

# THE WALL STREET JOURNAL.

DOW JONES | News Corp

THURSDAY, SEPTEMBER 14, 2017 ~ VOL. XXXV NO. 159

WSJ.com EUROPE EDITION

DJIA 22158.18 ▲ 0.18%

NASDAQ 6460.19 ▲ 0.09%

NIKKEI 19865.82 ▲ 0.45%

STOXX 600 381.34 ▼ 0.02%

BRENT 55.16 ▲ 1.64%

GOLD 1323.40 ▼ 0.35%

EURO 1.1896 ▼ 0.59%

## What's News

### Business & Finance

Apple is tying the success of its new iPhone X, which is scheduled to start shipping Nov. 3, to the effectiveness of facial-recognition technology. A1

◆ China is preparing for its first sale of dollar-denominated sovereign bonds in more than a decade. B1

◆ Toshiba said Bain signed a memorandum of understanding to buy the Japanese company's memory-chip business this month. B1

◆ European auto makers say demand for electric cars remains too small to replace diesel vehicles. B1

◆ Brazilian police arrested the head of meat-packer JBS on allegations of insider trading. B3

◆ Seadrill filed for chapter 11 as part of the drilling company's plan to restructure some \$10 billion in debt. B3

◆ The EU pledged to pursue new roles for taxing such internet multinationals as Google and Facebook. B4

◆ Google plans to end a policy that lets users bypass paywalls on news websites, News Corp's CEO said. B4

◆ Uber's top lawyer is stepping down as the ride-hailing company faces three federal probes. B4

◆ Saudi Arabia is pushing for monitoring of OPEC's oil exports, which aren't falling as fast as output. B5

◆ Industrial output in the eurozone barely rose in July, a fresh sign the area's economy may be slowing. A3

### World-Wide

◆ Flynn promoted a private-sector nuclear-power plan in the Mideast while serving as Trump's national-security adviser. A1

◆ U.S. lawmakers unveiled two health bills—one that would repeal much of the ACA and one that calls for a single-payer system. A1, A6

◆ A push by Myanmar's military to drive out Rohingya Muslims in drawing the attention of the U.N. and a call to arms by al Qaeda. A4

◆ Singapore will install its first Malay president in 47 years and the first woman to hold the office. A4

◆ A New Zealand lawmaker has acknowledged that he once taught English to Chinese spies. A4

◆ Caribbean officials are scrambling to access the damage to the tourism-dependent region a week after Hurricane Irma. A5

◆ Six people died from a Florida nursing home that had sweltering heat after Irma knocked out power. A7

◆ The Supreme Court again ordered a reinstatement of the Trump administration's restrictions on refugee entry into the U.S. A6

◆ The White House said Trump would sign a congressional resolution condemning white nationalists. A6

◆ Republicans plan to release more details of their tax plans later this month. A6

◆ Turkey's leader dismissed NATO concerns over a plan to buy Russian missiles. A5

CONTENTS Markets..... B8  
Business News.... B3 Markets Digest.... B6  
Capital Account..... A2 Opinion..... A10-11  
Crossword..... A12 Technology..... B6  
Finance & Mkts.... B5 U.S. News..... A6-7  
Heard on Street... B8 Weather..... A12  
Life & Arts..... A9-12 World News..... A2-5  
€3.20; CHF5.50; £2.00;  
U.S. Military (EUR) \$2.20



Copyright 2017 Dow Jones & Company. All Rights Reserved

37

9 779219 986146

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

Copyright 2017 Dow Jones & Company. All Rights Reserved

37

## WORLD NEWS

CAPITAL ACCOUNT | By Greg Ip

# The Fed's Bad Options for Too-Low Inflation



Unemployment and inflation are near their lowest levels in decades.

Who wouldn't love that? Janet Yellen, for starters.

What looks like a dream economy could be a nightmare for the Federal Reserve chairwoman. Ms. Yellen's worldview assumes that when unemployment is this low—4.4% in August—inflation should move up to the Fed's target of 2%. Instead, it may have stabilized around 1.5%. That presents the Fed with some unpalatable options: deliberately overheat the economy for years to get inflation back up, then potentially induce a recession to stop it from overshooting; or give up on the 2% target, which could hobble its ability to combat future recessions.

This isn't scaremongering: It's the logical consequence of how central banks believe inflation operates. At the center of their model is the Phillips curve, according to which inflation edges lower when unemployment is above its natural, equilibrium level and putting downward pressure on prices and wages. Below that natural rate, also known as full employment, inflation crawls higher.

This mostly describes how inflation fluctuates around its long-term trend over the

course of the business cycle. Trend inflation, which prevails when the economy is right at full employment, is determined largely by public expectations, which are in turn influenced by central banks and their inflation targets.

Since the current expansion began in 2009, inflation has persistently fallen short of 2%. Most of the time, that could be chalked up to the ample economic slack left over from the 2007-09 recession. Today, though, unemployment is around a 16-year low and below the Fed's estimate of its natural rate, 4.6%. Yet using the Fed's preferred gauge of "core" inflation, the price index of personal consumption expenditure minus food and energy, recently slipped to 1.4%.

There are three leading explanations.

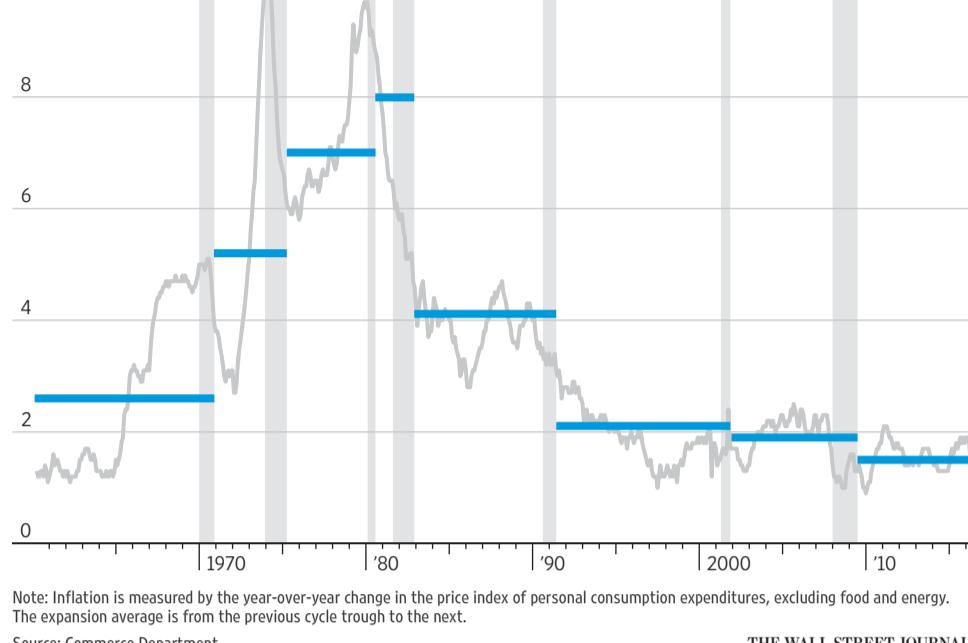
**O**ne is that the economy actually isn't at full employment; either the natural rate has dropped or many unemployed aren't being counted properly. But history and mounting reports of labor shortages militate against that.

The second, and Ms. Yellen's preferred theory, is noise: One-off drops in prices are masking the underlying trend. But one-off movements can't explain years of undershooting.

That leaves the third expla-

### Inflation Ratchets Downward

After every recession since 1982, core inflation has averaged lower than in the previous business cycle and is now averaging below the Fed's 2% target.



Note: Inflation is measured by the year-over-year change in the price index of personal consumption expenditures, excluding food and energy.

The expansion average is from the previous cycle trough to the next.

Source: Commerce Department

THE WALL STREET JOURNAL.

nation: Trend inflation has fallen. Until recently, Fed officials scoffed at the possibility. They noted surveys that suggest the public still expects inflation to return to 2% and credit their oft-repeated promise to hit their 2% target. But are they fooling themselves? Expectations of inflation are determined in great part by what inflation actu-

ally has been, and after every recession since 1982, core inflation has averaged less than in the previous business cycle.

In 2014, Fed staff slightly revised down its own assessment of trend inflation, according to minutes to the central bank's June meeting that year.

To get inflation higher, the Fed would have to engi-

neer the opposite of the past 35 years: a prolonged boom that drives unemployment below its natural rate until inflation returns to 2%.

Lower trend inflation has much graver implications for the economy than appreciated. In recent decades, it has taken ever bigger swings in unemployment to affect inflation.

Raising inflation half a point could force letting unemployment drop to around 3.5% and keeping it there for five years. Then, to prevent inflation from overshooting, the Fed would have to slow the economy and guide unemployment back over 4%. In theory it could do this gradually enough to avoid a recession; in practice, the number of times since 1948 when unemployment has gone up that much without a recession is zero, according to Goldman Sachs.

**T**his approach could aggravate another worry: financial excess. If stocks and property look bubbly now, imagine what five more years of very low interest rates would do.

The alternative is to ditch the 2% target and accept 1.5% as the new inflation trend. Besides shredding the Fed's credibility, that would mean lower trend interest rates and thus less rate-cutting ammunition to fend off the next recession.

Both options are unappealing, but the second distinctly more so.

If Ms. Yellen concludes lower inflation reflects a trend rather than noise, prepare for unemployment to drop much more and interest rates to stay low for a lot longer—with an attendant rise in financial and economic volatility.

## Apple's Challenge in China: Ending Long Sales Slide

**A**pple Inc. needs the new iPhone X to be a hit in China, where its sales have been slumping for years—which means it needs more Shirley Wangs.

By Dan Strumpf in Hong Kong and Alyssa Abkowitz in Beijing

The 29-year-old hospital administrator says she won't be dissuaded by the base price of 8,388 yuan, or nearly \$1,300, about \$300 more than the phone will cost in the U.S.

"I'm a big fan of iPhones," said Ms. Wang, who was shopping near the Apple Store in Beijing's tony Sanlitun district Wednesday. "A lot of my friends will buy them, too."

But in a country where domestic smartphones start at about \$100, that may not be enough. Even the two lower-priced models Apple is rolling out—the 5,888 yuan iPhone 8 and larger-screened 6,688

iPhone 8 Plus—are beyond reach of many Chinese consumers.

"It's too pricey," said Mo Jia, an analyst for market researcher Canalys.

Apple was at one time the top seller in China, the world's biggest smartphone market, and its brand still carries a matchless cachet for the status-conscious.

But its market share has fallen to about 7%, from an estimated 16.5% in late 2014, as domestic rivals have made big technological strides—and offered models adapted to local tastes.

Still, greater China, which includes the mainland, Hong Kong and Taiwan, accounted for 22% of Apple's sales last year—trailing only the U.S. and Europe.

"China is hugely important, both in terms of its market size now and future growth," said Duncan Clark, founder of tech consultancy BDA China.

experiences publicly.

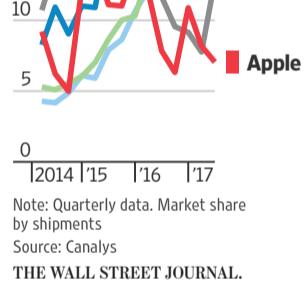
Apple on Tuesday inadvertently demonstrated the potential pitfalls. During a demonstration of the technology, the device failed to fully unlock the first time Apple's top software executive Craig Federighi used it before the audience. He resorted to typing in a passcode before switching to a backup iPhone X that he unlocked seamlessly with Face ID.

"It's got to work," said Ben Bajarin, an analyst with Creative Strategies. "From a security standpoint and convenience standpoint, this is their idea of where the future of the smartphone goes."

If it catches on, the facial-scanning technology in iPhone

### Stumbling in China

iPhone maker Apple has lost market share to homegrown rivals in the world's biggest smartphone market.



Note: Quarterly data. Market share by shipments

Source: Canalys

THE WALL STREET JOURNAL.

"China is also a global test bed."

"What Apple really needs with the iPhone in China is two things," said Ian Fogg, a senior director at consulting

firm IHS Markit: to offer something "demonstrably different" than Chinese makers, and to overcome the challenges of being an overseas brand.

The market leader in China is Shenzhen-based Huawei Technologies Co., whose share has doubled in the past three years, reaching 21% in the second quarter, according to Canalys. It is zeroing in on Apple's target high-end consumer. Earlier this year it launched its flagship P10 phone, which carries a price tag of nearly \$700 and features that include an improved dual-lens camera developed in partnership with German camera maker Leica.

Coming next month: Huawei's Mate 10 smartphone, which is expected to have a new processor capable of photo-enhancing artificial intelligence and to offer faster charging and a longer battery life. A price hasn't yet been

announced, though Huawei typically undercuts Apple.

China's Xiaomi Inc. on Monday introduced its costliest phone yet, the 4,000 yuan Mi Mix 2, featuring a full-screen display. Vivo, China's No. 3 smartphone maker, is set to launch its X20 full-screen phone later this year.

To win back Chinese market share, Apple tailored a number of features on its latest operating system to Chinese consumers—including a built-in ability to scan the country's ubiquitous QR codes, which are used to shop and send money across China. Users can also ask Siri to pull up their WeChat QR codes, used to connect with friends on the app.

It also includes features like dictation in Shanghai, Chinese and Chinese traffic cameras on Apple maps.

Apple also added the ability to use a phone number rather than an email address

as Apple ID, after realizing how rarely email is used in China compared with texts and WeChat.

Notably, Apple is launching the ability for friends to pay each other on iMessage via Apple Pay in the U.S., but not in other markets. Apple Pay operates in China, but the mobile-payment market is dominated by domestic systems Alipay and WeChat Pay.

Whether Apple's efforts bear fruit won't be known for weeks, or even months. The two iPhone 8 models will go on sale Sept. 22, but the iPhone X—plagued by production difficulties this summer—won't hit shelves until Nov. 3.

Xia Giang, a 30-year-old startup founder, is taking a wait-and-see approach.

"Maybe I'll buy it," Mr. Xia said. "Money isn't an issue, but I want to know if my friends like it. I'll let them try it first and then decide."

## FACE

Continued from Page One  
unlocking the phone in an instant.

As with other new smartphone technologies it has adopted in the past, Apple isn't the first to use facial recognition. But it hopes to be the best, popularizing a technology that has had a mixed record on other gadgets.

Considering iPhone users on average unlock their devices 80 times a day, the success of Face ID could make or break the device, analysts say, especially after early users get their hands on it and begin sharing their

X could unlock other changes in how we use smartphones. In one small example, Apple also is using the system to capture facial expressions and use them to animate images of chickens, unicorns and other common emojis. Those animojis, as Apple calls them, can be captured and shared with friends.

Facial-recognition technologies have been used for more than five years in consumer devices, including some smartphones that use Google's Android operating system. But the technology that has been rolled out so far has faltered in security tests, said Marc Rogers, who previously discovered flaws in Apple's Touch ID system and now heads informa-

tion security at Cloudflare Inc. Google warns users that with its face-recognition system, called Trusted Face, "Someone who looks similar to you could unlock your phone."

Face-recognition technology is also used in Microsoft Corp.'s Windows 10 operating system and Samsung Electronics Co.'s Galaxy S8 mobile phone.

One problem—which doesn't affect Apple's device—is that many other products with facial recognition rely on a single camera, which can be fooled into authenticating a photograph of a user under certain conditions, Mr. Rogers said. Fingerprint readers faced similar security questions be-

cause they were considered unreliable until Apple improved on the technology with its Touch ID fingerprint reader in 2013, Mr. Rogers said.

Apple says it has overcome the single-camera issue by mapping the depth of faces. Marketing chief Phil Schiller said the system is sophisticated enough to adapt, even if someone changes their hairstyle, puts on glasses or grows a beard. He said it can't be tricked by photographs or facial masks and requires the user's attention, meaning the phone won't unlock if eyes are closed or someone is looking away.

The chances an iPhone X could be unlocked with Face ID by someone other than its user are one in a million, Mr. Schiller said. That compares with one in 50,000 for Touch ID, the fingerprint sensor iPhones now use, which sits on a home button that Apple is eliminating for the iPhone X.

Mr. Rogers of Cloudflare said the three-dimensional verification system of Face ID

should defeat the "flat image attack" with photos that foiled other facial-recognition systems. However, he said Apple's switch to a new login method was risky because the Touch ID was used to not only unlock devices but also authenticate sensitive apps and make purchases with Apple Pay.

"They might be going too far this time," Mr. Rogers said. "We'll see."

Investors are excited about the face-based functions on the new iPhone. They have sent Apple's stock up 39% this year betting the company's new devices will compel many existing iPhone owners with two-year-old devices to buy a new one.

THE WALL STREET JOURNAL.

Europe Edition ISSN 0921-99  
The News Building, 1 London Bridge Street,  
London, SE1 9GF

Thorold Barker, Editor, Europe

Graeme McCarthy, Senior News Editor, Europe

Cicely K. Dyson, News Editor, Europe

Darren Everson, International Editions Editor

Joseph C. Sternberg, Editorial Page Editor

Anna Foot, Advertising Sales

Jacky Lo, Circulation Sales

Andrew Robinson, Communications

Jonathan Wright,  
Global Managing Director & Publisher

Advertising through Dow Jones Advertising

Sales: Hong Kong: 852-2831 2504; Singapore: 65-6415 4300; Tokyo: 81-3 6269-2701;

Frankfurt: 49 69 29725390; London: 44 207 842 9600; Paris: 33 1 40 17 01; New York: 212-659-8176

Printers: France: POP La Courneuve; Germany: Dogan Media Group/Hürriyet A.S.; Branch: Italy: Qualprinters s.r.l.; United Kingdom: Newsprinters (Brockbourne) Limited, Great Cambridge Road, Waltham Cross, EN8 8DY

Registered as a newspaper at the Post Office. Trademarks appearing herein are used under license from Dow Jones & Co.

©2017 Dow Jones & Company. All rights reserved.

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

NEED ASSISTANCE WITH YOUR SUBSCRIPTION?

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

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

By phone: +44(0)20 3426 1313



LIFTOFF: The Soyuz capsule blasts off from Kazakhstan as it ferries two Americans and a Russian to the international space station.

# WORLD NEWS

## EU Envisions a Future of Wider Trade

The European Union's top executive called for the bloc to expand its economic links from the Asia-Pacific region to Latin America, articulating the EU's ambition to champion free trade in the wake of President Donald Trump's "America First" policies.

By Valentina Pop  
in Strasbourg, France,  
and Emre Peker  
in Brussels

Spurred by positive data and an uptick in EU popularity after a decade of economic and political crises, European Commission President Jean-Claude Juncker outlined his vision of a bigger and more-cohesive union that would carry its weight in the world.

"Europe has always been an attractive economic space," Mr. Juncker said on Wednesday in his annual State of the European Union address in Strasbourg, France. "But since last year, I see that our partners all over the world are knocking at our door in order to sign trade agreements with us."

Mr. Juncker proposed starting free-trade talks with Australia and New Zealand and completing a number of agreements by late 2019, when his mandate ends.

The EU has "a very good chance" of striking a deal on trade with Mexico and South American countries by the end of 2017, Mr. Juncker said. EU



JASPER JUNCKER/BLOOMBERG NEWS

European Commission President Jean-Claude Juncker said that commerce notwithstanding, Europe would defend 'strategic interests.'

officials are in talks to update a 17-year-old free-trade accord with Mexico and sign its first accord with Mercosur—composed of Argentina, Brazil, Paraguay and Uruguay. In July, Brussels and Tokyo struck a political agreement on a comprehensive trade deal.

Mr. Juncker said he also wanted to bolster the EU's trade defenses including by screening foreign investments—a policy aimed at protecting European assets and companies from acquisitions.

Chinese business representatives expressed disappointment at the proposal. "Obvi-

ously, it is targeting China," said Duan Wei, chief executive of the Chinese Chamber of Commerce in Germany.

France, Germany and Italy have advocated increasing the bloc's trade defenses, but ran into opposition from some EU members when French President Emmanuel Macron pushed proposals in June.

"We are not naive supporters of free exchange; Europe has always got to defend its strategic interests," Mr. Juncker said. "Europe is open to trade, yes, but there has to be reciprocity."

Mr. Juncker also laid out

steps to increase the bloc's security in coming months. He proposed the creation of a European intelligence unit that would share information and an EU prosecutor able to prosecute cross-border terrorist crimes. All his proposals are subject to approval by national governments and the European Parliament.

Mr. Juncker sought to appease growing discontent within the bloc's former communist countries, speaking of his vision of a Europe where all member states are free, equal and subject to the rule of law. In doing so, he seemed

to cast aside calls from some governments for a "multi-speed" Europe, where countries aim for different levels of integration.

He renewed calls to integrate the bloc's newer members in the eurozone, in the bloc's passport-free travel area and in its banking union, proposing new funding and assistance to help them get there.

Several countries, including Hungary and Poland, could already join the euro, but are holding off. For now, only 19 of the bloc's 28 members share the common currency.

Mr. Juncker said the EU must continue to expand in the western Balkans, where discussions are advancing with Serbia and Montenegro. But underscoring growing tensions with Turkey's President Recep Tayyip Erdogan, he said the prospect of Turkish membership was off the agenda and accused Ankara of trying to provoke the EU into ending accession talks.

Mr. Juncker barely mentioned Brexit negotiations in his speech, stressing that the U.K.'s decision was made and the bloc needed to focus on shaping its common future. He said the day the U.K. left would be "a tragic moment in our history" and offered a warning to Britain.

"We will always regret this. And I think that you will regret it soon, too," Mr. Juncker said in response to heckling from Nigel Farage, the leader of the U.K. Independence Party who championed Brexit.

Not all Mr. Juncker's proposals were well received. Dutch Prime Minister Mark Rutte called him a "romantic" and said the Netherlands continues to oppose the EU's expansion to the Balkans and the admission of Romania and Bulgaria to the border-free Schengen area.

—Laurence Norman  
in Brussels,  
Andrea Thomas in Berlin  
and Nina Adam in Munich  
contributed to this article.

## Industry Data Show A Slowing In July

BY PAUL HANNON

The output of factories, mines and utilities across the eurozone barely rose during July, a fresh indication that the currency area's economy may be slowing slightly after a strong start to the year.

A pickup in industrial production aided the eurozone's economic acceleration during the three months to June. Having declined by 0.1% in the first three months of the year, the output of factories, mines and utilities jumped by 1.1% in the second.

But the European Union's statistics agency Wednesday said industrial output increased by just 0.1% between June and July, although it was up 3.2% from a year earlier.

"Today's print is in line with our view that industrial production will likely slow in Q3 after a very strong Q2 helped to support the GDP growth acceleration," economists at Barclays wrote in a note to clients.

Figures released last week showed the eurozone's economy expanded more quickly over the 12 months through June than had been previously estimated, and economists at the European Central Bank raised their growth forecast for the year to 2.2% from the 1.9% recorded for June. If they turn out to be right, 2017 will have been the best year for the eurozone economy in a decade.

## Foes Poke Holes in Merkel's Russia Logic

Opponents and potential partners in coming election push for softer line against Moscow

BY ANTON TROIANOVSKI

PFORZHEIM, Germany—As German Chancellor Angela Merkel cruises toward likely reelection, the parties trailing her are finding a wedge issue: Russia.

With less than two weeks to go until Election Day, Russian hackers haven't dumped any stolen emails, as German officials have warned they might. But Russian President Vladimir Putin looms over the campaign nonetheless.

Four of the five parties likely to enter German parliament behind Ms. Merkel's conservative bloc advocate a friendlier approach to Moscow, so the vote could affect the future ruling coalition's Russia policy by pressuring Ms. Merkel to loosen her relatively tough line.

Foreign Minister Sigmar Gabriel, a member of the center-left Social Democrats, said Europe should lower the bar for when it would start lifting sanctions against Russia and defended the stance in an interview with pro-Kremlin news outlet RT.

Christian Lindner of the pro-business Free Democrats, whose party is in the running to join the next Merkel government, drew praise from the radical Left party after he said the West should accept Russia's annexation of the Ukrainian peninsula of Crimea as a "long-term provisional arrangement."

for him to attend and he did not attend. Whether he did something we don't know about? We don't know what we don't know."

Now, congressional investigators say they are examining details about Mr. Flynn's relations with various companies involved in the plan after he joined the Trump administration, as well as any previous travel, contacts with foreign government officials or compensation related to the nuclear project that he failed to disclose.

On Wednesday, the House Oversight and Government Reform Committee released correspondence with executives at the companies that Mr. Flynn advised.

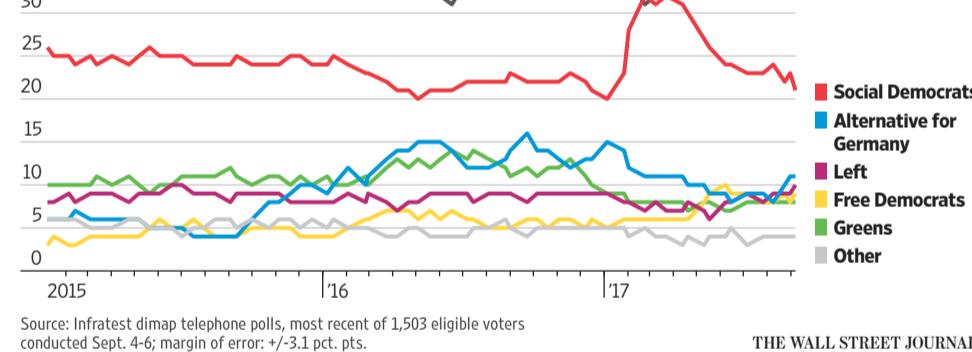
They confirmed to the committee that he had traveled to the Middle East and met with foreign government officials and foreign business associates in June 2015 to promote the nuclear project.

"It appears that General

### Driver's Seat

Angela Merkel's conservative bloc is leading but will need partners to govern.

Party polling in Germany:



Source: Infratest dimap telephone polls, most recent of 1,503 eligible voters conducted Sept. 4-6; margin of error: +/-3.1 pct. pts.

And in a packed house of more than 1,000 here in the southwest last week, the anti-immigrant Alternative for Germany, or AfD, cast Moscow as a critical ally for stopping migration.

"We can only block the way for refugees from Asia and Afghanistan trying to get here by working with Russia," AfD candidate Alexander Gauland told the cheering crowd, which included many ethnic German immigrants from the former Soviet Union. "We need Russia as a Christian bulwark against an Islamic invasion."

"Vot imenno!"—Russian for "that's right!"—Gerda, a 66-year-old retired librarian in the audience, exclaimed as Mr. Gauland spoke.

Ms. Merkel's center-right Christian Democrats seem assured of winning the Sept. 24 election, leading the Social Democrats 37% to 23% in an average of the latest polls. But they are unlikely to secure a majority in parliament and will need a partner to govern, making the policies of the other parties a factor in the direction of the next government.

In the campaign, Ms. Merkel has stuck to her line on Russia. Accepting Russia's annexation of Crimea would be akin to the West having accepted the division of Germany, she said in an interview published over the weekend. She has made pushing back against Mr. Putin for what she describes as

illegal Russian actions in Ukraine a core element of her foreign policy.

While Ms. Merkel may come under pressure from future governing partners to soften that stance, she is unlikely to make a significant shift. Any change in Berlin's Russia policy, however, could affect the European Union's ability to hold a unified line against the Kremlin. The chancellor played the leading role in 2014 in organizing EU sanctions against Russia over its intervention in Ukraine, and Germany has helped corral doubters among the other 27 members into maintaining them.

Of Ms. Merkel's potential coalition partners, only the environmentalist Greens

support her stance of keeping the current EU sanctions against Russia in place until Moscow until the Minsk peace agreements for Ukraine are implemented in full. Mr. Gabriel, by contrast, said that implementing the complete peace deal soon was unrealistic and that relations with Moscow needed to be improved before then.

"Let's at least get a ceasefire implemented and the heavy weapons withdrawn, and then do two things as a reward: lift the sanctions and help with rebuilding eastern Ukraine," said Mr. Gabriel, an ally of Social Democratic chancellor candidate Martin Schulz.

With Ms. Merkel enjoying approval ratings above 60%, her campaign opponents have struggled to find issues to attack her on. Given widespread German unease about souring relations with Moscow, many of them have seized on Russia policy as a way to score points.

Security officials have warned that Germany could be vulnerable to interference similar to what U.S. intelligence agencies say occurred in the U.S. campaign. German officials believe Kremlin-linked hackers stole emails from parliament's servers in 2015, but no high-profile instances of such interference have emerged during the campaign. Russia denies having interfered in the U.S. election and any intention of doing so in Germany.

Bridge, but didn't disclose any payments from them. That relationship spanned about a year and a half and carried through the 2016 presidential campaign and the transition period, when he was advising Mr. Trump. Mr. Flynn said in the forms that the relationship ended in December 2016.

X-Co Dynamics and Iron-Bridge were to provide security for the plants.

Mr. Flynn later amended the form, saying he was paid by a third company in the nuclear venture, ACU Strategic Partners. He didn't give a specific amount, saying only that it was more than \$5,000.

ACU said in a statement to the House oversight committee that Mr. Flynn made a trip to the Middle East on its behalf in June 2015 and that it covered his travel expenses.

Even after Mr. Flynn left the White House, the former military officers continued to push the plan with the administration.

## FLYNN

Continued from Page One

said Mr. Flynn's contacts with the former military officers were unusual—happening "outside normal channels"—and raised questions among NSC staff about potential conflicts of interest. His actions were "highly abnormal," and "not the way things were supposed to go," said one former NSC staff member.

The activity continued even after NSC ethics advisers directed Mr. Flynn to remove himself from the project, former and current officials said.

During his brief tenure in office, Mr. Flynn sought to meet with the former military officers, an administration official said.

While the official confirmed a meeting between the former officers and NSC staff did occur, Mr. Flynn "was instructed that it would be inappropriate

for him to attend and he did not attend. Whether he did something we don't know about? We don't know what we don't know."

Now, congressional investigators say they are examining details about Mr. Flynn's relations with various companies involved in the plan after he joined the Trump administration, as well as any previous travel, contacts with foreign government officials or compensation related to the nuclear project that he failed to disclose.

On Wednesday, the House Oversight and Government Reform Committee released correspondence with executives at the companies that Mr. Flynn advised.

They confirmed to the committee that he had traveled to the Middle East and met with foreign government officials and foreign business associates in June 2015 to promote the nuclear project.

"It appears that General

Flynn violated federal law by omitting this trip and these foreign contacts from his security clearance renewal application in 2016 and concealing them from security clearance investigators who interviewed him as part of the background check process," wrote Reps. Elijah Cummings of Maryland, the ranking Democrat on the oversight committee, and Eliot Engel of New York, the ranking Democrat on the Foreign Affairs Committee.

To obtain a security clearance, officials are required to disclose foreign travel and contacts, as well as all sources of income, going back several years.

Conviction for concealing information from security-clearance investigators can result in criminal penalties of up to five years in prison.

At one point, the nuclear project called for Russian companies to play a key role by providing fuel and taking the power-plant waste, the

people said. More recently, the plan became more of an "American initiative," a person familiar with the project said.

Mr. Flynn was forced to resign in February for failing to disclose his conversations with the Russian ambassador about U.S. sanctions and is

one of the former military officers said after one meeting with NSC staff that "there's a lot of interest" in the deal, one of the people familiar with the project said.

One of the former military officers said after one meeting with NSC staff that "there's a lot of interest" in the deal, one of the people familiar with the project said.

Though the nuclear plan had been floated for a number of years, several people familiar with it said its various backers didn't meet with the Obama administration's National Security Council members.

Typically, such requests were routed to government agencies such as the Commerce Department, former staffers said.

In initial White House disclosure forms, Mr. Flynn stated his relationship with two companies involved in the deal, X-Co Dynamics and Iron-

## WORLD NEWS

# Myanmar Faces Outcry Over Crackdown

Military push to drive Rohingya out draws international scrutiny and militant call to arms

BY JAMES HOOKWAY

YANGON, Myanmar—A push by the Myanmar military to clear Rohingya villages and drive hundreds of thousands of members of the Muslim ethnic group into Bangladesh is drawing the attention of two international groups: the United Nations Security Council and al Qaeda.

The Security Council met on Wednesday to discuss the crisis amid charges that the military leadership that runs the country alongside Nobel Peace Laureate Aung San Suu Kyi is pursuing a campaign of ethnic cleansing. The council expressed concern about reports of excessive violence during security operations and called for steps to end the violence, re-establish law and order, and ensure the protection of civilians, Reuters reported.

Myanmar says it is battling a group of "extremist militant terrorists," the Arakan Rohingya Salvation Army, or ARSA.

Ms. Suu Kyi, a Nobel Peace laureate now facing international scrutiny of her handling of the crisis, on Wednesday canceled her trip to the U.N. General Assembly to deal with domestic security issues, the Myanmar government said.

And al Qaeda's central leadership urged Muslims to travel to Myanmar and support the Rohingya "financially, militarily, and physically."

"The savage treatment meted out to our Muslim brothers in Arakan by the government of Myanmar...shall not pass without punishment," it said through its media arm, according to SITE Intelligence Group.

The militant group at the center of the crisis, ARSA, and its founder, Ata Ullah, say it is defending the Rohingya and highlighting decades of repression the Muslim group has endured in Buddhist-majority Myanmar.

After ARSA rebels killed 10 soldiers, a policeman and immigration official at a border outpost on Aug. 25, Myanmar's



Rohingya refugees, newly arrived in Bangladesh from Myanmar, wait for aid agencies to hand out building material to be used to build shelters.

army rolled through the region, driving more than 370,000 Rohingya into Bangladesh, according to the International Organization for Migration, where they face a fraught and uncertain future.

Rohingya homes have been torched and villagers shot. Bangladesh's Foreign Minister A.H. Mahmood Ali told diplomats on Sunday that 3,000 people had been killed. A Myanmar presidential spokesman on Wednesday said 176 ethnic Rohingya villages were now empty after all residents fled, the Associated Press reported.

The U.N. human-rights chief, Zeid Ra'ad al-Hussein, said the operation "seems like a textbook example of ethnic cleansing."

The outcry is pressuring Ms. Suu Kyi, who leads Myanmar in name but under the terms of the army-drafted constitution cedes much of her power to the military.

The conflict is also drawing the attention of jihadists. "In the coming year Myanmar will suffer from a full-blown insurgency unless it works with the international community to re-

solve an escalating conflict," said Rohan Gunaratna, head of the International Center for Political Violence and Terrorism Research at the S. Rajaratnam School of International Studies in Singapore.

Indonesian Islamist groups are calling for volunteers to fight in Myanmar. In the southern Philippines, Islamist radicals are training militants from Southeast and South Asia for combat in Myanmar, an intelligence official there said.

Before the purge, around 1 million Rohingya lived in Rakhine State. Myanmar's government calls Rohingya illegal immigrants from Bangladesh, a throwback to British rule when migrants from the subcontinent began moving to what was then Burma. The Rohingya are denied citizenship as well as rudimentary schooling and health care.

Army commander-in-chief Senior Gen. Min Aung Hlaing recently called its campaign "unfinished business."

Over the years, many Rohingya fled. Among them was the father of Mr. Ullah, the ARSA founder, who made his

way to Karachi, Pakistan, where Mr. Ullah, now in his 40s, was born, according to the Brussels-based International Crisis Group.

The family later moved to Saudi Arabia, where Mr. Ullah was educated in a madrassa, or Islamic school. In ARSA videos he speaks both the dialect used by Muslims in northern Rakhine State, and Arabic.

**U.N. Security Council meets amid charges the military is engaging in ethnic cleansing.**

Then, in 2012, as tensions between Rohingya Muslims and Rakhine Buddhists boiled over, Mr. Ullah left Saudi Arabia.

Myanmar's military says he attended a six-month guerrilla-warfare training course with the Taliban in Pakistan. The International Crisis Group has interviewed ARSA members who said he might also have sought training in Libya. Mr. Ullah,

whom the Myanmar government calls Hafiz Tohar, couldn't be reached for comment.

When Mr. Ullah returned to the border area of Bangladesh and Rakhine State around 2013 he began recruiting young fighters under the banner of Harakah al-Yaqin, or the Faith Movement, later to become ARSA, the military says.

Overseen by a committee of some 20 Rohingya exiles in Saudi Arabia, the group has adopted an Islamic slogan and taken a new insignia featuring two semiautomatic rifles crossed before a map of Rakhine State.

Security analysts estimate the group to number several hundred fighters. Initially they were equipped with a few old rifles, staves and knives. As repression of the Rohingya worsened, ARSA grew more ambitious, carrying out deadly attacks in October 2016.

Then, on Aug. 17, Mr. Ullah posted a video in which he accused Myanmar's military of sealing off the town of Rathedaung and starving the mostly Muslim inhabitants. He warned the army of reprisals if it didn't

relent.

"Our primary objective is to liberate our people from the dehumanizing oppression perpetrated by all successive Burmese regimes," he said, flanked by four men cradling AK-47 rifles.

ARSA attacked more border outposts on Aug. 25—prompting military retaliation. In Hpa-an, five hours' drive east of Yangon, influential Buddhist nationalist monk Ashin Wirathu used the Aug. 25 attacks to demand that all Rohingya leave the country—a sentiment that is becoming commonplace. "Terrorists go home!" he yelled. His audience cheered and held up signs saying "No Rohingya."

The International Crisis Group said the Aug. 25 attack was a calculated move. "[ARSA] knows that it is provoking the security forces into a heavy-handed military response, hoping that this will further alienate Rohingya communities, drive support for ARSA, and place the spotlight of the world back on military abuses in northern Rakhine State," it said.

# No Vote Needed: Singapore Gets First Female President

BY JAKE MAXWELL WATTS AND P.R. VENKAT

SINGAPORE—The predominantly ethnic-Chinese city-state of Singapore will swear in its first minority Malay president in 47 years after strict new qualifying criteria, aimed at balanced racial representation, made the former speaker of Parliament and longtime member of the ruling party the only candidate.

Halimah Yacob, 63 years old, will also be the first female holder of the largely ceremonial presidency of the Southeast Asian country of some 5.6 million.

It would normally be decided by direct election, but that was canceled because she would have been the only one on the ballot.

The office of Prime Minister Lee Hsien Loong, who is the country's most powerful politician and leads the ruling People's Action Party, said Ms. Yacob will take the oath of office on Thursday for a six-year term.

Though widely liked, Ms. Yacob won in a process that

cluded a contentious process after Parliament voted to change qualifying rules so that if one of Singapore's main ethnic groups—Chinese, Indians or Malays—isn't elected to the presidency in five consecutive terms, the next election is reserved for candidates of that group.

The rules also require candidates to have served in senior government office or as top executive of a profitable company averaging at least 500 million Singapore dollars (US\$371 million) in equity for three years.

These changes effectively reserved the election for a Malay candidate, barring other candidates including an ethnic Chinese, Tan Cheng Bock, a popular former government minister who has declared himself independent of the ruling party, which has been in power since independence in 1965.

The last Malay president was Yusof Ishak, who left office on Thursday for a six-year term.

Though widely liked, Ms. Yacob won in a process that

"has been contentious from the day it has been first mooted," said Gillian Koh, deputy director of research at the Institute of Policy Studies at the Lee Kuan Yew School of Public Policy.

Ms. Koh noted that only about 700 companies in Singapore were large enough to meet the qualification.

Bertha Henson, a writer for political blog The Middle Ground, said she was angry at the government for promoting affirmative action.

The election "should be an open one to help disprove the notion that Singaporeans vote on the basis of skin color," she wrote.

Other comments on political blogs called the process a charade, a pretense at supporting minorities in a country where racial harmony is a specific government policy since racial riots in the 1960s.

Ethnic Malay citizens, about 13% of the population, have tended to fare worse economically in the prosperous city-state than the Chinese majority.

But most Singaporeans

have shown few signs of objecting. A survey in 2016 found that two-thirds approved of the changes to eligibility criteria.

Prime Minister Lee has argued that reserving the elec-

tion for a Malay candidate would "safeguard to ensure that we regularly elect presidents from different ethnic groups."

The government says its strict criteria will ensure fair representation and ensure that only qualified people can take the job.

In a speech on Wednesday, Ms. Yacob said she recognizes doubts about the process. "Although this is a reserved election, I am not a reserved president," she said. "I am a president for everyone regardless of race, language, religion or creed. I represent everyone."

While the president doesn't have executive authority, the office has certain veto powers over the use of foreign-exchange reserves, government budgets and key appointments.

The president draws an annual salary of \$S4.3 million.

Before becoming speaker, Ms. Yacob served as a junior government minister and as deputy head of a confederation of trade unions.



WALLACE WOON/REUTERS/SHUTTERSTOCK/EUROPEAN PRESSPHOTO AGENCY

Supporters greeted Halimah Yacob on Wednesday.

# New Zealand Lawmaker in Spy Stir

BY BEN COLLINS

WELLINGTON, New Zealand—A Chinese-born New Zealand lawmaker has acknowledged he once taught English to Chinese spies, an admission that comes as his party faces a closer-than-expected fight in a general election 10 days away.

Jian Yang, a member of Parliament in Prime Minister Bill English's National Party since 2011, said that when he lived in China, he taught English to students so they could monitor communications and collect information for the Chinese government. He said he wasn't trained as a spy

himself.

Mr. Yang was responding to reports in the Newsroom and the Financial Times. He said the reports were an attempt to damage his party's chances before the election on Sept. 23.

Mr. Yang isn't accused of breaking New Zealand law.

New Zealand's election was until recently a one-horse race. Polls have tightened since as the main opposition Labour Party has captivated voters with a new leader.

The prime minister said he was aware Mr. Yang had "military training, including military intelligence."

Mr. Yang said he had studied at the Air Force Engineering College in China, now known as the Air Force Engineering University, and after graduating he became a civilian officer paid by the military there to teach English.

"I was a civilian officer, paid by the military, but I had no rank. I was a lecturer," Mr. Yang said, adding that his students were monitoring communications rather than conducting clandestine intelligence operations overseas.

"If you define those cadets or students as spies, then yes, I was teaching spies," Mr. Yang said.

Mr. Yang, who studied in

Australia before moving to New Zealand to take up a teaching role at a university, was approached by the National Party to run for parliament in 2011.

He also said he had been a member of the Communist Party of China, but had been upfront about his background when applying for a visa and before joining Mr. English's National Party.

Mr. English said it didn't bother him that Mr. Yang, now a New Zealand citizen, had been a member of the Chinese Communist Party.

"We have to remember this is a New Zealander we are talking about," he said.



Jian Yang answers questions in Auckland on Wednesday.

## WORLD NEWS

# Storm Sets Back Tourism In Caribbean

BY CHRIS KIRKHAM  
AND ANTHONY HARRUP

Chantal Piazz and her husband own an Italian restaurant in Anguilla that offers tourists delicacies like lobster ravioli, in a setting of palm trees and white Caribbean sands. But after Hurricane Irma tore through the island, the visitors are gone and only the restaurant's shell remains.

"Everything's is gone: the equipment, kitchen, storage and decking," Ms. Piazz said on Wednesday, expressing hope they can rebuild enough to partially reopen by Christmas.

A week after one of the most powerful storms on record rampaged through the Caribbean, killing at least 38 people, officials from St. Martin to Barbuda to the U.S. and British Virgin Islands are scrambling to assess damage in a region that depends on tourism more than any other in the world.

Others are trying to stave off cancellations in areas that haven't sustained damage, such as St. Lucia, Aruba and Barbados further south.

"There's a perception issue that we constantly battle with," said Frank Comito, chief executive of the Caribbean Hotel and Tourism Association. "More than 75% of the Caribbean was not severely impacted and is open for business."

Still, the Category 5 hurricane caused significant damage to small tourism-dependent islands in the Caribbean as well as larger, more economically diversified nations such as the Dominican Republic and Cuba, where the capital Havana and the beachside Varadero resort were damaged.

Some resort owners, like Sonesta International Hotels Corp., which has three properties on the Dutch side of St. Martin, have canceled all reservations through the end of

the year.

The timing is particularly challenging, coming just months before the high season from November through April, when North Americans and Europeans seek to escape to warmer climes during their winter. The hurricane also interrupted the normal late summer-early fall period of repairs and renovations for many resorts.

"Do I think that the season is going to be off? Yeah, the season is going to be way off....The only question is 'how much?'" said Tim Warburton, CEO of Wimco Villas & Hotels, which has luxury vacation rental properties throughout damaged parts of the Caribbean. "It takes three to four weeks to find out what the situation really is."

Travel and tourism directly accounted for about 15% of gross domestic product in the region last year, compared with about 10% in the European Union and 8.4% in North America, according to the World Travel & Tourism Council, a global trade group. The region has for years tried to diversify their economies with limited success due to their few natural resources, small populations and remote locations.

Tourism provides substantial indirect benefits, especially for jobs. Anguilla, for instance, counts on tourism for more than half of annual economic input and jobs.

"Tourism is inflow of dollars...Tourism is employment, and tourism is a lot of ancillary activities in terms of services, so it is a huge impact," said Nathalie Marshik, a strategist covering Latin America and the Caribbean at Oppenheimer & Co. "That's going to hurt because these islands produce nothing. They have to import everything."

At the Oyster Bay Beach Resort, on the Dutch side of St. Martin, co-owner Mike Do-



Caribbean officials are assessing whether they can reopen hotels in time for the high tourism season. A beach seen last week on St. Martin

lente said the company was still assessing the damage and has no timeline to reopen after prioritizing guest evacuations and providing food and water to dozens of employees.

Others in damaged areas say they are far more optimistic than a week ago. The day after Hurricane Irma swept through the Turks and Caicos Islands last week, Mark Duriat, chief executive of Grace Bay Resorts, said everyone was "walking around like zombies, predicting the worst." But with power and water restored to his part of the islands this week, he said he thinks he can have the resort reopened to guests by October.

"There are a few scars here, a few rough edges we're going to polish, but to the naked eye you may not see it," he said.

The longer-term impact on the affected economies will depend on how much reconstruction costs and who pays for it, said Gabriel Torres, a country risk analyst for Latin America at Moody's Investors Service.

"What has happened in the past is that not all the hotels, for example, decide to rebuild, for different reasons. In that case what you have is a permanent decline in the amount of tourism," he said. "Often

### French to Step Up St. Martin Security

MARIGOT, St. Martin— French President Emmanuel Macron vowed to increase security and stop a growing epidemic of lawlessness amid food and water shortages here following Hurricane Irma.

Underscoring the challenge, just half a block from where the French leader spoke Tuesday night, men in ski masks carrying shotguns robbed Thierry Piton, 17 years old, according to Mr. Piton, who said they took a scooter his friend had lent him.

Mr. Macron said the govern-

ment would boost the number of reinforcements of police and soldiers to 3,000 to maintain law and order on the French side of St. Martin, where looting has been rampant since the storm hit.

"We will be extremely vigilant on this subject given what has happened, which is unacceptable," he told reporters after meeting local officials on Tuesday.

Mr. Macron also outlined a plan to restore basic services on the island. He said running water would return only gradually, projecting that the water system would be at a third of capacity by Sept. 20.

To provide some immediate

supplies of fresh water, the U.S. is sending two mobile desalination plants shortly to the island to supply fresh water, he said.

With communication networks down, the authorities will walk around neighborhoods with megaphones announcing the hour and location of food and water deliveries, Mr. Macron said.

Mr. Macron said that 50% of mobile connections have been restored, and that the rest would return in the weeks to come.

"Pylons have been knocked down," he said. "The damage is unprecedented."

—Matthew Dalton

these countries and islands take years to recover. Not that the tourism industry disappears, it remains crucial, but could be smaller than what it was before."

For protectorates like British Virgin Islands and French-Dutch St. Martin, the money to rebuild may come from parent countries. Others are likely to need loans, said Yuri Chakall, a senior specialist in Natural Disaster and Risk Management at the Inter-American Development Bank.

British Prime Minister The-

resa May on Wednesday said the U.K. would provide an additional £25 million (\$33 million) on top of the £32 million already pledged to support the recovery effort in its overseas territories.

"It is life and death, basically," said Kenroy Herbert, owner of Leviticus Lifestyle & Travel, a luxury villa management company that has 15 properties in Anguilla. "It is of the utmost importance for us to get back to being as normal as possible."

On the island of St. Lucia,

which wasn't in Irma's path, Karolin Troubetzkoy has been putting together online maps of the Caribbean to show tourists which parts saw no damage. As president of the Caribbean Hotel and Tourism Association and a marketing director at two resorts on St. Lucia, she said she worries travelers don't understand the geography, and are "just horrified by the reports they're seeing."

—Santiago Pérez, Matthew Dalton and Dudley Althaus contributed to this article.

## WORLD WATCH

TURKEY

### Erdogan Shrugs Off NATO Criticism

President Tayyip Erdogan on Wednesday dismissed NATO allies' concern over Turkey's deal to buy a missile defense system from Russia and said Ankara would continue to take the security measures it thought right.

Turkey, whose relations with its allies have frayed in recent months, said it opted for the S-400 because Western companies had offered no "financially effective" alternative.

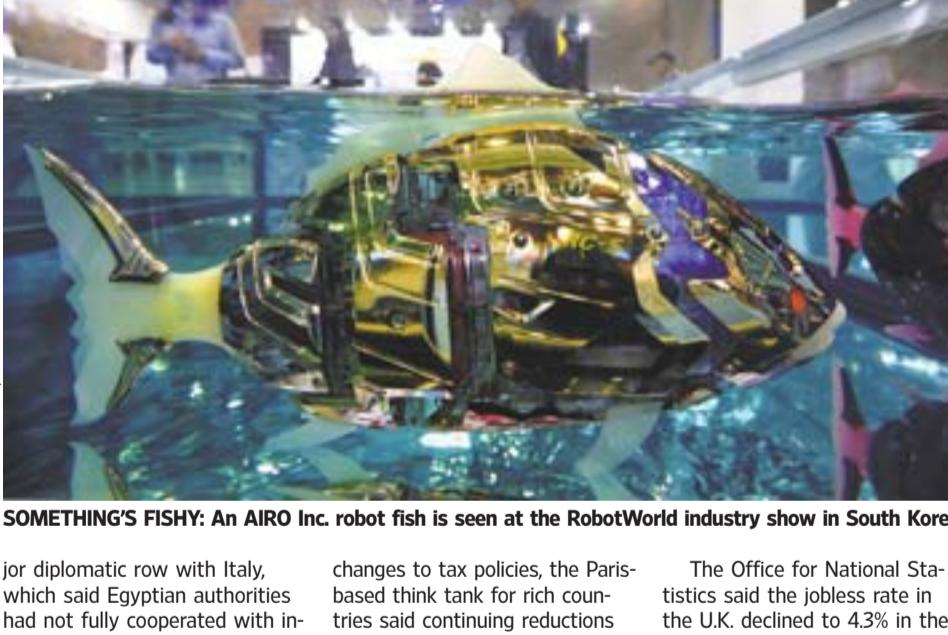
But NATO officials have voiced disquiet over the purchase of missiles incompatible with alliance systems.

"They went crazy because we made the S-400 agreement. What were we supposed to do, wait for you? We are taking and will take all our measures on the security front," Mr. Erdogan said in a speech in Ankara.

Western firms which had bid for the contract included U.S. firm Raytheon (RTN.N), which put in an offer with its Patriot missile defense system. Franco-Italian group Eurosam, owned by the multinational European missile maker MBDA and France's Thales TCFP.PA, came second in the tender.

—Reuters

SEONGJOOON CHO/BLOOMBERG NEWS



SOMETHING'S FISHY: An AIRO Inc. robot fish is seen at the RobotWorld industry show in South Korea.

jer diplomatic row with Italy, which said Egyptian authorities had not fully cooperated with investigators and withdrew its ambassador in protest last year. On Wednesday a new ambassador arrived, signaling an improvement in relations.

Egyptian authorities have denied any involvement in Regeni's killing, but activists say it bore the hallmarks of police brutality. Regeni went missing in Cairo on Jan. 25, 2016, when police were out in force to prevent protests, and his body was found days later, bearing the signs of intense torture.

—Associated Press

### Governments Warned On Profit-Tax Cuts

Governments around the world have continued to cut their tax rates on company profits, pushing them further below that of the U.S. as the Organization for Economic Cooperation and Development warned the competition to aid businesses may be going too far.

In its annual review of

changes to tax policies, the Paris-based think tank for rich countries said continuing reductions in corporate-tax rates had lowered the average across its 35 members to 24.7% in 2016 from 32.2% in 2000.

The U.S. corporate-tax rate of 35% is the highest among major developed countries, and companies say it distorts economic decisions and discourages investments in the U.S. Many companies don't pay that full rate because of tax breaks created by Congress.

—Paul Hannon

### UNITED KINGDOM

#### July Jobless Rate Hit Four-Decade Low

The unemployment rate fell in July to its lowest level in more than four decades, fueled by increasing participation in the labor force.

Real wage growth, which takes into account inflation, declined for the fifth straight month, though, highlighting a continued squeeze on households' living standards that is sapping economic growth.

The Office for National Statistics said the jobless rate in the U.K. declined to 4.3% in the three months through July, its lowest level since early 1975.

The number of people in work hit a record 32.1 million, as those staying out of the workforce to look after their home or care for family members sank to 2.1 million, the lowest level since records began. Average annual wage growth held steady at 2.1% compared with the previous three months.

—Jason Douglas

### FRANCE

#### Premier Says Protests Won't Stop Labor Law

Prime Minister Edouard Philippe has shrugged off nationwide protests against planned overhauls to France's strict labor regulations, saying he was listening but would nonetheless press ahead with the bill.

About 220,000 people on Tuesday joined the first mass protest called by the Communist Party-rooted CGT trade union against the overhauls, a smaller number than in demonstrations last year.

—Reuters

## Hurricane Wreaks Havoc on Ecology Of Fragile Islands

BY DANIELA HERNANDEZ

Aside from the death and destruction to property Hurricane Irma wrought in the Caribbean, it also devastated local ecosystems.

Irma's powerful winds killed trees and plants by stripping their leaves and branches, uprooting and toppling them and spewing damaging saltwater onto them, turning the islands' once-verdant hills a dull brown. Forestry and wildlife experts say the ecosystems will struggle but can recover in time.

Hurricane Irma's winds reached 185 mph. The most vulnerable flora is that which has few natural defenses against strong gusts in the form of a windbreak—either mountains or taller trees in the vicinity.

In some cases, lightning associated with hurricanes "fries a circle of trees that just die," creating a sort of Swiss-cheese pattern in the canopy, according to Thomas Doyle, the deputy director for the U.S. Geological Survey's Wetland and Aquatic Research Center in Lafayette, La.

Although it is too early to have a full picture, organisms that depend on such felled flora also normally sustain damage. Some disperse to nearby habitats that more closely match what theirs was like before the storm hit, either to find protection from predators or to find food.

Lizards that live in the canopy, for example, could be more visible to predatory birds. And birds that feed on fruits or nectars would suddenly have nothing to eat. They either adapt or die.

But such changes can also have a "rejuvenating" force on

a forest, said Ariel E. Lugo, the director of the U.S. Forest Service's International Institute of Tropical Forestry in Puerto Rico. "You can't see a hurricane as negative for everybody. There are some that benefit, depending on their needs."

For example, in the 1980s, a student in his lab found Ausubo tree seedlings while doing research in Puerto Rican forests. They had been growing there slowly for decades. Hurricane Hugo hit in 1989, and shortly after these slow-growing trees started growing rapidly, he said. Dr. Lugo observed a similar phenomenon with other tree species.

"We have clear evidence that hurricanes facilitated the regeneration of a slow-growing species," said Dr. Lugo, who is currently investigating how changes in the frequency of storms and rising temperatures affect forests. "Forests have incredible mechanisms for regrowth. They're always awaiting the next hurricane."

The chances of bouncing back are highest when an ecosystem is healthy, according to ecologists and forestry experts.

But increases in urban development, and other factors such as climate change, are stressing ecosystems, said Astrid Caldas, a senior climate scientist at the Union of Concerned Scientists.

"Wetland after wetland was filled in and paved over" in Houston, she said. Wetlands typically act like sponges that take in excess water. When Hurricane Harvey hit, the remaining ones were overwhelmed by the amount of runoff.

—Dan Gaba contributed to this article.

EGYPT

### Cairo Acknowledges Holding Lawyer

Egypt on Wednesday acknowledged the detention of a human rights lawyer who went missing on his way to a U.N. conference on forced disappearances, accusing him of disseminating fake news.

Ibrahim Metwally, who was arrested at Cairo International Airport three days ago and initially held incommunicado, may have been targeted because he provided legal aid to the family of Giulio Regeni, an Italian graduate student who was abducted and tortured to death in 2016 during a police crackdown in Cairo.

Regeni's killing sparked a ma-

## U.S. NEWS

# GOP Nears Release of Tax-Plan Details

Trump links the bill to hurricanes; Schumer says it shouldn't add to the budget deficit

By RICHARD RUBIN

WASHINGTON—Republicans plan to show more details about their tax plans during the week of Sept. 25, as they prepare for an expected legislative sprint toward one of their top priorities.

"We will release a consensus document with the core elements of big, bold tax reform," Rep. Kevin Brady (R., Texas) told reporters on Wednesday.

Mr. Brady, chairman of the House Ways and Means Committee, laid out the fall schedule for House Republicans Wednesday morning.

"The stakes are higher than ever that we deliver," he told his colleagues, according to a person in the room.

In tweets on Wednesday morning, Republican President Donald Trump urged Congress to move quickly, linking the bill to recent hurricanes.

"With Irma and Harvey devastation, Tax Cuts and Tax Reform is needed more than ever before," he wrote. "Go Congress, go!"

Senate Minority Leader Charles Schumer (D., N.Y.), dis-

agreed, saying, "A tax cut, particularly one for the very wealthy, is not going to help Florida or Texas rebuild from these storms." He added: "We're about to add billions to the deficit to rebuild parts of our country, something we absolutely should do because it's an emergency. But that makes it even more important that tax reform be fiscally responsible and deficit-neutral."

Republicans hope to finish the budget process—a prerequisite for fast-tracking a tax bill through the Senate without Democratic votes—by mid-October. After that, they plan to release and vote on actual tax legislation.

The need to pass a budget has created a bit of a conundrum for Republicans. Some lawmakers, including House Freedom Caucus leader Mark Meadows (R., N.C.), have been clamoring for more details on the evolving tax plan before they are willing to advance the budget. But the tax bill's writers need the budget and its revenue targets so they can lay out all the specific details.

Rep. Dave Brat (R., Va.) said Mr. Brady's timeline was too plodding for his liking.

"No, we need it like now. ASAP," he said. "They've been promising that to us for four or five months."

House Speaker Paul Ryan (R., Wis.) said narrow tax cuts



"We will release a consensus document with the core elements," Rep. Kevin Brady said Wednesday.

like what Congress did in 2001 and 2003 won't fix the structural problems in the economy.

Mr. Brady has been working with top officials from the Senate and the Trump administration on the GOP tax agenda this year. Their goals are to lower tax rates and simplify the tax system, but they are struggling with the arithmetic and political choices needed to get there.

Mr. Trump met Wednesday with a bipartisan group of House members on taxes, after meeting with a bipartisan group of senators on Tuesday night. Mr. Ryan said he would bet that some House Democrats will vote for the eventual tax bill.

House Republicans are trying, as much as possible, to work from the same framework as the Senate and the

Trump administration so that any disputes are over finer points and not the broad aims and outlines.

"We have a full bill. That's not a problem," said Rep. Devin Nunes (R., Calif.), a senior Ways and Means member. "Showing it is the challenge."

Mr. Nunes said lawmakers are still working through the trade-offs needed to drive down tax rates. On the corpo-

rate side, Mr. Trump wants to lower the 35% rate to 15%, though most analysts think that is nearly impossible.

"You can get it to 20, but everybody's going to come in and complain. So then you just have to assume that's going to get back up to 25. It depends how many people complain," Mr. Nunes said. "If we're below 25, I think it would be good."

Meanwhile, Sen. Ted Cruz (R., Texas) laid down a marker in the tax debate on Wednesday, endorsing full and immediate deductions for capital investment by businesses. In a speech at a Tax Foundation event, Mr. Cruz planned to emphasize that such full expensing, instead of current multi-year depreciation schedules, would make the tax code simpler and direct tax benefits to new investments, said a person familiar with his remarks.

House Republicans are bracing for a flurry of interest-group lobbying once they show which tax breaks would get curtailed. Limits on the deduction for business interest would meet resistance from the private-equity, real-estate and agriculture industries. House members from New York and New Jersey are pushing back against a plan to repeal the deduction for state and local taxes.

—Kristina Peterson contributed to this article

JOSHUA ROBERTS/REUTERS



JOHN MINCHILLO/ASSOCIATED PRESS

## Sanders Pitches Single-Payer Health Plan

By MICHELLE HACKMAN

U.S. Sen. Bernie Sanders unveiled his long-anticipated legislation to create a national single-payer health system on Wednesday, boasting support from 15 Democratic Senate co-sponsors.

The health proposal, dubbed Medicare for all, would offer the same suite of medical benefits required for some insurance plans under the Affordable Care Act and eliminate most out-of-pocket costs.

Mr. Sanders of Vermont, who is unaffiliated with any party but caucuses with the

Democrats, has said taxes would likely rise to support the new system but he points out that families would save money by no longer needing to purchase health coverage. The government, he said, could also secure lower prices for medical services.

The 96-page bill offers no mechanisms to pay for the plan, which is expected to cost the federal government hundreds of billions of dollars a year. A spokesman for Mr. Sanders said no cost estimate for the plan was available, but Mr. Sanders plans to release a separate white paper outlining ways to fund it.

leagues signed on.

Single-payer health care is now becoming a rallying cry for many Democrats, much as the seven-year promise to "repeal and replace" the 2010 law known as Obamacare brought together Republicans.

At least four potential 2020 Democratic presidential contenders—Sens. Elizabeth Warren of Massachusetts, Kirsten Gillibrand of New York, Kamala Harris of California and Cory Booker of New Jersey—all signed onto the plan.

The legislation would begin extending Medicare-like cover-

age to people over a four-year transition period, with the eligibility age for the program—currently 65 and older—steadily lowering to cover the entire population.

Though private insurers wouldn't be permitted to compete with the government plan for basic coverage, consumers could purchase supplemental health policies.

The plan also includes several controversial policy proposals. It would authorize the universal government health system to negotiate the cost of prescription drugs, an idea that conservative opponents have charged would amount to

price-fixing. It would also require abortion to be included as a benefit. Currently, federal funds are prohibited from paying for abortions.

Sen. Bernie Sanders at a 'Care Not Cuts' rally in Covington, Ky.

## BILL

Continued from Page One

That leaves the path forward on health care unclear, amid a sentiment among many in both parties that the law known as Obamacare is flawed but that Republican efforts to repeal it are unlikely to succeed.

As a result, insurers are wondering how to proceed, medical industry groups are frustrated and consumers are unsure what the future holds for coverage and costs.

"I don't want to simply watch health-care costs increase and choices diminish even further while purists in Congress demand the unattainable," Sen. Orrin Hatch (R., Utah), chairman of the Senate Finance Committee, said at a health-care hearing this week. "We will likely have to act at



ALEX WONG/GETTY IMAGES

some point, maybe even this year, to protect American families from the failures of the current system."

But, for now, activists on both sides are continuing to push their solutions, and no broad bipartisan plan has emerged.

Sen. Bernie Sanders of Ver-

mont pitched on Wednesday a bill to create a national single-payer health system. While he has picked up support from a number of high-profile Democrats, it has little chance of becoming law with the GOP in control of Congress and the White House.

Sens. Bill Cassidy of Louisi-

ana and Lindsey Graham of South Carolina, both Republicans, plan Wednesday to release the text of a bill letting states largely decide what to do with the 2010 law.

The senators see their proposal as the Republicans' last hope to fulfill a pledge to strike much of the law and enact conservative proposals in its place. A Senate procedural device letting Republicans pass such a bill with a simple majority, rather than the 60 votes usually required, expires Sept. 30.

Mr. Graham has said that by turning the 2010 law into a block-grant program that allows states to fashion their own health-care system, the party could offer a deal palatable to a majority of GOP governors and senators.

But Senate Majority Leader Mitch McConnell (R., Ky.) has so far shown little interest, aides said. Sen. Rand Paul (R.,

Ky.), an outspoken critic of earlier GOP repeal proposals, has said he would be reluctant to support the new plan. Mr. Hatch, chairman of the powerful Finance Committee, said the bill lacks support.

For the bill to become law, the House would also have to pass it. Conservative representatives have voiced skepticism about leaving Obamacare in place in some parts of the country, while centrist Republicans may be reluctant to see the law's funding capped in their regions.

President Donald Trump's administration, for its part, has done little to encourage passage of the Cassidy-Graham bill, while saying the Republican president would sign the bill if it reaches his desk.

Mr. Trump's legislative affairs director spoke Tuesday in the past tense about Republicans' bid to repeal the 2010 law, despite offering

lukewarm support for the Cassidy-Graham bill as an "effort to keep that alive."

"The repeal-and-replace legislation was I think our best opportunity for real entitlement reform in Medicaid," said Marc Short, the legislative-affairs director, at a briefing hosted by the Christian Science Monitor. "Republicans, when given the opportunity, were not willing to follow through on that."

Meanwhile, a bill aiming to bring the parties together to shore up insurance markets is in jeopardy, people close to the negotiations said, as Democrats complain that Republicans are trying to use it to eliminate consumer protections.

The effort spearheaded by Sens. Lamar Alexander (R., Tenn.) and Patty Murray (D., Wash.) would guarantee federal funding to insurers to help offset subsidies they give some low-income consumers.

## High Court Reinstates Travel Ban

By BRENT KENDALL

WASHINGTON—The Supreme Court on Tuesday again ordered a reinstatement of the Trump administration's restrictions on refugee entry into the U.S., another shift in the seesaw legal battle over President Donald Trump's temporary travel ban.

The high court issued an emergency order that sided with the Trump administration, after a federal appeals court last week ruled that roughly 24,000 vetted refugees should be able to enter the U.S. while litigation over the travel ban continues. Those refugees will now be ineligible for entry.

The Supreme Court's order came in a single paragraph, with no recorded dissents.

It was the third time the justices have intervened to set interim rules on travel while the court more fully considers the legality of Mr. Trump's March 6 executive

order, which sought to suspend travel to the U.S. by people from Iran, Libya, Somalia, Sudan, Syria and Yemen, as well as by refugees.

Mr. Trump said the temporary ban was needed to protect against terrorist threats while the U.S. studied vetting

*It was the third time the justices have intervened to set interim rules on travel.*

procedures. Critics said the restrictions were unjustified and alleged the president was unlawfully targeting Muslim travelers.

The president's legal challengers include the state of Hawaii, as well as civil-rights and immigrant-rights groups. Mr. Trump has faced several negative rulings from

lower federal courts. The Supreme Court will hear oral arguments in the matter on Oct. 10.

The Justice Department, which is defending the ban, said it looked forward to the argument and was pleased the court "has allowed the government to keep in place the protections for the nation's safety and security provided by the executive order."

Hawaii Attorney General Douglas Chin said the state respected the court's order and was continuing to prepare for next month's proceedings.

The high court's first interim ruling came June 26, when it said the Trump administration could partially implement its planned travel ban, but not against people who had bona fide relationships with people or organizations in the U.S.

That only led to more legal wrangling.

The White House took a narrow view of the court's

ruling and applied the ban to a broad group of refugees, as well as to travelers who were extended family members of U.S. residents, such as grandparents, grandchildren, aunts and uncles.

The Supreme Court intervened again on July 19, preventing the administration from barring travel by such extended family members. But the justices left the refugee restrictions in place until the Ninth U.S. Circuit Court of Appeals could study them further.

The Ninth Circuit, based in San Francisco, ruled against the Trump administration on the refugee question last week, saying refugees should be allowed in if they are covered by an admissions agreement between the U.S. government and a refugee resettlement agency.

The high court's order Tuesday prevented that ruling from going into effect for now.

White House spokeswoman Sarah Huckabee Sanders said Wednesday the president would sign the legislation.

"He looks forward to doing so," Ms. Sanders said during

the daily White House press briefing.

Mr. Trump drew criticism from members of both parties over the summer after blaming "both sides" for tense protests and counterprotests that erupted in the city of Charlottesville, Va., in a combative news conference on Aug. 15.

That marked a shift from a day earlier, when Mr. Trump had singled out white supremacists for the clashes in the city that left one dead and 19 injured.

Rep. Tom Garrett, a Virginia Republican and a sponsor of the measure in the House, said: "While the president and the entire Virginia delegation have vociferously condemned the hateful actions of that day, as well as those who perpetrated them, this joint resolution allows us to join, legislatively and executive, Republican and Democrat, in doing so officially and on the record."

## Trump to Sign Measure Against Hate Groups

BY BYRON TAU

WASHINGTON—The White House said Wednesday that President Donald Trump would sign a bipartisan congressional resolution condemning white nationalists, after the measure passed both chambers earlier this week.

The joint resolution targets the Ku Klux Klan, neo-Nazis and other hate groups, and urges the Trump administration "to use all available resources to address the threats posed by those groups."

Lawmakers said the legislation would put the president on the record opposing hate groups after violence erupted at a racially charged rally in Virginia last month.

White House spokeswoman Sarah Huckabee Sanders said Wednesday the president would sign the legislation.

## U.S. NEWS

# Suit Targets Phone Seizures

By JOE PALAZZOLO

A diverse group that includes an artist, an engineer, a journalist and a limousine driver is challenging the U.S. government's power to search smartphones at border crossings without warrants or even suspicion of wrongdoing, alleging in a lawsuit filed Wednesday that the practice violates the constitutional right to privacy.

The lawsuit, filed in U.S. District Court in Boston, seeks to taper an exception to the Fourth Amendment that allows customs and border agents to rummage through luggage, take apart cars, inspect personal devices and more. Courts have ruled the Fourth Amendment's protections against unreasonable searches and seizures are weaker at or near the border and points of entry because authorities need broad powers, unhindered by the warrant requirement that applies inside the country, to screen dangerous people that could be trying to enter the U.S.

But the advent of smartphones has made it possible for international travelers to carry the contents of their lives with them in electronic form, and federal courts have begun to question whether the Fourth Amendment permits border authorities unfettered access to such troves. Searches of electronic devices at ports of entry increased under the Obama administration and have continued to rise.

The American Civil Liberties Union and San Francisco-based Electronic Frontier Foundation are representing the 11 plaintiffs, all U.S. citizens or permanent residents, who say federal officers seized and searched their electronic devices at U.S. ports of entry, without cause to believe they had violated any law.

Four of the plaintiffs represented by the ACLU and EFF were without their phones for weeks while federal authorities inspected them, the law-



U.S. Customs and Border Protection officers at Los Angeles International Airport earlier this year.

suit says.

Border agents last year stopped Wall Street Journal reporter Maria Abi-Habib at the border and asked for her two cellphones, but they backed off when she resisted. Ms. Abi-Habib isn't involved in the lawsuit.

"The effect of searches of mobile electronic devices on individual privacy and expression can hardly be overstated," the lawsuit says. "The volume and detail of personal data contained on these devices provides a comprehensive picture of travelers' private lives, making mobile electronic devices unlike luggage or other items that travelers bring across the border."

The lawsuit says warrantless border searches also chill speech protected by the First Amendment, including the rights to speak anonymously and gather and receive information. The complaint asks a federal judge to declare such searches unconstitutional, absent a warrant supported by probable cause.

The lawsuit names as defendants the acting heads of U.S. Customs and Border Protection, U.S. Immigration and Customs Enforcement and the

Department of Homeland Security. Jenny Burke, a Homeland Security spokeswoman, declined to comment on the lawsuit.

In a recent court brief filed in an unrelated case, the federal government called the exception to the warrant requirement at the border "a vital tool for the protection of national security and the prevention of transborder crime."

The federal government has inherent authority to protect its sovereignty and territorial integrity, Justice Department lawyers wrote in the April brief in a case involving a Turkish man charged with trying to illegally export firearms.

"Never has this principle been more important than it is today," the brief says, citing the Sept. 11, 2001, terrorist attacks.

Law-enforcement officers working within the U.S. must obtain a warrant to search electronic devices carried by suspects, under a 2014 ruling by the U.S. Supreme Court. The case didn't address searches at airports or borders, leaving lower federal courts to reconcile the ruling with the border-search exception.

tion.

Border searches of electronic devices affect a fraction of international travelers, but agents are conducting more of them, according to Customs and Border Protection data.

The customs agency reported in April that its officers searched the devices of 14,993 travelers in the first half of the fiscal year, compared with 8,503 searches in all of fiscal 2015.

Customs officers escorted Californian Sidd Bikkannavar, one of the plaintiffs, to a secondary inspection after his flight from Santiago, Chile, landed in Houston in January. The officers seized his phone and forced Mr. Bikkannavar, an optical engineer at NASA's Jet Propulsion Laboratory, to enter his passcode to unlock the device, according to the lawsuit.

The agents returned his phone about a half-hour later, telling Mr. Bikkannavar, who was returning from vacation, that they had used an algorithm to search his phone and had found no "derogatory" information about him.

"Your whole life is really there on that phone," Mr. Bikkannavar said in an interview.

# Six Dead: Nursing Home Loses Power

HOLLYWOOD, Fla.—Six people died and more than 100 others were evacuated Wednesday after Hurricane Irma knocked out power at a nursing home in Hollywood, Fla., leaving the residents there in sweltering heat.

By Elizabeth Bernstein,  
Jon Kamp,  
and Melanie Evans

Hollywood Police Chief Tomas Sanchez said rescuers found "conditions were extremely hot" on the second floor of the 152-bed nursing facility—the Rehabilitation Center at Hollywood Hills—that is nestled among a cluster of medical facilities in this southeastern city.

Three residents died at the nursing home, and three died after being transferred to the hospital, officials said. Scores of others were also taken to nearby hospitals; some of them remain in critical condition.

The Broward County medical examiner identified three of the victims—all women over 70 years old—but hadn't yet determined the cause of death.

Mr. Sanchez has started a criminal investigation and said the loss of life "might be related to the loss of power in the storm," but he added that officials weren't ruling anything out.

Florida Gov. Rick Scott stressed that the nursing home bears responsibility for the safety of the residents. He said he has directed state agencies to investigate.

"If they find that this facility was not meeting the state's high standards of care, they will be held accountable to the fullest extent of the law," Mr. Scott, a Republican, said in a statement.

The deaths come as Florida embarks on the recovery and rebuilding process days after Irma pounded the state. About 3.7 million power customers in

the state still lacked service midday Wednesday as the mammoth effort to restore electricity in the often hot and humid region continues. Mr. Scott has said that restoring power to hospitals and nursing homes was a priority.

As of Tuesday evening, 114 of Florida's nursing homes were relying on generators for power. The governor called on first responders around the state to check in on all of the health-care facilities in their area to make sure that conditions were safe. Hollywood police officers were checking on the 42 other assisted-living facilities and nursing homes in the area.

Mr. Scott said that officials in the state Department of Health have been in contact with the nursing home in Hollywood and its for-profit owner, Larkin Community Hospital Behavioral Health Services, for the past three days. He said the facility reported Tuesday that it had power and access to fans and spot coolers provided by Memorial Healthcare System, which runs four hospitals that received the evacuees.

The evacuation followed "a prolonged power failure to the transformer which powered the facility's air conditioning system as a result of the hurricane" Jorge Carballo, administrator of the Rehabilitation Center at Hollywood Hills, said in a statement.

"Our hearts go out to the families and friends of those who were affected," he said.

The police and fire departments were called to the nursing home around 4 a.m. Wednesday. Crews found several patients in varying degrees of medical distress and immediately began treatment.

After assessing extreme conditions at the facility where only some windows were open, Mr. Sanchez, the Hollywood police chief, said the decision was made to evacuate 115 residents.

## U.S. WATCH



A University of New Hampshire student at a campus discussion about racism in May.

### NEW HAMPSHIRE Youths in Racial Incidents Fuel Concern

Two New Hampshire communities have been shaken in recent days by allegations of racial incidents involving children.

The city of Claremont is beginning "a community response to hatred," the city manager said this week, after allegations that an 8-year-old biracial boy was injured after other boys hanged him by the neck with a rope.

Local authorities are investigating and New Hampshire Gov. Chris Sununu said this week that the state attorney general's office would send a team to Claremont to assist in the probe.

"Hatred and bigotry will not be tolerated in New Hampshire," Mr. Sununu said.

About 90 miles away in Durham, N.H., an elementary-school student endured racial taunts and physical aggression by another boy on a school bus at the start of the school year. Oyster River Cooperative School District Superintendent James Morse said in a statement on Tuesday. He said the school reported the incident to the police.

Police haven't released details of the alleged hanging incident, citing the young ages of the boys involved. In a statement this week, Claremont Police Chief Mark Chase said detectives are "taking all steps possible to investigate" the Aug. 28 incident,

which became public recently after the boy's family spoke out on social media. Mr. Chase said the investigation centers mostly on juveniles age 14 and under.

—Jennifer Levitz

### ECONOMY

#### Producer Prices Rose 0.2% in August

U.S. businesses sold goods and services at slightly higher prices in August, though inflation pressures remained weak overall. The producer-price index, a measure of inflation experienced by businesses, rose 0.2% in August from a month earlier, the Labor Department said Wednesday. The increase, while modest, was the biggest since April.

Higher gasoline prices accounted for most of the jump. Excluding food and energy components, so-called core prices increased 0.1%, a meager jump.

Economists surveyed by The Wall Street Journal had expected a 0.3% gain in overall producer prices and a 0.2% rise in core prices. The report offers the latest sign inflation in the U.S. remains weak despite conditions that would normally be accompanied

by stronger price growth, including steady job growth, low unemployment and a pickup in economic growth. Over the past year, overall producer prices have risen 2.4% while core prices have climbed 2%.

—Josh Mitchell

and Sharon Nunn

### SENATE

#### Hassett Confirmed to Head Economics Team

The Senate voted Tuesday to approve the economist Kevin Hassett for the chairmanship of President Donald Trump's Council of Economic Advisers.

Nominated in April, Mr. Hassett had faced relatively little opposition or controversy and was confirmed by a vote of 81-16. The Senate Banking Committee advanced his nomination in June, with only Sen. Elizabeth Warren (D, Mass) in opposition. His full Senate vote didn't get scheduled before senators left for their August recess.

The chairmanship was once a cabinet-level position, but hasn't been under Mr. Trump. The job has been empty for nearly eight months, so the White House has established its rhythms without someone in the job. Mr. Hassett, however, could still become an influential adviser. As an academic, he devoted much of his career to studying the effects of taxes and business investment, and will join an administration in the midst of a push to rewrite the tax code.

As chairman of the CEA, Mr. Hassett will lead the team of economists that develops forecasts in the president's budget, and he will be the point person for receiving and briefing the president on economic data.

—Josh Zumbrun

LAPADA

ART & ANTIQUES FAIR

BERKELEY SQUARE

15-20 SEPTEMBER 2017

PRINCIPAL SPONSOR

KILLIK & Co

## IN DEPTH

# ISLAM

*Continued from Page One*  
helped introduce more than 400 Shariah-inspired laws, including those that penalize adultery, force women to wear headscarves and restrict them from going out at night.

They are supported by a popular mood that has turned more religiously conservative. Protesters last month forced officials to cover a 100-foot statue at a Confucian temple they called an affront to Islamic traditions. Over the past year other conservatives have demolished statues in Java and Sumatra depicting characters from traditional, pre-Islamic folk tales.

Women wearing headscarves are more visible, and the wait time for the limited permits to attend the Hajj to Mecca have risen to 30 years, from two years in 2000, according to government data.

Local elections take place across the country next year, and a presidential vote is scheduled for 2019. Some political analysts and local leaders expect conservative Muslims to expand their footprint. Some potential challengers to President Joko Widodo, a religious moderate, already are aligning themselves with hard-liners. "They are playing the long game," said Sidney Jones, a director at the Institute for Policy Analysis of Conflict in Jakarta.

One hard-line group that has seen success is the Islamic Defenders Front, known locally as FPI. In April it helped engineer the electoral defeat of Jakarta's governor, Basuki Tjahaja Purnama, a Christian and close ally of Mr. Widodo.

The group and other conservative Muslims accused Mr. Purnama of blasphemy, a criminal offense, and organized mass protests to demand his prosecution. He lost re-election, was convicted and is serving a two-year prison sentence.

"The [Jakarta] governor election turned the FPI into something bigger than it had ever been before," said Ms. Jones. "No one would have thought of it as a political power broker, and now that's the role it has assumed."

The FPI's vision is clear. "The end goal is for [Indonesia] to be based on Shariah," said Slamet Maarif, the group's spokesman. That includes being whipped for violating rules concerning alcohol and extramarital sex.

"If you want to practice Islam, you cannot just be cherry picking. You should follow everything," he said.

Other groups involved in the protests against Mr. Purnama question the economic influence of Indonesia's minority ethnic-Chinese population, many of whom are Christian. Islamic leader Bachtiar Nasir, leader of the National Movement to Safeguard the Fatwas of the Indonesian Ulema Council, wants Indonesia to follow its neighbor Malaysia by introducing an affirmative-action program to provide indigenous Indonesians with better



Indonesian Islamic group FPI has built support through charitable works. Above, handing out food in a North Jakarta neighborhood in June.

access to capital and contracts.

Mr. Widodo, the president, was caught off guard by the strength of the Purnama protesters, which were among the largest in Indonesia's history, according to a person familiar with his thinking.

After not engaging with protesters for weeks, Mr. Widodo joined them at a prayer rally once Mr. Purnama's political survival seemed in doubt.

More recently, his administration banned Hizbut Tahrir, a group that dreams of making Indonesia part of an international Islamic caliphate. During his annual state of the nation speech to parliament last month, the president, dressed in a traditional sarong instead of the usual business suit, said the country must unite behind its founding principles of respect for different faiths.

Police are investigating FPI founder Rizieq Shihab on suspicion of breaking Indonesia's strict pornography laws, which were approved partly at the FPI's behest several years ago, after he allegedly exchanged lewd text messages and images with a female admirer. Mr. Shihab, who has taken refuge in Saudi Arabia, denies wrongdoing.

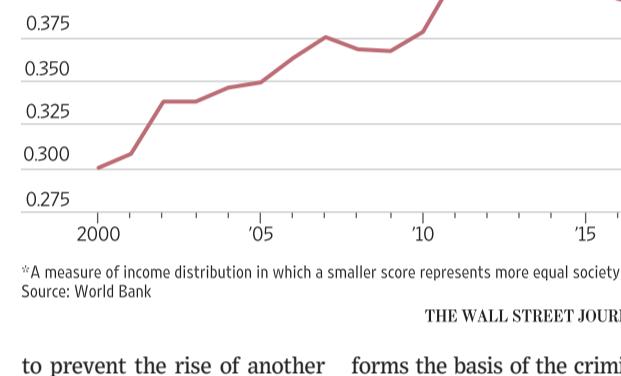
Mr. Widodo has encouraged moderate Muslim groups to join his efforts to reassert Indonesia's older, more inclusive traditions. One group, Nahdlatul Ulama, or Awakening of the Muslims, was formed in 1926 to resist ascetic strains of Islam from the Arabian peninsula.

It is providing safe houses for people who have come under attack from the FPI for criticizing Mr. Shihab. Indonesia began tilting toward a more austere version of Islam about two decades ago. A sprawling nation of 18,000 islands, it has long had a hard-line minority kept in check by a strong central government.

After the fall of autocrat Suharto in 1998, Jakarta devolved some powers to local provinces

### Islam and the Income Gap

Rising inequality of income in Indonesia is credited with fueling a turn toward more conservative Islam despite a growing economy and consumer class.



<sup>\*</sup>A measure of income distribution in which a smaller score represents more equal society.

Source: World Bank

THE WALL STREET JOURNAL.

to prevent the rise of another dictator. Around the same time, Saudi Arabia began spending hundreds of millions of dollars to build mosques and schools in Indonesia to export its fundamentalist strain of Islam. FPI's founder, Mr. Shihab, attended a Saudi-funded Islamic university in Jakarta and later studied in Saudi Arabia.

Many hard-liners view Aceh province, on the northern tip of the island of Sumatra, as a role model. After the 2004 Indian Ocean tsunami, which killed nearly 170,000 people in the province, Indonesia's government offered even more autonomy to local leaders to help speed reconstruction. The leaders introduced Shariah laws, based on Islamic teachings.

In 2015, the laws were further tightened to permit caning for a wide range of moral offenses, from selling alcohol to gay sex.

A public caning there in May made national headlines. Ten people, including two men who had sex with each other, and an unmarried heterosexual couple who had been alone together, were struck by hooded enforcers in front of a roaring crowd.

Aceh remains the only place in Indonesia where Shariah

forms the basis of the criminal code. Polling data is sparse, but a 2013 Pew Research Center survey found that 72% of Indonesian Muslims favored applying Shariah principles nationwide.

The FPI, with its cell-like organization and its followers' white, paramilitary-style uniforms, is the most visible example of the growing strength of Indonesia's conservative religious groups.

In its early days the group was known for smashing up Jakarta bars or scrawling graffiti such as "Jew-Free Zone."

U.S. diplomats have said the FPI served as a kind of paramilitary force for the police to extract bribes from brothels and other illegal businesses.

Mr. Maarif, the group's spokesman, acknowledges working with police "like brothers" but denies being paid to do so.

Over time, the FPI revised its strategy to widen its appeal. It found new audiences on Facebook and other social media—often teenagers and young men.

FPI stepped into the national scene in the mid-2000s, when it drummed up protests against

a no-nudes Indonesian edition of Playboy magazine. In 2012 it forced Lady Gaga to scrap a Jakarta concert, and the following year it compelled a Miss World pageant to move from the capital to the predominantly-Hindu island of Bali.

It successfully lobbied Indonesia's Supreme Court in 2013 to overrule the government and allow local authorities to restrict sales of alcohol, arguing it was eating away at traditional Islamic values. In 2015, national authorities banned convenience stores from selling beer and liquor, contributing to the decision of the local franchisee for 7-Eleven to close its 160-plus stores in the country earlier this year.

"We still wreck bars. I want to emphasize that we still do that," said Novel Bamukmin, another FPI leader with a punchy preaching style. But he said the group has used social media to grow. "We can reach a lot more people now."

On Sept. 6, the FPI led a rally in Jakarta to protest Myanmar's treatment of its Rohingya Muslim minority.

The group now has offices in 30 of Indonesia's 34 provinces. It relentlessly raises funds at prayer rallies, and has built public support through charitable projects.

Over the past year it has been preaching and handing out food, water and tarps in Jakarta's poor Kampung Akuarium neighborhood after the city government demolished homes for a new luxury housing development, displacing residents who worked nearby at the fishing port.

"They're still helping us. It's important just to know that someone is there because this situation is so stressful," said Suyitono, a 63-year-old. (Many Indonesians use one name.)

The outreach programs reinforce Islamic values in many areas, said Fatah Sulaiman, a vice rector at Sultan Ageng Tirtayasa University in Serang,

a city just east of Jakarta where the FPI also has a strong presence. "The politicians don't have much choice but to follow," he said.

The FPI had been looking for a way to oust Mr. Purnama, the former Jakarta governor, for years because it objected to the city of 14 million being ruled by a Christian. When Mr. Purnama last year made a lighthearted reference to a Quran verse that said Muslims shouldn't be led by members of other faiths, the FPI accused him of blasphemy.

The group helped organize protests in Jakarta, including one with an estimated 500,000 people, many dressed in white, to demand his prosecution.

When campaigning began for the April elections, the FPI backed Anies Baswedan, a former university rector with a reputation as a moderate who cultivated the group's support by meeting with them and reassuring them he had a conservative stance on social issues such as gay rights.

**Indonesia began tilting toward a more austere version of Islam two decades ago.**

Mr. Baswedan won the vote comfortably. His political mentor, Prabowo Subianto, a politician who ran against Mr. Widodo for president in 2014 and is a likely presidential candidate in 2019, publicly thanked the FPI for its help in the win.

The FPI is now focusing on swaying the election in West Kalimantan province, on the island of Borneo, by putting up posters and holding prayer rallies. When the Christian governor there leaves office after reaching his term limit next year, they want to make sure a conservative Muslim succeeds him.

# LACROIX

*Continued from Page One*  
up to 10 cans of LaCroix a day.

Fizzy water first emerged in the 18th century when the British theologian Joseph Priestley designed a recipe for the explorer James Cook, hoping the brew would prevent scurvy. It didn't. The beverage has found a new market over the past decade among health-conscious consumers in the U.S. and Europe.

LaCroix (rhymes with: toy) was created in 1981 by a brewing company in La Crosse, Wis. Named after the city and nearby St. Croix River, it remained a mostly regional brand until publicly traded National Beverage Co. relaunched it six years ago in bright, multicolored cans.

Ask LaCroix executives for a definition of essence and you may receive something short of a clear response. "Essence is our picture word," LaCroix spokesman Rod Liddle said in a written response to questions.

LaCroix's marketing consists largely of social-media images of young women posing with cans of the product or sipping it out of straws. In several photographs, the women kiss the cans.

National Beverage shares, which trade under the ticker FIZZ, are up 139% this year. National Beverage doesn't hold



LaCroix says its flavors are derived from 'natural essence oils.' LaCroix at a Brooklyn, N.Y., store, above.

public earnings calls or answer analyst questions. Company executives declined to be interviewed for this article.

"Essence is—FEELINGS and Sensory Effects!" Mr. Liddle wrote.

Hart Perez, a 31-year-old video director, became curious about what was inside the product after he spent six months drinking only sparkling water, mostly LaCroix, and "wasn't feeling as sharp as usual."

He determined that the product contained "a natural flavor—and natural flavor can really mean anything." Mr.

Perez never figured out more. "I've had two this morning already," he said on a recent weekday.

"Essence is something mysterious," says Robin Scott, a 56-year-old rancher in Templeton, Calif., who has been drinking LaCroix for 30 years. When traveling, her first stop after the airport is often a supermarket—to stock up on seltzer. "I know what flavors I like but I have no idea what kinds of chemicals are in there and I don't care. I know it tastes good."

A laboratory of EAG Inc., a scientific-services company, said more than \$100,000 of

testing would be required to independently determine that LaCroix contains only natural essence oils.

Essence isn't defined in U.S. Food and Drug Administration regulations, an FDA spokeswoman said. Yet the FDA permits companies to use the word when describing "flavoring constituents derived from fruit, fruit or fruit juice, vegetable or vegetable juice, edible yeast, herb, bark, bud, root, leaf or similar plant material, meat, seafood, poultry, eggs, dairy products, or fermentation products thereof," according to food-labeling rules.

"I think it's the sweat of a

fruit that you mix with oil," said Liz Earle, a 29-year-old Nashville creative director.

That's not so far off.

Essence is actually a clear, concentrated natural chemical that's been used for decades in products as varied as gravy, ice pops, coffee, shampoo and even insecticide, according to industry executives and scientists.

Natural chemicals are neither uncommon nor unsafe. For instance, ascorbic acid, better known as vitamin C, is a chemical found in fruit.

Corn flake scion John L. Kellogg invented the process for producing a "fruit beverage extract" in 1915, a patent shows. Three decades later, a pair of Pennsylvania chemists cited Mr. Kellogg's work in a patent for "apple essence containing substantially all of the volatile flavors present in fresh apples."

Essence is created by heating at high temperatures the skin, rinds or broken down remnants of fruits or vegetables. Alcohol is sometimes added to the mixture. The vapors that rise off the stew are captured, condensed and eventually sold by the 55-gallon barrel.

A similar process is used to make concentrated orange juice and pasteurized milk that needs no refrigeration.

"When you make tomato sauce and you get that wonderful aroma in the room,

that's the essence boiling off," says Tony DeLoio, chief innovation officer of Ingredion Inc., which manufactures essence for sparkling water and other uses. "It's a hyper-complicated chemical, but it's all natural and we see it every day."

The LaCroix spokesman didn't pour cold water on that interpretation, but wouldn't provide cut-and-dried details of its manufacturing process.

SodaStream, Polar Beverages and others are rolling out their own essence products, hoping for a sip of LaCroix's success.

"The essence wars—that's what we have essentially been seeing in the market," says Marcus Smith, chief executive of Talking Rain Beverage Co., a Seattle company that sells bottled "Sparkling Ice Essence of Tangerine," among other flavors. Promotional materials say Sparkling Ice is "a thirst-quenching punch right to the taste buds."

Such descriptors are less-than illuminating to water enthusiasts.

"Essence is fairies in a warehouse somewhere dancing with fruits, and suddenly you have this amazing drink," said Miranda Wicker, 35.

The Atlanta social-media manager was poolside recently with a cold can of pamplemousse (that's grapefruit) LaCroix. "There are just some things we don't need to know," she said.

# LIFE & ARTS

## FASHION

# The Power Suit Gets an Update

Designers offer women versatile ensembles for work and beyond that are a far cry from the boxy cuts and big shoulders of the 1980s

BY RAY A. SMITH

**AFTER ASSURING WOMEN** that they don't have to wear a suit to succeed at work, the fashion industry now is promoting suits—and not just for the office.

Some women might shudder at a revival of the pinstriped power suit from the '80s and '90s, with haunting hallmarks such as double-breasted jackets with linebacker shoulders, long starched shirt collars, big hair and commuter sneakers.

Today's suits are more versatile and come in slimmer styles as well as relaxed, slouchy looks. They work with pants or skirts, long or short jackets or oversized jackets with skinny pants and miniskirts. Most importantly for retailers and clothing companies, they don't resemble suits from decades ago, so women who want to look stylish will have to buy new clothes.

"A suit in the back of your closet is there for a reason. Donate it and get a fresh one," says Solange Khavkine, a stylist in New York. "It's easy to think that what you have is a 'classic,' but most likely the lapel, rise of the pant, and flare of the pant and jacket cut have gone out of style."

Actress Evan Rachel Wood, singer Pink and other celebrities have taken to wearing pantsuits on the red carpet rather than dresses.

Women's suits for spring and fall 2017 showed up on runways at Altuzarra, Balenciaga, Calvin Klein, the Row and others. During New York Fashion Week, which ends Wednesday, suits and blazers appeared in a number of spring 2018 collections, including Tom Ford, Calvin Klein, Christian Siriano, Victoria Beckham and Tracy Reese.

The power-dressing trend also is trickling down to more commercial brands. Theory, an office-wardrobe staple for many women, recently emailed customers with the question: "What's Your Strong Suit?" Theory's offerings include a "Power" jacket made of crepe and a double-breasted jacket made with stretch wool paired with matching, pleated, high-waisted pants. The double-breasted jacket costs \$585 and the pants \$455.

Typically, designers plan collections months in advance, at times unveiling themes that echo current events. Suits for women returned to the spotlight amid Hillary Clinton's presidential run as well as the women's marches around the world that followed Donald Trump's inauguration in January.

Retailers are long in need of a trend that women of various body types and budgets will embrace. The recent '70s trend, for example, was one a fair number of women were happy to skip. Stores are counting on suits of different styles and silhouettes to have broad appeal. Women who don't want to commit to a full-suit look can just wear the jacket with a non-suit pants, even jeans.

At Saks Fifth Avenue "we believe in it so much we put it on our It list as the top trend for women to try," says Roopal Patel, the senior vice president and fashion director. Last month, Saks

started a social-media campaign about power dressing, including a video of Ms. Patel talking up the trend. "The rules no longer apply," she says in an interview while wearing a pink suit from Gabriela Hearst's Spring 2017 collection with a white T-shirt. "You don't have to wear a traditional button-down white shirt. You can wear a great suit with a T-shirt or you wear it with a sequin underpinning if you want to have a more rock-glam look."

Natalie Kingham, the buying director at luxury retailer Matchesfashion.com, is helping customers navigate the trend. She assembled presentations that address how "to figure out your trouser shape and your jacket shape, whether you need it longer to cover your bottom, whether you need it shorter and nipped in, whether you need the trouser to be wide or skinny and if you're going to wear it in the day versus the evening," she said. Trouser options such as wide leg, kick flare and split hem, from labels including Ellery, Altuzarra and Haider Ackermann "stop the suit from being old-fashioned looking or possibly frumpy," Ms. Kingham says. As for skirt suits, a miniskirt with a slouchy boot, as seen on the runway of French label Isabel Marant, "all of a sudden gives the suit a fresh new modern edge," she says.

The industry is pushing women to wear suits at a time when men are moving away from them. Ms. Hearst, whose high-end suits are a signature item, is snapping up fabrics traditionally reserved for men's tailoring. "Oh, you don't want to use it?" she says. "We'll take it."

"I've always liked suits, obviously," the Uruguay-born designer said in an interview earlier this year, while wearing a suit from her line. That's due in part to her years at a school in England. "I wore a uniform from age 5 to 17 so I've always been very comfortable in blazers," she says. "I guess that was something in my DNA to communicate." She also likes the strong statement a suit makes, as well as its elegance, sexiness and comfort.

Coco Chanel introduced her classic suit with a collarless jacket in 1923. Inspired by menswear, it came with a knee-length skirt rather than trousers, which were frowned upon for women at the time. The suits found followings among the ladies-who-lunch set as well as women building careers in male-dominated industries.

In 1966, Yves Saint Laurent broke ground when he proposed



Women's power dressing has evolved since the 1985 ensemble, top left, by Donna Karan. Current looks include those above by Zara, left and Theory and, from far left, Calvin Klein 205W39NYC, Gabriela Hearst, Stella McCartney and Celine.

CLOCKWISE FROM TOP LEFT: AP; ZARA, THEORY; GETTY IMAGES (4); AP; GETTY IMAGES



In 1960, structured Chanel suits worked for their designer, Coco Chanel, seated, and actress Romy Schneider.

that women wear trousers with suits, such as his "Le Smoking" tuxedo-style outfit. Pants were still considered shocking, said Patricia Mears, deputy director of the Museum at the Fashion Institute of Technology. Ms. Mears recalled that Rep. Charlotte T. Reid caused a stir in 1969, when she showed up in Congress wearing a pantsuit, the first time a woman had worn pants there. In an article, the Washington Post quoted Ms. Reid saying "many male colleagues ran to the floor to gawk."

In the late 1970s and into the '80s, Giorgio Armani offered an alternative to the boxy, broad-shouldered, mannish women's suits that were popular then. Throughout the '90s Donna Karan and others offered new takes on power dressing for career women. But by the millennium, corporate dress codes were easing and women had other options besides suits.

Ken Downing, the fashion director at Neiman Marcus, which is promoting power dressing as one of its top five trends for fall, said suits will look fresh to "an entire generation of young girls" who didn't witness the 1980s women's power-suit moment.

In addition, suits haven't been popular for a while so "customers are looking for something that's not in their closet," Mr. Downing said.

Ranya Marjeh, a graduate student in New York, is among those customers trying out the trend, with their first pantsuits. Ms. Marjeh, who recently acquired a pink pantsuit, wrote in an email that

she "will be working it both socially and professionally!" She added, "A pink pant suit not only is a power statement, it shows that women can be bold and assertive without losing the luster of their divine femininity!"

Designers and retailers say today's suits go beyond the workplace, to cocktails, dinner or events where women before might have worn a dress. Beginners should stick to suits in a neutral color. Ms. Khavkine, the stylist, recommends black, navy or a slimming pinstripe and advises, "no pattern for your first suit." Feel free to swap out the traditional dress shirt with something less formal. "There are lots of choices: a well-fitting T, classic shirt, Nehru collar, turtleneck, chunky or otherwise," she said. The right



In the late '80s, Giorgio Armani softened the silhouette with crepe blouses and draped skirts.

suit can work for day and evening. Ms. Khavkine suggests pairing it with a lace blouse or T-shirt, a strapless top in satin or a "fun and youthful" crop top. A final pointer from Ms. Khavkine: "Swap out your day shoe with an evening shoe."

## OPINION

### REVIEW & OUTLOOK

#### Brussels Learns Nothing

**B**russels laid out its ideas Wednesday for how the European Union can reform itself after Britain leaves, and it's enough to make you wonder if the goal is to push everyone else toward the exit too. Instead of doubling down on those features that deliver more prosperity, European Commission President Jean-Claude Juncker seems to want to do the opposite.

Even though he didn't mention Britain much in his hourlong address, Mr. Juncker's annual State of the Union speech was partly about taking revenge for Brexit. He promised to reform the EU in ways that would make Britain sorry to leaving such a wonderful club.

Some elements of his agenda will induce envy in London. He promised to push ahead on trade negotiations with a range of partners "lining up at our door." This includes dusting off long-moribund discussions with Australia and New Zealand.

This is a smart strategy to try to thwart global protectionist impulses emanating from Donald Trump's Washington, and Brussels is negotiating with Mexico and some South American governments. Concluding these deals would be a poke at Britain, which is likely to struggle to sign its own trade agreements by 2019.

Yet much of Mr. Juncker's plan is a head scratcher. He bowed to French and German pressure to give Brussels more power to block foreign investment into the EU, especially by Chinese companies. If London eschews such protectionism, this will become an invest-in-Britain-instead clause.

#### Juncker's EU reform plan won't make Britain regret leaving.

Mr. Juncker's Luxembourg.

Tax competition from Europe's smaller fish is a major driver of tax reforms in the big economies. But Mr. Juncker's move would spare Paris and Berlin from any need to compete on either tax rates or spending restraint. Majority-voting also sets up toxic arguments about foreign-policy questions such as whether or how to intervene in Middle East hot spots or managing relations with Russia.

Talk about blowing an opportunity. Before Britain voted to leave the EU, Prime Minister David Cameron had negotiated a deal for an EU more geared to trade and economic growth. It would have returned some power over spending and immigration to member states and forced Brussels to focus on economic competitiveness.

If Brussels really wants to exact revenge on Britain for leaving, it should revisit that template, redoubling efforts to promote economic growth through free trade and lighter regulation. EU leaders would be wise to ignore Mr. Juncker, and there's a good chance they will. The fact that Brussels still thinks in these imperial bureaucratic terms even after Brexit won't make the Brits regret leaving.

#### Cracks in Britain's Spending Dam

**T**heresa May this week bowed to pressure to lift the cap on government-employee pay increases. So far it's only for some workers, but that limit won't last. This is what happens when a center-right party fails to explain tax-and-spend realities to voters.

Limiting government pay rises to 1% a year was a major accomplishment of Prime Minister David Cameron and Chancellor George Osborne, who imposed the cap in 2013 when they lifted crisis-era pay freezes. The cap saved billions of pounds a year and allowed Mr. Osborne to cut corporate-tax rates to encourage investment and economic growth.

Despite the caterwauling of government employees, this wasn't a hardship relative to their peers in the private economy. Government pay never fell during the crisis era the way private workers' wages did. In fact, average weekly earnings for government employees are still ahead of pay at private companies, even after excluding pay at taxpayer-owned financial firms.

Yet as the sense of economic crisis waned, pressure to lift the pay cap has become irresistible. The Labour Party promised voters before June's election that it would boost public pay by at least £6.3 billion (\$8.34 billion) a year. After Mrs. May's Tories lost seats, Conservative MPs started pressing her to abandon the cap, perhaps sacrificing corporate-tax rate cuts to finance it.

Now they've got their way. Mrs. May on

#### Theresa May abandons fiscal restraint on government pay.

Tuesday announced pay increases of 1.7% for prison guards and 2% for police. More is coming. The real money is in the National Health Service, which accounts for one-third of government employees. On Wednesday Mrs. May's Northern Irish quasi-coalition partners in the Democratic Unionist Party joined Labour in a nonbinding

vote demanding a pay increase for the NHS. The teachers, another third of government employment, won't be far behind.

Unions, sniffing an opportunity, have threatened illegal strikes to demand more pay. Mrs. May can salvage something from this fiasco by enforcing Cameron-era laws that make it harder for government workers to extort tax-payers by withholding public services.

The bigger problem is that Mr. Cameron sold pay restraint to voters mainly as a crisis response rather than as a crucial rebalancing of the economy away from the state and toward productive private companies. So as the crisis has ended the Tories are finding it an uphill battle to make the case for more supposed "austerity."

If restraining government pay is too difficult, the Tories should focus on economic damage control. The fisc will suffer if Brexit uncertainty slows economic growth and revenues as these new pay promises start to kick in. Any new tax increase to fund the pay hike will accelerate that downward spiral. Resisting that tax pressure will require more backbone than Mrs. May has shown on pay.

#### A Test of Admiration

**U**.S. Democrats continue to obstruct President Trump's nominees by every petty means possible, from procedural tricks to anti-Catholic smears (see our editorial, "Democrats and 'Dogma,'" earlier this week). So now might be the moment for Judiciary Chairman Chuck Grassley to show Democrats that there are limits to their abuse of Senate rules.

Minnesota Democrat Al Franken unleashed the latest ploy last week, announcing that he will refuse to return his "blue slip" on the nomination of Minnesota Supreme Court Justice David Stras to the Eighth Circuit Court of Appeals. Blue slips are a bipartisan tradition whereby Senators can block votes on nominees to the lower federal courts from their home states. Mr. Franken wants to turn this courtesy into a pocket progressive veto of Trump nominees.

The Senate comedian is also aiming to establish a new standard for what counts as disqualifying for the judiciary. Judge Stras is held in high esteem across Minnesota legal circles, has earned the highest rating from the liberal American Bar Association, and was elected with greater margins to his court seat than was Mr. Franken to the Senate. Judge Stras was on Mr. Trump's short list for the Supreme Court, and even Mr. Franken's minions have been unable to gin up a flaw in his legal record.

Mr. Franken claims instead that Judge Stras is unfit by virtue of his role models. The Senator is offended that the judge early in his career "worked as a law clerk for Justice [Clarence] Thomas," and that he even once described that Supreme Court Justice as a "mentor." Judge Stras also dared to speak at a Federalist Society event, where he "talked about how the jurisprudence of Justice [Antonin] Scalia helped to shape his own views." Shocking stuff.

Under this Franken Role Model Standard, Democrats are justified in opposing any nominee who admires any widely esteemed Senator

#### Democrats abuse Senate rules to obstruct Trump nominees.

confirmed Supreme Court Justice that he doesn't like. Perhaps he thinks the late Justice Scalia wrote too well and was too intelligent to be Mr. Franken's idea of a judicial model.

Blue slips were once reserved for nominees with ethical baggage, but Mr. Franken wants to use them for the crime of admiring the wrong people. Mr. Trump was elected in part on an explicit promise to appoint judges in the mold of Antonin Scalia, so the Franken standard pre-emptively disqualifies any Trump nominee.

Chairman Grassley needn't stand for such nonsense. The blue slip has been around since 1917, but only a few Judiciary Chairmen have chosen to treat it as an absolute veto. Democratic Senator Ted Kennedy gave home state senators a "reasonable" deadline to return slips, and then put it to a committee vote on whether to proceed if they weren't returned. Democrat Joe Biden reserved the right to ignore blue slips so long as an Administration consulted with home state Senators. Republican Strom Thurmond gave Members a mere seven days to return slips, then sometimes voted on nominees even over blue-slip objections.

Mr. Grassley has authority under Senate rules to suspend the blue-slip tradition on a case-by-case basis, and Mr. Franken's abuse deserves to become his first example. The Iowan would also be justified in setting a time limit for returning a slip, since Mr. Franken also exploited the tradition by dragging out his decision on the Stras blue slip for months.

Democrats blew up the filibuster for judicial nominees in 2013 to pack the D.C. Circuit, and it boomeranged on them with the confirmation of Neil Gorsuch to the Supreme Court. That might make them desperate, but it doesn't give them the right to block a President's nominees merely because a left-wing Senator thinks someone admires the wrong Justices.

## OPINION

#### Single-Payer Siren Song



POLITICS & IDEAS  
By William A. Galston

There must be something special in the waters of Lake Champlain. In 2011 newly elected Vermont Gov. Peter Shumlin announced his intention to shift his state to a single-payer health-care system. He pursued that goal until late 2014, when a study by his staff and consultants projected that it would require imposing a payroll tax of 11.5% and raising the personal-income tax by as much as 9.5 percentage points. "The risk of economic shock is too high," Mr. Shumlin concluded as he withdrew his proposal.

Whether this is the best formula for winning a general election contest is another matter. Sens. Booker, Gillibrand, Harris and Warren are coastal Democrats from bright-blue states. Ohio Sen. Sherrod Brown, a veteran populist from a

make up the largest share of Democrats—48%. Moderates have fallen further, to only 36%. And the conservative wing, nearly one-quarter of the total in 2000, now amounts to barely one-seventh of the party.

If you want to win the 2020 Democratic presidential nomination, it might seem, the best strategy is to emerge as the champion of its newly dominant progressive faction, and coming out for single-payer might seem the best way to do it.

Whether this is the best formula for winning a general election contest is another matter. Sens. Booker, Gillibrand, Harris and Warren are coastal Democrats from bright-blue states. Ohio Sen. Sherrod Brown, a veteran populist from a

'Medicare for All' may become the Democrats' version of 'repeal and replace.'

swing state that Donald Trump carried by a stunning eight points in 2016, has conspicuously declined to endorse the Sanders bill, preferring to build bipartisan support for a more modest proposal to allow Americans to buy into Medicare when they reach 55.

Democrats should ask themselves which of their elected officials better understands how to win back the Midwestern states that made Mr. Trump president.

This isn't just a political calculation. From a policy standpoint, the danger is that "Medicare for All" will become the Democrats' "repeal and replace" ObamaCare."

In May 2016, the Urban Institute—not previously known as a hotbed of conservatism—released its analysis of the Medicare for All proposal Sen. Sanders offered during his presidential campaign. The study found that if the plan were enacted into law, the federal government would absorb the bulk of the current spending by states, localities, employers and households. Federal spending would rise by \$2.5 trillion in the plan's first year, and by \$32 trillion over the first decade.

A parallel study conducted by the bipartisan Tax Policy Center found that Mr. Sanders's revenue proposals would raise only \$15.3 trillion over the first decade, leaving a gap of \$16.6 trillion between expenditures and revenues.

"The proposed taxes," the Urban Institute observed, are "much too low to fully finance the plan," and "additional sources of revenue would have to be identified."

It will be interesting to see whether Sen. Sanders's new proposal can meet these objections. Even if it does, Democrats interested in regaining a national majority should look before they leap.

#### LETTERS TO THE EDITOR

#### Obama, Not Trump, Created the DACA Mess

Regarding your editorial "America's Dreamer Debacle" (Sept. 7): As the former general counsel of the U.S. Immigration & Naturalization Service, I challenge any serious lawyer to argue that President Obama's actions weren't wholly unconstitutional, something Mr. Obama admitted himself.

President Trump is actually cleaning up his predecessor's feel-good extralegal mess, and in the process is taking the flak that Mr. Obama avoided because he couldn't get the Dream Act through U.S. Congress. Having failed at that effort, he used executive power he acknowledged he didn't have to give desperate people the false hope they would eventually have a pathway to permanence in the U.S.

If you're really concerned about the interests of the Dreamers, then please stop all the hand-wringing about how bad Mr. Trump is. The irony is that he is the only one truly acting for the benefit of the Dreamers, by forcing Congress to do its job and leaving its members no place to hide.

The only reason members are carping is because they know they will now have to go on the record by voting, and in the end will also have to give something to Mr. Trump (the border wall, the Raise Act or perhaps both) to get these 800,000-plus people relief. If anyone was cruel here, it was Mr. Obama, who gave hope to people knowing he lacked the legal authority to do so. Stop engaging in tiresome bashing of Mr. Trump for having the courage to force Congress to finally resolve the issue.

WILLIAM COOK  
Washington

Eight hundred thousand Americans trusted their government when they registered to become "legal" under the Deferred Action for Childhood Arrivals program. They believed that by following the rules, this country, into which they arrived as children and for all intents and purposes is their home country, would accept them as legal immigrants. Now, Mr. Trump has announced he will terminate the DACA program and threatens to begin deportations within six months. The Dreamers who trusted Mr. Obama are now at risk. All their personal information is in government files, available to Immigration and Customs Enforcement whenever it decides to come after these people, who are our people—your neighbors, our

BARRY BRANAGAN  
Casa Grande, Ariz.

The parents of the young people in question committed the violation, and they should bear some consequence for jumping the queue to get special consideration for their children. They should not benefit in any way, directly or indirectly.

STEVE DONOHUE  
North Augusta, S.C.

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to [wsj.ltrs@wsj.com](mailto:wsj.ltrs@wsj.com). Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

## OPINION

# The Republican Tax Plan Better Be Audacious

By David M. Smick

**T**he big question on U.S. tax reform is President Trump: Can Republicans really trust him, in the end, to go along with their plan? Or will he pivot at the last minute and play nice with "Nancy" and "Chuck," his two new friends on Capitol Hill? The answer might depend on whether the GOP plan does enough to help average workers.

So far the effort on tax reform seems off kilter. Yes, reducing the corporate-tax rate to improve American competitiveness makes sense. So does

**If the GOP proposal isn't aimed at helping workers, Trump will ask Democrats for a counteroffer.**

inducing companies to repatriate—and then put to work—the \$2.5 trillion they have sitting idle offshore.

Still, on tax policy the GOP has been like a boxer leading with his chin. Republicans appear a bit too concerned with CEOs and not enough with the wage earners who have been the big losers of the 21st century.

Since the financial crisis, American companies have fared well. Leveraging the Federal Reserve's low interest rates, they have bought back their own stock at an extraordinary clip. Since hitting bottom in March 2009, the Standard & Poor's 500 index has risen 265%. Meanwhile, wage earners haven't had a meaningful raise in real terms in decades.

Although Congress could help, the quirky way financial legislation is normally passed in the Senate—via reconciliation, which requires only 51 votes—means it probably won't.

Imagine that Mr. Trump announces, as promised, a "beautiful" plan that includes a permanent "big league" tax cut for middle-class families. The GOP's razor-thin Senate margin and the vagaries of reconciliation mean the Trump plan would have little chance of becoming long-term policy.

At best, working families would get a temporary tax cut. More likely would be a repeat of what happened with the attempt to replace ObamaCare: A small group of Republican outliers in the Senate would say no.

Fearing this outcome, Republican leaders are being tempted to play small ball. They might suggest modestly lowering the corporate-tax rate. They might propose allowing full expensing of business investment, to be scaled back after several years.

To help the middle class? They'll throw in a modest hike to the standard deduction. Anything to get something done.

Which brings us back to Mr. Trump. After watching the country tear itself apart politically, economically and socially during more than a decade of mediocre GDP growth, can the GOP trust the president to play small ball? Or will the transactional Mr. Trump try to "triangulate" and undermine the Republican position? If the GOP plan isn't bold enough in helping the little guy, my bet is the latter.

This is a unique moment in America's economic history. Wage earners are being held back by a combina-



GLOW IMAGES

tion of globalization and technological advancement. A tax reform geared toward middle-class families would help, but Republicans would do well to explore a third cause of the problem: Large multinational corporations, the institutions Washington favors most, are chilling wage gains in their relentless drive to lower consumer prices and grab market share.

Republican reformers are quick to counter that any corporate-tax cut will include the "pass-throughs," those smaller enterprises—including partnerships, LLCs and S-corps—that use the personal-tax code. What they don't say is how difficult it would be to cut the "pass-through" rate for legitimate small businesses without opening the tax system to widespread abuse. Every billionaire could declare himself a one-man S-Corp, hoping to be taxed at the lower rate.

That's why Congress needs a miniature Manhattan Project of tax spe-

cialists to figure out quickly how to help mom-and-pop businesses without inviting abuse and creating a revenue-losing free-for-all.

Republicans are being forced to play small ball because a group of GOP deficit hawks worry that a big tax reform would undermine the budget. This fear seems out of proportion.

Since 2000, under a Republican president and then a Democratic one, the national debt has soared to nearly \$20 trillion from \$5 trillion. The fiscal situation will only worsen with the coming entitlement-funding nightmare.

Worrying about the deficit now is like worrying about a flickering candle in the front parlor when the entire house is on fire and the roof is about to cave in. Besides, true tax reform would eliminate deductions just as boldly as it slashes rates, achieving revenue neutrality.

Republicans shouldn't play small ball. Their goal should be a tax-reform plan that will create robust economic

growth, which in turn will help heal a bitterly divided nation.

What would such a plan look like? Helping wage earners via tax policy isn't a simple matter. People who earn less than \$50,000 a year pay an average effective income-tax rate of 4.3%. What's killing them is the payroll tax combined with the rising cost of health care.

At minimum, the standard deduction should be tripled. But reformers also need to think creatively. Tax reform, entitlement reform and healthcare reform cannot be considered in isolation. Working families need relief across the board.

That requires a bigger play than what some on Capitol Hill have in mind. But in the end, growth is everything. As he was preparing to run for president in 1980, Ronald Reagan was warned in a strategy meeting I attended about John Connally, a fellow candidate in the Republican primary.

Connally, a former Texas governor, was raising big bucks from big business. By comparison, Reagan's campaign coffers were lean. The future president's response was aggressive. "Let him have the Fortune 500," Reagan shouted. "I'll take Main Street over Wall Street."

This kind of "lunch pail" capitalism won Reagan the election and transformed the GOP—and the country. Isn't it time for more "lunch pail" policy-making from Washington?

*Mr. Smick's latest book is "The Great Equalizer: How Main Street Capitalism Can Create an Economy for Everyone" (Public Affairs, 2017). He was chief of staff to Rep. Jack Kemp from 1979-84 and advised on both the 1981 and 1986 tax reforms.*

## A New Challenge Looms for Greece's Far Left

By Yannis Palaiologos

**A**mong the casualties of Greece's extended economic crisis has been the country's establishment left. The near-decimation of the center-left Pasok party has meant that in recent years the political space between the governing Syriza party on the far left and the parties of the center-right has had little effective representation. But now, after many false starts, an effort is under way to re-energize the center-left with a new political party, and Prime Minister Alexis Tsipras is concerned.

Pasok governed Greece for 21 of the 30 years between 1981 and 2011, never dropping below 38% in parliamentary elections. Under the weight of its own mishandling of the country's fiscal collapse, however, the party's support nosedived to 12% from 44% in two-and-a-half years. By the January 2015 election, its support plummeted below 5%. Meanwhile, Syriza won 35% of the vote in 2015, up from less than 5% in the October 2009 election.

Several initiatives since then to regroup and unify the ranks between Syriza and the center-right New Democracy party achieved little. The

legacy of fragmentation and conflicting personal strategies that long bedeviled the political center seemed impossible to overcome.

Meanwhile, Mr. Tsipras's abandonment of his radical agenda and his embrace, however half-hearted, of the reform-and-austerity policies of his predecessors, made him a plausible candidate to take up the leadership of Greek social democracy.

For those keen to deny Mr. Tsipras this role, there is suddenly hope on the horizon. After a long period of stalemate, an electoral process will finally take place, in two rounds on Nov. 5 and 12, to select the leader of a new center-left party. Ten candidates are in the running, though only four or five have a serious shot at winning. Already there are predictions of displacing Syriza and becoming the official opposition.

Such talk is premature. Despite Syriza's precipitous decline in the polls, with almost all surveys placing New Democracy ahead by double digits, few doubt that Syriza will remain one of the two main parties after the next election, to take place by autumn 2019.

Disagreements remain about how open to make the vote, especially

whether to include Greeks living abroad. Pasok's president, Fofi Genimata, who has the support of the party machine, is less keen on a wider electoral body, and the unpredictability that would entail, than some of her opponents. And the policy direction of the new entity remains hazy at best.

**The country's decimated center-left wants to make a comeback and confront the governing Syriza party.**

Still, despite Mr. Tsipras's proven political agility, the prime minister is closely watching these developments on the center-left. Several times in the past few months he has even prodded the post-Pasok left to join with Syriza against the "neoliberal" forces of New Democracy.

But Mr. Tsipras is well aware that the venom he used against the social-democratic establishment to topple it, and the divisive rhetoric that has since been the hallmark of his premiership, have

left him with few friends on the center-left.

The implications for Greece's near-to-medium term political stability could be significant. An anti-Syriza center-left party as the third-biggest force in parliament could give Kyriakos Mitsotakis, the liberal leader of New Democracy, safety in numbers. The new party could join in a coalition to form a robust majority (though no candidate is committing to this), and could deliver the votes Mr. Mitsotakis will need in 2020 to elect a new president of Greece and prevent yet another early election.

The critical question, however, beyond short-term coalition politics, is whether the leader of the new party can be a credible force for stamping out corruption in Greek public administration and for introducing the necessary reforms to free the private economy of excessive regulatory burdens and barriers to entry. On these criteria, two candidates are the most promising: Giorgos Kaminis, the mayor of Athens, and Stavros Theodorakis, the leader of Potami, a centrist party that has been around for less than four years.

These two are very different men. Mr. Kaminis is a mild-mannered for-

mer constitutional lawyer and civil ombudsman. Mr. Theodorakis is a former television journalist from a modest background and has a populist touch. But both are outsiders, politicians who have risen from beyond the confines of party politics and, for this reason, are more persuasive as agents of change.

"My aim is for the center-left to become the backbone of the reformist agenda, and to strengthen reformist voices in both Syriza and New Democracy," Mr. Kaminis told me. Mr. Theodorakis, for his part, says he has "never had any truck with clientelism and populism," and he defines the direction the new party must take as "more Macron."

The precise meaning of these aspirations remains nebulous. No candidate has yet offered a detailed policy agenda. Many challenges remain on the road to November, and unity at the end of it is far from guaranteed. But at least the center-left is trying to get its act together. Mr. Tsipras is watching anxiously in the wings.

*Mr. Palaiologos is a journalist at the Kathimerini newspaper in Athens and the author of "The Thirteenth Labour of Hercules" (Portobello Books).*

## Another Obama Policy That Should Be Thrown Out



**UPWARD MOBILITY**  
By Jason L. Riley

When U.S. Education Secretary Betsy DeVos announced last week that the Trump administration would revisit its predecessor's "guidance" on adjudicating accusations of campus sexual assault, she added that "the era of 'rule by letter' is over."

Well, not quite. A second instance of the Education Department's overreach under President Obama, this one involving discipline in public schools, remains firmly in place.

In 2012 the Education Department released a study showing that black students were three times as likely to be suspended and expelled as their white counterparts. Two years later, the department issued a "Dear Col-

league" letter warning school districts to address this racial imbalance, or else. The letter said that even if a disciplinary policy "is neutral on its face—meaning that the policy itself does not mention race—and is administered in an evenhanded manner" the district still could face a federal civil-rights investigation if the policy "has a disparate impact, i.e., a disproportionate and unjustified effect on students of a particular race."

The threat worked. Fending off charges of discrimination can be expensive and embarrassing, so spooked school districts chose instead to discipline fewer students in deference to Washington.

The Obama guidance didn't start the trend—suspensions were down nearly 20% between 2011 and 2014—but the letter almost certainly hastened it. The effects are being felt in

schools across the country, leaving black and Hispanic students, the policy's theoretical beneficiaries, worse off.

After the Los Angeles school district, where more than 82% of students are Latino or black, ended suspensions for nonviolent offenses, the district reported that the number of students who said they felt safe in school dropped to 60% from 72%. When Chicago curbed suspensions, students and teachers felt the increased disorder. And following New York's reforms making it more difficult to keep disruptive kids out of the classroom, the schools that showed increased fighting, gang activity and drug use tended to be those with the highest percentages of minority students.

Somewhat racial balance in the rates of suspension and expulsion has become more important than school safety. As Max Eden, my colleague at the Manhattan Institute, wrote in a March report, these policies turn the focus toward the well-being of the bullies rather than their victims.

"Advocates of discipline reform often say that they are concerned

that a suspension may have negative effects on the student being disciplined," Mr. Eden wrote. "They are largely unconcerned about the potential of discipline reform to increase classroom disruption and

**A 2014 guidance letter on racial disparities in school discipline has helped create classroom chaos.**

schoolhouse disorder—and the harmful consequences of that disorder for well-behaved and engaged students."

When you diminish a teacher's and a principal's authority to discipline students, you undermine their ability to do their job. Disorder only begets more disorder; students who misbehave and face no consequences soon have imitators.

Yet civil-rights activists, liberal academics, policy makers and others calling for fewer suspensions—come

what may—insist that what explains imbalances in school discipline is racism, not varying rates of misbehavior. Never mind that these disparities persist in schools with black and Hispanic principals, teachers and administrators, who would have no reason to single out minorities for punishment unless the behavior warranted it.

Arne Duncan, the education secretary under Mr. Obama when the "Dear Colleague" letter was issued, said in 2014 that racially uneven discipline is "not caused by differences in children" and that "it is adult behavior that needs to change."

Opponents of suspension also claim that it harms children down the road. A suspended student, for example, is more likely to drop out of school and be incarcerated as an adult.

But the "school-to-prison pipeline" theory, which has been advocated by activists with the Civil Rights Project at UCLA, among others, has come under increasing scrutiny. There's plenty of evidence that someone who gets suspended is more likely to drop out of school, but there's little evidence that the suspension caused the dropping out.

In fact, a March paper posted by the University of Arkansas found that students who had been suspended were doing better in math and reading after one year. Suspensions were correlated with improved academic outcomes—the opposite of the chain of negative effects that opponents predicted.

That means the 2014 guidance, which is wreaking havoc on schools, was justified with what Mr. Eden described to me as "old and limited evidence." Mrs. DeVos can't fix this mess soon enough.

## THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

Rupert Murdoch  
Executive Chairman, News Corp

Gerard Baker  
Editor in Chief

Matthew J. Murray  
Deputy Editor in Chief

DEPUTY MANAGING EDITORS:

Michael W. Miller, Senior Deputy;

Thorold Barker, Europe; Paul Beckett,

Washington; Andrew Dowell, Asia;

Christine Glancey, Operations;

Jennifer J. Hicks, Digital;

Neal Lipschutz, Standards; Alex Martin, News;

Shazna Nessa, Visuals; Ann Podd, Initiatives;

Matthew Rose, Enterprise;

Stephen Wisniewski, Professional News

Paul A. Gigot, Editor of the *Editorial Page*;

Daniel Henninger, Deputy Editor, *Editorial Page*

WALL STREET JOURNAL MANAGEMENT:

Suzi Watford, Marketing and Circulation;

Joseph B. Vincent, Operations;

Larry L. Hoffman, Production

EDITORIAL AND CORPORATE HEADQUARTERS:  
1211 Avenue of the Americas, New York, N.Y., 10036  
Telephone 1-800-DOWJONES

**DOW JONES**  
News Corp

Robert Thomson  
Chief Executive Officer, News Corp

William Lewis  
Chief Executive Officer and Publisher

DOW JONES MANAGEMENT:  
Mark Musgrave, Chief People Officer;

Edward Roussel, Innovation & Communications;

Anna Sedgley, Chief Operating Officer & CFO;

Katie Vanecek-Smith, President

OPERATING EXECUTIVES:

Ramin Beheshti, Product & Technology;

Jason P. Conti, General Counsel;

Frank Filippo, Print Products & Services;

Steve Grycuk, Customer Service;

Kristin Heitmann, Transformation;

Nancy McNeill, Advertising & Corporate Sales;

Jonathan Wright,

## LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

# A New Surprise Fee at the Airport

The gate-service fee, a charge tied to Basic Economy fares, often erases the savings of the cheaper ticket

**THERE'S A NEW SNAG** at the airport catching fliers by surprise: the gate-service fee.

It's not a fee to use a gate. (Maybe someday!) Instead, United and American have created a fee to discourage travelers who buy their cheapest fare, Basic Economy, from bringing a carry-on bag that doesn't fit under the seat.

With Basic Economy on United and American, you lack privileges to put a bag in an overhead bin unless you have elite status or a qualifying credit card. But if you don't figure that out before boarding or try and sneak one on anyway, the two airlines charge the standard baggage fee to check the bag at the gate, usually \$25 if it's your first checked bag. Then, they hit you with an additional \$25 fee.

United calls it a gate-handling charge. American labels it a gate-service fee. It's really a penalty on top of a fee.

Most passengers don't get charged a baggage fee when planes run out of overhead bin space and bags must be checked. They are entitled to two carry-on items: a small one under the seat and a larger one overhead. Not so with Basic Economy on United and American. (Delta's Basic Economy does allow an overhead bin bag.)

Vishnu Bhargava and his wife were flying on United from San Francisco to Boston in late July and didn't notice the conditions of Basic Economy tickets. He checked in the night before, paid for one checked bag and planned to bring two carry-ons. He didn't read the small print.

When they got to the gate, they were told their carry-on bags would have to be checked. His cost \$50—the standard bag fee plus the gate handling charge. His wife's was \$60, since she had already checked one bag. United charges \$35 for a second bag, plus the extra fee.

"I was shocked," says Mr. Bhargava, a retired physician from India. "Whatever I saved with Basic



Economy, I had to pay more. This fee is not at all fair."

United says it communicates with customers about the Basic Economy rules throughout the booking process and prior to airport arrival.

"We do everything we can to make sure customers do not reach the gate with a bag that needs to be gate-checked," spokeswoman Maggie Schmerin says.

She declined to comment on why the gate-handling charge is added to the baggage fee. In the past, United has said that blocking overhead-bin carry-ons from Basic Economy passengers has sped up departures, since gate agents tag and check fewer bags.

American says it decided to impose the additional fee to encourage Basic Economy passengers to

check bags at the ticket counter instead of the gate. "The whole guiding principle here is that it's important for Basic Economy passengers to check all bags larger than a personal item," spokesman Josh Frey says.

Checking more bags at the ticket counter avoids tying up agents with last-minute discussion and credit card transactions, he notes. "Things are better if they are not last-minute," he says.

The past decade has seen air-lines fall in love with fees, often charging for services once included in basic coach fares. Baggage fees began at major airlines in 2008. The fee to change a ticket rose to \$200 for domestic trips about four years ago. Fees for many other functions, from carry-on pets to reserving seats together

to sending unaccompanied minors, also have increased.

In 2016, U.S. airlines collected \$4.2 billion in baggage fees, according to the Bureau of Transportation Statistics, and another \$2.9 billion in ticket change and cancellation fees.

That \$7 billion equaled more than half of the \$13.5 billion in total U.S. airline profits for 2016, according to BTS.

Gate-service fees arrive amid continuing confusion over heavily restricted Basic Economy fares.

Many shoppers see the lowest prices on comparison-shopping sites and don't realize those tickets don't get advanced seat assignments or other basics. Even the name of the fare can be confusing: Isn't Basic Economy what we've been buying all these years when

we grab the cheapest coach price? The fares are more bare-bones than basic.

Jay Hines, a project manager for a New York health-care technology company, was warned by United about the Basic Economy baggage limit when he checked in at the airport in early August. He was surprised at so many restrictions on a \$485 round-trip fare to Denver, and figured the \$50 he paid to check his bag round-trip wiped out any savings.

The threat of the gate-service charge added to his anger.

"It's a little bit cruel and unusual punishment," he says. "They charge you for checking the bag. They don't have to impose a penalty."

Disclosing the intricacies of Basic Economy fares and each airline's policies, not to mention little-known new fees, becomes difficult for independent travel-sellers. That's especially true when so much ticket-buying is migrating to phones apps with small screens and limited space for fine print.

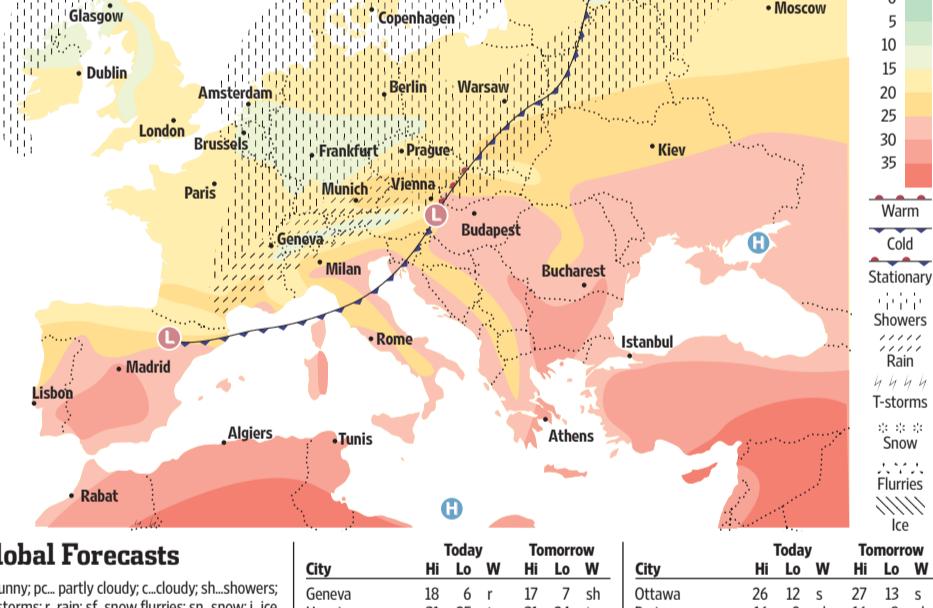
At Carlson Wagonlit Travel, a major business-travel vendor, more than 50% of clients have chosen to block Basic Economy fares from displays because those companies decided the restrictions aren't appropriate for their business travelers.

The downside to CWT: not having the lowest fare to display can fuel the perception that third-party websites offer lower prices than corporate booking sites, CWT Chief Executive Kurt Ekert says. And disclosing all the restrictions is nearly impossible, especially on a mobile platform, he says.

Like many, Mr. Ekert wasn't aware of the \$25 gate-service charge.

"There's no way you can describe that nuance," he says. In terms of airline strategy, "you could say it's deceptive, or very intelligent, depending on how you want to describe that," Mr. Ekert says.

## Weather



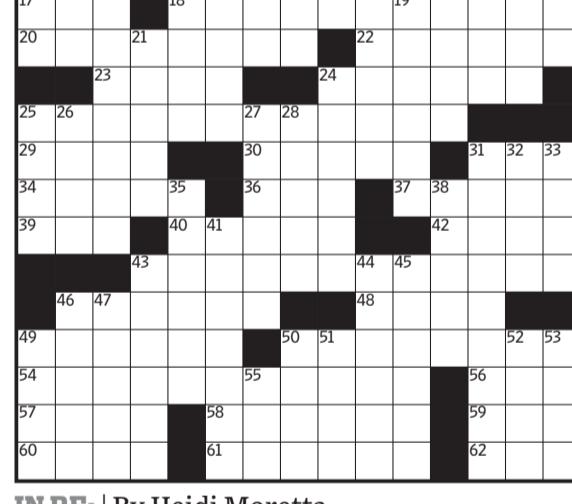
## Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	14	10	t	15	9	pc
Anchorage	13	9	r	14	9	c
Athens	33	23	s	32	22	s
Atlanta	27	18	s	29	19	pc
Bahrain	43	24	s	44	24	s
Baltimore	26	16	t	27	17	c
Bangkok	35	26	t	33	26	t
Beijing	30	17	c	27	17	c
Berlin	16	9	sh	17	8	pc
Bogota	20	8	r	19	9	r
Boise	23	9	pc	19	6	c
Boston	28	19	pc	25	17	c
Brussels	14	8	sh	15	8	sh
Buenos Aires	21	8	s	16	7	s
Cairo	34	23	s	33	23	s
Calgary	10	1	sh	10	0	r
Caracas	32	25	pc	33	26	pc
Charlotte	27	17	pc	28	17	c
Chicago	26	16	pc	29	18	s
Dallas	35	23	s	35	23	s
Denver	30	13	pc	28	10	s
Detroit	24	15	pc	26	15	pc
Dubai	40	31	s	40	31	s
Dublin	15	8	pc	14	8	pc
Edinburgh	14	8	sh	15	7	sh
Frankfurt	14	8	sh	16	7	sh

## AccuWeather.com

## The WSJ Daily Crossword | Edited by Mike Shenk



- 61 Did business with Mata Hari  
62 One unlikely to pass the bar  
**Down**  
1 Gram's equivalent  
2 Product that comes with a Magic Mouse  
3 Convalescent's fare  
4 Bread  
5 Soccer team  
6 Basketball team  
7 Zealous  
8 Sheet with Mickey Mouse on it  
9 Butler work  
10 Observing Pesach, maybe  
11 Heed the alarm  
12 They have glossy coats  
**Across**  
1 Pregame score  
4 Vandalize, perhaps  
10 Member in a frame job  
14 Calais confidante  
15 'Boy for Sale' musical  
16 'The Flagship City'  
17 Be persistently worrisome  
18 Inveigh against Target Field players?  
20 Realized  
22 Baker's collection  
23 Significant volume  
24 Lines of argument  
25 Stop for a Vintners' Expo visitor?  
29 Norman delivery  
30 Lewis with the 2008 #1 hit 'Bleeding Love'  
31 Onesie protector, perhaps  
32 Product that comes with a Magic Mouse  
33 It may come to a head  
34 Vessel widener  
35 Over the line  
36 Rockies ruminant  
37 Back track?  
38 Item mentioned in 'The Ballad of Sweeney Todd'  
39 Sweetie  
40 Footnote abbr.  
41 Finishing clubs  
42 Hierarchical chart  
43 Logistical concern for Amazon  
44 Try to hit  
45 Willing to consider  
46 Oreo layer  
47 'Gaspard de la Nuit' composer  
48 NYSE debuts  
49 Tie  
50 Awaiting disciplinary action  
51 Possible commemorative choice for renaming Boston Common?  
52 Grant Wood, for one  
53 Promote  
54 Sportin' Life gives her a dose of happy dust  
55 You can pick it up in a restaurant  
56 Agent Smith's archenemy  
57 Revelation finish  
58 Greet with guffaws  
59 'The Lion King' stampeder  
60 Salon stock

Previous Puzzle's Solution

## IN RE: | By Heidi Moretta

- ◀ Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).
- Across  
1 Pregame score  
4 Vandalize, perhaps  
10 Member in a frame job  
14 Calais confidante  
15 'Boy for Sale' musical  
16 'The Flagship City'  
17 Be persistently worrisome  
18 Inveigh against Target Field players?  
20 Realized  
22 Baker's collection  
23 Significant volume  
24 Lines of argument  
25 Stop for a Vintners' Expo visitor?  
29 Norman delivery  
30 Lewis with the 2008 #1 hit 'Bleeding Love'  
31 Onesie protector, perhaps  
32 Product that comes with a Magic Mouse  
33 It may come to a head  
34 Vessel widener  
35 Over the line  
36 Rockies ruminant  
37 Back track?  
38 Item mentioned in 'The Ballad of Sweeney Todd'  
39 Sweetie  
40 Footnote abbr.  
41 Finishing clubs  
42 Hierarchical chart  
43 Logistical concern for Amazon  
44 Try to hit  
45 Willing to consider  
46 Oreo layer  
47 'Gaspard de la Nuit' composer  
48 NYSE debuts  
49 Tie  
50 Awaiting disciplinary action  
51 Possible commemorative choice for renaming Boston Common?  
52 Grant Wood, for one  
53 Promote  
54 Sportin' Life gives her a dose of happy dust  
55 You can pick it up in a restaurant  
56 Agent Smith's archenemy  
57 Revelation finish  
58 Greet with guffaws  
59 'The Lion King' stampeder  
60 Salon stock

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	18	6	r	17	7	sh
Hanoi	31	25	t	31	24	t
Havana	32	23	pc	31	23	pc
Hong Kong	33	27	s	32	28	pc
Honolulu	30	24	pc	31	24	pc
Houston	33	21	s	33	23	s
Istanbul	29	20	s	29	21	s
Jakarta	33	25	s	33	25	t
Johannesburg	30	12	s	27	11	s
Riyadh	42	24	s	42	24	s
Rome	25	18	pc	25	18	pc
Salt Lake City	27	13	pc	18	11	c
San Diego	24	19	pc	23	18	sh
San Francisco	22	15	pc	23	15	pc
San Juan	31	26	sh	32	26	sh
Santiago	15	4	s	20	5	t
Santo Domingo	32	24	pc	31	24	pc
Sao Paulo	32	19	s	30	17	s
Seattle	22	11	pc	23	11	s
Seoul	28	17	s	27	17	pc
Shanghai	27	23	r</			

# BUSINESS & FINANCE

© 2017 Dow Jones & Company. All Rights Reserved.

THE WALL STREET JOURNAL.

Thursday, September 14, 2017 | B1

Euro vs. Dollar 1.1896 ▼ 0.59%

FTSE 100 7379.70 ▼ 0.28%

Gold 1323.40 ▼ 0.35%

WTI crude 49.30 ▲ 2.22%

German Bund yield 0.405%

10-Year Treasury yield 2.194%

## China Plans First Dollar Bonds Since '04

Successful sale could signal more confidence in Beijing's creditworthiness

By MANJU DALAL  
AND CAROLYN CUI

China is laying the groundwork for its first sale of U.S.-dollar sovereign bonds in more than a decade, a move toward expanding its ties with global investors as its economy improves.

The government is preparing to sell \$2 billion in bonds this month, and investment banks are pitching for roles in the deal, according to bankers in Hong Kong.

While the planned sale isn't large and is mostly symbolic, it would be China's biggest-

ever U.S.-dollar bond sale and its first since October 2004, when the country raised a total of about \$1.7 billion from selling dollar- and euro-denominated bonds that matured in five and 10 years.

China's Ministry of Finance didn't immediately respond to requests for comment.

China has about \$200 million in outstanding U.S.-dollar sovereign-debt issues that it is scheduled to pay off in 2027 and 2096, and those bonds yield about 3.3% and 4%, respectively, according to the research firm CreditSights. The country issued several global bonds in the 1990s, including a 100-year \$100 million bond in 1996 with a 9% coupon.

But the government has been largely absent from the market since 2004, as officials were coping with a continuous

influx of "hot money"—sudden rushes of investment cash—and a rapid buildup of foreign reserves.

The bond sale is coming as the cost of insuring Chinese government debt against default in recent months has

9%

Coupon on a \$100 million bond that China issued in 1996

fallen to its lowest level in two years, according to data from IHS Markit. It costs \$58,000 annually to protect \$10 million of Chinese debt from default over five years, versus \$100,000 in September 2015.

Some investors use these so-called credit-default swaps to hedge their holdings of Chinese debt investments. Falling costs of protection indicate lower investor anxiety about a financial crisis in China.

CreditSights said in a note last week that the new Chinese sovereign bonds could be priced to yield 0.5 percentage point over comparable Treasury securities. The five-year Treasury note recently yielded 1.747%, while the 10-year Treasury was yielding 2.171%.

Most buyers of the U.S.-dollar bonds are expected to be Chinese investors and financial institutions, say analysts and bankers. Concerns over the value of China's currency and the country's debt burden have kept many foreign investors on the sidelines.

Still, a successful sovereign

sale could signal confidence in China's creditworthiness. The deal is likely to hit the market ahead of China's Communist Party Congress, which next month will chart the path of the country's leadership.

Plans for the sale have been in the works for some time.

In June, shortly after Moody's Investors Service downgraded China's sovereign rating by a notch to A1 from Aa3 citing concerns about rising debt and slowing economic growth, China's Ministry of Finance announced plans to sell \$2 billion in bonds in the second half of this year.

The offering would be a step toward building a liquid benchmark yield curve that could eventually help lower the cost of funding for Chinese companies, including state-owned enterprises, banks and

private corporations.

"In an environment where assessments of China's debt issues have been pretty adverse, the result might be quite positive for them and, by extension, for the valuation of Chinese assets," said Edmund Harriss, a London-based portfolio manager of the Guinness Atkinson Renminbi Yuan and Bond Fund.

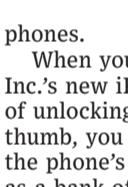
In the offshore market, Chinese companies and local governments are active borrowers, raising a total of \$379.7 billion year to date through bond issues, according to Dealogic. In 2016, they raised \$855.1 billion. Chinese bonds delivered a 4.93% return for the first eight months, making them a laggard in emerging markets this year.

—Yifan Xie and Shen Hong contributed to this article.

### PERSONAL TECHNOLOGY

By Geoffrey Fowler

## An Early Look at Apple's iPhone X

 CUPERTINO, Calif.—Soon, all the cool kids will be smiling into their phones.

When you pick up Apple Inc.'s new iPhone X, instead of unlocking with your thumb, you stop and grin at the phone's front unibrow as a bank of cameras and sensors check to see if it is really you. At a demo after Tuesday's launch event, I timed the process at about a second.

People unlock their phones hundreds of times a day, so this selfie ritual will turn iPhone X owners into the most-photographed population ever. And showing off the move to others is probably the best iPhone sales pitch in years—even if this one costs \$1,000 or more.

I saw little evidence in Apple's demo that the iPhone X can kick-start a new decadelong tech revolution. Its most practically useful features might be a bigger screen and (Apple claims) two additional hours of battery life. Yet the X moves the ball forward for our most-used gadgets, making cameras and visual tech central to the future of the smartphone.

### A New Relationship

As usual, Apple giveth and Apple taketh away. Let this sink in: The iPhone X has no home button or fingerprint reader. Not even buried behind the screen. The culprit, Apple says, is the nearly all-screen front, which leaves no space for a button. It is a design tweak that changes how we relate to our phones.

The new screen gives you even more usable screen area than the iPhone 7 Plus in a form that is only slightly larger than the iPhone 7. The new OLED tech used in the screen makes images look rich, and contributes to the significant improvement in battery life.

In my hand, it feels like a big little phone—perhaps a tad weighty.

It is also a screen style we've seen in rival phones from Samsung Electronics Co., which managed to actually curve its Galaxy S8 screen to the edge on the left and right side. The iPhone X still has a metal rim all the way around that looks like a car bumper. Samsung has (temperamental) face and iris unlocking

Please see FOWLER page B4



SEAN GALLUP/GETTY IMAGES

The federal chancellery in Berlin. Growing political concern about auto emissions has the industry looking to electric vehicles.

## Diesel Woes Grind on Auto Makers

As sales of diesel-powered cars dive in Europe, the Continent's car makers, heavily invested in the technology, are scrambling to offset the shortfall.

By William Boston in Berlin and Eric Sylvers in Milan

Electric cars, often said to be the future of the industry, aren't the solution—at least not yet.

European auto manufacturers polled by The Wall Street Journal said demand for electric vehicles remains too small for them to replace diesel cars anytime soon. While all the companies are investing in electric mobility, their immediate focus is on building more gasoline-powered cars and making diesel engines cleaner.

Since Volkswagen AG, the world's biggest auto maker by sales, was caught rigging diesel engines to dupe emissions

tests two years ago, sales of diesel cars have declined rapidly.

In diesel-heavy Germany, for example, threats by politicians to ban the cars from cities have scared off customers, with sales of new models in August falling 14% from a year earlier, according to Germany's federal motor-vehicle agency.

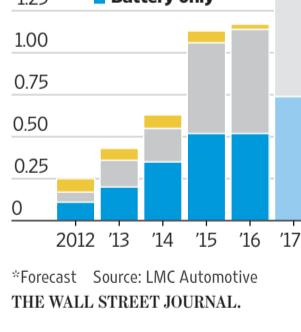
Sales of gasoline-powered cars last month rose 15%.

Research group LMC Automotive says diesel's market share in Europe, always the biggest market for the technology, could decline to about 45% this year from 53% before the scandal. Meanwhile, electric cars and hybrids are expected to grab 4% of the European market this year, up from 2.3% before the diesel scandal.

High prices for electric cars, the scarcity and inconvenience of charging stations and the vehicles' inability to travel long distances have put off drivers. Car makers, who

### Low Battery

Electric-car sales in Europe by selected type, as a percentage of all passenger-car sales



\*Forecast Source: LMC Automotive  
THE WALL STREET JOURNAL

dragged their feet for years on electric cars, also have few models in the market to lure diesel-driving consumers.

"In many segments that are of interest to families, the products just aren't available."

Steve Armstrong, Ford Motor Co.'s Europe chief said on the sidelines of the Frankfurt Motor Show this week.

Auto makers at the Frankfurt show announced big plans for the future. Volkswagen increased the number of electric models it would offer by 2025 to 80, up from the 30 originally planned, and said it would offer electric versions of all of its 300 models by 2030.

BMW AG has committed to offering 25 new electric cars and hybrids by 2025, and Daimler AG plans to offer an electric version of every model it makes by 2022.

But car makers aren't sure they will make money on electric cars soon. A Daimler executive told investors on Monday that the company expects half the margins on electric vehicles compared with the cars they replace.

"If it works and companies can be profitable, that's good,"

Please see DIESEL page B2

## Toshiba Moves Toward Unit Sale

By DANA MATTIOLI  
AND TAKASHI MOCHIZUKI

U.S. private-equity firm Bain Capital signed a memorandum of understanding with Toshiba Corp. on Wednesday saying it intends to reach a deal to buy the Japanese conglomerate's memory-chip business by the end of September, Toshiba said.

The nonbinding letter was the latest twist in a contentious sale process that is likely far from over.

People familiar with the deal said Bain is leading a group that includes Apple Inc., Seagate Technology PLC and Dell Inc. and is offering more than \$18 billion for the business. Others familiar with the matter said South Korean chip maker SK Hynix Inc. as well as Innovation Network Corp. of Japan, a fund backed by the Japanese government, and 100%-government-owned Development Bank of Japan, would also join the effort. The members of the Bain group could still change.

Toshiba said that it retained the right to negotiate with other bidders.

"Toshiba intends to reach a definitive agreement that fully meets our objectives at the earliest possible date," said Yasuo Naruke, a Toshiba executive in charge of the memory-chip business.

Toshiba is seeking to unload the chip unit as part of a survival plan in the wake of huge losses at its U.S. nuclear unit, Westinghouse Electric Co., which filed for bankruptcy earlier this year. The Tokyo company has said its plan centers around selling the profitable semiconductor unit, which makes NAND flash-memory chips used for data storage in

Please see DEAL page B2

### INSIDE



## EXTORTION BECOMES MONEYMAKER FOR HACKERS

TECHNOLOGY, B4

## Credit Freezes Could Chill Lending

Until the Equifax Inc. hack, many consumers didn't know what a credit freeze was. Now, the credit-reporting company's large data breach has people

By AnnaMaria Andriots, Daisy Maxey and Telis Demos

reaching for the tool, a move that could have a host of implications for both consumers and the financial industry.

A freeze typically prevents lenders from accessing a potential borrower's credit report, although it doesn't affect existing credit arrangements such as outstanding loans or cards. A freeze makes it unlikely a firm would immediately extend

new financing, which, while helping prevent fraud, could slow legitimate business.

Freezes are being promoted as a first line of defense in the Equifax breach, which potentially affected 143 million Americans. It is a more drastic step than credit monitoring, which alerts consumers to potentially fraudulent activity on their reports.

Equifax peers TransUnion and Experian PLC said the number of credit-report freezers being requested by consumers increased significantly in the days after the Equifax news last week. Tens of thousands of U.S. consumers initiated credit freezes on Friday and Saturday alone, said Alex Lintner, president of consumer information services

at Experian.

Previously, credit freezes were typically initiated by people who either had, say, their identity stolen or earlier instances of fraud on their accounts. While open to anyone and reversible temporarily or permanently, most consumers have in the past shied away from the step because it made getting new credit more cumbersome. In some states, consumers must pay a fee to temporarily or permanently lift a freeze.

In a country of free-flowing credit like the U.S., there is value to relatively open information about a consumer's creditworthiness. It makes it easier for someone to open a new credit card at a depart-

Please see FREEZE 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	FireEye .....	B4
Alphabet.....	B4	
American Airlines Group.....	B2	
Apple.....	A1,A2,B1	
B	Bain Capital.....	B1
BASF.....	B3	
Boeing.....	B2	
Buffalo Wild Wings....B8		
C	Cloudflare.....	A2
Credit Suisse.....	B8	
E	easyJet.....	B2
Equifax.....	B1	
ETF Securities.....	B5	
Experian.....	B1	
F	Facebook.....	B2,B4
Fiat Chrysler Automobiles.....	B2	

G	Goldman Sachs Group.....	B8
Google.....	A2	
I	Innovation Network Corp. of Japan.....	B1
Innovis.....	B2	
International Consolidated Airlines Group.....	B2	
J	JPMorgan Chase.....	B5
K	KKR.....	B2
M	M&G Investments.....	B5
Microsoft.....	A2	
Monsanto.....	B3	
N	Netflix.....	B4
News Corp.....	B4	

R	Ryanair Holdings.....	B2
S	Samsung Electronics .....	A1,A2
SeaDrill.....	B3	
Seagate Technology....B1		
Seneca Investment....B5		
SK Hynix.....	B1	
Social Finance.....	B5	
T	Target.....	B3
Time Warner.....	B4	
Toisa.....	B3	
Toshiba.....	B1	
TransUnion.....	B1	
U	Uber Technologies.....	B4
W	WestJet Airlines .....	B2

## INDEX TO PEOPLE

A	Hall, John.....	B5
Aquiline, James.....	B4	
Armstrong, Steve.....	B1	
B	Bajarin, Ben.....	A2
C	Cagney, Mike.....	B5
Calich, Claudia.....	B5	
Carmakal, Charles.....	B4	
Clark, Duncan.....	A2	
F	Federighi, Craig.....	A2
Fogg, Ian.....	A2	
G	Graham, Michael.....	B3
Naruke, Yasuo.....	B1	

## DIESEL

Continued from the prior page

Peugeot Chief Executive Carlos Tavares said this week. "But if it does not gain acceptance in the market, then everybody—industry, employees and politicians—have a big problem."

"My gut tells me that whatever happens out of all of this that we're going to see diesel come out of this in a much weaker state than it was on the way in," he said.

Klaus Fröhlich, BMW board member in charge of research and development, told reporters last week that the diesel scandal had spawned "irrational regulatory initiatives" around the world.

BMW expects to sell 100,000 electric cars and hybrids this year—out of a total of 2.4 million vehicles. By 2025, it plans to offer at least 12 pure electric vehicles and 13 hybrids, compared with nine electric cars and hybrids in 2017.

*Auto executives are watching Germany to see what happens to diesel's 'validity.'*

Volkswagen has launched a major investment drive to develop roughly 80 new electric models across its brands, which include VW, Porsche, Audi, Skoda, SEAT, Bentley and Lamborghini. But at a gathering of roughly 300 employees for a town hall meeting with Chief Executive Matthias Müller last week, some attendees seemed unconvinced.

"Why are we investing so much into a market that is a niche of a niche of a niche?" one person asked.

Mr. Müller said Volkswagen had to have its feet planted firmly on both sides of the field. It had to keep developing the combustion engine until the market for new technology takes off. "That's why I say the technologies will have to coexist," he said. "One day, electric vehicles will make up 25% of our sales."

*—Emre Peker in Brussels contributed to this article.*

With so much at stake, the

auto industry is watching Germany to see if the car makers can "preserve the validity of diesel as a technology solution," Fiat Chrysler Automobiles NV Chief Executive Sergio Marchionne said recently.

"My gut tells me that whatever happens out of all of this that we're going to see diesel come out of this in a much weaker state than it was on the way in," he said.

Klaus Fröhlich, BMW board member in charge of research and development, told reporters last week that the diesel scandal had spawned "irrational regulatory initiatives" around the world.

BMW expects to sell 100,000 electric cars and hybrids this year—out of a total of 2.4 million vehicles. By 2025, it plans to offer at least 12 pure electric vehicles and 13 hybrids, compared with nine electric cars and hybrids in 2017.

*Auto executives are watching Germany to see what happens to diesel's 'validity.'*

Volkswagen has launched a major investment drive to develop roughly 80 new electric models across its brands, which include VW, Porsche, Audi, Skoda, SEAT, Bentley and Lamborghini. But at a gathering of roughly 300 employees for a town hall meeting with Chief Executive Matthias Müller last week, some attendees seemed unconvinced.

"Why are we investing so much into a market that is a niche of a niche of a niche?" one person asked.

Mr. Müller said Volkswagen had to have its feet planted firmly on both sides of the field. It had to keep developing the combustion engine until the market for new technology takes off. "That's why I say the technologies will have to coexist," he said. "One day, electric vehicles will make up 25% of our sales."

*—Emre Peker in Brussels contributed to this article.*

With so much at stake, the

auto industry is watching Germany to see if the car makers can "preserve the validity of diesel as a technology solution," Fiat Chrysler Automobiles NV Chief Executive Sergio Marchionne said recently.

"My gut tells me that whatever happens out of all of this that we're going to see diesel come out of this in a much weaker state than it was on the way in," he said.

Klaus Fröhlich, BMW board member in charge of research and development, told reporters last week that the diesel scandal had spawned "irrational regulatory initiatives" around the world.

BMW expects to sell 100,000 electric cars and hybrids this year—out of a total of 2.4 million vehicles. By 2025, it plans to offer at least 12 pure electric vehicles and 13 hybrids, compared with nine electric cars and hybrids in 2017.

*Auto executives are watching Germany to see what happens to diesel's 'validity.'*

Volkswagen has launched a major investment drive to develop roughly 80 new electric models across its brands, which include VW, Porsche, Audi, Skoda, SEAT, Bentley and Lamborghini. But at a gathering of roughly 300 employees for a town hall meeting with Chief Executive Matthias Müller last week, some attendees seemed unconvinced.

"Why are we investing so much into a market that is a niche of a niche of a niche?" one person asked.

Mr. Müller said Volkswagen had to have its feet planted firmly on both sides of the field. It had to keep developing the combustion engine until the market for new technology takes off. "That's why I say the technologies will have to coexist," he said. "One day, electric vehicles will make up 25% of our sales."

*—Emre Peker in Brussels contributed to this article.*

With so much at stake, the

auto industry is watching Germany to see if the car makers can "preserve the validity of diesel as a technology solution," Fiat Chrysler Automobiles NV Chief Executive Sergio Marchionne said recently.

"My gut tells me that whatever happens out of all of this that we're going to see diesel come out of this in a much weaker state than it was on the way in," he said.

Klaus Fröhlich, BMW board member in charge of research and development, told reporters last week that the diesel scandal had spawned "irrational regulatory initiatives" around the world.

BMW expects to sell 100,000 electric cars and hybrids this year—out of a total of 2.4 million vehicles. By 2025, it plans to offer at least 12 pure electric vehicles and 13 hybrids, compared with nine electric cars and hybrids in 2017.

*Auto executives are watching Germany to see what happens to diesel's 'validity.'*

Volkswagen has launched a major investment drive to develop roughly 80 new electric models across its brands, which include VW, Porsche, Audi, Skoda, SEAT, Bentley and Lamborghini. But at a gathering of roughly 300 employees for a town hall meeting with Chief Executive Matthias Müller last week, some attendees seemed unconvinced.

"Why are we investing so much into a market that is a niche of a niche of a niche?" one person asked.

Mr. Müller said Volkswagen had to have its feet planted firmly on both sides of the field. It had to keep developing the combustion engine until the market for new technology takes off. "That's why I say the technologies will have to coexist," he said. "One day, electric vehicles will make up 25% of our sales."

*—Emre Peker in Brussels contributed to this article.*

With so much at stake, the

auto industry is watching Germany to see if the car makers can "preserve the validity of diesel as a technology solution," Fiat Chrysler Automobiles NV Chief Executive Sergio Marchionne said recently.

"My gut tells me that whatever happens out of all of this that we're going to see diesel come out of this in a much weaker state than it was on the way in," he said.

Klaus Fröhlich, BMW board member in charge of research and development, told reporters last week that the diesel scandal had spawned "irrational regulatory initiatives" around the world.

BMW expects to sell 100,000 electric cars and hybrids this year—out of a total of 2.4 million vehicles. By 2025, it plans to offer at least 12 pure electric vehicles and 13 hybrids, compared with nine electric cars and hybrids in 2017.

*Auto executives are watching Germany to see what happens to diesel's 'validity.'*

Volkswagen has launched a major investment drive to develop roughly 80 new electric models across its brands, which include VW, Porsche, Audi, Skoda, SEAT, Bentley and Lamborghini. But at a gathering of roughly 300 employees for a town hall meeting with Chief Executive Matthias Müller last week, some attendees seemed unconvinced.

"Why are we investing so much into a market that is a niche of a niche of a niche?" one person asked.

Mr. Müller said Volkswagen had to have its feet planted firmly on both sides of the field. It had to keep developing the combustion engine until the market for new technology takes off. "That's why I say the technologies will have to coexist," he said. "One day, electric vehicles will make up 25% of our sales."

*—Emre Peker in Brussels contributed to this article.*

With so much at stake, the

auto industry is watching Germany to see if the car makers can "preserve the validity of diesel as a technology solution," Fiat Chrysler Automobiles NV Chief Executive Sergio Marchionne said recently.

"My gut tells me that whatever happens out of all of this that we're going to see diesel come out of this in a much weaker state than it was on the way in," he said.

Klaus Fröhlich, BMW board member in charge of research and development, told reporters last week that the diesel scandal had spawned "irrational regulatory initiatives" around the world.

BMW expects to sell 100,000 electric cars and hybrids this year—out of a total of 2.4 million vehicles. By 2025, it plans to offer at least 12 pure electric vehicles and 13 hybrids, compared with nine electric cars and hybrids in 2017.

*Auto executives are watching Germany to see what happens to diesel's 'validity.'*

Volkswagen has launched a major investment drive to develop roughly 80 new electric models across its brands, which include VW, Porsche, Audi, Skoda, SEAT, Bentley and Lamborghini. But at a gathering of roughly 300 employees for a town hall meeting with Chief Executive Matthias Müller last week, some attendees seemed unconvinced.

"Why are we investing so much into a market that is a niche of a niche of a niche?" one person asked.

Mr. Müller said Volkswagen had to have its feet planted firmly on both sides of the field. It had to keep developing the combustion engine until the market for new technology takes off. "That's why I say the technologies will have to coexist," he said. "One day, electric vehicles will make up 25% of our sales."

*—Emre Peker in Brussels contributed to this article.*

With so much at stake, the

auto industry is watching Germany to see if the car makers can "preserve the validity of diesel as a technology solution," Fiat Chrysler Automobiles NV Chief Executive Sergio Marchionne said recently.

"My gut tells me that whatever happens out of all of this that we're going to see diesel come out of this in a much weaker state than it was on the way in," he said.

Klaus Fröhlich, BMW board member in charge of research and development, told reporters last week that the diesel scandal had spawned "irrational regulatory initiatives" around the world.

BMW expects to sell 100,000 electric cars and hybrids this year—out of a total of 2.4 million vehicles. By 2025, it plans to offer at least 12 pure electric vehicles and 13 hybrids, compared with nine electric cars and hybrids in 2017.

*Auto executives are watching Germany to see what happens to diesel's 'validity.'*

Volkswagen has launched a major investment drive to develop roughly 80 new electric models across its brands, which include VW, Porsche, Audi, Skoda, SEAT, Bentley and Lamborghini. But at a gathering of roughly 300 employees for a town hall meeting with Chief Executive Matthias Müller last week, some attendees seemed unconvinced.

"Why are we investing so much into a market that is a niche of a niche of a niche?" one person asked.

Mr. Müller said Volkswagen had to have its feet planted firmly on both sides of the field. It had to keep developing the combustion engine until the market for new technology takes off. "That's why I say the technologies will have to coexist," he said. "One day, electric vehicles will make up 25% of our sales."

*—Emre Peker in Brussels contributed to this article.*

With so much at stake, the

auto industry is watching Germany to see if the car makers can "preserve the validity of diesel as a technology solution," Fiat Chrysler Automobiles NV Chief Executive Sergio Marchionne said recently.

"My gut tells me that whatever happens out of all of this that we're going to see diesel come out of this in a much weaker state than it was on the way in," he said.

Klaus Fröhlich, BMW board member in charge of research and development, told reporters last week that the diesel scandal had spawned "irrational regulatory initiatives" around the world.

BMW expects to sell 100,000 electric cars and hybrids this year—out of a total of 2.4 million vehicles. By 2

## BUSINESS NEWS



A Seadrill platform in Colombia. Seadrill, one of the world's biggest offshore drillers, struck a deal with many of its creditors.

# Seadrill Files for Chapter 11

Texas filing is part of Bermuda driller's plan to restructure about \$10 billion in debt

By COSTAS PARIS

LONDON—**Seadrill** Ltd., one of the world's largest offshore-drilling companies, has filed for chapter 11 bankruptcy protection at the Southern District of Texas court as part of a plan to restructure roughly \$10 billion in debt, it said Wednesday.

The Bermuda-based company is controlled by Norwegian shipping magnate John Fredriksen and operates a fleet of 68 rigs and drillships for customers including Total SA, TOT Petrobras Brasileiro SA and Exxon Mobil Corp.

The company said 97% of its bank lenders, 40% of bondholders and a group of investors led by Hemen Holding Ltd., its biggest holder—also controlled by Mr. Fredriksen—

had approved the restructuring plan.

The creditors have agreed to postpone the repayment of \$5.7 billion in secured loans for five years, with \$2.3 million in unsecured bonds to be converted into a 15% equity stake.

Seadrill will also receive \$1.06 billion in fresh capital, made up of \$860 million in secured notes and \$200 million in equity.

The company has managed to push back a number of restructuring deadlines over the past year, but a \$1 billion bond, which matures in September, forced the chapter 11 filing, people with knowledge of the matter said.

"By extending and re-profiling the secured bank debt, reducing leverage and delivering a significant amount of new capital, this agreement provides Seadrill with a five-year runway. Post-restructuring, Seadrill will have a strong cash position and good liquidity to take

advantage when the market recovers," the company said.

Seadrill expects to continue operations during the restructuring period. The company's assets at the end of the first half totaled \$20.7 billion.

Seadrill's shares closed at 23 cents on Tuesday, down nearly 99% from their 2013 peak, when the company's market value exceeded \$22 billion.

Daily leases for the company's rigs, which once commanded up to \$800,000, have dropped to around \$200,000 as cheap oil from U.S. shale drilling floods the market.

The low oil prices, coupled with a glut of rigs, has put rig owners under severe pressure.

In late July, Ocean Rig UDW Inc. filed for bankruptcy protection in the U.S. Hercules Offshore Inc., GulfMark Offshore Inc., Toisa Ltd. and Vantage Drilling Co. have also spent time in bankruptcy court since oil and gas prices cratered.

Paragon Offshore PLC emerged from chapter 11 in August but was forced back into bankruptcy after it was unable to transfer two rigs to its reorganized entity. Its successor, Paragon Offshore Ltd., isn't under bankruptcy protection and was unaffected by Paragon Offshore PLC's new filing.

Seadrill discussed its restructuring plan for over a year with dozens of creditors, including Sweden's Nordea Bank AB, Norway's DNB ASA and Denmark's Danske Bank, as well as with bondholders and rig-building yards in Asia.

In a June interview, Mr. Fredriksen said he was putting in long hours to keep Seadrill from collapsing.

"It's hard to answer if it will come out of restructuring, but as long as I back it, we'll be OK," he said. "In the past, we've dealt with messier situations than Seadrill, but we came through."

—Patrick Fitzgerald contributed to this article.

# Trouble Deepens At Brazil's JBS; Brothers in Jail

By LUCIANA MAGALHAES AND PAUL KIERNAN

SÃO PAULO—The two Brazilian brothers behind the world's largest meatpacker were in jail on Wednesday facing accusations they illegally profited from an earlier plea deal that let them skirt prison time for bribing nearly 2,000 politicians.

The Federal Police—Brazil's equivalent to the FBI—arrested Wesley Batista, chief executive of **JBS** SA, saying he and his brother, former chairman Joesley Batista, dumped the company's shares and stockpiled U.S. dollars before the deal they reached with prosecutors in April became public. This enabled them to make millions of dollars as their allegations of having bribed members of conservative President Michel Temer's inner circle nearly toppled the government and sent financial markets swooning, federal agents said.

Coming just days after Joesley turned himself in, the arrest of his younger brother Wesley capped a stunning reversal of fortune for the clan, which turned a small-town slaughterhouse into a global food giant that has snapped up U.S. brands including Swift and Pilgrim's Pride.

It also prompted state development bank BNDES, which owns 21.3% of JBS's shares, to renew its calls for the younger Mr. Batista to permanently step down as CEO.

Despite telling prosecutors in April that they promoted their business by bribing nearly 2,000 politicians, the brothers managed to avoid prison sentences by offering evidence against Mr. Temer and agreeing to pay a record \$3.3 billion settlement.

Until last week, the billionaire Batista brothers appeared poised to walk away with the sweetest—and most controversial—plea bargain Brazilians have seen in the country's three-year-old corruption purge.

But that went awry when Joesley Batista gave authorities an audio recording of a four-hour, often profane conversation in which he and another executive bragged about omitting evidence and getting help from a prosecutor as they negotiated the deal.

It isn't clear if the recording, which appeared to have been

made by accident, was handed over intentionally. Joesley and the executive said in an statement last week that the recorded discussion "had no connection to the truth" and offered their "most sincere apologies for this disrespectful and embarrassing act."

But Attorney General Rodrigo Janot said it represented a possible violation of the plea bargain and threatened to revoke the Batistas' legal protections.

Unlike the plea deal, which involves the Batista family's holding company, J&F Investimentos, the insider-trading probe involves allegations of wrongdoing by JBS itself.

In a televised press conference Wednesday, Federal Police agents said emails, securities records and witness statements showed the holding company sold about \$119 million in JBS shares while the Batistas were negotiating the plea deal. JBS, which is publicly traded, bought some of this stock to transfer the risk of a sell-off to non-Batista shareholders, agents said. JBS also used currency derivatives to bet more than \$2 billion against the Brazilian real, agents said.

Both gambits paid off. After the plea bargain became public in May, JBS shares fell as much as 37% and the real posted its biggest single-day loss since 1999, as the Batistas' allegations crippled Mr. Temer's market-friendly government. JBS declined to comment on Wednesday's allegations, referring to a previous statement denying wrongdoing.



Wesley Batista, CEO of JBS, in 2016. He and his brother, Joesley, are in jail.

# Machine Learning Plants Itself in Farming's Future

By JACOB BUNGE

On U.S. Midwestern fields and in research greenhouses, agricultural giants like **Monsanto** Co. and **BASF** SA are teaching machines how to farm.

The companies are expanding early-stage investments in artificial intelligence, joining other industries in betting that research and decision-making can be streamlined with computer programs that teach themselves by picking patterns out of data.

Corn plants chosen with the help of computers are growing in the U.S. this year, and algorithms are sifting North American weather data to anticipate crop threats such as pests and disease.

**BASF**, the German chemical conglomerate, is working on automated image-recognition capabilities similar to those that confirm faces on Facebook and Apple's Photos app. The idea is to analyze farmers' photographs of suspicious spots on crop leaves and deliver early warnings for diseases such as wheat leaf rust, said Richard Trethewey, who heads bioscience digitalization for BASF.

While some farmers are skeptical of the technology, others think it could evaluate crop development and identify disease as well as or better than they can. Gunter Jochum, who grows canola, soybeans and wheat near Winnipeg, Manitoba, watched firsthand the learning curve of a computer program developed by BASF known as Maglis.

In the spring of last year, Mr. Jochum told Maglis the date he sowed canola, and his fields' coordinates. The program "pretty accurately"



MIKE KRÖDEL/BASF

Germany's BASF is among agricultural-supply companies expanding investment in artificial intelligence.

guessed when the first seedlings would pop up, he said, and by harvest time it had grown smarter as it predicted when crops would be ready for harvest and how many bushels his land would yield.

"In the beginning, I was a little bit leery," said Mr. Jochum. "As the season went on, I was astonished how close it was." This summer, he said, Maglis parsed weather and field data to foretell a damaging plant fungus.

The companies, which spend billions of dollars annually to research new seeds and farm chemicals, declined to specify how much of that goes toward developing artificial intelligence.

**Monsanto**, the world's largest seed company, has been taking computers' advice as it

matches up corn strains to produce the highest-yielding and sturdiest varieties.

Eight years ago, data scientists at the St. Louis-based company used 15 years' worth of information on corn varieties to build a self-teaching algorithm. That has helped Monsanto researchers more accurately predict how thousands of combinations of strains will perform in their first year in the field.

Michael Graham, who heads Monsanto's plant-breeding operations, said the system lets the company evaluate about five times more corn varieties than it could in the past, and save a year of research time. Over the past year, Monsanto has sold corn seeds matched with the algorithm's input to U.S. farmers.

Self-learning software doesn't yet range freely across farm fields. Mr. Graham said the technology's shortcomings showed up one year when Goss's wilt, a disease that withers corn leaves, struck further east in the U.S. corn belt than it had in the past, catching Monsanto's corn-breeding model off guard. At BASF, the Maglis machine-learning functions remain under human supervision, with crop specialists reviewing its analyses.

The field-by-field variation in weather, soil and pest conditions poses steep challenges for artificial-intelligence software, even with the data-collecting abilities of high-tech machinery and soil sensors. And many critical data points—such as crop yield or the ultimate im-

# Target Pushes Up Hiring for Holidays

By KHADEEJA SAFDAR

**Target** Corp. said it would increase by 40% the number of temporary workers it hires for the holiday shopping season, kicking off the annual scramble among retailers and delivery firms to staff stores and distribution centers.

The Minneapolis-based chain is hiring about 100,000 seasonal workers, compared with the 70,000 hires last year. As of Jan. 28, Target employed about 323,000 full-time, part-time and seasonal workers, according to its annual report. During the 2016 holiday season, its staffing peaked at roughly 373,000.

The company is trying to get back on track after suffering sales and profit declines last year. It has been lowering prices to lure back shoppers.

The search for holiday-season workers has been intensifying, fueled by the growth of online shopping. The low U.S. unemployment rate and rising wages for workers at the bottom of the income ladder have made the temporary jobs even harder to fill.

**Amazon.com** Inc., which has been rapidly adding distribution centers, last year hired about 120,000 extra workers for the season, 20% more than the year before. United Parcel Service Inc. hired about 95,000 extra employees for the holidays in 2016, the same number as the previous two years. Neither company has disclosed plans for this year.

## TECHNOLOGY

WSJ.com/Tech

# EU Steps Up Effort to Tax Digital Firms

Bloc's executive arm commits to drafting new rules to get more out of multinationals

BY NATALIA DROZDIAK  
AND SAM SCHECHNER

The European Union's executive body on Wednesday pledged to pursue new rules for taxing internet giants, such as Alphabet Inc.'s Google and Facebook Inc., embracing an effort within the bloc to squeeze more money out of large multinationals operating in Europe.

The move by the European Commission comes amid a French-led drive for the tax that includes Germany, Spain and Italy.

Finance ministers from the four countries in a recent letter called on the commission to devise a proposal that would establish an "equalization tax" on the revenue generated in Europe by digital companies so that the amounts raised would "aim to reflect some of what these companies should be paying in terms of corporate tax."

The four officials aim to spell out their tax ideas at a gathering of the bloc's finance ministers in Tallinn, Estonia, on Saturday.

The push marks the EU's latest attempt to crack down on what officials see as tax avoidance in Europe and to assure citizens that large companies are paying their fair share, as some governments are still trying to stabilize public finances after the financial crisis.

Officials in France in particular have chafed at how little tax they say tech companies pay. Over the years, they have floated various ideas for clawing back more—including taxing internet advertising and even corporate use of bandwidth or personal data, only to pull back because passing a

measure at the national level wouldn't snare big multinationals. Instead, France has become a vocal backer of efforts by the Organization for Economic Cooperation and Development to reduce so-called profit shifting, and efforts by the EU to establish a common tax base. Pressure from Paris rose over the summer after a French court threw out a €1.1 billion (\$1.33 billion) tax bill that France's tax authority had issued Google, arguing that the U.S. company should have declared more profit—and therefore paid more tax—in the country.

In addition to promising an appeal, France's new finance

minister, Bruno Le Maire, vowed to pursue new tax rules for tech companies. Under his proposal, which is still being fleshed out, technology companies with revenue above a certain level would be liable to pay a tax on turnover from customers in each EU country. The size of the proposed tax hasn't been settled, but could end up between 2% and 5% of revenue, the person close to the ministry said. The rate would be intended to reflect what tax governments think companies would pay on profit derived from turnover from customers in EU countries.

That could lead to big tax

bills. Facebook reported that in 2016 its European revenue was €2.06 billion, including some countries that aren't part of the bloc. Facebook declined to comment on the proposal.

Executives at tech firms say the proposals are misguided because the firms create the bulk of their value in the U.S., making much of their profit from European revenue taxable in the U.S., as well. But Europeans argue that those profits are fair game to tax because the U.S. lets companies defer taxes on profit they keep offshore. Tech companies often do so via subsidiaries based in countries with no corporate income tax.



Cybersecurity firm FireEye noticed an uptick in extortion cases in 2015, and saw more than double the number of cases last year.

## Hackers' Latest Moneymaker: Extortion

BY ROBERT MCMILLAN

After years of stealing data for fraud and corporate espionage, hackers increasingly are trying a new way to profit from their digital break-ins: extortion.

Hacks involving HBO and Netflix Inc. in recent months have shed light on the extortion threat, which law-enforcement officials and companies that investigate digital break-ins say has been on the rise in recent years. Instead of stealing passwords or credit-card data, or locking access to victims' systems as with ransomware, extortionists try to unearth corporate secrets that they then threaten to make public if victims don't pay.

Because the extortionists threaten to expose sensitive material—embarrassing emails or intellectual property like unreleased movies and scripts, for example—the crime can be “more damaging and impactful to victim organizations than other types of theft of intellectual property,” said Charles Carmakal, a vice president with cyber investigations firm FireEye Inc. Adding to the insidiousness of cyber extortion, those targeted by such efforts often have a difficult time determining how much data the hackers really have—and in some cases the extortion attempts are bluffs, he said.

Such attacks in the past year have hit medical clinics, which hackers threatened with leaking patient information; casinos, where they threatened to divulge client lists; and energy companies, where hackers

ble the number of cases last year as hackers who previously sold stolen data realized that they could make even more money from extortion, Mr. Carmakal said. Other extortionists work for political reasons or “for fame and glory,” rather than money, he said.

Such attacks in the past year have hit medical clinics, which hackers threatened with leaking patient information; casinos, where they threatened to divulge client lists; and energy companies, where hackers

**Targeted firms often have trouble telling how much data the hackers really have.**

have shut down systems needed for mining operations in an extortion episode and threatened to release confidential business contracts and employee data, according to FireEye.

Extortion attacks are a cousin of ransomware hacks, which renders computer files unreadable until a payment is made, and hackers use similar techniques to access corporate data for extortion. Law-enforcement agents and private investigators say both types of attack are on the rise.

In the HBO incident, executives since July have grappled

with hackers who stole programs and other information from the Time Warner Inc. unit's computer systems and demanded an extortion payment of approximately \$6 million to keep quiet. The hackers have leaked unreleased episodes of HBO shows such as the comedy “Ballers,” script notes for its hit show, “Game of Thrones,” and other data such as usernames and passwords used by HBO employees. HBO hasn't paid any money to the hackers.

Such extortion incidents have served as a wake-up call to Hollywood studios, Mr. Carmakal said.

In many ways, Hollywood is an ideal target for hackers. Pre-released shows and movies get a lot of attention, especially for titles that have loyal fan bases. Hollywood studios work with a wide network of partners to create the finished product, and these partners are increasingly becoming targets, said James Aquilina, global digital forensics leader with the cyber investigations company Stroz Friedberg. “This information life cycle is in many ways ripe for exploitation,” he said.

Jill and Rick Larson, who run a sound-mixing studio in Los Angeles, found out they were under attack from an email just before 8 a.m. last Christmas. The sender claimed to have taken over their systems and threatened to go public—a risk not only to their

studio but to its clients, including Netflix, which had hired it to work on “Orange is the New Black.”

When technical staff checked the Larsons' computers, they found all information had been wiped except a brief ransom note. It felt like “you went into your house and it had not only been broken into, but there was nothing left,” Mr. Larson said.

The hackers demanded ransom of 50 bitcoins, at the time about \$50,000, or they would post an unreleased episode of “Orange is the New Black” on New Year's Day. They gave the Larsons just a few hours to respond.

As the back-and-forth between the hackers and the Larsons dragged on over the next few months, Ms. Larson became an expert in the digital currency, struggling to acquire enough because her broker would sell her only 1 or 2 bitcoins at a time. The hackers called themselves “The Dark Overlord.” The next weeks felt “like we were living in one of the episodes of the TV shows we do,” Ms. Larson said.

The Larsons eventually paid \$50,000. Then the hackers tried to extort money from Netflix, too, the Larsons said. At the end of April, the cyber-criminals released 10 episodes of the show, ahead of their scheduled debut. Netflix declined to comment.

—Joe Flint contributed to this article.

**iPhone X battery life is better.**

right corner. And since there is no home button, you swipe up from the bottom to get back to your home screen.

It reminded me of Snapchat—and like it, I could see some people just wanting to opt out of the confusion.

### Special Effects

The reward for changing your muscle memory is, beyond the face-unlocking trick, a new way to think about what you can do with a camera. Apple is now putting a lot of energy (and

money) into opening up the world of augmented reality, which I agree has huge potential—even if its current applications are more goofy than serious.

The front-facing cameras, buried in the screen's funny notch, get the biggest boost. They include infrared sensors to map your face. You can take selfies with artfully blurred-out backgrounds. A new effect that Apple calls Portrait Lighting lets you create dramatic lighting on and around your subjects.

One of the most compelling demos I saw placed my head, live, in fun contexts, including the Millennium Falcon from “Star Wars.”

In the feature that might best sum up 2017, you can turn your head into an animated singing and dancing emoji, called animoji.

The two back cameras are also improved over the iPhone 7 Plus, though less dramatically. The second lens, used for 2X telephoto shots, now has optical image

stabilization that should make portraits and zoomed-in shots less blurry.

The cameras are also now oriented vertically, which Apple says will help with future augmented reality apps.

### New...and Improved?

I won't have all the answers until I review the phone, but here's my initial takeaway: With the iPhone X, Apple's best no longer looks like a three-year-old phone. (Apple's other new phone, the iPhone 8, still does.)

The face-unlocking trick is a strategy to make you feel like you are missing out if you don't have an iPhone X. The jury is still out on its security and effectiveness, let alone those new camera tricks and the vast future of augmented reality that has hit 11 on the buzz-o-meter.

Nevertheless, the larger screen and improved battery life might be reason enough to satisfy even the more practically minded to contemplate an iPhone X.

**iPhone X battery life is better.**

It reminded me of Snapchat—and like it, I could see some people just wanting to opt out of the confusion.

### Special Effects

The reward for changing your muscle memory is, beyond the face-unlocking trick, a new way to think about what you can do with a camera. Apple is now putting a lot of energy (and

money) into opening up the world of augmented reality, which I agree has huge potential—even if its current applications are more goofy than serious.

The front-facing cameras, buried in the screen's funny notch, get the biggest boost. They include infrared sensors to map your face. You can take selfies with artfully blurred-out backgrounds. A new effect that Apple calls Portrait Lighting lets you create dramatic lighting on and around your subjects.

One of the most compelling demos I saw placed my head, live, in fun contexts, including the Millennium Falcon from “Star Wars.”

In the feature that might best sum up 2017, you can turn your head into an animated singing and dancing emoji, called animoji.

The two back cameras are also improved over the iPhone 7 Plus, though less dramatically. The second lens, used for 2X telephoto shots, now has optical image

## Google to Ease Publisher Policy

BY JACK NICAS  
AND LUKAS I. ALPERT

Google Inc. is planning to end its “first click free” policy that enables users of its search engine to bypass paywalls on news websites, a move that could help publishers boost subscriptions, News Corp Chief Executive Robert Thomson said Tuesday.

Google for years has encouraged publishers to be part of the program, which allows search users to access a limited amount of content on subscription-based news sites free of charge. Some publishers say the policy has hurt subscription growth and say their sites are penalized in Google's search rankings if they don't participate in the program.

The Wall Street Journal, which is owned by News Corp, opted out of the program this year and saw its traffic from Google search fall 38% and from Google News fall 89% last month compared with a year earlier because its stories were demoted in search results, a spokesman said.

Now, Google is ready to end the first-click-free program and allow publishers to choose how users access their sites from its search results, Mr. Thomson said Tuesday at a media-business conference hosted by Goldman Sachs Group Inc. People familiar with the situation said Google will still enable subscription-oriented publishers to give search users a free

sample of their stories if they choose to, but they won't be penalized if they don't.

Google, a unit of Alphabet Inc., said in a statement, “We are always evaluating our policies but we don't have anything to announce at this stage.”

Up to now, subscription-based sites that didn't participate in first click free have been disadvantaged in Google's search results, because its algorithm only scanned the portions of articles outside the paywall. Under its new approach, Google's technology will be scanning the full article, despite any paywalls, according to one of the people familiar with the situation.

It is unknown when Google's policy and technology changes will go into effect.

Google's plans mark an apparent warming in its relationship with publishers, who have sparred with the tech giant at times over everything from its dominance in mobile advertising to what they perceive to be its role, along with Facebook Inc., in facilitating the spread of misinformation on the internet.

“At one stage I called Google a ‘tapeworm in the intestines of the internet,’ ” said Mr. Thomson.

Mr. Thomson and Google CEO Sundar Pichai had a breakthrough in their relationship in July at investment firm Allen & Co.'s annual exclusive media conference in Sun Valley, Idaho, a person familiar with the matter said.



Salle Yoo, chief legal officer at the ride-hailing company, has dealt with a series of lawsuits and federal investigations.

## Uber's Head Lawyer Intends to Step Down

BY DOUGLAS MACMILLAN  
AND GREG BENSINGER

The top lawyer at Uber Technologies Inc. is departing the ride-hailing company as it faces three federal investigations into its operations and welcomes a new chief executive.

Salle Yoo, who joined Uber as its first general counsel in 2012 and held the role until being promoted to chief legal officer earlier this year, plans to step down from the company as soon as it hires a new general counsel, she said Tuesday in an email to staff.

Last spring I began considering a future beyond Uber,” Ms. Yoo said in the memo, which was reviewed by The Wall Street Journal. “I've spent over five years at this company, and while it's been the most exhilarating experience of my life, it's also incredibly hard work.” Ms. Yoo didn't respond to a request for comment.

Her departure adds to the urgency Chief Executive Dara Khosrowshahi faces in replenishing Uber's executive ranks.

In addition to its search for a new general counsel, Uber is seeking to hire chiefs of finance, operations and marketing, as well as a new independent chairman.

Ms. Yoo spent her tenure at Uber mired in a barrage of legal challenges to the ride-hailing company, from a class-action lawsuit by drivers over their employment status to objections from regulators around the world who sought to regulate the service like a taxi company.

More recently, federal authorities have confronted Uber with three separate U.S. government probes.

Uber also faces a legal battle with Alphabet Inc., which in February sued the ride-hailing company for allegedly conspiring with a former manager to steal autonomous-vehicle trade secrets to jump-start its own driverless-car program.

Ms. Yoo, who is among Uber's highest ranking female employees, said in her memo she was proud of her role “in pushing the company forward on the issues of diversity, equal pay and gender equality.”

## FINANCE & MARKETS

# Saudis Push OPEC on Oil-Supply Curbs

Cartel is urged to shift its focus to exports, which aren't keeping pace with output cuts

BY BOENOT FAUCON AND SUMMER SAID

OPEC has cut nearly one million barrels a day of oil output in the past year. But that isn't how the global crude market sees it.

Oil exports from member countries have also declined, but by a significantly smaller margin than production cutbacks. The unusual discrepancy is muting the impact of a November 2016 deal aimed at curtailing oil supplies in a bid to lift prices, traders and analysts say.

It has also galvanized officials from Saudi Arabia, the world's biggest crude exporter and the main driver behind OPEC policies. They are now pushing for monitoring of exports, rather than just production, at a Sept. 22 meeting of oil producers in Vienna.

In the past, OPEC's production curbs translated into comparable declines in exports. This time around, some OPEC members are selling oil out of storage or reducing domestic consumption, leaving more crude available to ship overseas.

Commodities traders and oil-focused hedge funds have told Saudi officials in private meetings that the surprisingly high rate of exports is helping keep oil prices low. Brent crude traded around \$54 a barrel on Tuesday. That represents a decline of roughly 5%



Khalid al-Falih, energy minister of Saudi Arabia. Higher oil prices would help its planned IPO for Aramco.

since January, when the global benchmark ascended to an 18-month high.

From Saudi Arabia's perspective, one significant motivation behind the renewed drive to restrain supplies is the planned initial public offering of state-owned **Saudi Aramco Oil Co.**, which will likely garner a richer valuation in an environment where oil prices are higher.

Any change would likely face resistance from other OPEC members, who are wedded to tradition and might not want to disclose more about oil operations often viewed as state secrets. Taken together, nations that are a part of OPEC control more than 40% of the oil pumped world-wide every day.

"The level of exports is the only measurement markets care about," said John Hall,

chairman of U.K. consulting firm Alfa Energy. "So cutting them will definitely boost oil prices."

Since October 2016, the month that serves as the baseline for OPEC's agreement to cut output, exports from the cartel's 14 members have declined by 213,000 barrels a day, according to Kpler, a private firm that tracks oil tankers and global petroleum movements. That is a million barrels a day less than the cartel promised to cut from its production.

In actuality, OPEC's output was about 880,000 barrels a day less in July compared with October 2016, according to the International Energy Agency, which advises governments and companies.

Saudi Arabia has already begun drastically scaling back its crude-oil exports, reducing

them to 6.6 million barrels a day in August compared with more than seven million barrels a day in July, according to Kpler. At a late July meeting of oil producers in St. Petersburg, Russia, Saudi Arabia's energy minister, Khalid al-Falih, disclosed plans to cut exports and asked other countries to follow suit. "Exports have now become the key metric for financial markets," Mr. Falih said, calling for a new method of controlling and monitoring OPEC's exports.

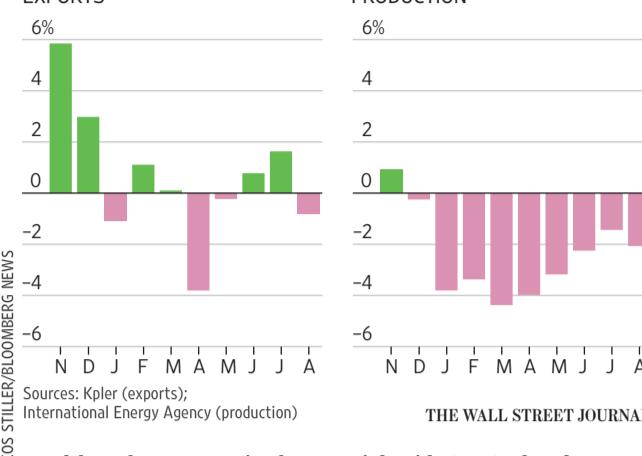
Overall, OPEC's exports fell by 639,000 barrels a day in August compared with July, according to Kpler. Saudi Arabia and the United Arab Emirates accounted for almost all of the decline.

Algeria, Angola, Iran and Kuwait all increased exports in August.

### Different Cuts

OPEC hasn't slashed its exports as fast as its production.

Percentage above or below October 2016 levels



Sources: Kpler (exports);

International Energy Agency (production)

THE WALL STREET JOURNAL.

Although no countries have publicly challenged Mr. Falih on the shift in emphasis, OPEC ministers see cutting exports as a tough sell, according to people close to the cartel.

The current agreement to slash output was a painfully negotiated pact that excluded two members, Nigeria and Libya, and allowed another, Iran, to increase output up to a certain level. Amending this delicate deal will be difficult, especially since the group is now nearly nine months into it.

After this much time has elapsed in past OPEC agreements, "they always test the limits of how much they can produce" without getting in trouble, said Robin Mills, chief executive of Qamar Energy, a Dubai consulting firm.

Any formal shift on how OPEC measures its supply changes "will require a lot of work and a new mechanism to monitor exports," a Saudi official said.

official said. OPEC's headquarters is working to assess how such new rules could be implemented, according to an official with the cartel.

Even if OPEC found a way to raise prices by focusing on exports, the change could backfire by kick-starting output from American shale producers, which can turn on the spigots in response to prices more quickly than conventional producers. Higher U.S. output since OPEC's cuts has helped put a ceiling on prices.

OPEC officials say it is unlikely the group will come to a quick agreement on the use of exports as a new metric. OPEC historically has struggled to fully enforce individual production quotas. Exports would be "more difficult to police" than production, given OPEC's lack of experience on the matter, said Mr. Hall of Alfa Energy. "But if they can do it, it would send a strong message," he said.

## Dollar's Fall From Grace Fuels Emerging Markets

BY JON SINDREU

The U.S. dollar's nose dive is fueling a rally in emerging-market assets.

Since the start of this year, the dollar has fallen 9% against a basket of currencies, according to the Federal Reserve.

That is good for emerging markets because their dollar-denominated debts become cheaper to service, roll over and pay back. Research also shows that international lenders are more willing to lend whenever the U.S. currency falls. Meanwhile, developing-market economies are in good shape, adding to the positive view of these markets.

The value of emerging-market equities and bonds has surged. The MSCI Emerging Markets stock index has returned more than 30% this year, compared with 15% for the developed-market MSCI World Index and 13% for the MSCI USA.

Net flows into emerging-market equity funds have increased this year by 0.5% of the total assets they manage, according to fund tracker EPFR Global. That compares with a 2% fall in the money going into richer nations.

That outperformance could be set to continue as the dollar stays weak. Strategists say stubbornly low inflation will ensure that the Fed's easy-money policies stay in place for longer, putting pressure on the currency.

"A weaker dollar eases global financial conditions," said Jack McIntyre, portfolio manager at Brandywine Global, because many companies in emerging nations borrow in dollars, "so if the dollar is strong, this means they have to pay back their debt in a higher currency."

A net 47% of investors are positioned to gain if developing-nation stocks go up—a seven-year high—while bets against the dollar have multiplied, according to a survey of fund managers published Tuesday by Bank of America Merrill Lynch.

The outlook for emerging economies has brightened compared with last year, as a recovery in commodities prices helps Brazil, Argentina and Russia climb out of recession. Meanwhile, the expansion of giants such as China and India is set to remain robust—a relief for many investors, who for years had feared a sudden slowdown in Chinese growth.

Peter Elston, chief invest-



A weaker U.S. dollar helps emerging economies pay back debt.

ment officer at **Seneca Investment Managers**, believes the U.S. economy is due to slow by 2020, so he is now selling stocks in the U.S. and buying them in emerging markets.

"In some of our funds, we can't reduce U.S. stocks any further because we are already at zero," Mr. Elston said.

But much of the current bet on emerging-markets is due to the declining greenback, rather than just robust economics.

Since the start of the year, emerging-market bonds issued in local currencies have returned 17%, compared with 10% for bonds in so-called hard currencies such as dollars or euros, according to indexes published by J.P. Morgan Chase & Co.

Over the past year, Claudia Calich, who runs the Emerging Markets Bond Fund at **M&G Investments**, a £281 billion (\$373 billion) asset manager, has doubled the share of her allocations devoted to local-currency debt to almost 40%, including assets in Mexican pesos and Egyptian pounds.

Since the late 1990s, emerging-market equities have usually outperformed when the dollar declined and struggled when the greenback rallied.

This is in contrast with large-cap developed-market indexes, which usually move in lockstep with the dollar, since the multinational firms they track get most of their revenue in foreign currencies.

Emerging countries are different, analysts say, because their dependence on dollar credit is greater and a strengthening greenback makes it more costly to roll over loans. That offsets any gains from higher overseas income.

It isn't just that borrowing gets more expensive. International lenders—who also rely on dollar funding—can often close their wallets whenever

the value of the U.S. currency goes up, according to research by the Basel-based Bank for International Settlements, and that can hit emerging-markets the hardest.

Signs of stress can be gauged by the so-called cross-currency basis swap spread, which measures the gap between money-market and derivative-market rates when borrowing in dollars. When the dollar started rallying in 2014, it grew wider. As the U.S. currency sold off this year, that gap narrowed.

According to research by consultancy Oxford Economics, this "cross-border liquidity channel" linked to the dollar is crucial for developed markets, especially Latin America.

By share of bonds outstanding made up of international securities issued in foreign currencies, Turkey is the most exposed at 46%, BIS figures show, followed by Argentina and Peru, at 45% and 43%, respectively.

Foreign borrowers are also benefiting from low dollar-lending rates. Yields on 10-year Treasuries are now below 2.2%, from 2.5% at the beginning of the year.

For emerging markets, the situation is radically different from last year, when the prospect of higher fiscal spending in the U.S. boosted the dollar and Treasury yields. That led to a fear of an emerging-market sell-off, like in 2015, when the MSCI Emerging Markets index dropped 17% on concerns over the Chinese economy and the end of stimulative monetary policy.

"We believe the dollar will remain broadly stable towards year-end because of the cautiousness of the Federal Reserve," said Morgane Delle Donne, a strategist at ETF Securities.

"We see a continuation of the appetite for risk in emerging markets," she added.

## Energy Shares Boost Dow

BY MARINA FORCE AND AMRITH RAMKUMAR

The Dow Jones Industrial Average rose for a fourth consecutive day, boosted by shares of energy companies, while Europe's benchmark stock index closed marginally lower.

London-listed shares fell 0.3%, and Apple suppliers declined a day after the tech giant revealed its new iPhones. Among suppliers, Dialog Semiconductor fell 1.6%, and AMS dropped 3.9%.

U.S. stocks have set fresh records this week as investors have shaken off concerns over tensions between the U.S. and North Korea, and early estimates have suggested damage from Hurricane Irma was less severe than initially expected.

The Dow industrials swung between small gains and losses and was up 39.32 points, or 0.2%, at 22158.18, in 4 p.m. New York trading. The S&P 500 and the Nasdaq Composite rose less than 0.1%.

In Europe, the Stoxx Europe 600 also fluctuated before closing down less than 0.1% to 381.34.

Energy stocks were among the best performers in the S&P 500, rising alongside oil prices

after the U.S. Energy Information Administration reported a record drop in gasoline inventories. That came following an International Energy Agency report that global oil supplies fell for the first time in four months in August. U.S. crude climbed 2.2%.

The S&P 500 energy sector gained 1.2% in late trading. Chevron was among the best performers in the Dow industrials, rising 1.6%.

Stocks were little changed and the dollar rose after data was released showing the producer-price index, a measure of inflation experienced by businesses, rose 0.4% in August from a month earlier. That was the largest increase since April, but still below what economists surveyed by The Wall Street Journal expected.

—Carla Mozee contributed to this article.

## SoFi CEO's Exit Clouds Prospects

BY PETER RUDGEAIR

Mike Cagney's decision to resign as chief executive of online lender **Social Finance Inc.** casts uncertainty over the financial-technology upstart's business prospects, its attempt to open a bank in Utah and plans for an eventual public offering.

Mr. Cagney voluntarily stepped aside after SoFi's board agreed, following two fraught days of discussions this past weekend, that the company co-founder's presence was overshadowing the health of the business, according to people familiar with the matter.

Monday evening's announcement that Mr. Cagney would step down by the end of the year capped a monthlong period in which several other senior executives exited the company and former employees accused it of improper treatment of women in its workplace.

Mr. Cagney co-founded SoFi in 2011 with three classmates from Stanford University's



SoFi co-founder Mike Cagney

business school. The company has been valued at more than \$4 billion by shareholders.

In recent weeks, however, Mr. Cagney was spending less time on business issues and more on personnel and legal matters. Last month, a former worker sued the company for wrongful termination, claiming he was fired after he reported a manager who had degraded a female colleague.

Mr. Cagney will remain CEO until the company finds a successor, the people said.

When the SoFi board met by telephone Saturday, those issues occupied much of the conversation, according to people familiar with the matter. When the board meeting reconvened Sunday, Mr. Cagney raised the idea of moving aside, arguing that his presence risked being a burden on the company's progress. The executive told directors it would be better for SoFi if he resigned, the people said.

That same day, The Wall Street Journal reported that Mr. Cagney was previously involved in a dispute with a lower-level employee that resulted in a settlement approved by the board.

The Journal also reported that Mr. Cagney oversaw a culture in which staff felt pressure to work extra hours to avoid being fired and executives at times broke furniture and threw telephones out of anger.

Mr. Cagney will remain CEO until the company finds a successor, the people said.

Advertisement **INTERNATIONAL INVESTMENT FUNDS**

[Search by company, category or country at [europe.wsj.com/funds](http://europe.wsj.com/funds)]

**MORNINGSTAR®**

FUND NAME NAV -%RETURN-  
GF AT LB DATE CR NAV YTD 12-MO 2-YR  
Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866  
Fax No: 65-6835-8865, Website: [www.cam.com.sg](http://www.cam.com.sg) Email: [cam@cam.com.sg](mailto:cam@cam.com.sg)  
CAM-GTF Limited OT MUS 09/08 USD 311447.91 3.1 -2.5 7.9

For information about listing your funds,  
please contact: Freda Fung tel: +852 2831  
2504; email: [freda.fung@wsj.com](mailto:freda.fung@wsj.com)

Data as shown is for information purposes only. No offer is being made by Morningstar, Ltd or this publication. Funds shown aren't registered with the U.S. Securities and Exchange Commission and aren't available for sale to United States citizens and/or residents except as noted. Prices are in local currencies. All performance figures are calculated using the most recent prices available.

## MARKETS DIGEST

### Nikkei 225 Index

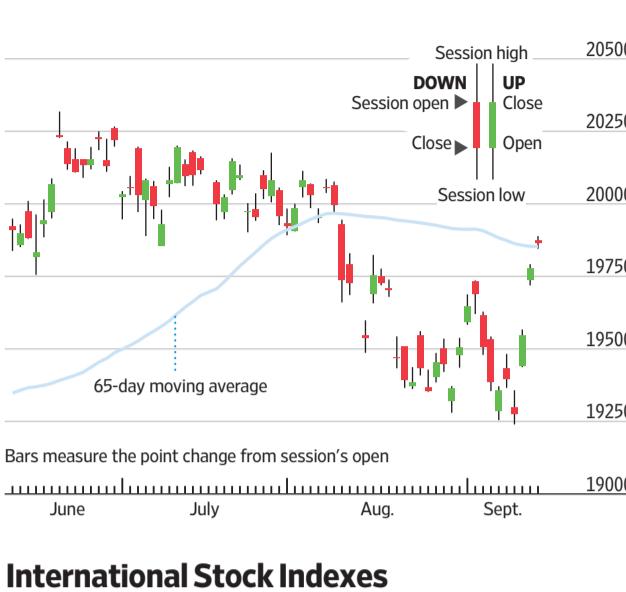
**19865.82** ▲ 89.20, or 0.45%

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

Year-to-date  
52-wk high/low  
All-time high

20230.41 16251.54  
38915.87 12/29/89

▲ 3.93%



Bars measure the point change from session's open

June July Aug. Sept.

### International Stock Indexes

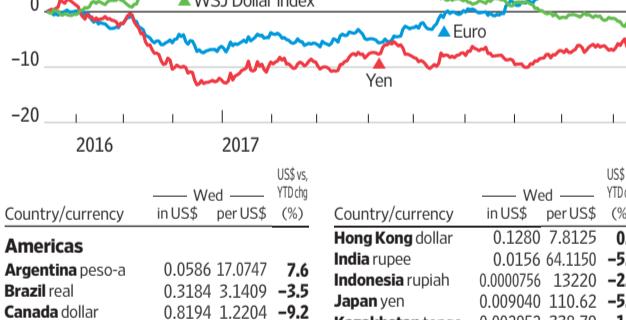
Data as of 4 p.m. New York time

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Low	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2888.61	-2.62	<b>-0.09</b>	2386.93	2896.26	14.3		
	<b>MSCI EAFE</b>	1962.01	-8.22	<b>-0.42</b>	1614.17	1973.04	14.3		
	<b>MSCI EM USD</b>	1098.57	-3.69	<b>-0.33</b>	838.96	1102.88	38.3		
<b>Americas</b>	<b>DJ Americas</b>	602.67	0.11	<b>  0.02</b>	503.44	602.69	11.5		
Brazil	Sao Paulo Bovespa	74920.82	382.27	<b>  0.51</b>	56694.45	75323.23	24.4		
Canada	<b>S&amp;P/TSX Comp</b>	15136.58	-6.83	<b>-0.05</b>	14342.87	15943.09	-1.0		
Mexico	<b>IPC All-Share</b>	50167.35	-313.61	<b>-0.62</b>	43998.98	51772.37	9.9		
Chile	<b>Santiago IPSA</b>	3920.44	-4.56	<b>-0.12</b>	3120.87	3945.90	21.6		
<b>U.S.</b>	<b>DJIA</b>	22158.18	39.32	<b>  0.18</b>	17883.56	22179.11	12.1		
	<b>Nasdaq Composite</b>	6460.19	5.91	<b>  0.09</b>	5034.41	6460.84	20.0		
	<b>S&amp;P 500</b>	2498.37	1.89	<b>  0.08</b>	2083.79	2498.37	11.6		
	<b>CBOE Volatility</b>	10.34	-0.24	<b>-2.27</b>	8.84	10.34	23.01	-26.4	
<b>EMEA</b>	<b>Stoxx Europe 600</b>	381.34	-0.08	<b>-0.02</b>	327.02	396.55	5.5		
	<b>Stoxx Europe 50</b>	3108.43	4.33	<b>  0.14</b>	2720.66	3279.71	3.3		
Austria	<b>ATX</b>	3280.41	-2.54	<b>-0.08</b>	2311.88	3289.71	25.3		
Belgium	<b>Bel-20</b>	3989.13	-6.07	<b>-0.15</b>	3384.68	4055.96	10.6		
France	<b>CAC 40</b>	5217.59	8.58	<b>  0.16</b>	4310.88	5442.10	7.3		
Germany	<b>DAX</b>	12553.57	28.80	<b>  0.23</b>	10174.92	12951.54	9.3		
Greece	<b>ATG</b>	809.98	-0.77	<b>-0.09</b>	548.72	859.78	25.8		
Hungary	<b>BUX</b>	38119.09	42.21	<b>  0.11</b>	27466.59	38245.96	19.1		
Israel	<b>Tel Aviv</b>	1417.91	5.31	<b>  0.38</b>	1346.71	1490.23	-3.6		
Italy	<b>FTSE MIB</b>	22233.30	-0.10	<b>-0.0004</b>	15923.11	22309.95	15.6		
Netherlands	<b>AEX</b>	528.69	2.11	<b>  0.40</b>	436.28	537.84	9.4		
Poland	<b>WIG</b>	64719.80	-106.27	<b>-0.16</b>	46674.28	65611.21	25.1		
Russia	<b>RTS Index</b>	1118.38	-5.85	<b>-0.52</b>	953.12	1196.99	-2.9		
Spain	<b>IBEX 35</b>	10371.00	34.80	<b>  0.34</b>	8512.40	11184.40	10.9		
Sweden	<b>SX All Share</b>	566.64	0.63	<b>  0.11</b>	489.12	598.42	6.0		
Switzerland	<b>Swiss Market</b>	9053.83	0.21	<b>  0.002</b>	7585.56	9198.45	10.1		
South Africa	<b>Johannesburg All Share</b>	56152.54	-213.62	<b>-0.38</b>	48935.90	56869.89	10.9		
Turkey	<b>BIST 100</b>	108155.53	-974.12	<b>-0.89</b>	71792.96	110530.75	38.4		
U.K.	<b>FTSE 100</b>	7379.70	-20.99	<b>-0.28</b>	6654.82	7598.99	3.3		
<b>Asia-Pacific</b>	<b>S&amp;P/ASX 200</b>	5744.30	-2.10	<b>-0.04</b>	5156.60	5956.50	1.4		
China	<b>Shanghai Composite</b>	3384.15	4.66	<b>  0.14</b>	2980.43	3385.39	9.0		
Hong Kong	<b>Hang Seng</b>	27894.08	-78.16	<b>-0.28</b>	21574.76	28094.61	26.8		
India	<b>S&amp;P BSE Sensex</b>	32186.41	27.75	<b>  0.09</b>	25765.14	32575.17	20.9		
Japan	<b>Nikkei Stock Avg</b>	19865.82	89.20	<b>  0.45</b>	16251.54	20230.41	3.9		
Singapore	<b>Straits Times</b>	3230.36	-5.33	<b>-0.16</b>	2787.27	3354.71	12.1		
South Korea	<b>Kospi</b>	2360.18	-5.29	<b>-0.22</b>	1958.38	2451.53	16.5		
Taiwan	<b>Weighted</b>	10532.88	-77.47	<b>-0.73</b>	8902.30	10617.84	13.8		

Source: SIX Financial Information/WSJ Market Data Group

### Currencies

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



US\$ vs. Yen Euro

Country/currency Wed in US\$ per US\$ (%)

ADVERTISEMENT

## The Mart

THE WALL STREET JOURNAL.

# JEGAU NOTICES

ADVERTISE  
TODAY

(44) 207-572-2124

Robert.Monaghan  
[@wsj.com](mailto:@wsj.com)

For more  
information visit:  
[wsj.com/classifieds](http://wsj.com/classifieds)

**BUSINESS OPPORTUNITY**

**GOVERNMENT OF MAHARASHTRA  
PUBLIC WORKS REGION, PUNE  
PUBLIC WORKS CIRCLE, SOLAPUR  
PUBLIC WORKS DIVISION, PANDHARPUR**

**NOTICE FOR HYBRID ANNUITY (ONLINE) TENDER  
E-TENDER NOTICE NO.11 FOR 2017-18**

The Public Works Department, Government of Maharashtra, represented by the Executive Engineer, Public Works Division, Pandharpur (the "Authority") is engaged in the development of highways and as part of this endeavor, the Authority has decided to undertake development and operation / maintenance of the Project (the "Project") on Hybrid Annuity basis, and has decided to carry out the bidding process for selection of a private entity as the Bidder to whom the Project may be awarded.

Brief particulars of the Project are as follows:

Sr. No.	State	Dist.	Pack-ages	Project	Project Length in (km)	Project Cost in (Rs.)	Earnest Money/ Bid Security (Rs.)	Duration of the Project	Cost of Tender Fee Document (Rs.)
1	MAHARASHTRA	SOLAPUR	PN-14	PN - 14 A) Improvements to Maharpeth Umbrail Masur Mayani Dighanchi Mahad Pandharpur Road S.H. 143 Km.0/00 to 132/360.. (Km.60/00 to Km.106/420) District- Solapur. PN - 14 B) Improvements to Dalaik Kalamb Nataepote Shingnapur Dhahiwadi Pushewadi Karad Road S.H. 124 Km. 24/500 to Km.39/600 PN-14 C) Improvements to District Border to Mungashai Aran Karkamb Pandharpur Road M.D.R. 133 Km.0/00 to Km. 72/200 Dist- Solapur. (Under Hybrid Annuity), on Hybrid Annuity Basis. Taluka- Pandharpur. District-Solapur.	195.245 KM	₹ 427.52 Crore	₹ 4.30 Crore	548 Days	₹ 50,000/- Online Payment through NEFT/ RTGS

**E-TENDER TIME TABLE**

Sr.No.	Event Description	Date
1.	Invitation of RFP (NIT) ( Download period of online tender)	Dt.28.08.2017 at 10.00 Hrs. to Dt. 11.10.2017 at 18.00 Hrs.
2. A	Last date for receiving queries for pre- bid-1	12.09.2017 upto 11.00 Hrs.
2.B	Pre-Bid meeting 1	In the Office of the Chief Engineer, P.W.Region Pune, Dt.12.09.2017 upto 11.00 Hrs.
2.C	Authority response to queries for Pre-Bid Meeting 1 latest by	18.09.2017
3.A	Last date for receiving queries for pre- bid - 2	26.09.2017 upto 11.00 Hrs.
3.B	Pre- Bid meeting 2	In the Office of the Chief Engineer, P.W.Region Pune, Dt. 26.09.2017 upto 11.00 Hrs.
3.C	Authority response to queries for Pre-Bid Meeting 2 latest by	27.09.2017
4	Last date of Bid Submission (Online) (Technical and financial Bid Last date and time)	Dt.12.10.2017 till 23.00 Hrs.
5	Physical submission of Bid Security/ POA etc ( as per clause 2.11.2 of RFP )	Till 11.00 hrs on 16.10.2017 in the Office of Superintending Engineer, P.W. Circle, Solapur.
6	Opening of Technical Bids.( If possible)	(at 11.30 on 16.10.2017 ) Office of Superintending Engineer, P.W. Circle, Solapur .
7	Opening of Financial Bids. .( If possible)	(at 11.30 on 07.11.2017 ) Office of Superintending Engineer, P.W. Circle, Solapur

Note:-  
1. The payment towards the cost of Tender forms will tie done online only through RTGS/NEFT It should be noted that one should complete these activities at least one day in advance.  
2. All eligible / interested Bidders who want to participate in tendering process should compulsorily get enrolled on e-tendering portal "<http://mahatenders.gov.in>"  
3. Contact on numbers given below for difficulties in online submission of tenders.:-(NIC-Toll Free Ph.No. 1800 30702232/7878107985-86)  
4. Bid submitted through any other mode shall not be entertained. However, Bid Security, proof of online payment of cost of bid document, Power of Attorney and joint bidding agreement etc. as specified in Clause 2.11.2 of the RFP shall be submitted physically by the Bidder on or before 14/11/2017 upto 11:00 hours.  
5. Other terms and conditions are detailed in online e-tender form. Right to reject any or all online bids of work, without assigning any reasons thereof, is reserved with department.  
6. Short Tender Notice is displayed on P.W.D. website [www.mahapwd.com](http://www.mahapwd.com).

(Suresh Raut )  
Executive Engineer,  
Public Works Division, Pandharpur

D.G.I.P.R. 2017/2018/2797

**BUSINESS OPPORTUNITY**

**GOVERNMENT OF MAHARASHTRA  
EXECUTIVE ENGINEER,  
PUBLIC WORKS DIVISION, WARDHA**

**NOTICE FOR HYBRID ANNUITY (ONLINE) TENDER  
E-TENDER NOTICE NO.09 FOR 2017-18**

**Bid/Package no -MRIP/Package NAG-78/2017      Dated 24/08/2017**

RFP for Improvement of :- Construction of two lanning with paved shoulders to Package No.NAG-78 wardha in the in state of Maharashtra under MRIP on Hybrid Annuity Mode consisting of following works, (A) Wardha Sewagram Samudrapur Girad Umred Road (SH326) Length 93.363 km Including Hamdapur road Junction to Wardha Hinganghat road (SH-328) Note :- This site includes construction of bridge and approaches at km 34/120 in Sakhara Phata to shedgaon Phata section (from km 20/850 to 37/950) and maintenance of sakharaphata to shedaon phata section (from km 20/850 to km 37/950), (B) Improvement to Roads Connecting to Tourist Destination in wardha District (Bor Dharan) in km 0/0 to 7/800 (C) Kharangna Masod Kondhali. Sewagram Chincholi Road km 0/0 to 35/800. (D) Rohna Wadhona Karanja Jalalkheda Mowad to State Border road Km 0/0 to 39/500

The Government of Maharashtra had entrusted to the Authority the development, maintenance and management of state highway and Major District Road of State of Maharashtra. The Authority had resolved to augment the existing road of. (A) Wardha Sewagram Samudrapur Girad Umred Road (SH326) length 93.363 km Including Hamdapur road Junction to Wardha Hinganghat road (SH-328) Note :- This site includes construction of bridge and approaches at km 34/120 in Sakhara Phata to shedaon Phata section (from km 20/850 to 37/950) and maintenance of sakharaphata to shedaon phata section (from km 20/850 to km 37/950). (B) Improvement to Roads Connecting to Tourist Destination in wardha District (- Bor Dharan) in km 0/0 to 7/800 (C) Kharangna Masod Kondhali Sewagram Chincholi Road km 0/0 to 35/800, (D) Rohna Wadhona Karanja Jalalkheda Mowad to State Border road Km 0/0 to 39/500

The Government of Maharashtra had entrusted to the Authority the development, maintenance and management of state highway and Major District Road of State of Maharashtra. The Authority had resolved to augment the existing road of. (A) Wardha Sewagram Samudrapur Girad Umred Road (SH326) length 93.363 km Including Hamdapur road Junction to Wardha Hinganghat road (SH-328) Note :- This site includes construction of bridge and approaches at km 34/120 in Sakhara Phata to shedaon Phata section (from km 20/850 to 37/950) and maintenance of sakharaphata to shedaon phata section (from km 20/850 to km 37/950). (B) Improvement to Roads Connecting to Tourist Destination in wardha District (- Bor Dharan) in km 0/0 to 7/800 (C) Kharangna Masod Kondhali Sewagram Chincholi Road km 0/0 to 35/800, (D) Rohna Wadhona Karanja Jalalkheda Mowad to State Border road Km 0/0 to 39/500

Brief particulars of the Project are as follows:-

Name of the Highway / Major District Road	Length (in Km)	Estimated Project Cost (in Rs.Cr.)
<b>RFP FOR NAGPUR PACKAGE NO. NAG-78</b> Construction of two lanning with paved shoulders to Package No. NAG-78 wardha in the in state of Maharashtra under MRIP on Hybrid Annuity Mode consisting of following works.	<b>176.45 KM</b>	<b>₹ 494.39 Crore</b>
(A) Wardha Sewagram Samudrapur Girad Umred Road (SH326) Length 93.363 km Including Hamdapur road Junction to Wardha Hinganghat road (SH-328) Note :- The site includes construction of bridge and approaches at km 34/120 in Sakhara Phata to shedaon Phata section (from km 20/850 to 37/950) and maintenance of sakharaphata to shedaon phata section (from km 20/850 to km 37/950)		
(B) Improvement to Roads Connecting to Tourist Destination in wardha District (- Bor Dharan) in km 0/0 to 7/800		
(C) Kharangna Masod Kondhali Sewagram Chincholi Road km 0/0 to 35/800		
(D) Rohna Wadhona Karanja Jalalkheda Mowad to State Border road Km 0/0 to 39/500		

**E-TENDER TIME TABLE**

Sr No.	Event Description	Date
1	Invitation of RFP (NIT) ( Download period of online tender)	Dt. 24.08.2017 at 10.00 Hrs. to Dt.30.10.2017 at 23.00 Hrs.
2. A	Last date for receiving queries for pre-bid-1	15.09.2017 upto 11.00 Hrs.
2. B	Pre Bid meeting 1	15.09.2017 online or in the office of the Chief Engineer P.W. Region Nagpur on Dt.15.09.2017 upto 11.00 Hrs.
2.C	Authority response to queries for Pre-Bid Meeting 1 latest by	19.09.2017
3.A	Last date for receiving queries for pre-bid-2	Dt. 06.10.2017 up to 11.00 Hrs.
3.B	Pre Bid meeting 2	Online or in the office of the chief Engineer P.W. Region Nagpur on Dt. 06.10.2017 upto 11.00 Hrs.
3.C	Authority response to queries for Pre-Bid Meeting 2 latest by	10.10.2017
4	Bid Due Date (Submit Hash to create online tender by bidder) (Technical and financial Bid Last date and time)	Dt. 31.10.2017 till 23.00 Hrs.
5	Physical submission of Bid Security / POA etc ( as per clause 2. 11. 2 of RFP )	Till 11.30 hrs. on 3.11.2017 in the office of Superintending Engineer, Public Works Circle Chandrapur
6	Opening of Technical Bids	Dt. 6.11.2017 to 10.11.2017 at 18.00 hrs. in the office of the Superintending Engineer, Public Works Circle Chandrapur
7	Declaration eligible /qualified bidders	(Within 20 days from Bid due date)
8	Opening of Financial Bids	(Within 30 days from Bid due date)
9	Latter of award ( LOA )	(Within 60 days from Bid due date)
10	Validity of Bid	(120 days from Bid due date)
11	Signing of Agreement	(Within 45 days of award of LOA)

The complete' BID document can be viewed / downloaded from e-procurement portal of <http://www.pwd.maharashtra.etenders.in> from 24/8/2017 to 30/10/2017 (upto 23.00 Hrs.IST). Bid must be submitted only at <http://www.pwd.maharashtra.etenders.in> during the validity of registration with the Maharashtra Government e-tendering Portal, i.e. <http://www.pwd.maharashtra.etenders.in> on or before 30/10/2017 (upto 23.00 Hrs. IST). Technical submissions of the bid received online shall be opened on 6/11/2017 (at 11.30 Hrs. IST)

Bid submitted through any other mode shall not be entertained. However, Bid Security , proof of online payment of cost of bid document, power of Attorney and joint bidding agreement etc. as specified in Clause 2.11.2 of the RFP shall be submitted physically by the bidder on or before 3/11/2017 (At 11.00 Hrs. IST) . Please note that the Authority reserves the right to accept or reject all or any of the BIDs without assigning any reason whatsoever.

**Note:-**

1. The payment towards the cost of Tender forms will be done online only through RTGS / NEFT. It should be noted that one should complete these activities at least one day in advance.
2. All eligible/interested Bidders who want to participate in tendering process should Compulsorily get enrolled on e-tendering portal <http://www.pwd.maharashtra.etenders.in>
3. Contact below for difficulties in online submission of tenders :- (Landline No. -020-25315555/56)
4. Other terms and conditions are detailed in online e-tender form. Right to reject any or all online bid of work without assigning any reasons thereof, is reserved by the department.
5. Short Tender Notice is displayed on P.W.D website [www.mahapwd.com](http://www.mahapwd.com).

Thanking You,  
Yours Faithfully  
Executive Engineer, Public Works Division  
Wardha

D.G.I.P.R. 2017/2018/2798

**ANNOUNCEMENTS**

**NICHE MEDICAL CLINIC**

Non-doctor personnel needed to run small office in your city staffed by local physician providing unique medical service. Net \$4,000 per patient cash, no insurance. Proven track record. FDA registered life-changing treatment. No competition. Exclusive territory. Inv. req. (800) 241-1070

**BUSINESS OPPORTUNITY**

**HINDUSTAN PETROLEUM CORPORATION LIMITED**  
(A Government of India Enterprise)  
Regd. Office : 17, Jamshedji Tata Road, Mumbai - 20, CIN No. : L23201MH1952GO008858

**GLOBAL NOTICE INVITING TENDER**

M/s Engineers India Ltd. on behalf of M/s Hindustan Petroleum Corporation Ltd. invites digitally signed & sealed (encrypted) e-tenders (online bid to be submitted only at site <https://etender.hpcl.co.in>) under single stage two bid system i.e. unpriced bid and priced bid in prescribed bid document from eligible bidders for following tenders of MDPL Capacity Expansion and Palanpur-Vadodara Pipeline Project:

**"SUPPLY OF BALL VALVES (API 6D) - II FOR STATION WORK"**  
(Tender no : 17000064-HD-10129). Pre Bid meeting: At 1100 Hours IST on 21.09.2017. Tender submission due date : Up to 06.10.2017 (1600 Hours IST). Un priced bid opening: 1630 Hours IST on 06.10.2017.

**"SUPPLY OF DIBV - PLUG VALVES FOR STATION WORK"**  
(Tender no : 17000063-HD-10129). Pre Bid meeting: At 1330 Hours IST on 21.09.2017. Tender submission due date : Up to 09.10.2017 (1600 Hours IST). Un priced bid opening: 1630 Hours IST on 09.10.2017.

**"SUPPLY OF PRESSURE BALANCE LUBRICATED PLUG VALVES (API 6D) FOR STATION WORK"**  
(Tender no : 17000059-HD-10129). Pre Bid meeting : At 1330 Hours IST on 22.09.2017. Tender submission due date : Up to 10.10.2017 (1600 Hours IST). Un priced bid opening: 1630 Hours IST on 10.10.2017.

The tender details/documents including EMD requirement etc. can be viewed and downloaded 08.09.2017 onwards from our web sites <https://etender.hpcl.co.in> and [www.hindustanpetroleum.com](http://www.hindustanpetroleum.com) (under tender section: link "Tenders & Contracts")

All revisions, clarifications, corrigenda, addenda, time extensions etc. to the tender will be hosted on <https://etender.hpcl.co.in> and [www.hindustanpetroleum.com](http://www.hindustanpetroleum.com). Bidders should regularly visit these websites to keep themselves updated.

Dy. General Manager, Engineers India Ltd.

**Healthcare Investment  
30-75% ROI Per Year!**

Our healthcare solution lowers costs. No deductibles. Big market need. Repeat biz. Very large ROI. \$15k-600k investment. Jeff Roberts 800-845-7720 [jroberts@atsmidwest.com](mailto:jroberts@atsmidwest.com)

**FINANCE IN EUROPE**

Business financing at the Bankers Institute. Deal direct with the World's top Financial Institutions. Qualified Agents needed now. Contact us: <http://www.thebankersinstitute.com>

**As with all investments, appropriate advice should be obtained prior to entering into any binding contract.♦**

**BHARAT HEAVY ELECTRICALS LIMITED**  
भारत हेवी इलेक्ट्रिकल्स लिमिटेड (भारत सरकार का उपकरण)  
Industry Sector, Lodhi Road, New Delhi - 110003  
Invites

(a) Expression of Interest (EOI) Ref No. TBSG/DFC for partnering with BHEL in Indian Railways' Invitation for Pre-Qualification Notice No. 2016/Elect(Dev)/440/4 for 9000 HP Electric Locomotives for DFC; (b) EOI Ref No. TBSG/WW for partnering with BHEL to participate in Business Opportunity in Waterways Transportation in India; (c) EOI Ref No. TBSG/ELoco/RE for development of Regenerative WAG7 Locomotives. Contact: 011-41793244  
(d) EOI Ref No. ESSG/EV/01 for joint working in EESL tenders for electric cars & charging infra & for partnering with BHEL for opportunities in EV, components of EV and chargers market. Contact: 011-41793196 Details available at [www.bhel.com](http://www.bhel.com). Further corrigenda, amendments, extensions, etc. (if any) will be hosted on our website only.

**BUSINESS FOR SALE**

Rare Agerwood (Oud) plantation in Vietnam, Well established, 50 hectares, mature trees, 30,000 trees 15 years & older. 20,000 trees 10-15 years. Excellent steady yield. Includes processing plant. Contact: Dong Bach, Phone +849 6628 6676 or [dong.bach@gmail.com](mailto:dong.bach@gmail.com)

**TRAVEL**

**Save Up To 60%**  
First & Business INTERNATIONAL  
Major Airlines, Corporate Travel Never Fly Coach Again! [www.cooktravel.net](http://www.cooktravel.net) (800) 435-8776

**Businesses For Sale.**

Advertise in The Mart.

Call +44 (0) 207 572 2124

**THE WALL STREET JOURNAL.**

EUROPE

**HINDUSTAN PETROLEUM CORPORATION LIMITED**  
(A Govt. of India Enterprise)

Mumbai Refinery, P.O. Box No. 18920, B.D. Patil Marg, Mahul, Mumbai - 400074, India CIN-L23201MH1952GO1008858 Tel : +91 22-2507 6448/6406

**INTERNATIONAL COMPETITIVE BIDDING**

Sealed offers are invited from Foreign and Indian vendors, under 2-bid e-Tender system (Part-I: EMD + Integrity Pact, Techno-Commercial bid and Part-II: Priced bid) for the following works:

**Tender No17000110-HD-48009** Selection of Owner's Consultant (Process) for Rajasthan Refinery Project (RRP)

**Tender availability in Portal** From 09.09.2017 to 11.10.2017 (both days inclusive)

**Due date for submission of bids/ Opening of Unpriced Bids** 11.10.2017 @1330 hrs 11.10.2017 @1400 hrs

Please visit our websites [www.hindustanpetroleum.com](http://www.hindustanpetroleum.com) or <https://etender.hpcl.co.in> for the detailed NIT, Tender. Bidders have to quote online @ <a href

# MARKETS

# As Yen Climbs, Bearish Wagers Pile Up

Carry trades by hedge funds are likely behind surge in bets registered against the currency

By SAUMYA VAISHAMPAYAN

Hedge funds have been consistently betting against the Japanese yen this year, even though the currency is on track for its biggest annual rise against the U.S. dollar in seven years.

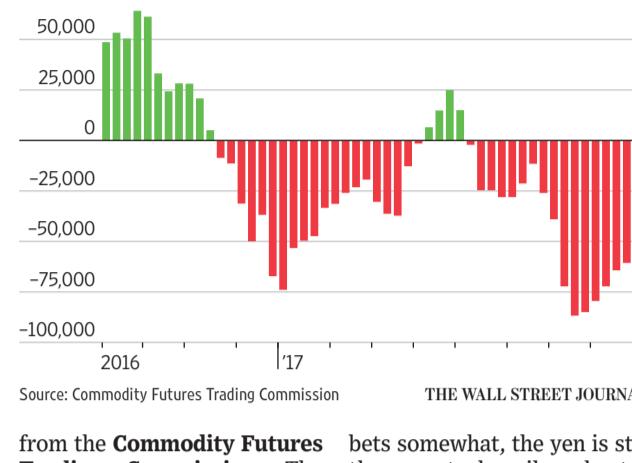
The reason may have little to do with Japan, but rather a strategy of using the yen to invest in currencies or bonds of other nations with higher yields, known as the carry trade.

The yen has gained 6.3% against the dollar in 2017, its biggest rise since 2010, when it surged 14%.

Even so, hedge funds and other investors have largely been negative on the yen this year, as measured by data on futures and options contracts

## Why So Negative?

The net number of futures and options contracts held by hedge funds betting on a rise in the Japanese yen



Source: Commodity Futures Trading Commission

THE WALL STREET JOURNAL.

from the **Commodity Futures Trading Commission**. The data show that net wagers the yen would decline, known as a short position, hit an almost two-year high in the week ended July 18.

While traders have since pared the number of negative

bets somewhat, the yen is still the most heavily shorted among major currencies such as the euro and British pound.

Traders say many hedge funds aren't necessarily taking a view that the yen is going down. Instead, they say the funds are likely borrowing the

yen to buy other currencies and bonds with juicier returns. That gets logged as a bearish yen wager in the CFTC's data, they said.

"We've seen a substantial amount of interest in that across the spectrum. Everyone is trying to express some form of carry," said Ruchir Sharma, head of Asia-Pacific foreign-exchange trading at **Credit Suisse Group AG** in Singapore.

Investors have piled into emerging-market stocks and bonds with renewed enthusiasm in 2017, part of a broader search for yield that has driven markets in recent years. Those inflows, along with decent economic and trade data, have boosted several currencies. Weak inflation in the U.S. has also helped, as it raises doubts the Federal Reserve will raise rates again this year.

The Indian rupee, Chinese yuan and South African rand each have surged more than 5% against the dollar in 2017.

Carry-trade investors, who often use borrowed money to

amplify returns, have continued to use the yen to buy these soaring emerging-market currencies.

Hedge funds have been able to make enough money from their purchases of higher-yielding assets that they are comfortable holding on to their short yen positions, despite the currency's gain, according to Mr. Sharma. In the current environment, it would take a much stronger yen, perhaps around ¥102 to the dollar, for those funds to throw in the towel on carry trades. Wednesday afternoon in New York, the dollar bought ¥110.49.

Robert Savage, head of the currency hedge fund CCTrack Solutions in New York, said he is buying the Indian rupee and other emerging-market currencies as part of carry-trade strategies, and that some of those trades are funded with the Japanese yen.

Still, some investors see fundamental reasons why the yen should fall against the dollar. Many expect the Fed to

keep raising rates in coming months, even if the timing is debated. Higher U.S. interest rates should boost the dollar against the yen, especially as the **Bank of Japan** is expected to keep its monetary policy loose in the near term.

"For me, it's all about the rate differential," said Kisoo Park, a global bond manager at Manulife Asset Management in Hong Kong, referring to the dollar-yen exchange rate.

Even so, other factors could push the yen higher. Heightened geopolitical tensions, especially around North Korea, could benefit the yen, which is traditionally viewed as a haven investment.

For now, Mr. Savage continues to use the yen in some carry trades.

"The problem with the carry trade is that it's very easy to get into the trade and very hard to get out," he said. The yen is valuable because it is relatively easy to buy and sell, even in times of stress, he said.

# Overseas Buyers Grab China Debt

By SHEN HONG

SHANGHAI—Foreign investors last month more than tripled their holdings of a popular short-term debt instrument issued by Chinese banks—reflecting both the attraction of a rising yuan and a growing willingness to take on risk.

That made them among the leading buyers of “negotiable certificates of deposit,” or NCDs, in August, a rare position for foreign investors in any Chinese debt market. Central banks and sovereign wealth funds were big buyers, according to a Shanghai-based banker at a global bank that trades on behalf of such foreign investors.

NCDs—effectively high-

yielding bonds, generally with maturities of a month to a year—have become extremely popular with Chinese banks, especially smaller lenders, since their launch in late 2013. But as concerns have grown that banks are issuing them as a tool for leveraged investment rather than to meet genuine refinancing needs, they have drawn heightened scrutiny from Chinese regulators, who recently imposed a partial ban.

Foreign investors' holdings surged to 88.3 billion yuan (\$13.5 billion) in August, from 24.5 billion in July and just 2.2 billion yuan in January, according to the data provider Wind Information. Such buyers' net 63.8 billion yuan in purchases last month put

them second only to a group of nonbank institutions that include Chinese brokerages, insurers and trust companies. Still, foreign investors' holdings account for only 1% of the NCD market.

“The yuan's sharp appreciation must be a key reason behind foreign investors' interest in NCDs and the latter's high returns make them even more attractive, especially compared with the lower government-bond yields,” said Liu Dongliang, senior analyst at **China Merchants Bank**.

The yuan has staged an unexpected comeback against the dollar, delivering a 6% gain this year after a 6.6% loss last year.

Six-month NCDs issued by AAA-rated, midsize Chinese

banks—the most popular category of the product—pay an average return of 4.6%, compared with 3.3% for six-month bills issued by the Chinese government and 3.6% for 10-year government bonds.

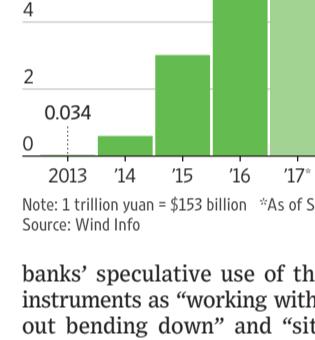
“This is a bit unexpected because the foreign investors in the Chinese market are typically risk-averse and some of them used to shun bonds issued by quasi-sovereign institutions like **China Development Bank**,” said Mr. Liu, referring to China's largest policy bank.

The NCD market has expanded to 8.5 trillion yuan, from 6.3 trillion at the end of last year and just 34 billion yuan at the end of 2013. In early April, the country's banking regulator criticized

## Foreign Surprise

Foreign investors emerged as the second-biggest buyers of negotiable certificates of deposits in August as the market continued to expand.

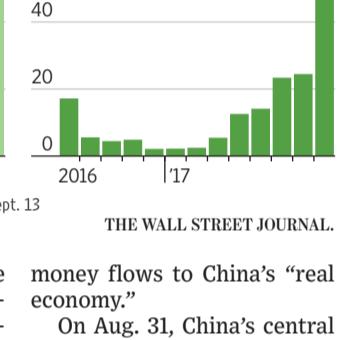
### Outstanding value of NCDs



Note: 1 trillion yuan = \$153 billion \*As of Sept. 13

Source: Wind Info

### Foreign investors' holdings



THE WALL STREET JOURNAL.

money flows to China's “real economy.”

On Aug. 31, China's central bank said it will ban the issuance of NCDs with maturities longer than a year.

# HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

# Goldman's Trading-Client Hunt

**Goldman Sachs Group** has a plan to get its trading mojo back. The only thing standing in its way is every other bank on Wall Street.

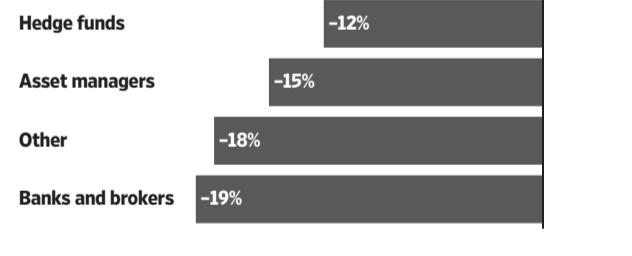
Goldman outlined in some detail on Tuesday how it plans to boost revenue by \$5 billion across various segments over the next three years. The focus was on fixed-income, currency and commodities, or FICC, trading, which posted disappointing performance over the last two quarters.

Harvey Schwartz, the firm's co-chief operating officer, said Goldman could boost revenue in this business by about \$1 billion over the period. The bulk of those gains are to come from expanding Goldman's FICC market share, which it estimates has fallen to 10% over the past 12 months from 19% in 2009.

In particular, Goldman wants to broaden its client base away from hedge funds, which it dominates, to process more trades for corporate clients as well as traditional asset managers and

## Wanted: More Corporate Clients

Goldman Sachs's fixed-income, currency and commodities sales, change from a year earlier, first half, by type of client



Source: the company

a true zero-sum game among banks.

Goldman's other growth plans look easier to achieve. In particular, it aims to increase lending to corporate clients, wealth-management clients and ordinary consumers. Goldman is starting from a low base in lending, so this will mainly be a function of how much capital it is willing to commit. The bank's strong position in merger advisory and wealth management also give it a pool of potential borrowers.

Though Mr. Schwartz didn't mention it, another key to turning around the trading business will be to avoid costly mistakes such as the directional bet on natural gas prices that cost Goldman dearly in the second quarter.

The first step to recovery is admitting you have a problem, which Goldman has done. Now, it needs to show it has the chops to take trading business from top rivals. Investors shouldn't assume it will go so smoothly as depicted in Goldman's presentation.

—Aaron Back

## OVERHEARD

Football season has begun and many U.S. fans are having their feathers ruffled.

Their distress has nothing to do with questionable calls or players' off-field antics. The price of their snack of choice, chicken wings, has surged.

Sports-bar chain **Buffalo Wild Wings** this month is taking the drastic step of ending its half-price wings special on Tuesdays—the slowest sports night of the week. Instead, it will be offering boneless wings, which, it should be clear, aren't actually wings.

The shares have lagged behind the S&P 500 by 49 percentage points in the year to date.

As bad as things are now, the crisis may not come home to roost until the Super Bowl next February. Last year, according to the National Chicken Council, they ate about 166 million pounds of them or some 338 times the combined weight of every NFL team.

With supply running short, these are dark times for dark-meat lovers.

# Hurricanes Won't Hurt All Retailers

The hurricanes that hit Texas and Florida may not change how much Americans spend, but they should affect where they spend it. The likely result: Many retailers that already were doing well will do even better, and many that were already doing poorly will do worse.

When threats like hurricanes Harvey and Irma are looming, people stock up on necessities. In the aftermath, their focus shifts to repairing and replacing what they have lost. The effect on overall spending is lumpy; it is lower during and for several weeks following a storm, and then catches up. That is why many economists have lowered their forecasts for third-quarter gross-domestic-product growth, with an expectation that GDP in the fourth quarter will rebound.

Some stores, many of which already were having good years, will end up selling more as a result of the storm. **Home Depot**, for example, has benefited from strong home-improvement spending and has so far been well insulated from online competition.

But for more discretionary purchases, little or no catch-up spending occurs. Many of the sales lost by clothing stores, for example, are likely permanent.

Adding to the problem, the hurricanes have left many people with less discretionary spending power. In storm-hit areas, repair costs are taking away money that might otherwise have been spent elsewhere. And across the country, people are paying more for gasoline after Harvey knocked a big chunk of refining capacity. A miserable year for many retailers just got worse.

—Justin Lahart

# An Inflation Surprise Could Leave Bond Investors Aching

Winning streaks can't last forever.

After a two-month run in which benchmark government bond yields fell around the world, the start of this week brought a sharp reversal. With inflation moving into focus, investors may be wise to get used to the latest direction of travel.

The immediate cause of the upturn, which has taken 10-year Treasury yields to 2.15% from post-Trump-election lows of 2.04% and lifted yields in Germany and the U.K., is the waning of a number of external risks.

That leaves a bigger, unresolved conflict around solid global growth, soggy infla-

tion and the response of central banks. Bonds have done well, even as central banks, in particular the European Central Bank, have continued to signal comfort with the outlook for growth. The J.P. Morgan global composite purchasing managers index climbed in August to 53.9, its highest in more than two years. Risky assets like emerging-market stocks and bonds have gained, reflecting the brighter outlook.

But inflation, after being boosted at the start of 2017 by the rebound in oil prices, has come off the boil. The key now lies in the U.S., where the Citigroup inflation surprise index shows price

pressures consistently undershooting expectations in recent months. That has led the market to pare back expectations that the Federal Reserve will continue raising interest rates. This Thursday's data will be closely watched for any sign of a pickup in inflation that might challenge this benign picture.

As long as growth remains robust and unemployment continues falling, it will be hard for central bankers to relinquish the idea that shortfalls in inflation are temporary. Moreover, concerns about the consequences of keeping monetary policy so accommodative—in particular, dangerously over-

the Fed and the ECB have done their best to avoid a rerun of 2013's taper tantrum—the pressures have emerged more in the foreign-exchange market than in debt markets in 2017—but bond investors seem remarkably calm about the prospect of the Fed starting to shrink its balance sheet and the ECB slowing its purchases.

The hopes of bond bears have been disappointed this year. But if growth holds up, then it is hard to believe already-skinny bond yields have much room to fall. And if inflation shows any signs of life, then the correction could be sharp.

—Richard Barley

## Sidewinders

Change in 10-year government-bond yields

0.5 percentage point

0 -0.5

I J F M A M J J A S

Source: FactSet

THE WALL STREET JOURNAL.