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The Surprising Resilience of Samsung

p42

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PHOTOGRAPH BY WAYNE LAWRENCE FOR BLOOMBERG BUSINESSWEEK

▲ You've got a friend in Thailand

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VICTOR
THE WORLD'S FIRST TRULY
TRANSPARENT MARKETPLACE
FOR ON-DEMAND JET CHARTER

■ IN BRIEF

Asia

● India has built just 214,560 homes in the past two years, well off the pace necessary to meet Prime Minister Narendra Modi's stated target of 50 million by 2022.
▷ 35

● A Vietnamese court sentenced blogger Tran Thi Nga to a nine-year prison term for "propaganda against the state" after she criticized the government's handling of a toxic waste spill at the Formosa steel plant in Ha Tinh province.

● Public support for Japanese Prime Minister Shinzo Abe has plummeted to its lowest level since he took office. He's been

accused of cronyism for allegedly directing government backing to a veterinary college created by a close friend. Abe denies wrongdoing.

● In as little as one year, North Korea could develop missiles able to reach the U.S., American intelligence agencies say.

Previously, the agencies had estimated that development would take about four years.

Chinese and Russian naval warships held joint exercises for the first time, in the Baltic Sea, a signal of deepening cooperation between the two powers.

Europe

● Polish President Andrzej Duda vetoed bills backed by his ruling Law and Justice Party that would have replaced the country's Supreme Court judges and revamped the National Council of the Judiciary. His decision came after eight days of public protest.

● Luxury brand Michael Kors has agreed to buy London-based shoemaker Jimmy Choo for

$1.2b

● The U.S. Department of Justice is looking into allegations that German automakers, including BMW, Daimler, and Volkswagen, colluded on technology, strategy, and parts to gain advantage over international rivals.

● After the revelation that only a third of the BBC's highest-paid workers are women, 42 of the broadcaster's employees signed an open letter calling for action to eliminate the pay gap. Director General Tony Hall has promised to address disparities.

● Greece returned to international bond markets on July 25 for the first time since 2014, raising

$3.5b

from the sale of five-year notes.

● Fearing a hard Brexit, Deutsche Bank is considering moving $350 billion, almost a fifth of its balance sheet, from London to Frankfurt.

In better news for the U.K., both BMW and Amazon announced plans to add to their workforces in England.

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Americas

● "He's huge. He's so unattractive, it's unbelievable."

Senator Susan Collins (R-Maine) was caught on a live mic insulting her colleague Representative Blake Farenthold (R-Texas). He'd implied to a newspaper from his home state that he would have challenged Collins to a duel over her refusal to vote for health-care repeal if she weren't a woman. Both later apologized.

● Record stock prices and unemployment at a 16-year low propelled U.S. consumer confidence to a four-month high.

● Mexico's drug war is encroaching on its once-quiet vacation hot spots. The cartels have begun trafficking in stolen gasoline as well. ▷ 31

● Elsewhere in Washington:

● President Trump said he would ban transgender individuals from serving in the military and lashed out at Attorney General Jeff Sessions on Twitter.

● Senator John McCain (R-Ariz.) returned to the Senate and gave an impassioned speech on health care. ▷ 38

● The House passed a bill limiting the president's ability to lift sanctions on Russia.

● Jared Kushner answered questions in closed-door sessions before the House and Senate intelligence committees on his alleged Russia ties.

● Paul Manafort also met with the Senate intelligence committee and was called to appear before the Senate judiciary committee before a subpoena was withdrawn and the meeting was canceled.

Federal Reserve officials announced they would begin to wind down their $4.5 trillion balance sheet "relatively soon."

● Petronas, Malaysia's state-owned energy company, abandoned plans to build a

$27b

liquefied natural gas export terminal on Canada's west coast, citing "prolonged depressed prices."

● Chipotle reported on July 25 that a sick employee had caused the norovirus outbreak earlier in the month at a Virginia restaurant that made at least 135 people ill.

The company has struggled to come back after a series of food-safety issues in 2015 and had just returned to profitability a few months ago.

● Meg Whitman stepped down as chairman of HP on July 26, a day after her name appeared on a leaked shortlist of candidates to replace Travis Kalanick as CEO of Uber.

Africa

● Ethiopia arrested 34 people on corruption charges, including members of the Ministry of Finance and Economic Cooperation and employees of the Ethiopian Sugar Corp.

● Kenya will lift its ban on flour and gas from Tanzania, and Tanzania will in turn remove restrictions on Kenyan milk and cigarettes, ending a long-running trade dispute.

The Importance of Being Idle

● Washington is wrapped up in getting work done—even if a hot August won't produce anything. Time to take a break

● By Peter Coy

Gina McIntosh was born in France to Italian parents, is married to a Canadian, and runs a bed-and-breakfast in Saint-Saturnin-lès-Apt—about an hour-and-a-half drive north of Marseille—that caters to travelers from all parts of Europe as well as South Africa, Australia, and the U.S. So she knows a thing or two about different nations' attitudes toward time off from work. Nobody, she says, takes vacations as seriously as her fellow French: "French people, for sure, they take their vacation in August. That's not even a question. You can't touch the vacation of French people. That's part of their right. They fought for it. It is something that is very engraved in the rights of the French people."

Americans are…different. Sure, they dig their toes in the sand every summer, but they don't believe vacations are enshrined in the Declaration of the Rights of Man and of the Citizen. Vacationing Americans are more likely to sneak a peak at their work email once a day, or once every 10 minutes. They're torn between worrying that the office won't function without them or—worse—that it will function just fine without them. And it's laughably easy to get Americans to feel guilty about taking time off when they haven't accomplished what they were supposed to get done before they left.

On July 19, President Trump played on the vacation guilt of members of Congress when he demanded that they postpone their August recess until they managed to repeal and replace the Affordable Care Act. "We shouldn't leave town until this is complete—until this bill is on my desk and until we all go over to the Oval Office," he told Republican senators at a White House lunch meeting.

To put things in perspective, the high temperature that day in Washington was a humid 97F. Not a conducive environment, even indoors, for making a negotiating breakthrough among 500-plus cooped-up lawmakers who were already frustrated, bored, embarrassed, or angry over the Obamacare stalemate. In Jean-Paul Sartre's play *No Exit*, a character says that hell is other people. In the D.C. summer-stock adaptation, hell is other congresspeople.

Congress could learn something from the French. Or the Germans, who work even fewer hours per year on average than the French, yet maintain a high, well-ordered standard of living. In Germany, "people have a very strong 'work hard, play hard' attitude. They ride their motorcycle or their Porsche. The quality of life is so high," says Amrei Gold, who works for the German National Tourist Office in New York.

Europeans view vacation not as a reward but as a necessity—a periodic restorative as essential as sleep. According to the 2016 Vacation Deprivation Study by Expedia, employed Americans on average are offered 15 vacation days a year but take only 12. The French are offered 30 vacation days a year and take all 30. "The instinct to say, 'Just sacrifice your time off' is uniquely American and uniquely American business," says Lonnie Golden, an economist at the Abington campus of Pennsylvania State University.

In 2011, Golden conducted a review for the International Labour Organization of the academic literature on the relationship between work and productivity. "In many industries," he found, "it appears that shorter hours are associated with higher output rates per hour." Golden just returned to the U.S. from another guest stint at the ILO headquarters in Geneva, where the Europeans quickly called out his American ways. "I would bring my lunch and eat at my desk," he says. "That was completely unacceptable culturally. Everybody takes an hour off for lunch."

Calestous Juma, a professor of the practice of international development at Harvard's Kennedy School of Government, says Europeans are more "evolved" than Americans when it comes to feelings about work and leisure. But it's not just Europeans who have a healthier perspective. "I was raised in rural Kenya, where work and rest were defined by season or completion of tasks," Juma writes in a LinkedIn message. "You were free to party so long as you were done."

American congresspeople are finely attuned to their constituents' feelings, so it's no surprise that the American ambivalence about vacation manifests itself in the almost annual debate over whether to take the August recess. On one hand, Congress rarely ▶

PHOTOGRAPH BY CAROLINE TOMPKINS FOR BLOOMBERG BUSINESSWEEK

◀ accomplishes everything it intends to by the end of July. On the other hand, August is a great time to be almost anywhere but the District of Columbia. John Nance Garner, who was speaker of the House before becoming vice president to Franklin Roosevelt, famously said, "No good legislation ever comes out of Washington after June." In 1970, after a string of agonizing summer sessions, Congress gave itself an August recess as part of the Legislative Reorganization Act, but both houses are free to keep working if they feel they must.

That's where the guilt comes in. Nebraska Republican Senator Ben Sasse seems like the kind of lawmaker who would love to get out of the Capitol more. He's a devoted family man; his three children are home-schooled; on Father's Day he issued a video message on Facebook telling dads to step up. But in July he told CNN that Congress should work 18 hours a day, six days a week on repealing and replacing Obamacare, and if necessary skip the August recess. Except he didn't call it a recess; formally, it's the August "state work period." Ugh. At press time, the Senate was scheduled to remain in session the first two weeks of August to knock heads, with the House prepared to return from recess early to take up any bills passed by the other chamber.

Honestly, does anyone think members of Congress are capable of solving problems creatively at this advanced stage of their stalemate? The accumulation of unresolved issues is like a weight on their chests: not just Obamacare, but a tax plan, infrastructure, the debt ceiling, the 2018 budget, and more. Sheer exertion isn't the answer. To schedule one fruitless meeting after another now could induce the congressional equivalent of rhabdomyolisis—the death of muscle fibers caused by overly strenuous exercise.

Instead, a bit of time back home, communing with constituents or just staring into the distance from a ridge in the Ozarks, the Adirondacks, the Tetons, or the Cascades might be just the thing to help lawmakers see a way through to governing. Work, the rest of the world knows, doesn't always equal achievement. As a wise person once said, "If at first you don't succeed, try, try again. Then quit. There's no sense being a damn fool about it." Ⓑ

■ VIEW

To read Barry Ritholtz on Vanguard's next CEO and Justin Fox on Massachusetts' tax-cut miracle, go to Bloombergview.com

How to Make Lawsuits Work for Consumers

● In their fight over mandatory arbitration, Congress and the financial watchdog are both missing the point

Congressional Republicans and the Consumer Financial Protection Bureau are clashing over a question that has implications far beyond the world of finance: How far can companies go to protect themselves from customer lawsuits? Neither side has gotten the answer quite right.

If you've ever signed up for a credit card, you've most likely skipped through the boilerplate contracts that are at the center of the controversy. The dry language of the documents is mostly concerned with commercial terms such as interest rates and fees. These standardized conditions facilitate trade and save everyone time and money.

Increasingly, though, the agreements have been including something else: a clause requiring consumers to resolve disputes in private arbitration, not in court. In some markets the practice has become so ubiquitous that customers no longer have a choice. This is troubling, because arbitrations have no juries, no rules of evidence, and no straightforward method of appeal to the courts. Arbitration procedures have also been known to go badly wrong.

Enter the CFPB, which issued a rule earlier this month saying financial companies can't ask consumers to sign contracts waiving their right to participate in class actions. On the face of it, this makes sense, given that such actions—which bundle numerous complaints in a single lawsuit—can be the only way for plaintiffs with meager resources to gain redress. It would also bring the U.S. more in line with the U.K. and other European countries, where mandatory arbitration clauses are typically considered invalid.

The problem is that the financial watchdog's solution assumes that U.S. class-action law works well, which it doesn't. Unlike most other developed countries, the U.S. lets courts award large punitive damages, doesn't require unsuccessful plaintiffs to pay defendants' costs, and allows classes to include customers who haven't actively agreed to participate—all of which leads to much expensive litigation. Lawyers can end up gaining more than aggrieved customers, incurring costs that can get passed on to consumers as higher prices.

What's there to do? Simply repealing the protection bureau's rule and leaving the current system in place, as Republican legislators propose, wouldn't be an improvement. The right answer starts with tort reform. Congress should make it harder to form classes on an opt-out basis. It should put limits on damages and lawyers' fees, and it should allow courts to tell the losing side to pay the opponent's legal costs.

Once that's done, the CFPB's rule would work well, because there'd be no good reason to force consumers away from the courts. Companies and their customers could choose the appropriate venue—be it the courts, arbitration, or mediation—on a case-by-case basis. But the CFPB can't get to this outcome by itself. The larger problem is one that only Congress can solve. Ⓑ

LOOK AHEAD

● At Sprint's annual meeting, investors may seek news about a possible cable deal or sale

● Tesla releases second-quarter earnings on Aug. 2

● Huntsman will price the IPO of its Venator Materials unit in preparation for its merger with Clariant

China's Elusive Goal:

● Bosideng, the mainland's No. 1 maker of down coats, wanted to conquer London. It didn't

Founded in the 1970s by rural tailor-turned-billionaire Gao Dekang, Bosideng International Holdings Ltd. grew into China's largest maker of down coats and the manufacturer of down apparel for top international brands including Adidas and Columbia Sportswear. How successful was it? By 2012, Bosideng was producing 450 million ducks' worth of down jackets annually, and its own branded garments were sold in more than 10,000 stores across China. Given that success, its executives figured that selling high-end outerwear, plus a menswear line, under its own brand in London and New York would be a breeze. So in 2012 the company opened a richly decorated £35 million ($46 million) store on a prime corner near London's Oxford Street–intended to be the first of several foreign outlets–and waited for international customers to come calling.

Bosideng is still waiting. The company balked at spending the huge amounts on marketing needed to create buzz around a new global brand, and in January it shuttered its London outpost. Worse, while it was busy plotting an international expansion, retailing in China tilted toward online sales, and rivals invaded Bosideng's home turf, stealing market share.

Now the company is back to focusing on its domestic market, but to help revive its profits this time, it plans to team with foreign brands coming to China. "We tried ourselves to sell our merchandise outside China and not just be a manufacturer for other brands, but ended up reconsidering that," says Kelvin Mak, a Bosideng executive director. "If we want to reenter the international market, we will be more careful in taking that step."

The misfire highlights the challenges for Chinese companies, the world's largest garment exporters, in tapping overseas markets with their own brands. For one thing, their vast domestic customer base, historically deprived of choice, created a false sense of recognition, says Doreen Wang, the New York-based global head of consulting firm BrandZ.

"Chinese consumer-apparel makers think that putting products on shelves means that you've established a brand, because that is how they came up in a China where consumers just bought what was accessible," Wang says. "But in the current consumer environment, building a brand takes a long time and a lot of investment."

While China's technology brands, such as Alibaba, Huawei, Lenovo, and Oppo, have been successful overseas, its apparel companies haven't typically known "how to build a product with both functional and emotional components," says Richard Ho, senior partner at consulting firm Roland Berger GmbH in Shanghai.

What's required is a distinctive identity, says Chan Wai-Chan, a retail partner in Hong Kong with the consulting firm Oliver Wyman. "I would hesitate to call Bosideng a brand," he says. "They had a fantastic location in London, but when people walk by, they ask, 'What's the story? What's this about?'"

During a visit to the London store, Chan says, he was told by a shop assistant that Bosideng is "the biggest down jacket brand in China." "That has limited effect," he says. "They could have the best production abilities but not the innovative idea behind the brand. That's why they can make jackets for top global brands but not sell them globally themselves."

Bosideng, a Chinese transliteration of "Boston," was selling $1.3 billion of merchandise in China

A Global Apparel Brand

annually, including the nation's top-selling line of down-filled puffer coats, when it hired British designers Nick Holland and Ash Gangotra in 2012 to help it take on the premium U.S. and European menswear markets. (The company figured menswear would be easier to break into.) It even enlisted former Hugo Boss AG executive Marty Staff, who helped organize the first and only showing of its collection at New York Fashion Week, in 2014.

Efforts to promote Bosideng's London store included lending suits to male celebrities and posts on Facebook, Mak says. Still, he says Bosideng was unwilling to invest the millions of dollars that many apparel brands spend on advertising and marketing each year. "We were not comfortable with making that kind of investment as we were just testing the waters," he says.

Mak cites that lack of spending as a reason the company hasn't struck a deal with Saks Fifth Avenue, a showcase for high-end brands, to carry its label. A spokeswoman for Hudson's Bay Co., which owns Saks, says the company doesn't comment publicly on the terms of vendor agreements.

In the three years ended in 2015, Bosideng's earnings plunged about 90 percent as customers in China migrated to online platforms and foreign fast-fashion franchises including Denmark's Bestseller A/S and Fast Retailing Co.'s Uniqlo moved in with brick-and-mortar stores. The company's shares have slumped 66 percent over the past five years.

That's a big comedown for Gao, the chairman and founder, who started in the 1970s with a single small-town factory with six sewing machines, 11 workers, and materials delivered by bicycle from Shanghai. On one of his many 180-kilometer (112-mile) cycling round-trips, he saw customers in Shanghai lining up to buy coats made of down—a luxury few people could afford and an opportunity he was quick to tap. By the early 2000s, the company was selling huge numbers of garments. One example of its scale: In a single year, Bosideng's massive production included 3.5 million jackets of one particular style in one particular color, designer Holland told the British newspaper the *Telegraph* in 2012. Today, Gao and his family are worth $1.1 billion, according to *Forbes*.

About a third of Bosideng's revenue comes from making down jackets for brands such as Adidas and North Face—a business that enables the company to get a glimpse of the styles and designs that others are planning to introduce, Mak says. But the company must contend with slowing outerwear sales growth and new rivals. Bestseller dominates with 3 percent of the global market, ahead of Fast Retailing's Uniqlo, with a 1.5 percent share, according to researcher Euromonitor International. Bosideng's market share fell to 0.7 percent last year, from 1.4 percent in 2012.

The company is now focused on wooing younger, trend-conscious consumers. It's bought several domestic women's wear labels, including Jessie and Buou Buou, and is looking for more. Mak projects 10 percent to 20 percent revenue growth in the year ending March 2018 for the women's workwear segment, aimed at an older, wealthier clientele. The company also is negotiating to bring a Japanese children's wear label to China to take advantage of the lifting of the one-child policy and a consumer shift to higher-end items, such as organic cotton clothing.

As for down jackets, Bosideng is trying to sharpen its branding with a line featuring characters licensed from Walt Disney Co., which drew 100 million yuan ($14.8 million) in sales in its just-ended first year. It's also offering a premium line of Bosideng-branded coats designed by Fabio Del Bianco of Italian luxury sportswear brand Moncler. "It's quite hard, because the market has changed, and more and more international players have come in," Mak says. "What we want to do is rebuild our customer base and ▶

● Number of ducks needed in 2012 for Bosideng's down use

450m

GETTY IMAGES (15)

◀ let people know we are good at down jackets."

The expansion abroad wasn't a complete bust. Mak says the London property in trendy Mayfair is now worth £50 million, though Bosideng has no plans to sell. "We may return in a few years when we have completed our domestic restructuring," he says. "For now, international expansion is on hold." *—Rachel Chang, with Lindsey Rupp*

THE BOTTOM LINE Chinese apparel maker Bosideng had big plans to take its brand to Europe and the U.S., but it was unable to overcome Western consumers' coolness to China nameplates.

These Cigarettes Are Smokin'

● Grand River Enterprises' products have sparked a lengthy legal battle

American Indians introduced tobacco to the rest of the world centuries ago, and the nicotine-laden herb remains an important part of their culture and religious ceremonies. It's also key to the commercial success of Grand River Enterprises, a company dominated by two Mohawk men on the Six Nations of the Grand River Reserve in Ontario, Canada. GRE manufactures Seneca and other brands of cigarettes at a sprawling plant on the reserve in Ohsweken. They're sold at smoke shops there and through distributors who market them across Canada, the U.S., Central America, and even Germany, where that nation's armed forces have bought them for their personnel. There's only one problem with this highly visible example of indigenous people's success: taxes.

Because of Canadian and U.S. laws that give the Canadian tribes First Nation sovereign status, GRE contends sales of cigarettes manufactured on tribal land aren't subject to many taxes—giving its smokes a huge advantage over heavily regulated mainstream brands such as Marlboro. That's caused blowback not only from Big Tobacco companies that are required to pay hefty excise and sales taxes on their products, but also from governments that are losing out on tax revenue from the estimated hundreds of millions of dollars in annual sales of the First Nation company.

That displeasure and the often disputed laws surrounding native businesses have made GRE executives no strangers to courtrooms. For the past two decades, U.S. authorities have accused GRE of avoiding taxes throughout the country. New York Attorney General Eric Schneiderman sued in federal court in 2013, alleging GRE and its distributor violated federal contraband and state tax laws through a business model "specifically designed to evade paying the state's cigarette excise and sales taxes." In July, California sued the company, claiming it illegally promotes discount cigarette sales without paying into a fund that covers litigation over health-related costs for smoking-related diseases.

GRE is having a "huge impact" in the Canadian market and beyond because its cheap cigarettes undercut efforts to curb smoking, says David Sweanor, an adjunct law professor at the University of Ottawa. "Pricing is far and away the most powerful tool we've ever used to reduce cigarette smoking," he says. "We've seen a very powerful public-health tool being rendered less effective at the same time as reducing government revenue and undermining the rule of law."

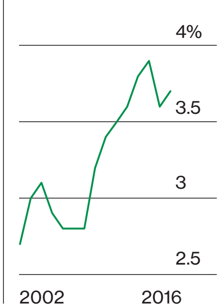
Neither Jerry Montour, GRE's chief executive officer, nor another top executive and co-founder, Ken Hill, returned messages seeking comment. GRE attorney Chantell Montour also didn't respond to requests for comment. But the company has waged aggressive courtroom defenses, denying it sells untaxed cigarettes and challenging the authority of governments in the U.S. and Canada to regulate a First Nation-owned company. Schneiderman's case is foundering after a magistrate judge recommended dismissal last August; a district judge has yet to rule. Many other lawsuits against GRE have been settled for small amounts or tossed out. Hill was acquitted of a criminal contraband charge in Seattle in 2010.

The business practices of GRE are inextricably bound with its First Nation-owned status. Tribal and First Nation governments are considered sovereign nations in the U.S. and Canada, though there are legal differences, and tobacco is big business on reserves such as Six Nations. Smoke shops are ubiquitous there, selling several GRE brands for $15 a carton, as well as plastic baggies with 200 unbranded cigarettes—the equivalent of a carton—for as little as $8.

Cigarettes purchased there by First Nation members for personal consumption generally are not subject to tax. But many First Nation people resent that governments enforce contraband laws for the purchase of large quantities for resale elsewhere. "I find it absolutely ludicrous that a government can label a natural herb, something that our people are based and founded upon through our ceremonies, contraband," Kelly MacNaughton, a Mohawk who owns a smoke shop on the Six Nations reserve, said on a podcast last year. "Tobacco has laid down the economic foundation in our communities. It has risen us up out of that poverty."

Health authorities say taxes on cigarettes prod smokers to quit a habit that kills 480,000 Americans and 37,000 Canadians a year. But taxes vary widely. In New York City, smokers pay a state excise tax of

● Market share for illicit-trade cigarettes sold in the U.S.



DON HEUPEL/AP PHOTO; DATA: EUROMONITOR; PHOTOGRAPH: DON HEUPEL/AP IMAGES

$4.35, a city levy of $1.50, and a federal tax of $1.01. Retail prices often exceed $13 a pack, or $130 a carton. By contrast, the state tax in Virginia is 30¢ a pack.

Officials say such disparities foster smuggling of cigarettes sold in American Indian smoke shops or low-tax states such as Virginia into higher-tax venues like New York. For smugglers, the appeal is undeniable. A shipping container with untaxed cigarettes can be bought for $100,000 and resold for $2 million, says Alvise Giustiniani, vice president for illicit-trade strategy and prevention at Philip Morris International Inc. "The economics are tremendous," he says. "It's big money that's attracting organized crime and, in some places, terrorism." There's also far less risk of a lengthy prison term than with narcotics trafficking.

Euromonitor International estimates that in 2015 about $40 billion in cigarettes were consumed without duty being paid. Philip Morris wants law enforcement to boost efforts against cigarette smuggling—a tough sell, in part because of the company's history of denying the health hazards of cigarettes. "The past is haunting us," Giustiniani says. "The fact that we are selling tobacco, which is a product that kills, clearly is not helping."

GRE is battling a taxation system that grew far more complex in 1998. That's when the four largest tobacco companies agreed to pay more than $200 billion to 46 U.S. states to settle litigation over health-care costs. Under the Master Settlement Agreement, companies accepted limitations on marketing and advertising. States also passed laws forcing dozens of smaller manufacturers to pay into escrow funds for potential health-care costs over 25 years. GRE chose not to join the agreement. When the company failed to make escrow payments, states sued and at least 10 won judgments after GRE didn't respond in court.

The company launched a counteroffensive based on its practice of primarily using two large distributors to sell its products in the U.S. In court, the company argued it bore no legal responsibility for the failure of distributors to pay taxes on cigarettes after they left the manufacturer's loading dock. GRE sued 31 states in federal court soon thereafter, asking a judge to declare the Master Settlement Agreement and escrow statutes in violation of antitrust law. The company got some escrow judgments reversed in states including South Dakota, and it settled with other states, such as Kansas. But it failed to overturn the agreement.

GRE also challenged U.S. escrow and contraband laws before an arbitration panel under the North American Free Trade Agreement. It sought at least $340 million in damages, arguing it didn't engage in retail sales and was protected by its tribal status. In response, the U.S. said GRE failed to acknowledge that a "large, if not overwhelming portion of their 'on-reserve' sales ultimately serve an off-reservation market." The case was dismissed.

GRE's legal defense didn't help its two distributors, Native Wholesale Supply Co., for American Indian retailers, and Tobaccoville USA Inc., for non-native retailers, which both faced fines and criminal charges. John June Jr. and Larry Phillips, the owners of Tobaccoville, pleaded guilty in 2011 to obtaining property under false pretenses and agreed to pay $6.5 million. In response, the U.S. Department of the Treasury moved to revoke Tobaccoville's import permit. The company claims the U.S. targeted it as an importer of cigarettes made by a "sovereign Native American nation."

▲ Protesters on the Cattaraugus Reservation rally against a New York state cigarette tax

Native Wholesale Supply in 2010 pleaded guilty to an obstruction of justice charge. Meanwhile, it's on the hook for more than $47 million in payments to Oklahoma, $45 million to the U.S. Department of Agriculture, and $8 million to California. But the governments are trying to collect from a company that filed for Chapter 11 bankruptcy protection in 2011, and its reorganization plan was confirmed three years later.

Their distributors' woes haven't kept Montour and Hill from throwing lavish "customer appreciation" parties for retailers and others in the Bahamas and Las Vegas, and hobnobbing with former boxer Mike Tyson and minor celebrities such as actor Emmanuel "Webster" Lewis and the stars of *Trailer Park Boys*, a Netflix series that follows the "booze-filled misadventures" of three petty criminals in Nova Scotia.

Near his home, Hill constructed an elaborate man cave, complete with luxury cars and Lamborghini-shaped couches. Montour has his own interests, including the financing of two large-scale marijuana-growing facilities on tribal lands in California, U.S. authorities alleged in a search warrant affidavit, citing witnesses. Federal agents raided the facilities in 2015, seizing 100 pounds of processed marijuana and 12,000 plants. No charges were filed. A lawyer for GRE told the *Hamilton Spectator* that the tribes acted within their sovereign rights. —*David Voreacos and Andrew Martin*

THE BOTTOM LINE Grand River Enterprises has battled U.S. and Canadian authorities over taxation of cigarettes as it's built a lucrative worldwide business with its Indian smokes.

St. Louis Loses Favor With Plaintiffs

● A recent Supreme Court ruling could help companies seeking to overturn verdicts or dismiss cases

Quick trials, big verdicts favoring consumers, and a state law that allows nonresidents to easily join mass litigations made St. Louis a destination of choice for attorneys going after companies that do business nationwide. Those days may be over, and drugmakers such as Bristol-Myers Squibb Co. and Johnson & Johnson couldn't be more relieved.

The U.S. Supreme Court in June struck a blow against so-called litigation tourism, ruling there has to be a connection between the forum and the specific claims at issue. In an 8-to-1 ruling, the top court said almost 600 people who claimed they were injured by the blood-thinning drug Plavix couldn't sue Bristol-Myers Squibb in a California court because they didn't live in the state.

The fallout in St. Louis was quick. Within days, J&J, citing the Supreme Court ruling, won a mistrial in a case in which the families of three women blamed their deaths from ovarian cancer on use of the company's talc products. Two of the families were from out of state. Illinois-based drugmaker AbbVie Inc. asked the Missouri Supreme Court on June 26 to consider the June 19 U.S. Supreme Court ruling in an appeal of a $38 million St. Louis jury verdict that found its Depakote medication caused birth defects. AbbVie said the trial shouldn't have been held in St. Louis. Two days after the Supreme Court decision, a Bayer AG unit tried to have thrown out a lawsuit claiming its Mirena contraceptive device caused birth defects. The lawsuit included 98 women, but only 3 were residents of Missouri. The federal judge denied that request and sent the case back to the city court.

There are likely to be more challenges in St. Louis, where complaints full of nonresidents have been pouring in in recent years. A lawsuit filed in 2014 over Pfizer Inc.'s anti-cholesterol drug Lipitor, for example, has 91 plaintiffs. Only one is a resident of St. Louis. A talc complaint brought against Johnson & Johnson in 2014 has 65 plaintiffs, with one St. Louis resident and one other from Missouri.

"It's going to be tougher for plaintiffs," says Carl Tobias, a law professor at the University of Richmond. "They'll find some friendly jurisdictions, but judges are going to read the Supreme Court decision and force them back to where they came from."

Justice Samuel Alito, writing for the majority on the Supreme Court, set the standard clearly in describing the problem with the Plavix litigation. "The nonresidents were not prescribed Plavix in California, did not purchase Plavix in California, did not ingest Plavix in California, and were not injured by Plavix in California," he wrote. "The mere fact that other plaintiffs were prescribed, obtained, and ingested Plavix in California—and allegedly sustained the same injuries as nonresidents—does not allow the state to assert specific jurisdiction over the nonresidents' claims."

The ruling gives J&J renewed hope after the company lost four talc trials in St. Louis—three last year and one in 2017. A total of $300 million was awarded to the plaintiffs, each of whom was an out-of-towner. "In those cases, we consistently argued that there was no jurisdiction," Ernie Knewitz, a J&J spokesman, said in an email. "We expect the existing verdicts that we are appealing to be reversed." An additional 1,000 talc claims are pending in Missouri, most from out-of-state plaintiffs. "We expect they will also be dismissed for lack of jurisdiction," Knewitz said.

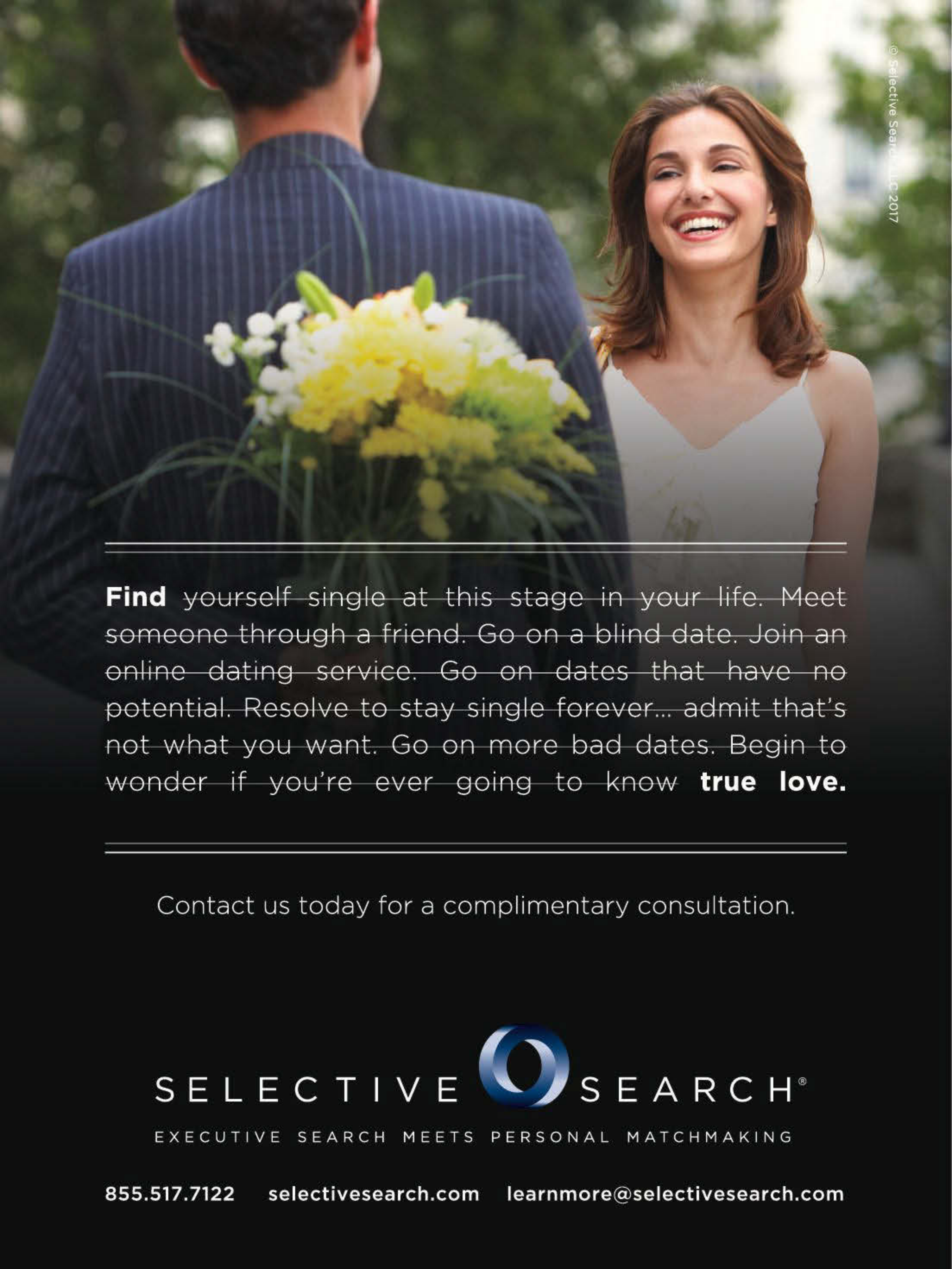
If that happens, the talc lawsuits could be refiled in, or sent to, home courts of the plaintiffs or defendants. The cases could also be transferred to a multidistrict litigation, as has been the case with federal talc suits, which have been combined before a single judge in Trenton, N.J. While one door shuts to plaintiffs, others may open. Missouri's loss may be Pennsylvania's gain when it comes to product-liability suits from out-of-state plaintiffs, says Tom Kline, a lawyer in Philadelphia. Many drug companies, including J&J's Janssen unit, are incorporated in Pennsylvania or have substantial research or manufacturing facilities there, Kline says. That gives non-Pennsylvania residents the "hard contacts" that the Supreme Court decision said could provide jurisdiction.

J&J and Janssen are facing more than 5,800 claims in state court in Philadelphia that the companies' Risperdal anti-psychotic drug causes boys to develop female-like breasts. Kline persuaded a Philadelphia jury last year to hit J&J and Janssen with $70 million in damages in one of the boy-breast cases. Says Kline: "Those cases have to go somewhere, and the Supreme Court has said they should go to the companies' headquarters or places where they do substantial business." —*Margaret Cronin Fisk and Jef Feeley*

THE BOTTOM LINE States such as Pennsylvania may see a spike in drug-related product-liability suits from out-of-state plaintiffs as lawyers shift to states where drugmakers have operations.

"It's going to be tougher for plaintiffs. … Judges are going to read the Supreme Court decision and force them back to where they came from"

ILLUSTRATION BY SIMON LANDREIN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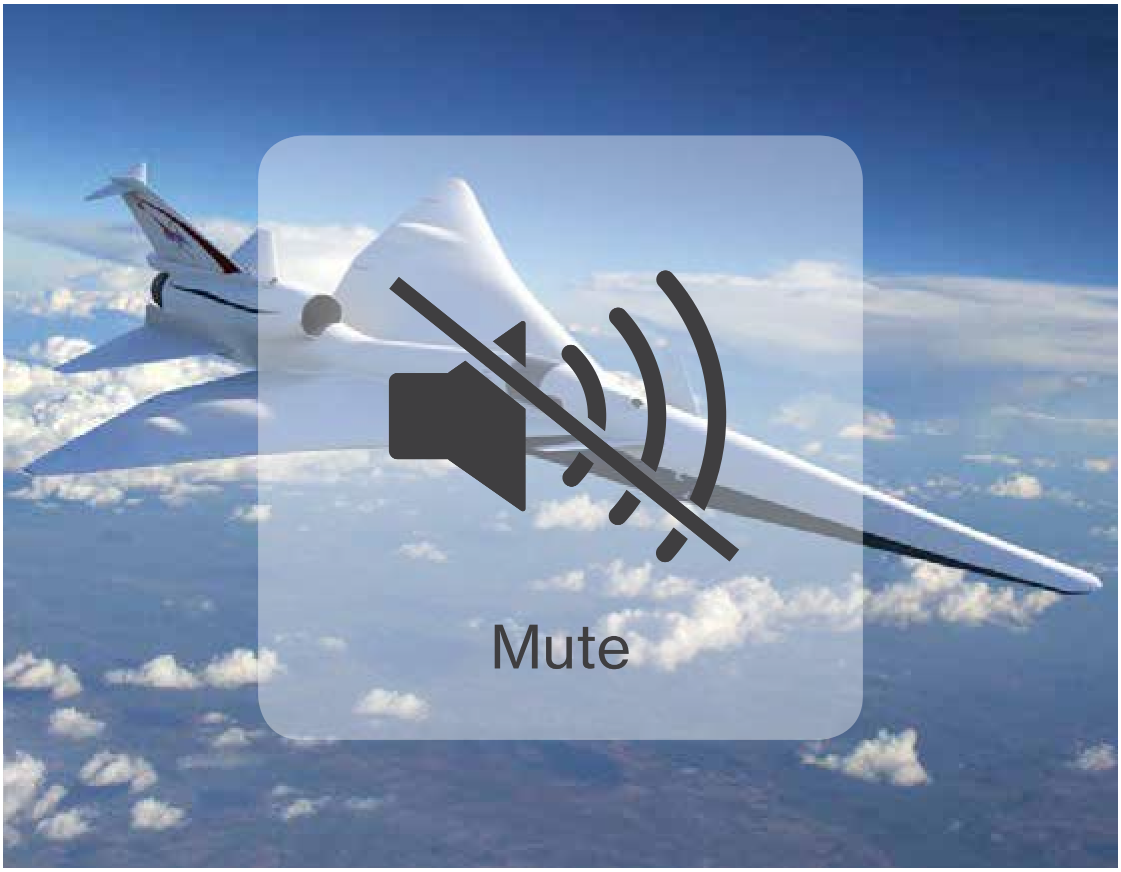
LOOK AHEAD

● Apple's earnings report will offer a clue as to whether rumored parts shortages will delay the expected September release of the next iPhone

● Austin hosts the IT conference ChannelCon

● Sony reports earnings—growth in PlayStation subscription services will be key in the hardware offseason



● NASA says it's got the secret to quiet supersonic planes. Now comes the hard part

For almost a half-century there's been a clear speed limit on most commercial air travel: 660 miles per hour, the rate at which a typical-size plane traveling at 30,000 feet breaks the sound barrier and creates a 30-mile-wide, continuous sonic boom. The ground-level disturbances that result—shattered windows, cracked plaster, maddened farm animals—have kept supersonic travel mostly off-limits since 1973, when the Federal Aviation Administration banned its use over U.S. soil.

That may be changing. In August, NASA says, it will begin taking bids for construction of a demo model of a plane able to reduce the sonic boom to something like the hum you'd hear inside a Mercedes-Benz on the interstate. The agency's researchers say their design, a smaller-scale model of which was successfully tested in a wind tunnel at the end of June, should cut the six-hour flight time from New York to Los Angeles in half. NASA proposes spending $390 million over five years to build the demo plane and test it over populated areas. The first year of funding is included in President Trump's 2018 budget proposal.

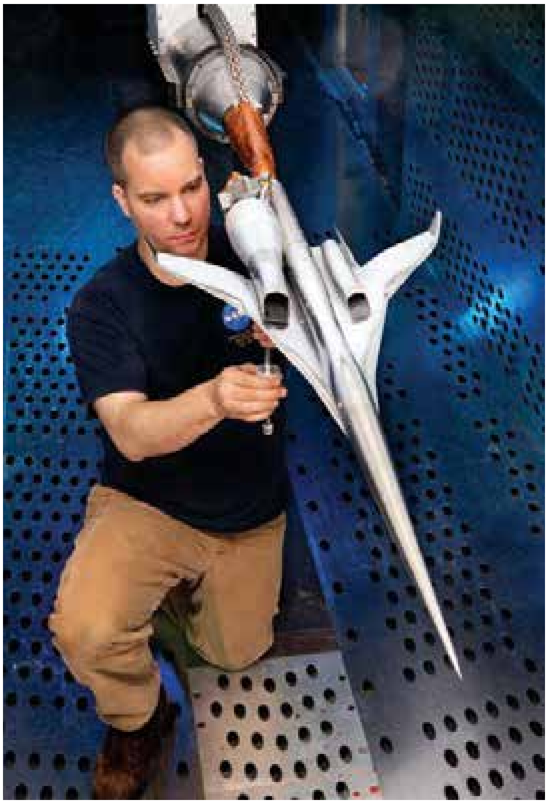
Over the next decade, growth in air transportation and distances flown "will drive the demand for broadly available faster air travel," says Peter Coen, project manager for NASA's commercial supersonic research team. "That's going to make it possible for companies to offer competitive products in the future." NASA plans to share the technology resulting from the tests with U.S. plane makers, meaning a head start for the likes of Lockheed Martin, General Dynamics, Boeing, and startups such as Boom Technology and billionaire Robert Bass's Aerion.

Lockheed helped create NASA's design, using fluid dynamics modeling made possible in the past decade or so by increasingly powerful computers. Together, Lockheed and NASA tested and mapped how subtle differences in aircraft shapes affect the supersonic shock waves they create. The design they've settled on keeps sound waves from merging into the sharp N pattern of a sonic boom, according to Peter Iosifidis, Lockheed's design program manager on June's small-scale model. Instead, the waves are kept dispersed across a wide range of points behind the plane, leaving the resulting supersonics a mere hum.

NASA is targeting a sound level of 60 to 65 A-weighted decibels (dBa), Coen says. That's ▶

PHOTO ILLUSTRATION BY 731; PHOTO: NASA/LOCKHEED MARTIN

Edited by Jeff Muskus



◀ about as loud as that luxury car on the highway or the background conversation in a busy restaurant. Iosifidis says that Lockheed's research shows the design can maintain that sound level at commercial size and his team's planned demo will be 94 feet long, have room for one pilot, fly as high as 55,000 feet, and run on one of the twin General Electric Co. engines that power Boeing Co.'s F/A-18 fighter jet. "Now you're getting down to that level where, as far as approval from the general public, it would probably be something that's acceptable," he says.

By comparison, the Concorde, that bygone icon of the Champagne-sipping, caviar-scarfing supersonic jet set, had a perceived noise level several times louder, at 90 dBa. The plane's advent in the 1970s helped lead Congress to pass the overland ban in the first place; its takeoffs and landings generated hundreds of noise complaints and wouldn't come close to meeting today's regulations. Partly because of the ban, the Concorde wound up being a money pit for Air France and British Airways and was mothballed in 2003.

Of the three major obstacles to supersonic travel, which also include high carbon emissions and airport engine noise, the boom has been the toughest to clear, Coen says. GE is working on designs that can quiet its engines, including by placing them above a plane's wings, and NASA has funded an MIT study on ways to address the environmental impact. "Manufacturers will not take the lead in developing an aircraft that they can't fly," Iosifidis says. "That's where NASA said we've got to go change the rule, and this is the path to making that happen."

Don't pack your bags for a supersonic trip just yet. The fourth major obstacle may be Washington, because the language of the 1973 ban will require the FAA or Congress to explicitly undo it even if technology renders it obsolete.

What's more, while established aerospace companies, such as General Dynamics Corp., which owns Gulfstream Aerospace, have been researching supersonic jets for years and startups (Boom, Spike Aerospace) have reignited interest in solving the technical challenges, all their efforts remain in the planning stages. There's a lot of work left to be done.

Still, if everything goes as planned, NASA will test the demo plane over as many as six communities beginning in 2022, Coen says. That's the first step toward appealing to lawmakers and regulators to lift the ban. This time, he says, is different, because the toughest technical challenge has been solved. "We've got a lot of support in NASA and the administration and in Congress for making this happen. I'm pretty excited about our prospects."
—*Thomas Black*

◀ NASA is looking for bidders to turn June's scale model into a pilotable demo plane

THE BOTTOM LINE NASA and Lockheed say their design makes a supersonic plane as quiet as the inside of a Mercedes on the highway. There's $390 million up for grabs to make a demo.

A New Sports Authority

● The Athletic is covering sports without covering itself in ads

It's been a rough year so far for the biggest names in sports news, with outlets including Bleacher Report, ESPN, Fox Sports, *Sports Illustrated*, and Yahoo! Sports cutting staff. Alex Mather and Adam Hansmann say that's an opportunity for their 18-month-old site, the Athletic, which so far has focused on relatively insular coverage in a handful of cities. "We can't help but try to round out our local coverage with national voices," says Mather. "And take a few gambles."

This month, he and Hansmann secured a fresh $6 million in venture funding for the Athletic, a San Francisco startup that promises an alternative to the cluttered, screechy interfaces of other sports publications. Its clean, sharp-looking site carries no ads because it's a subscription business, able to turn a profit in any city where 8,000 to 12,000 readers pay $40 a year, the founders say. That means coverage is aimed at superfans. "We try

● The company says the recent cash infusion will allow it to triple its pool of staff writers, to 75

QUENTIN SCHWINN/NASA

to connect with the local diehards," Mather says.

Big names (the *New York Times*) and niche industry publications (the *Information*) have gotten readers to pay for news, but the Athletic is the first site taking what looks like a credible shot at the local sports page. And the subject seems ripe for peeling away from the rest of the local news package, says Brian Moritz, a professor at the State University of New York at Oswego who studies the economics of sports journalism. "Nobody has ever offered a subscription to just the sports section of the newspaper for $5 a month instead of the whole thing for $10," Moritz says.

In sharp contrast to the prevailing aesthetic of most sports coverage online—the visual equivalent of a talk-radio host yelling at you—the Athletic is downright serene. Readers can access stories from any of its four markets (Chicago, Cleveland, Detroit, and Toronto), but by default are shown only articles on their preselected teams. The Athletic's editorial line is to distinguish itself with analysis and writing, rather than chasing postgame quotes from LeBron-level stars. "We try to talk to every player and not to be the 20th microphone in every face," says Mather.

The founders have no journalism experience. They worked on product development and financial strategy at Strava, a social network for endurance athletes such as marathon runners. There, they learned to ignore casual users in favor of intense ones.

The company hired its first writers in Chicago, based on the hunch that the Cubs' good fortune would whet appetites for coverage. The team's championship season, their first since 1908, helped attract readers to the Athletic's commentary. Still, it took eight months for the site to sign up 1,000 Chicago subscribers. A January infusion of about $3 million in venture capital helped it grow faster in Cleveland (notching 1,000 subscribers in 48 hours after hiring Jason Lloyd, one of the best-known Cavaliers beat reporters) and Toronto (where 10,000 Maple Leafs maniacs have made the operation profitable).

Mather and Hansmann say the latest cash infusion will allow them to hire 50 staff writers to add to their slate of 25 (plus freelancers), including some who've lost their jobs at bigger publications, and to add coverage in Philadelphia, San Francisco, and another city or two by the end of the year. The company is also betting big on hockey, setting up single-sport coverage in six more Canadian cities with NHL teams, and it's starting to cover college football and basketball. The founders have hired Paul Fichtenbaum, the former editor-in-chief of Sports Illustrated Group, as their chief content officer. This marks a sitewide shift from thinking about each city's coverage as a separate operation toward writing more articles with highbrow national appeal, the sort of piece that was the calling card of ESPN's defunct website Grantland.

The site's leaders say individual city staffs will likely remain small, posting a few articles in each market per day. Moritz says their toughest challenge will be persuading people that their sports thoughts are interesting enough to justify paying a couple of bucks a month, since fans have plenty of free options.

The demand for quality local sports coverage far exceeds the supply, says Mike Kerns, president of digital at the Chernin Group, a media holding company that just invested in the Athletic. "We knew from our experience it was an insatiable and increasingly underserved market," he says. "Everybody lives somewhere." —*Joshua Brustein*

THE BOTTOM LINE The Athletic's latest $6 million in venture funding gives the site a chance to expand its subscription model for sports news in the U.S. and Canada.

"We try to talk to every player and not to be the 20th microphone in every face"

That Seventies Startup

● Infosci's founders say they have a promising software design but aren't taking the long view

On paper, Infosci looks like a lot of startups whose founders travel Sand Hill Road in search of venture capital. It has the dropout, the ex-CIA guy, the experienced startup seller—and they say they have a way to protect against a key type of cyberattack. But when the three arrive for meetings with potential investors, they aren't wearing hoodies and flip-flops. The main founders are all 75 to 80, and they're motivated sellers.

"If we were all 40 years old, we'd be going out, raising a couple million dollars, building a company, taking on RSA," says John Ellingson, the startup seller, referring to the well-known encryption system. "Since the youngest of us is 75, we have to have a different exit plan."

John Kittelberger, 75, is the dropout (high school). He's also the businessman, the former owner of a plumbing business in the suburbs of Washington, D.C. Phil Dean, 80, spent 30 years handling technical operations at the CIA, was one of the original members of the agency's Counterterrorism Center, and likes to travel by unicycle. Ellingson, also 75, is a lawyer specializing in identity theft who two decades ago cashed in on a fraud detection system ▸

◀ he'd invented. "We call ourselves the plumber, the spy, and the nerd," Ellingson says. Company meetings are often held at various Panera Bread Co. franchises.

The Infosci founders have been working on a software design they say would protect against hacks such as the one that breached the U.S. Office of Personnel Management in 2014. That attack exposed the personal information of 22.1 million Americans, including identifying information such as Social Security numbers and background-check files on people who'd done business with or worked for the government. Ellingson says he and Dean numbered among those who had personal data stolen.

What made the OPM hack so effective was that the attackers fooled the agency's network into accepting them as trusted contractors by using shared secret codes of the kind that typically undergird the most secure systems. Because these codes usually don't change, the hackers were able to pull off the deception for more than a year. Infosci has designed security software that changes such codes as often as 1,000 times a second, so that cracking a given code won't do anyone much good.

Although this idea may sound familiar to cybersecurity wonks, usually this type of security measure has at least one certificate or some such that can't change because it's the piece of data that identifies a given user. Infosci's software design doesn't leave that component unchanged. "The truth is, you can't keep any secrets," Ellingson says, so the company is taking long-term secrets out of the equation.

Alex Doll, managing partner at TenEleven Ventures, says Infosci has picked an especially competitive part of the security field. Even in youth-hungry Silicon Valley, however, years marinating in government security operations are an asset, says Dan Conde, an analyst at researcher Enterprise Strategy Group. "If they are bona fide good-scientist types, they have a lot of things spring chickens won't be able to do," he says. "They've been exposed to the nastiest stuff for literally decades. They know the darkest, weirdest things that could happen."

The founders say their age helped them get to the front of the line at the U.S. Patent and Trademark Office, which they expect to award them a patent on Aug. 1. (There's a fast track at the patent office for inventors over 65.) For now, the three-person company is running on $650,000 of funding from family, friends, and IT contractor Nuvitek LLC. An early version of the product is running on Amazon Web Services Inc., and Infosci says it's ready to start licensing the technology.

But forget about spending years honing their business. This group wants to get just far enough to attract a buyer such as Dell Technologies Inc. or Alphabet Inc., or perhaps a private equity company. Ellingson says he hopes to start soliciting bids as early as possible. In a twist on the typical Silicon Valley ethos, the Infosci team is looking to move fast and hit the golf course. That doesn't mean they'll sell cheap. Ellingson says he's learned a thing or two since selling his last invention for $2 million. "We weren't so smart back then." —*Sarah McBride*

THE BOTTOM LINE Infosci's septua- and octogenarian founders are looking to flip their security company as soon as the technology is ready.

"Since the youngest of us is 75, we have to have a different exit plan"

◀ Founders Ellingson, Dean, and Kittelberger (pictured with early investor John Monett, far right) took advantage of the Patent Office's fast track for inventors over 65

PHOTOGRAPHER BY DANIEL DORSA FOR BLOOMBERG BUSINESSWEEK

Innovation

Spray-On Touchpad

Electrick combines conductive coatings or additives with electrodes and algorithms developed at Carnegie Mellon University. It can create a touchpad on just about any surface—walls, steering wheels, toys—to control lights and other devices.

Innovator

Chris Harrison

Age: 33; Director of CMU's Future Interfaces Group; professor of human-computer interaction

① Setup

Electrick's spray primes a surface to better conduct electricity, and low-voltage electrodes placed around the perimeter of the area can register changes in the current caused by touching the surface in a particular spot.

② Use

Users can control devices by touching the sprayed area. For example, the body of a guitar can become the equivalent of several effects pedals.

Origin

Harrison began to hone the ideas that led to Electrick while interning at AT&T Labs Inc. in 2006 and 2007. He built the system with doctoral students Yang Zhang and Gierad Laput.

Funding

The Future Interfaces Group has been granted about $1.7 million from the David & Lucile Packard Foundation, Intel, Google, Bosch, and Qualcomm for Electrick and other projects.

Market

Harrison sees potential for Electrick to replace touchscreen controls on car dashboards and to control lighting and entertainment systems when applied to walls in homes.

Next Steps

Electrick has attracted interest from coatings manufacturers and automakers since Harrison's team presented it at a conference on human-computer interaction in May, but he says commercialization is still years away. Nevertheless, Daniel Ashbrook, a professor who runs an interface lab of his own at the Rochester Institute of Technology, says that objects with touch functionality are the future and Electrick's is "a supercool approach" he hasn't seen before. —*Michael Belfiore*

● A post-IPO lockup period ends for Snap, giving inside investors their first chance to sell shares of the company that owns Snapchat

● AIG and MetLife release quarterly earnings

● An early U.S. one-cent coin, minted in 1792, goes up for auction in Denver

“I am frequently asked ‘what country are you from’ (I grew up in Brooklyn). I’ve been questioned about whether I *really* went to Harvard (I did) or how I got in (I applied)”

—Edith Cooper, head of human capital management at Goldman Sachs

Black bankers are underrepresented among executives. And at some companies, the numbers are getting worse

July 31, 2017

Edited by
Pat Regnier
and David Rocks

Businessweek.com

Last year, Morgan Stanley held a company conversation on race in New York. Speaking on the panel was Mandell Crawley, now head of private wealth management at the bank, who recalled that when he worked on sales and trading desks, he was often the only African American. He told a story about traders expressing frustration by smashing phones.

"In my early years I wouldn't dare do that for fear of a long-held stereotype of the angry black man. And being 6-foot-5 doesn't help," said Crawley. "Now, it's important to note I got over it, I've left many broken phones in my wake. But the reality is when people come here and you have to assimilate to an environment, and you feel like everything you do, people are sort of assessing you, that becomes incredibly exhausting."

That's not a story about the bad old days. For years, Wall Street's top bosses have pledged to boost diversity in their ranks. But the number of black people at some large U.S. banks is going in reverse.

At JPMorgan Chase, Citigroup, and Goldman Sachs, the percentage of senior black executives and managers fell over the past five years, according to U.S. workforce data supplied to the Equal Employment Opportunity Commission and compiled by Bloomberg. Black executives make up no more than 2.6 percent of top positions at the three banks, lower than across corporate America, where the percentage is slightly better and ticking up. Morgan Stanley, which hasn't released 2016 data, reported a small improvement in 2015, to 1.8 percent, well below the U.S.-wide level. (Companies have some leeway to decide who counts as top management.)

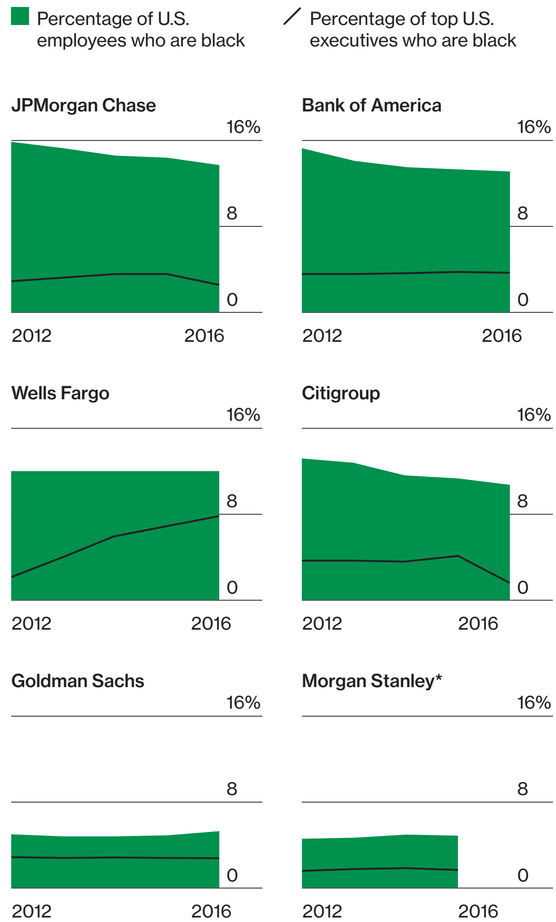
There's no single explanation for why banks have failed to live up to their promises. "Look, we can call it not caring, we can call it not having the will, we can call it not having incentives, not having accountability," says Martin Davidson, a professor of leadership at the University of Virginia's Darden School of Business who has studied diversity on Wall Street. "Whatever you want to call it, the bottom line is there's not enough energy and resources being put into figuring out how to catalyze this black talent."

The trend is similar when looking at all U.S.-based bank employees, not just the top ranks. At Bank of America Corp., the percentage of black workers slipped to 13.1 percent in 2016 from 15.2 percent in 2012. The active U.S. workforce is about 15 percent black. Banks with retail branches have a higher percentage of black employees than Goldman Sachs Group Inc. or Morgan Stanley, where the shares hover around 5 percent. Both banks saw their numbers improve slightly after 2012.

Only Wells Fargo & Co., among the six largest U.S. banks, showed a large jump in its share of black executives, going to 8 percent in 2016 from 2 percent in 2012. Its total workforce was 12 percent black throughout those five years. Wells Fargo agreed to pay $35 million in December to settle a lawsuit by six black brokers who alleged that the bank failed to give them the same career opportunities as white colleagues. The company said it didn't agree with the claims.

Where Are the Black Bankers?

Employers report the data to the government. Some banks didn't make these reports public until 2012



All six banks make a show of inclusiveness on their websites. JPMorgan Chase & Co. Chief Executive Officer Jamie Dimon boasted about the bank's diversity in his annual letter to shareholders in April. He added an exception: "But there is one area in particular where we simply have not met the standards JPMorgan Chase has set for itself–and that is in increasing African-American talent at the firm." It was a candid admission. It was also a repeat of the same lines from a year earlier, almost word for word.

In his 2016 letter, Dimon said the bank was funding more scholarships and making "an incremental $5 million investment" to improve black diversity. The bank agreed this year to create a $53 million settlement fund to end a federal lawsuit over racial discrimination in a part of its mortgage business.

Black bankers are losing ground just as Asians, Hispanics, and multiracial people are making gains. The improvement was dramatic for Asians: They made up 12.7 percent of Citigroup Inc.'s top

● As the ranks of top managers at Citigroup grew, the share of those executives who are black fell to

1.6%
in 2016

managers last year, up from 7.7 percent in 2012.

There was only one black executive in that leadership group in each of the past five years, even as the number of top managers expanded to 63 from 26, according to numbers Citigroup published online. That brought the share of black top executives down to 1.6 percent. "We are not satisfied with these numbers and are working hard to improve them," says Elizabeth Kelly, a spokeswoman for Citigroup. Diana Rodriguez of Wells Fargo says the bank is "committed to increasing diverse representation at all levels." Representatives of JPMorgan, Morgan Stanley, and Bank of America declined to comment on the five-year trend.

Goldman Sachs didn't name its first black partner until 1986, more than a century after it was founded. The year before, Princeton graduate Sergio Sotolongo joined the company. He became a managing director before leaving in 2006. "No one was wearing a white hood and sheets," says Sotolongo, who was born in Cuba and identifies as African American. "But the whole idea was that the finance industry had in it a culture that was not friendly or receptive to change."

Today when the small groups that run the six biggest firms meet, there are still no black people around five of the tables. At Goldman Sachs, there's Edith Cooper, head of human capital management. "I am frequently asked 'what country are you from' (I grew up in Brooklyn)," Cooper wrote in a LinkedIn post last year. "I've been questioned about whether I *really* went to Harvard (I did) or how I got in (I applied)." Leslie Shribman, a Goldman Sachs spokeswoman, says "our success depends on our ability to attract and retain a diverse employee base." She says colleagues are encouraged by the diversity of this year's summer interns in the Americas, 13 percent of whom are black.

Young bankers pay attention to the gap at the top. Jared Johnson, 27, was an associate in JPMorgan's asset-management division until May, when he left to attend MIT's Sloan School of Management. "It is important to have colleagues at your level who look like you and share your experience as a black person in America," he says. "But without a representative number of black leaders to look up to, it is hard to imagine yourself occupying a meaningful position." —*Max Abelson and Jordyn Holman*

THE BOTTOM LINE Large U.S. banks concede they aren't hiring and promoting enough black employees, but they haven't made a dent in the problem over the past five years.

Friendship Is a Bountiful Thing

● The world's top-performing stock is a company with close ties to Hungary's premier

● Meszaros

● Orban

Sales at Hungarian conglomerate Konzum Nyrt. dropped 99 percent last year, its short-term debt ballooned sevenfold, and it cut its staff by 86 percent. This year? Konzum has the world's best-performing stock, its shares soaring more than fiftyfold on the Budapest exchange at one point. The company has a market value of about $142 million. "Maybe I'm smarter" than Mark Zuckerberg, said Lorinc Meszaros, a former gas fitter who in February sparked the rally when he bought a 20 percent stake in Konzum, speaking to reporters that month.

Or maybe Meszaros has better friends. A former schoolmate of Hungary's prime minister, Viktor Orban, he's mayor of their hometown a half-hour's drive from Budapest and president of a sprawling soccer academy Orban founded near his weekend house. Since 2014, Meszaros's wealth has increased fifteenfold, making him Hungary's fifth-richest citizen, according to financial website Napi.hu, with an estimated net worth of $460 million. His businesses range from construction to wineries. The private commercial broadcaster RTL Klub, which has clashed with the government, calculated that in 2016, companies linked with Meszaros and his family won 225 billion forint ($858 million) in public procurement contracts. In a 2014 interview with the weekly *Heti Valasz*, Meszaros credited hard work plus "God, luck, and Viktor Orban" for his fortune.

Hungary has changed since Orban roared back to power in 2010 after eight years in the opposition. He's used his two-thirds majority in Parliament to rewrite the constitution, centralize authority, appoint allies to key state institutions, and create what he calls an "illiberal state." While Orban has earned ▶

*MORGAN STANLEY FIGURES THROUGH 2015; DATA: COMPANY EQUAL EMPLOYMENT OPPORTUNITY COMMISSION FILINGS
MESZAROS: BOTOS TAMAS/444.HU; ORBAN: SVEN HOPPE/DPA

◀ praise for stabilizing public finances and weaning the country off International Monetary Fund loans, Transparency International says he's eliminated checks on corruption and enriched his friends. "It's obvious that they're pocketing public money, but it all seems to be in accordance with the laws of the land," says Laszlo Urban, a business professor at Central European University in Budapest and a former member of Orban's Fidesz party. "That's really the worrying thing for me: that it's all legal."

Filings with regulators don't show that Meszaros has sold significant numbers of Konzum shares, but independent watchdogs and members of the opposition say his relationship with Orban presents, at a minimum, the appearance of conflicts of interest. "Meszaros is a front for Orban," says Akos Hadhazy, co-chairman of the LMP party, who quit Fidesz in 2013 after alleging it was riddled with corruption. "And Orban is omnipotent in Hungary."

Orban rejects the notion that Meszaros—mocked by parliamentary opposition parties with the rhyming nickname *penztaros*, or "cashier"—is doing his bidding. "I've never had and never will have a straw man," Orban told Parliament in April in response to a question about his ties to his old friend. For his part, Meszaros insists he should be judged on his merits as a businessman and not on his relationship with the prime minister. "We're friends, but that doesn't give me any financial benefits," Meszaros told reporters in February. He's also said bids for procurements are open to anyone.

Founded as a retailer a year before the fall of the Iron Curtain, Konzum listed on the resurrected Budapest Stock Exchange in 1990. Trying its hand at businesses such as selling building materials and manufacturing kitchenware, it bounced along in penny stock territory.

That changed in February when Meszaros announced he'd bought into Konzum, fueling speculation that the purchase would spark a rally even though the company's 2016 sales were just $91,000. "Kids, state funding is about to pour in and the stock price will go skyward!" an investor using the handle Metwolf wrote on the financial website Portfolio. Within two weeks, Konzum's shares had quadrupled; in July they peaked above 2,800 forint—a gain of 5,400 percent for the year. On July 24, Konzum closed at 1,786 forint, the best return this year out of about 16,000 actively traded stocks with market values above $100 million.

Since February, Konzum has acquired stakes in at least five companies with assets ranging from campgrounds to banks to newspapers, adding to the portfolio of hotels it bought in 2016. Some companies connected to Konzum may be owned via a web of subsidiaries. Meszaros, for example, owns 53 percent of a fund manager affiliated with Konzum, which indirectly controls MKB Bank, Hungary's fifth-largest lender. And Konzum has a stake in Opimus Group, a company partly owned by Meszaros that last year acquired Hungary's largest print media portfolio. Opimus, which also owns a stake in Konzum, has become Eastern Europe's most actively traded stock as its share price has quintupled this year.

Konzum declined to make Meszaros or any executives available. But Chief Executive Officer Gellert Jaszai in March told the business daily *Vilaggazdasag*—owned by Opimus—that Konzum is plenty transparent and that it's seeking to attract foreign institutional investors.

Despite the popularity of Konzum's shares—its trading volume sometimes exceeds that of the Budapest Stock Exchange's four blue-chip companies combined—most brokerages have chosen not to publish regular reports and analyses about the company. Three analysts declined to discuss Konzum on the record, citing its opacity and saying they couldn't see any justification for its share price.

"We're friends, but that doesn't give me any financial benefits"

Meszaros's businesses took off in 2014 after Orban had a falling-out with another longtime ally, whose companies had won (or were part of a group that won) 11 percent of public procurement money the previous year. By 2016 that oligarch's share of state contracts had fallen to 0.1 percent, according to the Corruption Research Center, a Budapest think tank that's analyzed 150,000 public tenders since 2009. "Friendship with Orban or being a member of his family pays off," says Istvan Janos Toth, general director of the center. "You just have to make sure that friendship doesn't sour." —*Zoltan Simon*

THE BOTTOM LINE Hungarian company Konzum had 2016 sales of just $91,000, yet its stock has soared since an ally of Prime Minister Viktor Orban bought in.

Robot Advisers Can Be Conflicted, Too

● Brokers shift to online advice, but fund companies still pay for advisers to go on junkets

Robo-advisers offer the promise of impartial investment guidance, but the newest ones may not be totally immune from Wall Street's ways. Wealth management units at big U.S. banks including Morgan Stanley and Bank of America Corp. have rushed to build so-called robo-adviser services. The products, which were pioneered by online upstarts Wealthfront Inc. and Betterment LLC, use algorithms to pick investments tailored to a customer's appetite for risk. They cut out a lot of the costs of working with flesh-and-blood financial advisers, and, it would seem, some of their biases.

● Some fund companies pay Morgan Stanley up to

$550k

for expenses such as sponsoring seminars

But it turns out that even software-based financial advisers can have conflicts of interest. Banks still employ armies of advisers and get payments from fund companies that want access to those advisers' clients. There's a risk that the banks' robo programs could favor mutual funds and exchange-traded funds from companies that make such payments, according to disclosures by the banks.

The practice is known as revenue-sharing, or paying for shelf space. It includes sponsoring conferences for bank employees at luxury resorts and lavishing top brokers with gifts and entertainment. Vanguard Group, whose popular low-cost ETFs are the main funds used by Wealthfront and Betterment, refuses to make such payments. Morgan Stanley in May dropped Vanguard from the lineup of funds its advisers offer; it said at the time it was weeding out funds that were less popular with its clients. Many other asset managers, including BlackRock Inc. and Legg Mason Inc., choose to pay.

The trend started about two decades ago, according to John Strauss, chairman of FallLine Securities LLC and a former wealth management executive at UBS Group, JPMorgan Chase, and Morgan Stanley. "When I'm a client of one of those firms, I think I'm seeing the best ideas," says Strauss, whose business helps advisers go independent from big brokerages. "Really, what you're seeing are the ideas they have arbitrarily decided they can make enough money on to show you."

In June, Morgan Stanley, which calls itself the world's biggest brokerage, released details about its robo-adviser ahead of a planned launch later this year. Its version of the service has a layer of human decision-making: A global investment committee will set asset allocations for model portfolios; other employees will pick funds that go into them. Morgan Stanley said in the disclosure that some fund companies provided it as much as $550,000 per year for such things as sponsoring seminars or paying the meal, travel, and hotel expenses of brokers attending sales events. Companies may also pay the bank as much as $500,000 a year for data about mutual fund sales and as much as $550,000 for ETF data. More than 120 companies participate in revenue-sharing with the bank, according to a separate filing.

The payments, according to the bank's disclosure, "present a conflict of interest for Morgan Stanley to the extent they lead us to focus on funds from those fund families that commit significant financial and staffing resources to promotional and educational activities." Morgan Stanley said it would provide objective investment advice, and that this conflict is mitigated because employees don't get extra compensation to recommend funds from favored providers.

Bank of America, a big player in wealth management under the Merrill Lynch brand, made similar disclosures for its digital advice service in March. While it didn't say how much investment management companies paid for training meetings and client events, it disclosed a laundry list of charitable donations and other gifts and payments companies make to the bank. It said it adopted policies to prevent the payments from affecting its advice. The bank's robo service picks low-cost ETFs similar to those in other robos, including some from Vanguard. Wells Fargo & Co., which is also planning a robo-advising service, made a similar disclosure. Wells Fargo, Morgan Stanley, and Bank of America declined to comment for this story.

ILLUSTRATION BY PATRIK MOLLWING

Strauss has a dim view of the industry training events, which he says are mostly perks banks use to reward their top brokers. "I don't need a boondoggle to some resort in Palm Beach to help me understand the value of a money manager," he says.

Why would a practice rooted in rewarding human brokers bleed into services driven by algorithms? It may be hard to cleanly separate one business from another. Brokerages building robo-services are piggybacking off their existing infrastructure, says Kendra Thompson, a managing director at consulting company Accenture Plc. Even as some clients shift their money toward robos, she says, big brokerages are going to be conservative about shaking up their existing, profitable business model—using people to sell investments to other people. —*Hugh Son*

THE BOTTOM LINE Morgan Stanley, Bank of America, and Wells Fargo take payments from fund companies whose products their advisers—and robo-advisers—might sell.

- Collection data due out on Aug. 1 will confirm whether Argentina has managed to boost tax receipts
- First-quarter euro zone GDP growth beat expectations. On Aug. 1, we'll find out if momentum carried into the second quarter
- The Bank of England's rate-setting committee meets on Aug. 3

Violence Raises Oil Risk in Mexico

● Fuel thieves could prompt foreign companies to rethink investing in the industry

Buying stolen gasoline in the central Mexican state of Puebla is easy. Pull off the main highway into a busy parking lot in San Salvador Huixcolotla, and the blamarketeers are waiting in pickup trucks loaded with jerrycans. They'll siphon the fuel into your tank–while boasting that, unlike a lot of the country's regular gas stations, they don't cheat customers.

While this illegal curbside commerce has been going on for decades, it's exploded in the past few years and now costs Pemex, Mexico's state oil company, more than 20 billion pesos ($1.1 billion) a year. The *huachicoleros*, as the fuel thieves are known, dig up pipelines and hijack tanker trucks. These techniques have made Puebla, with its heavy vehicular traffic and extensive pipeline system, a target for organized crime groups looking to diversify their profit streams. The country's drug cartels have muscled their way in, with predictable mayhem. Nine people died in a July 2 shootout between rival gangs of huachicoleros in Puebla. And at least 15 people have died in military operations to break up fuel theft rings over the past several months in an area of the state known as the Red Triangle.

The government has started cracking down because it needs to draw foreign capital into the energy sector, where oil output has been sagging because of a combination of underinvestment in exploration and production, aging wells, and deficient infrastructure. The country has a population about five times that of Texas, yet the U.S. state's fuel pipeline grid is 35 times larger.

Investors who already look askance at the steady drip-drip of losses from theft and smuggling are even more likely to be deterred by drug gang violence. "For potential participants in the fuel business, whether they're importing gasoline and diesel or they're looking to construct terminals, it's a reality check," says John Padilla, managing director of energy consulting firm IPD Latin America LLC. Exxon Mobil, Glencore, and BP have all announced plans to set up gas stations in Mexico. ▶

AGENCIA EL UNIVERSAL/JMA/AP PHOTO

◀ A highway blockade in Puebla to protest a May roundup of suspected gasoline thieves

Edited by Cristina Lindblad

◀ A clash between rival gangs of *huachicoleros* in Huehuetlán el Grande, in the state of Puebla, left nine people dead

◀ Commodity trader Trafigura Group has applied for fuel import permits. And as much as $2.3 billion in investment has been pledged for pipelines as well as terminals for storage and transport, according to the industry regulator. "We take theft very seriously," Exxon spokeswoman Charlotte Huffaker said in an email, adding that the company remains "committed to opening Mobil-branded service stations in Mexico" but will not directly own or operate the stations.

Foreign capital and know-how is exactly what Mexico's reform-minded legislators wanted when they voted in 2013 to end the state's 76-year monopoly in the oil and electricity sectors. The liberalizers have scored some wins: In July private companies announced oil finds in the Gulf of Mexico that may hold as much as 3 billion barrels (the country's oil production averaged 2.5 million barrels per day last year). Households, however, haven't seen their energy bills shrink, and political opposition to the creeping privatization remains vigorous, with one of the leading contenders in next year's presidential election promising to reverse the reforms.

Especially unpopular was the government's move to scrap fuel subsidies at the start of this year. Prices at the pump immediately jumped about 20 percent. Theft grew even faster: Illegal pipeline taps in the first five months of 2017 were up almost 70 percent from a year earlier, according to Pemex.

Fernando Chavala, a truck driver, says he was out of work for six months last year after the company he was working for had one of its 62,000-liter trucks stolen and stopped sending out deliveries. "When you're on the highway, you never know what could happen," he says, as he waits to fill up at a Pemex terminal in Puebla's state capital. "We don't have any security."

The aptly dubbed Red Triangle, which comprises a cluster of rural municipalities in the state,

◀ A pipeline in Puebla after it was illegally tapped

has been the scene of two shootouts triggered by government efforts to take down fuel thieves. Ten people were killed in the town of Palmarito Tochapan on May 3 when the military was deployed to round up suspects, and five died on July 21 in the Vicente Guerrero township during an attempt to capture the alleged leader of the state's main smugglers' gang, Roberto de los Santos de Jesús, alias "El Bukanas."

Investors will likely stay clear of places like the Red Triangle. "They are going to start in areas less vulnerable to fuel theft," says Alejandro Schtulmann, president of Empra, a risk consulting firm in Mexico City. "They will only invest more when they see that the situation is safer."

Schtulmann says 30 percent of the consumer fuel trade is controlled by "petty criminals" operating solo. But as much as 20 percent of the commerce is run by the country's biggest crime conglomerates, the drug cartels.

There are echoes of the drug war in the deployment of federal troops to Puebla and in the government's more-than-decade-long "decapitation" strategy to break up the cartels by targeting their leaders. Also reminiscent are the gang-on-gang clashes that recently broke out in the Puebla municipality of Huehuetlán el Grande. Nine people were killed supposedly for their involvement in the fuel trade and failure to pay an extortion fee to a rival group; authorities said five of them were kidnapped and their bodies found burned.

José Aguilar, a local resident, watched the procession of caskets, stooping under a tree to shield himself from the afternoon sun. As the line of mourners, flanked by state police trucks, wound its way uphill to the cemetery, Aguilar said the best way to halt the violence was for townspeople to form a vigilante group. He approvingly cited similar efforts in states such as Michoacán, where self-defense militias that sprung up in farming communities have clashed with drug cartels and government forces. In Huehuetlán, "no one leaves their homes now after 6 or 7 in the evening," Aguilar said. "They shut the curtains, and the town is lifeless."

Officials say they're pursuing buyers as well as sellers. Pemex has canceled contracts with seven gas stations in Puebla that are under investigation for receiving stolen fuel. Pemex Chief Executive Officer José Antonio González Anaya has said the company is attacking the demand side of the market. In July the Attorney General's office arrested a mayor in the Red Triangle for alleged involvement in the trade.

The squeeze is having some impact, judging by the price of black-market gasoline. Residents of the Red Triangle say they pay from 13 pesos to 14 pesos for a liter of illegal fuel, up from 9 pesos last year. But Mexican drivers can still save about 20 percent by filling up at places like the parking lot in San Salvador Huixcolotla.

The attendants there don't have pumps. They carry plastic hoses and use their mouths to create suction so they can siphon the gas into customers' tanks. Some wear surgical masks to protect against the fumes. "How many liters?" one shouted to the driver of a red Honda. He dispensed the fuel, then shook the empty 20-liter can at the car window to demonstrate there'd been no scrimping.

Padilla, the consultant, says the entire supply chain—from the complicit worker at a Pemex oil terminal all the way down to locals acting as lookouts while huachicoleros milk a pipeline—generates about $1.5 billion, and that figure is set to expand. "That's a lot of money, and it ends up involving a lot of people," he says.

And despite the government's efforts, there remains public backing in Puebla for the black marketeers—and scorn for the federal troops sent in to catch them. "They're only trying to survive," says Dulce Rosario Martes, a taxi dispatcher in Palmarito. "There's no other work." —*Amy Stillman*

"When you're on the highway, you never know what could happen. We don't have any security"

THE BOTTOM LINE Gasoline theft costs Mexico's state-owned oil company more than $1 billion a year. And the country stands to lose a lot more if investors are spooked by the growing violence.

A Rogue State Could Swing Australia Left

● A Labor government pushes clean energy and a tax on big banks

South Australia has always been a bit different: The driest state on the Earth's driest inhabited continent, it was Australia's only settlement to bar the convicts Britain transported to settle its distant colony and the first place in the world to let women run for elected office.

These days it's also a testing ground for the opposition Labor Party. South Australian Premier Jay Weatherill has set in motion a range of offbeat policies to stimulate an economy devastated by the demise of old-line manufacturing industries, from opening a nuclear waste dump to inking a deal with Elon Musk to install the world's largest lithium ion battery for storing renewable energy. Weatherill—premier since 2011—has also made waves with a plan to implement a levy on the nation's biggest banks, which he argues are undertaxed. The proposal, unveiled in June, envisions raising A$370 million ($293 million) in the first four years. Banks are fighting back with a lobbying campaign; if that fails, they'll likely challenge the tax in court.

Prime Minister Malcolm Turnbull, a former banker at Goldman Sachs Group Inc., has been vocal in his disdain for South Australia's experiments, calling the state a "socialist paradise." But it appears that Labor's national leader, Bill Shorten, has been studying Weatherill's playbook. He wants to commit the nation to a 50 percent renewable-energy target by 2030 and has floated a plan to increase the top personal tax rate to 49.5 percent for workers earning more than A$180,000 a year. "Shorten is a populist, promoting a more left-wing agenda than any other ▶

● Weatherill

FROM LEFT: CESAR RODRIGUEZ/BLOOMBERG (2); JOANNE DAVIDSON/SILVERHUB/REX/SHUTTERSTOCK

◀ federal Labor leader in decades," says Haydon Manning, a political analyst at Flinders University in Adelaide. "He'll be looking very closely at what's going on in South Australia."

Having lost last year's federal election by only one seat, Shorten appears poised to seize power from Turnbull's center-right government, which is facing voter discontent as lower growth and stagnant wages stoke fears that living standards are falling. A Newspoll survey published on July 24 showed Labor ahead of Turnbull's coalition by 6 percentage points. Under Australia's parliamentary system, the country must hold federal elections by 2019.

Evidence is mixed on whether Weatherill's prescription for South Australia is working. The premier, who got his start at a labor union, is either trailblazing a path to the new economy or desperately throwing mud at a wall to see what sticks. South Australia is the country's top-ranked destination for business investment. "We're the next story coming through," said South Australia's minister for investment and trade, Martin Hamilton-Smith, in a July 24 interview in Singapore, where he was promoting his state. However, with a population of just 1.7 million, most of it clustered in Adelaide, South Australia is also saddled with the country's highest unemployment—the rate was 6.6 percent in June, one percentage point higher than the national average.

Weatherill's success in attracting businesses to the state must be weighed against his inability to get some of its biggest employers to stay put. In October, General Motors Co. will close a factory near Adelaide that also happens to be Australia's last remaining car plant. The move will put about 1,000 people out of work, and thousands more stand to lose their jobs at companies that supply the factory. "Weatherill has for a long time been a believer in a strong role for government, but he's failed to keep the input costs for companies low," says Michael O'Neil, associate professor of economics at the University of Adelaide. "Protecting businesses and workers through subsidies isn't feasible in the long term."

South Australia now gets at least half its electricity from solar and wind power. To combat intermittent outages—the state suffered a statewide blackout in September 2016—Weatherill's government has contracted with Musk's Tesla Inc. to build the 100-megawatt battery that will store electricity generated by a wind farm that's under construction.

More controversial was a proposal to open a nuclear waste dump site, after a state-appointed commission estimated the business could generate A$100 billion in income. The idea was abandoned after a citizens' panel came out against it in November.

A key test for both Weatherill and Shorten will come when South Australia heads to the polls in March. Labor has won 11 of the past 14 elections in the state, but this time the party is running neck and neck with Turnbull's Liberals, according to a Galaxy Research survey conducted in late June.

Market realities will likely force Labor to tone down its more extreme proposals if the party takes power nationally, says Shane Oliver, head of investment strategy and economics at AMP Capital Investors Ltd. in Sydney. Turnbull, after all, is already having to implement measures to rein in the budget deficit to secure the nation's cherished AAA credit rating. Still, says Oliver, "I like the inventiveness of South Australia. It's always been prepared to be a bit different." —*Jason Scott*

THE BOTTOM LINE South Australia's premier has turned the state into the country's top destination for business investment. But unemployment is still higher than the national average.

Why the Fed Cares About America's Opioid Crisis

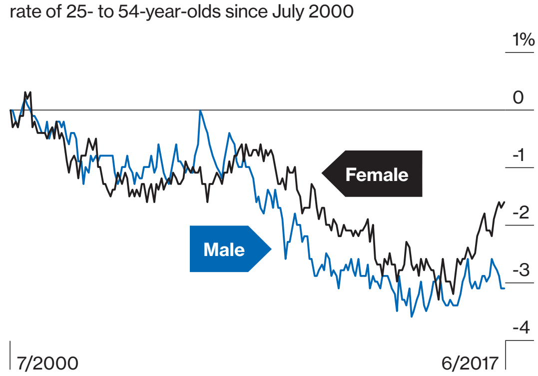
● Abuse is both an economic symptom and a driver of labor problems

Bill Polacek's industry is dealing with a labor market problem so big, even Federal Reserve Board Chair Janet Yellen is talking about it.

A few years ago, Polacek interviewed 350 people to fill openings for 50 welders and machinists at his company in Johnstown, Pa., JWF Industries Inc., which makes metal products, including armor plating for military vehicles. After winnowing down the pool to 100, he found that half of those candidates either had a criminal record or failed the

A Shrinking Pool of Workers

Percentage-point change in labor force participation rate of 25- to 54-year-olds since July 2000



DATA: U.S. BUREAU OF LABOR STATISTICS

drug test. “We weren’t attracting the right people,” Polacek says of the episode, which prompted him to invest in extensive outreach to local high schools to build up a pipeline of workers.

The U.S. opioid epidemic falls outside the Fed’s traditional purview, yet it matters to the central bank, particularly when unemployment is at a 16-year low. If addiction is rendering people unemployable, it could help explain why an historically low portion of the prime-age population—those age 25-54—is working. Also, the Fed has been paying more attention to workforce development in recent years, and the opioid crisis is a drag on human capital across America.

An estimated 2.7 million adults older than 26 were misusing painkillers as of 2015, and an additional 236,000 described themselves as current heroin users, according to surveys by the Substance Abuse and Mental Health Services Administration. Opioid abusers account for a sliver in a workforce of 160 million, but they probably make up a greater share of the 7 million who are unemployed.

Academic research on the economic effects of the opioid crisis has revealed a corrosive feedback loop. Poor job opportunities for America’s working and middle class seem to have helped fuel opioid addiction. In turn, pill and heroin use can worsen employment chances for addicts and lead to criminal records that dim applicants’ prospects for years to come.

“I do think it is related to declining labor force participation among prime-age workers,” Yellen said during Senate testimony on July 13, when asked about the crisis. “I don’t know if it’s causal or if it’s a symptom of long-running economic maladies that have affected these communities and particularly affected workers who have seen their job opportunities decline.”

Regional Fed banks, too, have been increasingly noting the fallout from the epidemic. The Federal Reserve Bank of Boston published research in September on the link between local economic distress and opioid use in New England. And the central bank’s July 12 *Beige Book*, a survey of regional economic conditions, noted that “manufacturing contacts in Louisville and Memphis reported difficulties finding experienced or qualified employees, with some citing candidates’ inability to pass drug tests.” Businesses have also raised the issue in conversations with Philadelphia Fed President Patrick Harker.

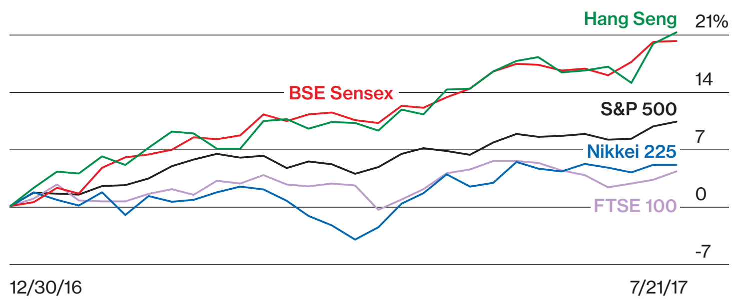
The Cleveland Fed hosted a policy conference in June that included a panel specifically dedicated to opioids. “Our district is the epicenter of this crisis,” says Kyle Fee, regional community development adviser at the Cleveland Fed. “It was a good way for us to dip our toe into this topic.” *—Jeanna Smialek*

THE BOTTOM LINE In Senate testimony, Yellen suggested addiction may be one reason labor force participation is down among prime-age workers.

Checkup India

The Bombay Stock Exchange may be surging, but the latest readings on inflation, capital investment, and industrial production in India all point to an economy losing steam. That’s raised the odds that the central bank will cut rates in August to juice growth.

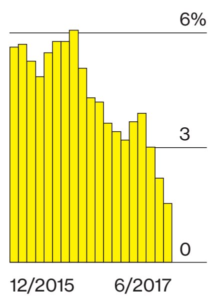
Change in index since Dec. 30, 2016



Counterindicators

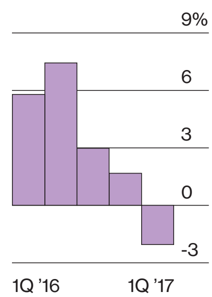
Inflation is at record lows

Consumer price index, year-over-year

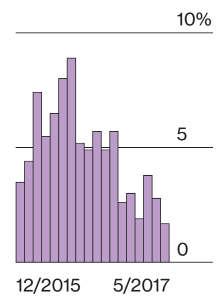


Investment and industrial production are flagging

Change in gross fixed capital formation, year-over-year



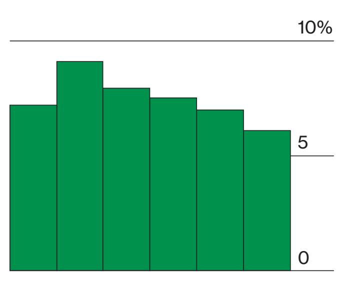
Growth in production, year-over-year



Forward Guidance

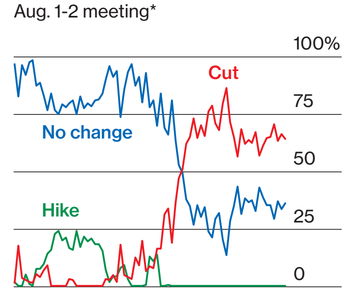
The economy is cooling

Real GDP growth, year-over-year



A rate cut looms

The probability of action on India’s benchmark rate at the central bank’s Aug. 1-2 meeting*



*PROBABILITIES OF CHANGE TO BENCHMARK RATE DERIVED FROM OVERNIGHT INDEX SWAPS; DATA: INDIA CENTRAL STATISTICAL ORGANIZATION, CIEC, RESERVE BANK OF INDIA, GOVERNMENT OF INDIA, DEUTSCHE BANK, BLOOMBERG

LOOK AHEAD

● The House plans to begin its annual August recess on July 31, while the Senate stays in Washington for the time being

● Foreign ministers of the ASEAN will meet Aug. 2-8 in Manila

● A ruling by Kenya's Court of Appeal cleared the way for ballots to be printed ahead of elections on Aug. 8

JOHN MACDOUGALL/AFP/GETTY IMAGES

This Just Got Awkward

● Long co-dependent, Germany and Turkey have reached a breaking point in their relationship

Germany and Turkey have deep ties, with millions of ethnic Turks living in Germany, millions of Germans flocking to Turkey's beaches and historic cities, and almost 7,000 German companies–from giants such as Deutsche Bank, Siemens, and Volkswagen to tiny importers of textiles and food–doing business there. Add it all up, and trade between the two tops $36 billion a year.

But an escalating war of words over democratic values has strained those ties. After a year and a half of tension, the relationship between the two NATO allies reached an apparent breaking point in late July after Turkey detained a group of human rights activists, including Peter Steudtner, a German national. Chancellor Angela Merkel was uncharacteristically blunt in response, denouncing the move as "absolutely unjustified." German Foreign Minister Sigmar Gabriel, with Merkel's blessing, announced a "reorientation" of relations between the countries, warning German companies about doing business in Turkey and cautioning German travelers about visiting. That prompted a denunciation from Turkish President Recep Tayyip Erdogan, who called Germany's actions "unforgivable" and suggested that some form of retaliation might be coming. With these accusations flying, it was revealed that Germany's federal police had received a list of 678 German companies suspected by Turkey of supporting terrorism, which officials dismissed out of hand.

While relations between the two are arguably at their lowest point of the postwar era, both sides have a lot to lose by letting them deteriorate. Merkel needs Erdogan's help to keep the flow of refugees into Germany in check, and the Turkish president relies on Germany, his country's largest trading partner, for tourist visits and as a market for its exports.

Relations began fraying after Merkel helped broker a deal between Erdogan and the European Union last March, at the height of the migrant crisis that has roiled European politics, to control the flow of refugees from the Middle East into Germany. That accord has largely held—and with it, backing for Merkel's party, which had been tested by widespread anti-immigrant sentiment.

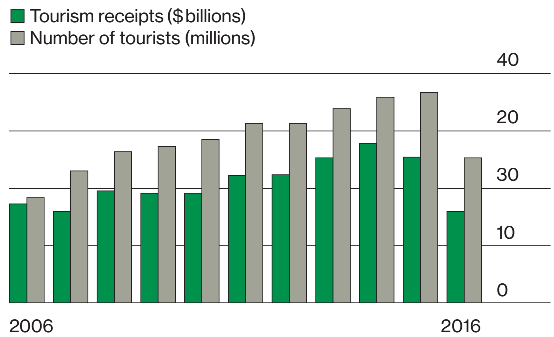
Since then, Merkel has had to adopt a conciliatory posture toward Erdogan, even as the Turkish leader has cracked down on dissent, jailing more than 100,000 of his citizens following a failed coup last July. With a federal election just two months away, the German chancellor's Christian Democratic Union—which leads rival Social Democrats by 18 points in the latest polls—can hardly risk the deal with Turkey falling apart. Merkel faced potential backlash at home last year when she allowed for the prosecution of a German satirist over a lewd poem about the Turkish president under an antiquated German law protecting foreign heads of state from libel. (The state prosecutor stopped the investigation on the grounds that the alleged crime couldn't be proven "with the necessary certainty.")

"It's been a very fine balancing act for Merkel, and so far it has worked," says Judy Dempsey, a senior fellow at Carnegie Europe, part of the Carnegie Endowment for International Peace. "On the other hand, it's given Erdogan more or less carte blanche to do whatever he likes. Erdogan may get a lot of points hitting Germany back in Turkey, but there'll be a very high price to pay for both sides."

In exchange for accepting refugees, Turkey will receive a total of €6 billion ($7 billion) by 2018

Fewer Guests, Less Spending

Turkey lost $12 billion in tourism revenue over two years



DATA: REPUBLIC OF TURKEY MINISTRY OF CULTURE AND TOURISM

from the EU, making it loath to drop its side of the bargain. What's more, the number of foreign visitors to Turkey fell by more than 10 million last year; in the first five months of this year, visits by Germans, traditionally one of the biggest tourist groups visiting Turkey, were down 25 percent.

Turks make up Germany's largest ethnic minority, and of the 3.5 million naturalized citizens and dual-visa holders living there, 1.3 million are allowed to cast ballots in Turkish elections. After Germany blocked Erdogan's ministers from campaigning in the country for an April referendum transferring more power to the presidency (which the Turkish leader went on to win), Erdogan accused them of employing "Nazi practices." A German parliamentary vote in June of last year recognized the killing of Armenians a century ago during the Ottoman Empire as genocide; that led Turkey to bar German lawmakers from visiting their country's soldiers engaged in the fight against Islamic State stationed at a base in Turkey. Merkel then downplayed the significance of the genocide vote.

There are some signs Germany and Turkey are trying to cool the crisis in their relationship. With the jobs of thousands of Turkish workers at German companies on the line and perhaps seeking a way to back down from the latest round of rhetoric, Erdogan's government on July 24 withdrew its list of supposed supporters of terrorism, calling it a "communication problem." A spokesman for the German Interior Ministry acknowledged the clarification but stopped short of lifting the travel advisory.

"There is a critical public opinion here in Germany as regards policies toward Turkey, developments in Turkey, and above all, the reaction of the German government," says Gülistan Gürbey, a political scientist at Berlin's Free University who specializes in Turkish-EU relations. Erdogan, she says, has been testing his limits with Germany—and may finally have reached a limit. —*Chad Thomas and Rainer Buergin*

THE BOTTOM LINE Neither Germany nor Turkey can afford to alienate the other, but politics and philosophy have Merkel and Erdogan at cross-purposes.

◀ Merkel greets Erdogan at the G-20 summit meeting in Hamburg on July 7

Health Care Has A Goldilocks Problem

● If you're neither too rich nor too poor, what's coming out of Washington is just wrong

Whatever happens to Obamacare in Washington, the rest of America will be left with a problem it's had for decades: Health-care spending is growing at an unsustainable rate. Insurance and medical costs are draining the incomes of the middle class—tens of millions of people who earn too much to qualify for government-subsidized coverage, but not so much that they don't feel the bite of medical bills—and nothing on Congress's agenda is likely to fix that.

So far, rather than tackle the health-care delivery system directly, Republican policymakers have focused on slashing insurance subsidies and Medicaid, the state and federal program for the poor. The Obamacare replacement proposed by Senate Majority Leader Mitch McConnell would leave 15 million more uninsured next year and 22 million by 2026, according to the nonpartisan Congressional Budget Office, and allow insurers to sell policies that cover fewer benefits and pay for less medical care. Although the chamber narrowly voted to open debate on health legislation on July 25, almost all the proposals making their way to the floor focus squarely on mandates and spending rather than delivery of care.

By refusing to address the fundamental problems with the health-care system, Congress is ignoring the tough question of how to fix it. That has implications for the economy beyond health care. Most Americans under 65 get their health insurance from employers—177 million in 2015, or 56 percent of the total population. Average premiums for a family plan have increased 31 percent in inflation-adjusted terms since 2006, to $18,000 a year in 2016, according to the Kaiser Family Foundation. Workers typically pay about 30 percent of that premium, with employers picking up the rest. Out-of-whack spending on health care squeezes public budgets and employers' payroll costs: Health premiums and out-of-pocket costs wiped out most of the real income gains for a median family from 1999 to 2011, according to an analysis published on the blog of the journal *Health Affairs* in 2013. "We don't think of it as compensation," says Darrell Gaskin, a health economist at the Johns Hopkins Bloomberg School of Public Health, but many American workers have been getting their raises in the form of more expensive health insurance, he says.

People who buy their own health plans benefited from Obamacare reforms that stopped insurers from charging sick people more or refusing to cover them at all. But like those on employer plans, they've seen their costs go up. That includes families such as that of Amy and Ron Shir. She's a consultant for antipoverty programs, and he's a computer programmer. Both are self-employed, and both have chronic medical problems: Amy, 53, has Crohn's disease, a painful digestive disorder, and Ron, 46, has diabetes. Together the Louisville couple earns about $130,000 a year.

They pay $14,000 a year for an Anthem Inc. policy that also covers their two teenage children. That's less than they paid before the Affordable Care Act, but they're also responsible for out-of-pocket costs of $11,000. "My own family has really been treading water," Amy says. They like working for themselves, but both are seeking full-time jobs, partly because they want more robust health benefits.

Health cost growth did slow during the Great Recession and the following years as millions of Americans lost their jobs, and with them their health coverage. From 2008 to 2013, spending grew at historically low levels after adjusting for inflation and population growth. But even at this lower pace, spending was 0.7 percentage points higher than projected annual gross domestic product growth, according to an analysis by Charles Roehrig, an economist at the Altarum Institute Center for Sustainable Health Spending. Federal actuaries at the Centers for Medicare & Medicaid Services expect per capita health spending to top economic growth by at least 1 percentage point a year for most of the next decade.

Massachusetts enacted a health-care law under then-Governor Mitt Romney in 2006 that became a model for Obamacare. In 2012 the state passed another law setting benchmarks for cost growth, promoting price transparency, and nudging payment systems toward rewarding quality rather than quantity of care. The goal was to keep the total cost of care in line with the growth of Massachusetts' economy. The state's health spending rose more slowly than most others' from 2009 to 2014, but costs have exceeded state targets for the past two years.

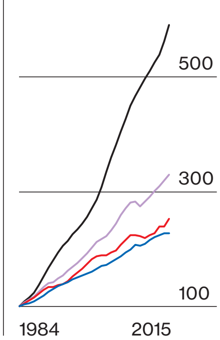
Until the country gets a grip on rising health costs, workers will continue to feel the burden. "The U.S. health-care system is growing increasingly out of reach financially, certainly for low-income patients, but also increasingly for middle-income patients," says Alan Balch, chief executive officer ▶

● Average premium for a family plan in 2016

$18,000

● Per capita medical costs have increased faster than GDP, incomes, and inflation. Values are indexed to 100 at 1984 to show growth rates.

■ U.S. health spending per capita
■ GDP per capita
■ Median household income
■ Inflation (CPI-urban)



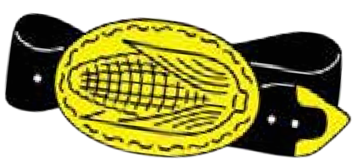
DATA: CENTERS FOR MEDICARE & MEDICAID SERVICES; BUREAU OF ECONOMIC ANALYSIS; CENSUS; BUREAU OF LABOR STATISTICS

◀ of the Patient Advocate Foundation, which helps patients navigate the medical system and pay for care.

Mark Kemp, a certified financial planner in Harleysville, Pa., sees the costs dragging on clients who want to retire before they qualify for Medicare. “I have a lot of people that have enough money to retire in all areas, except they haven’t looked at their health insurance costs,” he says. Even for families without big medical expenses, health premiums cut take-home pay and their ability to save. “It’s basically robbing their future,” he says. —*John Tozzi*

THE BOTTOM LINE No health-care legislation on offer addresses the real drivers of cost increases, which disproportionately affect the middle class.

A Low Blow In the Corn Belt



● Biofuel producers say Trump has turned his back on the rural Midwest

As a presidential candidate, Donald Trump spent a lot of time currying the favor of the ethanol industry, barnstorming its rural Midwest base and repeatedly expressing his support for biofuels made from corn and soybeans. He was rewarded in November: Of the 184 counties with an ethanol plant in the U.S., 95 percent voted for Trump, according to data compiled by the Renewable Fuels Association.

As president, Trump has continued to pledge that he’ll protect the Renewable Fuel Standard, the 2005 law that requires U.S. oil refineries to blend increasing amounts of ethanol and biodiesel into the nation’s fuel supply. In its 12-year history, the RFS has gained critics on both sides of the political aisle, while also pitting oil companies and refineries (which would rather not have to buy all that corn-based ethanol) against farmers and big agricultural companies. Support for RFS doesn’t split down ideological lines as much as it does down geographical ones, depending on proximity to the Midwestern Corn Belt.

On June 21, Trump went to Iowa, which produces more biofuel than any other state, for a campaign-style rally. He reiterated his support for the industry and reminded Iowans how much they need a friend in the White House. “By the way, we’re saving your ethanol industries in the state of Iowa just like I promised I would do in my campaign,” Trump said. “Believe me, they are under siege, folks.”

Two weeks later, the U.S. Environmental Protection Agency proposed the first cut to the amount of renewables that have to be blended into the fuel supply. To people in the biofuel industry, many of whom are farmers, the move amounted to an about-face. “If he was looking to do something that would have taken care of the agricultural sector that got him elected, this was a no-brainer,” says Tom Brooks, who runs a biodiesel plant in Farley, Iowa. “That’s the disconnect. It should’ve been a slam-dunk.”

On the face of it, the proposed cut is relatively small, reducing the amount of renewable fuel that refineries have to buy in 2018 to 19.24 billion gallons, from 19.28 billion gallons in 2017. But the signal it sends to the market—telling investors the U.S. renewable fuel industry will no longer grow—could be devastating. Biofuel quotas were scheduled to continue rising through 2022; now an industry that already struggles to make profits could be starved of fresh capital. For Brooks, the cuts mean he’ll likely have to continue operating his plant at a loss. “If you’re not growing your industry, it’s very tough,” he says.

“The president understands investors and investor signals. This is one of the reasons he became president,” says Brooke Coleman, executive director of the Advanced Biofuels Business Council, which represents companies throughout the biofuel supply chain. He says capping the ethanol industry could undercut Trump’s goals of reviving U.S. manufacturing and reducing U.S. reliance on foreign energy. “Rural America has a really central role to play in this effort to bring back manufacturing jobs,” he says. “This is not a pro-growth, ‘Make America Great Again’ type of proposal.”

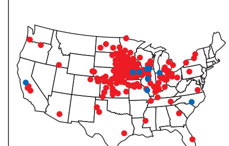
A public hearing on the proposal is set for Aug. 1 in Washington. The EPA has until Nov. 30 to finalize the rule. Between now and then there will be lots of lobbying on both sides. The American Petroleum Institute and other big fossil fuel trade groups have praised Trump for the cuts, but biofuel lobbyists plan to amp up their campaign against them. “We’ve taken every opportunity to remind the president that the Corn Belt helped him win the election,” says Geoff Cooper, executive vice president of the Renewable Fuels Association. “We’re not going to stop.”

The ethanol cuts come at a critical time for American farmers, who, because of falling crop prices, are looking at a fourth straight year of declining income in 2017, the longest such streak in four decades, the Department of Agriculture says. Farmers depend on ethanol and biodiesel plants to soak up excess production. “Those are his voters,” says Rob Walther, director of federal affairs for Poet LLC, an ethanol producer in South Dakota. “Trump is going to need Midwest votes again.” —*Mario Parker*

THE BOTTOM LINE By cutting the amount of ethanol that refiners have to blend into the U.S. fuel supply, Trump risks alienating rural Midwestern voters who turned out for him in 2016.

“We’ve taken every opportunity to remind the president that the Corn Belt helped him win the election”

● How ethanol-producing counties voted in 2016



● Trump
● Clinton

ILLUSTRATION BY TOMI UM; DATA: RENEWABLE FUELS ASSOCIATION

FAST TRACK

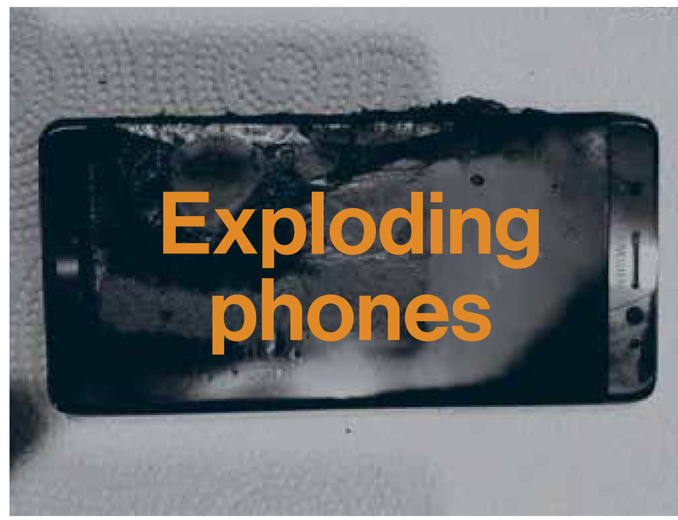
DIGITAL BUSINESS AUTOMATION

Automate infrastructure, data and applications

bmc

bmc.com/digitalbusinessautomation

Corruption scandals



Exploding phones

Countrywide protests

Record profits

Summer of Samsung

"How long does a horse live?"

On a Friday in June, Jay Y. Lee, the de facto head of the Samsung conglomerate, is enduring another afternoon at the Central District Court in Seoul, listening to the prosecution quiz a witness about the finer points of equine health. Lee is on trial for bribery and embezzlement, part of a series of scandals that led in March to the ouster of Park Geun-hye, South Korea's first female president.

"It depends whether you're talking about a competition horse, or..."

The windowless fifth-floor courtroom is packed with lawyers, journalists, and citizens who, like the rest of the country, are captivated by the proceedings. Some people are sitting on the floor; everyone is sweating. Clerks shake their heads in disbelief at the suffocating heat, waving their hands in frustration in front of the stagnant air-conditioning vents. Lee, his four co-defendants from Samsung's executive team, and their phalanx of counsel sip water and mop their faces with handkerchiefs.

"It's 20, no? It lives about 20 years and reaches its peak between 8 and 10?"

"Yes. I believe that's the peak."

Lee and his colleagues stand accused of bribing Park and one of her friends to facilitate a merger between two publicly traded Samsung companies—a combination, prosecutors contend, that was intended to strengthen Lee's control over the Samsung empire. The form of the alleged bribe was Vitana V, an $800,000 thoroughbred show horse, plus $17 million in donations to foundations affiliated with the friend, whose daughter was hoping to

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qualify for the 2020 Olympics as an equestrienne. The Samsung executives describe the gifts as standard support for the country's Olympic ambitions and deny allegations of bribery in this matter and others the prosecution has raised.

"Can the price of a horse drop if an incompetent athlete rides and fails to perform well?"

"I believe so."

Lee, dressed in a dark blue suit and open-neck shirt, is a former equestrian himself; in his 20s, he won a medal at the Asian championships. Today, on what happens to be his 49th birthday, he listens intently to the proceedings, occasionally smiling, passing notes to his attorneys, and otherwise breaking his stoic pose only to apply lip balm. Late in the afternoon the judge asks whether the participants need a break, and Lee replies that he will "follow what everyone else wants." No one else expresses a preference, so the judge snaps that they'll just have to get on with it.

Hours of testimony later, the court adjourns. As Lee departs, no one wishes him a happy birthday—another small sign of the seemingly diminished fortunes of South Korea's mightiest company.

Founded in 1938 by Jay Y.'s grandfather, Lee Byung-chull, the Samsung group is a collection of about 60 interlinked companies, the kind of corporate family known in South Korea as a *chaebol*. There's a shipbuilding division, a construction company, life insurance and advertising arms, soccer and baseball teams, and even a theme park 30 miles south of Seoul, called Everland.

Samsung Electronics Co. accounts for more than two-thirds of the conglomerate's market value. Despite the accusations of corruption—and despite recalls in 2016 of some of its top-loading washing machines and, more famously, its Note 7 smartphone, which had a battery flaw that could cause it to burst into flames—Samsung Electronics remains associated, in the global public consciousness, with cutting-edge gadgetry. It's also still making an extraordinary amount of money. In its most recent earnings report, released on July 27, the company said sales were up 20 percent from the previous year and operating profit had climbed 73 percent. The growth was fueled primarily by the memory-chip division, but Samsung Electronics is now also the world's top smartphone maker, thanks in part to the new Galaxy S8. And the company is close to surpassing Apple Inc. as the most profitable business in the world, and Intel Corp. as the largest maker of semiconductors.

But while investors are applauding the company, South Koreans are protesting it. When the accusations against Lee and Park surfaced, weekly demonstrations in downtown Seoul against the government's cozy relations with the chaebol swelled into the largest rallies since a 1980s democratic reform campaign. Protesters wielded papier-mâché puppets of Park and Lee; one sign read, "Send Jay Y. Lee to prison for being the real culprit in the scandal!"

"What's good for Samsung is good for South Korea" was once an overriding national sentiment. Following the Korean War, chaebol drove the country's devel-

B

opment into a global economic power. Now, polls show that domestic support for them has collapsed, amid fresh accusations that they've been illegally buying influence. The government formed by Moon Jae-in after Park's removal includes prominent chaebol critics who are agitating for greater shareholder rights and less family control.

Inside Samsung Electronics, the anger looks like just another obstacle in a series of them. The company remains confident of its engineering prowess, but it has been working to transform a hierarchical culture that has long prized loyalty, tireless work, and deference. Although this culture has been well-suited to a hardware company, executives know it will have to change if Samsung Electronics is to compete with Silicon Valley in technologies such as cloud services and artificial intelligence.

The shift may take place, depending on the outcome of Lee's trial, without the guiding hand of Samsung's longtime stewards. For years the Lee family and its top strategists have coordinated interactions among subsidiaries, dealt with the government, and approved large expenditures out of a department alternatively called the corporate strategy office, the restructuring office, and the control tower. But with the conglomerate under scrutiny, that office has been shuttered, and strategic planning among subsidiaries "no longer exists," according to DJ Koh, president of mobile communications and one of several senior executives Samsung made available for this story. For the moment, the chaebol is like a headless octopus, its tentacles thrashing about without coordination.

"This is a new experience," Koh says. "We must make our own decisions."

A. Chung Yoo-ra, daughter of a friend of Park Geun-hye, in 2014 B. Effigies of Park and others associated with the scandal C. Lee Kun-hee (middle) in early 2014

For the moment, Samsung is like a headless octopus, its tentacles thrashing

The figure most closely associated with Samsung's global rise is Lee Kun-hee, the son of founder Byung-chull and Jay Y.'s father. Kun-hee, who became chairman in 1987, was known as reclusive but charismatic. Under his guidance, Samsung invested in massive semiconductor and display-panel factories, prodding engineers to overcome the company's early reputation for creating subpar knockoffs. In 1993, with sales of consumer appliances flat, he admonished executives to "change everything but your wife and children." A few years later he commanded underlings to collect 150,000 defective cell phones into a pile and set them ablaze. Although not great for the environment, it sent a clear message about quality control.

Despite his eccentricities, Kun-hee is widely lionized. In 1997, after the value of Samsung Electronics fell to $1.7 billion amid a wider Asian financial meltdown, he jettisoned peripheral businesses and doubled down on chips, screens, and phones. Within a decade, Samsung Electronics' market value had grown sixtyfold. Song Jae-yong, a professor of strategy and international management at Seoul National University Business School, calls Kun-hee "one of the great business leaders of the 20th century."

In 2014, at the age of 72, Kun-hee had a heart attack at his home overlooking the Han River. Samsung reported afterward that he was "recuperating in a stable condition," but he hasn't been heard from since, and the company won't comment further. Multiple people familiar with the situation, who don't want to be quoted discussing a private matter, say the chair-

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man also had a stroke and remains in a vegetative state at the Samsung Medical Center on the outskirts of Seoul. When a Bloomberg reporter recently entered the VIP wing on the center's top floor, he was immediately sent back to the lobby by a frantic security officer wearing a blue surgical mask.

Kun-hee's health emergency set off a further crisis inside the family. The Lees' control over Samsung has always been somewhat fragile, at least by the standards of Western corporations, which allow founders to protect their stature with special classes of stock that grant extra voting rights. By contrast, the Lees own relatively small stakes in individual Samsung entities, maintaining voting control through a tangle of cross-holdings. For example, according to Bloomberg data, Kun-hee owns only 3.8 percent of Samsung Electronics, but he's the largest shareholder in Samsung Life Insurance Co., with 20 percent of the stock. Samsung Life in turn owns 8 percent of Samsung Electronics; that share, combined with those of other subsidiaries, adds up to a useful stake of more than 20 percent.

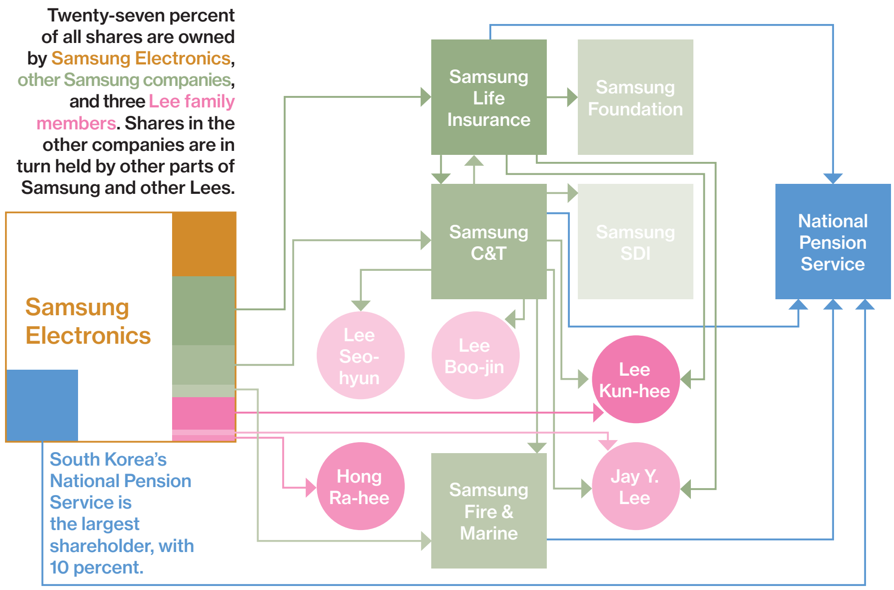
This convoluted structure limits the rights of other investors and frustrates activist shareholders. It's also vulnerable to turns of fate like major illnesses. In the event of Kun-hee's death, his son and presumed successor, Jay Y., would have to pay a steep tax bill to inherit his father's stock and maintain control of Samsung—as much as $6 billion, according to Chung Sun-sup, chairman of Chaebul.com, which tracks executive wealth. This might require Jay Y. to sell some of the Lee family's holdings, further diluting their tentative sway.

That's where the horse comes in. Prosecutors say that in 2015, Jay Y. orchestrated the merger of two divisions: Samsung C&T Corp., which is dedicated to construction and trading, and Cheil Industries Inc., which owned several entertainment properties, including the theme park. The combination would have given the Lee family more power over the combined company and was allegedly intended to bolster its control over Samsung Electronics. The company says the move was designed to make the units more competitive.

To complete the merger over the objections of some activist investors, Samsung needed the approval of another major shareholder, the country's National Pension Service. The prosecution theorizes that Samsung's senior managers were unsure enough of the fund's support—it had recently cast an anti-chaebol vote in an unrelated matter—that they sought for the president's office to intervene on their behalf. Prosecutors have produced financial documents linking the horse to Samsung and Park's friend, as well as records of text messages and phone calls between executives and Park's office that they say demonstrate collusion.

However the judge decides—he will likely render a verdict by the end of the summer—the case has struck an exposed nerve in South Korea. The formerly supportive local media has abandoned the presumption that what's good for Samsung is good for the country (not to mention for their own bottom lines; Samsung is a major advertiser). The company's influence was once such that, in 2008, on a day when Kun-hee appeared for questioning by a special prosecutor, only one of the country's three biggest ▶

Who owns Samsung Electronics? It's complicated



PREVIOUS SPREAD: AP PHOTO (4); BLOOMBERG (2); GETTY IMAGES (1); REDUX (1); REUTERS (3); SAMSUNG (1); THIS SPREAD, FROM LEFT: KIM HONG-JI/REUTERS; AHN YOUNG-JOON/AP PHOTO; YONHAP NEWS AGENCY; DATA: BLOOMBERG

"It was a devastating experience. The Note 7 was our pride"

◀ newspapers covered the story on the front page; the others buried their articles deep inside. (Kun-hee was convicted of tax evasion the following year but was pardoned months later.)

Now Jay Y. is frequently photographed walking into court with a vacant expression on his face, shackled at the wrists and upper arms, and surrounded by as many as a half-dozen police officers. This daily, ritualized humiliation reflects a popular desire to bring down a chaebol businessman once known for hobnobbing with the global elite. And it's only the latest embarrassment for the company.

A year ago, Samsung Electronics' mobile communications division was jubilant. The company had enjoyed a stellar year, surpassing Apple in the U.S. smartphone market, and was preparing to cement this dominance with the August release of the Galaxy Note 7, which sported a stylus pen, an elegantly curved display, and fingerprint and iris scanners. A few days after the phone went on sale, the Summer Olympics kicked off with Samsung as a principal sponsor. Executives flew to Rio de Janeiro to bask in the attention. "It was a great moment," recalls Lee Young-hee, Samsung Electronics' executive vice president for global marketing.

A few weeks later, Lee, one of the few female senior executives at Samsung (and no relation to the Lees who control the company), was in Berlin for a conference when ominous reports started circulating on social media. Phones were bursting into flames and in some cases burning their owners. Lee says she didn't believe the stories at first. Then more phones self-immolated. And still more. Airlines around the world banned the Note 7 from their flights. "It was a devastating experience," she says. "The Note 7 was our pride."

To contain the damage, executives at Samsung Electronics' headquarters in Suwon, a suburb of Seoul, formed a task force under Koh, the mobile communications chief. For four months they met every day at 7 a.m., coordinating a response. Most important, they ordered the recall of the Note 7, which involved collecting millions of phones globally, and corralled hundreds of engineers into testing centers to figure out the cause.

Koh pegs the cost of the effort at more than $5 billion, but he doesn't recall the Lee family blinking at the expense. When he met with Jay Y. during the saga, Lee just listened and pledged support. "I think he must have known how much it cost, but he never mentioned anything about money," Koh says. "He just said, 'Mr. Koh, please manage it properly.'"

In January, Samsung held a press conference to announce the results of its investigation. The cause of the exploding Notes, Koh said, was improperly designed batteries supplied by a Samsung subsidiary and then a backup vendor that had rushed into production. Samsung pledged to test its phones and their component parts more rigorously. The press conference ended with Koh bowing deeply in apology.

The explanation left some Samsung watchers unconvinced. The company denied reports that it had cut corners to beat the iPhone 7 to market, and it hadn't acknowledged that its hierarchical culture might have discouraged junior employees from raising red flags. Employees at Samsung feel "pressurized to make decisions that please the powerful boss," says Paul Swiercz, a management professor at George Washington University. "There is no one pushing back."

For years, Samsung has quietly sought to reform its demanding culture. In 2009 an internal program called Work Smart urged employees to spend their office time more efficiently and take weekends off. In 2012 the company introduced its "119" program, which dictates that employees at formal outings—at which they often felt compelled to appear and keep up with the boss—be limited to one drink, at one bar, ending at 9 p.m. More recently it trotted out an initiative called Startup Samsung to streamline reporting structures and eliminate bureaucratic layers.

But deference remains ingrained, right down to the corporate vernacular. For example, workers at Samsung, as at other South Korean companies, typically address one another by title or position rather than by name, unless they're speaking with a close friend. Such traditions make it difficult for employees to speak frankly or to warn of major mistakes on the horizon. "I hate it," Koh says. "Juniors will freeze. They will not make any comment." The company has been trying to get employees to call each other by their first names, adding the professional honorific "nim" as a suffix, and Koh has asked employees to call him "DJ" instead of "president." But, he says, snapping his fingers, "For them it's not easy to change in just a day."

Regaining its technological footing has come easier to Samsung. The Galaxy S8 has been combustion-free, and in a remarkable sign of tenacity, the company just issued a refurbished Note 7 Fan Edition in South Korea. Where many companies would have abandoned a besmirched brand, Samsung charges ahead.

To appreciate how deeply such relentlessness is embedded in the company's makeup, you must drive 45 miles south of Seoul, to flat pastures that were once populated by pigs and cows. After navigating a well-manicured path up a small hill in a newly fashionable neighborhood, you arrive at an outcropping with an expansive view of a stupendously large construction site. Towering cranes dot the skyline above a 3 million-square-meter campus. Scattered buildings with unironic signs such as "disaster prevention center" and "fire station" ring two enormous structures decorated with colored squares in the style of the Dutch painter Piet Mondrian.

This is Pyeongtaek, site of Samsung Electronics' newest semiconductor plant. The facility is designed to extend the company's dominance in memory chips and

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perhaps to expand its share of the more profitable logic processor business—competing with the likes of Intel to make the brains of smartphones and PCs. The plant, which broke ground in 2015, was one of the last projects Jay Y. approved before his legal troubles began. Already it's producing its first chips, far faster than the industry norm of three to five years to get new plants up and running. Samsung Electronics can do this because it has mastered automation and precision manufacturing, and can draw on its corporate brethren to deploy hordes of construction workers with militaristic efficiency. It can also easily summon capital. Samsung says Pyeongtaek will cost $27 billion to build—a huge amount, but less than half the company's $63 billion in reserves.

Over the years, deep pockets have allowed the Lee family to make investments during the memory-chip industry's periodic, brutal downturns. When the inevitable rebounds occurred, Samsung

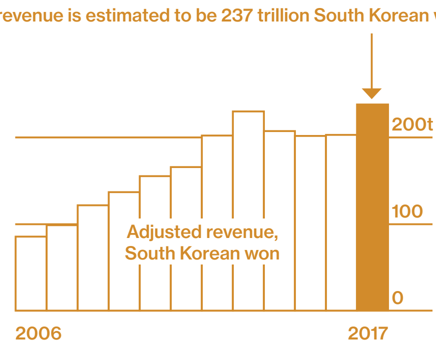
Electronics would be ready to start selling the next generation of chips, leaving its competitors in the dust. "Even for us to build one factory we have to hedge risk," says Mark Durcan, who stepped down as chief executive officer of Samsung rival Micron Technology Inc. earlier this year. "The numbers are so big. They don't have those issues."

Samsung isn't shy about celebrating its dominance. On a trip to the Hwaseong chip plant, about 15 miles from Pyeongtaek, a digital clock in the visitors museum reports that it's been "25 years, 17 days, 11 hours, 24 minutes, and 54 seconds" since the company became the world's largest memory-chip maker. Nearby, a window opens onto one of the campus's chip fabrication plants. Robots zip along ceiling tracks, zigzagging around a room that extends as far as the eye can see. Each metallic arm totes several silicon wafers encased in a clear brown cartridge, which it periodically lowers and inserts into refrigerator-size machines that burn layers of microscopic circuitry onto the surface of the disks. The only two humans in sight look on in their yellow cleansuits, supervising the production.

In May, Samsung created an independent foundry business that makes processors for competitors, such as Qualcomm Inc. and Apple, that can't or don't want to build chip plants themselves. This profitable sector is dominated by Taiwan Semiconductor Manufacturing Co. Now Samsung is coming for it, confident it can walk the tricky line of making processors for both its rivals and itself. "Once we start something, a new business," says Yoon Jong-shik, the executive vice president in charge of the effort, "we always make it a good success in 10 years."

For all Samsung's triumphs over Japanese and American manufacturers, one dominion remains elusive: software. The company pines to compete with Amazon.com Inc. and Google Inc. by developing popular cloud services and intelligent personal assistants—and especially applications capable of linking its smartphones with its flatscreen TVs, washing machines, and refrigerators.

A few years ago, Samsung tried introducing a smartphone operating system, called Tizen, which didn't catch on and is now used mostly in smartwatches and some appliances. Other apps, including Samsung Health, Samsung Cloud, and



Milk Music, lag behind rival products. Only its Samsung Pay digital wallet has shown much promise, adopted in almost 20 countries thus far. The company is hoping its new virtual assistant, Bixby, will be its first big hit.

Koh, who has been at Samsung for 33 years and has the top-floor office to prove it, says he knows that becoming a leading software developer will require Samsung to attract creative, entrepreneurial employees. His pitch for Bixby, though, demonstrates some of the company's familiar culture issues.

Koh asks a reporter, "Do you touch your assistant? Your secretary?"

Reporter: "I don't have an assistant. Also, it would be a personnel violation."

"Exactly! Touch is not allowed. Just say something. So if we change our interaction of touching [the phone] and [use our] voice, that would be perfect."

When a reporter points out that Google has its own voice assistant, creating a potential point of friction with the company that makes the Android software powering most Samsung smartphones and tablets, Koh rolls out an old Woody Allen routine.

Koh: "I want to ask you: Are you married?"

Reporter: "I'm engaged."

"Engaged! How many rings do you need?"

"Uh.... Two?"

"I would say three. An engagement ring, a wedding ring, and another ring is always necessary: suffering."

The joke draws hearty chuckles from Koh's staff.

"In many areas, we're working with Google very closely," he explains. "But

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you know, even though you're engaged, you never fight with your wife or your girlfriend?

"Anyway, our competitor is not in Mountain View," Koh hastens to add, leaving unmentioned the company down the road in Cupertino.

A month after Jay Y.'s birthday court appearance, he's due back on another sweltering summer day in Seoul. Today, the topic of testimony will be whether a Samsung pharmaceutical division illegally lobbied the government to get a listing on the national stock exchange. (Samsung's response: no.)

Outside, beyond a heavily guarded gate, another battle is brewing. A small group of activists, led by a woman in a wheelchair, is waiting to confront Lee. The woman identifies herself as Han Hye-kyung and says she's a former Samsung worker in her 30s with a brain tumor. She holds a sign saying "Punish Jay Y. Lee," and her T-shirt reads, "No more death in Samsung"—a reference to former Samsung workers who contend that exposure to toxic materials caused disease, especially cancer. After years of fighting the workers and their families, Samsung created a roughly $90 million compensation pool, but many have refused to settle on its terms. The company says it's keeping the application channel open and working to resolve the remaining cases.

As Lee's lawyers and co-defendants enter the courthouse, the activists hurl invective at them. But Lee has supporters of his own—dozens of mostly older people, representative of a large group of South Koreans who have started to push back against the political changes wrought by the corruption scandal. The confrontation quickly gets heated.

"What did Jay Y. Lee do wrong? He was only trying to make our nation greater by making Samsung greater!"

"If you don't like Samsung, just go to North Korea!"

"Samsung has fed us generation after generation. They made our nation famous! You're shameless!"

Security guards step in, and things momentarily quiet down. A reporter asks Han why she blames Jay Y. rather than his father, Kun-hee. She replies that if the son has inherited his wealth, he must also embrace the responsibility. Nearby, Samsung's supporters start to chant "Free Jay Y. Lee!" Ⓑ

D. The new semiconductor plant in Pyeongtaek E. Koh at a Galaxy S8 launch event

FROM LEFT: COURTESY SAMSUNG; DREW ANGERER/GETTY IMAGES; DATA: BLOOMBERG

A MYSTERIOUS ASSAULT. AN UNSOLVED

THE HIJACKING OF THE *BRILLANTE*

The tanker in May 2010,

MURDER. AND A SHIP THAT HASN'T GIVEN UP ALL ITS SECRETS

VIRTUOSO

BY KIT CHELLEL AND MATTHEW CAMPBELL

in an image taken by a crew member

I.

"WHO ARE YOU?"

Nestor Tabares must have known the hijackers were out there, waiting. It was his 13th day at sea aboard the oil tanker *Brillante Virtuoso*, and as the ship turned east, into the pirate-strewn waters off Somalia, the 54-year-old chief engineer would have understood that it made for an obvious target. With a top speed of less than 13 knots and stretching 300 yards from bow to rusting stern, the black-hulled *Brillante* was plodding into the world's most dangerous shipping lane with a cargo worth $100 million.

It was July 2011, and the threat of Somali piracy in the Gulf of Aden had never been more severe. The *Brillante*'s crew of 26 Filipinos, including Tabares and the ship's captain, Noe Gonzaga, 57, set up the standard deterrents. Around the deck's perimeter they fitted coils of razor wire, aimed eight high-pressure hoses for blasting attackers off the hull, and propped up a scarecrow in overalls, to suggest the presence of a watchman. Deep inside the tanker, they stocked a mechanical space with food, water, radios, and medical supplies—a panic room in the event pirates did come aboard. Most of the crew had faith that would never happen. They knew the ship's owner, a company called Suez Fortune Investments Ltd., had arranged for a small security team to rendezvous off the Yemeni port of Aden, as an escort through the most dangerous part of their journey.

On the evening of July 5, Gonzaga ordered the crew to cut the engine and drift while they awaited the guards' arrival the next morning. They were 12 nautical miles off the Yemeni coast. It was calm, partly cloudy, and silent, apart from the hum of generators and the sloshing of breakers.

A 40-year-old able seaman named Allan Marquez stayed up to keep watch on the bridge. Just before midnight, he saw a blip on the port-side radar, approaching fast. He reached for a pair of binoculars. A motorboat was moving in the moonlight. As it came closer, Marquez could make out seven people—six of them in desert-style camouflage, holding what looked like rifles. His superior on the watch, Second Officer Roberto Artezuela, rang Gonzaga in his cabin, and Marquez made his way to the deck.

"Who are you?" Marquez yelled down to the boat, trying to sound friendly. One of the men produced a megaphone. He said they were the security team, members of the crew would later recount, and asked to board. Marquez didn't know what to do. Something seemed off. This was too many men, at the wrong time, and one wasn't even wearing shoes. Letting armed strangers onto the ship went against every antipiracy protocol. Marquez radioed up for instructions. After a few minutes an order came back: Lower a ladder.

Six men climbed up. They had light brown skin and wore red-and-white keffiyehs and blue hospital masks. Their rifles looked like Kalashnikovs, and they carried black pistols in holsters on their thighs. When Marquez asked for ID, they refused, seized his radio, and demanded to be taken to the captain.

Gonzaga was still in his stateroom when Marquez appeared at his door, trailed by one of the armed visitors. "Gather all of the crew in the television room," the gunman said. Marquez went cabin to cabin, rousing sleepy crewmates. After all 26 were assembled in the small TV room, now fully aware that they'd lost control of their ship, the six gunmen split up. Two took Gonzaga to the bridge, two marched Tabares to the engine room, and two stood sentry outside.

For a long time, the 24 sailors remaining in the TV room sat there, wondering what was happening to their captain and chief engineer, until a clatter of gunshots suggested the worst. They dared not open the door. At one point, the *Brillante*'s engine roared to life; the ship was moving, but no one knew where. Suddenly, at around 3 a.m., an explosion sounded within the tanker, knocking out the electricity and setting off alarms. Fearful of their guards, the crew waited in place—but when smoke began to fill the room, a few crept out and discovered that the intruders had fled.

The *Brillante* was built like two rectangles joined at a right angle: one vast, flat, hollow shape that held the liquid cargo, and one smaller, upright stack that contained mechanical systems and crew spaces. The fire was underneath them, and rising. Guided by dim emergency lights, Marquez and several other crewmen rushed to the top of the block, where they found Gonzaga on the bridge, alone and unharmed, bound by plastic ties. They sliced him free. As smoke poured out of the tanker's funnels, sailors made a distress call that was picked up by the *USS Philippine Sea*, a guided-missile cruiser on pirate patrol nearby. Gonzaga gave the order: Prepare to abandon ship.

On deck, the crew counted off. Twenty-five men—all but Tabares. Panic set in. The fire had reached their level, and they could hear loud, ominous cracks from metal buckling in the heat. Inside the *Brillante*, the temperature in some rooms was approaching the melting point of copper, testing the fireproofing that for now kept 141,000 metric tons of oil from igniting. A search party went back for Tabares, but the smoke was too thick. At 4 a.m. the crew gave up and took to the gulf in a large, orange lifeboat. As they did, the thrum of rotor chop beat down from above—it was a U.S. Navy Seahawk helicopter, launched by the approaching *Philippine Sea*. From the

A CLATTER OF G

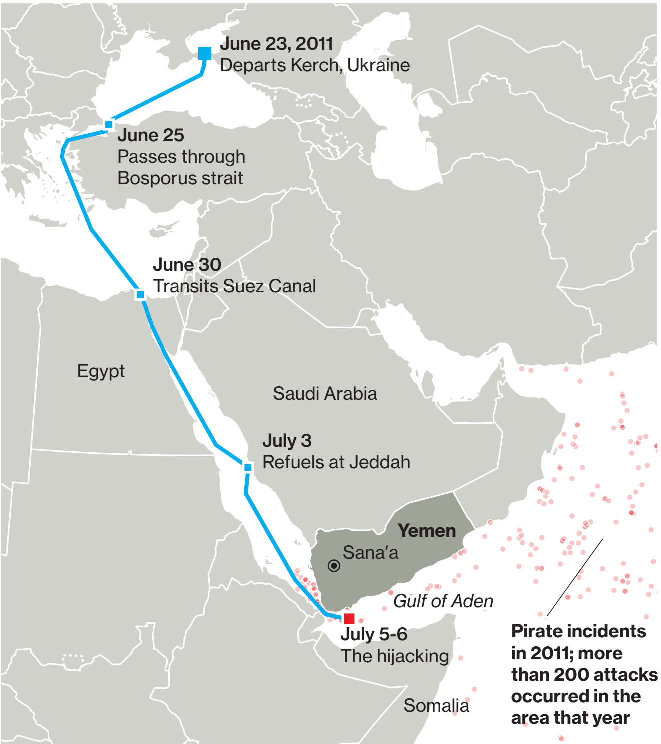
air, the American crew saw fireballs rising from the stricken tanker and felt the percussive boom of explosions within. They trained infrared cameras on the hull seeking signs that the oil—four times the volume of the *Exxon Valdez* spill—would pour into the water. When the *Philippine Sea* was close enough, it sent two inflatable boats to collect the rejoicing Filipinos.

Then, at 5 a.m., the helicopter crew saw movement on deck—Tabares was alive, waving a flashlight. The flames were too intense for an aerial rescue. He leapt into the sea. Seeing a Navy boat, he reached out with both hands and was pulled to safety.

Aboard the cruiser, Gonzaga began to tell the Americans what had happened while he'd been separated from the crew. The hijackers, he said, ordered him to turn over $100,000 and

PREVIOUS SPREAD: DIMITRIS TAMVAKOS

The Last Voyage of the *Brillante Virtuoso*



DATA: NATIONAL GEOSPATIAL INTELLIGENCE, BLOOMBERG

sail for Somalia; they'd fired their weapons at the ship's safe when he was slow to open it. He couldn't say what caused the explosion. When Tabares arrived to share his tale, he said he'd managed to disable the *Brillante*'s engines when his captors weren't looking, then escaped, hiding for so long that he missed the evacuation.

The *Philippine Sea* searched for fleeing pirates, but the motorboat was long gone. Sunrise turned the sky gray and then powdery blue. A tugboat arrived from Aden and pumped

UNSHOTS SUGGESTED THE WORST

seawater onto the *Brillante*, taming the fire until the dead tanker drifted serenely in the morning light, low in the water, trailing a thick column of smoke.

Barely seven hours had passed since the gunmen had taken the ship. But already an international cast was activating: salvors from the region's cutthroat ports, to scavenge millions from the wreckage; U.S. military investigators, to determine if Somali pirates had adopted brutal new tactics; and most urgently of all, an operative from the stony world of London insurance, to discover what really happened aboard his clients' $100 million liability. Because if the hijacking of the *Brillante Virtuoso* wasn't a case of fumbled piracy, it would be the most spectacular fraud in shipping history.

The events of July 6, 2011, set in motion a tangle of lawsuits and criminal investigations that are still nowhere near conclusion. Six years after it was abandoned, the *Brillante Virtuoso* is an epithet among shipping veterans, one that reveals their industry's capacity for lawlessness, financial complexity, and violence. This account is based on court evidence, private and government records, and more than 60 interviews with people involved, almost all of whom asked not to be identified, citing the sensitivities of nine-figure litigation and, in some cases, concern for their own safety. Everyone at sea that night survived. But the danger was just getting started.

II.

THE MONEY AND DAVID MOCKETT

Anytime a commercial vessel is lost, the incident is recorded with a quill pen in a leatherbound book at Lloyd's, a London institution that blends age-old ritual with modern finance. Contrary to common belief, Lloyd's isn't an insurer, or even a company in the usual sense of the word. Since its origins in a 17th century coffeehouse popular with traders who funded sea voyages, Lloyd's has evolved into something like a stock exchange for risk, where actual insurers come to buy and sell exposure. These companies form syndicates and get insurance of their own from even larger re-insurers, who are re-re-insured in turn. These layers constitute one of the world's most essential and least understood markets, where premiums alone generate about $40 billion a year. Anything that might be lost or cause a loss, from Bruce Springsteen's voice to a Virgin Galactic spacecraft, can be insured via Lloyd's, but shipping remains at its core. Some 80 to 100 major vessels are lost each year, and the *Brillante* was one of the largest of 2011.

After a shipwreck, insurers and insured alike have an interest in preserving as much value as possible, so they turn to salvage. Under Lloyd's rules, salvors are entitled to a percentage of anything they save from destruction, and it's widely assumed that some shipowners steer business to favored companies in return for a cut of their compensation. Just minutes after the *Brillante*'s distress signal went out, the tanker's owner, Suez Fortune, contacted a company named Poseidon Salvage International, which got two of its boats in Aden to the scene by 7 a.m.

Four days later, Suez's owner, a Greek named Marios Iliopoulos, flew to Aden—a chaotic city on the verge of revolution. He secured the *Brillante*'s crew in a hotel and gave each sailor $200 for new clothes. On a rather larger scale, Iliopoulos also prepared to submit a claim for his ruined tanker. But before the insurers would pay, they would want a better understanding of the hijacking. And for that, they would need David Mockett.

Every port, no matter how remote, has a small corps of marine surveyors, without whom Lloyd's and global shipping would cease to function. Surveyors are hired to establish ▶

◀ the facts of incidents from routine collisions to deadly storms; their assessments often make the difference between payment or denial of a claim. Many are former captains, who develop the skills of private investigators and execute them in perilous situations. Mockett was the top surveyor in Aden.

Born in 1946, Mockett grew up poor in a small town near the English port of Plymouth. Looking for a ticket out, he signed up with a merchant shipping line, and in the 1970s he joined a flood of Westerners seeking better prospects in booming Saudi Arabia. He lived mostly apart from his wife and two daughters, whom he regularly visited at home in England. Few outsiders take to the strictures of life in an Islamic theocracy, but Mockett found his pleasures, scuba diving to Red Sea coral reefs. In 1998 he moved to Yemen.

Compared with orderly Saudi Arabia, Yemen was like another planet—the poorest country in the Middle East, riven by sectarian conflict, with huge ungovernable areas. Men carried Kalashnikovs as standard accessories, as well as *jambiyas*, curved daggers with ornate handles. Mockett, with his ruddy face and thunderous laugh, was hardly inconspicuous. Locals joked that he was the tallest man in Yemen, with hands that a colleague described as like "giant plates of meat." He soon learned how dangerous his new home could be, when al-Qaeda suicide bombers in the port of Aden killed 17 U.S. sailors aboard the *USS Cole*. One day the next year, getting out of a car at his office, Mockett heard a pop and felt a sharp pain. He'd been shot at, and a bullet had ricocheted off a vehicle behind him and gone clean through his neck. "Being a good surveyor," he later joked, "I made sure I got the bullet." He never found out why he'd been targeted.

A significant portion of the world's maritime trade passes within a short distance of Aden's harbor, so the city offered plenty of work for an able surveyor willing to put up with its harder edges. Mockett found ways to soften them. He became a regular at the sole Chinese restaurant, Ching Sing, which served foul Eritrean gin and whiskey in defiance of the virtual prohibition on alcohol. And he developed a certain rapport with the locals. Driving along the coast with a friend in 2008, he pulled over to photograph the ocean. A beat-up car stopped alongside, and three men stepped out.

"Are you American?" they asked. Mockett indicated that he was British. The men shook hands, but that turned out to be all the English they knew. Mockett's companion pointed at the pistol one Yemeni wore on his belt, and then to the small, round scar on Mockett's neck. The Yemeni lifted up his robe to go one better: A large chunk of his leg was missing. Soon they were posing for pictures and joking with the Kalashnikov that the Yemenis, inevitably, were carrying in the trunk of their car.

When the Arab Spring spread to Yemen in early 2011, friends urged Mockett to leave, at least temporarily. He refused, arguing that people back home were overreacting to the images of turmoil on TV. Yemen was safe, he said, as long as you stayed out of trouble.

III.

"EVIDENCE, DEAR BOY, EVIDENCE"

When Mockett got the *Brillante* assignment later that year, Poseidon's head salvor, a gnarled Greek diving expert named ▶

DIMITRIS TAMVAKOS


BRILLANTE VIRTUOSO

◀ Vassilios Vergos, refused to give him access to the wreck for almost a week—an unusual and unexplained delay. Finally, Mockett chartered a fishing trawler to get to the tanker, where Vergos insisted on accompanying him on his rounds.

The ship, groaning in heavy seas, had a deceptive appearance—the exterior was largely intact, while the mechanical and crew sections within were a total ruin. As Mockett began exploring, his boots splashed through deep puddles of oily seawater left behind by three days of firefighting. Inside the accommodation block, the beam from his flashlight swung left and right, illuminating blackened metal contorted by heat and crusted with soot. Every few steps, he paused to take photos. The engine room, near where the fire had begun, was half-flooded, with ladders that descended into inky sludge. It was too dangerous to go deeper.

Mockett spent the night on the trawler. On his way back to Aden, he contemplated the strangeness of what he'd seen. As a rule, pirates don't set fire to valuable ships—they hijack them and hold their crews and cargo for ransom. Nor do they abandon vessels after doing the difficult work of getting on board and taking control.

Over the next several days, Mockett expanded on his suspicions over tea in his office with friends, paging through hundreds of photos on his laptop. He had a reputation as a careful, by-the-book surveyor, hesitant about inference or speculation. "Evidence, dear boy, evidence," was one of his stock phrases. The *Brillante* evidence didn't add up. There was no sign that the attackers had used rocket-propelled grenades—one of the few pirate tactics he could think of that could realistically cause an explosion and fire. And when Mockett reviewed accounts given by the crew, he found them bizarre. It was hard to believe an experienced captain would invite armed men onto his ship in the middle of the night, in the world's most dangerous waterway, if there was any question about their identity. The entire rendezvous was suspicious: The Gulf of Aden is an area to accelerate through, not dawdle in.

A world away at Lloyd's, tens of millions of dollars in insurance payouts hinged on Mockett's findings. As he prepared his report, he shared his misgivings with some of the other shipping hands—some local, some from overseas—assembling around the tanker, including one hired to offload its oil. On July 19, Mockett emailed the man to say he'd begun to suspect that the supposed Somali pirates were neither Somali nor pirates, but rather rogue elements of the Yemeni coast guard or navy. He promised to explain more soon.

The next day, at about 1 p.m., Mockett took his laptop, left his office, and climbed into his Lexus SUV. He made the short drive to his small house in a neighboring district every day for lunch. On the corner was a store selling sweets; it would normally be crowded with children, but that afternoon it was empty.

Mockett had driven a short distance onto Ma'alla, Aden's main street, when the bomb that had been carefully placed under his seat detonated. The blast was focused and powerful, loud enough to be heard blocks away. It killed Mockett instantly, almost blowing his door off its hinges. As the car burned, belching smoke into the hazy sky, a crowd of locals in traditional white caps pushed toward the flames, shouting. Mockett's body lay on the street next to the broken door, one arm extended, bent at the wrist, as if reaching for the gearstick.

IV.

STOP ASKING QUESTIONS

The murder was shocking even in a city accustomed to bombings. A small crowd held a procession a few days later, carrying placards bearing Mockett's photo and chanting, "God be merciful, God receive him." The Yemeni Ministry of the Interior ordered an investigation, and local police asked one of Mockett's closest friends in Aden, a fellow Brit named Roy Facey, to write a report. Facey's contacts in the area warned him not to include anything too inflammatory. In the document, which he submitted on July 23, Facey described discussing the *Brillante* with Mockett just before he died and hearing him dismiss the story of Somali pirates.

Facey suspected Mockett had been killed because of what he'd learned—and he now possessed the same dangerous knowledge. On July 25, Facey was awakened at 1:30 a.m. by a call from the British embassy in Sana'a, the capital. A woman told him his life was in danger. She wouldn't describe the threat or how the embassy knew about it, only saying he should hide until someone could retrieve him—and then leave the country immediately.

Facey locked himself inside his apartment for more than 36 hours. Late in the afternoon on July 26, kids playing on the street outside stopped to stare as two shiny 4x4s rolled up. A group of burly men with American accents emerged, wearing civilian clothes and pistols on their belts. They bundled Facey into one of the vehicles, eventually depositing him at the airport. The men didn't identify themselves, but Facey thought he knew who they were. U.S. special forces were active throughout southern Yemen at the time, coordinating drone strikes and commando raids on al-Qaeda-linked militants. Facey flew out of Aden without ever learning who wanted him dead. (He declined to comment.)

Another British citizen soon arrived to investigate Mockett's murder.

"IT'S NOT FOR THE SALVOR TO PLA

Mockett (center) and Stokes (right) at Ching Sing. Both would be dead within 15 months of the hijacking

LEFT: COURTESY OF ADAM GREAVES TOMLINSON

Jonathan Tottman, a detective seconded to the British foreign service from London's Metropolitan Police, looked less like a cop than a diplomat, partial to elegant suits. But he had a broad record investigating corruption, terrorism, even soccer hooliganism, and ample experience in the Middle East. He'd need it. The rule of Ali Abdullah Saleh, Yemen's authoritarian president, seemed like it was about to collapse, and the country was tearing itself apart. A suicide bomber killed nine soldiers at an army checkpoint just before Tottman landed, and he could move around the city only with a phalanx of heavily armed Yemeni guards.


Mockett's car after the bombing

There wasn't much to investigate. The authorities had cleared the site of the car bomb almost immediately, collecting little evidence; Mockett's laptop disappeared into police custody. Al-Qaeda had menaced Westerners across Yemen, but Tottman and others believed the murder was extremely unlikely to have been an act of terror. No militant group claimed credit for killing Mockett, and the blast had been relatively small, injuring no one else on a busy street.

In the weeks after the bombing, another of Mockett's longtime friends asked a Pakistani surveyor in Aden to see what he could find out about the *Brillante*. The Pakistani was soon arrested. Yemeni officials took his passport and detained him for five days in a shabby building near the harbor, locking him in a small room with only a bucket for drinking water. After his release, the man fled the country, and Mockett's friend took the incident as a warning to stop asking questions.

Ultimately, too much money and too many actors were involved for the *Brillante*'s ruin to go unexamined. Other inquiries continued. The U.S. Navy wrote up skeptical reports, based on the efforts of the *Philippine Sea*. One summary noted that pirates typically start fires to lure crew out of a fortified hold, yet on the *Brillante* the hijackers had control of everyone on board. "Highly suspicious that pirates would even try to attack a ship so late at night with very little illumination," the document continued. Navy personnel also noted that, curiously, Gonzaga and Tabares had requested to board one of Poseidon's tugs almost immediately after being rescued. They did so, then refused officers' requests to return to the *Philippine Sea* for more interviews.

Y SHERLOCK HOLMES"

Pirates in the Gulf of Aden are generally dark-skinned Somalis who speak the distinctive language of that country. But the *Brillante*'s crew told Navy investigators that almost all the gunmen had lighter skin and spoke "an unidentified form of Arabic." And the tanker's black-box-style data recorder indicated that the vessel had traveled west during the incursion, when Somalia was due south. True Somali pirates, seamen of the hardest kind, would have noticed.

By late August, what remained of the *Brillante* was anchored in safe waters off the United Arab Emirates, towed there by another Greek-run company, Five Oceans Salvage, that had partnered with Poseidon. With the tanker finally secure, its decks bustled with small teams of inspectors taking measurements and photos. Among them were agents from the U.S. Naval Criminal Investigative Service; if pirates were getting in the habit of burning commercial ships, the Navy wanted to know about it. They were joined by fire and explosives experts, people hired by the companies that owned the ship and cargo, and the insurers of both. Previously, a surveyor hired by Suez Fortune had argued the fire was caused by an errant pirate grenade. Now one of the explosives experts entered a space adjacent to the engine room, which had been drained and looked like the inside of a barbecue, and spotted an unmistakable bulge in a metal plate on the floor. It could only have been left by a bomb, he thought—something focused and powerful.

V.
THE UNPLEASANTNESS

Scuttling or damaging a ship for the insurance money is, in some respects, an ideal crime: There might be no witnesses, no evidence, and no law enforcement. The odds of getting away with it are good. Even when an accident has the odor of foul play, Lloyd's insurers almost always pay something. The unwritten law of maritime insurance is to avoid the unpleasantness of customer conflict and keep the premiums rolling in.

But if the *Brillante* wasn't a genuine hijacking—if it was an inside job, with a coverup that extended to murder—then it had no precedent in scale or theatricality. Fifteen months after the attack, a second Brit in Aden died in mysterious circumstances. Roger Stokes, a soft-spoken lawyer and friend of Mockett's, had tried to collect an unpaid *Brillante* fuel bill. On Oct. 7, 2012, his driver found him in his apartment, bleeding severely from a head wound. He expired on the way to a hospital. Stokes's family believed his death was accidental. But in shipping circles, Stokes belongs on the list of those who have dealt with the *Brillante* and then found their life in danger.

In London, four months later, two groups of insurers were facing major *Brillante* claims and needed to decide whether to fight or write checks. The first claim concerned the oil cargo. The lead salvor, Five Oceans, was asking for about $30 million from a group of three underwriters—Royal & Sun Alliance Insurance Group, Zurich Insurance Group, and Allianz—as a reward for saving the payload. The second claim involved the *Brillante* itself. Suez, the owner, wanted ultimately to recover about $100 million, covering the hull, machinery, and forgone profits, plus interest, from a group of 10 companies led by Talbot Underwriting Ltd.

In February 2013, about 30 people gathered to discuss the case on the 11th floor of Lloyd's headquarters, a landmark of modern architecture—an eruption of exposed steel gantries, ▸

◀ undulating staircases, and ventilation pipes rising from the heart of the City, London's financial district. Around a large table sat representatives of both insurance groups, their lawyers, and four police detectives who'd been invited to attend.

The cargo insurers were reluctant to pay, they explained, adding that if the City of London Police intervened, they might be able to delay a decision. More time would be useful for their private investigators, who were still tracking down witnesses. But a representative from Royal & Sun, which had recently fought a nasty legal battle with a different Greek shipowner, expressed fears that the company could get a reputation for hostility if it faced off against another client. A few weeks after the meeting, the cargo insurers folded, paying out the $30 million to the salvors. (The insurers declined to comment.)

The Talbot syndicate took a more aggressive approach, denying Suez's claim for the ship. Suez sued in response. To prepare for trial, the insurers sent investigators to the Middle East, to dig into the attack and salvage, and to Greece, to find out more about Suez's owner, Marios Iliopoulos.

The investigators learned that one of Iliopoulos's ships had been in trouble off the coast of Aden before. On May 26, 2009, a fire broke out in the radio room of a 90,000-ton oil tanker called the *Elli*. While the crew fought the blaze, the ship ran aground on a sand bank. Tugs pulled it clear, but three months later the *Elli* suffered an unexplained accident in the calm waters around the Suez Canal, splitting in half like a watermelon. The resulting claim, for about $35 million, was disputed by the ship's insurers and ended up in litigation; the parties settled before trial.

The *Elli*'s chief engineer on the day of the fire was Nestor Tabares. Two salvage companies responded to its accidents. When the ship ran aground, Poseidon was first on the scene. And when it later broke in two, Five Oceans attended to the wreck.

Poseidon's manager, Vergos, didn't respond to more than half a dozen calls and emails to the company's Greek office requesting comment. Five Oceans Managing Director Nikolaos Pappas said in an interview that his company's only role in the *Brillante* case was to secure the ship, and that he's unable to comment on the attack or what happened to the *Elli*. "It's not for the salvor," he said, "to play Sherlock Holmes."

VI.

SUPER MARIO

Marios Iliopoulos had kept his name out of the *Elli* litigation. He'd owned the tanker—as he did the *Brillante*—through a web of anonymous offshore companies. He's probably 50 years old, is based near Athens, and controls one of the city's fast-ferry services to Mykonos. In Greek media reports, Iliopoulos is known as "Super Mario" for his skill at rally-racing, a sport that involves hurling supercharged production cars along dirt tracks and mountain roads. It's a pursuit defined by scenic locations, crowds of passionate fans, and fearless drivers, who risk a one-way trip off a cliff if they lose control.

Brillante crew members thank a U.S. Navy sailor after their rescue

Although trade publications indicate that Iliopoulos has owned as many as eight large ships at once, he was for years virtually unknown to his insurers, even as his vessels sometimes came to tragic ends. In 1994, the *Iron Antonis*, an aging freighter Iliopoulos owned with his two brothers, was due to be scrapped. The brothers sent it on one last journey, hauling ore from Brazil to China. It sank in a storm 2,000 miles west of Cape Town, one of the most remote places on the planet, killing all 24 of its sailors. Greek authorities charged the Iliopouloses with causing the deaths by negligence. Marios and Ioannis Iliopoulos were cleared, but their brother, Antonis, was convicted in 2001; the case was dropped on appeal.

In 2015, after more than two years of preparation, the Talbot insurance syndicate accused Iliopoulos of orchestrating the assault on the *Brillante Virtuoso*. "There was no attack by Somali pirates," they said in documents filed in a London court. "Any such attack on the Vessel was staged," they continued, "with the involvement and connivance of the Owner" and members of the crew—specifically, Captain Gonzaga, Second Officer Artezuela, and Chief Engineer Tabares. The insurers claimed the fire was strategic: started by a bomb in a chosen location, stoked by an accelerant and open airways, and intended to cripple the ship.

Talbot seized on inconsistencies in the sailors' statements. According to U.S. Navy chat transcripts, the first account of the incident by a third party, the crew initially said the attackers had posed as their security team. Yet in subsequent statements—given in Aden, after Iliopoulos had arrived, as well as in Manila—the story changed. Gonzaga, Tabares, and Marquez, the sailor who let the men aboard, all said instead that the gunmen had claimed to be from "the authorities." The revised account would seem to resolve a key logical flaw: How could Somali pirates have known the tanker was expecting an escort?

Seeking to establish a motive, the insurers said that Iliopoulos was deeply in debt, having borrowed $60 million or more to buy his ships, and that the *Brillante* was hemorrhaging money, in the red by about $4 million in the first six months of 2011. Talbot alleged that as his finances deteriorated, Iliopoulos began to plan the destruction of the *Brillante*. Iliopoulos responded by accusing the insurers of "unfairly and irresponsibly endangering my reputation." He denied the "unfounded and wrongful allegations," adding in a court statement: "I am a respectable businessman, welcomed by such individuals as the Archbishop of Athens and the Vice-President of Greece."

In April 2016, Iliopoulos was summoned to a London courtroom to answer questions about an important pretrial issue: Electronic records from a company managing the *Brillante* appeared to have gone missing. The court was brightly lit, and lawyers for both sides lined up at long tables as Iliopoulos took the stand. With a scruffy beard, oily hair, and an untucked shirt that struggled to contain his ample figure, he looked an unlikely shipping tycoon. He spoke in Greek, through an interpreter. Accused of deliberately withholding the emails, Iliopoulos jabbed his finger in the air. He thumped the table and glowered across the courtroom at his opponents, ignoring questions and accusing them of having "committed crimes" in the course of their investigations in Greece.

Judge Julian Flaux warned him to stop being evasive.

As the hearing stretched into a second day, an older woman with short, gray hair was watching from a chair in the back of the courtroom. It was David Mockett's widow, Cynthia. She looked on as Talbot's lawyer, Jonathan Gaisman, told the judge that someone had hacked into the emails of a Greek lawyer hired by the insurers. Those messages, he said, found their way to Iliopoulos. Turning to the shipowner, Gaisman accused him of ordering the hack.

Iliopoulos poses while enjoying one of his hobbies

Iliopoulos responded quietly. Staring at Gaisman, he told the lawyer that those allegations might draw "consequences." Judge Flaux, a small man with thick glasses and a reputation for toughness, had heard enough. "You will not use this courtroom to threaten counsel or English lawyers," he shouted down from the bench. "You will behave yourself!" When Iliopoulos left the stand, he apologized to Flaux, saying he was an emotional man trying to protect his reputation.

Iliopoulos strolled downstairs toward the lobby. There, waiting in the space between a set of metal detectors and the building's glass doors, were four uniformed officers from the City of London Police. The tallest one spoke. "Mr. Iliopoulos, I'm arresting you for conspiracy to commit fraud," he said, taking him by one arm. Eyes widening with surprise, Iliopoulos said nothing as the officers hustled him into an unmarked blue sedan. Iliopoulos was questioned for hours at a nearby police station before being released without charge.

The investigation into his involvement with the *Brillante* continues, according to people familiar with the probe, though its scope is narrow. Officers are focused on determining whether the insurance claim was fraudulent, which could carry a penalty of as many as eight years in prison.

Iliopoulos never received his $100 million. Judge Flaux denied his claim after the witness box confrontation, writing in a 2016 judgment: "Mr. Iliopoulos clearly lost his temper and effectively threatened the insurers and their legal representatives from the witness box in a disgraceful manner.… With this intemperate and menacing evidence, Mr. Iliopoulos lost any remaining shred of credibility."

The underlying lawsuit, though, limps on: A bank that originally lent his companies money is entitled to continue it. Talbot has submitted evidence of what it says is yet more suspicious *Brillante* activity—a conspiracy to mislabel its oil to avoid tax.

VII.
SHIPBREAKING

In 2011, when Tottman, the London detective, returned from investigating Mockett's death in Aden, he was immediately summoned to brief the British government in Westminster. Officials asked who'd set the bomb: Criminals? The government? Terrorists? In Yemen, Tottman said, it could be all three at the same time. In an interview, Gerald Feierstein, the U.S. ambassador to Yemen from 2010 to 2013, agreed with that assessment. "Corruption was endemic in the military and the civil government," he said. Strapped for cash, the Yemeni navy was also hiring its ships and men out for private security jobs in the Gulf of Aden, Feierstein added. "It was a time of complete political chaos."

It's only gotten worse. Yemen is in a state of near-anarchy, and building a murder case would be impossible for even a committed team of detectives. British police aren't investigating Mockett's death. Apparently, no government agency is. The only formal inquiry into his murder was held by a local coroner in Plymouth, Mockett's hometown, in 2012; it recorded a verdict of "unlawful killing," without identifying suspects. (Cynthia Mockett declined to comment.)

The investigation into the *Brillante* has its limits as well. As of July 19, 2017, City of London police hadn't yet spoken to Allan Marquez—the man who first spotted the *Brillante*'s attackers and helped them aboard. That night, on the eve of the six-year anniversary of Mockett's killing, a *Bloomberg Businessweek* reporter reached Marquez on a ship that was just entering a French port. His words came pouring out in rapid English, his second language. He'd been waiting a long time, he said, to tell his story.

Marquez alleged that after the attack, Iliopoulos sought him out at his hotel in Aden and threatened him. The shipowner wanted him to alter or omit parts of his account of the hijacking when giving statements to investigators, Marquez said. He added that Tabares confronted him, too, at a hotel in Manila weeks later.

Marquez elaborated over multiple phone calls, online chats, and an in-person interview in his native Tagalog. To explain his reasons for going public, he wrote at one point that he was no longer afraid of "both of them," meaning Iliopoulos and Tabares. Now, he wrote, "im afraid to god. How long I can hide the truth in my conscience." Before signing off, he wrote, "I hope that justice must prevailed."

Iliopoulos didn't respond to multiple, sustained interview requests sent via his London lawyer and his secretary or to emails and faxes. A letter brought by courier to his office in Piraeus, Greece, was refused. Suez didn't respond to a letter sent to its registered address in the Marshall Islands. Tabares didn't respond to multiple requests for comment. Neither did Gonzaga or multiple members of the *Brillante* crew.

The *Brillante Virtuoso*'s final destination was Gadani Beach, a shipbreaking yard on Pakistan's Arabian Sea coast. The ship was hauled onto the sand, stripped of anything of value, and torn apart, piece by piece, by workers who make a few dollars a day.

Iliopoulos continues to be active in Greece. Local newspapers reported earlier this year that he was bidding for a stake in Hellenic Seaways, a major ferry company. Meanwhile, it's likely that he has at least one more major vessel at sea. Atop Gonzaga's Facebook page is a photo of another tanker, the *Despina Andrianna*. That ship's registered owner, according to maritime databases, is an obscure company with an address opposite the ferry terminal in Piraeus. Iliopoulos has testified that the same address is his own. At press time, the *Despina Andrianna* was moored in Cuba, preparing to sail with an unknown number of souls. B —*With Karl Lester Yap, Vivian Nereim, and Paul Tugwell*

LEFT: COURTESY U.S. NAVY

A Haven for The Hunted

Anantara Golden Triangle, a five-star resort in northern Thailand, is one of the only places on Earth where you can ethically interact with elephants in the wild

By Nikki Ekstein

Photographs by Wayne Lawrence

A mahout, wearing the traditional *mohom* outfit—denim, red neckerchief, and yellow straw hat—atop an elephant at Anantara

PURSUITS

Bloomberg Businessweek

July 31, 2017

Edited by Emma Rosenblum

I'm half-submerged in the Mekong River—the watery border that separates Laos from Thailand and Myanmar—sitting atop a big-eared, pink-spotted, 3-ton elephant named Poonlarp. Her skin looks soft from a distance, but it's much coarser up close, covered in inch-long bristles. Her gait, which at first gives the appearance of flowing-through-honey movement, feels wobbly up this high. She's alternately headstrong and playful. If you've ever walked a large, stubborn dog, you have an idea what it's like to ride an elephant. This is the bucket-list item that brings people here to Anantara Golden Triangle Elephant Camp & Resort. Perching directly on top of Poonlarp's wide shoulders, forcing my legs into a permanent straddle behind her ears, magnifies her immensity. At one point, she takes a deep drink and sprays the water gleefully, like a living fountain, out of her trunk.

It's my second day at Golden Triangle, a 63-room honeymoon spot set among the rice paddies and tea plantations of far-north Chiang Rai province in Thailand. I flew with my sister to Bangkok from New York, then caught an hourlong connecting flight. The van that picked us up had massage chairs instead of passenger seats and a welcome basket filled with cold face towels and elephant-shaped shortbread cookies. We arrived after sunset, in time for a late dinner of papaya salad and pad thai.

It wasn't until 5 a.m. this morning, jet-lagged and awake on the terrace, that I first heard the soundtrack of elephant roars. It started off quietly but grew louder as the sun rose and a band of tiny-looking animals emerged from shadows in the distance.

Anantara started in the early 2000s, when Bangkok-based Minor Hotels acquired a Le Méridien and transformed it into a five-star resort. The company's chief executive officer, William Heinecke, had the idea to turn the new property into an elephant camp—he loves the animals and felt the Polynesian-style resort's small footprint on a 200-acre parcel of land would lend itself to a luxury wildlife experience. The task was given to John Roberts, a budding conservationist who'd been working with elephants in Nepal's Chitwan National Park. He wasn't formally trained, but Roberts had a promising vision of sustainable elephant tourism. Instead of buying the elephants outright, for instance, Anantara leases them on a permanent basis to discourage locals from snaring another animal in hopes of a big payout.

Fifteen years later, the resort has become a globally recognized standard-bearer for responsible wildlife tourism and one of the only options in Thailand for conscientious travelers who want face time with pachyderms. In 2006, Anantara created a sibling property next door at the Four Seasons Tented Camp—a more posh and colonial-inspired, if slightly less elephant-obsessed, experience.

A third camp is on its way this fall, on a 44,000-acre conservancy Minor Hotels has pieced together in the Cardamom Mountains of Thailand and Cambodia. This resort will support an initiative to rehabilitate and rerelease native species such as the Asiatic wild dog, black bear, and clouded leopard into the wild.

Some animal rights advocates say the line should be drawn at looking, not touching, and it's an argument that's intensified in recent months. One video making the rounds on Facebook, posted in February by Unilad Adventures, an online travel community with 1.7 million followers, begins with a warning about graphic content. "Thinking about riding elephants in Thailand?" the minute-long video asks in block letters as a melancholic violin plays. It then shows baby elephants chained to posts, workers kicking the gargantuan animals as tourists struggle to climb onto them, and trainers prodding their thick hides with long, crude pickax-type tools.

A 2010 study by the University of Oxford's Wildlife Conservation Research Unit exposed Thai elephant camps as some of the travel industry's most irresponsible businesses—not only for their poor treatment of the animals on their premises but also for encouraging locals to kidnap calves, some less than a year old, from their mothers and force them into submission.

By 2014 influential travel operators such as Intrepid Travel had removed elephant rides from their offerings. Mass petitions from World Animal Protection and Change.org rang up tens of thousands of signatures in a matter of days, encouraging more than 100 travel companies, including slower adopters such as Thomas Cook Travel, to nix the rides from their itineraries.

"It's extremely difficult to come up with workable and elephant-friendly solutions"

By the time Unilad posted its video, travel junkies were primed to react with disgust. To date, the video has gotten almost 17 million views and about 400,000 shares on Facebook, along with 17,000 mostly horror-struck comments. "I wish I hadn't contributed to this," one user wrote.

But in Africa, where poaching is the greatest danger facing elephants, travel has actually proved a strong engine for their conservation. Outfitters such as Singita are on the front lines of the issue, and Wilderness Safaris' Abu Camp in Botswana's Okavango Delta rehabilitates injured and orphaned elephants and reintroduces them to the wild.

For Southeast Asian elephants, the big threat isn't poaching but indentured servitude. Roughly 30 percent of Asia's 40,000 to 50,000 elephants are in captivity, often working under dangerous circumstances in forestry or performing in the street.

The region's legacy of elephant labor goes back 3,000 years. The tradition is so old, the *Arthashastra*, an ancient text that guided Indian kings in the first millennium B.C., gave instructions regarding the health of the forests where elephants lived.

Among mahouts, the once-respected class of people who work with elephants, fathers teach their sons how to manage the animals, the way a rancher takes care of horses. But elephants are far more difficult to keep: They can eat 450 pounds of food a day—mostly bananas, vegetables, and grasses.

Considering how many elephants are still in captivity, "it's extremely difficult to come up with workable and elephant-friendly solutions," says Roberts, now the group director of conservation and sustainability at Anantara. Outside of the resort, he helps run the Golden Triangle Asian Elephant Foundation and a program in Southeast Asia that teaches mahouts a gentler training technique focusing on positive ▶

The pool at Anantara features a pattern of poppies, a nod to the region's opium-producing history reinforcement. In February he was in Myanmar working on legislation that would outlaw the capture of wild elephants.

At breakfast on the third day, we're joined by a 5-year-old elephant named Pang Luck, who regularly takes her morning meal in the company of guests on the restaurant terrace. After we eat yogurt parfaits with fresh passion fruit and local honey, we give her handfuls of tiny bananas. Using the two pointed "fingers" at the end of her trunk, she sucks the fruit out of our hands, peels it against her teeth, then helps her mahout clean up the discarded peels.

Like most of the 22 elephants here, Pang Luck's short life has seen its share of tragedy. She was rescued from street performing, where she was patted and prodded in exchange for pocket change until the age of 3. Bounma, a fiftysomething elephant with a broken ear and distinguishing white hairs at the tip of her tail, was ill-suited for logging and spent years being badly beaten as a result; her owner took her begging until he gained admittance to join Anantara's community.

When an elephant is accepted, Anantara also hires the animal's mahout to train and care for it, employment that includes housing, health insurance, and education for his children. There are also opportunities for women to join a traditional silk-weaving collective.

A two-minute drive brings us to the Dara Camp, where most of the elephants "on duty" are relaxing in a series of open-air, canopied stables. One by one the giant creatures amble toward us, perhaps not gracefully but with intention. Poonlarp wags her tail and bats her long lashes. Dah, who survived on the streets of Bangkok and Pattaya before coming to Anantara, waves her ears back and forth nearby. Bo, the largest female of the herd, stretches her jaw open for the on-site veterinarians, who reward her with handfuls of sunflower seeds after a successful oral checkup.

Elephants' memory has been the subject of much mythology—the animals never forget, right? Absolute proof of that bit of conventional wisdom remains elusive, but over the past decade, scientists have confirmed that elephants exhibit a rare level of animal intelligence. They're capable of solving simple puzzles and benefit from regular mental stimulation; like chimpanzees, they use tools in the wild, usually to shoo away flies. They collaborate with one another when problems arise; they flinch when they see a herd member get hurt; they mourn their dead. Elephants are capable of getting angry with one another and then reconciling. It takes only a week for them to learn a command, such as *baen* (turn) or *toi* (back up), and they're capable of mastering as many as 70 of them.

Spend even a little time with them, and you'll see it for yourself. One night we eat dinner above an elephant playpen, while below, Pumpui, who's 50-ish, affectionately wraps her trunk around Dah's body, like a human giving a one-armed squeeze of a hug. Later we look up at the gleaming tusks and towering proportions of Phuki, a 4-ton tusker and one of the resort's two male residents. I offer a scoop of sunflower seeds. His muddy trunk-fingers grip onto my hand and, with a formidable *whoooooosh!*, the seeds are gone. B *Family suites at Anantara Golden Triangle Elephant Camp & Resort start from $1,707 per night, including meals, limousine transfers to and from the airport, high-speed Wi-Fi, and Dara Camp elephant experience; goldentriangle.anantara.com*

Mahouts and their elephants at the camp

The sun rises over the Mekong River in Chiang Rai

The pool's *sala*, based on a farmer's resting spot in the rice paddies

Elephants at Dara Camp

The Loafer Steps Out

Once trendy, then sleepy, a laid-back dress shoe finds the sun again. *By Troy Patterson*

To measure the prestige of ultrachic Gucci Creative Director Alessandro Michele, you could look up the brand's surging sales figures and enraptured runway reviews. Alternatively, you could look down at the feet of your fellow pedestrians, at least in dressier circles. You'll notice no shortage of loafers adorned with the house's signature horse bit. Among those, you'll spot new eye-catching versions enriched with Michele's phantasmagoric visions: embroidered honeybees, appliquéd serpents, and metallic-leather Union Jacks.

It's a great moment for the Gucci **bit loafer**, and thus for all loafers, arguably the official footwear of globalism—inspired by the Iroquois, invented in Scandinavia, mass-produced in America, refined in Italy, and now worn at Davos.

The Gucci staple is still a crucial point of style overlap between the uniforms of European playboys and American prepsters. Favored since the 1960s by Wall Street bankers and K Street lobbyists, it's a significant cultural artifact, a versatile accessory, and not necessarily a walking-around shoe. In June, during the menswear trade show Pitti Uomo, I witnessed a hot debate about Gucci loafers at Caffe Gilli, a Florence restaurant that during Pitti transforms into a gurgling fountain of Aperol spritz. Each of the debaters was a fashion type who'd picked up his bit loafers the year before. One guy described the breaking-in process as no big deal—they felt as soft as silk from the first. The other described it in profane terms, cursing the blisters raised by his rush to keep step with trends.

Loafers in general, in this era of loosening office dress standards, still stand firm. G.H. Bass & Co. Weejuns, the American uncle of the Gucci shoe, has proved just as persistent. Made in Wilton, Maine, since 1936, Weejuns are named after a Norwegian shoemaker who himself had copied Native American moccasins. In the mid-20th century heyday of the Ivy League look, Weejuns **penny loafers** had a wearing-pajamas-to-class aura of loungewear cool.

Weejuns are notoriously tough to break in, even more so than the Gucci bit loafer. Some owners, upon acquiring a pair, habitually pad around the house wearing them with thick socks—or treat the insides with Vaseline or even stick them under the mattress, as if they're baseball gloves. A hedge funder friend of mine once made the error of wearing a box-fresh pair of Weejuns on a four-day roadshow. It ended with him crippled, requiring cab rides to go two blocks.

The **tassel loafer** took off in the 1950s, broadly popularized then by the Alden Shoe Co., and these days it's revered among a more precious set of lads. A lot of the guys who wore them back in the day are still kicking, and on those dandies a tassel loafer looks adorably dapper and dancerly. But in some conservative offices, the flourish is verboten. Delightfully disreputable, even.

Gentlemen who believe the tassel doesn't go far enough sometimes slip boldly into a Tod's **kiltie**, which boasts a fringed saddle. The kiltie, loud and grossly grandiose, is favored by slick-haired polo-shirt-tuckers—and by blowhards holding court at the country club bar. But don't write it off for yourself, demure steppers. If the shoe captures your imagination, follow the lead of those wild clotheshorses who balance its extravagance by wearing it with a rather casual outfit, an extremely nonchalant attitude, and, most important, bare ankles.

On that note, I'll close with an anecdote from Diego Rossetti, president of the Milan-based shoemaker Fratelli Rossetti SpA, which makes the unadorned style called a **Venetian**. He claims that his father, who founded the company in 1953, single-ankledly made it fashionable to wear loafers without socks. "He was supplying shoes to Italian suitmakers for ready-to-wear shows," Rossetti recalls. "I remember doing a show where the tailor was showing the men on the runway with no tie—without even an undershirt. He said, 'If we can get rid of the undershirt, we can get rid of the sock.' Now it seems normality, but that was very unusual."

That's the loafer: perfect for stepping out snappily in the summertime, when the living is easy and the clothing can be deceptively difficult. B

Gucci 1953 horse-bit leather loafer, $640 →

Tod's kiltie leather tassel loafer, $725 ←

↑ Alden cordovan tassel moccasin, $700

Bass Franklin Weejuns, $325 →

Fratelli Rossetti Estate Venetian-style loafer, $390 ↓

ILLUSTRATIONS BY JUN CEN

Crowned Jewels

London has never lacked grand hotels. But the City, its financial hub, didn't have a five-star stunner until this year. Now two contenders, the Four Seasons at Ten Trinity Square and the Ned, are drawing upscale travelers. Here's how they stack up. *By Nikki Ekstein*

	FOUR SEASONS AT TEN TRINITY SQUARE	THE NED
		
Form	Aside from an historically re-created rotunda in the lobby and the coffee-table books on your desk, there are few clues you're in London. Rooms have oversize leather headboards and mirrors that double as TVs. The overall effect is both sleek and plush, if a little generic.	The prevailing theme here is Edwardian largesse, reinterpreted in collaboration with the Soho House team and aimed at creative elites. In the lobby are 92 African verdite-covered columns with ornamental crowns, towering floral arrangements, and a turquoise tufted couch.
Function	Even entry-level rooms are spacious, and soaring ceilings contribute to the tranquil vibe. The bathrooms have a deep marble tub and a walk-in rain shower. The cocoonlike Four Seasons bed is a brand standard for a reason. One oddly overlooked detail proved annoying: The heavily scented Bottega Veneta bath amenities are impossible to squeeze out of their tiny plastic bottles.	Four-poster beds with tasseled pillows anchor the rooms, but the footboards are constricting for a tall guest, and climbing into bed can feel like a cardio workout for a short one. It's one of a few impractical design choices: Lamp switches are out of reach from your bedside; desks are too narrow. What *is* useful is the selection of easy-to-forget-at-home toiletries (lip balm, moisturizer) from Cowshed stocked in the bathroom.
Food	One of the most powerful French chefs in the world, Anne Sophie Pic, oversees the buttoned-up restaurant, La Dame de Pic, where you can get an expertly done omelet or poached eggs for breakfast.	Nine dining venues add up to the world's most sophisticated food hall. Go for bagels with lox on the rooftop—which has a view of St. Paul's Cathedral—then Millie's Lounge for perfectly crisp fish and chips.
After hours	The subterranean spa—covered in shimmering, floor-to-ceiling tile—is open until 9 p.m. Among the perks: eight treatment rooms, a full-length pool, and a steamy Turkish *hammam*.	The vault of the former Midland Bank, on the Ned's lower level, is the coolest new bar in London. Take in old-world glamour, from the classic G&Ts and Champagne fizzes to the restored lockboxes that line the walls.
Scratchpad	A 20-minute wait at check-in because of delayed housekeeping made for a rocky first impression. But the Trinity Square location is sufficiently royal: Across the street is the Tower of London, home of the crown jewels. Request a room with a view; many of the property's 100 rooms face an interior courtyard. *10 Trinity Square, from $564 nightly; fourseasons.com/tentrinity*	Every inch here feels more art-directed than thoughtfully designed. The bedroom chandelier was stunning—it looked like a palm tree—but turning it on and off required the help of a front desk attendant. (The brass dimmer doesn't work like a normal one.) The Ned is only 15 minutes from the Four Seasons, but the bustling vibe makes it seem a world away. *27 Poultry, from $324 nightly; thened.com*

PHOTOGRAPHS COURTESY THE NED, FOUR SEASONS

Technicolor Dreams

Rediscovering the man who colored the 1980s in neon. *By James Tarmy*

Rarely has one person defined an epoch as completely as the architect and designer Ettore Sottsass did the late 1980s and early 1990s. The totems of the era—Cosby sweaters, Swatch watches, neon Rollerblades—can be traced directly to objects his design collective, the Memphis Group, unveiled at a Milan furniture fair in 1981.

This summer, the Metropolitan Museum of Art in New York is taking on the task of not only reviving Sottsass's reputation but also introducing the world to his lesser-known early work. In an exhibition at the museum's Breuer building, Ettore Sottsass: Design Radical (July 21 through Oct. 8), visitors are taken on a tour of the chairs, computers, and sculpture that defined the designer's world.

The show is arranged in a loose chronological survey, spanning from the 1950s to 2007, the year he died. Sottsass was born in 1917 in Innsbruck, Austria, but spent most of his formative years in Turin, Italy, where he studied architecture, following in the footsteps of his father, a prominent architect also named Ettore Sottsass. After fighting in World War II, the younger Sottsass established a design studio in Milan and began consulting for typewriter maker Olivetti in 1957.

Soon after, in 1959, he helped design the exterior of the Olivetti Elea 9003, one of the world's first computers. (The size of a living room, it could barely contain a paperback's worth of data.) In 1968, along with British designer Perry King, Sottsass unveiled the company's iconic, fire-engine red Valentine Portable typewriter, ushering in an age of sleek, visually appealing mobile technology that presaged the modern laptop.

By the 1970s, Sottsass had experimented with virtually every medium. He'd made wooden furniture, including a magnificent Jenga-like assemblage of shelves and drawers, *Tower Cabinet (1962/63)*, which the show puts on prominent display. That whimsical, almost impossible piece of furniture is contrasted with a side chair from 1972's "Synthesis 45" Office Furniture System. Olivetti manufactured the aluminum chair, with its cheerful yellow base and drab brown fabric, for corporate offices around the world.

Only in the final room of the show do visitors encounter his Memphis Group designs, the most exciting objects in the exhibition. By the time he co-founded Memphis in 1981—the name is partially an homage to Bob Dylan's song *Stuck Inside of Mobile With the Memphis Blues Again*—Sottsass was a major figure in his own industry, and the group had backing from manufacturers eager to appropriate his avant-garde imprimatur.

The result, unveiled at the famous Salone de Mobile, was a collection of 57 pieces ranging from a colorful polychrome couch to a bookshelf made out of laminate-covered particle board. These objects were never intended for mass consumption; they were considered luxury items. They're still available to buy. After walking through the Met Breuer's galleries, visitors can buy Memphis furniture in the gift shop downstairs or go online, where one of Sottsass's Carlton bookshelves is on sale privately for €13,145 ($15,297).

The response to the Milan exposition was immediate: Sottsass and the rest of the group were lauded for mixing pop culture and high design, and—this won't come as news to anyone who spent the early 1990s wearing bright pastels—their look soon permeated every corner of the globe. Esprit, the clothing company, for instance, commissioned Sottsass to design its geometric, ebullient showrooms.

For the Met show, curator Christian Larsen saddled himself with the additional challenge of pairing the 80-plus Sottsass works on display with another 80 or so objects by different artists, primarily drawn from the museum's permanent collection. Some of these supplementary pieces had a direct influence on Sottsass's practice: A 1910 mother of pearl inkstand by Josef Hoffmann, for instance, is paired in a vitrine with one of Sottsass's early, Vienna Secession-inspired ceramics. Elsewhere, a neon-pink, green, and black cabinet, *Omaggio 3* from 2007, is contrasted with an achingly beautiful geometric painting from 1921 by Piet Mondrian. Other pieces, though, seem more tangential. One room is dominated by Sottsass's serene ceramic totems from the late 1960s. Why clutter them up with a group of marble stools, designed in 2017 by an unrelated company?

Sottsass's own work is so varied that delineating it from the crowd can be difficult. Everyone other than a true Sottsass scholar will be forced to peer at wall labels to identify what's what, which is perhaps too much interrogation for a casual visitor. Still, the show is ultimately a series of pushes and pulls, an exhibition in true dialogue with the art it showcases. Sottsass's career was a string of experiments, a sequence of trials and errors that culminated in a culture-defining aesthetic. Ⓑ

Miyabi Knife

The ultimate chef's blade for everyday use
Photograph by Meredith Jenks

THE CHARACTERISTICS
Miyabi makes its knives in Seki, the home of Japanese samurai-sword makers. The brand's $280 chef's knife—usually an 8-inch-long blade with a 5-inch handle—is a favorite among professionals, including Iron Chef Masaharu Morimoto, who endorses two Miyabi cutlery series. A scalpel-sharp blade is protected by 100 layers of stainless steel, forged into a Damascene pattern, that provide added durability. It's immersed in liquid nitrogen, a strengthening technique known as cryogenic tempering, and hand-finished in the Honbazuke three-step method to give it a polished edge. The Karelian birch handle offers a beautiful, easy-to-grip surface.

THE COMPETITION
Miyabi is owned by Zwilling J.A. Henckels, a cutlery manufacturer based in Solingen, Germany. (Henckels also sells knives under its own name.) Its biggest Japanese competition, Shun, which is owned by Kai USA Ltd., sells similar models for $240 and is also based in Seki. German-made Nesmuk uses a special Brazilian metal to justify the $550 price tag for its 7-inch chef's knife. Another German brand, Wüsthof, offers a $150 model that's popular and well-respected. For a more exclusive experience, sign up for one of knife master Bob Kramer's auctions, where cutlery connoisseurs bid on five-figure, one-of-a-kind items.

THE CASE
Combining the heft of a Wüsthof, the strength of a Henckels, and the swiftness of a Shun, Miyabi knives effectively fuse Japanese design with workaday utility. The lightweight handle can withstand frequent use; the birch doesn't get slick when wet or oily. The blade's fine edge and thin profile enliven tedious duties, whether precisely removing rhubarb stems for your favorite pie or splitting chicken breasts from thighs before a weekend grill session. *Miyabi chef's knife; miyabi-knives.com*

PROP STYLIST: JOJO LI

GAME CHANGER

Alexander Betts

The academic has a data-driven argument for putting refugees back to work. *By Arianne Cohen*

AT THE END OF HIS FIRST year at England's Durham University, 19-year-old Alexander Betts faced, as he puts it, "a long summer with lots of free time and not much money." To pass the hours, he took a gig volunteering at a reception center for refugees in the Netherlands. "What immediately struck me was that these people had something to offer," he says. "A Bosniak lawyer taught me a bit of international law. An Iranian Olympian taught me a bit of table tennis." The refugees, trapped in bureaucratic limbo and barred from working, had ample time to chat.

With this in mind, Betts returned to his studies in economics and discovered that idling refugees are the norm: Afraid of taking jobs away from their own citizens, countries accepting the world's 21.3 million refugees typically ban them from seeking employment on arrival. Much research had been done on the negative effects of these policies, but alternative strategies remained elusive. Betts used his undergraduate dissertation to design more efficient ways to manage refugee populations, including a matching program that would align migrants' location preferences with host countries' workforce needs.

Betts spent the next decade traveling to refugee camps around the globe, working in relative obscurity until the European crisis two years ago, which catapulted him into policy adviser roles with the governments in Jordan, Uganda, Canada, and elsewhere. There are still challenges ahead. "The first, second, and third thing in the mind of policymakers is social integration of refugees rather than economic integration," says David Miliband, president and chief executive officer of the International Rescue Committee, who was formerly a Labour Party MP in the U.K. "It's important that the economic piece gets better understood, not least because economic integration can lead to social integration."

As a professor at the University of Oxford and director of its Refugee Studies Centre, Betts has continued his research. In Uganda, which allows newcomers to work, he found that 21 percent of refugees in Kampala run a business employing at least one other person and that the workers are 40 percent Ugandan nationals. Betts is quick to point out that the people who can help most aren't policy wonks but businesspeople. "Some companies, like Wal-Mart and IKEA, are placing orders with Jordanian and Syrian factories [that employ refugees], but more needs to be done," he says. Betts highlights Starbucks Corp.'s pledge to hire 10,000 refugees worldwide, for instance. As Miliband says: "Refugees make great employees."

b. 1980, Bristol, England

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Won the European Universities' Debating Championships while an undergraduate

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Ran this year's London Marathon in 2 hours and 38 minutes

ILLUSTRATION BY SAM KERR