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What's News

Business & Finance

Litigation-finance firms have raised hundreds of millions of dollars in recent months as they increasingly draw investors. **A1**

◆ **Foreign deals** for U.S. firms in sensitive sectors have sparked a debate over balancing national security and investment. **B1**
◆ **“Missing debt”** held by nonbank institutions outside the U.S. may total \$14 trillion, the BIS said. **B1**

◆ **Drone proponents** in the U.S. are clamoring for more rules to open up the skies to unmanned aircraft. **B1**

◆ **U.S. fuel prices** are likely to remain elevated following hurricanes Harvey and Irma, boosting refiners’ profits. **B1**
◆ **Oil traders** are adapting strategies that reap modest gains on small price moves amid low volatility. **B5**

◆ **EU finance officials** expressed cautious support for pursuing new tax rules for big tech companies. **B3**

◆ **Google parent Alphabet** has held talks about investing some \$1 billion in Lyft, in what would further an alliance against rival Uber. **B3**

◆ **China’s ZhongAn**, the country’s first online-only insurer, plans to raise up to \$1.5 billion in an IPO. **B5**

◆ **Rovio set** an IPO price that values the “Angry Birds” maker at about \$1 billion, well short of more optimistic forecasts. **B5**

◆ **A California firm** was accused of evading tariffs by smuggling banned Chinese aluminum into the U.S. **B5**

World-Wide

◆ **The U.S. is considering** staying in the Paris climate-change accord, three months after Trump vowed to pull out without more-favorable terms. **A1**

◆ **British investigators** searched a home in a London suburb owned by foster parents as they probed Friday’s subway bomb blast. **A1**

◆ **Islamic State** has formed a number of small cells in Libya, a year after losing its main stronghold there. **A1**

◆ **Myanmar’s top general** urged the country to unite in the face of growing criticism of its treatment of the Rohingya minority. **A3**

◆ **The White House** reiterated its position that North Korea must give up his nuclear weapons. **A3**

◆ **Hamas said** it agreed to conditions demanded by the Palestinian Authority’s leader for reconciliation with his Fatah party. **A3**

◆ **Tropical Storm Maria** cast a shadow of fear and uncertainty over Caribbean islands that were slammed by Hurricane Irma. **A4**
◆ **Florida homes** that were built to stricter building codes appear to have fared better after Irma. **A5**

◆ **The U.K. proposed** a treaty with the EU to ensure cooperation on security and law enforcement after Britain leaves the bloc. **A4**

◆ **Some White House** and Trump campaign officials caught up in the Russia probe are struggling to pay their legal bills. **A5**

CONTENTS	Life & Arts... A8-9	12
Business & Fin... B2	Markets... B8	
Crossword... A12	Opinion... A10-11	
Europe File... A2	Technology... B3	
Heard on Street... B8	U.S. News... A5	
Journal Report... B4	Weather... A12	
Keywords... B1	World News... A2-4	

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U.S. Weighs Staying in Paris Pact

Officials signal a compromise that could keep nation in climate accord

By EMRE PEKER

NEW YORK—The Trump administration is considering staying in the Paris agreement to fight climate change “under the right conditions,” offering to re-engage in the international deal three months after President Donald Trump said the U.S. would pull out if it didn’t find

more favorable terms.

During a climate-change meeting Saturday of more than 30 ministers led by Canada, China and the European Union, in Montreal, U.S. officials broached revising U.S. climate-change goals, two participants said, signaling a compromise that would keep the U.S. at the table even if it meant weakening the international effort. Still, the move would maintain international unity behind the painstakingly negotiated Paris accord, after Mr. Trump suggested he might seek a new agreement. Sunday, U.S. Secretary of

State Rex Tillerson said on CBS that Mr. Trump is “open to finding those conditions where we can remain engaged with others on what we all agree is still a challenging issue.”

Mr. Tillerson said that the emissions targets under the accord were “really out of balance” for the U.S. and China, and confirmed the White House’s National Economic Council, led by its director, Gary Cohn, was formulating the administration’s policy on the Paris agreement.

“The plan is for Director Cohn to consider other ways in which we can work with

partners in the Paris Climate Accord,” Mr. Tillerson said. “We want to be productive. We want to be helpful.”

Separately, National Security Adviser H.R. McMaster said, “The president decided to pull out of the Paris Accord because it was a bad deal for the American people and because it was a bad deal for the environment.”

He also said the president “left the door open to re-entering at some later time if there can be a better deal for the U.S....If there’s an agreement that benefits the American people, certainly.”

In a statement Saturday afternoon, a White House spokeswoman said the administration’s position on Paris hadn’t changed, but also noted that the president’s stance on withdrawing from the deal had never been set in stone.

“There has been no change in the U.S.’s position on the Paris agreement,” said deputy press secretary Lindsay Walters. “As the president has made abundantly clear, the U.S. is withdrawing unless we can re-enter on terms that are more favorable to our country.”

Multiple participants at the *Please see PARIS page A2*

Monsoon Worsens Plight of Myanmar Refugees



SEEKING SHELTER: Rohingya people try to cross a rain-swollen stream in Bangladesh on Sunday. Myanmar’s top military commander has urged the country to unite in the face of growing international criticism of its treatment of the ethnic minority. **A3**

A DOCTOR’S HARD DECISION

Scattered across the Mediterranean Sea, migrants desperately trying to reach Europe face death every day. Crews on rescue ships must make agonizing judgments about whom to save.

By DREW HINSHAW

ABOARD THE GOLFO AZZURRO—An urgent plea woke the ship’s doctor, John Vallentine, at 6:30 a.m. He was needed on the bridge.

The rescue ship was steaming south in the Mediterranean Sea in a race to reach a deflating rubber dinghy packed with migrants. Italy’s coast guard had transmitted the coordinates, along with a warning the makeshift craft could soon sink.

A voice crackling across the radio told of another emergency. A lone West African man plucked from the sea by a nearby vessel was grievously ill with a soaring fever and convulsions. “He is unconscious and not responding,” the

radio voice said.

Dr. Vallentine and the crew of the Golfo Azzurro had a decision to make. They could help the stricken man, which would delay their mission to find the dinghy. Crew members knew from experience what happens when inflatable crafts fail. Seawater and fuel pool in the middle, weighing boats down into the sea. The liquids form a corrosive mixture that eats away at the flesh of those stuck in the crowded boat. Panic erupts and people drown.

The other option would be to continue on their course. They didn’t know the dinghy’s exact condition or whether another ship could rescue it. And without immediate medical care, the man on the boat a half-hour west would almost

certainly die.

As a professor of medical ethics back home in Australia, Dr. Vallentine delighted in challenging students with the kinds of complex moral questions that can make the practice of medicine uncomfortable. Those often centered on issues of privacy and social responsibility, such as whether doctors should warn police about a mentally ill patient who owns guns.

In the chaos of a humanitarian disaster, such as when thousands of African and Middle Eastern migrants try to cross the Mediterranean in flimsy vessels, there are few rules about whom to help and in what order. “It’s all about finite resources in a world of in-

Please see BOAT page A6

ISIS Seeks To Revive Its Fortunes In Libya

A year after losing its main Libyan stronghold, Islamic State has formed a number of clandestine cells around the chaotic North African country as the militants seek to regroup on Europe’s doorstep.

By Hassan Morajea in Tunis, Tunisia, and Benoit Faucon in London

The small cells, some comprised of up to several dozen fighters, have set up new bases outside Libyan towns in the past several months and started making money by hijacking commercial trucks and extorting migrant smuggling rings, according to Libyan and European security officials.

Islamic State has also told fighters to go to Libya from Syria, where a U.S.-led coalition is pushing the terror *Please see ISIS page A3*

Some Young Voters in Australia Are Clueless About Mailing a Ballot

Same-sex marriage vote hangs on whether millennials know how to send a letter

By ROB TAYLOR

CANBERRA, Australia—The future of democracy faces an unexpected challenge from within. Can young voters learn to use a mailbox?

The outcome of a national mail-in vote in Australia this fall on sanctioning same-sex marriage may teeter on the answer. “I don’t really know what the go is with post boxes, stamps, that kind of thing,” says 23-year-old Anna Dennis. Ms. Dennis, a sociology student at the elite Australian National University, says the last time she had to mail a parcel “I took my dad to help.”

Early polls showed 59% of voters in favor of allowing same-sex marriage in the ad-

sory vote, with support around 80% among voters age 25 and younger. But advocates worry whether enough millennials like Ms. Dennis, who prefers instant messaging, know how to mail a letter.

Tiernan Brady was recruited to run the Equality Campaign after heading Ireland’s same-sex marriage referendum in 2015. He says he starts campaign events by asking, “How many people have posted a letter in the past year?”

Typically, “only a handful of hands go up,” Mr. Brady says. “Australians don’t do postal votes,” he says. “The last one was in 1917, so we can safely say no one alive remembers it.” *Please see MAIL page A4*

Australian mailbox

WORLD NEWS

Three Speeches Could Shape Europe's Future



EUROPE FILE
By Simon Nixon

Three speeches in two weeks are likely to shape Europe's destiny for years to come.

The first came last week when European Commission President Jean-Claude Juncker delivered his annual state of the union speech to the European Parliament in which he set out his agenda for the European Union over the next 16 months.

This included eye-catching initiatives such as a plan to merge his job with that of Donald Tusk to create a single president of the EU Commission and Council, the creation of a eurozone finance minister, deeper European defense cooperation, the creation of new EU agencies to monitor national structural changes and the application of EU labor rules, and new incentives for all remaining EU member states to adopt the euro.

Mr. Juncker's speech inevitably provoked accusations of a Brussels power-grab, supposedly justifying warnings not least by Brexiters of the EU's inevitable drift toward federalism and the creation of an EU "superstate." But this misses the point.

Mr. Juncker's speech was as interesting for what it didn't contain as much as what it did. For this to have been a major step toward federalism, there would have to be a major transfer of power and resources to the EU. Yet there was no mention of plans to give the EU new



European Commission President Jean-Claude Juncker delivers his annual state of the union speech.

if that means living with a more vulnerable eurozone.

Meanwhile, another potential shock stalks the EU about which Mr. Juncker had nothing to say at all. His decision not to discuss Brexit was supposed to convey confidence that the U.K.'s decision to quit the EU doesn't represent an existential threat to the survival of the block. But this show of confidence hides deep anxiety in some European capitals at the way that the negotiations are going. Significant interests are at stake in terms of cross-border investment, supply chains and trade and there is an enormous amount to negotiate in the 18 months before the U.K. leaves, notes one senior French official. Yet the negotiations are currently stalled in a standoff over Britain's outstanding financial obligations and the sequencing of talks, raising the prospect of a destabilizing, chaotic exit.

Prime Minister Theresa May will attempt to unblock this process with the other big speech of the fortnight in Florence this Thursday. But the prospects for a significant breakthrough look slim unless Mrs. May is prepared to signal her willingness to go some way toward meeting the EU's financial demands and accept its insistence that "sufficient progress" must be made on settling the U.K.'s obligations before talks on a future trading relationship can begin.

Her task looked even harder following an intervention by Foreign Secretary Boris Johnson over the weekend that suggested cabinet divisions over how to handle the negotiations. A collapse in the negotiations leading to a chaotic British exit from the EU would be highly destabilizing both economically and politically, not only for the U.K.

The EU may be more vulnerable to shocks than Mr. Juncker may be willing to admit.

tax-raising powers, or the ability to issue its own debt. Nor was there any mention of a recently floated Commission proposal to pool risks via common EU-wide unemployment insurance. Another idea to create a European safe asset by offering joint guarantees of sovereign-bond backed securities appeared in the Commission agenda only as an idea meriting further "exploratory work."

Most of Mr. Juncker's proposed institutional changes simply involve beefing up the way in which the EU exercises existing powers. His plan to turn the European Stability Mechanism—the eurozone's bailout fund—into a

European Monetary Fund didn't specify any new powers to accompany this name change. Nor did he say what new powers if any should be wielded by the proposed new eurozone finance minister. He did suggest some new functions that could be performed by the creation of a new eurozone budget line in the overall EU budget line. This included using the budget as a backstop to the banking union. But he didn't propose a radical increase in the size of the budget necessary to turn it into a credible crisis-fighting tool.

That in turn puts the spotlight on a speech that Emmanuel Macron is expected to deliver on Sept.

26, two days after the German election. Until now, the French president has sided with those economists who believe that a decisive move toward deeper eurozone fiscal integration is vital to cushion the currency bloc against a possible shock from Italy that many fear could strike at any time.

Yet French government thinking may be shifting: Officials now emphasize the importance of structural overhauls by national governments—including further moves to improve the functioning of the eurozone banking system—to boost productivity rather than pooling of

risks as the key to strengthening the eurozone. Mr. Macron may still push for a big eurozone budget but the government has yet to reach a decision on how it thinks this should be funded and what it should do, say people involved in the discussions.

If Mr. Macron does scale back his ambitions then eurozone reform may not progress much beyond the limited overhauls proposed by Mr. Juncker. That would please Germany, which believes that there is little the EU can do up front to minimize the risks of a possible Italian crisis and that any consequences can only be addressed as they arise—even



The cost of alternative power sources, such as wind, is declining.

PARIS

Continued from Page One
Montreal gathering said White House senior adviser Everett Eissenstat's approach, though it is likely to entail a significant reduction in the U.S.'s ambition to curb greenhouse-gas emissions, fueled optimism among proponents of the Paris deal.

Since Mr. Trump's inauguration in January, officials from China to the EU and Canada have tried to convince his administration that fighting climate change is also a boon for the economy and jobs, and not just an ideological battle.

"The U.S. has stated that they will not renegotiate the Paris accord, but they will try to review the terms on which they could be engaged under this agreement," European Commissioner for Climate Action and Energy Miguel Arias Cañete said.

"We are pleased the U.S. continues to engage and recognize the economic opportunity of clean growth, including clean energy," said Canadian Environment Minister Catherine McKenna in a statement to The Wall Street Journal.

In announcing the decision to withdraw the U.S. from the 195-nation agreement at the White House in June, Mr. Trump said he was ready to "begin negotiations to re-enter either the Paris accord or an—

really entirely new transaction—on terms that are fair to the U.S., its businesses, its workers, its people, its taxpayers."

"So we're getting out, but we will start to negotiate, and we will see if we can make a deal that's fair," he added. "And if we can, that's great. And if we can't, that's fine."

The U.S. has the world's second-highest level of greenhouse-gas emissions, which drive global warming, behind China. Washington's exit from the Paris deal would undermine its viability and could trigger other exits, unraveling an agreement that took decades to negotiate.

Washington is reviewing new emission-cut targets to combat climate change, Mr. Eissenstat said, according to one of the participants at the meeting. Any revisions would lower existing U.S. commitments signed by former President Barack Obama, which would be a blow to the global effort, the official said. Under the Paris accord, every country set its own goals.

While Mr. Eissenstat, deputy assistant to the president for international economic affairs and deputy director of the **National Economic Council**, outlined a plan to reassure partners that the U.S. would be constructive, he didn't provide clarity on the new emissions-reduction objectives, the official said.

"They are seriously considering the terms on which the

U.S. could re-engage," the official said. "They have also made clear that they have no intention to renegotiate or develop a parallel track to Paris."

Mr. Cohn was expected to reiterate Mr. Eissenstat's message in Montreal during an informal breakfast meeting to discuss international energy and climate issues with the world's top ministers, the official said.

Canada, China and the EU organized the ministerial meeting in Montreal just before world leaders descend on New York for the United Nations General Assembly.

Signed in 2015 under a U.N. effort to fight climate change, the Paris deal is also on the agenda as countries seek to meet their global commitment to limit the global temperature increases to "well below" 2 degrees Celsius (3.6 degrees Fahrenheit) compared with preindustrial levels. The only countries that aren't signatories to the accord are Syria and Nicaragua.

Some major U.S. energy companies, including Exxon Mobil Corp., had urged Mr. Trump not to withdraw from the Paris accord. Exxon Chief Executive Darren Woods went public earlier this year with his point of view that the U.S. should remain in the agreement.

Some players in the energy industry, including the chiefs of some shale companies, supported the move to leave the Paris Accord.

Whether or not the U.S. opts to stay, the country's emissions of greenhouse gases are widely predicted to continue declining, as gas power replaces coal, helped by bountiful supplies of cheap natural gas. The declining cost of renewable power, including wind and solar, is also forecast to play a role in reducing emissions.

When Mr. Trump announced his intention to withdraw from Paris in June, executives at many U.S. companies, in the energy sector and beyond, signaled that they intended to continue taking steps to reduce emissions by their companies.

States and cities around the U.S. also vowed to adhere to their own aggressive climate policies, independent of the federal government.

—Paul Vieira, Eli Stokols and Elena Cherney contributed to this article.

SUITS

Continued from Page One

Since its founding in late 2011, Longford has put \$137 million into 102 lawsuits. So far, 43 of those have settled or otherwise resolved and been "very successful for investors," said William Strong, Longford's chairman and managing director. He declined to discuss the exact rate of return.

Burford Capital, the biggest player in the industry, made \$488 million in new investments in the first half of 2017, the publicly traded firm said in July, up from \$200 million in the same period last year. Six-month profits-after-taxes were up 170%, to \$142.7 million, Burford said.

Lawsuits are idiosyncratic, often taking years to resolve, and the terms of litigation funding call for investors to lose everything if a case is unsuccessful. To help mitigate the risk, funders are increasingly packaging lawsuits into portfolios. Longford said the size of its new fund would allow it to work with law firms to support portfolios of existing cases they are handling. Longford said it hoped to start backing litigation pursued by universities and government agencies, in addition to the corporate litigation it already is funding.

CORRECTIONS & AMPLIFICATIONS

Saint-Emilion is about 30 miles east of Bordeaux. A Mansion article in the Friday-Sunday edition about homes in southwestern France incorrectly said the town was west of Bordeaux.

The imaging company Planet operates 178 CubeSats and 12 other small satellites of different designs. The company also revised its October launch plans and expects to launch four more CubeSats and six other small satellites. A Page One article Wednesday about collision risks in space amid increasing numbers of satellites misstated the mix of satellite types in Planet's net-

Its investors include Jeffrey Vinik, owner of the NHL's Tampa Bay Lightning and former manager of the \$50 billion Fidelity Magellan Fund, and Edward Liddy, former CEO of Allstate Corp.

LexShares, a three-year-old funder that invests primarily in small to midsize commercial cases, recently announced it is raising \$25 million for its first fund focused on portfolio investments. The firm, which uses an online platform to pair cases with investors, said it has invested \$16.3 million in

Longford wants to back litigation pursued by government agencies.

40 cases so far. Of those, eight have ended favorably, and one case was lost—returning a median of 1.7 times the money put in—and the rest are pending, LexShares said.

To help it find potential investments, LexShares has developed software that mines around 1,000 newly filed federal and state cases a day. The algorithm flags cases based on factors including the law firm that filed the case, type of claims and creditworthiness of the defendant.

work as 185 CubeSats and five other satellites. And it gave the company's original October launch plans of six CubeSats.

Nicole Puzzi, of Brazil's Animals Party, wears boots made of artificial leather. A Page One article on Aug. 22 about Brazil's numerous political parties incorrectly said that she wore leather boots.

An interview with the late Pierre Bergé that appears in WSJ. Magazine's September Men's Style issue about two new museums honoring Yves Saint Laurent went to press before Mr. Bergé's Sept. 8 death.

Litigation finance has largely moved past the initial skepticism it faced when it came onto the U.S. scene around a decade ago. Critics, including the U.S. Chamber of Commerce, say the influx of money is driving unnecessary lawsuits and that funders have too much influence over litigation outcomes. The funders contest both points.

While most deals continue to remain confidential, some law firms are becoming open to attaching their name to the practice. Woodsford Litigation Funding said in August it entered into a \$20 million financing arrangement with litigation law firm Lewis Baach Kaufmann Middlemiss to fund future contingency-fee matters. Woodsford, founded in 2010 in the U.K., opened its first U.S. office in Philadelphia in July.

"The economics of litigation have changed a lot," said Eric Lewis, senior partner at Lewis Baach, who added that outside financing helps cover upfront costs.

Interest in financing litigation shows no sign of slowing.

"The amount of growth to take place is extraordinary," said Longford's Mr. Strong, who previously worked as a senior executive at Morgan Stanley. "It reminds me of what private equity felt like in the late 1970s."

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WORLD NEWS

Myanmar Military Calls for Unity

General digs in as international outcry mounts over treatment of Muslim minority

By JAMES HOOKWAY

Myanmar's top military commander has urged the country to unite in the face of growing international criticism of its treatment of the ethnic-Rohingya minority, some 400,000 of whom have sought refuge across the border in Bangladesh in the past three weeks.

Bangladesh and other nations have said they would raise the plight of the Muslim Rohingya at the United Nations General Assembly this week. U.N. officials are among those labeling the crisis as a clear instance of ethnic cleansing. Bangladesh medical officials on Sunday said they are trying to restrict the refugees from moving further into the country and have begun immunizing tens of thousands of children against disease, the Associated Press reported.

In comments posted to his official Facebook page on Saturday, Senior General Min Aung Hlaing reflected the widespread view in Myanmar



Rohingya refugees arrive in Bangladesh, part of some 400,000 who have sought refuge in recent weeks.

that the stateless Rohingya are illegal immigrants from Bangladesh, and should be known as Bengalis.

"They have demanded recognition as Rohingya, which has never been an ethnic group in Myanmar," Gen. Min Aung Hlaing said. "The Bengali issue is a national cause, and we need to be united in establishing the truth."

Myanmar's armed forces began sweeping through the

northern reaches of Rakhine State, which borders Bangladesh, after militant Rohingya attacked government outposts on Aug. 25, killing 12 security officials. The area has long been steeped in tension, with many Rohingya saying their roots in the area go back centuries. Myanmar regards the attacks as the militants' first significant attempt to carve out their own territory in the area, and its response has

been ferocious.

Refugees have reported soldiers shooting villagers and torching homes. In some instances, local Buddhist vigilantes joined the violence, while others fled toward safer areas away from the borders.

Myanmar's civilian leader, Nobel Peace Prize winner Aung San Suu Kyi, is under pressure to contain the military as it continues its operations in Rakhine State. Fellow Nobel lau-

reares have called on her to speak out with the moral authority earned with her own Nobel Prize, awarded in 1991 for resisting military rule.

"How many Rohingya have to die; how many Rohingya women will be raped; how many communities will be razed before you raise your voice in defense of those who have no voice?" one group of laureates wrote.

It is difficult for Ms. Suu Kyi to constrain Myanmar's army, however. The junta that ruled Myanmar for nearly five decades was dissolved in 2011, but left behind a constitution that secures a role for the military in running the country and prevents Ms. Suu Kyi from becoming president after she won national elections in 2015, on the grounds that her children are foreign nationals. She instead holds the specially created post of state counsellor.

The army can also veto government directives, and changing the constitution is impossible without action from the 25% of seats it is allocated in the country's parliament.

In her only public comments on the latest Rohingya crisis, Ms. Suu Kyi so far has chosen not to confront Gen. Min Aung Hlaing, but to commend the military's response to the Aug. 25 attacks.

Trump Officials Warn Pyongyang

By GORDON LUBOLD AND BEN LEUBSDORF

WASHINGTON—The White House on Sunday reiterated its position that North Korean leader Kim Jong Un must give up his nuclear weapons, days after President Donald Trump hinted again at a military strike on the North.

White House National Security Adviser H.R. McMaster said Sunday the U.S. policy remains that North Korea must denuclearize. Pyongyang shows no signs of halting the country's nuclear and ballistic missile programs, launching several missiles and testing a nuclear device as recently as this month.

"He's going to have to give up his nuclear weapons, because the president has said that he is not going to tolerate this regime threatening the United States and our citizens with a nuclear weapon," Mr. McMaster, an Army three-star general, said on ABC.

Asked if Mr. Trump would strike North Korea if Mr. Kim doesn't give up his weapons, Mr. McMaster said: "He's been very clear about that, that all options are on the table."

U.S. Ambassador to the United Nations Nikki Haley warned North Korea would be "destroyed" if it "keeps on with this reckless behavior."

Secretary of State Rex Tillerson and Defense Secretary Jim Mattis have suggested talks with North Korea could take place if the regime halts weapons and missile tests.

Critics of the administration position dismiss the likelihood that Mr. Kim will easily give up his nuclear-weapon program.

"I think that North Korea is not going to give up its program with nothing on the table," Sen. Dianne Feinstein (D., Calif.) said on CNN on Sunday. "I think that what could happen is that we could have reliable verification of a freeze of both the nuclear program and the missile arsenal, and that we could conceivably talk China into supporting that kind of freeze."

Mr. Trump's advisers, including Messrs. Tillerson and Mattis and Ms. Haley, have been working to pressure China to coerce North Korea into halting its nuclear and missile programs.

But those efforts thus far have fallen short.

Mr. Tillerson said he has seen no indication that the North is responding to sanctions by halting its testing of nuclear weapons or missiles.

"I'm waiting for the regime in North Korea to give us some indication that they are prepared to have constructive, productive talks," Mr. Tillerson said Sunday on CBS.

"We have tried a couple of times to signal to them that we are ready when they are ready, and they have responded with more missile launches and a nuclear test. I've said in the past that we'll know it when we see it in terms of their seriousness."

Pakistan's Ruling Party Wins Crucial Vote

By SAEED SHAH

ISLAMABAD—The party of ousted Prime Minister Nawaz Sharif won a crucial election over the parliamentary seat he was forced to vacate, but the opposition party led by Imran Khan cut the winning margin by half.

The swing in favor of Mr. Khan is large enough to potentially make him a contender for power if repeated at the national election due next year.

The former prime minister's party had asked the electorate to come out to register their rejection of July's Supreme Court ruling that dismissed Mr. Sharif from office, saying the court had "stolen" their vote. The case stemmed from corruption allegations over luxury property owned by the Sharif family in London.

Mr. Sharif, who along with



Supporters of Nawaz Sharif and his wife, Kulsoom, celebrated.

his family has denied any wrongdoing, hasn't been convicted of any crime.

The candidate of Mr. Sharif's Pakistan Muslim League-N party was his wife, Kulsoom, currently receiving treatment for cancer in London. The campaign was

fronted by his daughter and political heir, 43-year-old Maryam.

"Today, we have the ruling on that ruling," Maryam Sharif told cheering supporters in Lahore, referring to the Supreme Court verdict that removed her father from office.

"By voting, you've negated all the conspiracies against Nawaz Sharif."

Though publicly Mr. Sharif's party doesn't spell out that conspiracy, privately aides allege the country's coup-prone military was behind the ouster, an accusation denied by the military.

In third place, with more than 4,000 votes in the election, was the candidate supported by the newly launched political wing of Jamaat-ud-Dawa, a group blamed internationally for the 2008 attack on the Indian city of Mumbai that killed 166 people and is listed by the United Nations as terrorists. The leader of the group, Hafiz Saeed, carries a \$10 million U.S. bounty on his head, and his image was on the campaign posters of the candidate, Yacoub Sheikh, who was designated a terrorist by the U.S. in 2012.

Mr. Sharif's party was al-

ways expected to win the parliamentary district in his hometown of Lahore, which has elected him in his three decades in politics. But the margin of victory in the seat, compared with the last general election in 2013, was the closely watched barometer for the national election, due by September next year.

Lahore is the provincial capital of the Punjab region, which decides the outcome of national elections as it contains more than half the seats in parliament.

It is also the base of Mr. Sharif's political dynasty. To stand a chance of forming the next government, Mr. Khan's Pakistan Tehreek-e-Insaf party must take around half the seats in Punjab in 2018, election experts say. The swing in the by-election from Mr. Sharif's party to Mr. Khan's of 13% is around the level needed for that result.

Palestinians Agree to Rules for Reconciliation

Militant group Hamas said it agreed to conditions demanded by Palestinian Authority President Mahmoud Abbas for reconciliation with his Fa-

minister the strip. Mr. Abbas, whose government helps fund Gaza's economy, has for months financially pressured the group to cede control.

Reconciliation would mark a significant step forward for the Palestinian national movement, which has been at a stalemate since 2007, when Hamas took control of Gaza after an armed conflict. But such a rapprochement is likely to face significant obstacles.

Mr. Abbas and Hamas's leadership have repeatedly spoken about a national government in the Palestinian territories comprising both factions but have failed to

implement such an agreement. Hamas made no mention in its statement of handing over security of the strip to the Authority, a key demand by Mr. Abbas's government in mending the rift.

Hamas's new leadership in recent weeks has said it is eager to work with Iran, which vows Israel's destruction, and restore ties with Palestinian politician Mohammed Dahlan, a former ally-turned-enemy of Mr. Abbas who is backed by the United Arab Emirates and lives in Abu Dhabi.

Mr. Abbas is unlikely to want to work with either of those parties.

Azzam al-Ahmed, a member of Fatah's central committee, nonetheless welcomed Hamas's announcement and hailed its call for a national-unity government as a positive step forward, said a Sunday statement on the Palestinian Authority's official media channel.

Egypt has in recent weeks tried to broker a deal between the two sides, and Fatah and Hamas officials have made frequent visits to Cairo.

After meeting with Hamas officials in Cairo, Mr. al-Ahmed said Palestinians "will witness tangible practical steps" toward reconciliation,

starting with an Authority presence in Gaza, the Authority's statement said.

United Nations Special Coordinator for the Middle East Peace Process Nickolay Mladenov also called on all sides to "seize this opportunity to restore unity and open a new page for the Palestinian people."

U.S. President Donald Trump has identified Israeli-Palestinian peace as a key foreign policy goal, but won't negotiate directly with Hamas over the fate of Gaza.

The group is considered a terrorist organization by the U.S. and Israel.

ISIS

Continued from Page One

group from its de facto capital of Raqqa, according to a defector and security officials.

"They consider Libya to be the main entrance to Europe," said Abu Baara al-Ansari, a Syrian who defected from Islamic State in June. Mr. al-Ansari said he worked in Raqqa for Islamic State in the office that tracked visitors to the group's territory. He is now in Turkey, and was interviewed via the Telegram messaging system.

The group's efforts to stage a comeback in Libya after losing control of the city of Sirte last year have sparked particular concern among European officials. Attackers who traveled from Syria to Europe have taken part in a number of attacks in recent years.

A resurgent Islamic State "is definitely becoming a problem in Libya," a European security official said. The terror group can raise revenue in

Libya by tapping lucrative rackets and take advantage of weapon stockpiles in a country that is both vast and politically unstable, he said.

Members of Libya's Presidential Council, which presides over the Tripoli government, didn't respond to requests for comment about Islamic State's activities.

Islamic State said two years ago it planned to infiltrate migrant groups and carry out attacks in Europe. Thousands of migrants have crossed the Mediterranean Sea from Libya and arrived in Italy this year.

Salman Abedi, a British citizen of Libyan descent, blew himself up outside a concert in Manchester in May, killing 22 people. Abedi had recently returned from Libya, and European security officials say the type of bomb he used indicates he may have been trained by Islamic State.

Since the death of Col. Moammar Gadhafi in 2011, warring factions have carved Libya into fiefs and fought over its oil fields, leaving the economy in tatters.

"Daesh is exploiting the security vacuum," said an intelligence officer from the city of Misrata who works with forces loyal to Tripoli, using the Arabic acronym for Islamic State.

Militias from Misrata—who support the United Nations-backed Government of National Accord in the capital, Tripoli—led the successful campaign to oust Islamic State from Sirte.

There are about 500 Islamic State members active in Libya now, according to an estimate by the U.S. Africa Command, which oversees American military operations on the continent. That is down from about 3,000 fighters when the group held Sirte in 2016.

But other officials said it is difficult to know how many Islamic State fighters are currently in Libya. And they say the group's ability to operate relatively unhindered around the country raises concerns.

Since driving Islamic State out of Sirte, the U.S. has seen "a marked decrease" in the number of foreign fighters traveling to or from the con-

Some of the cities and towns where Islamic State has significant presence



Sources: Libyan military and government officials
THE WALL STREET JOURNAL.

flict in Libya, according to a U.S. State Department official.

Security officials and the Islamic State defector say the group's fighters—including Syrians and Iraqis, as well as Libyans—have been trying to enter Libya in hopes of reaching Europe to launch attacks.

Islamic State members have in the past flown from Turkey to Sudan before going overland to Libya, according to two European security officials. Meanwhile, Libyan

forces in the south are monitoring a group of Islamic State recruits who made their way to Sudan from Syria and are trying to cross into Libya, according to a security official from the area.

Sudan is aware some fighters have taken advantage of its porous western border to infiltrate Libya, according to Rabie Abdelaty, who heads the political bureau at Sudan's ruling National Congress Party. He says the government has deployed forces to stem the infiltration.

Libyans were among those who trained at Islamic State's weapons lab in Raqqa, according to another Islamic State defector. Some of the devices were intended both for battlefield use and for carrying out attacks in Europe, said the defector, who was involved in their design and who left the group in 2016. Components are cheap and easy to get, and Islamic State videos show how to assemble them, he added.

In Libya, a rival government operates in the east of the country, where a group allied

with Islamic State was ousted earlier this year from the city of Benghazi. In late May, around the time of the ouster, two members of the allied group were dispatched by Islamic State from Benghazi to go to Istanbul, according to a third Islamic State defector who remains in contact with the group in Raqqa.

They were directed to make their way from Istanbul to Athens and to wait for orders about an attack in Europe, the defector said. A European security official said last month the movements of the men were being monitored.

Islamic State fighters who escaped Sirte fled to parts of Libya such as Bani Walid, west of Sirte. The fighters remained hidden in the surrounding valleys for months, but now have started to "set up checkpoints at times and hijack trucks and any goods in them," said the intelligence officer from Misrata.

—Ben Kesling, Nicholas Bariyo, Nour Malas, Nour Alakraa and Jenny Gross contributed to this article.

WORLD NEWS

New Storm Threatens Ravaged Islands

By JOSÉ DE CÓRDOBA

CRUZ BAY, U.S. Virgin Islands—Newly formed Tropical Storm Maria cast a long shadow of fear and uncertainty over a large swath of the Caribbean that was slammed by Hurricane Irma less than two weeks ago.

Maria was about 450 miles from the Leeward Islands by late morning Sunday with sustained winds of 65 miles an hour and was expected to reach hurricane strength later in the day, the U.S. National Hurricane Center said. The storm could become a major hurricane threatening the British and U.S. Virgin Islands and Puerto Rico by midweek, the center added.

Maria comes less than two weeks after Irma made a deadly sweep through the area, killing at least 38 people across the Caribbean and causing catastrophic damage.

People in the tiny two-island nation of Antigua and Barbuda, the first to be hit by Irma, were busy preparing Sunday for the possible impact of Maria.

Nearly all Barbuda's 1,800 residents had already been evacuated 25 miles south to Antigua and remain there, staying in government shelters or with friends and relatives, Philmore Mullin, the director of emergency response, said Sunday.

"We're keeping a very close eye on Maria and making



A resident of Charlotte Amalie on St. Thomas surveys his home 12 days after Hurricane Irma swept across the U.S. Virgin Islands.

preparations," Mr. Mullin said.

On St. John, one of the U.S. Virgin Islands worst hit by Irma, a feeling of dread was palpable at a town hall meeting Saturday to discuss relief efforts in the wake of Irma and the new storm.

"We are strongly encouraging the residents of St. John who are able to do so to evacu-

uate," said Ryan West, a spokesman for Love City Strong, an ad hoc citizen's group that has played a key role in organizing boat evacuations from St. John and disaster relief to the island from Puerto Rico after Irma.

Some people at the meeting gasped while others sat in stunned silence. "It's a slap in

the face," said one woman.

Most people here have been without electricity or running water since Irma, trying to imagine how to rebuild their lives. The hurricane, one of the strongest ever recorded, ravaged St. John, the smallest of the three U.S. Virgin Islands. The storm flattened lush forests, which cover

about 70% of the 50-square-mile island, and damaged or destroyed most homes. The island is a favorite winter gathering place for vacationing millionaires.

"I feel very fearful for my husband," said Tonia Lovejoy, 37 years old, who left Saturday with her 4-month-old daughter on a Puerto Rico-

bound boat. Her husband stayed behind to repair the couple's 36-foot sailboat on which they live. "If another storm is coming, he should leave. We are already living on a thin thread," she said.

"This is bad," said Stephen Tilas, a 51-year-old property manager who changed his plans after hearing about Maria's threatening trajectory. Instead of beginning to repair the damaged villas he oversees, Mr. Tilas again shuttered his own house to prepare for the new storm.

Keeping a wary eye on Maria, Sean Riggan, an emergency-response volunteer, spent most of Friday in Coral Bay, the worst-hit town on St. John, working to cross names off a list of about seven people yet unaccounted for since the storm.

In this island of some 4,000 permanent residents, Mr. Riggan, the police chief of Pleasantville, N.J., asked neighbors if they had seen or heard anything about the people on the list. "Abby, Lexy, Ross, are all fine," answered Erin Pryor, owner of a Coral Bay restaurant. "Marvelous Marvin, I haven't seen him."

Ms. Pryor drove Mr. Riggan to the home of another person on the list. There they found Gaston Servant, 66, who had ridden out the storm in his house but hadn't been seen since. "They crossed me off the list," said Mr. Servant. "So I'm no longer missing."

U.K. Offers Security Treaty With EU MAIL

By JASON DOUGLAS

LONDON—The U.K. government proposed that London and Brussels sign a new treaty to ensure cooperation on security and law enforcement after Britain leaves the European Union.

The proposal, laid out in a paper to be published Monday, highlights the close ties between the U.K. and other EU member states in matters of criminal justice that officials are eager to preserve in the fi-

nal withdrawal agreement.

It comes after the British capital was struck on Friday by the latest in a string of terrorist attacks in Europe this year, when 29 people were injured by a homemade bomb left on a packed subway train.

A new treaty would provide a legal basis for continued collaboration on security, law enforcement and criminal justice following the U.K.'s exit from the EU, said a statement from the U.K.'s Department for Exit-

ing the European Union.

The U.K. said a treaty would establish formal channels for agencies to cooperate after the 2019 divorce and include a method for settling disputes. "Effective international cooperation is absolutely crucial for both the U.K. and the EU if we are to keep our citizens safe and bring criminals to justice," U.K. Brexit Secretary David Davis said.

EU member states and their law-enforcement agencies rou-

tinely share data and intelligence on at-large wanted criminals in Europe and work together to combat organized crime and terrorism. National police forces cooperate through Europol, the EU's police office, and the bloc has developed streamlined procedures.

The U.K. said it would call for a comprehensive agreement on security collaboration with the EU as part of the "deep and special partnership" it wants to forge after Brexit.

Continued from Page One

Like elsewhere, instant-message apps and email have taken their toll. Mail volume has plummeted, according to Australia Post, the national mail service: Australians sent a billion fewer letters last year than a decade ago. Business and government mail account for 95% of all letters.

Postal service appears to have joined the list of habits abandoned by millennials, including paying by check and answering the doorbell, a device that a majority in a recent Twitter poll agreed was "scary weird."

Sending a letter is like recalling the times table from grade-school arithmetic, says Yan Zhuang, a 21-year-old politics major at the University of Melbourne. "You sort of remember," she says, "but not really."

Australia Post says it doesn't know how many young people send mail. A 2015 study for the Royal Mail in the U.K. found a third of them believe "writing letters is a thing of the past." Half said they wrote friends on social media every day; most said they mailed about one letter a year.

Millennials have found correspondence a two-way street. Nida Javed, 28, a Sydney-based IT specialist, says for once she would like to receive a letter that doesn't begin: "To whom it may concern."

Approving same-sex marriage in Australia doesn't require a national referendum. Prime Minister Malcolm Turnbull, weakened by elections last year that left his conservative coalition with a one-seat majority, decided to toss the question to voters, then, depending on results, address the issue in Parliament.

Some 400,000 Australians from the ages of 18 to 25 have never voted, but around 90,000 mostly young people have registered since the same-sex vote was announced in August, according to the Australian Electoral Commission.

They are poised to support same-sex marriage in large numbers, says Ariadne Vromen, a social researcher at the University of Sydney.

That is, if they can figure out

how. Ballots went out last week, with postage paid, and results will be announced Nov. 15.

Much work remains for both sides. Lyle Shelton, head of the Australian Christian Lobby and leading the "No" camp, says his group will launch a "find your mailbox" initiative. "There's a whole younger demographic who don't know what those big red boxes on the street are," he says. "It's just what we're up against."

Andrew Leigh, who supports same-sex marriage, produced a video that shows how to identify mailboxes. In the video, Mr. Leigh, a lawmaker for Australia's main opposition Labor party, says: "If you were born after 1990 you might be wondering what this red box is. You could be thinking to yourself is it a parking meter? Is it a funky form of public art? Is it a place to put my coffee?"

Some colleges are offering to act as mail couriers for students. "For some young people the barrier of physically having to post something might be all a bit too much," says Robyn Lewis, an adviser at Australian National University. The campus post office was demolished during a recent modernization.

Some on both sides of the same-sex marriage issue say the vote would be more accurate if it were conducted electronically, via computers and mobile phones. Others worry about security and reliability of voting online.

Ms. Dennis says conservative parents who collect the mail at home might try to hide the ballot papers from their voting-age children. "My dad deals with the mail," she says.

Others say ballots may be lost under piles of store catalogs and utility bills. "No one really checks the mail at our share house," says Ben Grono, age 29, who works in digital communications in Sydney. "It winds up piled up somewhere in the house. It's an object of curiosity."

To find a mailbox, Mr. Grono says, he would try a Google search. Albert Patajo, age 23, of the northern city of Darwin, says he last mailed a letter in 2013, when he applied for a visa to study in the U.S. "I just find it very inefficient," he says.

—Rachel Pannett contributed to this article.

BLAST

Continued from Page One
under military pressure from the U.S. and others.

Metropolitan Police Assistant Commissioner Mark Rowley, the U.K.'s top counterterrorism officer, said the search in Sunbury and another in Stanwell, near London, had given law-enforcement agencies "a greater understanding of the preparation of the device" used in Friday's attack. Police said the search in Sunbury is related to the arrest of the 18-year-old man and the search in Stanwell is related to the 21-year-old's arrest.

On Sunday, police were still working in the Sunbury home. Yellow tents had been set up outside and the street was blocked off. Property records indicate the house is owned by Ronald and Penelope Jones. The couple couldn't be reached for comment.

Neighbors said the Joneses were veteran foster parents who most recently were caring for two males that neighbors described as "refugees."

Dave Solway, 44, who lives across the street from the Jones's house, said he saw Mr. Jones arguing with one of the men in the middle of the road about two weeks ago. The man said "he didn't want to stay here. He wanted to go to London," Mr. Solway said.

When armed police showed up on Saturday, Mr. Solway said, they banged on the Jones's door. "When Penny opened, they quickly pulled her and Ron out. They shouted



Police stood guard Sunday during a search by a forensics team in Stanwell, Surrey.

at me, 'Get away from the window.' It was quite mad."

Another neighbor, Jim Adaway, said the Jones's "have done so much good," for foster children. "I couldn't think of a nicer couple."

In 2009, Mr. and Mrs. Jones were named members of the Order of the British Empire, an honor bestowed by the queen, in recognition of their services to children and families.

In an April interview with Elmbridge CAN, which describes itself as a community group helping refugees, Mrs. Jones said she and her husband have fostered 268 children over the years.

She said she has cared for children from Iraq, Eritrea, Syria and Afghanistan and fos-

tering refugee children has been rewarding.

"They're all children, it doesn't matter if they're sky blue or with pink dots on them. They just need to be loved," Mrs. Jones was quoted as saying, adding that her fostering career has had "its ups and downs."

Police haven't identified the arrested men, or described them apart from giving their ages.

The 18-year-old was arrested in the port area of Dover on the English Channel. Dover is a major hub for ferry transport between the U.K. and Europe. Officers searching near the ferry terminal recovered "a number of items," police said.

The U.K. has suffered a

spate of attacks this year. In March, an Islamist terrorist killed five, including a policeman, in a van and knife attack in and around Parliament. That was followed by a suicide bombing in May that killed 22 people at a pop concert in Manchester.

In June, three Islamist extremists rammed pedestrians with a van on London Bridge and stabbed others, killing eight people and injuring dozens before they were shot and killed by police.

That assault was followed by an attack targeting Muslims leaving Ramadan prayers. One man died and eight others were rushed to the hospital when an assailant plowed a rented van into a crowd outside an east London mosque.

WORLD WATCH

CUBA

U.S. Mulls Closing Embassy in Havana

Secretary of State Rex Tillerson said the U.S. is considering closing its embassy in Cuba in response to what he has described as "health attacks" on American diplomats there that have caused hearing loss, concussions and other symptoms.

The health problems began in December and recurred as recently as August, the State Department has said. The department has confirmed that at least 21 Americans have been affected.

Officials haven't determined a cause of the episodes, but have speculated they came from sonic waves from covert listening devices, though such devices haven't been found.

—Felicia Schwartz

MALAYSIA

Seven Youths Held After a Deadly Fire

Police have detained seven youths in connection with a pre-dawn fire at an Islamic boarding school, saying that a verbal dispute between them and students at the school led to an arson attack that killed at least 23 people on Thursday.

Kuala Lumpur Police Chief

Amar Singh said Saturday that the suspects, who were between the ages of 11 and 18, would remain in custody while the case was investigated under the penal codes for "mischief by fire" and murder. Mr. Singh said two of the suspects had criminal records. None has been charged.

Twenty-one of the dead were students and two were teachers, trapped in a dormitory with a locked door and window grilles.

—Yantoultra Ngui

SYRIA

Russia Attacks Site Allies Operated From

Russian military forces on Saturday attacked a location in Syria where they knew troops from the U.S.-led coalition and allied Syrian rebels were operating, the U.S. military said.

The strike wounded several Syrian Democratic Forces troops but members of the U.S.-led co-

alition escaped injury, according to the statement from the Combined Joint Task Force—Operation Inherent Resolve, after the Russian forces hit a target east of the Euphrates River near Deir Ezzour.

Maj. Gen. Igor Konashenkov, a spokesman for the Russian Defense Ministry, said such an incident wasn't possible but didn't elaborate.

—Ben Kesling, Nathan Hodge and Felicia Schwartz

U.S. NEWS

Russia Probe Legal Bills Take Toll

By ARUNA VISWANATHA
AND DEL QUENTIN WILBER

Some White House and Trump campaign officials caught up in investigations of Russia's electoral meddling are struggling to pay their legal bills, prompting them to create legal defense funds, liquidate personal accounts and explore other sources of financing. Washington is one of the nation's costliest legal jurisdictions, with many lawyers charging upward of \$1,000 an hour, and several Trump associates have been contacted in connection with multiple ongoing investigations, from Congress to the special counsel's office.

Former Trump campaign aide Michael Caputo, who testified in July before a closed-door hearing of the House Intelligence Committee, said in an interview he has spent around \$30,000 on legal bills. He said he liquidated a college fund he had set up for his daughters, including one who is 15 years old.

"My retirement account is next," Mr. Caputo said, estimating that paying a Washington attorney to represent a witness at one congressional hearing costs around \$40,000. He said his costs were lower because he hired a lawyer in upstate New York where he lives.

Some officials have liquidated college savings accounts and set up defense funds.

Paul Manafort, President Donald Trump's former campaign chairman and a target of Special Counsel Robert Mueller's probe, owes substantial sums in unpaid legal bills to his former law firm, according to people familiar with the matter. Jason Maloni, a spokesman for Mr. Manafort, declined to comment. A spokesman for Mr. Manafort's former law firm, WilmerHale, also declined to comment.

The sprawling investigations into Russian meddling in the 2016 election have touched many current and former White House and campaign officials. Some, like Mr. Manafort, played major roles in the campaign.

The Office of Government Ethics recently revisited guidance on anonymous and other donations to legal-defense funds in light of the current interest.

The family of former national security adviser Mike Flynn has said it plans to set up a legal-defense fund, as has Roger Stone, a longtime informal adviser to Mr. Trump. He said on his website his legal expenses include defending himself against a private lawsuit accusing him of helping Russian efforts to distribute information hacked from the Democratic National Committee.

A lawyer for Mr. Flynn said his client hadn't announced a legal-defense fund and declined to comment further. Mr. Stone didn't respond to an emailed request for comment.

Mr. Mueller's office is investigating Russian government efforts to influence the 2016 presidential election and "related matters," which includes wide-ranging investigations into the business dealings of Messrs. Manafort and Flynn. At least three congressional committees are conducting related inquiries, and each one involves detailed interviews with numerous witnesses.

Multiple current and former White House officials, including communications director Hope Hicks and former chief of staff Reince Priebus, have retained top lawyers in recent weeks, according to people familiar with the hires.

Russia denies any interference, while Mr. Trump has called the investigations into possible collusion between his campaign and Russia a "witch hunt."

—Rebecca Ballhaus
and Byron Tau
contributed to this article.

THE OUTLOOK | By Josh Zumbrun and Tripp Mickel

Apple Tests Economic Price Theory

Thorstein Veblen was a cranky Norwegian-born economist who coined the phrase "conspicuous consumption" and theorized that certain products could defy the economic laws of gravity by stoking more demand with superhigh prices.

His 1899 book, "Theory of the Leisure Class," made him famous in his time and more than a century later his ideas are embodied in products like Hermès handbags, Bugatti cars and Patek Philippe watches.

Now Apple and Samsung are testing whether the social commentator's theory on what has come to be known as the "Veblen good" can work for one of the most common of all consumer products—the phone.

The gambit is striking because prices tend to fall in technology and products become obsolete fast. In this case, though, it just might work in its own way.

Typically, raising the price of a good lowers demand for it. If beef becomes too expensive, people will buy more chicken.

Mr. Veblen's theory posits that some consumers want a product even more when the price rises because the expense broadcasts status, taste and wealth.

By unveiling the new iPhone X last week with a price of \$1,000, Apple Inc. is pushing the envelope even further than Samsung Electronics Co., which unveiled the \$950 Note 8 phone this year. Rather than trying to attract consumers with cheaper prices, the companies are fighting for customers with expensive price tags.

The starting price of the new flagship iPhone X is about 50% more than the \$650 starting price of last year's iPhone 7. The most expensive version of the iPhone



Apple CEO Tim Cook introduced the iPhone X on Sept. 12, 2017.

X, with 256 gigabytes of storage, will cost 19% more than last year's most expensive device, the iPhone 7 Plus, with the same memory.

Apple and Samsung have found themselves here partly by necessity. Smartphone makers are running out of new customers. Data from IHS Markit estimates there are just under 100 smartphones per 100 people in the U.S. and about 92 smartphones per 100 people in Europe. (Many people own more than one phone.) By 2020, there will be about 84 smartphones per 100 people globally, IHS projects.

To generate more revenue the big smartphone makers increasingly need to push on price.

"They can create a super-premium model and perception of superpremium that pushes those buyer types into the stratosphere," said Steven Haines, chief executive of Sequent Learning Networks, which advises companies on product management. "This is classic product management."

Such segmentation is normal in mature industries,

said Mr. Haines, comparing smartphones to what happened with the auto industry, where luxury cars with high prices became a status symbol as car ownership became commonplace.

Apple has made the case that the technology in its new phone justifies the price. Chief Executive Tim Cook said the iPhone X will feature "more powerful technologies than we've ever put in an iPhone before."

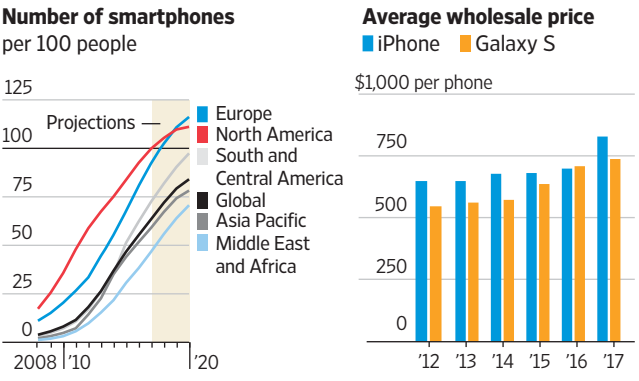
That includes a host of new components and features, including a 5.8-inch organic light-emitting diode display, a depth-sensing camera system for facial recognition, and gyroscopes and accelerometers for augmented reality—a platform that puts virtual images of items like an IKEA sofa onto the smartphone screen so users can see how it would look in a living room.

The components cost an estimated \$581, up from \$248 for iPhone 7 components, according to Susquehanna International Group. The gap suggests Apple's profit margins on the new device are slimmer than on existing lines.

Still, conspicuous consump-

Conspicuous Consumption

As cellphone penetration swells world-wide, Apple and Samsung are creating high-priced, high-end products that spur demand.



Sources: IHS Markit (total); BayStreet Research Inc. (price)

THE WALL STREET JOURNAL.

tion appears to be a growing factor in the economics of smartphones. The market research group NPD, which tracks sales of new iPhones, finds spikes in sales volumes when new phones are launched. The biggest spikes came for iPhones that were the most visibly distinct, such as 2014's iPhone 6, the model in which Apple changed the shape, enlarged the device and raised prices by \$100.

The iPhone 6 "made it obvious, even at a quick glance, which consumers had the latest and greatest device when they pulled out their phone to check an email or answer a call," wrote Eddie Hold, the president of Connected Intelligence, a group at NPD that studies mobile technology.

"You talk to people, and you hear this lust for a product," said Horace Dediu, an industry analyst at Asymco and a former Nokia Corp. business development executive. "Technology has risen in our lives to become a reflection of us."

Still, Mr. Dediu said the iPhone X isn't a pure example of Veblen's theory because demand will be driven by the device's functionality,

not simply price.

While some new iPhones that look different will be bought to show off, he doesn't think anyone is sitting inside the company's headquarters thinking: How do we create that phenomenon?

"They're focused on making the best phone in the world," Mr. Dediu said.

Putting out an iPhone 8 and an iPhone X at the same time suggests Apple is trying to create a prestige factor, said Elizabeth Currid-Halkett, a professor at the University of Southern California who studies consumer culture.

"They're clearly trying to demarcate the iPhone X from the other versions, and surely there's a desire to make it a status good," she said, noting that the iPhone X doesn't appear to offer significantly greater utility to most consumers than the other iterations of the iPhone.

"Are you getting some extra utility out of this good?" said Ms. Currid-Halkett. "I think the answer is no. I don't think a new animated emoji is better functionality. But it's cool."

Newer Homes Fare Better After Irma

By LAURA KUSISTO
AND ARIAN CAMPO-FLORES

As homeowners in Florida begin to take stock of the damage from Hurricane Irma, one pattern is beginning to emerge: Homes that were built to the stricter building codes seem to have fared better.

"The feedback we're hearing is positive," said Rusty Payton, chief executive of the Florida Home Builders Association. "We're all interested and there will be a deep dive. It appears that it did its job."

Bill Wheat, executive vice president and chief financial officer at home-building giant D.R. Horton Inc., said his company's early assessments "indicate that the more recent building standards post-Andrew over the last 20 years have held up relatively well."

The evidence so far is preliminary. Insurance companies, home builders, city and county officials and local resiliency experts say they are still conducting assessments of how homes and commercial buildings built to different standards held up during Irma. Homes in the Florida Keys, for example, tend to be older and were in the most badly damaged areas from the storm, but until a few days ago the Keys were inaccessible to researchers.

Julie Rochman, chief executive of the Insurance Institute for Business and Home Safety, a research organization backed by insurers, said it is too early to say definitively what role the building code played in minimizing destruction. But she said early feedback from a research team that put in place instrumentation throughout southern Florida during the storm is encouraging.

One of the team's meteorologists who toured some of the affected areas was "very pleasantly surprised," Ms. Rochman said. "It looks like the building codes have proved themselves, that the new construction has done well."

Leslie Chapman-Henderson, president and chief executive of

the Federal Alliance for Safe Homes, said she has noticed the roofs of older homes look like checkerboards with shingles missing. Flying shingles are a larger concern because they can hit people and property and cause additional damage.

Research led by Kevin Simmons, a professor at Austin College, looking at insured-loss data from 2001 to 2010 found that the building code reduced windstorm losses by up to 72% and that there were \$6 in losses saved for every \$1 of additional construction costs. The paper is set to be published shortly in the Land Economics journal.

Tom Lykos, a local builder in the Naples area, said his two-story house, which was finished in 2003 and meets the new more stringent standards, came away with nary a scratch from Irma. Mr. Lykos, who is about 5 miles from the water, said at one point the wind was enough to topple a large oak tree outside his door.

"I know stuff was bouncing off the house and my house suffered no damage whatsoever. The newer construction really stood up to the winds," he said.

Others were less lucky, he said. A client of Mr. Lykos whose home was built in the 1990s to less stringent standards sustained severe damage both from wind and flooding, though Mr. Lykos said the home is also closer to the ocean. He said many older homes took on several inches of water but newer homes, which are built further above sea level, didn't.

Florida has one of the strongest building codes in the country. Passed statewide in 2002 after Miami-Dade County beefed up regulations in the wake of Hurricane Andrew in 1992, the new rules required new homes to have stronger fasteners that prevent their roofs from blowing off, nails instead of staples and impact-resistant windows in certain areas, which manufacturers sometimes check by firing pieces of plywood out of cannons at them.



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IN DEPTH

BOAT

Continued from Page One
finite need,” said Dr. Vallentine, who is 70 years old. “Do I look after this one, that 10, this 600?”

Some philosophers and ethicists say the overriding consideration should be to preserve as many lives as possible, even if it requires sacrificing individuals along the way. Others argue that all lives are equally worth saving and it is wrong to deny help to those who need it.

In practice, doctors use all kinds of methods to prioritize care in the pandemonium of a catastrophe. The notion of triage was a creation of battlefield medicine during the Crimean War. Some doctors handle the gravest cases first, others favor children over adults, and others stick to a first-come, first-served system, finding it hard to give up on a suffering patient to help others they haven’t yet seen.

The decision in front of him reminded Dr. Vallentine of an exam question from his medical training. If he was treating a casualty in a war zone and the area suddenly became dangerous, would he leave, saving himself and letting his patient die so that he could treat more people on another day?

He recalled his answer: “I said I would leave.” That suggested that the Golfo Azzurro should go look for the dinghy.

The consequences here were immediate, not hypothetical. He told the captain and nonprofit group that operates the ship that he wanted to save the single sick man. They agreed. A quick radio call let the Italian coast guard know that the bobbing dinghy would have to wait.

Dr. Vallentine hauled himself up a rope ladder draped over the side of a fishing trawler floating alongside his speedboat. The vessel, run by another aid group, was overloaded and out of drinking water. More than 100 migrants thronged the deck, many wrapped in foil emergency blankets, their faces tight from exhaustion.

Dr. Vallentine picked his way through the crowd to reach his new patient, a square-jawed man with a goatee lying unconscious on a mattress, and knelt to examine him. Another migrant identified the sick man as Samuel Osei of Ghana and said he was 36 years old.

Mr. Osei’s face was contorted, his mouth frozen open, his neck stiffly extended and eyes shut. The crew said he had been having increasingly frequent seizures, but they had been too busy to do much for him, because four women aboard were pregnant and thus a bigger priority to the crew.

Almost every ship between Sicily and Libya was packed with migrants.

Dr. Vallentine rubbed a knuckle hard against the stricken man’s sternum to see if he would react. He didn’t.

Dr. Vallentine and a nurse strapped Mr. Osei onto an orange plastic stretcher. Crew members lowered him over the side and onto a speedboat that dashed to the Golfo Azzurro.

A crewman on the Golfo Azzurro worked the radio, trying to find a ship or helicopter that could get Mr. Osei to a hospital in Italy. There was only so much they could do for him in the middle of the Mediterranean.

The receiver crackled. “This is Italian warship,” a navy officer responded. He ticked through questions. What were the patient’s vital signs? Could he walk? Then the officer asked: “Is this a migrant?”

“Yes, Italian warship, this is a migrant,” the Golfo Azzurro crewman replied. The response from the naval vessel: “We cannot do a medical evacuation.”

Italy’s navy said later any offer of help would have revealed its location and put the ship at risk. Italy’s navy was interdicting human traffickers, and the leader of an army controlling much of eastern Libya had vowed to use force if its warships sailed into Libyan waters without permission. The Golfo Azzurro was in international waters.

Below deck, Mr. Osei suf-



Dr. John Vallentine on the Golfo Azzurro rescue ship. ‘Do I look after this one, that 10, this 600?’ he asks about which migrants to help and in what order.

fered a seizure, his arms thrashing wildly as crew members tried to lift him onto a hospital bed in the Golfo Azzurro’s sick bay.

Dr. Vallentine gave Mr. Osei an intravenous injection of an anticonvulsant drug while a nurse pumped air into the unconscious man’s lungs with squeezes of a resuscitation bag. The doctor also gave Mr. Osei antibiotics and painkillers to try to bring down his fever.

They started bathing Mr. Osei with cool water to lower his temperature, which hovered above 104 degrees, and administered oxygen through a mask.

Dr. Vallentine suspected Mr. Osei had either meningitis, a potentially fatal brain infection, or severe heatstroke. The prognosis seemed grim either way, with Mr. Osei’s high fever and erratic breathing.

The doctor climbed up to the bridge and grabbed the radio to plead with a nearby Italian coast-guard vessel. “I need a helicopter,” he pleaded. “Can you get me a helicopter?”

Silence. Then the coast guard said no helicopters were available. They would see about sending a ship to help.

In the Golfo Azzurro’s clinic, the nurse reported that oxygen supplies were running low. The crew located a Swedish coast-guard patrol with some spare. A speedboat shot from the Golfo Azzurro to the boat—then waited. About an hour later, a Swedish naval officer handed down a canister of oxygen. She shouted: “We have 700 people on board! We are very busy!”

Even with the oxygen, Mr. Osei’s only hope was an evacuation from the rescue ship. “We cannot do anything more for him,” Dr. Vallentine told the Golfo Azzurro’s captain. “I think really he must go.”

Dr. Vallentine asked if there was any news from the Italian coast guard. “They said they would call back in one minute, but one minute was a lot of minutes ago,” a crew leader said. “So we are waiting.”

“Well, I can tell you what’s going to happen if they don’t get him,” the doctor said. “Twenty-four, 36 hours, we will sit here, and he will die.”

There was no word on the deflating rubber dinghy. It was perhaps 40 miles south of the Golfo Azzurro. The dinghy had been at sea for more than a day and was likely packed with more than 100 migrants, the crew figured, based on their experience and the dinghy’s location. Such boats are meant to carry just a handful of people.

“Which means they’re not going to be doing very well,” said Austin Wainwright, the rescue ship’s chief mate, looking at a navigational screen.

The crew and Dr. Vallentine reckoned another rescue boat would swoop in given how many plied these waters. What they didn’t know was that almost every other ship between Sicily and Libya was already jam-packed with more than 12,000 migrants.

Roughly one-third of all migrant boats that set out from the Libyan coast sink, according to the owner of the Golfo Azzurro, which leases the ship to the migrant-aid nonprofit group Proactiva Open Arms. On almost every trip, the crew encounters deflated and abandoned boats.



Rescued migrants on a boat in the Mediterranean Sea, wearing foil emergency blankets, out of drinking water and exhausted.



After taking a sick man onto the rescue ship, Dr. Vallentine tries to lower his temperature, hovering dangerously above 104 degrees.



Italian coast-guard medics, right, come for the sick man but can’t help him because they have no oxygen. ‘Sorry,’ one medic says.

IN DEPTH



‘Maybe we should have walked away from this patient. Not put a tube down his throat. Just let him die.’

Dr. John Vallentine, questioning his decision to turn away from a foundering dinghy packed with migrants to rescue one man plucked from the sea



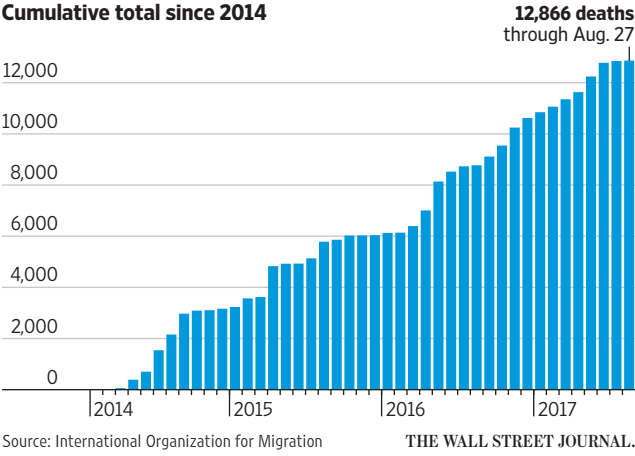
Deflated remnants of two recently sunken rubber boats poking above the surface of the Mediterranean. No one knows who was aboard or what happened to their passengers.

Most West African migrants can't swim. If the boats carrying them sink, they drown. A commercial ship might have stopped to assist the dinghy. But freighters had begun swerving around Libyan waters to avoid encountering endangered migrant craft and the obligation under maritime law to help them. Golfo Azzurro crew members were now banking on finding someone to evacuate Mr. Osei so they could turn back toward the search zone. But the Italian coast guard told the rescue ship to go north and meet a cutter that could take care of Mr. Osei. The captain set a course that led in largely the opposite direction of the dinghy's last known location. The rescue ship and Italian coast-guard cutter met about three hours later. Two coast-guard medics in white biohazard suits boarded the Golfo Azzurro to fetch Mr. Osei. Then they realized he needed oxygen. They didn't have any. "We wrote emails about this all

morning!" Dr. Vallentine said. "He needs to be in an intensive care unit right now!" One of the Italian medics placed her hand on her heart. "Sorry," she said before disembarking without Mr. Osei. "Thanks, kids, for nothing," the doctor said, standing on the deck. He prepared to light a cigarette as the coast guard pulled away. "All this for one person. And there are thousands out there." Dr. Vallentine started to question his decision. "Maybe we should have walked away from this patient. Not put a tube down his throat. Just let him die," he told the crew. What could they do now? So much time had passed they figured someone else would have reached the dinghy. They had also committed to seeing through Mr. Osei's case. The only option left, the crew decided, was for the Golfo Azzurro to take Mr. Osei to Lampedusa, an Italian island six hours further north. A helicopter could take him from there to a hospital. "I feel a lit-

Lost at Sea

Confirmed migrant deaths in the Mediterranean Sea between Libya and Italy. Some rescuers believe the actual numbers are much higher.



tle responsible and sad because of the amount of energy involved in this operation for one person, but we chose to do what's right for this man," Dr. Vallentine told crew members. "We should think that this man represents every man." "At least we gave him a

chance," said the nurse. None of the crew expressed regret. "It doesn't matter if it's one or 1,000. We are here to save lives," said a rescuer whose arm was tattooed with a mermaid. Near midnight, the Golfo Azzurro pulled into port in

Lampedusa. A few dozen people stood silently on the dock as an Italian doctor and medics rushed aboard. Dr. Vallentine worried Mr. Osei had become brain dead during the long journey and hoped he would get treatment for cerebral damage. "Will you at least give this man a CAT scan?" he asked the Italian doctor. The man shook his arm in a so-so wave, meaning *maybe, maybe not*. The Italians bundled Mr. Osei into a waiting ambulance and raced away. A church group brought Dr. Vallentine a beer. He drank it and went to his cabin for the night. In the morning, Dr. Vallentine climbed up from his cabin to speak to the Italian coast guard on the radio. He wore the same wrinkled, gray shirt he had on when called to the Golfo Azzurro's bridge more than 24 hours earlier. Mr. Osei had been flown by helicopter to Sicily, the coast guard reported. He died in an ambulance taking him from the landing pad to the hospital. Dr. Vallentine's face fell.

Was there any word on the cause of death? Was it meningitis? Heatstroke? The coast guard's paperwork said the man died from affogamento, or drowning, even though he hadn't. There would likely be no autopsy. The doctor walked out on the deck for a smoke. The Golfo Azzurro went back to work. Several days later, the ship reached Libyan waters, near the spot it had been racing to reach the deflating dinghy. In the distance, crew members spotted the deflated remnants of two recently sunken rubber boats poking above the surface of the sea. No one knows who was aboard the boats or what happened to their passengers. Neither dinghy had the spray paint marks that are usually added after a rescue. The only sign of life was a flock of birds pecking at something in the water. Dr. Vallentine, the rescue ship's doctor and crew members passed around binoculars. They stared at the rafts in silence.

LIFE & ARTS

ART REVIEW

Mirror of a Kaleidoscopic Culture

With 80 exhibitions at 70 venues, ‘Pacific Standard Time: LA/LA’ hopes to reshape art history from a Latino perspective

BY PETER PLAGENS

Los Angeles
THE U.S. is the second-largest Spanish-speaking country in the world. Latinos are a plurality in California, with about 45% of the population in the state’s eight southernmost counties and just a tick under half the population of Los Angeles County. Glenn Phillips, curator at the alternative space LAXART, says, “We are more similar to Latin America than we are to Europe.” Small wonder then that the deputy director of the rich and influential Getty Foundation, Joan Weinstein, admits that the purpose of **“Pacific Standard Time: LA/LA,”** the Getty-sponsored panoply of cultural events, aims to flip “the history of modern and contemporary art, beginning with the Latino perspective.”

Will it work? one is tempted to ask. Sure. But that answer could get torn to shreds in the thickets of identity consciousness (what’s “good” to an older Anglo critic might be irredeemably bad to, say, a younger Latino artist), and cultural politics (down the road, huge sums of money and public support are at stake). Suffice it to say that enough of PST LA/LA (those initials cutely standing for “Latin America” and “Los Angeles”) is worth looking at to overcome the fact that this third iteration (the first tackled the New York establishment’s neglect of West Coast modern art; the second concerned architecture) teeters on the edge of dysfunctional gigantism.

Just how Broddingnagian is this PST? It consists of 80 exhibitions rolling out during September at 70 venues in a 120-mile radius from downtown L.A., and will result in 60 catalogs. The chronological span reaches from pre-Columbian treasures to performance art from, well, right now. The ethnic spread includes Chinese artists living in the Hispanic Caribbean and racially Japanese artists residing in Lima. Exhibition topics include the U.S.-Mexican border (“Bridges, not walls” might as well be offered as a free tattoo at every show), whether craft can be fine art, and queerness among Chicanos. (A language note: “Chicanos” seems to have made a comeback as a designation for Americans of Mexican descent, but the wannabe trend to de-gender the likes of “Latina” and “Latino” with “Latinx”—pronounced “Latinex”—gains little footing in PST.)

LA/LA will also stage a plethora of musical and theatrical performances at the Disney Concert Hall, the Hollywood Bowl, and CalArts’ Redcat theater downtown. A roster of events not included is probably shorter, and given the godawful traffic in Southern California, anybody planning to see all the PST shows should think of leasing an apartment.



Carlos Almaraz’s ‘Crash in Phthalo Green’ (1984), above, Daniel Joseph Martinez’s full-scale reprise of the Unabomber’s cabin, ‘The House that America Built’ (2004-17), below, and Sergio Allevato’s ‘California Flora,’ bottom

For instance, it took me about three hours total to travel from the small first part of **“How to Read El Pato Pascual: Disney’s Latin America and Latin America’s Disney”** (through Jan. 14) at the MAK Center for Art and Architecture (housed in a vintage Raymond Schindler house on the near West Side) to the much bigger second section at the Luckman Fine Arts Complex on the campus of California State University, Los Angeles, in East L.A., and then back across town to lodgings. But the 30 miles at an average of 10 mph were worth it.

The works in both venues riffed cleverly on Donald Duck (as we know him), a curious avatar for a curious “cultural imperialism” (a term tossed around a lot during PST’s opening days). One story has it that an artist in the employ of Diego Rivera giving a lecture on Mexican art to Disney workers displayed an image of a wide-eyed pre-Columbian duck. Fast forward to Disney’s “Saludos Amigos,” a postwar propaganda film for the Good Neighbor policy, then to all the cheerful Mexican pop-culture and advertising appropriations, and finally to current artists on both sides of the border having cynical fun with the Disney fowl, and you have one leg of PST’s leit-motif—invisible and desirable hybrid culture.

If there’s one exhibition that tells the story of how things got this way, it’s the Getty’s own **“Photography in Argentina, 1850-2010: Contradiction and Continuity”** (through Jan. 28). The almost 300 pictures include images of indigenous peoples as



they were depicted (choose your adjective: quaint, objectified) by mostly European-born photographers; official doings from the Eva Perón era; the horrors of the junta in the 1980s; and big, full-color art-gallery fare from today. The same tale of conquest/exploitation/resistance and social comment with a certain postmodern glamour to it is told in other PST shows, but—if you have the patience to stand and look at that many photographs on walls—the Getty’s show tells it most fully.

“Radical Women: Latin American Art, 1960-1985” (through Dec. 31), at UCLA’s Hammer Museum, has generated the most early buzz. This is probably because it gives women in the audience reason to cheer (for recognizing many female artists previously unknown in the U.S., and for documenting their severe social and political struggles). And because it gives the sort of men who’ll pay serious attention to such a big and demanding show (120 artists and lots of film, video and installation, with an emphasis on didactics over aesthetics) cause to reconsider practically everything in their lives.

The Los Angeles County Museum of Art’s **“Home—So Different, So Appealing”** (an early opener up only through Oct. 15) attempts something of the same sociopolitical critique, but its few wow moments—such as veteran provocateur Daniel Joseph Martinez’s most recent full-scale reprise of the Unabomber’s cabin (titled, in scolding obviousness, “The House America Built,” and painted in Martha Stewart colors)—don’t entirely mitigate the exhibition’s somewhat chaotic morphological variety. Still, “Home” is essential on anybody’s PST tour.

And what of pure pleasure—once thought to be a default com-



ponent of exhibited art? The Getty’s \$16 million in grants to participating institutions plus more from big commercial partners and the venues’ own budgets ought to provide a little. For my money, the exhibition that most fills that bill is the Institute of Contemporary Art, Los Angeles’s breathtakingly uncomplicated installation, in its new East L.A. converted-warehouse space, of **“Martín Ramírez: His Life in Pictures, Another Interpretation”** (through Dec. 31).

Ramírez (1895-1963) came to the U.S. as a young man to find work on the railroads. Unemployed in the Great Depression, he was picked up as a vagrant and thrown into a typically cruel mental hospital. In the 1940s, the art he made from melted crayons and burnt matches on formats patched together from paper cups and package wrapping was discovered and saved from trashing by a psychiatrist. Ramírez’s stunning (there’s no other word) drawings, which combine ingenious “outsider” figuration with passionately dizzy patterns, are both heartbreaking and inspiring. Closely following ICA LA’s show in the beauty category is LACMA’s self-explanatorily titled

“Found in Translation: Design in California and Mexico, 1915-1985” (through April 1). As I said to someone with the museum, if there were one exhibition to which I’d like to back up a lift-gate truck at midnight, it’s this one.

Of the 14 shows I managed to view (see “traffic,” above), the foregoing six get a thumbs up. A couple of others—LACMA’s retrospective of the Chicano expressionist painter Carlos Almaraz (1941-1989) and the Museum of Contemporary Art’s look back at the sculpture and conceptual art of the Brazilian-born (1942) Anna Maria Maiolino—are less than stellar because the work doesn’t merit

quite the vast space it’s given. (The LACMA show runs through Dec. 3, MOCA’s through Dec. 31.) To anybody but a publicist, that’s a pretty good batting average. And the overall cultural upside to PST LA/LA probably includes increased attention to and attendance at such smaller showing spaces as the Angels Gate Cultural Center down in San Pedro, and the Torrance Art Museum in the South Bay Area.

That said, PST’s extreme diversity (each exhibitor was given curatorial near-carte-blanc) approaches incoherence; other than the Spanish language, it’s hard to find a unifying factor. The Getty’s president, James Cuno, said at the opening press conference that PST LA/LA represents a “moment when art history changed.” Not quite. PST LA/LA is a huge Baroque cathedral, not a whole Renaissance.

Pacific Standard Time: LA/LA
Various dates and locations; for program information visit pacificstandardtime.org

Mr. Plagens is an artist and writer in New York.



Martín Ramírez’s ‘Untitled (Horse and Rider With Frieze)’

FROM TOP: MUSEUM ASSOCIATES/LACMA (2); SERGIO ALLEVATO; THE ESTATE OF MARTÍN RAMÍREZ/COURTESY RICCO/MARESCA GALLERY

LIFE & ARTS

WEEKEND CONFIDENTIAL | By Alexandra Wolfe

Ron Chernow’s New Book

The historian behind Broadway megahit ‘Hamilton’ takes on Ulysses S. Grant

BY NOW, it’s well known that Ron Chernow’s biography “Hamilton” inspired the megahit Broadway show. He has doubts about the musical potential of his latest subject, Ulysses S. Grant. “I don’t think Grant’s life moves to a hip-hop beat,” the 68-year-old Mr. Chernow says with a laugh. He thinks it’s more suited to a movie. Then again, he adds, “I can’t honestly tell you that I thought Alexander Hamilton’s life would have been a musical, so maybe I’m not the best judge of that.”

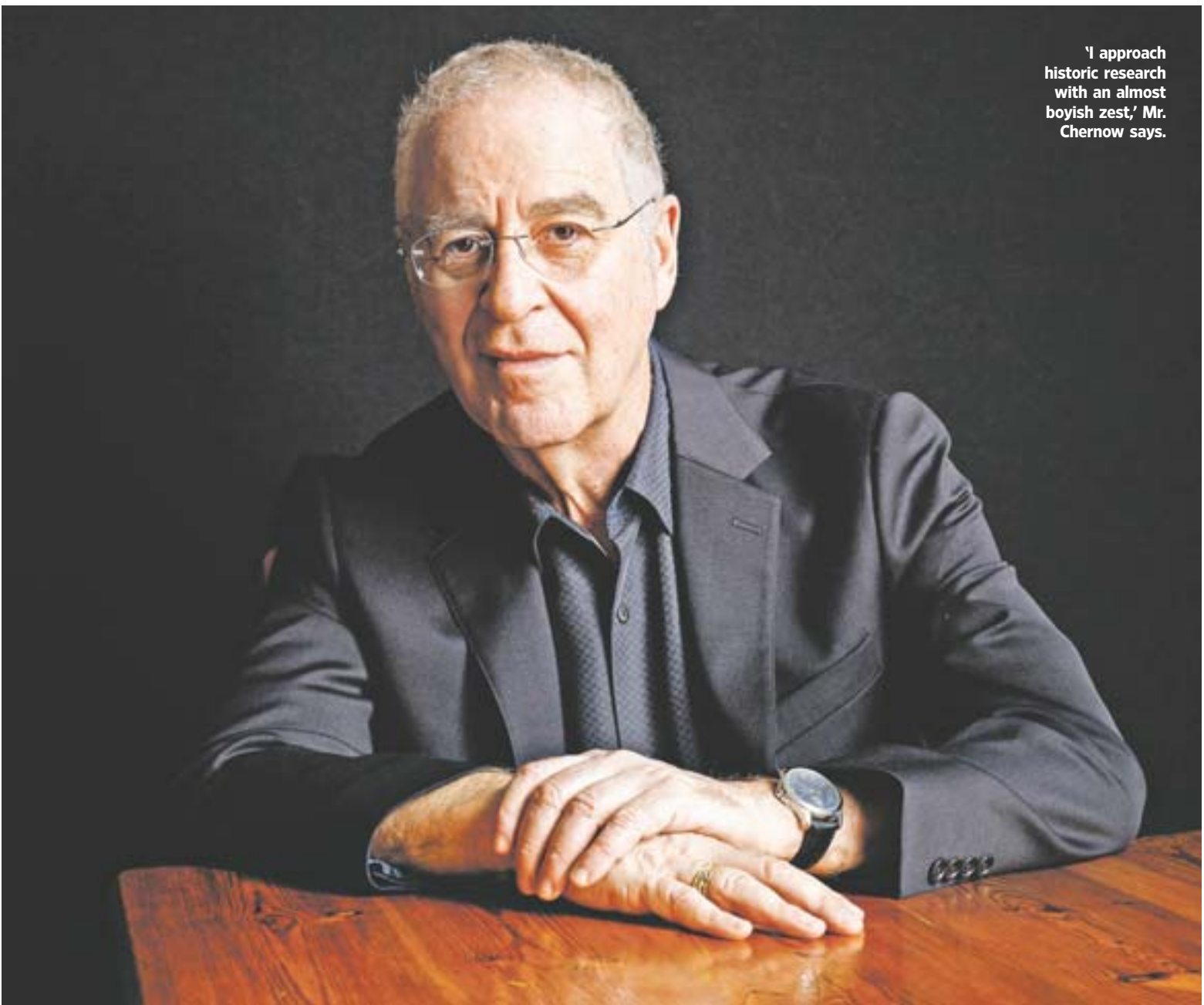
Mr. Chernow’s new book, “Grant,” out on Oct. 10, chronicles the life of the Civil War general and 18th president. During his two terms, from 1869 to 1877, Grant oversaw the creation of the Justice Department and the ratification of the 15th Amendment, granting African-American men the right to vote. His administration also was marred by scandals such as the Whiskey Ring, in which liquor distillers conspired with Treasury Department officials to avoid taxes.

By the end of his life, Grant was bankrupt. After being diagnosed with cancer, he signed a deal with his friend Mark Twain to publish his memoirs to help provide for his wife after his death. Widely considered to be the best book written by a president, the two-volume set has sold more than 300,000 copies and remains in print. Mr. Chernow calls it “incomparable” as a military memoir. When Mr. Chernow was in the early stages of his own book, a friend asked how he could write a great biography of someone who had already written a great autobiography. “It kind of stopped me dead in my tracks,” he says.

But Mr. Chernow realized that he could do what he did in his other biographies—including “Washington: A Life,” and “Titan,” about John D. Rockefeller—which was to “zero in on the silences.” Grant left a lot out of his own memoir, such as his alcoholism and business failings. His personal life was also politically complicated. His in-laws supported the Confederacy while members of his own family were staunch abolitionists.

“It’s telling that so many people I’ve met who are extraordinarily knowledgeable about the battles of the Civil War...know little or nothing about Reconstruction,” says Mr. Chernow. And that period “is really...the second act of the drama.”

The events of Grant’s life remain relevant today. “In the last month or two, I have watched in amazement that the Civil War and Reconstruction have moved onto the front page of newspapers,” he says. Mr. Chernow agrees with his



‘I approach historic research with an almost boyish zest,’ Mr. Chernow says.

AXEL DUPEUX FOR THE WALL STREET JOURNAL

friend, the historian Harold Holzer, who argues that Confederate monuments should be removed but not destroyed. He thinks that instead of keeping them in front of courthouses and city halls, where they glorify the Confederacy, they should be placed in “more neutral settings” such as historical societies and museums.

Mr. Chernow studied English literature at Yale and the University of Cambridge, and he credits this education for his novelistic style. “I approach historic research with an almost boyish zest that I may not have had if I had spent years studying it in college,” he says.

His first three books were about eminent families in banking and business: “The House of Morgan” (1990), “The Warburgs” (1993) and

“Titan” (1998). He moved on to writing about politicians, he says, because he felt that he “had pretty much said what I was going to say about the economic and financial development of the United States.”

Alexander Hamilton, he says, “was the perfect transitional figure for me, because there would be enough financial history to interest people who had read the earlier books and, at the same time, it would get me into a new century,” he says. “I would get to write about constitutional law and foreign policy, military history, all things I had never dealt with before.”

He has no interest in simply glorifying his subjects. “I have a very strong belief that great historical figures carry the weight of their

own defects,” he says. “It’s not my job to pretty them up.”

Mr. Chernow usually spends about twice as much time researching a book as writing it. He types up his research on a computer, so that he has it backed up, and then prints out the individual entries on paper with perforated edges that he can tear into 4-by-6-inch cards. (He was inspired to use index cards by Vladimir Nabokov, who wrote his novels on them.) He then files the cards chronologically and indexes them. His research on Grant fills some 25,000 cards packed into 22 boxes, all stacked up in the office of his Brooklyn brownstone under a big abstract painting.

His house is covered with contemporary art, which he’s been collecting for the past two decades.

“It’s been a constant contest for wall space between the books and the art,” he says. His wife, Valerie, died of cancer in 2006.

Mr. Chernow isn’t sure what he’ll write about next, but he may veer away from full-scale biography. “I’ve become known...for doing these cradle-to-grave biographies, and they’re terribly difficult to do,” he says. “You have to master an immense amount of information.”

In his down time, he has now seen “Hamilton” dozens of times and has very much enjoyed his surprise success on Broadway. His theater friends couldn’t believe his luck. “They said, ‘This isn’t really fair! You’re involved in one show in your life, and it’s ‘Hamilton!’” he says. “Clearly I had not paid my dues.”

ARCHITECTURE REVIEW

CAMPUS OF THE FUTURE

BY JULIE V. IOVINE

New York

THROUGHOUT its checkered history, Roosevelt Island has reflected prevailing notions about social and economic fixes. The 148-acre isle—on the East River between Manhattan and Queens—has been home to a prison, a smallpox hospital, an asylum, an almshouse and a 1970s experiment in affordable middle-class housing. The latest project is also of its time with its focus on entrepreneurial innovation and constant social mingling.

Conceived by the Bloomberg administration, Cornell Tech was envisioned as a \$2 billion, 12-acre campus devoted to the marriage of academia and business in the hopes of engendering a new class of tech-savvy biz kids. Phase One was officially completed on Sept. 13, with the first three buildings (costing \$700 million) up and running for some 300 students and (to date) three corporate giants—Citigroup, Two Sigma Investments and Ferrero, an Italian chocolate company.

The new campus buildings and their landscaped surrounds set a new bar for architecture. Priorities have been upended. While expensive new campus structures usually make bold visual statements, at Cornell Tech sustainability and landscape, not ambitious form making, lead the way. On approach, the curvaceous prow of the Emma and Georgina Bloomberg Center (named for the daughters of the former mayor, who kicked in \$100 million) bulges energetically, barely contained by a lid of 1,465 photovoltaic panels floating above as a roof-top canopy. At four stories and 160,000 square feet, the Bloomberg Center—designed by Thom Mayne of Morphosis—is wrapped in an animating metal screen scalloped in soup-lid-size scales that turn a golden or lagoon-ish green hue depending on how they catch the light. It helps to cool and minimize waste at



FROM TOP: IWAN BAAN; MATTHEW CARBONE FOR MORPHOSIS

a building that aims to achieve the new holy grail of energy usage: net-zero.

Beneath the prow are a cluster of built-in outdoor seats and tables. A path sweeps past the other two buildings—a dorm and office-cum-incubator—into an open plaza and lawn with a seemingly endless array of seating arrangements and table options. The buzz potential is palpable.

Beneath the lawn and plaza, there’s a rain-harvesting tank and 80 geothermal wells. Gardens perform bio-filtration services; pavers absorb overflow.

In fact, the grounds designed by James Corner Field Operations feel more developed than the interiors of the Bloomberg Center. That’s intentional. The interior spaces are all loosely organized with minimal finishes made out of tough no-frills materials—concrete, sheetrock—and an emphasis on flow.



This is in accordance with the new mantra that accidental encounters trigger the most creative ideas. There’s a ground-floor café, open to the public, with a lovely terrace overlooking the East River. Tech labs and open-plan offices have few partitions, and there are conference rooms of every size and transparency, down to what looks like an actual cone of silence to enable private phone calls. A conference room is decorated with one of three WPA murals rescued from the demolished Goldwater Hospit-

tal. Glass, a notorious excess heat magnet, is used only where it counts (ground floor, main circulating stair) and sensors monitor every space to predict and control artificial light usage.

The other two buildings are less visually remarkable. Designed by Weiss Manfredi, the 235,000-square-foot Bridge building is

The Cornell Tech campus on Roosevelt Island, left; inside the Bloomberg Center, below

more polished, clad in shiny glass. The architects are at pains to describe how the high-performance materials are still very energy efficient, but somehow all that glass looks old school.

The building’s bulbous bow tie shape makes for plenty of corner offices, a real consideration considering the high-profile corporate partners the school wants to coax into collaborating on R&D with students. The double-height lobby streaming with sunlight is like an indoor vineyard: A wide stair rises alongside wood-paneled terraces with bench-seating and chairs for more of that informal hobnobbing. The six floors—many wood planked like a ship’s deck—are chockablock with well-upholstered conference rooms and pullout spaces. On the roof, photovoltaic panels produce enough solar energy to share with the Bloomberg Center so it can achieve its net-zero status.

Rising above the Ed Koch Queensboro Bridge on the south, the 26-story dorm building with 500 beds for students and 16 apartments for faculty is the most visible of the three new buildings, and the dullest to look at with its file-cabinet gray sheen. Still, it is a significant landmark, the tallest structure built according to the strict international code known as passive house standards with its emphasis on energy savings through extreme insulation. With an airtight façade wrapped in prefabricated metal panels, the so-called House has condensers on every floor for circulating fresh and removing stale air. It consumes 60% to 70% less energy than similar-sized structures, a commendable and important achievement even if students living there will care only about the spectacular views from the rooftop lounge.

Roosevelt Island has for too long been an outlier in the East River with its rickety aerial tramway and skinny subway platform. When the campus is completed by 2043, there will be 2,000 students and 10 buildings. Cornell Tech puts the island at the heart of where ideas in business and architecture are headed.

Ms. Iovine reviews architecture for the Journal.

OPINION

REVIEW & OUTLOOK

Solar Power Death Wish

Billions of dollars in U.S. taxpayer subsidies haven't made America's solar industry competitive, and now two companies want to make it even less so. Suniva Inc., a bankrupt solar-panel maker, and German-owned SolarWorld Americas have petitioned the U.S. International Trade Commission (ITC) to impose tariffs on foreign-made crystalline silicon photovoltaic cells.

Solar cells in the U.S. sell for around 27 cents a watt. The petitioners want to add a new duty of 40 cents a watt. They also want a floor price for imported panels of 78 cents a watt versus the market price of 37 cents. In other words, they want the government to double the cost of the main component used in the U.S. solar industry. Solar-electricity prices could rise by some 30% if the ITC says they've been injured by foreign competition—a decision is due by Friday—and the Trump Administration goes along with the tariff request.

U.S. manufacturers won countervailing and antidumping duties against imports from China and Taiwan in 2012 and in 2015. But now they're resorting to Section 201 of the Trade Act of 1974 because they don't need to show they are victims of dumping or foreign-government subsidies. They only need to show that imports have harmed them.

The harm is real but that's due to changes in the marketplace. The U.S. solar industry has discovered that its comparative advantage lies not in making panels, a basic product, but in adding value to imported cells and modules. This involves making and installing racking or framing systems and incorporating innovations

Subsidies aren't enough. Now solar-panel makers want U.S. tariffs.

like trackers that orient toward the sun. To turn sunshine into energy requires inverters that translate the energy captured on a solar panel into something that can be sent on the electrical grid. While there are fewer than 1,000 jobs in U.S. panel manufacturing, some 260,000 jobs rely on access to imported panels.

Not even the investment firm financing the Suniva legal team for the petition believes in the future of U.S. solar panel manufacturing. SQN Capital Management, which is owed an estimated \$51 million by Suniva, wrote a letter in May to the Chinese chamber of commerce indicating that the 201 case would go away if a Chinese company bought Suniva's \$55 million in manufacturing equipment.

Higher prices for panels will also hurt utilities that have invested in renewable fuels. In an Aug. 21 letter to the ITC, Diane Denton of Duke Energy wrote that over the past five years Duke has invested heavily in solar and has plans for more. But Duke needs "access to solar CSPV modules at globally-competitive prices" so it can "provide cost-competitive solar power to our customers," Ms. Denton wrote.

The ITC hasn't investigated a 201 trade case since the Bush Administration slapped a 30% tariff on steel imports in 2002. That fiasco cost an estimated 200,000 jobs in U.S. steel-consuming industries before the Administration dropped the tariffs 18 months later.

Solar tariffs would be another destructive exercise that benefits a handful of Suniva and SolarWorld investors at the expense of everyone else—including the rest of the solar industry. This is protectionism at its worst.

The Price of Free Speech at Berkeley

The University of California at Berkeley's new chancellor, Carol Christ, has done a democratic service by defending free speech on campus. But who would have thought that protecting speech would be so expensive in the place where the Free Speech Movement began in the 1960s?

The former Breitbart writer Ben Shapiro spoke unimpeded Thursday night on campus, but the university had to spend \$600,000 to provide adequate security. The university relied on officers from all 10 campuses in the University of California system. Before the speech, Berkeley's City Council rescinded a ban on the police use of pepper spray for the first time in two decades. Berkeley largely kept the peace, though nine protesters were arrested, including four who allegedly carried banned weapons and one suspected of battering a cop.

The security costs will grow later this month, when the university hosts Free Speech Week. The arriviste Milo Yiannopoulos claimed in a news release that the lineup will include Steve Bannon, Ann Coulter, Pamela Gellar and other controversial speakers he handpicked. Already, more than 200 faculty are calling for a boycott, claiming the event imperils stu-

dents' "physical and mental safety." We wish Berkeley's students were hearing from conservatives who seek to persuade more than merely provoke like the Milo Gang. The Berkeley Patriots, the student group behind Free Speech Week, have yet to provide Ms. Christ with signed speaker contracts or the basic information campus police requested, though the deadline is fast approaching. The success of Mr. Shapiro's speech showed Ms. Christ's good faith, and the Berkeley Patriots need to show some mutual respect.

Ms. Christ has said she sees the cost of security as a worthwhile investment, though she laments that \$600,000 for one event is "certainly not sustainable." Berkeley has an operating deficit, and we wonder if students who are unwilling to entertain contrarian arguments realize they may be raising their own tuition. Or perhaps they're attending on federal student loans they never plan to repay.

How far we've come in 50 years when the New Left began the Free Speech Movement to fight the establishment. Now the not-so-new left wants to use violence to shut down free speech no matter the cost. Ms. Christ deserves thanks for standing up to the thugs.

One Last ObamaCare Try

U.S. Senator Lindsey Graham admits that when a defense specialist like him feels compelled to roll out a health-care bill, something has gone wrong—and that's an understatement for the Republican failure to repeal the Affordable Care Act. The question is whether a last-ditch effort by Sen. Graham and a few colleagues represents an improvement over the ObamaCare status quo. The answer is yes.

Sen. Graham and Sen. Bill Cassidy (R., La.) last week unveiled a bill that would start to unwind ObamaCare. The legislation repeals the individual and employer mandates and the 2.3% medical-device tax. The bill replaces money spent on tax credits and Medicaid expansion with block grants to states, which would allow Governors to experiment with insurance reforms. Another selling point is that a rejiggered formula will divvy up federal dollars more equitably, as states such as California and Massachusetts haul in an outside share under current law.

Block grants are certainly progress: The Obama Administration's Medicaid expansion enrolled working-age, childless adults above the poverty line, and the feds footed most of the bill to bait states to participate. The program reimbursed at a much lower rate for the disabled and children, the traditional Medicaid population. This has resulted in some states uncovering the most vulnerable.

Graham-Cassidy is less ambitious than the Senate's ObamaCare replacement that failed over the summer, and we could go on at length about its limitations. But the proposal at least takes most decision-making out of Washington and puts a spending cap on Medicaid and ObamaCare. Reform-minded Governors would have the chance to create showcases for insurance-market innovation.

As with past health-care failures, Republicans can only lose two Members. Sen. Rand Paul (R., Ky.) is as persuadable as Chuck Schumer, and the same may be true of Sen. Susan Collins of Maine. Sen. John McCain (R., Ariz.) shot down the last repeal attempt on dubious objections about an open process. Some think Sen. Lisa Murkowski (R., Alaska) is winnable, but she seemed amenable to the last bill—until she bailed at the final hour.

Heritage Action waded in to note that earlier versions of Graham-Cassidy didn't repeal all of ObamaCare's taxes—as if they would vanish if Congress does nothing. Sen. Mike Lee (R., Utah) usually follows Heritage, though Sen. Lee's office said he's "encouraged" by what he's seen but has yet to make a final decision.

The question for Members is: What is the alternative? The budget procedure that allows the Senate to address the law with a 51-vote majority expires on Sept. 30. ObamaCare's exchanges will continue to deteriorate, and Democrats will blame Republicans for every premium increase from here to November 2018. The law will require who knows how many patches and bail-outs in coming years, and consumers will continue to face higher prices and fewer choices.

Lamar Alexander (R., Tenn.) is trying to work a deal with Patty Murray (D., Wa.) to mitigate some of the consumer pain for next year. The idea is to swap subsidies for insurers for more state flexibility. Yet Democrats have so far been unwilling to relax the state waiver process to allow for more than de minimis changes. The GOP's negotiating hand will not become stronger as the election approaches.

The best path forward is to pass Graham-Cassidy, and improve or amend it later as necessary, or perhaps consider discrete bills to mend health-care markets. This has the added political advantage of at least fulfilling some facsimile of the "repeal and replace" promises Republicans have made to voters for seven years.

One lesson for moderate Republicans is that no dilution or revision will placate the left, which has panned Graham-Cassidy as evil and heartless sight unseen. The press is suggesting that the timeline is too quick to ram through such a consequential bill, but then the Affordable Care Act re-engineered one-sixth of the economy in the middle of the night on Christmas Eve in 2009.

The Cassidy-Graham bill appeared on the same day as a "Medicare for All" proposal from Sen. Bernie Sanders (Ind., Vt.), and don't be surprised if voters start looking to the left for solutions. Graham-Cassidy is the best remaining chance the GOP has to make incremental progress on health care, before they face voters next year having to explain their failure.



POTOMAC WATCH
By Kimberley A. Strassel

U.S. Republicans have issues, but Democrats have them too. Witness the two individuals who dominated last week's news—and who conveniently represent the left's most crippling problems. Hillary Clinton is again everywhere, tout-

ing her new memoir and adding to the list of who and what are to blame for her loss: Joe Biden, Bernie Sanders, Barack Obama, James Comey, Jill Stein, Vladimir Putin, Julian Assange, Anthony Weiner, sexism, misogyny, the New York Times, lazy women, liberal activists and the "god-forsaken Electoral College." All she's missing is climate change.

Hillary's take on "What Happened" has unsurprisingly unleashed another round of analysis about her mistakes—Wisconsin, deplorables, email. These sorts of detailed postmortems of failed campaigns are popular, but they tend to obscure the bigger reasons for failure. In this case: The Democratic Party saddled itself with an ethically compromised and joyless candidate, because it had nobody else.

Hillary spent eight years planning her first presidential bid, and the next eight warning Democrats not to get in the way of her second. The Clinton Foundation was erected to serve as bank and Rolodex, and to enable the Clintons to retain their grip over the party. And that party was committed to a Clinton coronation, right up to Mr. Sanders's cheeky assault.

Mr. Obama aided Mrs. Clinton's ambitions by decimating his party. By the time Barack Obama finished his eight years in office, his party held 65 fewer House seats, 14 fewer governorships and controlled 30 fewer state legislatures. It had turned a once-filibuster-proof Senate majority into minority status. The big-tent Democratic coalition shriveled to a coastal, progressive minority, wiping out a generation of Democratic politicians and most of the party's political diversity. And so the party nominated perhaps the only Democrat in the country who could rival Donald Trump in unpopularity—and beat him in untrustworthiness. Mr. Sanders refused to go after Mrs. Clinton on her ethical baggage, even though it was her biggest weakness and despite how glaringly obvious was the risk that her foundation and server scandals would hobble a general-election campaign. The parties gave the country a choice between two unpopular people, and the country disliked her more. The real question is how Democrats rebuild a party whose senior leaders in the House boast an average age of 72 and which has almost no young, experienced up-and-comers.

Which brings us to Mr. Sanders, the symbol of Democrats' other big problem. Last week the senator, flanked by

Here's What Really Happened to Hillary

about one-third of Senate Democrats, released his "Medicare for All" proposal to nationalize health care. These are the ascendant voices in the party. Yet there are few of them, because their agenda is highly unpopular.

Mr. Sanders was an unexpected force in the primary, though mostly because he wasn't Hillary. Sanders supporters resent this argument, and claim the only reason his agenda didn't triumph is because the DNC robbed him of the election. If so, why did Bernie's people and ideas fail spectacularly everywhere else on the ballot?

In Wisconsin Mr. Sanders campaigned for Russ Feingold, who promised a \$15 federal minimum wage, an end to trade deals and free college. Mr. Feingold lost to Republican Sen. Ron Johnson.

Voters simply found her unappealing. They rejected Bernie's ideology too.

In upstate New York, in a white, working-class district, Mr. Sanders endorsed Zephyr Teachout, who railed against bankers and lobbyists, fought fracking and *Citizens United*, and opposed trade. Republican John Faso beat her for the open seat by eight percentage points, on a promise to kill Dodd-Frank.

Democrats wouldn't even vote for Tim Canova, the man who primaried Mr. Sanders's archenemy, Debbie Wasserman Schultz.

An extraordinary 79% of Colorado voters said no to a ballot initiative for ColoradoCare, the state version of Mr. Sanders's universal health-care proposal. This in a state that Hillary Clinton won. Liberal Vermont pulled its own single-payer plug in 2014. In California, Mr. Sanders endorsed and campaigned for Proposition 61, which was designed to impose prescription drug price controls. It went down to substantial defeat in a state Mrs. Clinton won by 30 points.

Progressives will argue that all they need to elect a Bernie Sanders or an Elizabeth Warren is the right way of pitching their "populist" policies of free health care or price-controlled drugs to the white working class and independents. But so far they've been unable to sell them even to bright blue states. And this wishful thinking ignores that even if voters supported some of those provisions, they'd also have to swallow a progressive agenda that includes an energy crackdown, a retreat from the terror fight and the culture of identity politics.

Republicans have failed to unite or govern or pass their biggest priorities. But the political analysts are setting themselves up for another surprise if they ignore the big reasons Democrats lost this election, and what comes next.

LETTERS TO THE EDITOR

American Consumers: For Richer or Poorer?

Martin Feldstein writes that: most households' "standard of living is increasing more rapidly [than estimated by the government] because those wages can now buy new and better products at little or no extra cost. The government's measure of real incomes gives too little weight to this increase in what take-home pay can buy" ("Americans Are Richer Than They Realize," op-ed, Sept. 11).

While I agree that the government should consider changes in the cost of consumer goods when assessing changes in Americans' standard of living, Mr. Feldstein's potential methodology doesn't take into account the fact that the lower cost of

many consumer goods comes from Asian jobs replacing U.S. jobs. Thus, this lower cost is a double-edged sword: better for those Americans who remain employed in good jobs, but worse for Americans whose jobs were replaced by Asian workers with significantly lower wages.

ELLERY BLOCK
Westerville, Ohio

It would also seem that low mortgage-interest rates for the past 20-plus years have allowed consumers to afford, with a modest increase in income, much grander homes than they otherwise would have.

BILL BONEWITZ
Tucson, Ariz.

Trump's Pivot? His Job Is to Get Things Done

Regarding Peggy Noonan's "Trump Finally Pivots—but Will It Last?" (Declarations, Sept. 11): Ms. Noonan is surprised that President Trump waited so long to pivot toward Democrats to get something done in Washington. She believes that the president's core supporters are complicated, postpartisan Americans who were delighted to see him do an end run around the McConnell-Ryan GOP establishment so that he could make a deal with the Schumer-Pelosi Democratic establishment.

Sticking a thumb in the eye of the GOP establishment might feel good to the Trump base, but does Ms. Noonan seriously think that most Trump supporters—who gave Republicans majorities in the House, Senate and two-thirds of state legislative chambers and voted in 34 GOP governors—did so in the hope that Sen. Chuck Schumer and Rep. Nancy Pelosi would wind up with more power? Didn't America just have a president who got along fine with Democrats in Congress, treated the GOP establishment with disdain and got things done?

Most Trump supporters are conservatives, even if there is a base of

more complicated, nonideological, do-something voters. Go along to get along with Schumer-Pelosi Democrats doesn't seem like what most conservative Trump supporters had in mind.

Yes, GOP dysfunction in Congress is reason to send a Plan B message, but we "deplorables" in Trumpland aren't looking for a permanent pivot back to the glory days of 2009-10 when Reid-Pelosi Democrats helped President Obama ram through a budget-busting spending bill, ObamaCare and a massive number of new regulations.

Only media insiders in Beltway Land, Big Apple Land and La La Land think Trumplanders savor a new Trump-Schumer-Pelosi political realignment.

MATT JOHNSON
Charlotte, N.C.

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OPINION

Under Anesthesia, Everything Was Beautiful



DECLARATIONS
By Peggy Noonan

I saw this: The exhausted woman on the shelter cot was surrounded by stressed children when Melania came over, bent down and asked, “How are you doing?” The woman said “Well—hurricane.” She realized who she was talking to and got flustered. “Those are nice shoes,” she said. They were flat ankle-boots, the kind you wear on the street or the park, only of the finest leather. “Thank you,” said Melania. She saw the woman’s soggy sneakers. “What size do you wear?” she asked, “Oh, 9,” said the woman. “They got bigger with the kids.”

My American dream made me feel proud, like there’s hope for our political class.

Melania took off her boots and put them on the woman’s feet. She did this in a way that was turned away from the press, so they wouldn’t see. The woman’s daughter said, “Mommy, they’re nice.” Melania took from her bag a pair of white sneakers, put them on, and said, “Oh good, these are so comfortable.”

They talked some more and Melania left and the mother looked to her kids and said, softly, “These are the first lady’s shoes.”

Donald was with an old woman in a wheelchair. She was spunky and funny and he loved her. She gestured toward his head and said, “It looks nice today.” He said, “I’m having a

good hair day.” “Why do you do that?” she asked.

“Well, it’s a habit,” he said. “When I was young I had this thick brown hair that went down my brow like a swoop, and I looked like a Kennedy and it was beautiful. Then it started to get thin and gray, and it made me feel old, and old is weak.”

“Not for me, honey,” she said. “Does it take a long time to do?”

“About 20 minutes. After the shower, I comb, blow-dry, tease it a little, finish the blow-dry, then a lotta spray.”

“Why don’t you *not* do that?”

“It’s kinda my brand.”

“You got a new brand,” she said. “You’re president. Be normal.” He paused and said: “I was actually thinking of that.”

She told him she used to be a hairdresser. She said she’ll come to the White House and cut his hair. He turned, gestured; an aide ran over. “My beautiful friend here is coming to see me next week with scissors. Arrange it.” He kissed the old woman on the forehead. She gave a wave. “Good-bye, big boy.” The press was surrounding the FEMA guy with the update and missed it.

This happened just before the Mnuchin story got cleared up. The Treasury secretary had not asked for a government plane to take him on his honeymoon. His request got all bollixed up in transmission, but there was a paper trail. It turned out he was waiting at the airport with his new wife when he saw a guy in Army fatigues comforting a young woman in a white and yellow dress. She was crying. Mr. Mnuchin sent over an aide to find out what’s wrong.

The guy in fatigues had literally just flown in from Kabul. He and the woman had just married, in a chapel down the street. They’d been bumped from their honeymoon flight to Bermuda. Mr. Mnuchin said: “Give them



GETTY IMAGES

my plane. Louise—we’re flying commercial.” They booked seats on the next flight to France and went to duty free, where they bought the best champagne and placed it in her Hermès bag. They wrote a note: “Every soldier on leave deserves a honeymoon, every bride deserves champagne.” The couple discovered the bag on the plush leather seat just as the pilot was saying: “Please be seated and buckle up, we’ve got special clearance.”

Also at this time Hillary Clinton’s book came out and it was transcendent—a book of historical heft, of depth. She was modest. No, humble. And she loves America like you wouldn’t believe.

“I know what you expect, a blame-shifting revenge fest,” she wrote. “But that would be a book of what I’ve come to see as ‘political little-ism’—a book that reduces everything to personalities and polls, operatives and excuses. Smallness is killing us. I have been a major political figure in the late 20th and early 21st century in America. My elective career is over. Here I tell you what I know about the age we’re in, its most crucial chal-

lenges, what gets in the way of our meeting them, and how we can get around what gets in the way.”

She was unsparing. She said that after 30 years at the top of American life she knew the biggest, most dangerous shift in our political reality came “when the American people began to detach from those at the top, for the simple reason that they’d come to understand the top had detached from them.” She covered the landscape—wars, political money-grubbing, bad faith, immigration, globalism.

“Those at the top,” she wrote, “proceeded as if they were unconcerned with what was being asked of the middle and the bottom. My candidacy got caught in the crossfire—understandably, because I had long been at the top, and many saw me as oblivious.”

Cynics expected she would blame her 2016 loss on the fact that she is a woman. America is sexist, misogynistic—in its dumb way, cannot imagine a woman as president.

“To be candid,” she wrote, “I had that in my first draft.” Sheer honesty left her reckoning with Angela Merkel of Germany, democratically

Let’s Get Rational About Disaster Risk



BUSINESS WORLD
By Holman W. Jenkins, Jr.

The result, critics say, is sprawl, and proponents point to a property market that provides affordable housing to keep Houston’s economy bubbly.

Now some are blaming Houston’s lack of regulation for Hurricane Harvey’s flood disaster, because too many properties were built without proper drainage. Never mind that Miami, St. Augustine, Jacksonville and other Florida cities all have aggressive zoning yet weren’t spared from Hurricane Irma two weeks later.

What’s really missing is proper risk pricing through insurance. Many of us once believed this could be solved

through sensible reform of the federal flood-insurance program plus the development of a global reinsurance industry, some of it based on promising so-called catastrophe bonds.

Now we wonder if it can even be ameliorated. Anyone whose labors take him among America’s distinguished elder statesmen discovers that they all have one thing in common: a house in Florida. An unfortunate truth is that the value of their Florida coastal property would plummet if they were made to bear the cost of their life-style choices. A lot of ritzy communities would shrink drastically.

Sun and fun would still attract visitors, but property owners and businesses would face a new set of incentives. Either build a lot sturdier and higher up. Or build cheap and disposable, and expect to shoulder the cost of totally rebuilding every decade or two. Faced with skyrocketing insurance rates, entire communities would have to dissolve themselves or tax their residents

heavily to invest in damage-mitigation measures.

Let’s admit this ain’t going to happen. No disaster was more foretold than Hurricane Katrina or the subsequent storms that have afflicted the Gulf and Atlantic coasts. Yet the urge in Washington to rationalize risk signals proved shallow and short-lived. Law professors Omri Ben-Shahar and Kyle Logue, in the Stanford Law Review, last year wrote: “We call weather-related catastrophes ‘natural disasters,’ but the losses due to severe weather are the result of a combination of natural forces and often imprudent, shortsighted human decisions induced . . . by questionable government policies.”

After the televised tragedies of 9/11 and Katrina, a Lloyd’s of London insurance executive wondered, “If government hands out checks, do people need insurance?” He might further have asked: With government assuming the risk, why would businesses and homeowners ever think twice about building in the path of future hurricanes?

After the 1927 Mississippi flood, goes the story, flooding became effectively an “uninsurable” hazard. This is probably a false moral. Many more people are exposed to flood risk in a given year than actually suffer flood damage. That alone should make possible a reasonable insurance market. And modern mortgage lenders would insist on such coverage. Even the federal flood-insurance program, which has largely crowded out private flood insurance, could be run on a commercial, profit-making basis—it just isn’t, because U.S. Congress can’t break itself of the habit of subsidizing affluent coastal dwellers.

Each storm is followed by a rebuilding blowout that guarantees that the next storm will be more costly than the last. At least we are getting better at protecting the lives of the people whom we induce to place themselves in harm’s way.

But maybe we could start being honest with ourselves. Let’s see in the budget of the U.S. government a realistic estimate of the now-unrecorded

contingent liability that taxpayers have assumed on behalf of hurricane-prone communities—or, for that matter, the earthquake risks that we hardly ever talk about.

At the time of Katrina, Robert Litan of the Brookings Institution and Ed Liddy, then of Allstate, led just such a call. Their proposal was the despair of those of us who knew a competitive, private insurance market would do a superior job of sending proper risk signals. But it increasingly seems better than nothing—nothing being ever-bigger ad hoc federal expenditures to rebuild what natural disasters knock down, without serious examination of the taxpayer equities involved.

Just maybe, once we have formalized these estimates and shocked ourselves at the risk we not only expose ourselves to as taxpayers, but the risk to life and limb we expose our fellow citizens to by encouraging them to build in dangerous places, our country might begin to rationalize its risk-taking with respect to predictable natural hazards.

By Jay Newman

Al Capone has much to teach the would-be pursuers of today’s global kleptocrats. Big Al eluded capture for murder and mayhem so effectively that frustrated prosecutors came up with a novel way to jail him: for tax fraud after a lifestyle audit. How did a man without a bank account, who never filed a tax return, afford a \$39,000 phone bill?

In government and business, lifestyle audits are central to detecting fraud. When an employee’s spending exceeds his income, basic math reveals illicit enrichment.

The modern world is awash in Capones, but the most brazen don’t run brothels, guns or moonshine. They run countries. Many even get generous financial support from American taxpayers. Far from turning a blind eye to this corruption, the wealthiest coun-

tries oversee a labyrinthine system of financial institutions that inadvertently enable international crime.

Corruption costs the world \$2.6 trillion a year, according to one estimate cited by the Organization for Economic Cooperation and Development. This endemic problem cannot be lost on institutions like the World Bank and International Monetary Fund, yet they continue to hand billions of dollars to nations whose leaders are on the take. Why not put these jokers through an audit?

Brazil has so many crooks—convicted and alleged—that you need a scorecard: One ex-president, Lula da Silva, was convicted in July on corruption charges. His successor, Dilma Rousseff, was impeached last year and removed from office. Her successor, Michel Temer, was formally charged in June with taking bribes, though he denies the accusations. Eduardo Cunha,

a former speaker of Brazil’s lower house of Congress, was convicted on corruption charges and sentenced in March to 15 years. The case was built around Mr. Cunha’s lifestyle. He earned \$120,000 a year but reportedly spent \$40,000 during one nine-day vacation to Miami.

While Messrs. Cunha and Silva were lining their pockets, the Inter-American Development Bank lent Brazil at least \$11 billion. Since 2000, the World Bank has poured more than \$30 billion into the same rabbit hole. Transparency International ranks Brazil 79th out of 176 countries on corruption.

Then there’s Angola, which Transparency International ranks 164th. The World Bank has granted the country more than \$1.7 billion since 2000, and the IMF another \$1.4 billion. Neither group seems interested in investigating how the daughter of President José Eduardo dos Santos, who has ruled Angola since 1979, became what Forbes calls “Africa’s richest woman” (net worth \$3.5 billion).

The daughter, Isabel dos Santos, hasn’t been accused of corruption, but it can’t be bad for business that the country’s boss is her daddy. “There is no doubt that it was the father who generated such a fortune,” a former Angolan prime minister told Forbes in 2013. (Ms. dos Santos has denied suggestions in the media that she benefited from illegal wealth transfers or state financing.)

When Western institutions drop money into the capitals of developing countries, they think themselves do-gooders. Instead they’re tools in an unprincipled scheme. Here’s how the racket works: German plumbers and New York waitresses pay taxes. Their governments contribute some of that money to the IMF, the World Bank and an alphabet soup of other outfits. Those groups funnel money to nations with corrupt politicians.

Sure, there’s no way to track any specific dollar from the waitress’s wallet to the ruler’s pocket, but money is fungible. A dollar donated by the Group of Seven spends just the same as a dollar collected in Brasília or Luanda.

With world leaders in New York, spotting corruption is as easy as watching a ‘public servant’ hop into an idling Bentley.

Every dollar sent to corrupt countries also liberates local taxes for other use—or misuse. Poor farmers don’t know or care whether their new road is built with capital from a state-owned monopoly or taxes withheld from waitresses in Manhattan. But corrupt politicians do care, deeply. Paying for local infrastructure with foreign money allows them to claim credit for good works and to liberate cash for their own use.

International institutions should stop funding countries with weak rule of law and endemic corruption. Perhaps the best practical approach would be to replicate what the feds did to Capone. The case against Big Al was the most famous lifestyle audit of all time. Investigators cataloged his spending on everything from jewels and custom shirts to cars and hotel suites.

Given the billions of dollars at stake, donor countries should require the IMF, World Bank and similar institutions to know their customers and conduct lifestyle audits of major politicians in recipient countries. Many companies offer databases, some with more than a million names, that track what the Financial Action Task

Force defines as “politically exposed persons”—officials whose power presents a heightened risk of corruption. These lists include politicians, judges, generals and executives of state-owned companies, plus their friends and families.

Convincing the world’s financial cops to demand such strict standards will be difficult. Paul Wolfowitz made fighting corruption a priority during his brief tenure as the World Bank’s president from 2005 to 2007, suspending loans to India and debt-relief talks with Congo. But the system, including donor countries, rebelled against Mr. Wolfowitz and went back to business as usual when he departed.

Perhaps average citizens can help shrink the problem of tracking corruption. Today it’s feasible, as never before, to mobilize the crowd to itemize what world leaders are spending. This week the perfect opportunity will be at hand, as thousands descend on New York for the United Nations General Assembly.

The uninitiated might be forgiven for thinking the U.N. meeting’s purpose is conspicuous consumption, as visiting dignitaries are whisked from their official jets to Madison Avenue. So let’s keep track. Do you see a foreign leader going into Cartier or hopping into an idling Bentley? Take a picture. We can turn the observable behavior of free-spending politicians into hard data.

Corruption in developing nations is not a victimless crime, and giving fungible money to shady governments makes American taxpayers into dupes. When foreign dignitaries take each other out to dinner in New York this week, their waitress shouldn’t be the sucker who picks up the tab.

Mr. Newman is a former hedge-fund manager who specialized in sovereign debt.

LIFE & ARTS

WHAT'S YOUR WORKOUT? | By Jen Murphy

One Sport, Four Rackets

Jeremy Easterbrook plays racketlon: ping pong, badminton, squash and tennis

WHEN A COACH told Jeremy Easterbrook he'd never be good enough to play badminton in the Olympics, the 28-year-old Canadian didn't give up the game. He just took up three more.

"I figured if I couldn't be the best at one, I could at least be good at them all," he says.

Mr. Easterbrook competes in racketlon, a sport that combines table tennis, badminton, squash and tennis in a single match against the same opponent. One match can last more than 90 minutes and a tournament can consist of three to four matches. "You need to be really physically fit but also mentally tough," he says. "You're switching from racket to racket in under three minutes and have to find the zone in the hardest moments."

Mr. Easterbrook, the co-founder and CEO of Index, a Montreal-based digital marketing agency, started playing badminton competitively at age 15 and in his 20s became one of Canada's top-ranked players. In 2008, he went to China for three months to train with a former Chinese badminton world champion. "I was in the best shape of my life, training six hours a day, and my coach told me if I trained with him for four more years maybe I'd get through the first round of the Olympics," he says. "I went home and embraced racketlon."

Mr. Easterbrook was introduced to the decathlon of racket sports the previous year. He had learned to play tennis as a child from his grandfather, a tennis pro, and had dabbled in squash. Table tennis was new so he joined a table tennis club, hired a coach and started entering local racketlon tournaments. He was a natural.

He is ranked second in Canada and 47th in the world.

The Workout

Mr. Easterbrook says one of the biggest challenges of racketlon is finding work-life balance amid an intense training schedule. Each sport works different muscles and



Clockwise, Mr. Easterbrook plays ping pong, squash, tennis and badminton. Top right, his gear collection.



BRENDAN BUDDEN FOR THE WALL STREET JOURNAL

Racketlon's Roots And Rules

Racketlon, the racket-sport cousin of the decathlon, is still a fairly new concept. It started in Scandinavia in the mid-1980s, when the game was known as racket sports, and the International Racketlon Federation in Vienna was formed in 2002. Its four sets must be played in the order from the smallest to the biggest racket and in its appropriate sport, starting with table tennis and continuing with badminton, squash and ending with tennis. Every rally results in a point to the winner of the rally, and the winner of each set is the player who reaches 21 points. The winner of a racketlon match is the player who scores the most points in total so it's possible to lose three out of the four sets and still win the match.

minutes of yoga-inspired stretches. "Cobra pose is a favorite to stretch out my back," he says.

He practices visualization before every match.

The Diet

Mr. Easterbrook gained more than 45 pounds when he was injured in 2012. "I realized my diet wasn't really helping me," he says. "I ate a lot of pizza." He dropped 20 pounds on a low-carb diet to get to his "happy competition weight" of 185 pounds. He has a protein shake in the morning followed by grilled chicken and vegetables, and a protein shake around 3 p.m. He tries to avoid restaurant meals and instead cooks at home.

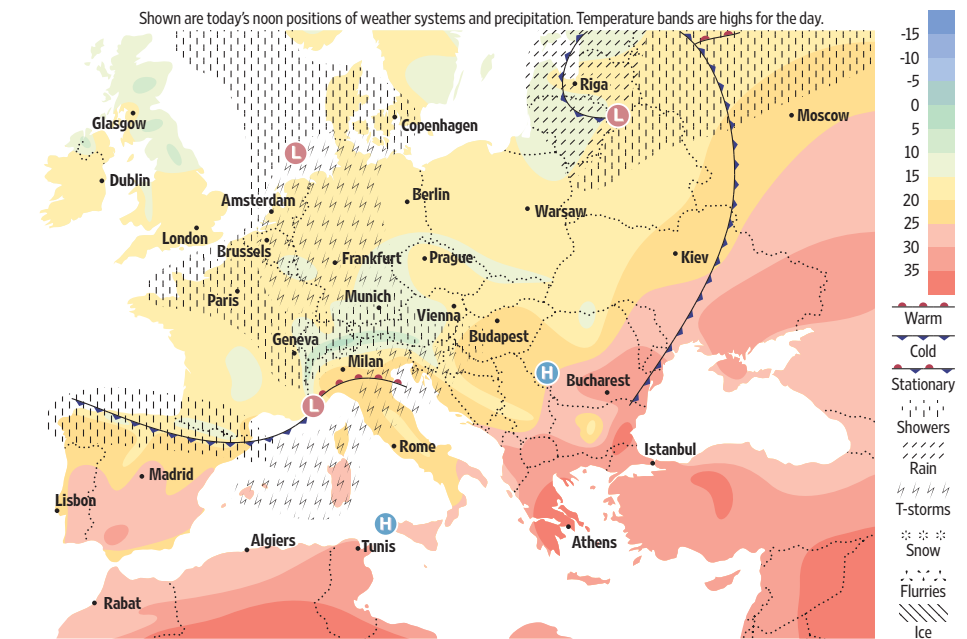
"I cook a lot on the barbecue and love making chicken tagine with a big salad," he says. He has another protein shake before bed. During a tournament, he has a big breakfast of cereal, fruit and coffee and then tries to eat some type of protein every hour when he is not playing. His guilty pleasure is beer.

The Gear & Cost

Mr. Easterbrook paid \$100 for his

Black Knight Reactor court shoes, which he uses for Racketlon. He also has a pair of Adidas Barricade (\$100) tennis shoes for table tennis. He plays table tennis with a DONIC Waldner Senso Carbon blade (\$60) covered in Andro Rasant rubber (\$35). He has two Black Knight HEX-Force 360 badminton rackets, which cost \$240 each, three Quicksilver LT squash rackets at \$160 each, and two Babolat Pure Aero tennis rackets, priced at \$200 a piece. He prefers Schildkrot 3 star balls for table tennis, Black Knight Tru-Bounce squash balls and Wilson US Open tennis balls. He wears Black Knight Stiletto eye protection (\$30).

Weather



Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	16	10	t	17	10	sh
Anchorage	12	8	sh	13	7	pc
Athens	35	24	s	34	24	s
Atlanta	30	19	s	30	20	s
Baghdad	45	27	s	45	26	s
Baltimore	27	18	pc	28	18	c
Bangkok	33	26	t	34	26	t
Beijing	31	15	s	30	13	s
Berlin	17	6	t	17	8	pc
Bogota	19	8	t	20	9	pc
Boise	18	7	c	16	8	c
Boston	22	17	c	20	18	r
Brussels	15	9	t	16	8	sh
Buenos Aires	22	12	s	23	15	s
Cairo	34	24	s	34	24	s
Calgary	16	1	pc	14	1	pc
Caracas	32	25	pc	31	25	pc
Charlotte	29	18	s	30	18	s
Chicago	25	18	pc	26	19	pc
Dallas	35	24	pc	36	26	pc
Denver	29	12	s	31	8	pc
Detroit	25	16	pc	24	17	sh
Dubai	42	31	s	40	31	s
Dublin	16	7	pc	17	11	pc
Edinburgh	14	6	c	16	10	pc
Frankfurt	16	7	t	16	8	sh
Geneva	16	6	sh	13	6	sh
Hanoi	33	26	pc	33	27	sh
Havana	31	22	pc	31	22	pc
Hong Kong	33	27	s	32	27	pc
Honolulu	32	24	pc	31	24	pc
Houston	32	24	t	33	25	pc
Istanbul	30	21	s	29	22	s
Jakarta	34	23	pc	34	24	pc
Johannesburg	24	11	s	26	13	s
Kansas City	25	18	r	29	21	pc
Las Vegas	35	22	s	33	21	s
Lima	20	15	pc	19	15	pc
London	17	9	pc	17	10	pc
Los Angeles	26	18	pc	25	18	pc
Madrid	25	11	s	26	12	s
Manila	33	27	t	33	26	t
Melbourne	21	8	sh	13	5	pc
Mexico City	24	14	pc	25	14	pc
Miami	33	25	s	33	24	pc
Milan	21	10	pc	23	9	pc
Minneapolis	18	13	pc	23	18	c
Montreal	33	22	pc	35	22	pc
Montreal	28	17	pc	25	16	pc
Moscow	21	10	pc	14	8	pc
Mumbai	31	25	t	29	26	r
Nashville	31	19	pc	30	20	pc
New Delhi	36	26	t	35	26	t
New Orleans	32	24	s	32	23	s
New York City	25	19	c	24	20	r
Omaha	24	18	r	29	19	s
Orlando	32	22	pc	32	22	pc
Ottawa	28	15	c	25	15	c
Paris	16	9	sh	16	7	sh
Philadelphia	26	20	pc	25	21	c
Phoenix	38	23	s	38	25	s
Pittsburgh	28	17	pc	28	16	pc
Port-au-Prince	34	23	pc	35	23	pc
Portland, Ore.	17	11	r	17	12	r
Rio de Janeiro	28	20	s	28	20	s
Riyadh	42	25	s	41	24	s
Rome	22	16	pc	21	12	t
Salt Lake City	28	13	s	16	9	pc
San Diego	24	19	pc	24	19	pc
San Francisco	22	16	s	24	16	s
San Juan	32	26	sh	32	26	sh
Santiago	24	9	pc	17	7	r
Santo Domingo	33	24	pc	33	24	pc
Sao Paulo	28	17	pc	28	16	pc
Seattle	16	11	r	16	10	r
Seoul	26	17	s	26	15	t
Shanghai	31	21	pc	30	22	c
Singapore	30	25	c	30	26	t
Stockholm	14	7	pc	12	4	sh
Sydney	26	16	s	22	10	s
Taipei	32	24	s	35	25	s
Tel Aviv	30	19	s	30	18	s
Tokyo	29	21	s	30	21	s
Toronto	30	22	s	27	21	s
Toronto	25	16	sh	25	16	c
Vancouver	16	10	r	16	8	r
Washington, D.C.	28	20	pc	28	20	c
Zurich	15	5	sh	13	6	sh

The WSJ Daily Crossword | Edited by Mike Shenk

1	2	3		4	5	6	7	8		9	10	11	12
13			14		15					16			
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20				21			22						
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54	55			56			57						
58					59	60			61				
62				63					64				
65				66						67			

ILK CONCEIVED | By Zhouqin Burnikel

Across	26	Yoga student's roll	47	Birthday event?
1	Penn of "Designated Survivor"	49	Rock's _____ Fighters	
		50	Layout choices	
4	Colorful aquarium fish	54	"All in the Family" star	
9	Lose intensity	57	No more than	
13	Handle on an elevator?	58	Magic or juggling performance, say	
15	Exhaust, as resources	61	Digging	
16	All tucked in	62	Lake that feeds the Niagara River	
17	Home to more than half of all Indonesians	63	Joe who managed the Yankees for 12 seasons	
18	Disruptive student, at times	64	Come off as	
20	Skybox venues	65	Brooklyn hoopsters	
22	Gold medal champions at the 2016 Olympics	66	Big Mac component	
23	Compliment	67	"That's right"	

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

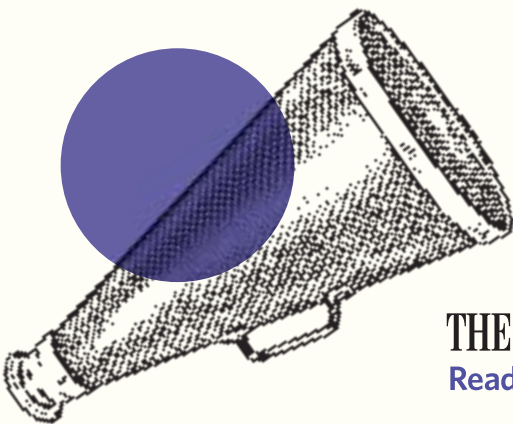
Previous Puzzle's Solution													
L	O	W	B	I	D	A	B	A	B	D	A	Y	
O	V	I	E	D	O	P	A	R	A		O	W	E
R	A	N	D	O	M	E	R	I	O	R		M	E
E	L	K				M	E	T			R	U	B
			B	E	N	C	H		S	Q	U	A	R
S	O	C	A	N	I		A	G	E		M	F	A
S			P	H	O	N	E	C	A	L	L		P
L	I	D		O	I	L		E	K	G		V	O
A	S	O	F				A	M	N	I	T	O	M
S	E	M	I		S		U			N	O	I	R
H	E	L	L	E	R		M	A	G	D	A		
		L	A	L	A	W		I	D	O		E	L
J	O	E		S	P	E	E	D		M	O	M	E
A	R	T		I	P	A	S		M	E	N	T	E
Y	E	S							E	N	D	U	R

The contest answer is ST. BASIL'S CATHEDRAL in Moscow. The letters DOME can be found in nine grid entries, indicating St. Basil's Cathedral, which features nine large domes.

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Monday, September 18, 2017 | B1

Euro vs. Dollar 1.1958 ▲ 0.32% **FTSE 100** 7215.47 ▼ 1.10% **Gold** 1320.40 ▼ 0.32% **WTI crude** 49.89 unch. **German Bund** yield 0.434% **10-Year Treasury** yield 2.202%

Debate Grows on Sensitive Deals

President Donald Trump’s rejection last week of a Beijing-backed fund’s attempt to acquire a U.S. semiconductor company was for many in

By Julie Steinberg in Hong Kong and Kate O’Keefe in Washington

Washington an easy call because it involved a sensitive sector and funding from the Chinese government.

The decision did little, however, to settle a growing debate in Congress over how the U.S. should approach foreign acquisitions that the govern-

ment perceives to be less clear-cut. At issue is how to balance the need to protect national security with the desire to stay open to foreign investment, especially when the money is coming from China, a military and economic rival.

In rejecting **Canyon Bridge Capital Partners** Inc.’s attempt to buy **Lattice Semiconductor** Corp., which is based in Portland, Ore., Mr. Trump declined to overrule a recommendation by the Committee on Foreign Investment in the U.S. to block the transaction. CFIUS is a multiagency panel that reviews deals for national-security concerns.

For U.S. policy makers, the reasons were straightforward: The sale could have ceded valuable intellectual property to China amid a fierce battle between the two countries to dominate the semiconductor industry.

The White House said the \$1.3 billion transaction could have risked U.S. national security and, in addition to the reasons above, also cited “the importance of semiconductor supply chain integrity to the United States Government, and the use of Lattice products by the United States Government.”

Mr. Trump’s decision was swiftly condemned by Beijing,

where a spokesman for China’s Ministry of Commerce said countries shouldn’t use security reviews “as a tool for protectionism.”

“We hope that certain countries can look at Chinese companies’ overseas acquisitions objectively and fairly, and provide fair treatment to this kind of normal commercial activity,” said Gao Feng, the ministry spokesman.

Many sectors of China’s economy remain largely closed to foreign investors.

The companies have said they see anti-China sentiment in the U.S. at work. Lattice’s chief executive said his com-

pany and Canyon Bridge had tried to address all possible national-security issues through an agreement to give the U.S. government control over Lattice’s intellectual property and technology if the tie-up were approved.

In Congress, though, the decision didn’t strike lawmakers as a political one. Senate Banking Committee Chairman Mike Crapo, an Idaho Republican, said at a hearing about CFIUS’s role that took place the day after Mr. Trump’s decision that the Lattice case “sounds like it should be considered textbook CFIUS” and that the move was

Please see CFIUS page B2

Review Assesses ‘Missing Debt’

By BRIAN BLACKSTONE

ZURICH—Nonfinancial companies and other institutions outside of the U.S., excluding banks, may be sitting on as much as \$14 trillion in “missing debt” held off their balance sheets through foreign-exchange derivatives, according to research published Sunday by the Bank for International Settlements.

These transactions, which resemble debt but for accounting purposes aren’t classified that way, aren’t new. Rather, researchers from the BIS—a consortium of central banks based in Basel, Switzerland—used global banking data and surveys to estimate the size of this debt for the first time.

The implications for financial stability are unclear because FX swaps are backed by cash collateral and can be

The BIS said non-banks outside the U.S. owed \$13 trillion to \$14 trillion.

KEYWORDS

By Christopher Mims

Why There Are Never Enough New iPhones



The big let-down from **Apple’s** product announcement last Tuesday was

news that its most desirable new gadget, the iPhone X, can’t be preordered until late October and won’t start shipping until November. Even then, analysts are predicting supply shortages. Dealers in Hong Kong expect to sell the phones at a \$300 to \$400 premium in the first weeks they are available.

Shortages of hot new gadgets are so common, it is easy to take them for granted. This past year alone, Google’s Pixel phone, Nintendo’s Switch and classic gaming-system reboot, and even Apple’s iPhone 7 Plus have been thin on the ground.

You would think after years of hard-won experience, tech hardware companies could deliver goods when and where there’s demand—especially at Apple, whose chief executive, Tim Cook, made his name as an operations maestro.

Are these shortages some kind of Machiavellian marketing play? Calculated risk management? Or is it the case that manufacturing millions of complex electronic gadgets, and distributing them globally, is really hard? It is likely a bit of all of these.

Cold Calculation

Companies often do force early adopters to wait. This is because of the increasingly important preorder period, says Asokan Ashok, who was at Samsung Research America from 2009 to 2015, most recently as the director of emerging products and services, and saw many of Samsung’s flagship products go from the lab to the consumer.

He says the preorder mechanism, where customers signal their intent to buy a product before it starts shipping, provides early data that is essential to predicting demand for a gadget and distribution of demand across its various configurations—both notoriously difficult to forecast.

The calculus gets trickier when the device’s price hits a new high and the company has no precedent to gauge demand, says Mr. Ashok, now chief executive of mobile software startup Unfold Labs. That is certainly the case with the \$999 iPhone X. Apple has “never gone there before,” he says.

Apple may well be facing its biggest demand-forecasting challenge since the original iPhone. While Apple has empirical data on demand

Please see MIMS page B3



Drones still face limits on commercial uses.

ALEX WONG/GETTY IMAGES

INDUSTRY FOCUS

Drone Firms Clamor for Regulation

Industry proponents in the U.S. are seeking federal approval for broader commercial applications

By ANDY PASZTOR

Despite White House directives rolling back regulations affecting most industries, drone proponents are clamoring for more federal rules as the way to open up the skies for unmanned aircraft.

The counterintuitive stance stems from the fact that until roughly a year ago, commercial drones effectively were barred from U.S. airspace because of safety concerns. Since then, the Federal Aviation Administration has given limited approvals for small, remotely piloted aircraft.

With some exceptions, the initial package of rules permits operations only during daylight hours, up to an altitude of 400 feet and within

sight of operators on the ground.

But for many leaders of a budding industry that already has nearly 80,000 registered commercial drones in the U.S. and is projected to have 1.6 million by 2021, progress is too slow because the next wave of rules is still a year or two off. Considering the goal of having a single pilot control a flock of drones from long distance—possibly doing everything from dusting crops to inspecting railroad tracks—they see the FAA’s current boundaries as unduly restrictive.

That is why drone makers, operators and many of their would-be customers are bucking the governmentwide trend toward looser oversight. Additional regulations are their

sole means of getting a green light for a much broader array of promising uses.

So from packed conferences to congressional hearings to FAA-sponsored advisory committees, these contrarian voices argue that swift federal action is essential for the technology to flourish.

Unlike nearly all other businesses, “we want and need rules and regulations to understand how we can fly drones commercially for expanded operations,” said Gretchen West, senior adviser at the law firm Hogan Lovells US LLP.

While the FAA, the Federal Bureau of Investigation and other agencies struggle with legal, technical and public-safety challenges unlike any in

the past, industry officials increasingly are frustrated. They worry that a prolonged regulatory stalemate threatens to stifle innovation, sacrifice potential American jobs and hand other countries the lead in evolving market segments.

The status quo will persist “until there are enough [drones] out there pushing the FAA to do something different” and the industry’s prod-ding “rises to the level of bumping everything else out of the way,” consultant Jim Williams, former head of the agency’s drone office, said during a recent conference.

Responses to Hurricane Harvey’s impact on Texas this month showcased the industry’s potential. The FAA issued

Please see DRONES page B2

INSIDE



PRIME MINISTER OF U.K. DRAWN INTO JETS SPAT

BUSINESS, B2



AMAZON HOPES ITS CULTURE TRAVELS WELL

TECHNOLOGY, B3

Hurricanes Stir Up Profits at U.S. Refiners

By LYNN COOK AND BRADLEY OLSON

HOUSTON—U.S. fuel prices are poised to remain elevated for the rest of the year in the aftermath of hurricanes Harvey and Irma, costing consumers billions but providing a profit boost to some refining companies.

Harvey knocked out 25% of the nation’s fuel-making capacity at the height of the storm’s flooding in Texas. More than 12% is still shut, with three plants idle and 11 struggling to resume operations. A week later, Irma compounded fuel shortages in the Southeast, as millions of people fled in a mass evacuation that emptied gasoline stations.

A record amount of fuel was pumped out of storage tanks in the week ended Sept. 8, according to federal data, to keep East Coast gas pumps working. It was the largest one-week drawdown in U.S. gasoline stockpiles since 1990. Nearly every refinery that



Flooding from Hurricane Harvey at a Houston gas station on Aug. 30.

LUKE SHARRETT/REUTERS

could went into overdrive in the wake of the storms, but the one-two punch of Harvey and Irma knocked out millions of barrels a day of fuel production, rapidly driving up gas prices to \$2.80 a gallon. The nationwide average is about 50 cents higher than this time last year.

While some pump prices have drifted lower, increases could persist in certain areas

for months, analysts and economists said. An extended increase of 25 to 50 cents a gallon would translate to billions of dollars in costs to consumers over the course of 60 to 90 days, according to federal data on U.S. vehicle miles traveled and average fuel efficiency.

Higher fuel prices mean refinery owners—even some with flooded plants that won’t

go back into service for weeks—could see an improvement to their bottom lines.

“You’ve got a lot of refiners running at full tilt, and they’re going to make better margins,” said Sandy Fielden, an energy analyst with Morningstar Inc. “Supply and demand is effectively telling the market that there’s a big incentive to produce more.”

In the Midwest, refineries hummed at their maximum capacities in the days before and after Harvey hit, according to the U.S. Energy Information Administration.

Aggregated across the industry, the boost to profit margins on fuel is likely to be sufficient to offset most lost revenue from the refinery shutdowns, according to a Wall Street Journal analysis of pricing data from FactSet.

Most refiners’ margins would get a boost because the price of the fuel they sell will be higher while the cost of the crude oil they buy to run

Please see FUEL page B2

INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

A	Exxon Mobil.....B2	PSA Peugeot Citroen..B8
Alibaba Group.....B5	F	R
Alphabet.....B3	Facebook.....B3	Renault.....B8
Altaba.....B4	Fiat Chrysler	Rovio Entertainment..B5
Amazon.com.....B3	Automobiles.....B4,B8	S
Ant Financial Services	Ford Motor.....B4	Saudi Arabian Oil.....B2
Group.....B5	G	Shanghai Fosun
A.P. Moller-Maersk...B4	General Motors B2,B4,B8	Pharmaceutical.....B2
Apple.....A5,B1	Gland Pharma.....B2	SoftBank Group....B3,B5
B	H	Supercell.....B5
BAE Systems.....B2	Honda Motor.....B8	T
Bank for International	L	Tencent Holdings.....B5
Settlements.....B1	Lattice	Tesla.....B4,B8
Bank of America.....B7	Semiconductor.....B1	Toyota Motor.....B8
Bavarian Nordic.....B8	Lyft.....B3	Travelers Cos.....B4
Boeing.....B2	M	Trend Micro.....B4
Bombardier.....B2	Marathon Petroleum..B2	U
C	Mitsubishi.....B8	Uber Technologies.....B3
Canyon Bridge Capital	N	V
Partners.....B1	Nissan Motor.....B8	Valero Energy.....B2
Capital One Financial.B7	P	Volkswagen.....B8
China Literature.....B5	PBF Energy.....B2	Z
China Zhongwang	Perfectus Aluminum..B5	ZhongAn Online
Holdings.....B5	Phillips 66.....B2	Property & Casualty
D - E	Ping An Insurance.....B5	Insurance.....B5
Daimler.....B8		
Equifax.....B4		

INDEX TO PEOPLE

A	D	Liu Zhongtian.....B5
Ashok, Asokan.....B1	Drummond, David.....B3	M
Athanasia, Dean.....B7	G	Marchionne, Sergio....B8
B	Ghosh, Carlos.....B8	Messer, Chad.....B8
Bezos, Jeff.....B3	K	Musk, Elon.....B4
Bird, Colin.....B4	Kuittinen, Tero.....B5	R
C	L	Riikola, Atte.....B5
Clark, Greg.....B2	Lam, Wayne.....B3	S
Cook, Tim.....B1		Sharma, Chetan.....B3

CFIUS

Continued from the prior page

reassuring. At the same time, Mr. Crapo, whose committee has oversight authority over CFIUS, indicated that the debate over CFIUS's powers is far from settled.

"We should discuss whether CFIUS is even the right agency to reform in order to address various complaints associated today with China's investment strategies," Mr. Crapo said, praising what he referred to as the U.S.'s "world-renowned" open investment policy.

His comments echo sentiments that have been expressed by some free-market congressional Republicans and private business people who remain wary of shutting out too much foreign investment.

Still, a growing bipartisan group in Congress and some former and current administration officials are arguing that strengthening the CFIUS review process is paramount in order to protect national security.

Senate Majority Whip John Cornyn of Texas and Rep. Robert Pittenger, a North Carolina Republican, have both said they soon plan to introduce CFIUS overhaul bills that would ratchet up scrutiny of foreign investment in the U.S.

Former White House chief strategist Steve Bannon, who said in a recent interview with The Wall Street Journal in Hong Kong that his philosophy helped guide CFIUS while he was in the White House, said

CFIUS should become larger and review more deals, with the goal of reducing foreign direct investment into the country's sensitive sectors.

Mr. Bannon, who left the White House last month, is still in contact with Mr. Trump, the Journal has reported. In the interview, he said officials in the Treasury and Commerce departments, both part of CFIUS, continue to carry out the agenda he helped create on foreign-deal reviews.

Mr. Bannon was in Hong Kong to speak at a conference held by financial-services firm CLSA, a unit of Chinese state-owned brokerage Citic Securities Co. He spoke with the Journal before Mr. Trump's decision on the Lattice deal had been announced.

In the interview, Mr. Bannon, who has a nationalist agenda, said CFIUS needs to be very careful about transactions involving the sale of U.S. strategic assets and deals that put proprietary technology into the hands of foreign owners. The definition of sensitive industries or technology could be broadened, he said.

He predicted that the recent wave of Chinese takeovers of U.S. companies would come to an end and said stepped-up scrutiny should go beyond deals emanating from China. The U.S. should "think through who's investing and what's the purpose of that investing," no matter which country is behind the takeover, he said.

—Eva Dou, Natasha Khan and Steven Russolillo contributed to this article.

BUSINESS WATCH

BAE SYSTEMS

Qatar Plans to Buy 24 Typhoon Fighters

The Qatari and British governments have signed an agreement for the potential sale of 24 Eurofighter Typhoon combat jets worth several billion dollars, in another move by Doha to bolster its military.

The deal is also a boost for plane maker **BAE Systems** PLC, which is seeking to keep Typhoon fighter-plane production humming.

British Defense Minister Michael Fallon signed an agreement with his Qatari counterpart for the planes on Sunday. Qatar said the deal would bolster its ability to fight terrorism.

—Robert Wall and Nicolas Parasie

FOSUN GROUP

Unit to Purchase 74% Of Indian Drug Firm

A unit of China's Fosun Group agreed to acquire 74% of Indian drug company **Gland Pharma** Ltd. for \$1.1 billion, resurrecting a deal that was previously blocked by India.

Shanghai Fosun Pharmaceutical (Group) Co. said it is planning to buy the stake in Gland Pharma, a Hyderabad-based company that makes generic injectable drugs that are largely sold in the U.S. Fosun had earlier tried to buy 86% of the firm, a deal that was rejected by Indian policy makers last month.

Fosun's previously proposed \$1.3 billion deal was turned down

by Prime Minister Narendra Modi's government because authorities didn't want the company to gain access to Gland Pharma's injectables technology.

A spokesman for Mr. Modi's office didn't immediately respond to a request for comment.

Fosun is buying 38.4% of the Gland Pharma stake from U.S. private-equity firm KKR & Co., and will acquire the rest from other investors, according to a securities filing.

—Julie Steinberg and Preetika Rana

GENERAL MOTORS

Strike Threat Looms At Canada SUV Plant

Workers at a **General Motors** Co. sport-utility plant in Canada were threatening to strike unless a new labor deal was reached by Sunday night, jeopardizing the supply of the company's top-selling SUV model.

GM faced a deadline of 10:59 p.m. New York time to sign a tentative contract with Unifor Local 88, which represents about 2,450 workers at the assembly plant in Ingersoll, Ontario.

A tentative contract "does not appear achievable," read a notice on the union's website posted Saturday. The union local has said it wants improved wages and benefits.

GM said in a statement Sunday that it "will work with our Union partners toward another innovative and mutually beneficial competitive agreement."

The plant produces the compact Chevrolet Equinox.

—Mike Colias

BUSINESS & FINANCE



Boeing has lodged a trade complaint against Bombardier, stating that the company is selling its new CSeries jet too cheaply in the U.S.

U.K. Drawn Into Jet Spat

By DOUG CAMERON

A **Boeing** Co. trade complaint against **Bombardier** Inc. has triggered a trans-Atlantic row.

When British Prime Minister Theresa May meets on Monday in Ottawa with her Canadian counterpart, Justin Trudeau, the

THE WEEK AHEAD

Boeing's claim that Bombardier is selling its new CSeries jet too cheaply in the U.S.

Canada and Bombardier deny that and say the aerospace company isn't receiving government subsidies. Boeing's claim "is unjustifiable and based solely on Boeing's desire to limit competition," a spokesman for Canadian Foreign Minister Chrystia Freeland said.

The aerospace giant's push has puzzled analysts because it could jeopardize a potential \$5 billion sale of Boeing jet fighters to Canada that would help sustain a production line in St. Louis. Canada broke off talks last month in protest at Boeing's charges against the CSeries.

Plane makers including Boeing routinely sell new plane models below what they cost to make in order to win market traction, analysts say. Bombardier's planned CSeries is smaller than any Boeing jet, and the U.S. company didn't make an offer last year on the contract that Bombardier secured from Delta Air Lines Inc. Bombardier has a backlog of 360 of the jets, and Delta is due to take the first of its 75 planes next spring.

"It's not picking on Canada," Boeing Chief Executive

Dennis Muilenburg said in May after the company lodged its complaint with the U.S. Department of Commerce. "We have to have a fair and level playing field globally."

Industry experts believe Boeing is seeking to prevent Bombardier from expanding its product line and emulating the rise of Airbus SE, which over the past 30 years has claimed half the commercial jetliner market.

Bombardier said its jet competes in a different market segment from Boeing. Executives said the dispute isn't hindering sales of the jets, though they haven't booked a new CSeries order this year.

The dispute comes amid negotiations over the future of the North American Free Trade Agreement and other disputes between the U.S. and

Canada over lumber and dairy exports. Mrs. May has been drawn into the spat because the dispute could affect a factory in Northern Ireland that makes parts for the CSeries. Mrs. May relies on Northern Ireland's Democratic Unionist Party to maintain a majority in the British Parliament.

She raised the matter with President Donald Trump in a Sept. 5 phone call. Greg Clark, the British trade minister, met with Mr. Muilenburg at Boeing's Chicago headquarters last month to press for the case to be dropped.

The Commerce Department is expected to make an initial decision in the week of Sept. 25. The U.S. has said it wouldn't identify potential penalties until next year.

—Paul Vieira contributed to this article.

DRONES

Continued from the prior page

more than 125 authorizations spanning various search-and-rescue missions, bridge inspections, flood monitoring and media flights—some going beyond what had been deemed acceptable in normal circumstances.

FAA chief Michael Huerta described it as a transformative moment, emphasizing that "every drone that flew meant that a traditional aircraft" was freed up to help save lives and "did not put additional strain on an already fragile infrastructure."

By Friday, more than 130 similar approvals had been granted over storm-ravaged Florida. Working with government rescuers and industry officials, dozens of drone teams are assessing areas most in need of assistance and identifying where electricity needs to be restored—particularly in parts of the



An aerial photo from Aug. 31 shows damage caused by Hurricane Harvey in Rockport, Texas.

state still inaccessible to automotive traffic.

Longer-term, drones are seen as important tools to monitor construction, create maps and check for damage to pipelines or the condition of cellular-phone towers.

Institutional hurdles re-

main, however, including the FAA's congressionally imposed mandate to abide by cost-benefit analyses. Yet when it comes to drones, the benefits of regulation generally aren't quantifiable in terms of accidents or deaths prevented—traditional metrics that have

ushered in the safest period ever for the industry worldwide. Instead, the upside comes from what the FAA chief and others call broader "enabling regulations," intended to promote economic growth by paving the way for creation of an entire industry.

FUEL

Continued from the prior page

through their plants remains low. That combination has increased profit margins for some fuel makers on the East Coast and in the Midwest by more than one-third.

Some wild-card costs could spell losses for a few operators. Those costs include repairing flooded equipment or paying fines for not fulfilling supply contracts, analysts said, although it is possible some corporate insurance policies would mitigate these costs.

Investors have been pushing refiners' shares higher as they anticipate better profits. **PBF Energy** Inc., which mainly operates refineries in the Northeast and Midwest, didn't need to shut any of its plants and its shares have gained 26% since Aug. 21, the week before Harvey made landfall. Even refiners that slowed or halted operations because of the flooding, including **Phillips 66** and **Marathon Petroleum** Corp., have seen shares rise between 5% and 9%.

Valero Energy Corp., Phillips 66 and Marathon are expected to post sizable increases in third-quarter earnings compared with the same period in 2016. For Marathon, which shut units at its Galveston Bay plant because of Harvey, analysts expect earn-

ings per share to more than double, according to FactSet.

Plants where fall maintenance was planned, such as in Illinois, or that normally supply only their local areas, are delaying work so they can churn out more gas, shipping the extra supply down the Ohio and Mississippi rivers on barges to the Gulf Coast.

Several massive fuel factories in the Port Arthur, Texas, area remain hobbled. The 600,000-barrel-a-day plant owned by **Saudi Arabian Oil** Co.—the biggest in the U.S.—is operating at half capacity be-

Investors have been pushing refiners' shares higher as they expect better profits.

cause many of its motors and electronics were fouled by floodwater, according to a report by Damien Courvalin, a managing director at Goldman Sachs Group Inc.

Valero is trying to restart its plant in Port Arthur, but the effort could take until the end of September, Goldman Sachs said. The investment bank expects **Exxon Mobil** Corp.'s refinery in nearby Beaumont, Texas, to take a month to fully recover. The companies have said they are

ramping up operations.

Transporting the fuel once it is produced is also a problem. The Colonial Pipeline, which analysts have likened to a Mississippi River of fuel, carries more than a million barrels a day from Texas through a dozen states to New York and continues to experience delivery delays to mid-Atlantic states.

The decline in output is a switch for the U.S., which had been producing so much gasoline that stockpiles of the fuel reached a three-decade high of more than 255 million barrels in February. The refinery outages and continued draws on gasoline stocks leave the U.S. with less of a cushion, which helps push up fuel prices, according to Sam Margolin, an analyst with Cowen & Co.

"We believe it could take all of the fourth quarter to replenish lost supply, with an ongoing inflationary impact to gasoline prices," Mr. Margolin said.

Major storms in the past decade have failed to dent refining profitability in a number of cases.

After hurricanes Ike and Gustav struck the Gulf Coast in succession in 2008, refining profit margins for some fuels more than doubled. Valero, one of the biggest U.S. refiners, said the storms that year cost it about \$350 million in lost business, but the company still reported profit of \$1.15 billion.

BIS

Continued from the prior page

off-balance sheet, as a derivative, even though it is in effect a secured loan with principal to be repaid in full at maturity," the paper noted.

This short-term funding is backed by cash and it carries little credit risk. "Even so, strains can arise," the authors wrote, citing the funding squeeze experienced by European banks during the global financial crisis.

The BIS's quarterly review didn't just examine missing debt, it also examined what it called "missing inflation" in the global economy, which has helped spur risk taking and drove up financial asset values in recent months.

The implications are big for stock and bond markets that have moved largely in tandem, with bond yields staying super low while equity markets reached record highs. Whereas faster growth typically implies higher inflation and central bank rate increases, the prospect of significantly tighter monetary policy in the U.S. and other big economies has receded.

"This puts a premium on understanding the 'missing inflation,' because inflation is the lodestar for central banks," said BIS chief economist Claudio Borio.

TECHNOLOGY

WSJ.com/Tech

Tech Firms Are Facing Political Pressures

WASHINGTON—Technology firms, which long enjoyed a hands-off approach from Washington aimed at fostering their growth, are facing more

By John D. McKinnon,
Byron Tau
and Douglas MacMillan

political challenges from both parties amid growing concerns over the companies' size, influence and perceived lack of accountability.

New scrutiny by Congress of Facebook Inc. over its acceptance of Russian ad buys in the 2016 campaign is just the latest in a string of policy pressures facing technology firms.

It was already a tough year for Silicon Valley in Washington, where lawmakers have

been pushing proposals that could roil the industry, including measures on net neutrality, privacy and liability. The industry's standing suffered again recently when lawmakers laid plans for public hearings to examine whether Facebook and other social-media platforms were used by foreign governments during the 2016 campaign to manipulate the U.S. election. Lawmakers also signaled they are considering new legislation to address on-line spending by foreign adversaries—a potential blow to the firms' cherished freedom from close government oversight.

"This is a Wild, Wild West," said Sen. Mark Warner, a Virginia Democrat, about the possible need for more controls on internet companies.

It wasn't long ago that President Barack Obama held a festival on the White House grounds to celebrate high-tech firms and their transformative power.

In contrast, at a White House meeting between tech leaders and President Donald Trump earlier this year, Microsoft Corp. Chief Executive Satya Nadella led off by urging Mr. Trump to maintain an "enlightened" immigration policy as well as government research spending. Mr. Trump responded by urging other CEOs to keep their comments "a little shorter."

Compounding the problem for the industry has been its occasional lack of broad support among Republicans recently, a situation that became more acute after the Republican sweep in the 2016 election.

In the internet's early days, Washington often took a light-touch approach designed to nurture the fledgling industry. Now, though, some lawmakers say big internet firms eventually could lose key aspects of

Facebook is under scrutiny over its acceptance of Russian ad buys in 2016.

the special legal protections they enjoy under U.S. law. There is even talk of possible antitrust scrutiny for some big tech firms in the U.S., after the European Commission decision to issue a

record \$2.91 billion fine against Alphabet Inc. unit Google for allegedly abusing the power of its dominant search engine.

The company has filed an appeal of the fine.

"Antitrust, privacy and overall trust in tech companies are serious emerging issues that represent important potential threats to the Valley," said Ted Ullyot, partner for policy and regulatory affairs at the venture-capital firm Andreessen Horowitz and the former general counsel of Facebook. "All the more reason why tech companies need to understand and engage with the policy arena, starting early in their development, to help minimize those threats in the current environment," he said.

The companies involved

didn't want to comment on their standing in Washington. But some companies have boosted spending on lobbyists and hired former government officials to help craft their response.

In March, the House and Senate passed Republican-backed legislation that rolled back Obama-era rules that had benefited internet firms by tightening user-privacy rules for their nascent rivals in the wireless and cable sectors.

After internet activists complained about the measure, Republican Rep. Marsha Blackburn of Tennessee, an influential subcommittee chairman, stunned internet firms by proposing privacy legislation that would impose new burdens on the internet firms, as well as the wireless and cable firms.

Amazon Hopes Its Culture Travels Well

By LAURA STEVENS

In planning Amazon.com Inc.'s second headquarters, Chief Executive Jeff Bezos faces a new challenge: How to maintain the online retail giant's carefully cultivated culture when he can't be in two places at once.

The answer might lie in one defining element of Amazon's business practices. Its highly decentralized structure, with small, siloed teams, is the equivalent of "1,000 independent businesses, all marching in the same direction," says former Amazon senior manager Eric Heller, who now helps brands sell on the site.

Mr. Bezos has been fundamental in defining the Seattle-based company's culture, setting the tone on everything from innovation to how big a pizza order teams should need for lunch.

Amazon emphasizes 14 leadership principles that guide employee behavior, focus and goals.

Former executives say that while they saw Mr. Bezos infrequently—in part because the 33-building Seattle campus is so large—he still has an outsized presence at the company he founded in his garage in 1994.

Mr. Bezos is known for encouraging employees to reach out via email directly for his guidance. That's even as the number of Amazon's employees surpasses 450,000 globally, including the recent acquisition of Whole Foods Market Inc.

But Amazon, having outgrown Seattle, is now planning to split up its headquarters, an unusual step that presents the risk of reduced collaboration, decreased face time and an off-kilter leadership structure



The company's headquarters complex in Seattle. Amazon has announced plans to create a second base in North America.

if executives don't split their time evenly between the two sites, management experts say.

Amazon said the new location, which could house as many as 50,000 employees, will be equal in stature to Seattle. Amazon is soliciting proposals for the \$5 billion project from metro areas that meet criteria including access to an international airport, mass transit and more than a million people.

An Amazon spokesman declined to comment on the company's plans.

Amazon already has more than a dozen tech hubs across the U.S., as well as interna-

tional offices, with about a quarter of its corporate staff operating outside Seattle. But Amazon's power center always has been in and around the place where Mr. Bezos founded the company.

Mr. Bezos, 53 years old, still works to preserve the remnants of startup culture at Amazon, including a mandate to make quick decisions.

"I've been reminding people that it's Day 1 for a couple of decades," he wrote in his annual shareholder letter this year. "Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline.

Followed by death. And that is why it is always Day 1."

Mr. Bezos emphasizes Amazon's leadership principles, such as customer obsession, ownership and frugality. Managers know the optimal size of a team is one that can be fed on two pizzas. He frequently forwards customer emails to teams with the message "??," to jog them to respond.

Mr. Bezos is likely to lean heavily on his team of executives in opening the second headquarters. Veterans, including senior executives who have shadowed Mr. Bezos, are often chosen to open new re-

mote offices to help ensure cultural cohesion.

A similar tactic is likely to be used at the new headquarters. Amazon has said team leaders will be allowed to choose whether to keep their personnel in Seattle, move them, or work out of both locations.

Mr. Bezos will "probably send over some of his leaders who he thinks are some of his strongest culture carriers," says Adam Grant, an organizational psychologist and professor at the University of Pennsylvania's Wharton School. "The people make the place."

Alphabet Considers \$1 Billion Investment in Lyft

By GREG BENSINGER
AND JACK NICAS

Google parent Alphabet Inc. has held talks to invest about \$1 billion in Lyft Inc., according to people familiar with the matter, in what would further an alliance against the ride-hailing company's rival, Uber Technologies Inc.

It isn't clear when the talks took place or whether a deal will materialize.

An investment in Lyft

would complicate an already confusing mix of alliances and competitors in the global ride-hailing business. Alphabet is

an investor in Uber after its venture-capital arm, now called GV, invested \$258 million in the ride-hailing giant in 2013. Their relationship soured over the years as Uber and Google began competing against each other in developing self-driving cars. Alphabet executive David Drummond stepped off Uber's board last

year, citing the increasing competition between the two companies.

The standoff reached a head in February when Alphabet sued Uber for allegedly stealing trade secrets to jumpstart its own driverless-car program, allegations the ride-hailing company denies. In May, Alphabet turned to Lyft in a deal to jointly develop autonomous-vehicle technology.

Further highlighting the intertwining relationships, Soft-

Bank Group Corp. has held talks with both Lyft and Uber about an investment in recent weeks, The Wall Street Journal reported Thursday.

Lyft and Uber have taken different tacks on self-driving vehicles. Uber is plowing cash into developing its own robot cars and has been testing the vehicles with customers in Pittsburgh and Tempe, Ariz. Lyft, meanwhile, has struck a series of alliances with companies developing the technol-

ogy, including General Motors Co., Tata Motors Ltd.'s Jaguar Land Rover and NuTonomy Inc.

More recently Lyft said it is opening a devoted laboratory for self-driving technology development in Palo Alto, Calif.

Alphabet has limited experience in developing a taxi network. It has offered its Waze carpool service across California since June after introducing it last year and plans to expand it to Brazil.

MIMS

Continued from page B1
for new iPhones, it's harder to know what proportion of orders will be for the iPhone X versus its somewhat less pricey new siblings, the iPhone 8 and 8 Plus. In addition, many analysts are predicting this could be a "super cycle" of upgraders who have been holding out for a complete redesign—leading to a sales surge such as the one caused by the 2014 launch of the iPhone 6.

One reason forecasting demand matters so much is the rise in just-in-time manufacturing. Producing millions of phones means coordinating a symphony of component manufacturers, all delivering parts on demand. These partners can't risk unsold inventory eating into their already razor-thin profit margins.

The result is that electronics tend to ship directly

from factory to retailer.

Asked about production delays for the iPhone X, a spokeswoman for Apple said only that the November ship date was reflected in financial estimates Apple gave in July.

Yet Apple has admitted to being blindsided in the past. When faced with a shortage of iPhone 7 models in October 2016, Mr. Cook said on an earnings call that it was "hard to say" if Apple would meet demand by the end of the year.

"It's very hard to gauge demand, as you know, when you're selling everything you're making," he added.

Perfectionism's Cost

One of the biggest challenges top-tier manufacturers face in delivering product on time is their own exacting standards, says Mr. Ashok.

Apple is notorious for changing small but important details of its final hard-



Apple's new iPhone X won't start shipping until November.

ware designs more or less at the last minute. That perfectionism isn't unwarranted, because hardware can't be revised once it's in the hands of the consumer, and the cost of recalls, such as Samsung's Galaxy Note 7 battery-fire fiasco, can be enormous.

Even relocating a single screw can have consequences for the dimensions, placement and performance of dozens of other compo-

nents, says Chetan Sharma, a mobile-industry consultant. Details like this can be worked out in advance given enough time, but in the cut-throat mobile industry, time is something even Apple doesn't have. A yearly refresh of the company's phone line leaves only a few months in each design cycle to bring a device out of the lab and onto the factory floor, Mr. Sharma says.

When a company brings in new technology—such as the iPhone X's OLED display, not seen in any previous iPhone—the headaches multiply.

"Yield" is the percentage of a batch of components that meets production standards. Yield is the enemy of first-time technologies, says Wayne Lam, the principal analyst for smartphone electronics at IHS Markit.

"On the original iPhone, yield rates for capacitive touch [screens] were like 80% because it was new technology," says Mr. Lam.

Throwing out one in five displays means absorbing a huge cost, he adds. (Apple's touch-screen yields have since risen, he says.)

Other challenges to yield include factory-worker training, because most final assembly of phones is still done by hand.

Global Shortages

Sometimes, a component is scarce at any price. Nearly every smart gadget you can name contains NAND memory, which retains data when powered off. This key component has lately faced a global supply crunch.

"It's sort of like OPEC," Mr. Lam says. Just as refineries will contract with oil companies years in advance, giants such as Apple will make deals for enormous quantities of NAND memory, squeezing out smaller competitors. Nintendo has blamed booming smartphone demand for a shortage of components needed to make

its Switch gaming system.

Even Apple can't get around what may be the most critical bottleneck for the iPhone X. At present, analysts say, only one conglomerate can manufacture that OLED screen—and it is Apple's biggest smartphone competitor. Granted, Samsung Electronics' visual display business is separate from its mobile business, but Apple appears to be trying to bring in other partners to make OLED displays, including Japan Display and LG Display.

Manufacturing smartphones is so complicated, it's a minor miracle they get to us at all. Companies control whatever they can by pre-announcing products, collecting preorders, stoking demand and, when necessary, managing expectations. They even ponder how much scarcity may increase desire—so that when the product does arrive, weeks or even months later, it feels like it was worth the wait.

By NATALIA DROZDIK

EU Seeks New Taxes On Digital Services

European Union finance ministers on Saturday expressed cautious support to pursue new tax rules for technology giants such as Alphabet Inc.'s Google and Facebook Inc., though they stressed it would be necessary to find a permanent, global solution that includes the U.S.

At a meeting in Tallinn, Estonia, the finance chiefs agreed to find better ways to tax digital services.

"Despite some diverging opinions, we eventually came to several common conclusions," said Toomas Tõniste, the finance minister of Estonia. "Everyone agreed that the problem exists," he said, referring to inadequate taxation of tech companies.

The EU is seeking to modernize corporate tax rules, which traditionally have been designed on the basis of physical assets and where the company operates. Officials would like to account for virtual operations, such as a search engine selling targeted advertising on the basis of data collected in a country where it has no permanent establishment.

One of the proposals discussed was a short-term plan proposed by France—and backed by Germany, Italy and Spain—to establish an "equalization tax" on revenue generated in Europe by digital companies. It is aimed at reflecting what they believe companies should be paying in corporate tax. The initiative has raised questions in member states about how the tax would be implemented.

Just more than half of the bloc's 28 finance ministers backed that plan, while the majority supported seeking a long-term agreement at a global level with the Organization for Economic Cooperation and Development. The OECD is a forum of wealthy countries, which includes EU countries, Japan and the U.S. It has led efforts to reduce what is known as profit shifting.

—Sam Schechner
contributed to this article.

JOURNAL REPORT | CYBERSECURITY

The Danger of the Hackable Car

As cars go increasingly digital—and connected—cybersecurity experts worry that they also are becoming a lot more vulnerable

BY CHESTER DAWSON

HACKERS MAY HAVE a new target in their sights—one that’s just as central to everyday life as computers are.

Our cars. As vehicles fill up with more digital controls and internet-connected devices, they’re becoming more vulnerable to cybercriminals, who can hack into those systems just like they can attack computers. Almost any digitally connected device in a car could become an entry point to the vehicle’s central communications network, opening a door for hackers to potentially take control by, for instance, disabling the engine or brakes.

There have been only a handful of successful hacks on vehicles so far, carried out mostly to demonstrate potential weaknesses—such as shutting down moving a car and taking control of another’s steering. But security experts paint a grim picture of what might lie ahead. They see a growing threat from malicious hackers who access cars remotely and keep their doors locked until a ransom is paid. Cybercriminals also could steal personal and financial data that cars are starting to collect about owners.

Or they might get even more ambitious. Some experts warn of a day when millions of fully internet-connected vehicles will be at risk of being hijacked remotely. A mass hack could be catastrophic for the self-driving cars of the future, especially if those cars don’t have steering wheels or other backup systems to let drivers take manual control.

Now the auto industry and lawmakers are rushing to meet these threats. Congress is proposing new standards that car companies must meet to guard against cyberattacks. Car makers are beefing up their software to make their vehicles tougher to hack, as well as reaching out to benevolent hackers to help them identify potential security flaws.

While there are disagreements among manufacturers and security experts about the exact magnitude of the possible threats, there is a widespread consensus that action is needed immediately to minimize risks.

Cyberintrusions have given auto makers a “wake-up call” over the past five years, says Phil Jansen, **Fiat Chrysler**’s vice president for North American product development. “It has caused us to rethink how we set up architectures” for vehicle electronics.

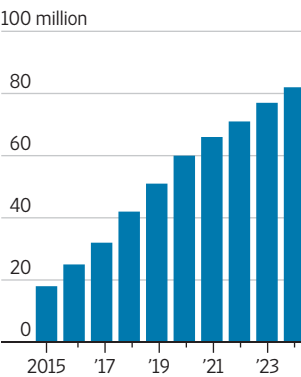
The new vulnerability comes as auto makers are in-



VIKTOR KOEN

Calling All Cars

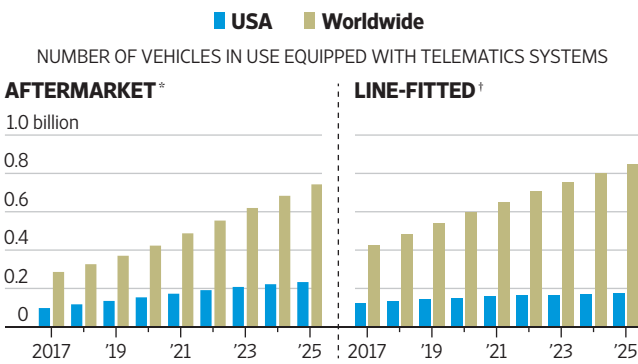
Global shipments of vehicles with embedded cellular modems



Source: Strategy Analytics

Honk If You’ve Been Hacked

Internet connectivity in vehicles, including buses and heavy-duty trucks



*Aftermarket systems refers to third-party devices installed after a car is purchased
†Line-fitted refers to factory-installed devices such as modems and Bluetooth modules.
Source: Ptolemus Consulting Group

THE WALL STREET JOURNAL.

creasingly using software to control features and functions that have long been dominated by hardware, such as braking, gear shifting and throttle control. It represents a seminal break from the mechanical hydraulic systems of the recent past, one that began with electronically controlled fuel injection in the late 1960s.

“Software is rapidly replacing hardware,” says Colin Bird, a senior automotive industry analyst at IHS Markit. “More than 50% of a car’s value today is defined by software, and that is continuing to increase.”

The digital features go far beyond rudimentary diagnostic monitoring systems standard in most cars on the road. Newer cars have modems enabling internet connectivity; today, these are used mostly used for entertainment, but they are fast evolving into portals for software upgrades of critical systems and for

sending data to cloud-computing networks.

Cybersecurity experts say this has made cars far more like personal computers, with all the vulnerability that comes with that. Yet until recently, network security was largely treated as an afterthought—the systems were designed to give auto mechanics access to a car’s functions, not fend off criminal hackers.

A handful of widely publicized attacks has demonstrated that vulnerability, including a 2014 incident involving a Jeep Cherokee. Hackers looking to point out potential vulnerabilities found a password to a Wi-Fi hot spot and cellular connections used in the Jeep’s central display and entertainment system. From there, they accessed the car’s internal computer network and took control of functions ranging from the door locks and window wipers to electronically

assisted steering. That prompted the recall of 1.4 million vehicles by **Fiat Chrysler Automobiles**, and served as a warning to the industry that car networks are no longer islands unto themselves.

Earlier this year, researchers at Argus Cyber Security Ltd. remotely shut down a car’s engine using a Bluetooth-enabled device that monitors engine performance and downloads vehicle data, made by German auto-parts supplier Robert Bosch GmbH. The company says the device was in limited distribution and that it immediately sent out a patch to fix the flaw. Separately, Bosch said this month that it has developed an encrypted standard for over-the-air software upgrades in vehicles.

Last month, cyber sleuths at security provider **Trend Micro** Inc. disclosed a flaw in almost all cars from the past 30 years that makes any number of

safety features—such as anti-lock brakes—vulnerable to attack. First, however, hackers need to gain access to a car’s internal communication network by compromising a device connected to it, such as a smartphone or USB adapters. But once inside, researchers found they could shut down critical systems relatively easily by mimicking—or spoofing—error messages on the central communications network standard in most cars.

No simple fix

“There’s no simple fix,” says Mark Nunnikhoven, vice president of cloud-computing research at Trend Micro. “This kind of internal network was never meant to be connected the way it is now.”

Another immediate concern is customer data. Auto makers are setting up cars to collect and transmit a wealth of detailed information such as the auto’s location, speed and even the driver’s alertness—in other words, how, where and in what condition someone drives. Industry officials say car makers are preparing to roll out connectivity packages allowing owners to interact with service providers and, for example, make purchases by credit card from the car.

All of which could make that information a hacking target for spam-based marketers or thieves looking to hijack people’s credit cards or blackmail them using personal information about their whereabouts or state of health.

Privacy advocates say more safeguards are needed to make it harder for other people to get personal data about drivers—whether the disclosures are authorized or not.

“Cars are for many Americans their second home. I don’t think I’m exaggerating when I say that probably most of us have danced in our car, cried in our car, and we’ve yelled in the privacy of our car,” says Joe Jerome, a lawyer with the Center for Democracy and Technology in Washington, D.C.-based non-profit advocacy group. “A lot of this technology sort of changes that dynamic.”

But the really serious threats, security experts say, lie a few years ahead, as automotive networks spread across car makes and models. For instance, hackers might lock the doors of an entire model line, extorting the auto maker to allow it to regain access.

“It is just a matter of time before large-scale attacks occur” on automobiles, Miroslav Pajic, Duke University assistant professor of electrical and computer engineering, said at a June conference on connected cars co-sponsored by the National Highway Traffic Safety Administration and the Federal Trade Commission.

Elon Musk, chief executive of **Tesla** Inc., highlighted the danger in a July speech to a gathering of state governors in Rhode Island. Predicting al-

most all new cars will have fully autonomous driving capability within a decade, Mr. Musk said that could prompt a “fleetwide hack.”

In the wake of the recent incidents involving security flaws, and the threat of more, the government is starting to weigh in. Last year, the Federal Bureau of Investigation issued a statement warning the public about the risks of car hacks. A proposed bill that passed the House of Representatives this month and is now headed to the Senate would require auto makers to appoint cybersecurity officers and implement plans “for detecting and responding to cyberattacks, unauthorized intrusions and false and spurious messages or vehicle control commands.”

Hoping to stave off regulatory action, 14 auto makers created a forum two years ago, known as the Automotive Information Sharing and Analysis Center, or Auto ISAC, to act as a clearinghouse for industry best practices. The group says it will hold a summit in December.

Meanwhile, two leading auto-maker trade groups have spelled out privacy principles regarding personal data to give owners more options, such as providing an ability to opt out of services that share data on location and other metrics, and adding protections for owners who opt in.

Car makers are also working to fortify their connected systems. They’re patching flaws in software as they become aware of them, and beefing up security so that spoofed, or fake, messages can be identified and stopped, or stymied if they get past defenses. For instance, car engines might not obey a command to “start and accelerate” unless air-bag sensors in the car confirmed someone is in the driver’s seat.

General Motors Co., the largest U.S. auto maker, set up a dedicated cybersecurity group three years ago that currently numbers 80 people. In July, GM hired two cybersecurity experts who directed the Jeep hack in 2014.

“We have re-engineered our vehicle-development process to include cybersecurity considerations from the earliest stages of vehicle design,” GM’s chief cybersecurity officer, Jeff Massimilla, told a conference on connected cars in June.

Last year, Fiat Chrysler set up a “bug bounty” program to pay hackers for information on flaws that could allow unauthorized access, but the company won’t say if that has identified any vulnerabilities. **Ford Motor** Co. and other global auto makers also have active programs to counter vehicle hacking.

Mr. Dawson is a staff reporter in The Wall Street Journal’s Detroit bureau. Email him at chester.dawson@wsj.com.

Insurance Grows for Cyberattacks

Companies seek to protect themselves against a wide array of threats

BY ADAM JANOFSKY

AS THE THREAT from hackers grows, businesses are hoping that cyberinsurance will provide a new line of defense.

Once largely limited to technology firms, cyberinsurance has emerged as the fastest-growing type of coverage among U.S. companies. The policies are designed to cover financial losses from different kinds of attacks—from theft of data to extortion using ransomware—as well as recouping damages from a tainted reputation and stolen money. Many carriers are also trying to distinguish themselves by offering tools and services to help firms respond quickly to cyberattacks or prevent them.

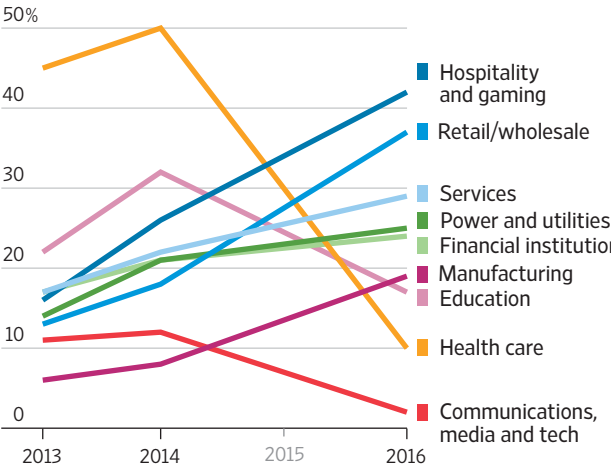
Security experts, of course, caution that insurance shouldn’t be seen as a replacement for good cybersecurity measures, because data breaches and cyberattacks can cause lasting damage that is difficult to recoup. And it isn’t even clear what kind of claims will be allowed or not allowed.

Much to learn

“There’s so much new coverage out there that hasn’t been tested,” says Tim Francis, a vice president and enterprise lead for cyberinsurance at

Increasing Coverage

Percentage of Marsh LLC* clients in the U.S. purchasing standalone insurance against cyberattacks, by industry



Note: Data was unavailable for 2015
*Marsh, a leading insurance broker, is a unit of Marsh & McLennan Cos.
Source: Marsh Risk Management Research, 2015; Marsh Global Analytics

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Travelers Cos.

The market for cyberinsurance has soared in the past several years. In June, Fitch Ratings said the industry grew by 35% in 2016, with total premiums of \$1.35 billion. Researchers from Allied Market Research predicted that demand for cyberinsurance will continue to boom in coming years, and forecast that the global market may reach \$14

billion by 2022.

Headline-grabbing breaches at organizations like **Yahoo** Inc., the Democratic National Committee and **Equifax** Inc. account for part of that growth, insurance experts say, but many companies are also purchasing cyberinsurance in response to new laws such as the European Union’s General Data Protection Regulation. “There has been a legal imper-

ative, and along with that, company awareness of the issue has grown,” says Claire Wilkinson, a consultant to the Insurance Information Institute Inc., a New York-based trade group, and an author of several white papers on cyberinsurance.

Twenty years ago, insurers offered only policies that covered things like coding errors and other software accidents that could bring down a company’s networks, according to Ms. Wilkinson. Now, cyberinsurance can cover a vast array of computer-related risks, and insurers have introduced policy riders designed for small firms.

New breaches and attacks “accelerate the need for cyberinsurance, and carriers have innovated in response,” says Ms. Wilkinson.

One recent example is the influx of ransomware attacks, in which a computer is locked until the victim pays a demand. In May, hundreds of thousands of computers running outdated operating systems were infected with the “WannaCry” ransomware, and in June several major organizations were infected with a variant of the “Petya” ransomware that security researchers say was particularly destructive.

One victim of the June attack, shipping conglomerate **A.P. Moller-Maersk** A/S, says it will cost the company between \$200 million and \$300 million because system shutdowns halted a large part of the firm’s operations.

Insurers say the evolution of ransomware has been a wake-up call. “Our policies covered cyberextortion for years, but if you asked me five or 10 years ago what that would look like, it would be a disgruntled ex-employee who had a back door to the system,” says Mr. Francis. “Now we have ransomware, and we have to figure out how that [affects] how we price policies.”

Ransomware is only one of many new threats that have led to the creation of new policies. For instance, insurers offer coverage for property damage and bodily injury coverage due to cyberattacks on critical infrastructure operators, transportation companies and oil and gas firms.

Some overlap

Some of these risks may be covered under other kinds of insurance policies—businesses with kidnap and ransom insurance occasionally use it to recoup losses from ransomware, for example. But insurance experts say such policies weren’t designed with cyber risks in mind, and will likely be disputed as stand-alone cyberinsurance products emerge.

Some insurance providers

and industry experts argue that the benefits of insurance go beyond the coverage itself. Going through the process of purchasing cyberinsurance, they say, can make a company more secure, because the audits and questionnaires may alert a business to a risk or technology of which it wasn’t aware. And getting a policy can be an incentive for companies to commit to security measures to keep their premiums low.

But experts caution that cyberinsurance shouldn’t be seen as a replacement for rigorous security. Data breaches and cyberattacks can cause lasting damage in the form of lost customers or a destroyed reputation, and cyberinsurance in some situations will cover only a fraction of the costs.

In June 2014, for example, the restaurant chain **P.F. Chang’s China Bistro** Inc., which paid a \$134,000 annual premium for cyberinsurance, learned that hackers had stolen the credit-card numbers of 60,000 customers. According to court documents, the restaurant was reimbursed more than \$1.7 million by the insurer for costs such as a forensic investigation and litigation, but had to pay \$1.9 million in fines levied against it by its credit-card processing vendor.

P.F. Chang’s didn’t respond to requests for comment.

Mr. Janofsky is a staff reporter for WSJ Pro Cybersecurity. Email: adam.janofsky@wsj.com.

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¹ Fuller, B./Romer, P., “Urbanization as Opportunity,” 6 February 2014. ² Data as of 31 March 2017.

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FINANCE & MARKETS

Traders Profiting As Oil Prices Stall

By Stephanie Yang

A placid oil market is emboldening traders to adopt strategies that reap modest gains on small price moves, while risking big losses in the event of larger ones.

U.S. oil futures have spent much of 2017 in a range around \$50 a barrel—their least-volatile period in three years. The stalemate reflects expectations that crude will be supported by production cuts by the Organization of the Pe-

troleum Exporting Countries and limited by the capacity of nimble U.S. shale producers to boost output when prices rise. U.S. crude settled flat Friday at \$49.89.

Many traders are adapting by pursuing what is known on Wall Street as a mean-reverting strategy, generally one that wagers prices will fall when oil is above a certain level and rise when it declines below a threshold.

Though the strategy promises only modest returns when

the price is near the trading target, some traders are compensating by boosting their activity. In overall trading, average daily volume in U.S. oil futures rose 51% in August from a year earlier to the highest on record, according to **CME Group Inc.**

The rise of the “yo-yo market” trade is the latest sign of how Wall Street is seeking to make the most of an environment in which outsize trading profits are few and far between. A longstanding regime of low volatility, or muted price swings, has swept over markets since the financial crisis.

“You’ve got this standoff where everything is sort of in balance,” said Emil van Essen, head of the energy-focused fund Emil Van Essen LLC.

Some investors say the strategy can help generate additional gains with limited risk, as long as it is properly managed with leverage, which gives futures traders exposure to contracts for a fraction of the full cost, and the use of tools such as stop-losses that force traders to promptly sell when the market turns against them.

Many analysts say economic fundamentals support continued placidity, though others worry that bets on low volatility will be wrong footed



A refinery stands behind an oil field in Texas. Average daily volume in U.S. oil futures rose 51% in August.

when an event causes investors to change their outlook or markets take a different view of various risks.

A trader who thinks U.S. oil is overvalued at \$55 could use a mean reversion strategy to bet against oil and wait for prices to fall back below that level. But losses would be compounded if the move marks the start of a trend higher.

In addition, futures trading typically involves using leverage, or placing a large bet with a small amount of money. If the bet goes wrong, the holder may be on the hook for losses at several times the initial deposit.

“Those strategies work well because they are targeting

short-term horizons and...a very low-volatility environment,” said Jean-Jacques Duhot, chief investment officer of Arctic Blue Capital Ltd. “It’s going to be very challenging for them to do well when the volatility bottoms out.”

Mean-reverting strategies are an essential part of many traders’ tool kits. Versions of these strategies form the core of approaches such as value investing, which has fallen out of favor in recent years as dynamics, ranging from central-bank stimulus to industry consolidation and higher-than-expected corporate profits, have supported expanded multiples in many markets.

The relatively tight trading

range for oil this year is helping traders with a task that might otherwise be a challenge, given the commodity’s history of volatile trading.

In 2014, prices spent much of the year around \$100 before the market finally reckoned with the game-changing capabilities of U.S. shale producers, whose low costs and extensive access to market funding allow them to operate at lower prices—a dynamic that has since helped keep crude prices anchored.

Recently, traders have been fixated on the \$45-to-\$55 range, where options positions are the most concentrated, according to data provider QuikStrike.

—Gunjan Banerji contributed to this article.

Jack Ma-Linked Insurer Sets Offering

By Chuin-Wei Yap

HONG KONG—China’s first online-only insurer said Sunday that it plans to raise up to \$1.5 billion in an initial public offering that could value the company at around \$10 billion, tapping into rising investor interest in the region’s financial-technology sector.

ZhongAn Online Property & Casualty Insurance Ltd., a Shanghai-based company co-founded in 2013 by Chinese billionaire Jack Ma, was set to begin a share sale Monday morning in Hong Kong. It named Japan’s **SoftBank Group Corp.** as a cornerstone investor in the deal, with a 5% stake in the company.

ZhongAn’s biggest shareholders include **Ant Financial Services Group**, an affiliate of Mr. Ma’s **Alibaba Group Holding Ltd.** As a result of Ant’s ownership structure, Mr. Ma and several investment entities linked to him also hold significant stakes. The insurer’s other founders include Pony Ma, the chairman of **Tencent Holdings Ltd.**, and Ma Mingzhe, chairman of **Ping An Insurance Group Co. of China Ltd.** The three individuals surnamed

Ma aren’t related.

One of ZhongAn’s biggest businesses is selling insurance to merchants and buyers for e-commerce purchases on Taobao, Alibaba’s flagship online shopping mall in China. The company also sells insurance policies to Chinese consumers that provide compensation for cracked smartphone screens or delayed flights.

During a recent Chinese online-shopping festival similar to Black Friday in the U.S., ZhongAn sold a record 13,000 policies per second, the company said. More than 60% of ZhongAn’s customers are aged 20 to 35.

“Numbers like that aren’t something that traditional insurers can imagine,” Chief Executive Chen Jin said Sunday at a press conference in Hong Kong.

The large sales volumes have yet to translate into big profits. ZhongAn produced a net profit of \$14 million in 2016 after earning about \$488 million in net premiums, which were up two-thirds from the previous year.

In the first quarter of this year, ZhongAn suffered a net loss of \$31 million that it attributed to costs associated with

ramping up its business. The company warned it would incur a “significant net loss” in 2017 as a result.

The coming listing is among the largest among technology offerings in Hong Kong this year. Other imminent listings include gaming-gear developer Razer Inc. and e-books publisher **China Literature Ltd.**, which is controlled by Chinese tech giant Tencent. Ant also is pursuing plans to list as early as next year, though it hasn’t confirmed a venue.

Many Chinese tech giants are trying to expand into the insurance business. Private-eq-



Alibaba Group's Jack Ma

uity investor Yunfeng Financial Group Ltd., another Jack Ma vehicle, last month joined a consortium that acquired the Hong Kong business of U.S. insurance giant Massachusetts Mutual Life Insurance Co.

Despite a recent crackdown on investment-oriented insurance products and aggressive overseas acquisitions among some insurers, the insurance sector is seen as having significant growth potential because of relatively low takeup rates in China.

ZhongAn also is a rarity: Few technology platforms count both Ant and Tencent as backers. Despite Tencent and Ant’s increasing rivalry for market dominance at home and abroad, their leaders have periodically invested together. Pony Ma and Jack Ma took stakes in Ping An Insurance in 2014. The trio of Ma’s also invested in Beijing-based entertainment company Huayi Brothers Media Corp. in 2014.

ZhongAn said it plans to start taking investor orders for its IPO on Monday. Its shares are expected to start trading on the main board of the Hong Kong Stock Exchange on Sept. 28.



An 'Angry Birds' balloon at New York's Macy's Thanksgiving Day Parade

Rovio IPO Prices Below Expectations

By Nathan Allen

Rovio Entertainment Oy, the company behind the “Angry Birds” mobile-gaming franchise, on Friday set the pricing for its initial public offering, valuing the company at about \$1 billion—well short of shareholders’ more-optimistic forecasts.

The Finnish company said it would offer shares within a range of €10.25 to €11.50 (\$12.22 to \$13.71), giving it a market capitalization of between €802 million and €896 million.

The range would value Rovio at roughly three times its annual revenue, on par with similar companies, a person involved in the IPO said. When Rovio earlier this month announced plans to float, shareholders hoped the IPO would value the company at about €2 billion, people familiar with the matter said at the time. “This number wasn’t realistic,” the person said.

When China’s **Tencent Holdings Ltd.** bought **Supercell Oy**, last year, it valued the Finnish mobile-game maker at more than \$10 billion, or 4.3 times its 2015 revenue.

“It set a ceiling because Supercell is the best monetizing game company,” said Tero Kuittinen, strategist at Finnish software developer Kuuhubb Oy.

A valuation in the range of €2 billion could have been doable three or four years ago,

but given more recent performance in the sector, was “really way too high,” said Atte Riikola, an analyst for Inderes, a Helsinki-based research firm. Mr. Riikola added that he thought the IPO pricing is now “quite fair” compared with other gaming companies.

The IPO will raise gross proceeds of about €30 million and allow existing shareholders, including majority owner Kaj Hed, the uncle of Rovio co-founder Niklas Hed, to sell shares.

Rovio, which has videogame and brand licensing, says the listing will help it pursue its growth strategy, including through acquisitions, and gain more flexibility to remunerate its employees.

It expects to begin trading on the Nasdaq Helsinki prelist on Sept. 29 and on the official list around Oct. 3, under the code ROVIO.

Struggling to repeat the success of its Angry Birds franchise, Rovio has gone through several cost-cutting rounds and management changes in recent years.

For the first six months of the year, the company reported a 94% rise in revenue to €152.6 million.

Earnings before interest, taxes, depreciation and amortization, or Ebitda, rose to €39.9 million from €11 million a year earlier.

—Sam Schechner and David Gauthier-Villars contributed to this article.

U.S. Firm Accused of Smuggling Metal

By Scott Patterson and Justin Schreck

The U.S. Justice Department is alleging that a California company evaded \$1.5 billion in tariffs by conducting an illegal effort to smuggle banned aluminum into the U.S., according to a government complaint filed Thursday.

The civil complaint signals that U.S. authorities are deepening an investigation into a long-running international aluminum scheme that allegedly involves Fontana, Calif.-based **Perfectus Aluminum Inc.** The complaint, part of a proceed-

ing to seize assets, alleges that Perfectus Aluminum is controlled and “effectively owned” by Liu Zhongtian, founder and chairman of Chinese aluminum giant **China Zhongwang Holdings Inc.**

It says Perfectus illegally imported more than 2.1 million aluminum pallets from China into the U.S. between 2011 and 2014, violating a 2010 Commerce Department ban on certain aluminum imports from China and avoiding payment of more than \$1.5 billion in tariffs.

According to the complaint, the pallets were manufactured by China Zhongwang and sold to Perfectus by intermediary entities, some of which were owned or operated by members of Mr. Liu’s family or his close associates.

The government notified the court that it intends to seize a warehouse in Fontana that is owned by Perfectus, according to the complaint.

Representatives for China Zhongwang and Mr. Liu didn’t respond to requests for comment. A spokesman for Perfectus said the company hadn’t had a chance to review the

Mexico, Malaysia, Vietnam, the U.S. and elsewhere.

Mr. Liu has denied having any ties to stockpiles of aluminum shipped overseas from his Chinese operation.

“These things have nothing to do with me,” he said in a June 2016 interview with the Journal at his company’s Liaoning, China, plant.

American aluminum producers have been complaining for years about Chinese companies flooding U.S. markets with inexpensive aluminum, which they say has helped to depress prices.

The Journal, in a page one story last year, linked Mr. Liu to more than \$1 billion in aluminum shipments from China Zhongwang to Mexico, according to interviews with people who have done business with Mr. Liu as well as company records, trade documents and legal filings reviewed by the Journal. In a subsequent article, the Journal reported the U.S. Commerce Department was investigating whether thousands of tons of aluminum at Aluminum Shapes LLC, a factory near Philadelphia tied to Perfectus, was part of an alleged scheme by Mr. Liu and others to evade tariffs by disguising the metal as shipping pallets. Aluminum Shapes told the Journal at the time it hadn’t violated trade rules.

In the Thursday complaint,

prosecutors alleged that “Aluminum Shapes was purchased, at least in part, for the purpose of melting Zhongtian Liu’s and Perfectus’s stockpile of bogus aluminum “pallets” into aluminum billet, for sale in the United States.” Aluminum Shapes didn’t respond to a request for comment.

In January, U.S. customs officials seized \$25 million worth of aluminum pallets owned by Perfectus at a California port, a move first reported by the Journal. In a federal court petition filed after the seizure, Perfectus asked a judge to release the metal, calling the seizure unlawful and without explanation. The petition was denied. The company was denied in connection with that seizure that it failed to pay proper import duties on aluminum it imported from China or that it was involved in improper stockpiling of aluminum.

The complaint says Perfectus illegally imported aluminum pallets from China.

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								YTD 12-MO 2-YR
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CAMS-GIT Limited 01 01 M05 09/08 31447.91 3.1 -2.5 7.9								

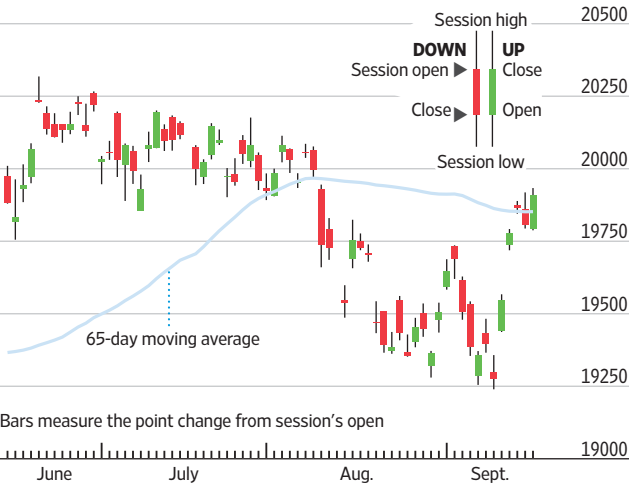
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MARKETS DIGEST

Data as of Friday, September 15, 2017

Nikkei 225 Index

19909.50 ▲102.06, or 0.52%
High, low, open and close for each trading day of the past three months.



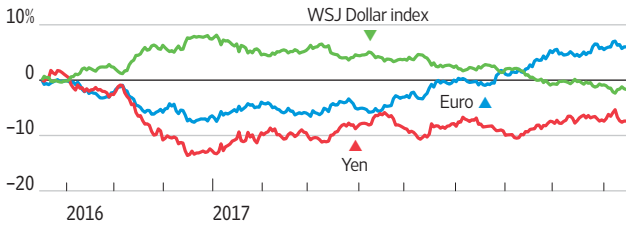
International Stock Indexes

Region/Country		Index	Close	Latest NetChg	% chg	Low	52-Week Range Close	High	YTD % chg
World		The Global Dow	2890.56	5.49	▲0.19	2390.11	2891.23	2891.23	14.2
		MSCI EAFE	1964.30	5.27	▲0.27	1614.17	1970.23	1970.23	16.6
		MSCI EM USD	1102.16	2.27	▲0.21	838.96	1102.26	1102.26	27.8
Americas		DJ Americas	603.51	1.35	▲0.22	503.67	603.51	603.51	11.7
		Sao Paulo Bovespa	75756.52	1099.84	▲1.47	57079.76	75756.52	75756.52	25.8
		S&P/TSX Comp	15173.03	0.31	▲0.002	14450.69	15922.37	15922.37	-0.7
		IPC All-Share	49921.84	-186.02	▼-0.37	44364.17	51713.38	51713.38	9.4
		Santiago IPSA	3950.05	31.52	▲0.80	3127.54	3950.05	3950.05	22.6
U.S.		DJIA	22268.34	64.86	▲0.29	17888.28	22268.34	22268.34	12.7
		Nasdaq Composite	6448.47	19.38	▲0.30	5046.37	6460.19	6460.19	19.8
		S&P 500	2500.23	4.61	▲0.18	2085.18	2500.23	2500.23	11.7
		CBOE Volatility	10.17	-0.27	▼-2.59	9.36	22.51	22.51	-27.6
EMEA		Stoxx Europe 600	380.71	-1.08	▼-0.28	328.80	396.45	396.45	5.3
		Stoxx Europe 50	3101.84	-9.71	▼-0.31	2730.05	3276.11	3276.11	3.0
		ATX	3266.99	-17.00	▼-0.52	2320.70	3283.99	3283.99	24.8
		Bel-20	3967.52	-21.89	▼-0.55	3426.21	4041.03	4041.03	10.0
		CAC 40	5213.91	-11.29	▼-0.22	4332.45	5432.40	5432.40	7.2
		DAX	12518.81	-21.64	▼-0.17	10259.13	12888.95	12888.95	9.0
		ATG	776.20	-14.77	▼-1.87	557.47	858.08	858.08	20.6
		BUX	38325.93	82.73	▲0.22	27476.40	38325.93	38325.93	19.8
		Tel Aviv	1415.46	...	Closed	1363.50	1478.96	1478.96	-3.8
		FTSE MIB	22229.49	-51.65	▼-0.23	16134.71	22281.14	22281.14	15.6
		AEX	526.78	-2.56	▼-0.48	439.07	536.26	536.26	9.0
		WIG	64535.67	-212.80	▼-0.33	46910.91	65208.48	65208.48	24.7
		RTS Index	1123.43	-2.26	▼-0.20	960.32	1195.61	1195.61	-2.5
		IBEX 35	10317.40	-43.70	▼-0.42	8607.10	11135.40	11135.40	10.3
		SX All Share	566.77	-2.50	▼-0.44	496.66	596.72	596.72	6.0
Asia-Pacific		S&P/ASX 200	5695.00	-43.70	▼-0.76	5156.60	5956.50	5956.50	0.5
		Shanghai Composite	3353.62	-17.81	▼-0.53	2980.43	3385.39	3385.39	8.1
		Hang Seng	27807.59	30.39	▲0.11	21574.76	28094.61	28094.61	26.4
		S&P BSE Sensex	32272.61	30.68	▲0.10	25765.14	32575.17	32575.17	21.2
		Nikkei Stock Avg	19909.50	102.06	▲0.52	16251.54	20230.41	20230.41	4.2
		Straits Times	3209.56	-11.39	▼-0.35	2787.27	3354.71	3354.71	11.4
		Kospi	2386.07	8.41	▲0.35	1958.38	2451.53	2451.53	17.7
South Africa		Johannesburg All Share	55645.15	-205.17	▼-0.37	48935.90	56655.88	56655.88	9.8
		BIST 100	107741.70	-502.52	▼-0.46	72519.85	110423.11	110423.11	37.9
U.K.		FTSE 100	7215.47	-79.92	▼-1.10	6693.26	7547.63	7547.63	1.0

Source: SIX Financial Information;WSJ Market Data Group

Currencies

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



Country/currency		Fri in US\$	per US\$	YTD chg (%)
Americas		US\$ vs. YTD chg (%)		
		in US\$	per US\$	(%)
		0.0589	16.9685	6.9
		0.3198	3.1266	-3.9
		0.8199	1.2197	-9.3
		0.001599	625.30	-6.6
		0.0003451	2897.38	-3.5
		1	1	unch
		0.0565	17.6928	-14.7
		0.3079	3.2482	-3.1
Asia-Pacific		0.0345	28.970	-0.13
		0.100047	10.00	0.003
		0.8003	1.2495	-10.0
		0.1526	6.5526	-5.6
Europe		US\$ vs. YTD chg (%)		
		in US\$	per US\$	(%)
		0.1279	7.8189	0.8
		0.0156	64.1333	-5.6
		0.0000754	13254	-2.0
		0.009019	110.87	-5.2
		0.002946	339.50	1.7
		0.1245	8.0332	1.5
		0.2387	4.1895	-6.6
		0.7291	1.3716	-5.0
Middle East/Africa		0.0095	105.385	1.0
		0.0195	51.294	3.4
		0.7433	1.3454	-7.0
		0.0008836	1131.67	-6.3
		0.0065402	152.90	3.0
		0.03326	30.069	-7.4
		0.03022	33.090	-7.6
		0.01738	57.550	-6.1
		0.1256	7.9615	-12.6
		0.10413	0.9603	-5.8
South America		0.2908	3.4384	-2.4
		0.0382	26.2050	-3.2
		1.3574	0.7367	-9.1
		0.0458	21.818	-15.0
		0.1607	6.2234	-12.0
		0.003867	258.57	-12.1
		0.009393	106.46	-5.8
		0.1274	7.8493	-9.2
		0.2795	3.5785	-14.5
		0.01738	57.550	-6.1
Oceania		0.1256	7.9615	-12.6
		0.10413	0.9603	-5.8
		0.2908	3.4384	-2.4
		0.0382	26.2050	-3.2
		1.3574	0.7367	-9.1
		0.0458	21.818	-15.0
		0.1607	6.2234	-12.0
		0.003867	258.57	-12.1
		0.009393	106.46	-5.8
		0.1274	7.8493	-9.2

Key Rates

Cur Stock		Sym	Last	% Chg	YTD % Chg
Libor		Latest 52 wks ago			
		1.23722%	0.53178%		
		1.32389	0.85711		
		1.47111	1.24733		
		1.73206	1.54489		
Euro Libor		-0.40143%	-0.37400%		
		-0.37657	-0.32086		
		-0.30286	-0.20829		
		-0.22000	-0.07300		
		-0.37100%	-0.37100%		
Euribor		-0.32900	-0.30100		
		-0.27100	-0.20100		
		-0.17100	-0.05400		
		-0.04907%	-0.09629%		
		-0.03136	-0.03943		
Yen Libor		-0.00036	-0.01121		
		0.010300	0.08714		
		Offer	Bid		
Eurodollars		1.3400%	1.2400%		
		1.3900	1.2900		
		1.5500	1.4500		
		1.8000	1.7000		
		Latest 52 wks ago			
Prime rates		4.25%	3.50%		
		3.20	2.70		
		1.475	1.475		
		5.00	5.00		
		Latest 52 wks ago			
Policy rates		0.00%	0.00%		
		0.25	0.25		
		0.50	0.50		
		1.50	1.50		
		1.75	1.00		
Overnight repurchase rates		1.00-1.25	0.25-0.50		
		3.00	2.25		
		1.21%	0.43%		
		n.a.	n.a.		
		Latest 52 wks ago			

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

STOXX 600 Index

380.71 ▼1.08, or 0.28%
High, low, open and close for each trading day of the past three months.



Data as of 4 p.m. New York time

Low	52-Week Range	Close	High	YTD % chg
2890.11		●	2891.23	14.2
1614.17		●	1970.23	16.6
838.96		●	1102.26	27.8
503.67		●	603.51	11.7
7079.76		●	75756.52	25.8
150.69	●	●	15922.37	-0.7
564.17		●	51713.38	9.4
127.54		●	3950.05	22.6
22888.28		●	22268.34	12.7
646.37		●	6460.19	19.8
2085.18		●	2500.23	11.7
9.36	●		22.51	-27.6
328.80		●	396.45	5.3
300.05		●	3276.11	3.0
320.70		●	3283.99	24.8
426.21		●	4041.03	10.0
332.45		●	5432.40	9.2
1259.13		●	12888.95	7.0
557.47		●	858.08	20.6
476.40		●	38325.93	19.8
363.50	●		1478.16	-3.8
134.71		●	22281.14	15.6
439.07		●	536.26	9.0
101.91		●	65208.48	24.7
60.30		●	11195.61	-2.5
107.12		●	11135.40	10.3
496.66		●	596.72	6.0
593.20		●	9176.99	9.8
935.90		●	56655.88	9.9
519.85		●	110423.11	37.9
593.26		●	7547.63	1.0

MARKETS

THE DAILY SHOT | By Lev Borodovsky and Colin Barr

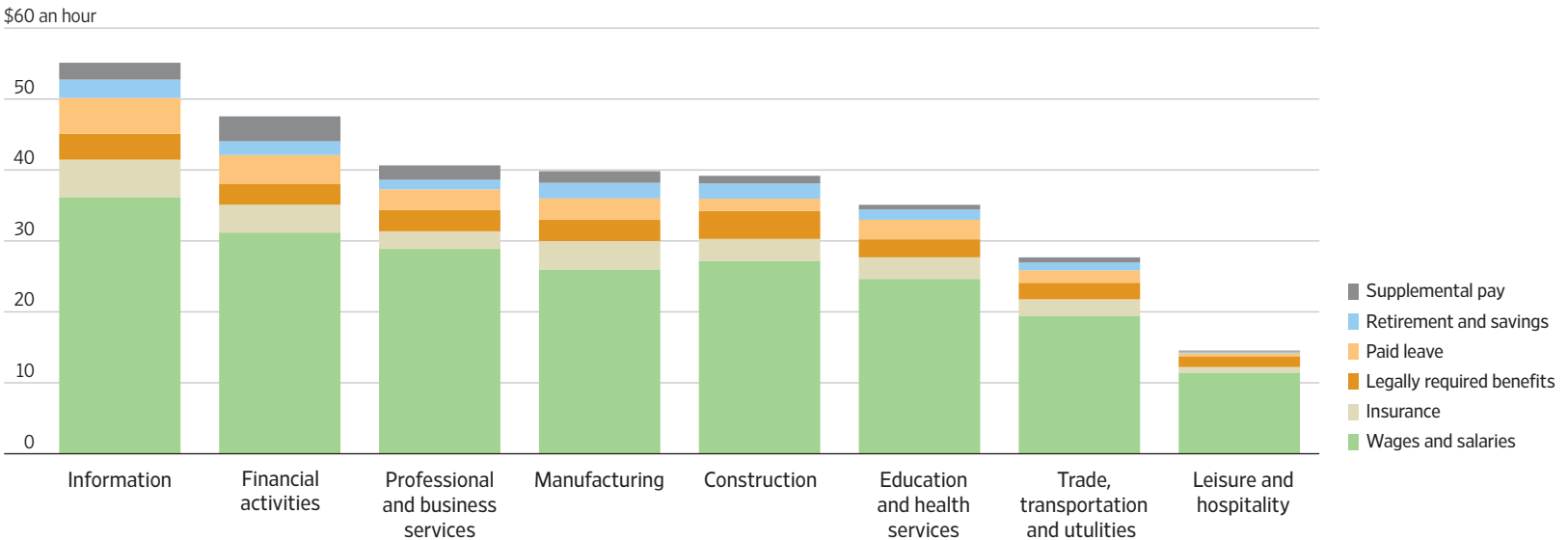
More Bad News for the Labor Market

Among the central mysteries in markets right now is when tumbling U.S. unemployment might finally force up wage growth and shake inflation out of its slumber. Despite Thursday's rise in consumer inflation, the signs right now aren't good.

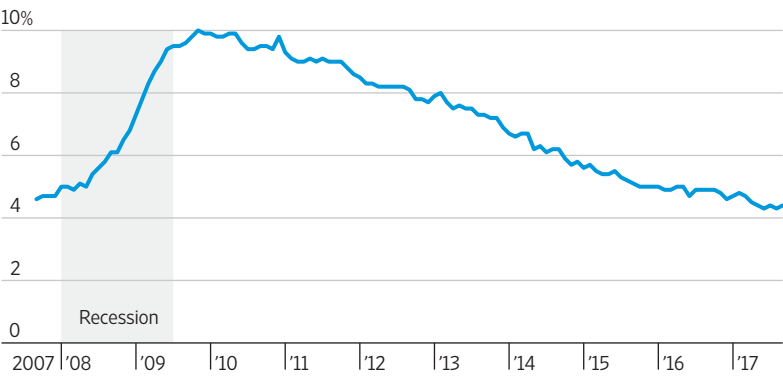
The problem is the disconnect between the workforce and the skills employers are seeking. Finding skilled workers is the most pressing problem for small businesses in recent surveys. Job openings in construction are rising, but those positions are notoriously difficult to fill. Professional and business services tend to pay well, but openings have slowed.

At the other end of the spectrum, where experience is less important and pay is accordingly less, leisure and hospitality openings have jumped. As hiring in the economy shifts toward this low-paid sector and away from the better-compensated ones, it's likely we will see even more downward pressure on wages—a development that wouldn't be welcomed by central bankers.

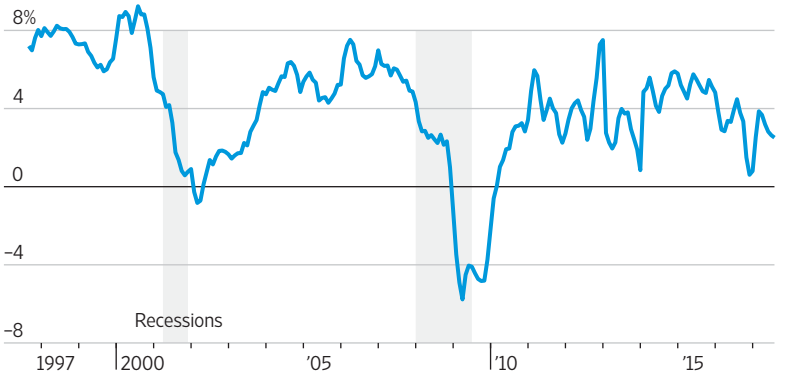
Employer costs for worker compensation, by private industry



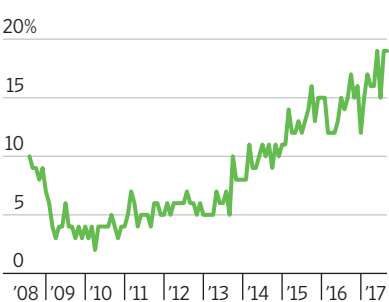
U.S. unemployment rate



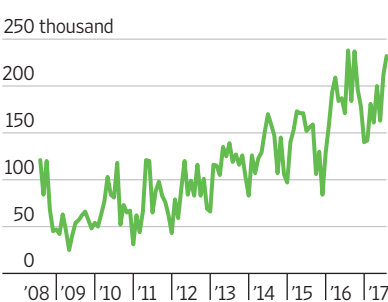
Employee wages and salaries, change from a year earlier



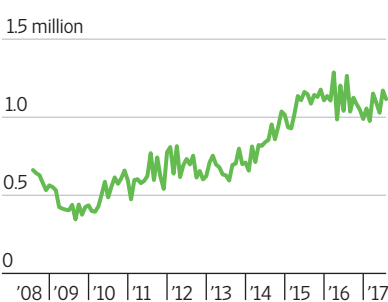
Small businesses identifying quality of labor as biggest problem



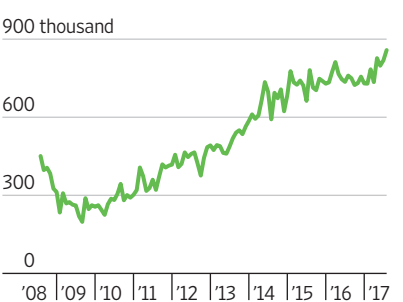
Construction job openings



Professional and business-services job openings



Leisure and hospitality job openings



Sources: U.S. Bureau of Labor Statistics (costs, unemployment, openings); U.S. Bureau of Economic Analysis (wage growth); National Federation of Independent Business (quality of labor)

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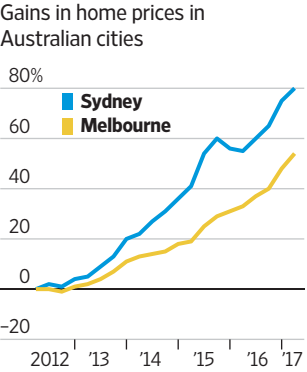
Risks Rise for Australian Banks

Investors have been calling the Australian housing market a bubble for years, yet prices keep charting higher. The market, though, could finally be about to turn south. That won't be pretty for banks.

The property market has been skyrocketing Down Under—prices in Sydney have gone up 80% since 2012 while in Melbourne they have gained 54%. In turn, houses have become unaffordable for many Australians as prices keep outpacing income growth. An average home in Sydney now costs more than 12 times the median income there, according to the research firm Demographia.

To keep houses within the reach of buyers, banks seem to have loosened their lending standards. Home lending is big business for Australian banks—more than half of their loan books consist of residential mortgages, amounting to \$1.2 trillion, a figure that has risen 47% in the past five years. Analysts say much of this new lending

Skyscraping



Sources: CEIC; Bloomberg News (photo)
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Central business district in Sydney, Australia

has been dubious: Around one-third of Australian mortgage applications contain inaccurate information, resulting in around \$400 billion of so-called liar loans, according to UBS.

Many home buyers have also been taking out interest-only mortgage loans, meaning borrowers don't need to repay the principal for a certain period, usually five years. Nearly 40% of outstanding home loans are

interest-only. The risk is that borrowers will be unable to repay these loans once their interest-only period expires.

This is fine as long as the property market keeps going up, as homeowners can sell their houses to cover loan repayments. Once the market stops rising, though, it will become harder to avoid problems.

Australian regulators are trying to cool the property market by reining in the use

of interest-only loans. But they face another difficulty: Tightened capital controls in China have dampened property demand in Australia, previously a popular venue for Chinese buyers.

Little wonder, then, that Australian house prices are starting to slow—they were flat month over month in major cities in August. That, in turn, could hurt banks' earnings as loan growth slows and provisions start to rise.

Australian banks, though, are still trading at a premium to their peers in other countries.

The country's largest bank by market value, Commonwealth Bank of Australia, looks the most vulnerable. It is the most expensive of the big four, at 2.5 times tangible book. Aside from housing worries, it has recently been embroiled in a probe related to money laundering.

Shorting Australian banks has long been a "widow-maker." Now, though, it could finally be a winning trade.

—Jacky Wong

OVERHEARD

Clinical trial failures are unpleasant for patients, biotech management teams and investors alike, but one analyst took such news especially hard.

Danish biotech **Bavarian Nordic** announced Thursday evening that it was discontinuing a pivotal trial study of its experimental prostate cancer vaccine due to a lack of efficacy. Its shares plunged 48% in Copenhagen on Friday.

Chad Messer, biotechnology analyst at Needham and Company, captured the funeral mood. After asking about the details of the company's collaboration arrangements with other drug companies, he signed off the call by saying, "Thanks, and my condolences"—a far cry from the typically chipper "great quarter, guys."

When reached for comment, Mr. Messer pointed to the hard work that had gone into the study. "It was an unfortunate outcome for the company and for prostate cancer patients," he said in an email.

In Autos, Big Isn't Always Best

Does scale matter in the automotive industry? Carlos Ghosn, boss of the **Renault-Nissan-Mitsubishi** alliance, is taking a lonely road in betting it does.

General Motors has withdrawn from Europe, South Africa and India this year. Investors have bid the value of **Tesla** up to \$63 billion, even though it currently only makes about 100,000 cars a year. Sergio Marchionne has unleashed breakup speculation at **Fiat Chrysler**. Analysts have written excited notes about the potential of spin-offs at Mercedes maker **Daimler** and **Volkswagen**.

Yet Mr. Ghosn is doubling down on the old-fashioned virtues of scale: sharing vehicle platforms, factory capacity and technology. On Friday, he unveiled a six-year plan that involved doubling annual savings from cooperation within the alliance to €10 billion (\$11.9 billion). Renault, Nissan and Mitsubishi will share 22 engines out of 31 by the end of 2022, up from 14 out of 38 last year. Importantly, they will also share an electric-vehicle platform, infotainment and self-driving technology.

Mr. Ghosn's synergy numbers haven't always been apparent in the profits of the listed companies that form the alliance. Renault's first-half operating margin was lower than that of **Peugeot Citroën**. Nissan's margins are ahead of **Honda's** but behind **Toyota's**.

The alliance overtook Volkswagen and Toyota to make more cars than any single car manufacturer in the first half. But if Mr. Ghosn wants to prove the value of that scale in the rapidly changing car industry, he needs to get margins up, too.

—Stephen Wilmot

Sales Data Show Why U.S. Consumers Feel Worn Out

The thing about consumers is that they can spend only so much.

The U.S. Commerce Department reported retail-sales figures on Friday, and they were weak. Overall sales fell 0.2% in August from July. Economists had expected them to rise. Sales figures for July and June were revised lower. September, when the brunt of Hurricanes Harvey and Irma show up in the data, will likely be a bad month as well.

Part of the problem is that with wage growth muted and the saving rate low, Americans' wherewithal to increase their spending is

A Penny Spent



Source: Commerce Department
THE WALL STREET JOURNAL.

limited. Rebuilding and replacement efforts in the storms' aftermaths, which will boost spending on items such as lumber and cars in the coming fourth quarter,

don't change that. Moreover, the higher prices for gasoline and other items that the hurricanes ushered in will keep the money people do have to spend from stretching quite as far. Inflation-adjusted spending, therefore, will be weaker.

U.S. income growth has been muted recently. Hourly wages have been gaining only about 2.5% annually, and although job gains have added to the number of people drawing a paycheck, hiring growth has moderated. Meanwhile, Americans have been supporting their spending by saving less. As of July, the personal saving rate—the share of after-tax income

that wasn't spent—stood at just 3.5%. That compares with 5.1% a year earlier.

As a result, the paths to stronger spending gains are rather limited. One would be for job growth to reaccelerate. Another would be for wage growth to finally start picking up. Or people could save even less—something that might occur temporarily as households in hurricane-hit areas draw down savings to cover losses, though that isn't sustainable.

Through much of the fall, the problem of Americans' limited spending power will be compounded by the higher prices they will be paying for many items as a

result of the hurricanes. Chief among them is gasoline: As of Sept. 11, a gallon of regular fetched \$2.69 nationally, according to the Energy Information Administration, versus \$2.40 two weeks earlier. Car prices will likely be firmer as people in the Houston area replace vehicles lost to Harvey. Building-material costs also are rising.

It is hardly the environment struggling retailers wanted to face this fall. Investors who hoped this would be the year the U.S. economy finally pulled itself free of its low-growth morass will probably have to wait some more.

—Justin Lahart