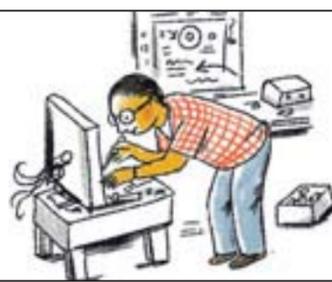


# THE WALL STREET JOURNAL.



## How The West (And the Rest) Got Rich REVIEW | A8



## Let the Gloves Come Off Against The Taliban

OPINION | A13

DOW JONES | News Corp

MONDAY, MAY 23, 2016 ~ VOL. XXXIV NO. 78

WSJ.com EUROPE EDITION

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## What's News

### Business & Finance

Investors are pulling cash out of European equity and debt markets on concerns over politics, low rates and weak banks. **A1**

◆ **UniCredit** is heading for a management overhaul that could see the Italian bank's CEO step down as early as next week. **B5**

◆ **Anthem and Cigna** are bickering over aspects of their proposed \$49 billion deal as the health insurers seek regulatory approval. **B1**

◆ **Bayer's bid** for Monsanto would bring the German drugmaker deep into the controversial business of genetically modified crops. **B1**

◆ **U.S. regulators** will require food and beverage makers to list on labels how many grams of sugar have been added to products. **B1**

◆ **Short positions** on the four largest Australian banks have soared 50% this year, a sign the lenders may be headed for trouble. **B5**

◆ **China plans** to cut the prices of three top-selling drugs by more than half in bid to make innovative medicines more affordable. **B1**

◆ **Israel's Netanyahu** approved a deal to develop the country's gas fields. **B4**

◆ **Google said** if plans to sell phones with modular, replaceable parts next year. **B3**

### World-Wide

◆ **An Austrian election** marked by a right-wing, anti-immigrant candidate's bid for the presidency was too close to call. **A1**

◆ **Clinton's lead** over Trump has narrowed to just three points in a test matchup between the two likely nominees, a poll found. **A1**

◆ **Egypt dispatched** a submarine to the suspected crash site of EgyptAir 804 in an effort to find the plane's black boxes. **A4**

◆ **Iraq's government** appealed to Fallujah residents to prepare to leave the Islamic State stronghold ahead of an assault. **A4**

◆ **A Taliban leader** was killed in a U.S. airstrike in a remote part of Pakistan, the Afghan government said. **A2**

◆ **Tajikistan voted** in a referendum that could pave the way for the president to solidify his hold on power. **A2**

◆ **Greece's parliament** approved fresh taxes and austerity measures needed for further rescue loans. **A3**

◆ **Turkey's ruling party** named a chairman who vowed to execute President Erdogan's policies. **A4**

◆ **Britain could fall** into recession if it votes to leave the EU in a referendum next month, according to a U.K. Treasury analysis. **A3**

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## Power Is With the Presidency in Erdogan's Turkey



JOY: Turkey's ruling party installed Binali Yildirim, above, a loyalist to Recep Tayyip Erdogan, as chairman, tightening the president's grip. **A4**

## Investors Head to EU Exit

Cash flows out as political discord, economy, negative rates raise concerns

By CHRISTOPHER WHITTALL AND RIVA GOLD

Investors are fleeing Europe.

Fund managers are pulling cash out of European equity

and debt markets in response to concerns about the continent's fractious politics, ultralow interest rates and weak banks, and relentless economic malaise.

Investors have sold exchange-traded funds tracking European shares for nearly 15 weeks—the longest stretch since 2008—according to UBS Group AG. Meanwhile, annual net outflows from eurozone bonds were running at over

half a trillion euros as of the end of March, according to a Pictet Wealth Management analysis of data from the European Central Bank. That is happening as investors are turning away from Europe's growing pool of negative-yielding debt.

The money is finding a home in places from U.S. Treasuries to emerging economies, helping to push up prices in those markets.

Just last year, Europe was a top pick by global fund managers as it recovered from the sovereign-debt crisis of 2010 to 2012. The current retreat shows that this rehabilitation has faded, and fast.

"It's a one-way flow out of Europe," said Ankit Gheedia, equity and derivatives strategist at BNP Paribas SA. "You buy something that doesn't Please see EUROPE page A2

## CAN CUBA MAKE ENOUGH CIGARS?

Storied industry is trying to boost production before trade embargo ends, but it won't likely be ready for demand boom

By TRIPP MICKLE

SAN LUIS, Cuba—The fertile soil here in the Pinar del Río valley has long produced a richly flavored, slow-burning tobacco that is, without exaggeration, the envy of the world.

Some of Cuba's best-paid workers roll the cured leaves by hand into cigars carrying the names Cohiba and Montecristo and Partagás, luxury brands as coveted by aficionados as the sparkling wines of Champagne or

the single malt whiskies of Scotland.

For more than 50 years, Cuba hasn't been able to sell its cigars to its giant neighbor to the north, the world's largest cigar market. Now, with the U.S. moving to restore trade with Cuba, excitement is building that a great opportunity is at hand.

If the trade embargo is lifted anytime soon, however, Cuba is unlikely to be ready.

The amount of tobacco under cultivation Please see CIGARS page A6



A worker in the El Laguito cigar factory in Havana prepares tobacco leaves. The plant employs about 90 cigar rollers and intends to hire more to boost production.

## How 'Kill the Wabbit' Inspired Today's Opera Stars

'Ring' cast recalls influence of Bugs Bunny's 'What's Opera, Doc'

By MICHAEL M. PHILLIPS

WASHINGTON—Long before she became an opera star, mezzo-soprano Elizabeth Bishop believed that Brünnhilde, the heroine in Richard Wagner's "Ring of the Nibelung," was actually named Bwünnhilde.

Only years later did she realize she thought so because Elmer Fudd can't pronounce his R's.

Like many other singers and crew staging the 17-hour, four-opera Wagner extravaganza at the Kennedy Center in Washington, Ms. Bishop got her first taste of opera from a cartoon rabbit and his speech-impaired nemesis.

"I could sing you the entire cartoon before I knew what opera really was," says Ms. Bishop, who performs the part of Fricka, wife of Wotan, king of the gods.

The rabbit in question is Bugs Bunny, who, in the 1957



Bwünnhilde

Warner Bros. cartoon "What's Opera, Doc?" finds himself hunted by Elmer Fudd, in the part of the hero, Siegfried.

"Kiww the wabbit! Kiww the wabbit!" Elmer, in an ill-fitting magic helmet, sings to the urgent strains of Ride of the Valkyries as he jabs his spear into a rabbit hole.

Bugs flees, dons a breast plate and blond braids, climbs atop an obese white horse, and for two minutes and a ballet interlude, fools the smitten

Elmer into thinking he is Brünnhilde.

"Oh, Bwünnhilde, you're so wovevy," Elmer croons.

"Yes, I know it," Bugs answers coquettishly. "I can't help it."

"Those of us who didn't freak at the sight of a rabbit in a winged helmet sliding off of the back of a fat horse—we went into opera," says Ms. Bishop, 49, who grew up in Greenville, S.C.

It's just one of those cases of art imitating art imitating art. Generations of people in the opera world grew up spending Saturday mornings eating breakfast cereal and watching Bugs Bunny on TV sets tuned with rabbit ears. For many, "What's Opera, Doc?" was their first glimpse of opera and Wagner. Even if it didn't exactly inspire their careers, it planted an ear worm that made the music recognizable once they heard Please see WABBIT page A6

## Trump Narrows Gap With Clinton in Poll

By PATRICK O'CONNOR

Republicans have rallied behind Donald Trump in the weeks since he effectively clinched his party's presidential nomination, helping him narrow Democrat Hillary Clinton's once double-digit lead to just 3 percentage points, a new Wall Street Journal/NBC News poll shows.

Mrs. Clinton leads the New York businessman, 46% to 43%, in a test matchup between the two likely nominees, the poll finds. That represents a much tighter margin than her 11-percentage-point lead in April and marks the first time in Journal/NBC News polling this year that her support has dropped below 50% in a contest with Mr. Trump.

Vermont Sen. Bernie Sanders, who faces long odds of wresting the Democratic nomination from Mrs. Clinton, leads Mr. Trump by a much wider, 15-point margin, 54% to 39%, in a hypothetical matchup.

The main reason Mr. Trump has eaten into Mrs. Clinton's lead is that he enjoys much wider support from GOP voters after his decisive win in the Indiana primary earlier this month, a victory that prompted his two remaining rivals to exit the race. The presumptive GOP nominee has also opened a modest lead among self-described independent voters.

In the matchup against Mrs. Clinton, Republican support for Mr. Trump jumped to 86%, from 72% in mid-April, and the share of GOP voters who said they would support Mrs. Clinton fell to 6% from 13% a month earlier. Democrats' support for Mrs. Clinton, meanwhile, remains largely unchanged.

The two likely nominees still suffer from the worst public images in the modern history of presidential politics, with 58% viewing Mr. Trump negatively and 54% expressing Please see POLL page A7

WORLD NEWS

# Afghans Say Taliban Leader Was Killed

Group stays silent on Kabul announcement that U.S. strike killed Mansour in Pakistan

BY JESSICA DONATI AND SAEED SHAH

The Afghan government said the leader of the Taliban was killed in a U.S. airstrike while riding in a vehicle in a remote part of Pakistan.

The Taliban remained silent on Sunday, while members of the group and others close to it provided conflicting reports on their leader's health.

The development comes less than a day after U.S. officials said Mullah Akhtar Mansour had likely been killed by a drone strike, potentially dealing a significant blow to a militant group that has extended its influence across Afghanistan since most foreign troops withdrew in 2014.

The drone strike was the first in the western province of Balochistan and only the second strike outside the tribal areas, of the more than 400 U.S. drone attacks that have taken place on Pakistani territory since the program began in 2004.

"I think this is going to create more tension between the U.S. and Pakistan," said Ahmed Rashid, author of a 2000 best-selling book on the Taliban. "This is a sign of the U.S. getting more and more frustrated with Pakistan's inability or un-



Residents gather around a vehicle in which Afghan Taliban leader Mullah Akhtar Mansour was believed to be traveling in Balochistan.

willingness to put pressure on the Taliban."

The U.S. military on Sunday continued to decline to confirm reports of Mr. Mansour's death.

"We're confident in our targeting, but at this point we can't yet confirm he's dead. We're working hard to confirm, but I'm not sure how much longer it will be until we can confirm," spokesman Charles Cleveland said.

Neither the Afghan authorities nor the Taliban have proved reliable in the past.

Mr. Mansour has already

been reported dead by the Afghan government once before. In December, a number of Afghan officials said he had died of his injuries after a firefight with rivals.

But the Taliban has closely guarded the condition of its leader's health in the past. The group concealed the death of its former leader, Mullah Mohammad Omar, for more than two years, only confirming the death after the Afghan government announced it in July.

The group's main spokesman was unreachable all day and the Taliban's website was

down. A rival faction claimed Mr. Mansour had been killed.

"Mullah Akhtar Mansour refused to answer repeated calls by the people & Govt of Afghanistan to end the war and violence in the country," the Afghan government said.

But people who maintain contact with the Taliban said members of the group had identified the body because it was found with a Pakistani passport used by the group's leader. They also said the group's leadership was in a meeting.

"His headless body along

with the body of his driver, by the name of Mohammad Azim, was brought to the Civil Hospital in Quetta. His passport and photo was in the pocket," one of the sources said. "They went to the morgue to identify the body."

The death was also confirmed by a person within the Taliban, who said the funeral was planned for Monday.

Pakistan confirmed the strike took place and that two bodies along with a Pakistani passport had been recovered from the vehicle. One was identified as a driver and the

body had been recovered by relatives. The second had been carrying a Pakistani passport and his identity remained unclear.

It called the strike a violation of its sovereignty and said that a politically negotiated settlement was the only viable option for lasting peace.

The Afghan intelligence agency said Mullah Mansour had been under surveillance for a long time.

"Finally, while he was in his car on a main road in the Dalbandi area, was targeted along with others in the car and was killed," the Afghan intelligence agency said.

Earlier Sunday, a member of the Taliban who is close to its leadership distributed a message to some associates promising to release an audio message proving Mr. Mansour was still alive.

"The attack did occur and some important military persons were there, but Mansour was not among them," said Mullah Abdul Samad Sani, a person who received the message said. "Now we deny it officially and in the next three days we will release Mansour's audio message."

—Ehsanullah Amiri, Habib Khan Totakhil and Qasim Nauman contributed to this article.

## Notice to Readers

Simon Nixon's Europe File column will return next month.

# Tajikistan Votes on Constitutional Amendments

BY THOMAS GROVE

MOSCOW—Voters in Tajikistan went to the polls in a referendum Sunday that could pave the way for President Emomali Rahmon to solidify his hold on power and cement his crackdown on moderate Islamist opponents.

The former Soviet republic's election commission said nearly 80% of voters had gone to the polls by late afternoon, the news agency Interfax reported. Results were expected late Sunday or Monday.

The former Soviet republic's citizens are voting on a series of constitutional amendments, including one that would allow Mr. Rahmon to run for office an unlimited number of times.

Another amendment would lower the age requirement for presidential candidates, potentially changing the law to allow his son to run for future office, observers say.

The moves raise concerns the country is following the paths of others ruled by regional strongmen who have flouted term limits to consolidate their grips on power in a strategically important part of Central Asia.

Mr. Rahmon says his recent clampdown, including the shutdown of the moderate Islamic Renaissance Party of Tajikistan, or IRPT, is meant to protect his country from Isla-

mists infiltrating Tajikistan over the country's mountainous 800-mile border with Afghanistan.

But critics of Mr. Rahmon, who has been in power since 1992, say he is using the threat of Islamic extremism to keep the country's political opposition under his thumb. In recent months, he has stifled dissent and removed opposition figures from key posts in the country's government and armed forces and replaced them with loyalists. He appointed his own son, Rustam, last year to head the country's anticorruption agency.

"This is a piece of political theater meant to consolidate his power in the face of huge uncertainty domestically and across its borders," said Livia Paggi, an analyst on the Caucasus region and Central Asia at GPW, of the vote. "It consolidates the position of Rahmon and his family."

She said she expected the constitutional changes to be approved in an election she called unlikely to be free or fair.

Mr. Rahmon's crackdown is undermining a peace agreement that ended a civil war between remnants of a Soviet era government and an array of ethnic and religious factions that raged between 1992 and 1997. That deal ensured continued representation of the opposition in the Tajik govern-

ment.

One of those opposition groups is the IRPT, which was shut down after a number of high-level members left under what party leaders said was pressure from the government.

Tajik authorities have also been targeting another group of political dissenters, Group 24, whose leader was shot and killed in Istanbul last year. No one has claimed responsibility but Human Rights Watch says

the killing points to involvement by the Tajik government. The government hasn't commented on the claims.

The rights group says the political crackdown has been accompanied by the worst human-rights abuses since the civil war, and 17 members of IRPT are currently on trial and facing life sentences on a number of extremist charges.

"The ban on IRPT as a moderate religious voice is pro-

moting other more extremist voices and pushing people toward the groups the government says they are fighting," said Steve Swerdlow, a researcher for the group.

Col. Gulmurod Halimov, a top security official who defected from Tajikistan's armed forces last year to join Islamic State, cited a crackdown on Islam as the reason behind his decision to join the radical group in Syria.



An oversized photo of President Emomali Rahmon at an intersection in Dushanbe, Tajikistan.

## EUROPE

Continued from Page One give you a return, you sell."

Last year, ECB monetary stimulus and a fledgling economic recovery brought investors back to Europe after they fled during the eurozone debt crisis. The Stoxx Europe 600 gained 6.8% in 2015, while the S&P 500 lost almost 1%.

Now people are leaving again.

In recent weeks, investors have been selling equities around the world over concerns about the global economy. But the selling in Europe has been particularly pronounced.

Funds have sold around \$22.6 billion worth of ETFs that track European equity since March, which is equivalent to roughly 9.4% of the total held of these investments, according to Mr. Gheedia.

Meanwhile, global fund managers' allocation to eurozone equities dropped to 17-month lows in May, according to a survey by Bank of America Merrill Lynch. When prospects seemed sunnier last year, a net 55% of fund man-

agers favored the region.

This is already taking a toll on European markets. The Stoxx Europe 600 is down nearly 8% this year, compared with a roughly flat S&P 500.

Banks are Europe's worst-performing sector, having fallen nearly 19%.

Investors are concerned that negative interest rates are eating into the sector's margins, while lenders in Southern Europe continue to grapple with bad loans.

## The selloff in Europe has brought valuations down compared with the U.S.

That could have a knock-on effect on a continent where companies rely on bank lending for around three-quarters of their funding needs. Banks also make up an outsize chunk of local equity markets.

Investors' concerns over banks are already being borne out after a poor set of results in the most recent earnings seasons.

The downbeat news about profits wasn't just from banks. Overall, that earnings season has deepened investors' doubts about profitability in Europe.

"After 10 years of zero earnings growth in Europe, investors are becoming increasingly pessimistic," said Karen Olney, a European equity strategist at UBS. "Year after year investors waited for the big bounce in earnings, and year after year they were let down."

The region faces a number of key political tests that could further destabilize its recovery and keep investors on the sidelines.

On June 23, the U.K. will vote on whether it should remain part of the European Union. If Britain does vote to leave, that could roil financial markets across Europe as a result of concern that other countries may follow.

"Unless you have a strong view that Brexit is not going to happen, [Europe] is a risky play," said Luca Simoncelli, investment manager at Uni-gestion, which manages \$19.5 billion in funds.

Bond investors are also leaving Europe, but for different reasons.

The ECB's stimulus mea-

sures, including cutting interest rates below zero to boost sagging inflation, have dragged down the yield on eurozone government bonds. Yields fall as prices rise.

Roughly €3.5 trillion, or 54%, of these securities trade at a negative yield currently, according to Bank of America Merrill Lynch.

That is pushing investors to look elsewhere for returns, including in emerging markets and U.S. Treasury bonds, analysts say.

With the 10-year German bond yielding 0.181%, the 1.85% yield on the 10-year Treasury bond looks a lot more appetizing.

"We've seen a lot of flows into anything with a positive yield," said Steve Thompson, senior client-portfolio manager at Invesco Fixed Income.

Not everybody is giving up on Europe. Sustained selling across eurozone assets, as well as further gains in the dollar, could push the euro lower and boost the competitiveness of European exporters. Some analysts also point out that the eurozone's economy picked up in the first three months of the year.

If British voters elect to stay in the EU, as current

polls suggest they will, that could also trigger a relief rally as those investors who held back start to buy again, analysts say.

The selloff has brought valuations down compared with the U.S., which could also tempt bargain hunters. Companies in the Stoxx Europe 600 trade at a 12-month forward price/earnings ratio of 14.8, compared with 16.5 for the S&P 500.

But many remain skeptical about the region's prospects. "On a relative basis, [Europe] appears to be a little bit cheaper than the U.S., but when you look at underlying growth, you can certainly ar-

## CORRECTIONS & AMPLIFICATIONS

Policy makers in Japan have tried to use stimulus measures to engineer a so-called virtuous cycle of private spending and investment. A World News article Thursday about the country's economic growth incorrectly referred to it as a virtual cycle.

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

gue it's cheaper for a reason," said Michael Mussio, managing director at FBB Capital Partners, a U.S.-based wealth management firm.

—Laura Mills contributed to this article.

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## WORLD NEWS

# Greece Passes Key Reforms

Parliament backs tax and austerity moves ahead of finance ministers' meeting

By NEKTARIA STAMOULI

ATHENS—Greece's parliament approved late Sunday a raft of fresh taxes and austerity measures that the country must legislate to unlock further rescue loans, as Germany and the International Monetary Fund remain deadlocked over the country's debt relief.

The reforms were backed by the 153 lawmakers from the ruling Syriza party and its junior coalition partner, the Independent Greeks, securing the majority in the 300-seat parliament.

Sunday's Parliamentary approval could pave the way for eurozone finance ministers meeting on Tuesday to approve the next disbursement of funds to Greece. But that could be complicated as the IMF and eurozone governments and especially Germany remain at odds over when Greece should get debt relief and how deep it should be.

"European leaders get the message tonight that Greece meets its obligations," Greece's Prime Minister Alexis Tsipras told lawmakers ahead



Greek Finance Minister Euclid Tsakalotos, left, and Prime Minister Alexis Tsipras on Sunday.

of the vote. "Starting from tomorrow it remains that the other side meets its own and I think this will happen."

The Greek premier said the country's "financial spring" will start in 2017 and is predicting 3% economic growth in that year.

The IMF has said it would only sign up to the Greek bailout if Germany agrees to debt relief. But German officials are seeking to delay any debt re-

structuring until the end of the current Greek bailout program in 2018, so that Germany's parliament, the Bundestag, would pass such measures only after Germany's 2017 elections. To meet its targets, Athens was asked to set up a "contingency mechanism" of additional austerity measures worth some 2% of GDP.

The measures being voted on Sunday include new taxes on fuel, tobacco, alcohol, In-

ternet, pay TV, hotel stays, cars, changes in property tax, as well as a rise in the basic value-added tax rate, applied to most goods and services, from 23% to 24%. It also includes the framework that would free up the sale of non-performing loans owned by Greek banks, and the establishment of a new privatization fund that would manage its assets to execute its investment policy and reduce debt.

# U.K. Treasury Says EU Exit Will Hit Economy

By JASON DOUGLAS AND ALEXIS FLYNN

LONDON—The U.K. economy could fall into recession if the country votes to leave the European Union in a referendum next month, according to a U.K. Treasury analysis set to be published Monday.

The analysis will say that a vote in favor of a British exit from the EU, known as Brexit, in a referendum set for June 23 could trigger "an immediate and profound economic shock," according to excerpts released by the Treasury in advance.

Britain's economy has become a battleground in a fierce debate over the country's membership in the EU. The Treasury's latest analysis adds to warnings from the Bank of England, the International Monetary Fund and the Organization for Economic Co-operation and Development over the potential cost of a British exit from Europe.

Proponents of quitting the bloc dispute such claims, saying any disruption following a vote to leave will be short-lived and that the U.K. will ultimately be better off outside the EU, where it will be free of burdensome EU regulation and can pursue its own trade deals with faster-growing parts of the world.

Prime Minister David Cameron and Treasury chief George

Osborne are to present the findings of the Treasury analysis at an event later Monday. Mr. Cameron said on Sunday that leaving the EU represents "a leap in the dark that would risk prosperity and security."

The Treasury's new analysis, which focuses on the possible short-term costs of "Brexit," follows a report in April examining the potential long-term costs of leaving the EU. The new analysis will say the economy could suffer a yearlong recession—defined as two or more consecutive quarters of falling output—after a vote to leave.

The Treasury's intervention came after Turkey's place in Europe on Sunday became the latest battle line. Mr. Cameron responded to claims by Vote Leave that Turkey would soon be allowed to join the EU, giving millions of citizens from the Muslim-majority nation the right to live and work in Britain.

He locked horns with Penny Mordaunt, a Leave proponent who is also a minister in his government. Ms. Mordaunt said in a British Broadcasting Corp. interview that Britain wouldn't be able to stop Turkey joining the EU, but Mr. Cameron, on ITV, dismissed Ms. Mordaunt's claim, saying "it is not remotely on the cards that Turkey is going to join the EU any time soon."

## AUSTRIA

Continued from Page One  
Sunday evening with Austrian broadcaster ORF. "We both wanted to sleep well tonight. We'll have to wait tomorrow" for the results.

Mr. Van der Bellen said "we have imagined different concepts for Austria and for Europe," adding that "every campaign is divisive."

Mr. Hofer's surprise first-round win in April made this Alpine country a harbinger for

the rest of Europe, as last year's mass arrival of migrants combines with economic uncertainty to drive voters away from the pro-EU establishment.

While Austria's head of state holds a largely ceremonial role, a victory for Mr. Hofer would mark a symbolic triumph for populist movements that have seen rising support from France to Germany, Scandinavia and Eastern Europe.

Even if Mr. Van der Bellen were to retain his lead, the election has revealed deep dis-

satisfaction with the two established center-right and center-left parties now ruling the country's government in a coalition.

A Van der Bellen victory would "buy time" for the pro-EU political establishment in Europe, said Ulrike Guerot, professor for European Policy and the Study of Democracy at Danube University in Krems, Austria.

A Hofer victory, though, "would be a gate opener for what comes next in Europe. Next is Brexit and the one after is obviously France," she

said, referring French presidential elections in 2017.

In France, polls show populist leader Marine Le Pen appears poised to win the first-round presidential vote next year. In Denmark, the anti-immigrant Danish People's Party achieved stronger-than-expected election results last year, pushing the centrist government to take tougher measures to keep migrants out.

In Germany, the upstart Alternative for Germany party made landmark gains in state elections in March and now polls at 15%, cementing its sta-

tus as the most successful nationalist party in Germany since World War II.

In Austria, a key transit country for migrants heading to Northern Europe, former center-left Chancellor Werner Faymann reversed course this winter on an initially welcoming line on refugees. But that wasn't enough to stop the Freedom Party's rise in the polls, and Mr. Faymann resigned on May 9 in the wake of Mr. Hofer's big first-round win.

Mr. Hofer's first-round victory represented the party's

best-ever result in a national election. Running on an anti-immigrant, anti-free-trade platform, Mr. Hofer gained traction amid economic uncertainty and fears about the influx of refugees and migrants.

Speaking at his final rally before the election in Vienna on Friday, Mr. Hofer told the crowd, "Those people who don't value our country, or go to war for the Islamic State or rape women, I tell those people, this is not your homeland, you cannot stay in Austria."

—Anton Troianovski contributed to this article.

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WORLD NEWS

# Egypt Sends Submarine on Plane Search

Remotely operated vehicle is to help find 'black boxes' for EgyptAir Flight 804

Egypt stepped up efforts to find the so-called black boxes of EgyptAir Flight 804 Sunday, dispatching a submarine to the suspected crash site in the Mediterranean Sea.

By *Tamer El-Ghobashy and Dahlia Kholaf in Cairo and Robert Wall in London*

Egyptian President Abdel Fattah Al Sisi said a submarine belonging to the Petroleum Ministry that can dive 3,000 meters (9,842 feet) underwater has been deployed to join in the international search for the plane, which crashed on Thursday while flying from Paris to Cairo with 66 people on board.

Mr. Sisi shared no further information on the equipment or size of the Egyptian searching team. Egypt's armed forces are leading the search, with support from France, Greece, the U.S. and the U.K. The submarine is a remotely operated vehicle that can detect signals sent out by a black box, former petroleum minister Osama Kamel said in an interview.

The black boxes contain flight data and a recording of cockpit voices and typically provide the most concrete evidence as to the causes of a

plane crash.

They are equipped with beacons to help salvage searches. The short range of the signal can make it difficult to detect underwater, and the black boxes could be resting on the seabed at a depth of over 11,000 feet. However, the submarine's technology may be sufficient to detect the black box signals, and could also be used to locate large parts of the plane, such as its fuselage, Mr. Kamel said.

The dispatch of the submarine follows France's decision to send a ship loaded with specialist equipment and personnel in search of the black boxes. However the ship, dispatched Friday, could take several days to reach the search zone.

The transit time, along with the suspected location of the wreckage, suggests recovery of the black boxes could take weeks, aviation-safety experts said.

Finding the black boxes could be critical to the investigation. "At this point, we cannot rule out some type of terrorist act, but it's still very early and the black box has not been found yet," Homeland Security Secretary Jeh Johnson said on Fox News Sunday.

On Saturday, the Egyptian government said it had recovered debris from the downed passenger jet as the search for the wreckage and victims continued.

Egypt's armed forces released photographs of person-



A crew retrieves wreckage, in an image from a video posted by an Egyptian military spokesman.

nel on boats scooping up what appeared to be small, twisted parts of the Airbus Group SE A320 airliner along with pieces of seats and pillows from the water about 190 miles north of the Egyptian city of Alexandria.

On Sunday, the U.S. Navy said its P-3 sea-surveillance planes, which are supporting the Egyptian search, had located more than 100 pieces of aircraft debris during missions the previous day. The coordinates of this debris had been passed over to the Egyptian Navy.

Despite these discoveries, the main wreckage has yet to

be located. The cause of the crash is the subject of speculation, particularly the way in which Flight 804 twisted violently and then plummeted into the sea as it entered Egyptian airspace.

Egyptian aviation officials provided more detail Sunday on the flight's final moments. In a statement denying a published report in France that the pilot had contacted air traffic control in Egypt reporting an emergency and requesting an urgent landing, the aviation officials said the aircraft had simply vanished with no warning less than a minute after it entered Egyptian air-

space.

The authorities said they contacted other planes flying in the vicinity of Flight 804 for any information, a standard practice.

Mr. Sisi said Sunday that no theories as to the cause of the crash have been ruled out. The president echoed Egyptian investigators who, in their first formal statement on Saturday, said "we are looking at all the information that is collected but it is far too early to make judgment."

Mr. Sisi called on people not to jump to conclusions and vowed the probe would be transparent.

Investigators said they were examining a series of automated warning messages sent via the A320's so-called Aircraft Communications Addressing and Reporting System, or ACARS. People familiar with the data say the messages point to smoke in the plane's nose section and problems with the flight controls.

Early on Saturday, French air accident investigators confirmed a Wall Street Journal report that the messages had been received. However safety experts are still trying to figure out exactly what the fault messages indicate.

In addition to signaling that intense smoke set off detectors in the front of the jetliner, where some of its vital electronics are located, messages also suggest damage to the right-side cockpit windows.

The messages are the first indication there may have been intense heat throughout the front section of the jet below and just behind the cockpit.

Intense cargo fires in the past have disabled and brought down even much larger jumbo jets in a span of less than 30 minutes. But air-safety experts said it is highly unusual to have midair fires that are able to wreak such havoc in a matter of two or three minutes.

No group has taken responsibility for downing the jet.

—*Damian Paletta and Joshua Zumbrun contributed to this article.*

# Iraq Preparing Assault on Fallujah

By *Ghassan Adnan and Asa Fitch*

BAGHDAD—The Iraqi government appealed to residents of Fallujah on Sunday to prepare to leave the Islamic State stronghold ahead of a long-planned assault, even urging them to raise white flags at their houses if they couldn't.

The military's Joint Operations Command said civilian families would be allowed to leave the city through designated safe passages, though it didn't specify how departures from the city would be arranged.

The Iraqi army, counterterrorism forces, police, tribal fighters and Shiite militias would be taking part in the operation, according to the military. But it wasn't clear when the assault would start on one of the Sunni extremist group's last major territorial holdings in Iraq.

Iraqi forces have long been surrounding the city west of Baghdad, tightly controlling traffic in and out. But in recent days, a more substantial buildup of forces has become evident, as Shiite militias moved rockets and other military equipment to the area and officials suggested an operation would begin shortly.

Eissa al-Issawi, the exiled mayor of Fallujah, said Islamic State militants were retreating from the outskirts to the center of the city Sunday as the operation drew nearer.

Civilians inside were eager for any relief from isolation, 74-year-old resident Mohessen Hossam said. Many people have died of starvation in the city since Iraqi forces imposed



Iraqi forces and Shiite militias, like this one linked to a Shiite cleric, are expected to join the fight.

a blockade last year, residents have said, although the precise toll is impossible to measure.

"There's no food, no fuel and no services, so what is left for us to live for?" Mr. Hossam said, adding that he could hear warplanes flying overhead on Sunday. "We want someone to help us—anyone."

The expected move on Fallujah would be the latest in a string of anti-Islamic State operations by Iraqi government forces and allied Shiite militias in recent months. Ramadi, a city to the west of Fallujah in Anbar province, fell to Iraqi forces in December. Hit, another important Anbar city, was retaken from Islamic State in April.

Airstrikes by the U.S.-led coalition fighting the group assisted those operations.

If successful, the recapture of Fallujah would leave Mosul as Islamic State's only major foothold in Iraq.

Iraqi forces have long been gearing up for Mosul's recapture, which is expected to be complex in part because of its size: Mosul has a population of around 1 million, about three times the size of Fallujah's before Islamic State took the city.

Despite the city's smaller size, the Fallujah battle isn't expected to be easy. The city is inhabited mostly by Sunni Muslims, many of whom resent any incursion by Iran-backed Shiite militias that form a significant part of the force fighting for control. To avoid triggering sectarian bloodshed, Shiite militias aren't expected to be part of the forces that retake the city

center.

Nonetheless, Ibrahim al-Jumaili, a Fallujah native who left three months ago and is now living just outside the city, said he had spoken Sunday to people inside who were concerned about being targeted by Shiite militias.

"Families in Fallujah are scared because they believe that the Shiite militias are going to enter Fallujah and do reprisal killings," Mr. Jumaili said. "This worries them a lot."

Fallujah has also been a difficult objective for invading armies before, including for the U.S., which took it in 2004 and held it for two years before handing control to the Iraqi government. The city became a focal point for Sunni discord after a Shiite-led government took power in Baghdad after the U.S.-led invasion.

# Belgians Mark Brussels Attacks With Ceremony

By *Valentina Pop*

BRUSSELS—Survivors of the Belgian terror attacks gathered with families of the victims on Sunday at a ceremony hosted by the king to mark the two-month anniversary of the atrocities.

Belgian leaders vowed to fight terrorism and overcome social divisions with parts of the country's Muslim community at the event, which took place in the throne room of Belgium's royal palace. Rescue workers who helped those injured in the March 22 attacks joined survivors and family members at the royal residence.

It was the first official ceremony since the Islamic State terror attacks, which ripped through Brussels Airport and a subway stop near European Union headquarters.

"Guided by evil, the terrorists who attacked us wanted to kill, mutilate and torment. They are seeking to destroy our society, in striking at its very heart, at what binds us together," the king said.

The king praised the heroism of the rescuers and urged the nation to stand together, "without giving in to pointless self-criticism or doom and gloom."

Prime Minister Charles Michel, whose government last week said it would send jet fighters to strike Islamic State in Syria, vowed to fight terrorism and appealed for unity. "This isn't a war between the West and Islam, we will do everything to stop these terrorists. This is a diffi-

cult fight, a fight that will take time, we'll know setbacks and we'll know successes," he said.

The prime minister said that all communities in Belgium were in the fight against terror together, no matter their religion or origin.

Belgian lawmakers are continuing their inquiry into the Brussels attacks, with another round of officials called to testify next week. The inquiry is expected to also look into alleged police failures in monitoring the terror suspects known to the intelligence community ahead of the attacks.

Dominique Denoel, a 38-year old survivor of the Maelbeek subway stop attacks, attended the event with scars still visible on his face and burns covered by a black glove. He said he was tempted to move away from Brussels after the "hell" he had been through. "But that would be running away from responsibility," he said. "We are all responsible for the world we live in."

Belgian prosecutors seeking to establish the exact circumstances of the attacks on Thursday carried out two reconstructions of the events leading up to the attacks—one at the safe house used by the three attackers before going to Brussels Airport and one at the airport itself.

Mohamed Abrini, who authorities say admitted to being the third attacker at Brussels Airport but told authorities that he changed his mind and abandoned his bomb, was present at both reconstructions, prosecutors said.

# Turkey's Ruling Party Installs Loyalist Chairman

By *Emre Peker*

ANKARA, Turkey—President Recep Tayyip Erdogan cemented efforts to transform his mostly symbolic office into Turkey's unrivaled seat of power on Sunday, when his ruling party installed a loyalist chairman who promised to execute the Turkish leader's priorities, although they could strain ties with Western allies.

Mr. Erdogan's drive to transfer executive powers from parliament to his office caused a leadership split in his Justice and Development Party, or AKP, earlier this month and raised concern from Turkey's opposition politicians about a possible creeping authoritarianism.

The new AKP chairman, Binali Yildirim, made it clear from his first speech Sunday that the sometimes uneasy alliance between the prime min-

ister and the president was at an end.

"Our way is that of the people's voice and breath, our party's leader Recep Tayyip Erdogan's way," Mr. Yildirim said. "My honorable president, we swear that your passion is our passion, your cause is our cause, your path is our path."

The president's plan to govern through Mr. Yildirim's administration will have effects across Turkey's polarized landscape and thrust the president to the forefront of international policy debates. The shift comes as Mr. Erdogan is rattling ties with European and North Atlantic Treaty Organization allies, slamming them for not appreciating security threats to Turkey from Kurdish insurgents and Islamic State.

Party insiders and an adviser to the president say that Mr. Yildirim will concentrate on domestic concerns led by

the economy, while Mr. Erdogan will take charge of foreign affairs and politically sensitive security matters.

AKP and presidency officials say Mr. Yildirim's administration will help transform Turkey into a de facto presidential system, like the U.S. or French governments.

"We expect more harmony between the president and the prime minister, whereby the president will be more active," said Bulent Turan, the AKP's parliamentary whip.

Western diplomats say while they expect continuity in their cooperation with Turkey on a range of critical issues from slowing the influx of refugees to Europe and combatting Islamic State, adapting to the yet-untested mechanism of Mr. Erdogan leading from the presidential palace will be a challenge.

Foreign diplomats working

closely with the Turkish government say the final decision on all policy matters always rested with Mr. Erdogan—a constant throughout his 12 years as premier that hasn't changed since he became Turkey's first publicly elected president in August 2014.

## President Erdogan cements efforts to transform his office into a seat of power.

But now, the president's domestic concerns such as combating terrorism and transforming the country's governance could override some of Turkey's foreign-policy initiatives, led by Ankara's March 18 migration deal with Brussels, some diplomats, an adviser to Mr. Erdogan and AKP officials said.

"We don't have a problem cooperating with Turkey, but

there's always a political leash, and it's very short," said a diplomat in Ankara.

Mr. Erdogan's chief adviser on foreign policy, Reha Dencemec, said there wouldn't be a U-turn in Turkey's international stance, or in relations with Europe and the U.S. He

also stressed that EU membership remains a key strategic objective for Ankara while adding that establishing the constitutional framework for an executive presidency will be a top policy priority.

"Foreign policy is like a trans-Atlantic tanker, it takes a few years to change direction after you turn the helm," Mr. Dencemec said.

The main spat threatening

the Turkey-EU refugee deal is Brussels's demand that Ankara reform sweeping counterterrorism laws to secure visa-free travel for Turks to Europe. Mr. Erdogan has given the 28-nation bloc until October to deliver on its promise in exchange for taking back illegal migrants who crossed to Europe via Turkey.

Turkish officials have repeatedly ruled out changes to antiterror measures, citing daily deaths in resurgent clashes with the Kurdistan Workers' Party that have killed more than 5,000 civilians, policemen, soldiers and Kurdish militant since July. Known as the PKK, the Kurdish group designated as a terrorist organization by Ankara, Brussels and Washington has been fighting for autonomy in southeast Turkey in a conflict that has killed more than 40,000 people since 1984.

WORLD NEWS

# Obama to Deepen Asia Ties

Trip mixes symbolism with policy initiatives and furthers policy of countering China

President Barack Obama will try to turn the page on two deeply etched chapters of U.S. wartime history with visits this week to Vietnam and Japan.

By Carol E. Lee in Washington and James Hookway in Hanoi

Mr. Obama, who landed in Vietnam late Sunday, will spend three days there, an unusually long presidential visit for a single country that is intended to show the U.S.'s interest in expanding ties. In Japan, Mr. Obama will become the first president to visit Hiroshima.

At both stops, he will mix symbolism with policy initiatives, as part of his effort to solidify his policy of countering China's growing influence by strengthening U.S. ties with other countries in the region.

A key policy issue involves the longtime U.S. arms embargo on Vietnam. The administration is considering easing or lifting the restrictions over the objections of human-rights groups concerned about rewarding the country without more progress on those issues.

"What we want to demonstrate with this visit is a significant upgrade in the relationship between the United States and Vietnam as partners on many issues, even as we have areas of difference that will continue to be the case," said Ben Rhodes, a deputy national-security adviser.

In Japan, Mr. Obama will meet with Prime Minister Shinzo Abe, as well as the leaders of Germany, France, the U.K., Canada and Italy. The



Mr. Obama and Nguyen Phu Trong, head of Vietnam's Communist Party, in Washington in 2015.

Group of Seven summit is intended to focus on global economic issues and trade.

Mr. Obama concludes his weeklong trip in Hiroshima, where the U.S. dropped the first of two atomic bombs on Japan. He plans to "pay recognition to the human toll of war" while showcasing nuclear nonproliferation, one of his early foreign-policy initiatives, Mr. Rhodes said.

Both Vietnam and Japan are party to a new U.S. trade pact with Asia. Mr. Obama has made the Trans-Pacific Partnership, or TPP, a priority in his second term, but it has stalled in Congress until at least after the November election.

Mr. Obama, whose Asia "re-balance" will in part hinge on whether TPP succeeds, needs to convince U.S. partners that the pact stands a chance of overcoming domestic political hurdles before he leaves office.

The failure of the trade pact would "be a big blow" to rela-

tions, said Patrick Cronin, senior director of the Asia-Pacific Security Program at Center for a New American Security.

"We have to make this work," he said. "I don't know how we do this in the political environment we have."

Mr. Obama will be the third U.S. president to visit Vietnam since the end of the war. While there, he will encounter a country that has largely left the war's trauma behind and is looking to deepen its relationship with America. From a drab, communist capital, Hanoi has become a tourism hub, while Ho Chi Minh City is a hotbed of tech startups. Last year, the economy grew 6.7%, buoyed in part by investments from companies such as Samsung Group and Intel Corp.

Jonathan London, a professor at City University of Hong Kong, described the president's visit as the latest step in a decades-long courtship between the former adversaries.

A U.S. move to further relax its arms embargo on Vietnam would also help to expand and strengthen ties between the two nations. "The fact of the matter is that Vietnam and the United States are almost indispensable partners now," Mr. London said.

Nguyen Quang A, an activist and founder of the Civil Society Forum in Hanoi, said the two countries now share many of the same objectives in trade, economics and security.

The warming U.S.-Vietnam relationship is being fueled by a shared concern over China. Vietnam, China, and several other countries are locked in a dispute over control of territory in the South China Sea.

Vietnam's top leadership decided to expand diplomatic ties to the U.S. after a Chinese state-owned oil company towed a drilling rig into waters claimed by both Hanoi and Beijing, according to people familiar with the situation.

# Vietnam Blocks Independents in Election Contest

By James Hookway

HANOI—Mai Khoi wasn't allowed to take part in Vietnam's showpiece elections Sunday. Like most independent candidates trying to get a foot in the door of Vietnam's rubber-stamp legislature, the 32-year-old singer failed to pass the Communist Party's vigorous screening process.

Instead, one of Vietnam's best-known celebrities is playing a game of cat and mouse with police, staging secret shows to support her core issues of domestic violence and gender equality.

"This is a concert without permission," Ms. Mai Khoi said before her latest performance here, just before U.S. President Barack Obama arrived late Sunday for a state visit. "And I will fight until we have that right here in Vietnam."

Few things better illustrate the tensions in Vietnam than the way it selects members of its National Assembly.

The ruling Communist Party makes a song and dance of the election—quite literally—as a genuine exercise in democracy. For two nights before balloting began, dancers spun cartwheels on a stage at the French-built opera house in Hanoi while singers belted out patriotic ballads. Loudspeakers hung on telephone poles up and down the length of the country exhorted voters to make their preferences known.

There isn't much in the way of choice, however. An official selection committee called the Fatherland Front blocked Ms. Mai Khoi and many other in-

dependent candidates—ranging from academics and writers to taxi drivers and a stand-up comedian—from having their names listed on the ballot sheet, often with little explanation. Only a handful passed the screening process.

"I thought it was possible that I could have been a candidate," Ms. Mai Khoi, who had prepared campaign posters and launched a social-media campaign to help win over voters, said in an interview. "But the process of selection wasn't transparent."

The singer said she thinks the selection committee judged her to be too young. Her penchant for pink hair and daring outfits didn't help, nor did the content of some of her songs, which are often stinging social critiques.

Other candidates realized they had little prospect of being approved to stand for election, but decided to do so anyway to push the envelope.

Nguyen Quang A put together a selection campaign that included a video package and endorsements from voters. A successful businessman and banker who has emerged as one of Vietnam's most prominent dissidents, Mr. Quang A also published a statement detailing his assets on Facebook, but to no avail.

Representatives for the National Assembly couldn't be reached for comment. Nguyen Phu Trong, the Communist Party's General Secretary, said in a statement Sunday: "I've seen a robust atmosphere in recent days and I think the people will vote for the most suitable candidates."

# For Myanmar, End to U.S. Sanctions Remains Elusive

By Shibani Mahtani

YANGON, Myanmar—Khin Shwe, a businessman once known for his close ties to Myanmar's former spy chief, said he tried hard to get off the U.S. blacklist of people who backed the country's former military junta.

The construction and real-estate executive first met with U.S. officials in 2014 to frame his new outlook. His lawyers drafted petitions showcasing his corporate social-responsibility programs. He forged ties with Nobel laureate Aung San Suu Kyi and supported her party. And he submitted evidence that villagers removed from land he developed were adequately compensated.

But when the Obama administration last week further eased sanctions on Myanmar, Mr. Khin Shwe found himself still blacklisted. So were at least eight other Burmese businessmen who had petitioned the U.S. government, their lawyers said.

"The Treasury department keeps coming back to me and asking more and more questions, but nothing is happen-



Khin Shwe, a businessman, remains on the U.S. blacklist.

ing yet," Mr. Khin Shwe said. "I don't know how long it will take or what I have left to do."

As U.S. Secretary of State John Kerry visited Myanmar Sunday to signal support for the country's democratic overhauls, Mr. Khin Shwe's case illustrates its lingering struggle to distance itself from a legacy of brutal military rule.

It also reflects, some American business groups say, how the U.S. has developed considerable skill in imposing sanctions on governments but lags

in finding ways to roll them back. The Myanmar delisting process has been slow-moving and ambiguous. Only a few blacklisted people were removed in recent years, including two dead generals and the head of Myanmar's chamber of commerce.

"The process is not working how it should be, and the blame lies on both sides," said Erin Murphy, founder of the Inle Advisory Group, a Washington consultancy.

The U.S. Treasury Depart-

ment said it can't comment on individual cases but that it continues to review all sanctions-delisting petitions from Myanmar and around the world. It said individuals must show a clear change of behavior with supporting evidence.

The department, after receiving a petition, will "go back with questions to the extent we have any" and will "seek documentation supporting any claims that an individual or entity may be making," said John Smith, acting director of the Treasury Department's Office of Foreign Assets Control.

The U.S. has moved cautiously in easing sanctions on Myanmar. It has voiced concern over the durability of the shift to democracy, the military's continued influence and the treatment of minorities, including the Rohingya. About 100 individuals and entities, estimated to represent about half the economy, remain blacklisted from doing business with American entities or entering the U.S.

—William Mauldin in Washington contributed to this article.

## On Visit, Kerry Urges Change to Constitution, Curbs on Military

U.S. Secretary of State John Kerry said Myanmar would have to change its constitution to guarantee civilian power if it is to see the remaining American sanctions lifted.

Speaking in Naypyitaw on Sunday after meeting with the foreign minister, Aung San Suu Kyi, Mr. Kerry said the key to removing remaining sanctions would be for Myanmar to show more progress in reducing the military's influence as the country continues on the road to democracy. "It is very difficult to complete that journey, in fact impossible to complete that journey, with the current constitution," Mr. Kerry said.

The U.S., along with Europe and Japan, started lifting sanctions on Myanmar after the country's former military government began ceding power to a civilian administration in 2011. Investment and trade were allowed in 2012, but sanctions against scores of companies and individuals were retained because of their ties to the previous regime.

Less than a week ago, the Obama administration dropped sanctions against seven state-owned enterprises and three state-owned banks, and introduced additional waivers to make it easier for American businesses to do business there without violating sanctions. No individuals were removed from the blacklist.

One of the main sticking points to dropping the sanctions entirely is the way Myanmar's army still commands considerable influence over its political system, U.S. officials have said.

Ms. Suu Kyi said Sunday she didn't regard the remaining sanctions as weighing on relations with the U.S.

"We're not afraid of sanctions, we're not afraid of scrutiny," Ms. Suu Kyi said at a joint news conference with Mr. Kerry. "The time will come soon that the United States will know that this is no longer the time for sanctions."

—James Hookway and Myo Myo.

## World Watch

### LIBYA EU Help Sought To Train Forces

Libyan Prime Minister Faiez Serraj requested the help of the European Union in training the country's security services, naval forces and coast guard, the bloc's foreign policy chief said Sunday.

"This is an important development that I will discuss with ministers at tomorrow's meeting of the Foreign Affairs Council with a view to making this operational as soon as possible," the bloc's foreign policy chief Federica Mogherini said after receiving the written request.

EU foreign ministers meeting on Monday are likely to give a green light to the request, after diplomats were recently preparing the extension of the bloc's naval mission to also train the new national government's security forces.

The bloc's naval mission—dubbed Sophia—was set up to fight human smuggling by gathering intelligence, arresting smugglers and destroying the boats after rescuing the migrants.

EU governments initially hoped the national unity government in Tripoli would grant permission to the naval mission to enter Libyan waters, but over the past few weeks it became clear that Mr. Serraj "doesn't want any boots or any boats on the ground," according to a senior diplomat familiar with the talks. Training of naval and coast guard staff is likely to happen in international waters, and commanders will be brought for training in EU countries, according to diplomats in Brussels.

—Valentina Pop

### GLOBAL ECONOMY U.S., Japan Clash Over Yen Policy

Differences between the U.S. and Japan over the yen surfaced over the weekend, underscoring the difficulty the world's leading economies face as they try to coordinate efforts to stoke global growth.

Group of Seven finance min-

isters and central bank chiefs ended a two-day meeting Saturday in Sendai, Japan, without an agreement on a more balanced policy mix, including additional, possibly coordinated fiscal stimulus, and aligning divergent monetary policies.

Policy makers have stressed in recent months that, given

risks to the global economy, fiscal stimulus and structural overhauls should be used to supplement the extraordinary monetary easing being conducted by central banks in the U.S., Europe and Japan. They have also reiterated that countries should avoid resorting to competitive currency devalu-

tions to generate growth at the expense of other nations.

Tokyo and Washington clashed over whether Japan should be allowed to arrest the yen's recent rise.

A sharply weaker yen, catalyzed by the Bank of Japan's easing policies, had been a key element of Prime Minister

Shinzo Abe's growth program, but the currency has rebounded moderately since January.

—Takashi Nakamichi and Mitsuru Obe

### AUSTRIA Gunman Kills Three And Wounds 11

A gunman opened fire at a small concert in western Austria, killing two people and injuring 11 others early Sunday before killing himself, police said.

The incident occurred around 3 a.m. local time following an argument between a 27-year-old man and a woman in a parking lot near the concert grounds.

The argument apparently escalated before the man retrieved a firearm from his car, walked to the concert venue and fired shots into the crowd, according to police.

The man then returned to the parking lot and shot himself to death, police said.

About 150 people were attending the concert, hosted by a local motorcycle club in the town of Nenzing.

Police said that further details weren't yet known and that an investigation was continuing.

—Christopher Alessi



Indian children took a dip in a pond in New Delhi on Sunday to escape a severe heat wave across large parts of India's north and west. Temperatures hit 47 degrees Celsius in New Delhi last week.

FROM PAGE ONE

CIGARS

*Continued from Page One*  
 vation in Cuba declined 65% between 2009 and 2014, to 21,733 acres, and annual tobacco production declined 21%, to about 20,000 tons, according to the most recent data from Cuba's national statistics office. Cuba exported 91 million cigars in 2014, down 58% from 2006.

On a recent sun-soaked afternoon, tobacco grower Frank Robaina grimaced as he surveyed a 50-acre stretch of mostly fallow farmland down the road from his own fields. It used to be one of Cuba's finest tobacco plantations. Now thorny 8-foot bushes known as marabú choke the rich, red soil. A hulking German irrigation pump that once watered crops sits idle and rusting.

Mr. Robaina, a member of one of the country's leading tobacco-growing families, says two problems loom large: "resources and getting paid." Farmers don't always get what they need from government-supported cooperatives that supply them with fertilizer, fuel and other necessities. And the government, which buys all the tobacco farmers grow, is paying too little in relation to other crops, he says.

The result, he says, is that many farmers, including the owner of the weed-covered fields, have decided it isn't worth planting tobacco.

The U.S. trade embargo can be lifted only by an act of Congress, but the Cuban government and its state-owned cigar-production company, Tabacuba, want to be ready. They are taking steps to boost production, including paying more for cured tobacco leaves and training more workers to roll cigars by hand.

The goal is to increase production about 20% annually over the next five years, says Inocente Núñez Blanco, co-president of Corporación Habanos SA, a joint venture between the Cuban government and British tobacco company Imperial Brands PLC to exclusively market Cuban cigars world-wide. He said the company is working hard to meet the expected surge in demand.

Tabacuba executives couldn't be reached for comment.

It is a pivotal moment not just for Cuba's cigar industry, but for its tourism and rum industries as well. Both stand to benefit from the world's largest market restoring economic ties with Cuba. Companies from Starwood Hotels & Resorts Worldwide Inc. to Paris-based liquor producer Pernod Ricard SA are making investments designed to capitalize on renewed commerce between Cuba and the U.S.

Each faces its own challenges. Cuba's hotels are aging, and Havana's harbor can accommodate only two cruise ships a day. Ownership of Cuba's signature rum brand, Havana Club, is contested in the U.S. because assets were seized years ago by the Cuban government without compensation. And Cuban law prevents foreign firms from widespread, direct hiring of Cuban workers.

Any growth in Cuba's cigar industry would be a welcome boost for its economy. Cuba has a gross domestic product of just \$77.2 billion, and the median income is only about \$25 a month.

Cigar lovers credit the country's soil and climate for its richly flavored, slow-burning tobacco. Cuban brands account for

about one-fifth of the roughly 500 million handmade cigars sold world-wide each year.

The U.S., the world's largest cigar market with \$4 billion in sales, has been officially off limits since 1962, when President John F. Kennedy signed a trade embargo after the Bay of Pigs invasion failed to overthrow Fidel Castro's communist government. Americans still can get their hands on Cuban cigars by ordering them online from foreign vendors, which is technically illegal, or from visitors to the island, who are allowed to bring back \$100 worth.

Still, only about 3% of premium cigars consumed in the U.S. are Cuban, industry experts estimate. Habanos, Cuba's cigar-sales joint venture with Imperial, has projected that the embargo's end would enable it to capture as much as 30% of the American premium-cigar market, boosting its annual revenue by up to 60%, or \$680 million.

Just how much Cuba would be able to boost production—and how quickly—is difficult to predict. Most land is farmed either with oxen or tractors built in the 1940s. Farmers say fertilizer must be imported from Venezuela. Often cigar shipments are held up because cigar boxes don't show up in time, workers say.

The Cuban government has a hand in every aspect of production. It funnels the supplies needed by tobacco growers through the farming cooperatives, which farmers say set tobacco quotas for members and retain 2% of farm revenue. Farmers say they must apply to the government to buy tractors, irrigation systems or other expensive equipment, and Tabacuba, the government cigar-production company, decides who gets what.

The government buys all the harvested tobacco and sends it to 40-plus factories to be rolled into cigars for export. Habanos, the joint venture with Imperial, sells the finished product world-wide. In 2000, Imperial signed a 100-year agreement to be Cuba's exclusive partner, says Fernando Domínguez, director of Imperial's premium-cigar business.

That deal could hamstring the government's ability to secure additional foreign help to boost production.

Oettinger Davidoff AG, a Switzerland-based cigar maker and luxury-goods company that once had a cigar-making partnership with the Cuban government, has had discussions with Cuban officials about growing tobacco and making cigars in Cuba, according to Chief Executive Hans-Kristian Høejsgaard. He says the company has no interest in producing cigars there and being forced to sell them to a rival, Imperial, only to later buy them back for resale to its customers.

"A lot of things have to change before the rest of us come back there," he says. "In the race to join the world economy, these [Cuban] monopolies at some point have to be more dissolved or become more flexible. It's a long run ahead."

At the moment, Cuba's farmers aren't especially eager to grow tobacco. Miguel Veloz, who leases farmland near Frank Robaina's, says he grows cucumbers, not tobacco, because they grow twice as fast and he can make 40% more money. Vegetable growers like him are eligible to increase their income by exceeding cultivation quotas—a bonus designed to boost production on an island that imports more than 60% of its food. Tobacco growers aren't eligible

waste to a Vietnamese village.

Ms. Barton, who plays Waltraute in the Washington National Opera production, fell in love with the music of Gioachino Rossini through "Rabbit of Seville," the 1949 Warner Bros. cartoon in which Bugs Bunny, says mezzo-soprano Jamie Barton, 34, who first saw the cartoon as a middle-schooler at her grandparents' house in Athens, Ga.

The Ring cycle, which closed on Sunday, consists of "The Rhinegold," "The Valkyrie," "Siegfried" and "Twilight of the Gods." It is a Byzantine tale of dwarves, deities, greed, a golden ring, angry wives, incest, a dragon and a lot of other operatic stuff. The work is so vast that all four operas are rarely staged at one time. The Kennedy Center's \$10 million production was a decade in the making and is the only full Ring cycle in the U.S. this year.

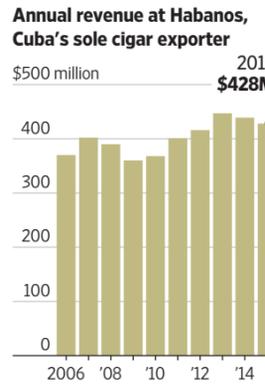
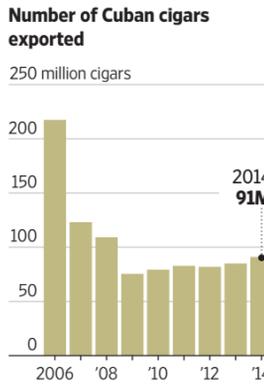
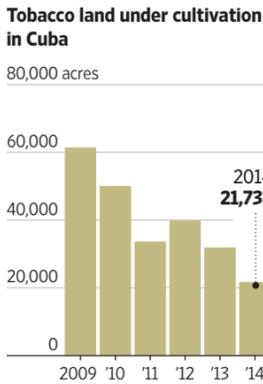
"What's Opera, Doc?" features a mélange of Wagner music from the Ring, "Tannhäuser" and "The Flying Dutchman." The tunes convey



Yunaimy Marin Mena, 21 years old, threads tobacco leaves to be dried at the Bartolo González tobacco farm in the Pinar del Río valley.

Taste of Cuba

Demand for Cuban cigars is expected to surge when the U.S. trade embargo ends. Government figures suggest the current effort to boost tobacco growing and cigar production won't be easy.



Sources: Cuba's National Office of Statistics and Information (production, exports); Habanos SA (revenue) THE WALL STREET JOURNAL.

for any such payments, he says.

The Robaina family has stuck with tobacco. Its tobacco farms are among many in the Pinar del Río valley that remain family-owned. After Mr. Castro came to power, large farms were nationalized. Some of the families that had owned them started growing tobacco in Nicaragua and Honduras. Small farmers such as the Robainas were allowed to keep their land and farm as part of cooperatives.

Frank Robaina's uncle, the late Alejandro Robaina, brought the family renown for growing some of the world's finest "capa"—the smooth, wrapper leaves that become the outer layer of every cigar.

Toward the end of each year, workers on the Robaina farm erect a canopy of white cheesecloth over the young tobacco shoots to shield them from the sun, which helps produce wrapper leaves that are thin, mild and unblemished. The leaves are plucked by hand, one by one as they mature, from the bottom to top of the plant, over a span of about 30 days.

Frank Robaina says his cooperative, which has more than 100 farmers, isn't always dependable and often is bureaucratic. Last December, he says, when it was time to plow his land so he could plant this year's crop, the cooperative couldn't provide fuel for his tractor because it owed money to the state-owned petroleum company.

"For one week, we couldn't plant tobacco, and one week is important in tobacco," he says. Because the seedlings were ready and "would die if I didn't plant them," he says, he found a

truck driver who sold him fuel at an inflated price.

"Because of our country's repeated economic problems, which take a toll on agriculture, these things happen," says his cousin, Hirochi Robaina, who farms next door.

Picking tobacco is grueling, so finding workers is difficult. Hirochi Robaina pays pickers 1,680 pesos a month, or about \$70, nearly triple the median monthly income. He offers a bonus of about 125 pesos, or about \$5, to workers who come every workday for a month. Even with the bonus, some workers don't return.

He still uses a 1949 Ferguson tractor once owned by his grandfather. He replaced the engine long ago with a Russian one, and he repairs it with parts he buys from the government or from friends.

The family doesn't own a truck, so he often uses the tractor to make the nearly 2-mile trip to retrieve fertilizer from the cooperative. Sometimes, when the tractor is being used in the field, a worker fetches supplies by bicycle.

What the Robainas worry about most—the real weak link in Cuba's tobacco industry, says Hirochi Robaina—is production.

High-quality cigars are rolled by hand, and cigar rolling is an art that takes years to get right. Roll a cigar too loosely or too tightly and it doesn't smoke properly. That is exactly what happened when Tabacuba hired inexperienced cigar rollers, known as torcedores, as part of an effort to boost production by 60% in the 1990s.

"It wasn't uncommon to have customers open a box of 25 ci-

gars and find six or seven that were bad," says Roberto Pelayo Duran, president of Miami-based Duran Cigars, who worked for a Habanos distributor in Asia at the time.

The reputation of the Cuban cigar worsened. After the government scaled back production, quality gradually improved.

Now, rollers go through a nine-month training program that is challenging enough that only 35% finish. Habanos says the program will help maintain quality when Tabacuba increases production. It plans to increase the number of rollers at its El Laguito factory in Havana to 150, from the current 90, by 2020.

The Cuban government has a hand in every aspect of production.

On the third floor of the four-story La Corona factory in central Havana, more than 300 cigar rollers sit at wooden tables bundling tobacco inside delicate wrapper leaves. Each roller produces about 100 cigars a day.

Mercedes Lores, a 51-year-old roller at La Corona, earns \$75 to \$100 a month, which, she and other workers say, is about twice as much as a Cuban medical professional or professor. In fact, many nurses and professors, she says, become rollers because of the pay.

After the cigars are rolled, they are sorted by color, labeled by hand and boxed for delivery to Habanos. The company sells many of the cigars in its 140 of-

ficial Casa del Habano stores around the world. Habanos co-president Luis Sánchez-Harguindey says once the U.S. embargo is lifted, the company plans to open stores in major U.S. cities.

The future of U.S.-Cuba trade relations depends partly on the outcome of the U.S. presidential election. Already, there are concerns that increasing American demand will outstrip Cuba's ability to produce cigars.

Reynaldo González Jiménez, who manages the Casa del Habano cigar shop in Old Havana, says international clients, worried about a potential supply pinch or another quality crisis, are buying in bulk.

Reid Bechtle, an American Cuban cigar aficionado who lives near Washington, is worried about quality problems. "As soon as the floodgates open, we're going to get three to four years of absolute garbage," he says.

Habanos co-president Mr. Núñez Blanco says the factories have eliminated the problems of the 1990s by introducing new quality-control processes and suction machines that test how a cigar will smoke. "We're never going to sacrifice the quality of the product for higher volume," he says.

The Robainas hope that the end of the embargo will transform the family business. Frank and Hirochi Robaina plan to seek government approval for a new cooperative with only themselves as members. It would operate like a small business, allowing them to replace their old tractors with John Deeres, buy their own truck, secure fertilizer tailored for their soil and even sue suppliers who are late with deliveries.

Their adjacent farms would become a destination like the Robert Mondavi Winery in California's Napa Valley. American tourists arriving on cruise ships in Havana would climb into 1956 Chevrolet Bel Airs and 1957 Mercury Montclairs and make the two-hour trip west to Pinar del Río. They would tour the tobacco fields, as musician Jimmy Buffett did recently, see the curing barns and then buy and smoke the Vegas Robaina cigars—currently sold only by Habanos and the Cuban government.

Hirochi Robaina says his grandfather began dreaming of that decades ago. Now, it finally seems possible. "If we get started," he says, "there wouldn't be any stopping it."

WABBIT

*Continued from Page One*  
 the real thing.

"I had never been exposed to opera music before Bugs Bunny," says mezzo-soprano Jamie Barton, 34, who first saw the cartoon as a middle-schooler at her grandparents' house in Athens, Ga.

Opera has long been a staple in movies, used to evoke emotion, suggest sophistication or provide a jarring counterpoint to on-screen violence.

In "Pretty Woman," Julia Roberts, playing a hooker with a heart of gold, tears up while watching Giuseppe Verdi's "La Traviata." In "The Great Dictator," Charlie Chaplin, in Hitlerian uniform and mustache, cavorts with a balloon-like globe to the prelude from Wagner's "Lohengrin." In "Apocalypse Now," Robert Duvall, as an air cavalry commander, bales Ride of the Valkyries from helicopter loudspeakers while laying



Catherine Foster and Alan Held perform in Washington's 'Ring.'

both mood and emotion, as Elmer and Bugs play out their hunter-and-quarry, wooer-and-wooed drama.

Seeing it was an eye-opening experience for 5-year-old Michael Heaston, who watched Warner Bros. cartoons in his pajamas in the family room in West Des Moines.

"Growing up in Iowa there's not a lot of opera—I know that may come as a shock," recalls

Mr. Heaston, 37, a former pianist for the Dallas Opera and now adviser to the artistic director of the Washington National Opera. "At a very base level, that's what I got from Looney Tunes at a very early age: I learned how to tell stories through music."

Mel Blanc, who gave voice to Bugs and a host of others in 1,300 Warner Bros. cartoons, used to screen the animated

film during university lectures, according to his son, Noel Blanc. "What's Opera, Doc?" is listed in the U.S.'s National Film Registry at the Library of Congress.

Director Chuck Jones, according to his widow, was especially fond of the moment when Elmer, angry to discover his Teutonic love, Brünnhilde, is, in fact, a rabbit, summons storms and earthquakes that apparently kill Bugs. Elmer gently cradles the limp lagomorph, overcome with remorse for having destroyed the thing he loved most—the chase itself.

"He's mournful," says Ms. Barton. "He picks up the wabbit and he thinks, 'Oh, no, I've actually killed it...This is the wonderful thing about opera. It's the musical embodiment of the whirlwind of emotions of human beings, right?'"

Wig and makeup designer Anne Ford-Coates, 37, remembers getting her first taste of Wagner while sitting on a shag carpet at the family house in Sarasota, Fla., eating

Cheerios in front of the TV.

She put Looney Tunes behind her as a teen, but found herself googling "What's Opera, Doc?" several years ago while working in Utah on her first Wagner opera.

When the Ring opened last month, her father posted a picture of Bugs and Elmer on her Facebook page for good luck.

Opera "is the greatest collaborative art form in the world, as far as I'm concerned," says Ms. Ford-Coates. "It doesn't have to be starchy. It's violent and it's dirty and it's passionate and it's visceral. And it also can be very funny."

"What's Opera, Doc?," she says, "is completely appropriate because you can't handle everything with absolute reverence all the time."

That includes death scenes. Before "That's All Folks!" brings the cartoon to a close, Bugs perks up and addresses the camera: "Well what did you expect in an opera?" he asks. "A happy ending?"

LESLETTE POOLIE FOR THE WALL STREET JOURNAL

# U.S. NEWS

## Temp-Worker Freeze Bodes Ill for Economy

One of the U.S. labor market's early-warning signs may be flashing trouble.

Hiring by staffing agencies has ground to a halt so far in 2016, a worrisome sign because the category fell off before a broader job-market

slowdown ahead of the past two recessions. Many economists look at the sector as a leading

indicator because cautious firms tend to first hire temps when an expansion begins and dismiss those nonpermanent workers when they sense the economy is faltering.

The question now is whether the recent flattening in temp employment points to another economic downturn or is just respite for an industry that has capitalized on a shift toward flexibility for workers and firms.

More than one in 50 U.S. workers were employed as temps at the end of 2015, eclipsing a record set in early 2000. At that prior peak, the unemployment rate was near a cyclical low and payrolls were growing steadily, albeit at a slightly slower rate than the prior two years. By spring 2001, the economy was in recession.

"It's the first sector that really begins to lose jobs," said Donald Grimes, a labor economist at the University of Michigan. "If you start

seeing those numbers go negative, you've got a real problem."

The temp sector has shed 27,400 jobs since December, a reversal from the preceding five years, when the temporary-help category grew five times as fast as overall employment. That suggests the sector, which did add jobs in April, bears careful watching, especially because the slowdown comes alongside other red flags.

The long decline in initial jobless claims, another leading labor-market indicator, appears to have ended this spring. Average payroll growth this year slowed to the weakest pace since early 2014. The unemployment rate has plateaued. And industrial production suffered the largest decline to start the year, outside of a recession, on record.

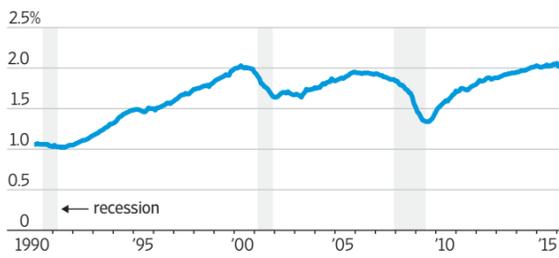
To be sure, other indicators show an economy still growing at a modest pace. Consumer spending picked up last month, wages are increasing and the housing market is improving.

Staffing agencies maintain it's too soon to declare the end of their industry's expansion. Temp employment is poised to climb alongside the popularity of freelance and contract work and the so-called gig economy, said Jim Link, chief human resources officer at staffing firm Randstad Holding NV's North America division.

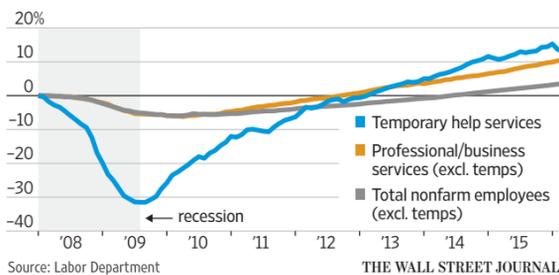
### Staffing Slowdown

The temporary-help sector was a major driver of job growth as the economy emerged from recession, but its recent plateau has some economists questioning whether the labor market has reached a turning point.

Temporary workers as a share of total nonfarm workers



Change in number of employees since the start of the recession



Source: Labor Department

staffing through internal hiring is not the safest bet."

Executives in the staffing industry say they now serve different types of clients. Temp staffers are less often in the clerical and light-industry sectors—which have been in decline for decades—and more frequently work in technology, health care and finance. Those staffers might roll out a mobile app or develop a strategy to meet

Staffing employment "is going to continue to tweak up," he said, projecting it could rise by 5% over the next five years to about 3% of the workforce from 2% today. But he warned the industry will remain cyclical.

"The great recession taught employers to be extremely mindful about how they approach their workforce strategy," Mr. Link said. "The old way of building up

new regulations.

The typical staffing-agency worker is increasingly a specialist rather than an entry-level employee, said Kelly Services Inc. Chief Operating Officer George Corona. Most temp and freelance workers prefer the work to a permanent placement, he said, while others want to try out employers before making a commitment.

"The younger generation of workers hasn't seen the loyalty from employers" and don't expect to provide it in return, he said. "They're looking for different things in terms of work-life balance."

Cara-Marie Findlay, 26, finds employment in Atlanta through staffing firm Creative Circle and arranging her own freelance design and editing work.

She said temp work fits her current lifestyle, which includes caring for her young son. But she worries about managing health insurance and retirement in the long run.

"A lot of companies are looking for someone for a week or a year, but they don't want to make a commitment," she said. "That's one less employee to have on insurance."

Worker advocates and Obama administration officials worry the changing nature of the labor force means more Americans will be cycling through temp jobs and short-term gigs, such as an Uber driver or a TaskRabbit

handyman, and therefore not have access to benefits and regular pay that comes with permanent employment.

Temp workers also are paid less, on average, than their permanent peers.

"Structural changes in the labor market mean that higher volatility is likely to persist, in part through a weakening of the social compact between workers and firms," Treasury Chief Economist Karen Dynan said in a recent speech.

Short-term projects and less-loyal workers can be a recipe for volatility. The average tenure for a temp employee was 10.7 weeks last year, down from 11.3 in 2014, marking the shortest engagement time since 2003, according to the American Staffing Association.

The industry group said the shorter tenure could be an indication temps are more quickly converting to full-time work. About one-third of temps are offered permanent work.

Volatility in the sector can make the leading indicator hard to read.

"When temp employment is moving sideways, as it is now, it could mean things are frothy and firms are jumping straight to permanent hires," said Erik Weisman, economist at MFS Investment Management. "Or it could signal we're on the precipice of a downturn and firms don't want to hire, and even start firing temp workers."

## POLL

Continued from Page One

similar sentiments about Mrs. Clinton. But that tally marks an improvement for Mr. Trump since April, when some 65% of voters expressed an unfavorable opinion about the presumed Republican nominee.

A more favorable view of Mr. Trump among Republicans is primarily responsible for his improving image. In April, GOP voters split evenly, 42% to

42%, between those who viewed him favorably and those who saw him in a negative light. This month, after Mr. Trump essentially sealed the nomination, the split was 58% positive to 25% negative.

Mr. Trump also enjoys a slightly better—if still overwhelmingly negative—image among independent voters, with 58% viewing him negatively and 26% viewing him positively. Independents now view him slightly more positively than they do Mrs. Clinton, helping the Republican

open a modest, 5-percentage-point lead over the likely Democratic nominee among these voters.

With more than five months until Election Day, there is plenty of time for these numbers to shift, and the candidates' national standing doesn't matter as much as it does in the dozen or so states that will truly be up for grabs in the fall. Still, the results are bound to fuel Democrats' concerns that the increasingly bitter primary between Mrs. Clinton and Mr. Sanders has tarnished her image.

The share of Democratic primary voters who view Mrs. Clinton favorably has dropped from 84% last June to 65% in the latest poll, while the share who view her negatively jumped from 7% to 21%.

A chief task for any nominee is to unify his or her party ahead of the general election. In the new survey, some 83% of Democrats said they prefer Mrs. Clinton over Mr. Trump, down slightly from 87% in April.

A remarkable one-in-10 voters say they wouldn't vote for either Mrs. Clinton or Mr. Trump, a reflection of both candidates' unusually bad public images, and 47% say they would consider an independent or third-party candidate in the fall, up from 40% in the spring of 2012 and 38% in the winter of 2008. Half of voters in the current poll say they wouldn't consider an independent or third-party candidate.

Some 58% of voters want the next president to "focus on progress and move America forward," compared with 38% who want someone who will "focus on protecting what has made America great," an apparent advantage for Mrs. Clinton or Mr. Sanders over Mr. Trump. But 53% favor a potentially unpredictable candidate who will "bring major



Democrat Hillary Clinton, left, is still facing a challenge from Bernie Sanders, while Donald Trump has locked up the GOP race.

changes to the way government operates," compared with 43% who want someone with "a steady approach...even it means fewer changes."

In many ways, the latest Journal/NBC News poll mirrors the 2012 race between President Barack Obama and Republican Mitt Romney. The splits between Mrs. Clinton and Mr. Trump among men,

### Trump outpaces Clinton in the 12 most competitive battleground states.

women, African-Americans and Hispanics in the May poll are roughly equivalent to the margins that the 2012 candidates notched with each segment of the electorate, as recorded by exit polls that year.

In the May poll, Mr. Trump leads among men by 9 percentage points, compared with Mr. Romney's 7-point advantage among men in 2012. Mrs. Clinton, meanwhile, leads among women by 13 percentage points, compared with Mr. Obama's 11-point edge in 2012. She maintains 48- and 79-point leads with Hispanics and

African-American voters, respectively.

In one finding that will be watched closely, Mr. Trump tops Mrs. Clinton among white voters by 16 points, compared with Mr. Romney's 20-point margin among white voters in 2012. That difference, if it persists, would be important, as white non-Hispanic voters are expected to account for about 69% of the electorate.

Mr. Trump performs much better among lower-income Americans than Mr. Romney did, as well as among those voters who didn't attend college. Mrs. Clinton, meanwhile, outperforms Mr. Obama's 2012 showing among college graduates and voters who make more than \$50,000 annually.

Perhaps the best news in the poll for Mr. Trump is that he outpaces Mrs. Clinton, 46% to 43%, in the 12 most competitive presidential battleground states—states that Mr. Obama won by 1.5 percentage points in 2012. The presumptive Republican nominee does particularly well in the South and Midwest.

The survey of 1,000 registered voters was conducted May 15-19 and has a margin of error of plus or minus 3.1 percentage points.

## U.S. Watch

### Clinton Says Sanders Hasn't Been Tested

Hillary Clinton suggested Sunday Democratic rival Bernie Sanders hasn't been thoroughly tested in the campaign, and this could affect his chances of winning a general-election campaign against Republican Donald Trump.

"I don't think he's had a single negative ad ever run against him," Mrs. Clinton said of Mr. Sanders in an interview aired Sunday on NBC. "And that's fine. But we know what we're going into, and we understand what it's going to take to win in the fall."

Mr. Sanders, who trails in the delegate count, has repeatedly pointed to polls suggesting he would fare better than Mrs. Clinton against Mr. Trump as a reason his candidacy should get serious consideration.

Mrs. Clinton's supporters say those polls are misleading because while Mrs. Clinton has been the target of harsh Republican attacks, Mr. Sanders, a self-described democratic socialist, has largely escaped such scrutiny.

But Sunday may be the first time Mrs. Clinton herself has made the argument so directly.

—Naftali Bendavid

### WASHINGTON STATE New Calls to Protect Nuclear Workers

New worker complaints about exposures to noxious vapors from waste tanks at the closed Hanford nuclear-weapons complex in Washington has brought renewed calls for action and renewed criticism of the Energy Department's handling of the giant cleanup project.

Since the last week of April, more than 40 workers have complained of being exposed to vapors while working in an area containing scores of large underground waste storage tanks at Hanford, said officials at the now-closed complex that once produced plutonium for the nuclear-weapons program.

Most described symptoms that include headaches, scratchy throats, nausea and nosebleeds.

The new exposures have caught the attention of state officials, who are pushing the federal government to address the issue.

Efforts to protect workers have been "inadequate to put it mildly," said Washington Attorney General Bob Ferguson in a recent interview. "This has been going on not just for months, not just for years, but for decades."

—John R. Emshwiller

## Education Level Seen as Key to Homeownership

By LAURA KUSISTO

Student loans are often blamed for the record-low homeownership rate among young adults. But new research suggests young people without a college diploma face especially big hurdles to owning homes.

College graduates without student debt between the ages of 18 and 34 years old would need just over five years of additional savings to afford a 20% down payment for a starter home, defined as the median home at the bottom third of the market, according to research to be released Monday by Apartment List, a rental listing website.

In comparison, it takes college grads with student loans about 10 years. For those who haven't graduated from college, the wait to buy a home swells to nearly 15.5 years.

To be sure, some mortgage loans may require much lower down payments than 20%, shortening the time it would take to save.

Still, "It's really everywhere that people without college degrees won't be able to afford homes. They could be stuck renting for a long time," said Andrew Woo, director of data science at Apartment List.

The report is based on a survey of 31,000 respondents and looks at how much people

in each category are currently saving, coupled with how much they have already saved and are likely to receive from friends and family.

People without college degrees fare worse because their incomes tend to be much lower but also because they

### People without degrees fare worse because their incomes tend to be much lower.

are less likely to get help with down payments from friends and family.

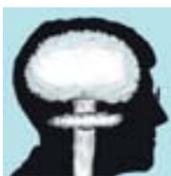
College graduates without student debt expect to get more than \$8,000 of help and those with loans expect to get

nearly \$4,000. But those without a college education expect to receive just over \$2,000, according to the report.

There is one sense in which those without degrees are handily outstripping their college-educated peers: thriftiness.

College graduates make about \$22,600 more than non-grads, but put only about 10% of that additional income toward savings, instead spending more on rent, dining out and travel.

Americans are surprisingly open to using nuclear weapons again  
**A10**



# REVIEW



From the Pilgrims on, beer has played a crucial role in U.S. history  
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A8 | Monday, May 23, 2016

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# How the West Got Rich (and the Rest)



The Great Enrichment of the past two centuries has one primary source: the liberation of ordinary people to pursue their dreams of economic betterment.



BY DEIRDRE N. McCLOSKEY

**WHY ARE WE SO RICH?** An American earns, on average, \$130 a day, which puts the U.S. in the highest rank of the league table. China sits at \$20 a day (in real, purchasing-power adjusted income) and India at \$10, even after their emergence in recent decades from a crippling socialism of \$1 a day. After a few more generations of economic betterment, tested in trade, they will be rich, too.

Actually, the “we” of comparative enrichment includes most countries nowadays, with sad exceptions. Two centuries ago, the average world income per human (in present-day prices) was about \$3 a day. It had been so since we lived in caves. Now it is \$33 a day—which is Brazil’s current level and the level of the U.S. in 1940. Over the past 200 years, the average real income per person—including even such present-day tragedies as Chad and North Korea—has grown by a factor of 10. It is stunning. In countries that adopted trade and economic betterment wholeheartedly, like Japan, Sweden and the U.S., it is more like a factor of 30—even more stunning.

And these figures don’t take into account the radical improvement since 1800 in commonly available goods and services. Today’s concerns over the stagnation of real wages in the U.S. and other developed economies are overblown if put in historical perspective. As the economists Donald Boudreaux and Mark



Perry have argued in these pages, the official figures don’t take account of the real benefits of our astonishing material progress.

Look at the magnificent plenty on the shelves of supermarkets and shopping malls. Consider the magical devices for communication and entertainment now available even to people of modest means. Do you know someone who is clinically depressed? She can find help today with a range of effective drugs, none of which were available to the billionaire Howard Hughes in his despair. Had a hip joint replaced? In 1980, the operation was crudely experimental.

Nothing like the Great Enrichment of the past two centuries had ever happened before. Doublings of income—mere 100% betterments in the human condition—had happened often, during the glory of Greece and the grandeur of Rome, in Song China and Mughal India. But people soon fell back to the miserable routine of Afghanistan’s income nowadays, \$3 or worse. A revolutionary

betterment of 10,000%, taking into account everything from canned goods to antidepressants, was out of the question. Until it happened.

What caused it? The usual explanations follow ideology. On the left, from Marx onward, the key is said to be exploitation. Capitalists after 1800 seized surplus value from their workers and invested it in dark, satanic mills. On the right, from the blessed Adam Smith onward, the trick was thought to be savings. The wild Highlanders could become as rich as the Dutch—“the highest degree of opulence,” as Smith put it in 1776—if they would merely save enough to accumulate capital (and stop stealing cattle from one another).

A recent extension of Smith’s claim, put forward by the late economics Nobelist Douglass North (and now embraced as orthodoxy by the World Bank) is that the real elixir is institutions. On this view, if you give a nation’s lawyers fine robes and white wigs,

*Please turn to the next page*

*Dr. McCloskey is distinguished professor emerita of economics, history, English and communication at the University of Illinois at Chicago. This essay is adapted from her new book, “Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World,” published by the University of Chicago Press.*

**In 200 years, average world income per person has soared from about \$3 a day to a stunning \$33 a day.**

ILLUSTRATIONS BY ROBERT NEUBECKER; PETER ARKLE (WEAPONS); JONATHAN FICKIES/BLOOMBERG NEWS (BEER)

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REVIEW

# The Genius of Liberated Commoners

Continued from the prior page

you will get something like English common law. Legislation will follow, corruption will vanish, and the nation will be carried by the accumulation of capital to the highest degree of opulence.

But none of the explanations gets it quite right.

What enriched the modern world wasn't capital stolen from workers or capital virtuously saved, nor was it institutions for routinely accumulating it. Capital and the rule of law were necessary, of course, but so was a labor force and liquid water and the arrow of time.

The capital became productive because of ideas for betterment—ideas enacted by a country carpenter or a boy telegrapher or a teenage Seattle computer whiz. As Matt Ridley put it in his book "The Rational Optimist" (2010), what happened over the past two centuries is that "ideas started having sex." The idea of a railroad was a coupling of high-pressure steam engines with cars running on coal-mining rails. The idea for a lawn mower coupled a miniature gasoline engine with a miniature mechanical reaper. And so on, through every imaginable sort of invention. The coupling of ideas in the heads of the common people yielded an explosion of betterments.

Look around your room and note the hundreds of post-1800 ideas embedded in it: electric lights, central heating and cooling, carpet woven by machine, windows larger than any achievable until the float-glass process. Or consider your own human capital formed at college, or your dog's health from visits to the vet.

The ideas sufficed. Once we had the ideas for railroads or air conditioning or the modern research university, getting the wherewithal to do them was comparatively simple, because they were so obviously profitable.

If capital accumulation or the rule of law had been sufficient, the Great Enrichment would have happened in Mesopotamia in 2000 B.C., or Rome in A.D. 100 or Baghdad in 800. Until 1500, and in many ways until 1700, China was the most technologically advanced country. Hundreds of years before the West, the Chinese invented locks on canals to float up and down hills, and the canals themselves were much longer than any in Europe. China's free-trade area and its rule of law were vastly more extensive than in Europe's quarrelsome fragments, divided by tariffs and tyrannies. Yet it was not in China but in northwestern Europe that the Industrial Revolution and then the more consequential Great Enrichment first happened.

Why did ideas so suddenly start having sex, there and then? Why did it all start at first in Holland about 1600 and then England about 1700 and then the North American colonies and England's impoverished neighbor, Scotland, and then Belgium and northern France and the Rhineland?

The answer, in a word, is "liberty." Liberated people, it turns out, are ingenious. Slaves, serfs, subordinated women, people frozen in a hierarchy of lords or bureaucrats are not. By certain accidents of European politics, having nothing to do with deep European virtue, more and more Europeans were liberated. From Luther's reformation through the Dutch revolt against Spain after 1568 and England's turmoil in the Civil War of the 1640s, down to the American and French revolutions, Europeans came to believe that common people should be liberated to have a go. You might call it: life, liberty and the pursuit of happiness.

To use another big concept, what came—slowly, imperfectly—was equality. It was not an equality of outcome, which might be labeled "French" in honor of Jean-Jacques Rousseau and Thomas Piketty. It was, so to speak, "Scottish," in honor of David Hume and Adam Smith: equality before the law and equality of social dignity. It made people bold to pursue betterments on their own account. It was, as Smith put it, "allowing every man to pursue his own interest his own way, upon the liberal plan of equality, liberty and justice."

And that is the other surprising notion explaining our riches: "liberalism," in its original meaning of "worthy of a free person." Liberalism was a new idea. The English Leveller Richard Rumbold, facing the hangman in 1685, declared, "I am sure there was no man born marked of God above another; for none comes into the world with a saddle on his back, neither any booted and spurred to ride him." Few in the crowd gathered to mock him would have agreed. A century later, advanced thinkers like Tom Paine and Mary Wollstonecraft embraced the idea. Two centuries after that, virtually everyone did. And so the Great Enrichment came.

Not everyone was happy with such developments and the ideas behind them. In the 18th century, liberal thinkers such as Voltaire

and Benjamin Franklin courageously advocated liberty in trade. By the 1830s and 1840s, a much enlarged intelligentsia, mostly the sons of bourgeois fathers, commenced sneering loftily at the liberties that had enriched their elders and made possible their own leisure. The sons advocated the vigorous use of the state's monopoly of violence to achieve one or another utopia, soon.

Intellectuals on the political right, for instance, looked back with nostalgia to an imagined Middle Ages, free from the vulgarity of trade, a nonmarket golden age in which rents and hierarchy ruled. Such a conservative and Romantic vision of olden times fit well with the right's perch in the ruling class. Later in the 19th century, under the influence of a version of science, the right seized upon social Darwinism and eugenics to devalue the liberty and dignity of ordinary people and to elevate the nation's mission above the mere individual person, recommending colonialism and compulsory sterilization and the cleansing power of war.

On the left, meanwhile, a different cadre of intellectuals developed the illiberal idea that ideas don't matter. What matters to progress, the left declared, was the unstoppable tide of history, aided by protest or strike or revolution directed at the evil bourgeoisie—such thrilling actions to be led, naturally, by themselves. Later, in European socialism and American Progressivism, the left proposed to defeat bourgeois monopolies in meat and sugar and steel by gathering under regulation or syndicalism or central planning or collectivization all the monopolies into one supreme monopoly called the state.

While all this deep thinking was roiling the intelligentsia of Europe, the commercial bourgeoisie—despised by the right and the left, and by many in the middle, too—created the Great Enrichment and the modern world. The Enrichment gigantically improved our lives. In doing so, it proved that both social Darwinism and economic Marxism were mistaken. The supposedly inferior races and classes and ethnicities proved not to be so. The exploited proletariat was not driven into misery; it was enriched. It turned out that ordinary men and women didn't need to be directed from above, and when honored and left alone, became immensely creative.

The Great Enrichment is the most important secular event since human beings first domesticated wheat and horses. It has been and will continue to be more important historically than the rise and fall of empires or the class struggle in all hitherto existing societies. Empire did not enrich Britain. America's success did not depend on slavery. Power did not lead to plenty, and exploitation was not plenty's engine. Progress toward French-style equality of outcome was achieved not by taxation and redistribution but by the Scots' very different notion of equality. The real engine was the expanding ideology of classical liberalism.

The Great Enrichment has restarted history. It will end poverty. For a good part of humankind, it already has. China and India, which have adopted some of economic liberalism, have exploded in growth. Brazil, Russia and South Africa, not to speak of the European Union—all of them fond of planning and protectionism and level playing fields—have stagnated.

Economists and historians from left, right and center cannot explain the Great Enrichment. Perhaps their sciences need revision, toward a "humanomics" that takes ideas seriously. Humanomics doesn't abandon the economics of arbitrage or entry, or the math of elasticities of demand, or the statistics of regression analysis. But it adds the study of words and meaning and their stunning contribution to our enrichment.

What public policy to further this revolution? As little as is prudent. As Adam Smith said, "it is the highest impertinence...in kings and ministers to pretend to watch over the economy of private people." We certainly can tax ourselves to give a hand up to the poor. Smith himself gave to the poor with a liberal hand.

The liberalism of a Christian, or for that matter of a Jew, Muslim or Hindu, recommends it. But note, too, that 95% of the enrichment of the poor since 1800 has come not from charity but from a more productive economy.

Rep. Thomas Massie, a Republican from Kentucky, had the right idea in what he said to Reason magazine last year: "When people ask, 'Will our children be better off than we are?' I reply, 'Yes, but it's not going to be due to the politicians, but the engineers.'"

I would supplement his remark. It will also come from the businessperson who buys low to sell high, the hairdresser who spots an opportunity for a new shop, the oil roughneck who moves to and from North Dakota with alacrity and all the other commoners who agree to the basic bourgeois deal: Let me seize an opportunity for economic betterment, tested in trade, and I'll make us all rich.



Adam Smith: 'Allowing every man to pursue his own interest his own way.'

**The Great Enrichment will bring an end to poverty.**



NEW YORK CITY storefronts, late 1800s. The coupling of ideas in the minds of ordinary people led to an explosion of betterments.



**MIND & MATTER:**  
ALISON GOPNIK

## Aliens Rate Earth: Skip the Primates, Come for the Crows



**WHAT MAKES** human beings so special? In his new book on animal intelligence, the primatologist Frans de Waal shows that crows and chimps have many of the abilities

that we once thought were uniquely human—such as using tools and imagining the future. So why do we seem so different from other animals?

One theory is that when *Homo sapiens* first evolved, some 200,000 years ago, we weren't that different: We were just a little better than other primates at cultural transmission, at handing new information on to the next generation. Our human success is the result of small, cumulative, cultural changes over many generations rather than of any single great cognitive leap.

For the first 150,000 years or so of our existence, isolated groups of humans occasionally made distinctive innovations—for example, creating jewelry out of shells. But those innovations didn't stick. It was only around 50,000 years ago, barely yesterday in evolutionary time, that a critical mass of humans initiated the unending cascade of inventions that shapes our modern life for good and ill.

I thought about this as I read (and reread and reread) "The Early Cretaceous" to my dinosaur-obsessed 4-year-old grandson, Augie. Unlike Augie, I just couldn't concentrate on the exact relationship between the Deinonychus and the Carcharodontosaurus. My eyelids drooped, and my mind began to wander. What would an alien biologist make of the history of life on Earth across time...?

*Dept. of Biology, University of Proxima Centauri*

*Terran Excursion Field Report*

[75,000 B.C.]: *I have tragic news. For the last hundred million years, I've returned to this planet periodically to study the most glorious and remarkable organisms in the universe—the dinosaurs. And they are gone! A drastic climate change has driven them to extinction.*

*Nothing interesting is left on this planet. A few animals have developed the ability to use tools, think abstractly and employ complicated vocal signals. But however clever the birds may be, they are still puny compared with their dinosaur ancestors.*

*A few species of scruffy primates also use tools and pass on information to their young.*

*But it is hard to tell these species apart. Some are preoccupied with politics [early chimp ancestors?], while others mostly seem to care about engaging in as much energetic and varied sex as possible [early bonobos?]. And then there are the ones who are preoccupied with politics, sex and trinkets like shell*

*necklaces [that would be us]. But there is nothing left even remotely as interesting as a giganotosaurus.*

[A.D. 2016]: *Something may be happening on Earth. Judging from radio signals, there is now some form of intelligent civilization, a few traces of science and art—although most of the signals are still about politics, sex and trinkets. I can't really imagine how any of those primitive primate species could have changed so much, so quickly, but it might be worth accelerating my next visit.*

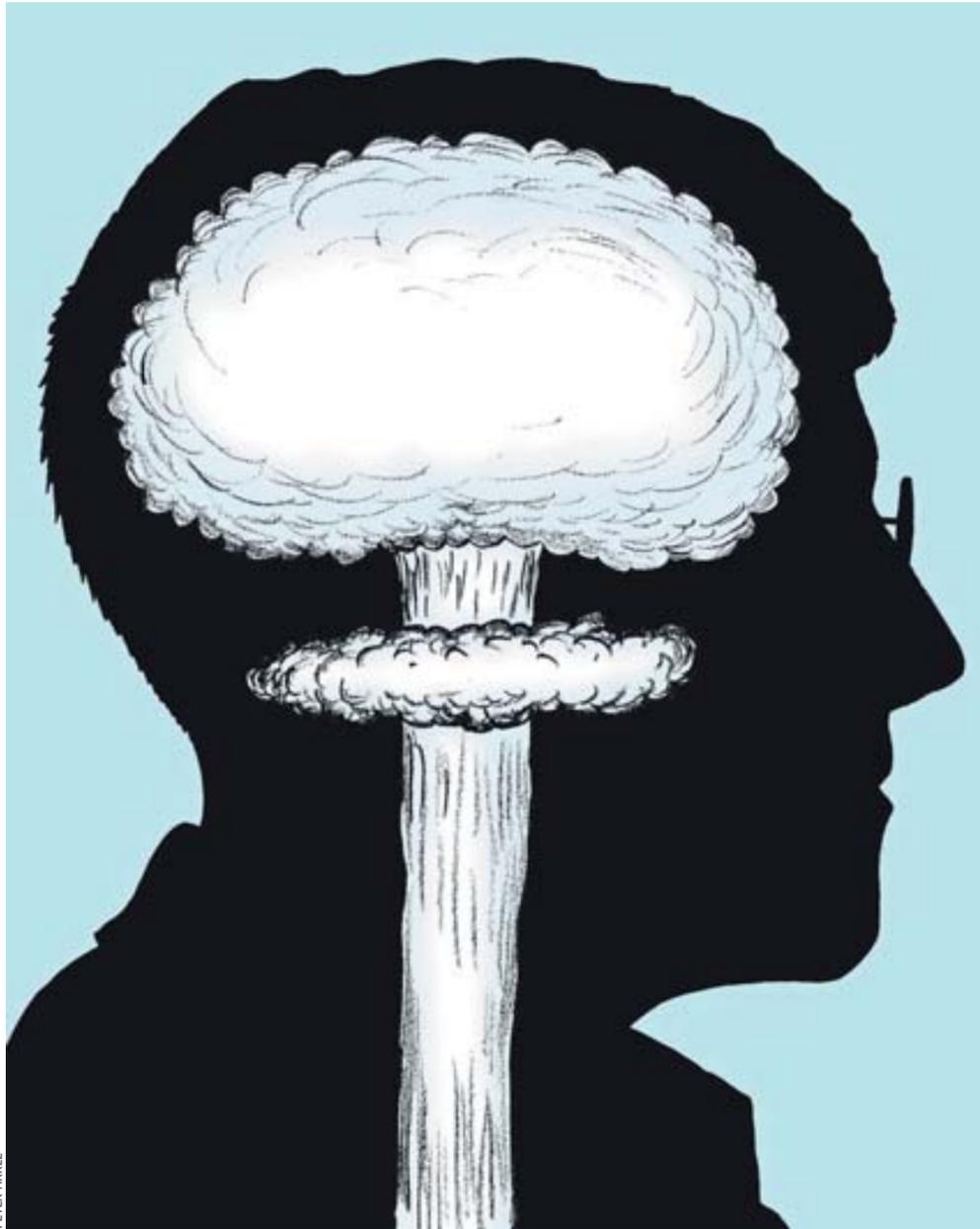
[A.D. 500,000]: *Good news! After another dramatic climate change and a burst of radiation, the primates are gone—an evolutionary eye-blink compared with the 180-million-year dinosaur dynasty.*

*But that extinction made room for the crows to really flourish. They have combined superior intelligence and the insane cool of their dinosaur ancestors. Those earlier radio signals must have been coming from them, and the planet is now full of the magnificent civilization of the Early Corvidaceous. I look forward to my next visit...*

As the book drops from my hands, I shake myself awake—and hold on to Augie a little tighter.

LEON EDLER

## REVIEW



**The issue is not Hiroshima but whether we might do the same to a city in Iran.**

ing survey firm, to replicate the 1945 Roper poll, using a representative sample of 840 U.S. citizens.

This time, only 28% of respondents agreed that dropping atomic bombs on Hiroshima and Nagasaki had been the right choice, while 32% indicated support for a nuclear demonstration strike. More than three times as many Americans—almost 15% in 2015 compared with 4% in 1945—now said that the U.S. shouldn't have dropped any nuclear weapons on Japan. And just 3% regretted that the U.S. hadn't dropped “many more” atomic bombs before Japan surrendered.

Many observers have pointed to such numbers as evidence of a durable post-war public aversion to using nuclear weapons. In his 2011 book “The Better Angels of Our Nature,” the Harvard psychologist Steven Pinker wrote of a “nuclear taboo”: After World War II, he argued, “it began to sink in that [nuclear] weapons’ destructive capacity was a different order from anything in history.” More recently, Journal columnist Peggy Noonan wrote that John Hersey’s harrowing 1946 book “Hiroshima” had single-handedly created “a powerful moral taboo” that “made the future use of nuclear weapons unthinkable.” This taboo has been reinforced, some claim, by ongoing international efforts to ban deliberate attacks on civilians in wartime, a doctrine enshrined in the 1949 Geneva Conventions.

But public-opinion polls looking back at the atomic bombings cannot tell us whether the American public has turned against the use of such weapons or has simply changed its views of Japan, a wartime adversary turned peacetime ally. And they cannot assess the depth of any present-day taboo against using nuclear weapons. Traditional polls do not force the public to contemplate the kind of trade-off that President Truman faced in 1945: between using nuclear weapons on enemy cities, with high civilian casualties, and launching an all-out invasion that could mean the deaths of thousands of U.S. troops.

To explore how the U.S. public might react today to such choices, we asked YouGov last July to survey a representative sample of 620 Americans about a scenario evoking a 21st-

century Pearl Harbor. To echo the dilemma the U.S. faced in August 1945, participants read a mock news article in which the U.S. places severe sanctions on Iran over allegations that Tehran has been caught violating the 2015 nuclear deal. In response, Iran attacks a U.S. aircraft carrier in the Persian Gulf, killing 2,403 military personnel (the same number killed by Japan at Pearl Harbor in 1941).

Congress then declares war on Iran, and the president demands that Iran’s leadership accept “unconditional surrender.” U.S. generals give the president two options: mount a land invasion to reach Tehran and force the Iranian government to capitulate (at an estimated cost of 20,000 American fatalities), or shock Iran into unconditional surrender by dropping a single nuclear weapon on a major city near Tehran, killing an estimated 100,000 Iranian civilians (similar to the immediate death toll in Hiroshima). The poll’s participants were reminded that Iran doesn’t yet have an atomic weapon of its own.

The results were startling: Under our scenario, 59% of respondents backed using a nuclear bomb on an Iranian city. Republicans were much more likely to support such an attack, with more than 81% approving, but 47% of Democrats approved the nuclear strike as well. Even when we increased the number of expected Iranian civilian fatalities 20 fold to two million, 59% of respondents—the same percentage supporting the nuclear attack with the lower death toll—still approved of dropping the bomb.

To further echo Truman’s choice, we ran a second version of the survey that offered respondents the option of ending the war by allowing Iran’s supreme leader, Ayatollah Ali Khamenei, to stay on as a spiritual figurehead with no political authority. We hoped to mimic an option facing Truman and his advisers, who wrestled with softening the Allies’ demand for an unconditional surrender by allowing Emperor Hirohito to retain his throne as a symbolic head of state. Some 41% of our respondents preferred this diplomatic option to either dropping the bomb or marching on Tehran. But virtually the same number (40%) still preferred dropping the bomb and killing 100,000 Iranian civilians to accepting this sort of negotiated peace.

This readiness seems to hold for other present-day adversaries as well. In an earlier survey that we conducted, published in 2013 in the American Political Science Review, we found that about 19% of respondents preferred a nuclear attack on an al Qaeda target even when told that conventional weapons would be just as effective. This number is close to the roughly 23% of Americans who had wanted to drop atomic bombs on Japan in 1945. When facing our worst foes, a sizable segment of the American public feels an attraction to our most destructive weapons, not an aversion.

Would we drop the bomb again? Our surveys can’t say how future presidents and their top advisers would weigh their options. But they do reveal something unsettling about the instincts of the U.S. public: When provoked, we don’t seem to consider the use of nuclear weapons a taboo, and our commitment to the immunity of civilians from deliberate attack in wartime, even with vast casualties, is shallow. Today, as in 1945, the U.S. public is unlikely to hold back a president who might consider using nuclear weapons in the crucible of war.

*Dr. Sagan is professor of political science and senior fellow at the Center for International Security and Cooperation at Stanford University. Dr. Valentino is associate professor of government at Dartmouth College.*

# Would We Drop The Bomb Again?

Surveys suggest Americans are open to nuclear strikes

BY SCOTT D. SAGAN  
AND BENJAMIN A. VALENTINO

**THE WHITE HOUSE’S** recent announcement that President Barack Obama will be the first sitting U.S. president to visit Hiroshima has sparked an intense debate among politicians and pundits over what he should or should not say there. The president’s advisers insist that he “will not revisit the decision” to use nuclear weapons on that city in August 1945.

But the controversy has focused too narrowly on historical questions. We might instead ask whether the U.S., in similar circumstances today, would drop the bomb again. Our own research has found that the American

public is surprisingly open to that prospect.

In the immediate wake of the U.S. bombing of Hiroshima and Nagasaki and Japan’s surrender, the American public was firmly behind President Harry Truman’s decision to use atomic weapons. In September 1945, 53% of respondents in a nationwide Roper poll agreed that the U.S. “should have used two bombs on two cities, just as we did.” Some 14% thought that “we should have dropped one on some unpopulated region, to show the Japanese its power” first. Just 4% of the public felt that “we should not have used any atomic bombs at all.” And 23% of respondents agreed that “we should have quickly used many more of them before Japan had a chance to surrender.”

In the decades since World War II, U.S. public approval of Truman’s decision to use nuclear weapons has declined significantly. In July 2015, just before the 70th anniversary of the atomic bombings, we asked YouGov, a lead-

## THE ALES AND LAGERS THAT MADE AMERICA

BY DANE HUCKELBRIDGE

“**BEER,**” Benjamin Franklin is said to have quipped, “is proof that God loves us and wants us to be happy.” Today, beer is also the carbonated motor in a quarter-trillion-dollar American industry, second only to water and soft drinks in popularity. But it isn’t just another beverage: Beer has played a crucial role throughout U.S. history, tracing the country’s evolution along the way.

In New England, the dark English ales brought over by the Puritans helped to put the colony on the map—quite literally. In September 1620, the Mayflower set sail, with just over 100 passengers and a hold laden with small beer—the low-alcohol brew preferred by Englishmen. Given the preservative properties of the hops, beer on voyages was far superior to water, which, if it wasn’t polluted to begin with, often turned brackish.

When the Mayflower at last made it into Plymouth Harbor, the passengers and crew were desperate for food and beer. This proved to be the deciding factor in the decision to drop anchor in New England rather than to push farther south. As William Bradford, who would become governor of Plymouth Colony, recounted, “we could not now take much time for further search or consideration, our victuals being much spent, especially our beer.” When the Pilgrims and the crew became ill, the captain shared the last of his private beer rations, giving the group strength to persevere.

In the Dutch colony of New Netherland, beer production helped to establish the cosmopolitan and commerce-driven attitudes of its most prosperous cities—New York and Philadelphia chief among them. Prominent families like the Rutgers, the Vassars and the Lisenards all had for-



A BARTENDER pours a pint from one of 20 taps at a bar in Brooklyn, Dec. 13, 2007.

tunes built on commercial brewing.

The brewing industry in New York and Pennsylvania helped to supply the nation with fresh beer in the wake of the American Revolution, when imported goods suddenly became scarce. George Washington himself relied on rich Philly porter to fill in the gaps left by Madeira wines and English ales, and he remarked that the brews of that city were of “exceptional quality.”

The plantation economy and warmer climate of the South didn’t lend themselves to brewing with barley on a commercial scale, but local beers did exist, with molasses serving as a common substitute. Thomas Jefferson spent much of his retirement at Monti-

cello experimenting with home-brew recipes in hopes of making a viable Southern beer.

His concoctions never did take off, but the native corn-based beer favored by the Scots-Irish and African-American segments of Southern society did. On the South’s mountainous frontier, this corn beer was eventually distilled into whiskey, paving the way for the American bourbon industry and Western expansion alike.

American beer truly came into its own in the Midwest, spurred on by the new yeasts and techniques of German immigrants. In cities like St. Louis and Milwaukee, a novel style of American pale lager emerged in the 19th century; its popularity quickly eclipsed that of

traditional American ale and whiskey.

During the Civil War, the taxes garnered from beer production gave a tremendous boost to the federal government and helped to secure its place as America’s beverage of choice for the next half-century—until the onset of Prohibition overturned the country’s brewing infrastructure. When the Volstead Act was finally repealed in 1933, only a handful of large industrialized breweries remained, ushering in the hegemony of the American macro-brew.

This hegemony would go more or less unchallenged until the later decades of the 20th century, when a new style and philosophy of brewing arose on the coastal fringes of the American West. In the 1970s and ’80s, in cities such as San Francisco, Portland, Ore., and Seattle—capitals of a nascent gastronomic movement—home-brewers began tinkering with older styles of American beer, incorporating more flavorful ale yeasts, more complex malts and zestier local hops.

These early efforts at creating carefully crafted, traditional beers kicked off a craft beer revolution that is still in full swing across the country. The number of American breweries has climbed from just a few dozen in the early 1980s to more than 4,000 today, with a collective repertoire that spans almost every imaginable style and flavor of beer. Like so much else in the U.S. today, an astonishing diversity prevails in the provision of this most American of beverages.

*Adapted from Mr. Huckelbridge’s new book, “The United States of Beer,” to be published on June 14 by William Morrow/HarperCollins (which, like The Wall Street Journal, is owned by News Corp).*



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the best-equipped reader survives.

**THE WALL STREET JOURNAL.**  
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OPINION

REVIEW & OUTLOOK

## Bernie Isn't Hillary's Problem

As more polls show that Hillary Clinton could lose to Donald Trump, Democratic media and political elites have decided that the problem is—Bernie Sanders. The socialist war-horse has had his campaign fun, but now he and his supporters refuse to slink away quietly into Howard Dean obscurity. Doesn't he know that his persistence is helping Republicans?

We'd humbly suggest that these Democrats are looking through the wrong end of the campaign telescope. Bernie's continuing string of victories is the symptom of the political demand for change after eight years of Democratic rule. The real Democratic problems this year are the Obama record and the Clinton candidacy.

"I will be the nominee," Mrs. Clinton declared last week, and barring an act of God or the FBI director she is no doubt right. Mr. Sanders has a narrow window to get a majority of delegates, even without Mrs. Clinton's overwhelming lead among declared superdelegates. Unlike the GOP establishment, Democratic elites are getting the nominee they have wanted from the beginning.

Yet Mr. Sanders continues to win primaries even if he has little chance at the nomination. He has won three of the past four major contests, and he lost Kentucky last week by fewer than 2,000 votes. A major chunk of the Democratic base is showing buyer's remorse at Mrs. Clinton's looming coronation and is encouraging Mr. Sanders to fight to the bitter end. Few Bernistas will vote for Mr. Trump, but some might decide to demonstrate their unhappiness at the Democratic convention in Philadelphia or stay home in November.

Democrats can blame themselves for much of this political alienation. President Obama was only too happy to indulge the Occupy Wall Street movement when it served his purposes against Mitt Romney in 2012. He and his fellow Democrats played up resentment against "the 1%," which Mr. Sanders and his voters have decided to take seriously and use as a cudgel against Mrs. Clinton.

Democrats are especially sore at Mr. Sanders for the recent blowup at the Democratic state convention in Nevada, which included some ugly protest scenes. But most Democrats have also been happy to celebrate the Black Lives Matter movement despite its periodic calls to violence.

No less than Mr. Obama praised the group at his recent commencement address at Howard University. "It's thanks in large part to the activ-

ism of young people like many of you, from Black Twitter to Black Lives Matter, that America's eyes have been opened—white, black, Democrat, Republican—to the real problems, for example, in our criminal justice system," Mr. Obama told the graduates.

No one should be surprised if this same politics of grievance and confrontation is now being aimed at Democrats too. All the more so when the party's presumptive nominee represents the very heart of the "rigged" political system that Mr. Sanders and the progressive left have long been describing.

Hillary and Bill Clinton have used politics to become members of the richest 0.1%. She and her husband are walking conflicts of political interest—see the Clinton Foundation and its foreign donors with business before the State Department. And Mrs. Clinton represents big money and Wall Street—see her Goldman Sachs speeches.

Above all Mrs. Clinton represents the policy status quo that for seven years has failed to deliver on its central promises of 2008 and 2012. Health-care costs haven't fallen, wages have barely risen, income inequality has worsened, and whites and blacks say that racial tensions have increased. This is the reality that the Sandernistas are implicitly rejecting when they say the system has failed them.

Mr. Sanders's supporters are also figuring out that their man might have a better chance of beating Donald Trump than Mrs. Clinton does. Clinton Democrats won't say this explicitly, but they believe that an honest socialist can't win. Yet recent head-to-head polls show Mr. Trump ahead of or close to Mrs. Clinton, while Mr. Sanders leads the Republican.

The latest Fox News poll shows that Mrs. Clinton is viewed as more corrupt than Mr. Trump, 49% to 37%. She is also now viewed negatively by more of the electorate than is Mr. Trump—61% to 56%. This takes some doing given Mr. Trump's incendiary primary campaign and the continuing doubts about him among millions of Republicans.

The 2016 campaign has a long way to go, and Mr. Trump has major vulnerabilities. But as the general election comes into focus, Democrats should wonder if they erred in clearing the nomination path for Mrs. Clinton. It was her turn, they thought. She'd mobilize the party's identity groups as the first woman nominee, and the Clinton political machine would do whatever it takes to win. The reality is that she may be the only Democrat who could lose to Donald Trump.

## Fear of Speech in Germany

Germans have an undeserved reputation for humorlessness, but at least one court in Hamburg is guilty of not getting the joke. A panel of judges found last week that satirist Jan Böhmermann libeled Recep Tayyip Erdogan by reading a poem mocking the Turkish President's anatomy and his alleged relations with farm animals. Mr. Böhmermann is now forbidden from repeating all but a few lines of the poem out of deference to Mr. Erdogan's rights.

That's a hoot. Mr. Erdogan's government has made itself notorious in recent years by shutting down opposition newspapers, imprisoning journalists on flimsy pretexts and filing thousands of criminal charges against Turks he deems guilty of insulting him. He has also opined that Israel is "more barbaric than Hitler."

Now he's trying to extend his misuse of the legal system to Europe. Erdogan filed his com-

plaint against Mr. Böhmermann using an archaic German law forbidding insults against foreign leaders. German Chancellor Angela Merkel had the legal authority to stop the suit but allowed it to go forward, largely out of fear that Mr. Erdogan might renege on his deal to curb the flow of refugees into Europe.

Mrs. Merkel may have thought no German court would restrict a citizen's right to deliver patently satirical insults against a public figure. But the Hamburg court ruled that Mr. Böhmermann's poem contained "prejudice of a racist nature" and was thus impermissible speech. (See David Feith nearby for the British response to Mr. Erdogan.)

The ruling is likely to embolden other authoritarians to pursue legal vendettas against Western critics. And it sends a chilling message about the limits of political speech in Europe.

## Donald Trump's Day in Court

Donald Trump took an unusual step for a presumptive presidential nominee last week by naming 11 potential U.S. Supreme Court candidates—and the list shows that someone is giving him sound judicial advice. One obvious worry about Mr. Trump is that he has given voters no clear idea of how he would govern, so offering some specific pre-election guidance is good politics that could lead to better judicial choices.

Mr. Trump said in March that he'd release a list of Supreme Court candidates that he will "100% pick, that I will put in for nomination." On Wednesday he offered a generally impressive roster of six judges sitting on federal courts and five from state Supreme Courts. The latter is a healthy bow to the nation's "vast expanse in-between," as Justice Antonin Scalia put it in 2014 when he noted that nearly all recent Justices have been coastal lawyers from Harvard or Yale.

One promising choice is the Seventh Circuit Court of Appeals' Diane Sykes, who also served on the Wisconsin Supreme Court and wrote an opinion in 2014 that declared "labryinthian" regulation on political speech unconstitutional. Another is the Sixth Circuit's Raymond Kethledge, who in March rebuked the IRS for obstructing a lawsuit on the agency's targeting of conservative groups, a matter he called "among the most serious allegations a federal court can address."

The lineup is clearly intended to bring along social conservatives who have been leery of Mr. Trump: Several have a paper trail defending religious liberty, restrictions on abortion, or vouchers for parochial schools. Steven Colloton is a highly regarded judge from the Eighth Circuit who clerked for former Chief Justice William

**He offers an impressive list of replacements for Antonin Scalia.**

Rehnquist and joined an opinion supporting a religious exception to ObamaCare's contraception mandate. First and Second Amendment cases are another common theme of their jurisprudence.

Mr. Trump tweeted that he might be "adding" to the list, and if he does we'd include the D.C. Circuit's Brett Kavanaugh and the Sixth Circuit's Jeff Sutton. Both are powerful minds who could replace some of the conservative intellectual heft that the Court has lost in Justice Scalia.

Some conservatives say the names are irrelevant because Mr. Trump changes his mind on everything, but such a public list raises the political cost if he picks an unknown or a crony. His list includes some of the more solid constitutional originalists in the country, which suggests interest in unifying the GOP. A Republican Senate could hold him to his own standard if he goes rogue, much as it did George W. Bush when he nominated Harriet Miers.

The bitter history is that voters have never been sure who GOP Presidents would nominate to the High Court. The Presidents who appointed the great Clarence Thomas and Scalia—George H.W. Bush and Ronald Reagan—also picked David Souter and Sandra Day O'Connor, who tacked left once they joined the Court. Our main concern would be whether Mr. Trump would stick to his list if Republicans lost the Senate and he turned to the "art of the deal" with Chuck Schumer.

Nothing is certain with Mr. Trump, but that's far preferable to the certainty that Hillary Clinton would nominate a down-the-line liberal. The direction of the Supreme Court for a generation is up for grabs in November, and Mr. Trump's list makes him far superior to Mrs. Clinton on that score.

## Can Donald Trump 'Blow the Place Up'?



**BUSINESS WORLD**  
By Holman W. Jenkins, Jr.

Washington can't protect workers against technological and competitive obsolescence. It can't excuse Americans from adapting to an economy and updating their skills. Instead, America's salvation has been a dynamic that, over time, creates more good jobs than it destroys. As much as anything, damage to this dynamic explains this election year. It explains the coalition forming around Donald Trump, consisting of people who believe what Mr. Trump says (fans of building a wall and starting a trade war) and those who don't (hedge funds).

Leading the latter contingent is fund manager Anthony Scaramucci, once a ferocious denouncer of Mr. Trump, who now says The Donald has merely been "tweaking [the establishment] by saying this nonsense, to the great enjoyment of the middle and lower class." Thus does Mr. Trump prove the glory of the two-party system, the powerful, centralizing ballast of America's national greatness, which forces incompatibles to get in bed with each other.

A Journal story that probably didn't get the notice it deserved tells of the troubles of a small-business owner in Italy.

The Italian economy hasn't grown in 10 years. Consumers aren't spending. A lack of bank lending for small business makes it impossible for restaurant owner Massimiliano Masuelli to invest in modern technology. He can't lay off workers because labor regulation makes it too expensive. Politicians, rather than helping, add to his overhead with new health and safety mandates.

In Italy, dying small businesses, with 10 or fewer workers, employ 46% of the workforce.

Readers may tire of antiregulation screeds but nobody persists in a project if government keeps raising obstacles to it. In the U.S., the administration has now embraced a \$15 minimum wage, a favorite of big labor as a way to ward off competition from lower-downs. Its new overtime rule for salaried workers will arbitrarily raise costs for thousands of employers while imposing record-keeping duties on thousands more.

The administration's Consumer Financial Protection Bureau wants to kill payday lenders because they charge high annual percentage rates. But lenders compete, prices reflect costs, and the administration offers no solution (except to go on disability) for a worker who needs \$800 fast so he can fix his car, so he can keep his job, so he can pay his rent.

The Obama Federal Communications Commission has been a real beauty. Through a succession of rules, orders and merger approvals, it has favored big broadband providers over small ones, rich urban communities over broad-

band-deprived rural areas and small towns, and consistently pressured broadband companies to keep prices high for grannies and other light users in order to subsidize fixed rates and superfluous gigabit speeds for the avidly tweeting cyberelite. Why?

Then the President's Council of Economic Advisers complains about a growing concentration in banking, airlines and telecommunications without noticing how the administration's own regulatory onslaught has made these industries unwelcoming to small companies lacking the requisite armies of lawyers and lobbyists.

People can debate where the public interest lies. Because such arguments are always possible, no area of life or decision-making is free of calls for federal intervention. But in the frantic rule-making of the late Obama administration, including its attempt to dictate state and local bathroom regulation, thoughtful consideration of the

**The Obama rule-making frenzy is one reason Americans are angered by a lack of jobs and raises.**

public good is absent. The administration is manufacturing talking points and wedge issues for the election, in the process creating costs for the American people that will long outlast the election. Why? Because Democrats must win, that's why.

So, a former FCC staffer writes that his ex-agency is "now in the near-exclusive business of shifting profits among corporate giants."

The Competitive Enterprise Institute finds that, last year, Congress passed a mere 114 laws and federal agencies issued a whopping 3,410 regulations. At 80,260 pages, last year's Federal Register was the third fattest in history.

A Kauffman Foundation study cites a proliferation of "incumbent protection" rules as a reason for a decline in small-business entrepreneurship. A Brookings Institution study shows, in an unheralded change in American life, business closures exceeded business starts during much of President Obama's tenure.

How many times have voters been heard saying they want Mr. Trump in Washington to "blow the place up"? Where they get their confidence that from the smoking wreckage something useful would sprout, only heaven knows. But it is not an irrational bet when you know the alternative.

Correction: The Campaign for Tobacco-Free Kids tells me that, while it has received donations from lawyers involved in the 1998 tobacco litigation, it has an "explicit policy" of not taking settlement funds.

## 'There Was a Young Fellow From Ankara . . .'

By David Feith

The results are in from Britain and the winner is Boris Johnson. No, the U.K. hasn't left the European Union; that referendum isn't until June 23. But the irrepressible Brexit-favoring Conservative ex-mayor of London has prevailed in a different contest that also concerns Britain's relationship to Europe and basic democratic principles: He has written the best dirty limerick insulting the president of Turkey. It begins: "There was a young fellow from Ankara . . ." We can't quote the rest of it here, but it is worth discussing.

The president of Turkey, Recep Tayyip Erdogan, is an increasingly authoritarian Islamist who seeks to silence his critics not only at home but also in Europe. Jan Böhmermann is a young German comedian who decided that Mr. Erdogan was ripe for lampooning and in March recited an extravagantly lewd poem on late-night German television about the Turkish ruler's political and personal faults. Mr. Erdogan asked German officials to prosecute the comedian for violating an obscure German law dating to the 19th century against insulting sovereigns. Amazingly, Chancellor Angela Merkel directed prosecutors to comply.

If Mr. Erdogan was outraged by the German comedian's insults, British writer and free-speech advocate Douglas Murray was outraged by what happened to Mr. Böhmermann. "The very possibility of putting someone on trial for being rude about Erdogan is as illiberal or rather anti-liberal as these things come," Mr. Murray wrote in the Spectator magazine. And so a few weeks ago he launched a devilish protest, the President Erdogan Offensive Poetry Competition, the ruder the poem (limericks preferred), the better. His aim, he said, was to contrast Britain with both Turkey and Germany—and to show the futility of authoritarian efforts to ban criticism. A delighted reader offered to kick in £1,000 (\$1,451) for the prize.

Christopher Hitchens would have approved of the enterprise: "Those who

think of the humble, unassuming limerick as a trivial or vulgar thing are making a serious mistake," he wrote in 2009. "Its capacity and elasticity can contain multitudes."

Consider Robert Conquest's compact history of the Soviet Union: "There was a great Marxist called Lenin / Who did two or three million men in. / That's a lot to have done in, / But where he did one in / That grand Marxist Stalin did ten in."

Conquest wrote this as a historian in the West, not as a dissident living within the Kremlin's reach. Osip Mandelstam, by contrast, wrote his poem "Stalin Epigram" in Moscow in 1933, at the height of Stalin's purges. The poem lamented the fear endemic in Soviet life and compared Stalin's mustache to a cockroach. Within months Mandelstam was arrested and sent to the gulag.

As for Mr. Johnson, the worst that might befall him for his winning entry is some diplomatic difficulty if he becomes Britain's prime minister (as he is said to wish) and faces Mr. Erdogan across a summit table. This is trifling compared with the risks taken by Mr. Erdogan's critics in Turkey, growing numbers of whom now face imprisonment, and even in Germany, where Mr. Böhmermann awaits trial.

But there was something delicious about the contest, knowing how closely Mr. Erdogan and his crowd apparently monitor foreign lands for signs of disrespect.

"I think it a wonderful thing that a British political leader has shown that Britain will not bow before the putative Caliph in Ankara," wrote Mr. Murray, who urged Mr. Johnson to donate his winnings to an appropriate charity. "Erdogan may imprison his opponents in Turkey. Chancellor Merkel may imprison Erdogan's critics in Germany. But in Britain we still live and breathe free. We need no foreign potentate to tell us what we may think or say. And we need no judge (especially no German judge) to instruct us over what we may find funny."

Mr. Feith is a Journal editorial-page writer based in Hong Kong.

OPINION

# Take the Gloves Off Against the Taliban

By David Petraeus  
And Michael O'Hanlon

In any counterinsurgency campaign, foreign forces helping another country must strike a balance. They must wean local forces off their dependency on outside help as rapidly as possible. But they also must not rush the job and lose what has been gained along the way—especially when a part of their core mission is to build up the indigenous police and military forces to which they seek to pass the baton.

For 10 years U.S. leaders have understood the need for this delicate balancing act in Iraq and Afghanistan, though both the Bush and Obama administrations did, in certain cases, hand off to indigenous forces and draw down more rapidly than was advisable. We are at risk of doing that again now in Afghanistan.

**Incredibly, even though much U.S. blood and treasure was sacrificed in Afghanistan, we won't bomb the militants trying to take over the country.**

The immediate issue is how we are using American and broader NATO air power. There is a great deal of it—many dozens of combat aircraft at bases from Helmand and Kandahar provinces in the south to the cities of Khost and Jalalabad in the east to the capital region of Kabul and points north. But we continue to handcuff those deploying these jets, helicopters and unmanned aerial vehicles. Existing U.S. and NATO policy generally allows them to strike targets on the ground only when hostile forces can be identified as al Qaeda or Islamic State loyalists, when they pose an imminent threat to NATO personnel or, reportedly, when a strategic collapse is imminent.

The rules of engagement mean that the indigenous Afghan and Pakistani Taliban generally get a pass. Yet it was the Taliban that allowed al Qaeda the sanctuary in Afghanistan in which the 9/11 attacks were planned, and which presumably would make the Taliban a legitimate target under the 2001 Authorization for Use of Military Force.

And it is the Taliban that now seek to overthrow the unity government of President Ashraf Ghani and Chief Executive Abdullah Abdullah. They seek as well to jettison the progress in education and human rights that has been achieved since 2001. The Taliban also aim to cut off the cooperation with the international community that Afghanistan still so badly needs to recover from a generation of war.

This is the same group that also enjoys the sworn support of al Qaeda's senior leadership—following al Qaeda leader Ayman al Zawahiri's endorsement of the new head of the Afghan Taliban, Mullah Akhtar Mansour. And it is the same quateriorist movement that, in alliance with the Haqqani network based in Pakistan, has recently carried out the horrific bombings in Kabul.

The Taliban have taken back large swaths of Helmand province and areas in eastern provinces such as Nangarhar and Kunar over the past several years. This happened after the sizable NATO troop drawdown that began in 2011 and that, by last year, had reduced the alliance's strength in Afghanistan by some 90% relative to its peak. (Total foreign forces peaked at around 150,000 uniformed personnel in early 2011 and are now down to about 15,000.) The Taliban also seized the northern city of Kunduz, Afghanistan's fifth largest, for a stretch last fall and may attempt a similar endeavor this year.

Yet the Taliban are not invincible. Though they took Kunduz, they were soon driven out by an Afghan-led operation. They don't hold any other major cities or major transportation arteries, though security on the "ring road" that connects the country's major cities is again tenuous.

The Taliban are broadly despised by the majority of the Afghan people. Without the sanctuaries they enjoy in Pakistan, it's doubtful that they could mount an organized threat to the country, even if they remained—in cahoots with drug dealers and other criminals—a threat to individual communities and citizens.

We have a real fight on our hands in Afghanistan, but not a hopeless one. And in this context, even modest U.S. and NATO military contributions have the potential to make a considerable difference.

Which brings us to the Obama administration's policy that seeks to minimize U.S. and allied involvement in the war. Per this policy, NATO aircraft dropped only about 1,000 bombs in Afghanistan in 2015, very few against the Taliban. That was a five-fold reduction from the war's peak level of activity. So far, 2016 looks similar, with 300 bombs dropped in the first three months.

These figures stand in contrast to what we are doing in Iraq and Syria. According to Pentagon data, we dropped 6,000 bombs there in 2014, almost 30,000 in 2015, and almost 7,000 in the first three months of this year. Modern air power—when combined with a suitable ally on the ground that can seize the advantage created by the bombing of enemy positions, camps and supply routes—is impressive. Islamic State has lost about 40% of the territory it once held in Iraq and Syria and stands to lose more.

By contrast, while exact figures are hard to come by, a reasonable unclassified estimate is that the Taliban now hold 5% to 10% more of Afghanistan—as measured by the population under their influence—than they did a few years ago before the drawdown of allied forces. Civilian fatalities from the continuing war in Afghanistan, while still far less than in many battle zones (including Iraq and Syria), have been moving upward as well.

Some might reasonably ask, after 15 years of war in Afghanistan, why do we need to keep at it? The answer is simple. Because Afghanistan, effectively the eastern bulwark in our broader Middle East fight against extremist forces, still matters. We went there to take away from al Qaeda the sanctuary in which the 9/11 attacks were planned. We have stayed to ensure that this remains the case.

And we also must remain for now to deny sanctuary to the nascent Islamic State force in eastern Afghanistan. U.S. forces in-country today are far smaller than they were before, our casualties are relatively few, and the burden on our nation's military as well as its checkbook is far less than it once was. But that doesn't mean that we should allow the Taliban to regroup and turn back the clock on the progress.

When the international effort in Afghanistan began after 9/11, that country had been decimated by a generation of warfare in which we helped brave local fighters defeat the Soviet Union, only to see America and other Western powers desert the nation once Soviet forces were defeated and withdrawn. It is no surprise that the country, always poor and struggling even in the best of circumstances, will need more time to recover.

Bear in mind that for the first seven or eight years of this fight, we devoted very few American resources to the problem, even though Afghanistan didn't have a sizable army or police force of its own. We only began to build up the Afghan air force seriously in the last two years or so.

This is because forging a viable Afghan army and police force were the more urgent tasks for the NATO mission once we finally did devote substantial resources to the fight, including at the time one of us commanded that operation in 2010-11. It will take perhaps two more years for the Afghan air force, still training pilots and still receiving aircraft, to reach its intended strength.

The bottom line is simple: While we also need to keep a focus on whether U.S. and NATO forces are adequate in size for the current mission, we need to take the gloves off those forces already in-country. Air power in particular represents an asymmetric Western advantage, relatively safe to apply, and very effective against massed (or even individual) enemy forces and assets.



International Security Assistance Force helicopters in Afghanistan in 2013.

Simply waging the Afghanistan air-power campaign with the vigor we are employing in Iraq and Syria—even dropping bombs at a fraction of the pace at which we are conducting attacks in those Arab states—will very likely make much of the difference between some version of victory and defeat.

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## How Barack Obama Gets Away With It

By Richard Benedetto

At a time when large numbers of Americans say they are fed up with politics and politicians, why is it that President Obama seems to skate above it unscathed? Usually when an incumbent president is leaving office and a slew of candidates are battling for his job, that departing chief executive's record is a major campaign issue.

But not this year, even though two of three Americans say the country is on the wrong track, job creation is sluggish, income inequality continues to rise and Mr. Obama's job approval barely tops 50%. Approval of his handling of the war on terror and Islamic State is underwater, and a majority of Americans—white and black—say race relations are getting worse.

**It is amazing that the president's dismal record is largely absent from the 2016 campaign—until you consider his PR machine.**

When Mr. Obama ran for office in 2008, a central part of his campaign strategy was to heap blame on George W. Bush. How has Mr. Obama dodged similar treatment? One reason: Donald Trump's bombastic candidacy is a huge distraction and often blocks out or obliterates more-substantive issues.

That was the case even when his now-vanquished rivals tried to address serious topics. When Mr. Trump does criticize the president, it gets far less news play than his attacks on his opponents and critics, Republican or Democrat. As for Bernie Sanders and Hillary Clinton, they both are angling for a third consecutive Democratic ad-

ministration, so are not eager to criticize Mr. Obama.

But another reason why Mr. Obama is able to avoid being a target is that he is a deft manipulator of the media, probably more skillful at it than any president ever. He heads a savvy public-relations machine that markets him like a Hollywood celebrity, a role he obligingly and successfully plays. One of the machine's key tactics is to place Mr. Obama in as many positive news and photo situations as possible. Ronald Reagan's advisers were considered masters of putting their man in the best possible light, but they look like amateurs compared with the Obama operation—which has the added advantage of a particularly obliging news media.

A sampling over the past few weeks: A Washington Post photo captures President Obama blowing giant bubbles "At the final White House Science Fair of his presidency." A New York Times photo shows the president mobbed by women admirers at a ceremony designating the Sewall-Beimont House on Capitol Hill as a national museum for women's equality.

An ABC News video gives us Mr. Obama's helicopter landing on the rainy grounds of Britain's Windsor Castle, and then we visit the president and first lady lunching with Queen Elizabeth II on her 90th birthday.

We see a doctoral-robed Obama speaking to graduates of Howard University, a tuxedoed Obama yuking it up at the White House Correspondents Association dinner, a brave Obama drinking a glass of water in Flint, Mich., a cool Obama grooving with Aretha Franklin at a White House jazz concert, a serious Obama intently listening to Saudi King Salman, a jubilant Obama on his showy trip to Cuba.

A picture may be worth a thousand words, but with Mr. Obama you also get the thousand words.

At the same time we were seeing

those nice photos, videos and articles, a lot of other important stuff was going on where Mr. Obama was hardly mentioned, seen or questioned. The U.S. economy grew at a meager 0.5% in the first quarter of 2016; Russian military planes have been buzzing U.S. Navy ships; China is building its military forces and expanding their reach in the South China Sea. Early in May, a Navy SEAL was killed in Iraq (the president has assured the American public that U.S. troops there, increasing in numbers, are not in combat roles). Islamic State terrorist attacks in Baghdad in recent weeks have killed scores of civilians. The Taliban are on the march in Afghanistan. The vicious war in Syria continues. The Middle East refugee crisis shows no sign of diminishing. Military provocations by Iran and North Korea keep coming.

## Pope Francis and Martyrs to Communism

By Romeo Gurakuqi

A group of 38 Albanian Catholics, all killed between 1945 and 1974 by their country's Communist regime, are now one step closer to sainthood. Pope Francis last month approved their beatification, a recognition that they can intercede on behalf of people who pray to them. This also marks the first time that the Holy See has officially acknowledged them as martyrs.

Though these 38 Catholics suffered for their beliefs, they were steadfast in both their faith and their commitment to the advancement of freedom in Albania. This makes the current government's efforts to exclude Catholics from contemporary political and social life all the more unacceptable.

Religious communities, particularly the Catholic Church, have frequently been persecuted by regimes trying to consolidate power. But Albania's ruthless Communist-era dictator, Enver Hoxha, went further than most, culminating with the 1967 proclamation of the country as the world's first constitutionally atheist state.

It's no coincidence that most of the newly declared martyrs were priests. Hoxha reserved a special ire for the country's Catholic clergy—the spiritual, intellectual and political leaders of a religious minority making up little more than 10% of the population. His hatred stemmed partly from the crucial role the clergy had played in Albania's cultural and political rebirth.

Most Albanian priests had been educated in foreign universities and represented a vital part of the country's intellectual elite. They promoted a traditional reformist patriotism that sought to protect local customs while simultaneously integrating Albania into Europe. They argued for a free

and equal state for all of Albania's citizens, regardless of social or religious background. As such, they embodied a serious threat to Communist rule.

The oppression suffered by the Catholic Church was all-encompassing, reaching its most pronounced peaks during the early years of the regime in 1945-48 and the "Albanian Cultural Revolution" in 1967-68, at which point religious institutions and activities were outlawed.

## Thirty-eight Albanians killed by an atheistic Soviet-era regime will be beatified.

The damage inflicted in the 1960s is nearly indescribable. All of the church's material assets were confiscated or totally destroyed, the buildings either razed or converted to other uses. That includes a number of churches built by the Franciscan and Dominican orders when they first came to Albania in the 12th century, a historically and culturally significant source of pride for locals.

Missionary activity was paralyzed and priests were isolated and killed. The church's official statistics say that 228 clerics were interrogated, deported to internment camps or imprisoned. An estimated 139 were executed or died in prison. In total, Catholic leaders spent about 1,250 years in prison or concentration camps.

In the earliest years of the dictatorship, the church's educational structure was destroyed. Then its contributions to Albanian culture—from before the Ottoman occupation up until the modern era—were persistently denied. The regime put par-

scratches the surface of the White House's skill at managing a media happy to be managed.

Given such a congruence of opinion, Mr. Obama's policies don't receive the scrutiny and analysis they should. Reporters who criticize or dig too deep are cast by the administration as spoilsports or, worse, cut off from sources.

With Donald Trump now the media obsession—and most in the media don't like him—it is easy to see why Mr. Obama's performance is still not a major issue in the 2016 campaign. And that's the way he likes it.

*Mr. Benedetto, a retired USA Today White House correspondent and columnist, teaches politics and journalism at American University and in the Fund for American Studies program at George Mason University.*

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## WEATHER & CROSSWORD

# Calculators in Class: Use Them or Lose Them?

Are calculators a computational crutch that discourages children from memorizing their multiplication tables? Or are they a mathematical tool that helps them conquer complex problems?

The debate over modern mathematics education may not be over, but the battle over calculators has largely been resolved—at least on paper. Calculators, experts say, can help elementary- and middle-school children develop skills to solve complex math problems. But students in lower grades seldom use the tool.

**THE NUMBERS**  
**JO CRAVEN**  
**MCGINTY**

According to the most recent U.S. National Survey of Science and Mathematics Education, conducted in 2012, 58% of elementary math classes had access to calculators, but only 13% used them at least once a week. A similar disparity existed at the middle-school level, where 77% of math classes had access to calculators, but only 40% used them weekly. This runs counter to the recommendation of the National Council of Teachers of Mathematics, which encourages the use of calculators by all students in every grade.

“The focus is not should you use calculators, but how should they be used,” said council President Matt Larson.

In a meta-analysis of nearly 200 research studies, the council found that using calculators as a teaching tool, and not simply a computational device, improved students’ understanding of mathematical concepts.

The council reaffirmed its support of the instruments in a position paper it published last year, writing that calculators promote the higher-order thinking and reasoning needed for problem solving and help students learn arithmetic operations, algorithms and numerical relationships.

But there are some caveats. Tom Loveless, an expert on student achievement at the Brookings Institution, cautions there is scant research in the lowest grades, and at least one study found that repeated calculator use may have hindered the acquisition of computational skills for some fourth-graders.

“There are very few studies in fourth grade or below, and there are mixed results,” Dr. Loveless said.

In addition, some countries limit the use of calculators and still excel on international tests. For example, in Japan, calculators were almost never used in eighth-

grade math classes, according to one study, and when they were used, the students’ performance seemed to suffer.

If the philosophical divide over whether calculators help or hinder learning persists, it may be influenced by a parallel debate over what should be taught in the lower grades—simple arithmetic, with a focus on performing calculations, or more-complex mathematics, with a focus on solving problems.

“People haven’t figured out what math is,” said Barbara Reys, an expert on math education and the author of numerous books on numbers sense and math curricula. “Is it the calculations, or is it the thinking that goes into producing the calculations? In the last 40 years, we’ve realized students could produce a lot of good paper-and-pencil calculations and not know when to use the calculations.”

Experts who support using calculators don’t advocate abandoning paper-and-pencil arithmetic, but they think children should perform fewer calculations to make room for more problem solving.

Shannon Guerrero, a mathematics professor at Northern Arizona University who has studied the use of calculators in the lower grades, uses graphing as an example.

The first teaches students to graph with pencil and paper but then moves to a calculator. Graphing calculators, used in some middle and high schools, are capable of plotting graphs and solving simultaneous equations.

“If you repeat the process 20 times on paper, you become bogged down in the computation,” she said. “The power of technology is that it allows kids to answer what-if questions in a dynamic way.”

Dr. Reys offers another example: Once students understand how to compute averages, do they need to continue to compute them by hand, or would they be better served to use a calculator to test, for example, how including an unusually large or small number affects their result?

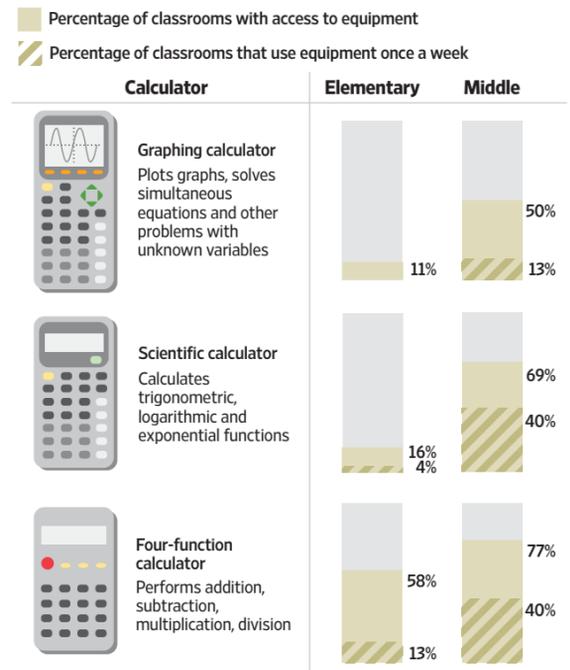
“That is the perfect time to use a calculator,” she said. “My focus was not on can you add a list of 20 three-digit numbers and then divide. My focus was do you understand when you get an average what it means in relation to the set of numbers you started with.”

For students to benefit from calculators in the classroom, teachers must know when and how to incorporate them into lessons and, once introduced, to what extent they should be used.

“You can’t just put a calculator in a student’s hand,” said

### Does Not Compute

The National Council of Teachers of Mathematics advocates using calculators to help teach math to middle- and elementary- school students, but few classes in those grades use the tool.



Penelope Dunham, a research associate at Bryn Mawr College in Pennsylvania who has compiled and reviewed studies on the use of calculators in teaching math. “You have to have a curriculum that takes advantage of calculators, and you have to provide professional development for teachers so they know how to teach

well with calculators.” The takeaway, these experts say, is that when teachers are trained to teach with calculators and equipped with a curriculum that incorporates the technology along with basic arithmetic, the tool can enhance learning. And that sounds like an approach that adds up.

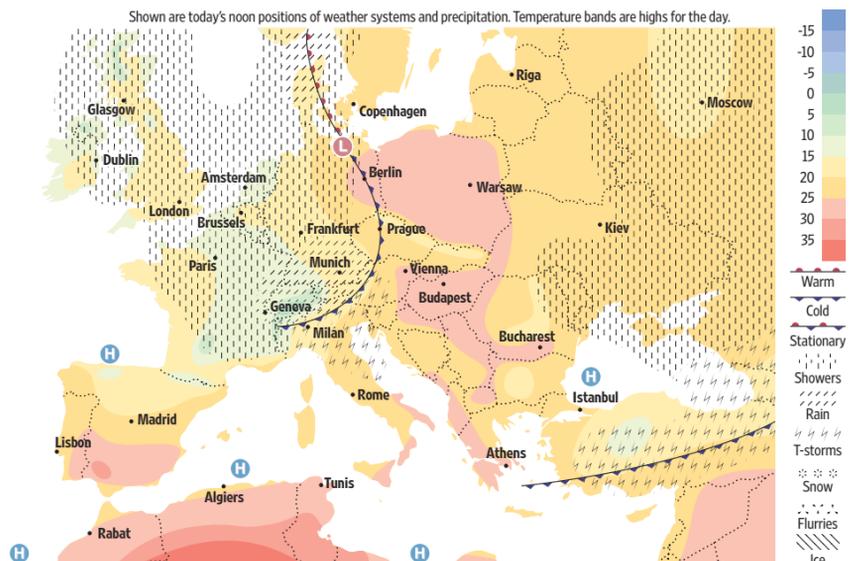
## Dampened Enthusiasm in Paris as French Open Begins



ALL WET: Rain caused just 10 of 32 matches to be completed on the first day of the French Open Sunday. Petra Kvitova survived a first-round scare, and Nick Kyrgios won despite a warning for snapping at a ball boy.

### Weather

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### Global Forecasts

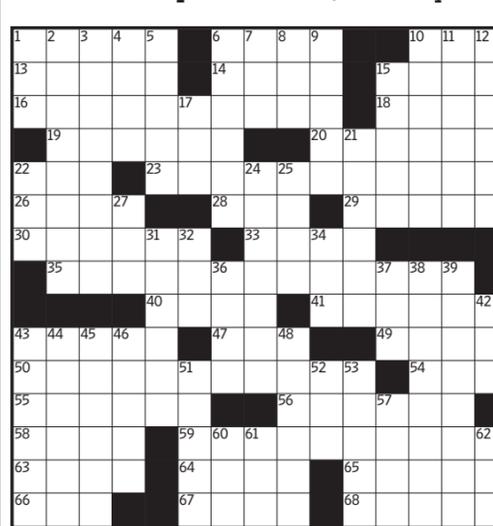
s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	14	10	sh	14	10	pc
Anchorage	14	7	c	16	7	c
Athens	26	17	s	27	16	pc
Atlanta	27	15	pc	30	15	s
Baghdad	41	23	t	32	26	t
Baltimore	21	13	c	25	14	s
Bangkok	32	25	t	32	26	t
Beijing	24	11	c	30	15	s
Berlin	25	15	t	24	15	sh
Bogota	20	11	c	20	11	c
Boise	19	7	c	21	8	sh
Boston	17	12	pc	16	14	t
Brussels	15	9	sh	16	8	pc
Buenos Aires	14	5	s	15	6	s
Cairo	29	19	s	30	17	s
Calgary	11	1	sh	16	3	s
Caracas	32	26	pc	32	25	pc
Charlotte	24	12	pc	27	14	s
Chicago	27	14	s	27	17	t
Dallas	29	22	c	31	23	t
Denver	21	8	s	24	7	t
Detroit	24	11	s	28	17	s
Dubai	38	28	s	39	30	s
Dublin	14	6	pc	15	7	pc
Edinburgh	16	5	pc	14	5	pc
Frankfurt	16	10	sh	16	9	c

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	11	6	r	16	7	pc
Hanoi	30	24	sh	28	24	t
Hong Kong	31	22	t	31	22	pc
Houston	31	25	pc	31	26	c
Honolulu	30	22	sh	30	23	sh
Istanbul	28	16	pc	30	24	pc
Jakarta	33	26	pc	33	25	sh
Johannesburg	19	5	s	19	6	pc
Kansas City	23	18	t	27	20	t
Las Vegas	28	17	s	27	16	s
Lima	23	17	pc	24	18	pc
London	17	8	pc	17	7	pc
Los Angeles	21	14	pc	20	12	pc
Madrid	22	11	pc	25	13	pc
Manila	33	27	t	34	27	t
Melbourne	16	11	pc	16	10	pc
Mexico City	28	13	pc	28	13	pc
Montreal	30	23	pc	31	25	t
Milan	18	9	r	24	9	pc
Minneapolis	24	17	t	28	18	t
Monterey	35	21	pc	36	21	pc
Montreal	26	11	s	27	14	pc
Moscow	17	8	sh	21	12	r
Mumbai	33	29	pc	33	30	pc
Nashville	28	12	s	30	18	pc
New Delhi	41	29	t	41	30	pc
New Orleans	30	22	pc	31	22	pc
New York City	22	15	pc	22	15	t
Omaha	24	18	t	28	19	t
Orlando	30	19	pc	32	20	pc

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Ottawa	26	10	s	28	13	pc
Paris	16	8	sh	17	8	pc
Philadelphia	22	14	pc	22	15	t
Phoenix	32	19	s	32	19	s
Pittsburgh	24	11	pc	26	14	s
Port-au-Prince	34	24	t	33	23	t
Portland, Ore.	19	11	c	20	10	pc
Rio de Janeiro	25	18	r	24	18	pc
Riyadh	42	27	s	42	27	s
Rome	22	14	pc	22	12	s
Salt Lake City	21	10	pc	19	9	t
San Diego	20	16	pc	20	15	pc
San Francisco	18	11	pc	18	11	pc
San Juan	31	25	t	31	25	t
Santiago	21	8	pc	19	8	pc
Santo Domingo	31	23	t	30	23	t
Sao Paulo	16	9	r	17	12	c
Seattle	19	10	c	20	10	pc
Seoul	27	18	c	21	14	r
Shanghai	26	19	c	26	19	c
Singapore	32	27	pc	33	27	pc
Stockholm	22	11	c	23	8	sh
Sydney	25	11	s	21	11	s
Taipei	30	24	t	30	24	t
Tel Aviv	31	19	s	33	21	pc
Tokyo	24	20	pc	24	19	t
Toronto	27	20	pc	27	20	pc
Vancouver	25	11	s	27	15	s
Washington, D.C.	18	10	c	18	10	c
Zurich	21	14	t	25	16	pc

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



### WINGING IT | By Debbie Ellerin

- Across**
- 1 Stocking stuffer?
  - 6 Nocturnal flyers
  - 10 Scrooge's scoff
  - 13 Less friendly
  - 14 Support in a stairwell
  - 15 Division of an Olympics pool
  - 16 Star in the courtroom
  - 18 River of Russia
  - 19 Menacing remark
  - 20 Safe for consumption
  - 22 Write hastily
  - 23 Snitch
  - 26 Sometime in the past
  - 28 Regret
  - 29 Narrow chain of hills
  - 30 Approaching
  - 33 Packaging need
  - 35 Epitome of youth
  - 40 Emperor when Rome burned
  - 41 Wards (off)
  - 43 "Halt" to a salt
  - 47 They carry some Chicago commuters
  - 49 Brother of Michael and Jermaine
  - 50 Easy mark
  - 54 HDTV type
  - 55 Peaceful
  - 56 Corleone portrayer
  - 58 Put \_\_\_\_\_ appearance
  - 59 Ninny
  - 63 Hissy fit
  - 64 Arboretum growth
  - 65 Helps in a bad way
  - 66 Shade of many shoes
  - 67 Variety show segment
  - 68 Patient tender
- Down**
- 1 The S of RSVP
  - 2 Flammable solvents
  - 3 Drink before turning in
  - 4 Rip
  - 5 French city where van Gogh painted
  - 6 Gifted speaker
  - 7 Humorous fellow
  - 8 Adjective for Abner
  - 9 Get some shut-eye
  - 10 Like some fence wire
  - 11 Not digital
  - 12 Moon of Saturn
  - 15 Playwright Pirandello
  - 17 Respond to hunger pangs
  - 21 Call the shots?
  - 22 Stewart with many Emmys
  - 24 Count for the down
  - 25 Jacob's first wife
  - 27 Make mistakes
  - 31 Adventure hero of Belgian comics
  - 32 Loneliest number, according to a Harry Nilsson song
  - 34 Greek letters used in geometry
  - 36 Diver Louganis
  - 37 Crazy \_\_\_\_
  - 38 Malevolent person
  - 39 Amounts actually paid
  - 42 Turf
  - 43 Lend a hand
  - 44 Austria's largest city
  - 45 Subway in a Duke Ellington song
  - 46 Insert for a blocked artery
  - 48 Rent from a renter
  - 51 Hatchlings' homes
  - 52 Have a bawl
  - 53 Supreme Court justice since 2010
  - 57 Celebrity chef Matsuhisa, or his restaurant
  - 60 Perturb
  - 61 Luau neckwear
  - 62 Language suffix

### Previous Puzzle's Solution



The contest answer is CADILLAC ELDORADO. The middle Across answer CIRCLES THE BLOCK is a hint that the answer circles the two isolated black squares in the grid, with CADILLAC circling the upper block and ELDORADO circling the lower block.

# BUSINESS & TECH.

INSIDE:  
**MONEY & INVESTING**

Florence's Rich Stay Rich Awhile

FINANCE | B5

## Google's Modular Phones

Devices to make their debut next year **TECHNOLOGY | B3**

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THE WALL STREET JOURNAL.

Monday, May 23, 2016 | B1

## Health Insurers Bicker Over Deal

By LIZ HOFFMAN AND ANNA WILDE MATHEWS

Quarrels have broken out behind the scenes of Anthem Inc.'s \$48 billion proposed acquisition of Cigna Corp. as the health insurers seek regulatory approval for their landmark deal, according to a series of letters reviewed by The Wall Street Journal.

People on both sides say the squabbles could delay or derail antitrust approvals, which typically are harder to obtain if both parties aren't in sync. While neither company has sought to terminate the merger, the people say, and it doesn't appear in danger of imminent collapse, Anthem and Cigna are bickering on several fronts.

In the correspondence, between top officials including their chief executives, Anthem and Cigna accuse each other of violating the July merger agreement and fumbling submissions to regulators. The finger-pointing over matters large and small reflects rancor that is unusual even in the cutthroat world of corporate takeovers.

A key point of contention is Anthem's lawsuit against Express Scripts Holding Co., a major middleman for prescription drugs. The March complaint accuses Express Scripts of overcharging Anthem for drugs and seeks about \$15 billion in damages.

Cigna Chairman Isaiah Harris Jr., in an April 9 letter to Anthem's board, said the suit could hurt the prospects for regulatory approval and the combined company's value.

Anthem responded to Cigna's board that it had alerted Cigna to the possibility of a lawsuit early in their merger talks, and that squeezing better prices from Express Scripts could only be beneficial.

During a heated exchange over the litigation, Anthem General Counsel Tom Zielinski wrote on May 5 to his Cigna counterpart, Nicole Jones, that he did "not intend to correspond further" about it.

Ms. Jones, who traded several letters with Mr. Zielinski, responded: "Suffice it to say that we disagree with just about every characterization and assertion that you make with respect to the matters"

Please see DEAL page B4

## Monsanto Stands to Alter Bayer

Proposed merger deal would put drugmaker in business of selling gene-modified crops

By JACOB BUNGE AND CHRISTOPHER ALESSI

Bayer AG's bid to acquire Monsanto Co. would bring the German pharmaceutical maker deep into the lucrative but controversial business of genetically modified crops while paring the share of health care in its business.

Monsanto is a dominant supplier, developing genes and licensing them to rival seed makers, in a multibillion-dollar-a-year business that has transformed farming in some countries but which faces trade and regulatory challenges.

Bayer approached St. Louis-based Monsanto about a potential takeover, a move that could reorder the pesticide and seed business, the companies said Wednesday. Monsanto's board is reviewing the merger proposal, but no deal is guaranteed. Some analysts view the U.S. company, which has a market value of \$44.4 billion, as a financial stretch for Bayer, which is based in Leverkusen, Germany.

Bayer and Monsanto declined to comment.

A deal might face a hurdle with Bayer's investors, many of whom have invested primarily for its larger health-care business and are less familiar with agriculture and genetically modified crops, said Markus Manns, a fund manager at Union Investment, a Bayer shareholder.

"I'm not sure we would appreciate this shift from pharma," Mr. Manns said.

Acquiring Monsanto, the world's top seed company by sales, would make agriculture



Bayer's investors, less familiar with agriculture than with its pharmaceutical business, might resist a deal to acquire Monsanto.

products nearly half of Bayer's total sales, analysts said.

Genetically modified crops—typically enhanced with genes to allow plants to survive weed-killing sprays or produce bug-repelling proteins—rank among the most rapidly adopted technologies in history, analysts say.

Introduced 20 years ago, such plants now blanket more than 90% of U.S. corn, soybean and cotton fields, and are deeply embedded in South American breadbaskets like Brazil's Mato Grosso region.

The U.S. Food and Drug Administration, World Health Organization and European Commission have concluded that

genetically modified crops are as safe to eat as conventional kinds. A recent report from the National Academies of Sciences, Engineering and Medicine found them safe and generally unharmed to the environment.

But global sales growth for biotech crops has slowed in recent years, and world-wide acreage last year declined for the first time since Monsanto sold the first genetically modified organism, or GMO, seeds in 1996.

Environmental groups have challenged the use of genetically modified crops, arguing they can damage the environment. The GMO seeds face

lengthy regulatory reviews and intellectual-property challenges in developing countries pose growing problems for biotech crop developers.

Seed companies "are accessing markets that haven't really wrapped their heads around these technologies or adopted methods to protect the intellectual property," said Brett Wong, an analyst with Piper Jaffray. "You're now seeing pushback."

The purchase of Monsanto would bring Bayer a host of new challenges.

In India, Monsanto is fighting the country's agriculture ministry in court over how much companies like Mon-

santo can charge for insect-repellent crop genes, which saturate India's cotton fields.

In Argentina, Monsanto this week canceled plans to begin selling new biotech soybeans for the coming planting season after Argentina's government questioned a testing system that Monsanto set up to ensure farmers pay for biotech genes.

In the U.S., Monsanto's biggest market, the company is in talks with major grain traders after some, including Archer Daniels Midland Co. and Bunge Ltd., said they wouldn't buy soybeans grown from new Monsanto seeds.

Please see BAYER page B2

## U.S. Regulators Put Sugar in Their Crosshairs

By ANNIE GASPARRO AND MIKE ESTERL

U.S. food regulators took aim at sugar in their most radical nutrition overhaul in decades, part of push to help Americans avoid a raft of health problems and pressure companies to make less-fattening products.

The Food and Drug Administration said a new nutrition-facts panel on the back of packaged food and beverages will list how many grams of sugar

have been added by manufacturers, and what percentage of the recommended daily maximum that represents.

The FDA's decision to break out added sugar from the total sugar count already on packaging comes amid a yearslong campaign by the Obama administration to curb obesity, diabetes and other ailments. The new sugar rules have faced opposition from food and beverage companies, which say there is no difference between naturally

present sugars and added sugars.

While foods with naturally occurring sugar like in fruit also have nutrients such as fiber and vitamin C, health officials say, sugars added by manufacturers offer no nutritional value. But they boost caloric intake, helping fuel obesity and diabetes.

"Added sugars bring nothing to the party except for calories and fodder for dental care," said Sheila Tucker, a registered dietitian and lecturer at Boston

College. Adding sugar is a way for food and beverage companies to make products taste better without increasing their costs, she says.

Until now, nutritional labels have remained essentially unchanged since 1994, except for the addition of heart-risky trans-fats in 2006. The panels have flagged recommended maximums for fats, sodium, cholesterol and carbohydrates, but not for sugar.

First lady Michelle Obama

announced the changes Friday at an annual nutrition summit in Washington.

The new rules aimed at curbing the country's sweet tooth could shock consumers and are expected to deal a blow to food and beverage makers, especially those in the soft-drink industry.

A 20-ounce bottle of Coke, for instance, contains about 130% of the daily recommended maximum for added sugar. Despite branching into bottled wa-

Please see SUGAR page B4

## Exxon Faces Vote On Proxy Access, Again

JOANN S. LUBLIN

A showdown looms Wednesday for Exxon Mobil Corp. over proxy access, the latest push by investors seeking greater influence at the board level.

Shareholders at this week's annual meeting of the world's largest publicly traded oil company will decide whether they favor giving investors greater power to propose director candidates.

Proxy access was backed by 49.4% of votes cast last year. The resolution may pass this year, following a significant shift by Vanguard Group, Exxon's biggest institutional investor.

A number of major U.S. companies already have opened up their corporate elections via proxy access, which gives shareholders more power to oust directors and influence corporate strategy by listing competing board candidates on official ballots for annual meetings.

About 36% of S&P 500

companies have embraced proxy access, up from about 1% in 2014, said Institutional Shareholder Services, a proxy-advisory firm. Among the big businesses doing so last year were General Electric Co., AT&T Inc., Apple Inc., Citigroup Inc. and McDonald's Corp. Companies handing investors the keys to their boardrooms typically changed corporate bylaws so owners with at least a 3% stake for at least three years can nominate several board members.

Exxon remains the only one of the five largest U.S. oil

Please see EXXON page B2



Investors seek greater influence.

## China to Lower Prices for Top Drugs

SHANGHAI—China said it plans to cut the prices of three top-selling patented drugs by more than half, part of government efforts to make innovative medicines more affordable.

The products affected are lung-cancer drugs Iressa, from AstraZeneca PLC, and Commana, from Zhejiang Beta Pharma Co., and GlaxoSmithKline PLC's Viread, used for treating hepatitis B, according to a statement from the National Health and Family Planning Commission posted on Friday on its website.

The monthly price of Iressa would fall 55% to 7,000 yuan (\$1,070), Viread would drop 67% to 490 yuan (\$75) and Commana would decline 54% to 5,500 yuan (\$840).

Since October, the government commission has been working with 15 central government departments to negotiate pricing with drugmakers. In March, commission head Li Bin said at a news conference during the National People's Congress that the commission was negotiating with five drug companies in a pilot program to cut prices of five patented drugs for severe diseases.

"If the national negotiation



Negotiations led to sharp price cuts on three patented medicines.

works well, it will save drugmakers from going through negotiations with each province and further price cutting on the local level. And it's easier to reach agreement on the national level," said Yang Dongsheng, the tendering officer of the R&D-based Pharmaceutical Association Committee, an advocacy group representing major international drug companies in China.

One goal of a government ef-

fort to reform health care is to make it more affordable for patients, and the price cuts announced this past Friday are expected to prompt price reductions for other drugs in similar categories. Lower drug prices also would relieve the pressure on China's national health fund, as the country's aging population means higher strain on health services.

Companies immediately affected by the price cuts ex-

pressed support for the measure, which will apply to all public medical institutions, including military hospitals. Chinese drugmaker Zhejiang Beta Pharma said on its website that its participation in the pilot program will make Commana more accessible, while helping the government cut health-care costs.

Hervé Gisserot, general manager of pharmaceuticals and vaccines for GlaxoSmithKline China/Hong Kong, said: "This represents a defining moment in the government's efforts to provide high-quality, innovative products at more affordable prices, and ultimately improve patient outcomes in China."

Drug companies have long complained that China hasn't updated the National Reimbursement Drug List since 2009, which means that patients have had to pay out of pocket for most of the patented drugs approved in recent years. Only a few affluent provinces such as Zhejiang have covered some patented cancer drugs under additional provincial health insurance.

The three drugs aren't covered by the national health-in-

Please see DRUGS page B2

INDEX TO BUSINESSES

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

Table with 2 columns: Company Name and Page Number. Includes sections for A-B, C-D, E-M, and N-R.

INDEX TO PEOPLE

Table with 2 columns: Name and Page Number. Includes sections for A-H, J-M, and N-Z.

EXXON

Continued from the prior page and-gas concerns without proxy access.

"This is the most important vote of the 2016 proxy season," said New York City Comptroller Scott M. Stringer, who oversees \$153.8 billion in pension funds.

Mr. Stringer waged a similar proxy-access drive in 2015, assisted by an influential bloc of public pension funds.

"Many companies that had close calls in their votes last year ended up adopting some form of proxy access in advance of this [proxy] season," said Patrick S. McGurn, special counsel for ISS.

Exxon remains opposed to proxy access. Board members don't see any meaningful evidence "that proxy access would improve corporate governance or enhance market capitalization," the company's latest proxy statement said.

Proxy access instead could increase the influence of special-interest groups and "undermine a business model that has

long served the interests of our shareholders well," according to the statement.

Shareholder resolutions rarely garner majority support at Exxon.

Indeed, environmentally minded investors have sought for decades to use its annual meeting as a bully pulpit, usually with limited success. They will try again this year with climate-change-related proposals.

Only one Exxon investor resolution has passed since 2003, according to Alan T. Jeffers, a company spokesman. The successful 2006 measure urged Exxon to require that board members obtain most of the vote to get re-elected.

Proxy access could win approval this week at Exxon, partly due to a February policy change by Vanguard, which owned 6.3% of Exxon shares as of Dec. 31.

Vanguard voted against the proposal at Exxon last year, when the firm supported a 5% threshold. Exxon's Mr. Jeffers declined to comment about how directors would respond if proxy access gets majority support this week.

A shareholder proposal opposed by board members but favored by investors would be reconsidered by the board, Exxon's governance guidelines state.

BUSINESS NEWS

Ex-Health Care Executives on Trial

By Peter Loftus

Two criminal trials of former health-care executives set to begin in a Boston courthouse in the coming weeks illustrate what the federal government says is a new push to hold more individuals accountable for alleged corporate wrongdoing.

A former division president at drugmaker Allergan PLC's Warner Chilcott unit will stand trial on a charge of conspiring to pay kickbacks to doctors to prod them to prescribe the company's medicines, including osteoporosis drug Atelvia.

And two former senior officers of Johnson & Johnson medical-device unit Acclarent are charged with marketing a sinus-opening device for a use not authorized by the Food and Drug Administration.

Large health-care companies have paid the U.S. government billions of dollars—and in some cases pleaded guilty to criminal charges—to resolve civil and criminal probes of their marketing and pricing in recent years. But few executives have been on the hook, partly because it is tough for prosecutors to prove an individual had criminal intent in a corporate setting where decision-making is spread among many.

The Justice Department signaled its increased scrutiny of individuals in a September 2015 memo from Deputy Attorney General Sally Quillian Yates that made a splash in the white-collar defense community. It laid out the various steps Justice Department attorneys should take in their investigations to focus more



SCOTT EISEN/BLOOMBERG NEWS

An ex-executive at Allergan's Warner Chilcott unit will stand trial.

on individuals, in an effort to deter future illegal activity and ensure "that the proper parties are held responsible for their actions," she wrote.

Among the Justice Department's new tacks: requiring companies under investigation to turn over all relevant information about employees responsible for alleged misconduct, if the companies want credit for cooperating that can knock down fines from settlements of corporate probes. And some of the government's recent corporate settlements of fraud allegations—including one in April by Pfizer Inc.'s Wyeth unit—have provisions that explicitly don't release individual executives from future prosecution or civil proceedings.

A Pfizer spokeswoman declined to comment. Spokeswomen at the U.S. attorney's office in Boston and the Justice Department declined to comment on the cases or on the agency's efforts to target individuals.

Some question whether the new effort will result in a significant increase in executive indictments, noting the Justice Department has made similar pronouncements in the past.

In October, a grand jury indicted W. Carl Reichel, former president of Warner Chilcott's pharmaceutical unit, on a charge of conspiring to pay kickbacks to health-care providers between 2009 and 2011.

His trial is to begin Monday. Federal law bars payments intended to cause orders for products that are paid for by a federal health program, which prosecutors say applies to Warner Chilcott's drugs. Prosecutors said in court documents that Mr. Reichel, of Chester, N.J., instructed the company's U.S. sales force to induce doctors to prescribe Warner Chilcott drugs by taking them to expensive dinners and paying them fees, ostensibly to give medical-education speeches to other doctors.

Prosecutors said they were more like social events, with very little talk of medicine. In addition, prosecutors say Mr. Reichel instructed the sales force to bring

Colombia Poses Challenge to Novartis

By Kejal Vyas

BOGOTÁ, Colombia—The government will override Novartis AG's patent on a cancer medication by month's end and open it up to generic manufacturers unless the Swiss pharmaceutical maker accepts a price cut, the country's health minister said Friday.

Citing severe strain on its universal health-care budget, Colombia says it needs to break Novartis's control on imatinib supply and issue a compulsory license—an exception to a patent when deemed a matter of public interest.

The government says it plans to market the drug—marketed as Gleevec or Glivec for use against leukemia—available at a cheaper price, despite what the Health Ministry says has been international opposition to the move.

"Technological pressure and high drug prices have brought the health-care system to a financial crisis," Alejandro Gaviria, minister of health and social protection, said in an email.

Novartis spokeswoman Julie Masow said the company "is aware and sympathetic" to the financial challenges in Colombia and is actively seeking a resolution.

But compulsory licenses, she said, "should never be used to force price negotiations, as is the case here. This would create a damaging precedent that could apply to all patent-covered innovations—pharmaceutical or otherwise."

Countries like Brazil and India have targeted drug patents in the past, drawing criticism from the U.S. government and industry groups. But Colombia, a country of 47 million that economists view as market friendly, has never before issued a compulsory license.

Mr. Gaviria said the use of a

proposal to cut the drug's regulated price to less than half of the \$15,000 it currently costs each patient annually was rejected by Novartis, even though the proposed price was above comparable generic versions.

Imatinib has been sold in Colombia since 2003. For nearly a decade, it wasn't under patent protection, giving rise to generic competitors that sold it for about half the price, according to the Health Ministry. A 2012 Colombian court order then granted Novartis a patent until mid-2018.

—Denise Roland contributed to this article.



MIKE BELLEME FOR THE WALL STREET JOURNAL

Cancer drug Gleevec was Novartis's biggest-selling drug last year.

ADVERTISEMENT

Legal Notices

UNITED STATES BANKRUPTCY COURT, NORTHERN DISTRICT OF TEXAS. Chapter 11 Case No. 16-31854. NOTICE OF COMMENCEMENT OF CASE UNDER CHAPTER 11 OF THE BANKRUPTCY CODE, MEETING OF CREDITORS, AND OTHER MATTERS.

BANKRUPTCIES

at a Foreign Address Should Read the Information Under "Claims" Below. CREDITORS MAY NOT TAKE CERTAIN ACTIONS: Prohibited collection actions are listed in Bankruptcy Code § 362. In most instances, the filing of the bankruptcy case automatically stays certain collection and other actions against the debtor and the debtor's property.

BAYER

Continued from the prior page

Those seeds, which Monsanto began selling this year, have yet to secure import approval in the European Union—a top market for U.S. soybeans. Grain firms fear they could lose sales if unapproved biotech crops slip onto ships bound for Europe, and are rejected by authorities.

"This is a real problem and will continue to be a problem for this technology, because countries will continue to review things for safety at different paces," said Greg Jaffe, director of biotechnology for the Center for Science in the

DRUGS

Continued from the prior page

Because of price, many innovative medicines miss out on the nation's huge public-hospital market, which accounts for more than 70% of total sales of prescription drugs in China. Meanwhile, cheaper drugs accepted in provincial tenders are often of lower quality and efficacy.

Since last year, China has taken steps to promote the development of innovative medicines. Drug regulators also have tried to ease the path for foreign innovative medicines to enter China.

Public Interest, a Washington-based nonprofit group focused on food and science policy.

Biotech crops remain controversial among some consumers. Bayer once tried to introduce GMO crops in Europe but gave up. Amid public opposition, only one variety of biotech corn is allowed to be grown in Europe, and only in very limited quantities.

In the U.S., where genetically modified crops are widely cultivated, critics have mounted state-by-state efforts to label foods made from GMOs. Vermont is set to implement the first such law in July, forcing some large food companies to apply GMO labels nationally.

Monsanto's role in pioneer-

ing biotech crops and its initial reluctance to engage critics publicly has fostered some public distrust of the company, which regularly sits near the bottom in the Harris Poll's reputation ranking of 100 U.S. corporations.

On Saturday, protesters gathered in cities around the world for an annual "March Against Monsanto," including in eight German locations.

Peter Spengler, an analyst at Germany's DZ Bank, said that the German public at large would likely oppose Bayer acquiring Monsanto, a company he said has a "very negative image" in Germany, though a deal likely would hurt Bayer's image only in the short term.

ing AG, one of the five companies originally engaged in price negotiations with the government, failed to reach an agreement over pricing, according to people familiar with the situation.

A spokeswoman for Roche said the company had actively participated in an initial round of talks and received positive feedback from relevant authorities, but its cancer drug Tarceva wasn't among those chosen for the pilot program.

The fifth company involved in the discussions was U.S.-based Celgene Corp. The people familiar with the matter said results of the company's negotiations would be announced later.

Celgene didn't respond to a request for comment. —Fanfan Wang

# China Mobile-Payment Fight Grows

By Juro Osawa

The battle for the world's biggest mobile-payment market is turning cutthroat.

Since Chinese consumers began adopting mobile payments a few years ago, Internet giant **Alibaba Group Holding Ltd.** has had a lock on the huge and growing market through its Alipay system, run by an affiliate company.

But now, leading domestic rival **Tencent Holdings Ltd.** is leveraging the popularity of its WeChat social-messaging app to increase its slice, and big foreign players including **Apple Inc.** and **Samsung Electronics Co.** are jumping in with their own systems.

The battle is especially intense because hundreds of millions of smartphone users and businesses have embraced payment via phone in China, where credit-card use is limited. Last year, mobile transactions more than doubled to \$235 billion, pushing China ahead of the U.S., where the market grew 42% to \$231 billion, according to Euromonitor International.

Tencent—whose WeChat app has 762 million monthly active users—is spending heavily on discounts and distinct features, as well as making alliances to allow it to offer more on-demand services.

The aim: win over hundreds of millions of Alipay users like Wang Wei. One recent lure: cheaper chicken.

When the 23-year-old legal assistant from Xi'an stepped up to the KFC counter to order a chicken sandwich, the clerk told him that using the WeChat app's payment option would get him a discount coupon that he could also share with friends on WeChat's social network.

"Most of the time, I still use Alipay," Mr. Wang said. "But WeChat Pay is also becoming convenient."

Tencent nearly doubled its mobile-payments share last year, to 20% from 11% in 2014, while Alipay's share fell to 68% from 82%, according to research firm iResearch. Tencent said it had nearly seven times as many monthly active users



Placards on a food stall in Beijing show various noncash ways to pay. Tencent—whose WeChat app has 762 million monthly active users—is spending heavily on discounts and other features.

in 2015 as in 2014; it didn't disclose the actual number. Alipay has more than 450 million active users.

Despite the growth, Tencent's payment business isn't profitable. Alibaba affiliate Ant Financial Services Group declined to say whether its payment business is profitable.

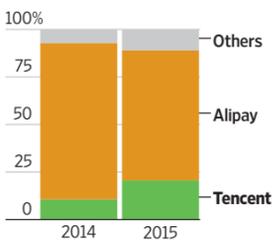
"Overall, we look at payments as a business that may generate more revenue, but we continue to invest in it," Tencent President Marin Lau said on a call with analysts Wednesday. Tencent's sales and marketing expenses were up 53% in the first quarter, in part because of higher spending for the payment service.

In their mobile-payment battle, both Alibaba and Tencent have broader ambitions. Payment platforms enable them to collect more data on transactions, which can help them tailor financial services from wealth management to consumer lending. The two companies' financial affiliates both offer loans and investment products such as money-market funds.

The payment business is a "very important launchpad,"

## Pay to Pay

China's mobile-payment market



Source: iResearch  
THE WALL STREET JOURNAL.

Mr. Lau said.

In March Tencent began charging users a 0.1% fee to transfer money from WeChat Pay to bank accounts, passing on the bank fees for such transfers. Tencent said this hasn't hurt user growth.

One of Tencent's challenges is that, for all its ubiquity, some WeChat users don't see the app as a platform for commercial activities like shopping. "WeChat to me is just a communication tool," said Liang Quan-wei, a university student in Shenzhen who says he uses Alipay far more often.

To address this, Tencent has invested billions of dollars in startups including ride-sharing company Didi Chuxing Technology Co. and group-buying service Meituan-Dianping. Linking partners' apps with WeChat allows users to pay for the services directly through WeChat Pay, broadening its acceptance by consumers. Over the past year, Tencent has also added the likes of McDonald's, 7-Eleven and Uniqlo to the list of retail outlets in China that accept WeChat Pay.

Alibaba has also been making alliances to connect Alipay with more brick-and-mortar businesses. Last month, Alibaba and its financial affiliate Ant Financial Services Group jointly invested \$1.25 billion in food-delivery app maker Ele.me.

Since February, Tencent has also been trying to get more overseas stores to accept WeChat Pay. Alipay already offers a wide range of overseas payment services for Chinese travelers.

"We are the underdog, but we are starting to catch up," said one of the Tencent managers.

# Samsung, Alibaba Team Up on Mobile Pay

**Samsung Electronics Co.** and **Alibaba Group Holding Ltd.**'s financial-services affiliate have agreed to cooperate on mobile payments, as the South Ko-

By Jonathan Cheng  
in Seoul and  
Alyssa Abkowitz  
in Beijing

rean smartphone maker looks to expand in China, a market where it has struggled in recent years.

On Friday, the companies said Samsung's mobile-payment service, dubbed Samsung Pay, will work with **Ant Financial Services Group's** Alipay, which has more than 450 million active registered users. The Alibaba affiliate recently completed a financing round of \$4.5 billion, valuing the closely held company at about \$60 billion.

For Samsung, which is touting Samsung Pay as a selling point for its premium devices, a tie-up with Alipay could give its service wider reach in a market where it is desperate to regain momentum.

Samsung is the world's big-

gest smartphone maker, but after years as the No. 1 player in China, Samsung has tumbled to sixth place, overtaken by Huawei Technologies Co., Xiaomi Corp. and other domestic handset makers.

For Alibaba, working with the world's largest smartphone maker could help it expand overseas, a priority for the company. Last month, Alipay was launched in Europe, and earlier this year Uber

Technologies Inc. agreed to allow Chinese users to pay for rides with Alipay while traveling outside mainland China.

Alipay handles an estimated 58% of all online payments in China, according to Credit Suisse, underscoring the uphill battle that Samsung faces as competition for mobile payments increases in the world's biggest smartphone market. More than 358 million Chinese use payment systems on their

smartphones, according to data from the China Internet Network Information Center.

Tencent Holdings Ltd.'s WeChat Pay has the second-largest market share in China. Other systems trying to gain traction include Apple Inc.'s Apple Pay, which launched in February, and Huawei Pay, a service started by the Chinese smartphone maker.

Samsung began pre-loading Samsung Pay on its premium handsets last year, and in March added support for China, in conjunction with state-run UnionPay, the country's dominant card issuer.

While Alipay is mostly used for settling online transactions, it increasingly is being accepted by brick-and-mortar retailers and restaurants around China.

Samsung Pay allows Samsung smartphone users to load their credit card information onto their handsets and use them to pay at cash registers equipped either with next-generation near-field communication technology, or with traditional magnetic-stripe machines.



Samsung Pay has been preloaded on some phones since 2015.

# Yahoo Suitors Likely to Bid Below Expectations

By Douglas MacMillan  
and Ryan Knutson

**Verizon Communications Inc.** and others are expected to bid around \$2 billion to \$3 billion in the auction for **Yahoo Inc.**'s core business, less than what the troubled Internet pioneer was expected to fetch, according to people familiar with the matter.

The telecom giant is considered the front-runner in a field that includes private-equity buyers, some of whom are expected to bid in the low end of that range, the people said. As recently as April, people close to the process said Yahoo's core business likely would go for between \$4 billion and \$8 billion.

Some offers could still be above the \$2 billion-to-\$3 billion range, other people said, and it is generally in the interest

of bidders to play down their enthusiasm in an auction. It is also possible that not everyone will bid for all of the core business and that proposals will be structured differently.

Yahoo has set a deadline in the first week of June for the next round of bids, some of the people said. It isn't clear whether that will be the final round, they said.

Bidders have lowered their expected prices following weeks of sale presentations by Yahoo Chief Executive Marissa Mayer at the company's Sunnyvale, Calif., headquarters and its disclosure of data that detailed the company's flagging prospects.

Other bidders in contention include buyout firm **TPG** and an investor group that includes **Bain Capital**, **Vista Equity Partners** and former Yahoo CEO Ross Levinsohn, people fa-

miliar with the matter have said. Dan Gilbert, the Detroit investor and founder of Quicken Loans, also is in the mix and may be backed by billionaire investor Warren Buffett.

It is difficult to value Yahoo's core Web business, in part because such a large portion of the company's roughly \$35 billion market capitalization is based on its stakes in **Alibaba Group Holding Ltd.** and **Yahoo Japan**. Youssef Squali, an analyst at Cantor Fitzgerald, estimated the business is worth between \$4 billion and \$5 billion.

Yahoo last month issued a reminder of the difficulties it faces when it said first-quarter revenue dropped 18% to \$859.4 million, excluding commissions paid to search partners. That is the first time that figure has fallen below \$1 billion since Ms. Mayer took the reins

nearly four years ago.

The segment of Yahoo's business that Ms. Mayer has designated as its growth engine is slowing sharply. Revenue from "mavens"—a financial metric the company introduced last year to track mobile, video, native and social ads—rose 6.8% from the prior year to \$390 million. That compares with 26% in the fourth quarter, 43% in the third period and 60% in the second quarter.

In meetings with potential suitors, Ms. Mayer has acknowledged that the company is still in the middle of a turnaround, according to one person who attended a meeting.

Should bids come in much lower than expected, Yahoo could abandon the sale and proceed with her turnaround effort.

# Google's Modular Phones Will Go on Sale Next Year

By Jack Nicas

**Alphabet Inc.**'s Google said it plans to start selling phones with modular, replaceable parts next year, two years later than initially planned.

The project, dubbed Ara, is an aggressive effort by Google to upend the mobile industry by making smartphones' hardware almost as customizable as their apps. The company on Friday showed how different parts could be snapped onto the back of a phone, including high-powered camera lenses, speakers, a glucometer for diabetes patients or a holder for breath mints.

Ara has had a rocky history. The project began in 2013 under phone maker Motorola, then owned by Google. It later moved into Google's Advanced Technology and Projects group, a lab that aims to bring futuristic technologies to market in two years.

In January 2015, the advanced-technology group said it would launch the modular phone in Puerto Rico later that year. Seven months later, the team scrapped those plans and extended the project's two-year timeline. People familiar with the project said at the time that the Ara team was struggling to get the phone from a prototype to large-scale production.

A Google spokeswoman said Friday that after listening to developers and consumers, the Ara team made changes to the phone, including installing more technology in the device's base to clear room for more modules.

On Friday at Google's annual programmers' conference, Google executives said they had moved Ara into its own business unit and plan to release the modular phones to developers later this year,

with a 2017 consumer launch.

"Ara is our vision for the future of phones," said Dan Kaufman, who took over the advanced-technology group last month after former Pentagon research chief Regina Dugan left for Facebook Inc.

The Ara device will run on Google's Android mobile-operating system. Google could make the base phone itself or work with a hardware partner, as it does with its Nexus smartphones, Google hardware chief Rick Osterloh said in an interview.

The Google spokeswoman said Friday that it was too early to estimate a price for the phone. Google said last year that the phone base would cost \$50 at the outset.

Google likely will make some phone modules, Mr. Osterloh said, but wants outsiders to develop new components. Google said Friday it was working with several companies on modules, including electronics makers Samsung Electronics Co., Sony Corp. and Panasonic Corp.

Sony said its Sony Pictures Home Entertainment unit would license content for the phone, not develop hardware. Samsung and Panasonic didn't immediately respond to requests for comment.

In an onstage demonstration, a Google engineer attached a camera to a phone and then took a photo of the audience. The event's biggest applause came when he said "OK, Google, eject the camera," and the module popped out.

Google also gave updates on two other advanced-technology-group projects: sensor-embedded clothing and a tiny radar sensor that enables users to control devices via gestures.



Different parts could be snapped onto the back of a Google phone.

**autostrade per Italia** **Roland Berger**

**EXTRACT OF "CALL FOR EXPRESSION OF INTEREST"**

Following the appointment by Autostrade per l'Italia S.p.A. ("ASPI"), Roland Berger S.r.l. ("Advisor") intends to start the competitive procedures described in the table below, which provides, for each autonomous competitive procedure, the following information: (i) the lot number, (ii) the name of the motorway service station, (iii) the type of service to be provided and (iv) the expiry of the contract to be awarded.

Lot Number	Motorway Service Station	Type of service	Expiry
488	Angioina Ovest - A30 - Km 33+400 - Dir.Sud	Unitary Oil-driven	31.12.2024
489	Arrone Est - A12 - Km 8+500 - Dir.Nord	Unitary Oil-driven	31.12.2024
490	S.Eufemia Est - Diram A14-Ravenna - Km 19+900 - Dir.Nord	Unitary Oil-driven	31.12.2024
491	S.Eufemia Ovest - Diram A14-Ravenna - Km 19+900 - Dir.Sud	Unitary Oil-driven	31.12.2024
492	Tolfa Est - A12 - Km 59+500 - Dir.Nord	Unitary Oil-driven	31.12.2024
493	Vesuvio Nord - A16 - Km 4+500 - Dir.Ovest	Unitary Oil-driven	31.12.2024
494	Cittadella - A1 - Km 755+700 - Dir.Sud	Unitary Oil-driven	31.12.2024
495	Ledra Ovest - A23 - Km 36+900 - Dir.Sud	Unitary Oil-driven	31.12.2024
496	Murge Ovest - A14 - Km 671+444 - Dir.Sud	Unitary Oil-driven	31.12.2024
497	Torre Fantine Ovest - A14 - Km 493+500 - Dir.Sud	Unitary Oil-driven	31.12.2024
498	Migliarino Nord - A11 - Km 79+000 - Dir.Ovest	Unitary Oil-driven	31.12.2024

Interested applicants to one or more of the above-mentioned competitive procedures can obtain, as of May 20<sup>th</sup>, 2016, a complete version of the call, which contains the rules for application, by visiting the website [www.rbadvisory.com](http://www.rbadvisory.com) or by contacting the Advisor directly at the e-mail address [info@pec.rbadvisory.com](mailto:info@pec.rbadvisory.com). Applications must be received by the Advisor at via Melchiorre Gioia, 8 - 20124 Milan (Italy), by 12:00 PM of **May 31<sup>st</sup>, 2016**. No obligation arises by the publication of this extract towards the interested applicants which have no right to claim against ASPI and/or the Advisor. The English version is provided for convenience purpose only.

**tangenziale napoli** **Roland Berger**

**EXTRACT OF "CALL FOR EXPRESSION OF INTEREST"**

Following the appointment by Tangenziale di Napoli S.p.A. ("TDN"), Roland Berger S.r.l. ("Advisor") intends to start the competitive procedure described in the table below, which provides the following information: (i) the lot number, (ii) the name of the motorway service station, (iii) the type of service to be provided and (iv) the expiry of the contract to be awarded.

Lot Number	Motorway Service Station	Type of service	Expiry
499	Antica Campana Ovest - A56 - Km 3+400 - Dir.Ovest	Unitary Oil-driven	31.12.2024

Interested applicants to the above-mentioned competitive procedure can obtain, as of May 20<sup>th</sup>, 2016, a complete version of the call, which contains the rules for application, by visiting the website [www.rbadvisory.com](http://www.rbadvisory.com) or by contacting the Advisor directly at the e-mail address [info@pec.rbadvisory.com](mailto:info@pec.rbadvisory.com). Applications must be received by the Advisor at via Melchiorre Gioia, 8 - 20124 Milan (Italy), by 12:00 PM of **May 31<sup>st</sup>, 2016**. No obligation arises by the publication of this extract towards the interested applicants which have no right to claim against TDN and/or the Advisor. The English version is provided for convenience purpose only.

BUSINESS NEWS

# Israel Spurs Natural-Gas Efforts

By ORR HIRSCHAUGE  
AND RORY JONES

TEL AVIV—Israel's prime minister, Benjamin Netanyahu, on Sunday approved an amended deal to develop the country's natural-gas fields after months of legal wrangling that has stunted the growth of the domestic hydrocarbon industry.

Israel's highest court in March ruled against an initial framework agreement to develop the country's offshore fields. It called the deal unconstitutional, citing a clause in the accord that gave energy companies pricing and regulatory stability for 10 years regardless of potential shifts in the government.

The main stakeholders in the fields, U.S.-based Noble Energy Inc. and Israeli partner Delek Group Ltd., had argued that the stability clause was required for them to make the investments necessary to de-



Prime Minister Benjamin Netanyahu earlier this year. Mr. Netanyahu approved a natural-gas development deal on Sunday.

velop the fields. Mr. Netanyahu said Sunday that the clause had been removed from the amended framework.

An Israeli official said the government had added another clause that said the gas companies would be potentially compensated for any future changes in regulation.

"The important thing now is not to delay," Mr. Netanyahu told a weekly cabinet meeting.

The new deal gives Noble and Delek the green light to develop Israel's largest offshore field and export the natural gas to new markets such as Jordan, Turkey and Egypt, potentially deepening ties be-

tween Israel and its regional neighbors.

The energy companies already have been through several rounds of regulatory and legislative hurdles that have significantly delayed development. In total, Israel sits on fields containing more than 32 trillion cubic feet of gas.

"This is an important milestone in creating a stable investment environment," Noble Energy said in a statement.

Israeli officials say they hope the new framework won't face any more legal or regulatory hurdles.

The deal is highly unpopular domestically. Thousands of Israelis have protested it in the past year, complaining it would line the coffers of big business.

Israeli consumers contend it offers uncompetitive pricing compared with other Western countries and sends too much gas outside Israel, an energy-security risk.

"Instead of furthering the interests of Israeli citizens...the government swiftly approves a framework that takes care of the interests of the gas tycoons," Yossi Dorfman, one of the activists opposing the deal, said Sunday.

In December, Mr. Netanyahu signed off on the agreement, invoking an antitrust clause for the first time to force it through on grounds of national security. The Israeli leader said the development of the gas reserves would enable Israel to develop economic ties with its neighbors and strengthen national security.

In response to Mr. Netanyahu's decision, opposition lawmakers filed a petition in Israel's highest court that objected to the plans to circumvent the regulator.

Mr. Netanyahu appeared before the court in February to defend his move, the first appearance there by a sitting prime minister.

# New Court Is Set Up For Saudi Dispute

By NICOLAS PARASIE

DUBAI—A long-simmering financial dispute between two Saudi Arabian business groups is inching closer to a resolution under a newly established court in the kingdom, one of the two parties that was forced into a \$6 billion debt restructuring said Sunday.

Saudi Arabia's Supreme Judicial Council in March ordered setting up a special enforcement tribunal tasked with finding a solution to the seven-year battle between Ahmad Hamad Algosaihi & Bros. and Maan Al Sanea's Saad Group. The new court in recent weeks has started hearing the parties involved.

"We understand this is the first time such a tribunal has been established," Simon Charlton, who is overseeing the debt restructuring for the Algosaihi group, also known as AHAB, said. "After seven years of stalemate, it seems we're reaching the end," he said.

AHAB, which was unable to repay billions of debt following the global financial crisis in 2009, had accused Mr. Al Sanea of defrauding the group, a claim the Kuwait-born businessman has denied. The parties are still waging a legal battle across several jurisdictions across the globe. AHAB on Sunday welcomed the establishment of the new court but also vowed to continue litigating against Mr. Al Sanea. Mr. Al Sanea wasn't available to comment.

There was no further information available on the tribunal's next move but some of AHAB's creditors said they were surprised at how fast the Saudi authorities were acting now. "Things are suddenly moving at a perplexing speed," said a banking executive involved in the negotiations with AHAB.

It is the clearest sign yet that the Saudi government is eager to wrap up the tussle that has caused losses to several international banks such as BNP Paribas and HSBC, while also drawing unwanted scrutiny of the business environment in the kingdom.

Saudi Arabia is trying to open up its economy to more foreign investments, a break with the past necessitated by the drop in crude prices since the middle of 2014, which has depleted the country's coffers. Saudi Arabia borrowed \$10 billion from international banks earlier this year and is seeking more through the sale of bonds.

Besides its legal battle with Saad Group, AHAB has been negotiating a separate debt settlement with its lenders, but the outcome of that deal was in doubt without the legal backing of the Saudi judiciary.

—Ahmed Al Omran  
contributed to this article.

# SUGAR

Continued from page B1

ters and other zero-calorie offerings, Coca-Cola Co. still derives about 70% of its sales from carbonated soft drinks like Coke, Sprite and Fanta.

Coca-Cola and PepsiCo Inc. deferred comment to industry groups.

The Grocery Manufacturers Association, which represents major food and beverage companies, said consumers could be confused by the changes and that "a robust consumer education effort" would be required. "We look forward to working with the FDA" to help consumers, it added.

Government health officials recommend eating no more than 50 grams of added sugars—or the equivalent of 12.5 teaspoons of granulated sugar—a day, based on a 2,000-calorie diet. However, the FDA estimates Americans on average consume the equivalent of 20 teaspoons through added sugars like honey, high-fructose corn syrup and other sweeten-

ers. One cup of low-fat vanilla yogurt can have three to four teaspoons of added sugar per serving. Flavored oatmeal also can have as many as three teaspoons of added sugar. Even savory foods contain added sugar. Pasta sauce, for instance, often has 10% of the recommended daily intake per serving, according to the new standard.

The FDA estimates that implementing the change will cost the food and beverage industry roughly \$500 million a year, while providing approximately \$2 billion annually in benefits such as reduced health costs, over 20 years.

A study commissioned by several industry trade groups based on an earlier proposal found the label changes would result in a total net cost of at least \$640 million. Economist John Dunham, who led the study, said the FDA accounted for far more benefits than are realistic.

Manufacturers have two years to comply with the new regulation, though they could still challenge the changes in court. Those with less than \$10

million in annual food sales will have three years.

The new label regulations don't apply to certain meat, poultry and processed-egg products, which are regulated by the U.S. Department of Agriculture, not the FDA.

The spotlight on sugar could push dozens of major companies—including General Mills Inc., PepsiCo, Campbell Soup Co. and Coca-Cola—to further reformulate products.

Many already are wrestling with falling demand for processed foods and sugary drinks from health-conscious consumers.

The new panels also will require some companies to change the serving sizes they list on the back of the package. Ice cream labels, which can now show half a cup as one serving, will list two-thirds of a cup as a serving, increasing the calorie count that appears on the label by a third.

Among other changes, manufacturers also will be required to declare the amounts of potassium and vitamin D because the FDA says Americans aren't getting enough of them.

# DEAL

Continued from page B1

raised in your letters—other than your suggestion not to continue a correspondence."

Spokespeople for both companies declined to comment.

If completed, the deal would create the largest U.S. health insurer by members, with more than 54 million, and \$117 billion in annual revenue. It was announced during a wave of tie-ups—including Aetna Inc.'s pending \$34 billion purchase of Humana Inc.—aimed at gaining scale and efficiency as the U.S. healthcare landscape shifts.

The letters, which may not represent a complete picture of the current state of the relationship between the compa-

nies, reveal concern that the acquisition is slipping behind the Aetna-Humana deal in the regulatory-review process.

Antitrust officials have been aggressively swatting down mergers lately, and Anthem's takeover of Cigna is thought to have better odds if reviewed alongside Aetna-Humana.

In the letters, Anthem accused Cigna of missing Justice Department deadlines and submitting data in the wrong format, pushing the expected date for a yes-or-no ruling to early July. Anthem's Mr. Zielinski complained Cigna was taking too long to approve documents that lay out the deal's benefits, resulting in a missed deadline for one such submission.

Ms. Jones replied that "the flaws in the Anthem draft

white papers are too numerous to catalog fully."

Cigna said Anthem has been slow to formulate a backup plan if regulators require divestitures or sue to block the deal.

"Everything we are hearing indicates that Aetna and Humana have been engaging with DOJ on the divestiture process for some time," Ms. Jones wrote. "A remedial process for our transaction very well may take longer and it appears we already are likely months behind Aetna/Humana."

Cigna told investors this month that the deal might not close until next year, rather than in late 2016. Anthem quickly reiterated the original timeline and in a private letter that day to Ms. Jones, Mr. Zielinski accused Cigna of trying to "spook the market."

### What's New on the Label

The FDA has updated the 'Nutrition Facts' label that appears on packaged foods and beverages to reflect changes in nutrition science and make it easier to read.

Nutrition Facts	
8 servings per container	
Serving size 2/3 cup (55g)	
Amount per serving	
<b>Calories 230</b>	
% Daily Value*	
Total Fat 6g	10%
Saturated Fat 1g	5%
Trans Fat 0g	
Cholesterol 0mg	0%
Sodium 160mg	7%
Total Carbohydrate 37g	13%
Dietary Fiber 4g	14%
Total Sugars 12g	
Includes 10g Added Sugars	20%
Protein 3g	
Vitamin D 2mcg	10%
Calcium 260mg	20%
Iron 8mg	45%
Potassium 235mg	6%

\* The % Daily Value (DV) tells you how much a nutrient in a serving of food contributes to a daily diet. 2,000 calories a day is used for general nutrition advice.

Source: U.S. Food and Drug Administration THE WALL STREET JOURNAL.

Cigna shares are trading about 25% below the offer price, an unusually wide gap indicating investors fear the takeover could collapse.

Anthem has accused Cigna of holding back information about its business, suggesting in one letter that Cigna is awaiting a "clearer signal" that regulators would sign off before sharing sensitive details with a company that is still a competitor.

Anthem said it needs more information about Cigna's cost-of-care and salary expenses, among other items, to calculate savings that could be wrung from the deal. Because those savings could be passed on to customers, they are key to convincing regulators the deal is pro-competition.

"Cigna's tardiness, data formatting issues and midcourse

changes...[have] been highly disruptive and demotivating," Mr. Zielinski wrote to Ms. Jones.

In its letters, Cigna laid the blame for the delays at Anthem's feet and called Anthem's insistence on more details a "red herring."

Simmering in the background are tensions about the future role of Cigna Chief Executive David Cordani. In January, Anthem offered Mr. Cordani oversight over some, but not all, of the combined company's three business segments, according to the letters. Mr. Cordani pushed back, and Anthem relented, giving him oversight over all three.

Mr. Cordani and Anthem CEO Joseph R. Swedish have locked horns in the 10 months since the deal was struck, people familiar with the matter say.

## Business Watch

### VOLKSWAGEN Wage Agreement Reached With Union

Volkswagen AG said it has reached a wage agreement with the labor union representing around 120,000 of its workers in Germany, which is in line with union agreements in the region.

The company will pay a total 4.8% wage increase staggered in two phases, coming closer to the union's demand for a pay rise of around 5%. The wage pact is valid for 20 months, Volkswagen said Friday.

Last week, tens of thousands of Volkswagen workers in Germany walked off the job at plants in Wolfsburg, Kassel, Braunschweig and Salzgitter after the car maker failed to make a wage offer.

Volkswagen has been embroiled in scandal since last September, after admitting it installed software that enabled its vehicles to cheat emission tests. Volkswagen was forced to take a €16.2 billion (\$18.15 billion) emissions-related charge against 2015 earnings and swung to a

record loss of €1.58 billion. Friday's wage deal foresees a 2.8% wage rise in September, followed by another 2% rise in August 2017, and concessions on profit-sharing and pensions, including partial early retirement.

—Monica Houston-Waesch

### HAPAG-LLOYD Merger Is Likely By Summer's End

Merger talks between German container-shipping operator Hapag-Lloyd AG and Dubai-based rival United Arab Shipping Co. are progressing, and the companies likely will combine by the end of the summer, people involved in the matter said.

"It's a win-win situation and talks are ticking along quite well," one of the people said. "Unless there is a last-minute snag, we will have a marriage by August."

Hapag-Lloyd and UASC said in April they were in preliminary talks based on valuations that would give Hapag shareholders 72% ownership of any combined firm, and holders of UASC the rest. They are currently the world's sixth- and 10th-biggest container operators in terms of capacity, and a merged entity would rank fifth globally.

"The combined company will be worth around \$9 billion," the second person said.

The talks come amid a wave of consolidation sweeping the container-shipping industry, which is squeezed by overcapacity, slowing global growth and plummeting freight rates. Amid those turbulent waters, a number of big companies in recent years have combined forces to cut costs and increase competitiveness.

—Costas Paris

### GENERAL MOTORS Compensation Over Fuel Claims

General Motors Co. offered cash or an extended warranty to about 135,000 customers after discovering window stickers had overstated the fuel economy on some large crossover vehicles.

Customers who purchased a 2016 Chevrolet Traverse, GMC Acadia or Buick Enclave can choose between a debit card or a 48-month/60,000-mile service protection plan that improves their existing factory warranty, the company said on Friday. Those who leased vehicles will be offered the debit card, GM said.

The debit cards are likely to range between \$450 and \$900, depending on whether customers purchased or leased their vehicles. The type of vehicle and terms of leases also will affect how much customers receive.

—Mike Spector

PRESS RELEASE. COMUNICATO STAMPA.

PARMA, THE 23<sup>RD</sup> OF MAY 2016  
PARMA, 23 MAGGIO 2016

**SUBJECT: Announcement of the publication of the Annual Report 2015 of Cariparma S.p.A.**  
It is hereby announced that - pursuant to Article 113 of the Italian Consolidated Financial Act and to Article 116-ter of the Regulation on Issuers, as well as to Luxembourg Law 11/01/2008, to the Gran Ducal Regulation 11/01/2008 and to Circular CSSF 08/337 - Cassa di Risparmio Parma e Piacenza S.p.A., with Headquarters in Parma (PR), Via Università, 1, in its capacity as issuer having Italy as Member State of origin whose securities are admitted for trading in another EU Member State (Luxembourg) and not in Italy, published its Annual Report 2015, in Italian language and in English language, on the website available to the public [www.gruppocariparma.it](http://www.gruppocariparma.it).

**OGGETTO: Comunicazione della pubblicazione del Bilancio 2015 di Cariparma S.p.A.**  
La presente per comunicare - ai sensi dell'art.113 del TUF e dell'art. 116-ter del Regolamento emittenti, nonché della Luxembourg Law 11/01/2008, della Gran Ducal Regulation 11/01/2008 e della Circular CSSF 08/337 - che Cassa di Risparmio Parma e Piacenza S.p.A., con sede in Parma (PR), Via Università, 1, in qualità di emittente avente l'Italia come Stato membro di origine i cui valori mobiliari sono ammessi alla negoziazione in un altro Stato Membro dell'UE (Lussemburgo) e non in Italia, ha reso pubblico il Bilancio 2015 in lingua italiana ed in lingua inglese, attraverso il sito accessibile al pubblico [www.gruppocariparma.it](http://www.gruppocariparma.it)

Per consultare il bilancio, inquadra il QRcode

CARIPARMA CREDIT AGRICOLE

APERTI AL TUO MONDO

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# MONEY & INVESTING

## A Mystery Deal In Canada

INVESTING | B7

## An Inflation Riddle For the ECB

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THE WALL STREET JOURNAL.

Monday, May 23, 2016 | B5

As of 4 p.m. ET Friday **EUR/GBP** 0.7727 ▲ 0.78% **YEN/DLR** ¥110.46 ▲ 0.45% **GOLD** 1252.40 ▼ 0.14% **OIL** 47.75 ▼ 0.85% **3-MONTH LIBOR** 0.66130% **10-YR TREAS** ▼ 1/32 yield 1.849%

# UniCredit Plans Shakeup

### Board members agree that bank needs a CEO from outside the company

By Giovanni Legorano

ROME—Italian lender UniCredit SpA is heading for a management overhaul that is likely to see its chief executive step down as early as next week, people close to the bank's board said Friday.

Board members are already looking for a new CEO to succeed Federico Ghizzoni, who has been at the helm of the bank since 2010, but they have so far failed to agree on the right profile for the job, say people familiar with the situation.

However, they all agree the bank needs an executive from outside the company who would have the credibility to raise billions in fresh capital—one of the people said some board members think the bank needs up to €9 billion (\$10.1 billion) in additional capital—either through a rights issue or asset sales, or both.

One of the people said the bank could call a directors' meeting for May 24 to decide on the next steps and could ratify Mr. Ghizzoni's resignation.

A spokesman for the bank declined to comment.

Shareholders have grown increasingly unhappy with the leadership of Mr. Ghizzoni and are now seeking a CEO who can shake up a bank that suffers from low profitability, large bad

loans and a sprawling international network that has failed to live up to expectations. UniCredit is Italy's largest bank and the only one regulated as a global systemically important bank.

UniCredit has been under pressure for some time, suffering from the same factors that have weighed heavily on Italy's banking system as a whole.

Low interest rates have pulled profitability down in a bank that remains heavily dependent on traditional lending activities.

Efforts to expand into other fee-generating activities have had limited success. Earlier this month, UniCredit reported its net interest income dropped 3% in the first quarter compared with the same period in 2015,

while fees and commissions were down 3.4%.

UniCredit is also struggling with €80 billion in bad loans, more than any other bank in Europe. While it has written down the value of bad loans and past acquisitions by €76 billion and raised €18 billion in new capital, its capital cushion is still thin—leading some analysts to say the bank needs to raise more capital.

The bank also reported lower core capital for the first quarter. Its management has consistently denied that it needs to raise fresh funds, but in the past it often conceded the lender needs to shore up its capital buffer.

Mr. Ghizzoni has also been criticized for the bank's decision last fall to underwrite the



Board members have yet to agree on the profile of a CEO who would succeed Federico Ghizzoni.

€1.5 billion capital increase of Banca Popolare di Vicenza SpA.

It had agreed to provide a backstop for the transaction, but after a rout this year in Italian banking stocks, regulators grew concerned that the capital increase would fail—in

turn leaving UniCredit owning the troubled bank. As a result, the government orchestrated a fund supported by Italian financial institutions that stepped in and underwrote the deal. UniCredit's shares have lost 42% so far this year.



Today's wealthiest families in Florence are descended from the wealthiest families 600 years ago, new research shows.

# Rich in Florence—for Centuries

By Josh Zumbun

New research from a pair of Italian economists has documented an extraordinary fact: The wealthiest families in Florence today are descended from the wealthiest families of the city nearly 600 years ago.

Guglielmo Barone and Sauro Mocetti, economists at the Bank of Italy, compared data on Florentine taxpayers in 1427 with tax data in 2011. Because Italian surnames are very regional, they could compare the income of families with a cer-

tain surname today to those with the same surname in 1427. They found that the occupations, income and wealth of those distant ancestors with the same surname can help predict the occupation, income and wealth of their descendants today.

"The top earners among the current taxpayers were found to have already been at the top of the socioeconomic ladder six centuries ago," the economists wrote for the economics-commentary website VoxEU.

Their research was made

possible by a fiscal crisis. In 1427, Florence was nearly bankrupt from a war with Milan and the Priors of the Republic conducted a tax census of about 10,000 citizens. They took stock of the name and surname of the head of household, their occupation and their wealth.

About 900 of those surnames are still present in Florence, with about 52,000 taxpayers having those names. While not every person with a certain surname in Florence today will be a descendant of the people

Please see RICH page B7



Portrait of Lorenzo di Medici

# Funds Bet Against Australia's Banks

By Vera Sprothen

SYDNEY—Hedge funds are throwing their weight behind a notoriously risky trade that suggests Australia's biggest banks, among the most profitable in the world, might be headed for trouble.

Rising bad debts, falling earnings and fears of a property-market downturn have triggered a record number of "shorts" on Australian banks, which have long been stock-market darlings because of their high shareholder returns. Short sellers borrow shares from other investors and then sell them in the hope of buying the stock back at a lower price, turning a profit.

Short positions on the four largest Australian lenders—Commonwealth Bank of Australia, Australia & New Zealand Banking Group Ltd., Westpac Banking Corp. and National Australia Bank Ltd.—have collectively soared 50% this year to more than nine billion Australian dollars (US\$6.49 billion), the highest level since regulators began compiling data six years ago.

Earlier this year, Sydney-based asset manager John Hempton teamed up with Jonathan Tepper, who runs U.S.-based hedge-fund consultancy firm Variant Perception, for an undercover investigation of Australia's property market. Posing as a gay couple, they drove around Sydney, from glitzy beachside

suburbs to the shabby city fringes, to probe potentially risky lending practices. What they found was considerably worse than what they had expected.

"We witnessed a mania in all its crazy excess," Mr. Tepper told clients. "Australia now has one of the biggest housing bubbles in history." Among the trades he recommended in anticipation of a major property-market downturn: shorting Australian banks.

Fears of a property bubble are helping spur short positions on top lenders.

The surge in hedge-fund short bets is at odds with the enthusiasm of ordinary investors saving for retirement, who favor Australian banking stocks because their dividends provide a steady income. The proportion of earnings the "Big Four" banks return to shareholders—an average of 78%, according to professional-services firm KPMG—is among the highest in the world.

It has also begun to unsettle mainstream asset managers such as State Street Global Advisors and Macquarie Group, which have warned clients that heavily shorted stocks typically un-

Please see SHORT page B7

# Chinese Lenders Return to Old Ploy

BEIJING—Chinese banks are turning to old ways to spin off mounting levels of bad debt, with two big lenders unveiling plans to issue \$82 million worth of securities backed by soured loans.

Sales of such financial products are set to start Thursday at Bank of China Ltd. and China Merchants Bank Corp. and are the first of their kind by any commercial bank since 2008—a time when China was dealing with bad-loan levels more than three times the current proportion of total loans.

This time around, Chinese banks are posting record levels of write-offs, requiring them to find new ways to repackage bad loans.

Among other means, Beijing has directed banks to take equity stakes in heavily leveraged state-owned companies to head off bond defaults. In the first quarter this year, banking regulators bent the rules for some lenders, including Bank of

China Ltd. and Industrial & Commercial Bank of China Ltd., allowing them to set aside less cash than the official requirement as a buffer for bad loans.

Issuing securities backed by bad loans, a policy floated by the central bank in March, allows banks to either sell bad loans to investors as securities or transfer them to special asset-management companies.

Bank of China, the nation's fourth-largest commercial lender by assets, said it would issue 301 million yuan (\$46 million) of these securities. The soured loans comprise some 1.25 billion yuan of unpaid loans extended to borrowers in the wholesale, transportation and manufacturing sectors in the eastern province of Shandong, the bank said in a filing with a state-backed securities clearing house.

China Merchants Bank, the sixth-biggest lender, said it

Please see CHINA page B7

# Should You Follow Berkshire on Apple?

Douglas Adams had a wonderful way to navigate in the days before GPS: the author's hapless detective Dirk Gently would simply find a car that looked like it knew where it was going, and follow it. Most investors are lost most of the time, and a surprising number follow the strategy used

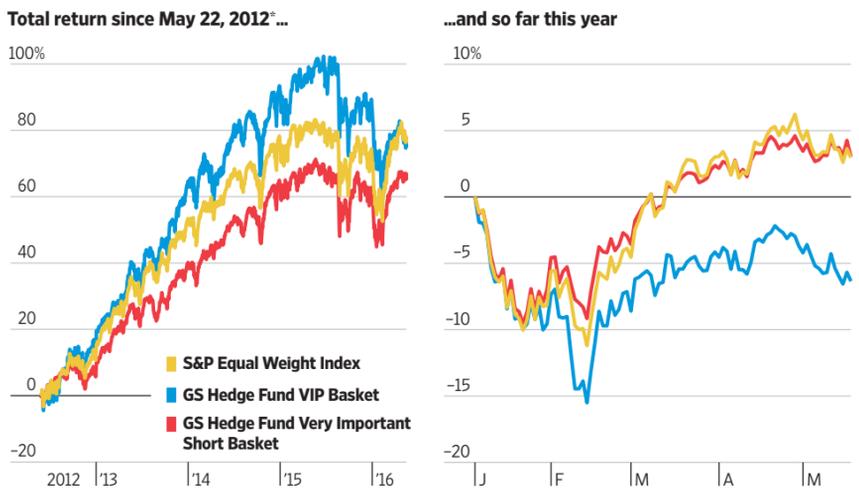
by the writer of "The Hitchhiker's Guide to the Galaxy": Imitate someone who seems smarter.

The sheer amount of money behind such copy-and-paste strategies was on show last week when Berkshire Hathaway disclosed that it had bought \$1 billion of Apple shares in the first quarter. Berkshire Chairman Warren Buffett is widely regarded as one of the smartest investors of all time, and his acolytes— and plenty of others—follow his holdings obsessively.

Not just obsessively: fanat-

## Smartest Guys in the Boom

Since last summer, shares popular with hedge funds have slumped. This year, shares that hedge funds were betting against have outpaced those they liked.



ically. The news added \$18 billion to Apple's market value on Monday. Apple's market capitalization in-

creased as much as the next five biggest gainers in the S&P 500 combined.

Copying Mr. Buffett makes

some sense, although in this case the investment was made by one of his two de-

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# MARKETS DIGEST

## Nikkei 225 Index

**16736.35** ▲89.69, or 0.54%  
 High, low, open and close for each trading day of the past three months.



## STOXX 600 Index

**338.01** ▲4.10, or 1.23%  
 High, low, open and close for each trading day of the past three months.



## S&P 500 Index

**2052.32** ▲12.28, or 0.60%  
 High, low, open and close for each trading day of the past three months.



## International Stock Indexes

Region/Country	Index	Close	Latest NetChg	% chg	Low	52-Week Range Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2287.28	14.68	0.65	2047.44	2628.35	2628.35	-2.1
	<b>MSCI EAFE</b>	1634.29	14.80	0.91	1491.52	1935.25	1935.25	-4.8
	<b>MSCI EM USD</b>	785.26	3.42	0.44	688.52	1037.62	1037.62	-1.1
<b>Americas</b>	<b>DJ Americas</b>	493.10	3.51	0.72	433.35	523.01	523.01	1.2
Brazil	<b>Sao Paulo Bovespa</b>	49722.75	-409.79	-0.82	37497.48	54609.25	54609.25	14.7
Canada	<b>S&amp;P/TSX Comp</b>	13919.58	102.26	0.74	11843.11	15200.76	15200.76	7.0
Mexico	<b>IPC All-Share</b>	45155.91	104.64	0.23	40265.37	46191.51	46191.51	5.1
Chile	<b>Santiago IPSA</b>	3072.87	-1.54	-0.05	2759.77	3276.92	3276.92	4.4
<b>U.S.</b>	<b>DJIA</b>	17500.94	65.54	0.38	15660.18	18232.02	18232.02	0.4
	<b>Nasdaq Composite</b>	4769.56	57.03	1.21	4266.84	5218.86	5218.86	-4.8
	<b>S&amp;P 500</b>	2052.32	12.28	0.60	1829.08	2128.28	2128.28	0.4
	<b>CBOE Volatility</b>	15.20	-1.13	-6.92	11.95	40.74	40.74	-16.5
<b>EMEA</b>	<b>Stoxx Europe 600</b>	338.01	4.10	1.23	303.58	408.88	408.88	-7.6
	<b>Stoxx Europe 50</b>	2820.94	31.90	1.14	2566.26	3524.55	3524.55	-9.0
Austria	<b>ATX</b>	2193.13	10.14	0.46	1957.05	2640.72	2640.72	-8.5
Belgium	<b>Bel-20</b>	3390.34	47.39	1.42	3130.76	3849.12	3849.12	-8.4
France	<b>CAC 40</b>	4353.90	71.36	1.67	3896.71	5196.73	5196.73	-6.1
Germany	<b>DAX</b>	9916.02	120.13	1.23	8752.87	11815.01	11815.01	-7.7
Greece	<b>ATG</b>	639.48	17.20	2.76	440.88	851.81	851.81	1.3
Hungary	<b>BUX</b>	26434.48	691.63	2.69	20610.76	27271.78	27271.78	10.5
Israel	<b>Tel Aviv</b>	1398.45	...	Closed	1383.34	1723.56	1723.56	-8.5
Italy	<b>FTSE MIB</b>	17812.35	266.79	1.52	15773.00	24031.19	24031.19	-16.8
Netherlands	<b>AEX</b>	434.36	6.09	1.42	382.61	503.52	503.52	-1.7
Poland	<b>WIG</b>	45784.76	33.08	0.07	42152.70	56828.92	56828.92	-1.5
Russia	<b>RTS Index</b>	893.09	7.67	0.87	628.41	1051.21	1051.21	18.0
Spain	<b>IBEX 35</b>	8771.20	96.50	1.11	7746.30	11556.10	11556.10	-8.1
Sweden	<b>SX All Share</b>	478.09	6.65	1.41	435.21	546.34	546.34	-5.4
Switzerland	<b>Swiss Market</b>	7997.30	88.51	1.12	7496.62	9526.79	9526.79	9.3
South Africa	<b>Johannesburg All Share</b>	52638.25	268.15	0.51	46282.02	54609.01	54609.01	-3.8
Turkey	<b>BIST 100</b>	76357.74	-886.14	-1.15	68567.89	86343.65	86343.65	6.5
U.K.	<b>FTSE 100</b>	6156.32	102.97	1.70	5536.97	7040.92	7040.92	-1.4
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1330.13	3.45	0.26	1190.45	1594.00	1594.00	-4.3
Australia	<b>S&amp;P/ASX 200</b>	5351.30	28.00	0.53	4765.30	5777.20	5777.20	1.0
China	<b>Shanghai Composite</b>	2825.48	18.58	0.66	2655.66	5166.35	5166.35	-20.2
Hong Kong	<b>Hang Seng</b>	19852.20	157.87	0.80	18319.58	28249.86	28249.86	-9.4
India	<b>S&amp;P BSE Sensex</b>	25301.90	-97.82	-0.39	22951.83	28504.93	28504.93	-3.1
Japan	<b>Nikkei Stock Avg</b>	16736.35	89.69	0.54	14952.61	20868.03	20868.03	-12.1
Singapore	<b>Straits Times</b>	2763.82	23.71	0.87	2532.70	3460.85	3460.85	-4.1
South Korea	<b>Kospi</b>	1947.67	0.89	0.05	1829.81	2146.10	2146.10	-0.7
Taiwan	<b>Weighted</b>	8131.26	35.28	0.44	7410.34	9712.84	9712.84	-2.5

Source: SIX Financial Information; WSJ Market Data Group

## Currencies



Country/currency	Fri in US\$	per US\$	US\$ vs. YTD chg (%)
<b>Americas</b>			
Argentina peso-a	0.0709	14.0970	8.9
Brazil real	0.2826	3.5388	-10.7
Canada dollar	0.7617	1.3129	-5.1
Chile peso	0.001447	691.20	-2.5
Colombia peso	0.0003279	3050.17	-3.9
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0544	18.3800	6.9
Peru sol	0.3002	3.3315	-2.4
Uruguay peso-e	0.0318	31.490	5.3
Venezuela boliviar	0.100150	9.99	58.4
<b>Asia-Pacific</b>			
Australia dollar	0.7219	1.3852	0.9
China yuan	0.1527	6.5506	0.9
<b>Hong Kong dollar</b>	0.1287	7.7682	0.2
<b>India rupee</b>	0.0148	67.3975	1.8
<b>Indonesia rupiah</b>	0.0000735	13613	-1.6
<b>Japan yen</b>	0.009053	110.46	-8.2
<b>Kazakhstan tenge</b>	0.002975	336.16	-0.8
<b>Macau pataca</b>	0.1250	8.0022	-0.02
<b>Malaysia ringgit-c</b>	0.2453	4.0774	-1.0
<b>New Zealand dollar</b>	0.6763	1.4786	5.2
<b>Pakistan rupee</b>	0.0095	104.750	-0.1
<b>Philippines peso</b>	0.0214	46.685	0.4
<b>Singapore dollar</b>	0.7234	1.3823	-2.5
<b>South Korea won</b>	0.0008425	1186.95	0.9
<b>Sri Lanka rupee</b>	0.0068255	146.51	1.6
<b>Taiwan dollar</b>	0.03058	32.704	-0.7
<b>Thailand baht</b>	0.02800	35.720	-0.9
<b>Europe</b>			
Bulgaria lev	0.5733	1.7442	-3.1
Croatia kuna	0.1497	6.678	-4.7
Euro zone euro	1.1213	0.8919	-3.1
Czech Rep. koruna-b	0.0415	24.114	-3.1
Denmark krone	0.1508	6.6331	-3.5
Hungary forint	0.003545	282.12	-2.9
Iceland krona	0.008007	124.89	-4.1
Norway krone	0.1202	8.3229	-5.9
Poland zloty	0.2536	3.9430	0.5
Russia ruble-d	0.01497	66.796	-7.1
Sweden krona	0.1201	8.3233	-1.5
Switzerland franc	1.0084	0.9917	-1.0
Turkey lira	0.3352	2.9836	2.3
Ukraine hryvnia	0.0396	25.2440	5.2
U.K. pound	1.4509	0.6892	1.6
<b>Middle East/Africa</b>			
Bahrain dinar	2.6518	0.3771	unch
Egypt pound-a	0.1126	8.8817	13.4
Israel shekel	0.2574	3.8845	-0.2
Kuwait dinar	3.3114	0.3020	-0.5
Oman rial	2.5949	0.3854	0.1
Qatar rial	0.2747	3.641	-0.5
Saudi Arabia riyal	0.2665	3.7522	-0.03
South Africa rand	0.0639	15.6564	1.2
<b>WSJ Dollar Index</b>	87.66	0.12	1.3

## Commodities

Prices of futures contracts with the most open interest 3:30 p.m. New York time  
 EXCHANGE LEGEND: CBOT: Chicago Board of Trade; CME: Chicago Mercantile Exchange; ICE-US: ICE Futures U.S.; MDEX: Bursa Malaysia  
 Derivatives Berhad; TCE: Tokyo Commodity Exchange; COMEX: Commodity Exchange; LME: London Metal Exchange;  
 NYMEX: New York Mercantile Exchange; ICE-EU: ICE Futures Europe. \*Data as of 5/19/2016

Commodity	Exchange	Last price	Net	One-Day Change Percentage	Year high	Year low
<b>Corn</b> (cents/bu.)	CBOT	394.75	4.75	1.22%	407.25	351.25
<b>Soybeans</b> (cents/bu.)	CBOT	1075.50	4.00	0.37	1,091.50	862.00
<b>Wheat</b> (cents/bu.)	CBOT	467.25	-1.50	-0.32%	518.50	449.50
<b>Live cattle</b> (cents/lb)	CME	117.275	-1.050	-0.89	125.350	110.925
<b>Cocoa</b> (\$/ton)	ICE-US	2,921	28	0.97	3,240	2,746
<b>Coffee</b> (cents/lb.)	ICE-US	124.65	0.70	0.56	138.20	115.35
<b>Sugar</b> (cents/lb.)	ICE-US	17.06	0.36	2.16	17.29	12.68
<b>Cotton</b> (cents/lb.)	ICE-US	61.73	0.66	1.08	64.92	54.33
<b>Robusta coffee</b> (\$/ton)	ICE-EU	1659.00	21.00	1.28	1,707.00	1,372.00
<b>Copper</b> (\$/lb.)	COMEX	2,0530	-0.0080	-0.39	2,3290	1,9580
<b>Gold</b> (\$/troy oz.)	COMEX	1,252.70	-2.10	-0.17	1,306.00	1,063.00
<b>Silver</b> (\$/troy oz.)	COMEX	16,535	0.042	0.25	18,060	13,810
<b>Aluminum</b> (\$/mt*)	LME	1,548.50	7.00	0.45	1,675.00	1,451.50
<b>Tin</b> (\$/mt*)	LME	16,700.00	-130.00	-0.77	17,500.00	13,225.00
<b>Copper</b> (\$/mt*)	LME	4,583.00	-7.00	-0.15	5,070.50	4,320.50
<b>Lead</b> (\$/mt*)	LME	1,700.00	-8.00	-0.47	1,888.00	1,598.00
<b>Zinc</b> (\$/mt*)	LME	1,866.00	-26.00	-1.37	1,946.00	1,467.00
<b>Nickel</b> (\$/mt*)	LME	8,535.00	-85.00	-0.99	9,575.00	7,750.00
<b>Rubber</b> (Y.01/ton)	TCE	162.50	-0.60	-0.37	203.50	159.20
<b>Palm oil</b> (MYR/mt)	MDEX	2,500.00	-19.00	-0.75	2,707.00	2,374.00
<b>Crude oil</b> (\$/bbl.)	NYMEX	48.48	-0.19	-0.39	49.56	31.61
<b>NY Harbor ULSD</b> (\$/gal)	NYMEX	1.4940	0.0101	0.68	1.5239	0.9406
<b>RBOB gasoline</b> (\$/gal)	NYMEX	1.6427	0.0028	0.17	1.6681	1.1485
<b>Natural gas</b> (\$/mmBtu)	NYMEX	2.204	0.009	0.41	2.6350	1.9390
<b>Brent crude</b> (\$/bbl.)	ICE-EU	49.40	0.06	0.12	50.33	30.70
<b>Gas oil</b> (\$/ton)	ICE-EU	442.00	11.25	2.61	447.75	278.50

Sources: SIX Financial Information; WSJ Market Data Group

## Key Rates

	Latest	52 wks ago
<b>Libor</b>		
One month	0.44325%	0.18485%
Three month	0.66130	0.28450
Six month	0.95540	0.41865
One year	1.30200	0.73760
<b>Euro Libor</b>		
One month	-0.35286%	-0.06714%
Three month	-0.27814	-0.01429
Six month	-0.15929	0.05357
One year	-0.02957	0.17214
<b>Euribor</b>		
One month	-0.34900%	-0.05200%
Three month	-0.25800	-0.01200
Six month	-0.14300	0.05400
One year	-0.01100	0.16200
<b>Yen Libor</b>		
One month	-0.04314%	0.07000%
Three month	-0.02471	0.10071
Six month	0.00157	0.13786
One year	0.09529	0.25186
	Offer	Bid
<b>Eurodollars</b>		
One month	0.5000%	0.4000%
Three month	0.6500	0.5500
Six month	1.0000	0.9000
One year	1.3500	1.2500
	Latest	52 wks ago
<b>Prime rates</b>		
U.S.	3	

MONEY & INVESTING

# A Canadian Mystery Transaction

Anbang executive led talks for new buyer in InnVest deal after the insurer dropped out

BY JACQUIE McNISH AND NED LEVIN

China's **Anbang Insurance Group** Co. made headlines earlier this year when it precipitated a multibillion-dollar bidding war for U.S. hotel chain **Starwood Hotels & Resorts Worldwide** Inc., only to pull out suddenly with little explanation.

That headlong and opaque deal-making style is now surfacing in Canada, in a 974 million Canadian dollar (US\$744 million) takeover agreement signed this month.

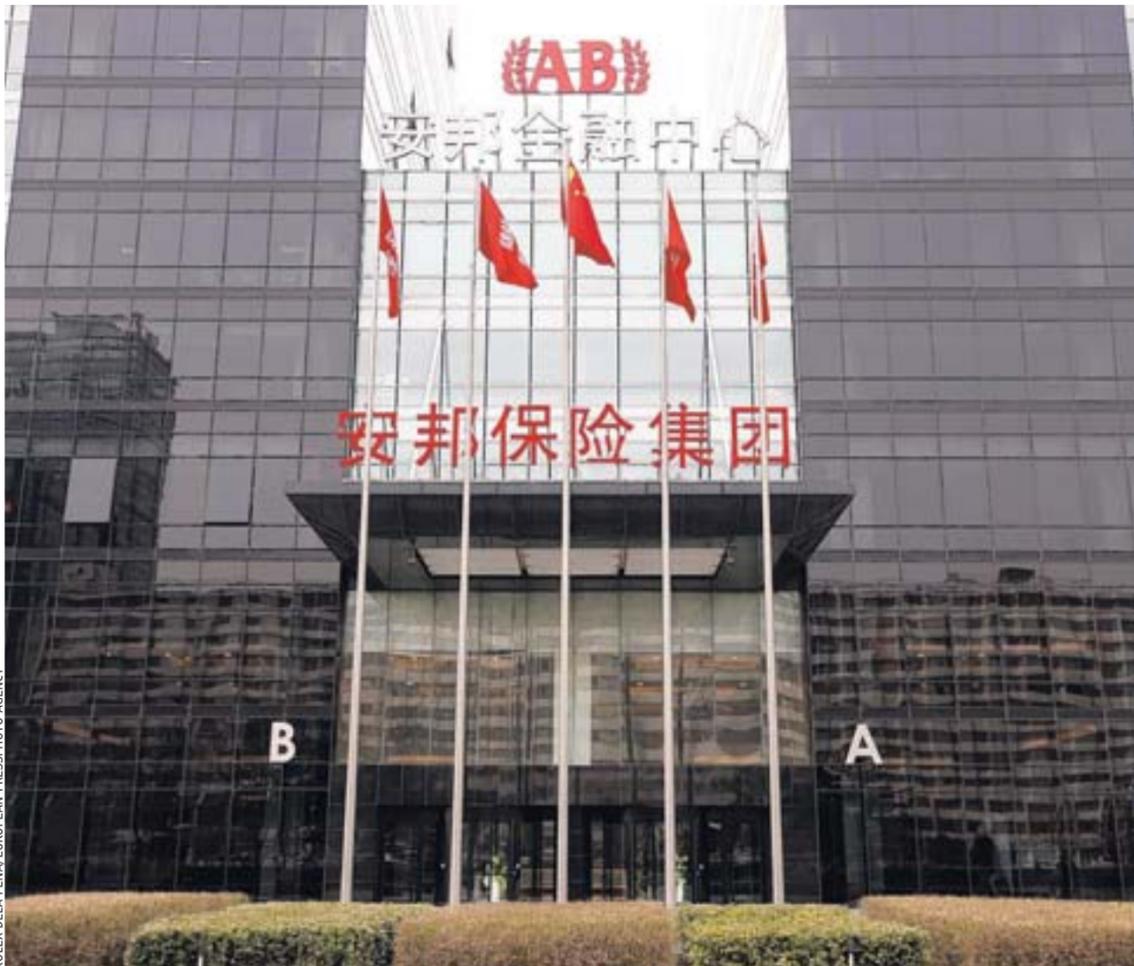
In late March, shortly after Anbang dropped the Starwood bid, an executive from the insurer initiated talks to buy a portfolio of Canadian hotels owned by Toronto-based **InnVest Real Estate Investment Trust**, according to people familiar with the talks. As in the Starwood case, the Anbang team, led in this case by its Beijing-based executive Lydia Chen, spent weeks negotiating, then suddenly told InnVest that Anbang was no longer interested.

Instead, according to people familiar with the talks, Ms. Chen told InnVest there was another buyer: **Bluesky Hotels & Resorts** Inc., a newly formed Canada-based shell company backed by unnamed Hong Kong investors, the people familiar with the talks said.

InnVest asked to know the identity of the buyer, but withdrew its request after Ms. Chen offered InnVest a \$100 million deposit that it could collect if the deal fell through, these people said. Ms. Chen had continued to negotiate for the new buyer, without indicating she was employed by the new bidder.

Ms. Chen couldn't be reached for comment. A person familiar with the matter said Ms. Chen was an Anbang employee who switched to working for Bluesky after Anbang introduced Bluesky to the deal.

A spokesman for Anbang said: "Speculation linking Anbang to Bluesky is incorrect. There is no connection be-



Anbang has been an aggressive bidder for overseas assets. Offices of the insurer in Beijing are shown above.

tween Anbang and Bluesky." A spokesperson for InnVest didn't immediately respond to a request for comment.

In the final days leading to the takeover agreement, signed May 10, Ms. Chen warned InnVest the deal would be off if Anbang's previous involvement were to be revealed, the people said.

It is still unclear who is backing the Bluesky agreement to acquire InnVest. In a news release announcing the deal, Bluesky's backers were identified only as Hong Kong investors. Bluesky was incorporated only one month ago, on April 18. Its directors are Xing Zhang and Li Chen, according to the Canadian corporate registry.

A person familiar with the talks says Li Chen is Lydia Chen. Bluesky's address, as well as its directors' addresses, is the same as its To-

ronto law firm, McCarthy Tetrault. A spokesman for InnVest didn't immediately respond to a request for comment.

Anbang has developed a reputation for its opaque structure. Chinese corporate registry filings show 39 mostly anonymous corporate shareholders, with multiple layers of holding companies registered all around China. Some of these appear to be related, sharing current or former shareholders and legal representatives, or people appointed to act on behalf of the firms.

unded as a provincial car insurer, Anbang has raised its international profile in recent years as an aggressive bidder for overseas assets. It has spent billions on insurers and hotels around the world, including nearly \$2 billion in February 2015 for New York's iconic Waldorf Astoria.

It has been at the forefront

of a wave of Chinese bids for foreign companies, with the dollar volume of such activity at a record pace so far this year.

In March, Anbang's acquisitiveness reached new heights when it entered a bidding war with Marriott International Inc. over Starwood. After three weeks of back-and-forth, when it appeared poised to prevail, Anbang walked away from its bid with no explanation save "various market considerations." In earlier overtures to Starwood in 2015, Anbang withdrew an offer with Starwood executives after they pressed Anbang for details on how it would finance the deal.

Anbang's speedy growth has required Chinese government support, from obtaining licenses from China's insurance regulator to receiving approval for overseas invest-

ment. Anbang's apparent ease in obtaining support has led many analysts to conclude that Anbang and its chairman, Wu Xiaohui, enjoy high-level political backing. The company has ties to some of China's premier political families. Mr. Wu married the granddaughter of former Chinese leader Deng Xiaoping, and the son of a revolutionary Communist general is a director at Anbang, Chinese corporate registry records show.

But Anbang could be facing headwinds. Prominent Chinese business publication Caixin reported earlier this month that the Chinese Insurance Regulatory Commission was preparing to inspect Anbang to learn more about the company's business. The focus of the investigation wasn't clear.

A spokesman for Anbang said it hasn't been informed of any investigation.

## RICH

Continued from page B5 with that name in 1427, it's a good bet that most are. As a condition of access to this data, the authors did not publish the surnames.

They found strong evidence that socioeconomic status is incredibly persistent. The wealthiest surnames in Florence today belong to families that, in 1429, were members of the shoemakers' guild—at the 97th percentile of income. Descendants of members of the silk guild and descendants of attorneys—both at the 93rd percentile in 1427—are among the wealthiest families today.

It's no surprise that wealth can be inherited or that one's parents play a large role in determining your social status. The economist Gregory Clark at the University of California, Davis, has written a book, "The Son Also Rises," showing how wealth and status can persist for centuries.

Still, the length that Florentine families have remained high-status is remarkable. Consider, in 1427, the Renaissance masters Leonardo da Vinci and Michelangelo had not been born. Florence would go from rule under the Medici family, to a republic, back to the Medici.

The city would fall to the Holy Roman Empire following the 10-month Siege of Florence. The Medici line would go extinct, the city would be taken over by Napoleon. It would lose its role as the head of a city-state to become part of the Kingdom of Italy, under Rome.

**Evidence was found that socioeconomic status is incredibly persistent.**

The fascist dictator Benito Mussolini would rule from 1922 to 1943, followed by a Nazi occupation of Florence. Following World War II, the city would undergo a period known as the "miracolo economico italiano"—the Italian economic miracle—with GDP growing more than 8% a year. Per-capita GDP would grow more in this period than in the entire five centuries from 1400 to 1900.

"The paper is about economic mobility (or persistence), that is whether the rich remain the rich," Mr. Mocetti wrote in an email. "But this does not necessarily imply that they are getting ever richer. Therefore there is not a direct relation with the Piketty argument (increasing inequality over time)."

Thomas Piketty is a French economist who documented the rise of income inequality. The Italian economists resist parallels to his research.

Mr. Barone and Mr. Mocetti say their evidence suggests persistence is somewhat highest for the wealthiest, which they interpret as evidence for "the existence of a glass floor that protects descendants of the upper class from falling down the economic ladder."

## SHORT

Continued from page B5

derperform the market. Short sellers were emboldened earlier this month when ANZ became the nation's first major lender to cut its dividend since the 2008 global financial crisis. The bank said bad-debt charges more than doubled to A\$918 million in the six months through March, while net profits shrunk by a quarter.

"Short sellers are likely to deem Australian banks as mispriced based on dividend and earnings risks," said Nicholas Vidale, a Hong Kong-based portfolio manager at Man Group, a hedge fund managing assets valued at US\$78.6 billion globally.

Credit-ratings firm Moody's Investors Service recently added to investor concerns, forecasting weakening bank earnings and sharply rising bad debts from record-low levels, as a global commodity-price rout increases the risk of loan defaults at companies from steelmakers to dairy farms. Banking analysts at Morgan Stanley, Goldman Sachs and UBS say they

think further dividend cuts appear to be inevitable.

"One doesn't have to be overly negative to expect Australian bank earnings growth to stall. Dividends are likely to be higher than what the banks can sustain," said Mr. Vidale, who declined to comment on his specific trading positions.

Shorting Australia's major banks isn't a strategy most hedge funds would likely be eager to publicize. The trade carries the nickname "widow-maker" because of the losses it has caused short sellers in the past. Mr. Hempton is one of the few hedge-fund managers to acknowledge openly that he is shorting Australian banks—albeit in a small way. He said those bets made up only 5% of the portfolio of his hedge fund, Bronte Capital, which has A\$126 million in assets under management, according to data compiled by financial website Credo.

Mr. Hempton wrote in a note to clients this month that he scours markets for potentially fraudulent or overhyped businesses. Last year, he drew global attention for being a vocal short seller of Valeant Pharmaceuticals International Inc., whose stock

has collapsed as the Canadian company deals with accounting and drug-pricing scandals.

Shorting the banks is a high-profile bet that risks defining those who make it, Mr. Hempton said in an interview. "This is a no-win situation for us because if we lose on it, everyone thinks we are stupid, and if we make money on it, everyone will look at the returns and ask why they are not larger," he said.

Many have failed to call correctly an end to an Australian housing-price boom that has led to some of the country's sleepiest towns becoming less affordable than New York. One investment manager's experience underscores the high stakes involved. In 2010, Jeremy Grantham, co-founder of Boston-based hedge fund GMO and famous for predicting bubbles, found traction among short sellers when he said Australia's property market was a bubble ready to burst. Instead, housing prices continued to climb.

This year, investors shorting Commonwealth Bank, the nation's largest lender, would have made a profit, as the stock has plunged as much as 18% since Jan. 1. However, the shares have started rebound-

ing in recent days. If they continue to rise, short sellers would be at risk of losses when they buy back the stock and return it to the original investor at a higher price.

The banks are benefiting from expectations the Australian central bank will further cut its benchmark rate this year from a record-low 1.75%. This has helped to allay market concerns about intensifying mortgage distress among Australian households, which are among the most indebted in the world. Home loans ac-

count for the majority of Australian bank assets.

"It's a tough trade," said Andrew Macken, a fund manager at Montgomery Global Investment Management in Sydney, who helps manage assets valued at A\$250 million. "Australia's major banks don't make good shorts. Even if their profit prospects may look weaker than in the past, they're still some of the most profitable in the world, competition is limited and they enjoy an implicit government guarantee."

## CHINA

Continued from page B5 would issue 233 million yuan of the securities, which include 2.1 billion yuan of bad loans to the bank's credit-card holders in the underlying assets.

Evaluating such securities for investors is difficult given uncertainties over the level and timing of making recoveries from bad loans, Fitch Ratings Senior Director Tracy Wan said.

Investors would find it hard to assess the cash flow from some bad loans and the ability of creditors to legally enforce the collection of collateral, Fitch said.

China officially stated that bad loans amounted to 1.75% of total loans at the end of March, the highest level since June 2009. Analysts, however, estimate far higher ratios. The brokerage CLSA Ltd. this month projected the ratio at 15% to



China Merchants Bank is selling securities backed by bad debt.

19% currently, based on an analysis of how much Chinese companies are servicing in interest expense compared with their operating income. It argued that the current valuations of Chinese banks, already trading well below book value, don't sufficiently price in the true extent of bad debt.

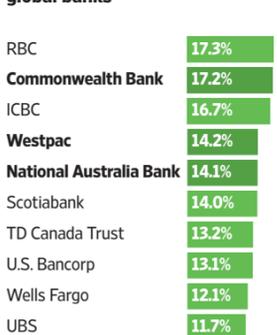
China stopped sales of securities backed by bad debt in 2009, a year after four issuances between 2006 and 2008 by three financial-service giants, because similar products, mainly in the U.S., played a role in the global financial crisis.

—Chuin-Wei Yap and Grace Zhu

### Expanding Shorts

Australian banks are among the world's most profitable...

Return on equity of major global banks\*



...but an uncertain profit outlook has lured short sellers...

Value of short bets on Australia's four biggest banks



...who make money when share prices fall.

Year-to-date stock performance, through May 20



Note: A\$1 billion = US\$730 million \*Based on each company's first-half results for fiscal 2016 \*\*As of May 13 Sources: KPMG (ROE); State Street Global Advisors (short-selling bets); Iress (performance)

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# HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

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## A Facebook Move Makes Cheetah Slip

**Cheetah Mobile** makes apps that protect phones against malware, but it can't guard its own revenue from Facebook.

The company on Thursday warned its revenue this quarter might come in nearly 30% lower than analysts expected. The stock plunged to its lowest since its 2014 New York listing. That had a knock-on effect on its controlling shareholder, Hong Kong-listed **Kingsoft**. It fell 16% Friday.

Why the miss? Facebook changed an ad-sales algorithm. Cheetah makes most of its income from selling advertising space on its apps. Though based in China, half its revenue comes from outside, and much of that by serving as a third-party ad platform for Facebook, which channels ads to Cheetah apps. To a lesser extent, Cheetah sells ads for advertising customers on the social network. **Credit Suisse** estimates ads from Facebook account for 25% to 30% of Cheetah's ad revenue.

Last October, Facebook tweaked algorithms to offer a metric on how ads perform on third-party publishers. Ads on Cheetah's platform didn't do well, and revenue was hit. Also, Facebook has tightened policies that have hurt Cheetah's ability to direct ad clients onto Facebook, says Morgan Stanley.

Cheetah is ramping up its effort to sell ad spaces directly to clients. This, however, will take time.

**Tencent Holdings** is a big Cheetah investor and is building its own Facebook-like advertising model. But until Tencent gains clout, Cheetah will have to deal with the elephant in the room—Facebook.

—Jacky Wong

## New Inflation Riddle for the ECB

In its quest to boost inflation, the **European Central Bank** has moved many market indicators, including the euro exchange rate, government-bond yields, corporate-bond spreads and issuance. One important item missing from this list is market-based inflation expectations.

It was a sharp decline to just below 2% in the five-year/five-year inflation swap—a measure of medium-term inflation expectations—in the summer of 2014 that marked the start of the ECB's journey toward large-scale bond purchases. President Mario Draghi fingered it in a speech in Jackson Hole, Wyo., in August of that year as being a measure to watch: A low reading is a challenge to the central bank's credibility on inflation. But more than a year after the ECB launched its quantitative-easing effort, the five-year/five-year rate is at 1.48%.

And there is a new twist for the ECB to contend with. Until recently, the decline in

### Rate Expectations

Euro five-year/five-year inflation swap rate



Source: Barclays  
THE WALL STREET JOURNAL.

that rate had tracked the decline in oil prices, causing consternation that even short-term price moves were influencing medium-term expectations.

Now, oil prices have been rising. Brent crude is more than 30% higher than at the start of the year. Yet the inflation-expectation rate hasn't followed suit.

The ECB's account of its April monetary-policy meet-



BLOOMBERG NEWS

ing lays out the puzzle: "While, in principle, a decoupling of inflation expectations from oil-price developments was welcome, in the current context this was a matter of concern."

Oil prices are still having a big negative impact on headline inflation. In April, the headline rate in the eurozone was minus 0.2%; excluding energy, it was 0.7%.

Should oil prices remain

stable, this effect will soon wash out. Moreover, energy prices will start to contribute positively to inflation. This base effect could be quite sharp. By January 2017, inflation could stand at 1.4%, HSBC Holdings thinks; Société Générale forecasts 1.7%.

That might cause the five-year/five-year rate to stir. Shorter-dated measures of inflation expectations have started to pick up.

But the persistence and widespread nature of low inflation—it has averaged just 0.1% over the past 12 months—may be uppermost in investors' minds. Europe's policy choices also may be weighing on inflation expectations. As much as the ECB is doing, it needs support from national governments in overhauling the eurozone economy.

There is always a chance that an inflation surprise is lurking in plain sight. Even so, the ECB hasn't overcome its problem with expectations.

—Richard Barley

## Richemont: Why Its Shares Aren't Ticking

With a diverse stable of well-groomed brands, Richemont should be an attractive long-term investment—just like its Cartier watches. But the shares don't sparkle.

The Swiss group posted weak results for the fiscal year through March on Friday. Sales only fell 1% at constant currency rates, but the trend continues to worsen. In the final quarter, sales were down 5% year over year; in April they fell 15%.

The culprit is the watch business, which accounts for 46% of Richemont's sales.

Both Cartier watches and brands such as Piaget and Jaeger-LeCoultre are suffering a build-up of inventory in Hong Kong and Macau.

Sales in the Chinese territories used to account for more than one-quarter of the global watch market, but have plunged since Beijing's clampdown on graft in 2012.

Cartier has been trying to maintain its standing with local retailers by buying back unsold watches and taking write-downs. This should help unlog the sales channel. For now, though, it weighs on margins and doesn't help the top line.

Sales trends elsewhere are also poor.

The only region showing much growth is, ironically, mainland China, as Chinese spend more at home. But margins are lower in China for luxury groups.

Most firms would react by cutting costs and perhaps lifting shareholder payouts. Burberry, the U.K. coat-maker, this week launched a £100 million savings drive and a £150 million (\$218 million) share buy-back.

Richemont has taken some action, downsizing its Swiss watch workshops at a one-time cost of €48 million (\$53.9 million), for instance. Given the strength of the Swiss franc and apparent overcapacity, it could be more aggressive. Value per worker has been falling in the Swiss watch industry since 2012, reckons Barclays.

Meanwhile, nonmanufacturing costs are rising. New retail outlets lifted selling

costs 16%. Also, marketing costs increased 8% and will rise by the same again this year, as management invests in "brand equity."

As for Richemont's €5.3 billion cash pile—almost one-fifth of its market capitalization—Gary Saage, the company's American finance director, said only that buy-backs "aren't advantageous" to Swiss shareholders.

The shares look cheap for the luxury sector at 15 times forward earnings, excluding cash. There is good reason for the lower valuation: management is taking a long-term view of the company's prospects, but investors can't be certain that will pay off.

—Stephen Wilmot

## MONEY & INVESTING

# Tarullo Outlines Rules for Insurers

By RYAN TRACY

WASHINGTON—Big U.S. insurers **Prudential Financial Inc.** and **American International Group Inc.** would face tougher capital requirements than their peers under new rules outlined for the first time Friday by the Federal Reserve's point man on regulation.

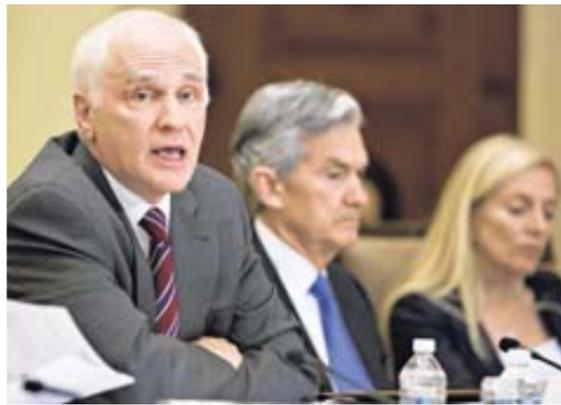
Fed governor Daniel Tarullo said the Fed will propose rules "in the coming weeks" that will have higher compliance costs for insurers considered "systemically important" to the U.S. financial system.

That group currently includes **AIG** and **Prudential**, but not **MetLife Inc.**, which won a court case overturning its systemic label earlier this year. The government has appealed MetLife's win.

The Fed gained authority to regulate insurance companies under the 2010 Dodd Frank law, but has taken more than five years to propose rules for the industry. Mr. Tarullo's remarks Friday were the central banks most detailed description to date of the pending regulations.

Mr. Tarullo didn't give all the details of the Fed rules, but he sketched them out in a speech to the National Association of Insurance Commissioners, a group of state regulators. He said the Fed will propose different rules for systemic insurers than for other insurance companies it regulates.

The central bank also regulates a dozen U.S. insurance



Daniel Tarullo is the Fed's point person on regulation.

companies that own banks, including **Nationwide Mutual Insurance Co.** and **State Farm Mutual Automobile Insurance Co.**

"Our tentative conclusion is that a bifurcated approach to a capital regime for insurance companies makes sense," Mr. Tarullo said.

The rules for nonsystemic insurance companies are likely to have a "relatively low regulatory burden," aggregating capital requirements that already exist at the state level, Mr. Tarullo said.

Prudential and AIG are likely to face a different capital requirement based on "risk segments," with the Fed placing assets and liabilities in categories based on the potential risks they pose to the company and the financial system, Mr. Tarullo said. The companies would

have to maintain more capital against segments with higher risk, he said, adding that the rules for systemic firms would result in higher compliance costs.

Mr. Tarullo said the Fed also intends to impose stricter rules on systemic firms in the areas of corporate governance, risk management and liquidity, following on a mandate from Congress to set out tougher standards on firms that have a size and complexity that a crisis at that institution could ripple through the broader financial system, the way AIG's woes aggravated the 2008 crisis.

He said the firms would likely face capital and liquidity "stress tests" examining their ability to fund themselves and keep operating in a crisis.

Mark Grier, vice chairman of Prudential, said on the sidelines

of the conference after Mr. Tarullo's speech that it was too early to tell the impact of the coming Fed proposal.

"Details will matter," he said in a brief interview. "I think they are on a good track in terms of the time they spent thinking this through and I'm optimistic that the details will come out in a way that reflects the right considerations for insurance as well as the right calibration relative to our risks and our balance sheet."

Mr. Grier said the Fed's approach looks "very different" from the current state risk-based capital regime, and he will be particularly focused on adjustments Mr. Tarullo said the Fed will make to the way his company's balance sheet is measured based on generally accepted accounting principles. AIG had no comment.

State regulators were also listening to the speech closely. They have been developing their own regime for looking for risks across insurance companies after the AIG debacle.

"It sounds like, at least at first blush, that we are very aligned," said John Huff, director of the Missouri Department of Insurance and president of the state insurance commissioner's group, in an interview.

"Everybody accepts" that systemic insurance firms will face higher capital requirement from the Fed, "so I don't think that is something that is of concern. The question is just how it is structured," he said.

and reinsurance industry."

For the next three months, Ms. Raiguel's priority will be to "determine how best to grow Gen Re's book of business" without sacrificing its business principles. —Anupreeta Das

### CHINA

#### Shanghai Exchange Gets New Chairman

Chinese authorities on Friday unveiled their choice for the next head of the Shanghai Stock Exchange, while the top securities regulator called for the exchange to improve market supervision.

China's central government and the State Council, the country's cabinet, appointed Wu Qing as the Communist Party secretary of the exchange and nominated him to be its chairman, according to a statement published on the website of the China Securities Regulatory Commission. Mr. Wu subsequently was elected chairman by the board of directors at the exchange, the statement said.

Gui Minjie, the current head of the Shanghai Stock Exchange, will step down due to his age, according to the statement.

—Yifan Xie

# STREET

Continued from page B5

ties charged with running big investment portfolios. He is a (very) long-term investor with a good eye for quality companies that tend to do well over time.

Mr. Buffett may be more famous than most, but the portfolios of the leading hedge funds, disclosed in regulatory filings known as 13-Fs, attract significant attention, too. A mini industry has grown up online allowing investors to track what the hedge-fund stars are doing and imitate their financial heroes. Investment banks are also in on the game: Several have created indexes of the shares the big hedge funds prefer.

But academic evidence shows investors should be cautious about simply trying to mimic what hedge funds are up to. For starters, the information is imperfect. The 13-Fs show only U.S. shares the funds have bought or taken options on. They ignore short bets, foreign stocks, bonds and futures. They are delayed by up to 45 days (May 16 was the deadline), giving agile hedge funds plenty of time to change their mind and dump a stock. And about a third of their holdings are missing entirely, as they ask the Securities and Exchange Commission for permission to keep them secret.

The past year's pummeling of crowded hedge-fund trades suggests that at times it pays to do the exact opposite of what the supposed "smart money" is up to.

Start with the good news: Shares do indeed go up after big-name managers disclose positions. But the effects wear off quickly or are small. Research last week from S&P Global Market Intelligence shows that buying stocks in which the biggest hedge funds had increased their holdings most, and selling those they cut back the most, would have slightly beaten the market. But the effort involved for a 0.22% average outperformance of the market over the following month, before trading costs and tax, really isn't worth it.

Academics have previously found a more significant two-day effect, but that is for fast-moving day traders, not investors. Over a month, a study a few years ago by Stephen Brown of New York's Stern School of Business and Christopher Schwarz of the University of California found no impact from 1999 to 2008.

Tweaks can improve the figures. Taking just the "best ideas" of the biggest hedge funds—the stocks they hold the most of—returned an extra 0.49% over a month, according to S&P. Nice to have, but hardly a way to Buffett-style riches given there are only four chances a year to try this out.

The bad news is that these small gains are interspersed with giant losses. Hedge funds rushed for the exit this year as their biggest holdings began to fall, and their selling made them fall even further. A Goldman Sachs equal-weighted index of the most popular 50 stocks held by hedgies plummeted 16% in the first six weeks, while an equal-weighted version of the S&P 500, also calculated with dividends reinvested, lost 11%. Since the index was created in November 2007, the S&P has provided a better return than the top hedge-fund picks.

More embarrassing still for the smartest guys in the room is that the stocks they were betting against—or Goldman's proxy for them—rose far more than the hedge funds' favorites and slightly beat the market.

It is easy to bash the stock-picking skills of hedge funds (Valeant, anyone?). Much worse is the tendency of hedgies to crowd into the same stocks, pushing up prices and making them all look like geniuses, until they all head for the door at the same time.

The 13-F filings can be useful for spotting the moments when hedge funds are all copying each other. That is the time to worry that any upset might see a violent exit crush the crowded trades.

At other times, the best ideas of the smartest managers, at least those who don't trade too frequently, make a good starting point for investors. But be warned: there's no substitute for your own analysis.

## OVERHEARD

For **KPMG**, **Phil Mickelson** may turn out to be a bad bet.

The auditing firm, which has sponsored the professional golfer since 2008, says on its website that the two "have built a strong relationship built on professionalism and integrity." It's a sentiment KPMG might want to rethink in the wake of news Mr. Mickelson has agreed to pay the Securities and Exchange Commission more than \$1 million to cover the profits, plus interest, he made on a trading tip from gambler **William "Billy" Walters**, who allegedly had inside information. That Mr. Mickelson apparently used his profits to pay off gambling debts to Mr. Walters doesn't help.

According to a statement released by Mr. Mickelson's lawyers, the golfer "regrets any appearance that, on this occasion, he fell short" of the standards of companies he represents. KPMG released a statement saying that while it is disappointed with the news, "we appreciate that Phil's statement makes clear he respects and shares the values of KPMG."

KPMG isn't Mr. Mickelson's only sponsor; a number of companies have struck deals with him. But given that it is tasked with signing off on company financial statements, and that it is a regulated entity, it probably faces the most reputational risk.

Such risks can matter, as the scandal surrounding the car accident **Tiger Woods** got into in November 2009 showed. An analysis by economists **Chris Knittel** and **Victor Stango** shows that from the day of the accident to the day two weeks later that Mr. Woods announced his "indefinite leave" from golf, the market value of companies that sponsored him fell 2% relative to the overall market.

In the end, KPMG might be better off taking a drop.

## Finance Watch

### BERKSHIRE HATHAWAY A Different CEO At General Re Unit

Berkshire Hathaway Inc. has appointed one of its longtime reinsurance executives, Kara Raiguel, to the post of chief executive of its General Re