

# THE WALL STREET JOURNAL.

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WSJ.com EUROPE EDITION

DJIA 22412.59 ▲ 0.19%

NASDAQ 6456.04 ▼ 0.08%

NIKKEI 20310.46 ▲ 0.05%

STOXX 600 381.98 ▼ 0.04%

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GOLD 1312.00 ▲ 0.44%

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## What's News

### Business & Finance

The Fed said it would begin shrinking its bond portfolio in October and left open the possibility of a rate increase by December. A1

◆ Apple acknowledged problems with cellular connectivity in its newest smartwatch, days before the device goes on sale. A1

◆ Thyssenkrupp of Germany and India's Tata plan to fuse their steelmaking operation in Europe amid a glut of steel in the region. B1

◆ Pfizer sued Johnson & Johnson, alleging J&J has thwarted competition to its lower-priced arthritis drug Remicade. B1

◆ Google is set to buy part of Taiwanese smartphone maker HTC, as the search giant tries to crack the handset market. B1

◆ Maersk is selling its tankers unit for \$1.17 billion as the Danish firm focuses on container shipping. B3

◆ GE is grounding its fleet of corporate jets as its new CEO continues to look for ways to slash costs. B3

◆ The strong euro is taking a bite out of European earnings, with companies bracing for more pain. B1

◆ Toshiba's board voted to sell its memory-chip business to a Bain-led group for \$18 billion. B2

◆ FedEx said a cyberattack dented earnings by roughly \$300 million. B4

◆ Toys 'R' Us was hobbled by debt when the retailer was taken private. B4

### World-Wide

◆ Rescue teams in Mexico worked to find the living and the dead beneath rubble left by a 7.1-magnitude earthquake. The death toll stood at 227 but was expected to increase. A1

◆ Hurricane Maria slammed into Puerto Rico with huge waves, massive rain and fierce winds and shut down the U.S. territory's power grid. A7

◆ Trump said he has reached a decision about whether the U.S. will continue to adhere to the Iran nuclear deal, but declined to reveal his decision. A3

◆ Japan and South Korea offered cautious praise for Trump's tough talk against North Korea, while China called for dialogue. A3

◆ Spanish police arrested 13 people in Catalonia and in Madrid for their alleged involvement in planning a vote to secede from Spain. A5

◆ Senate Majority Leader McConnell plans a vote next week on the latest Republican effort to unwind the ACA, his spokesman said. A6

◆ Many states are approving sharp rate increases for ACA insurance plans despite uncertainty about the law's future. A6

◆ Trump is using campaign funds to help pay his legal bills in the Russian election-meddling probe. A6

◆ The first refugees from Australia's offshore detention centers will soon arrive in the U.S. under a resettlement deal. A4

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## WORLD NEWS

**CAPITAL ACCOUNT** | By Greg Ip

# Buyer Beware for Mayors Courting Amazon



**When Amazon.com Inc.** announced this month it was searching for a home for a second headquarters, it made it clear the winning city should expect to dole out big incentives.

Mayors should think twice before writing a big check because the playing field between cities and companies has changed.

As the U.S. economy has shifted from manufacturing to knowledge-intensive products, that has also altered where companies decide to locate.

Countless places could host a factory or the sort of distribution center Amazon opens several times a year. In that case it makes sense for cities to outbid each other with hefty incentive packages.

But Amazon's head office operation will produce ideas, patents, and software, the product of human rather than physical capital. That significantly limits its options.

Whereas physical capital can be anywhere, including overseas, human capital clusters in a handful of cities defined by deep pools of innovative workers and companies and the quality of life that keeps them there. Such cities don't need to offer cash to at-

tract the likes of Amazon. Back in the 1990s, it was thought the internet would be the "death of distance." Since employees could work from almost anywhere, they would move to cheap, low-tax cities, fleeing the costly, congested, overtaxed coastal enclaves of California's Bay Area, New York and Boston.

In fact, as Enrico Moretti, an economist at the University of California, Berkeley, notes in his 2012 book, "The New Geography of Jobs," the opposite happened: The wealthiest cities have pulled further ahead while the laggards have fallen further behind. The divergence has grown since the last recession.

Mark Muro and Sifan Liu of the Brookings Institution noted in a March article that between 2010 and 2015, 14 of the country's 100 largest metropolitan areas materially increased their share of the nation's tech jobs. The three biggest share gainers—the San Francisco, San Jose and Austin areas—are already home to clusters of such jobs.

Mr. Moretti attributes this to the "network effects" of knowledge work: "Being around smart people makes us smarter and more innovative....Once a city attracts

## The Techie Get Techier

Job creation in the technology industry in recent years has favored cities where the sector is already entrenched. Tech job growth, 2013-15

San Francisco-Oakland-Hayward	31,500
San Jose-Sunnyvale-Santa Clara	27,500
New York-Newark-Jersey City	24,200
Dallas-Fort Worth-Arlington	15,400
Austin-Round Rock	11,200
Seattle-Tacoma-Bellevue	11,100
Los Angeles-Long Beach-Anaheim	10,900
Chicago-Naperville-Elgin	10,300
Atlanta-Sandy Springs-Roswell	10,000
Phoenix-Mesa-Scottsdale	9,500

Note: Includes software publishing, data processing and hosting, computer system design  
Source: Brookings Institution analysis of Moody's Analytics data

THE WALL STREET JOURNAL.

some innovative workers and innovative companies, its economy changes in ways that make it even more attractive to other innovators."

Many cities justify throwing massive incentive packages at new employers on the theory that they will then attract new businesses, creating spillover benefits. For the country it's zero sum, but for a city it can be positive sum. A study co-written by Mr. Moretti shows that when a large plant locates in a county, productivity at neighboring

plants also rises, reflecting the spillover benefits.

Such logic drove Wisconsin to offer an eye-watering \$3 billion to Taiwan's Foxconn Technology Group to build its first U.S. factory, making liquid crystal displays, in the state's southeast. Foxconn was scoping out a half-dozen other states, all of which could have offered the same basic amenities.

"You could place the Foxconn operation in many places in the Midwest and the product of that establishment wouldn't change that much,"

says Mr. Moretti. Where a factory locates "depends a lot on the bids and less on the characteristics of the community."

Foxconn isn't about to turn Wisconsin into a hotbed of innovation; public largess virtually never does.

Innovative people, top-notch universities and serendipity can.

Silicon Valley owes its pre-eminence to the decision by William Shockley, one of the transistor's inventors, to start a semiconductor business there in 1956. Seattle was a run-down, declining city when Paul Allen and Bill Gates moved Microsoft to the area to be close to their families in 1979. Microsoft's presence, in turn, encouraged Jeff Bezos to start Amazon there since it guaranteed access to a lot of software engineers.

World-class universities are usually essential, as Boston and Austin demonstrate. This is a relatively modern phenomenon. The demise of Boston's factories turned the city into a "hollowed-out hull" by the 1970s, Harvard University economist Edward Glaeser wrote in his 2011 book, "Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier."

Its universities made possible the city's resurgence.

gance on "education-oriented industries" such as engineering, computers, financial services, management consulting and biotechnology.

Those educational disparities are growing:

Mr. Moretti has found that since 1980 the best educated cities have expanded their college-educated workforce share much faster than others, defying expectations of convergence.

Mark Sweeney, whose firm McCallum Sweeney Consulting advises companies on where to locate, says there's a good chance the winner of the Amazon headquarters project will pay more than Wisconsin did for Foxconn: "This really is a transformational project."

For any city not already brimming with knowledge workers, landing Amazon's second headquarters, which it says will bring up to 50,000 high-wage jobs and \$5 billion in construction spending, could indeed be transformational.

But what if your city already has them? The case for paying a rich company to do what is in its own interest is much weaker. If Amazon passes you by, odds are another firm will come along.

Or, says Mr. Glaeser, "You'll create your own Amazon."

# FED

*Continued from Page One*  
first time, and they implied many officials see little need to raise rates after 2019.

The Fed has raised rates by a quarter percentage point four times since late 2015, most recently in June to a range between 1% and 1.25%, after keeping them near zero for seven years.

Since officials met in July, the unemployment rate has held near a 16-year low, but inflation has stayed soft, challenging the expectation of top officials, including Ms. Yellen, that a deceleration in price pressures this spring would prove transitory.

While the labor market and economic output have largely performed in line with officials' expectations this year, inflation has been a puzzle. In recent years, factors such as a decline in commodities and energy prices, a stronger dollar and labor-market slack helped explain why inflation undershot the Fed's target, but those influences have faded and yet inflation hasn't rebounded.

**The Fed has managed to formulate plans to shrink its \$4.5 trillion portfolio.**

The Fed's preferred annual inflation gauge, excluding volatile food and energy categories, stood at 1.4% in July, down from 1.9% in January and below the central bank's 2% target.

Officials boosted their projection of gross domestic product for this year. They now expect economic output to rise 2.4% this year, versus a projection of 2.2% in June, and they still expect the unemployment rate to fall to 4.3% this year. But they reduced their projection of core inflation to 1.5% for the end of this year, from 1.7% in June, and to 1.9% for the end of next year, versus 2% in June.

The Fed's postmeeting policy statement showed few changes to how officials view the economy's performance in recent months. Officials noted a recent upturn in business spending.

The Fed isn't expected to alter rates at its next meeting, Oct. 31-Nov. 1, leaving a mid-December policy meeting as the Fed's last scheduled chance to push rates higher this year. On Wednesday morning, traders in futures markets placed a 57% probability on a rate increase at the December meeting, according to CME Group. About 77% of economists surveyed by The Wall Street Journal earlier this month said the Fed's next interest-rate increase would

come in December.

The Fed will have several additional months of labor and inflation data before then, but those figures are likely to be distorted by recent hurricanes that hit Texas, Louisiana and Florida. In its postmeeting statement, the Fed said it expected storm-related disruptions and rebuilding would affect economic activity in the short run but not materially over the medium term, suggesting it wouldn't have a bearing on Fed policy decisions.

Meantime, the Fed has managed to formulate plans to shrink its \$4.5 trillion portfolio of bonds and other assets without provoking much concern from investors. How Ms. Yellen navigates this final chapter could shape how future policy makers view the relative merits of the bond-buying episodes in subsequent downturns and could offer a road map for other central banks, especially the European Central Bank, that are preparing their own retreat.

Markets haven't reacted much to the plans in part because other central banks are still buying government bonds and other assets and because the Fed has communicated a plan to gradually remove their support. Beginning in October, the Fed will end its practice of fully reinvesting the principal payments of maturing into new bonds and instead allow \$10 billion in holdings to roll off without reinvestment every month. Those amounts will increase by \$10 billion each quarter to a maximum of \$50 billion.

"Our balance sheet will decline gradually and predictably," Ms. Yellen said at the news conference.

One irony of the Fed's latest low-inflation predicament is that many critics of the bond-buying programs—particularly the second and third rounds launched in 2010 and 2012, respectively—warned they would lead to runaway inflation and currency debasement.

Now that the Fed is winding down those programs, the future of rate increases remains clouded by doubts over why inflation isn't stronger.

In each of the last two years, Fed officials have sketched out several rate increases, but lifted rates just once at the end of each year. This year has been different because of a synchronized upturn in global growth and easing financial conditions that have sent stocks to new records while bond yields, which ran up sharply after President Donald Trump's election last year, have drifted back down.

The combination of relatively stable economic projections and a lower interest-rate outlook shows Fed officials have concluded the economy either can't withstand or won't need very high interest rates, even to achieve the modest growth and low inflation officials currently anticipate.

## Training Day in Belarus



UNDER FIRE: A tank participates in the joint Russian-Belarusian military exercises at a training ground near the town of Borisov, Belarus.

# APPLE

*Continued from Page One*  
after reviewers from The Wall Street Journal and The Verge encountered problems at times making calls, connecting with the Siri virtual assistant and maintaining a cellular-network connection. The Journal ran into issues across multiple wireless carriers.

Reviews from the New York Times, USA Today and other outlets didn't report significant issues with calls and connectivity. A spokeswoman for T-Mobile US Inc. said it tested the watch extensively and it "performed well" on the company's network. AT&T Inc. referred questions about the issue to Apple.

Apple's stock was down 1.8% in afternoon trading in New York.

Wall Street views the Apple Watch, the first completely new product released under Chief Executive Tim Cook, as a bellwether for the company's ability to create new devices that diversify Apple's revenue, two-thirds of which come from iPhone sales.

Apple hasn't disclosed smartwatch sales to date. Market researcher IDC estimates it sold an estimated 30 million Apple Watches since introducing the device in 2015, making it the world's largest smartwatch company by sales.

But the device has failed to generate the type of sales growth Apple saw in the early days of other products such as the iPhone and iPad. The new Apple Watch with LTE goes on sale in stores Friday for \$399, and been available for preorder online since Sept. 15. The promise it can operate independently of an iPhone or Wi-Fi has raised sales expectations.

Loup Ventures, a venture-capital firm specializing in tech research, expects the Series 3 model to lift Apple Watch sales nearly 60% to 26 million units in fiscal 2018, up from 16.4 million units this fiscal year. As of Wednesday, delivery for most models of the new watch was expected to take three to five weeks.

Analysts expect Apple Watch Series 3 to get a sales push from wireless carriers motivated to sell the watch with a supporting \$10 monthly data plan. They also believe its new capabilities could attract consumers who passed on the product following its 2015 debut because of its seeming lack of purpose.

When Apple introduced the Series 3 model at its product showcase Sept. 12, Apple Operating Chief Jeff Williams

said it would give people "the freedom to go anywhere with just your Apple Watch."

He said it would stream 40 million songs to his wrist and have the same phone number as the owner's phone. He demonstrated its abilities by dialing a colleague who received the call on her Apple Watch while paddleboarding on Lake Tahoe.

What is holding the watch back from mass-market appeal is that it is still too focused on health and fitness, said Jitesh Ubrani, a smartwatch analyst with IDC. Apple needs developers to make different kinds of apps so the watch can become a "need to have" device. Cellular capability "gives them a chance," he said.

Mr. Williams, who oversees the smartwatch, has been pushing for cellular connectivity since before the device's



MARK LENIHAN/ASSOCIATED PRESS

## CORRECTIONS & AMPLIFICATIONS

**Kyoya Okazawa** is head of institutional clients, global markets, Asia-Pacific for BNP Paribas. A Markets article Wednesday about gains in Japanese stocks incorrectly gave his title as head of global markets, Asia-Pacific.

**Open-air shopping centers**

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com).

and mixed-use property developments are adding outdoor entertainment programs to their projects to attract more shoppers. A Property Report article Wednesday about landlords' efforts to increase foot traffic inaccurately referred to strip malls in the headline and article.

launch, according to a person familiar with the product's evolution. However, Apple struggled with poor cellular reception, the person said.

Hardware experts have said the challenges reflect the difficulties of working with such a small device. Apple crams accelerometers, gyroscopes, heart-rate sensors and 18 hours of battery life, as well as GPS, Bluetooth and Wi-Fi connectivity, into a product that is just 38 millimeters or 42 millimeters in size.

Apple isn't the first company to offer cellular connectivity on a smartwatch. Samsung Electronics Co. currently offers it on the Gear S3 watch, a device that is thicker and noticeably heavier than the Apple Watch.

—Drew Fitzgerald contributed to this article.

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# WORLD NEWS

## Trump Has Made Decision on Iran Deal

President declines to reveal his conclusion; Macron proposes talks with Iran on Mideast

NEW YORK—President Donald Trump told reporters that he has reached a decision about whether the U.S. will continue to adhere to the Iran nuclear deal, although he declined Wednesday to reveal what the decision is.

*By Eli Stokols,  
Felicia Schwartz  
and Emre Peker*

At the outset of a meeting with Palestinian leader Mahmoud Abbas, Mr. Trump, who on Tuesday criticized the 2015 agreement between Iran and six world powers as "an embarrassment to the United States," responded to a question from a reporter who asked if he has decided what to do on the matter.

"I have decided," the president said, repeating himself two more times.

Asked for clarification, Mr. Trump smiled and said, "I'll let you know what the decision is."

Mr. Trump's comment came before U.S. officials were due to meet later Wednesday with other world leaders in a session that was expected to focus on the agreement. The meeting was to take place on the sidelines of the annual United Nations General Assembly meeting.

As recently as late Tuesday,



Iran President Hassan Rouhani, speaking at the U.N. General Assembly Wednesday, was critical of President Trump's Tuesday address.

Macron said. "We have to keep the 2015 agreement."

Mr. Rouhani's speech also touched on Iran's ballistic missile program. He said that Iran's military program was purely for self-defense and to ward off what he called destabilizing forces, including terrorism and potential foreign military invasions.

Mr. Rouhani also pointed to his landslide re-election this year, when nearly 40 million Iranians turned up to vote, as a sign that the Iranian public supported the regime and favored reform over upheaval.

Mr. Tillerson was scheduled to meet with Iranian Foreign Minister Javad Zarif late Wednesday.

In addition to tightening restrictions in future years, the Trump administration has said it wants to broaden inspections permitted under the nuclear agreement to nonnuclear sites, a proposal Iran strongly opposes.

The Trump administration by October must issue a determination on whether it believes Iran is complying with the deal. Despite the president's public comments that Iran isn't complying with the spirit of the agreement, the White House has twice certified to Congress that the country is complying with the terms.

Other world powers that are party to the deal—the U.K., Germany, Russia, China and France—continue to support it and maintain that it is working.

*—Farnaz Fassihi contributed to this article.*

U.S. officials said the Trump administration hadn't made a decision about the deal. A congressional aide said Wednesday that the Trump administration hadn't yet briefed lawmakers on the decision.

However, Secretary of State Rex Tillerson said late Tuesday that the U.S. would remain a part of the agreement only if it is modified to tighten restrictions on Iran's nuclear program that loosen after the year 2025 under the deal.

Iranian President Hassan Rouhani, in his address to the U.N. General Assembly on

Wednesday, vowed that his country "will not be the first country to violate the agreement." He added it "will be a great pity if this agreement were to be destroyed by rogue newcomers to the world of politics."

Without mentioning Mr. Trump by name, Mr. Rouhani referred critically to the U.S. leader's address before the U.N. on Tuesday.

"The ignorant, absurd and hateful rhetoric, filled with ridiculously baseless allegations, that was uttered before this august body yesterday, was

not only unfit to be heard at the United Nations—which was established to promote peace and respect between nations—but indeed contradicted the demands of our nations from this world body to bring governments together to combat war and terror," he said.

French President Emmanuel Macron, speaking to reporters on the sidelines of U.N. meetings, declined to comment on Mr. Trump's remarks, and wouldn't say whether he has been informed of a decision by the U.S. leader.

Mr. Macron said that major

powers need to maintain the Iran nuclear deal, but also assure that Iran doesn't pursue weapons development when many provisions of the deal expire in future years and address concerns over Tehran's development of ballistic missiles.

He also proposed talks with Iran on the situation in the Middle East, in a sign that Paris may be seeking to address Washington's concerns that Tehran isn't living up to the spirit of the nuclear accord.

"It will be a mistake to annul the nuclear agreement without anything else," Mr.

## President's Threat Buoys Asia Allies

Japan and South Korea offered cautious praise for President Donald Trump's tough talk against Pyongyang in his first address to the United Nations General Assembly, where he threatened to "totally destroy" North Korea should it attack America or its allies.

*By Te-Ping Chen in Beijing and Megumi Fujikawa in Tokyo*

China, meanwhile, reiterated its calls for the standoff to be resolved through dialogue, while Chinese state media criticized the U.S. president's remarks.

"We hope relevant parties can exercise restraint," said foreign ministry spokesman Lu Kang, who said that U.N. resolutions aimed at Pyongyang reflected the "common will and consensus" of the international community.

While angered by Pyongyang's provocations, Beijing is wary of actions that could trigger the regime's collapse, send a flood of North Korean refugees into northeastern China, and bring U.S. troops based in South Korea closer to its border.

Speaking at the General Assembly on Wednesday, Japanese Prime Minister Shinzo Abe said North Korean nuclear weapons either already were, or were on the verge of becoming, hydrogen bombs, presenting an unprecedented threat.

"It is indisputably a matter of urgency," Mr. Abe said. "We must prevent the goods, funds, people, and technology necessary for nuclear and missile development from heading to North Korea."

Mr. Abe said Japan consistently supported the U.S. stance that "all options are on the table" in dealing with



North Koreans rehearsed before a celebratory event in Pyongyang's Kim Il-Sung Square Wednesday.

North Korea.

South Korea's Moon Jae-in is due to speak on Thursday. Both Asian leaders are expected to have individual discussions with Mr. Trump as well as a trilateral meeting this week.

In a combative speech to the U.N. on Tuesday, Mr. Trump blasted North Korea's pursuit of nuclear weapons and its missile program. He warned that Kim Jong Un's regime was "on a suicide mission," referring to the North Korean leader as "Rocket Man," and said denuclearization was its only acceptable option.

There was no response from North Korea on Wednesday specifically to Mr. Trump's remarks. But Pyongyang has said in recent weeks that it wouldn't give up its nuclear weapons under any conditions.

Japan's chief government spokesman, Yoshihide Suga, praised the speech, including

Mr. Trump's reference to Megumi Yokota, a Japanese girl kidnapped by North Korean agents in 1977. Mr. Trump didn't mention Ms. Yokota's name but said Pyongyang "kidnapped a sweet 13-year-old Japanese girl from a beach in her own country to enslave her as a language tutor for North Korea's spies."

North Korea has said Ms. Yokota is dead but hasn't provided proof. Mr. Abe, the Japanese leader, has long made the return of her and other Japanese abductees one of his priorities in dealing with North Korea.

Asked specifically about the U.S. president's "totally destroy" comment, Mr. Suga said: "It goes without saying that the strong deterrent force of the Japan-U.S. alliance is necessary to secure peace and stability in the region. From that perspective, we view favorably President Trump's stance that

all options are on the table."

A spokesman for South Korea's presidential office said on Wednesday that the speech demonstrated the seriousness with which Washington regards the North Korean nuclear crisis. He reaffirmed Seoul's commitment to using "maximum sanctions and pressure" to steer Pyongyang toward giving up its nuclear arsenal.

"The two countries will continue to cooperate closely with each other," the spokesman said.

Mr. Moon walks a delicate line in his relationship with Mr. Trump. The left-leaning South Korean president, who took office this year calling for more engagement with North Korea, has been forced to tack to the center on security issues, disappointing many members of his political base.

*—Jonathan Cheng contributed to this article.*

## Kenya's High Court Slams Vote Officials

**BY MATINA STEVIS-GRIDNEFF**

inadvertent errors," she added. The electoral commission has maintained there were no major failures as the opposition and court claim, and says the election was free and fair. It didn't comment after the ruling.

The details of the ruling throw the timing of the new vote into question. The likely date has been floated as Oct. 17, but the Supreme Court's ruling showed the system needs to be overhauled before elections can be held again, and it was unclear whether one month would suffice.

*The country's new presidential election is scheduled to take place in October.*

NAIROBI, Kenya—The country's top court on Wednesday lambasted Kenyan electoral officials in a detailed account of the reasoning behind its unprecedented annulment of August's presidential election, casting doubt on whether a repeat vote can go ahead when expected.

Incumbent President Uhuru Kenyatta was declared the winner of the Aug. 8 elections, but the result was challenged by his long-time opponent, Raila Odinga, who maintained there were deliberate irregularities, including hacking of the electoral commission's computer system.

The Supreme Court for the first time in African history overturned an election, siding with Mr. Odinga's petition and calling for a new poll—which is scheduled to be held in October.

The Electoral and Boundaries Commission, known as the IEBC, didn't upload all the legal forms verifying electoral results in thousands of polling stations and shouldn't have put out official results without them, the court said. A study by the court of a random sample of those that were provided found that many lacked the proper watermarks, stamps and other marks of validity.

The justices added that the commission didn't comply with court requests to provide proof its electoral systems hadn't been hacked, in an indication that there may have been illegal interference with the commission's computer system.

The court cast doubt on whether the same electoral officials could fairly oversee the repeat elections.

"We find that the 2017 presidential election was... neither transparent nor verifiable. On that ground alone...we have no choice but to nullify it," Justice Philomena Mwilu said.

"No election is perfect. Even the law recognizes this reality, but we find it difficult categorizing these issues as minor

Some experts say it is unlikely that Mr. Odinga's NASA coalition will defeat Mr. Kenyatta's Jubilee in the new elections.



Opposition leader Raila Odinga, right, in court on Wednesday

### WORLD WATCH

CONGO

#### At Least 12 Are Killed In Severe Flooding

A Congo official says flooding caused by torrential rains overnight has killed at least 12 people and left 92 others missing in the country's east.

Robert Seninga, deputy provincial parliament member, also said 18 people have been injured in the flooding of Bihambwe village, about 60 kilometers (37 miles) from Goma in Congo's North Kivu province. He said more than 100 homes have been destroyed.

Joseph Makundi, head of civil protection in North Kivu, said the rains also caused landslides near

mines in the area. Emergency preparedness teams have been sent to the area to find and rescue those missing, he said.

*—Associated Press*

#### ENDANGERED SPECIES

##### Large Sea Turtles Make a Comeback

Sea turtles are lumbering back from the brink of extinction, a new study says.

Scientists found more populations of the large turtles improving than declining when they looked at nearly 60 regions across the globe. That's a big change from a decade or two ago, experts said.

Long-living sea turtles have been pushed to endangered levels

by hunting, accidentally being caught in fishing nets, habitat loss, plastics pollution and climate change, experts say.

But massive efforts to save the egg-laying turtles by changing fishing nets and creating protected and darkened beaches are working, said study lead author Antonios Mazaris, an ecology professor at Aristotle University of Thessaloniki in Greece. "There's a positive sign at the end of the story," Mr. Mazaris said. "We should be more optimistic about our efforts in society."

The research was published Wednesday in the journal *Science Advances*.

There are seven different species of sea turtles, all but one endangered. The creatures live for several decades, with some species

weighing about 100 pounds and others well over 1,000 pounds.

Mr. Mazaris pointed to Hawaiian green sea turtles, once in trouble

40 years ago, as story of success.

Maybe too much success.

"They have more turtles than they know what to do with," said Roderic Mast, a sea turtle advisory group co-chairman at the International Union for Conservation of Nature, which determines the global list of endangered species.

Tourists seeking sea turtles create traffic problems and fishermen complain the creatures get in the way, said Mr. Mast, who wasn't part of the study and is president of the Oceanic Society advocacy group. He added: "It's a good problem to have."

*—Associated Press*

## WORLD NEWS

# Myanmar's Rohingya Flood Bangladesh

Members of Muslim minority struggle to survive after fleeing military crackdown

BY SYED ZAIN AL-MAHMOOD

TEKNAF, Bangladesh—Rashida, 20 years old, stood in the driving monsoon rain, trying to shelter her 10-day-old son with the end of her head scarf. She jostled with a crowd of about 100 people trying to reach a truck where volunteers were handing out packets of food.

She had no chance of getting close while cradling the infant. "I won't be able to eat today," she said. "If I can't get those packets, I have to go hungry."

Rashida is one of more than 410,000 Rohingya, a Muslim minority in Buddhist-majority Myanmar, who have fled to Bangladesh in recent weeks to escape a military crackdown in their home state of Rakhine. Many are camped out around the tiny border town of Teknaf, overwhelming support systems. Aid groups have warned of a humanitarian catastrophe.

Myanmar leader Aung San Suu Kyi said in a speech on Tuesday that the military hadn't conducted "clearance operations" in Rakhine since Sept. 5 and questioned why Rohingya



Rashida, a Rohingya woman, carries her newborn in Bangladesh, where she has fled from Myanmar.

were fleeing to Bangladesh.

Rashida said on Monday that she saw attacks after that date. "She is lying. They are still burning our villages, killing people," she said.

Flames and smoke were visible on Wednesday in a Rohingya village on the bank of the Naf River, which separates the countries.

The Myanmar government didn't respond to questions about reports of continuing operations.

Rashida, who goes by one

name, spends nights on the ground with a dozen other refugees, under a piece of tarpaulin propped up by bamboo.

The army came to Rashida's village near Rathedaung on the morning of Sept. 5, she said. She and her husband, Muhammad Yunus, a farmer, had sat down for breakfast when a neighbor burst in. Their village would be attacked, he said, and everyone had to leave.

Before Rashida, heavily pregnant, could gather her belongings, the village was sur-

rounded by troops and a Buddhist mob, she said. "They came in shooting and setting homes on fire with flamethrowers," she recalls.

Rashida and her husband were separated as panicked villagers tried to escape. She hasn't heard from him since and doesn't know if he is alive. She joined other Rohingya women and children in a five-day trek through rice fields and wooded terrain to the Bangladesh border. Along the way, she gave birth in the woods.

Amnesty International used satellite imagery, fire-detection data, photographs and videos to support a statement on Sept. 14 that there had been at least 80 large-scale fires in inhabited areas across northern Rakhine since Aug. 25.

"The evidence is irrefutable—the Myanmar security forces are setting northern Rakhine state ablaze in a targeted campaign to push the Rohingya people out of Myanmar," said Tirana Hassan, Amnesty's crisis-response director.

The latest violence erupted after Rohingya militants raided 30 police posts on Aug. 25. More than 3,000 people have been killed in the military crackdown that followed, according to the Bangladesh government and rights groups; Rohingya survivors say the number could be far higher.

Myanmar says the army is battling militants and trying to restore peace and stability. Government spokesman Zaw Htay said last week that the army had conducted "clearance operations" in 471 Rohingya villages since late August, of which 176 were now empty and at least 34 others partially abandoned. Civilians hadn't been targeted, he said.

—*Myo Myo  
in Yangon, Myanmar,  
contributed to this article.*



THE WALL STREET JOURNAL.

Such accounts are common in the makeshift camps here, and are consistent with reports by human-rights groups that have accused the Myanmar military and army-backed Rakhine militias of carrying out ethnic cleansing. The United Nations has backed that description.

Myanmar Defense Minister Sein Win said the government "did not do any kind of ethnic cleansing."

People fled to Bangladesh because they had links with terrorists, he said. Some Muslim villagers were still in the border town of Maungdaw and weren't fleeing anywhere, he said, adding that the military was providing security for everyone there, including Muslims.

## China Races U.S. to Map Genes

BY PREETIKA RANA

CHENGDU, China—In this western Chinese city famed for panda conservation, scientists are advancing the world's most ambitious effort to save a far-less-endangered species: humans.

Their goal is to collect and analyze vast amounts of genetic data from Chinese citizens to help unearth the causes of diseases from cancer to schizophrenia, and pave the way for novel treatments.

Scientists here hope to identify mutations, or glitches in genes, that contribute to disease, then eventually personalize medicine based on the genetic blueprint of each individual—an emerging and lucrative field known as precision medicine.

Chinese President Xi Jinping has made such scientific innovation a centerpiece of his national goals. In this case, scientists at state-run Sichuan University in Chengdu are part of a nationwide plan to decode the genetic makeup of at least one million citizens. The multibillion-dollar program is designed to catapult China to the forefront of a field now dominated by the West.

China is betting it can meet its data-collection goal by 2020—two years earlier than the U.S. says it expects to achieve the same target, even though the U.S. unveiled its precision-medicine initiative more than a year before Beijing did in March 2016.

Other countries, including the U.K., France and Qatar, are



SHAWN KOH FOR THE WALL STREET JOURNAL

A student helps research the makeup of tumors in Beijing.

pursuing smaller programs.

"It has the potential to place us at the frontier of modern medicine," said Zhan Qimin, a scientist who was involved with drafting China's plan.

Success can pay huge public-health dividends by pointing patients to the drugs best suited to their needs, thereby reducing unnecessary government cost.

China has raced ahead with amassing people's genetic samples, as the U.S. is still preparing the needed infrastructure to formally begin that process. However, China's haste is outpacing its ability to iron out basic procedural details, such as where the data collected from participants can be stored.

Stark differences exist between participants' rights in China, compared with those overseas. In the West, concerns about patient privacy, control over data and fears of employer discrimination can make it tougher to persuade people

to hand over their genetic samples for research. Such issues seldom surface in China.

"Patients rarely ever say no to their doctors, and it's viewed as doing social good," said Shi Hubing, a professor leading the study at Sichuan University's West China Hospital. While volunteers' consent is sought before drawing samples, most participants agree and don't expect much in return, he said.

"We can't promise to share anything with them. At this stage, we don't know what we may find ourselves," Mr. Shi said.

The U.S. plans to share personal results with participants, who will also get aggregated group results relating to the study they are taking part in.

Mr. Shi is among the first batch of scientists to receive a grant to take part in China's effort. The nation's population of 1.4 billion offers a huge re-

source for scientists, who are primarily studying cancers, cardiovascular diseases and neurological disorders.

Samples are separately drawn from healthy volunteers so that scientists can map different ethnic groups and understand whether a group is more prone to a certain disease.

At the West China Hospital, Mr. Shi's team is focusing on extracting tumor tissues and other samples from colon cancer patients. The samples are packed in dry ice and flown to Beijing, where two other state-run universities analyze them using sequencers—machines that break genetic information into a readable code.

Scientists will try to deduce which mutations, and in which genes, contributed to each patient becoming sick so that drugs can be tailor-made to treat them.

The same disease can be triggered by different mutations, and in different genes, underscoring the need for doctors to personalize treatment based on a patient's genetic blueprint. Designing such precise therapies requires a huge trove of genetic data that scientists can mine to identify patterns.

Mr. Shi estimates it would take until 2020 to draw conclusive patterns and validate potential findings, after which, Chinese Peptide Co., a local drug company, would attempt to use his research to develop new colon cancer medicines—a complex process that would also take years, he said.

## Australia to Send Refugees to U.S.

BY ROB TAYLOR

CANBERRA, Australia—The first refugees from Australia's offshore detention centers will soon arrive in the U.S. under a resettlement deal that President Donald Trump blasted as "dumb," before his administration reluctantly agreed to honor it.

Immigration Minister Peter Dutton said about 50 refugees from Australian-backed detention camps in the South Pacific nations of Papua New Guinea and Nauru would receive confirmation letters under the U.S. Refugee Admissions Program in coming days.

The U.S. State Department confirmed on Wednesday that 54 refugees had been given approval. Mr. Dutton said decisions on some 1,200 other refugees were expected "in due course."

All refugees approved for travel to the United States from Nauru and Papua New Guinea have passed the same stringent vetting processes that apply to all refugees considered for admission to the United States, and any individual not deemed to have met our vetting requirements will not be admitted to the U.S., a State official said.

Australian Prime Minister Malcolm Turnbull said it was up to the U.S. to decide how many people were accepted under the "extreme vetting" processes ordered by Mr. Trump.

"President Trump had some reservations about it, to say the least, but nonetheless, he is honoring that commitment made by his predecessor," he said on Australian television on Wednesday.

The deal, struck in the Obama administration's final months, prompted an angry phone exchange in January between Messrs. Trump and Turnbull, with the U.S. leader later calling it a "dumb deal" on Twitter and suggesting he could back out.

Mr. Trump's threat buffeted the relationship between the longtime allies, but U.S. Vice President Mike Pence said during a visit to Sydney in April that the U.S. would—with misgivings—honor the deal out of respect for the alliance.

Under the Australia deal, the U.S. agreed to accept about 1,250 approved refugees who fled from countries including Afghanistan, Iran and Iraq. Australia agreed in September—before the U.S. deal was concluded—to take refugees from U.S.-backed immigration camps in Costa Rica, many fleeing crime and drug-related violence in Honduras, Guatemala and elsewhere. Both countries have linked the two deals are linked.

The United Nations and rights groups have criticized Australia's immigration laws as inhumane and potentially in breach of humanitarian obligations.

one keystroke—a tap of the space bar.

Mr. Dukh, by comparison, says he grew up absorbing English from American comedies, such as "Rick and Morty" and "Forrest Gump." He first visited an English-speaking country in 2014.

Russia does have some quirky Twitter users. Its London embassy is an eager poster that jabs Western critics. When Louise Mensch, an anti-Kremlin conspiracy theorist and former British member of parliament, tweeted about the Russian embassy cat, saying the British Foreign Office's kitty "could run rings round her," @RussianEmbassy corrected her with a single word: "Him."

Ms. Mensch, a former employee of News Corp, the owner of The Wall Street Journal, didn't respond to requests for comment.

Ukraine has allies in the fight. When a Russian account in August boasted about Crimea's recent economic development, @Crimea, an account run by Mr. Dukh and his colleagues, shot back: "Guys, it's really time to try something new. Upholding human rights and not invading neighbours maybe?"

@Ukraine applauded the zinger: "K. O. with style."

## HUMOR

*Continued from Page One*

third volunteer.

"It's cool when we kick Russia's ass," Mr. Dukh said in an interview in a coffee shop near the presidential administration.

For all of its formidable internet propaganda machinery, the Kremlin isn't very good at the peculiar and acquired humor of Twitter. About 80% of the tweets on Ukraine and NATO are concocted by Russian bots, according to NATO's Strategic Communications Centre of Excellence.

They generally aren't very comic.

Thousands of tweeters have taken @Ukraine's side in its spats with accounts run by Russian foreign affairs staff. @Ukraine is generally funnier than @Russia, Twitter users say, and better at digging up obscure moments from American cartoons, the kind of retro pop culture humor that resonates internationally—at least judging by the audience reaction.

In one exchange, @Ukraine pasted a clip from "The Simpsons" in reply to @Russia. In it, a Russian diplomat's nameplate flips to read "Soviet

Union." It went viral. "Everyone in Ukraine is affected by the war, and it would be wrong not to use every tool we have to fight back," says Mr. Dukh.

The Twitter fight, "is an old phenomenon in a new form," says Mark Galeotti, a senior researcher at Prague's Institute of International Relations, who compares it to the Space Race or the Cold War's marquee U.S.-Soviet hockey games.

"Once upon a time it would have been a chess match between the two countries. It allows a certain venting of pressures," he says. "It's silly and petty, but then again human beings are silly and petty. So in that sense Twitter is fulfilling its role."

Many governments are ditching the stodgy politesse of public diplomacy in favor of juvenile tweets. U.S. President Donald Trump's regular insults of other world leaders have inspired some to fire back. Mexico's former president Vicente Fox often responds in profanity-packed English.

"He has found a way to make Twitter and Facebook an as effective if not more effective bully pulpit than the actual Mexican presidency," said Adam Sharp, Twitter's former head of governments.

Earlier this month, @Russia posted a picture of a flower taken in "Crimea, Russia."

@Ukraine replied with a shot of John Travolta looking around an empty room: "The image eloquently captures the

number of those who thinks likewise," it said.

"While you were breeding moose, we were busy propagating the world," tweeted Denmark's official account to Sweden's, posting an article claiming Danish sperm donors were in demand.

"Sometimes it gets a bit, how can I say, rowdy," said Jacob Stenberg, the Swedish government official behind his country's account. "Everything doesn't have to be extremely rational all the time. We're allowed to show that we're human beings and we can have fun."

The cyberbrawling echoes a disruption a century and a half ago, when the telegraph turned statecraft into a quick-reaction business of sharply-worded cables. "My God, this is the end of diplomacy," British statesman Lord Palmerston is said to have remarked after receiving his first wire.

Mr. Dukh and his team don't need permission to fling cartoon barbs at the nuclear power next door, though they occasionally check in with Ukraine's Foreign Affairs Ministry.

Days later, a Russian embassy tweeted an esoteric summary of a United Nations report about Ukraine.

@Ukraine replied with a clip of Jimbo Jones, a cartoon bully from "The Simpsons," cap-

tioned "WRONG WAY, DINGUS."

This is all new for Ukraine. When Mr. Dukh's presidential team arrived after a pro-Russian president fled in 2014, they found a computer-illiterate bureaucracy. Most computers either didn't have a password or the password was just

one keystroke—a tap of the space bar.

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@Ukraine applauded the zinger: "K. O. with style."

—*Yarema Dukh, a Ukrainian robot kicking a Kremlin tower.*

AREM DUKH

## WORLD NEWS

# Italy's 5 Star Courts Broader Support

By GIOVANNI LEGORANO

ROME—Italy's antiestablishment 5 Star Movement is picking a new standard-bearer with a key qualification: He looks and talks like a mainstream politician.

The 5 Star Movement—one of Europe's largest upstart political parties—is set to choose Luigi Di Maio, the 31-year-old deputy speaker of the lower house of parliament, as its candidate for prime minister in Italy's next general election, which must occur by May. He is running in an online vote this week, with the winner to be anointed on Saturday as 5 Star kicks off its campaign.

In Mr. Di Maio, an observant Catholic who prefers a suit and tie to the jeans worn by many 5 Star proponents, the group is choosing a figure who could pick off voters angry with established parties but wary of the movement's firebrands and its more radical ideas.

"We absolutely don't want to create a populist, extremist and anti-European Italy," he told a group of Italian business leaders early this month. "Our objective is creating [and] building, not destroy-

ing.... We have always repudiated populism."

Fueled by discontent over the country's slow growth, high unemployment and a political class many voters see as self-serving, the movement founded by comedian Beppe Grillo has rocketed to prominence. It took a quarter of votes in its first national election bid in 2013, then won mayoral races in Rome, Turin and elsewhere last year.

Even as antiestablishment movements fade elsewhere in Europe, the movement's popularity has remained robust despite a series of high-profile stumbles from its outsider politicians, who have included students and unemployed workers.

But the rise of a man whose first paid regular job was as a member of parliament has fed into criticism that the movement—which brandishes inexperience like a badge of honor—is unprepared to govern.

Nicola Biondo, a former 5 Star spokesman, said Mr. Di Maio "embodies the weaknesses of the movement.... Giving large responsibilities to people who have never had any responsibility—they are

just too young—will be a disaster."

Mr. Di Maio said that regardless of the party's experience, Italy needs change. The 5 Star Movement "wanted more time to learn, to grow, to demonstrate it can run this country," he said during an appearance at Harvard University in May. "But given that experts have reduced the country to these conditions, we had no time." Mr. Di Maio declined requests for an interview.

An Ipsos poll this month for the *Corriere della Sera* daily asking voter intentions put support for the 5 Star Movement at about 27%, matching the Democratic Party—whose Paolo Gentiloni is currently premier—as Italy's largest.

The movement has vowed tougher anticorruption laws and a minimum guaranteed income if it emerges from coming elections as head of a minority government.

Some of its most prominent figures, chiefly Mr. Grillo, have called for Italy's exit from the eurozone and a repudiation of the fiscal constraints imposed by the European Union. Mr. Di Maio, while promoting many of the same ideas, has taken a



Luigi Di Maio became deputy speaker of the lower house of Parliament at the age of 26.

MATTEO BAZZI/EPA/SHUTTERSTOCK

less incendiary tack.

In a step toward clarifying the movement's position on a signature issue, Mr. Di Maio told business leaders this month that a 5 Star government would view a referendum on Italy's membership in the euro as "a last resort."

"We are not against the European Union," said Mr. Di Maio. "We want to stay at the table and renegotiate some rules that are suffocating our economy."

The remark cut through a cacophony of voices within the 5 Star Movement on its position as the group works to refine its program. It also comes after hardline anti-euro positions failed in elections in the

Netherlands and France.

A spokesman for the movement didn't return a request for comment.

Mr. Di Maio, a technology aficionado who made his first activist splash with a web-based documentary supporting a protest by shopkeepers in his hometown of Pomigliano d'Arco, helped found local 5 Star chapters there while studying law at university.

In 2010, while still a university student, Mr. Di Maio ran for city council in his hometown outside Naples as a candidate for the newly formed group. He lost, getting just 70 votes.

In parliamentary elections three years later, Mr. Di Maio

rode the populist wave that saw 5 Star win a quarter of all votes cast and 17% of the seats in Italy's legislature.

He won 189 votes in an online vote among 5 Star activists held to choose parliamentary candidates, enough to put his name on the ballot. He went on to win a parliamentary seat and became deputy speaker of Italy's lower house at 26 years old.

Supporters say Mr. Di Maio has performed well as deputy speaker of the parliament. "From the very beginning, he managed the works of the chamber with a steady hand," said Danilo Toninelli, a 5 Star deputy and close ally of Mr. Di Maio.

## Catalan Poll Prompts 13 Arrests

By JEANNETTE NEUMANN

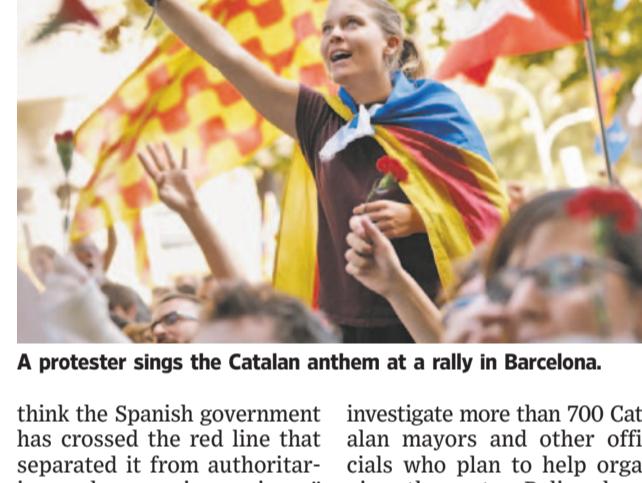
MADRID—Spanish police arrested 13 people in the region of Catalonia and in Madrid for their alleged involvement in planning a vote to secede from Spain, the boldest move yet by Spanish authorities to stop the proposed Oct. 1 ballot.

Early Wednesday, Spain's Civil Guard police forces searched 22 properties, including offices of Catalonia's regional administration in Barcelona, and arrested an official in charge of the region's economy, Josep Maria Jové, according to a spokesman for the Catalan government.

Twelve others, most of them regional-government officials, were also arrested on suspicion of abetting the organization of the unauthorized independence referendum, according to a police spokesman. One of those arrested was detained in Madrid.

Hundreds of people gathered in central Barcelona to protest the arrests, reflecting deepening tensions in one of Spain's most-severe political crises in a generation.

Catalan President Carles Puigdemont said the arrested officials had the support of the regional government. "We



A protester sings the Catalan anthem at a rally in Barcelona.

## OECD Goads Politicians

By PAUL HANNON

A pickup in global economic growth will prove short-lived unless governments increase spending on projects that boost productivity and push through overhauls that deal with the legacy of the financial crisis.

That is the verdict of the Organization for Economic Cooperation and Development in its quarterly report Wednesday. The Paris-based think tank's new growth forecasts come as leading central banks prepare to wind down their stimulus measures and places the onus on politicians to take advantage of a synchronized upturn to tackle the enduring problems of insufficient investment, weak productivity and wages growth, and high levels of income inequality.

The OECD said the global economy would grow by 3.5% this year and 3.7% next, up from 3.1% in 2016. It left its growth forecasts for the U.S. unchanged, but raised its projections for both France and Italy, although it expects Germany to continue to lead the eurozone's recovery. It now expects the French economy to grow 1.7% this year and 1.6% next, while Italy is seen expanding by 1.4% and 1.2%, respectively.

"Headwinds from the recent euro appreciation on activity are expected to be modest," it said.

While central banks have spent the past nine years supporting demand growth, the OECD now wants to switch the focus to policies that boost supply, or the economy's capacity to produce goods and services.

"We want to exhort policy makers to undertake reforms that are needed to ensure productivity growth is more robust going forward," said Catherine Mann, the OECD chief economist who has worked at the U.S. Federal Reserve and the Council of Economic Advisers.

Its only significant growth downgrade was to India, reflecting the impact of the new Goods and Services Tax. Even so, it still expects the Indian economy to grow by 6.7% this year and 7.2% next.

With global economic growth strengthening, central banks see less need for stimulus. Also on Wednesday, the Federal Reserve said it plans to begin a yearslong program to shrink its bond portfolio. The European Central Bank is likely to announce in October that it will start to reduce its monthly purchases of government bonds early in 2018. And November is likely to see the first increase in the Bank of England's key interest rate since 2007.

If each delivers, it will be the first time that they have moved together to withdraw stimulus since adopting ex-

traordinary measures to revive economies scarred by the financial crises of recent years.

Ms. Mann said central banks now need to look to the demands of financial stability, having previously privileged growth. The OECD noted signs that investors may be taking too many risks, including equity prices that are high relative to expected earnings, "compressed" yields on corporate bonds and "very low" levels of stock-market volatility.

"That balance has now shifted and it's time to take the foot off the accelerator," she said.

However, the OECD warned that shrinking the huge portfolios of assets acquired by central banks since the crisis "represent a significant challenge."

"To minimize financial market volatility and global spillovers, central banks should opt to reduce their assets gradually and in a predictable way," it said.

The think tank, which provides advice to its 35 member governments, stressed that the change in focus for central banks doesn't mean the work of boosting growth has been completed.

Instead, that responsibility has shifted to politicians. "Strong political commitment is needed to secure robust medium-term growth and ensure its benefits are widely shared," it said.

## QUAKE

*Continued from Page One*  
Mexico on Sept. 7, killing close to 100 people.

In a slight revision downward, Mexico City officials said 38 buildings collapsed, most of them multistory apartment or office buildings that fell sideways or pancaked upon themselves. Social media was full of messages seeking the whereabouts of loved ones, as well as pictures of children who couldn't find their parents and abandoned pets missing their owners.

Federal authorities deployed some 27,000 army, marines and federal police to boost security and help in the recovery.

In the south of the capital, a heart-wrenching scene played out at the collapsed Enrique Rebsamen primary school. Twenty-five bodies had been pulled from the rubble, 21 of them children, Mexico's Education Minister Aurelio Nuño said. Local media said 28 had died. At least three others, possibly more, remained trapped.

For much of the day, Mexican television networks showed live images from the school as rescue workers, known in Mexico as *topos* or moles, tried to tunnel in through small gaps in the concrete to reach a young girl that



Rescuers remove debris in search of survivors in Mexico City.

thermal sensors showed was alive inside the rubble. Sniffer dogs scratched at the area.

Across the city, other rescues played out, offering some relief from the horror of the quake. Authorities said 52 people have been rescued from collapsed buildings in Mexico City.

But others were still trapped on Wednesday. In one collapsed building in the Roma district, a handwritten poster listed 16 people believed to be stuck inside, listing the floor on which each one lived.

U.S. President Donald Trump called Mr. Peña Nieto on Wednesday to express his condolences for the quake and offer U.S. assistance, according to Eduardo Sánchez, a spokesman for the Mexican president.

The timing of the quake stunned Mexicans—coming on the anniversary of a devastating 1985 earthquake and less than two weeks after another big quake struck the country.

In Mexico City's chic Condesa neighborhood, a large apartment building collapsed on a corner of Amsterdam Avenue, a shaded street of art deco homes and newer condos.

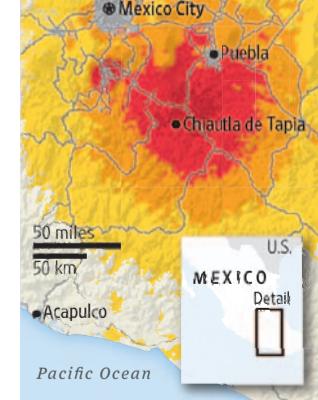
Ana Julián Nicolás Cruz, 26 years old, said her mother, María Ignacia Cruz Cortez, 49, was on the second floor of the building when the earthquake struck. Ms. Cruz worked in the building caring for a 97-year-old woman with a disability, commuting two hours each way from a city suburb.

### Mexico Earthquake

The epicenter was reported in Chiautla de Tapia.

#### Perceived Shaking

Very strong Strong Moderate Light



Source: U.S. Geological Survey

THE WALL STREET JOURNAL.

### 'Moles' Dig Out Quake Victims

for their bravery and skill in much of the world, helping rescue survivors of quakes and disasters from Iran to Indonesia.

On Wednesday, they were needed much closer to home.

"We came to this building just 20 minutes after it fell, and we haven't stopped, almost 24 hours later," said Alejandro Méndez, a 37-year-old civil-protection specialist who joined a *Topos* group 14 years ago.

The *Topos* encompass a network of volunteer civil-society groups that work closely alongside soldiers, police and emergency workers, and hold frequent training sessions to prepare for disasters. Many are firefighters, but others come from all professions.

There are now several *Topos* nonprofit organizations, each identified with a different overall color.

—Santiago Pérez

and Robbie Whelan

huge, jagged slabs of wall sticking out, as firefighters, soldiers and volunteers used sledgehammers, pickaxes, shovels, their hands and construction machinery, frantically removing buckets full of debris to dump trucks.

The Cruz family kept a nervous vigil at the site since Tuesday afternoon and

couldn't bring themselves to eat. There had been no news of her mother.

"We are so nervous we are dying. I can't eat, I'm not hungry," Ms. Cruz said. "I'm trusting that God has her in good hands."

—Dudley Althaus

and Anthony Harrup contributed to this article.

# U.S. NEWS

## McConnell Plans Vote on Health Bill

Senate leader is still trying to secure enough GOP votes for Graham-Cassidy plan

By KRISTINA PETERSON AND LOUISE RADNOFSKY

Senate Majority Leader Mitch McConnell plans to hold a vote next week on the latest GOP effort to unwind the Affordable Care Act, his spokesman said Wednesday, even though Republicans haven't yet secured enough support to pass the legislation.

"It is the leader's intention to consider Graham-Cassidy on the floor next week," David Popp, a spokesman for Mr. McConnell, said Wednesday.

The statement didn't commit the Senate to a vote, which would need to happen before the end of next week for Republicans to pass the measure with only GOP votes.

Mr. McConnell, of Kentucky, is still trying to pin down the votes needed to pass the bill, from GOP Sens. Lindsey Graham of South Carolina and Bill Cassidy of Louisiana.

The GOP can afford to only lose two Republican votes, and Sen. Lisa Murkowski of Alaska said she remained undecided after meeting with Messrs. Graham and Cassidy on

Wednesday, in the office of fellow Alaska GOP Sen. Dan Sullivan.

Republican Sen. Rand Paul of Kentucky has said he would oppose the legislation, while GOP Sens. Susan Collins of Maine and John McCain of Arizona have expressed concerns about the process used in crafting the bill.

The Graham-Cassidy bill would repeal many of the ACA's provisions and turn money for those programs into block grants that states could use to set up their own health systems.

It would also let states waive certain ACA coverage requirements, meaning, for example, insurers would be able to charge higher premiums for people with pre-existing medical conditions if they live in states that seek such a waiver.

Graham-Cassidy also would significantly cut funding for Medicaid, a federal-state program for low-income and disabled people, and get rid of the expansion under which some states have added people to the program.

A week ago, many lawmakers of both parties dismissed the proposal as a long shot. But it has rapidly gained momentum as GOP senators have scrambled to take advantage of a closing window for passing a health plan that would



Senate Majority Leader Mitch McConnell, center, spoke with reporters outside the U.S. Senate Chamber on Tuesday.

require only GOP votes.

After Sept. 30, Republicans would no longer be able to take advantage of a procedural shortcut tied to the budget that would enable them to pass the health-care bill with 50 votes, with Vice President Mike Pence potentially casting a tiebreaking vote. Most bills take 60 votes to clear the Senate, where Republicans hold 52 seats.

Earlier Wednesday, President Donald Trump pressed Senate Republicans on Twitter, calling out Mr. Paul in particular.

"Rand Paul is a friend of mine but he is such a negative force when it comes to fixing

health care," Mr. Trump tweeted. "Graham-Cassidy Bill is GREAT! Ends Obamacare!" Mr. Trump said, using shorthand for the ACA's nickname, Obamacare.

Mr. Trump's effort to cajole Mr. Paul marks his latest criticism of members of his own party on health legislation. After the Senate came one vote short of passing an earlier "skinny repeal" health-care bill, Mr. Trump sharply criticized Messrs. McConnell and McCain. The Arizona senator cast an unexpected no vote that helped scuttle the bill.

Republicans would like to use their next budget, and its procedural shortcuts, to pass

an overhaul of the tax code.

Ms. Collins has said she has serious concerns over the bill and the rush to try to pass it before Sept. 30. Both Ms. Murkowski and Mr. McCain voted "no" on the earlier health-care bill in July.

Mr. Paul said this week that the Graham-Cassidy bill wouldn't do enough to dismantle the ACA and would saddle Republicans with political responsibility for the health-care system.

"You have a lot of people who are walking around in this paranoid fashion saying we just have to do something before the 2018 election. But you can do the wrong thing."

We don't want to do the wrong thing," Mr. Paul told reporters this week.

Mr. Paul has long been a thorn in the side of party leaders seeking to cobble together 50 votes, typically raising objections that differ from other conservatives and that are hard to reconcile with centrist lawmakers' demands.

The White House alternately needed and cajoled Mr. Paul during the seven months of negotiations leading up to the failed July repeal bid in the Senate. He ultimately supported the latest version GOP leaders pushed in July.

—Michelle Hackman contributed to this article.

## Health Law's Uncertainty Drives Insurer Rate Boosts

By ANNA WILDE MATHEWS

Many state regulators are approving sharp rate increases for Affordable Care Act insurance plans that will be sold next year, as they are forced to make decisions despite the latest uncertainty about the law's future.

The 2018 consumer premiums for ACA plans were supposed to be locked in Wednesday, under a federal deadline, at the same time that Republicans in the Senate are moving toward a potential vote next week on legislation that would scrap most of the health law.

A spokeswoman for the Centers for Medicare and Medicaid Services said all rates will be finalized by the deadline.

States including Kentucky, Mississippi and Connecticut are approving average rate increases for major insurers that are at least 25% higher than 2017's rates, according to regulators, with a sizable share of those boosts tied to uncertainty at the federal level.

The highest-stake concern facing most states is what to do about federal payments for



New Senate legislation aims to overturn the mandate requiring most people to have insurance.

cost-sharing reductions—an issue that officials hoped would be resolved months ago. The payments, which the Trump administration has threatened to halt, reimburse insurers for money they advance to reduce health-care costs for low-income ACA enrollees.

The White House allowed this month's payments to go through, but long term there is no guarantee they will continue to be funded.

The Congressional Budget Office has estimated that the loss of the payments would result in premiums rising about

20% on average for the middle-tier ACA "silver" plans.

"Most of the states are very likely to approve rates with extra margin built in" for the potential loss of the cost-sharing payments, said Jim O'Connor, a principal at consultants Milliman Inc.

A Senate effort to develop a bipartisan bill that would guarantee the cost-sharing payments has stalled, and the

Mississippi's insurance commissioner, Mike Chaney, said he is approving a 47.4% average premium increase for the state's one ACA exchange insurer, which would have been around 17.9% if the cost-sharing payments were guaranteed. The insurer couldn't bear the potential extra expense of funding the cost-sharing subsidies without the bigger premium bump, he said.

In Connecticut, Insurance Commissioner Katharine L. Wade said the state's insurers "needed certainty" about being able to cover the extra cost if the cost-sharing payments went away. She approved a 27.7% average increase for ConnectiCare and 31.7% for Anthem Inc.

Connecticut, like other states, will add the extra rate boost only to silver-level exchange plans. The impact will be blunted for lower-income consumers by federal subsidies that help pay premiums, which are separate from the cost-sharing subsidies.

An insurers have said that, without the mandate, rates need to be higher because of the potential loss of healthy enrollees.

Republican ACA repeal bill now under discussion doesn't include funding for them, according to Larry Levitt, a senior vice president at Kaiser Family Foundation.

The repeal bill also doesn't include money aimed at stabilizing the exchanges next year, he said, though it does allot some for 2019 and 2020.

However, the bill does effectively repeal the ACA's mandate for most people to have insurance—a development typically not reflected in the rates that regulators are now approving, though a number of insurers did assume that the mandate would be weakly enforced.

Insurers have said that, without the mandate, rates need to be higher because of the potential loss of healthy enrollees.

"I've run out of superlatives" to describe the uncertainty around ACA policy, said Eric A. Cioppa, superintendent of the Maine Bureau of Insurance, who approved rates that assume the cost-sharing payments aren't made.

—Stephanie Armour contributed to this article.

## Campaign Funds Tapped To Pay for Trump Legal Bills

By REBECCA BALLHAUS

President Donald Trump is using funds raised for the Republican National Committee and his 2020 presidential campaign to help pay for the team of private attorneys representing him in the probe of Russian interference in the 2016 election, according to two people familiar with the payments.

The payment arrangement isn't permanent, and representatives of the campaign and party committee are still exploring whether they will continue to pay for Mr. Trump's legal team, or whether he will consider other payment options, such as a legal-defense fund, according to one of the people familiar with the plans.

The RNC paid more than \$230,000 to help pay Mr. Trump's legal fees, according to a person familiar with the payments. That included \$131,250 paid to Jay Sekulow and \$100,000 to John Dowd, two lawyers who joined the president's legal team in June.

The RNC also paid two law-

yers for Donald Trump Jr., the president's eldest son. The committee paid \$166,527 to Alan Futerfas, who was paid \$50,000 by the Trump campaign in June. The RNC also paid \$30,102 to Williams & Jensen, a law firm representing the younger Mr. Trump.

Mr. Trump's campaign has paid nearly \$1 million to the Washington-based law firm Jones Day, on top of nearly \$3 million it paid the firm during the 2016 campaign for routine legal services, according to filings with the Federal Election Commission. Subsequently, the law firm has also represented the campaign in the Russia probe, helping in particular with document production, according to a person with knowledge of the work.

Mr. Trump donated \$65 million to his campaign in the 2016 election cycle, but hasn't made any donations to his 2020 campaign, according to his most recent campaign filings. The re-election committee raised \$9 million in the first six months of the year.

## Rosenstein Interviewed About FBI Firing

By ARUNA VISWANATHA AND DEL QUENTIN WILBER

Special Counsel Robert Mueller's office has interviewed Deputy Attorney General Rod Rosenstein about President Donald Trump's firing of former Federal Bureau of Investigation Director James Comey, according to people familiar with the investigation.

The interview, which occurred in June or July, presents the unusual situation of investigators questioning the person overseeing their probe. Mr. Mueller's office is investigating Russia's alleged meddling in the 2016 election, whether any associates of Mr. Trump coordinated with Moscow's efforts, and related matters.

Mr. Mueller as special counsel has a good deal of independence, but he ultimately answers to Mr. Rosenstein, because Attorney General Jeff Sessions recused himself from



Deputy Attorney General Rod Rosenstein oversees the probe.

the investigation.

The special counsel's handling of the interview could be a sign that Mr. Mueller's team doesn't view Mr. Rosenstein as a central witness in its probe, as the deputy attorney general hasn't withdrawn himself from overseeing it since that interview. A key witness would likely have to take such a step.

"It is unusual," said Peter Zeidenberg, a former federal prosecutor. "But my inference is that they are not viewing him as a potential critical witness, because either the testimony isn't that critical or there are other people that can say the same thing."

Ian Prior, a spokesman for the Justice Department, said in a statement, "As the deputy

attorney general has said numerous times, if there comes a time when he needs to recuse, he will. However, nothing has changed."

Mr. Mueller's office declined to comment.

The federal probe was initially led by Mr. Comey. After the president fired him, Mr. Rosenstein named Mr. Mueller to serve as special counsel. Mr. Mueller is authorized to investigate any matters arising from his examination of the alleged Russian meddling.

Mr. Trump has denied any involvement with Russia and has decried the investigation as a "witch hunt." Russia has denied U.S. intelligence agencies' findings that it sought to influence the presidential election.

# Hurricane Maria Batters Puerto Rico

Power fails on the island as 155-mile-an-hour winds and heavy rain sweep territory

BY JOSÉ DE CÓRDOBA  
AND JOSEPH DE AVILA

SAN JUAN, Puerto Rico—Hurricane Maria slammed into Puerto Rico, pounding the U.S. territory with huge waves, massive rain and fierce winds, and shutting down the power grid across the entire island of 3.4 million people.

Maria made landfall on the island's southeast section early Wednesday as a Category 4 storm with sustained winds of 155 miles an hour, the most powerful hurricane to hit Puerto Rico since a 1928 storm that killed more than 300 people.

"Around here, everything is destroyed," said Luis Diaz, a car-company owner from Fajardo, a coastal town roughly 30 miles north of where Maria made landfall. Mr. Diaz said the area had been hit by waves as high as 25 feet. "We are going to be without light for a long, long time."

Ivan Broida, a spokesperson for Gov. Ricardo Rosselló, said the storm had cut off virtually all power from the entire island for the foreseeable future.

As Maria tore across the island, floods coursed through neighborhoods. Storm surges rose 5 feet above ground level in spots, according to the National Hurricane Center. By early afternoon, Maria had been downgraded to a Category 3 storm, moving off the island's north coast though continuing to deliver strong winds and heavy rains.

Hours before the storm made landfall in Puerto Rico, its winds knocked out power in many places throughout the island. Puerto Rico's electricity grid had been hit hard two



Trees were toppled in a parking lot at Roberto Clemente Coliseum in San Juan, Puerto Rico, on Wednesday. Storm surges reached 5 feet above ground level in spots.

HECTOR RETAMAL/AGENCE FRANCE PRESSE/GETTY IMAGES

weeks ago when Hurricane Irma passed off the island's north coast, knocking out power for more than 1 million people. Thousands who lost power during Irma never had it restored before Maria hit.

"This hurricane will be a historic event for the people of Puerto Rico," Abner Gómez, executive director of Puerto Rico's emergency-management agency, said at a media briefing Wednesday. "We are going to find our island destroyed.... The effects are incalculable."

Mr. Gómez said key transmission lines on the island had been knocked out of service, leaving 100% of the island without power. He said he couldn't provide precise information on the loss of running water because the water utility's headquarters suffered an electricity outage.

Carlos Anselmi, a meteorologist with the National

Weather Service in Puerto Rico, said rainfall estimates ranged from 15 to 35 inches around the island and were breaking records and triggering flooding. Buoys measured storm surges of 20 to 25 feet, he said.

Mr. Anselmi said hurricane and tropical-storm conditions would persist into Thursday night and urged Puerto Ricans not to lower their guard.

"Dangerous conditions will continue," he said.

Before dawn Wednesday, Maria's howling winds pelted San Juan with driving rain that knocked down street signs and broke streetlights in the historic old city. By mid-morning, winds had changed course and were blowing from the south, turning the bay into a cauldron of whitecaps.

"This is the worst I've seen," said Walter Pedreira, a solar-energy developer who

was riding the storm out in a house in a San Juan suburb where electricity had yet to be restored from Hurricane Irma. "It will take a long time, maybe a couple of years to recover."

He praised the island's government officials who pushed hard to convince people who live in flood zones or in flimsy houses to move into government shelters.

"It scares you. One is not used to seeing the fury of nature like this," he said.

The two storms will add pressure on Puerto Rico's already strained finances. Both the island's government and its state-owned public-power monopoly are under bankruptcy protection after years of over borrowing and a decade of economic recession.

The U.S. Congress installed an oversight board last year to renegotiate about \$73 billion

in debt and coax business interests back to the island.

Puerto Rico's economic woes have caused the government to slash its budget, cutting deeply into education and shutting schools. The island's downward spiral has led to a mass migration of residents to the U.S.

Eric Gavilan, 37 years old, who works in the pharmaceutical-drug industry, took refuge in a San Juan hotel with his French bulldog after he saw Maria gain strength and reach Category 5 strength.

Mr. Gavilan, who lives with a roommate in a 13th-floor apartment facing the sea, decided it was too much of a risk to ride out the storm after seeing images of the destruction brought upon smaller Caribbean islands by Irma.

"The apartment is all windows," he said. "We saw it was a 5 and we decided to get

out."

Before hitting Puerto Rico, Maria struck the island of St. Croix, one of the U.S. Virgin Islands that had been largely spared major damage when Hurricane Irma decimated its sister islands of St. John and St. Thomas two weeks ago.

On Monday night, the storm—then a Category 5—took into the Caribbean island of Dominica with maximum sustained winds near 160 miles an hour, ripping away roofs and knocking out electricity.

Hartley Henry, principal adviser to Prime Minister Roosevelt Skerrit, said the hurricane had claimed seven lives and knocked out all telephone services.

"It's really very grim," he told ABS TV Radio Antigua & Barbuda.

—Adrian Campo-Flores contributed to this article

## U.S. WATCH

### ADDICTION

#### Makers of Opioids Are Asked for Data

A group of states investigating the opioid painkiller industry and the causes of widespread addiction stepped up its probe with a fresh demand for documents from drugmakers and distributors.

In Georgia's southeastern Glynn County, residents complained of untreated sewage seeping out of manholes and mixing with floodwater. Evacuee Elle Hammarlund Woodcock stayed several days longer than she planned at her daughter's house in Enterprise, Ala., to avoid coming in contact with untreated sewage. The ground level of her home flooded and she said she was worried about what the waters may have contained.

Glynn County Commission Chairman Bill Brunson said sewer infrastructure faltered for a combination of reasons. Heavy rainfall from Irma as well as earlier storms strained a system already overburdened by fast and dense residential development, and maintenance of the system had been neglected for decades, Mr. Brunson said.

It is impossible to design

sewage treatment facilities

that can handle every storm,

experts said, and recent hurricanes have delivered unprecedented rainfall and flooding in some areas.

But the recent storms magnified a problem that occurs

regularly across the country,

albeit on a smaller scale: sewage

nonoperational in five counties

including Harris three weeks af-

ter the record-setting rainfall.

Local governments in Florida

have filed more than 250 no-

tices of pollution with state regu-

lators in the days since Irma

made landfall in southwest

Florida. In Texas, two waste-

water treatment facilities in Harris

County were destroyed by Irma,

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## IN DEPTH



JOHN MACDOUGALL/AGENCE FRANCE PRESSE/GTY IMAGES

Angela Merkel, shown above at a hearing in February, is expected to win her fourth term as German chancellor. Below, German Social Democrat and chancellor candidate Martin Schulz.

**MERKEL***Continued from Page One*

60%, near their peak. Her tenure has spanned three U.S. and four French presidents, and two Spanish, four British, six Italian, and seven Japanese prime ministers. She is the longest serving head of a major European government since her fellow German Helmut Kohl.

By strategically ignoring past divisions between the right and the left, she has extended her sway over a wide swath of political territory and pushed her rivals toward the margins. She has so far sold her changing positions, which her supporters characterize as a disdain for dogma, as being just what her country needs in an uncertain world.

At the same time, her tendency to pull her conservative party to the left has helped create a political vacuum now occupied by the upstart Alternative for Germany, which is poised to become the first far-right party to win seats in German parliament in more than half a century. That rise of the party, founded in 2013 to oppose eurozone bailouts, introduces a dynamic in which any missteps by Ms. Merkel could eat further into her conservative base.

This account of how Ms. Merkel has fended off a succession of crises, destabilized rivals and cemented her power is based on dozens of interviews with past and present aides, politicians and voters across the country. She declined a request for an interview.

Her strategy has incensed both allied conservatives who claim their principles are being abandoned and opponents on the left who see their popular proposals being co-opted. It is a counterpoint to the political polarization seen in other countries, and has made her a symbol of stability for Germans unsettled by the challenges that President Donald Trump, Russian President Vladimir Putin and European populist movements have posed to the postwar order.

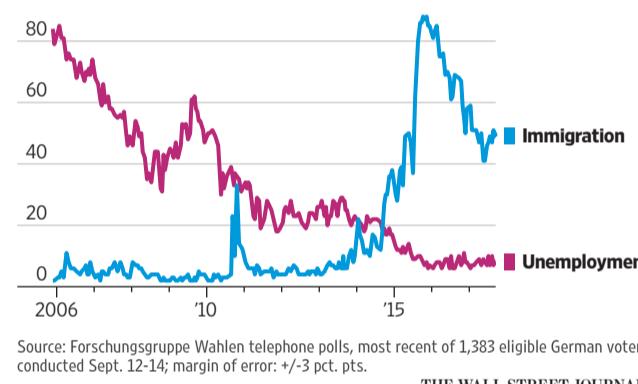
Abroad, the chancellor is often portrayed as a liberal. At home, she draws support from voters of all kinds, although she rose in German politics as a conservative. Of the five main electoral competitors to Ms. Merkel's Christian Democrats, three of them, including the business-friendly Free Democrats and the environmentalist Greens, are potential coalition partners of Ms. Merkel's party in a new government. She has only ruled out governing with radical left-wingers and fringe nationalists.

In Germany's consensus-oriented system of governance, the charge of "flip-flopper" doesn't carry much of a sting. Ms. Merkel has been able to sell her sometimes dramatic political shifts—on mandatory military service, atomic energy, refugees and, most recently, same-sex marriage—as the product of careful analysis and a reflection of societal change.

The tactic has allowed her to pick up support from voters to her left while retaining the

**German Angst**

Concern about unemployment has plummeted during Angela Merkel's tenure, while worries about immigration spiked during the refugee crisis. Percentage of German adults who say these are among the two most important issues:



Source: Forschungsgruppe Wahlen telephone polls, most recent of 1,383 eligible German voters conducted Sept. 12-14; margin of error: +/- 3 pct. pts.

THE WALL STREET JOURNAL.

backing of others on the right willing to overlook disagreements on some issues.

Nevertheless, her aides say she won't be swayed from such core commitments as the trans-Atlantic alliance and the need for Germany to be at the core of an integrated Europe. And pollsters say Germany's robust economy and low unemployment make her look like a safe choice.

Ms. Merkel's personality has resonated with Germans long suspicious of charisma. She doesn't tweet, make grand promises or give rousing speeches. She shops at the supermarket, cooks and retires to her country cottage for the weekend. Asked what makes her German, she once replied: "My love for potato soup."

Ms. Merkel, who is 63 years old, often alludes to her own biography to underscore the need for change. As East German communism was collapsing in the fall of 1989, Ms. Merkel, then a physicist working in Berlin, visited several political parties looking for one to engage with. She settled on the Democratic Awakening, which would merge with the center-right Christian Democratic party the following year.

The interim East German government named her deputy spokeswoman, and after reunification, then-Chancellor Kohl made her minister for women and youth. After Mr. Kohl's election defeat, Ms. Merkel jumped into a power vacuum and took the helm of the party in 2000.

When she became chancellor in 2005, she largely stood for the ideas of her conservative predecessors: She was a fiscal hawk, a skeptic of immigration and a believer in supply-side economics, the trans-Atlantic alliance and nuclear power.

**Policy reversal**

The 2011 tsunami in Japan and the ensuing Fukushima nuclear-plant meltdown brought about one of her first major policy reversals. She had earlier pledged to reverse the planned phaseout of Germany's nuclear plants. But in a country already skeptical of nuclear energy, the events in Japan had turned public opinion even harder against it, and an important state election loomed. Days after the disaster, she said she would accelerate the transition away from nuclear energy.

The tactic has allowed her to pick up support from voters to her left while retaining the

Although the move was popular among voters, it later was blamed for sending electricity prices higher and increasing greenhouse-gas emissions as utilities fell back on coal-powered plants.

Smaller policy reversals followed. Challenging her party's traditions, Ms. Merkel lowered the retirement age for certain categories of workers and extended considerable financial guarantees to the cash-strapped Greek government during the eurozone crisis.

Before the refugee crisis hit late in the summer of 2015, Ms. Merkel was taking fire in the media for telling a Palestinian teenager, who then broke down crying, that Germany couldn't take in all refugees. A popular magazine, Stern, had dubbed her "the Ice Queen" for her tough negotiating stance in the Greece crisis.

In Budapest, thousands of refugees fleeing fighting in the Middle East were crowding a railway station waiting for westbound trains. Three days later, Austrian Chancellor Werner Faymann called Ms. Merkel. The Budapest refugees, many bound for Germany, had started marching toward his country's border.

Deciding quickly, with minimal consultation, Ms. Merkel agreed to send trains to help take them in. Her aides later justified the move by saying she was concerned that desperate migrants could die on the highway and that their sheer numbers could destabilize the Balkans.

The German media largely cast the decision in positive

terms, as did a majority of Germans, according to opinion polls at the time. But it sparked a storm among conservatives in the chancellor's political camp.

As authorities struggled to contain the flow of hundreds of thousands that followed, and security fears mounted, Ms. Merkel's approval rating plummeted to 45%. The anti-immigrant Alternative for Germany party surged in the polls and into state legislatures across the country.

**Abroad, Merkel is portrayed as a liberal. At home, she draws diverse support.**

In 2016, two terrorist attacks by migrants in Bavaria fueled criticism that Ms. Merkel had put Germany's security at risk by allowing so many migrants to enter.

Under pressure, Ms. Merkel made a second U-turn. While she stuck to her humanitarian discourse and defended her initial decision to open the borders, her government tightened eligibility for asylum, enacted tougher security laws to ferret out and expel radicals among the newcomers and struck a deal with Turkey to close the migrant route through the Balkans.

By the time the crisis dissipated, Ms. Merkel had earned the support of pro-refugee liberals who praised her initial decision to open the borders,

and defused some criticism from her party's base, which was reassured by the return of order.

A year later, migrants continued to enter the country, albeit at a much slower pace, but the political climate has shifted. After harshly criticizing her initial handling of the crisis, the conservative Christian Social Union party in the key state of Bavaria now supports Ms. Merkel for a fourth term, in part because of her shift on immigration. The party is set to receive close to 50% of the vote in Bavaria, polls show, while left-of-center parties are garnering another 30%. The Alternative for Germany party is polling just 8% in the state.

"There is no fear that these refugees will take jobs, simply because everyone already has work," says Sebastian Zunhammer, whose Bavarian factory manufactures trucks that distribute animal waste as fertilizer to farms.

German pollster Forschungsgruppe Wahlen has been asking people for years to name the top problems facing Germany. When Ms. Merkel took office in November 2005, 84% said unemployment was one of them. When migrants were pouring in in the fall of 2015, as many as 88% cited migration. By this month, concern about migration had dropped to 49%, although it remains the top concern, and only 8% said unemployment, which has declined, was a major problem.

Ms. Merkel, who grew up behind the Iron Curtain, had come to see the alliance with the U.S. as core to modern Germany's well-being.

One senior German official says when Germans criticize U.S. policy in meetings with her, she sometimes responds by encouraging a thought experiment: *What would the world be like if the U.S. didn't exist?*

Through last summer and fall, Ms. Merkel kept tabs on the U.S. presidential campaign, watching excerpts of presidential debates on her iPad. She refused to hit back at Mr. Trump's criticisms of her, including that she was "ruining Germany" by accepting refugees. After his victory, she and her closest aides drafted a statement that marked a new tone.

"Germany and America are connected by values of democracy, freedom, and respect for the law and the dignity of man,

independent of origin, skin color, religion, gender, sexual orientation, or political views," Ms. Merkel said. "I offer the next president of the United States close cooperation on the basis of these values."

**U.S. relations**

Visiting the White House in March, Ms. Merkel resisted pressure back home to criticize Mr. Trump in public, noting that her task was to hear the American point of view and "to find solutions and compromises that are good for both sides." In May, however, she declared that the times in which Europe "could rely on others completely—they are partly past."

The widely quoted line served to put distance between Ms. Merkel and Mr. Trump. It also made it harder for her election opponent Mr. Schulz be able to harness Germans' anti-Trump emotions for his own campaign.

A few weeks later, Ms. Merkel pulled another potential wedge issue from Mr. Schulz the day after he made his pledge at his party convention to introduce same-sex marriage.

During a public Q-and-A, one man asked the chancellor when he would be able to marry his boyfriend. During her lengthy response, Ms. Merkel said: "I would like to lead the discussion further toward a situation in which it moves in the direction of a decision of conscience."

In saying that, she effectively lifted her party's decadeslong opposition to same-sex marriage, signaling support for a vote in which lawmakers would be exempt from following the party line.

German parliament voted on same-sex marriage legislation just four days later. Ms. Merkel voted no. The German constitution, she said, defined marriage as being between a man and a woman. The legislation passed.

Challenged about her no vote last month in an interview with a young YouTube star, Ms. Merkel noted: "I worked to make sure that this voice would take place."

"They trust her," one of Mr. Schulz's top strategists said of German voters, "without knowing what she stands for."

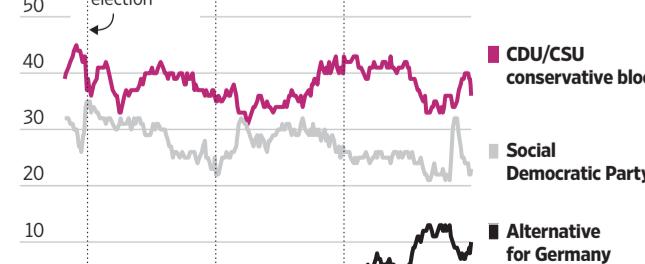
As Ms. Merkel has adopted center-left positions, some conservative politicians and voters have defected to the Alternative for Germany party, which has seen polling support climb above 10% in recent weeks.

Sascha Ott, an ally of Ms. Merkel in her home state in northeastern Germany, says the chancellor's sudden reversals contributed to a feeling of political alienation among conservative voters. Nevertheless, Mr. Ott continues to support Ms. Merkel, arguing she has deftly steered Germany through Europe's series of crises.

"We have to recognize that society is changing," said a member of parliament from Ms. Merkel's party, Gunther Krichbaum, who hails from the party's traditional conservative stronghold in the southwest. Otherwise, he said, "one can die of virtue in the end."

**Party Dominance**

Angela Merkel's conservative bloc has been leading the center-left Social Democratic Party and the anti-immigrant Alternative for Germany for her entire time in office.

**Party support**

Source: Forschungsgruppe Wahlen telephone polls, most recent of 1,383 eligible German voters conducted Sept. 12-14; margin of error: +/- 3 pct. pts.

THE WALL STREET JOURNAL.

# LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

## The Stranded Traveler's Disaster Plan

When a hurricane or other emergency happens, you often must get creative to get safe; when hunkering down is the best move

**YOU'RE TRAVELING** and a big storm is coming. It's days away but you're stuck with no way home.

Before each of the recent hurricanes, airlines added some extra flights and switched some scheduled trips to larger airplanes to help evacuate. But seats were scarce as demand surged from major destinations. "People from five days' worth of flights want to get out in one day, and it's not going to happen," a spokesman for American Airlines says.

Ferries and other boats that might be used for island evacuations get moved out of storm areas quickly. No one wants to risk having expensive equipment damaged or employees injured. And chartering a private plane cost tens of thousands of dollars. Experts say hunkering down is often the best option for travelers.

Travel insurance often isn't much help in these situations. Basic policies typically cover "trip interruption" and the costs to get home, but there's a catch. Your location has to have an official hurricane warning or mandatory evacuation order before most policies pay. If you wait for that, seats are already filled.

This year's major storms have highlighted the difficulty of evacuations, especially from island or remote vacation destinations. There are some precautions travelers can take. Some services can help if hired in advance for an annual membership fee. The cost is usually about \$1,000 or less.

Naomi Ayala of Dallas was vacationing on the U.S. Virgin Island of St. Thomas with her boyfriend when they heard that Irma was about five days out. They started to hunt for flights out on Sunday, Sept. 3—one day before an official hurricane warning was issued for St. Thomas. The only option they could find: buying new tickets for a Tuesday flight on Spirit Airlines to Fort Lauderdale, plus a Southwest flight home to Dallas from there.

On Tuesday, they watched one flight after another get canceled, including their Spirit flight. They looked for flights to Mexico, Belize and other countries out of the storm's path, but couldn't get seats. So they stocked up on water and dried food and got a room at the **Bunker Hill Hotel**, a small, family-run downtown hotel built on a hillside with thick concrete walls that have withstood many storms.

For those who don't want to stay put, evacuation services are sprouting up. Medical evacuation services such as MedjetAssist, where you pay an annual membership fee for emergency medical evacuation services when needed, have been around for many years. Nonmedical evacuation services are growing. Medjet says it's considering adding optional coverage for natural disasters and pandemics.



**Evacuation flights were arranged after Hurricane Irma hit to get travelers home, including this WestJet flight from St. Maarten on Sept. 11, above. Travelers in Miami, right, waited hours to get flights out.**

Global Rescue offers both medical and nonmedical evacuation protection. The Lebanon, N.H.-based company helped find ways out of the path of the hurricane for about three dozen clients, including some on St. Maarten evacuated by Dutch military ships.

An annual membership for medical and security evacuations costs \$655 for an individual and \$1,155 for a family. Sales have been growing about 30% a year the past several years, says chief executive Dan Richards.

iJet International, a security advisory firm for corporations, universities, government and nongovernmental agencies, organized evacuations for about 900 people from several areas of Texas, Florida and the Caribbean.

iJet sent a team to Antigua to coordinate evacuations and move from island to island to get people out. Chartered aircraft and boats took evacuees to Puerto Rico, normally a good staging place for evacuees because it has lots of hotels and a big airport.

Still, not everyone got out. "In some cases we needed to tell clients, 'You need to hunker down,'" says George Taylor, vice president of global operations for the An-

napolis, Md., company.

Both Mr. Taylor and Global Rescue's Mr. Richards say one of the best precautions to take if you are traveling to a hurricane zone in hurricane season is to invest in reliable communications. Mr. Richards recommends a satellite texting device. It costs about \$400—cheaper than a satellite phone—and requires a monthly service fee, usually under \$20. (The fee usually can be suspended and activated for trips.)

Airlines say there are limits to how many extra flights they can add on short notice, and how close to the storm they can get. Spare planes and crews are few. Positioning hundreds of planes and thousands of pilots and flight attendants out of the storm's path can take a couple of days when big hubs are affected, forcing early cancellations from storm-impacted areas.

There are other reasons airlines shut down early, too. Outer bands of the storm can bring winds that exceed airplane limits for takeoff and landing. Airport security screeners, ground handlers, agents and other essential workers evacuate to take care of their own families and homes. And airlines and airports figure an early shutdown



minimizes the number of people left stranded at airports, which may not be secure shelters for major storms.

People involved in the evacuation say JetBlue pushed hard to get extra flights in. The airline says it flew 54 extra trips from the Caribbean and Florida ahead of Irma, carrying 4,500 extra passengers. And Delta got props from aviation bloggers for a flight from

New York that slipped into San Juan between storm bands, loaded up quickly and flew 173 passengers out.

Pricing is another issue. As last-minute business travelers know, when demand surges for the last seats, ticket prices soar. That led to accusations of price gouging, and airlines capped ticket prices out of Florida and other Irma-impacted areas, usually under \$200.

## A TENSE SIX DAYS AFTER HURRICANE IRMA

**WHEN NAOMI AYALA** realized flights kept getting canceled and she'd be stuck on the island of St. Thomas for Hurricane Irma, she knew just where she wanted to be: the Bunker Hill Hotel, a solid concrete structure built in a hillside high enough to avoid major flooding and walking distance to a town and ferry.

The hotel housed 11 guests who hadn't been able to get out, plus the proprietor's family. Ms. Ayala, who works for a major liquor distributor, had survived a Texas tornado but found that seemed to pale in intensity compared with Irma. Early Wednesday morning the electricity went out. Wind and rain peaked in the afternoon. Palm trees were uprooted; the roof was damaged. "There were four hours that were pretty terrifying," she says.

Once the storm passed St. Thomas, Ms. Ayala and other guests spent Thursday helping clean up, mopping water out of the hotel. On Friday afternoon, a friend got a text message through that Marriott was chartering a large ferry to evacuate its stranded guests from St. Thomas that evening. At the time, Hurricane Jose appeared to be about 36 hours away from the Vir-

gin Islands.

The boat took 620 Marriott guests from three St. Thomas resorts to Puerto Rico. About 35 people from other hotels showed up at the dock and begged to board. They were asked to wait until all Marriott guests had boarded. Then Ms. Ayala says one Marriott worker told them they could board. A second employee said no, insisting the local Port Authority had granted permission because they weren't on the manifest Marriott had compiled in advance.

Confusion erupted. Some port officials told them the port had granted permission but Marriott didn't want to take them. The boat pushed off and port officials turned out the lights, leaving the three dozen stranded travelers to disperse in the dark. "It was heartbreaking and devastating to see everyone in tears watching that boat go away," Ms. Ayala says.

On social media, travelers accused Marriott of abandoning them because they weren't customers. Marriott says it had room on the boat and agreed to take the stranded travelers, but local officials refused. "As grateful as we are that we were able to transport our guests, we are saddened that we were not able to do the same for more people," a Marriott spokes-



**Hurricane Irma did serious damage St. Thomas, in the U.S. Virgin Islands, when it passed through this month.**

woman says.

The Virgin Islands Port Authority couldn't be reached for comment by phone or email. However, Beverly Nicholson-Doty, commissioner for the U.S. Virgin Islands Department of Tourism, confirms that local officials blocked

boarding because there wasn't time to process additional passenger names before the ship had to sail. "We had to follow protocol," she says. "It was not possible to accommodate passengers who have not undergone the registration process."

On Saturday, Ms. Ayala waited six hours at a port and got on a Puerto Rico-bound boat that had brought in relief supplies. She got a flight home late Tuesday, six days after the storm.

—Scott McCartney

## OPINION

## REVIEW &amp; OUTLOOK

## Afternoon in Germany

**T**hese days it's dangerous to call the results of an election before it happens, but in Germany's case we can only say we hope we're surprised by the outcome of Sunday's vote. The German mood isn't trending toward upset in what ought to have been a more competitive election.

Polls put Angela Merkel's center-right Christian Democratic Union (CDU) and its Bavarian sister party, the CSU, at roughly one-third support. The center-left Social Democratic Party (SPD), currently locked in a grand coalition with Mrs. Merkel, is languishing just above 20%. It has failed to articulate positions beyond the centrist policies it has already helped Mrs. Merkel implement, and its new leader, Martin Schulz, struggled to connect with voters.

The real race is for third place. The far-right Alternative for Germany (AfD) is leading with about 11% support, followed by the formerly communist Linke (Left), the free-market Free Democrats (FDP) and the Greens. Mrs. Merkel will emerge on Sunday night as leader of the largest party in the Bundestag, but without an outright majority. The excitement will be whether she cajoles the SPD into another grand coalition, or governs with the smaller FDP and perhaps the Greens (yes, really).

European politicians think it's good that Germany has avoided the anti-establishment rebellion sweeping many other democracies. And in one sense it is. Better than any other European politician, Mrs. Merkel slaloms between her voters' idealism and their frustration with that idealism's failures.

In 2015 Mrs. Merkel co-opted the left's humanitarian spirit by welcoming a million migrants from the Middle East, making the right wing of her party look ungenerous. She has since drifted rightward again on security, making her pro-immigration SPD challengers look out of touch with the unease created by her own policies.

## James Madison Weeps

**F**reedom of speech is a principal pillar of a free government," wrote Ben Franklin. "When this support is taken away, the constitution of a free society is dissolved." Imagine what Franklin, James Madison and the other Founders would make of a new Brookings Institution survey showing that American college students have no clue what the First Amendment means.

John Villasenor surveyed more than 1,500 undergraduates, and among the alarming findings: Most American college students don't know that even hate speech is constitutionally protected; half agree that it's okay to shout down a speaker whose views they don't agree with; and nearly one in five believe it is acceptable for a student group opposed to a speaker

A survey finds U.S. college students are clueless about free speech.

to use violence to keep him from speaking. Some of the answers vary by political identification, but overall the findings suggest great confusion.

Mr. Villasenor's conclusion is blunt. "Freedom of expression," he says, "is deeply imperiled on U.S. campuses." We'd take that further. Given that a functioning democracy rests on free expression, what

do these results say about America's future when these students leave school and begin to take their places in public life?

It's easy to mock the students for their ignorance. But what about the people responsible for teaching them? These results suggest that the failures of America's education system are beginning to have terrible consequences for America's civic life.

## Trump Shock at Turtle Bay

**D**onald Trump's method has been to use his speeches on the world stage to roil diplomatic convention, and he did it again Tuesday in his address to the United Nations. No coterie of complacency deserves censure more, and perhaps Mr. Trump's definition of "America First" is even evolving to recognize the necessity of American global leadership.

The President abandoned any nuance, even by his standards, in denouncing the "rogue regimes" in North Korea and Iran. He was especially unabashed in describing North Korea's offenses, calling it a "depraved regime." These aren't words typically heard at Turtle Bay, where others among the depraved sit on the Human Rights Council, as Mr. Trump also had the effrontery to point out.

But he really rattled the seats with his threat to act against North Korea if the U.N. fails to do so. "No nation on Earth has an interest in seeing this band of criminals arm itself with nuclear weapons and missiles," Mr. Trump said. "The United States has great strength and patience, but if it is forced to defend itself or its allies, we will have no choice but to totally destroy North Korea. Rocket Man is on a suicide mission for himself and for his regime."

The threat to destroy the North offended the foreign-affairs cognoscenti, who view Mr. Trump as a barbarian. And at first hearing the "Rocket Man" reference to dictator Kim Jong Un does sound like an insult better left to teenagers in the school yard.

Then again, Mr. Trump inherited the North Korean nuclear crisis, and he is trying to get a cynical world's attention that he intends to do something about it. Traditional diplomacy isn't getting through to Mr. Kim and his entourage, or to their patrons in Beijing. After years of Barack Obama's diplomatic niceties that ducked the problem, maybe the world needs to be told some unpleasant truths about an evil regime with a weapon of mass murder and the means to deliver it.

Mr. Trump added a challenge that most of the media ignored: "The United States is ready, willing, and able, but hopefully this will not be necessary. That's what the United Nations is all about. That's what the United Nations is for. Let's see how they do."

This is another hard truth. The U.N. was founded on the promise to provide what Mr. Obama often called "collective security." But the U.N. has nearly always failed in that duty amid Russian vetoes at the Security Council, as during the Cold War and this decade in Syria, or out of indifference as in the Rwanda genocide of the 1990s.

The great exception was the first Iraq war, after the fall of the Berlin Wall, when George H.W. Bush rallied the U.N. to resist Saddam Hussein's invasion of Kuwait. The U.S. provided the military muscle to enforce the U.N.'s will, but at least the U.N. wasn't an obstacle. Alas, Turtle Bay has since returned to its previous habit of abetting the world's rogues by preventing collective security.

Mr. Trump on Tuesday also tried to make a case for national "sovereignty" as the basis for U.N. purpose, and here he was less successful. He is right that national interests can be the basis for global action, but Mr. Trump defines that interest too narrowly.

"We do not expect diverse countries to share the same cultures, traditions, or even systems of government," he said, "but we do expect all nations to uphold these two core sovereign duties, to respect the interests of their own people and rights of every other sovereign nation."

How about the *rights* of their own people? Defined in such narrow terms, "sovereignty" and "interests" don't include room for how nations govern themselves, which matters to how dangerous they are to their neighbors. In his own speech Mr. Trump rightly spent many sentences deplored how North Korea and Iran treat *their* people.

This view of "sovereignty" also leaves authoritarians too much room to claim dominant spheres of influence. China's Xi Jinping and Vladimir Putin might both say they are exercising Trumpian sovereignty in the South China Sea and Ukraine. Yet those leaders are the main obstacles now to defanging North Korea and Iran. This is the contradiction of narrow Trumpian national interest.

Mr. Trump is right to challenge the U.N., but the hard truth he may be learning is that there is no substitute for U.S. leadership on behalf of American values and interests if he wants to build a more peaceful world.

## Democrats Collude With Moscow Don



BUSINESS WORLD  
By Holman W. Jenkins, Jr.

OK, Mr. Schumer in particular has known Donald Trump for decades. He knew there was little real substance to the Trump-Russia accusations. It was Mr. Schumers who publicly warned Mr. Trump of the folly of making a political enemy of the intelligence agencies.

Which brings us to Special Counsel Robert Mueller. If he hasn't been asking himself some big-boy questions, he should start now. The FBI handed over to Mr. Mueller a counterintelligence investigation—not a hunt for a Trump crime, but a hunt for the truth about Russia's role in the election.

The problem with the word "collusion" is that when Russia stirs up U.S. politics in its own interest, its actions can be convenient for different parties. That includes a U.S. intelligence community with its own ideas about what needs to happen.

More than ever, the story line that Kremlin efforts were aimed with winsome simplicity at helping Mr. Trump seems largely a fabrication of the U.S. intelligence agencies.

If so, the moment of true political corruption may have come with Mr. Trump's improbable, unexpected victory, when the agencies suddenly switched their diagnosis of Vladimir Putin's motives. On Oct. 31, voters hadn't yet gone to the polls. The New York Times summarized the Obama administration view that Russia's effort "was aimed at disrupting the presidential election rather than electing Mr. Trump."

Then came Mr. Trump's unanticipated triumph, and the administration quickly revised its judgment from "Putin meddled" to "Putin meddled to elect Trump." Stories in the Times and elsewhere, mostly citing Obama CIA chief John Brennan or people close to him, went further, hammering vaguely at the idea that Mr. Trump directly conspired with Russia.

The Trump dossier, in government hands for months, suddenly leaked into public view. Secret intelligence about Mike Flynn's phone call with the Russian ambassador leaked into public view. Increasingly pathetic intelligence leaks tried to paint now-President Trump as betraying Israeli sources and "leaking" terrorism secrets to Moscow.

The media picked up and believed the fantastical claim that 17 intelligence agencies had agreed on the new explanation of Russia's role. It turns out that handpicked personnel from three agencies drafted the finding.

## LETTERS TO THE EDITOR

## What's Worse, the Left or Right? Hard to Tell

Alan Dershowitz explains how "The Hard Right and Hard Left Pose Different Dangers" to America (op-ed, Sept. 12). The hard-right agenda of a fascist utopia appeals only to a sliver of extremists, while the hard-left agenda of a state-regulated economy producing fair outcomes for all resonates on the left, particularly among university faculty and students. Many reasonable people in the center left are amenable to using censorship and intimidation to stifle opposition in the interest of bringing justice to oppressed groups.

Using hateful language to demonize others as haters is legal and permissible, as Mr. Dershowitz would passionately argue, but should be abhorrent to reasonable people who are not on the fringe of the left or right.

JEFF ADAMS  
Atlanta

I disagree that the hard right and hard left pose qualitatively different dangers or that the hard left's ultimate goals are more commendable than those of the hard right. There is no difference between a Hitler, Stalin,

JOHN A. CHRISTIANSEN  
Kansas City, Mo.

## Trump Must Govern, Even if With Democrats

Your editorial "The Pelosi-Schumer-Trump Congress" (Sept. 8) speaks factually but misses the mark. Belittling President Trump's deal on the federal debt ceiling by alleging it came out of pique at Republican congressional leaders perpetuates media fixation with the president's emotions. Reality speaks otherwise: The deal avoided a manufactured crisis (the debt ceiling) in the midst of two natural calamities.

Recent experience shows that the demands of House special-interest Republican caucuses could never be satisfied if their votes controlled extended debt-ceiling deadlines. Combined with Senate Never Trumper, GOP leaders had no chance of enacting their extended debt-ceiling proposals. We "deplore"

ables" support the decision, conceding that since the GOP can't govern legislatively, our president must engage enough votes in Congress from any source to move, yes, even a diluted agenda forward.

The Deferred Action for Childhood Arrivals issue belongs to Congress. We'll have to see if what used to be our party learns any lessons.

ILSE AND FRED EHMANN  
New Milford, Pa.

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## OPINION

# Give Us Real Tax Reform, Not a Pig In a Poke

By Jim Jordan  
And Mark Meadows

**R**econciliation is a parliamentary vehicle linked with the budget and designed to achieve specific revenue and spending requirements. This is the preferred approach for certain policy objectives because only 51 votes are required for passage in the Senate. Republicans plan to use this process for tax reform. There's one concern: This was the same approach attempted for ObamaCare repeal.

In January, Congress passed a budget with reconciliation instructions for fiscal 2017. The House Freedom Caucus and Republicans across the country believed the legislation to address ObamaCare would be the same as the bill that passed both chambers in 2015 with only one Republican "no" vote. Everyone assumed we would send the same bill to President Trump that we put on President Obama's desk.

## U.S. Congress shouldn't repeat the errors that killed the plan to repeal and replace ObamaCare.

But that's not what happened. After the budget passed, first we got secrecy. Remember Sen. Rand Paul, searching the Capitol for the hidden bill? When it turned up, it wasn't clean repeal. It wasn't what Congress had passed in 2015. It wasn't what we promised the voters.

Members were told we couldn't change the legislation—no real amendment process, no witness testimony. Take it or leave it, we were told—"it's a binary choice!"

After intense debate, the Freedom Caucus did change the bill, and all but two of our members supported the much-improved version that passed the House but still sits in the Senate.

Now comes tax reform, and the same play is being run again. The Freedom Caucus has been told: Don't introduce your tax reform. Wait for ours. But we won't show it to you until you vote for the 2018 budget.

If a car salesman shows you a picture of a car and demands a non-refundable down payment, you'd probably say, "Wait a minute. I've got a few questions." You might even ask to see the car. That's the situation we face with tax reform—except we haven't even seen a picture.

The House Freedom Caucus will gladly start the process if we are confident the tax plan will actually cut taxes for families, simplify the code and create jobs. We will gladly pass the budget when basic questions are answered: What are the personal rates? What's the corporate rate? What's the repatriation rate? How are small businesses treated?

The biggest question: Why the reluctance to show the American people the plan? Is the bill being written behind closed doors because it will only help the connected class and their high-paid consultants? Congress has been in session 8½ months. Is the plan being hidden away only to be rolled out at the last minute when members will be told again to take it or leave it, it's a binary choice?

The House Freedom Caucus wants government to operate on a budget, preferably a balanced one. We want to cut taxes and reform our broken tax code. Show us a plan that allows families to keep more of their money and one that grows our economy, and we will gladly vote to pass a budget.

*Reps. Jordan (R., Ohio) and Meadows (R., N.C.) are, respectively, former and current chairman of the House Freedom Caucus.*

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By Douglas A. Irwin

**S**o far, the Trump administration's trade policy has seen an internal division among economic nationalists and "globalists" on the president's senior staff. The economic nationalists, and the president himself, believe protectionism will strengthen the American economy. "Look at the 19th century," said former White House chief strategist Steve Bannon in his recent "60 Minutes" interview. "What built America's so called 'American system,' from Hamilton to Polk to Henry Clay to Lincoln to the Roosevelts? A system of protection of our manufacturing, financial system that lends to manufacturers, OK, and the control of our borders."

In the nationalists' narrative, high tariffs were responsible for America's growth and industrialization in the 19th century. This isn't only a misreading of history, it's a bad policy prescription for the 21st century. A return to high tariffs would sap America's economy today.

Mr. Bannon's simple story is historically and economically off base. As Treasury secretary, Alexander Hamilton wanted moderate tariffs, not protectionist duties. In his day, tariffs accounted for nearly all federal revenue. He wanted to keep imports flowing so he could finance the federal government's Revolutionary War debt and secure the young nation's credit. President Polk, far from being a protectionist, was a small-government Democrat. He slashed tariffs dramatically in 1846.

Mr. Bannon even gets the Roosevelts wrong. Theodore Roosevelt recognized the need to reduce tariffs but was uncharacteristically afraid of crossing old-guard Republicans in Con-



THE GRANGER COLLECTION

Sen. Reed Smoot (left), actress Mae Murray and Rep. Willis Hawley, 1929.

gress, leaving the dirty work to his Republican successor, William Howard Taft. And Franklin D. Roosevelt was a "globalist" who got Congress to delegate tariff authority to the executive so that import duties could be cut in trade agreements with other countries.

### Immigration and rapid industrialization—not tariffs—made the 19th-century economy great.

Economic nationalists always conveniently skip the story of the 1930 Smoot-Hawley tariff, probably because it doesn't fit their narrative. Smoot-Hawley—passed by Republicans and signed by a Republican president—didn't cause the Great Depression, but the trade wars it inspired certainly damaged the world economy and backfired badly against the U.S.

More important, America didn't boom during the 19th century be-

cause it was a closed economy. The U.S. industrialized rapidly between 1833 and 1860, when tariffs were being cut. While tariffs were high after the Civil War, the U.S. was open to foreign capital inflows.

It was also open to the best industrial technology from Britain and Germany, and—importantly given Mr. Bannon's assertion that the U.S. had control of its borders back then—to massive immigration. The textile mills and steel furnaces of the late 19th century were largely staffed by foreign-born workers. As in our own era, many native-born Americans weren't interested in doing tedious and grinding jobs at low wages.

Economic nationalists also ignore the more sordid history of American protectionism. Clay—who served as a senator, House speaker and secretary of state—was a staunch advocate of protection, but he overplayed his hand. High tariffs meant high taxes, and Clay failed to anticipate how politically divisive they would be.

The South nearly revolted after the "Tariff of Abominations" in 1828,

which was aimed at protecting industry in the Northern states. South Carolina threatened to secede from the Union. The Compromise of 1833 defused the crisis, putting tariffs on a downward trend for nearly three decades.

Post-Civil War tariffs were just as controversial because they bred political corruption. Producers lobbied Congress for higher tariffs on their foreign competitors, while other special interests wanted the revenue spent on pet projects. Protectionism didn't drain the swamp; it created it.

The claim that protectionism made America's economy great in the past, and can do so again today, is wrong. When the government boosts domestic steel prices to protect a few firms from foreign competition, it also hurts domestic steel users who need cheap inputs to remain competitive in a global marketplace. Making the U.S. a "high price island" for steel, semiconductors, sugar and solar panels favors some businesses at the expense of others.

Protectionism can even push manufacturers to leave the country in order to remain competitive. And protectionism hurts exporters—not just the many American farmers who sell to foreign markets, but big manufacturers, such as Boeing and General Electric, which produce goods for sale abroad.

Economic nationalists say their protectionist program will ignite an economic boom. In fact their poor understanding of history will damage the U.S. economy and leave the country weaker.

*Mr. Irwin is a professor of economics at Dartmouth and author of "Clashing over Commerce: A History of U.S. Trade Policy," to be published in November by the University of Chicago Press.*

## A New Chance to Make the Euro Work Again

By Jochen Andritzky  
And Edouard Vidon

**F**ollowing elections in France and Germany this year, European integration is expected to receive a renewed boost from the European Union's two largest economies. The question is how quickly and in what direction.

To unlock progress, eurozone governments are in search of economically sensible, legally sound and politically feasible ideas to improve the architecture of the monetary union. Discussions center on three main goals: supporting economic policy making by euro member states and achieving a policy mix that can facilitate balanced growth and convergence; making the eurozone less susceptible to crises; and minimizing the damage from economic shocks when they inevitably occur.

By kicking off major labor-market reforms in France, President Emmanuel Macron is signalling that national reforms remain central to better economic outcomes, and member states retain a major responsibility for implementation. Nevertheless, actions at the European level can play an important role in supporting determined national-policy agendas and push for a more harmonized, efficient and safe single-market environment.

Not every member state sees eye to eye with the European Commission's approach to safeguarding common rules. The difficulty of enforcing complex budget rules in the face of member-state opposition has compounded the unwillingness of countries to cede more powers to Brussels. As the commission itself acknowledges, a review of fiscal rules is called for, to make them simpler and improve compliance.

France has proposed a central fiscal capacity, a euro finance minister and a eurozone Parliament. One main motivation is rebuilding trust through an institution that could articulate a collective strategy encompassing reforms, a balanced policy mix and financial integration.

This would facilitate a cooperative policy equilibrium. Together with the existing independent European Fiscal Board, it could improve the surveillance and implementation of common

fiscal rules and broker a deal between structural reforms and the fiscal stance within the rules. New, positive incentives may be required.

Establishing a sizable fiscal capacity in the eurozone remains contentious. Germany and some other member states worry about profligacy with taxpayer money and long-term debt sustainability. There is also no consensus among member states to give a European institution the power to incur common debt, let alone raise taxes.

Germany is also skeptical of the feasibility and benefit of coordinating national fiscal policies given the lack of enforcement, delays in implementation, and doubts over the effectiveness of discretionary fiscal policies in stimulating economies. Better coordinating national fiscal policy remains challenging without deeper governance reforms. A reform of the EU budget to allocate funds linked to progress with reform programs, or an extension of the European Fund for Strategic Investments to help protect investment spending in downturns would also support policy coordination.

Deepening the European banking and capital-markets unions—toward a genuine financing union—appears within reach, and would bring additional microeconomic benefits to national reforms that could boost growth and support convergence. Financial integration, in particular through cross-border equity investment, would also improve private-risk sharing in Europe.

This would be enabled by aligning tax and regulatory incentives; developing pan-European savings instruments such as a pension product; and keeping systemic risks in

check, including through common supervision and resolution of nonbanks and strong crisis backstops.

Progress on completing the banking union is hampered by the large volume of nonperforming loans in some member states. Conditions are already in place for tougher Single Supervision, and completing the Single Resolution with a common backstop. But in order for costs of banking crises to be shared further through a European de-

### With their elections done, Paris and Berlin can work toward fiscal cooperation.

posit-insurance scheme, further risk reduction is needed. Insolvency frameworks need to be harmonized to strengthen loan enforcement.

And the link between banks and government has yet to be severed to keep public debt from dragging down banks. To address this, sovereign-debt securities need to be acknowledged as being risky and treated as such.

In the area of crisis prevention and management, Germany has proposed developing the European Stability Mechanism into a European Monetary Fund, for instance by strengthening its lending facilities and giving it a greater role in surveillance. Such a role could dovetail with the mandate of a euro finance minister. To safeguard fiscal resources and strengthen market discipline, the EMF would only lend to countries with sustainable debt, or ensure appropriate creditor participation through debt restructuring.

All of these solutions could be bundled into packages that foster buy-in from different member states. Policy makers must ensure a framework for a more stable eurozone will emerge that aligns policy responsibility and fiscal liabilities. To spur reforms, a package could strive for better coordination of policies and reform the way the EU allocates funds.

Credit risk-reduction measures could be combined with a reinsurance mechanism to backstop national deposit-guarantee schemes and measures to reduce the bias against equity risk-taking. A strengthened safety net through an EMF could be coupled with new surveillance duties as well as rules for creditor involvement. A democratically accountable euro finance minister could be seen as helping broker and bring consistency to such a strategy.

Many of these measures will take time to fully materialize, yet an early agreement can kick-start complex implementation and allow quick progress. Europe's guiding spirit has always been of progress through sensible compromise. Small, pragmatic and well thought out steps are possible—and more likely to help the European project during this political window of opportunity than a grandiose blueprint.

*Mr. Andritzky is the secretary general of the German Council of Economic Experts. Mr. Vidon is the deputy director, international relations, of Banque de France. The opinions expressed here are the authors' and don't necessarily reflect the views of the GCEE or the Banque de France.*

## Iran's Murderous Summer of 1988

By Shabnam Madadzadeh

**A**s Iran's President Hassan Rouhani spoke to the United Nations Wednesday, I thought about the events of 1988, which the regime has tried to erase from history. In school our lessons contained no reference to that summer of blood. But I heard one firsthand story in 2012 from Maryam Akbari Monfared while we were both being held in Tehran's Evin Prison for our political activities.

"They brought my brother's belongings—a bag containing his clothes, bloodied and torn from torture," I recall Ms. Akbari saying. "I will never forget that moment. My parents had gone to visit him, returning instead with his effects. Neither of them could talk. As if they had no words to describe that horrible scene."

By 1988 her brother had been a prisoner for eight years. She said he had been arrested at age 17 for distributing the opposition newspapers of the Mujahedin-e Khalq, or MEK.

The look on Ms. Akbari's face conveyed the whole scene: the grim mother and father, with no corpse to bury or grave to mourn over. "We will not let this be forgotten," she whispered.

I am an Iranian political activist. In 2009, as a 21-year-old university student, I was arrested on suspicion of being sympathetic to the opposi-

tion. For five years I languished in prison, three months in solitary confinement. Two years after being released in 2014, I was smuggled out of the country by the MEK.

Although the regime has tried to force Iranians to forget 1988, the crimes committed were so vast that this was impossible. An estimated 30,000 people, mainly MEK activists, were executed. Their "trials" usually lasted minutes.

How could their families possibly forget? Before my arrest I met a young woman whose uncle was executed that summer. "To this day," I remember her telling me, "my entire family stands up in respect whenever his name is mentioned. My uncle was the most human of humans."

The mass burial sites of 1988 remain largely unknown, and the public is banned from visiting any that have been uncovered, like those in Tehran's Khavaran area. Nevertheless, mothers and fathers, sisters and brothers have been doing so for the past 29 years.

The massacre exemplified the ruthlessness of Iran's leaders, many of whom still hold power today. Mostafa Pourmohammadi, justice minister during President Rouhani's first term, was a member of the 1988 "death commission" in Tehran. The current justice minister, Alireza Avayi, was on the "death commission" in the southwestern province of Khuzestan.

Despite the regime's efforts, the taboos on discussing the massacre are being weakened, little by little, by young people who hadn't even been born in 1988. In line with a call by Maryam Rajavi, the leader of the National Council of Resistance of Iran (an MEK-affiliated group), people across the country have been writing, talking and asking questions about the summer of blood. Families who had remained silent for fear of reprisals have begun discussing the victims and revealing the locations of secret graves.

This social movement gained momentum last year when an audio file surfaced of a 1988 meeting between Tehran's "death commission" and Hossein-Ali Montazeri, who was then the heir-apparent to Iran's supreme leader. Montazeri decried what he called the regime's worst crimes, telling the perpetrators that they would go down in history as murderers.

The Iranian people's demands are simple: Break the silence and stop refusing to admit the mullahs' atrocities. Talk of a new era in Tehran can be taken seriously only when the ayatollahs are held accountable. The first step is to establish an independent international investigation into the 1988 massacre to bring the perpetrators to justice.

*Ms. Madadzadeh is a political activist and former political prisoner in Iran.*

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## LIFE &amp; ARTS

## EXHIBITION REVIEW

# Finding Fashion in Inhospitable Climes

The first major exhibition to show how designers were inspired by clothing developed to preserve life in extreme environments

BY LAURA JACOBS

New York

**THOSE FAMILIAR** with the habitat dioramas at the American Museum of Natural History will feel a jolt of recognition at the entrance of "Expedition: Fashion From the Extreme," the Museum at FIT's gallant new show. There it is, the Serengeti Plain diorama—same gnarled tree, same golden grasslands—but instead of zebras and gazelles we have five khaki safari outfits. Two are the real thing: a suit made by Abercrombie & Fitch (1913-15) and a jacket by Burberry (1940). The other three are playful appropriations that include a tawny pair of lace-up safari tunics by Yves Saint Laurent (1968) and a Ralph Lauren-meets-Karen Blixen ensemble (1984). What a perfect metaphor for an exhibition that heads off into uncharted territory.

"Expedition" is the first major exhibition to show how clothing that was developed to preserve life in extreme environments went on to inspire couture and ready-to-wear fashion. As Patricia Mears, FIT deputy director and the curator of this show, writes in the exhibition brochure: "Expeditions to the North and South poles, the highest mountain peaks, the depths of the ocean, and outer space have been widely covered in the press for more than a century. But it was not until the 1960s that these endeavors began to influence fashion."

Leaving the sunny cradle of mankind behind, Ms. Mears divides the show into four areas of exploration: Arctic, Mountaineering, Deep Sea and Outer Space. The main gallery is painted a deep blue-black that here glows ultraviolet, there oceanic teal. White icebergs and snowcaps create frigid landscapes, blanched reefs invoke leagues under the sea, and in the center of the gallery a circular metal scaffold supports a hovering cylinder of light, the abstraction of a spaceship. A white noise of howls, wind



A pair of Yves Saint Laurent safari tunics (1968), left, and a Ralph Lauren ensemble (spring/summer 1984), right

and water sounds the elemental. The show contains 65 ensembles—the most historic and fragile presented in plexiglass cubes, as if preserved in blocks of ice.

"Expedition" begins in the Arctic because polar navigation came first, cresting in the years 1880 to 1920. This section contains two stunning touchstones: the head-to-toe fur ensemble of blue fox and polar bear that Matthew Henson wore in 1909, when he reached the North Pole with Robert Peary and four Inuit men; and a Siberian funerary robe of intricately patterned fur piecework, dating to about 1900 and exceedingly rare because these robes were burned

with the body. Both these garments speak to a time when skins and furs were vital for polar survival. (The exhibition's superb companion book tells of how Robert Scott and his team, unwisely outfitted in Western textiles, perished in 1912 in Antarctica.)

In the 1960s, Vogue editor Diana Vreeland pushed geographical boundaries with fashion shoots that were themselves expeditions to harsh yet breathtaking climes, and even the great couturier Madame Grès, famous for Grecian pleating, acknowledged expeditioners with a 1969 après ski outfit that included wolf-fur pants, here on display. Issey Miyake's white

felt and faux fur jacket (1997) is pure Sherpa chic, while Karl Lagerfeld, in 2010, channeled Pearly and Henson with an outrageous Chewbacca-like faux fur suit for men. A black silk gown from Yohji Yamamoto's acclaimed fall/winter 2000 collection suggests a snow queen in Victorian mourning.

Mountaineering takes us into thin air, where heavy furs would hinder attempts to climb Everest and K2, respectively summited in 1953 and 1954. Eddie Bauer's goose-down Skyliner jacket (1936)—to-the-waist, with diamond-shaped quilting, volumetric yet lightweight—led the way. Juxtaposed with Bauer's trim little

Skyliner is Charles James's 1937 masterpiece, a white silk and eiderdown evening jacket, its quilting of biomorphic arabesques both fantastical and frightening. Down would go hip-hop with Tommy Hilfiger's "puffers," this one in gold (1999); sci-fi with Junya Watanabe's puffer of predatory black ribbing (2014); and haute with Demna Gvasalia's red puffer for Balenciaga (2016), designed with the drop-away Watteau back that Balenciaga himself so loved.

Deep Sea diving, originally a cumbersome and treacherous affair with spherical helmets and long hoses (think Diver Dan), advanced to lightweight technology in the 1950s—scuba gear and the wet suit. By the '60s, the fashion glossies were awash in modern mermaids. Neoprene, a synthetic rubber invented by DuPont in 1930 and taken up by surfers in the '50s, caught a wave to dry land in 1989, as an overcoat by Junko Koshino. Donna Karan's pretty-in-pink neoprene dress of 1994 is here, as are Thom Browne's recent neoprene riffs on menswear classics.

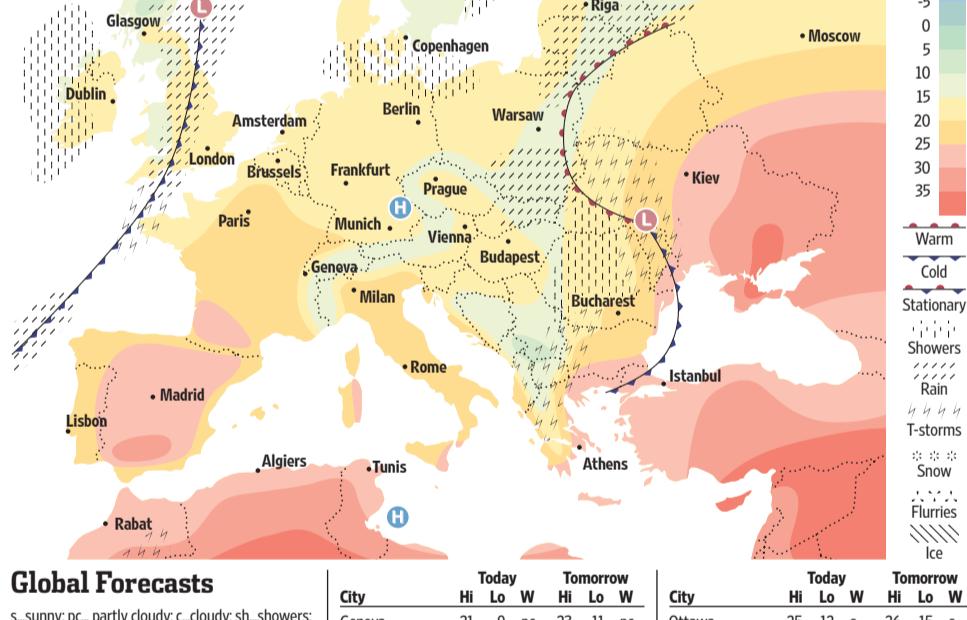
The Space Race spanned 1957 to 1972. This section is dominated, as ever, by the modernism of André Courrèges, Pierre Cardin and Paco Rabanne. Metals, plastic and silver (a nod to NASA's use of Mylar) accented the era's space-capsule A-line silhouettes—Cardin's tan shift of 1967 actually sports a "Star Trek" insignia. Helmut Lang's silk gauze jumpsuit of 1999, its cowl neck just begging for a space helmet, is the ghost of an astronaut. As for Philipp Plein's beaded, sequined catsuit of 2016, this is what Seven of Nine, the glam blond Borg of television's "Star Trek: Voyager" series, might wear to the next Met Gala.

—Ms. Jacobs writes about culture and fashion for *Vanity Fair*.

## Expedition: Fashion From the Extreme

The Museum at FIT, through Jan. 6, 2018

### 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	19	10	pc	18	8	pc
Anchorage	10	9	sh	13	10	r
Athens	27	19	s	27	19	s
Atlanta	31	21	pc	30	20	pc
Bahrain	45	27	pc	41	25	s
Baltimore	30	18	s	28	15	pc
Bangkok	33	24	sh	33	25	t
Beijing	30	16	pc	27	11	s
Berlin	17	8	pc	18	9	pc
Bogota	20	9	r	20	9	pc
Boise	13	3	pc	15	4	pc
Boston	23	14	pc	19	16	pc
Brussels	19	9	pc	19	7	pc
Buenos Aires	14	6	r	18	8	pc
Cairo	36	23	s	34	22	s
Calgary	6	0	sh	6	-2	c
Caracas	32	26	pc	32	25	pc
Charlotte	31	19	pc	30	18	c
Chicago	32	22	s	33	21	s
Dallas	35	24	pc	35	23	pc
Denver	31	14	s	28	8	pc
Detroit	29	18	pc	30	18	s
Dubai	41	29	40	29	29	s
Dublin	15	8	s	17	12	sh
Edinburgh	15	6	r	15	11	sh
Frankfurt	18	7	pc	20	9	pc

AccuWeather.com

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



#### BACK TO NATURE | By Harold Jones

Across		
1 Routine	25 Pale-yellow marsh plant?	43 Prearranged
6 Porter of the Washington Wizards	27 Destuctive crime	44 Emmy winner for "Homeland"
10 Final destination	29 Invention, of a sort	48 Log flume's function?
14 Bakery come-on	30 Spot for a first shot	53 Petulant expression
15 Jay who was the first host of "Last Comic Standing"	31 Euchre ancestor	54 Printer's problem
16 About	33 Without foundation	55 Kaaba dedicatee
17 Bill for all those bloody cocktails?	34 Raised routes	57 Tea dispenser
19 Private dining place	35 Mariner who's good at island-hopping?	58 Martin who wrote "Money"
20 Airport fixture	38 Pale hardwood	59 The Lakota's Wakan Tanka, "the Great Spirit"?
21 Worry	40 Triceps connection	61 Rio's Carnaval precedes it
22 Players' paces	41 Strengthened	62 Magazine's contents
23 "Joyeux" holiday	42 Pin in Peloponnesus	

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

63 Hang with grace

22 Like some presidential communications

24 1970 Kinks hit

26 Words before wintergreen or cloves

28 Clean fellow

32 Lascivious sort

33 Good name for a financial planner

35 Founder of the Islamic Republic of Iran

36 Clear-walled habitats

37 He was alone for a while

38 Sotheby's event

39 Be scintillating

45 Milky Way section

46 Greece spot?

47 Postal party

49 Pour juices over

50 Camel cousin

51 Mishmashes

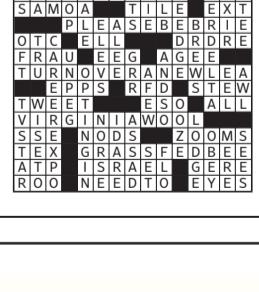
52 Area of Mars

56 Tanning target

59 Bland goo

60 Significant stretch

#### Previous Puzzle's Solution



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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, September 21, 2017 | B1

Euro vs. Dollar 1.2002 ▲ 0.07%

FTSE 100 7271.95 ▼ 0.05%

Gold 1312.00 ▲ 0.44%

WTI crude 50.41 ▲ 1.88%

German Bund yield 0.444%

10-Year Treasury yield 2.276%

## Steel Giants Strike Europe Deal

Thyssenkrupp, Tata to pool their assets as overcapacity weighs on the sector

BY ZEKE TURNER  
AND SCOTT PATTERSON

German steel giant Thyssenkrupp AG and India's Tata Steel Ltd. unveiled plans to fuse their steelmaking businesses in Europe—a move the two have discussed for years amid a glut of steel in the region that has depressed prices.

European steelmakers have battled protracted overcapacity and a wave of cheap imports from countries such as China. In response, the industry has pursued deals, shed thousands of jobs and closed unprofitable plants.

The latest deal is structured as 50-50 joint venture, in which both companies will pool their European assets into a new company called Thyssenkrupp Tata Steel, based in the Netherlands. The company will be Europe's second-largest steelmaker behind ArcelorMittal SA and rank just outside the world's top 10 by production. It will generate annual revenue of €15 billion



A Thyssenkrupp blast furnace in Germany. The merged company will be based in the Netherlands.

INA FASSBENDER/REUTERS

(\$18 billion), ship about 21 million tons of flat steel a year and have a workforce of about 48,000 employees at 34 sites.

Thyssenkrupp Chief Executive Heinrich Hiesinger said the deal was aimed at attacking the overcapacity plaguing the European steel business.

"We are giving the European steel activities of Thyssenkrupp and Tata a lasting future," Mr. Hiesinger said.

We are tackling the structural challenges of the European steel industry and creating a strong No. 2."

Steel customers have turned to less-costly Chinese product, leaving the region's producers with excess capacity that Mr. Hiesinger said has created a "vicious cycle" and made restructuring the business every three or four years unavoidable.

Despite efforts by Chinese authorities to tamp down excess production, the country's steel output continues to rise, increasing 9% in August from the previous year to a monthly record of 74.6 million metric tons, according to RBC Capital Markets.

While Chinese exports have fallen in recent months as domestic demand rises, the flood of steel has spurred consolidations in Europe, sometimes irritating unions. Tata Steel explored selling its U.K. operations at Port Talbot in Wales but eventually reached an agreement with workers to restructure its retirement plan and keep the plant operating until 2021.

U.S. steelmakers have also struggled amid declining steel prices, and President Donald Trump has repeatedly vowed to cut steel imports in the name of national security. But so far no action has been taken as the administration explores the impact of such a move on the economy.

For Thyssenkrupp and Tata Steel, the combination of their European steel assets is expected to generate cost savings of between €400 million and €600 million through streamlined logistics, supply lines and, most important, production capacity.

They warned the deal could result in the loss of as many as 4,000 jobs, which would be shouldered by both companies.

Shares of Thyssenkrupp advanced 2.4% on Wednesday, while Tata Steel gained 1.6%.

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◆ Heard on the Street: The deal is a victory for activism..... B8



GIUSEPPE CACACE/AGENCE FRANCE PRESSE/GTY IMAGES

Dubai Mall features an aquarium, above, and a flight simulator, among other attractions. The city's malls are now leisure destinations.

## Dubai's Malls Focus on Entertainment

By NIKHIL LOHADE

DUBAI—As the West grapples with a historic downturn in brick-and-mortar retail, Dubai's megamalls are mixing fun and shopping to weather their own challenges.

For years, Dubai has combined entertainment and retailing to support a healthy clip of economic growth. The city's malls are now morphing into leisure destinations of their own, offering everything

from aquariums and underwater zoos to flight simulators and indoor ski slopes.

Prime space once reserved for department stores is going to gyms, spas and clinics, say analysts, as malls seek to insulate retailers from the challenges posed by more people shopping online.

"The idea is to bring more and more people into the malls," said Matthew Green, head of research and consulting for CBRE in the United

Arab Emirates. "Footfalls usually convert into sales."

Evidence so far suggests the entertainment-driven retail strategy is working.

The operator of Dubai Mall—one of the biggest malls in the world—said it received more than 65 million visitors at its properties in the emirate in the first half of 2017, an increase of 7% over the same period last year.

Mall of the Emirates, another of Dubai's giant malls,

welcomes more than 42 million visitors annually, according to its owner, Majid Al Futtaim, one of the largest mall-operating companies in the Middle East.

Most Dubai malls don't disclose the value of retail sales, but in the U.A.E., of which Dubai is a prominent part, sales are expected to grow 8% year-over-year to more than \$61 billion in 2017, according to Euromonitor International.

Please see DUBAI page B2

## Google Nears Deal to Buy Portion of Taiwan's HTC

Alphabet Inc.'s Google is set to buy part of Taiwanese smartphone maker HTC Corp., according to people familiar with the situation, part of the search giant's latest effort to crack the handset market.

The acquisition would be for HTC's mobile-phone original-design operations, said the people familiar with the matter. Google chose HTC, a Google supplier, as its contract manufacturer for the high-end

pixel phone that Google launched last year, partly as a challenge to Apple Inc.

HTC suspended trading of its shares Wednesday pending an announcement. HTC's market capitalization is about \$1.9 billion. The value or size of the division Google is set to buy is unclear.

HTC once held a commanding position in the handset market. Its global market share peaked at 9% in 2011, when it shipped roughly 45 million units of its own-branded phones, according to Counterpoint Research. By last year that share had plummeted to less than 1%, or 12.8 million phones, Counterpoint data show.

## Strong Euro Puts Pressure on Bottom Lines

By ERIC SYLVERS  
AND JEANETTE NEUMANN

The strong euro is taking a bite out of European earnings, with the region's companies bracing for more pain ahead and searching for ways to protect their bottom line.

On Wednesday, Inditex SA, the Spanish company that owns apparel retailer Zara, reported first-half results that indicated net income rose 1.5% in the second quarter, a modest increase for a company that booked 18% profit growth in the first quarter.

Inditex's gross margin declined in the second quarter more than analysts had expected. Part of that drop was because of the impact of cur-

rency fluctuations.

The strong run of the European Union's single currency against the dollar and a host of other currencies has surprised many executives. The euro has risen 12% against the dollar since early April, trading

Wednesday at \$1.20. amid expectations the U.S. Federal Reserve—which wraps up a two-day policy meeting on Wednesday—will slow the pace of its interest-rate increases.

Inditex, the world's biggest retailer and one of the sector's

best performers, is particularly susceptible to swings in the value of the euro.

The company makes many products in Portugal and Spain, where it has also based various brand headquarters

## Pfizer Sues J&J In Drug Battle

By JONATHAN D. ROCKOFF

Pfizer Inc. filed suit Wednesday against Johnson & Johnson, alleging J&J has thwarted competition to its arthritis drug Remicade by effectively preventing health insurers, hospitals and clinics from offering Pfizer's lower-priced copy.

The complaint, filed in U.S. District Court in Philadelphia, says J&J's "exclusionary contracts" tie rebates and other J&J perks to agreements by hospitals and clinics to buy mostly Remicade, and by insurers to pay for prescriptions for it.

The lawsuit is the first antitrust action to surface in the emerging market for biosimilars, which are copies of popular biotech drugs, after years of litigation over patents and timing of launches. The outcome could shape how companies will be able to defend their blockbuster biotech drugs after copies go on sale.

J&J didn't respond to a request for comment.

Pfizer has asked the court to void the contracts and order J&J to pay damages compensating for lost sales of its Remicade biosimilar, known as Inflectra. "We obviously expected competition, but we believe Johnson & Johnson are not competing fairly," said John Young, the Pfizer executive overseeing its biosimilars business.

Biotech drugs, which are produced in living cells and typically injected or administered intravenously, have provided help to patients with conditions ranging from cancer to hepatitis C to multiple sclerosis. But they cost a lot, often more than \$100,000 a year for a patient. The 2010 Affordable Care Act aimed to limit spending on drugs whose patents had expired by creating a regulatory framework for the approval of copies.

Last April, Inflectra was among the first biosimilars to get the go-ahead. Pfizer began selling it at the end of the year.

Sales have been paltry. Inflectra recorded just \$40 million in U.S. sales during the first half of this year, compared with the \$2.2 billion by Remicade. J&J sold 1.7 million vials of Remicade in the second quarter, versus the 23,000 vials of Inflectra that Pfizer sold, according to SSR Health LLC, a research firm.

During a July conference call with analysts, J&J Chief Financial Officer Dominic Caruso described Remicade's loss of market share as "minor" and the fall in sales as "lower" than both the company or Wall Street expected. "We haven't seen much impact now," Mr. Caruso said, according to a transcript. Remicade is J&J's top-selling product.

In the lawsuit, Pfizer blames Inflectra's poor performance on "anticompetitive" actions taken by J&J.

Please see EURO page B2

and logistics facilities. That approach gives it a major edge over rivals because of the speed with which new products hit Zara and other stores, but it also brings headwinds when the euro strengthens.

A stronger euro means higher relative costs while revenue generated in non-euro currency countries declines when translated back to euros. Inditex generates around 55% of sales in non-euro currencies with about 10% of the total coming from the U.S. and countries with currencies linked to the dollar.

The strong appreciation of the euro affected the gross margin in the first half of the year, Inditex Chairman and

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## HEARD

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it pays for them with newly created money by crediting the reserves banks hold at the Fed.

These bank reserves become liabilities on the Fed's balance sheet that correspond to those new assets. Banks' total reserves parked with the Fed soared during quantitative easing. They stand at more than \$2.3 trillion, of which some \$2.2 trillion are in excess of what banks are required to hold at the Fed.

Now, as the Fed's assets mature and aren't replaced, the associated liabilities also will roll off its balance sheet, meaning banks' excess reserves will start to fall.

This matters to banks because these reserves count as "high quality liquid assets." Under postcrisis financial regulations, banks are required to hold enough of such liquid assets to cover 30 days of potential short-

term outflows during a stressed period.

With those reserves now falling, banks may need to buy other liquid assets such as Treasurys or mortgage-backed securities to stay in compliance with the rules. This will ripple through markets, potentially reducing the impact of the Fed's unwinding on long-term rates.

This effect won't be felt immediately because banks have liquid assets well above the regulatory minimums. Over time, though, it could be substantial.

Banks also will earn more from these new assets than from deposits with the Fed, which pays just 1.25%. Over time this could become a significant income boost to some lenders.

Quantitative easing buoyed stock and bond markets for years, but for bankers it was at best a mixed blessing because it was so successful in suppressing long-term interest rates. As the Fed starts to reverse the process, those bankers may finally be smiling.

one cent against the dollar, it depresses Airbus earnings by more than €100 million (\$119.9 million).

To insulate itself against the impact, Airbus uses currency hedges that lock in exchange rates for several years, much longer than most companies that hedge.

For European auto makers, which source parts and produce their cars in many different countries, foreign exchange is the largest determinant of their profitability after sales volume, and the euro's rise could become a problem by year's end, according to wealth manager Bernstein. If the euro stays above

## 12%

Size of the euro's rise against the dollar since early April

\$1.20 for a sustained period, earnings estimates for European car makers, most of which are likely hedged through until early 2018, will have to be trimmed, said the wealth manager.

Royal Ahold Delhaize NV has more than 60% of its earnings coming from the U.S., and the Dutch food retailer is looking to mitigate the effects of a weaker dollar so that it can deliver on the €500 million in synergies it promised as part of last year's mega-merger between Ahold and Delhaize.

"Clearly [the strong euro] puts us under a little bit more pressure," Ahold Delhaize finance chief Jeff Carr said last month. "Obviously we do what we can to adjust the small effects," he said, but "when we see an exchange rate move from \$1.08 to \$1.18" forecasts will have to be adjusted.

—Robert Wall,  
William Boston and  
Saabira Chaudhuri  
contributed to this article.

But Mr. Hiesinger denied the move represented a depar-

## Toshiba Taps Bain for Sale

Final agreement on the chip-unit deal has yet to be reached; Western Digital balks

TOKYO—Toshiba Corp.'s board on Wednesday voted to sell its memory-chip business to a group that includes Apple Inc. and Dell Technolo-

gies Inc. for ¥2 trillion (\$18 billion), moving the deal closer to final agreement despite objections from a Toshiba business partner.

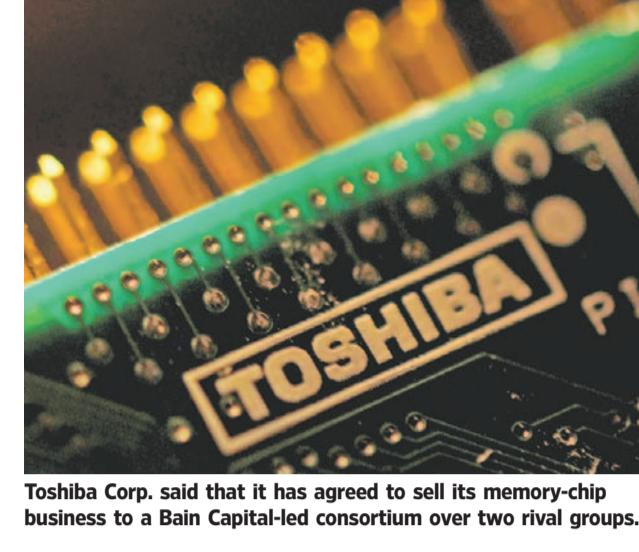
The troubled Japanese industrial conglomerate said it hoped to conclude a final contract soon with the bidder group, which is led by U.S. private-equity firm Bain Capital. Toshiba outlined a plan to keep a role in the chip unit even after the sale, reflecting its desire to stay involved in a business that has been growing quickly thanks to demand for the chips in smartphones, computer servers and other electronics.

Toshiba said it chose the Bain group over two rival groups, one that includes Western Digital Corp. and the other represented by Taiwan's Foxconn Technology Group.

The decision comes a week after Toshiba and the Bain group signed a nonbinding document saying they intended to reach a deal by Sept. 30.

At least two hurdles remain to a deal: Antitrust review by authorities around the globe, and objections from Western Digital, Toshiba's partner in the chip business. Western Digital says it has the right to veto any sale, while Toshiba says no such right exists. The two parties are headed for international arbitration.

Toshiba said that under its interpretation, it could carry through with the sale of the



YURIKO NAKAO/REUTERS

Toshiba Corp. said that it has agreed to sell its memory-chip business to a Bain Capital-led consortium over two rival groups.

chip unit even if Western Digital wins a favorable ruling in arbitration. Western Digital said it was "disappointed" by Toshiba's decision and confident that it would prevail in arbitration.

While Toshiba's statement Wednesday didn't mention Apple and Dell, Bain has said its consortium includes those two companies, as well as Kingston Technology Corp. and Seagate Technology PLC.

Apple plans to offer a loan guarantee of some \$3 billion to support the Bain group, a person familiar with the matter said. The person cautioned that final terms have yet to be set.

Meanwhile, Seagate, which helped assemble the Bain consortium, will contribute as much as \$1.25 billion in the form of nonconvertible preferred securities, the person said. The disk-drive maker is expected to sign a long-term supply agreement with an independent Toshiba chip business.

By joining the deal, big customers for Toshiba's chips such as Apple may find it easier to secure supply in a market with high demand. They also would prop up a rival to the memory-chip leader, Samsung Electronics Co., which competes with Apple in smartphones.

Under the procedure outlined by Toshiba on Wednesday, it would sell the chip unit for about \$18 billion to a special purpose company set up by Bain. After the deal closes, Toshiba would invest ¥350.5 billion (\$3.2 billion) in that company. A Toshiba spokesman said if those steps happened as planned, Toshiba would hold a stake of between 20% and 50% in the chip unit.

The sale process has gone through many twists and turns as a divided Toshiba board considered the offers, bidders revised their terms and the Japanese government weighed in. Japanese officials expressed caution about the bid by Foxconn because of its extensive operations in China.

## India Titan Lifts Stake in U.K. Miner

By SCOTT PATTERSON

The family trust of the founder of India's largest mining company plans to ramp up its investment in Anglo American PLC by as much as \$2 billion, making it the biggest investor in the British mining company that has benefited from a recovery in commodity prices.

The move follows a \$2.44 billion investment in March by Volcan Investments Ltd., the family trust of Vedanta Resources PLC founder and Chairman Anil Agarwal, put-

ting its stake in Anglo American at about 20%. While the new stake is likely to bolster speculation that the billionaire mining titan has plans to take over Anglo American, Mr. Agarwal's trust said it has no plans to make an offer to acquire the Anglo in the future.

The second-biggest Anglo investor, Public Investment Corp., South Africa's state-run pension fund, holds about 13% of the company, according to FactSet. Anglo American shares have gained about 9% since Mr. Agarwal made his

initial investment in March.

"We are encouraged by the performance of Anglo American since our original investment earlier this year," Mr. Agarwal said in a statement. A spokesman for Anglo American declined to comment.

The investment, which will be made over the next few weeks, is a strong sign of support for Anglo's management and its chief executive, Mark Cutifani. Fueled by rebounding commodity prices, the U.K.-listed mining company posted net income of \$1.4 billion in



People gather outside the Dubai Mall. Retail sales in the United Arab Emirates are expected to reach \$84 billion in 2021, according to the market-research firm Euromonitor International.

ing beyond 38 degrees Celsius for months on end in most parts of the Middle East, Dubai's malls have become modern-day oases, drawing both people from the region and expats who make up a big chunk of the population.

"It keeps them busy during the summer," said Iranian Leila Kasraie, 44 years old, while dropping off her children, Sam, 6, and Kia, 5, for skiing lessons in Mall of the Emirates, which also has an enclosure for penguins. "Will now have coffee. Shop," said Ms. Kasraie, holding a Louis Vuitton bag bought from one of the Dubai malls. "Wish I could come to the malls every day."

Dubai already has about twice as much retail space per capita as London, according to

the global real-estate services firm JLL. And yet to cater to the expected growth in demand, especially ahead of the World Expo in Dubai in 2020, developers are looking to expand retail space by one-third by the end of 2019, according to JLL.

"Malls in Dubai are just not about shopping," said Andrew Williamson, the head of Middle East and North Africa retail at JLL. "Where else in the world can you find something for everyone in the family?"

Earlier this month, Union Properties, a Dubai developer, unveiled plans for a roughly one-million-square-foot mall featuring a 250-meter indoor velodrome, a 700-meter indoor elevated running track, an Olympic-size swimming pool and a 17,000-square-foot

gym. It will also be home to a classic-cars museum. Visitors will be able to shop and dine at the mall, the company said.

Dubai's "bigger is better" ethos helped transform it from a tiny fishing village to a trade and tourism hub. The city is home to the world's tallest building (Burj Khalifa); a palm-shaped man-made island that has several luxury hotels; and it is building the world's biggest Ferris wheel, which will eventually dwarf the London Eye.

State-owned Emirates Airline funnels millions of passengers every year through its hub in Dubai, with many of them stopping over. Dubai's tourism department promotes its malls through discount festivals with raffle prizes that include luxury cars and exotic vacations.

## STEEL

Continued from the prior page

The deal represents Thyssenkrupp's latest move to reduce exposure to steel and focus on its capital-goods operations such as elevators, sophisticated car components and submarines. It follows the sale earlier this year of its Brazilian steel plant, the last of its steel assets in the Americas.

But Mr. Hiesinger denied the move represented a depar-

ture from steel.

"It's been said that we want to separate ourselves from steel or get rid of steel—that's not true," Mr. Hiesinger added.

The companies said they hoped to formally sign the deal in 2018 and complete and start the joint venture in late 2018, following regulatory approval, including from European Union competition authorities.

The deal also needs the approval of Thyssenkrupp's workers who have a vote on

the company's supervisory board and have previously said they strongly oppose a merger in any form.

Mr. Hiesinger said job cuts were inevitable either way. "In the joint venture, we won't have to resort to any measures that we wouldn't have also needed to implement alone," he said. "Quite the opposite."

Germany's IG Metall union said it was expecting thousands of protesters on Friday at Thyssenkrupp's steel mill in Bochum, Germany.

Thyssenkrupp's supervisory

board is set to meet on Saturday, according to a person familiar with the matter, to begin negotiations to approve the signing of a preliminary contract.

Wilhelm Segerath, who represents Thyssenkrupp's workers on the company's supervisory board, said Wednesday he expects negotiations to be difficult but was willing to examine the joint-venture plans.

"We continue to oppose a merger," he said.

—Marc Navarro Gonzalez contributed to this article.

## BUSINESS NEWS

# Maersk Sells Tankers Unit to Narrow Focus

By DOMINIC CHOPPING  
AND COSTAS PARIS

**A.P. Moeller-Maersk** A/S on Wednesday said it would sell its tankers unit to its controlling shareholder for \$1.17 billion, the latest move by the Danish shipping and energy conglomerate to break up its sprawling operations and focus on container shipping.

The sale of **Maersk Tankers** A/S, one of the world's largest operators of oil tankers, follows on the conglomerate's decision a year ago to separate its transport and energy businesses.

Under that plan, Maersk announced last month the sale of its Maersk Oil unit to France's **Total** SA for \$4.95 billion. It still has its Maersk Drilling division, which operates oil and gas rigs mainly in the North Sea, and Maersk Supply, a fleet of 44 support ships for offshore operations, to sell or list.

Maersk Chief Executive Soren Skou said Wednesday the sale of Maersk Tankers represents "an important step in our strategy to free up resources and focus growth in A.P. Moeller-Maersk on container shipping, ports and logistics."

The company is trying to reshape itself into a global supply-chain player like United Parcel Service Inc. and FedEx Corp. The shipping unit, Maersk Line, is the world's biggest container operator in terms of capacity.

The tankers unit is being bought by **APMH Invest** A/S, a subsidiary of **A.P. Moller Holding** A/S—the controlling shareholder of A.P. Moeller-Maersk. After the sale is completed, the buyer plans to establish a consortium with Japan's **Mitsui & Co. Ltd.** to hold the tankers business.

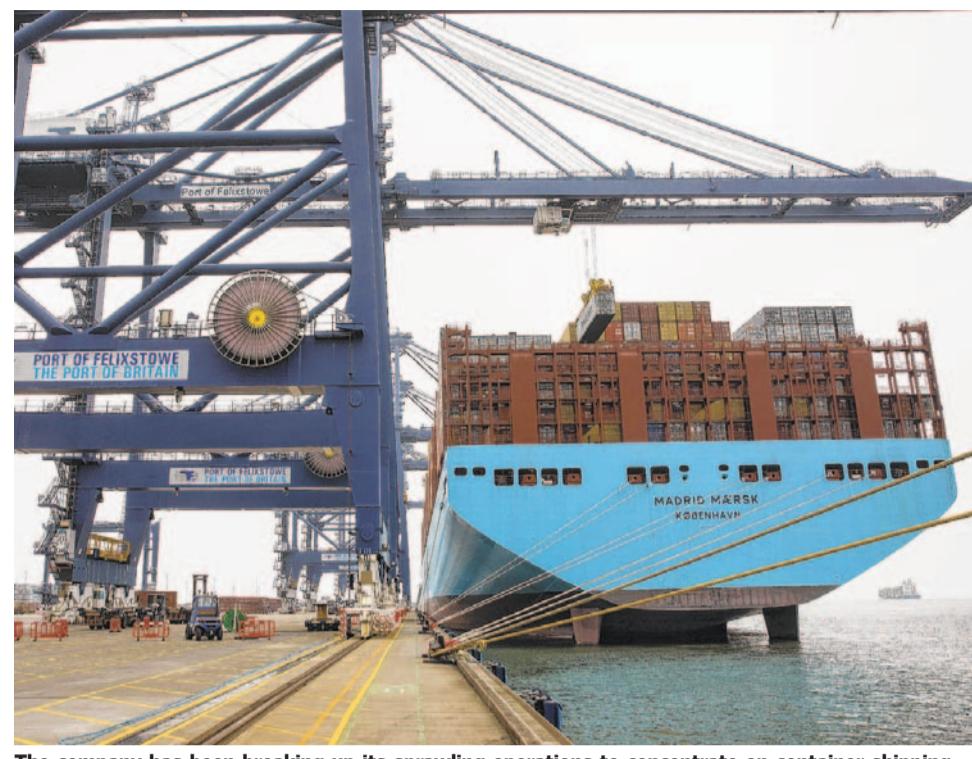
Headed by Maersk family heir Robert Ugle, A.P. Moller Holding is a private invest-

ment arm that controls 41.5% of Maersk shares and 51% of shareholder votes. It also controls 20% of Danske Bank, one of Denmark's largest financial institutions.

A.P. Moller Holding said it is looking for other acquisitions as part of its strategy to develop a new portfolio of companies. It recently set up A.P. Moller Capital, which will invest in infrastructure projects.

Maersk has owned the tanker business since 1928. The unit transports refined oil products around the world, has a fleet of 161 vessels and employs 3,100 people. Maersk said it would use the proceeds from the sale to reduce debt.

Mitsui is one of Japan's biggest trading companies, with interests in energy, chemicals, food, textiles, logistics and machinery. Its assets are worth \$102.7 billion and its revenue for its most recent fiscal year was \$39 billion.



The company has been breaking up its sprawling operations to concentrate on container shipping.

SIMON DAVISON/BLOOMBERG NEWS

# GE Grounds Its Corporate Jets in Cost-Cutting Push

By THOMAS GRYTA  
AND MARK MAREMONT

**General Electric** Co. executives will have to find new ways to fly around the globe.

The conglomerate is grounding its corporate fleet of jets as new GE chief John Flannery continues to look to slash costs at the industrial giant.

Mr. Flannery is cutting spending in GE corporate operations, including unwinding the internal airline for corporate executives, effective Wednesday, according to a person familiar with the situation. GE will still operate some helicopters and other aircraft overseas, while using charter services as needed.

GE owns several business jets, federal records show, including at least two Bombardier Challenger aircraft. Its pilots for decades have shuttled

executives to business meetings and operations around the globe, racking up hundreds of hours a year.

The company has required its chief executive to use corporate aircraft for all travel, including personal travel, for

New CEO John Flannery is seeking out savings as profit and sales waver.

safety and security purposes. But with profits under pressure and sales pinched by weakness in parts of the company, Mr. Flannery is looking for ways to save.

"As we have said, we are executing on a plan to take out \$2 billion in cost by the

end of 2018," a GE spokeswoman said. "As part of that effort, starting today, we are reducing the Corporate Air Transport services and will use charter companies as needed."

The move marks a change from recent plans. When it relocated from Fairfield, Conn., to Boston, the company negotiated with city and state officials to secure parking at Logan International Airport for one executive jet and one helicopter, according to the agreement. The company also requested a hangar at nearby Hanscom Field that could fit six business jets.

Mr. Flannery is trimming staff at the corporate level and recently delayed part of the construction of GE's new headquarters complex in Boston, a relocation initiated by his predecessor, Jeff Immelt.

Mr. Immelt, who stepped aside on Aug. 1, pledged to boost cost-cutting earlier this year after talks with activist investor **Trian Fund Management** LP, which has been frustrated by missed profit goals at GE.

In July, GE told investors they would have to wait until November to hear the new boss's strategy for boosting results, but some haven't waited to sell their shares. The stock is down 23% this year amid a surging broader market and has lost 15% in the last three months alone.

Mr. Flannery, who formerly ran GE's health-care unit, is meeting with small groups of investors and visiting the business units of the roughly 300,000-person company. He has said he would look at every aspect of the company and its strategy, although he won't consider reducing its dividend.



A Bombardier Challenger, a type of business jet in GE's corporate fleet. Its executives now will be using charter services as needed.

KRASILNIKOV STANISLAV/TASS/ZUMA PRESS

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## TECHNOLOGY

WSJ.com/Tech

PERSONAL TECHNOLOGY | By Joanna Stern

# New Apple Watch Has Reliability Tics



There's this moment in "Dick Tracy" where the fearless detective, chasing down a villainous gang, taps his magical wristwatch to call for backup. Then, realizing the battery is down to 8% and that cellular isn't connecting, he ducks under a desk to find a power outlet and futz with the settings.

Poor Dick, he upgraded to the cellular version of the Apple Watch Series 3.

**Apple's** latest has all the ingredients of the future we were promised. Crammed inside that familiar flattened-marshmallow rounded square is the power to make calls from anywhere, connect to an always-listening personal assistant and check in on your health with biometric sensors—all without depending on an iPhone for connectivity.

Except, after I spent a week testing these new models—denoted by a red dot on their dials—the future feels even further away. You're lucky if the battery allows you to roam on cellular for longer than half a day—especially if you're making calls. And only a limited number of third-party apps work without the phone close by. (No Instagram, Twitter, Uber.)

Most worryingly, my colleague Geoffrey Fowler and I experienced cellular connectivity issues on three separate preproduction models, in two different states, on two different 4G LTE carriers.

On the AT&T-connected models, the cellular connection dropped, calls were often choppy and Siri sometimes failed to connect. On the one that ran on T-Mobile, I experienced several dropped connections.

When I asked Apple about these issues, a spokesman



The cellular Apple Watch Series 3, at left, has a red dot. There is also a noncellular version.

said, "We haven't seen this in any of our testing and we're looking into it."

After publication of this review, Apple provided the following statement: "We have discovered that when Apple Watch Series 3 joins unauthenticated Wi-Fi networks without connectivity, it may at times prevent the watch from using cellular. We are investigating a fix for a future software release."

That's a lot of baggage for a device that costs \$400—\$70 more than the noncellular Series 3. And don't forget the extra \$10 a month you'll need to pay your carrier for the cellular service.

A cellular device is, sometimes literally, a lifeline. That's why I can't recommend the cellular Apple Watch Series 3 until the connectivity is more reliable. Even then, the battery life could be a buzz kill for some. Apple itself promises only one hour of talk time on LTE, and I confirmed this in my testing. Also, the watch

becomes noticeably warm during longer calls.

However, when the Watch was performing as it should, I discovered the enjoyment of being untethered from my iPhone. There are three types of shorter-lived scenarios where I found it could be useful:

**Workouts.** On Saturday morning, with just the Apple Watch on my wrist and AirPods in my ears, I tracked my mile-and-a-half run, texted my wife to ask if she wanted coffee and then paid for two iced lattes at a local shop with Apple Pay. And once Apple's streaming music service hits the watch next month, I'll be able to demand that Siri play "Taylor's new single" or any other song that comes to mind. For now, you still need to download music.

The same can apply to hiking, biking, golfing—whatever your land sport of choice. But depending on how much time you spend out, you may need to turn

off the cellular connectivity to conserve battery life.

New to both the cellular and noncellular versions of the Series 3 are real-time heart-rate reporting and an altimeter. To test both, I decided to conquer my fear of heights and climbed up a 23-foot-high trapeze tower. Apple correctly measured my petrifying walk up the ladder at two flights. When I reached the top, my heart rate registered 153 beats a minute. Yes, I was that scared.

**Water Activities.** Confirmed: You can call or text from an Apple Watch while sitting on a Jet Ski in the middle of the Hudson River. Also confirmed: The water is still gross.

Whether it be surfing, sailing, kayaking, swimming or sitting in the kiddie pool, the ability to stay reachable without handling a phone, even a water-resistant one, is freeing. Unfortunately, with no camera on the watch, there's no way to snap photos.

**Walkabouts.** Living a full day with just the Apple Watch isn't happening. But it can be great for short departures from the iPhone to walk the dog, run to the supermarket, go to a meeting in the office or move the car. In all those situations, I received messages and emails and quickly responded via voice-to-text, which has become more accurate, even in noisy environments. I've also been impressed with Siri's quick response time to my "Hey Siri" prompts. I'm still less than impressed with Siri's ability to help.

One major frustration: If you begin a phone call on your watch with phone connected and then leave the phone behind, the call will drop. Even though it's the same phone number, the handoff to the watch's cellular isn't seamless. I found it generally took a little less than a minute. Apple acknowledges this was typical. When you are in a Wi-Fi area or in proximity to your phone, the watch connects to either of those instead of cellular to save battery.

If any of these scenarios appeals to you, you should still wait until the cellular experience improves. If you just want an Apple Watch, go for the noncellular Series 3, which still has GPS and runs up to a day and a half on a charge. If you have the previous Series 2, stick with it and just upgrade to Watch OS 4, which gives older Apple Watches the new heart-rate features and workout tracking improvements.

The Series 3 is the strongest indicator yet of what Apple believes the watch ultimately can be: a stand-alone tiny wrist computer that doesn't need your iPhone. But if the Series 3 is any indicator of how that's coming along, we should all hold off until, say, Series X.

# FedEx Profit Takes Hit From Hack

By EZEQUIEL MINAYA AND MICHELLE MA

**FedEx** Corp. said a cyberattack this year dented earnings in its latest quarter by roughly \$300 million, prompting the package-delivery giant to cut its profit forecast.

The company said late Tuesday that the June 27 attack, which security experts dubbed Petya, reduced its quarterly earnings by a third, as computer systems at its TNT Express business were disrupted for weeks. FedEx said it has restored most of TNT's services and critical technology, but it is still working on some customer-specific systems.

Computer systems at its TNT Express unit are still recovering from the cyberattack.

"This was not an ordinary cyberattack," FedEx's chief information officer, Robert Carter, said during a conference call with analysts. "We believe that this attack was the result of a nation-state targeting Ukraine and companies that do business there."

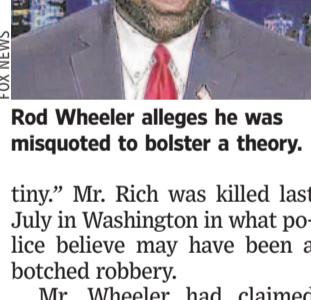
The company expects TNT systems to be fully restored by the end of September. FedEx acquired TNT Express last year for \$4.8 billion, the largest acquisition in FedEx's history.

For the fiscal first quarter ended Aug. 31, FedEx reported a profit of \$596 million, down from \$715 million a year ago. Revenue rose 4% to \$15.3 billion. It now pegs full-year per-share earnings, excluding certain items, at between \$12 and \$12.80; its previous projection was \$13.20 to \$14.

## BUSINESS NEWS

# Fox Seeks Dismissal Of Defamation Suit

By JOE FLINT



Rod Wheeler alleges he was misquoted to bolster a theory.

Fox News and its parent company, **21st Century Fox**, have filed a motion to dismiss a defamation lawsuit from a contributor who claimed he was misquoted in an article about the murder of a Democratic National Committee employee.

The defamation suit was filed in New York federal court earlier this summer by Rod Wheeler, a former Washington, D.C., homicide detective and Fox News contributor. It alleged he was misquoted to bolster a conspiracy theory that DNC staffer Seth Rich was murdered in retaliation for leaking sensitive emails to WikiLeaks regarding Hillary Clinton's presidential run.

Mr. Wheeler, who had been retained by the Rich family as an investigator, alleged in his initial complaint that the Fox News story made up two quotes and attributed them to him.

In court filings this week to dismiss the lawsuit against the network, its parent company and Malia Zimmerman, the author of the article, Fox's lawyers argue that Mr. Wheeler's claims are without merit. The court documents allege that Mr. Wheeler wasn't misquoted or defamed, that he reviewed and didn't object to a draft of the article that included the quotes before it was published, and that he made similar statements in television interviews.

Fox claims that Mr. Wheeler said in an on-air interview with a local TV station that he had sources saying there was information that could link Mr. Rich to WikiLeaks. Regarding the Fox News article, the company's lawyers also said in the motion to dismiss that they had evidence Mr. Wheeler "confirmed in writing that he was reviewing a draft containing those quotes before he provided additional quotes for the story."

Fox News retracted the article after a backlash over its veracity, saying the piece didn't receive proper "editorial scrup-

# Toys 'R' Us Crushed by Mountain of Debt

By MIRIAM GOTTFRIED AND LILLIAN RIZZO

Competition may have brought down **Toys 'R' Us** Inc. But the debt that three Wall Street firms heaped on the company when they took it private—and the way the ownership group was constructed—left the retailer without a fighting chance.

When a consortium comprising **Vornado Realty Trust** and private-equity firms **KKR & Co.** and **Bain Capital** bought the toy retailer for \$6.6 billion in 2005, it already was struggling against competition from discounters, including **Wal-Mart Stores** Inc. and **Target Corp.**, and the threat of online competition from the rapidly growing **Amazon.com** Inc. loomed. Still, Toys 'R' Us had valuable real estate and the investors planned to boost the company's sales and financial performance, banking in part on the strength of its name.

A dozen years later, Toys 'R' Us has filed for bankruptcy protection, seeking relief from creditors in a Virginia court late Monday in a

Mr. Wheeler had claimed that White House officials were kept apprised of the story as it was developing earlier this year and that President Donald Trump saw a version of it before publication on the Fox News website. Mr. Wheeler argued that the article was designed to advance a political agenda for the Trump administration by providing an alternative narrative for those disputing that Russia hacked the DNC and interfered with the election.

Mr. Wheeler's complaint said he had received messages from Fox News contributor Ed Butowsky—who had connected the former detective to the Rich family—saying the president had read the piece and "wants the article out immediately."

White House press secretary Sarah Huckabee Sanders has said Mr. Trump wasn't aware of the article and that the White House had no involvement.

Mr. Butowsky was also sued by Mr. Wheeler in his Fox News defamation complaint, in part for suggesting on Twitter that Mr. Wheeler wasn't telling the truth when he denied making the statements attributed to him by Fox News. In a separate motion to dismiss, lawyers for Mr. Butowsky say he wasn't involved in "the drafting or making of the defamatory statements."



year's first quarter, the leverage ratio stood at 7.8 times. "The \$400 million a year in debt service was really constrictive as they were trying to compete," said Katherine Waldeck, a finance professor at Georgetown University's McDonough School of Business.

Chief Executive David Brandon said in court papers Tuesday that Toys 'R' Us has been hampered by its "significant leverage," and the result is "the company has fallen behind some of its primary competitors on various fronts, including with regard to general upkeep and the condition of our stores, our inability to provide expedited-shipping options, and our lack of a subscription-based delivery service."

The deal recalls a time when doing buyouts with multiple partners was popular because it opened up a wider array of big targets. These so-called club deals have fallen out of favor in recent years as limited partners who were often invested in more than one buyer's funds pushed back. That has helped shrink the size of private-equity deals.

## BUSINESS WATCH

GENERAL MILLS

## Yogurt Sales Woes In U.S. Hurt Revenue

Yoplait yogurt is spoiling General Mills Inc.'s sales.

The company said Wednesday its U.S. yogurt sales fell 2%, pushing it to a ninth straight quarter of revenue declines.

Yoplait Light and Yoplait Greek 100 have suffered the most over the past year, as Americans' shifted away from low-calorie diets in favor of more natural, wholesome ingredients.

In the latest quarter, which ended in August, General Mills' global sales fell 3.5% to \$3.77 billion. On a comparable basis, revenue was down 4%, worse than its projected 1% to 2% de-

cline for the fiscal year, which ends in May.

General Mills' profit of \$408.6 million was down 2.6% from a year earlier.

—Annie Gasparro

FIAT CHRYSLER

## Minivans Recalled To Fix Seat Belts

Fiat Chrysler Automobiles NV issued a recall on Wednesday to fix defective seat belts in about 50,000 Chrysler Pacifica vehicles, or about one-third of total production volume since sales of the auto maker's new minivan began last year.

The flaw affects 47,927 minivans from the 2017 and 2018 model years sold in the U.S. and 1,908 sold in Canada. Fiat Chrysl-

er said the second-row, center seat buckles in eight passenger versions of the minivan could become unlatched during "extreme handling maneuvers."

—Chester Dawson

MUSIC

## Rise in Subscriptions Fuels Industry Gains

Revenue from recorded music accelerated in the first half in the U.S. as more consumers shelled out for subscription streaming services.

Retail revenue jumped 17% in the first six months of the year to \$4 billion, according to the Recording Industry Association of America, thanks to a record 30 million music subscriptions to services like Spotify AB and Apple Music. That represents almost one million new subscrip-

tions each month compared with last year.

—Anne Steele

AVIANCA

## Pilots Union Strikes Over Wage Levels

The union representing more than half of the pilots of Avianca Holdings SA, one of Latin America's largest carriers, began a 60-day strike Wednesday after both sides failed to reach an agreement over a worker salary increase. The Bogotá-based company condemned the move by the Colombian Association of Civil Aviators calling it "an illegal act." Avianca said the strike had, as of Wednesday morning, forced the cancellation of more than 90 flights.

—Kejal Vyas

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**THE WALL STREET JOURNAL.**

# Trump, His Children, and 500+ Potential Conflicts of Interest

President-elect Donald Trump's complex holdings place him in an unprecedented position

*By Joel Eastwood, Coulter Jones and Julia Wolfe*  
Published Jan. 19, 2017 at 6:00 a.m. ET

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**Do Sanctions Really Work?**

U.S. passes new sanctions against Russia, North Korea and Iran, but history shows a mixed record of success

*By Ian Talley and Brian McGill*  
Published Aug. 2, 2017 at 11:16 a.m. ET

**North Korea**  
September 2005

The U.S. cuts off Banco Delta Asia's access to U.S. financial markets as part of an effort to rein in North Korea's nuclear program. By targeting the Macao-based bank cited as a key financing hub for North Korea, Washington chills broader financing to the country. The won plummets and the country enters into what turns into a two-year recession. By February 2007, Pyongyang agrees to shut down a nuclear facility critical to the regime's weapons program.

However, North Korea's trade continues despite these sanctions as China's buying surges. **China now makes up over 90%** of North Korea's total trade, up from around 50% in 2005. After the U.S. relaxes its sanctions, the country subsequently restarts its intercontinental ballistic missile and nuclear-weapons programs.

In June, the U.S. proposes cutting off Chinese Bank of Dandong from the U.S. financial system, accusing it of laundering money for North Korea that the regime is using to fund its nuclear-weapons program.

**North Korean exports by destination**

Sept. 2005 U.S. cuts off North Korean-assisting-bank from financial markets

\$5.0 billion  
4.5  
4.0  
3.5  
3.0  
2.5  
2.0  
1.5  
1.0  
0.5  
0.0

1998 '00 '02 '04 '06 '08 '10 '12 '14 '16

\*Includes China's mainland, Hong Kong and Macau  
Source: International Monetary Fund

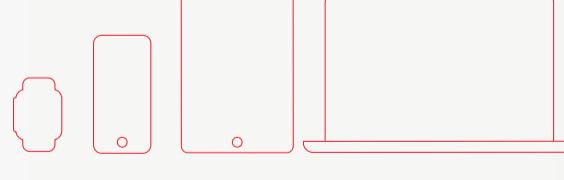
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## FINANCE &amp; MARKETS

# Geico Hit Hard By Harvey

By NICOLE FRIEDMAN

Car insurer Geico suffered greater losses from Hurricane Harvey than Hurricane Irma, said Warren Buffett, chairman of Geico's parent company, Berkshire Hathaway Inc.

Geico is the biggest car insurer in Florida, where Irma made landfall earlier this month, and the second-biggest in Texas, where Harvey struck in August. Harvey caused massive flooding, which can be more damaging to cars than wind. Mr. Buffett said in August that he expected Geico to report losses on about 50,000 cars following Harvey.

"It's very hard to give numbers but there were more total losses by quite a margin in Harvey than in Irma," Mr. Buffett said about Geico's business. He spoke on the sidelines of Forbes' centennial celebration Tuesday night in New York.

Berkshire used to be a big seller of reinsurance for catastrophes but has retreated from the market in recent years due to low prices. Mr. Buffett said he doesn't expect pricing to improve despite the string of natural disasters in recent weeks.

Mr. Buffett also said he supports German Chancellor Angela Merkel in this weekend's election. In U.S. politics, he said he expects Congress to reach a deal to protect young people brought to the U.S. illegally as children. Mr. Buffett signed a letter in August—as an individual—urging President Donald Trump and congressional leaders to retain these protections.

# Uncertainty Afflicts Guggenheim

SEC scrutiny, internal unrest and questions about executives' path roil investment firm

Mark Walter helped turn **Guggenheim Partners** LLC into an investment powerhouse. Now he is considering giving up his chief executive role as the firm contends with internal unrest and scrutiny from regulators.

By Margot Patrick,  
Justin Baer  
and Gregory Zuckerman

Mr. Walter has told colleagues he is weighing ceding the CEO post, while remaining chairman, according to people close to the situation. "Mr. Walter has no current plans to relinquish his position as CEO of Guggenheim," a company spokesman said.

The leadership discussions are happening as Guggenheim deals with new regulatory scrutiny, employee departures from the firm's investment business and internal unrest surrounding the status of a key executive, current and former employees said.

That upheaval has hampered Guggenheim's growth, those people said.

That executive, global head of institutional distribution Alexandra Court, is now negotiating her possible departure from the company, according to people close to the matter.

Earlier this year, the U.S. Securities and Exchange Commission began looking at Guggenheim's operations, certain investments and disclosure.



Questions hover over Mark Walter's tenure as chief executive.

sures, said people familiar with the situation. The regulator has since asked Guggenheim for information on several deals, including one involving the firm's investment in an entity founded by former Barclays PLC Chief Executive Bob Diamond, the people said.

The information request came from the SEC's examinations staff, the people said. Those officials have discussed the matter with enforcement staff, who will determine whether to proceed with an investigation, one person said. An SEC spokesman declined to comment.

Other high-ranking executives have left Guggenheim recently. Those departures, along with Ms. Court's uncertain status, have spurred questions from clients unclear about the money manager's direction, people familiar with

the matter said.

Moreover, there is frustration that the firm doesn't manage more money given the fact that some of its funds' performance have topped competitors, according to two employees. Despite the upheaval, a senior executive said Guggenheim remains profitable.

"The characterization that our business is in turmoil is just plain wrong," Guggenheim Investments President Jerry Miller and Chief Investment Officer Scott Miner said in a statement. "Quite to the contrary, we're experiencing extremely strong investment performance on behalf of our clients, record asset growth, and are probably in the strongest position we have ever been."

Central to the firm's success has been an asset-management arm that oversaw just \$35 billion a decade ago.

# Guggenheim Overshadowed

Guggenheim's core bond fund has outperformed rivals, but executives have been frustrated by a failure to gather more investor flows.

## Total-return bond funds

Five-year total return, annualized

### Guggenheim

5.6%

### DoubleLine

3.4%

### TCW's Metropolitan West

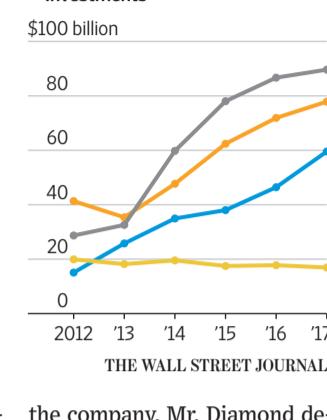
3.1%

### Pimco

2.7%

## Total net assets by fund family

\$100 billion



Note: 2017 data through August.

Source: Morningstar Direct

the company. Mr. Diamond declined to comment through a spokesman.

In December 2013, Guggenheim became one of the largest shareholders in Atlas Mara Ltd., an investment vehicle set up by Mr. Diamond to buy interests in African banks. Mr. Miner, who worked for Mr. Diamond years earlier at Credit Suisse First Boston, bought shares for several life insurers whose investments are directed by Guggenheim.

Guggenheim separately invested \$200 million in Mr. Diamond's private-equity firm, Atlas Merchant Capital, and provided it with working capital, according to filings and people familiar with the investment. A representative for Atlas Merchant and Atlas Mara declined to comment. It isn't known why this relationship attracted the attention of the SEC.



A Bloomington, Ill., branch of U.S. Bancorp, a regional bank that faces constraints on acquisitions.

# Rally Fails to Fuel Bank Deals

By CHRISTINA REXRODE

The Trump rally was supposed to be a boon for bank mergers and acquisitions. It hasn't been yet.

The number of U.S. bank deals announced so far this year has dropped to 173 from 178 at the same time last year, according to investment-banking boutique FIG Partners. At the current pace, this year could have the fewest bank mergers since 2009.

That tally has been disappointing for some investment bankers who hoped that the 35% rally in bank stocks over the past 12 months would be accompanied by a return to precrisis merger appetites.

Bob Jones, chief executive of Old National Bancorp in Evansville, Ind., called the banking industry's reaction to the Trump election last year "premature euphoria."

His bank announced this summer that it plans to buy a Minnesota rival that will take its size to roughly \$17 billion in

assets. But he pointed out that others are still cautious—with good reason. Interest rates are still low, Mr. Jones said, adding, "we've gotten very little of the regulatory relief [and] who knows what is going to happen with tax cuts."

While some smaller banks like Old National have done deals, several executives from larger regional banks said this month that they don't plan any mergers. And the largest banks, led by J.P. Morgan Chase & Co., are prevented from major acquisitions due to deposit limits and political resistance.

The downturn in deals partially stems from a shift in the way banks do business. While banks have been open to buying fintech firms or loan portfolios, buying other banks looks less enticing as branches become less important to serving customers.

"That math doesn't work for us right now," David Turner, the chief financial officer of Regions Financial Corp., told investors last week at a banking conference when asked about bank acquisitions.

Indeed, some big banks have looked to sell branches, a move that can compete with a small bank looking to sell itself. Bank of America Corp., for example, has ditched about 1,600 branches, many in smaller towns.

Some potential buyers are also under regulatory orders that constrain them from bank acquisitions. That includes major regional banks such as U.S. Bancorp and BB&T Corp., which in the past have acquired smaller banks.

Even under the Trump administration, which has promised a lighter regulatory touch

with banks, lenders worry that any purchase can open them up to scrutiny. Regulators' concerns, for instance, stopped Capital One Financial Corp. from buying the banking assets of Cabela's Inc. earlier this year.

The run-up in bank stocks since the election has actually complicated matters. While higher stock prices can give buyers more momentum to purchase a rival with their stock, it can also make the target more expensive. Canadian Imperial Bank of Commerce had to sweeten its offer for PrivateBancorp Inc. after the Chicago-based bank's stock jumped.

Any deal making is mostly concentrated in smaller banks. More than 80% of banks that have announced they are selling themselves this year have assets of less than \$1 billion, according to FIG Partners. Only two have assets of more than \$10 billion.

Still, investment bankers say they have reasons to be hopeful. One metric, the reported value of overall U.S. banking deals, has risen about 5% from this time one year ago, according to FIG.

The Trump administration is also moving ahead with regulatory appointments that could bring relaxed rules for banks.

Gerard Cuddy, CEO of Beneficial Bancorp Inc., said he doesn't expect a significant loosening of regulatory requirements or pickup in bank M&A.

"That's just fantasy," said Mr. Cuddy, whose Philadelphia-based community bank has about \$5.8 billion in assets.

"This was never going to be a tidal wave."

# States Need \$645 Billion To Pay Health-Care Costs

By HEATHER GILLERS

When Aurora, Ill., closed its books in December, about \$150 million disappeared from the city's bottom line.

The Chicago suburb of 200,000 people hadn't become poorer. Instead, for the first time it recorded on its balance sheet the full cost of health care promised to public employees once they retire.

States and cities around the U.S. will soon book similar losses because of new, widely followed accounting guidelines that apply to most governments starting in fiscal 2018.

The new Governmental Accounting Standards Board principles urge officials to record all health-care liabilities on their balance sheets instead of pushing a portion of the debt to footnotes.

The adjustments will show that U.S. states as a group have promised hundreds of billions more in retiree health benefits than they have saved up. The shortfall amounts to at least \$645 billion, according to a new report from The Pew Charitable Trusts based on 2015 data. That is in addition to the \$1.1 trillion that states need to pay for future pension benefits, according to Pew.

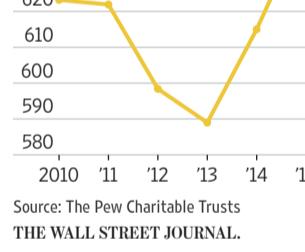
The new level of transparency around retiree health expenses for public workers could lower municipal-bond prices and force new decisions to reduce or scrap retiree health benefits as a way of coping with ballooning future costs, some analysts and researchers said.

"I think the market has understated the concern," said Richard Ciccarone, president and CEO of Merritt Research Services LLC.

Rising retiree health-care costs are compounding government pressures at a time when many state and local officials are struggling to manage their ballooning pension liabilities and balance their budgets. Waves of baby boom-

## Medical Attention

Net retiree health-care liabilities for all U.S. states



Source: The Pew Charitable Trusts

THE WALL STREET JOURNAL

\$48 billion in assets set aside as of 2015, compared with \$693 billion in liabilities, according to Pew.

One state that has been setting aside more is Michigan, where retiree health-care liabilities have dropped by roughly \$20 billion since 2012 partly because of added state payments. The state also stopped offering retiree health care to new employees, instead contributing an additional 2% of salary to their defined-contribution plans to limit the state's exposure to rising health costs.

"It's transferring the risk for those inflationary items from the state to the employees," said Kerrie Vanden Bosch, director of Michigan's Office of Retirement Services.

Even so, states' retiree health obligations are still much smaller than future pension promises. Even if states were to start setting aside money for future costs, annual state spending on retiree health care would still be just 3.4% of expenditures, compared with 1.4% today, according to a study by the National Association of State Retirement Administrators and the Center for State and Local Government Excellence.

States that want to bring their liabilities down will likely face fewer legal hurdles to benefit cuts than they have with public pensions, which enjoy ironclad legal protections in many states. Courts have often upheld employers' rights to increase health-care costs and reduce coverage unless the benefits are laid out in explicit detail in a collective-bargaining agreement or protected by a state constitution, said University of Minnesota Law School Professor Amy Monahan.

Among more than 80 state and local governments surveyed last year by Segal Consulting, 57% said they were somewhat or very likely to reduce benefits in response to the new accounting guidelines.

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2504; email: freda.fung@wsj.com

Pullback  
Number of U.S. bank mergers announced, through Sept. 15 each year

250

200

150

100

50

0

2009 '10 '11 '12 '13 '14 '15 '16 '17

Source: FIG Partners

THE WALL STREET JOURNAL

## MARKETS DIGEST

## Nikkei 225 Index

20310.46 ▲ 11.08, or 0.05%

High, low, open and close for each trading day of the past three months.

Year-to-date  
52-wk high/low  
All-time high20310.46  
16251.5438915.87  
12/29/89

▲ 6.26%

High, low, open and close for each trading day of the past three months.

Bars measure the point change from session's open

June July Aug. Sept.

19000 19250 19500 19750 20000 20250 20500

Session high  
Session open ▶ UP Close  
Close ▶ Open  
Session low

65-day moving average

## STOXX 600 Index

381.98 ▼ 0.14, or 0.04%

High, low, open and close for each trading day of the past three months.

65-day moving average

June July Aug. Sept.

365 370 375 380 385 390 395

Session high  
Session open ▶ UP Close  
Close ▶ Open  
Session low

65-day moving average

## S&amp;P 500 Index

2508.24 ▲ 1.59, or 0.06%

High, low, open and close for each trading day of the past three months.

65-day moving average

June July Aug. Sept.

2375 2400 2425 2450 2475 2500 2525

Data as of 4 p.m. New York time

Last 24.11 Year ago 24.47

Trailing P/E ratio 24.11 24.47

P/E estimate \* 19.10 18.25

Dividend yield 1.99 2.14

All-time high: 2508.24, 09/20/17

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

## International Stock Indexes

Data as of 4 p.m. New York time

Region/Country Index Close NetChg % chg 52-Week Range YTD % chg

World The Global Dow 2904.57 -3.07 -0.11 2386.93 2915.55 14.9

MSCI EAFE 1967.26 -10.98 -0.56 1614.17 1970.23 14.6

MSCI EM USD 1109.65 0.02 0.002 838.96 1113.67 39.7

Americas DJ Americas 605.67 0.68 0.11 503.44 606.05 12.1

Brazil Sao Paulo Bovespa 75905.04 -69.14 -0.09 56828.56 76419.58 26.0

Canada S&amp;P/TSX Comp 15386.30 93.33 0.61 14468.03 15943.09 0.6

Mexico IPC All-Share 50358.06 92.60 0.18 43998.98 51772.37 10.3

Chile Santiago IPSA 3979.99 29.94 0.76 3120.87 3985.23 23.5

U.S. DJIA 22412.59 41.79 0.19 17883.56 22413.26 13.4

Nasdaq Composite 6456.04 -5.28 -0.08 5034.41 6477.77 19.9

S&amp;P 500 2508.24 1.59 0.06 2083.79 2508.85 12.0

CBOE Volatility 9.84 -0.34 -3.34 -0.21 8.84 0.00 23.01 -29.9

EMEA Stoxx Europe 600 381.98 -0.14 -0.04 328.80 396.45 5.7

Stoxx Europe 50 3111.41 -2.06 -0.07 2720.66 3279.71 3.4

Austria ATX 3289.14 -1.32 -0.04 2345.41 3304.29 25.6

Belgium Bel-20 3965.49 -7.54 -0.19 3384.68 4055.96 10.0

France CAC 40 5241.66 4.22 0.08 4342.64 5442.10 7.8

Germany DAX 12569.17 7.38 0.06 10174.92 12951.54 9.5

Greece ATG 757.98 -4.88 -0.64 559.92 859.78 17.8

Hungary BUX 38108.04 -68.04 -0.18 27466.59 38554.44 19.1

Israel Tel Aviv 1419.90 ... Closed 1346.71 1490.23 -3.5

Italy FTSE MIB 22355.58 -69.84 -0.31 15923.11 22462.48 16.2

Netherlands AEX 528.66 ... unch. 436.28 537.84 9.4

Poland WIG 64749.50 -0.59 -0.00 46674.28 65611.21 25.1

Russia RTS Index 1122.43 13.72 1.24 956.36 1196.99 -2.6

Spain IBEX 35 10292.10 -86.30 -0.83 8512.40 11184.40 10.1

Sweden SX All Share 569.17 0.19 0.03 489.12 598.42 6.5

Switzerland Swiss Market 9095.65 2.45 0.03 7585.56 9198.45 10.7

South Africa Johannesburg All Share 55867.46 -143.70 -0.26 48935.90 56869.89 10.3

Turkey BIST 100 105323.67 405.90 0.39 71792.96 110530.75 34.8

U.K. FTSE 100 7271.95 -3.30 -0.05 6676.56 7598.99 1.8

Asia-Pacific S&amp;P/ASX 200 5709.10 -4.50 -0.08 5156.60 5956.50 0.8

China Shanghai Composite 3366.00 9.15 0.27 2980.43 3385.39 8.5

Hong Kong Hang Seng 28127.80 76.39 0.27 21574.76 28159.77 27.9

India S&amp;P BSE Sensex 32400.51 -1.86 -0.01 25765.14 32575.17 21.7

Japan Nikkei Stock Avg 20310.46 11.08 0.05 16251.54 20310.46 6.3

Singapore Straits Times 3218.07 -7.88 -0.24 2787.27 3354.71 11.7

South Korea Kospi 2412.20 -3.85 -0.16 1958.38 2451.53 19.0

Taiwan Weighted 10519.17 -56.97 -0.54 8931.03 10631.57 13.7

Source: SIX Financial Information/WSJ Market Data Group

## Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners

London close on Sept. 20 US\$ vs. Yen Euro Yen Euro

Country/currency Wed YTD chg in US\$ per US\$ (%)

Argentina peso-a 0.0584 17.1364 8.0

Brazil real 0.3207 3.1179 -4.2

Canada dollar 0.8157 1.2260 -8.8

Chile peso 0.001616 62.80 -7.3

Colombia peso 0.003458 2891.80 -3.7

Ecuador US dollar-f 1 1 unch.

Mexico peso-a 0.0565 17.6867 -14.7

Peru so 0.3083 3.2434 -3.3

Uruguay peso-e 0.0346 28.880 -1.6

Venezuela bolivar 0.098647 10.14 1.4

Asia-Pacific Australian dollar 0.8074 1.2385 -10.8

China yuan 0.1521 6.5750 -5.3

Source: Tullett Prebon, WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners

London close on Sept. 20 US\$ vs. Yen Euro Yen Euro

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Venezuela bolivar 0.098647 10.14 1.4

Asia-Pacific Australian dollar 0.8074 1.2385 -10.8

China yuan 0.1521 6.5750 -5.3

Source: Tullett Prebon, WSJ Market Data Group

## Key Rates

Latest 52 wks ago

Liber

One month 1.2355% 0.54633%

Three month 1.2206 0.86333

Six month 1.4800 1.25878

One year 1.7473 1.50708

Euro Libor

One month -0.40500% -0.37400%

Three month -0.37671 -0.32243

Six month -0.30429 -0.21471

One year -0.21943 -0.07166

Euribor

One month -0.37300% -0.37100%

Three month -0.32900 -0.30100

Six month -0.27100 -0.20100

One year -0.17100 -0.05800

Yen Libor

One month -0.04679% -0.07686%

Three month -0.02921 -0.02307

Six month 0.00186 0.03057

One year 0.10600 0.10386

Offer Bid

Eurodollars

One month 1.3300% 1.2300%

Three month 1.4000 1.3000

Six month 1.5400 1.4400

One year 1.8100 1.7100

Latest 52 wks ago

Prime rates

U.S. 4.25% 3.50%

Canada 3.20 2.70

Japan 1.475 1.475

Hong Kong 5.00 5.00

Policy rates

ECB 0.00% 0.00%

Britain 0.25 0.25

Switzerland 0.50 0.50

Australia 1.50 1.50

U.S. discount 1.7

## FINANCE &amp; MARKETS

# Philippine Stocks Are on a Roll

By ESE ERHERIENE

The unpredictable leader of the Philippines hasn't damped investor optimism about the country's stock market.

The benchmark PSEi has jumped 20% this year, making it among the world's better-performing stock indexes. On Monday, it capped a three-session streak of record closing highs.

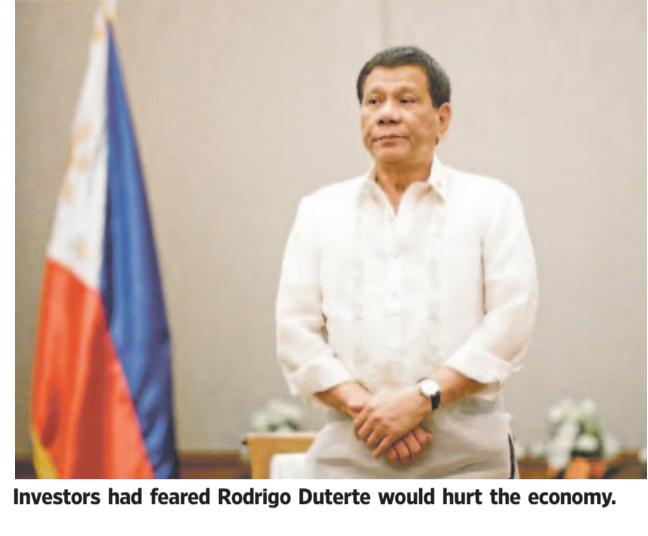
There has been turmoil in the country with Rodrigo Duterte's fledgling administration fighting both Islamic militants in the south and a war on drugs that has already claimed thousands of lives during his nearly 15 months in power.

But that hasn't pressured the country's stocks this year, though they lagged behind other markets in 2016 partly because of concerns about Mr. Duterte. The PSEi fell 12% in the second half of last year as the country's currency weakened by 6% against the U.S. dollar.

While the Philippine peso has dropped further in 2017—hitting its lowest level in 11 years—stocks have gone in the other direction. Worst-case fears about what Mr. Duterte would mean for the country, such as derailing the economy and driving away business, have so far proved unfounded.

"The election of Duterte, the shake-up to the political order and his various international spats led investors to shun Filipino assets amid fear that he would cause growth to slow," said Alex Holmes, an Asia economist at Capital Economics. "But in reality, Duterte has not been the disaster that people feared."

In fact, economic growth has been among the best in Asia, with the Philippines recording a faster-than-expected 6.5% in the second quarter.



Investors had feared Rodrigo Duterte would hurt the economy.

## The Duterte Factor

The Philippines PSEi stock market is at record highs as investors shrug off political risk. Weekly data.



tourism, rising domestic spending, and a large working-age population make the country "a natural choice" for investment, he added.

The equity market in the Philippines is relatively small with a total market capitalization of around \$200 billion—less than half the size of Thailand's. At 21 times prior-year earnings, the Manila market's price/earnings ratio is broadly in line with other emerging markets in Asia, according to Société Générale data.

To some extent, optimism regarding Philippine stocks reflects a trend seen across Asia, with emerging markets getting a lift this year from strong economic growth underpinned by export gains. Thailand's stock benchmark recently hit its best levels since the start of 1994, while Indonesia's JSX index has reached record highs this year.

Further weakening of the Philippine peso, however, could potentially put the brakes on stocks' momentum.

Behind the peso's slide is a widening of the Philippines' trade deficit, which has pushed the country's current account into negative territory. A weaker currency could accelerate inflation by making imports more expensive, as well as increasing the local value of the country's foreign-denominated debt.

But Capital Economics doesn't anticipate the peso being a major economic threat as inflation has trended lower in recent years, while total foreign-currency debt is relatively low at around 29% of GDP. It noted that currency-fueled debt crises usually occur around the 50% mark.

"In fact, policy makers appear to be welcoming the boost the weaker currency is giving the country's exporters," Capital Economics said.

# Bitcoin 'Fugitives' Meet, Skirt China

By STEVEN RUSOLILLO AND CHUIN-WEI YAP

HONG KONG—China's crackdown on cryptocurrencies isn't stopping the industry's enthusiasts. Instead, it is emboldening them to find ways to circumvent the government's curbs.

Hundreds of bitcoin traders and blockchain-technology experts gathered in Hong Kong on Wednesday for a two-day conference originally scheduled to be held in Beijing. The recent regulatory clampdown caused the event to be moved "to lower the risks of being canceled," according to the website of conference organizer Bitkan, a bitcoin-trading firm.

"We are fugitives here," John McAfee, a bitcoin bull who is best known for the antivirus company he founded, told the audience. Mr. McAfee described what the Chinese government is doing as "the opening bell of what will get worse and worse."

He predicted the industry

would continue to thrive. "The creators, designers and innovators will find a way around it. They always do and always will," he said.

Chinese authorities have decided on a comprehensive ban on channels for the buying or selling of the virtual currency in China, The Wall Street Journal has reported. The plan, which goes beyond shutting commercial bitcoin exchanges, represents some of the most draconian measures any government has taken to control bitcoin, which was created by an anonymous programmer nearly a decade ago as an alternative to official currencies.

Leon Liu, chief executive and co-founder of Bitkan, said there are still ways for Chinese investors to trade bitcoin directly with one another, such as through messaging apps. "You use WeChat, you meet someone, you chat, you buy and sell, you transfer money, nobody knows why you transferred the money. This is everywhere now," he said.



A bitcoin-mining facility. China has curbed cryptocurrencies.

EUROPE PRESSPHOTO AGENCY

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#### GOVERNMENT OF MAHARASHTRA PUBLIC WORKS DIVISION (SOUTH) PUNE-1 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, P.W (South) Division, Pune (the "Authority") is engaged in the development of highways and as a part of this endeavor, the Authority has decided to undertake development and operation/ maintenance of the Project (the "Projects") on [Design, Build, Operate and Transfer (the "DBOT")]<sup>1</sup> 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 Projects are as follows:

Sr. No.	State	Dist.	Packa ges	Project	Project length in km	Project cost	Ernest Money/ Bid Security	Duration of the project	Cost of Tender Fee Document.
1.	MAH	PUNE	PN-03	Improvements to Roads in Industrial Sector in Pune District Hinjewadi, Chakan, Talegaon, Ranjangao, Jejur & Add. Jejur)	106.411 K.M	327.86 Crores	3.279 Crores	24 Months	60000/- Online Payment NEFT/RTGS

#### e-tender time table

Sr. No.	Event Description	Date
1.	Invitation of RFP (NIT) (Download period of online tender)	Dt. 08.09.2017 at 10.00 Hrs. to Dt. 23.10.2017 at 23.00 Hrs.
2A	Last date for receiving queries for pre-bid-1	19.9.2017 upto 11.00 Hrs.
2.B	Pre- Bid meeting 1	Online or in the office of the Chief Engineer, P.W Region Pune or on before Dt. 19.09.2017 up to 11.00 Hrs.
2.C	Authority response to queries for Pre-Bid Meeting 1 Latest by	22.09.2017
3.A	Last date for receiving queries for pre-bid-2	03.10.2017 upto 11.00 Hrs.
3.B	Pre-Bid meeting 2	Online or in the office of the chief Engineer, P.W Region Pune on or before Dt. 03.10.2017 up to 11.00 Hrs.
3.C	Authority response to queries for Pre-Bid Meeting 2 Latest by	07.10.2017
4.	Bid due Date (Submit Hash to create online tender by bidder) (Technical and financial Bid Last date and time)	Dt. 25.10.2017 till 23.00 Hrs.
5.	Physical submission of Bid Security/ POA etc ( as per clause 2.1.2 of RFP)	Till 11.00 hrs on 30.10.2017 in the office of Superintending Engineer, P.W. Circle, Pune, Central Building premises, camp, Pune-411001.
6.	Opening of Technical Bids.	(at 11.30 on 31.10.2017 to 06.11.2017 at 18.00 hrs. office of Superintending Engineer, P.W Circle, Pune, Central Building premises, camp, Pune-411001.

Note :-  
 1. Tender of both the projects must be considered as individual project and must be treated separately. RFP, MCA, Schedules and other details of both the above projects are provided separately.  
 2. 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.  
 3. All eligible/interested Bidders who want to participate in tendering process should compulsorily get enrolled on e-tendering portal "<http://mahatenders.gov.in>".  
 4. Contact below for difficulties in online submission of tenders:- (NIC - Toll Free Ph. No. 1800 30702232 / 7878107985-86)  
 5. 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 25/09/2017 upto 11:00 hours.  
 6. Other terms and conditions are detailed in online e-tender form. Right to reject any or all online bid work, without assigning any reasons thereof, is reserved with department.  
 7. Tender Notice is displayed on P.W.D. website [www.mahapwd.com](http://www.mahapwd.com)

DGIPR 2017-2018/3037

Executive Engineer,  
Public Work (South) Division,  
Pune 411 001.

### ANNOUNCEMENTS

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### BUSINESS OPPORTUNITY

Project

Project length in km

Project cost

Earnest Money/ Bid Security

Duration of the project

Cost of Tender Fee Document.

Sr. No.

State

Dist.

Packa ges

PN-04

PN-04 A) Improvement to Belhe Pabal Shikarpur Astapur Uratikanchar Jejuri New NH- Wadar Satara road km 0/00 to 136/500 Dist. Pune. (Length 106.093 km) (SH-117)

192.48

427.61

4.276

24 Months

5000/- Online Payment NEFT/RTGS

e-tender time table

Sr. No.

Event Description

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2.C

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22.09.2017

3.A

Last date for receiving queries for pre-bid-2

03.10.2017 upto 11.00 Hrs.

3.B

Pre-Bid meeting 2

Online or in the office of the chief Engineer, P.W Region Pune on or before Dt. 03.10.2017 up to 11.00 Hrs.

3.C

Authority response to queries for Pre-Bid Meeting 2 Latest by

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6. 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 with department.

7. Short Tender Notice is displayed on P.W.D. website: [www.mahapwd.com</a](http://www.mahapwd.com)

# MARKETS

# Dow Posts 9th Record in Row; Bonds Fall

BY AMRITH RAMKUMAR  
AND MARINA FORCE

The Dow Jones Industrial Average posted a fresh record and government bonds fell after the Federal Reserve kept the door open for a December interest rate increase.

Analysts said the central bank's decision to begin scaling back its balance sheet as expected next month while sticking to its plans to raise rates one more time this year and three times next year caught off-guard some traders

hoping for a longer period without rate increases. Some investors had previously expected a series of weak inflation readings earlier this year to alter the Fed's plans.

As the central bank continues to reverse ultraloose monetary policies put in place after the financial crisis, many investors and analysts will be watching to see if companies can continue growing earnings. For now, many say conditions remain favorable for stocks to rise.

"We're in this sweet spot," said Lee Ferridge, head of macro strategy for North America at State Street Global

Markets. "That's been the case all year, and that's still the case," he said.

The Dow industrials rose 41.79 points, or 0.2%, to 22412.59, paring losses after turning negative immediately following the Fed's announcement. The blue-chip index has risen in nine straight sessions.

The S&P 500 turned positive late in the session to close up 1.59 points, or 0.1%, at a record 2508.24 and post a four-session winning streak. The Nasdaq Composite fell 5.28 points, or 0.1%, to 6456.04.

The yield on the benchmark 10-year U.S. Treasury note increased to 2.276%, compared

with 2.238% ahead of the announcement. Yields, which increased for an eighth straight trading session, rise as bond prices fall.

Financial stocks rose alongside bond yields. The S&P 500 financial sector was up 0.9% in late afternoon, compared with up 0.1% before the announcement. Higher rates tend to boost banks' profits by increasing the gap between what they pay for deposits and other short-term sources of funding and what they charge for loans.

The dollar strengthened. Late afternoon in New York, the euro fell to \$1.1889, com-

pared with \$1.1994 late on Tuesday. The dollar was at ¥112.32, versus ¥111.60.

Energy stocks were among the best performers Wednesday, rising alongside oil prices after the U.S. Energy Information Administration reported that refiners continued to bring back operations last week following hurricane-related disruptions, increasing demand. U.S. crude for October delivery on the New York Mercantile Exchange rose 93 cents a barrel, or 1.9%, to \$50.41.

Corporate news drove swings in individual stocks.

Pfizer shares gained 1.6%

after the company filed a lawsuit against Johnson & Johnson alleging that it thwarted biosimilar competition to its arthritis drug.

General Mills shares fell 5.8%. Falling sales of yogurt dragged down the food company's quarterly profits.

Shares of tech giant Apple fell 1.7% after the iPhone maker acknowledged problems with cellular connectivity in its newest smartwatch days before it goes on sale in stores.

The Stoxx Europe 600 edged down less than 0.1% in quiet trading ahead of the Fed announcement.

# Spanish Markets Brace for Catalonia Referendum

BY JON SINDREU

A bid for independence for one of Spain's richest regions is a lingering risk for investors after a long period of political uncertainty in Europe.

Catalonia is pushing ahead with an independence referendum on Oct. 1, even though the Spanish government has deemed it illegal. On Wednesday, national police arrested 13 Catalan officials.

Whether Spain's finances will be put under pressure is the key question for investors. Spain's Ibex 35 stock index fell 0.8% Wednesday, with Catalonia's largest banks—**Banco de Sabadell** SA and **CaixaBank** SA—leading the losses with falls of 3.8% and 1.9%, respectively. Investors have also sold Catalan debt, with yields on bonds maturing in 2020 trading at 2.7%, up from 2.2% in June, on concerns about payments being missed, even though they have the Spanish government's implicit guarantee, investors said. Bond yields rise when prices fall.

A string of pivotal European elections earlier this year

were a big source of anxiety for investors, but far-right candidate Marine Le Pen's defeat in France's presidential election and Greece's successful negotiation of a new bailout package in June appeared to put the risks largely to rest.

Now, the Catalan referendum could bring volatility to Spanish and Catalan bonds and shares, destabilizing Spain's economy just as it undergoes an economic revival, investors said.

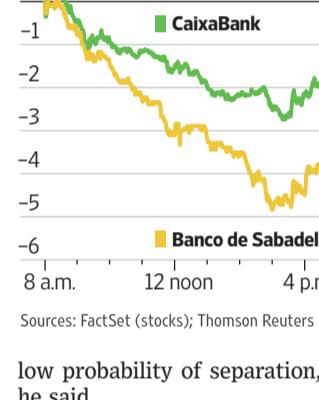
Opinion polls predict a win for pro-independence voters, in part because those who don't support secession have said they would boycott the vote, skewing the results. It is unclear how many people will show up to vote in an unauthorized referendum that hasn't set a minimum participation to be considered legitimate. The Catalan government has pledged to go ahead with the vote and abide by its result.

Some investors see opportunity. Mark Dowding, a fund manager at **BlueBay Asset Management** LLP, is buying Catalan debt. He considers it a bargain "against the backdrop of low yields in Europe" and

## Under Pressure

**Catalan banks tumbled Wednesday...**

Change in stock prices at one-minute intervals



Sources: FactSet (stocks); Thomson Reuters (bonds)

low probability of separation, he said.

"There's a high probability you are going to have a little bit of civil unrest, meaning riots in some streets, especially in [regional capital] Barcelona," said Brian Tomlinson, a fund manager at Allianz Global Investors. He said he thinks Spanish bonds' premium to Germany's could widen, a po-

tential buying opportunity.

Earlier this year, Catalan officials met with investors in New York and London to gauge interest for new bond issuance, a move that would give them more financial autonomy. The region is also trying to build up its ability to raise and control local taxes. Officials have explored ways to access the bank payments system as it routes

tax payments to Madrid, people familiar with the matter said. The Spanish government declined to comment.

Madrid is fighting back.

This week, Spanish Budget Minister Cristóbal Montoro instructed banks to block payments related to the referendum, such as spending on ballots.

Spanish officials have also

threatened to stop Catalan access to the fund that has been the main source of financing for most Spanish regions since 2012, even though three-quarters of the money borrowed by Catalonia this year is designated to be paid back to that fund, official numbers show.

While the Spanish government has moved to take control of Catalan finances, a spokeswoman for the budget ministry said turning off the tap wasn't on the table.

Ratings company Moody's Investors Service said in a report this month that Catalan independence would have material negative credit implications for Spain.

Catalonia has 16% of Spain's population but 19% of its gross domestic product. The region sends the equivalent of a net 5% and 8% of its economy to national coffers, depending on the estimate.

Still, if Madrid ignored the vote, Catalonia would likely struggle to inflict disruption to bank payments and Spain's finances, analysts said.

—Jeannette Neumann contributed to this article.

# HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

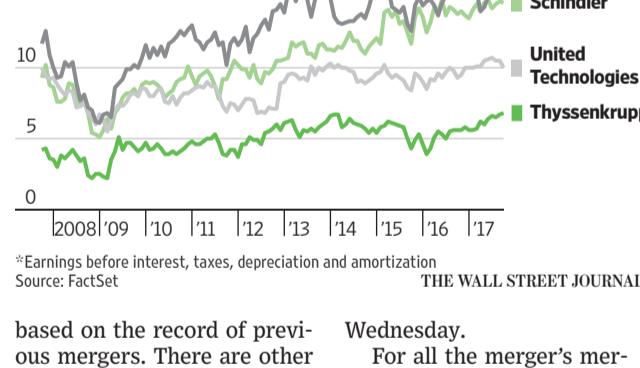
WSJ.com/Heard

Email: heard@wsj.com

# A Victory for Activism in Europe

## Elevator Needed

Enterprise value to Ebitda\*



\*Earnings before interest, taxes, depreciation and amortization

Source: FactSet

vian, which has a board seat, is known for disliking conglomerates.

The opportunity is clear from looking at the company's elevator business, which accounts for over half of profits. Its operating margins are bottom of the range: 12% compared with about 17% for United Technologies' Otis. There is also a big conglomerate discount: Thyssenkrupp's enterprise value is roughly seven times prospective earnings before interest, taxes, depreciation and amortization, compared with 17 and 15 times, respectively, for elevator specialists **Kone** and **Schindler Holding**.

The potential gains are huge, but splitting up Thyssenkrupp—a German industrial icon that traces its history back to 1811—is politically tricky. As the drawn-out steel merger with Tata shows, investors shouldn't underestimate how long this European restructuring story could take to play out.

—Stephen Wilmot

## OVERHEARD

In a bull market for stocks, being bearish means practically having to say you're sorry.

Analysts at Jefferies initiated coverage of **Tesla** on Tuesday with a rating of underperform and a price target of \$280, about 25% below the stock's closing price. But the analysts explained that they assigned their cautious rating with "a bit of a heavy heart." The auto upstart's achievements to date are "phenomenal," they wrote, but the challenges of scaling up the business are bigger than most analysts realize. The Jefferies analysts expect Tesla to continue showing a net loss on their books through 2019, while the analyst consensus profit for 2019 is a profit of \$5.33 a share on an adjusted basis, according to FactSet. Then again, perhaps the Jefferies analysts aren't such a gloomy bunch. Their price target still values the common equity at more than \$600,000 per car sold in 2016.

## Adobe's Cloud Hits Headwind

Speeding up means speed bumps hurt a bit more. Just ask **Adobe Systems**.

Among the older software companies once reliant on plastic compact discs, Adobe stands out for its relatively rapid transition to the cloud. Five years ago, digital subscriptions accounted for 15% of annual revenue. That now stands at 84% for the nine-month period ended Sept. 1.

And while that conversion might seem closer to the end than the beginning, Adobe's business keeps accelerating. The company's fiscal third-quarter results posted Tuesday marked the ninth consecutive period of revenue increasing more than 20% on a year-over-year basis. Profitability continues to improve; operating margins came in at 30% compared with 20% just two years ago.

But in corporate tech, bigger sales get more eyeballs. Adobe warned in its earnings call that some larger deals for its Experience Cloud service were taking longer to close, leading it to lower its near-term outlook for that business.

Closing the deals is more a matter of when than if, according to the company. But with a stock up 50% for the year and fetching a generous multiple of 35 times adjusted forward earnings, investors were more primed to take some profits. Adobe's share price was down 4% Wednesday afternoon.

Experience Cloud includes most of Adobe's software used by companies to plan marketing campaigns. It accounts for a little over one-quarter of total sales, and Adam Holt of MoffettNathanson projects revenue for that service will jump 45% over two years. That means more fuel to keep Adobe in the race.

—Dan Gallagher

# German Election: For Markets, Wages Are What Matter

been expected.

For Germany and the eurozone, the issue is particularly important. European Central Bank President Mario Draghi has called wage growth the "linchpin" for monetary policy. If the ECB is to see inflation durably rise to its target of "below, but close to" 2%, wages must rise. With unemployment still high in France, Italy and Spain, it is Germany's labor market that looks most fertile.

German unemployment stands at just 3.7% by Eurostat's measure. The number of vacant jobs is at a record, Société Générale notes. But German wage growth, while higher than in other major

European economies, hasn't notably accelerated, running roughly between 2% and 3% in recent years. Ultralow inflation has meant real wage growth has picked up, but with prices now rising again,

wage growth down before the crisis as it underwent labor-market overhauls. That has put it in a strong position.

But from a eurozone perspective, that was counterbalanced by higher wage growth elsewhere in the currency bloc, meaning inflation stayed on track. It is now

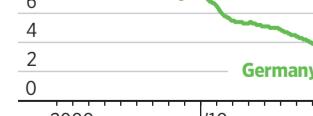
Germany's turn to shoulder some of the burden.

Over the longer term, political decisions in Germany will clearly shape the future of the eurozone. But in the near term, German wage and inflation dynamics will be vital for eurozone monetary policy. That is the much bigger deal for markets here and now.

—Richard Barley

## Jobs Gap

Unemployment rates



Source: Eurostat

THE WALL STREET JOURNAL.

Germany held wage growth down before the crisis as it underwent labor-market overhauls. That has put it in a strong position. But from a eurozone perspective, that was counterbalanced by higher wage growth elsewhere in the currency bloc, meaning inflation stayed on track. It is now Germany's turn to shoulder some of the burden.

Over the longer term, political decisions in Germany will clearly shape the future of the eurozone. But in the near term, German wage and inflation dynamics will be vital for eurozone monetary policy. That is the much bigger deal for markets here and now.

—Richard Barley

—Dan Gallagher