mr. Tracy, are professional wine-makers, others, like New York lawyer Adam Ford of Atsby, are making their vermouths on the side. They all share a passion some admitted was not necessarily wise.

Neil Kopplin of Oregon-based Imbue Vermouth jokingly characterized his decision to make this drink with two friends—one a winemaker and both now his business partners—as a "dinner conversation gone horribly, horribly wrong." They knew it was a product few people understood, yet they hoped to appeal to "young professionals with discerning taste who can grasp that this is a wine-based product you can pour over ice and drink by itself," Mr. Kopplin said.

A tall order, perhaps, but that's how vermouth is usually consumed in Europe—not as a component in a Manhattan or martini, as in the U.S. Back in 1786, in Turin, Italy, Antonio Benedetto Carpano created vermouth to be sipped as an aperitif. He infused a white wine with herbs and spices, and it was an immediate hit, so popular that Turin cafes reportedly had to stay open day and night to meet the demand.

The Carpano Antica Formula 1786 vermouth remains the standard by which other sweet vermouths are judged, and Italy is considered the de facto home of sweet vermouth. But we have France to thank for dry vermouth. Almost three decades after Mr. Carpano's invention, a French herbalist named Joseph Noilly infused white wine with his own secret combination of herbs and spices—and presumably less sugar. (Dry vermouth today is drier than sweet vermouth but can still be rather sweet; those looking for the driest should seek out "extra-dry" bottles.) Noilly Prat vermouth, named for Mr. Noilly and his son-in-law, Claudius Prat, endures today, though it's now owned by Bacardi.



F. MARTIN RAMIN/THE WALL STREET JOURNAL

Even drinkers who don't know much about vermouth know these basic types, sweet and dry. They probably also think that sweet is red and dry is white (not always true), and that red vermouth is made with red wine. (Often it's white wine with coloring added.) They probably don't know that unlike other fortified wines such as Port, which has a

the E.U. must be no less than 75% wine. (In some cases, the percentage is as high as 95%).

The wine itself, made from grapes of the producer's choice, may be aged in a barrel for years or just a short time. The addition of a fortifying neutral spirit raises the alcohol level, and sweetness most often comes from sugar syrup or honey (a lot or a little). The producer's proprietary blend of botanicals and spices may be infused into the neutral spirit before blending or added afterward to the fortified wine.

That last step is where vermouth can get a bit wild—particularly some of the new American styles. While traditional European vermouths might be infused with spices like cloves, cinnamon, juniper and coriander, some American vermouths are also infused with vegetables such as wild celery, mushrooms, cucumbers and zucchini. Another difference between American vermouths and their European counterparts: While the latter must contain wormwood, a bitter plant also used in the production of absinthe, it's not required stateside. (The word "vermouth" actually derives from the German word for

wormwood, "wermut.") Some European producers question American vermouth's authenticity because of this, something Mr. Kopplin believes makes no sense. "That conversation needs to go away," he said.

Mr. Kopplin's Imbue Bittersweet Vermouth was one of the 12 vermouths I purchased for my recent tasting of European and American brands. It was a particularly diverse tasting, not only in terms of flavors but in terms of bottle size and price, too. The bottles ranged from \$4 to \$45 and from half bottles to 500 ml (a size between half and full) to full size. Alcohol levels ranged from 16.5% to a whopping 21.5%, though most were between 17% and 18%. The labels were also among the most colorful and interesting of those found on any group of wines I've tasted lately—a fact not lost on the five friends, all artists, whom I invited to join my tasting.

All five were regular wine drinkers, yet only one, Jen, knew vermouth was a wine. "I was once a bartender," she explained. Jen and Allison brought gin and vermouth and other cocktail components along, but I asked everyone to taste the vermouths alone and then de-

cide if they wanted to drink them over ice or mixed into cocktails.

I arranged the vermouths more or less from driest to sweetest and from simplest to most complex. First up was the Tribuno Extra Dry (\$4, half bottle), in which everyone detected a basil aroma and not much more. Something to use in cocktails or cooking. The Noilly Prat Extra Dry (\$8, half bottle) rated a half-step up: slightly spicy, slightly sweet, a decent (cheap) aperitif. The Dolin Dry Vermouth de Chambéry (\$10, half bottle) soared a league upward and was a universal hit. "I'm going to drink all of this," Tom declared. It was well-balanced and lively with a slightly bitter note. The Dolin Blanc (\$15, 750 ml bottle) was also good but deemed a bit too sweet to drink on its own. "Better in a mixed drink," Nancy said.

The universally approved Imbue Bittersweet Vermouth (\$27, full bottle) was the only bottle left completely empty at the end of the night. Unlike the others, it tasted "like a wine first," with interesting spice side notes. The Hammer & Tongs Sac'Résine Fine Vermouth (\$30, full bottle), made in Oregon with a label declaring it "Safe, Sure & Pleasant," went down exactly as advertised. Another hit, the Contratto Bianco Vermouth (\$14, half bottle), sported a label as much admired as the wine itself, which the group found "attractive, like a light Amaro," though a bit sweet.

The vermouths from Uncouth, Channing Daughters and Atsby attracted both criticism and praise for their strong characters. The Uncouth (\$35, 500 ml) had a "pronounced vegetal character," said Sue—Nancy called it "kale juice"—but Allison liked its "honey" aromas. Sue detected in Channing Daughters' VerVino Vermouth (\$28, full bottle) notes of "pickled cucumbers, pickled vegetables," and everyone thought it was bitter. Jen considered the Atsby Armadillo Cake (\$38, full bottle) the vermouth best suited to a cocktail and mixed it into a superb Negroni. The Carpano Antica Formula 1786 (\$14, half bottle) was deemed a great dessert vermouth, with aromas of chocolate and ginger—perfect over ice paired with angel food cake, said Allison.

Who knew that vermouth was not only a wine but a wildly interesting and mysterious one as well? As Mr. Kopplin noted, "Vermouth is not just agriculture. It's alchemy."

► Email Lettie at [wine@wsj.com](mailto:wine@wsj.com).

## OENOFILE // 5 VERMOUTHS FIT FOR SIPPING



**Imbue Bittersweet Vermouth** \$27 (full bottle)  
Oregon-based partners Derek and Jennifer Einberger and Neil Kopplin craft a classic dry sipping vermouth from Pinot Gris and top-secret botanicals. Just a touch sweet and a little bitter, a wonderfully balanced aperitif.



**Contratto Bianco Vermouth** \$14 (half bottle)  
Owned by the Rivetti family of the acclaimed La Spinetta winery, Contratto makes this sweet white vermouth from a 19th-century recipe. Marked by heady floral and citrus aromas, it's best over ice as a digestif or aperitif.



**Dolin Dry Vermouth de Chambéry** \$10 (half bottle)  
A firm founded in the early 19th century, Dolin makes the rare PDO (Protected Designation of Origin) vermouth: light bodied, mildly herbal, slightly bitter and compulsively drinkable. Great for cocktails and on its own, on the rocks.



**Hammer & Tongs Sac'Résine Fine Vermouth** \$30 (full bottle)  
A waft of incense that Andrew Taylor of Oregon's Hammer & Tongs encountered in his youth inspired him to create this aromatic, lively, dry, savory vermouth made from Pinot Blanc.



**Carpano Antica Formula 1786** \$14 (half bottle)  
This Italian sweet vermouth, from a recipe dating to 1786, is the one by which all others are measured. It's rich and luscious, with aromas of chocolate, orange peel and gingerbread. Serve it with cake or even ice cream.

## HOW TO

### TRIM AND COOK AN ARTICHOKE

This spiny vegetable may look daunting, but it's actually a cinch to prepare. Here, a step-by-step guide

**ARTICHOKE WERE** all the rage in the 1960s Los Angeles of my childhood. We lived just a few hours south of Castroville, "Artichoke Capitol of the World," and my appetite for this food only increased when I learned that Marilyn Monroe had once been queen of the town's annual artichoke festival.

Artichokes possess a certain glamour, to be sure, and a whiff of exoticism, too. Encountering one for the first time, some people are downright intimidated. But eating an artichoke is a simple and highly satisfying matter of pulling off one leaf at a time; dipping the fleshy end in melted butter, vinaigrette or mayonnaise; and dragging the leaf across your teeth to scrape off the luscious flesh. Once you reach the heart, remove the fuzz or "choke" with a knife or spoon, and sink your teeth into the succulent meat beneath.

Trimming and cooking an artichoke isn't much harder. You'll find the globe variety in supermarkets year round, and

right now is peak season. I like to boil them whole. The recipe at right includes a vinaigrette for dipping, punched up with curry and shallots. When a recipe calls for the hearts only, I cook whole artichokes first rather than enduring the more common—and tedious—process of removing the leaves and choke with a sharp knife while still raw. Once cooked, the choke comes out easily, and then you have the serendipitous snack provided by the cooked leaves. —Gail Monaghan



1. Cut off stem so base of artichoke is flat.



2. Cut off top third of artichoke.



3. Snip remaining thorny tips from leaves.



4. Voilà, trimmed and ready to use in the recipe at right.

## Whole Artichokes With Curry-Shallot Vinaigrette

Choose artichokes that feel firm and heavy for their size. A fresh artichoke will be a healthy deep green and still tightly closed; it should emit an audible squeak when you squeeze it.

TOTAL TIME: 45 minutes SERVES: 4

Make curry-shallot vinaigrette: In a medium bowl, combine 1 cup finely minced shallots, 1 clove garlic, minced, 1/4 cup minced chives, 1/4 cup minced parsley, 1/4 cup minced tarragon, salt and pepper to taste, 1/2 teaspoon mild curry powder, 1 large pinch of sugar, 1 tablespoon white wine vinegar, 1 tablespoon balsamic vinegar, 1 tablespoon fresh lemon juice and 1 cup olive oil. Whisk thoroughly. Let sit 15 minutes, then adjust seasonings to taste. Whisk again before serving. // Boil artichokes: Trim 4 medium or large globe artichokes and place in a lidded pot large enough to comfortably hold them and cover with salted water by at least 1 inch. Place a plate on top of artichokes to keep them submerged. Bring to a boil over high heat. Reduce heat to low, cover pot and simmer until outer leaves can easily be pulled off, 25–35 minutes (depending on size of artichoke). // Serve artichokes hot with individual ramekins or small bowls of curry-shallot vinaigrette, melted butter or room-temperature mayonnaise.

LIBBY VANDERPLUG



She's a fan.



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## OFF DUTY

# A Glutton's Guide to Bilbao

Few places merit a tasting tour like this Spanish city, whose stand-and-eat bar snacks are way more than just nuts



### STICKING TO IT

Cafe Iruña, a fine place to sample the Basque snack food pintxos, usually held together with a toothpick and paired with wine or beer.

BY J.S. MARCUS

**S**PAIN'S BASQUE Country fosters one of the world's great regional cuisines, but its symbol isn't a fancy foam or a funky animal part—it's the ordinary toothpick. The pick, it turns out, is the essential ingredient in the pintxo, a Basque snack food and a close relative of the tapa, eaten with a glass in hand. Named in honor of the stick that holds it together, the modern pintxo (pronounced "pincho") comes in every guise, from a tiny, pierced ham sandwich to an impaled column of festooned foie gras. What matters is that it can be eaten in a bite or two. Customers are often allowed to help themselves from open display trays; servers tally the bill by adding up the sticks.

Pintxos may be found in most Spanish cities these days, but to experience the form in all its variations, you have to go to Bilbao, the Basque Country's lone metropolis. Bilbaínos, as residents are called, like to space out several pintxos throughout the day. The bars, which may be open for breakfast and close after midnight, manage to cross coziness with elegance, like a mix between an old-fashioned American diner and a French wine bar. Two or three pintxos and a glass of wine will rarely set you back more than 10 euros (about \$10). In San Sebastian, the Basque beach resort and

culinary hub an hour away, the same meal can easily cost double.

Bilbao bars occur in clusters, encouraging bar hopping, and they tend to be short on seats, requiring you to combine leaning, drinking and noshing. Teresa Barrenechea, a Bilbao native and noted Basque cookbook author, describes the pintxo bar's requisite balancing act as "the art of eating while standing."

The city itself made a sudden splash internationally back in 1997, when Frank Gehry's Museo Guggenheim Bilbao first opened. But Bilbao has long been known among Spaniards for its prosperity and panache, marked by more than a solid century of industrial and financial prowess. Bilbao manages to be serenely classy and quaintly gritty. Now dominated by a much-improved riverfront, the city is highly walkable. Here, a strolling-and-snacking tour by neighborhood.

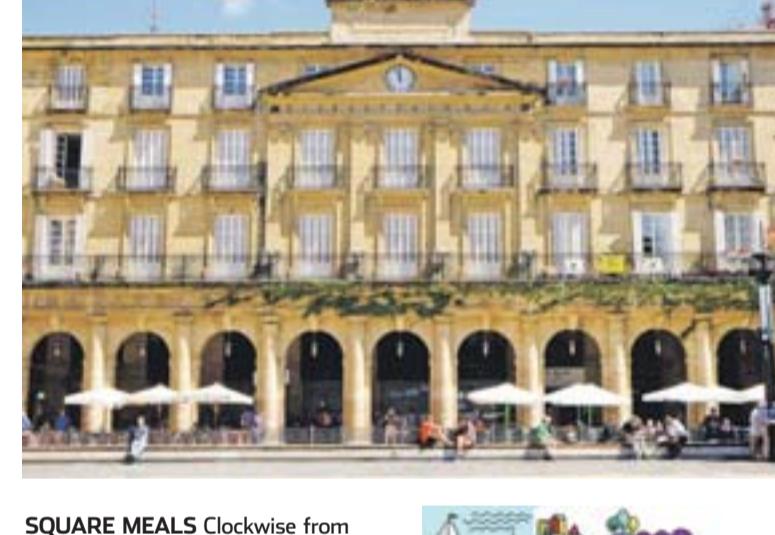
#### Abando

Around 1900, Bilbao's newly flush bourgeoisie built up the Abando district, and it's been the heart of the city ever since. Its architectural styles range from patently Parisian to something called "neo-Basque," which transferred the rustic, pitched-roof look of Basque farmhouses to factories and mansions. These days, Abando is also the place to find prime pintxo purveyors, notably set back on small, lively Maestro García Rivero street. Start at **El Huevo Frito**, a yolk-yellow hole-in-the-wall where a quail egg is the default ingredient for classic pintxos, like the *gilda*, combining olives, anchovies and pickled peppers along a single toothpick (*Maestro García Rivero 1; elhuevofrito.com*). Across the street at dark-hued **Bar Okela**, try the *pimento rozo relleno de rape o bacalao*, an earthy red pepper stuffed with a light fish soufflé (*Maestro García Rivero 1; barokela.com*).

Bilbao is Spain at its most Anglo-

#### BASQUE BOUNTY HUNTERS

Left: Bar El Globo, where tourists and Bilbaínos wait in line for freshly made crab pintxos. Below: A few offerings at Sorginzu.



**SQUARE MEALS** Clockwise from above: Plaza Nueva in Bilbao's old town; an eel sandwich at Gure-Toki; assorted pintxos at Café Iruña.

phile, and Abando's Jardines de Albia, an early 20th-century plaza-like park, looks like a Spanish riff on a green London square. It's also lined with pintxo bars. At **Café Iruña**, the neo-Moorish, Belle-Époque interior makes an apt backdrop for a *moruno*, or Moorish, pintxo—the lamb pieces, first grilled to order then pungently spiced, are eaten right off the skewer (*Colon de Larregui, 13; cafeirunibalo.net*).

Abando's elliptical Plaza de Federico Moyúa, once a sprawling mid-20th-century oddity, underwent a 1990s makeover thanks to the opening of subway stations designed by Norman Foster. The architect livened up the monumental square with surreal station entrances that look like giant Slinkies. One street away, on a key pintxo thoroughfare called Calle Diputación, **Bar El Globo** dishes up luscious gratinéed spider crab in a warmly lit room (*Diputación 8; barelglobo.es*). At Globo's neighbor, barebones **La Viña del Ensanche**, patrons crowd in at all hours to gobble down variations on a ham sandwich (*Diputación 10; lavinadelensanche.com*).

The northern end of Abando once gave way to an industrial area but is now home to the Guggenheim and other prestige projects. This is also the place to find Bilbao's modern bourgeoisie, living it up in bars that emphasize the wine as well as the food. At **Singular**, a sparsely stylish space with rough-hewed stone walls, the pintxos are a local legend. Marvel at the pocket-size perfection of small slices of Iberian ham dressed with a leek salad, on a thin slice of chewy, crusty bread (*Lersundi 2; singularbar.com*). Around the corner at an ornately tiled bar called **Mr. Marvelous**, the common tortilla—Spain's ubiquitous



omelet—gets a flavor upgrade thanks to caramelized onions (*Los Heros 18*).

#### Casco Viejo

Pintxo bars abound in Casco Viejo, Bilbao's historic old town, but few are standouts. Exception: a fine pair

hidden in the corner of Plaza Nueva, an arcade-lined neoclassical square. At the floodlit **Sorginzu**, order the *kokotxas de bacalao al pil-pil*, a Basque delicacy featuring succulent, expensive flesh from a cod's neck, and served with a labor-intensive, garlicky fish sauce. It's usually reserved as a dish for a formal dinner, but at Sorginzu it's a fast mouthful (*sorginzu.com*).

Next door, **Gure-Toki** brings wit to its pintxos—in one, a yakitori chicken skewer serves as a swizzle stick, rising out of a shot glass filled with silky potato cream (*guretoki.com*).

#### Getxo

Back in Bilbao's early 20th-century heyday, city industrialists abandoned Abando in the summer and reconvened in Getxo, a town at the mouth of the city's Nervion River, right at the Bay of Biscay. Once the Newport of Spain, it's now an upscale Bilbao suburb. Take a slow stroll on the waterfront **Muelle de Las Arenas**, a designated architectural walkway that offers views and

information on Getxo's grandest private houses hovering just above. Then duck into wood-lined **Bar Galea**, for some grand pintxos, starting perhaps with a fried pepper, stuffed with cod mousse and dressed with a rich sauce made with seafood stock (*Calle Mayor 22*).

#### San Francisco

As hilly as its American counterpart, and still mostly dodgy, San Francisco is now the requisite hipster hood. At **Peso Neto**, where tattoos and nose rings dominate, the

pintxos on offer one May day included a portion of albondigas, or typical Spanish meatballs, atypically made from Black Angus beef topped with chipotle sauce and served in individual Mason jars (*San Francisco 1; pesoneto.es*).

Pintxos, no matter how small or humble, are meant to combine a range of flavors and textures. At Michelin-starred **Mina**, chef Álvaro Garrido asks diners to make a meal out of 14 pintxo-size and small-plate courses, including *guisante lágrima*—rare, tear-shaped peas, grown near the Basque coastline—set in rosemary and hen broth (*Muelle Marzana, restaurantemina.es*).

Many Bilbaínos measure Mina as the city's culinary trendsetter. In the not-too-distant future, you might just walk into an ordinary bar anywhere in Bilbao and find a few extraordinary peas, just waiting to be picked up by a toothpick.



## OFF DUTY

### THE CRITICAL EYE

## A STUDY IN STUDIOUSNESS

**OUR DESIGN ASSESSMENT** Looking at this children's homework nook in a circa-1914 Wilmette, Ill., farmhouse, we zeroed in on the diamond-like pattern in the antique window leading. Our suspicion: that the designer, Julia Buckingham, had used it as a jumping-off point for the old-meets-new décor. Diamond shapes recur in the wallpaper and even in the ceiling fixture, by Ingo Maurer, customized with RSVP cards from the homeowners' wedding. Arranged in an unruly way calculated to appeal to kids' anarchic tastes, the cards read as diamonds and rhomboids, nicely unifying the room's design. Long-shot theory: Perhaps Ms. Buckingham felt the RSVPs—which guests have to submit on time, all blanks filled in—underlined the homework theme. One criticism? Those chairs look like a chore to move. Wouldn't swivel seats be more apt for restless kids?

**THE DESIGNER'S RESPONSE** "Clearly, you've never had children," observed Ms. Buckingham with a laugh. "Kids have an affinity for anything that moves. If it's swivel chairs, they're playing bumper chairs." The seat-as-toy possibility "needed to be squelched" if homework were to be done. As for the diamond directive, "you're right," she said, although, with the cards' arrangement, it wasn't so conscious. "I just wanted it random because a child's space shouldn't be rigid." As for our long-shot theory, Ms. Buckingham shot it down: "I wish I could say honestly that I did think of that, but no!" —Dale Hrabi

ATTIC FIRE PHOTOGRAPHY

**LESSON PLAN** The white ceramic vases on the desk in this children's homework area might seem merely decorative, but they're actually pencil holders. The room is featured in designer Julia Buckingham's new book 'Modernique' (Abrams), co-authored with Judith Nasatir.

### FAST FIVE

## SHOW RUNNERS

When a tablecloth seems too formal, dress up your dinner with a simple strip of style—in quiet patchwork or irrepressible florals



Clockwise from bottom left: Galbraith & Paul Block-Printed Geometric Linen Runner, \$199, [heathceramics.com](http://heathceramics.com); Alex Katz Black and White Floral Linen Runner, \$225, [artwareeditions.com](http://artwareeditions.com); Blue Hand-Loomed Cotton Runner, \$435, [neugalerie.org](http://neugalerie.org); Neutral Patchwork Runner, \$150, [thompsonstreetstudio.com](http://thompsonstreetstudio.com); Indigo Dolly Runner by Block Shop for Heath Ceramics, \$70, [blockshoptextiles.com](http://blockshoptextiles.com)

F. MARTIN RAMIREZ/THE WALL STREET JOURNAL; STYLING BY ANNE CARDENAS



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## OFF DUTY



EASY RIDERS BMW's gas-powered R nineT Scrambler (left) and the all-electric Zero DSR.

VALERO DOVAL

RUMBLE SEAT DAN NEIL



## Tale of Two Scramblers: A Gas vs. Electric Duel

**LARGELY OWING** to the European Union's new rules on motorcycle-tailpipe emissions and noise, known generally as Euro 4, a fleet of new and freshened two-wheelers have hit the market, and a lot of old bikes will never be the same. One of our guests, the BMW R nineT Scrambler, is a good for-instance of a Euro 4-compliant bike. Trainspotters may note the generous exhaust plumbing, the nice-sized catalytic converter between the foot pegs, and the big, upswung silencers. Be very quiet.

But just three years from now, by 2020, Euro 5 regulations will take another bite out of allowable emissions and noise. In the interim, cities in the EU will be fashioning low and no-emission zones that could ban gas-powered vehicles altogether by mid-decade. One way or another, European regulators aim to zero out urban motorcycle emissions.

"Zero" happens to be the name of our other test bike, the Zero DSR. Built in California around a very sexy box of batteries (13.0 kWh), it's fair to say the Zero embodies the end of the rainbow for Europe's clean-air authorities, about a decade hence: no tailpipe emissions, nearly silent, minimal charging requirements. Let's call that Euro 10.

Why should Americans care about Euro whatever? Because, with about 1 million sales annually, Europe is one of the world's largest markets for full-size motorcycles. Manufacturers who want to play in this sandbox must build bikes that comply with the EU's rules. And since it is uneconomic to build bikes that are only regionally compliant, Europe's rules effectively raise standards around the world.

That's right: Those waffle-eating bastards in Brussels are stealing

your freedom.

The BMW and the Zero are thus two bikes on the same timeline. They are both pricey, handsome dual-sport motorcycles, with hatched up bellies, enduro-style tires, comfortably upright rider posture, and added suspension travel for light off-roading. Both are rich in amour-propre, the reflected glory of ownership-signalling, if you like. Please, feel free to ask me about my progressive motorcycle.

What divides these bikes is their relation to the hastening future, to modernity itself. The BMW—the "scrambler" version of the protean R

Give the Zero's throttle a good twist. This thing will pull your arms off.

nineT series—glories in '60s nostalgia, in retro-bike details such as the round headlamps and analogue speedometer, the front telescopic fork with rubber gaiters. Authenticity yields to engineering in a few cases, such as BMW's Paralever cast-aluminum single-sided swing arm. The bikes have oil coolers, but BMW hopes you won't notice.

The most beguiling anachronism is the horizontally opposed twin "boxer" engine, 1,170cc displacement, here regulated to produce 110 hp at 7,750 rpm. This is an engine that, when you rap the throttle—*Verrrrrooom!*—the torque-jacking effect of the suddenly accelerating crankshaft pulls the bike over to the left, as if it were a dog wanting to roll over on its back.

Although not loud, the BMW's au-

ral textures—the rhythmic shuffling of pistons at idle, the mighty frap at full throttle—are pitch-perfect and immaculately curated. If you believe cool can be store-bought then the BMW is extra cool. It might as well come with a clip-on man bun.

The Zero, encased in videogame-like armor, emphatically self-identifies as futuristic and post-petroleum. It is certainly not the material equal of the BMW. The Zero's exterior design is sportbike generic; the plastic bodywork practically screams Chinese two-stroke; and the aluminum frame is pretty basic, from a manufacturing perspective.

Nor is the electric bike faintly as sensual, or charismatic, or companionable. At stop lights, the BMW thuds seductively at idle. The Zero is impassive, like a distant spouse.

But give the Zero's throttle a good twist. Yah. Whoa. Sheesh. This thing will pull your arms off, especially going from 0-30 mph. They should call it the Wookiee.

Propelled by a massively torquey electric motor (116 lb-ft) that is the company's secret sauce, the Zero's aim-and-squirt, no-shift acceleration in traffic is intoxicating, godlike. I'm serious when I say this bike's millisecond access to monster torque constitutes a safety feature. It's like Ali: too fast to hit. Weirdly, though, and unforgivably, the Zero doesn't feature traction control.

The Scrambler is a big, powerful bike, too, but the power rolls up with the gathering force of an ocean wave. And you have to be in the right gear. No gas-powered bike I've ridden could hope to have the finger-snap immediacy of the Zero humming through city traffic.

At touring speeds, the trade-offs for the electric bike accrue. The top sustained speed is given as 90 mph.

I wrung it out to about there, no biggy. It's happier at 75 mph.

The Zero's electric bits consist of the raging e-motor (70 hp at 3,500 rpm), bristling with gold-anodized cooling fins, situated under the saddle. Belt-driven, fixed gear-ratio. Nothing surprises about the Zero powertrain except the effrontery of torque. This bike, the "R" version of the DS model (hence the name), gets a whopping 775-amp, three-phase controller that allows it to unleash the big electrons.

Packaged low in the frame is the lithium battery brick, providing a nominal 147-mile range in city riding, says Zero. Or you can just remember: 70 miles at 70 mph. Hidden inside its faux gas tank is a 1.3-kW charger and a few feet of glorified extension cord. It's brilliant. I rode it through the backyard and up to an exterior outlet, where I left it plugged in overnight. The next morning was another 100 miles of range, several days worth for me. The battery pack carries a five-year,

unlimited-mileage warranty.

As with electric cars, the low center of gravity (c-of-g) defines the riding and handling. I had a chance to trail ride the Zero. Standing on the pegs, wheeling over broken ground at walking speeds, I struggled to modulate the e-throttle and front brake lever precisely, to balance the bike against the brakes and not fall over. The Zero's low-speed torque can't be feathered like the BMW's. But the Zero's low c-of-g makes it a stable platform off-road.

The BMW comes by its low c-of-g the old-fashioned way: with horizontal cylinders. It rides amazeballs, all the time, everywhere. Honestly, do these bikes even need any more praise?

The Zero is a preview of coming attractions: a technically superior, emotionally inferior motorcycle, effortless to ride, crazy fast, fetishy tech, and all electric.

And bikes like the BMW? We will certainly miss them.



### THE HEAD-TO-HEAD SPECS

#### 2017 ZERO DSR

**Price, as tested** \$15,995

**Powertrain** battery electric: air-cooled permanent-magnet, brushless DC motor; clutchless direct drive, with regenerative braking; 13.0 kWh lithium battery pack; integrated charger

**Power/torque** 70 hp at 3,500

rpm/116 lb-ft

**Wheelbase/weight** 56.2 inches/419

pounds

**0-60 mph** <4 seconds

**Top speed** 102 mph

**Range** 147/88 miles, city/highway

(55 mph)

#### 2017 BMW nineT Scrambler

**Price, as tested** \$14,145

**Powertrain** air/oil-cooled, four-stroke 1,170-cc flat twin with four-valve heads; single dry-plate clutch, hydraulically operated; six-speed gearbox; rear shaft drive.

**Power/torque** 110 hp at 7,750 rpm/86 lb-ft at

6,000 rpm

**Wheelbase/weight** 60.1 inches/485

pounds

**0-60 mph** 3.6 seconds

**Top speed** 125+ mph

## BEACH BUDDIES

Upgrade your downtime in the sand and surf this summer with this ingenious trio of luxe, shore-friendly accessories



### FOR KICKING BACK ASSUREDLY

#### Alite Calpine Chair

This scaled-down butterfly chair offers a full-size back rest and 15 inches of elevation, yet weighs a modest 3.3 pounds and collapses to fit in a bag just 27 inches tall and 6 inches thick. Unlike feeble beach chairs that wind up dented by mid-July, the Calpine, with its burly aluminum frame and legs, should survive many summers unscathed. \$100, [alitedesigns.com](http://alitedesigns.com)



### FOR ROCKING OUT BY THE SEA

#### LifeProof Aquaphonics AQ10

Not only can this tough-guy Bluetooth speaker handle just about anything your trip to the beach can throw at it—wanton sand exposure, immersion in up to 3.3 feet of salt water, 4-foot falls onto the hellishly hot concrete by the concession stand—it also floats serenely. A sealed storage compartment gives you a spot to stash credit cards and keys. \$200, [lifeproof.com](http://lifeproof.com)



### FOR BLASTING SAND OFF WEARY BODIES

#### WORX Hydroshot

For sun-workshopping neat freaks, this rechargeable "power cleaner" is a game changer. Using a special connector out next month, screw on a 2-liter bottle filled with fresh water, then pull the trigger to unleash a 59- to 320-psi spray. Before climbing into the car, blast every last grain of sand off your feet, foot-wear, beach gear and delighted offspring. \$120, [worx.com](http://worx.com)

# MANSION

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THE WALL STREET JOURNAL.

*I like large parties. They're so intimate. At small parties, there isn't any privacy.'*  
—F. Scott Fitzgerald, *'The Great Gatsby'*

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**GREAT ESTATE** The former Percy Pyne estate in Roslyn Harbor, N.Y. includes this roughly 15,000-square-foot Georgian Revival house built around 1930. Originally 90 acres, the property is now about 4 acres; the rest of the land was subdivided for residential development. Owners Arthur and Lisa Robbins are moving to Florida, and the property has been on the market since September for \$5.85 million.

## A New Boom on Gatsby's Gold Coast

Long Island's North Shore is heating up as a new crop of buyers bid fiercely for slivers of land in villages that were once the gilded estates of industrial tycoons.

BY CANDACE TAYLOR

**DRIVING THROUGH THE GATES** of the Sands Point Preserve on Long Island's North Shore reveals a 100,000-square-foot, turreted castle built in the early 1900s by Howard Gould, son of railroad tycoon Jay Gould. He also built 40-room

Hempstead House next door, which had a walnut-paneled library copied from the palace of King James I and an aviary housing exotic birds.

Now part of a public park, these structures serve as a ghostly reminder of the vast estates that once stood on the jagged coastline of Long Island's Gold Coast, built by the likes of industrialists J.P. Morgan and Payne Whitney. The 62-

room Woolworth Mansion in Glen Cove had solid-gold bathroom fixtures. The John Shaffer Phipps estate had two private polo fields.

Immortalized as West Egg and East Egg in F. Scott Fitzgerald's "The Great Gatsby," these communities east of Queens are resurgent, but with a different population: young families look-

Please turn to page W12

## AN EXILED BALLERINA'S SAFE HAVEN

A villa on the French Riviera, listed for more than \$32 million, has a famous Russian dancer and a scandalous love story in its past; a top-to-bottom renovation by its current owner nods to its history.



BY RUTH BLOOMFIELD

**THIS 1901 VILLA** on the French Riviera recently underwent a top-to-bottom renovation. But nothing could erase the home's unusual history—a tale of an exiled Russian aristocrat and his lover, a famous ballerina who fled the Russian Revolution.

Now, more than century later, the seven-bedroom, seven-bathroom Villa Marizzina is on the market for €30 million, or about

\$32.87 million.

Its current owner is a Russian billionaire who bought the rundown villa in 2010. Since then, he has spent part of his fortune—amassed by manufacturing railcars—to rescue the property from dilapidation, said Neil Galloway, a British developer hired to oversee the project.

"It was in a terrible state, everything was rotten—the sort of place you want to have a shower as soon as you've been inside it," said Mr. Galloway, who declined to name the owner.

Restoring a decaying French landmark building is no simple task. Obtaining building permits alone took a year, which meant construction didn't start until late 2011. The five-year project involved rebuilding most of its interior. The only parts of the original property that remain are its four retaining walls and the balustrade that guards its marble staircase.

The reconfigured design includes a new entryway with a large picture window

Please turn to page W12



**LIVING HISTORY** Villa Marizzina, left, built in 1901 in Cap d'Ail; above, a 1916 photograph of Mathilde Kschessinska, a former resident.

**HOUSE OF THE DAY**  
[wsj.com/houseoftheday](http://wsj.com/houseoftheday)



**United States**  
A Manhattan loft in a former basketball court



**United States**  
A Spanish Revival home in Encino, Calif.



**Australia**  
A Sydney house, restored to its roots

CORE

SYDNEY SOTHEBY'S INTERNATIONAL REALTY

BRIAN THOMAS JONES

FROM LEFT: ANTHONY LAMERONNE FOR THE WALL STREET JOURNAL; HERITAGE IMAGES/GETTY IMAGES

SYDNEY SOTHEBY'S INTERNATIONAL REALTY

BRIAN THOMAS JONES

## MANSION

### BALANCE SHEET

# Soaking Up Open Space, Free Time in Spain

A U.K. couple skittish about leaving a vacation home unattended, finds peace of mind at a golf resort

BY J.S. MARCUS

#### KEVIN AND ROSEMARY

Murphy had been thinking for some time about buying a continental vacation home. Then they would think again.

"We wondered what would happen when we're not there," says Mr. Murphy, chairman of ExCeL London, an exhibition and convention center in the city. "Will it be secure? Who will look after the garden and the pool?"

The U.K. couple, both in their early 60s, found the security they were looking for in Spain—at a front-line golf villa on the grounds of the PGA Catalunya Resort outside Girona, about an hour's drive from Barcelona.

They chose a two-story villa in the process of being built as a model home. It has a radical, built-in flexibility: The four-bedroom, five-bathroom villa contains a network of sliding doors and retractable glass walls.

When the couple is there, they can turn much of the upstairs into a vast master suite, or close it off into smaller bedrooms that accommodate grown children and grandchildren.

Downstairs, they can slide open walls and extend the terrace into the living room, and they can close off the kitchen or add it to the terrace.

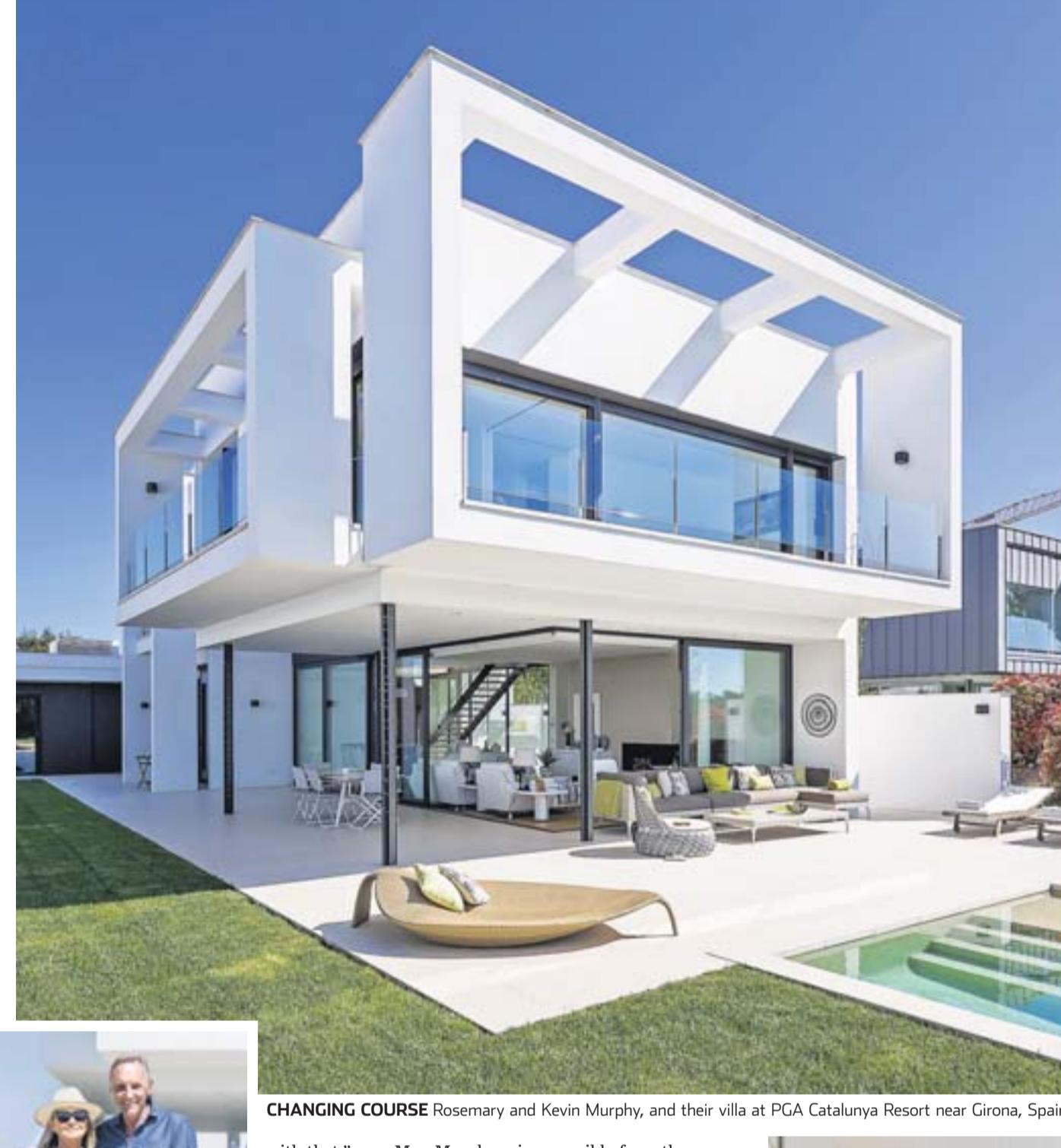
And when they're not there: "We can lock the doors, and not think about it," says Mrs. Murphy. The resort has 24-hour security, and homeowners can pay a fee of about \$700 a month for pool and ground care.

In the summer of 2015, after reading about PGA Catalunya on a website and going down for a visit, the couple bought the home, designed by Barcelona's Lagula Architects. The exterior was near completion, while the interior needed some essential elements before it could be furnished.

Within months, the two nongolfers moved into their completed, 5,800-square-foot home. Mr. Murphy now considers himself semiretired—and a golfer.

The resort is a gateway to the varied landscapes and acclaimed cuisine of Catalonia. It is a 20-minute drive to Spain's Costa Brava coastline and a 90-minute drive to ski slopes in the Pyrenees. On its own grounds, the resort's challenging Stadium course is regarded as one of the best in Spain.

The couple paid about \$1.68 million to buy and furnish the property, including about \$473,000 for the lot—



**CHANGING COURSE** Rosemary and Kevin Murphy, and their villa at PGA Catalunya Resort near Girona, Spain.

with that," says Mrs. Murphy of the proximity of her neighbors. "I'm a London girl, and the one thing I can't handle is being cut off. I don't mind hearing other people at all."

The couple spent \$49,500 on landscaping and an additional \$31,600 on the infinity pool, which overlooks a scenic hole on the resort's user-friendly Tour course.

The glass-and-concrete villa has contemporary detailing, such as naked steel beams for the home's cantilevers in the terrace area. Heat-sensitive solar panels on the roof provide nearly all the hot-water needs; a gas boiler handles the rest.

The couple spent about \$71,000 on the underfloor heating and air-conditioning systems. Their architect, Ignacio Lopez Alonso, says the position of the house—aided by insulation, ventilation and the shading cantilevers—cuts down on the need for air conditioning.

Though situated in a somewhat remote corner of northeastern Spain, the villa

is accessible from the couple's English home, a renovated 700-year-old barn in Kent, southeast of London. Girona's airport is a 90-minute flight from London Stansted Airport, which "makes long weekends possible," says Mr. Murphy.

In 2016, during the Murphys' first full year of ownership, they spent about 12 weeks at the home. "I never had time to golf," adds Mr. Murphy. "But I do now."

They have done roughly the same since. The rest of the time, the villa is vacant. The resort offers to find and manage renters while the two are away, but they have decided against it.

They want their home to be stocked and their own things left undisturbed, arriving with only their carry-ons for their stays, says Mrs. Murphy.

Mr. Murphy adds: "We don't want to rent it out. I do lots of boys' trips with my male friends, and I know what a bunch of guys can do, especially if they're on a golf weekend."



**ROOMS TO MOVE** The open living and dining areas of the villa.

### PRIVATE PROPERTIES | CANDACE TAYLOR

## One Florida Estate, Three Prices, Three Listing Agents



DANIEL NEWCOMB ARCHITECTURAL PHOTOGRAPHY

Frank Lippi is trying an unusual tactic to unload his Florida estate: He's putting the elaborate Italian Renaissance-style compound on the market as three separate parcels—and listing each of them with a different real-estate agent.

Mr. Lippi's compound spans about 12 acres on Jupiter Island from the Atlantic Ocean to the Intracoastal Waterway. Last year he listed roughly 8½ acres of it for \$65 million, then took it off the market in March. Now it is returning to market, plus some additional acreage, for a total of \$51 million.

The largest piece, a 5.34-acre oceanfront parcel with the main house and four other

structures, will list for \$32 million with Ken Meierling of Engel & Völkers and his wife, Kandyce. The home is being sold fully furnished.

A second parcel on 1.7 acres with frontage on the Intracoastal, containing a four-bedroom house, a swimming pool and pool house, is listed for \$10.5 million with Jennifer Hyland of Illustrated Properties.

A vacant parcel on 1.7 acres with a dock on the Intracoastal is listed for \$8.5 million with Susan Turner of Waterfront Properties and Club Communities, who last year had the \$65 million listing. Mr. Lippi said he is keeping one guest house for himself.

Mr. Lippi said he decided

that marketing the parcels separately would increase the chances of getting the best price possible. "Not too many people have \$65 million to buy a property," he said. Moreover, he said he hopes using three brokers will increase the property's exposure with buyers.

Mr. Lippi said he built the estate over the course of 30 years, importing vast amounts of marble and transporting European craftsmen to work on the house. A retired businessman based in Europe, Mr. Lippi said he owns homes all over the world. He said he's selling the Jupiter property because at 82, he no longer travels there as often as in the past.



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## MANSION

# A NEW BOOM ON GATSBY'S GOLD COAST



KELLY MARSHALL FOR THE WALL STREET JOURNAL (5)

*Continued from page W9*  
ing for good public schools and alternatives to nosebleed New York City home prices. Instead of seeking sprawling properties with large amounts of acreage, these buyers are fighting over postage stamp-size properties with easy commutes to Manhattan.

A recent surge in demand has led to intense competition in certain parts of the North Shore market. Long Island (excluding the Hamptons and North Fork) saw 5,754 home sales in the first quarter of 2017—the highest number of first-quarter sales in 14 years, according to a quarterly market report by Douglas Elliman Real Estate. The median sales price on Long Island grew 4% in the first quarter; other New York City suburbs—many with higher taxes or longer commutes—are seeing a similar uptick in activity but have been slower to see rising home prices, according to the Elliman report.

Modest houses on tiny pieces of land in Great Neck, Manhasset and Port Washington are being torn down and replaced with larger, more luxurious homes, while multi-acre properties farther from the city linger on the market. The current crop of buyers “are not interested in tons of acreage,” said real-estate agent Ann Hance of Daniel Gale Sotheby’s International Realty. “They’d rather have a small piece of property and be able to walk to the train station.”

She said buyers are flocking to the 837-home Village of Munsey Park. Built on the site of newspaper magnate Frank Munsey’s estate, the village contains stately rows of well-kept Colonial and Tudor homes. Manhattan’s Empire State Building can be seen from the nearby Americana Manhasset shopping center, where stores like Hermès, Prada and Gucci cater to affluent locals. A recently renovated Munsey Park fieldstone Colonial that Ms. Hance listed for \$2.299 million snagged multiple offers in a number of hours, she said, ultimately selling for over the asking price to a buyer moving from Park Slope, Brooklyn.

The uptick is most keenly felt in sought-after North Shore school districts where commutes to Manhattan hover around 30 minutes, real-estate agents said. Brett Coppens, 37, and her husband, Brad, 35, last sum-

**KEEP IT SHORT** Brett and Brad Coppens outbid another family and paid \$2.25 million for this Colonial on roughly a third of an acre in Manhasset’s Plandome village. They can walk or ride their bikes to the train station for a 27-minute ride to Manhattan. They paid \$2.25 million for a four-bedroom home on roughly a third of an acre.



mer moved with their two children from Manhattan to a house in Manhasset’s Plandome village. They can walk or ride their bikes to the train station for a 27-minute ride to Manhattan, where he works in private equity. After outbidding another family, they paid \$2.25 million for a four-bedroom home on roughly a third of an acre.

Prices have jumped 20%

to 30% in the past year for homes in some areas near the Port Washington train line, which offers express service to Manhattan, said real-estate agent Jason Friedman of Coldwell Banker Residential Brokerage.

“The houses fly, within 24 hours sometimes,” said Keri Prestia, 39, who with her husband and two young sons recently moved to a four-bedroom Colonial on a quarter of an acre in the Village

of East Hills. The couple paid \$998,000 for the house after spending more than a year looking at homes on the North Shore and losing several to bidding wars.

Another reason for the surge in demand on the North Shore is an influx of international buyers and immigrants from Asia and elsewhere. Great Neck and Man-

hasset in particular have drawn a number of buyers from mainland China, who are looking to invest in U.S. real estate and are attracted to the area’s schools, real-estate agents said.

Willy Wang, 35, who moved to the United States from Taiwan five years ago to attend Columbia University, bought a two-bedroom

condo at the Ritz Carlton Residences in the Village of North Hills last year for \$1.35 million. His wife works in Manhattan while he works in the hospitality industry on Long Island, he said, making North Hills a convenient choice.

The couple, who have a baby on the way, also liked the school system and the convenience of condo living.

To meet the demand, builders are snapping up small houses in coveted areas, demolishing them and constructing larger homes, said developer Pete Worrell of the Worrell Group in Syosset.

He said depending on the size of the lot they also sometimes buy a piece of land, raze the house and build two in its place. His company recently built an 8,500-square-foot spec home in Laurel Hollow, which is

asking \$5.195 million.

Those who are willing to travel farther from the city often find more land and less competition. After years of owning a bayfront weekend home in the Hamptons, Manhattan residents Janice and Andrew Silver wanted to try something different.

They had little trouble finding a cedar-shingle home on roughly 2 acres in Oyster Bay Cove, about 20 miles east of Great Neck. They signed a contract a few months ago to pay \$1.53 million, a little under the asking price of \$1.599 million.

The large, historic estates can take longer to sell. Arthur and Lisa Robbins live in the former Percy Pyne estate in Roslyn Harbor, an ivy-covered brick manor house built around 1930. Originally a 90-acre estate, the roughly 15,000-square-foot Georgian Revival house now sits on about 4 acres.

The couple, enchanted by the charm of the historic home, bought it in 1987, preserving features like the original refrigerator, and using the ballroom and other grand formal rooms to house their art collection. For years, Mr. Robbins commuted to work on Wall Street. Now they’re selling because they’re moving to Florida, and the house has been on the market since September for \$5.85 million.

Mr. Robbins said he wants to find the right buyer for the house, and doesn’t mind if it takes a while. “We want the person who buys this house to love it the way we do,” he said.



**FAR OUT** Moving farther from New York lowers competition. Janice and Andrew Silver said they had little trouble finding this home in Oyster Bay Cove.

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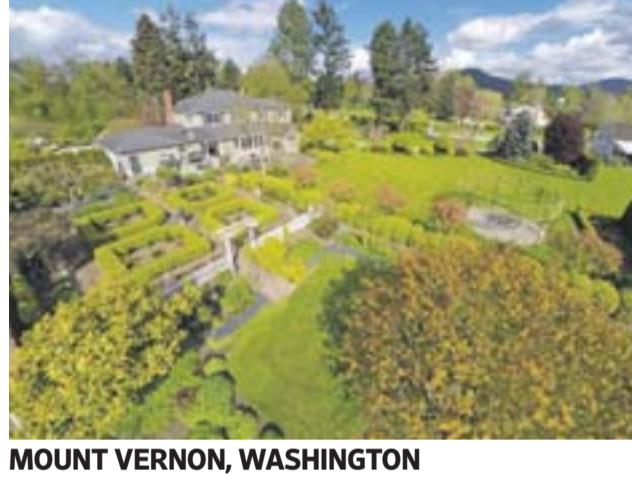
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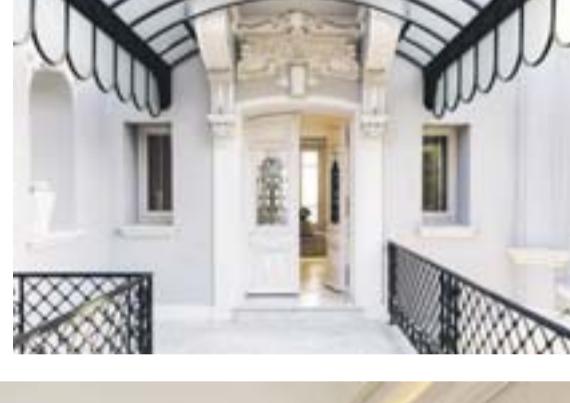
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## MANSION



**ROOMS WITH A VIEW** Clockwise from above: the villa's terrace; the view from a formal reception room; the canopied entrance; a new entrance lobby with French windows overlooking the gardens and the sea.



HOUSE CALL | PAM GRIER

## The Odyssey of Foxy Brown

The actress on a childhood of serial moves, and the Colorado ranch where she now feels at home

I spent much of my early life feeling powerless. Hard to believe, I know, given my film roles as a tough, self-assured woman. But early on, I had to keep difficult experiences to myself, a decision that left me with a stutter.

I grew up in many different areas of the country and in England. My father, Clarence, was in the Air Force and worked on B-52 bombers. We moved every two years until I was 12.

I enjoyed the moves. Each trip was an adventure, with new friends, new food, new culture.

My mother, Gwendolyn, took care of my younger brother and sister, Rod and Gina, and me, and put herself through nursing school.

Even though my father was light-skinned, blacks in the service in the 1950s typically stayed in substandard housing off the base. My mother found us better places to live.

In 1955, we lived in Denver at my Aunt Mennon's house. She looked after us. My father was at Lowry Air Force Base and my mother worked as an operating-room nurse.

That summer, just after I turned 6, I was sexually assaulted. My aunt was out and three boys playing in our home attacked me. I had no idea what was going on, only that one had hurt me and I was ashamed. They warned me not to tell anyone, so I didn't. Overnight, I became a shy, stuttering girl.

In 1956, my father was transferred to Swindon, England. Even though the war had ended years earlier, there still was a lack of utilities, food and luxuries. Mom

found us the perfect house, a two-story brownstone, and my dad rented out the upper rooms.

The town embraced us. Everyone wanted to know about rock 'n' roll and the blues. Mom taught everyone to dance, and her friends taught her to make English biscuits.

In 1958, my dad was transferred to California's Travis Air Force

Base. One of his military buddies gave me karate lessons to help my shyness.

When I was 12, we moved back to Denver. My mother found a lovely three-level brick house for us. By then, my mother's parents had moved to Denver, but they still kept their old sugar-beet farm in Wyoming, a couple of

hours over the border. I loved that place.

My grandfather, Daddy Ray,

taught me to be self-sufficient. One day, I went alone to the pasture and climbed a post fence to reach a huge draft horse. Big Horse could have killed me. Instead, he moved slowly and I fell asleep on his back. When Daddy Ray and my uncle came looking for me, I told them Big Horse and I were just napping. For some reason, I didn't stutter on the horse.

In 1962, my father retired from the Air Force. But without his uniform, he became a lost soul and my parents divorced.



MATT NAGER FOR THE WALL STREET JOURNAL (PORTRAIT); PAM GRIER (HISTORICAL; EVERETT COLLECTION)



**OFF SCREEN** Pam Grier, above, at her Colorado ranch; at her maternal grandparents' home, right, in Denver around 1955; the poster, left, for her 1974 film.

I took piano lessons at home and joined the choir at our local church. After high school, I attended Metropolitan State College in Denver and won a local beauty contest. A few months later I won first runner-up in the Miss Colorado beauty pageant. I had entered hoping to win money for tuition at

## A BALLERINA'S SAFE HAVEN

*Continued from page W9*

with sea views. There are two kitchens, seven bedrooms with en-suite baths, a screening room, a wine cellar and staff quarters.

Although this is essentially a new home in a historic shell, the renovation aimed to keep the past alive. The owner commissioned and installed replicas of the villa's original tall doors and windows, and of the silver-plated hardware on the front door. He added bespoke cornicing to the living and dining rooms, where its first owner, believed to be an Italian countess, once entertained.

The next woman to call the villa home will be familiar to students of Russian history.

Mathilde Kschessinska

was a gifted young dancer who caught the eye of the future czar Nicholas II during her graduation performance with Russia's Imperial Ballet in 1890. The teenager—she was just 17—and the czar-in-waiting had a three-year relationship, parting only when he married.

With her career as a prima ballerina blossoming, she moved on to overlapping relationships with two grand dukes: Sergei Mikhailovich and Andrei Vladimirovich, cousins and members of the Romanov dynasty. The story is documented in Kschessinska's memoirs, published in the 1960s and in Coryne Hall's biography, "Imperial Dancer," published in 2005.

The Russian Revolution put a stop to this scandalous arrangement, and Kschessinska and Vladimirovich fled to France. Fortunately, he had bought the villa, in the village of Cap d'Ail, as a summer house some years earlier.

Life on the Riviera should have been idyllic for the couple, who were accompanied by Kschessinska's teenage son. (He enjoyed the title Prince Romanovsky-Krasinski, but his actual parentage is unclear.)

Sadly, the exiled Kschessinska quickly developed an over-fondness for the nearby gambling tables of Monte Carlo. In 1929, she and the former grand duke had to sell the house to pay off her debts.

They moved to Paris, got married, and Kschessinska opened a ballet school to support them. The school proved a success, and she taught many of the great names of 20th-century ballet before her death at age 99 in 1971.

The villa's next resident was a wealthy Italian aristocrat, Princess Odessa, who lived there until her death in 1980, according to Mr. Galloway. She bequeathed the house to a servant, a generous gesture that marked a turning point in the villa's fortunes.

Without the means to run the house, the loyal retainer lived in just a couple of its 14 rooms while the rest of the villa decayed around him. When he died, his son put the 5,447-square-foot

mansion up for sale and, after several years lying empty, it was sold to the Russian billionaire.

Despite having spent large sums to renovate the property, the owner now plans to sell without having spent a single night at Villa Marizzina, which is listed with Engel & Völkers. Mr. Galloway said the owner already has a home nearby. The villa's neutral décor of off-whites and pale grays suggests the renovation was undertaken with a sale in mind.

Still, the watchful eye of the Batiment de France, the conservation body that oversees work on landmark buildings, ensured that the villa has retained its historic character.

"Inside we were allowed to make some changes," said Mr. Galloway. "But from the outside it is the same building it would have been 100 years ago."

for L.A. in 1969 and worked three jobs to make ends meet, including singing backup for Bobby Womack and Sly Stone.

While working as a receptionist, I met agent Hal Gelsky, who asked if I'd audition for Roger Corman, who was producing an action film in the Philippines. At the audition, I told Roger that if he hired me, he couldn't fire me. He gave me a copy of Stanislavski's "An Actor Prepares." It helped me understand how to be in the moment.

I was first cast in "The Big Doll House," about women in a tropical prison. Between 1971 and 1977, I made about 15 of these films. They had a formula and I had the flavor. Acting in those edgy, tongue-in-cheek action films empowered me.

Today, I live two hours south of Denver. Twenty years ago I bought an abandoned one-story brick ranch house and fixed it up. I have two rescued horses, and ride often to calm my nerves. My stutter fully disappears only while riding.

Recently, two middle-aged white women came up to me at the Hollywood Bowl. I didn't know what to expect. They just embraced me. One said, "Thanks for teaching me to be a bad-ass."

Me? I was in awe.

—As told to Marc Myers

Pam Grier, 67, has appeared in nearly 40 television series and has starred in more than 50 movies, including "Foxy Brown," "Coffy" and "Jackie Brown." She is the author of the memoir "Foxy: My Life in Three Acts" (Grand Central).