

THE WALL STREET JOURNAL.

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ASIA EDITION

As of 12 p.m. ET DJIA 20956.63 ▲ 0.09% NIKKEI 19742.98 ▲ 0.66% STOXX 600 392.37 ▲ 0.09% BRENT 53.77 ▼ 0.70% GOLD 1251.70 ▼ 0.25% EURO 1.1179 ▼ 0.04% DLR \$112.01 ▲ 0.19%

What's News

Business & Finance

Earnings at U.S. companies grew at the fastest pace in nearly six years in the first quarter, the latest boon to a bull market that is into its ninth year. **A1**

◆ Glencore approached grain trader Bunge about combining, which would give the Swiss miner a major presence in U.S. agriculture. **B1**

◆ Geely said it agreed to buy a 49.9% stake in the Malaysian parent of Lotus as it looks to further extend its global reach. **B1**

◆ IKEA CEO Agnefjäll has resigned less than four years after formally stepping into the role. **B2**

◆ Uber said it mistakenly underpaid New York City drivers for the past 2½ years, an error that will likely cost it tens of millions of dollars. **B4**

◆ The FDA approved Merck's Keytruda drug to treat tumors with a certain genetic defect. **B3**

◆ The U.S. banking industry posted strong profits in the first quarter of 2017, though loan growth slowed. **B5**

◆ Unity Technologies is putting the finishing touches on a \$400 million round of financing that values the company at about \$2.8 billion. **B4**

◆ The Bank of Canada left its main interest rate unchanged at 0.50%. **B5**

World-Wide

◆ China's first downgrade by Moody's since 1989 was a direct warning to Beijing that its growth model isn't working. **A1**

◆ Security forces closing in on a senior leader of the Abu Sayyaf terrorist group clashed for a second day with militants who came to his rescue. **A1**

◆ U.K. police said they were investigating a network in connection with the suicide bombing at an Ariana Grande concert that killed 22. **A3**

◆ Trump faced resistance in Congress over a budget plan that relies heavily on cuts to social programs and aggressive growth projections. **A6**

◆ Taiwan's top court ruled that current law defining marriage as exclusively between a man and a woman was unconstitutional. **A4**

◆ Mexico and Canada said talks with the U.S. to update Nafta should be trilateral, and that bilateral pacts would be impractical. **A7**

◆ The NRA is framing legislation that would make it easier to buy gun silencers as a public-health issue. **A7**

◆ The ECB warned that a rapid increase in bond yields could pose a risk to the financial stability of the eurozone. **A5**

◆ World trade flows grew in the first quarter in an indication that the global economy may enjoy a year of stronger growth. **A5**

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Moody's Serves Warning to China

Firm issues downgrade in alert to Beijing that others believe growth model isn't working

By MARK MAGNIER

BEIJING—China's first downgrade by Moody's Investors Service since 1989 was a direct warning to Beijing that its growth model isn't working and an illustration of the disconnect between the view in-

side and outside China of its economic management.

Moody's cut China's sovereign credit rating to A1 from Aa3, while changing its outlook to stable from negative, citing expectations that the country's financial strength will deteriorate in the coming years as debt keeps rising and the economy slows.

The move was a reminder that some outside analysts see great danger in Beijing's buildup of debt for the sake of growth.

The Aftereffects

- ◆ Heard: A caution flag for investors B1
- ◆ Shanghai stocks gain despite news B7
- ◆ Parallels with Japan in the 1990s A4

While Beijing acknowledges it has built up significant debt and excess production capacity, it has projected confidence in its ability to contain those risks. Beijing's top planning

agency said Wednesday that China's debt risk is controllable, adding that with structural reform under way and higher recent profit margins, companies will be in a stronger position to repay what they owe. The Finance Ministry called the methodology behind the downgrade "inappropriate" and said that Moody's overestimates China's economic difficulties.

The repercussions of the downgrade are likely to be muted given that an over-

whelming portion of China's debt is held domestically. China continues to have a high savings rate, largely closed capital account and close links among ministries, banks and companies. That makes it less vulnerable to the outside world's assessment of its credit risks and limits the impact of Wednesday's downgrade on global capital markets.

The downgrade news triggered an early selloff in Chinese stocks on Wednesday. Please see DEBT page A4

Police Team Up With the Military in London



HEIGHTENED ALERT: A soldier and a police officer walk past the Houses of Parliament in London. Troops are on guard at some of London's most famous landmarks as security is tightened following Monday's bombing in Manchester. **A3**

Clashes Escalate in Southern Philippines

BY JAKE MAXWELL WATTS

Security forces closing in on a senior leader of the Abu Sayyaf terrorist group, who has pledged to create an Islamic caliphate in the troubled southern Philippines, clashed for a second day with militants who came to his rescue.

A combined police and military operation attempted on Tuesday to arrest the leader, Isnilon Hapilon, sparking the battle in the city of Marawi. The effort was unsuccessful and complicated by fighters from the Maute group, an organization aligned with Mr. Hapilon, who attacked the city, occupying buildings and waving a black Islamic State flag.

The fight took another twist Tuesday evening when a Roman Catholic bishop in Marawi said he received a call

Please see REBELS page A2

Manhattan Prosecutors Smell a Rat

* * *
Or maybe mold, in the decrepit U.S. Attorney's office

By NICOLE HONG
AND ERICA ORDEN

The next U.S. attorney in Manhattan will take over the most prestigious office of federal prosecutors in the country, famous for their aggressive pursuit of Wall Street titans, prominent politicians and overseas hackers.

That person will also inherit an office with a history of bedbugs, lead-contaminated water and other less-than-desirable working conditions.

Behind the law-enforcement agency known for sending hun-

Please see OFFICE page A8

U.S. Earnings Offer Fuel for Rally

By AKANE OTANI

Earnings at U.S. companies grew at the fastest pace in nearly six years in the first quarter, the latest boon to a bull market that has stretched into its ninth year.

With nearly all companies in the S&P 500 having reported results, aggregate earnings for the first quarter are on track to grow 13.6% from the year-earlier period, according to FactSet, the highest growth since the third quarter of 2011. The gains were broad, ranging from heavy-equipment maker Caterpillar Inc. to social network Facebook Inc. to regional bank U.S. Bancorp.

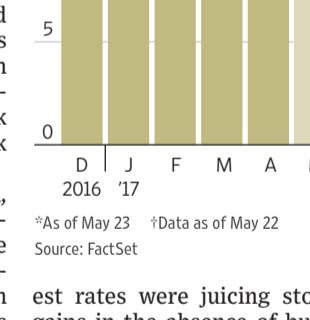
Beyond the jump in growth, many investors have been encouraged by signs that the quality of the results is improving. That contrasts with recent years, when investors worried that corporate share buybacks and ultralow interest rates were juicing stock gains in the absence of business improvement.

Fresh signs of corporate

Rosier Outlook

S&P 500 companies posted better-than-expected earnings growth in the first quarter, helping to justify higher stock valuations.

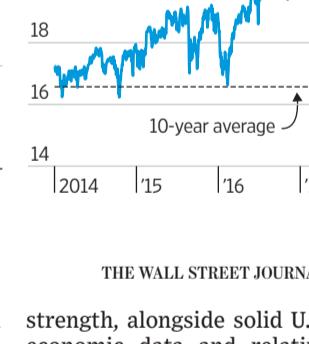
Expectations for first-quarter earnings



*As of May 23 †Data as of May 22

Source: FactSet

S&P 500 12-month trailing P/E ratio[†]



THE WALL STREET JOURNAL

strength, alongside solid U.S. economic data and relative calm in financial markets this year, have helped send the

S&P 500 up 7.1% through Tuesday's close.

"We should have continued growth in the markets, a lot of it driven because we have a stable economy and solid corporate earnings," said Omar Aguilar, chief investment officer at Charles Schwab Investment Management. "That gives me reason to be more optimistic."

Sales are picking up after many companies had turned to reducing costs and delaying investments in infrastructure to boost profits through the recovery from the financial crisis. Revenues are expected to grow by 7.7% from the year-earlier period, according to FactSet, the highest rate since the fourth quarter of 2011. Sixty-four percent of companies beat analysts' expectations for revenue for the latest quarter, according to analysis from FactSet, above the five-year average of 53%.

Please see PROFITS page A2

HOW STAR ENGINEER SPARKED A TECH WAR

Google alleges ex-employee took driverless-car secrets to Uber

By JACK NICAS AND TIM HIGGINS

Anthony Levandowski, the former Google engineer at the center of a battle between the tech giant and Uber Technologies Inc., was never a typical employee. And for years, Google was fine with that.

Weeks after Google hired him in 2007 to work on a global photo database called Street View, Mr. Levandowski, then 27 years old, registered a startup to sell a sensor system to Google for the same project, according to public records and former employees of both companies.

For the next four years, Mr. Levandowski split his time between his day job at Google and the startup, 510 Systems LLC, an hour away in Berkeley, Calif., where he directed employees to develop technology related to his Google projects, including self-driving cars, according to former 510 Systems employees.

After Google discovered the side business, instead of reprimanding Mr. Levandowski for a potential conflict of interest, it ultimately

bought 510 Systems for about \$20 million.

Now Google parent Alphabet Inc. and Uber are embroiled in a legal fight over driverless-car technology, with Mr. Levandowski playing a starring role. The two firms, along with several other companies, are locked in a race to automate cars, a contest that could affect the future of transportation.

A look back at Mr. Levandowski's nine years at Google shows an employee who sometimes operated at the edge of what a typical company would accept—even one like Google that encourages entrepreneurship among its workers. While Google's approach helps it create new businesses, it also can spark disagreements between the company and its employees over who owns certain technology.

Alphabet accuses Mr. Levandowski of stealing its driverless-car technology and bringing it to Uber, which he joined as head of driverless cars last year after earning more than \$120 million at Google. Alphabet has filed two arbitration claims against him and is suing

Please see WAR page A2

Oracle #1 SaaS Enterprise Applications Revenue

#1
Oracle Cloud
14.5%

#2
Salesforce Cloud
12.4%

1,000+ Employees Segment, 2015

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

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WORLD NEWS

U.K. Suspect Was Frequent Libya Visitor

Investigators are looking into Salman Abedi's journeys in and out of the country

BY TAMER EL-GHOBASHY

Outside Iraq and Syria, the radicals of Islamic State only administered territory in one other country: Libya.

As British investigators search for links between Islamic State and the Manchester bombing, focus has turned to the North African country, where the militant group ruled one of the oil-rich nation most important cities and used it to stage terrorist attacks and train foreign fighters.

Salman Abedi, the 22-year-old man thought by British authorities to have carried out the bombing for which Islamic State claimed responsibility, is a British citizen of Libyan descent. His journeys in and out of a country where the militant group once cast a large shadow are now a central focus of investigators, a Western security official said.

For more than a year, Islamic State controlled the port city of Sirte, imposing its signature brutal rule and exploiting the anarchy of the politically divided country to train and slip fighters into neighboring Tunisia, where they targeted European tourists.

Since a powerful western Libyan militia, aided by U.S. airstrikes, ousted it from Sirte in December, the



Islamic State militants stood behind Ethiopian Christian captives in Libya before executing them in April 2015.

REUTERS

group's foothold in the country has shrunk, but in a land where rival governments are vying for control, European and Arab officials remain concerned about the group's ability to mount attacks abroad.

Last year, the U.S. planned to kill an Islamic State leader from France that was using the messaging app Telegram to threaten his native country with bloodshed, according to a Western security official. He also sent fellow Europeans to France, possibly to carry out attacks, the official said.

The militant leader, however, was hiding at the Sirte

power station and any airstrike could have caused electricity blackout across large parts of Libya, so no raid was launched the official said. The French militant's current location is unknown.

In January, the U.S. bombed Islamic State training camps in Libya's desert interior, illustrating Washington's concern over the continued threat posed by the group but also underscoring how far it had been pushed from the country's more heavily populated Mediterranean coast.

Islamic State's emergence in Libya began quietly in 2014, three years after long-

time dictator Moammar Gadhafi was toppled from power and killed, leaving no central government and a dangerous security vacuum that the Islamist group exploited.

Comprised mostly of hardened local Islamist radicals and hundreds of militants from nearby Tunisia, Islamic State co-opted local insurgent groups and enticed new recruits with promises of the prosperity and power. It could also boast of its takeover of vast swaths of Iraqi and Syrian territory in lightning speed.

On the crest of that success, Islamic State quickly

added Sirte, Gadhafi's hometown, to Mosul in Iraq and Raqa in Syria, the other jewels of its expanding caliphate. It declared the city its capital in Africa, and vowed to launch attacks across the Mediterranean into Europe.

To Sirte it drew thousands of recruits from the Arab world and elsewhere on the African continent. In February 2015, it released videos of military parades in its African capital and in another smaller Libyan city, Derna. Hundreds of fighters packed aboard pickup trucks outfitted with heavy machine guns flying the black flag of Islamic

REUTERS

State.

The group tightened its grip ruthlessly in parts of Libya, twice releasing videos in 2015 showing the execution of captured Egyptian Coptic Christian laborers and Ethiopian and Eritrean migrants.

Later, three Tunisian men who received training in its Libyan camps staged separate attacks on a museum in Tunis and a seaside resort in Sousse that left scores of European tourists dead.

With its expanding ability to attack outside Libya's borders, the U.S., together with Arab and European nations, began to intervene, joining a United Nations-led effort to form a unity government that could counter Islamic State's growing sway and stabilize the nation's crumbling economy. That effort remains troubled by disagreements and fighting between Libyans factions.

While the loss of Sirte and foreign diplomatic intervention have weakened Islamic State, the group maintains a presence in the country, mostly in the border regions with Algeria and Chad.

According to a Libyan military intelligence official, the group has set up camps and checkpoints in those remote areas and has carried out occasional attacks against forces loyal to Libya's western government.

—Hassan Morajea in Tunis, Tunisia, Benoit Faucon in Vienna and Jenny Gross in London contributed to this article.

REBELS

Continued from Page One

from the militants claiming to have taken several of his congregation and a priest hostage, according to the official news website of the Catholic Bishops' Conference of the Philippines. The militants threatened to kill the hostages if their demands for a cease-fire and safe passage out of Marawi weren't met, the Conference news service reported. There was no immediate confirmation from government officials.

President Rodrigo Duterte, who declared martial law in the entire southern province of Mindanao late Tuesday while visiting Moscow, said Wednesday that skirmishes continued with the Maute group, "showing the group's capability to sow terror." He said that a local police chief had been beheaded by the group and that he would consider extending martial law to the entire Philippines if he felt it necessary.

Mr. Hapilon, 51 years old, leads a branch of another ter-

rorist organization, the Abu Sayyaf group, which is known for kidnapping and beheading foreign tourists. His faction, which Mr. Duterte has pledged to destroy, has preoccupied the military since 2014, when he publicly declared loyalty to Islamic State.

"I do think that Hapilon has taken on something of a symbolic importance," said Marc Singer, director of business intelligence at risk consultancy PSA Group in Manila. "Central Mindanao is now a kind of complex chess board where the pieces are all in disarray and you have any number of disparate groups" fighting for influence.

Mr. Hapilon's group hails from the southwestern island of Basilan, but it has brought fighters to the main southern island in Mindanao and raised his profile by striking alliances with other militant groups. Other elements have split off and conducted their own operations, some more ransom-hungry, than Mr. Hapilon's overtly religious focus.

Lawlessness in Mindanao, home to around 22 million people, has become a concern for security services interna-



Government troops guard a street in Davao, on Mindanao Island.

Manila in 2005.

The Philippine armed forces, which received assistance from the U.S. after the Sept. 11, 2001, terror attacks, have periodically killed Abu Sayyaf leaders and splintered the group further. Now, it survives mostly on kidnappings for ransom and other illicit business, with Mr. Hapilon one of the few leaders with enough seniority to unite members inside and outside Abu Sayyaf itself.

Mr. Hapilon's stature was boosted when Islamic State leadership anointed him as its "emir" in the Philippines. Philippine officials said Mr. Hapilon was wounded in a January airstrike, sparking speculation at the time that he might have been killed.

Mr. Hapilon is on the U.S. Department of Justice list of most-wanted terrorists worldwide with a reward of as much as \$5 million. He was personally involved in several kidnappings, including a 2001 incident when 20 people including an American who was later beheaded were taken from a high-end island resort.

The Philippines' inability to dislodge groups such as Abu Sayyaf and Maute has alarmed

its neighbors. In February, Australian Foreign Affairs Minister Julie Bishop said her country was readying itself for the possibility of Islamic State declaring a caliphate in the southern Philippines.

Yet many security experts play down the capability of Mr. Hapilon and his allies to set up a caliphate, arguing that Mindanao's militant groups are too splintered by ethnicity and ideology to gain de facto control of a large amount of territory.

The Maute group, founded by two brothers by that name, rose to notoriety after a series of attacks last year including one in August where gunmen seized control of Butig, a town near Marawi. The military eventually reclaimed the town several days later.

Mr. Hapilon and the Maute group "used the ISIS brand to build a fiercer image," said Joseph Franco, a research fellow at the S. Rajaratnam School of International Studies in Singapore. "It's like wearing a Che Guevara shirt," he said, but "trying to flash the ISIS creds when the operational links are very tenuous."

PROFITS

Continued from Page One

Companies also are spending less to repurchase their own shares this year, easing some investors' concerns that buybacks have been pumping up earnings growth. Share repurchases among S&P 500 companies are tracking 24% lower than a year ago, according to S&P Dow Jones Indices data from the beginning of the month, when about a third of S&P 500 companies had re-

ported their results.

Buybacks push up per-share earnings, which can make the shares that remain on the market more valuable. But they also have been criticized by investors who see them as a way for companies to prop up share prices in the short term at the expense of focusing on investments that drive longer-term growth.

Ten of the 11 sectors in the S&P 500 are on track to post quarterly earnings growth in the first quarter, with financial and technology companies reporting among the biggest

improvements, according to FactSet.

Bank of America Corp.'s first-quarter profit jumped 40% from a year ago, surpassing analysts' expectations, as trading revenue jumped and rising interest rates boosted its net-interest income, a key measure of lending profitability. Shares of the bank were up 5.8% in 2017 as of the close on Tuesday.

Facebook's first-quarter profit surged 76% to \$3.06 billion, as advertisers spent more money on its platforms and the company's number of

active users continued to rise. Its shares have jumped 29% this year.

"When we look at how earnings came in this quarter and how they're expected to come in the rest of the year, people's concerns about the stock market should really be allayed," said Jonathan Golub, chief equity strategist at RBC Capital Markets.

S&P 500 companies have now posted earnings growth for three straight quarters, after five consecutive quarters of declines, according to FactSet. The rebound is expected to continue. Analysts polled by FactSet estimate the broad index will post earnings growth of 6.8% for the second quarter and 11% for the full year.

Much of that is because a prolonged slump in commodities prices eased at the end of last year. About a third of the S&P 500's earnings growth in the first quarter came from energy companies, according to FactSet, where results improved alongside oil prices, which sank to their lowest levels in more than a decade in early 2016.

Last month, Exxon Mobil Corp. reported its best quarterly results since 2015, more than doubling its profit from the first three months of 2016, while Chevron Corp. posted a first-quarter profit of \$2.7 billion, compared with a loss of \$725 million in the year-earlier period.

However, shares of both companies are down this year

as sliding oil prices have pressured energy stocks anew, highlighting the fragility of the recovery. In addition, this year's earnings gains were helped, in part, by being compared against a weak year-ago first quarter for many sectors.

Also, some worry that this year's stock rally could stumble if economic measures—including U.S. auto sales—that disappointed in the first few months of the year show continued signs of weakness.

"I see some danger signs for growth moving forward," said Ed Keon, managing director and portfolio manager with QMA, a multiasset manager owned by Prudential Financial, who added that he has pulled back from U.S. stocks this year while shifting more money into their European counterparts.

Still, Mr. Keon said he doesn't see an end to the bull market soon. The most recent

earnings season was "clearly exceptional," Mr. Keon said, and should help stocks keep climbing in the near term.

—Ben Eisen contributed to this article.

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LUKE SHARRETT/BLOOMBERG NEWS

First-quarter profit growth was broad, ranging from companies such as Caterpillar to Facebook.

CORRECTIONS & AMPLIFICATIONS

The title of Lee Jae-yong, vice chairman of Samsung Electronics Co., was incorrectly given as vice president in a World News article Wednesday about former South Korean President Park Geun-hye's trial.

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com.

WORLD NEWS

U.K. Police Investigate ‘Network’ in Attack

Three more arrests made in Manchester; second brother of suspect held in Libya

BY JENNY GROSS
AND WIKTOR SZARY

MANCHESTER, England—Police said they were investigating a network in connection with the suicide bombing at an Ariana Grande pop concert that killed 22, as authorities raided more properties in a search for accomplices.

Intelligence agencies and police are piecing together how the suspect, identified as 22-year-old Salman Abedi, came to use a sophisticated bomb to carry out the deadliest attack in the country since 2005. Three arrests were made in the south of the city on Wednesday as part of the continuing investigation, a Manchester police spokeswoman said.

“I think it’s very clear that this is a network that we are investigating,” said Ian Hopkins, chief constable of the Greater Manchester Police. “There’s extensive investigations going on and activity taking place across Greater Manchester as we speak.”

The arrests take the total currently in custody in Britain to four. A Western security official identified the first man



IMAGES/ZUMA PRESS

British Army troops arriving on the streets in Westminster, London, on Wednesday to help guard Britain’s Houses of Parliament.

arrested as Ismail Abedi, 23, the suspect’s brother. Under British law, a person can be taken into custody in a terrorism investigation and held up to 14 days without charge.

A younger brother, Hashem Abedi, has been detained in the Libyan capital, Tripoli, on suspicion of links to an extremist group, according to a spokesman for Radaa, a security body there.

British police have declined to provide many details about the suicide-bombing suspect,

but a U.S. official has said he was a British citizen of Libyan descent. British officials believe he had recently come back from Libya, where his parents are believed to have lived after years in the U.K.

U.K. investigators told French authorities that Abedi had probably also traveled to Syria, according to the French interior minister.

A leading theory is that there is a technician in the U.K. who constructed the bomb, a Western official said.

“Clearly, with the raids ongoing, it’s a key part of the investigation. To cause this many fatalities it has to be a viable device of a certain level of sophistication,” the official said, adding that it didn’t seem like something Abedi could have done by himself. Officials were still in the initial phase of the investigation, the person said.

“It seems likely, possible, that he wasn’t doing this on his own,” Home Secretary Amber Rudd told the British

Broadcasting Corp. Abedi was previously known to security services “up to a point,” she said.

“When this operation is over, we will want to look at his background and what happened, how he became radicalized and what support he might have been given,” she said.

Manchester, in England’s northwest, was long a destination for radical Libyan Islamists during the Moammar Gadhafi era. Abedi, who grew up in the city, lived just miles

from the scene of the attack, according to electoral records and neighbors, in a red brick house in a working-class area.

Neighbors described him as an aggressive man who didn’t mix much with others in the community.

A spokesman at the nearby University of Salford said Abedi enrolled at the university in 2015 to study business and administration, and completed a first year of study. He then “effectively dropped out, though technically he remained on our books,” he said.

Prime Minister Theresa May raised Britain’s threat level to “critical” late Tuesday. It has only been at that level twice, in 2006 and 2007, since the system was introduced 11 years ago.

Under the heightened alert level, military personnel are replacing police officers guarding key places and big events around the country.

Up to 3,800 military personnel were deployed on Britain’s streets. Armed officers were stationed at key locations, including Buckingham Palace and Downing Street. Parliament was closed to visitors and all tours, events and banquets were canceled, a spokesman said.

Islamic State claimed responsibility for the attack. British police haven’t commented on the Islamist extremist group’s assertion.

More Bombing Victims Identified

BY DENISE ROLAND
AND SAABIRA CHAUDHURI

One died in the blast in a way that shielded her sister and niece. Several were parents waiting to pick up their children.

Friends and family confirmed the identities of more victims of the bombing that claimed 22 lives as thousands of concertgoers, including many children, streamed out of a Manchester arena after watching American pop star Ariana Grande perform.

Ian Hopkins, chief constable of the Greater Manchester Police, said Wednesday that an off-duty police officer had been among those killed in the bombing. He said he wouldn’t release further details at this time, based on the wishes of family members.

Kelly Brewster, a young woman from Sheffield, east of Manchester, was walking behind her sister Claire and niece Hollie when a man identified by police as Salman Abedi detonated an explosive outside Manchester Arena.

She “shielded Hollie and Claire from the damage,” Ms. Brewster’s uncle Paul Dryhurst told ITV television. The mother and daughter are in a hospital having shrapnel removed, he added.

Martyn Hakan Hett, a public-relations manager, headed to a pub on Monday to drink Prosecco with his friend Stuart Aspinall in the sunshine, according to a post on Mr. Hett’s Facebook page, before heading to the Ariana Grande concert together.

Mr. Hett, slated to leave for a two-month vacation to the U.S., had spent the last few days saying goodbye to friends.

“We got the news last night that our wonderful iconic and beautiful Martyn didn’t survive,” a friend wrote on Twitter.



Stephen Lock/PA Images via ZUMA PRESS
Floral tributes to the terror victims being laid at Manchester’s Albert Square on Wednesday.

ter. “He left this world exactly how he lived, center of attention.”

Friends Alison Howe and Lisa Lees were waiting outside the arena when the bomb exploded. Both women, in their 40s, were waiting for their teenage daughters, according to local media.

“They took a caring beautiful mum and stepmother away from us all,” read a Facebook post from Ms. Howe’s stepson, Jordan Howe. “She was amazing to us all.”

Lee Hunter, Ms. Lees’s brother, confirmed her death in a Facebook post late Tuesday. “For those who don’t know Lisa is gone but never forgotten I love you Lisa I’ll miss you so much,” he wrote.

Marcin Klis, a Polish man who worked as a taxi driver in York, northern England, and his wife, Angelika, were also waiting outside the venue for their children when the blast

went off.

“Two girls, one of them a grown-up, the other a teenager, were at the concert. The parents drove over after the concert to pick their daughters up,” Poland’s foreign minister, Witold Waszczykowski, told local radio station RMF FM on Wednesday. “The children are safe,” he added.

Fifteen-year-old Olivia Campbell, from Bury north of Manchester, was also among the victims. “RIP my darling precious gorgeous girl Olivia Campbell taken far far to [sic] soon go sing with the angels and keep smiling mummy loves you so much,” read a Facebook post from her mother, Charlotte.

Ms. Campbell, who like many relatives spent Tuesday frantically appealing for information, tearfully told CNN earlier on Tuesday how Olivia and her best friend had bought new outfits for the

event. They were just “normal teenage children going to see one of their favorite artists,” she said. “It’s ended in absolute carnage.”

Jane Tweddle-Taylor, a woman from Blackpool, England, in her early 50s, was also killed after going to the arena with a friend to collect the friend’s children.

“Jane was a very, very lovely lady and a very good mother to three daughters, liked by everybody,” Ms. Tweddle-Taylor’s partner, Mark Taylor, told BBC Radio Lancashire as he choked back tears. The friend and children survived, he said.

A young girl, Megan Hurley, was also identified as a victim by a woman named Helen McDermott, who set up a fund-raising page for the funeral.

The youngest confirmed victim, 8-year-old Saffie Rose Roussos, was named on Tuesday.

Armed Troops Patrol British Landmarks

BY ROBERT WALL

LONDON—Visitors flocking to the U.K. will face an unusual sight: armed uniformed troops at some of London’s most famous landmarks as the country tightens security amid concerns more terrorist attacks could follow in the wake of Monday’s fatal bombing in Manchester.

London’s Metropolitan Police Service, the U.K.’s largest police force, said military personnel will be deployed at locations such as Buckingham Palace, the Downing Street home of the prime minister, embassies and the Palace of Westminster, home to the legislature.

Parliament on Wednesday said the building would be closed to public tours and events because of the elevated threat level. The Changing the Guard parade at Buckingham Palace was canceled for Wednesday with future plans under review, a British Defense Ministry official said. The Bank of England Museum also closed Wednesday.

A spokesman for London Heathrow, the country’s busiest hub and the principal point of arrival in the U.K. for Ameri-

cans, said “there will be higher visibility of police patrolling and additional checks at the airport” though operations would continue as normal.

The threat level is likely to lead to greater coordination between public-safety organizations and event security staff, said Steve Park, managing director of Global Security Resources Limited.

Venues throughout the U.K. have elevated security measures. The Football Association said extra security would be on-hand for one of the biggest domestic soccer matches this weekend. MCM Comic Con, the convention for comic collectors and gamers, said it would have additional security for its big gathering starting Friday at the large ExCel London convention center.

The Met, as the police force is commonly known, said it was also deploying behavior detection specialists to help spot potential attackers.

The Ministry of Defence said about 1,000 soldiers are being deployed to free up armed police for other duties.

—Jason Douglas contributed to this article.



FACUNDO ARRIBALAGA/EUROPEAN PRESSPHOTO AGENCY
A soldier and a police officer patrol near Parliament.

Britain’s Long History as a Target of Terrorist Attacks

BY JASON DOUGLAS
AND WIKTOR SZARY

Oct. 5, 1974 Five are killed and dozens injured when bombs go off in pubs in Guildford in southern England as part of a bombing campaign by the Irish Republican Army. The pubs were popular with British soldiers on leave from duty in Northern Ireland. A pub in Woolwich, London, is bombed weeks later, killing two.

Nov. 21, 1974 The IRA strikes again in Birmingham, where 19 are killed and more than 180 injured. The bombings gained added notoriety as miscarriages of British justice when the men and women convicted are exonerated years later.

March 31, 1979 A car bomb

planted by the Irish National Liberation Army kills Airey Neave, spokesman for Northern Ireland in the then-opposition Conservative Party led by Margaret Thatcher, as he left the House of Commons parking lot.

Aug. 27, 1979 An Irish Republican Army bomb kills Louis Mountbatten, Queen Elizabeth II’s cousin, while he is boating near his home in the west of Ireland. The earl’s grandson and a local boy who worked for the family are also killed. Hours later 18 British soldiers are killed in an IRA ambush near Warrenpoint in Northern Ireland.

Oct. 12, 1984 The IRA bombs the Conservative Party’s annual conference at a hotel in Brighton, a resort in

the south of England, killing five people. Prime Minister Margaret Thatcher and her husband, Denis, narrowly escape injury. Margaret Thatcher, wife of then-Trade Secretary Norman Tebbit, is left wheelchair-bound by the blast.

Feb. 10, 1996 The IRA announces an end to a months-long cease-fire by exploding a bomb in London’s Docklands, killing one and injuring 39. A second, larger bomb is detonated in central Manchester on June 15, injuring 200 people.

Aug. 15, 1998 Dissident Irish republican terrorists calling themselves the Real IRA explode a bomb in the Northern Irish town of Omagh that kills 29 people, the largest loss of life in a single incident dur-

ing the three decades of violence known as the Troubles. The bombing comes months after Northern Ireland voted in favor of the Good Friday Agreement to establish new

Irish nationalists and Islamists have sown fear in the U.K. over the years.

power-sharing institutions.

July 7, 2005 Four Islamist extremists carry out three nearly simultaneous suicide attacks on the London Underground and another shortly af-

terward on a double-decker bus, killing 52 people and wounding more than 700, an attack that became known as 7/7.

May 22, 2013 Michael Adebolajo and Michael Adebowale, British citizens of Nigerian descent and converts to Islam, attack British soldier Lee Rigby outside an army barracks in London, running him over with a car and hacking him to death with a meat cleaver. Adebolajo is sentenced to life in prison for the murder, and Adebowale to a minimum of 45 years imprisonment.

June 16, 2016 Jo Cox, a 41-year-old Labour Party lawmaker, is killed in a brutal attack motivated by Nazism and deemed an act of terrorism.

Thomas Mair, an unemployed gardener, stabs Ms. Cox and then shoots her three times at close range, shouting words to the effect of “Keep Britain independent.” Ms. Cox had backed the U.K. remaining part of the EU.

March 22, 2017 Khalid Masood, a 52-year-old British man, mows down pedestrians on the crowded Westminster Bridge in central London before crashing his car near the gates of Parliament and stabbing a policeman to death. Masood is shot dead at the scene by police. The attack claims the lives of five victims. Islamic State claims responsibility for the attack, but police find no evidence linking Masood to terrorist groups.

WORLD NEWS

Two Chinese Are Kidnapped In Pakistani City

BY QASIM NAUMAN
AND SAEED SHAH

ISLAMABAD, Pakistan—Armed men abducted two Chinese nationals in the city of Quetta in southwestern Pakistan, police said, an incident likely to raise security concerns around the country's many China-backed infrastructure projects.

Thousands of Chinese have moved to Pakistan over the last two years to support investment under Beijing's flagship "Belt and Road" infrastructure building program across Asia and Europe.

Three Chinese nationals, two women and a man, were leaving a language center on Wednesday when four armed men in a sedan accosted them and tried to force them into the car, police said. One of the women managed to flee, and the kidnappers drove away with the other two.

"They were screaming and were trying to free themselves when a passerby saw them and tried to help. The kidnappers first tried to scare him off, saying they were from police intelligence," said Shahzada Farhat, a spokesman for the police in Baluchistan province, of which Quetta is the capital.

"When the man wasn't convinced, they shot him in the leg," he said.

The Chinese Embassy in Islamabad confirmed the abduction to Chinese state media, but couldn't be directly reached for comment.

Chinese people have rarely had trouble in Pakistan. Westerners are generally the more

likely targets of kidnapping.

A Chinese tourist was kidnapped from the northwestern part of the country in 2014, and was released a year later. Two Czech tourists were kidnapped while traveling through Baluchistan province in 2013, and were released two years later.

Many kidnappings in Pakistan are carried out purely for ransom, but others have been the work of jihadists or, in Baluchistan, ethnic separatists.

Chinese nationals have become a common sight in the three large cities of Islamabad, Lahore and Karachi.

Quetta is considered a dangerous city, even for Pakistanis. Jihadist groups, ethnic separatists and criminal gangs all are active there.

China has more than \$50 billion in investment in roads, ports, power plants and other crucial infrastructure across the country.

To protect the Chinese projects and citizens, Pakistan has raised a special security force of some 15,000 army and paramilitary personnel.

Beijing has made it clear to Islamabad that it expects security for Chinese people in Pakistan.

Beijing is particularly concerned about any presence of Chinese jihadists in Pakistan. Southwestern China, near Pakistan, has a large Muslim population.

Pakistan has been fighting an intense terrorism campaign by Islamist militant groups, led by the Pakistani Taliban, since 2007. Security in the country has sharply improved over the last three years.



Supporters of same-sex marriage cheered the Constitutional Court's ruling outside the Legislative Yuan in Taipei on Wednesday.

Taiwan Nods to Gay Unions

BY TE-PING CHEN

Taiwan's top court ruled that current law defining marriage as exclusively between a man and a woman was unconstitutional, paving the way for the first same-sex marriage law in Asia.

Celebrations and protests broke out across Taiwan on Wednesday after the island's constitutional court ordered the legislature to change the law to permit gay civil unions within two years. If the legislature failed to act, the court said same-sex couples could register to marry in any case.

"Today is a watershed," said Chen Yi Chen, a 37-year-old lawyer in Taipei who said she and her girlfriend of six years had until recently not seriously talked of marriage because the prospect seemed so unlikely.

The plaintiff in Wednesday's case, Chi Chia-Wei, had pushed for more than three decades to advance same-sex

marriage rights. The effort gained pace in recent years as Taiwan emerged as a beacon for gay-rights supporters in Asia, annually hosting a gay-pride parade that attracts tens of thousands of participants, some from around the region. President Tsai Ing-wen, who was elected last year, has expressed support for same-sex marriage.

By early Wednesday evening, the news was the eighth-highest trending topic on China's Twitter-like Weibo, with users posting rainbow flags and hearts and at least one hashtag racking up more than 16 million views.

The court said the need to create "permanent unions of intimate and exclusive nature are equally essential to homosexuals and heterosexuals," citing freedom of marriage as important to safeguard human dignity.

Taiwan's greater tolerance for sexual minorities is un-

usual within Asia, particularly in countries with larger Christian populations and amid a rise of a more conservative Islam in Indonesia and other areas. Two men were publicly caned in Indonesia on Tuesday as punishment for having same-sex relations.

Neither same-sex marriage nor civil unions are recognized in mainland China. Still, the issue has proved polarizing even in Taiwan, with both supporters and opponents of same-sex marriage—including Taiwan's small, but vocal Christian population—staging large rallies last year to support their positions.

In the run-up to the verdict, opponents staged protests and circulated commentary online, including in the form of satirical cartoons, one which depicted a large building labeled "Marriage" cracking after a gray column was removed and replaced with one painted in rainbow stripes.

The self-ruled, democratized

island split from mainland China after the civil war with the Communists ended in 1949.

Beijing has increasingly worked to sideline Taiwan, especially following the election of Ms. Tsai, whose Democratic People's Party officially supports independence. This week, under pressure from Beijing, Taiwan was denied observer status at the World Health Assembly in Geneva.

Advocates for gay marriage in Taiwan say they hope the move can help inspire other nations in Asia.

On her official Facebook page, Ms. Tsai appealed for tolerance and understanding in the wake of the verdict.

"No matter what your stance is on same-sex marriage, this is the moment when we should view everyone around us as brothers and sisters," she wrote.

—Jenny W. Hsu contributed to this article.

DEBT

Continued from Page One with shares in Shanghai falling more than 1% before recovering and largely shrugging off the move.

David Rubenstein, co-founder and co-CEO of Carlyle Group, in an interview in Beijing on Wednesday said Carlyle, which has invested \$1 billion a year in China on average over the past four years, is increasing its investment. "The U.S. was downgraded a few years ago as well, and that hasn't stopped us from investing in the U.S.," he said.

Mr. Rubenstein called China "the second-greatest place to invest" after the U.S., pointing to the size of the Chinese economy, its population growth and rising entrepreneurship.

Yet the downgrade amplifies growing unease among foreign institutions about the Asian giant's debt levels, about which the International Monetary Fund, World Bank and Bank for International Settlements, among others, have long expressed concern. China's foreign debt at \$1.42 trillion is tipped to rise this year but remains, at 13% of gross domestic product, among the lowest globally by that measure.

In March 2016, S&P followed Moody's lead in downgrading China's financial outlook. S&P declined to comment Wednesday on whether it would review its China rating.

China's tendency to insulate itself from market forces is reflected in the assessments by its major state-owned ratings firms, which tend to be more sanguine than their international counterparts. One of the biggest agencies—China Chengxin International Credit Rating Co., in which Moody's holds a 30% stake—said Wednesday it is sticking to its AAg+ sovereign rating for China.

Moody's downgrade, to A1 from Aa3, puts China on par with Japan. It is a symbolic moment, after China overtook Japan in the past decade as the world's second-largest economy. Problems in the Chinese economy that Moody's cited for its downgrade—slowing growth, worsening debt and an aging workforce—echo those Japan faced by the early 1990s.

The downgrade reflects an

Outside View

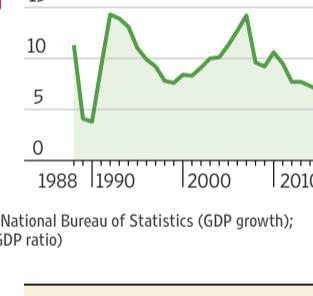
Moody's cited a worsening economic situation in its first China downgrade since 1989.

Moody's rating action on Chinese government

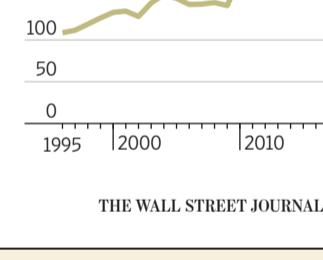


Sources: Moody's Investors Service (ratings); National Bureau of Statistics (GDP growth); Bank for International Settlements (debt-to-GDP ratio)

China's real GDP growth



China's debt as a percentage of GDP



THE WALL STREET JOURNAL.

China's Downgrade Echoes Japan's Path

Some economists have long warned that China faces the same fate as Japan, with a debt-fueled boom followed by years of stagnation as the country works its way through the hangover.

After Moody's decision to downgrade China on Wednesday, the two countries at least now have sovereign credit ratings, at A1, to match.

But as China now grapples with some of the same problems Japan faced a quarter of a century ago—from bubble-prone property markets to fragile banks—it's downgrade to the same credit rating is a reminder that it is still unclear whether it can escape the sort of prolonged economic malaise that has afflicted its neighbor.

Concerns about China's economy voiced by the likes of Moody's have some echoes of the problems Japan faced by

the early 1990s. As with Japan, heavy capital-spending levels have been central to China's growth.

A sharp run-up in real-estate prices is one common point between China of today and Japan of the late 1980s.

The nation's real-estate speculators soon paid the price for their enthusiasm. By the early 1990s, land prices were beginning a 15-year string of annual declines.

The collapse of the bubble exposed vulnerabilities in poorly regulated corners of Japan's financial system, another potential parallel with today's China.

Yet another parallel: Around 1990, it was clear that Japan's population was destined to start falling in about 15-20 years' time, which is in fact what happened.

Likewise, the United Nations projects that China's population will peak around 15 years from now, in the early 2030s, and shrink sharply thereafter.

—Andrew Peaple

government is unlikely to face trouble servicing its debt given that state interest payments make up just 6% of government revenue.

Beijing has had a complicated relationship with foreign ratings firms, which aren't allowed to issue independent ratings of Chinese companies in China. After Moody's downgraded China's financial outlook in March 2016, Vice Finance Minister Zhu Guangyao said the firm lacked a long-term view and that "reality will prove it wrong."

—Lingling Wei, Liyan Qi and Grace Zhu contributed to this article.

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WORLD NEWS

Trump Calls Meeting Pope an ‘Honor’

BY CAROL E. LEE
AND FRANCIS X. ROCCA

VATICAN CITY—President Donald Trump and Pope Francis met Wednesday for a fence-mending encounter that balanced talk of stark disagreements on issues such as migration with accord on other topics, including abortion.

Seated across from each other at a simple wooden desk in the pope's private study, Mr. Trump and the pontiff spoke for 30 minutes, aided by an interpreter. Before leaving the Vatican, the president told the pope, "Thank you, thank you. I won't forget what you said."

It wasn't immediately clear whether Mr. Trump was referring to his entire discussion with the pope, or to one point of the conversation in particular, but there was no mistaking the president's enthusiasm. During his talks later with Italian Prime Minister Paolo Gentiloni, he told reporters that his meeting with the pope was "fantastic."

"He is something," the president said of the pontiff, who during last year's presidential campaign criticized Mr. Trump's views on immigration and said the candidate's plan to build a wall along the U.S. border with Mexico made him "not Christian."

After Wednesday's meeting with the pope, the president tweeted effusively: "Honor of a lifetime to meet His Holiness Pope Francis. I leave the Vatican more determined than ever to pursue PEACE in our world."

In a short communiqué following the visit, the Vatican described points on which Mr. Trump and the pope agree, including abortion and religious liberty, as well as their notable



President Donald Trump and first lady Melania Trump visited with Pope Francis at the Vatican on Wednesday.

King Jr., a nod to the pontiff's reference to the civil rights leader during his 2015 address to a joint session of Congress.

In addition to his writings, Pope Francis also gave Mr. Trump a medal bearing an olive tree, a sign of peace. "We can use peace," the president said.

In its communiqué on Mr. Trump's visit, the Vatican highlighted a "joint commitment in favor of life, and freedom of worship and conscience" between the Holy See and the Trump administration.

Those were apparent references to abortion and to the demand by U.S. Catholic leaders for a religious exemption to the contraception mandate in the Affordable Care Act, which Mr. Trump has promised to provide. That was a significant concession to the White House, since the pope hasn't made such issues a priority.

But that point of agreement was offset by a call for collaboration on "health care, education and assistance to immigrants." U.S. bishops have said Mr. Trump's plans to reform the health care law must ensure that no one loses coverage.

Wednesday's meeting was closely watched given the contentious history between the two leaders. The pope said last year that Mr. Trump's hard line on immigration and the resettlement of refugees made him "not Christian." Mr. Trump shot back that the pope's remark was "disgraceful."

In the afternoon, Mr. Trump departed Rome for Brussels, where he will meet the Belgian king and queen as well as the Belgian prime minister. On Thursday, Mr. Trump will participate in a summit of the North Atlantic Treaty Organization.

differences, including health care and immigration.

One longstanding point of contention the Vatican communiqué didn't mention was the environment. After their private conversation, however, the pope gave the president a copy of his encyclical on the environment, in which he argues that capitalism has contributed to the degradation of the environment at the particular expense of the poor. The president thanked the pope, saying he would read it.

The visit caps a whirlwind

tour by Mr. Trump through countries that are home to the holiest sites for three of the world's leading religions: Islam, Judaism and Christianity. The president's trip to Saudi Arabia, Israel and Vatican City is intended to try to unify religious leaders around an effort to combat extremism.

The meeting between the pope and Mr. Trump began around 8:30 a.m., local time, an unusually early time for a visit to the Vatican by a head of state, made necessary by the timing of the pope's

weekly public audience later in the morning.

From the relatively modest Vatican guesthouse where Pope Francis lives, he was driven to the Apostolic Palace in the used Ford Focus that was donated to him early in his papacy.

Soon after, Mr. Trump arrived in a motorcade of about 50 vehicles. Under clear blue skies, Swiss guards stood at attention as Mr. Trump stepped from his black SUV in the Courtyard of St. Damasus, an American flag fluttering from a balcony overhead.

The pope emerged from his study to greet the president.

The men shook hands, while Mr. Trump told the pontiff it was "a very great honor" to meet him. The first lady, who wore a tea-length black dress as well as the black veil that is traditional for female guests meeting the pope, was part of the presidential entourage, as was the president's daughter, Ivanka Trump, also clad in black.

After the meeting, Mr. Trump gave Pope Francis a gift of first-edition copies of writings by Martin Luther

NATO Gets Unexpected U.S. Military Boost

BY CAROL E. LEE
AND JULIAN E. BARNES

The North Atlantic Treaty Organization got a surprise as the U.S. military detailed plans to increase its own military spending in Europe by \$1.4 billion, supporting new NATO initiatives to fill military gaps.

Washington's plan, which comes as NATO is striving to meet President Donald Trump's demand for more counterterrorism work and greater European military spending, is at odds with Trump administration threats to cut military support for Europe.

Wednesday's news came as U.S. Secretary of State Rex Tillerson said Mr. Trump plans to deliver a tough message that Europe needs to increase its military spending at Thursday's meeting of NATO leaders.

Mr. Tillerson told reporters traveling on Air Force One that Mr. Trump "really wants participating NATO members to step up and fully meet their obligations of the burden sharing."

Mr. Tillerson said the administration wants allies to reach the NATO goal of spending 2% of gross domestic product on defense. While many allies consider the NATO spending guideline a rough goal, the Trump administration has been treating it as a firm requirement.



U.S. forces in a NATO exercise at Capul Midia on the Black Sea shore.

"I think you can expect the president to be very tough on them, saying, 'Look, the U.S. is spending 4%. We're doing a lot,'" Mr. Tillerson said. "The American people are doing a lot for your security for our joint security. You need to make sure you're doing your share for your own security as well."

Before Mr. Tillerson's remarks, the U.S. European Command, which oversees U.S. military operations in Europe, outlined \$4.8 billion in spending for next year, up from \$3.4 billion this year. The plan is part of the Trump administration's budget proposal unveiled this week.

European Command said it would increase air defenses, enhance surveillance capabilities and position more weaponry in Europe for troops

from the U.S. It also said it would boost antisubmarine warfare assets and rotate more Marines to Europe.

"It demonstrates the commitment of the United States to Europe," said Lt. Gen. Ben Hodges, the senior U.S. Army commander in Europe. "It should remove once and for all any doubts our allies or potential adversaries have about how much we care about stability and security in Europe, and what we are willing to do to deter Russia or any other potential adversary."

NATO officials have said European military budgets are increasing, rising by \$10 billion last year, with further boosts expected this year.

NATO Secretary-General Jens Stoltenberg highlighted the U.S. spending plans at a news conference.

"This is a commitment to our collective defense from the U.S., not only in words but also in deeds," Mr. Stoltenberg said.

NATO leaders will meet briefly on Thursday during a single dinner session. Officials said many subjects are likely to be raised by leaders during their four-minute speaking slots.

NATO is expected to unveil military spending agreements Thursday that will include European commitments to boost funding for military capabilities that NATO has identified as critical.

The alliance also is preparing to increase its counterterrorism work, including expanding its support for the anti-Islamic State coalition and its training of partner militaries fighting terror groups.

NATO is likely to join the anti-Islamic State coalition as a full member, but a final decision will likely await the outcome of a lunch meeting Thursday between new French President Emmanuel Macron and Mr. Trump.

Mr. Tillerson said the U.S. wants NATO to formally join the coalition. He said while some countries aren't in full agreement, he thought they would come around and the terror attack in Manchester would strengthen the resolve of NATO allies.

European diplomats say France remains skeptical of

the utility of NATO's joining the coalition, but doesn't want to stand in the way of a U.S. priority.

During the campaign, Mr. Trump said NATO was obsolete because it didn't pay enough attention to fighting terrorism. He also repeatedly said allies need to pay more for their own defense and suggested the U.S. could keep an ally's military spending in mind when deciding whether to aid it in a crisis.

More recently, Mr. Trump has muted his criticism of NATO and said last month that it was "no longer obsolete." But allied diplomats said Wednesday they are anxious to hear Mr. Trump say that he will follow NATO's Article 5, which states an attack on one ally is an attack on all.

Mr. Trump is due on Thursday at NATO's new headquarters building to unveil a memorial, a piece of the World Trade Center. The memorial commemorates the only time the alliance has invoked Article 5, following the Sept. 11, 2001, terror attacks. Mr. Trump's speech at the unveiling will be a chance to present his views of the collective defense provision, NATO diplomats said.

"Everyone is expecting Donald Trump to speak about Article 5," said a European diplomat. "At the end of the day he has said a few worrying things about that."

Bonds Are Flagged as Risk for Eurozone

BY TODD BUELL

FRANKFURT—The European Central Bank warned that a rapid increase in bond yields could pose a risk to the financial stability of the eurozone. It also said Wednesday that low interest rates continue to pose profitability challenges for lenders in the 19-country currency bloc.

The ECB, however, took a rather relaxed stance toward the U.K.'s vote to leave the European Union last year. The ECB said that the Brexit process wasn't a principal concern with respect to financial stability in the eurozone.

"Risks to financial stability stemming from financial markets remain significant, mainly owing to the possibility of a further rapid repricing in global fixed-income markets," the report said. "Such an abrupt repricing could materialize via spillovers from higher yields in advanced economies, in particular the United States."

WORLD WATCH

AUSTRALIA

Sydney Cafe Siege Review is Concluded

A coroner investigating the deadly Sydney cafe siege of December 2014 recommended that police drop qualms about using force in terrorist attacks, saying negotiation may fail against radicalized militants braced to die.

The inquiry into the handling of a 17-hour siege by gunman Man Haron Monis at the Lindt Chocolate Café—which ended with Monis and two of the 18 hostages dead—cleared police of blame. Still, it said authorities should rethink their response, including giving police snipers more authority to fire.

"All of the blame rests on Man Monis," New South Wales State Coroner Michael Barnes said Wednesday. "He created the intensely dangerous situation, he maliciously executed (cafe manager) Tori Johnson, he barricaded himself in a corner of the cafe,

and his actions forced police to enter in circumstances where the risk of hostages being wounded or killed was very high."

The hostage-taking in the heart of Australia's biggest city was the country's first major terrorist incident. It triggered questions about why Monis, an Iranian immigrant and self-styled cleric with a long history of violence, had been free on bail as he awaited trial in relation to the murder of his ex-wife. Critics of police tactics, including relatives of the two hostages killed, asked why elite army commandos trained in counterterrorism weren't called on to take charge in place of specialist police.

The coroner said police failed to act quickly enough after Monis executed Mr. Johnson early on Dec. 16, waiting 10 minutes before storming the cafe. In the resulting gunfire, hostage Katrina Dawson was killed by ricochet bullet fragments.

—Rob Taylor

GLOBAL ECONOMY

World Trade Boost Point to Growth

World trade flows grew in the first quarter, continuing a recovery that began in the second half of last year in an indication that the global economy may enjoy a year of stronger growth.

World trade flows grew at the slowest pace since the financial crisis in 2016 as a whole, but there are signs 2017 will mark a rebound.

The Netherlands Bureau for Economic Policy Analysis said the volume of world exports and imports rose by 1.5% in March, and was up 1.4% in the first quarter compared with the final quarter of 2016. The revival in trade flows has also been noted by logistics companies. The International Air Transport Association has reported that demand for airfreight was 11% higher in the first quarter than the same

period a year earlier, while Danish shipping and oil giant A.P. Moller-Maersk this month said container volumes were up 10% during the three-month period.

While trade flows are driven by global economic growth, economists believe they in turn

would weaken growth over the medium term. They noted an increase in barriers to trade other than tariffs and a reversal in the creation of what are known as global value chains, or the process by which large companies moved parts of their production and associated jobs overseas.

—Paul Hannon

HONG KONG

Flights Delayed as Jet Slides Off Runway

A China Eastern Airlines Corp. plane slid off the runway as it landed in Hong Kong during heavy rain, triggering extensive flight disruptions. There were no injuries, the airport authority said. The incident shut down one of the airport's two runways. The Airbus A321 aircraft, operated as Flight 765, had flown from Nanjing, China, with 141 passengers and crew.

—Joanne Chiu



DRY: A child displaced by drought at a camp outside Mogadishu.

would weaken growth over the medium term. They noted an increase in barriers to trade other than tariffs and a reversal in the creation of what are known as global value chains, or the process by which large companies moved parts of their production and associated jobs overseas.

boost growth, and worry that weakness is contributing to the anemic global expansion.

The sluggishness of trade in 2016 and previous years led many economists to wonder whether changes in the structure of the global economy

U.S. NEWS

White House Budget Faces Swift Pushback

Lawmakers on both sides of the aisle say the president's plan will change significantly

President Donald Trump faced swift resistance from Democrats and a range of Republicans on Capitol Hill after

By Kate Davidson,
Kristina Peterson
and Natalie Andrews

offering a 10-year plan to balance the federal budget that depends heavily on cuts to government safety-net programs and expectations of a big gain in economic growth.

The White House budget proposal for the fiscal year that begins Oct. 1 would cut federal spending by \$4.5 trillion over 10 years. But it leaves mostly untouched the big entitlement programs—Social Security and Medicare for retirees—and proposes increases to infrastructure spending, a new parental-leave program and a short-term boost to military spending.

With those priorities set—in addition to the shared Republican goal of cutting taxes—the White House offered up significant reductions in other spending programs to further the aim of reducing budget deficits. But the call for rolling back programs that touched their constituents made lawmakers bristle.

The proposal, which serves as a recommendation to Congress, is likely to be largely rewritten when lawmakers craft their own budget resolutions in the coming months.

"I hate to say it, but I would say the budget was dead before the ink was dry," Rep. Don Young (R., Alaska), who opposes the budget's elimination of two programs in his state.

Payments to Medicaid, the



Mick Mulvaney, the president's budget director, testifying before lawmakers on Wednesday.

federal-state health program for the poor, would be cut by more than \$600 billion over a decade from levels projected under current law in addition to proposed Medicaid cuts under the House bill repealing and replacing much of the Affordable Care Act.

The food-stamp program would be cut over 10 years by \$193 billion, the student-loan program by \$143 billion, disability payments by \$72 billion and farm subsidies by \$38 billion.

"The proposed cuts to some federal programs are not mere shavings; they are rather deep and harmful to my district spanning Kentucky's Appalachian region and other rural, impoverished parts of the country," Rep. Hal Rogers (R., Ky.), a former chairman of the House Appropriations Committee, said of the proposal.

Democrats lambasted the overall budget proposal.

"This is the budget you write if you think working families

have it too easy," Sen. Ron Wyden (D., Ore.) said.

On Wednesday, White House budget director Mick Mulvaney said the administration is open to extending the 10-year budget scoring window for its tax plan to get around congressional rules that forbid bigger deficits after a decade.

That move might help Republicans get their tax and fiscal policies to comply with congressional budgeting rules that would otherwise limit them.

Sen. Pat Toomey (R., Pa.) floated the idea last month to overcome obstacles posed by the process known as reconciliation, which lets a tax cut pass on a majority Senate vote but prevents additions to long-run deficits.

Mr. Mulvaney told a House panel that Congress should be able to extend the window without changing the law.

"We are exploring the possibility of also looking a little further out, especially when you

start to talk about changes in mandatory spending," he told lawmakers at a House Budget Committee meeting.

The benefits of changes to mandatory spending often don't show up within the first decade, he said. "I think it's a more reasonable way to look at the budget window," he said.

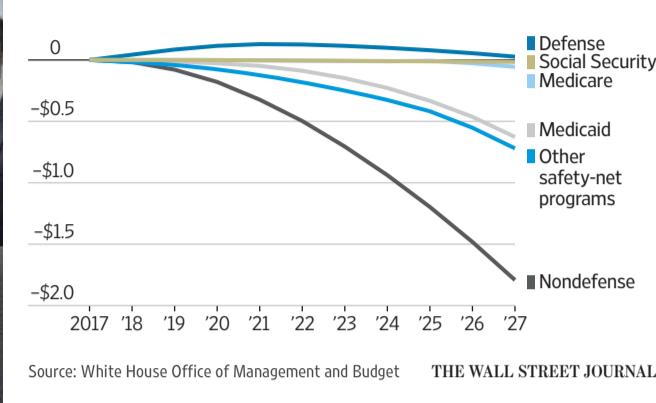
Mandatory spending, including programs such as Medicare, Medicaid and food stamps, aren't subject to annual appropriation. A longer budget window could let Republicans get fiscal credit for proposals that are enacted now and then are phased in and don't take effect for many years in the future.

The president's proposal also takes aim at some smaller government programs meant to benefit people living in sparsely populated areas loyal to Mr. Trump. The blueprint calls for scrapping two commissions important to Alaska, a state that won by 15 points in the November election.

Spending Trends Under Trump

President Donald Trump proposes balancing the budget by cutting Medicaid and other programs while largely maintaining or increasing funding levels for defense and Social Security.

Cumulative change in spending



Source: White House Office of Management and Budget

THE WALL STREET JOURNAL.

The budget would eliminate the Denali Commission, which provides economic-development services in Alaska, and an Essential Air Service program, which works to ensure that small communities offer some level of air service.

In all, nondefense spending as a share of the economy would fall to just 1.5% by the end of the next decade, well below the lowest level in records going back to 1962.

Besides wide-ranging spending reductions, the proposal depends on a projection that economic growth will reach 3% by 2021 and stay there through 2027, bolstering government revenue and holding down the need for support programs like unemployment insurance.

That growth projection is more aggressive than the Congressional Budget Office projection of 1.9% over a decade or the Federal Reserve's 1.8% projection. It also assumes the country's economic expansion, already nearly eight years old, won't be interrupted by another economic downturn.

The plan drew praise from

some Republicans for proposing to balance the budget over 10 years and boosting military spending. GOP lawmakers have also backed overhauling federal funding for Medicaid in previous congressional budgets. Still, many balked at cuts to foreign aid, farm subsidies, health-care programs for low-income families and other programs that mattered back home.

"It's nothing new—it's just a lot of people who don't know what the hell is going on in farm country," said Senate Agriculture Committee Chairman Pat Roberts (R., Kan.), who objected to proposed cuts for farm subsidies and new limits on crop insurance, as well as cuts to the Supplemental Nutrition Assistance program, also known as food stamps.

Sen. John McCain (R., Ariz.), chairman of the Armed Services Committee, said the increase for the military was "a betrayal of the president's commitment to rebuild our military. It's way too low."

—Peter Nicholas
and Richard Rubin
contributed to this article.

Winners and Losers In the Proposed Budget

The president's budget proposal serves as a blueprint for his goals and priorities. Here is how some departments would fare:

Defense

The administration is asking for \$640 billion in defense spending, more than \$50 billion over current congressional budget caps, to pay for modernization, readiness and operations.

One of President Donald Trump's most prominent defense spending proposals during the campaign was to build up the Navy to at least 350 ships from more than 280 in the fleet now. The proposed budget makes small inroads on that score, including funding toward two Virginia-class submarines, two Aegis destroyers and a littoral combat ship.

—Gordon Lubold

State

The proposal includes a 32% decrease to the State Depart-

ment and U.S. Agency for International Development budget to \$37.6 billion from \$54.9 billion. The budget also includes a 29% cut to foreign assistance, to \$25.3 billion.

The U.S. would contribute \$5.3 billion in humanitarian assistance funds in 2018 under the proposal, a 31% decrease, though officials said the U.S. would still contribute the most in this area by at least about \$2 billion.

The full budget would significantly cut back on contributions to international organizations, which includes the United Nations, international peacekeeping efforts and the World Health Organization and others. Bilateral economic assistance, foreign military financing and global health funding would also face deep cuts.

—Felicia Schwartz

Interior

The proposed \$11.7 billion budget for the Department of

the Interior raises spending for national parks and oil and gas development, while taking the ax to climate change and other science programs in a plan that has outraged environmental groups.

The spending plan represents an 11% decrease from last year, and if enacted would be the lowest budget for the land and water agency in five years. Hardest hit would be agencies like the U.S. Geological Survey, whose staffing would be slashed by nearly one-fifth.

—Jim Carlton

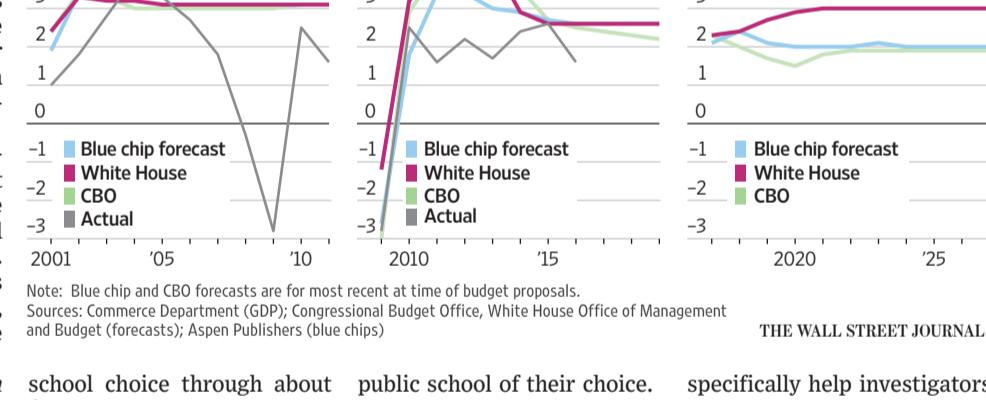
Education

A significant cut to college work-study programs and elimination of funding for certain teacher-training and after-school programs are among \$9.2 billion in cuts proposed for the U.S. Department of Education, with some savings being shifted to help fund school-choice initiatives.

The budget would bolster

Fiscal Forecasts

Compared with his recent predecessors, President Donald Trump's economic forecasts are significantly more optimistic over a decade than those of private-sector and government economists.



Note: Blue chip and CBO forecasts are for most recent at time of budget proposals.
Sources: Commerce Department (GDP); Congressional Budget Office, White House Office of Management and Budget (forecasts); Aspen Publishers (blue chips)

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school choice through about \$400 million for expansion of charter schools and vouchers for low-income students to attend private and religious schools.

An additional \$1 billion in Title 1 funding, typically targeted for schools with high poverty rates, would be used for a new grant program focused on open enrollment to allow students to attend the

public school of their choice.

—Tawnell D. Hobbs
and Josh Mitchell

Justice

The administration proposed 300 new federal prosecutors to combat violent crime and prosecute more immigration violations. It also proposed adding \$100 million for national security priorities, including 20 new cyber agents at the FBI and 80 positions to

specifically help investigators get into encrypted devices.

It also asked for \$75 million, including 450 positions to help process a backlog of immigration court cases. That includes 75 new immigration judges. The agency's overall budget is down 3%, which officials attributed to one-time construction cost reductions and money left over from prior years.

—Aruna Viswanatha

Tougher Line Proposed On Sanctuary Cities

BY LAURA MECKLER

The Trump administration may go toe to toe with sanctuary cities after all.

Buried in the White House budget proposal is a change in federal rules aimed at pressuring cities to further cooperate with federal immigration officials in deporting undocumented immigrants. Under the proposal, jurisdictions that don't hold people in jails at the request of the federal government, known as detainer requests, would risk losing millions in grant money.

The language is a reversal from the message Attorney General Jeff Sessions sent earlier this week, which the Justice Department relied on in asking a federal court to reconsider a ruling on the administration's policy. Mr. Sessions wrote in a memo that he was narrowly defining the term "sanctuary jurisdiction." He said the department would simply insist that local jurisdictions comply with a section

Flynn's Businesses Subpoenaed

BY BYRON TAU

of the law known as section 1373, which bars local governments from blocking communication with federal officials over immigration, but says nothing about detainees.

On Tuesday, the administration proposed changing section 1373 to require more than open communication. The language would require that jurisdictions be required to hold suspected illegal immigrants in jails for up to 48 hours to give the Immigration and Customs Enforcement agency time to get them for possible deportation.

If they don't comply, the budget language says, state and local governments could lose grant money from the Homeland Security and Justice departments.

Cities and counties that don't comply with detainers cite court rulings that bar holding people beyond their release dates, and say immigrants won't cooperate with local law enforcement on other matters if they are seen as extensions of immigration enforcement.

One day earlier, Mr. Flynn invoked his Fifth Amendment right to avoid self-incrimination, writing in a letter to the

President Retains Lawyer in Probe

President Donald Trump retained his longtime lawyer Marc Kasowitz to serve on a team of private attorneys representing him in the special-counsel probe of his associates' ties to Russia, two senior White House officials said.

Mr. Kasowitz has worked

with Mr. Trump for 15 years, helping keep his divorce records sealed and representing him in a 2006 case in which the billionaire sued an author for allegedly understating his wealth.

Presidents typically hire private attorneys to protect their personal interests should they become the subject of an investigation. The White House counsel represents the office, rather than the individual.

—Rebecca Ballhaus

with Mr. Trump for 15 years, helping keep his divorce records sealed and representing him in a 2006 case in which the billionaire sued an author for allegedly understating his wealth.

Under the U.S. Constitution, witnesses have broad latitude to refuse to testify on matters that may be incriminating, but the legal protections granted to documents and other physical evidence are different.

Mr. Flynn has been withholding cooperation with the panel's investigation, hoping for a grant of immunity from congressional investigators.

Mr. Burr said that such a step to grant immunity was unnecessary.

"We don't believe that it's our place today to offer him immunity from this committee," Mr. Burr said.

Mr. Trump has denied that he or his campaign coordinated with any foreign entity, and Russia has denied meddling in the election.

Mr. Trump has said continuing questions about his campaign's Russia contacts amount to a "witch hunt."



Mike Flynn was Trump adviser.

CARLOS BARRIA/REUTERS

U.S. NEWS

Fight Over Speech Goes To the States

By DOUGLAS BELKIN

Mobs of demonstrators have chased away conservative speakers over the past few months at the University of California, Berkeley, and Middlebury College in Vermont.

Taking action to avoid similar scenes, universities in Illinois and Texas rescinded speaking invitations earlier this month to a Republican senator and a Nobel Prize-winning scientist before they even showed up.

Now, state legislatures, most led by Republicans, are advancing bills they say are intended to support free speech. The laws include measures to suspend troublemakers, remove free-speech zones that limit protests to small areas on campus and cut off money to schools that don't protect the First Amendment.

"There's been censorship of free speech on campuses around the country," said Jesse Kreme, a Republican state representative in Wisconsin who is sponsoring a bill there. "We should have a free marketplace of ideas; people shouldn't be shouted down for expressing themselves."

In the past few months, governors have signed legislation protecting

free speech on campus in Colorado, Tennessee, Utah and Virginia. Meanwhile, Republican legislators have proposed bills in Illinois, Wisconsin, Texas, California, North Carolina, Michigan, Louisiana and Georgia.

Republicans control the legislature in three of the four states where governors—two of them Democrats—have so far signed the bills. The GOP controls the legislature in six of the eight states where such legislation has been proposed.

Caiden Nason, the president of the student-Democrat group on the Berkeley campus, said he thought the legislation proposed for California was overwrought. He believes any speaker who comes to campus with provocative views needed to come prepared.

"If you can't handle someone yelling at you then you probably shouldn't speak here," he said. "People are going to be loud sometimes."

Much of the proposed legislation is based on a model bill published in January by the Goldwater Institute, a conservative-leaning think tank in Phoenix. It prohibits school administrators from bowing to political pressure and rescinding invitations to controversial speakers, mandates that every freshman be taught about the



Middlebury College students turned their backs to libertarian scholar Charles Murray, whom they call a white nationalist, in March.

campus's free-speech policy and require schools to discipline students who twice interfere with the free speech rights of others.

By interference, the model law refers to "protests and demonstrations that infringe upon the rights of others to engage in or listen to expressive activity...."

The proposal nullifies any speech codes, some of which restrict protests to designated areas on campus. It also requires an annual report summarizing how school administrators handled free speech.

"You want to carry a sign and march on the sidewalk?

You can do that right up to the point where you block someone else's ability to speak," said Jonathan Butcher, co-author of the Goldwater Institute's model legislation. "If you want to ask an antagonistic question, great, we want that to happen, but you cannot shout down a speaker and force them to leave the room."

The American Association of University Professors said this month said it supports freedom of expression on campus but opposes any legislation "that interferes with the institutional autonomy of colleges and universities by un-

dermining the role of faculty, administration, and governing board in institutional decision-making."

In Wisconsin, where a bill based on the Goldwater Institute model was fiercely debated in a public hearing last week, critics have accused lawmakers of legislative overreach. "I think there is a concerted effort by right-wing groups in this country to try and make hay on this issue," said Matthew Rothschild, executive director of the Wisconsin Democracy Campaign, which promotes government transparency.

"If someone yells 'You lie,'

at a speaker is that enough to get them suspended?" Mr. Rothschild asked.

The bill is still in a House committee but Mr. Kreme said he expected it to be passed out of the Republican-controlled legislature and signed into law next month.

In California, Republican Assemblywoman Melissa Melendez has introduced an amendment to the state constitution aimed at protecting speakers on public and private campuses. Her bill is based on the Goldwater model. Included is a mechanism that would allow the state to cut a campus's budget if it doesn't comply.

Trilateral Nafta Talks Are Sought

By ANTHONY HARRUP

MEXICO CITY—Mexican and Canadian officials said negotiations to update the North American Free Trade Agreement with the U.S. should be trilateral as a matter of common sense, and that replacing it with bilateral pacts would be impractical.

"Nafta is a trilateral agreement, and that has worked because it's a trilateral North American trading relationship," Canada's Minister for Foreign Affairs Chrystia Freeland said here on Tuesday. "Nafta can be modernized only with the agreement of the three parties...and I am confident that that will be how we go."

The view was echoed by Mexican Foreign Minister Luis Videgaray, who said three bilateral pacts between the three countries would be impractical and a lost opportunity. "In the very beginning, Nafta was not a trilateral deal, but after some thought, common sense made it a trilateral deal. And that was 25 years ago when the integration of value chains was not present," he said.

U.S. Commerce Secretary Wilbur Ross has said that the reworking of Nafta could be as the existing trilateral pact or a series of bilateral pacts with symmetrical provisions. President Donald Trump has kept open the possibility of abandoning Nafta if the U.S. doesn't secure a satisfactory deal.

The Trump administration notified Congress this month of its intention to renegotiate the 23-year-old trade pact, and



Workers cut sugar cane this month in Mexico. Officials from that nation and Canada met Tuesday.

formal talks are expected to begin by mid-or-late August.

U.S. Trade Representative Robert Lighthizer has said that the U.S. hopes to maintain the existing structure of the agreement, though there are no guarantees, and that many parts of the negotiation will be conducted bilaterally.

Ms. Freeland acknowledged that some issues within the region are bilateral by nature, such as U.S. disputes with Canada over lumber and with Mexico over sugar.

Mexican Economy Minister Ildefonso Guajardo warned against too much optimism after the notification sent to Congress appeared to be simpler and more general than had been expected. The Trump

administration still has to send Congress details of its concrete objectives before talks can begin.

"This second document is the most relevant to see clearly what goals will be set out in this process," Mr. Guajardo said.

Mexico favors adding subjects to Nafta such as information technology and e-commerce, and is willing to address rules of origin to source more components in the region, "as long as we don't shoot ourselves in the foot and all end up losing," he said.

For example, of the TV screens assembled in Mexico for export, only 32% of the content comes from North

America and the rest from Asia. An "illogically ambitious" attempt to raise the regional content to, say, 90% could make it easier for companies like LG and Samsung to export whole TV sets and pay corresponding tariffs than to relocate production, he said.

Mr. Guajardo stressed Mexico's opposition to the reintroduction of quotas or trade tariffs, and said actions to address trade imbalances should be through increased levels of trade and not through trade restrictions. Mr. Trump has said he wants to eventually eliminate U.S. deficits such as the \$63 billion trade gap it had last year with Mexico.

—William Mauldin contributed to this article.

NRA Wants to Ease Gun-Silencer Buying

By BETH REINHARD

The National Rifle Association, which typically rests its case on the Second Amendment and personal security, is framing legislation that would make it easier to buy gun silencers as a public-health issue.

The NRA's campaign includes rebranding silencers as "suppressors" because they don't completely silence the sound of gunfire. Suppressors reduce the average firearm noise from 165 decibels to below the potentially dangerous level of 140 decibels.

"The Hearing Protection Act" is the gun lobby's priority in Congress, along with a bill that would allow people to carry concealed weapons across state lines if they have permits in their home state.

"We can have disagreements about politics, but there should be universal support for hearing protection," said Chris Cox, executive director of the political arm of the NRA.

Gun control groups oppose efforts to make suppressors more accessible, arguing that the noise of gunfire is essential to warn potential victims and help law enforcement track down criminals.

"Hearing is important, of course, but so are people's lives," said Erika Soto Lamb, a spokeswoman for Everytown for Gun Safety. "This is about putting profits over public safety when the market is saturated with guns, and now

they want to sell accessories."

The push to make it easier and cheaper to buy silencers comes at a time when gun sales are on the decline. Background checks dropped 11% between January and April this year compared with the 2016 period, according to federal data. Gun sales typically rise when the White House favors gun control; background checks more than doubled under former President Barack Obama to 27.5 million last year.

Demands for silencers also rose during the Obama administration, with the number of registrations reaching 902,805 in February 2016, according to the Justice Department. A Depression-era law requires suppressor buyers to submit fingerprints and photographs, pay a \$200 fee and pass a background check that can take nine to 12 months. "It's the hardest consumer product to buy," said SilencerCo spokesman Jason Schauble.

Proposed legislation would allow full rebates on the \$200 fee and make the red tape the same as what is required to buy a firearm. That means a buyer could walk out of a store with a suppressor after an instant background check in some states on the same day.

The silencer legislation is expected to be well received by the Republican-led Congress and President Donald Trump.

HOUSING

Sales Decline Amid Shortage of Homes

Home sales declined in April, a tepid start to a spring selling season marked by a dearth of homes available for purchase.

Sales of previously owned U.S. homes last month fell 2.3% from March's revised level to a seasonally adjusted annual rate of 5.57 million, the National Association of Realtors said Wednesday.

This spring selling season promises to be the most competitive in years, with a flood of new buyers entering the market at a time when inventory is near 20-year lows. April's data suggest the home shortage could mean weaker sales activity than otherwise would be the case, based on the strength of the economy.

"Demand is easily outstripping supply in most of the country and it's stymieing many prospective buyers from finding a home to purchase," said Lawrence Yun, NAR's chief economist. The supply of homes on the market has fallen year-over-year for 23 consecutive months, according to NAR. There was a 4.2-month supply of homes on the market at the end of the month, down from 4.6 months a year ago.

—Laura Kusisto and Sarah Chaney

PHILANTHROPY

University of Chicago Gets \$100 Million Gift

The University of Chicago on Wednesday announced a \$100 million gift to support research into the human immune system. The donation comes from the

family of Craig and Janet Duchossois, whose holdings include Churchill Downs, where the Kentucky Derby takes place. The privately held Duchossois Group

Inc. is valued in excess of \$3 billion, according to its website.

The gift is designed to "support development of the new science of wellness," the Universi-

ty of Chicago said in a statement. The money will be used to establish the Duchossois Family Institute.

—Douglas Belkin

VERMONT

Governor to Veto Marijuana Bill

Vermont Gov. Phil Scott said Wednesday he is vetoing a bill that would have made the state the first to legalize marijuana through legislation rather than a ballot measure, but he also left the door open for legalization.

The bill, passed by the Vermont House and Senate, would have made it legal for adults 21 and over to possess up to an ounce of marijuana and grow a limited amount starting in mid-2018. The bill also called for a commission to propose yet-more legislation that could have created a taxed, regulated market later on.

The bill passed by a slim margin in the house, making it difficult to overturn the veto.

—Jon Kamp



CELEBRATION: The USS Kearsarge moves up the Hudson River as part of New York's Fleet Week.

SETH WENIG/AP/ASSOCIATED PRESS

U.S. WATCH

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IN DEPTH

WAR

Continued from Page One
Uber for allegedly conspiring with him.

Investigation sought

Last week, the judge handling the civil lawsuit asked federal prosecutors to investigate Alphabet's allegations that Mr. Levandowski stole trade secrets.

Uber, a ride-hailing company, denies wrongdoing and is contesting the accusations in court. It isn't clear how Mr. Levandowski has responded to the arbitration claims, which are private. Uber declined to make him available for an interview and he didn't respond to requests for comment.

This account of Mr. Levandowski's tenure at Google and simultaneous work for his own companies is based on interviews with a dozen former 510 Systems and Google employees, and on court filings and other public records.

Google encourages employees to spend 20% of work time on side projects of their choosing that benefit the company, and it has created a so-called incubator for employees to found startups inside the company.

Some eventually leave to start their own ventures, such as social-media firms Instagram and Pinterest Inc. Even Google's co-founders, Larry Page and Sergey Brin, have launched their own outside companies in recent years, including firms developing flying cars and an airship.

Mr. Levandowski's outside companies benefited Google for years. Technology developed by 510 Systems helped Google create its own maps and avoid paying for third-party data.

When Google launched its self-driving car program in 2009, one of its first vehicles was a Toyota Prius that Mr. Levandowski and 510 Systems engineers had rigged up for a TV show.

Mr. Levandowski's outside companies benefited Google for years.

The employment agreements signed by many Google employees bar them from starting outside companies that conflict with Google's interests. It isn't known when Google learned about Mr. Levandowski's initial side project, 510 Systems, or whether his employment agreement permitted his activities there.

Mr. Levandowski started other businesses later in his Google tenure, public records indicate, including an online game for betting on stock-market trends and a California factory building prefabricated housing. Two of the other later startups led to Alphabet's claims against Mr. Levandowski and Uber.

Mr. Levandowski, who stands 6 feet 6 inches tall, was born in Brussels and came to the U.S. in the early 1990s, at age 14. As a teenager in Marin County, north of San Francisco, he created a digital map of his school and started a company to provide technical support for

local businesses' websites.

He caught the bug for robots as an industrial-engineering student at the University of California, Berkeley, where he made one with Lego pieces that could sort Monopoly money. He also began experimenting with driverless vehicles, organizing classmates to enter a 2004 Defense Department competition to race autonomous cars across the Mojave Desert. To save money, the team built a driverless motorcycle, dubbed Ghostrider. It crashed within seconds but is now displayed at the Smithsonian Institution.

Around 2006, before he joined Google, Mr. Levandowski was part of a digital-mapping project called VuTool, which used sensor technology developed for the Defense Department race.

Google's Mr. Page was looking for a similar tool for its maps service. He believed Google's mission to "organize the world's information" needed a lot more data from streets, according to employees who worked on the project, which became Street View.

Google's team was struggling with an expensive high-resolution camera. Sunlight streaked through images. VuTool was moving faster by using off-the-shelf parts and a system built by Mr. Levandowski and a few classmates that combined information from multiple sensors.

Google hired Mr. Levandowski and the VuTool team in April 2007. A few weeks later, Mr. Levandowski registered 510 Systems, named after Berkeley's area code. He soon began selling his sensor-fusion system to Google via a middleman.

The black-and-yellow box became the brains of the Street View system. It synchronized information from multiple sensors, including cameras, satellite data and the cars' wheels, so images gathered as the vehicles drove through neighborhoods would precisely match where they were taken.

During 510 Systems' first several months, Google was its only customer. Former 510 Systems employees say the transactions occurred through a middleman that branded the devices, sold them to Google and eventually manufactured them directly. Google bought more than 100 over the first year. Former 510 Systems employees said they kept quiet about their high-profile customer, giving Google the code name Aspen.

Mr. Levandowski told few employees at 510 Systems about his Google job, although some figured it out because he often wore Google apparel, the former employees say. Fellow engineers on Google's Street View team knew of Mr. Levandowski's connection to 510 Systems, a former Google employee says.

Alphabet lawyers have suggested Google executives initially didn't know they were buying technology from one of their own employees.

"You did not disclose to Google your involvement with 510 Systems...before Google discovered your involvement with them, correct?" an Alphabet lawyer asked Mr. Levandowski in a deposition last month, according to a transcript.

Mr. Levandowski declined to answer, invoking his Fifth Amendment rights.

At 510 Systems, Mr. Levandowski appeared sporadically, often meeting with managers late at night, former employees say. He brought on his stepmother, Suzanna Musick, as chief executive to help manage the dozen or so employees. Former employees described Ms. Musick, a former consultant, as a competent manager but un schooled in the technology. Ms. Musick didn't respond to requests for comment.

By 2008, 510 Systems' devices were helping Google offer street-level images for dozens of cities. Then Google halted its purchases. It had reverse-engineered the system and built its own, according to employees of both companies.

By that time, 510 Systems was selling its sensor systems to surveying firms and later to Microsoft Corp. Through the mid-

spend money on its cases, not on aesthetic improvements. The shabby conditions haven't deterred top law-school graduates from wanting to work as Manhattan federal prosecutors, a high-profile job that often leads to a lucrative law firm partnership.

A long line of prominent lawyers have served as the Manhattan U.S. attorney, including former FBI Director James Comey, former SEC Chairwoman Mary Jo White and former New York City Mayor Rudy Giuliani. Most recently, Preet Bharara was fired in March by President Donald Trump, after he refused a request for the remaining U.S. attorneys appointed by President Barack Obama to resign.

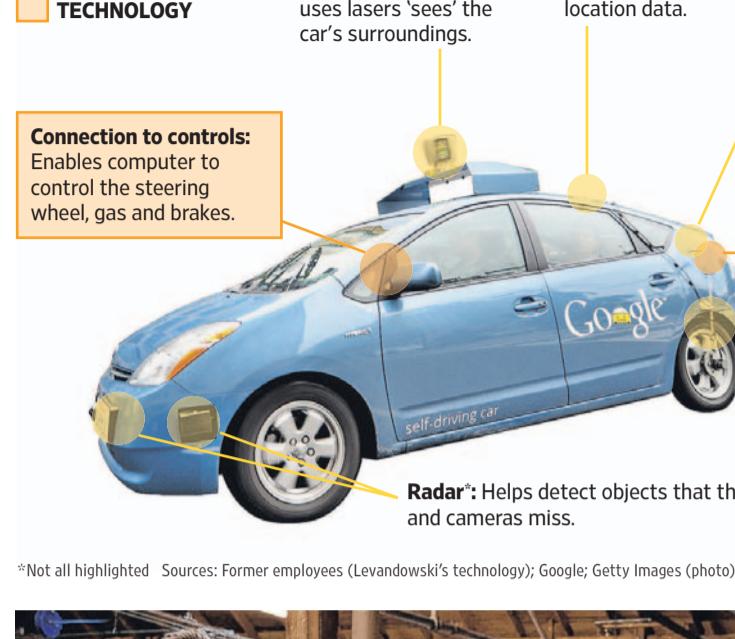
"No one comes to us for fancy office space or cushy perks," said Mr. Kim, who became acting U.S. attorney after Mr. Bharara's firing.

Rather, Mr. Kim said, young prosecutors compete for a chance to be part of the office's prestigious record of cases. "That sense of greater purpose, I think, more than makes up for the mismatched furniture and

Key Contributor

While Google engineer Anthony Levandowski was helping run the company's self-driving car program, outside firms he founded supplied two key technologies for the cars.

LEVANDOWSKI TECHNOLOGY



*Not all highlighted Sources: Former employees (Levandowski's technology); Google; Getty Images (photo) THE WALL STREET JOURNAL.



Anthony Levandowski with an Uber driverless car in December, months after he joined the company.

liked our jobs."

At last month's deposition, an Alphabet lawyer asked Mr. Levandowski: "You used confidential information from Google to help develop technology at 510 Systems, correct?" Then, "You brought Google Street View source code to 510 Systems...correct?" Mr. Levandowski invoked the Fifth Amendment.

Two former 510 Systems employees said in interviews Mr. Levandowski often would return from a day at Google and suddenly have answers to engineering questions the 510 Systems team had been struggling with.

One day in early 2011, 510 Systems employees awoke to an email from Mr. Levandowski calling a companywide meeting.

At the headquarters, they lined up to sign a nondisclosure agreement at a desk manned by Mr. Levandowski. Then he announced Google was buying 510 Systems and Anthony's Robots for its driverless-car program.

Mr. Levandowski sold the company for about \$20 million, just below the threshold at which employees would have shared in the proceeds. Google hired about half of the company's 50 or so employees.

Mr. Levandowski signed a noncompete agreement that for two years barred any outside involvement in a variety of areas, including sensors, robotics and driverless cars.

The relationship between Google and 510 Systems "was completely tangled," says Mr. Discoe, the former 510 Systems engineer. "I guess the decision to be bought or not be bought was basically: Are we going to untangle this or are we just going to give up and merge it?"

More than five years later, the most valuable piece of the acquisition is 510 Systems' lidar system, a laser sensor crucial to driverless cars because it allows them to effectively see their surroundings. The system was the predecessor to the lidar that Waymo, Alphabet's recently renamed autonomous-vehicle unit, now uses on its most advanced driverless cars.

That lidar, one of Waymo's most valuable technologies, also is at the center of the claims Alphabet has filed against Mr. Levandowski and Uber.

Alphabet has alleged that Mr. Levandowski continued his side dealings in violation of his noncompete agreement. In August 2012, a year after the 510 Systems acquisition, a new business making lidar was founded at 510 Systems' former headquarters, a building owned by Mr. Levandowski, Alphabet alleges.

Public records show the new company, Odin Wave LLC, was originally registered by Mr. Levandowski's personal lawyer. That lawyer didn't respond to requests for comment. At the time, Mr. Levandowski ran the lidar team at Google.

Mr. Levandowski quit Google in January 2016, days after launching his own driverless-car venture, Ottomotto LLC. Alphabet alleges that when he left, he took 14,000 confidential files about Google's lidar system, and some top engineers.

Mr. Levandowski then merged Ottomotto with the lidar business housed at the former 510 Systems headquarters, Alphabet alleges.

In August, Uber bought the new company for \$680 million in stock. Court documents show Mr. Levandowski received more than \$250 million.

Side Projects

While working for Google, Anthony Levandowski started several outside firms that developed technology related to his projects at Google. Google bought two of the firms, and Uber acquired the others.

April 2007 Google hires Levandowski. Jan. 27, 2016 Levandowski leaves Google.



*Google alleges Levandowski owned the company; public records say it was initially registered by his personal lawyer. Sources: court documents; public records

THE WALL STREET JOURNAL.

dowski appeared sporadically, often meeting with managers late at night, former employees say. He brought on his stepmother, Suzanna Musick, as chief executive to help manage the dozen or so employees. Former employees described Ms. Musick, a former consultant, as a competent manager but un schooled in the technology. Ms. Musick didn't respond to requests for comment.

Mr. Levandowski's passion for robots hadn't faded. In 2008, he was asked to make a driverless vehicle to deliver a pizza for a Discovery Channel show. He formed another startup, Anthony's Robots LLC, and assembled 510 Systems engineers to modify a Toyota Prius. Weeks later, the car—emblazoned with 510 Systems and Anthony's Robots decals—drove over San Francisco's Bay Bridge with a police escort and pizza inside.

Months later, in 2009, that car became a seed vehicle for Google's driverless-car project, a bold new venture for a com-

pany based on internet advertising.

Shifting focus

Over the next year, Mr. Levandowski quietly shifted 510 Systems' focus toward driverless cars, pulling 510 Systems engineers onto driverless-car projects. 510 Systems quietly began supplying Google with self-driving technology, including a modified sensor-fusion box and a system that connected computers to a car's steering wheel, gas and brakes.

The companies' unusual relationship hardly registered with 510 Systems employees.

"Amongst ourselves we said, 'That's a little strange, isn't it?'" said former 510 Systems software engineer Ben Discoe. "But that was extent of it. We

OFFICE

Continued from Page One
dreds of white-collar criminals to federal prison lies a decaying workspace in downtown Manhattan that even the acting U.S. attorney there, Joon Kim, calls "shabby chic, without the chic."

That may be understating the situation, which goes beyond the worn carpets and dated computers typical of a government building.

In the past decade, the workspace, which occupies an entire nine-story building, has suffered bedbug outbreaks and the occasional ant infestation. Brian Jacobs, who served as the office's deputy chief of appeals until 2015, once noticed a strange odor, only to later discover the source to be a dead rat decomposing in a radiator.

"Every job has its unique challenges," Mr. Jacobs said. "Coping with bad smells is not one you expect."

People in the office say they tend to avoid the water. In 2003, an inspection found the water

fountains had unsafe levels of lead, according to the General Services Administration, which owns the building. The office subsequently covered the water fountains with garbage bags, and prosecutors began informal "water clubs," in which they would chip in money out-of-pocket to buy coolers of filtered water.

A spokeswoman for the GSA, the federal agency that manages government buildings, said it is "committed to correcting any deficiencies" in the facility. The agency is currently conducting a study "to identify the immediate and long-term needs of the building," and is seeking to authorize funding to upgrade it, the spokeswoman said.

The conditions owe partly to the fact that the office sits in a building that has never undergone an extensive face-lift. The brick-and-concrete structure was built in 1974 in an architectural style bearing echoes of the Soviet era.

The run-down building has almost become a badge of honor, former prosecutors say, signaling the office chooses to

spend money on its cases, not on aesthetic improvements. The shabby conditions haven't deterred top law-school graduates from wanting to work as Manhattan federal prosecutors, a high-profile job that often leads to a lucrative law firm partnership.

A long line of prominent lawyers have served as the Manhattan U.S. attorney, including former FBI Director James Comey, former SEC Chairwoman Mary Jo White and former New York City Mayor Rudy Giuliani. Most recently, Preet Bharara was fired in March by President Donald Trump, after he refused a request for the remaining U.S. attorneys appointed by President Barack Obama to resign.

"You did not disclose to Google your involvement with 510 Systems...before Google discovered your involvement with them, correct?" an Alphabet lawyer asked Mr. Levandowski in a deposition last month, according to a transcript.

Mr. Levandowski declined to answer, invoking his Fifth Amendment rights.

At 510 Systems, Mr. Levandowski

appeared sporadically, often meeting with managers late at night, former employees say. He brought on his stepmother, Suzanna Musick, as chief executive to help manage the dozen or so employees. Former employees described Ms. Musick, a former consultant, as a competent manager but un schooled in the technology. Ms. Musick didn't respond to requests for comment.

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pany based on internet advertising.

Seeing Ms. Lynch's discomfort, Mr. Bharara asked her about the possibility of obtaining a new couch, saying he needed the attorney general's approval to replace old furniture. Ms. Lynch promptly granted her permission, but Mr. Bharara never replaced his couch.

Ms. Lynch and Mr. Bharara both confirmed the incident.

Desk drawers have contained surprises, according to Randall Jackson, who prosecuted several employees of Bernard Madoff before leaving government in 2015. Mr. Jackson recalled moving to a new office and opening a drawer to find an "outrageous amount of mold," which he theorizes to have originated from a forgotten piece of cheese.

A few years later, a colleague

opened his drawer to find "what appeared to be 10 years of fingernail clippings," Mr. Jackson said. The situation was too awkward to confront the people who had previously occupied the office.

The office is connected to the Metropolitan Correctional Center, a detention facility with nearly 800 inmates, including Mexican drug lord Joaquín "El Chapo" Guzmán. Lawyers in Manhattan have debated which building is in better physical condition.

"The low point was when a defendant...sat in one of our nicer conference rooms and asked to have the next meeting at the prison because it was more comfortable," said Brendan McGuire, who led the office's terrorism and international narcotics unit.

Anthony Barkow, who left the office in 2008, said he has noticed some improvements during his visits back as a defense attorney. "They did take the garbage bags off the water fountain," he said.

The GSA says the fountains now have filters.

LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

Get Ready to Unpack for Security

Travelers should expect more carry-on items, like food and tablets, separated into bins

Arlington, Va.

CHANGES ARE COMING to airport security checkpoints: TSA wants you to declutter your bags.

New procedures, such as requiring all food or all electronics larger than cellphones be placed in bins separately, are still being tested. Changes haven't yet been finalized, but senior Transportation Security Administration officials agreed to discuss them publicly for the first time. Decisions will be made in a few weeks, with new rules implemented after the summer travel rush, once screeners are trained and announcements made.

Tests began at small airports like Colorado Springs, Colo., Boise, Idaho and Lubbock, Texas. Travelers have since run into them in Los Angeles, Phoenix, Las Vegas, Boston, Detroit, Fort Lauderdale, Fla., and San Juan, Puerto Rico.

Many have been confused by unusual procedures. In Kansas City, Mo., in early May, screeners forced passengers to remove all paper from bags, down to notebooks. That test didn't go well and was halted after a few days, TSA says.

"It has to be efficient and it has to be effective," says Darby LaJoye, assistant administrator for security operations. "We are far

enough along that I am very optimistic that what we are piloting is working."

Airline baggage fees prompt travelers to load up carry-on cases, which has created problems at X-ray machines. Pictures of the insides of overstuffed bags take more time to read. Screeners must be able to identify each item in the bag—anything that can't be cleared as safe has to get manually checked, officials say.

Forcing travelers to dump more out of bags, sometimes without warning, will likely confuse and anger fliers until they get used to new rules. TSA figures lines won't lengthen because the total time at the checkpoint will be the same. Tests have shown TSA can slow down the process of decluttering bags at the start of security, known as divesting, but gain the time back by speeding up X-ray reading and reducing manual bag checks.

TSA says new procedures likely will be confined to standard screening lines and not PreCheck lanes, where trusted travelers get expedited screening and get to leave more items in bags.

Mr. LaJoye says TSA has been considering changes at X-ray machines for about 18 months. "It is not any one particular item we're



Densely packed bags are more likely to get inspected manually by TSA officers, such as this one at Washington's Reagan National Airport on Monday. New machines to verify identifications, below left, are also coming.

worried about. It's not about paper or food or anything. It's how best to divest those items," he says.

Based on pilot-program results, he says officers likely will focus more on travelers when they first start hoisting their bags on tables for the X-ray machine, asking them to remove items and put them in separate bins.

Those items could change line-by-line, airport-by-airport. Compliance will be optional, TSA officials say, but not complying may lead to opening a bag for manual inspection.

When checkpoints are busy under current rules, bags pile up waiting for manually screening, and lines can get long. "The more items in a bag, the more complicated it becomes," says a TSA explosives specialist involved in the pilot program.

To demonstrate, he runs a bag packed with all kinds of electronics and food items through an X-ray machine at Washington's Reagan National Airport, followed by an uncluttered bag with clothes, a quart-sized bag of toiletries and paperback book.

TSA's X-ray displays color items in bags by their density—most stuff is orange, blue and turquoise more dense, metal shows up as black.

The cluttered bag appears on the screen looking like a kindergarten art project gone haywire. With the uncluttered bag, shapes

are easy to identify. Even if the cluttered bag doesn't get pulled out for manual checking, it takes the screener more time to study the image.

"There's not any one thing in that bag that says red flag. But there's so much going on it takes time to figure out what it is," the explosives specialist says.

The new rules likely will be implemented after the completion of the summer travel rush.

managers. "We run the risk of, certainly for the U.S., of creating an environment that is really bad for business."

TSA says it will step up enforcement of the two-item limit—one bag that fits in an overhead bin and one under the seat in front of you.

Trans-Atlantic travelers may face other restrictions, such as expanding a cabin laptop ban from select Middle East and Persian Gulf airports to all flights from Europe. But a full ban, which may be hard to enforce at many European airports on flights bound for the U.S., is hardly a sure thing. The airline industry is lobbying for alternative measures.

Another change starting to roll out: TSA will begin using machines to verify ID instead of officers manually studying passports and driver's licenses. The ID verification machine testing will start at Washington Dulles Airport later this month, then spread to Atlanta, Boston, Chicago, Austin, Texas and Washington Reagan Airport.

The machine checks for fake IDs and matches up names with passenger lists—no boarding pass will be needed at the TSA checkpoints when the machine is in use. Officers can still clear someone manually if a false alarm is triggered.

TSA tested the technology with a shipment of fake IDs out of China that was intercepted by customs officials.

MUSIC REVIEW | By Jim Fusilli

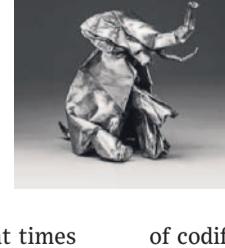
FOOTWORK GOES GLOBAL

BY JIM FUSILLI

THE MUSIC of composer-producer Jlin, the stage name of Jerrilynn Patton, now resides in that delicious, liberating place where it's not easily defined, as demonstrated on her new album, "Black Origami" (Planet Mu).

Ms. Patton's recordings have their roots in footwork, the form of electronica that came to prominence—at least in Chicago, where it originated—in the 1990s. A narrow definition of footwork perceives it as frantic dance music with a high number of beats per minute, an onslaught of percussive notes of short duration and subordinate roles for melody and harmony. But Ms. Patton's music doesn't aim to serve dancers. Instead it employs a variety of tempos and unexpected interludes, and at times sounds like minimalism filtered through house music and the rattle of Chicago's L.

On "Black Origami," her second full-length album, complex synthetic passages draw influences from cultures far from the South Side. The title track taps into Middle Eastern and South Asian modes and instrumentation, while "Nyakinyua Rise" relies on layers of African shakers and hand drums as counterpoint to tribal-like chants. Dope Saint Jude, a rapper from Cape Town, South Africa, provides the jabbing top line on "Never Created, Never Destroyed." Though



Ms. Patton continues to display an uncanny and often-dazzling knack for the use of drum sounds, the stuttering pipe-band snare of footwork often appears as an accent rather than a primary feature.

Growing up in Gary, Ind., where she still resides, the 30-year-old Ms. Patton took piano and drum lessons. After her drum teacher was killed in 2006, Ms. Patton chose to halt her training and instead focused on making footwork tracks on her laptop by chopping up and recasting samples.

She began to question whether she could have an original sound if she stuck to footwork, which is alternately known as juke and whose most notable practitioners include RP Boo, Traxman and the late DJ Rashad. Once Missy Elliott and others brought footwork to the mainstream, Ms. Patton saw the risk of codification that limited creativity. "It became trendy to be trendy, not a trendsetter," Ms. Patton recalled when we spoke by phone. She set out to find her own style.

When she began to issue her original recordings, two tracks, including the aptly titled "Erotic Heat," found their way onto the 2011 footwork compilation "Bangs & Works Vol. 2" (Planet Mu). Popping with subtlety, tension and restrained sensuality, "Erotic Heat" foreshadowed her quest for distinction. Her 2015 debut, "Dark Energy," opened with "Black Ballet," a track that featured a piano motif, strings and brass before an op-

eratic voice entered accompanied by the kind of percussion more aligned with a classical ensemble.

On "Black Origami," Ms. Patton is more concise in her writing, despite the expansion of the colors of her synthetic sound palette. In "Kyanite," birdlike effects flit around scat-singing, tight patterns on the taut drums and a motif that invokes a pungi, a Middle Eastern flute. The most prominent features of the too-brief "Calcination" are the air and space she leaves around the timpani or kick drum. "Hatshepsut" suggests a row of percussionists in a snappy marching band. Created with the experimentalist Holly Herndon, "1%" features rhythmic, staticky pulses and bursts under spoken voices, one of which is a recording of a telephone operator; another, culled from the film "Resident Evil," repeats "You're all going to die down here."

Ms. Patton says she is at work now on music for a ballet and is eager to score a film. On "Black Origami," she performs "Holy Child" with avant-garde composer and multi-instrumentalist William Basinski, a musical descendant of minimalists like Brian Eno, Philip Glass, Steve Reich and others. Their collaboration, which fits hand in glove with several tracks on the new album, illustrates how far from footwork cliché Ms. Patton has traveled, as well as where she might go in the years ahead.

Mr. Fusilli is the Journal's rock and pop music critic. Email him at jfusilli@wsj.com.



Jlin's new album is 'Black Origami'

OPINION

REVIEW & OUTLOOK

North Korea's Missile Advances

Pictures of dictator Kim Jong Un applauding as another North Korean missile ascends into the sky have become routine. But the Hermit Kingdom's two most recent launches deserve special attention, because they show Pyongyang nearing its goal of deploying a nuclear-armed intercontinental ballistic missile (ICBM) that could destroy American cities.

On May 14 the North launched a new intermediate-range missile it calls the Hwasong-12. The missile traveled fewer than 500 miles, but that's because it was fired at a very steep angle to avoid flying over neighboring countries. If launched at the optimum angle, it could have a range of 2,800 miles, which means it threatens the U.S. island of Guam. That's the farthest of North Korea's missiles so far, not counting the rockets it used to launch satellites.

The Hwasong appears to use a new high-performance engine tested in March and was displayed in a Pyongyang military parade in April. Even more startling is that North Korea developed the sophisticated Hwasong engine from scratch instead of adapting a Russian or Chinese design.

The missile appears to be a single-stage, liquid-fueled rocket that could become the first stage of a new ICBM. That would allow the North to abandon the derivative designs it previously cobbled together to achieve the necessary thrust for longer ranges. In its current form the Hwasong is also road mobile, making it more difficult to find and destroy. The North Koreans further claim the Hwasong can carry a "large, heavy nuclear warhead."

On Sunday the North successfully tested another relatively new missile, the Pukguksong-2. While its range is shorter at about

1,000 miles, it is solid fueled and can be moved using a domestically produced transporter, both of which improve its survivability.

Based on a submarine-launched missile that may be a modified Chinese design, the Pukguksong's first test in February was also successful. That suggests the missile will prove reliable, and North Korean media are reporting that Kim has ordered mass production.

The North also took advantage of the steep trajectory of both missiles to work on one of the last remaining obstacles to ICBM deployment—a re-entry vehicle capable of withstanding the heat and vibration of the fall through the atmosphere. The North Koreans say the Hwasong "verified the homing feature of the warhead under the worst re-entry situation," and that may be more than a boast. The U.S. and South Korea have confirmed that the test warhead survived and transmitted data.

The North still has to overcome obstacles to targeting the U.S., not least designing an ICBM re-entry vehicle. While the Kim regime is believed to have partially miniaturized an atomic weapon, it hasn't tested a hydrogen bomb. But that is little comfort. On Tuesday when U.S. Senators asked Vince Stewart, director of the U.S. Defense Intelligence Agency, how long North Korea needs before it can deploy an ICBM, he answered that it "is on a pathway where this capability is inevitable."

This month's tests mean advances in Pyongyang's nuclear and missile programs are coming much faster than analysts thought possible. If the U.S. and its allies don't take steps to stop it now, the world will soon wake up to a nuclear North Korea far more dangerous and disruptive than the one we have today.

**The latest tests mean
American cities will
soon be in Kim's reach.**

Supreme Court Patent Victory

U nanimous U.S. Supreme Court decisions that create tectonic shifts in law are rare, but on Monday an 8-0 majority in *TC Heartland v. Kraft Foods* rejected a lower court's statutory interpretation that has enabled rampant forum shopping in patent-infringement cases.

The case hinged on a 1948 law that limits patent litigation to "the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business." Kraft sued Indiana-based TC Heartland, which distributes products under the Sunkist and Skinnygirl brands, in the federal district of Delaware for patent infringement.

Heartland challenged Kraft's ability to bring suit in Delaware and sought to move the case to Indiana, but its motion was denied based on the U.S. Court of Appeals for the Federal Circuit's 1990 precedent that rewrote the statute to include any place a defendant conducts business or sells a product. Nowadays, that can be anywhere.

So-called patent trolls who extort businesses by obtaining intellectual property rights and demanding large settlements to avoid litigation have made their home in the plaintiff-friendly Eastern District of Texas. During the past two years, about 40% of patent cases were filed in lovely, restful Marshall, Texas, which boasts fewer than 25,000 residents.

**Trolls who forum shop
for judges will now
have a harder time.**

As 17 states noted in an amicus brief supporting Heartland, the Eastern District of Texas is popular because "local practices and rules depart from national norms in ways attractive for incentivizing settlement for less than the cost of litigating the early stages of patent cases." The district's judges are averse to summary judgment, and its case assignment system provides a "predictable formula litigants can use to select their preferred jurist." Translation: Plaintiffs can't lose in Marshall.

The Heartland case didn't involve patent trolls or the Eastern District of Texas, but both will likely be significantly affected by the Supreme Court's ruling. In a 13-page opinion for the Court, Justice Clarence Thomas overturned the Federal Circuit's 1990 ruling and harked back to the Supreme Court's 1957 *Fourco Glass* decision that "definitively and unambiguously held that the word 'residence' in the 1948 law 'refers only to the State of incorporation.'"

Antonin Scalia must be smiling upstairs at the Court's return to the plain meaning of the statutory text.

Board of Scientific Conformity

T ime was when a newly elected American government could appoint its people to run it. These days that's a source of controversy, as Trump cabinet officials seek to name new science advisers.

Administrator Scott Pruitt is replacing half the members of the Environmental Protection Agency's Board of Scientific Counselors, and Interior Secretary Ryan Zinke has suspended some 200 science panels pending a review. To listen to the critics, they are "gutting" and "shutting down" federal science and "ousting" and "silencing" respected academics.

Ignore the hyperventilation. Mr. Pruitt is merely choosing not to renew some board members nearing the end of their initial three-year term.

Nobody is getting fired, and board members can reapply. Past practice has been to hand scholars a second term, but Mr. Pruitt is under no obligation to accept Obama appointees. Mr. Zinke's review is temporary, and America will survive if the invasive-species advisory panel misses a meeting.

Both actions are a step toward reforming a scientific bureaucracy that holds enormous power over regulations despite uniform points of view and clear conflicts of interest. The EPA's Board of Scientific Counselors, which is charged with ensuring that the agency's science is sound, nonetheless waved through the Obama Administration's dubious climate models and arbitrary "social cost of carbon" calculations.

The EPA's more than 20 scientific advisory boards are in particular stocked with academics who receive EPA grants. As part of a 2016

lawsuit, the Energy and Environment Legal Institute showed that 24 of the 26 members of EPA's then clean-air advisory panel had received or were receiving EPA grants. The institute estimated the 24 received \$190 million. At the EPA's ozone panel, 17 of 20 advisers received \$192 million in agency grants.

House Science, Space and Technology Chairman Lamar Smith has shown that advisers use these grants for research—and then sit on the government panels that peer review that research. They then review EPA rules based on their own research.

Greens are slamming Mr. Pruitt's office for suggesting he may consider industry experts for board positions, but why not? This was routine before greens intimidated Administrations into barring those voices. A rigorous science doesn't shrink from competing points of view or evidence. The EPA should have conflict-of-interest rules that apply equally to grant-receiving academics and business executives.

Mr. Zinke's review is aimed at ensuring that Interior's boards contain more state and local advisers, particularly from communities near public lands. This is part of the Trump Administration's broader goal of re-establishing a more balanced partnership between the federal government and the states—much-needed after the imperial dictates of the Obama years.

Messrs. Pruitt and Zinke could eliminate those boards that aren't required by statute. But if they're going to exist they should be more than rubber stamps for the progressive agenda or tickets for federal grants.

**Join an EPA
advisory panel and
get an EPA grant.**

Ford's Turmoil Is Not About Tesla



BUSINESS WORLD
By Holman W. Jenkins, Jr.

Now let's consider the defenestration at Ford Motor Co. of Mark Fields. Ford's stock price under his three-year leadership has been down 37%. Tesla's is up nearly 50%. This has been all the explanation the media needs.

A New York Times report lays the meme on thick, blaming the car efforts of "Google, Apple, Uber and not least Tesla, the electric-car maker now valued more highly than any of the Detroit giants. The upheaval at Ford, the nation's No. 2 auto maker by sales, after G.M., reflects the challenges that lie ahead for companies that cannot adapt to that new landscape fast enough."

Really? Is that really what's happening? Then why is Fiat Chrysler, a notable laggard compared with General Motors and Ford in all the gee-whiz categories, enjoying the best share performance of all—up 60% in the past year?

The theory falls even flatter with a simple thought experiment. Suppose GM or Ford burned cash the way Tesla does, putting off for the long term any hope of profits. Would the market applaud and give either a Tesla-like multiple? Not in a million years.

The people like Mr. Fields and GM's Mary Barra who run car companies aren't dumb. If they could mint stock-market wealth by investing heavily and not worrying about profits, they wouldn't need to be asked twice.

To continue with the now-standard narrative, GM's stock price has held fairly steady while Ford's has dropped, so this must mean GM is doing a better job of not falling behind Tesla, Google, etc.

Here's the truth about GM. It's valued on the profits it generates from cars and trucks—mostly trucks. Its diversion of a few billion in capital toward autonomy, ride-sharing, electrification, etc., is looked on indulgently by investors because they see what's going on.

Such investments are partly a brand-burnishing accompaniment to hardheaded business decisions to withdraw from unprofitable markets such as India, Russia and Europe, and to minimize the burden of manufacturing profitless small cars for the domestic market under U.S. fuel-economy regulations.

It's the sense that GM's Ms. Barra is shedding unprofitable cost structures. It's the sense that she is focusing GM on those geographical and product markets (trucks, SUVs) that can provide acceptable returns. This is why GM is perceived as playing the underlying game better—the underlying game being all about capital efficiency and rationally maximizing shareholder value.

Yes, technology will transform even these vehicles. What boat owner won't want computerized help in keeping the trailer straight when backing up? But these will remain vehicles that suburban and exurban Americans will want to own and drive themselves (and cherish) for a long time to come.

GM's leaders don't kid themselves or their shareholders that profits from new "mobility" businesses will be the salvation of the old, metal-bashing business. Making vehicles needs to be profitable in its own right. Ford shareholders want to know that Ford's leadership understands this too.

What Germany Owes Its Neighbors

By Taylor Dinerman

P resident Trump was wrong to say Germany "owes" the U.S. for its defense. But Berlin is paying nothing like its fair share for the defense of Europe.

Last July, in response to Russia's aggressions in Ukraine, the North Atlantic Treaty Organization agreed to deploy four multinational mechanized battalions of roughly 1,000 men each to the Baltic states and Poland. These units—led in Estonia by the U.K., in Latvia by Canada, in Lithuania by Germany and in Poland by the U.S.—are "tripwire" forces. They'll be stationed in a forward area where Russia, according to one German expert, has a five-to-one military advantage.

The idea is to reassure these four nations that NATO will protect them from attack.

Add the American brigade now stationed in Poland on a rotating basis, and the U.S. is deploying four battalions in the region. The Western European NATO nations, including Britain, are deploying only two. That's the kind of imbalance Mr. Trump complains about.

Why should the U.S. and Canada bear a greater burden for the security of Germany's neighbors than Germany does?

After the Soviet Union fell apart in 1991, European leaders were convinced that direct threats to their homelands were a thing of the past and that all they needed were "projection" forces.

Countries like the Netherlands, Italy and especially Germany spent their reduced defense budgets on forces designed to intervene in Third World nations. They built amphibious landing ships and heavy transport aircraft instead of tanks and self-propelled artillery.

As a result, the European military powers—which were all ready to sup-

port British, French and U.S. humanitarian interventions in Africa, or post-9/11 operations in Afghanistan and the Middle East—are unable to provide protection to their allies in Eastern and Central Europe.

Not only have these nations failed to reach the 2% of gross domestic product they'd agreed to spend on defense, but the money they allocated went to hardware irrelevant to Europe's needs.

Why should the U.S. bear a greater burden in Eastern Europe?

Germany has recently agreed to a slow buildup of its tank forces, but even that will still leave NATO with far too small an armored force to defend its Eastern European members. If, as seems likely, the current German coalition government is re-elected, Berlin will continue to resist paying its portion of Europe's defense budget.

The U.S. shares the blame for encouraging Europe to develop a more "expeditionary" mind-set. "Out of area or out of business," was, alas, an American slogan. Mr. Trump should not hesitate to say America was wrong. NATO's European members have to take responsibility for collective security in their own neighborhood.

Mr. Trump is also asking NATO allies to do more in Afghanistan and against Islamic State. It would be nice if they did—but for now it would make more sense if they prioritized protecting their fellow NATO members in Central and Eastern Europe.

Mr. Dinerman writes on space policy and national security.

OPINION

The Senate's Challenge in Trump's Washington

By Joseph Rago

It try to kind of ignore the noise and focus on the agenda," says Mitch McConnell during an interview last week. By nature the imperturbable Senate majority leader is as well equipped as anyone to maintain the appearance of political normality, though the permanent turmoil of the Trump presidency isn't making it easy.

Some of Mr. Trump's priorities—the plan to repeal and replace ObamaCare, tax reform, deregulation—are, Mr. McConnell says, "the kinds of things a conventional right-of-center Republican president would have done." This familiarity

The FBI-Russia affair helped reflame health reform by distracting the president's critics.

explains why "virtually all our members, from an agenda point of view, are very comfortable," the Kentuckian adds. "We could do with a lot less drama. It is distracting. But I try to put that aside and concentrate on what we are trying to achieve for the country."

Less conventional is Mr. Trump's firing the FBI director amid the investigation into the alleged Russian nexus. The irony is that the FBI-Russia affair helped reflame health reform in the Senate, by lending Mr. Trump's critics something to be outraged about other than the bill the House passed on May 4.

This breathing room officially ended on Wednesday when the Congressional Budget Office published its cost-and-coverage estimate for the House bill.

Background conversations over the past two weeks with senators, staffers and lobbyists suggest the health debate will test whether Congress can conduct business in the absence of traditional presidential leadership. Mr. Trump rarely practices persuasion, such as giving speeches that identify national problems and explain how better policies can fix them. Nor does he seem to conserve political capital or recognize the limits of a job-approval rating that's 15 points under water.

The GOP's 52 senators have their own difficulties, not least reconciling potentially irreconcilable differences that don't break on neat ideological lines. The Venn diagram for a compromise on, say, Medicaid doesn't leave a lot of overlap between an entitlement reformer like Pat Toomey of Pennsylvania and Tom Cotton of Arkansas, where ObamaCare's expansion increased enrollment by 64%—to nearly one of three Arkansans.

Same for insurance premiums: Everybody says they're unified around lowering consumer rates as the most important goal, though without reaching even a rough consensus about how to do so. One option would be to relax ObamaCare's regulations and mandates, as the House bill partly did, but the trade-off is reopening the emotional debate about pre-existing conditions.

The forum for accommodating these differences is a partnership between Ted Cruz and Lamar Alexander. The Texas controversialist and the Tennessee chairman of the Health Committee assembled a six-member working group several weeks ago. It has since grown to 13 members and is now open to all wings of the party. The group meets every Tuesday and Thursday and any GOP senator who wants to attend is welcome. Health care is also the first item at Senate Republicans' three-a-week lunches.



GETTY IMAGES

Majority Leader Mitch McConnell at the Capitol, April 7.

The GOP's unlikely advantage is that focusing on health-care substance has become a reprieve from the latest Trump irritations. "We're working harder to educate ourselves than we ever have," says one senator, though grade that on the Capitol Hill curve. Several lawmakers invoke the influence of a 3-by-8½-inch card that Mr. Alexander often hands out, which lists rudimentary facts about the U.S. insurance market, such as the share of Americans with employer-sponsored coverage (61%).

In public, senators claim they're putting the House bill aside and writing their own, but this is more a rhetorical reset to try to make a positive case for legislation that the House did a less-than-compelling job selling. If the Senate comes to an agreement, that will probably mean keeping the basic architecture of the House effort but allowing a longer transition period, as states wind down Medicaid to block grants, and making tax credits more generous to less affluent, older and rural constituents.

Mr. Cruz and his allies don't have a reputation for working well with

others. Attribute his new amiability, a colleague suggests, to a different political context from the Obama years: Mr. Trump's election meant "the entire universe changed." (Let's hope he's wrong about that.)

The other motivation—which applies beyond Mr. Cruz—is this once-in-a-generation legislative opportunity. Whatever Mr. Trump's flaws, he's a latecomer to politics and hasn't promised voters for seven long years that he'd repeal and replace ObamaCare. The Senate GOP did. Now the president will sign whatever bill Congress sends him, however imperfect. If 50 senators plus the vice president can't do their job, they'll look dishonest and feckless, and more to the point they'll waste the chance to improve the American health system.

The backstop, finally, isn't even the ObamaCare status quo. It's a bailout of the ObamaCare status quo.

Moderate Republicans, like Louisiana's Bill Cassidy, and Democrats from Trump states, like Indiana's Joe Donnelly, have opened a back channel on a short-term stabiliza-

tion bill. The idea is to dump a bunch of money onto the ObamaCare exchanges beset by rising premiums and fewer choices. Twelve states have one Republican and one Democratic senator, and they're likely to pull the trigger by July if repeal and replace fails.

Bipartisanship otherwise remains elusive. The Democrats' political gamble, Mr. McConnell says, is that "this issue will do for us what it did to them"—i.e., lead to electoral defeat. "They don't see any incentive in participating in anything that looks like a serious replacement."

As for the predictions of midterm doom, Mr. McConnell's theory is that voters are "very results-oriented." If so, then the solution is to power through the attacks and push through a bill that fixes the problem.

"The hard left has done a good job of demonizing what's going on. You see that reflected in the polls, that people have decided by pretty significant margins that they don't like whatever it is we're doing—they're not sure what we're doing, but they don't like it," Mr. McConnell says. "But when all the noise settles down, what's really going to make a difference is: Are there insurance options? What are the rates? And I think people will focus on whether they think we're in a better place than we were when we started."

So for all that, how much progress has the Senate made? "Steady," replies one senator. Forward progress? No, "steady," he repeats. Nobody would go on record reliably confident of an outcome.

And what about Mr. McConnell—is he optimistic? "Oh, I don't like using a word like that," he says. "This is a tough challenge, and we're going to keep working on it."

Mr. Rago is a member of the Journal's editorial board.

Trump Is More Optimistic Than Reagan, and That's Not Good

By Jason Furman

President Trump has outdone Ronald Reagan in at least one respect: unrealistically rosy forecasts for economic growth. In 1981, President Reagan's first budget predicted growth well above the consensus of private forecasters, in a bid to justify large tax cuts and increased defense spending. When the promised growth didn't materialize, the deficit and debt ballooned.

His budget assumes 3% growth and includes a basic math error.

Now Mr. Trump is leading the economy down a primrose path that is even more unrealistic. The administration's budget, released this week, assumes long-run growth of 3%, a full percentage point higher than the Blue Chip consensus of professional forecasters and 1.1 percentage points above the prediction of the nonpartisan Congressional Budget Office.

Few will be surprised that Mr. Trump is a brash budgeter, but the magnitude of his stretching here is breathtaking. Under the 24 budgets produced by Presidents Bill Clinton, George W. Bush and Barack Obama,

the long-run growth forecast never exceeded the Blue Chip consensus by more than 0.1 percentage point.

Defenders of Mr. Trump's optimism might argue that a continuation of 1.8% annual growth, the average since 2001, isn't inevitable. During the Reagan era, the economy grew 3.1% a year, purportedly spurred by tax cuts and regulatory reforms. A closer look, however, shows that the 1980s aren't an argument for optimism—precisely the opposite.

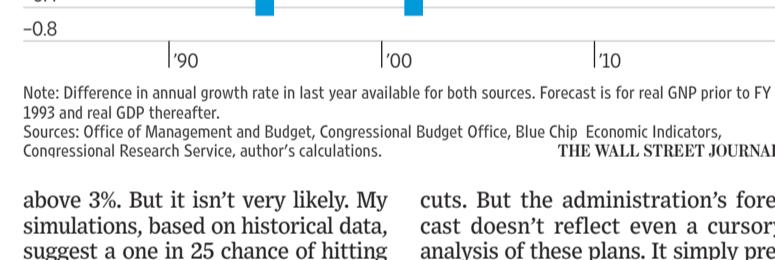
There are two components to economic growth: adding more workers and increasing their productivity. Faster growth in the 1980s was the result of the former, an expanding workforce driven by two irreproducible demographic factors: the baby boomers entering their prime working years, and women continuing their influx into the workforce.

From 1980 to 1990 labor productivity—the amount of goods and services the average worker can produce in an hour—grew only 1.6% a year, below the figure marked since 2001.

Today the baby boomers are hitting retirement. As a result, Reagan-era productivity gains of 1.6% a year would now generate economic growth of only 1.7%. It's certainly possible that productivity growth could soar even higher, or that workers who have dropped out of the labor force could rejoin it, driving growth up to or

Great Expectations

Percentage-point difference in long-run real output growth forecast, administration vs. Blue Chip consensus, FY1985-2018



Note: Difference in annual growth rate in last year available for both sources. Forecast is for real GNP prior to FY 1993 and real GDP thereafter.

Sources: Office of Management and Budget, Congressional Budget Office, Blue Chip Economic Indicators, Congressional Research Service, author's calculations.

above 3%. But it isn't very likely. My simulations, based on historical data, suggest a one in 25 chance of hitting this target over the next decade.

Of course the right set of policies can make a difference, and I have no objection to dynamic scoring in principle. The Obama administration, like its predecessors, incorporated the effects of its proposed policies into its budget calculations.

The problem is that the Trump administration has locked in its assumption of 3% growth despite having yet to release detailed plans for tax reform and other proposals. One can debate the net economic effects of new trade restrictions, limits on immigration, deregulation and tax

cuts. But the administration's forecast doesn't reflect even a cursory analysis of these plans. It simply presupposes 3% growth without explaining how the administration's policies will get the country there.

These forecasts are far from an exact exercise. Over the past eight years growth consistently underperformed the Obama administration's expectations, as well as most other projections. But the primary purpose of the larger economic forecast is to project the path of the federal budget deficit. Under the Obama administration the deficit generally was lower than we predicted, in part because interest rates and unemployment rates consistently fell faster than expected.

Compounding the Trump budget's problems is an elementary arithmetic mistake. Whereas Reagan explicitly included in his budget the cost of the tax cuts that were supposed to produce the claimed growth, Mr. Trump has omitted this cost (with the exception of an allowance for the repeal of the Affordable Care Act). As a result, the budget effectively double counts the tax cut's economic effect—using it once to pay for the tax cut itself and a second time to boost revenue by \$2.2 trillion, so as to show a lower projected path for the deficit.

Any business that made plans based on such Pollyannaish projections for sales growth—compounded by basic accounting errors—would invite bankruptcy.

The president's budget assumes unrealistic 3% growth to justify tax cuts, increased defense spending, and a promise not to touch Medicare or the retirement portion of Social Security. In reality it will run up the deficit, slow economic growth and increase the national debt. Mr. Trump is digging a hole for himself with this budget. Congress should think twice before jumping in alongside him.

Mr. Furman, a senior fellow at the Peterson Institute for International Economics, was chairman of the White House Council of Economic Advisers from 2013 to 2017.

How China Managed to Muffle the Voice of America

By Sasha Gong

Last month I was scheduled to interview the Chinese real estate and investment tycoon Guo Wengui about his claims of extensive corruption in the Chinese Communist Party. Mr. Guo—who sometimes calls himself Miles Kwock—worked closely for years with Chinese intelligence services and says he even financed their operations. He has lived abroad since 2015

and had granted me a live interview in his New York apartment.

In preparation for the April 19 segment, I did a 10-hour preinterview with Mr. Guo. My questions focused on his relationship with the Ministry of National Security, or Guo An. Like its Soviet counterpart, the KGB, Guo An has a fearsome reputation. Chinese citizens say it suppresses protests, harasses dissidents and monitors intellectuals.

Using its vast fortune, Guo An has

allegedly infiltrated overseas corporations, universities, civil groups and even foreign governments. In Washington, it's an open secret among the ethnic Chinese community that the Chinese Embassy is an operational base of Guo An, which organizes events to spread its influence.

The money spent by Guo An is astronomical. Chen Guangcheng, the blind lawyer and human-rights activist who escaped to the U.S. a few years ago, estimates that the Chinese government spent \$10.5 million spying on him alone. Mr. Guo says that a great deal of what the spy agency spends is bankrolled by private Chinese businessmen.

In the preinterview, Mr. Guo explained that he paid for office rentals, private jets, surveillance systems, personnel and many other expenses. In exchange, Guo An officials would assist him in dealing with his business rivals.

He also said he was ordered by high-ranking Guo An officials to hire private investigators to dig up information on overseas properties owned by relatives of top Communist Party leaders. Mr. Guo said he believed that the majority of, if not all, business tycoons in China had similar arrangements with Guo An.

Many of Guo An's activities have been exposed and reported by the international media. But before Mr. Guo stepped forward, no businessman had dared utter a word on the

subject of the private funding behind the spy agency.

Mr. Guo agreed to be interviewed by me and my colleagues on the Mandarin Service of the Voice of

The Chinese Foreign Ministry warned VOA's Beijing correspondent against 'interference.'

America, the international public broadcaster entirely funded by American taxpayers. On April 13, six days in advance, VOA began promoting the interview to audiences on all of its platforms.

On April 17 the Chinese government issued an arrest warrant for Mr. Guo without making public any details of his alleged crimes. That same day, the Chinese Foreign Ministry summoned VOA's Beijing correspondent and complained that the interview constituted interference in China's internal affairs. Specifically, the Chinese said the interview would disturb the 19th Communist Party Congress, scheduled to be held later this year. The Chinese threatened to "respond seriously" if the interview went forward. A few hours later, the VOA's top management in Washington asked me to cancel the live interview.

The next day, the Chinese government issued a "red notice" via Interpol seeking Mr. Guo's arrest and extradition. Although he lives in New York, Mr. Guo holds a diplomatic passport issued by the United Arab Emirates. The Chinese Foreign Ministry spokesperson called him a criminal in several press conferences.

I'm not aware of another instance in the 75-year history of Voice of America in which a foreign government has attempted to intervene with such force in the network's broadcast decisions. My colleagues and I argued our case in an hourlong meeting with VOA's upper management, but no agreement was reached. After much back and forth, they allowed us to do the interview but ordered our producer to let it run no longer than 15 minutes.

Ultimately, we broadcast live with Mr. Guo for one hour and 19 minutes before Washington pulled the plug. This wasn't enough time to paint the elaborate picture he can provide of the most powerful police state in human history. Four colleagues and I were placed on administrative leave—suspended with pay.

Mr. Guo's full story remains to be told. Reputable news organizations shouldn't shrink from it for fear of reprisal by the Chinese secret police.

Ms. Gong is the chief of Voice of America's Mandarin Service.

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LIFE & ARTS

FASHION

Gabriela Hearst's Rise

Inspired by feminist icons, the designer uses luxe fabrics and a range of shapes to reach women

BY RAY A. SMITH

DESIGNER Gabriela Hearst thinks a lot about how women feel when they dress—bloated or slim and how fabrics feel against their skin.

A recent collection spanned sleek, nipped-and-tucked overcoats, dresses and double-breasted suits as well as languid velvet trench coats, a flowy oversized wool car coat and a breezy silk twill shirtdress.

"Those are the water-retention looks," Ms. Hearst said, with a laugh, while referring to the more relaxed ensembles in her fall 2017 runway show, held during New York Fashion Week in February. "I don't know if sometimes men realize that our body changes. We're different types of skinny during the month. There's days where we don't want to wear things this tight and there's days where we want to wear things this tight."

Ms. Hearst's take on womenswear has earned her two-year-old label a nomination for the Council of Fashion Designers of America's Swarovski Award for Emerging Talent. The awards ceremony takes place June 5 in Manhattan. If Ms. Hearst wins, it would be her second big award this year. The designer, who was born in Uruguay and raised on a sheep farm there, won the International Woolmark Prize for womenswear in January.

The self-described feminist's rise comes as women's fashion moves toward pantsuits and less frilly looks amid increased global attention on women's rights. Ms. Hearst held an intimate first runway show in fall 2017—after holding small presentations previously, which was a parade of sophisticated dresses, jumpsuits, suits and coats for women looking to project confidence and authority in a glamorous but not girly or overtly sexual way.

Ms. Hearst said the collection was inspired by brave, outspoken



women, such as longtime political activist Angela Davis, and three senators elected in November—Tammy Duckworth, Kamala Harris, and Catherine Cortez Masto. Lightweight variations on turtlenecks in the collection referenced Ms. Davis, who wore them in the 60s and 70s. "In different ages, women feel differently about their skin," said Ms. Hearst, who is 40 and a former model. She describes her turtlenecks as "so soft next to your body, you can have a second skin that feels beautiful, so you don't have to kill yourself at the gym."

She cares about "how things feel" on the skin. She often pairs extra-fine knitwear under a suit or a sleeveless dress. "There's something psychological to women and tact," she said, referring to the sense of touch.

When Ms. Hearst started researching materials for the suits in her line, she noticed that the

men's suiting fabrics were actually kind of nicer than the women's," and used the superior men's suiting fabrics instead. The inside of Ms. Hearst's blazers have a silver-coated lining to protect against radiation. "There's a theory about cellular phones and your reproductive organs," she said. "It's controversial but it doesn't cost me that much to line the blazers inside." A number of limited-edition looks in the collection recycled overstocked fabric from Loro Piana.

Ms. Hearst shuttles between Uruguay, where she has a foreman manage the ranch she inherited from her father, and New York. She lives with her husband, Austin, a businessman and grandson of William Randolph Hearst, their two eight-year-old twin girls, Mia and Olivia, and 23-month-old Jack.

She and her husband are the sole investors in the company,

which now has 10 full timers, nine of whom are women, and which Ms. Hearst runs out of a sprawling office with showroom and design studio in Manhattan's Chelsea neighborhood.

The company sells on its website and at luxury retailers including Bergdorf Goodman, Net-a-Porter and Matchesfashion.com. Before launching her label, Ms. Hearst cut her teeth designing for Candela, a contemporary fashion label she started in 2004 and left in 2014.

Ms. Hearst will compete against other womenswear designers from Brock Collection, Monse, and Sies Marjan, as well as the designer of Off-White, a men's and women's label. This year, the CFDA consolidated the award, which acknowledges how designers are increasingly blurring men's, women's and accessories collections, said Steven Kolb, the CFDA's president and



Left, Gabriela Hearst, in her office in New York. She designs glamorous, not girly, looks, above and below.



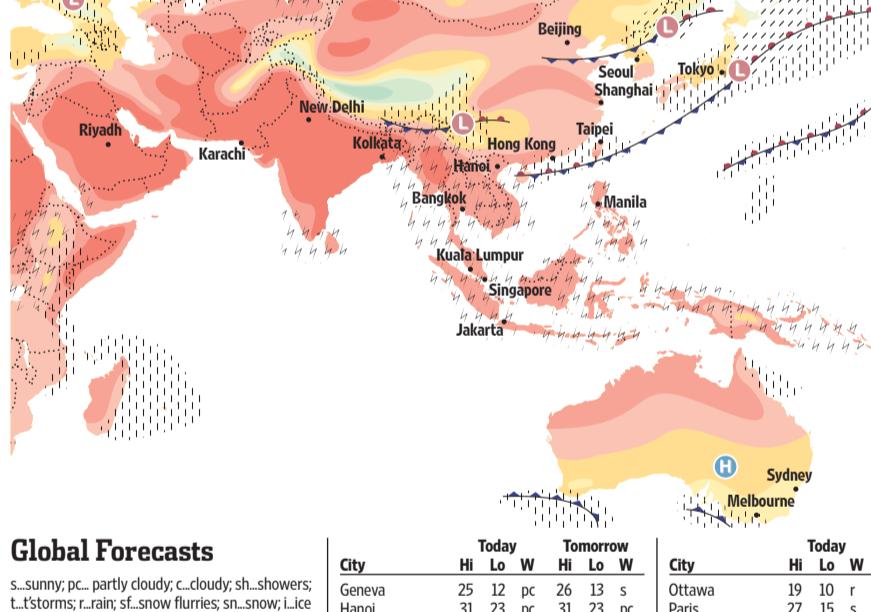
FROM TOP: REBECCA GREENFIELD FOR THE WALL STREET JOURNAL (2); GETTY IMAGES

chief executive officer. Ms. Hearst now also makes shoes and bags.

Prices range from \$450 for cashmere/silk knits to \$5,000 for double-faced cashmere coats, with dresses in the \$1,200 to \$3,700 range.

"I believe in what women can do," Ms. Hearst says. She pointed to a photo of her mother she keeps in her office. "She used to compete in rodeo when she was 18. Then she was a Taekwondo black belt in her 30s."

Weather



Global Forecasts

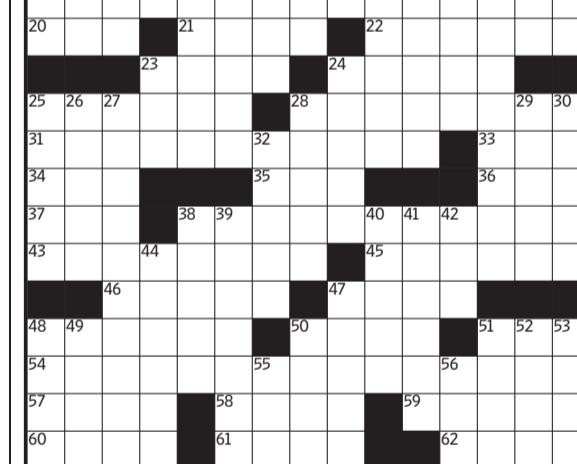
s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	22	11	pc	25	14	s
Anchorage	11	3	sh	11	5	c
Athens	25	17	pc	23	15	t
Atlanta	22	14	sh	28	19	s
Bahrain	36	20	s	40	22	s
Baltimore	23	13	t	24	13	pc
Bangkok	33	25	t	31	25	t
Beijing	29	15	s	31	16	s
Berlin	20	11	pc	22	11	pc
Bogota	19	8	t	20	10	pc
Boise	20	9	pc	23	9	pc
Boston	14	11	r	15	11	sh
Brussels	23	13	pc	26	15	s
Buenos Aires	17	8	t	17	5	pc
Cairo	31	20	pc	34	22	s
Calgary	14	4	sh	18	7	pc
Caracas	32	26	pc	31	26	pc
Charlotte	22	13	t	27	18	s
Chicago	19	11	pc	23	13	t
Dallas	34	24	s	36	26	pc
Denver	23	8	t	20	7	t
Detroit	18	12	sh	23	12	pc
Dubai	39	28	s	38	27	s
Dublin	22	13	s	22	13	c
Edinburgh	23	13	s	24	13	pc
Frankfurt	22	12	pc	25	13	s

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	25	12	pc	26	13	s
Hanoi	31	23	pc	31	23	pc
Havana	32	23	pc	31	22	pc
Hong Kong	28	23	c	28	24	sh
Honolulu	30	21	sh	29	21	pc
Houston	32	24	pc	33	25	pc
Istanbul	24	16	pc	25	16	pc
Jakarta	33	24	pc	33	25	pc
Johannesburg	21	4	c	22	6	pc
Kansas City	24	15	s	26	16	c
Kuala Lumpur	36	20	s	40	22	s
Karachi	23	13	t	24	13	pc
Kolkata	35	25	t	31	25	t
Hong Kong	28	23	c	28	24	sh
Taipei	32	24	pc	33	25	pc
Hanoi	23	18	pc	23	18	pc
Bangkok	33	25	t	31	25	t
Singapore	20	14	pc	19	14	sh
Jakarta	33	17	s	33	18	pc
Mumbai	34	27	t	35	27	t
Manila	24	11	pc	17	11	pc
Melbourne	18	11	pc	17	11	pc
Mexico City	28	15	pc	28	13	pc
Milan	31	25	t	32	25	t
Minneapolis	22	15	s	25	13	s
Montreal	36	22	pc	38	22	pc
Montreal	21	11	r	16	7	r
Moscow	17	11	sh	17	9	pc
New Delhi	34	29	p	34	30	pc
Nashville	24	13	pc	30	22	pc
New Delhi	42	29	pc	42	30	pc
New Orleans	29	20	s	31	23	s
New York City	17	14	r	22	15	s
Washington, D.C.	24	15	t	25	15	pc
Zurich	23	10	pc	25	10	s

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The WSJ Daily Crossword | Edited by Mike Shenk



HYBRIDS | By Nancy Cole Stuart

Across	Down
1 Not excluded from Lucy and Ricky's landlord	27 Like the blood in the pulmonary veins
9 Fleet	28 Fountain drinks
13 Garden center buy	29 Helvetica look-alike
15 "Gypsy" composer Styne	30 "The Ponder Heart" author
16 "That makes sense now"	32 Human or ostrich, e.g.
17 Hybrid vehicle for use on the water?	33 Extraction target
20 FDR based it on Britain's MI6	34 Even one
21 Romeo said the lark was its herald	35 Prez before Jack
22 Glacier Bay National Park location	36 Up to, informally
23 Post	37 Trendy boot brand
24 Jovovich of "The Fifth Element"	38 Hybrid vehicle for use by Venetian carabinieri?
25 Like pastrami	39 November symbol
26 BLT side	40 Chuck of "Meet the Press"
28 Hybrid vehicle for use on city rails?	41 Untapped
31 Hybrid vehicle for use on streets and lakes?	42 Seed benefit
32 Polyester	43 Queens' domains
33 Extraction target	44 It may be smoldering
34 Even one	45 Adult naiad
35 Prez before Jack	46 Set, as a price
36 Up to, informally	47 Give an honorable mention
37 Trendy boot brand	48 Person who works with figures
38 Hybrid vehicle for use on streets and lakes?	49 November symbol
39 Polyester	50 Carry on
40 Chuck of "Meet the Press"	51 Broad player
41 Untapped	52 Retro copier
42 Seed benefit	53 Area of common interest
43 Queens' domains	54 Hybrid vehicle for use by Venetian carabinieri?
44 It may be smoldering	55 Chihuahua chum
45 Adult naiad	56 Market indicator

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

Previous Puzzle's Solution

WAGE	PABST	ETAS
EROS	ADLER	GRIT
BAKERS	DOZIE	GARR
SLA	OTTO	HEIDI
ISR	PROMISED	LAD

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, May 25, 2017 | B1

Yen vs. Dollar 112.0050 ▲ 0.19%

Hang Seng 25428.50 ▲ 0.10%

Gold 1251.70 ▼ 0.25%

WTI crude 51.09 ▼ 0.74%

10-Year JGB yield 0.052%

10-Year Treasury yield 2.292%

Geely Buys Stakes in Proton, Lotus

The Chinese auto maker that owns **Volvo** Cars plans to acquire a large stake in the Malaysian parent of **Lotus**—and a majority of the British sports-car brand itself—as it looks to further extend its global reach.

By *Yantoultra Ngui
in Putrajaya,
Malaysia and Trefor
Moss in Shanghai*

Zhejiang Geely Holding Group Co. said Wednesday it had agreed to buy a 49.9% stake in struggling car maker **Proton Holdings** Bhd. from conglomerate **DRB-Hicom** Bhd., giving the Chinese company a foothold in the Southeast Asian market.

Proton will sell a 51% stake

in **Lotus** to the Chinese company and the remaining 49% to **Etika Automotive Sdn. Bhd.**—a private company owned by DRB-Hicom's major shareholder.

The agreement followed months of negotiations, with Geely at one point walking away after withdrawing a planned bid for a majority stake in Proton.

The final price for the Proton deal has yet to be set, with both parties planning to sign a definitive agreement in July, said DRB-Hicom's group managing director Syed Faisal Albar. He added that it wouldn't be at a premium to what DRB-Hicom paid when it bought the stake from Malaysia's sovereign-wealth fund, Khazanah Nasional Bhd., for about \$412 million in 2012.



A Lotus Evora 400 at an auto show last month. China's Geely is looking to expand into the Southeast Asian market.

DRB-Hicom will continue to hold a controlling stake in Proton after the deal closes.

While the Lotus unit will of-

fer Geely high-end vehicle technologies, it is Proton, with its potential as a gateway to the Southeast Asian market, that

the Chinese company sees as the main prize, analysts said.

"The only thing attracting Geely is access to the ASEAN market," said Yale Zhang, managing director of Shanghai-based Automotive Foresight, referring to the Association of Southeast Asian Nations. "Geely is not eyeing any of Proton's technology—current Geely models are much more advanced than Proton's."

Proton will provide Geely access to right-hand-drive markets around the world, including Malaysia, Britain, India and Australia, said the company's executive vice president and chief financial officer, Daniel Donghui Li.

Aside from the capital injection, Proton will benefit

Please see **GEELY** page B2

Spies Become Hacker Targets

BY ROBERT McMILLAN
AND SHANE HARRIS

The mysterious hacking group that supplied a critical component of the WannaCry "ransomware" software attack that spread across the globe in mid-May has been releasing alleged National Security Agency secrets for the past eight months.

Former intelligence officials now fear that the hackers, who go by the name Shadow Brokers, are taking a new tack: exposing the identities of the NSA's computer-hacking team. That potentially could subject these government experts to charges when traveling abroad.

The Shadow Brokers on April 14 posted on a Russian computer file-sharing site what they said were NSA files containing previously unknown attack tools and details of an alleged NSA hack affecting Middle Eastern and Panamanian financial institutions.

But something went largely unnoticed outside the intelligence community. Buried in the files' "metadata"—a hidden area that typically lists a file's creators and editors—were four names. It isn't clear whether the names were published intentionally or whether the files were doctored. At least one person named in the metadata worked for the NSA, a person familiar with the matter said.

Additionally, the hacking group in April sent several public tweets that seemingly threatened to expose the activities of a fifth person, former NSA employee Jake Williams, who had written a blog post speculating the group has ties to Russia.

The U.S. government hasn't commented on the authenticity of the Shadow Brokers' releases. Security experts who have examined the documents believe they contain legitimate information, including code that can be used in hacks, as well as the names of the files' creators and editors. An NSA spokesman declined to say whether the names, documents and tools released by the Shadow Brokers came from the agency.

For people who work in the intelligence community, having their identities or the work they have done outed is a significant concern, said Robert M. Lee, chief executive of cybersecurity firm Dragos Inc. and a former member of the intelligence community.

Because nation-state hackers might run afoul of other countries' laws while discharging their duties, they could, if identified, face charges when outside their country. So, to keep their own people safe, governments for decades have abided by a "gentleman's

Please see **HACK** page B4

U.S. Drillers Show No Restraint

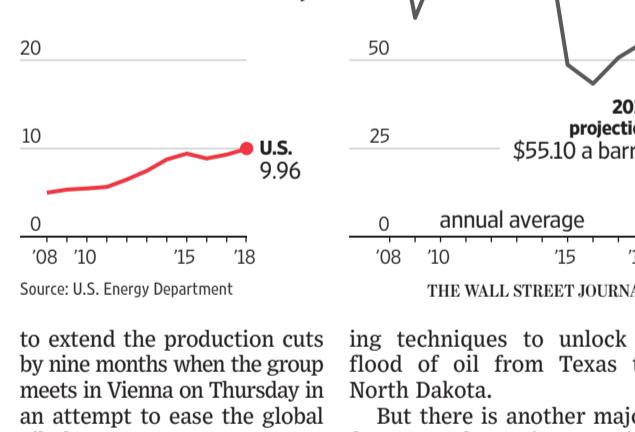


Production in North Dakota's Bakken Shale Formation has helped put U.S. oil output on course to hit record levels.

Oil Market Melee

While OPEC struggles to curb output, U.S. companies keep pumping more crude and are expected to set a new record in 2018.

Crude oil production



to extend the production cuts by nine months when the group meets in Vienna on Thursday in an attempt to ease the global oil glut.

American shale producers are prevailing because they have continued to innovate and cut costs as they refine hydraulic fracturing, horizontal drilling and other pioneer-

exploited a variety of financial instruments—special contracts called hedges, collars and swaps—to effectively lock in prices for future oil sales, insulating them from the potential fallout of falling prices.

While OPEC, Russia and others have struggled to curb their output by a combined 1.8 million barrels a day following their November agreement, the U.S. is pumping 750,000 barrels a day more. That has put American production at 9.3 million barrels a day, a level not seen since the summer of 2015, according to federal data.

The U.S. resurgence, along with rising output from Canada and Brazil, has all but forced OPEC to act if it hopes to draw down the oil in storage around the world, which remains exceptionally high.

Laredo Petroleum Inc. has hedged 70% of its expected oil production for 2017. Even as U.S. crude languished under

Please see **SHALE** page B2

◆ OPEC's chief brokers consensus..... B5

◆ For U.S., a debate over the country's oil reserves..... B5

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Glencore Pursues a Merger With U.S. Grain Trader

Glencore PLC has approached grain trader **Bunge** Ltd. about combining, a deal that would give the Swiss miner a major presence in the

By *Dana Mattioli,
Jacob Bunge
and Scott Patterson*

U.S. agriculture market at a time when low crop prices have forced farming giants to scale up through mergers.

Glencore said its agriculture unit "made an informal approach to Bunge...regarding a possible consensual business combination." Discussions may or may not take place and there is no certainty there will be a deal, Glencore said.

If a deal does emerge, it would be substantial. Bunge had a market capitalization early Tuesday of nearly \$10 billion. Including debt, its so-

called enterprise value was about \$15 billion.

In a statement Tuesday, Bunge said: "Bunge is committed to continuing to execute its global agri-foods strategy and pursuing opportunities for driving growth and value creation."

Bunge shares surged on the news, closing 17% higher Tuesday. At midday Wednesday, they were up 1.4% at \$82.82.

Glencore is a mining and commodity-trading powerhouse with a market value of \$55 billion. An acquisition of Bunge, one of the world's largest traders and processors of soybeans and corn, would vault Glencore into agriculture's global elite and give it a major presence in the U.S.—a long-held goal of Glencore Chief Executive Ivan Glasenberg.

Buying Bunge would represent a long-term bet by Glen-

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VINCENT MUNDY/BLOOMBERG NEWS

A Ukraine grain-storage facility operated by Bunge, which would further diversify Glencore's operations.

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Agnefjäll Resigns as IKEA CEO, Ending Short Tenure

BY SAABIRA CHAUDHURI

IKEA Chief Executive Peter Agnefjäll has resigned in a surprise move less than four years after formally stepping into the role.

The Swedish furniture maker on Wednesday said it is naming Jesper Brodin, currently head of its product range and supply chain, as its new CEO starting Sept. 1.

Under the 46-year-old Mr. Agnefjäll, who became CEO in September 2013, the company has responded to the growth of online shopping and center-city living by opening click-and-collect locations and other smaller, urban-focused formats. It also has spent more money on sustainability initiatives, established a shopping-center business and increased the diversity of its workforce.

Mr. Agnefjäll, who started at IKEA in 1995 as a trainee, didn't disclose what his next venture would be. He said he plans to take a few months off to spend time with his wife and two teenage sons, according to a spokeswoman.

"There are not going to be any major changes in strategic direction," said the spokeswoman, who added that Mr. Agnefjäll was leaving of his own accord. "No doubt it was Peter's sole decision," she said.

IKEA said Mr. Agnefjäll had

begun taking on CEO duties as early as 2012, making it five years that he had held aspects of the role.

"I believe it is a natural time for me to take a change of path," Mr. Agnefjäll said. "These years have meant a lot to me, both personally and professionally."

IKEA has reported stronger profit and sales in recent years but is still a long way from its target of €50 billion (\$56 billion) in sales by 2020. IKEA in December said its sales for the year ended Aug. 31 climbed to €35.07 billion from €32.66 billion a year earlier, driven by rises in Germany and the U.S., IKEA's two largest markets.

The world's largest furniture retailer has struggled to find appropriate labor and new products that meet its standards in India, a large untapped market in which it plans to open its first store early next year.

The 48-year-old Mr. Brodin will have to deal with the challenges presented by India and find a way to accelerate IKEA's revenue growth while continuing to adapt to changing buying behavior and making IKEA's supply chain more efficient. "I believe we have many exciting years ahead and I am excited to be part of the rapid transformation of retail," Mr. Brodin said.

Randy Foutch, Laredo's chief executive, noted that if Texas were an oil-producing country, it would rank among the top 10 producers, between Iran and the United Arab Emirates.

"The Saudis have come to grips with reality," Mr. Foutch

BUSINESS & FINANCE

Rival Seeks Slice of Gillette Sales

BY SHARON TERLEP

Another razor rival is taking a cut at Gillette.

Edgewell Personal Care Co., maker of Schick, the No. 2 U.S. brand, is mounting a direct challenge to the **Procter & Gamble** Co. unit with an online subscription service that sells blades that fit on a Gillette handle but cost less.

"Men are creatures of habit, and anything we can do to lower the barrier of entry to try our product will be helpful," said Patrick Kane, who runs Edgewell's men's shave business.

The move comes as P&G is scrambling to ward off competition from online razor startups and cheaper competitors. Gillette's share of the U.S. market, close to 70% in 2011, fell to 54% last year, according to Euromonitor.

P&G recently announced it would slash razor prices by 12% on average and put a new focus on its cheaper products.

A Gillette spokeswoman said the company produces higher-quality blades. "Razor technology is a matter of microns—and how every single component comes together



EDGEWELL PERSONAL CARE

Schick is the latest razor brand to start its own online shave club.

matters," she said. Men "shouldn't have to choose between convenience, flexibility, quality and value."

The website, Schick-Hydro.com, was launched Wednesday and will allow people to sign up for shipments of Hydro Connect blades that work with either Gillette's Mach 3 or its pricier Fusion.

Refills range from \$1.78 to \$3.33 per cartridge depending the type of blade and number of refills in the package. Regular Hydro refills that go on a Schick handle are also available.

Gillette's online subscription service sells a five-pack of Mach 3 refills for \$2.60 per cartridge and a Fusion four-pack for \$5.36 per cartridge with the fourth shipment free.

Edgewell, with a \$1.4 billion shave business globally, is late to the online game. Dollar Shave Club launched in 2012 and Harry's followed shortly after, both offering cheap blades and an alternative to shopping for razors in a store. P&G's Gillette has had an online service since 2014 but the shave-club business remains

dominated by Dollar Shave Club and Harry's.

"We didn't think there was an advantage to just throwing our products out there; we needed to provide something that's unique," said Edgewell spokesman Chris Gough. "It's not a secret that the shave clubs have not made money, and we need to make money."

Schick has about 15% of the U.S. men's razor market, down from 19% in 2011, according to Euromonitor.

Edgewell said it would target what it considers a weak point of Dollar Shave Club: an inflexible delivery plan that leaves many men with a stockpile of blades. P&G said its research found the same annoyance, which is why the company this month overhauled its online service with a system called "Gillette on Demand" that allows customers to order razors via text message.

Dollar Shave Club, acquired for \$1 billion last year by Unilever PLC, gives the option of monthly or bimonthly orders. Members have always been able to pause shipments.

SHALE

Continued from the prior page
\$50 a barrel this spring, the independent producer got nearly \$56 for most barrels it pumped in the Permian Basin in Texas and New Mexico. The contracts ensure that Laredo can continue plans to spend \$500 million on 70 new horizontal wells under the West Texas desert this year.

Innovation is also helping. Most of Laredo's horizontal wells are now super-sized to 2 miles long, which will allow Laredo to produce effectively as much as if it had doubled its rig count. Today it can also drill twice as fast. The efficiency gains have lowered Laredo's break-even price to under \$40 a barrel, down from \$63 in 2014.

Randy Foutch, Laredo's chief executive, noted that if Texas were an oil-producing country, it would rank among the top 10 producers, between Iran and the United Arab Emirates.

"The Saudis have come to grips with reality," Mr. Foutch

said, adding, "We've got it. We're there. We have a seat at the table."

OPEC Secretary General Mohammad Barkindo said in an interview that all oil producers, including shale drillers, are suffering from an oversupplied market.

"All the producers have realized we are in the same industry, conventional, shale and offshore producers," he said. "They know no one was insulated from the vagaries of this cycle."

Shale producers still aren't under much immediate pressure to make money for investors, who are betting that the disruptive, fast-growing companies will eventually profit when prices increase.

"Private equity represents 40% of the activity in upstream and it didn't exist 40 years ago," said Charles Cherington, chairman at Argus Energy Managers, a network of private-equity firms in Houston. "You've got private-equity firms selling to private-equity firms."

Profitability remains elusive for many shale producers, but more say they are able

to break even today, despite prices hovering around \$50 a barrel.

U.S. operators have been aggressively wringing costs out of their operations, with 60% of horizontal wells in the major shale basins now breaking even between \$35 and \$55 a barrel, says Allen Gilmer, chairman of Austin consulting firm Drillinginfo.

Any new OPEC move to limit production will only spur output from the U.S.

Even shale drillers that continue to lose money are going back to work, said Paal Kibsgaard, chief executive of the world's largest oil-field service company, **Schlumberger Inc.**

Exxon Mobil Corp., which traditionally focused on international megaprojects, plans to put 25% of this year's budget—roughly \$5.5 billion—in short-cycle, high-return shale investments in the Permian

and North Dakota's Bakken formation. The company has a combined 5,500 well sites in those regions that are profitable at less than \$40 a barrel.

New agreement to limit production from Iraq and other OPEC members will only spur production from the U.S., said Alan Eyre, who is in charge of Middle East energy at the State Department.

"The more success OPEC has in complying with and extending its November deal, the more it ensures U.S. production bounces back—taking a bite out of OPEC's market share," he said.

Andy McConn, an oil analyst with energy consulting firm Wood Mackenzie, said that if OPEC extends its production cut this week as expected, it could allow U.S. drillers to hedge more of their future production at higher prices.

"They won't pull back," Mr. McConn said. "The same country that the market's worried about oversupplying the market is protected. It's not good for OPEC."

Benoit Faucon contributed to this article.

BUNGE

Continued from the prior page
core on a growing and more-affluent global population, which will require 48% more grain and oilseeds by the year 2050, according to United Nations estimates. Bunge's position in the U.S. and Brazil will hand Glencore a major presence in the two largest soybean-producing countries—and the respective No. 1 and No. 3 in corn, according to the U.S. Agriculture Department.

Bulking up in agriculture would further diversify Glencore's operations and may help it weather the price swings that make mining a notoriously volatile business.

It would also be a sign Glencore has recovered from a period two years ago when the company faced questions about its solvency.

With \$42.9 billion in sales last year, Bunge is among the biggest of the grain-trading giants that control the flow of crops from farmers' fields to food plants and livestock operations, using an armada of grain terminals and processing plants throughout the Americas. Along with Archer Daniels Midland Co., Cargill Inc. and Louis Dreyfus Co., Bunge is a member of the so-called "ABCD" club that dominates global agribusiness.

Bunge, based in White Plains, N.Y., traces its roots to a Dutch firm founded in 1818. Its controlling families, the Bunges and Borns, moved the company to South America and eventually the U.S. The company went public in 2001 and rode a commodities boom that ran from 2007 to 2013.

Since then, a string of record-breaking harvests in

North and South America has filled farmers' storage bins and sent grain prices plunging. Corn futures are down 55% since peaking in August 2012. The glut has driven some U.S. farmers out of business and pressured profits at

the companies that supply seeds, pesticides and fertilizer. It has also hurt companies such as Bunge that purchase crops and process them into food, fuel additives and industrial products.

Bunge in February reported a 6% decline in net income for 2016 and, in May, cut its profit projection for this year.

Low crop prices have left farmers in many of the world's breadbaskets unwilling to sell crops at cut-rate prices, leaving companies like Bunge with less to trade and process. Meanwhile, some grain buyers, such as food processors and meat companies, have been hesitant to purchase commodities in advance since prices are expected to stay low. Soren Schroder, Bunge's CEO, said in May that the standoff has left the global grain-trading system "frozen."

Mr. Schroder has said the grain business is ripe for consolidation, given the industry's struggles to translate a historic flood of crops into consistent profit growth. "It is very clear that there are too many, too many trying to do the same thing with a small margin," Mr. Schroder told investors at a recent event.

Bunge's recent strategy has been to strike joint ventures and partnerships with smaller companies to run mills and processing plants more profitably. However, Mr. Schroder

said recently that "if there was something bigger, we're open to it."

The crop boom has already helped realign the seed and chemical industry. Dow Chemical Co. and DuPont Co., which both sell pesticides and develop genetically engineered seeds, are seeking to

BUSINESS NEWS

Ford Deputies Expand Roles

As new CEO focuses on strategy, two top lieutenants will steer day-to-day decisions

BY CHRISTINA ROGERS

The top agenda item for Ford Motor Co. Chief Executive Jim Hackett is carving out a clear strategy for the 114-year-old auto maker's role in an evolving car business. For just about everything else, he can rely on Joe and Jim.

Ford's executive shuffle, announced Monday, led to broader roles for current Americas Chief Joe Hinrichs and current Europe Chief Jim Farley. They will leave specific regional duties, with Mr. Farley taking charge of global markets, and Mr. Hinrichs running global operations.

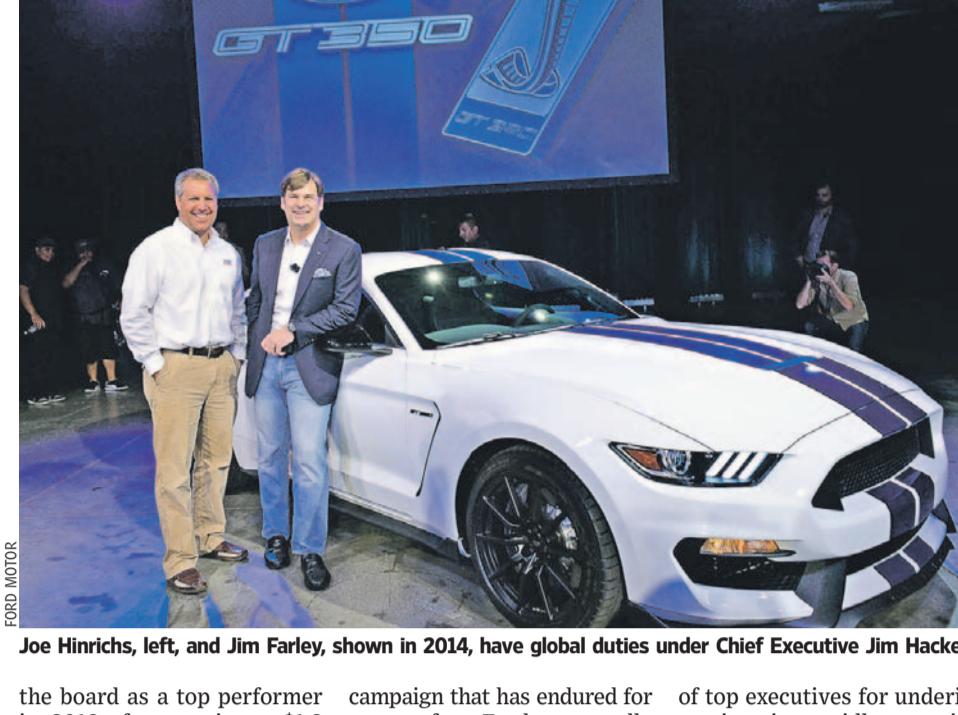
The moves hand considerable sway over day-to-day decisions to the pair of executives. As Mr. Hackett succeeds Mark Fields at the helm and looks to accelerate innovation and energize the workforce, analysts say his top lieutenants are being positioned as candidates to eventually succeed him for the top job.

In a note to investors, Barclays analyst Brian Johnson said the new job descriptions signal both are "vying to take over as CEO after Hackett's work is complete." He said "both have big challenges and perhaps the board's thinking is this will move them to cut deeper, act faster."

A Ford spokesman said the company doesn't comment on succession planning.

Ford last week said it would cut white-collar head count by 10%, or 1,400 people in North America and Asia following similar actions in Europe and South America. In an interview, Chairman Bill Ford said more "hard actions" need to be taken to address underperforming parts of the business, but declined to elaborate.

Mr. Farley, 54, is an ex-Toyota Motor Corp. executive with a sharp tongue and bulletproof resume. He was recognized by



Joe Hinrichs, left, and Jim Farley, shown in 2014, have global duties under Chief Executive Jim Hackett.

the board as a top performer in 2016 after posting a \$1.2 billion profit in Europe, a sharp improvement from 2015.

Mr. Farley—recruited by Mr. Ford and then-CEO Alan Mulally—stanchred red ink and increased margins to 4.2% in Europe, a market long burdened by overcapacity and pricing wars. He aimed to further slim down Ford's European operations, targeting long-term operating margins of 6% to 8% even as crosstown rival General Motors Co. withdrew from the market, selling off its Opel AG business.

Last year, Mr. Farley oversaw an effort to eliminate hundreds of salaried jobs in Europe through buyout offers—saving \$200 million annually. He shifted the focus to higher-profit cars and sport-utility vehicles to better compete in the region.

Mr. Farley joined Ford as a rising star, coming to the U.S. auto maker after serving as the face of Toyota's aggressive efforts to remake its image and better appeal to youth.

Mr. Farley was a member of Mr. Mulally's restructuring team and rolled out the company's "Drive One" advertising

campaign that has endured for years after Ford repeatedly changed slogans and approaches.

Mr. Hinrichs, 50, made his name on the manufacturing side, and spent the past 4½ years running North America, a region that drives nearly 90% of the company's profits. He was a candidate to succeed former Mr. Mulally as CEO before the job went to Mr. Fields in 2014.

Analysts say the pair are being positioned as candidates to later take the top job.

An Ohio native, Mr. Hinrichs has remained a source of stability for Ford in its most vital region amid a flood of new managers and the initiation of business ventures, including the Smart Mobility innovation unit that Mr. Hackett helped before becoming CEO.

Mr. Hinrichs is a blunt leader. In 2010, with Ford on the rebound after the financial crisis, he chastised a room full

of top executives for underinvesting in rapidly growing Asian markets, which he was running at the time.

He has tackled manufacturing challenges, including moving the profitable and high-volume F-150 from a steel body to aluminum. Well liked by the workforce, he negotiated cost-saving labor deals that helped keep Ford out of bankruptcy and competitive with foreign rivals.

Ford's North American operations have churned out some of the company's biggest profits in history under Mr. Hinrich. Bolstered by increased demand for pricey trucks and SUVs, Ford's operating margins in the region have topped 10%, rivaling financial results posted by luxury auto makers.

Having previously spent time at GM and in private equity, Mr. Hinrichs joined Ford as a plant manager in Sterling Heights, Mich., in 2000 and quickly rose through the company's manufacturing ranks. Within six years, he was named vice president of North American manufacturing and later ran Ford's Asia region, overseeing industrial expansion in China.

Value of Startup Unity Keeps Growing

BY ROLFE WINKLER

Unity Technologies is putting the finishing touches on a \$400 million round of financing that values the videogame technology company at about \$2.8 billion, according to people familiar with the matter.

Private-equity firm Silver Lake is leading the round as a new investor, these people said. Previous investors include venture firms such as Sequoia Capital and Draper Fisher Jurveston.

The 12-year-old San Francisco company, which makes software tools for videogame developers, raised capital last summer at a \$1.5 billion valuation.

Half of the new investment was earmarked for shares held by employees and existing investors, said people familiar with the deal. The other half would go to the company, an amount that puts the valuation at about \$2.8 billion.

Unity provides a game-development "engine," essentially software that developers use to build their digital worlds and publish on multiple platforms. It has invested heavily in virtual reality, hoping to support a wave of development for new VR gaming platforms. The company says about one-third of the current 1,000 top-grossing free-to-play games, including last year's sensation, "Pokémon Go," were built using Unity software.

The company's revenue is growing quickly, powered in part by advertising it sells and places inside games. Unity is expected to make about \$300 million in revenue this year, up about 40% from roughly \$210 million last year, according to people familiar with its financial targets.

Unity's gross-profit margin is around 90%, these people said. The company has been profitable in the past, according to one of these people, but isn't currently while it makes investments in virtual-reality technology.

Unity was founded in 2004 by game makers in Denmark who realized their software tools were more valuable than the game they developed. The company's chief executive is now John Riccitiello, the former head of console-games maker Electronic Arts Inc.

Uber Shortchanged Some Drivers

BY GREG BENSINGER

Uber Technologies Inc. on Tuesday said it mistakenly underpaid New York City drivers for the past 2½ years, an error that will likely cost it tens of millions of dollars. It is the second time in three months the ride-hailing company has acknowledged it deprived workers of their proper earnings.

Under the terms of its November 2014 nationwide driver agreement, Uber was meant to take its commission, generally 25%, from U.S. drivers based on fares after any taxes and fees were deducted. Uber said that, instead, in New York City it calculated a higher cut using the full fare before accounting for sales tax and a local injury compensation fund fee.

Uber told The Wall Street Journal it would refund the money plus interest, which comes to an average of about \$900 per driver. The San Francisco company declined to say how much the mistake would cost, but it could total at least \$45 million, based on an estimate of 50,000 drivers from the New York-based Independent Drivers Guild. All New York City drivers, whether still active or not, are eligible for a refund as long as they completed a trip since signing the 2014 agreement.

Uber, already reeling from a series of stumbles this year, said it discovered the error while it was creating a more detailed receipt for its drivers.

"We made a mistake and we are committed to making it right by paying every driver



Uber underpaid drivers in New York City, a mistake that could cost it at least \$45 million.

every penny they are owed, plus interest, as quickly as possible," Rachel Holt, regional general manager of Uber in the U.S. and Canada, said in a statement. "We are working hard to regain driver trust, and that means being transparent, sticking to our word, and making the Uber experience better from end to end."

The accounting error—and a similar one in Philadelphia earlier this year—is striking for a company whose business hinges on complex mathematical formulas that match drivers with riders and that crunch fares by the millisecond based on traffic, demand and other factors.

Technology giants like Uber employ armies of engineers and data scientists that develop sophisticated algorithms, but their ambition can sometimes

cause them to gloss over basic-level concerns for their customers. Last week, Facebook Inc. acknowledged it misstated advertising impressions for the fifth time since September and would refund some marketers' money.

Uber is grappling with a number of controversies, including investigating charges of sexual harassment and sexism by a former worker, contesting a lawsuit from Google parent Alphabet Inc. alleging theft of trade secrets and factoring potentially two criminal probes into its operations. The company is expected to soon release results of an internal investigation into its workplace culture and name a deputy for its pugnacious chief executive, Travis Kalanick.

The Independent Drivers

Guild, which represents ride-hailing workers in New York and has been pressing for benefits like a tipping option, criticized Uber's gaffe. "This is exactly why we have been calling for industrywide pay protections to stop the exploitation of New York's drivers once and for all," said IDG founder Jim Conigliaro Jr.

The accounting error marks the latest turn in the company's contentious relationship with its 1.5 million contract drivers, many of whom have fought for greater benefits and wages, including through lawsuits and union affiliations. Uber this year vowed to focus more attention on retaining its drivers and boosting their wages through improvements to its routing software, rating systems and other changes.

SETH WENIG/ASSOCIATED PRESS

But in January, Uber agreed to refund drivers a total of about \$20 million to resolve Federal Trade Commission allegations that it exaggerated the amount of money the workers could earn in nearly 20 cities. Then in March, Uber admitted it erroneously collected its commission from black-car drivers in Philadelphia at a 25% rate instead of 20% since August 2015. The company refunded some \$4.3 million in wages, including interest.

Together, the refunds are a fraction of the \$6.5 billion in revenue Uber generated last year.

Adding to the pay issues, Uber last year rolled out a new fare system called upfront pricing, a guaranteed price for riders based on the software's estimate of time, distance and other factors. But Uber calculates drivers' pay based on actual miles and minutes, which sometimes leads to a gap in rates that some drivers have complained leaves them short-changed.

Facing driver pushback, Uber devised a new receipt that more clearly breaks out Uber's take and customers' fares. As part of that review, Uber said, it uncovered its mistake in New York City.

Uber, valued by investors at \$68 billion, had an opportunity to fix the problem in New York City sooner. A lawsuit filed by the New York Taxi Workers Alliance in the Southern District of New York last June contesting the classification of drivers as contractors noted the accounting discrepancy.

Havas Starts Digital Ad Portal

BY LARA O'REILLY

Advertising agency group **Havas** on Tuesday launched a platform that will let its clients see exactly how much money they are spending with different vendors online and how those ads are performing

everywhere they are being charged and compare performance among vendors.

The new platform will plug into a variety of players who are conduits for online ad placements—including de-

The portal will allow marketers to view Havas traders' pricing negotiations.

mand-side platforms, ad exchanges and agency trading desks.

That includes Google's DoubleClick Bid Manager, MediaMath and Havas's own trading desk, Affiperf.

It will allow marketers to view the pricing negotiations Havas's traders are having

with each vendor, itemize the tech fees and agency fees they are being charged and compare performance among vendors.

Sometimes the Client Trading Solution will inevitably show Affiperf isn't the best performer on certain campaigns.

Advertisers are increasingly demanding that sort of transparency, and other ad companies have been taking similar steps to disclose various fees that were previously bundled, as The Wall Street Journal recently reported. Havas says its platform is the first to give clients full visibility of their programmatic ad buying in real time.

Havas Group Global Managing Director Dominique Delport said tracking "literally every penny" of online ad buys will help instill confidence in marketers about the effectiveness of their digital spending.



Hacking group Shadow Brokers has claimed it released NSA files.

PATRICK SEMANSKY/ASSOCIATED PRESS

HACK

Continued from page B1
agreement that allows government-backed hackers to operate in anonymity, former intelligence officials say.

The Shadow Brokers "made this personal," Mr. Lee said. He believes the group left names in the metadata either because the group doesn't care about redacting sensitive information or because they wanted the names public.

Attempts to contact the Shadow Brokers weren't successful. In blog posts, the group has denied any government affiliation, presenting themselves as anarchic hackers cut in the mold of the Anonymous collective. They first appeared in August of last year, releasing purported NSA documents.

Some former intelligence officials suggested the U.S. prompted the outing of state-sponsored hackers when it indicted five Chinese military hackers by name in 2014, and more recently brought charges against two officers with Russia's Federal Security Service over a 2014 Yahoo Inc. breach.

By exposing cyberagents, the Shadow Brokers appear to be taking a page from the U.S. playbook, said Mr. Williams, who worked for the NSA's Tailored Access Operations hacking group until 2013. An NSA spokesman said the agency doesn't comment about "most individuals' possible current, past or future employment with the agency."

"We've fired first," Mr. Williams said, referring to the U.S. charging the alleged Chinese hackers by name. "This is us taking flak."

Current and former Justice Department officials said the 2014 indictment and a 2015 cyber pact between the U.S. and China were meant to serve as a line in the sand to deter nation-state hackers from breaking into U.S. companies for economic gain. The point was to say "this type of behavior was not and should not be condoned," said Marc Rai-

mondi, a U.S. Justice Department spokesman.

Government investigators are treating the Shadow Brokers documents as authentic, according to people familiar with the matter. Earlier this month, Microsoft Corp.'s chief lawyer, Brad Smith, asserted the computer code used in the WannaCry worm, a ransomware attack that held hundreds of thousands of computer files hostage, was "stolen from the National Security Agency."

While the Shadow Brokers claim to be anarchic hackers, many intelligence experts, including Mr. Williams and NSA leaker Edward Snowden, believe they are backed by Russia. "Circumstantial evidence and conventional wisdom indicates Russian responsibility," Mr. Snowden wrote in an Aug. 16 tweet. A spokesman for the Russian Embassy declined to comment on the allegation.

Russia previously said allegations that it has hacked the U.S. government are false.

The documents revealed jealously guarded tactics and techniques the NSA uses to access computer systems, said people familiar with the government investigation, who described the damage to intelligence operations as significant.

For example, the files include source code for software designed to give its creators remote access to hacked machines, and to evade detection from antivirus software. If the code was created by the NSA, it now gives security professionals a digital fingerprint they can use to track the NSA's activities before the leak.

That could prove disruptive to NSA activities, forcing the agency to consider pulling its software from others' networks and taking other steps to erase its tracks. And while the information could help companies determine whether they have been hacked by the NSA, it could also be used to create more malicious software. The Shadow Brokers tools, for example, are now being used to install malicious software such as WannaCry on corporate networks.

BUSINESS WATCH

NOBLE GROUP

Company Continues To Explore Options

Noble Group Ltd. said

Wednesday it continues to explore selling more of its assets and is in talks with various potential strategic partners for a stake sale.

The company has appointed Morgan Stanley and Moelis & Co. to review its strategic alternatives, the embattled commodities trader said in its response to a query from Singapore Exchange on unusual price movement in shares on Tuesday, after shares plunged 28% to their lowest in 16 years.

Noble said it can't assure if any of the continuing discussions would result in a transaction.

—Gaurav Raghuvanshi

DONG ENERGY

Utility Plans to Sell Upstream Business

Danish utility **Dong Energy**, partly owned by **Goldman Sachs**, said Wednesday that it was selling its upstream oil and gas business to INEOS for as much as \$1.3 billion as it transitions to a pure play renewable energy company.

Dong Chief Executive Henrik Poulsen said the sale was a "major milestone" in the company's transition from a fossil-fuel provider to a "pure-play renewables company."

"It's a transformation," Mr. Poulsen said in an interview.

SAFRAN

Aerospace Supplier Cuts Bid for Zodiac

French aerospace supplier **Safran** SA on Wednesday said it cut its bid price for **Zodiac Aerospace** SA about 15% to €7.3 billion (\$8.2 billion) after renewed profit headwinds came to light at the beleaguered plane cabin-interior specialist.

Safran in January announced a plan to buy Zodiac Aerospace to become the world's No. 3 aerospace supplier to **Boeing** Co. and **Airbus** SE behind **United Technologies** Corp. and General Electric Co.

The deal quickly drew fire from hedge fund **TCI Fund Man-**

agement, which said Safran was overpaying. TCI urged Safran to abandon the deal.

Safran on Wednesday said it would pay €25 a share for 100% of Zodiac shares. Safran originally had said it would pay €29.47 a share for Zodiac in a tender offer. It also adjusted other elements of the deal.

The deal's completion is in part contingent on 50% of Zodiac shares with voting rights being tendered. To placate investors such as TCI who were looking for Safran to return more capital to shareholders, Safran said if the deal goes through it would undertake a €2.3 billion share buyback over two years.

—Robert Wall
and Ben Dummett



A Safran turbojet engine on display Monday for a convention at the Geneva-Cointrin airport.

FABRICE COFFRINI/AGENCE FRANCE PRESSE/GETTY IMAGES

FINANCE & MARKETS

OPEC Chief Brokers Consensus

Mohammad Barkindo has taken on the role of cartel diplomat, achieving output cuts

BY BOENOT FAUCON

VIENNA—During a turbulent year for oil prices, the Organization of the Petroleum Exporting Countries' top official, Mohammad Barkindo, has embraced a role as the global energy industry's chief diplomat.

Since taking over as secretary-general almost a year ago, the wisecracking 58-year-old Nigerian with a closet full of Nehru jackets has reached beyond OPEC in a way few of the cloistered cartel's officials have in the past.

Mr. Barkindo was a main architect of the agreement last year bringing together the fractious 13-nation cartel and almost a dozen other heavyweight producers for the first coordinated crude-oil supply cuts in eight years. He served as an important channel between OPEC-member archrivals Saudi Arabia and Iran, shuttling between the two countries when they didn't have diplomatic relations last year and brokering an oil-policy detente that cleared the way for a deal.

He traveled to Houston to meet U.S. shale producers this year and hosted meetings with



Mohammad Barkindo has reached out beyond the cartel.

get on," said Bhushan Bahree, a senior director on oil at U.S. consultancy IHS and a long-time OPEC watcher.

Since taking over as OPEC secretary-general last August, Mr. Barkindo has transformed a role once seen as little more than the cartel's top bureaucrat with no real role in decision making into an important ambassadorship—serving as an emissary both inside and outside the fractious group.

Mr. Barkindo plays down any efforts to elevate the role and says he is simply following his own experience through five oil-cycle downturns to get the cartel through "challenging times."

Hailing from northern Nigeria's impoverished north, Mr. Barkindo grew up with goats and chickens in his backyard. He got a ticket out of his home province when another northerner, Rilwanu Lukman, a politician who later worked as Nigeria's oil minister, took him on as a personal assistant. Mr. Barkindo eventually became acting OPEC secretary-general in 2006 and then head of Nigeria's state-run oil company in 2009.

He moved to the Washington area after falling out of favor with a new Nigerian political administration in 2010. As a graduate student and fellow at George Mason University, Mr. Barkindo developed a network of U.S. associates.

"It's a rich experience to

draw upon," said Mr. Barkindo in a recent interview.

Mr. Barkindo's first trip after being appointed secretary-general in July was to Mecca, where he met Saudi King Salman and talked about the importance of taking action to boost oil prices. Two months later, he flew to Tehran, where Iranian officials had been reluctant to support production cuts because they were trying to ramp up output following the end of years of Western sanctions.

Mr. Barkindo said he got personal assurances from President Hassan Rouhani that Iran could support a production cut for OPEC. By the end of September, the framework for the OPEC cuts was agreed upon.

"He knows that when there is a block, he needs to reach out to the highest level," says Robert McNally, president of Washington-based energy consultancy Rapidan Group and a former White House energy adviser.

Mr. Barkindo has worked to build credibility with Wall Street and London oil traders and U.S. oil executives. It paid off in meetings with investors in Houston this year, Ms. Croft of RBC said, when Mr. Barkindo was "treated like a rock star." Texas oilmen were lining up to take selfies with the secretary-general.

—Michael Amon
contributed to this article

Morgan Stanley To Curb Broker Poaches

By MICHAEL WURSTHORN

Morgan Stanley will curtail its recruiting of veteran brokers, joining other big firms on Wall Street that are no longer willing to gorse on the pricey practice of paying top dollar to poach talent.

The New York firm told brokerage managers Tuesday that it would "reduce experienced adviser recruiting" to tamp down those costs, while spending more on supporting existing brokers and investments in new technology, according to a memo from wealth-management heads Shelley O'Connor and Andy Saperstein that was viewed by The Wall Street Journal.

Morgan Stanley is the latest brokerage to say it wants to cut back recruitment activities, which often involved paying brokers six- or seven-figure signing bonuses, Wall Street's key mechanism of attracting brokers, assets and revenue.

Such bonuses were structured as loans forgiven over as long as eight or nine years, with brokers initially getting paid up to 150% of the annual revenue they generated off fees and commissions. Such deals usually included backend portions that brokers would earn after hitting certain asset and revenue targets over the life of the deal—an arrangement that had become problematic under new retirement rules set to take effect next month because they could be perceived as a conflict of interest. Brokers who changed firms before the deal's term ended were usually forced to pay back a remaining portion.

Executives had bemoaned the practice for years as costly and called it a "zero-sum game" among the four main brokerages—Merrill Lynch, Morgan Stanley, UBS Group AG and Wells Fargo & Co.—as they routinely traded brokers with one another. Still, brokerage executives viewed it as a necessary pipeline for asset and revenue growth.

The problem, recruiters say, is that brokerages were hesitant to pull back from recruiting if their rivals wouldn't. That was until UBS said last year that it would reduce by 40% the number of brokers it recruited annually.

Morgan Stanley will honor recruitment agreements it has with brokers through June 16 and have a start date no later than Sept. 1, according to the memo to managers. Morgan Stanley is developing new recruiting policies that will be revealed in the coming weeks, the memo added.

For U.S., A Debate Over Oil Reserves

BY ALISON SIDER
AND ERIN AILWORTH

President Donald Trump's proposal to help reduce the national debt by selling down more of the U.S. emergency oil stockpile is reigniting a debate about whether the reserves are still crucial to the country's economic security.

The Trump administration said Tuesday that its new budget proposal calls for selling an additional 270 million barrels of oil over the next decade. Congress had already recently approved selling down some reserves to raise money for various domestic programs.

The administration now wants to increase those sales. Officials said the proposed amount could bring in \$500 million in fiscal 2018 and \$16.6 billion through 2027.

Proponents say the reserve is necessary in the event of a crisis, such as a war in the Middle East or another violent disruption to supply, that could leave the U.S. short of oil for a period.

Critics say that rising do-



A contractor works on a pipeline at the U.S. Energy Department's Bryan Mound Strategic Petroleum Reserve in Freeport, Texas.

mestic production makes such large reserves redundant and that proceeds from selling it could be put to better use.

The Strategic Petroleum Reserve, or SPR, was intended as a buffer against disruptions in the flow of imported oil. It was created after the Arab oil embargo of 1973-74, which sent shock waves through the U.S. economy.

Gasoline prices at the pump soared, feeding inflation. Drivers were stuck in long lines at filling stations that couldn't get enough fuel.

The reserve is now the

world's largest supply of emergency crude, according to the U.S. Energy Department.

But rising output from shale formations in places such as Texas and North Dakota has made the U.S. less dependent on crude from the Organization of the Petroleum Exporting Countries.

As a result, many energy analysts say the U.S. no longer needs to sock away hundreds of millions of barrels of oil as protection against supply shortages and price spikes.

Some analysts also say the reserve, which currently holds

688 million barrels of oil, is outdated or simply ineffective. It can take as long as 13 days for the government's oil to reach the market after the president calls for its release, making it a blunt instrument in a market that can swing in an instant.

The reserve's infrastructure has also become dilapidated in recent years, requiring new funding to make repairs and upgrades.

"I don't think it has any efficacy—it's basically a security blanket," said Fred Beach, assistant director for energy pol-

icy at the Energy Institute at the University of Texas at Austin. "It's a political tool. It's just not enough to swing a global market."

Those who favor keeping the reserves higher counter that even with the U.S. producing more of its own crude, a sudden price increase could still harm the economy.

Shale producers need months to significantly boost output. During that time the U.S. could be short of oil, forcing users to pay exorbitant prices until new domestic supplies reach the market.

Humans Still Rule Machines in Insurance

BY LESLIE SCISM

THE QUANTS

Machines and their masters are the undisputed new kings of Wall Street

American International Group Inc. uses one of the industry's leading algorithmic models to determine how much companies should pay for insurance. It just doesn't trust what the model computes on its own.

As part of an approach it started rolling out last year, the global insurance conglomerate pairs its models with human underwriters. The approach reflects the company's belief that human judgment is still needed to size up most of the midsize to large businesses it insures. AIG even has a nickname for underwriters who keep the same price as the model every time: "flat liners."

Insurance companies such as AIG are among the original financial quants, from tracking ships to derive marine-insurance prices to using quantitative analysis to determine the

likelihood of automobiles crashing, hurricanes wiping out beach towns and juries finding doctors liable for malpractice.

Now, promising new techniques including algorithms can help carriers tap into a growing array of detail to price risk: sensors in factories, devices worn by construction workers, employee-sentiment data and satellite imagery, to name a few.

AIG's commercial-insurance unit alone pays \$75 million each business day in claims. The insurer is a major seller of policies that cover such diverse things as the cost of injured workers, wrecks of corporate-owned vehicles, fire and other damage to premises, hacking, contaminated products and offshore drilling rigs.

When an underwriter "turns off his or her brain, we're done," said Madhu Tadikonda, chief underwriter for AIG's commercial unit. "The models by themselves are not perfect" for many of the risks posed by policyholders.

Still, in an example of how data analysis can make a difference, AIG recently informed a hotel client that it should mop its floors at 3 a.m. to reduce slips and falls. It also has advised clients that employees with carpal tunnel syndrome

are at high risk of repeat injuries, so the customary push to quickly get a person back on the job can backfire.

Underwriters such as Matthew Lebron call on business clients keeping an eye out for characteristics that distinguish them, "so I can make the judgment call to go upward or downward" from the computer-generated average price. Among

questions he asks: Is a business up to snuff with industry safety standards? Is it working with AIG's loss-control program to try to minimize risk of claims?

"There's definitely an element of human touch," said Brett Herrman, who works as a technical underwriter at AIG, running the model when colleagues go out in the field. "We're diving in on detail and collaborating as a team."

The need to pair with humans hasn't stopped the arms

race for data and innovative technology in the industry.

In a recent survey by consulting firm Accenture, 37% of about 550 insurance executives said they plan to invest "extensively" in machine learning over the next three years, and a further 44% anticipate "moderate" investment.

More "insurers are doubling down on their efforts to combine their human intelligence with the fast, effective decision-making capabilities of machine intelligence," said John Cusano, Accenture's global head of insurance.

Progressive Corp. is among the elite few with successes in hand. Back in the 1990s, the car insurer identified correlations between credit histories and claims, testing a hypothesis that financially responsible people are more cautious drivers. Previously, insurers relied on underwriters to place applicants within broad categories such as age, gender and car type.

More recently, insurers have begun using algorithms to issue policies to small to midsize businesses online. They can draw on data such as construction features of a business's premises, proximity to fire hydrants, and code violations.

BANKING

Profits Rise Strongly At U.S. Institutions

The U.S. banking industry posted strong profits in the first quarter of 2017, though loan growth slowed during the economy's eighth year of expansion after the recession.

The Federal Deposit Insurance Corp. pegged the industry's first-quarter profits at \$44 billion, 13% higher than a year earlier. Only 41% of the nation's roughly 5,900 banks incurred losses in the first quarter, down from 5.1% a year earlier. Return on equity, an important measure of banks' profitability, rose slightly to 9.37%, still below the 10% figure many investors desire.

The loan-growth slowdown that began in the fourth quarter of 2016 continued. Total annual loan growth slowed to 4%.

—Gabriel T. Rubin

SIMON PROPERTY GROUP

Mall Landlord To Fund Upgrades

Shopping-mall landlord Simon Property Group Inc. plans to invest an additional \$1 billion to redevelop its properties for the modern retail age.

FINANCE WATCH

The Indianapolis-based real-estate investment trust, one of the largest shopping-mall developers and owners in the world, has been renovating its malls across the U.S. It had spent \$5 billion over the past five years on efforts such as interior enhancements; upgrades to tile, lights and furniture; and redeveloping former department-store locations for other tenants.

—Esther Fung

BANK OF CANADA

Key Interest Rate Is Left Unchanged

The Bank of Canada left its main interest rate unchanged at 0.50% while sounding a positive note about recent economic indicators that point to "very strong" growth in the first quarter and signal an upswing in business investment.

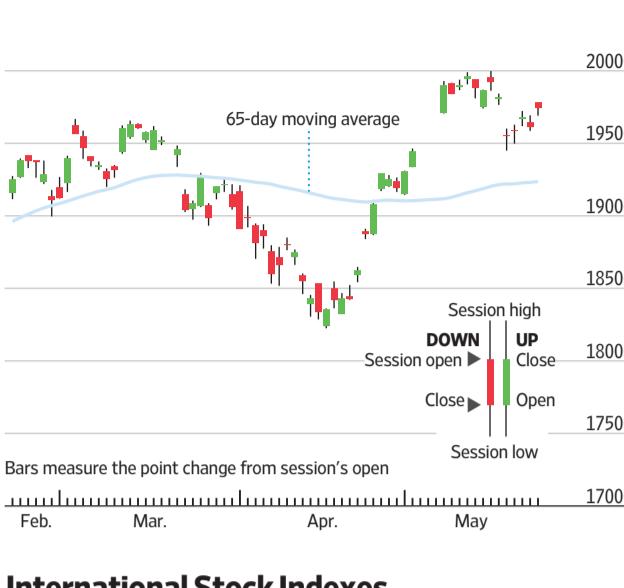
The central bank said Wednesday it expects growth to tail off somewhat in the second quarter. It also cautioned that trade-policy uncertainty in Washington continued to cloud the outlook, and subdued inflation and wage growth were consistent with "excess" slack—or unused production and labor capacity—in the economy.

—Paul Vieira

MARKETS DIGEST

Nikkei 225 Index

19742.98 ▲ 129.70, or 0.66%
 High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

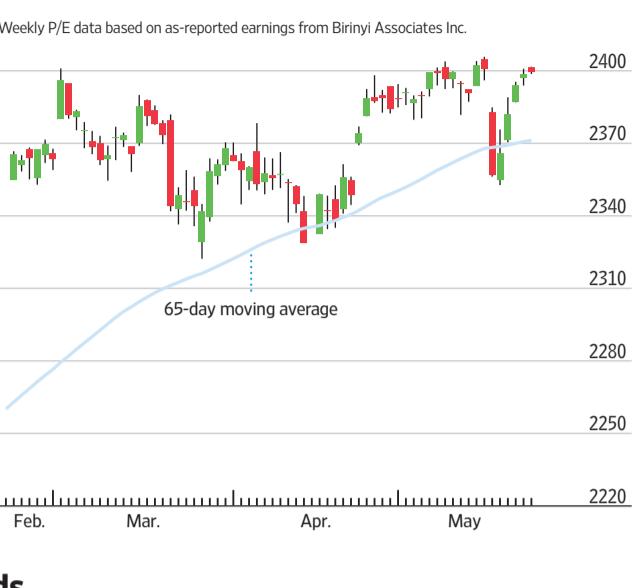
STOXX 600 Index

392.37 ▲ 0.35, or 0.09%
 High, low, open and close for each trading day of the past three months.



S&P 500 Index

2399.59 ▲ 1.17, or 0.05%
 High, low, open and close for each trading day of the past three months.



Data as of 12 p.m. New York time

Last Year ago

Trailing P/E ratio 23.44 23.49
 P/E estimate * 18.41 17.51
 Dividend yield 1.98 2.20
 All-time high: 2402.32, 05/15/17

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

International Stock Indexes

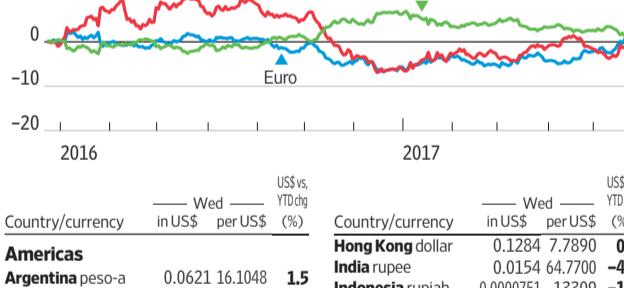
Data as of 12 p.m. New York time

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2760.89	-4.55	-0.16	2193.75	● 2769.38	9.2		
	MSCI EAFE	1886.75	-5.68	-0.30	1471.88	● 1956.39	9.9		
	MSCI EM USD	1004.89	0.42	0.04	691.21	● 1044.05	26.5		
Americas	DJ Americas	576.30	0.21	0.04	480.90	● 578.17	6.6		
Brazil	Sao Paulo Bovespa	63678.61	1016.13	1.62	48066.67	● 69487.58	5.7		
Canada	S&P/TSX Comp	15342.97	-133.97	-0.87	13609.58	● 15943.09	0.4		
Mexico	IPC All-Share	49409.63	367.11	0.75	43902.25	● 50154.33	8.3		
Chile	Santiago IPSA	3689.10	14.24	0.39	2998.64	● 3786.05	14.5		
U.S.	DJIA	20956.63	18.72	0.09	17063.08	● 21169.11	6.0		
	Nasdaq Composite	6147.03	8.32	0.14	4574.25	● 6170.16	14.2		
	S&P 500	2399.59	1.17	0.05	1991.68	● 2405.77	7.2		
	CBOE Volatility	10.48	-0.24	-2.24	9.56	● 26.72	-25.4		
EMEA	Stoxx Europe 600	392.37	0.35	0.09	308.75	● 396.45	8.6		
	Stoxx Europe 50	3237.51	0.42	0.01	2626.52	● 3279.71	7.5		
France	CAC 40	5341.34	-6.82	-0.13	3955.98	● 5442.10	9.9		
Germany	DAX	12642.87	-16.28	-0.13	9214.10	● 12841.66	10.1		
Israel	Tel Aviv	1418.55	-0.63	-0.04	1372.23	● 1490.23	-3.6		
Italy	FTSE MIB	21369.73	-46.01	-0.21	15017.42	● 21828.77	11.1		
Netherlands	AEX	527.87	-0.30	-0.06	409.23	● 537.84	9.3		
Russia	RTS Index	1087.59	-9.24	-0.84	874.88	● 1196.99	-5.6		
Spain	IBEX 35	10907.40	-8.90	-0.08	7579.80	● 11184.40	16.6		
Switzerland	Swiss Market	9035.09	-26.67	-0.29	7475.54	● 9136.95	9.9		
South Africa	Johannesburg All Share	54308.67	-240.24	-0.44	48935.90	● 54716.53	7.2		
Turkey	BIST 100	98313.77	596.29	0.61	70426.16	● 98794.90	25.8		
U.K.	FTSE 100	7514.90	29.61	0.40	5788.74	● 7533.70	5.2		
Asia-Pacific	DJ Asia-Pacific TSM	1594.58	-1.78	-0.11	1308.52	● 1603.06	12.1		
Australia	S&P/ASX 200	5769.00	8.80	0.15	5103.30	● 5956.50	1.8		
China	Shanghai Composite	3064.08	2.13	0.07	2815.09	● 3288.97	-1.3		
Hong Kong	Hang Seng	25428.50	25.35	0.10	20038.42	● 25428.50	15.6		
India	S&P BSE Sensex	30301.64	-63.61	-0.21	25765.14	● 30658.77	13.8		
Indonesia	Jakarta Composite	5703.43	-27.18	-0.47	4772.98	● 5791.88	7.7		
Japan	Nikkei Stock Avg	19742.98	129.70	0.66	14952.02	● 19961.55	3.3		
Malaysia	Kuala Lumpur Composite	1771.01	3.84	0.22	1614.90	● 1778.65	7.9		
New Zealand	S&P/NZX 50	7421.78	37.08	0.50	6664.21	● 7571.11	7.9		
Pakistan	KSE 100	52876.46	729.49	1.40	36061.56	● 52876.46	10.6		
Philippines	PSEI	7837.82	25.68	0.33	6563.67	● 8102.30	14.6		
Singapore	Straits Times	3231.24	8.55	0.27	2729.85	● 3271.11	12.2		
South Korea	Kospi	2317.34	5.60	0.24	1925.24	● 2317.34	14.4		
Taiwan	Weighted	10044.42	36.58	0.37	8394.12	● 10044.42	8.5		
Thailand	SET	1566.15	1.46	0.09	1397.63	● 1591.00	1.5		

Source: SIX Financial Information/WSJ Market Data Group

Currencies

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



London close on May 24

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

Country/currency	In US\$	per US\$	(%)
Europe			
Bulgaria leva	0.5713	1.7505	-5.8
Croatia kuna	0.1505	6.644	-7.4
Euro zone euro	1.1179	0.8946	-5.9
Czech Rep. koruna-b	0.0422	23.673	-7.8
Denmark krone	0.1502	6.6565	-5.8
Hungary forint	0.003629	275.58	-6.4
Iceland krona	0.009912	100.89	-10.7
Norway krona	0.1192	8.3886	-3.0
Poland zloty	0.2673	3.7417	-10.6
Russia ruble-d	0.01768	56.549	-7.7
Sweden krona	0.1148	8.7095	-4.4
Switzerland franc	1.0239	0.9767	-4.1
Ukraine hryvnia	0.0381	26.2625	-3.0
U.K. pound	1.2938	0.7729	-4.6
Middle East/Africa			
Bahrain dinar	2.6522	0.3771	-0.03
Egypt pound-a	0.0552	18.1160	-0.1
Israel shekel	0.2786	3.5900	-6.7
Kuwait dinar	3.2946	0.3035	-0.7
Oman rial	2.5976	0.3850	0.003
Qatar rial	0.2746	3.642	0.04
Saudi Arabia riyal	0.2666	3.7506	-0.003
South Africa rand	0.0772	12.9604	-5.4
Asia/Titans			
Bahrain dinar	2.6522	0.3771	-0.03
China Petro&Chem	0.386	14.0000	-0.47
China Telecom	0.1240	8.0653	1.9
China ringgit-c	0.2329	4.2930	-0.01

FINANCE & MARKETS

Legitimacy of SEC's Courts Challenged

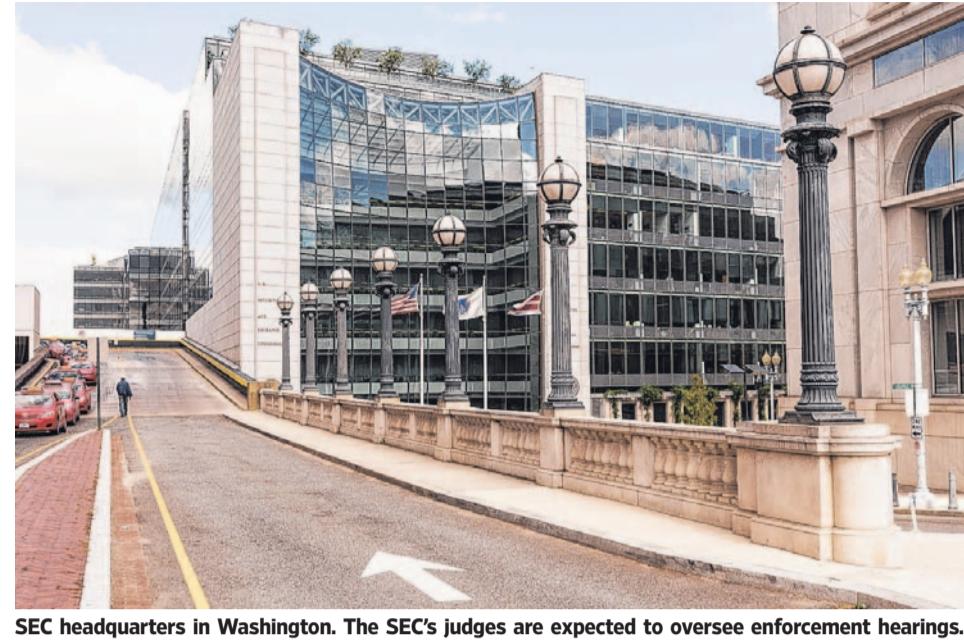
An appeals court considers whether agency vested too much power in courts

BY DAVE MICHAELS

WASHINGTON—A federal appeals court on Wednesday was to consider whether Wall Street's top cop has vested too much power in its in-house courts, a system that regulators expanded several years ago as they sought to speed enforcement actions against firms and individuals accused of fraud and wrongdoing.

The U.S. Court of Appeals for the District of Columbia Circuit is the latest forum for lawyers arguing over the legitimacy of the Securities and Exchange Commission's administrative courts. The forums are run by officers who have career appointments, such as U.S. district judges, but are employees of the agency. The SEC's judges are expected to oversee enforcement hearings even though the agency's commissioners can reverse their decisions.

The SEC's in-house courts



SEC headquarters in Washington. The SEC's judges are expected to oversee enforcement hearings.

generated little controversy for decades, but a decision in 2014 to lean more heavily on the tribunals sparked a backlash. Lawyers defending clients challenged how the judges are hired, arguing their sweeping powers mean that presidentially appointed commissioners should appoint them instead of human-resources officials.

The argument is a "constitutional technicality," said Adam Pritchard, a law professor at the University of Michigan who previously worked at the SEC. But if the appeals court rules against the SEC, the opinion could disrupt the use of administrative courts at other government agencies such as the Social Security Ad-

ministration.

"There is potential spillover to other administrative agencies depending on how the D.C. Circuit resolves the constitutional question," said Matthew Solomon, a partner at Cleary Gottlieb Steen & Hamilton LLP who previously led the SEC's litigation unit. "It's clear that while some other agencies

have appointed their administrative judges, not all of them have."

The case being argued Wednesday before the D.C. Circuit was filed by Raymond Lucia, a California financial adviser and radio personality who was sued by the SEC in 2012. The regulator accused Mr. Lucia of misleading investors through a strategy he called "Buckets of Money."

An administrative judge who heard Mr. Lucia's case barred him in 2013 from working as a broker or investment adviser and fined Mr. Lucia and his company \$300,000.

Mr. Lucia later appealed the decision to the D.C. Circuit, where a three-judge panel initially sided with the SEC and upheld how the judges are appointed. In February, the appeals court signaled that it would reconsider Mr. Lucia's case with a larger roster of judges participating.

The SEC already faces pressure to change how the judges are appointed because other courts, including the U.S. Court of Appeals for the 10th Circuit, have ruled the system doesn't meet constitutional requirements.

If the SEC loses the case before the D.C. Circuit, it would likely appeal the case to the Supreme Court. The SEC's commissioners could address the issue by appointing the judges, but that move could undermine the impact of certain sanctions they have ordered, such as decisions to bar someone from the securities industry, Mr. Pritchard said.

The commission's decision, made under former Chairman Mary Jo White, to expand its use of administrative courts fed complaints that SEC lawyers enjoy a home-court advantage there.

The agency during some years has notched a higher win rate in contested hearings in its in-house courts compared with federal trials. But a 2016 paper by Stanford University law professor Joseph Grundfest, a former SEC commissioner, reported the difference wasn't statistically significant and was influenced by losses in insider-trading trials. Those allegations are overwhelmingly tried in federal court and are tougher to prove than many other types of cases the SEC brings, according to current and former SEC officials.

Investors Show Little Concern Over China Downgrade

BY CHRISTOPHER WHITTALL

AND RIVA GOLD

Gains in real-estate and utilities shares pushed U.S. stocks slightly higher on Wednesday as investors shrugged off a credit-rating downgrade of China and awaited clues to coming central-bank policy decisions.

In Asia, Chinese stocks pared initial losses to end higher after Moody's Investors Service lowered the country's credit rating for the first time since 1989. The Shanghai Composite Index notched a gain of

less than 0.1%.

"I don't think [the downgrade] came as a surprise to people invested in China," said Hao Hong, the head of research at **BoCom International** in Hong Kong.

Most other markets in the region ended higher. A recent rebound in the dollar against the yen helped send Japan's Nikkei Stock Average up 0.7%, while Australian stocks advanced 0.2%.

The Dow Jones Industrial Average was up 30 points, or 0.1%, at 20968 at midday. The S&P 500 was up less than 0.1% and the Nasdaq Composite was up 0.2%.

Real-estate stocks in the

S&P 500 rose 0.5% while shares of utilities gained 0.4%. Those sectors are often considered bond-like, because they typically pay relatively high dividends and investors tend to buy them when they are nervous about other parts of the market.

Shares of basic materials producers in the S&P 500 rose 0.6%. Dow component **DuPont** gained 1.2%.

U.S. stocks have climbed in recent sessions as corporate earnings growth helped outweigh concerns over the ability of the Trump administration to push through its policy agenda, including tax cuts.

Many investors are now fo-

cusing on central-bank policy ahead of pivotal meetings next month for the U.S. Federal Reserve and European Central Bank. Investors will parse

Many investors are focusing on central-bank policy as a Fed meeting nears.

minutes from the Fed's May meeting, set for release later Wednesday, for any clues on future rate increases.

"The Fed is key," said Sam

Stovall, chief investment strategist at CFRA Research. Mr. Stovall said it is highly likely the Fed will raise interest rates at its June 13-14 meeting, but that shouldn't be "any kind of deterrent at all to the advance in equity prices."

The Fed's stimulus policies have helped buoy stocks and bond markets in recent years. But many investors view rate increases as a vote of confidence in the U.S. economy that shouldn't derail financial markets, particularly if the Fed continues to move at a gradual pace. Higher interest rates also tend to boost the profitability of certain companies such as banks.

Federal Reserve Bank of Philadelphia President Patrick Harker said Tuesday that he views it as appropriate to raise interest rates two more times in 2017.

The WSJ Dollar Index, which measures the dollar against a basket of 16 other currencies, was down less than 0.1%. The yield on the benchmark 10-year U.S. Treasury note was little changed at 2.283%, according to Tradeweb, from 2.285% Tuesday. Yields fall as prices rise. Treasury yields and the dollar are sensitive to Federal Reserve policy, with both tending to gain when expectations of rate increases grow.

A black and white caricature illustration of Geoffrey A. Fowler and Joanna Stern. They are depicted with large heads and expressive features. Geoffrey is on the left, wearing glasses and holding a smartphone. Joanna is on the right, also holding a smartphone. They are surrounded by numerous small figures of people, some of whom are also using smartphones. The background is filled with floating mobile phones and other electronic devices, creating a dense, digital atmosphere. The overall style is a satirical take on the prevalence of technology in modern life.

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MARKETS

Blackstone's Bridge and Tunnel Man

Sean Klimczak hustles infrastructure projects as firm raises money for public works

By RYAN DEZEMBER

When Blackstone Group LP was competing for the chance to finance a natural-gas export terminal, Sean Klimczak dropped his weekend plans and raced across the country for a meeting with the energy company's CEO. He didn't have a suit in hand, but no matter, he bought one when he arrived.

Blackstone's rival for the \$1.5 billion deal was a group of smaller investment outfits. Blackstone won the deal, and Cheniere Energy Inc.'s facility was built and became the first to ship U.S. shale gas abroad. For Mr. Klimczak, one key to victory was the advantage of being able to write a big check quickly without wrangling with partners.

Now Mr. Klimczak is ascending to a position in which he should be able to write many more 10-figure checks. Blackstone has tapped the 40-year-old to lead its new infrastructure business, which is aiming to raise \$40 billion in a fund focused on building and buying U.S. public works.

Blackstone said that it expects the fund to have buying power of about \$100 billion once debt is added to the mix, and that it will have a broad mandate to invest in assets ranging from power plants and pipelines to water systems, roads, bridges, airports and hospitals.

The firm's plans were unveiled Saturday after officials with Saudi Arabia's Public Investment Fund disclosed in Riyadh as part of President Donald Trump's visit that they have agreed to seed the fund with \$20 billion.

The Saudi commitment alone would be the largest pri-



MICHAEL BUCHER/THE WALL STREET JOURNAL

Mr. Klimczak is attempting to raise \$40 billion for a fund dedicated to assets such as power plants, pipelines, airports and hospitals.

vate infrastructure fund ever raised, eclipsing the \$15.8 billion raised by Global Infrastructure Partners this year. It is the most ambitious launch of a business line, by initial size, in the 32-year history of Blackstone, which is a leader in its four other segments: real estate, private equity, hedge funds and credit.

"We already have government agencies calling with infrastructure proposals that require billion-dollar-plus equity checks," Blackstone President Hamilton "Tony" James said in an interview.

The plans have also piqued Wall Street's interest. Blackstone's shares have risen 8.7% since the announcement, to their highest point in nearly two years.

Jefferies LLC analysts estimate that once all the \$40 billion is raised, the business could annually generate \$300 million in management fees alone for Blackstone.

The new fund is what is called a permanent capital fund, meaning it has no deadlines to cash out of investments. Mr. Klimczak said he expects the ability to hold investments for potentially decades will help persuade government officials to work with the firm.

"Why is Warren Buffett welcomed in the utility sector? It is because he has long duration capital. Having the ability to tell a utility commission that you don't ever have to sell is quite powerful," he said.

Still, it is unclear how profitable the venture can be. Big infrastructure deals come with risks that are uncommon in corporate takeovers, from politicians who change their minds or are voted out of office mid-project to construction and permitting processes that can drag on for years and blow out budgets.

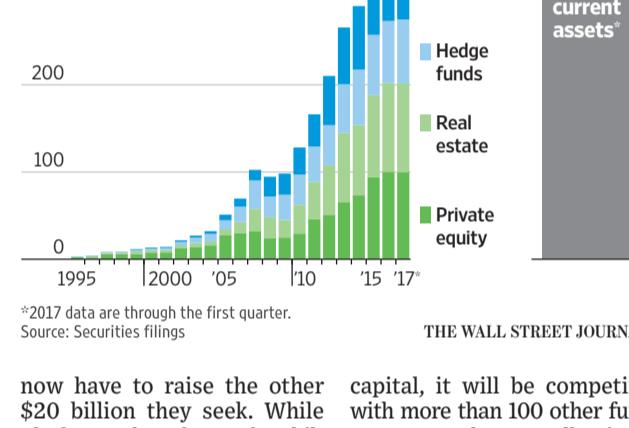
Also, Mr. Klimczak and other Blackstone executives

now have to raise the other \$20 billion they seek. While Blackstone has shown the ability to raise huge amounts of capital, it will be competing with more than 100 other fund managers who are collectively seeking to raise more than

Building Up

Blackstone's plans for a \$40 billion infrastructure fund would be the firm's largest expansion since its push into credit investing more than a decade ago.

Blackstone's assets under management



*2017 data are through the first quarter.

Source: Securities filings

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\$100 billion for other infrastructure funds, according to industry tracker Preqin.

A native of Tampa, Fla., Mr. Klimczak was the first in his family to go to college, graduating from the University of Notre Dame. He worked a stint at Morgan Stanley as a mergers and acquisitions banker and briefly at Madison Dearborn Partners LLC, a Chicago based buyout shop, before enrolling at Harvard Business School, where he graduated first in his class in 2005.

He arrived at Blackstone later that year and started out as a generalist in the private-equity group and soon homed in on energy, particularly power and electricity transmission deals.

In that role, he has overseen construction of wind farms in Mexico and Germany, power plants in Canada and the Philippines, and a hydro-power dam on the White Nile that provides roughly half of Uganda's electricity.

Mr. Klimczak began meeting with Saudi officials in April 2016 about an infrastructure fund that would never expire, allowing Blackstone to take on projects that took years to bear fruit and sometimes had lower returns than private-equity fund investors sought. Blackstone executives say strong political support for infrastructure spending from both U.S. political parties during the presidential campaign made it an inviting time to start a dedicated fund, which it had tried and failed to do a decade earlier.

Mr. Klimczak "understands the social mission that is associated with infrastructure," Mr. James said, offering the Uganda power-generating dam as an example. "When we first looked at [it] we couldn't get the numbers to work. Sean said, 'Guys, this is transformational for the country. We have to do this.' So we went back to the drawing board and figured it out."

HEARD ON THE STREET

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FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Fannie, Freddie Look to Future

New Asset Class

Volume of mortgages covered by Fannie Mae's and Freddie Mac's new credit-risk transfers



Sources: Federal Housing Finance Agency; Associated Press (photo)

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Fannie Mae headquarters in Washington

profitable outcome for Fannie and Freddie shareholders, but they aren't the only stakeholders in this debate. The new government guarantee would ensure a steady flow of investment into the trillion-dollar mortgage-backed-securities market, keeping mortgage rates low.

Investors willing to take on some repayment risk in exchange for higher returns could do so in the new credit-risk transfer market. Fannie and Freddie have been unloading credit risk on mortgage pools with securities and reinsurance contracts through this experimental market since 2013.

There remain important questions on compromise plans like these, notably how the system would cope with a pullback of private risk capital during a housing downturn. Housing market participants across the board should look past the weekly Washington battles over Fannie and Freddie, and be encouraged that a long-term solution is now emerging.

—Aaron Back

OVERHEARD

It is common for journalists to move into public-relations roles late in their careers. Movement in the other direction is less common. And moves involving fishing journalism are rarer still.

But **Jon Diat** will prove to be an exception. Mr. Diat is preparing to retire after a nearly five-year stint as the head of external communications at **American International Group**.

He is a true industry veteran, having previously worked at Citigroup through the 2008 financial crisis, and before that in various media-relations roles at **J.P. Morgan Chase, Morgan Stanley, Standard & Poor's** and more.

Mr. Diat will now start writing a weekly column on commercial and recreational fishing for the East Hampton Star in New York state. His first column comes out on Thursday.

Representing financial companies during their tough times will help Mr. Diat with the most important trait of a good fisherman, patience.

Glencore's Bunge Jump Needs Work

Having repaired its balance sheet and watched global-growth optimism push its share price back skyward, **Glencore** is back to its deal-making ways. That won't be a bad thing if it chooses its targets wisely. An informal approach to U.S. trading giant **Bunge** looks like a good start, but sealing any deal is unlikely to prove easy.

A move into the U.S. soy-and corn-trading business makes sense given cheap valuations: While Glencore's main metals and mining business has benefited from copper and coal prices being 25% and 50% higher than a year ago, respectively, corn prices are almost 10% lower after last year's bumper harvest. That divergence is reflected in corporate valuations: Bunge's stock was pummeled after its first-quarter net income fell 80% year over year.

Glencore's relative advantage might not last. China's economy, which sucks up about half of the world's copper supply, is slowing, while hopes for a big U.S. infrastructure boost have faded. Meanwhile, U.S. agricultural exports could benefit from the warmer tone of U.S.-China trade ties.

Glencore's problem is that Bunge is likely to conclude that it shouldn't do a deal when the cycle is poised to turn in its favor. Indeed, Bunge has said it isn't engaged in formal talks with Glencore, although the stock jumped nearly 20% after news of the overture broke.

Glencore has long wanted a bigger footprint in the agricultural-trading world. It may yet get its way, but for Bunge, the price would need to be very right.

—Nathaniel Taplin

Investors' Faith in Michelin Is Looking Over-Inflated

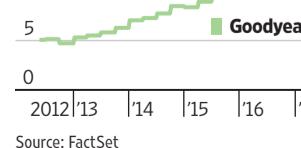
Tire companies are coming under pressure. **Michelin** in particular could default.

Margins at the storied French group have ballooned since the financial crisis, from a trough of 5.6% in 2008 to about 13% last year. It has been helped by both a strong car market and falling commodity prices.

These tailwinds are now turning into headwinds. The price of natural rubber, which accounts for a quarter of Michelin's raw-material costs, bounced back in the second half of last year, following OPEC-style export cuts by a cartel of East Asian producers. Although the price has fallen back again since Febru-

Tire Fatigue?

Operating margins, past 12 months



Source: FactSet

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ary, it remains about 45% above last year's nadir. Synthetic rubber—another quarter of Michelin's input costs—is a derivative of oil, which is also getting more expensive.

Meanwhile, the car market is showing signs of peaking after years of strong sales growth. New vehicles accounted for only 12% of Michelin's sales last year—it makes more money replacing tires on old cars—but its car margins have historically tracked industry sales. The downturn is clearest in the U.S., where the company makes 30% of its revenues: Seasonally adjusted vehicle sales for the year through April totaled 17.2 million, down from 18.7 million in December. Europe, the company's other key market, remains robust overall, but with the U.K. now weakening, a downturn seems likely

within a couple of years.

Michelin points to its experience in 2011 and early 2012 as evidence that it can pass raw-material costs on to its customers. But the U.S. car market was strong in those years, while the European one was bottoming out after the sovereign-debt crisis.

Investors won't have to wait long to find out. Retailers bought lots of tires in the first quarter in anticipation of price increases, which Michelin says were up to 8%, effective April 1. Figures for the rest of the year are likely to be much weaker as this inventory buildup unwinds. In April, marketwide tire sales were down 4% in North

America—and 15% in Europe, where there were also fewer selling days. Higher prices may also push consumers toward the slightly cheaper tires made by increasingly established East Asian manufacturers like Hankook, Nokian and Cheng Shin.

The biggest problem is that there is little hint of these risks in Michelin's share price, which is close to a record high both in absolute terms and relative to profits. The current price-earnings ratio of 12 compares with just seven for U.S. peer

Goodyear. As tougher times approach, investors' faith in Michelin looks overblown.

—Stephen Wilmot