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1

PHOTOGRAPH BY JOHN FRANCIS PETERS FOR BLOOMBERG BUSINESSWEEK

63 ▲ Chef José Andrés, who mobilized a gargantuan effort to feed Puerto Ricans after Hurricane Maria

■ IN BRIEF

6 ● The Fed raises rates ● A deep freeze sends China to the coal bin ● Ryanair pilots won't be pulling Santa's sled

■ REMARKS

8 **There was more than one loser in Alabama**

■ VIEW

10 Saudi Arabia must lift its blockade of Yemen

1

BUSINESS

13 Label-conscious no more: Lots of fashionistas are happy to wear Walmart

14 Tracking China's polluters? There's an app for that

15 RICO lawsuits could be a real buzzkill for the pot biz

17 Using the ingredients label to clean up household cleaners

2

TECHNOLOGY

19 Space tourism, no diet required

20 Say it ain't so, Elon! Thor's electric 18-wheeler should beat Tesla to the highway

22 Facebook Watch isn't quite must-see TV—yet

23 Innovation: Print-to-order prescription pills

3

FINANCE

25 Is finance Silicon Valley's next target?

26 Strip clubs suffer as Toronto's condo market takes off

27 Student loan giant Navient has a frenemy for an investor

28 North Korea is really keen on bitcoin. Especially your bitcoin

4

ECONOMICS

30 It's Trump's Fed now

32 Calgary imagines life after oil

34 What the ministers who are meeting in Brussels might have in mind for the euro zone

5

POLITICS

36 After the Jerusalem decision, cheering in Tel Aviv—and Tehran

37 A cautionary tale for radio station owners: Think twice about swapping bluegrass tunes for Russian news

39 It's easy to cut red tape that isn't there

40 Mapping the rightward turn in Eastern Europe

+

FOCUS / RISK MANAGEMENT

42 Keeping the water running during Year Three of Cape Town's drought

44 Bigger and bigger shortfalls at pension plans pose a danger to retirees and shareholders

45 The Hollywood scramble to insure against bad actors

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46

Puerto Rico three months later

PURSUITS

The Philanthropy Issue

- 63 José Andrés, the Michelin-starred chef who's feeding San Juan
- 66 The make-your-money-go-further decision tree
- 68 So you want to start a charity? Advice from some expert givers
- 72 Game Changer: Zoe Terry works to build girls' self-esteem, one doll at a time

46

"I thought, Man, if this happened to us here, what happened to the rest of Puerto Rico? What are we going to do?"

8



Doug Jones

42



Patricia de Lille

70



Christy Turlington Burns



Cover and top left: Photographs by John Francis Peters for Bloomberg Businessweek



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Asia

● Saudi Arabia lifted a 35-year ban on commercial movie theaters. Film content will be subject to censorship.



● Debt-laden Sri Lanka transferred the port of Hambantota, in a prime location on the sea route between Asia and Africa, to China on a 99-year lease.

● Freezing temperatures temporarily trumped China's curbs on burning coal as natural gas demand exceeded supply in the north.

● India's broadcasting ministry banned condom ads from daytime television.

Only about 5 percent of Indians report regularly using condoms. The country is on pace to become the world's most populous by 2024.

● The Pakistan rupee fell to a record low against the dollar on Dec. 12 after the country's central bank stopped propping up its value.

● Australia is imposing jail terms of as long as 25 years on child-sex offenders who attempt to leave the country. It's the world's first law aimed at preventing sex tourism.

Europe

● Anticipating that Iberian consumers will soon catch up to the rest of Europe in online shopping, Inditex, the parent company of Zara, put 16 stores in Portugal and Spain on the block. It's seeking a total of \$472 million in the sale.

● Dozens of heads of state and hundreds of investors disavowed fossil fuels at a climate change summit organized by French President Emmanuel Macron. Among other commitments, the World Bank said it would stop financing exploration and production of gas and oil.



● Unibail-Rodamco, Europe's largest real estate investment trust, agreed to buy Westfield, a high-end mall empire, for

\$16b

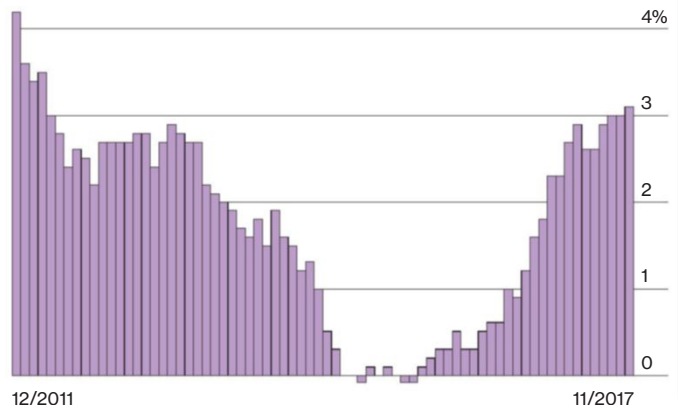
The bullish bet on analog shopping buoyed shares of other mall owners.

● About 80 Ryanair pilots announced plans to strike on Dec. 20.

The budget carrier doesn't recognize unions and has refused to negotiate.

● Inflation in the U.K. hit its highest point in almost six years in November, handily outpacing gains in wages.

U.K. consumer price index, year-over-year change



Americas



● Alabamians rejected Trump-backed Republican Roy Moore for Democrat Doug Jones to fill the seat vacated by Jeff Sessions when he became attorney general. Jones will be the state's first Democratic senator elected since 1992. > 8

● Target agreed to buy the grocery-delivery startup Shipt for

\$550m

The deal puts the retailer in a position to challenge Amazon.com's same-day delivery operation.

● Minnesota's governor, Democrat Mark Dayton, appointed his lieutenant



governor, Tina Smith, to fill the Senate seat vacated by

Al Franken. She will serve until a special election can be held in 2018.

● As expected, the Federal Reserve raised the short-term interest rate a quarter point on Dec. 12 and projected three more hikes in 2018.

● Verizon Communications sealed a five-year deal to stream NFL games on smartphones and websites such as Yahoo! The cellular giant seeks to boost mobile advertising, while the league welcomes another broadcast outlet amid flagging TV ratings.

● “Simply calling something a ‘currency’ or a ‘currency-based product’ does not mean that it is not a security.”

Securities and Exchange Commission Chairman Jay Clayton urged caution to investors keen on bitcoin and other initial coin offerings.

● Republicans in the House and Senate reached a tentative deal on a tax overhaul plan, setting the corporate rate at

21%

down from 35 percent, and the top individual rate at 37 percent, down from 39.6 percent.

● Argentine lawmakers weighed a 5 percent tax on foreigners' earnings from the country's central bank notes, known as Lebacks. The Argentine peso dropped almost 1 percent on the news.

Africa

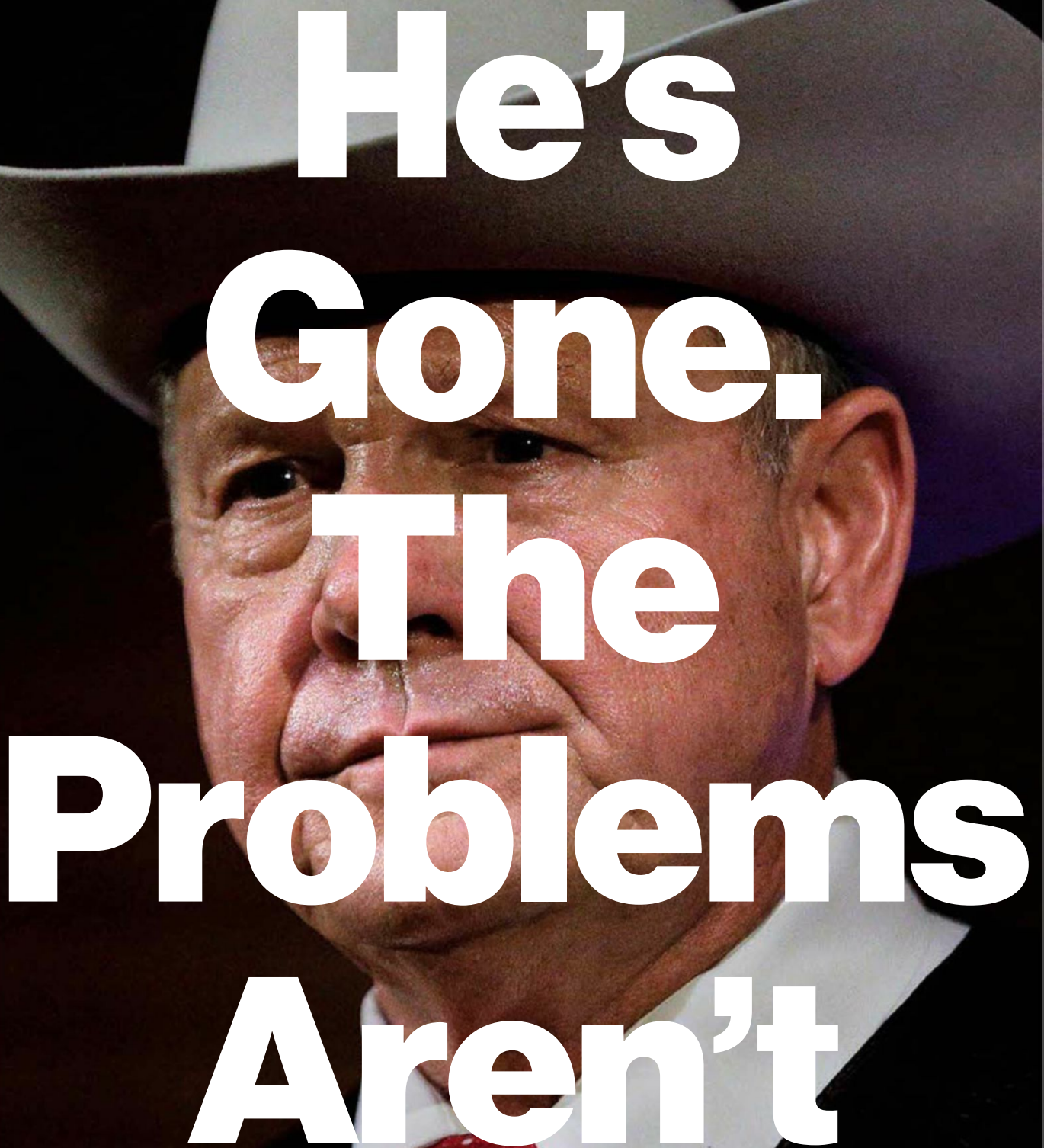
● Egypt signed a deal with Russia's Rosatom to build the country's first nuclear power plant. The

\$30b

facility is scheduled to come online by 2026.

● South Africa's Supreme Court ruled that President Jacob Zuma must face corruption charges. The 75-year-old statesman has outlasted several votes of no confidence.





He's Gone. The Problems Aren't

● The defeat of Roy Moore in Alabama puts the spotlight on the real troubles of the Republican Party—like Trump

● By Joshua Green

America's sudden reckoning with sexual assault and the harassment of women has swept across the worlds of entertainment, media, and politics. But the cultural upheaval set off two months ago by the revelations of Harvey Weinstein's sexual misconduct failed to reach one part of the political world: the segment of the Republican Party most vociferously supportive of Donald Trump.

Until late in the evening of Dec. 12, Roy Moore of Alabama looked as if he might ratify this strange state of affairs. His bid to fill the Senate seat vacated by Jeff Sessions became global news after the *Washington Post* published allegations that Moore, a former state supreme court chief justice, had sexually assaulted a 14-year-old girl when he was in his mid-30s and had routinely lurked in the local mall pursuing other teenagers.

Revelations such as these would have led to Moore's swift ouster if he'd been a movie director or TV journalist. But Moore is a politician. He's a member of a Republican Party that's embraced Donald Trump, running in a state that Trump carried by 28 percentage points. That's why, even after three weeks of wall-to-wall coverage of his sex scandal, Moore still led his Democratic opponent, Doug Jones, in most public polls and seemed poised to carry off a victory.

Moore had a survival plan. His public obeisance to Trump—encouraged by Steve Bannon, the president's former top aide, whom Moore called his “master strategist”—was designed to ingratiate him with the sizable bloc of Republican voters still willing to countenance or ignore the kind of sexual misconduct that Trump himself once bragged about on tape. That sentiment runs strong enough in the GOP that lawmakers such as Representative Blake Farenthold of Texas, whose former staffer received a taxpayer-funded settlement after claiming sexual harassment, have kept their jobs, while Democratic counterparts like Senator Al Franken have been forced out. And no Republican lawmaker has been willing to revisit the harassment claims levied against Trump.

As Ronald Brownstein of CNN has noted, Republicans have avoided serious fallout over sexual harassment because blue-collar women—“Walmart moms,” as Democratic pollster Margie Omero dubs them—have remained loyal to Trump. In elections this year, Brownstein says, “Republicans have consistently run more strongly among white women without degrees than their counterparts with advanced education.”

Moore thought that this political immunity would transfer to him. And it almost did. He denied the allegations. Bannon and his right-wing media apparatus spun an aggressive counter-narrative of lying accusers aided by a perfidious liberal press. Trump lent his full-throated endorsement and held an arena rally for Moore just days before the election. And Republican voters responded: A Dec. 3 CBS News poll found that 71 percent of likely Republican voters in Alabama thought Moore's accusers

were lying. This sentiment only intensified in the days that followed. According to exit polls, 9 in 10 Republican voters on Election Day didn't believe the women who came forward to charge Moore. As Bannon told a roaring crowd at a rally in Fairhope, Ala., shortly before the election, “The whole thing was a setup, right?”

It turns out Alabamians didn't buy it. In electing Jones, they showed that even deep red states and the Republican politicians who represent them won't escape the broad reckoning over sexual harassment that's affected every other segment of U.S. society. It's not clear that Republicans—even those who opposed Moore's candidacy—have understood this message.

Within the GOP, Moore's loss immediately became a weapon in the civil war between Bannon and Senate Majority Leader Mitch McConnell of Kentucky. Steven Law, the head of the pro-McConnell Senate Leadership Fund, put the blame for the mess squarely on Bannon. “This is a brutal reminder that candidate quality matters regardless of where you are running,” he said. “Not only did Steve Bannon cost us a critical Senate seat in one of the most Republican states in the country, but he also dragged the president of the United States into his fiasco.”

Bannon's team blasted McConnell for trying to force Moore out of the race, cutting off party funding long enough to cost Republicans a Senate seat that a more robust effort from the national party and its donors might have saved. As Andy Surabian, a Bannon ally and senior adviser to the pro-Trump Great American Alliance super PAC, said, “Mitch McConnell and the Republican establishment got their wish: They successfully delivered Alabama to a liberal Democrat.” A source close to Bannon added, “There will now be an even more vicious war inside the Republican Party.”

Returns in Alabama and elsewhere make clear that the Republican Party's problems go well beyond flawed candidates such as Moore. Those GOP voters who showed up to cast a ballot for him may not have been deterred by his alleged sexual misdeeds. But what preelection polls of Republican sentiment didn't capture was how many members of the party would decide to stay home. Many of them did. And Alabama showed that Trump's—and Bannon's—shrinking sphere of influence can't overcome the countermovement of voters motivated to act against them.

Party enthusiasm was much higher among key Democratic groups than Republican ones. In several heavily black counties, turnout approached the level of a presidential campaign, while in many of the white rural areas on which Moore was depending, barely more than half of the voters who'd cast ballots in 2016 showed up at the polls. Black voters made up a staggering 29 percent of the electorate, a reflection of efforts by prominent black figures, from Barack Obama to civil rights icon John Lewis to former NBA star Charles Barkley, to fire up voters. Likewise, turnout was up in major college areas, with significant spikes in Lee County (Auburn University) and Tuscaloosa County (University of Alabama). Jones won voters under the age of 30 by 22 percentage points.

And there's no doubt that a third critical component of the Democrat electorate—women—played a decisive role in Moore's demise, whether they voted for Jones, wrote in an alternative candidate, or threw up their hands and decided to stay home. According to exit polls, Jones beat Moore by 17 percentage ▶

◀ points among women, 58 percent to 41 percent, which means that women in Alabama voted more decisively for Jones than women nationally did for Hillary Clinton, who carried them 54 percent to 42 percent over Trump last year. This margin would be significant in any state, but it's especially significant in Alabama, where it's a sea change from 2012, the last time exit pollsters measured a statewide race in Alabama. In that year's presidential voting, Mitt Romney beat Barack Obama among women in the state by 55 points. (In 2016 the National Election Pool didn't conduct exit polls in Alabama because the race wasn't expected to be close.)

After Moore's debacle, some Republican strategists blamed the candidate. Josh Holmes, a former chief of staff to McConnell, told the *Washington Post*, "You could literally take any name out of a phone book except Roy Moore's and win by double digits. And we managed to get the only guy in Alabama that could lose to a Democrat."

But last month this same pattern of energized Democratic voter groups also defeated a thoroughly mainstream and

Trump-endorsed gubernatorial nominee in Virginia, Ed Gillespie, who lost by an even wider margin. So it isn't Moore who represents the Republicans' biggest problem, but a different (alleged) sexual miscreant: Trump.

While Trump won't be on the ballot next year, the bad news for Republicans is that he could well cost them control of Congress anyway. The president's popularity with his base hasn't translated into victories for his chosen candidates such as Gillespie and Moore. But voters who disapprove of Trump have reliably cast ballots against Republican candidates in each of the three major elections this year: In Alabama, 93 percent of those who disapproved of Trump voted for Jones; in Virginia, 87 percent voted for Gillespie's Democratic opponent, Ralph Northam; and in New Jersey, 82 percent voted for the Democratic gubernatorial candidate, Phil Murphy.

With Moore's loss, many Republicans will breathe a sigh of relief, knowing that even though he refused to concede on election night, he'll soon ride his horse off into the sunset. Trump, on the other hand, isn't going away. **B**

VIEW

To read Leonid Bershidsky on Facebook's horrible year and Megan McArdle's kitchen gift guide, go to Bloombergview.com

The Humanitarian Catastrophe in Yemen

● A Saudi Arabian blockade must be lifted entirely to prevent even more Yemenis from falling victim to disease and hunger

Saudi Arabia reacted to the Dec. 4 killing of former President Ali Abdullah Saleh of Yemen by intensifying its bombing campaign in the country. A more suitable response—tactically, strategically, and morally—would be to completely lift the blockade it imposed in November on ports and airfields controlled by the Houthis, which prevents the delivery of humanitarian aid to millions of suffering Yemenis.

There are no heroes in the civil war between the Saudi-led coalition supporting Yemen's government and the Iranian-backed Houthi rebels, who were responsible for killing Saleh, a former ally. Both sides have inflicted death and suffering on civilians. Hostilities have already killed or wounded at least 14,000 people in the past three years, and

countless others have died from disease and starvation. Some 1 million people have contracted cholera in part because the lack of fuel has affected the ability to pump clean water. Three million of Yemen's 28 million people are refugees in their own country, and almost 200,000 have fled to neighboring states.

Saleh's death is likely to prolong the civil war and makes the debate over how to end it more difficult. But it shouldn't prevent the Saudi coalition from permitting the resumption of commercial deliveries of food, fuel, and medicine to Yemen's Red Sea ports, as the United Nations has urgently requested. To its credit, the coalition has already allowed limited humanitarian shipments. The UN has offered to work with the coalition to

prevent shipments from being used to smuggle in arms.

Meanwhile, the world must do more to fund the UN relief effort, which has been only half-subscribed. The U.S. leads the pack, though its contributions are dwarfed by U.S. arms sales to Saudi Arabia. Russia, which aspires to reclaim great power status in the Middle East, has kicked in a paltry \$1 million; Iran, its partner in Syrian crime, has contributed nothing.

Neither history nor a recently empowered UN human-rights body will look kindly on the Saudis' reaction to Saleh's death. The better way to win the hearts and minds of your neighbors is to help noncombatants survive to one day rebuild their shattered nation. **B**

THE 7



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LOOK AHEAD

● Homebuilder Lennar will report fourth-quarter earnings, a window on U.S. housing strength

● FedEx releases its second-quarter earnings after the market close on Dec. 19

● AutoZone will hold its annual meeting on Dec. 20 in Memphis

How Private Labels Caught the Public Eye



● Once-dowdy store brands are besting many fashion nameplates

A few months ago, Amazon.com Inc. representatives met with fashion designer Jackie Wilson as part of the expansion of Amazon’s burgeoning apparel business. They wanted her to make a knit top for women that would be sold under an Amazon-owned private label. And they wanted the fabric to feel heavy and high-quality—attributes long associated in the shopping mind with name-brand attire.

“They are not concerned at all about how many units they sell, and they’re not focused on margins,” says Wilson, whose company in Syracuse, N.Y., makes clothing for Kohl’s, American Eagle Outfitters, and J.C. Penney. “They’re concerned about customer satisfaction. They want five-star reviews.”

Wilson’s knit top is in the vanguard of a private-label push that’s upended the \$275 billion U.S. apparel sector. Amazon, Wal-Mart Stores, Target, and other big retailers are beefing up in-house clothing lines to grab shoppers whose loyalty to established brands has waned. Even supermarket chain Kroger Co. is getting in on the act with its own apparel, attracted by profit margins that far exceed those of bananas and paper towels.

In some categories—such as the activewear Americans increasingly don all day, whether or not they hit the gym—private labels make up 20 percent of the market, according to researcher NPD Group Inc. That makes store brands in aggregate larger than any single brand, which should strike fear at Lululemon Athletica, Nike, and Under Armour. “Smart shoppers are turned on to the idea of looking great no

matter where you buy apparel,” says Target Corp. Chief Merchandising Officer Mark Tritton, who’s overseen the introduction of several private-label apparel lines this year, including Goodfellow & Co. menswear.

Store-brand apparel isn’t new. The Sears, Roebuck & Co. catalog first offered its own clothing in 1894, and Wal-Mart’s Faded Glory house brand began in 1972 as a department-store label. But for years, private-label apparel was dowdy, no match for branded threads. That began to change in 1990 when British supermarket chain Asda Stores Ltd. asked fashion designer George Davies to create an exclusive clothing line. The result, George, was a hit in the U.K. and caught the attention of Canadian retailer Loblaws Cos., which in 2004 hired Joe Mimran, co-founder of the Club Monaco chain, to do the same. His Joe Fresh expanded into standalone stores and a partnership with J.C. Penney Co. in the U.S. But the brand didn’t click with Penney’s shoppers, prompting Mimran’s departure in 2015 and an overhaul of the business.

Despite its recent struggles, Joe Fresh “was a nice surprise to other retailers who said, ‘Hey, if they can do this, we can, too,’” says Adheer Bahulkar, a partner at consultant A.T. Kearney Inc.

As retailers boosted investments, linked with Asian suppliers, and built in-house design teams, established brands suffered declining mall traffic and heaps of unsold inventory. Devotion to popular names such as Gap and Nike began to fade. “Every new generation is becoming less and less brand-loyal,” Bahulkar says. “Millennials don’t care as ▶

PHOTOGRAPH BY CAROLINE TOMPKINS FOR BLOOMBERG BUSINESSWEEK

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◀ much about logos. They will buy anything from anywhere at any price point, and that is a big change.”

The erosion of brand loyalty has been a boon for Target, the cheap-chic retailer that made its name in apparel via partnerships with top designers Isaac Mizrahi and Jason Wu more than a decade ago. It’s leveraged that success to create its own private labels in recent years, most notably Cat & Jack, a kids’ apparel line whose sales surpassed \$2 billion after a little more than a year on the shelves.

House brands can be a boon for retailers, giving them more control over prices and thus profit margins on the products, compared with national brands, where retailers subsidize the vendor’s development and marketing costs.

How Americans buy clothes is changing. This year, Amazon will leapfrog T.J. Maxx owner TJX Cos. and Macy’s Inc. to become the second-biggest seller of apparel and footwear in the U.S., Wells Fargo & Co. estimates. And almost 40¢ of every dollar spent online on clothing and footwear in the U.S. will go to Amazon, according to data tracker Euromonitor International, up from 23¢ in 2014.

Apparel shopping today often starts with an online search, and research from consultant Bain & Co. finds that a surprising number of those queries don’t mention a brand at all—consumers just enter “yoga pants” and see what comes up. More than one-quarter of first-page Amazon search results in categories such as men’s button-down shirts were the e-tailer’s own private labels, Bain says. Amazon has introduced in-house labels with names such as Peak Velocity and Rebel Canyon in categories such as shirts and sportswear, where fit and function—plus free shipping—are often more important than the latest styles. One example: plus sizes for women, where Amazon raised its market share about 50 percent over the past three years, Bain says. Plus size is “radically underserved,” Bain partner Tamar Dor-Ner says. “The thing that made it even more attractive for Amazon is it’s a shopper who traditionally doesn’t want to go into the store.”

Luckily for big brands, three-fourths of apparel shoppers still prefer to feel or try on the product before buying, A.T. Kearney says. And many house brands lack the cachet leading name brands spent decades developing. “I don’t know anyone who is jumping up and down about buying clothes on Amazon,” says Candace Corlett, president of WSL Strategic Retail. “They’ve put together a lot of mid-priced, uninteresting stuff.”

Still, some analysts say private labels don’t have to inspire. Like Wilson’s knit top, they just have to satisfy a need. “We don’t expect private labels to become fashion houses,” says A.T. Kearney’s Bahulkar, “but they can create enough newness that they can capture sales.” —*Matthew Boyle*

THE BOTTOM LINE Name-brand apparel is losing some of its appeal with many shoppers. That’s encouraged retailers to push their own private-label clothing, which has higher margins.

Hitting Polluters Where It Hurts Most

● China’s Blue Map app shames dirty factories—risking their Apple contracts

Ma Jun’s years as an environmental activist taught him this lesson: If you want factories to clean up their act, shaming them in front of Apple Inc. and Wal-Mart Stores Inc. works better than government fines. Ma’s strategy, backed financially by Alibaba Group Holding Ltd.’s charitable arm, is to scrape real-time data off government websites that compile readings from effluent monitoring equipment at some 13,000 of the worst water polluters. The software aggregates the data on an app called Blue Map, where the public can easily identify wrongdoers.

Factories caught polluting face repercussions. Disclosure by Ma’s nonprofit organization has caused some to be banished from Apple’s supplier list, denied a desired credit rating for their bonds, or even deprived of bank loans.

For Ma, that’s more effective than starting protests or lobbying local governments, which both tend to raise the ire of local officials in China. “Sometimes it’s hard to get local government agencies to enforce or fine these factories because they are huge sources of tax income,” says Ma, founder of the Institute of Public & Environmental Affairs (IPE) in Beijing. “It’s much more effective when these companies face the threat of being kicked off Apple’s supplier list.”

The app capitalizes on an explosion of public concern about pollution in China and may help solve one of the government’s biggest headaches: the growing scarcity of clean water for crops, industries, and cities. Using smartphones and social media, millions of citizens have become the front line in the nation’s campaign to detect and punish polluters.

Ma says his database, which anyone can tap into and use for free, has found more than 830,000 cases of factories either pumping excess waste into rivers or falsifying data by tinkering with monitoring devices.

Updated every two hours, the database is becoming an important reference for Western companies sourcing from China. With one click, brands including Levi Strauss & Co. and Gap Inc. can check their suppliers against the IPE’s archive. Apple says it used the information to identify and resolve 196 cases where its suppliers violated environmental rules. Paula Pyers, Apple’s senior director of supplier responsibility, says the IPE is a leader in driving greater business transparency. “Protecting the environment and addressing impacts in our supply chain is one of Apple’s greatest priorities,” she says.



● Ma Jun

The database saves big companies the cost of having to screen suppliers—sometimes tens of thousands of them—and identify the factories that are most likely to tarnish their reputation. “Companies like Apple are vulnerable to boycotts,” says Ethan Zuckerman, director of the Center for Civic Media at MIT. “It makes good sense that they would support these sorts of efforts.”

Alibaba co-founder Jack Ma (no relation) says the company supports the IPE as part of his effort to help make the nation’s “water clearer, skies bluer, and food more secure.” Alibaba said in an emailed statement that it was glad to provide some funding for the Blue Map operator, which it called “a meaningful and innovative project that helps solve social problems.”

The issue is a pressing one for China’s leaders. Almost 9 percent of the country’s rivers and lakes were severely polluted by the end of last year, according to a government report in June. China’s laws mandate that tap water can come directly only from rivers that meet categories 1-3 on the nation’s six-level pollution scale. But most water utilities can’t find sources that meet those standards without extensive treatment, says Shen Liping, founder of Shanghai Daorong Nature Conservation and Sustainable Development Center.

The fouling of much of China’s water supply over the past three decades has become a major political issue for the ruling Communist Party. Chen Jiping,

a former leading member of the party’s Political and Legislative Affairs Committee, said in 2013 that concerns about the environment were the biggest source of unrest in China. Water shortages, public discontent over health threats, and pressure from a central government determined to rein in pollution have pushed officials to become more open to working with nongovernmental organizations such as the IPE. China’s 2008 environmental information disclosure laws made the IPE’s database possible.

Blue App is at the heart of the battle against one of the central government’s biggest public enemies: “Stinky Black Waters.” The term refers to China’s most polluted rivers, 2,059 of them as of March. Using the IPE’s app, citizens upload photos of polluted waterways or issue complaints to the local government, which is required to provide an initial response within seven days. Citizens can also use the app to track how the government is dealing with the complaint. The Ministry of Environmental Protection says that as of March it had received 2,997 such complaints, more than half of which led to investigations.

“In the past such complaints would have just fallen through the cracks,” says the IPE’s Ma. “This is a breakthrough for China in terms of civil engagement and information disclosure.” —*Lulu Yilun Chen*

THE BOTTOM LINE The Blue Map app lets anyone in China report water polluters. Apple says it used the app to identify and resolve 196 cases where suppliers violated environmental rules.

“Companies like Apple are vulnerable to boycotts. It makes good sense that they would support these sorts of efforts”

Pot Shops: There Goes The Neighborhood?

- The use of anti-racketeering lawsuits to restrict locations for marijuana businesses is growing

Healthy Pharms sounds like such an agreeable business, until you read a lawsuit filed by a would-be neighbor on Harvard Square in Cambridge, Mass. It warns of “pungent odors,” “undesirable visitors,” higher crime rates, and lower property values if the medical marijuana shop opens as planned. Not incidentally, it also points out that Healthy Pharms would operate in flagrant disregard of the federal law that categorizes cannabis as a controlled substance every bit as illegal as heroin or cocaine.

Raj Dhanda, the controlling partner of companies that own the Crimson Galeria and three other buildings near Harvard University, lodged the complaint in September under the Racketeer Influenced and Corrupt Organizations Act—marking at least the

fourth time the statute known as RICO has been used to challenge a marijuana enterprise in states that have legalized the drug.

While pot remains illegal under federal law, Massachusetts voters approved medical marijuana consumption in 2012 and recreational use in 2016; the latter will kick in next year. The drug is legal for at least one of the two purposes in 29 states, the District of Columbia, Puerto Rico, and Guam. But that doesn’t mean everybody wants a weed business next door. That’s why the burgeoning \$6 billion marijuana business in the U.S. should view the RICO suits as serious threats, says Sean O’Connor, faculty director of the Cannabis Law and Policy Project at the University of Washington ▶



◀ School of Law. Even if all the litigation fails, he says, “it could have its intended impact.”

The chilling effect is already at work in Cambridge, according to Nathaniel Averill, co-owner of Healthy Pharms Inc. He says it’s become more difficult to persuade potential investors to put up cash for his dispensary. “The stakes are high, and not just for us,” he says.

RICO, enacted in 1970 and initially tapped to go after mobsters, allows individuals to make civil complaints against anyone allegedly playing a role in the commission of a crime that harms a plaintiff’s property or business. That’s what Dhanda contends Healthy Pharms is doing before its launch, as soon as it gets final state approval.

The crime is conspiring to sell an illegal narcotic, says the suit, which names 19 defendants—including Massachusetts Attorney General Maura Healey, the state Department of Public Health, the city of Cambridge, and Healthy Pharms’ bank. “As long as federal law says what it says about marijuana, everybody who’s involved in this industry has potential legal exposure,” says Brian Barnes, one of Dhanda’s lawyers. “It makes honest sense for people to pursue these claims.” The University of Washington’s O’Connor agrees there’ll be more cases, calling RICO a clever tool “for folks who are opposed to state legalization to restrict it or shut it down.”

Barnes is also behind RICO suits in Colorado. One was filed by Pueblo County ranchers against a pot-growing facility on adjacent land. It was thrown out by a judge who ruled they didn’t have standing to sue under the racketeering law. The 10th U.S. Circuit Court of Appeals disagreed in June, reinstating the complaint. A trial is set for July 2018.

In Frisco, Colo., Barnes was the lawyer for a

Holiday Inn that sued to stop a dispensary from moving to a nearby location. The plaintiff withdrew the case after two of the 12 defendants, a bank and an accounting firm, reached settlements totaling \$70,000. A note on the dispensary’s website says it was forced to shutter because of the RICO complaint; the owner couldn’t be reached for comment. Those who settled didn’t respond to requests for comment.

Another active RICO action involves Oregon landowners suing a neighboring pot-growing and processing outfit. This suit, filed in July, names 43 defendants, including Bank of America Corp., which holds mortgages on the business’s land. BofA in its motion to dismiss contends it can’t be held liable for the alleged nuisance and that the “real-world consequences of any other ruling would be far reaching and absurd.”

In Cambridge, Dhanda seeks \$81.2 million for alleged injuries from the planned Healthy Pharms outlet. He puts the harm at \$27.1 million. People can sue for treble damages under RICO. Potential backers of redevelopments of two Dhanda properties have been turned off because the pot shop site would be within 200 feet, says his lead counsel, Scott Schlager. He also says an appraiser found Dhanda’s Harvard Square real estate has fallen in value.

Researcher CoStar Market Analytics says Harvard Square’s average retail space sales price has risen 11 percent since 2000, despite the bars and tattoo parlors. The Harvard Square suit is “nothing more than a political stunt and an unfortunate waste of a federal court’s finite resources,” says Adam Wolf, a lawyer for three of the defendants, including 4Front Advisors LLC, a cannabis-business consulting firm.

Schlager describes his client Dhanda as pro-business, not anti-weed. “He is not a troglodyte, he is not an ideologue, he’s not trying to assuage this

● Damages sought by the owner of property near a Cambridge, Mass., medical marijuana dispensary

\$81.2m

great personal vendetta against the marijuana industry,” says the lawyer. “He’s suffered an actual harm.”

Averill of Healthy Pharms says he’s confident a trial court would find Dhanda’s claims meritless. But for his company, which now has one medical marijuana dispensary, north of Boston in Georgetown, “the prospect of defending ourselves in court against a multimillion-dollar real estate investor is daunting.” —*Jennifer Kaplan*

THE BOTTOM LINE Four federal racketeering suits have attempted to stop pot businesses in states where their operation is legal. The strategy could put many more weed shops at risk.

Detergent Makers Clean Up Their Act

● Businesses such as P&G got behind California’s new product labeling act

It took a decade, but California finally has a law requiring extensive labeling of ingredients in cleaning products, and it got support from what might seem the unlikeliest of advocates: the manufacturers themselves. After years of arguing the need to preserve their proprietary formulas in detergents and oven cleaners, companies such as Procter & Gamble Co., whose products include Mr. Clean and Comet, and Reckitt Benckiser Group Plc, the maker of Easy-Off, last summer signed on to a deal with lawmakers and health and environmental groups.

P&G and other manufacturers faced growing pressure from retailers to disclose—and in some cases remove—ingredients. Merchants are responding to customers’ demands for transparency about chemicals such as formaldehyde and phthalates. “The timing was right,” says Julie Froelicher, P&G’s North American regulatory and technical relations manager. A “growing chorus” of consumers wants to know more about what’s in their products, she says.

The first phase of California’s Cleaning Product Right to Know Act takes effect in 2020, when manufacturers of detergents, disinfectants, and other household products will be required to list online any substances linked to harmful health effects, along with most other ingredients. By January 2021, they’ll need to do so on product labels as well.

In New York, Governor Andrew Cuomo in January announced that manufacturers would be required to list cleaning product chemicals on easily searchable websites. Although New York has had disclosure regulations on its books for four decades, they haven’t been enforced. The state is working to update the rules.

According to the Environmental Working Group,

only 7 percent of cleaning products adequately list ingredients. Yet pressure on manufacturers is growing from big retailers such as Target Corp. and Home Depot Inc. In 2016, Wal-Mart Stores Inc. named eight chemical groups it wants eliminated, including formaldehyde; this year it expanded a list of substances it’s encouraging suppliers to remove.

“Over the years, I think that a lot of the fundamental attitude of ‘we’re not doing this’ eroded, in part because of what Wal-Mart was doing,” says Deborah Goldberg, a managing attorney at Earthjustice, a group that brings lawsuits to challenge or enforce environmental policy.

P&G began posting a list of ingredients used in its goods in 2012, along with a list of substances it avoids. But it wasn’t product-specific, so a consumer couldn’t tell which chemicals were in what items. (Companies often exclude naming specific components on labels in favor of generic terms such as “fragrance,” which can mask dozens of ingredients.) This year, P&G said it would begin listing ingredients in fragrances used in such products as Febreze and Herbal Essences.

Proponents of California’s law say there’s plenty to be concerned about in household cleaners, including ingredients that may cause cancer or reproductive harm. One of the sponsors, Women’s Voices for the Earth, cites studies showing that workers who clean for a living have higher rates of asthma and are more likely to have children with birth defects.

Disclosing proprietary formulations was a sticking point in the discussions for companies such as P&G. All sides finally agreed to list substances linked to harmful effects while letting makers claim trade secret protections for other ingredients, says Janet Nudelman, director of program and policy for Breast Cancer Prevention Partners, who helped negotiate the legislation. “Social change doesn’t happen overnight,” she says. “This conversation has really evolved and changed over the past 10 years.”

There’s still pushback from other businesses. The Trump administration’s deregulation drive and a raft of disclosure proposals in other states have prompted about 50 trade groups to lobby for a national labeling standard that would challenge rules such as the California law. Opponents say such a move would weaken consumer protections since states have long set the pace for regulating consumer safety, with California leading the way.

Federal cleaning product disclosure bills haven’t progressed in Congress. But with two of the largest states creating a de facto national standard, “companies now have a much greater incentive to formulate away from some of these chemicals of concern,” says Sarah Ervin, director of governmental affairs at Honest Co., a maker of personal-care and baby products. —*Lauren Coleman-Lochner*

THE BOTTOM LINE For years, cleaning product manufacturers fought rules requiring them to disclose their ingredients. But pressure from the public and Wal-Mart helped change their views.

● Wal-Mart’s initial list of high-priority chemicals:

- Formaldehyde
- Toluene
- Dibutyl phthalate (DBP)
- Diethyl phthalate (DEP)
- Nonylphenol exthoxylates (NPEs)
- Triclosan
- Butylparaben
- Propylparaben

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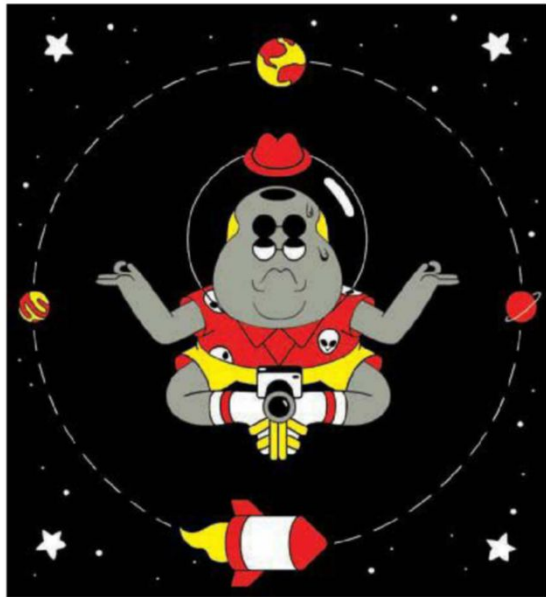
LOOK AHEAD

● Google is reviewing how lies about the Times Square subway bombing made it into top search results

● Nintendo expects holiday sales of its Switch console to outpace those of the Wii, its all-time best-seller

● Facebook will start booking ad revenue locally next year instead of routing it via its Dublin headquarters

In Space, No One Is Overweight



● Commercial flights will have decidedly sub-NASA training rules for their wealthy tourists

The so-called space billionaires—Jeff Bezos, Richard Branson, and Elon Musk—imagine a day when people will live and work up there, gradually transforming humanity into a multiplanet species. The current step in that direction is the space tourism industry, which, starting as soon as 2018, will let civilians escape Earth’s grasp for a few minutes in exchange for hundreds of thousands of dollars.

We’re well past the days when every astronaut needed Chuck Yeager-caliber right stuff, but the scientists and other civilians NASA has sent to space so far still had to undergo the agency’s formidable training. Because the government is leaving it largely to the commercial space companies to work out their own regimens, far less physical or psychological preparation will be needed for the wealthy people on these spaceflights. While research suggests average humans will be able to handle the physical stresses of millions of pounds of thrust powering an ascent that reaches thousands of miles per hour, Bezos’ Blue Origin, Branson’s Virgin Galactic, and Musk’s SpaceX are entering uncharted territory.

“It’s not like just walking on an airplane and putting on your lap belt and reading a book or falling asleep,” says Dr. James Vanderploeg, chief medical officer for Virgin Galactic LLC, which could begin launching suborbital flights next year. And the bigger question, according to the latest research, is whether people who aren’t real astronauts or fighter pilots can handle the psychological stress of leaving the planet strapped to a rocket.

Congress has allowed the spaceflight companies to devise their own vehicles, medical evaluations, and training programs. “It’s really up to the company for what kind of screening they want to have,” George Nield, the Federal Aviation Administration’s associate administrator for commercial space transportation, said on Dec. 5 at the annual Space Commerce Conference in Houston. If all goes as planned, the commercial space race will add scores of names each year to the fewer than 600 who’ve left Earth to date.

Most of the newcomers will be middle-aged folks with plenty of cash—and plenty of the maladies that come with age. Vanderploeg, who’s also a senior faculty member at Baylor College of Medicine in Houston, says years of study, including spinning people of all ages in a centrifuge to replicate extreme gravitational stress, suggest most space tourists will do just fine. But each flyer’s medical issues had better be “well-understood and well-controlled,” he says.

Although the spaceflight companies have economic incentives to maintain lower fitness standards than NASA’s, Virgin takes a conservative view toward screening its flyers, Vanderploeg says. The first 100 customers, which the company calls “founders,” have received extensive medical scrutiny, if not training. While blood pressure and heart disease can be managed, predicting who will have a panic attack is tough. Professionals go through psychological vetting; passengers don’t, and a freak-out on a 20-minute flight into space could cause serious problems for all aboard.

Typical psychological surveys “didn’t predict well at all who might be anxious and potentially present a problem,” Vanderploeg says. That means a space carrier will need to observe customers closely during preflight training, which for Virgin is expected to last three days at its future launchpad, Spaceport America in New Mexico.

Bezos’ Blue Origin LLC has an even shorter window. The company has said its training program will last about a day and a half for its planned 11-minute flights from a site in West Texas. “The ▶

◀ system has been designed from the very beginning so that the training can be minimal,” Bezos said in April at an industry symposium. “You have to know how to strap yourself in and a few other things.”

Among the health concerns, of course, are blowing up and burning up. NASA’s current program, which involves Boeing Co. and SpaceX vehicles, prescribes a 1-in-270 chance of death, roughly four times safer than the space shuttle, says David Klaus, an aerospace engineering professor at the University of Colorado at Boulder. NASA had two catastrophes out of 135 shuttle launches—the *Challenger* liftoff in 1986 and the *Columbia* reentry in 2003. Today the risk of spaceflight is roughly equivalent to that of climbing Mount Everest, according to an FAA-funded analysis by Klaus and other researchers, which is a little more than a 1 percent chance of not making it back. “How safe is safe enough?” Klaus says. “There’s no good engineering answer to that.”

One thing is for certain: These very short trips won’t be cheap. Virgin is charging \$250,000 for its journeys carrying two pilots and six passengers. Other potential space options aren’t likely to be bargains, either. Boeing is building a vehicle capable of carrying humans on NASA supply missions that may also be used for commercial activities. Musk’s SpaceX has a deal with NASA to fly astronauts to the space station aboard its *Crew Dragon* and contracts with two unidentified space tourists to fly them around the moon late next year. Two other human space vehicles are in development, from Lockheed Martin Corp. and Sierra Nevada Corp.

For Virgin’s proposed journey, an aircraft will carry its *SpaceShipTwo* to 50,000 feet before releasing it. A rocket will then ignite to carry passengers roughly 62 miles above Earth, into weightlessness and across what is considered the boundary between the atmosphere and space. The launch phase is expected to exert about 3.5Gs of force for 15 seconds, or 3.5 times the weight you feel from gravity on Earth. Reentry stress will be higher, at 4Gs to 6Gs for 15 to 20 seconds. Passengers will be trained how to breathe through these periods. Cabin seats will shift for acceleration and reentry to mitigate the force of gravity; occupants aren’t expected to lose consciousness.

In a promotional video, Virgin’s chief astronaut trainer, Beth Moses, said the company’s goal is to keep its customers from not “reacting to what has just happened” but rather to be prepared for “savoring everything that’s going on.” One unavoidable sacrifice all passengers will have to make, however, is the ability to relieve themselves: There won’t be a restroom on the Virgin Galactic, Boeing, or Blue Origin vessels. “We have many things to offer,” says Richard DalBello, Virgin’s vice president for business development and government affairs. “A good commode is not one of them.” —*Justin Bachman*

THE BOTTOM LINE While researchers say even minimally trained civilians should be able to handle the rigors of space, it’ll be tough to know until the wealthy start blasting off.

An Electric Truck Ready for the Road

● Tesla’s electric semi doesn’t have a production date. This startup says its short-haulers will arrive in 2019

On the evening of Nov. 16, Elon Musk unveiled the latest prop in his Tony Stark cosplay. Tesla Inc.’s all-electric semi rig met all the classic Musk product launch criteria: It looked stunning, had unprecedented performance numbers, included features straight out of science fiction, and would arrive at some unknown date at a too-good-to-be-true price from a still-to-be-built assembly line.

Ten miles from the cramped Los Angeles airport hangar where thousands of Muskovites were swooning, a 25-year-old named Dakota Semler watched the performance on his phone, tossed a piece of sushi into his mouth, and shrugged. Semler, you see, has an all-electric semi of his own, a matte-black curvaceous truck known for now as the ET1. It’s the first vehicle from his startup, Thor Trucks, which hopes to grab a tiny slice of the 940,000-unit-a-year market for semis and go after short-haul trucks, delivery vans, and work vehicles. Like Tesla’s rig, the ET1 is meant to bring cleaner-running transportation to heavy industry without sacrificing performance. And like Tesla’s, it’s a head-turner. “Everyone thinks we’ve built a Transformer,” says Semler, Thor’s chief executive officer.

Semler and his 17 employees must contend with extremely long odds, but dramatic advances in battery technology, electric motors, and control software have made electric trucks more practical. While electric trucks will cost more upfront than diesel guzzlers, Tesla, Thor, and a handful of others suddenly have the range and horsepower to argue that customers will come out ahead in the long term, thanks to lower fuel and maintenance costs. Electric vehicles, of course, also pollute less, a serious consideration as cities and states prepare



◀ Working at his family’s businesses, a military-electronics supplier and a vineyard, helped lead Semler to electric trucks



◀ Thor's curvaceous ET1 semi

legislation aimed at phasing out dirtier diesel.

As Semler drives the ET1 around Hollywood, gawkers whip out their phones to take photos. The heavy-duty semi, which has a 22-inch touchscreen on its dashboard and a winged black logo splashed across its grille, uses a beach-ball-size electric motor and a couple of large battery packs to carry as much as 80,000 pounds of cargo, the industry standard for the highest class of truck. When it starts shipping in 2019, the ET1 will have a \$150,000 starting price tag and a 300-mile range, meaning it'll compete with medium-duty delivery trucks.

With a look straight out of spoiled-Malibu-kid central casting, Semler doesn't scream trucking magnate. He grew up in the family businesses: one, a supplier of military electronics; the other, the Malibu Wines vineyard. "When I was 7, I'd work in shipping and pack boxes at the electronics factory, and then over the summers I'd shovel manure at the vineyard," he says. By the time he was a teenager, he'd overseen the development of a line of decorative wine barrels and converted the vineyard's diesel trucks to run on waste vegetable oil. At 21, Semler began running safari tours at Malibu Wines, offering people a chance to sip wine while driving next to zebras, giraffes, and water buffaloes obtained from sanctuaries and private collections.

Managing the dozens of vehicles at the vineyard led Semler to electric trucks. He'd dealt with California's exacting regulations for diesel emissions and could see more curbs coming, so early last year he started retrofitting a diesel semi rig in the back of his family's 30,000-square-foot North Hollywood warehouse for electronics equipment. Not far from piles of Vietnam War-era radios and antennas, there's now a large open space where the Thor team works.

For the moment, the startup is more of a vehicle customizer than a true manufacturer. It rips the diesel motor and related innards out of an existing vehicle and replaces them with an electric motor and batteries. Thor has focused on doing its own battery-pack research and manufacturing to cram



◀ The small team is working to customize clients' fleets according to their specifications

hundreds of small lithium ion batteries into a tight, safe container, and its software engineers write applications that maximize the packs' charging abilities and life spans. Look around the Thor warehouse, and you'll see UPS-style trucks and extended-body pickups awaiting modification. The goal, according to Semler, is to work on a one-off basis, customizing clients' fleets per their specifications.

Semler's enthusiasm is infectious. He's funded Thor with his own money (he won't say how much) and hired engineers from places such as Boeing Co., electric-car maker Faraday & Future Inc., and Chinese electrics leader BYD Auto Co. But Thor is trying to become a bespoke electric-vehicle maker at a time when the biggest names and fattest wallets in trucking are pouring money into the market. And given that neither Semler nor his co-founder, Giordano Sordoni, has an engineering background, it seems less like a company than a dream. "There's a tendency to simplify the truck market and think there will be one winner here," Semler says. "The reality is that there are all kinds of work trucks, and we're designing a type of transportation lab to cater to all of these."

A small team working quickly stands a decent chance of carving out a niche, says Mike Britt, who spent 30 years at United Parcel Service Inc. handling the maintenance of its trucking fleets and working on alternative-fuel vehicles. "The big trucking companies just aren't quite as nimble," says Britt, who ►

"There's a tendency to simplify the truck market and think there will be one winner here. The reality is that there are all kinds of work trucks."

◀ now runs MG Britt Consulting Inc. “UPS used many small startups to build 200 to 2,000 alternative-fuel vehicles. It’s when you start to ramp above those numbers, and need real production expertise and facilities, that things could get trickier for Thor.” —Ashlee Vance

THE BOTTOM LINE Thor and its 25-year-old CEO are trying to fill a short-haul niche with the ET1 while Tesla continues tinkering with its own all-electric truck.

Who’s Watching Facebook TV?

● The company is rethinking Watch, which so far makes for a tough, er, watch

When it’s 4 a.m. and you’re jet-lagged, it seems as good a time as any to check out Facebook’s idea of television. A 10-minute video of Bill Murray clowning around in an astronomy classroom. Seven minutes of a reality-show couple arguing about getting their young son a pet snake. Three minutes of animated arachnids explaining how female spiders ward off unwanted sexual advances. It’s enough to send even an exhausted insomniac looking for a more productive use of time.

Facebook Watch is the company’s nascent effort to carve out a dedicated space on its service for videos—just videos—of several minutes to a half-hour or more. That may not sound radical, but it would offer users a big shift from their typical Facebook habit, a mindless scroll through all kinds of personalized flotsam with a rare pause to watch a few seconds of video in the feed. Facebook Inc. wants its 2 billion users to think of Watch as an entertainment destination, with web series compelling enough to bring people back for weekly installments packaged with ad breaks, just like conventional TV.

The company has yet to hit on the right formula. After four months it’s already rejiggering its strategy, winnowing dozens of would-be shows and pumping up production budgets for those that remain. It’s a more targeted plan than last year’s experiments with Facebook Live, but several days of wallowing in Watch videos suggests that, for now, it’s almost as unruly. There are a lot of videos indistinguishable from YouTube offerings, a little cable TV, a dash of Netflix, and pinches of classic Facebook.

Fidji Simo, Facebook’s vice president for product, says the Watch programming and ad strategies are evolving as the team and its partners get a better idea of the kinds of shows that will draw people together. “We’re a company that iterates a lot,” she says. “We’re going to have to figure it out with partners.” The

company wouldn’t share viewership numbers.

Watch is a separate page on Facebook’s website and a separate tab in its app, each denoted by a logo of a play button on a screen. Publications including *BuzzFeed*, *Cosmopolitan*, and *National Geographic* produce the videos, with Facebook paying the bills for a few. Judging from a sample of dozens of Watch videos, however, they seem less than carefully selected. A 90-second *New York Times* tutorial on searing steaks appeared next to a pro video game match that ran for three hours. For every legitimately cool video—say, football player Marshawn Lynch smooshing a car with a tank—there’s a cringe-worthy *Bachelor* ripoff. Few videos touched on news events or other unpleasant realities.

“It’s Facebook trying to figure out what form of video people want to watch,” says Debra Aho Williamson, an analyst for researcher EMarketer. It’s winding down its subsidies to publishers for live videos in its News Feed, which totaled \$50 million in 2016 alone, according to the news site *Digiday*.

The offerings so far illustrate that Facebook’s determination to shift toward video, long a priority for Chief Executive Officer Mark Zuckerberg, is meant to draw more ad money. But besides the bottom line, Watch is also part of Zuckerberg’s promise to make Facebook a home for what he calls “meaningful social interaction.” The idea is that people who love surfing, for example, can bond over Watch’s surfing videos. Morgan Stanley estimates that Watch could grab the average North American Facebook user’s eyeballs for about 20 minutes a day next year. But so far, there’s little evidence of that virtual water cooler effect.

Facebook’s efforts are joining a crowded scrum, with traditional networks trying to embrace online video, Netflix and Amazon investing heavily in their own programming, and shows sort of like what’s on TV coming from YouTube, Apple, Twitter, and Snapchat. (Bloomberg LP, the owner of *Bloomberg Businessweek*, is developing a global breaking-news network for the Twitter service.)

An executive at a company that creates programs for Facebook Watch says most of the viewers aren’t new and instead are existing fans of his brand. The executive, who requested anonymity to discuss the partnership, says he’s annoyed that Facebook used publishers as guinea pigs before figuring out how to sell ads against the videos. During our days of sampling Watch videos, not a single ad appeared. Simo says that while most Watch viewers see the videos in their standard News Feeds rather than use Watch to find new stuff, changing audience habits takes time.

It’s oddly comforting that even Facebook hasn’t quite figured out its video future. A dose of its scripted comedy series *Strangers* now and then might be comforting, too. But for now, at least, it’s no substitute for a football game. On TV. —Shira Ovide

THE BOTTOM LINE A few months in, Facebook Watch is cutting down on its original programming to make pricier shows. At this point, that seems like a good call.

● Time the average daily Facebook user in North America must spend per day on Watch for the channel to break even, per Morgan Stanley

7 min

Time the average daily user in North America is expected to spend per day on Facebook Watch in 2018

20 min

The Vitae Industries AutoCompounder is a 2'x2'x2' 3D printer that makes pills and gummies for neighborhood pharmacists in a third of the time required to fill gel capsules by hand.

Innovators
Jeanine Sinanan-Singh and Daniel DeCiccio

Ages: 25 and 26
Chief executive officer and chief technology officer of Vitae Industries Inc., a five-employee startup in Providence

Origin

Sinanan-Singh and DeCiccio, high school friends from the Orlando area, began developing the AutoCompounder in 2014 after earning degrees in computer science and biomedical engineering from Harvard and Brown, respectively.

Use

Conventional industrial-size compounders, which can personalize medicines and dosages for individual patients, are too pricey for most pharmacies.

Funding

The company has raised about \$2 million from BoxGroup, Techstars, Lerer Hippeau Ventures, and others.

Price

Vitae plans to sell its printers for \$5,000 and charge an as-yet-undetermined monthly subscription fee for software updates and maintenance.



1 Load

A pharmacist mixes medicine with Vitae's proprietary polymer and fills the AutoCompounder's single disposable cartridge with the resulting compound.

2 Print

Then she selects the desired quantity of tablets or gummies and the correct dosage for a patient's prescription and presses "print." The process takes about 10 minutes.

Next Steps

Vitae is fine-tuning its printer with a handful of pharmacists in advance of mass production next year. David Hughes, one of the testers, says that besides saving pharmacists time, the AutoCompounder could ease the creation of a poly-pill, combining the needed doses of several medications into one tablet. —*Michael Belfiore*

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Forex Access	✗	✓	✗	✗
Comprehensive Guided Education Courses with 1:1 Coaching	✗	✓ through Investools®	✗	✗
LikeFolio Social Media Sentiment Technology	✗	✓	✗	✗
Comprehensive Federal Reserve Economic Data	✗	✓	✗	✗
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● PepsiCo stock leaves the New York Stock Exchange to become part of Nasdaq

● CME Group will launch trading in bitcoin futures, becoming the second major venue to do so

● If bitcoin's not speculative enough, Spain's €2 billion-plus El Gordo Christmas lottery is drawn on Dec. 22

What Keeps Finance Up at Night?

Big investment companies see tech as a threat—and an opportunity

“Alexa... will I meet my retirement goal?”

“You are not on track to meet your retirement goal,” replies Amazon.com Inc.’s voice-activated digital assistant, with not a bit of sugarcoating. Then she suggests turning over \$76 a month to Fidelity Investments and its advisers.

This won’t actually happen if you try it on your Amazon Alexa device at home. It’s a demonstration put on by EMoney Advisor LLC, a company owned by Fidelity, in its offices in Radnor, Pa. Amazon provides software for third-party app developers to experiment with new functions. Fidelity is trying to find ways to apply artificial intelligence, computer algorithms, and voice-recognition software to the hidebound world of money management and investing.

There’s some urgency to the task. These days, investing firms figure they’ll either master the digital world or become yet another of Silicon Valley’s victims. Each year, Fidelity gathers scores of technologists and executives to confront threats to the 71-year-old business, which manages \$2.4 trillion and is one of the world’s biggest mutual fund companies and retirement plan administrators. Like generals and soldiers in a war game, they sketch out what they would do in all kinds of scenarios, such as a market crash or a merger that creates a super-rival. Just as ominous, perhaps, they ask: What if Amazon distributed financial products or offered its own financial advice? What if Google bought its own money manager?

Those tech companies could then do to the

investment industry what they’ve done to businesses from publishing to electronics, squeezing already-shrinking profit margins and driving out established players. Even now, the soaring popularity of market-tracking index funds is pushing investment management fees ever closer to nil. “We’re working to innovate so we don’t get caught flat-footed,” says Bill Doyle, head of research for Fidelity Labs, which oversees the company’s experiments in financial technology.

For now there’s one big thing keeping the tech predators at bay: Getting into finance would pull Amazon and its ilk into closely regulated businesses in the U.S. But Fidelity and others see no guarantees this will deter tech companies forever. And beyond U.S. borders, where many financial companies look for growth, tech is already breaking through. In 2013, Chinese e-commerce giant Alibaba Group Holding Ltd. started selling a money-market fund. It is now the world’s largest, with 1.56 trillion yuan (\$235.6 billion).

Customers in the U.S., too, are ready to trust tech companies with their savings. More than half of investors with assets of at least \$1 million would consider using one of the top tech companies to manage their wealth, according to a survey by consulting firm Capgemini SE. Three-quarters of millennials would take a flyer on an offering from Google, Amazon, Apple, or payments companies PayPal and Square over one from their own banks, according to a study by media company Viacom Inc. “If Google comes out tomorrow and asks if I want to invest, ▶

“I probably would,” says Marcus Storr, who heads hedge fund investing at Germany-based Feri Family Trust. The search engine giant, a unit of Alphabet Inc., has data on billions of its users and millions of dollars to splurge on the best coders from around the world, who could automate the search for lucrative trades.

U.S. technology companies have already entered finance. Apple customers pay with their phones. Amazon lets customers use its system to buy products on other sites. It offers loans to merchants. “Alexa and Siri could one day become your financial assistant, cutting even deeper into commissions” for advisers, says Lex Sokolin, who directs financial technology strategy at consultancy Autonomous Research. Google, Amazon, and Apple—big players in digital assistants—had no comment.

To head off the threat, investment firms are forming partnerships with technology companies. Earlier this year, Boston-based Acadian Asset Management LLC struck a deal so its portfolio managers could use Microsoft Corp.’s Bing Predicts, which makes forecasts using search and social media data, to help pick stocks, though that agreement is no longer in place. Barry Benjamin, a PricewaterhouseCoopers partner who oversees money-management consulting, says tech companies may prefer joint ventures to avoid the legal risks of investing. Otherwise, “they really have to bite the bullet and subject themselves to the scrutiny of financial regulation,” he says. Benjamin expects U.S. tech outfits might be more likely to focus on Asia and other developing markets.

Money managers are also developing and acquiring technology to keep the loyalty of investment advisers trying to compete in an increasingly automated world. BlackRock Inc., led by Chief Executive Officer Larry Fink, in recent years has been buying stakes in other companies, particularly technology firms. Through these purchases, the company is pushing into new lines of business. In 2013, BlackRock helped seed a startup called Personal Capital Corp. that sells financial software allowing customers to budget and track investments. Two years later, BlackRock bought FutureAdvisor Inc., which creates automated investment software. Rob Kapito, president of BlackRock, says that while his firm views the big tech giants as a potential threat, it’s unlikely those companies will offer funds because their reputation would take a hit when they lose money. “If they have superior technology, we may want to utilize it and bring it into our ecosystem,” says Kapito.

Fidelity bought EMoney in 2015. It sells software to investment advisers that’s designed to make it easier for them to interact with their customers on budgeting for weddings, college, or retirement. It employs 600 people in an office that looks more like a Silicon Valley startup than a unit of a fund company, with the standard-issue beanbag chairs, huddle rooms, and Segway scooters. “All of us in this

industry need to be sort of eyes wide open around disruption,” says EMoney CEO Ed O’Brien.

For now, Alexa, as an adviser, isn’t quite ready to disrupt. For one thing, she still has trouble recognizing you—and that’s a big flaw, because you aren’t just asking her to turn on the lights or the radio. What if a guest in your house accidentally triggers the intimate details of your net worth and retirement plans? Fidelity Labs is working on voice authentication, but it remains a work in progress. So it may be a while before the financial world updates the old 1970s ad slogan: “When Alexa talks, people listen.” —*Sabrina Willmer and Nishant Kumar, with Ivan Levingston*

THE BOTTOM LINE Regulation-shy tech companies have stayed away from competing with Fidelity and BlackRock—so far. Finance is trying to take advantage of the head start.

● Alibaba started a money-market fund in 2013. It’s now the world’s largest at

\$236b

Closing Time For Downtown Strip Clubs

● Demand is slipping, and land in Toronto is too expensive not to sell

Condos are killing the Toronto strip club. In a city that once had more than 60 bars with nude dancers, only a dozen remain, the rest replaced by condominiums, restaurants, and housewares stores. Demand for homes downtown and for the retailers that serve them is driving land prices to records, tempting owners of the clubs, most of which are family-run, to sell at a time when business is slowing.

“Sometimes I feel like the last living dinosaur along Yonge Street,” says Allen Cooper, the second-generation owner of the famous—or infamous—Zanzibar Tavern. The former divorce lawyer says he has been approached by at least 30 suitors for his property in the past few years but is holding out for a “blow my socks off” offer. “I don’t know how many condos we’re going to get, but it seems like just a wall” of them, Cooper says. He wouldn’t disclose the price he’d sell at, but land deals nearby give a hint of what’s possible. Remington’s Men of Steel, a male dance club behind a heavy door, sold to KingSett Capital Inc., which last year flipped it to Cresford Developments as part of a bigger portfolio on that block that went for about C\$160 million (\$125 million), according to real estate data supplier Altus Group. That club is closing next year, to be replaced by a 98-story condo.

It’s a similar story in other North American cities, where the demand for “exotic dancers” is cooling amid the rise of free porn and live video chats on the internet. In Toronto, massage parlors have proliferated elsewhere in the city, while arduous rezoning

“I feel like the last living dinosaur along Yonge Street”

regulations and a rule restricting new strip-club licenses mean that once a joint shuts its doors, it isn't likely to be replaced.

City Councillor Michael Thompson is glad to see the clubs go. "In 2017, I don't think that women need to be involved in these kinds of facilities as their only option," says Thompson, chairman of the city's economic development committee. "I don't see them as viable businesses," he says. (He visited one himself "many, many, many years" ago.) With Toronto's sky-high real estate values, strip clubs "don't offer the highest and best use for landlords and even some of the owners," he says. Overall home prices in the city remain high despite easing in recent months; condo prices are up 18 percent from a year ago.

The fading of the strip-club era can be seen in a five-block area along Yonge Street, near Toronto's counterpart to Times Square, Yonge-Dundas Square. It was once dubbed Sin Strip for its neon-clad bars, sex shops, and movie theaters. Today there are about 20 development applications for condos and commercial buildings on the stretch. Club owners say the client mix has changed, even since the '90s, with more women who come in groups or with partners. The traditional visitors remain: financial sector workers bringing clients or friends, mostly male, after a game. Cooper's Zanzibar, with its three-story flashing signs, is one of the last remnants. The adult theater and a sex shop next door called it quits long ago.

Farther north, an entire city block is a construction site as two condo towers and some retail space replace a strip of colorful and creaky buildings that once offered body piercing and pole-dancing shoes. "We target a very specific market, mostly men. We're not a shopping destination, so more people doesn't mean a lot more business," says Bill Greer, general manager and three-decade veteran of the Brass Rail Tavern, a two-story club in the area. "I don't think we'll be around in 10 years' time." Just outside the Brass Rail's doors, a 75-story residential tower opened this year on a piece of land that cost C\$53 million. An 80-story luxury tower is under construction following a C\$225 million deal for less than 1 acre, according to data from Altus.

Adult-entertainment sites in Toronto have made way for a luxury townhouse complex, churches, a Sikh temple, a mosque, charities, and a furniture store visited by one of the *Property Brothers* of reality-TV fame. One midtown club, Cheaters Tavern, was renamed Mystique Lounge, then became a liquor store, and then a Kitchen Stuff Plus.

Some owners say they aren't going anywhere. "What am I going to do, sit at home and die?" asks Spiro Koumoudouros, owner of House of Lancaster. Koumoudouros sold his other strip club recently, three decades after a successful legal campaign he and his brother waged to allow fully nude dancers. Others, like Cooper, are willing to sell at



the right price. The owner of Filmores Gentleman's Club, who is also a real estate investor, is open to proposals. And Caddy's, in the city's east end, is part of a land deal being marketed now. Toronto's dirty dozen may soon be whittled down to two or three. —*Katia Dmitrieva*

▲ Zanzibar Tavern is in a great location—for condo developers

THE BOTTOM LINE Toronto's infamous strip clubs sit on lots now coveted by the developers of luxury townhouses and furniture stores.

Cooperman to Navient: Just Give

Up

● He thinks the student-loan company would be better off selling its assets

Leon Cooperman loves student-loan giant Navient Corp. The billionaire hedge fund investor believes the company, which has a contract to manage and collect payments on federal student loans, performs a valuable public service. He also likes Jack Remondi, the chief executive he calls a "high-quality guy" running a "noble" business.

But the rest of Wall Street—not to mention the Consumer Financial Protection Bureau and some states—don't share Cooperman's affection for Navient. The stock is trading at about \$13 per share, below both the \$25 Cooperman thinks it's worth and Remondi's ►

◀ “low- to mid-\$20” mark. It’s also fighting lawsuits that accuse it of cheating student debtors, and there’s little sign that government scrutiny will abate.

Now Cooperman’s ready to throw in the towel. He’s calling for Navient to sell off its assets, give the proceeds to its investors, and shut down. “If your primary customer s---s all over you, and you think your stock is worth twice what it’s trading for, why not give your owners back their money?” says Cooperman, founder of Omega Advisors Inc., which was once Navient’s sixth-largest investor.

Cooperman’s relationship with Navient started optimistically in 2014. That’s when the Delaware-based firm split from SLM Corp., better known as Sallie Mae. In addition to servicing student loans, the company also holds a portfolio of them. Its strategy at the time of the spinoff was to give shareholders the proceeds from payments as borrowers paid down their loans, says Michael Tarkan, director of research for Compass Point Research & Trading LLC.

The stock hit more than \$22 in December 2014. Then fears that credit raters would slash their grades on student-loan securities led to a selloff that halved Navient’s market value by September of the following year, even though the company had been buying back shares. At an investor conference that month, Cooperman raised the idea of liquidation, and Remondi didn’t directly respond, according to a transcript. Navient spokeswoman Patricia Christel declined to comment, as did Chairman William Diefenderfer III.

Cooperman, who settled an unrelated insider-trading case with the U.S. Securities and Exchange Commission this May without admitting wrongdoing, kept up the pressure over the next year. He regularly pushed Remondi to repurchase

more shares. The company did just that, continuing to offer regular dividends.

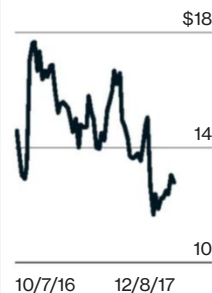
The company briefly benefited from the “Trump bump” but then began to slide. Since the day after the election, its total return is about -12 percent, the second-worst among financial stocks in the S&P 500. Omega’s stake dropped to 1.8 million shares recently from more than 11 million as of the third quarter of 2016, according to Bloomberg data. The CFPB and attorneys general of Illinois, Washington, and Pennsylvania added to the company’s problems this year, suing Navient for allegedly deceiving borrowers. Navient denies any wrongdoing.

After the company announced it was halting buybacks to build a new lending business, Cooperman ripped into Remondi on Navient’s call in October. “The debate that should be taking place at the board level is whether we should put the company into runoff and return the money to shareholders,” he said, suggesting the money spent on buybacks had been wasted. “You’re basically impotent and can’t do anything.”

Remondi replied that the company was investing in business lines that’ll eventually pay off. Navient’s intrinsic value, he said, is well over \$20 per share. Sanjay Sakhrani of Keefe, Bruyette & Woods, who has the highest price target of eight analysts surveyed by Bloomberg, told clients in a recent note that Navient’s strategy should boost earnings. Even Cooperman may still be willing to give Navient some time. “I own things that are out of favor where the fundamental value is excellent,” he says. —*Shahien Nasiripour*

THE BOTTOM LINE Navient is facing scrutiny from the government and skepticism from investors—and a lot of questions on conference calls from Cooperman.

● Navient share price, weekly



● Cooperman

North Korea’s Bitcoin Play

● Cut off from the world economy by sanctions, it’s looking for ways to get its hands on cryptocurrency

As the digital currency bitcoin traced one of its meteoric ascents, a plum job posting began circulating online: chief financial officer for a rapidly expanding bitcoin financial-services company based in London. Although the company was real, the job had been dreamed up by North Korean hackers, according to Secureworks Inc., a cybersecurity company that discovered a document with the fake job description in November. It was meant to circulate by email among people in the bitcoin world. If someone clicked on it, a prompt would explain that it was created by a later version of Microsoft Word and that the user needed to “enable editing” and

“enable content.” Doing so would install a piece of malicious code. While many digitally savvy people would presumably know better, such attacks can pay off if they hit just a few distracted recipients.

The hackers could have been after any number of things, but they were most likely trying to break into personal or corporate stashes of bitcoin and other so-called cryptocurrencies. For North Korea’s rogue regime, the emergence of bitcoin provides new revenue possibilities to get around increasingly stringent sanctions. Its price has soared from under \$1,000 at the end of 2016 to more than \$16,000, and it can move quickly and largely anonymously

across borders. “It’s a perfect mechanism for North Korean money,” says Joshua Chung, a senior security researcher in Secureworks’ counterthreat unit, which tracks new computer attacks and vulnerabilities.

Secureworks has tracked the document ploy back to the middle of 2016, when researchers began seeing it used to target the energy industry. Pieces of the code used in the bitcoin-job document link it to Lazarus Group, the North Korean team that hacked Sony Pictures Entertainment Inc.’s computer systems in late 2014, stole \$81 million from Bangladesh’s central bank in 2016, and set the WannaCry ransomware worm loose on the world in May, according to the researchers. WannaCry locked up users’ computers and demanded payment in bitcoin to free their systems.

North Korean interest in bitcoin goes back to at least 2013, when Secureworks noticed activity from the nation’s extremely limited range of internet addresses conducting research on bitcoin in underground online forums. Chung’s guess is the North Koreans were trying to figure out how bitcoin worked and how to convert cryptocurrency into hard currency. Although the DPRK’s hackers normally cover their tracks by using proxy servers—intermediate hops online that hide where internet traffic originates—the proxies had failed, revealing an address used in previous cyber operations.

The Bangladesh central bank theft shows that North Korea’s hackers could probably steal bitcoin if they got inside a company’s systems, says Rafe Pilling, a senior security researcher at Secureworks based in Edinburgh. “They’ve demonstrated repeatedly that they’re quite effective at turning that initial access into a good understanding of the internal network and figuring out any business process they need to use or abuse to achieve their aim,” he says.

It’s impossible to say how much bitcoin North Korea actually has. It’s also unclear whether the North Koreans have gotten into Western bitcoin companies yet. But someone has: In early December, NiceHash, a marketplace for cloud-based mining of cryptocurrencies based in Slovenia, said hackers breached its systems and emptied its bitcoin wallet of an unspecified amount. The rewards of theft are increasing along with bitcoin’s price. In theory, stolen bitcoin should be traceable, but there are plenty of ways to launder it, including quickly converting it into other cryptocurrencies such as monero (the fate of the WannaCry earnings) or using bitcoin “tumblers,” which perform millions of transactions of random sizes to obscure where each bitcoin started and where it ended up.

South Korea, which tends to be the North’s testing ground for hacking, also has one of the world’s most vibrant cryptocurrency markets. The North’s hackers have already compromised several bitcoin exchanges there and, in at least one case, successfully nabbed funds, says Luke McNamara of FireEye Inc.

McNamara calls the North Koreans “among the more entrepreneurial” hackers he tracks, and they’re not limiting themselves to trying to steal bitcoin. They may also be mining it—that is, doing the computational work that verifies transactions, which the system rewards with new bitcoins.

Earlier this year, the cybersecurity company Recorded Future Inc. got a cache of data from internet usage in North Korea for the first half of the year. The data showed no bitcoin-related activity until May 17, when it exploded in what Priscilla Moriuchi, the company’s director of strategic threat development and previously a cyberthreat manager at the U.S. National Security Agency, realized was mining. The data also showed the trails of users—presumably some of the few members of Pyongyang’s political and military elite with permission to access the internet—making purchases using bitcoin.

The start date of the mining is particularly interesting because it overlaps with the WannaCry infections—the bulk of which happened from May 12 to May 17. By the end of the day on May 17, the three WannaCry bitcoin wallets had received 277 payments totaling slightly more than 45 bitcoins, at the time approximately equivalent to \$82,000.

“They may have realized by the 17th that they weren’t going to get a quick return on the WannaCry attacks,” Moriuchi says. “What’s interesting to me is the breadth to which North Korea has embraced cryptocurrency. It appears that the Kim regime is focused on many different methods for exploiting or obtaining cryptocurrency, including mining, outright theft, possible speculation, and ransom payments.” Mining bitcoin takes electricity. So it plays to one of North Korea’s few economic strengths, which is its energy resources, according to Dave Venable, vice president for cybersecurity at managed security provider Masergy. “This is a very easy way for them to effectively export energy, in a way that is probably a lot more profitable and doesn’t involve shipping coal,” he says.

Much of this is theory, built on tiny clues—that’s the way cyberthreat research works. One of the few outsiders with some direct information on bitcoin in North Korea is Federico Tenga, co-founder of a company that focuses on bitcoin management systems for businesses. He spent a week in November in Pyongyang, lecturing on bitcoin technology to university students, who were particularly impressed by photos he showed them of bitcoin mining operations. As for the regime getting around sanctions or anyone in North Korea putting bitcoin technology to practical use, Tenga seems skeptical. “I went there to teach the basics on how the technology works, if they want to put that in practice they still have a very long way to go,” he wrote in an email. —*Dune Lawrence*

THE BOTTOM LINE The bitcoin boom makes it more tempting to steal—and a recent piece of malicious code aimed at people in the bitcoin business has the hallmarks of North Korean hackers.

“It’s a perfect mechanism for North Korean money”

LOOK AHEAD

● The International Trade Commission hears a dumping case against jet maker Bombardier

● Russian retail sales data will show if the official 2.1 percent GDP growth target is out of reach

● Argentina releases third-quarter GDP figures on Dec. 20

Trump's Fed

With so many vacancies, the president will have a shot at molding the central bank

It took President Franklin D. Roosevelt a dozen years to turn over all the seats on the Federal Reserve's governing board. Donald Trump is in a position to name five governors in just two years, while elevating a sixth to the chairmanship.

Markets are betting that Trump won't seize on this chance to reshape the nation's central bank in his own defiant image. So far his picks have been mainstream, and he's refrained from berating the institution, which has been gradually raising interest rates to keep the U.S. economy from overheating.

Of course, Trump could get more provocative with his three remaining board nominations, particularly if he wants to placate the populist, anti-Fed wing of his own party. And if the Fed's rate-raising campaign seems to be thwarting his efforts to make the economy grow faster, he could pivot against the Fed's leadership the same way he went after Chair Janet Yellen during his run for the presidency.

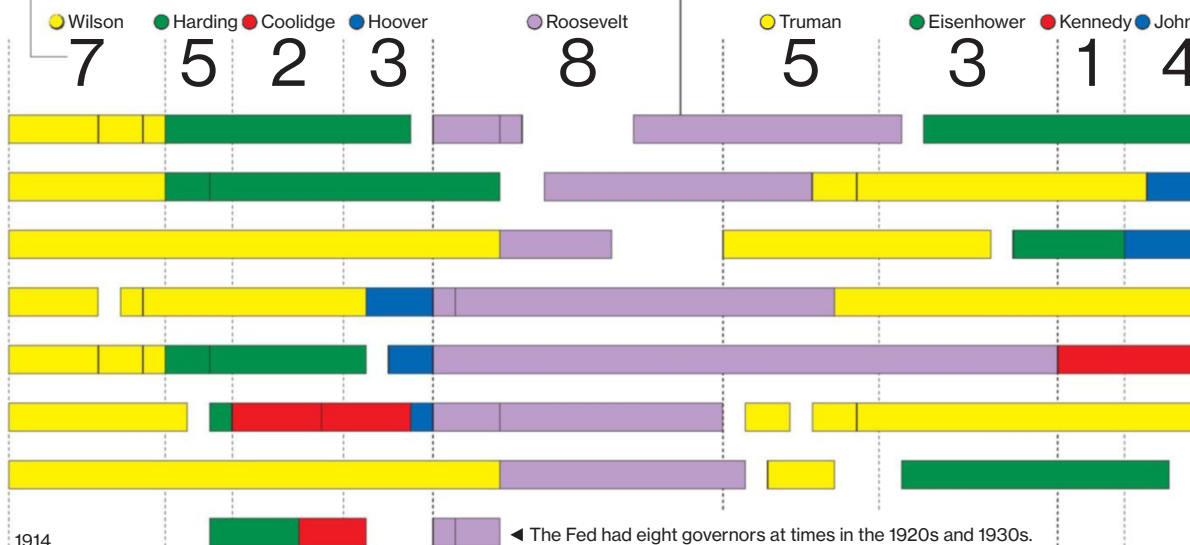
Even if none of that happens, Trump's remaking of the Board of Governors is stripping it of decades of institutional experience. Danske Bank A/S economists recently calculated that after Yellen steps down in February, the governors will have just 10 years of collective board experience, the lowest number since Ronald Reagan's second term in 1988.

The rapid turnover could unsettle markets that have become accustomed to gradual, well-telegraphed changes of direction, says Diane Swonk, who runs an economic consulting firm, DS Economics, in Chicago. Even the more seasoned Fed of 2013 managed to freak out investors around the world when a casual mention of a change in asset purchase plans caused what was quickly dubbed a taper tantrum. "To assume the new people are going to learn from all their past mistakes when we're in uncharted territory is expecting too much from the institution, frankly," says Swonk. "It could all be benign. But it may not be."

A Century of Fed Leadership

The seats on the governing board each president filled. Some presidents filled the same seat more than once as each became vacant. (The Fed was founded at the end of 1913.)

The colors indicate the appointing president—with some appointees serving longer than that president's time in office.



December 18, 2017

Edited by
Cristina Lindblad

Businessweek.com

A key indication that Trump is determined to put his stamp on the Fed is that he chose not to reappoint Yellen, a Democrat, to another four-year term as chair. In contrast, Reagan kept Paul Volcker as chairman for most of his time in office even though Volcker is a Democrat, and Bill Clinton stuck with Alan Greenspan, a Republican. Trump told Fox News anchor Lou Dobbs in October, before announcing his decision on the chairmanship, that he liked Yellen, but added, “In one way, I have to say, you like to make your own mark.”

Trump the businessman does appear to understand the need for an independent central bank. So does Treasury Secretary Steven Mnuchin, who’s a sounding board for Trump on the Fed. A board choice that undermined investors’ confidence in U.S. monetary policy could be disastrous for the president’s agenda. Trump “realized that these appointments matter,” says Mark Gertler, a New York University economist.

So far the president’s Fed picks have been considerably more centrist than his cabinet choices. Jerome Powell, who succeeds Yellen as chair on Feb. 3, was a visiting scholar at the Bipartisan Policy Center before joining the Fed board in 2012. He’s worked as a Wall Street lawyer, investment banker, and Treasury Department official. Randal Quarles, the new vice chair for supervision, is also a former Wall Streeter who put in time at Treasury. Both men were once partners at Carlyle Group, a private equity firm with connections to both political parties. Marvin Goodfriend, who’s awaiting confirmation, is a respected monetary

economist at Carnegie Mellon University with deep knowledge of the Fed.

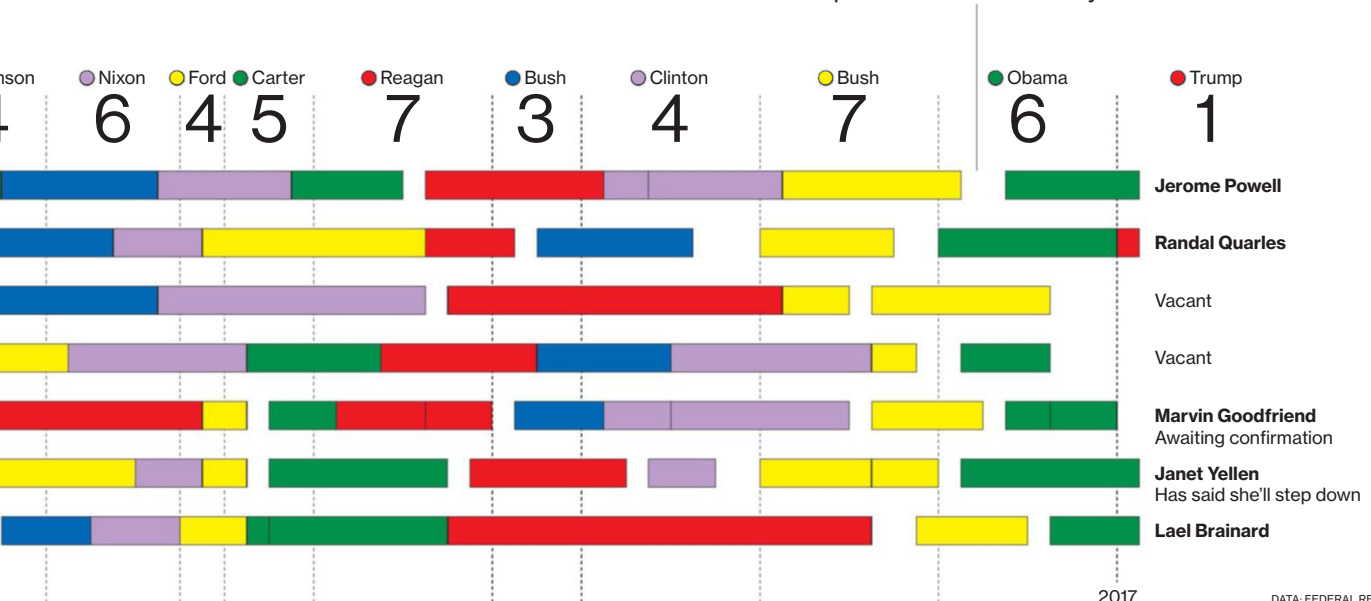
The next choices will be crucial. If Trump wants to assuage Hill Republicans who feel the Fed’s interest rate decisions have been arbitrary and unreliable, he could name John Taylor of the Hoover Institution as vice chair—assuming Taylor would take the job after having been passed over as chair. He’s the leading advocate for managing interest rates according to a published formula (known as the Taylor rule).

If Trump wants to go all-out populist he could name Larry Kudlow, a CNBC commentator and Wall Street consultant who once worked for Reagan. If he wants a politically savvy conservative with a Ph.D. in economics, he could choose American Action Forum President Douglas Holtz-Eakin. A centrist alternative would be Mohamed El-Erian, chief economic adviser at German insurance giant Allianz SE, who is a Bloomberg View columnist. Many other names are in the mix.

Trump also has an opportunity, albeit an indirect one, to reshape the leadership of the 12 regional Federal Reserve Banks. The presidents of those banks sit with the board governors on the rate-setting Federal Open Market Committee, though only five of the presidents can cast a vote at any one time. In recent years the Board of Governors has exerted more influence over whom the regional Feds pick as president, through the vetting process for candidates. This could eventually give Trump’s nominees to the board—and by extension, Trump—more say over who heads the regional banks. ▶

“To assume the new people are going to learn from all their past mistakes...is expecting too much”

White spaces indicate a vacancy.



◀ Centralization of power at the Fed increases the risk of groupthink. That danger would be exacerbated if Trump continues to lean away from Ph.D. economists in filling board openings. Academic economists aren't always right, but they do tend to research their positions deeply and defend them tenaciously. Only one of Trump's choices, Goodfriend, fits that mold. And only two of the latest six regional bank president appointees have economics Ph.D.s. On Dec. 4 the Federal Reserve Bank of Richmond named as president Thomas Barkin, a senior executive of the consulting firm McKinsey & Co. "You have to have professional diversity, but we're getting dangerously close to going too far away from professional economists," says Peter Conti-Brown, a Fed historian at the University of Pennsylvania's Wharton School.

With inflation and unemployment low and the stock market hitting highs, everyone's getting along fine. But will the Fed stand up to Trump if it needs to raise rates more than he wants? And if it does, how will he respond? That, says David Rosenberg, the chief economist of Canadian wealth manager Gluskin Sheff + Associates Inc., "is the elephant in the room." —*Peter Coy and Christopher Condon, with Craig Torres*

THE BOTTOM LINE Trump's appointments to the Fed have been centrist so far, but in future picks he may give a nod to Republicans who would like to constrain the bank's influence.

32

Calgary Conjures a Less Oily Future

● Canada's energy hub is chasing Amazon and airlines to plug the hole left by falling crude prices

Mark Craig didn't worry much when the price of crude plunged from \$100 a barrel to less than \$50 in late 2014. As an oil industry veteran, the Calgary resident had seen booms and busts before. His confidence seemed justified when, just months after taking a buyout at British oil giant BP Plc, he was hired to manage the IT department at Penn West Petroleum in April 2015. Then, four months later, Penn West cut a quarter of its staff, including Craig. Oil had just begun to take another leg down, and no one in the



city that's the epicenter of Canada's energy industry was hiring. They still aren't. "After Penn West, I realized there were basically no jobs out there," says Craig, 56.

As that reality sinks in, Craig—and Calgary—are having to retool. The unemployment rate in the province of Alberta, of which Calgary is the largest city, with about 1.5 million residents, was 7.3 percent in November, a full percentage point above the national average. The oil, gas, and mining industries employed about 143,000 workers in the province at the end of last month, down almost 40,000 from July 2014, when oil prices began their long slide. The job loss is visible in Calgary's downtown, where the vacancy rate for office space is about 27 percent, according to brokerage CBRE Group Inc. Landlords are so desperate for tenants that the average rent they're charging for the highest-quality space is cheaper than the lowest-quality space was in 2008.

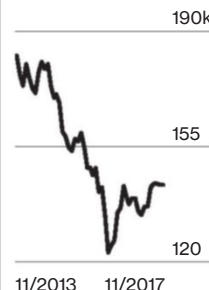
"I love roller coasters, but this was a bit too much," says Mayor Naheed Nenshi, who says he's watched the city's attempts to diversify beyond hydrocarbons since the early 1990s, when the industry accounted for about half the city's economic activity. (It's almost 30 percent now.) Rather than try to set up new industries from scratch, Nenshi has concentrated on developing those in which the city already has a toehold, such as transportation and logistics, agribusiness, renewable energy, financial services, manufacturing, and creative industries such as film and television. The goal, he says, is to build "an economy with shock absorbers, so that we are better suited to manage the ups and downs of world commodity prices."

His administration can claim a few successes so far. Amazon.com Inc. said in October that it will open a fulfillment center in the city that will eventually employ more than 750 full-time workers. Another major victory was WestJet Airlines Ltd.'s decision in September to base its new low-fare carrier, dubbed Swoop, in Calgary.

WestJet, whose headquarters are in the city, ▶

▲ Calgary posted this ad on a building near Amazon's headquarters in Seattle

● Mining, quarrying, and oil and gas extraction employment in Alberta



THAT DINNER



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◀ says it was wooed by two other Canadian cities it wouldn't identify. Incentives offered by Calgary and Alberta helped clinch the deal, which carries a prize of more than 500 jobs. All the stakeholder groups involved showed they were "hungry" for the development, says Bob Cummings, WestJet's executive vice president for strategy and head of the Swoop startup. He adds, "I'm not sure Calgary was quite at that level five to six years ago, when oil was at \$100."

Looking ahead, Nenshi is confident the city's long-shot bid to host Amazon's second headquarters will have the effect of luring more tech businesses. The campaign has grabbed media attention with ads featuring a glowering, bearded man and the tag line "Hey, Amazon. Not saying we'd fight a bear for you...but we totally would."

While Calgary's boosters see the city's oil and gas heritage as an advantage, convincing outsiders that the local workforce has skills that can be deployed in other lines of work is challenging and frustrating, says Mary Moran, president and chief executive officer of Calgary Economic Development. "The ability to drill 5 kilometers down and 3 kilometers across to hit a bathtub-sized target—that's innovation," says Moran, describing the expertise required to extract oil from slabs of rock deep underground. "We didn't invent Tinder, we didn't invent Shopify, but there's still pretty intricate and sophisticated technology that's happening here."

Calgary may one day be able to hype startup success stories such as Shopify, an e-commerce company based in Ottawa with 1,500 employees. RocketSpace, a San Francisco-based tech accelerator, announced plans in May to open its first Canadian campus in Calgary's downtown early next year.

Moran is quick to say that no one expects the energy industry to disappear from the city entirely, but as its footprint shrinks, locals will have to make some adjustments. "If you're going to work in a smaller company, you're going to have to grind it out a little bit more," she says. "You won't make as much money, you won't have as short hours, you won't have Fridays off."

To help his peers get back on their feet, last year Craig co-founded the GoldMind Project, a volunteer-run nonprofit. At a recent event, a local career consultant gave an hourlong talk on networking and answered questions from the 50 attendees, ranging from how to use LinkedIn to when to slip a new contact your business card.

Craig hasn't quit looking for full-time work—though he's resigned that any position he lands will be less cushy than his last. "There's no longer that job that people wanted to have into retirement, with a pension and all of that," he says. "That's started to sink in for a lot of people." —*Kevin Orland, with Katia Dmitrieva*

THE BOTTOM LINE Calgary, the center of Canada's energy industry, is trying to lure businesses with government incentives and cheap office rents in a bid to cut its 7.3 percent unemployment.

Reform

The Euro Zone

The euro has survived numerous trials in recent years, including the bailout of 5 of the currency union's 19 members and a near-exit by Greece. The Maastricht Treaty that underpins the common currency is 25 years old, so there's support in many European capitals for a reboot. European Union leaders will meet in Brussels on Dec. 15 to lay out a road map for euro zone reform. Here's a look at the most important ideas on the table. —*Viktoria Dendrinou*

Euro Budget and Euro Finance Minister

The proposal	The politics
The idea is to build a pool of money that countries could tap during periods of economic or financial stress—for instance, to boost investment in a downturn. Access to the funds, which may be administered by a euro finance minister (a new position), could be contingent on states adhering to the bloc's rules on deficits and debt.	French President Emmanuel Macron is a champion, and German Chancellor Angela Merkel is supportive, but the two may differ on details. Some nations' finance chiefs may resist ceding more power to Brussels.

Banking Union

Countries instituted a common framework for dealing with failing banks with the creation of the Single Resolution Board in 2015. The board has the power to wind down an institution once the European Central Bank has declared it's impaired. Next step: putting in a financial backstop to cover the costs of the resolution process and a guarantee fund to compensate depositors.	Germany, Finland, and the Netherlands aren't fans, concerned that their taxpayers might end up paying for problems lurking in bank balance sheets in other countries.
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A European Monetary Fund

The Luxembourg-based European Stability Mechanism—a bailout fund for euro area governments—could be given more say over rescue programs and potentially greater power to carry out fiscal monitoring.	Euro area countries and EU officials in Brussels support the idea, but they disagree on who should run the fund and what powers it will have.
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What's Next

European leaders aim to reach agreement on the various proposals by June. That deadline was set by EU President Donald Tusk so discussions would wrap up before the start of campaigning for the 2019 European Parliament elections.

ASUS recommends Windows 10 Pro.

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LOOK AHEAD

● President Trump plans to announce his national security strategy on Dec. 18

● Rex Tillerson is expected to meet with Canadian Prime Minister Justin Trudeau to talk about North Korea

● Communist party leaders gather on Dec. 18 in Beijing for China's annual economic policy meeting



Playing With Fire

● Trump's Jerusalem decision complicates life for the Saudis and could benefit Iran

The protests in Beirut's southern suburbs on Dec. 11 were as predictable as they were angry. The neighborhoods are a stronghold of Hezbollah, the Iranian-backed Shiite militia, and President Trump's decision a few days earlier to recognize Jerusalem as Israel's capital struck at the core of the group's mission: the continued struggle against the Jewish state. Thousands of protesters chanted, "War, war until victory" and waved Palestinian flags. Hezbollah's chief, Hassan Nasrallah, appeared by video link projected onto an outdoor screen to urge all "resistance groups" to unite. "Trump's decision will be the beginning of the end of Israel," he declared.

The call to arms wasn't entirely confined to militants backed by Iran, yet they might as well have been. By comparison, reaction across much of the

Arab world was muted. While Trump's Jerusalem announcement was meant to appeal to his conservative base, including evangelicals and pro-Israel hawks, it also appears to have played into the hands of Iran, the very country in the Middle East he's most interested in antagonizing. By giving the Israelis such a large symbolic win, Trump has buttressed Iran's argument that it—and not its rival and long-time U.S. ally Saudi Arabia—is the true defender of Palestine. "Trump's decision is a gift on a silver plate to Iran," says Ghanem Nuseibeh, founder of London-based political risk consultants Cornerstone Global Associates. "If the Iranians were putting forward this strategy, they could not have done it better. It empowers the Iranian position."

The announcement also complicates things for the Saudis, who find themselves aligned with the Americans and recently the Israelis in their broader struggle with Iran for regional dominance. Historically, Saudi Arabia has portrayed itself as guardian of the Palestinian cause. The kingdom, whose de facto leader, Crown Prince Mohammed bin Salman, has courted Trump this year, urged the U.S. to reverse its decision.

December 18, 2017

Edited by
Matthew Phillips
and Jillian Goodman

Businessweek.com

While there were no official calls for violence in the kingdom, Saudi newspapers, which are privately owned but government-guided, carried editorials lashing out at the Americans. In a letter addressed to Trump and published in newspaper *Al-Jazira*, Prince Turki al-Faisal, a former Saudi intelligence chief and ambassador to Washington, put it plainly. “Your decision has also emboldened Iran and its terrorist minions to claim that they are the legitimate defenders of Palestinian rights against Israel and America’s imperialist aims,” the prince wrote.

Trump’s move is also a setback for the peace efforts that his son-in-law, Jared Kushner, has been directing. The consequences of the decision will become clearer when Kushner’s team puts forward a plan next year. Meanwhile, Iran can count on what it calls its “resistance axis,” which also includes Syria, Hezbollah, some Iraqi militias, and Hamas, the Palestinian faction that controls the Gaza Strip. They are virulently anti-U.S. and anti-Israel. “If the match Trump lit in Jerusalem catches fire, Iran wins,” says Jonathan Rynhold, a senior research associate at Israel’s Begin-Sadat Center for Strategic Studies. “The Israeli-Palestinian conflict is a pool of petrol. Any sustained increase in Israeli confrontation with Hamas or Hezbollah strengthens Iran’s influence.”

The question is whether Iran can use this to woo Sunni Arabs wary of its regional ambitions, particularly as Hezbollah has been fighting Sunnis in Syria. “It’s going to be very hard for the Iranians to exploit this given the fact they are Shiite,” says Aaron David Miller, a Middle East expert at the Wilson Center in Washington. “It’s very hard for them to mobilize Sunnis on this or act in ways to undermine the American objectives and promote theirs.” Yet, the lack of a strong response to Trump’s gambit from leaders in Sunni-majority countries such as Egypt and Jordan gives Iran an opening to exploit, says Amatzia Baram, an expert on Shiite Islam at the University of Haifa. “The regimes in Cairo, in Amman, who are not coming out very strongly against America and Israel, are seen by people in the Sunni world as neglecting their duty,” he says. “And the very vociferous propaganda from Tehran and Beirut is very popular because Jerusalem is Jerusalem to every Muslim.”

The plight of the Palestinians has traditionally been the one issue that Muslims across the Middle East could agree on. Yet amid the chaos of the Arab Spring, the U.S. invasion of Iraq, and the Syrian civil war, it has lost some of its cause célèbre status, in the Arab world and elsewhere. As Saudi Arabia has sought a closer relationship with the U.S. and focused on containing Iranian influence, support for Palestine doesn’t come with the same fervor it used to in the kingdom. In 2002, after Israeli forces besieged the West Bank, Saudi Arabia’s then ruler, King Fahd, ordered a massive fundraising effort for the Palestinians, including a three-day telethon that raised more than \$100 million. Saudi Arabian Oil Co. donated 1 million riyals (\$267,000) to the cause

and began a five-week campaign among its workers. Nothing like that is happening now.

Iran has been playing the long game when it comes to Palestine. After the 1979 Islamic Revolution, Iran initiated a national day celebrating Al-Quds—“Jerusalem” in Arabic—to support Palestinians and spread its regional influence. The event is now marked by Shiites as far away as Nigeria. Iran calls its elite military unit the Quds force.

Saudi Arabia is trying to liberalize its economy and society while fighting extremism and terror groups, some of which its ultra-conservative strain of Islam helped fuel. Meanwhile, Iran continues to back militants labeled terrorist organizations by Western nations. In some corners of the Islamic world, that improves Iran’s standing as a bulwark against perceived Western influence and Saudi complicity. “Iran’s strategy has been to exploit any problems in the Arab world,” says Kamran Bokhari, senior analyst at George Washington University’s Program on Extremism. The Jerusalem decision “in a complex way strengthens Iran’s leverage in the region,” he says. “It’s not something that Trump wanted to do, but it’s an unintended consequence.”

A Dec. 13 summit hosted by Turkish President Recep Tayyip Erdogan to denounce Trump’s decision underscored the delicate politics. Iran’s president and heads of states from Kuwait, Jordan, and other nations attended, while Saudi Arabia sent a lower-level delegation, prompting Mohammad Javad Zarif, Iran’s foreign minister, to tweet: “Inspired by very high level participation at extraordinary OIC summit, despite handful of telling exceptions.” —*Donna Abu-Nasr, with David Wainer, Glen Carey, and Jonathan Ferziger*

THE BOTTOM LINE Trump’s decision to recognize Jerusalem as Israel’s capital has long-term consequences for the broader struggle for regional dominance between Saudi Arabia and Iran.

◀ A Palestinian protester in Ramallah

Russian Radio Gets The Feds’ Attention

● A Radio Sputnik broadcaster has been forced to register as a foreign agent

When a Washington, D.C.-area radio station owner switched from playing bluegrass music to Russian-sponsored news and opinion last summer, he didn’t expect the U.S. Department of Justice to treat him as a foreign agent. For nine years, John Garziglia had a deal with American University’s public radio station, WAMU, to rebroadcast its HD Bluegrass ▶

◀ Country on his 105.5 FM station in Reston, Va. When WAMU canceled the programming because of its shrinking audience and a \$142,000 operating deficit, Garziglia turned to a broker to find a buyer for his airtime.

By the end of 2016 the broker had lined up several suitors, including Radio Sputnik, a Kremlin-controlled media company whose reports sometimes reflect a Russian point of view. On-air talent includes former *Breitbart News* reporter Lee Stranahan, the 2016 vice presidential candidate for the Party for Socialism and Liberation, and several fixtures from RT, the Kremlin's television network. At the top of each hour, an announcer intones, "You're listening to Radio *SPOOT-nik*, telling the untold."

Radio Sputnik offered Garziglia \$30,000 a month for his airtime, more than he was getting for the bluegrass feed. "I say, 'OK, fine, Radio Sputnik is as acceptable as any other source,'" Garziglia says. By June he'd signed a contract with Rossiya Segodnya, the state-run news agency that operates Sputnik, and made plans to begin broadcasting. He thought his biggest problem would be from angry bluegrass fans.

Anticipating complaints from listeners, Garziglia told the Justice Department, which administers the Foreign Agents Registration Act, or FARA, that Sputnik bought his airtime. He was expecting a routine reply saying he didn't have to register as a foreign agent. What he got was a series of stern emails and phone calls from Justice officials, including David Laufman, chief of counterintelligence at the National Security Division, and Heather Hunt, chief of the FARA unit. On Sept. 12, Hunt wrote to Garziglia that Sputnik, along with RT, forms "the backbone of the Russian government's propaganda apparatus." Because he was disseminating its content, the letter said, Garziglia's station was acting as a publicity agent for Radio Sputnik and was given 30 days to register.

Less than a week later three congressional Democrats widely publicized a letter they sent to Ajit Pai, chairman of the Federal Communications Commission, calling for an investigation of Sputnik, which had broadcast "misinformation to influence U.S. policy and undermine our elections."

Garziglia responded to the Justice Department with an eight-page letter on Sept. 29 stating that he was a seller engaged in a commercial transaction, not an agent of Radio Sputnik. Under the law, that wasn't an unreasonable position to take, according to FARA experts. "If you look at the definition of a publicity agent, it talks about advising and consulting," says Thomas Spulak, a partner at the Washington law firm King & Spalding. All Garziglia did was sell airtime.

If disseminating content produced by the Russian government requires registration, a lot more companies could be hearing from the Justice Department. Apple Inc.'s iTunes Store and Alphabet

Inc.'s Google Play offer Radio Sputnik apps that stream through smartphones the same content Garziglia's station airs. Both companies also have apps for RT, which stream its content live. RT is also carried in some markets by Comcast Corp., the biggest cable provider in the U.S., and Dish Network Corp. Facebook, Google, and Twitter have all said their platforms were used by Russia to disseminate ads ahead of the 2016 election.

Justice Department enforcement of FARA has extended to other media companies previously not required to register, including T&R Productions, which provides content to RT. In 2013 the government contacted Arnold Ferolito, who was broadcasting Voice of Russia, a predecessor to Sputnik, in New York and Washington. "When FARA sent me the letter, we responded that I'm the pipe, I don't produce the shows," he says. Ferolito wasn't asked to register then—but he expects to be. On Nov. 25 he started broadcasting Sputnik on a D.C. station he leases, 1390 AM. He says the Justice Department contacted his lawyer the week of Dec. 4 to ask about Sputnik. "We're on a very slippery slope," Ferolito says. "When the government says to a broadcaster, you either register or you go off the air, that's censorship."

For the Justice Department, the key issue wasn't whether Garziglia was engaged in an arm's-length transaction with Radio Sputnik but that his company, Reston Translator LLC, was broadcasting Sputnik's signal around the clock. "Reston Translator registered under a statute that applies only to U.S. entities acting at the 'direction or control' of a foreign principal," says department spokesman Wyn Hornbuckle. He adds that the Justice Department would bring civil enforcement actions against companies that had an obligation to register but refused.

Michael McLeod-Bell, a First Amendment adviser to the American Civil Liberties Union, says while the ACLU is generally supportive of FARA, he does have concerns about how the Justice Department is changing its interpretation of the statute. "It's government playing chicken with domestic media," he says.

Garziglia begrudgingly registered as a foreign agent on Nov. 15 after Laufman sent him emails saying that the Justice Department would "consider the range of our legal authorities" in the face of his "prolonged deliberate noncompliance." Violating the law is a felony that carries a maximum sentence of five years and up to \$10,000 in fines. Garziglia had to disclose proprietary information, including the terms of his contract with Radio Sputnik, and he still disagrees with the Justice Department's decision. "I firmly believe that a radio station owner should be able to broadcast whatever legal content he or she wishes without any government interference," he says. —*Bill Allison*

THE BOTTOM LINE The Justice Department is beginning to demand that broadcasters carrying Russia's Radio Sputnik programming register as foreign agents.

● Radio Sputnik's history of being carried by D.C.-area broadcasters

Hubbard Broadcasting
103.5 FM WTOP-HD2
April 1, 2015–
June 30, 2017

Urban One
93.9 FM WKYS-HD3
June 28, 2017–
Oct. 17, 2017

HeartMedia
98.7 FM WMZQ-HD2
Oct. 17, 2017–
Nov. 25, 2017

Multicultural Radio Broadcasting
1390 AM WZHF
Nov. 25, 2017–present

Reston Translator
105.5 FM W288BS
June 29, 2017–present

Trump's Red Tape Cuts Are Overblown

● He takes credit for killing hundreds of rules that were already dead

"In the history of our country, no president, during their entire term, has cut more regulations than we've cut," President Trump boasted during a White House meeting with Republican leaders on Nov. 2. His press secretary, Sarah Huckabee Sanders, puts the total number of rules eliminated at almost 1,000, an astounding accomplishment for the slow-moving federal bureaucracy and an administration that's struggled to get things done in its first year.

Government records tell a different story. Only a handful of regulations have been taken off the books, while the majority of rules the administration takes credit for ending weren't in effect anyway. The White House says it's killed or stalled 860 pending regulations. It's done this by withdrawing 469, listing an additional 109 as inactive, and relegating 282 to "long term." But those claims are exaggerated. Of the rules the White House says it has withdrawn, 42 percent were shelved before Trump took office. Others said to be shelved are still being developed by federal agencies. Still more were moot, because the actions sought in a pending rule were already in effect.

That's not to say that Trump hasn't cut a lot of red tape. He's led an aggressive assault on rules governing everything from climate change to financial transactions to net neutrality. With the help of a Republican Congress, more than a dozen regulations enacted in the final months of the Obama administration have been repealed. As a result, it's harder for consumers to sue banks and easier for people with mental illness to buy guns. The administration has also cut way back on issuing rules. The White House's regulation-oversight arm, the Office of Information and Regulatory Affairs, completed reviews on just 52 final rules through Nov. 29. President Obama's OIRA team had finalized reviews on more than 200 during the same period last year.

Still, Trump's claims of sweeping deregulation are overstated, says Stuart Shapiro, a Rutgers University professor who served as a White House regulatory analyst from 1998 to 2003. "Claims about deregulatory accomplishments serve a political purpose that makes it appear as if more has happened than actually has," he says. "In real policy terms, the types of accomplishments the Trump administration is touting will take years and years."

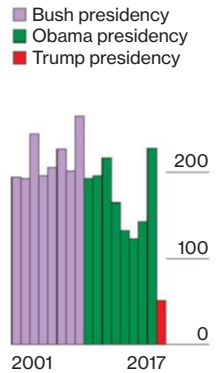
A senior official in the White House Office of Management and Budget didn't dispute Bloomberg's calculations but did say it was unfair to call the claims inflated. Raj Shah, a White House spokesman, said in

an email that the analysis was "based on out of date, inaccurate guesses and interim numbers." The data is the most current released by the White House.

At the U.S. Environmental Protection Agency—where Trump is having some of the biggest impact undoing climate change policy—13 of the 20 pending regulatory actions the agency withdrew this year were either already dead or moot, according to federal data. The same was true for 21 of the 45 rules that were withdrawn by agencies under the U.S. Department of the Treasury. In July the White House published a list of almost 500 pending regulatory actions it classified as inactive. But the vast majority of those were put on hold under Obama. Asked by Bloomberg which new ones it added, an OIRA official said such a list didn't exist. Some agencies declined to say when rules were designated as inactive, making it impossible to determine whether the action was taken by Trump.

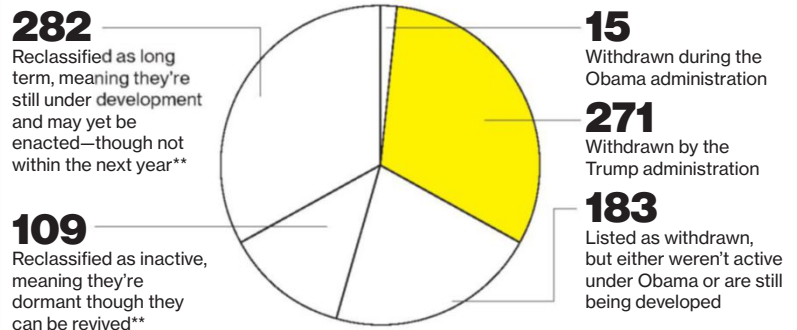
The Trump White House has done less to enforce existing rules, leading to a dramatic decline in fines for bad actors. Sanctions enforced by the U.S. Commodity Futures Trading Commission fell 68 percent, to \$413 million, in the 12 months ended in September from the same period the year before.

● Total proposed regulations reviewed by the Office of Information and Regulatory Affairs*



Fact-Checking Trump's Deregulation Claims

The 860 pending rules "removed or withdrawn," according to budget director Mick Mulvaney



**THE TRUMP ADMINISTRATION HASN'T RELEASED AN OFFICIAL LIST YET. NOTE: SEVERAL AGENCIES SAY RULES CATEGORIZED AS INACTIVE WERE STILL UNDER DEVELOPMENT. SOURCES: GOVERNMENT DATA, BLOOMBERG RESEARCH

Civil penalties levied by the EPA for environmental violations through July 31 were 60 percent smaller on average under Trump than those levied in the first year of the three previous presidents, according to the nonpartisan Environmental Integrity Project.

Enforcement decisions can be reversed by future administrations, unlike ripping regulations permanently from the rulebooks. "There's something a little artificial about their counting efforts at this point," says Philip Wallach, a senior fellow who follows regulations at the Brookings Institution. "It's sort of cooked up." —Alan Levin and Jesse Hamilton

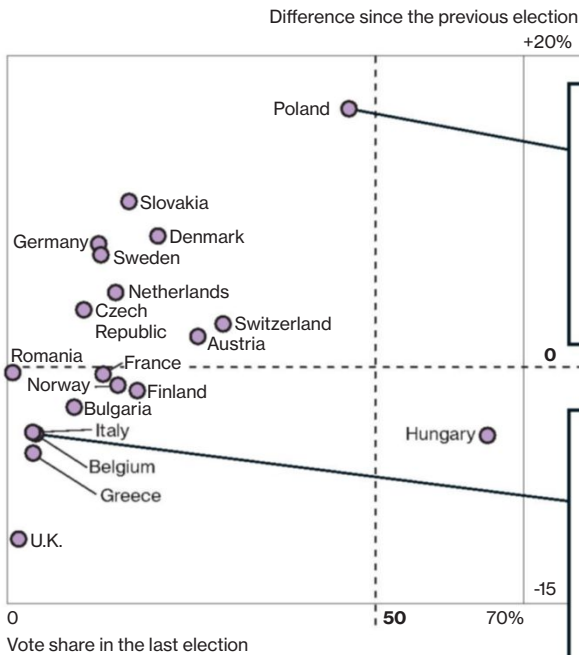
THE BOTTOM LINE Trump's boasts of massive deregulation are undercut by evidence that suggests most rules the administration cut weren't in effect to begin with.

If 2017 looked like the year when moderate politicians took back Europe, look again. The election of centrist French President Emmanuel Macron and the reelection of German Chancellor Angela Merkel masked a rising tide of anti-immigrant and populist sentiment that's sweeping aside or weakening mainstream party politics across the continent. —*Andre Tartar*

Where Populists Are Gaining Ground

The radical right has made clear advances in some of Europe's most populous countries, including Germany and Poland, while it suffered setbacks in Greece, Italy, and the U.K. National election data show anti-elite, nativist, and law-and-order parties surging in Eastern Europe, with growth not far behind in Central Europe and Scandinavia.

Latest vote share for populist, radical-right parties

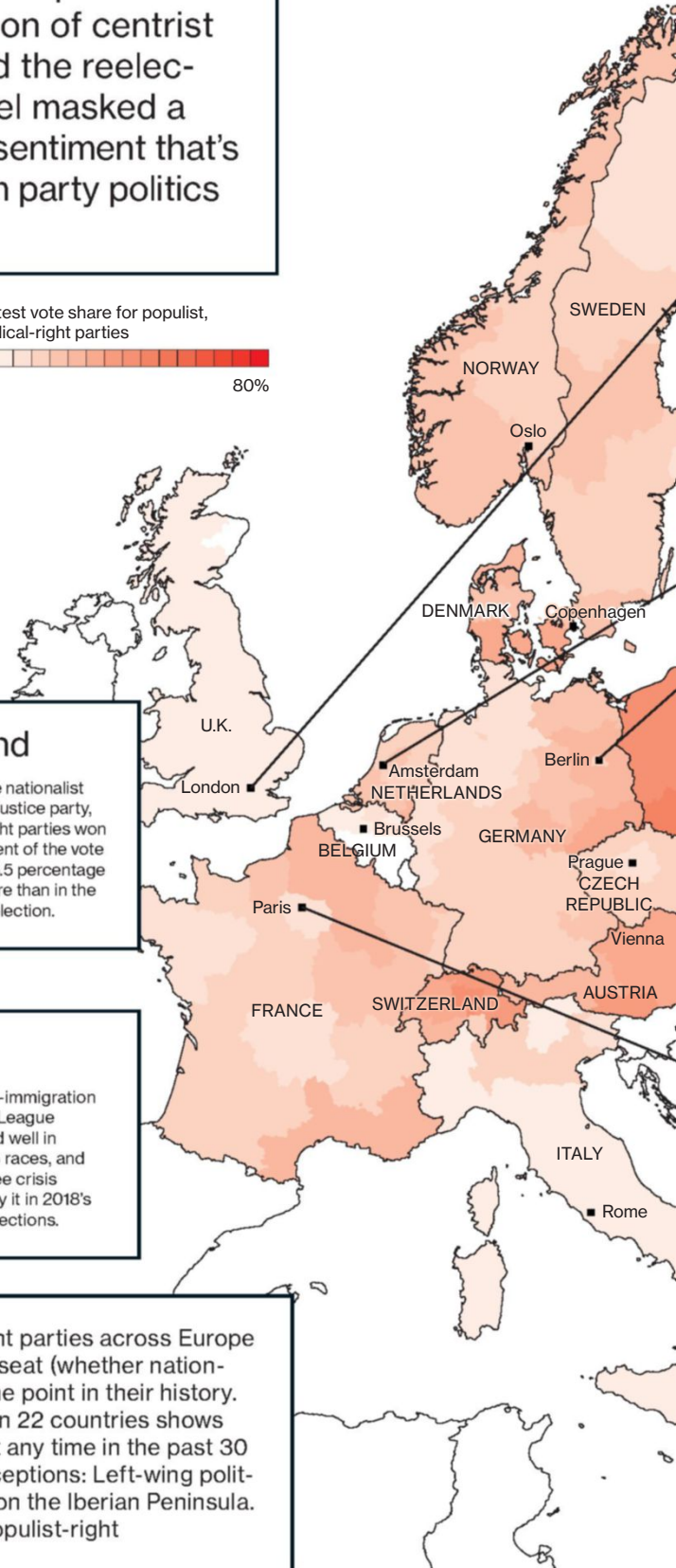


Poland

Led by the nationalist Law and Justice party, radical-right parties won 46.4 percent of the vote in 2015, 16.5 percentage points more than in the previous election.

Italy

Italy's anti-immigration Northern League performed well in local 2015 races, and the refugee crisis could buoy it in 2018's general elections.



The Upshot

There are at least 39 populist, radical-right parties across Europe that have held at least one parliamentary seat (whether nationally or in the European Parliament) at some point in their history. A Bloomberg analysis of election results in 22 countries shows support for these parties is higher than at any time in the past 30 years. Portugal and Spain are notable exceptions: Left-wing political activity trumps rightist organizations on the Iberian Peninsula. For more, visit bloomberg.com/europe-populist-right

Conquering Hearts and Minds

Overall European vote share for populist, radical-right parties

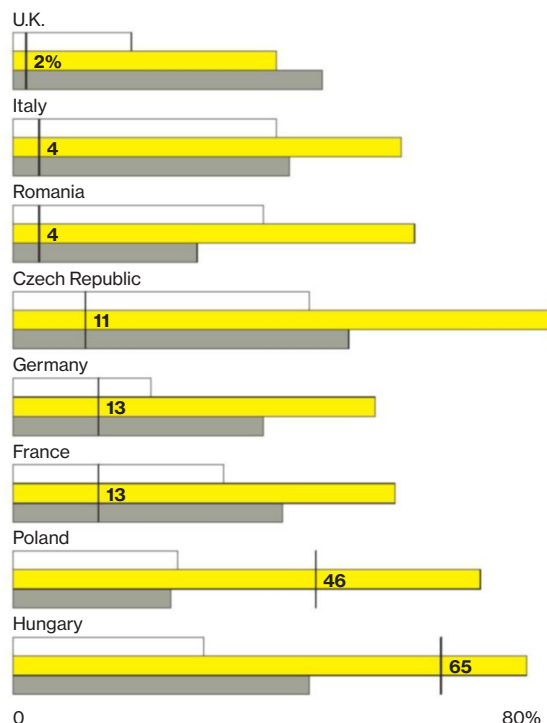
5% 11% 16%
1997 2007 2017

Election results, however, aren't the only indication of the right's rise. Even where the right is losing ground, its positions have been partly (or wholly) co-opted by mainstream parties. Survey results show that in many countries support for ideas embraced by the far right surpasses the vote share won by radical parties.

Percentage of respondents who agreed with the following:

- Globalization not an opportunity for economic growth
- Negative feeling for immigration from outside the EU
- Pessimistic about the future of the EU

▬ Latest populist far-right vote share



United Kingdom

While populism led to the Brexit referendum victory in 2016, the vote share of the anti-immigration U.K. Independence Party plummeted from 12.6 percent in 2015 to less than 2 percent in the June snap election that cost Prime Minister Theresa May her outright majority. Without its charismatic leader, Nigel Farage, who stepped down, or a signature issue—Brexit—UKIP became a party without a real agenda.

Germany and the Netherlands

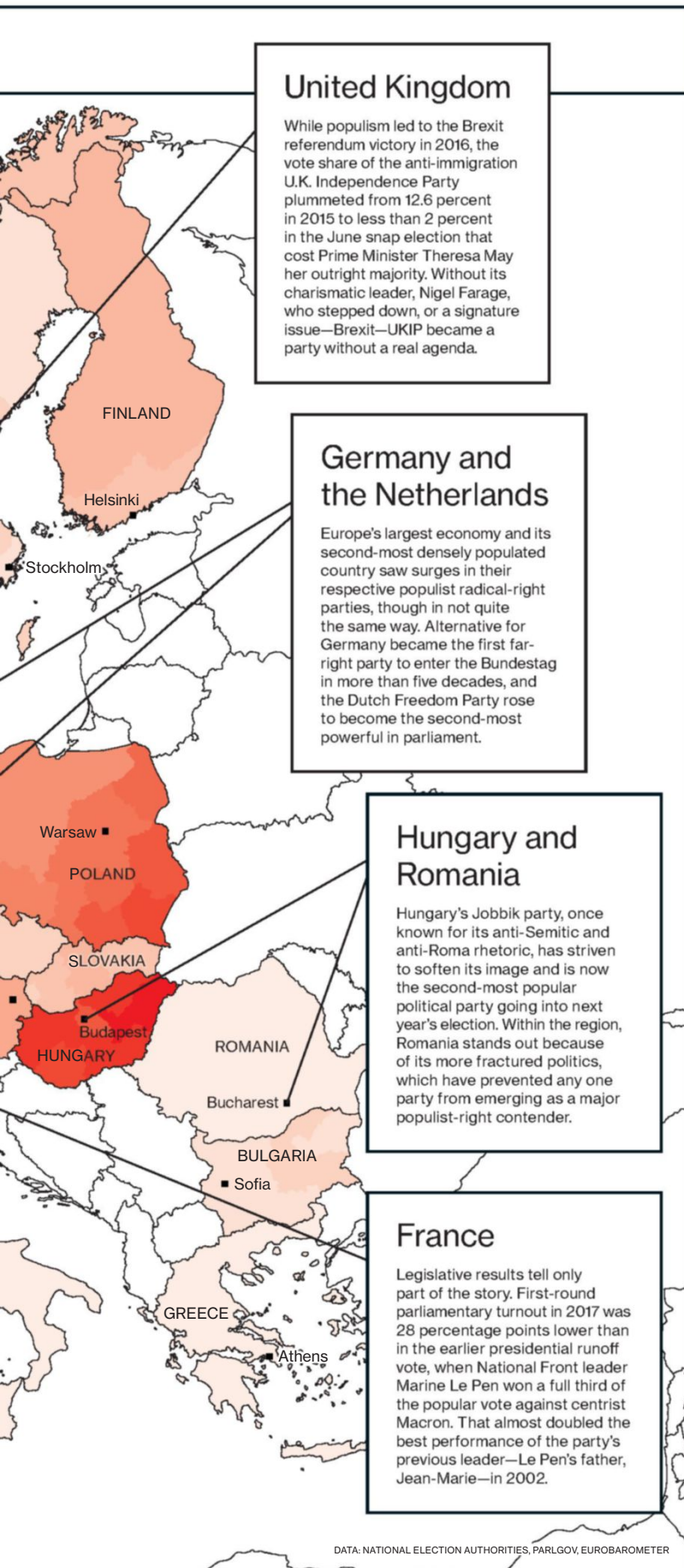
Europe's largest economy and its second-most densely populated country saw surges in their respective populist radical-right parties, though in not quite the same way. Alternative for Germany became the first far-right party to enter the Bundestag in more than five decades, and the Dutch Freedom Party rose to become the second-most powerful in parliament.

Hungary and Romania

Hungary's Jobbik party, once known for its anti-Semitic and anti-Roma rhetoric, has striven to soften its image and is now the second-most popular political party going into next year's election. Within the region, Romania stands out because of its more fractured politics, which have prevented any one party from emerging as a major populist-right contender.

France

Legislative results tell only part of the story. First-round parliamentary turnout in 2017 was 28 percentage points lower than in the earlier presidential runoff vote, when National Front leader Marine Le Pen won a full third of the popular vote against centrist Macron. That almost doubled the best performance of the party's previous leader—Le Pen's father, Jean-Marie—in 2002.



DATA: NATIONAL ELECTION AUTHORITIES, PARLGOV, EUROBAROMETER



Risk Management

Cape Town Scrambles To Keep the Taps Running

The city's mayor is leading the effort to manage its dwindling water supply

Cape Town Mayor Patricia de Lille says she has a new reason to hate Mondays: It's the day when she gets weekly reports on water levels in the city's dams. The numbers show that what has come to be known as Day Zero—when there's so little water most taps will stop running—will probably arrive in May, a month or two before the onset of South Africa's winter rains. "We have to change our relationship with water," says De Lille, who's filled in her swimming pool and collects water from her shower to flush her toilets. She spends 70 percent of her working day dealing with the crisis, she says. "We have to plan for being permanently in a drought-stricken area."

Cape Town—a city of 4 million that draws tourists for its sandy beaches, iconic flat-topped Table Mountain, and picturesque winelands—is running out of water. The severity of the crisis,

brought on by three years of poor rainfall and surging water demand, is highly unusual even at a time of climate extremes, says Bob Scholes, a professor of systems ecology at the University of Witwatersrand in Johannesburg. "Running out of water in places that have a highly developed water infrastructure is not that common." Cape Town has six major dams that supply the city, several water treatment plants, and a massive pipeline network. "I know of no example of a city the size of Cape Town running out of water," Scholes says. "It would be quite catastrophic."



A resident gets water from a communal tap in Imizamo Yethu township, outside Cape Town

The shortage is covered extensively on local radio stations—De Lille addresses residents daily, exhorting them to limit their usage. A Facebook group on how to save water and prepare for outages has more than 121,000 followers.

Business is brisk for rainwater tank suppliers and borehole companies, as residents who can afford to pay seek to reduce their reliance on the municipal grid. Builders Warehouse, a South African chain of building supply stores that sells the tanks, and driller De Wet's Water & Boreholes each have waiting lists of at least six months.

To curb consumption, the city has banned residents from watering their gardens and washing their cars, shut most public swimming pools, and reduced the water pressure, causing intermittent outages in some high-lying areas and tall apartment buildings. The city's poor, who depend wholly on the municipal supply and have limited space to store water, have been the hardest hit.

Patricia Gxothelwa, an unemployed resident of Imizamo Yethu township, about 12 kilometers (7.5 miles) south of the city center, uses a bucket to collect water from communal taps a short walk away when the supply is cut off from the hillside shack she shares with her husband and four children. "Sometimes they cut our water off for two or three hours," Gxothelwa says as she gestures toward her single inlet pipe. "It's more than before, once or twice a week. Water is one of our biggest problems."

Three straight years of meager rain is very rare, say University of Cape Town climatologists Piotr Wolski, Bruce Hewitson, and Chris Jack. It occurs less than once in a millennium. Water levels in rain-fed dams are at about 35 percent, down from 53 percent a year ago and 92 percent in 2014. Day Zero will occur if levels hit 13.5 percent.

It's not clear what's caused the extreme drought, though climate change is one possible factor, the scientists say. A 50 percent increase in Cape Town's population in the past decade has raised the demand for water. The city has attracted residents from the Johannesburg-Pretoria area, drawn by the slower-paced seaside lifestyle, and from the neighboring Eastern Cape region, where there are fewer job opportunities.

A lack of coordination and cooperation between the African National Congress-controlled national government and the city and surrounding Western Cape province, run by the main opposition Democratic Alliance, has frustrated and delayed efforts to respond to the crisis. Appeals to have the entire Western Cape declared a disaster zone went unheeded for months—it finally happened in May—and the national water department, which is responsible for bulk supply, has exhausted its budget, according to Helen Zille, the provincial premier.

"The city responded quite belatedly to some of the



Plastic water tanks outside a hardware retailer in Cape Town

signals," says Martine Visser, a professor and behavioral economist at the University of Cape Town who's been advising the municipality. "But when you look at the drop in consumption, particularly among high-income households, then I think they have been quite successful." De Lille says the severity and duration of the drought weren't initially anticipated.

Average water consumption has plummeted to about 600 million liters (158.5 million gallons) a day, down from 1.1 billion liters a year ago. Still, roughly half of Cape Town's households aren't adhering to the targets. About 19,000 homes that have regularly exceeded the recommended quotas have had mandatory devices fitted to their pipes, restricting them to 350 liters a day. Ignoring the limits can lead to higher charges for the extra water.

The city also is rushing to augment the water supply from rain-fed dams by tapping underground aquifers and springs. "You can no longer rely on the rainwater only to fill our dams. Those days are over," De Lille says. "You need to look at alternative sources." She says she's confident the city can avoid Day Zero but nevertheless has devised contingency plans that include distributing drinking water at 200 collection points, guarded by the police and army, and rationing each resident to 25 liters a day.

"I don't want to underestimate how catastrophic Day Zero could be," says Clem Sunter, an independent scenario planner who's been advising the city. "It would require thousands of tankers to provide a minimal level of water to each person. You would have to think of temporarily evacuating people." —Mike Cohen

THE BOTTOM LINE The combination of a three-year drought and a surge in population has resulted in dangerously low water levels in Cape Town. The supply could be depleted by May.



Fees Rise for Underfunded Pensions

Shortfalls mean more risk for a company's retirees and shareholders

The largest pension plans held by S&P 500 companies face a \$348 billion funding gap. As a result, they're paying higher annual fees to the U.S. Pension Benefit Guaranty Corp., the government agency that backstops plans. "There's increased awareness that an underfunded plan imposes risk on employees, it imposes risk on shareholders, and it's getting more expensive," says Olivia Mitchell, a professor at the University of Pennsylvania's Wharton School and executive director of the Pension Research Council.

The fees, called variable-rate premiums, are set by Congress and meant to encourage companies to set aside more money in their pension funds. They've more than tripled in four years for companies including General Electric Co. and Boeing Co., according to data obtained by Bloomberg News through a Freedom of Information Act request.

GE's fees surged more than sixfold, to about \$238 million, in 2017 from 2012, according to the PBGC data (that doesn't include the agency's flat-rate participation fees). Boeing's bill was \$151.7 million, about four times what it paid in 2014. GE and Boeing had the largest pension shortfalls among S&P 500 companies. GE, whose pension fund is short by about \$31 billion, said in November it would borrow \$6 billion to fund its plan. After Boeing's fund fell short by about \$20 billion at the end of 2016, the company said in July that it would add \$3.5 billion of its shares to a scheduled \$500 million pension contribution.

Employers have found it "more and more difficult to

offer a pension," says Dennis Simmons, executive director of the Committee on Investment of Employee Benefit Assets, an industry group. "Part of that is because of rising PBGC fees and more difficult regulations." Booms and busts in the stock market have made it harder for companies to keep up with their contributions. The pensions have become "big, and they've been quite volatile since 2000, when we've seen some serious ups and downs in the market," says Peggy McDonald, a senior vice president who works on pension risk transfers at Prudential Financial Inc.

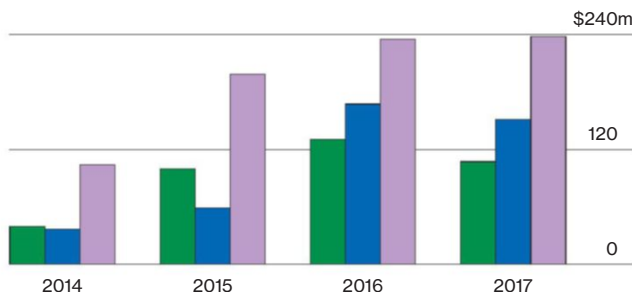
The rising fees and pending Republican tax overhaul legislation are encouraging some companies to build up their funds. Because pension contributions are tax-deductible, it's more valuable to contribute to a pension while tax rates are higher.

Employers with the 100 largest defined benefit plans added a combined \$43 billion to plans last year, compared with just \$31 billion the year before, according to Milliman, an actuarial company. Most are eager to get out of the pension business, preferring 401(k) plans, where the employee bears the risk of falling short at retirement. More are offloading

Rising Fees

Variable-rate premiums paid to the Pension Benefit Guaranty Corp.

■ Lockheed Martin ■ Boeing ■ General Electric



VALUES REPRESENT THE SUM OF THE VARIABLE-RATE PREMIUMS PAID BY EACH COMPANY'S ASSOCIATED PENSION PLANS. DATA: COMPANY FILINGS

their pension plans, paying insurance companies such as Prudential or MetLife Inc. to take them on instead. Such transactions could exceed \$19 billion this year, according to industry group Limra. Only about two dozen companies in the S&P 500 have overfunded pensions. Nine of them are banks.

Offloading risk isn't on the table for every company. Insurers don't take on obligations from underfunded plans, McDonald says. That means companies need to better fund their plans, limiting those variable-rate premiums, before they can transfer the obligations. "In the short term, these PBGC premiums are having a really significant impact," she says. "This is in a way an expense-management exercise." —*Katherine Chiglinsky and Brandon Kochkodin*

THE BOTTOM LINE As the gap in pension funding grows, so does the cost to companies; some in the S&P 500 saw fees they pay to the government agency that backstops the plans more than triple in four years.

Hollywood's Bad Actors

Producers look at new measures to protect movie investments if a scandal emerges

The Sony film *All the Money in the World* seemed to have everything going for it: a gripping story about the kidnapping of John Paul Getty III; an experienced director in Ridley Scott; and a bankable cast including Mark Wahlberg, Michelle Williams—and Kevin Spacey as Getty's petrocrat grandfather.

Cue public-relations disaster. Accusations by actor Anthony Rapp of sexual misconduct by Spacey 31 years earlier, when Rapp was 14, prompted Sony Corp. and Scott to drop the Oscar winner from the cast in November, even though the film had already been shot and the trailer had been viewable for weeks online. Spacey said he didn't remember the encounter and apologized for his behavior. Imperative Entertainment LLC, which produced the film, proceeded to spend \$10 million—a quarter of the movie's original budget—to hire Christopher Plummer as a replacement and reshoot Spacey's scenes. Imperative declined to comment for this story.

"You can't tolerate any kind of behavior like that," Scott told *Entertainment Weekly*. "We cannot let one person's action affect the good work of all these other people."

Ever since the *New York Times* published an exposé on Oct. 5 about women charging Harvey Weinstein with sexual assault and harassment, Hollywood has seen a barrage of claims involving prominent actors, producers, and executives. While studios have always had to deal with talent on occasion overindulging or landing in some peccadillo, the number of incidents, along with risk that now goes back decades, is forcing some in Hollywood to reconsider how they do business.

"How do you insure for the whole of someone's life?" asks Steve Ransohoff. His company, Film Finances Inc., originated the business of selling completion bonds, which kick in to pay for a movie that's blown through its funding and is in danger of not being finished. He's backed independent films and blockbusters such as *La La Land* and *Slumdog Millionaire*, a best picture Oscar winner.

Ransohoff says the industry is looking at a new insurance product that would cover producers and distributors if a scandal emerges, whether during production or after a film has wrapped. This would go beyond standard employment-practices liability insurance and cast insurance—the latter pays out when an actor dies or leaves a production over an injury or illness. Brian Kingman, who leads a team of entertainment specialists at insurance brokerage Arthur J. Gallagher & Co., says his phone has been ringing off the

hook with TV and movie executives looking for a solution. What the industry needs, he says, is an insurance product akin to the "death and disgrace" policies in the advertising world, which cover the cost of removing billboards or pulling TV spots when a spokesman can't keep his hands off the bottle or the interns.

Kingman says he's talking to Lloyd's of London and other underwriters about the product. Given the string of high-profile incidents, "the rates will be high, and carrier capacity will be limited," he says. Lauren Bailey, global head of entertainment at insurer Allianz Global Corporate & Specialty, says the risks are daunting even for the insurers. "This area is very challenging to predict, as occurrences that happened over decades are now just coming to light."

A contract term that's getting a second look is the so-called morals clause, which was first used after a sex scandal in 1920s Hollywood. It's commonly used in contracts for athletes making endorsements but hasn't been used as widely in Hollywood. Such a clause would allow for a star to be instantly fired without pay if he or she engages in objectionable behavior, some entertainment lawyers and agents say. Additional provisions could be added to contracts to hold actors financially liable for their conduct.

"We anticipate new contracts will place added emphasis on morals clauses and the language on all nondisclosure agreements will be highly scrutinized," says Chris Silbermann, a managing director at talent agency ICM Partners.

For now, studios and their financial partners will probably be stuck haggling over who pays when calamity strikes. The Orchard, an independent film distributor based in New York, paid as much as \$5 million for the rights to distribute Louis C.K.'s film *I Love You, Daddy* earlier this year. That was before the comedian was accused of sexually harassing fellow performers. The distributor canceled a scheduled November release. Louis C.K. agreed to buy back the film and reimburse the Orchard for as much as \$1 million already spent on marketing.

Says insurance specialist Kingman: "These are uncharted waters." —*Anousha Sakoui and Christopher Palmeri*

THE BOTTOM LINE Recent allegations of sexual misconduct and assault are forcing some in Hollywood to rethink how they do business.



Loiza, Puerto Rico,
Nov. 29



HOW TO REBUILD AN ISLAND

THE LOGISTICS, ECONOMICS, AND POLITICS OF GIVING PUERTO RICO BACK ITS FUTURE

BY
Monte Reel

PHOTOGRAPHS BY
John Francis Peters

CHAPTER

1

Round One

CHAPTER

2

**Ghosts in
the Machine**

52

CHAPTER

3

MacGyver-style

56

CHAPTER

4

**The Hawk
and the Kingbird**

60

FEEL

hit Orlando Gonzalez only after the storm had already been battering his grandmother's house for more than 12 hours. It wasn't the wind or the rain. It was the voice of his father calling for his mother.

Evelyn!

The scream startled the whole family, coming from such an unflappable man. Everyone—Gonzalez, his mother, his younger sister, and his grandmother—raced into the room, where they found Orlando Sr. hanging by his hands from one of the wooden ceiling beams, his feet dangling. The wind was shaking the rafters and rippling the corrugated metal roof; he was straining to keep all of it from being stripped away by Hurricane Maria.

You're crazy!

Let go!

His father insisted he could save the roof, and thereby save everything inside the house. Gonzalez ran to his father and threw his arms around his legs, trying to be his anchor.

Both of them were fighters. Orlando Sr. had put his son in a boxing ring when the boy was just 5, and for the next 16 years he oversaw his training regimen through 178 amateur bouts. Last year, Orlando Jr., 22, turned pro, incorporating a lifetime of paternal teachings to fulfill a family dream. Among the lessons that sank in the deepest were these: 1) Fortune often favors the smartest, not

BAR

Power poles and streetlights had snapped in two. The shorn trunks of trees slanted atop buildings, and dozens of other homes had also been stripped of their roofs.

Almost everyone in the neighborhood—and the city, and the island—had lived through comparable dramas. Puerto Rico's isolation, the fragility of its infrastructure, its status as a dependent child of the U.S., its dire financial outlook—all of it would combine to make the island's prospects for recovery far more challenging than those of places like Texas, or Florida, or even New Orleans.

Today, nearly three months after the storm, more than one-third of the island is still without power, and in the areas where it has been restored the service is often unstable, with occasional outages. Thousands of businesses remain closed. Normality sporadically peeks out from it all—on a street with a string of working stoplights, in an air-conditioned hotel lobby—then quickly retreats, as if ungraspable.

I arrived on the island about a week after the storm, when the sole focus of the relief effort was triage, and when everyone was trying to grade the Federal Emergency Management Agency's response in distributing food and water, tending to the wounded, and helping restore electricity. When I returned to travel around the island a second time, in mid-November, people didn't care so much about what FEMA was or wasn't doing, as if focusing too much on that was to miss the point of this particular recovery. Nearly everyone I spent time with—families piecing together their lives, farmers rebuilding their businesses, even aid volunteers—agreed that the future of Puerto Rico depends on more than simply mending what Maria destroyed.

For a decade, Puerto Rico has experienced a steady erosion of economic opportunity, and now there's a fear that the storm has convinced too many residents, a critical mass, to pursue new livelihoods elsewhere. The island needs self-sustaining industries that don't depend on subsidies or tax incentives. It needs a revival in sectors as basic as agriculture, which had dwindled over the years to near-extinction. The Centro Unido de Detallistas, a small-business advocacy group, estimates that about two-thirds of Puerto Rico's small businesses have been closed for at least part of the time since Maria, and up to 40

percent of them might never reopen; it needs those businesses, particularly in rural and isolated communities. And perhaps more than anything else, Puerto Rico needs a stable, educated workforce that's able to weather even more adversity. It needs people like Orlando Gonzalez, in other words.

He'd been planning to enter his third year as a student at the University of Puerto Rico, where he studies sociology. The morning after the storm ended, though, as he explored a landscape in ruins—the once-turquoise sea now brown, the palm trees bent and bare, the end of the pier simply gone—the future seemed an impossible challenge. His main sources of local pride, the town's pristine beach, its quiet parks full of ancient trees, were unrecognizable.

He later recalled that moment. "I thought, Man, if this happened to us here, what happened to the rest of Puerto Rico? What are we going to do?"

THE PUERTO RICO CONVENTION

Center in San Juan was the busiest hive of activity on the island in the weeks after Maria. Emergency cellular and Wi-Fi communications were quickly established in and around the building, and a potent bank of generators powered air conditioners that had people hunting for jackets and sweaters, though the heat index outside pushed 100F.

The building was the headquarters of the relief effort, where thousands of people plotted and monitored aid missions. Getting past the security perimeter wasn't hard: If you had any sort of identity badge that could be affixed to a lanyard and if you flashed it with a trace level of confidence, the guards waved you in.

Among the military uniforms and government bureaucrats streaming through the doors were lots of private-sector types. They weren't simply profiteers drawn to the storm; many had been on the island for years. The U.S. tax code exempts income sourced in Puerto Rico from federal taxes, treating the island, which is a U.S. territory, as a foreign country. In 2012, Puerto Rico's government passed laws, collectively called Act 20/22, that aimed to turn the island into a tax haven for financial-services companies. If certain types of businesses—particularly investment and hedge funds—moved to Puerto Rico, their corporate profits would be taxed at a ▶

necessarily the strongest; 2) the smartest know their limitations.

Gonzalez is a featherweight, 126 pounds. His father, who'd fought as a flyweight, is even smaller. As the winds intensified, both father and son concluded this was a mismatch. So they shifted strategies. With the help of the others, they lashed together several belts, tying one end to the roof and the other to a dining table. It held for about five minutes. The belts snapped, and the roof disappeared with a shuddering whoosh.

Their house was set into a hillside in Aguadilla, a city of about 60,000 clinging to Puerto Rico's west coast. The boxy structure was modest, like all the others on the hill, and for years it had provided them with dramatic sunsets over the Caribbean Sea. But now, as the boundary between indoors and outdoors was suddenly erased, the view was reduced to an inky blur. Rain and debris swirled around them as they rushed into the bathroom, which was protected by a cement roof. Gonzalez jammed a chair against the door, and for the next six hours the family and a neighbor hugged their knees and prayed.

At about 10 p.m. on Sept. 21, roughly 18 hours after the hurricane's leading edge hit them, they staggered out into a flooded house. What once was furniture was now wreckage. From the balcony they saw floodwaters in the streets below.

◀ flat 4 percent and the money managers would pay no taxes on their income. Individual investors who moved to the island and spent more than half of the year there would be exempt from all taxes on dividends, interest, and capital gains.

By the time Maria landed, about 1,500 people had signed up for Act 20/22 programs. This community of transplants generally values the private sector over the public and is particularly sensitive to how the U.S. collects and manages money. With Maria, many of them quickly realized that if they wanted to slip into the disaster relief system, there was plenty of space for them to assume a role.

Nicholas Prouty, chief executive officer of Putnam Bridge, a fund that specializes in buying distressed assets, relocated from Connecticut in 2013 and began pumping money into local real estate. Like many of the other big investors from the mainland, Prouty had considerable clout. Inside the convention center he could regularly be seen conferring with Ricardo Rosselló, Puerto Rico's governor, or ducking into closed-door meetings with other high-level officials. One morning a little more than a week after the storm, he sat down in the commissary and dug into a plateful of scrambled eggs and potatoes. A green lanyard with an all-access government pass hung against his blue polo shirt. He was unshaven after a string of days spent chartering private relief missions to deliver food and medical supplies to remote areas in the island's interior. The day before, he'd flown over communities where the helicopters of military rescue and federal aid workers had yet to penetrate.

"I didn't see a single Black Hawk in the air," Prouty said.

He didn't know it, but another state-side transplant had launched a parallel private-sector mission, and at that very moment was at the convention center arranging for a helicopter to transport a federal emergency medical team to a remote town on the west coast.

Like Prouty, he'd moved to Puerto Rico shortly after the tax laws went into effect, first to work for one of the biggest construction companies on the island, then as the co-founder of a startup that invested in cellphone towers. He exuded authority, one of mysterious provenance, because he seemed to possess no official affiliations whatsoever. The man who introduced him to me had compared him to

Harvey Keitel's character, Winston Wolf, from the film *Pulp Fiction*—a shadowy freelance fixer whose job was to solve problems, whatever they may be. It caught my ear because less than 24 hours before, I'd met a different gringo transplant—in a completely separate context, totally unrelated to this man—who was introduced in exactly the same terms: "like the Harvey Keitel character in *Pulp Fiction*." Later I met yet another man whose title on his business card read, simply, "Director of Making Shit Happen." The hurricane was luring all these guys toward the same aggressively air-conditioned HQ.

The man with the helicopters at his command didn't call himself the Wolf. "I'm the Ghost," he said. "I solve problems. But you don't see me."

But everyone saw him, all the time. He had close-cropped gray hair and a gray goatee, and he always walked as if he knew where he was going. His speech was heavy on acronyms and technical jargon, betraying a military past. He's no longer affiliated with the government—or with any other specific entity, for that matter, he insisted—and he possessed firm convictions that the federal government alone couldn't solve a problem like Maria. It needed free agents who weren't bound by restrictive bureaucratic structures. People like him.

"I sort of fall between the cracks and can go anywhere," he said. "One reason I can do that is because of my behavior. I'm not running around acting like an idiot."

His real name is Robert Anderson, and shortly after the storm hit, he reported to the convention center, figuring his technical know-how might be of use. He'd done the same thing during Hurricane Katrina in 2005, joining a group of private volunteers called Radio Response in Bay St. Louis, Miss. Back in 1989, when he was in the U.S. Army and studying Russian at the Defense Language Institute in Monterey, Calif., he'd leapt into action to provide emergency services after the Bay Area earthquake.

Inside relief headquarters in San Juan, he'd met some recent arrivals with the Department of Health and Human Services, helping them get their bearings and assisting them with their mobile communications equipment. He'd since begun treating his undefined role as full-time work, and when I pressed him about his motives—what angle was he playing?—he curtly repeated that he liked solving

problems and wasn't making a cent. According to Anderson, Don Boyce, director of HHS's Office of Emergency Management, witnessed him in action at the convention center and told him, "I don't know who the f--- you are, and I don't know what the f--- you do, but keep doing it."

Now, he was wearing an all-access pass, coordinating field missions, and declaring that the gaps within the federal disaster response apparatus represented ideal working conditions for anyone with the personal initiative to occupy that space.

"You want to get on a helicopter?" he asked me. "Let me know. I can get you on a helicopter."

WHEN THE STORM HIT, MIGUEL Szendrey-Ramos was in Madrid with his wife, enjoying a vacation he'd been planning all year. Unlike everyone back home, he was able to get a sense of the breadth of the devastation from television footage. He tried to call his parents and sister repeatedly but couldn't get through. For almost a week, until he was able to fly to San Juan, the fate of his family and home was left to his restless imagination.

Some of his thoughts dwelled on a 38-acre plot of land about 45 minutes west of San Juan, next to a high school. His family owned the lot, and three years ago Szendrey-Ramos decided to rent it from them. By that time, in 2014, Puerto Rico's economy had already endured eight straight years of recession, and the construction industry was particularly hard-hit. Szendrey-Ramos, an architect, had struggled to find jobs. So he decided to become a farmer, and turned his energies to that forlorn plot of land.

When he was a kid, it was the last job he would have considered. "I think in Puerto Rico, in those days, the only people who maybe ever thought of becoming a farmer, maybe, would have been the son of a farmer," said Szendrey-Ramos, 48. "Nobody really even considered it a profession."

Yet the island was lush, with a year-round growing season. Agriculture had once been the backbone of the economy, but that was before 1947, when the U.S. launched an economic development plan called Operation Bootstrap. The idea was to turn the island into an offshore industrial center, and a series of incentives proved spectacularly effective in steering workers away from farms and toward ►



Gonzalez and his grandmother in the bathroom where they sat out the storm



Gonzalez, who fights as a featherweight, at a gym in Agudilla

◀ factories. Additional tax breaks were instituted in the 1970s, including one that allowed industrial companies to avoid corporate income tax on profits made in Puerto Rico, and manufacturing's share of the economy almost doubled within a decade. Agriculture essentially disappeared, and the island now depends on imports for roughly 85 percent of its food.

That turn toward industry drew few complaints, until the industrial sector started to collapse. In 1996, as Congress worked to reduce the federal deficit and balance the budget, critics targeted the corporate income tax break as a form of corporate welfare. President Clinton signed a law to phase out the breaks by 2006, and not coincidentally, Puerto Rico's ongoing recession began that year. By 2014 the island had lost half its manufacturing jobs, and the government tried to compensate by selling bonds. Puerto Rico racked up \$74 billion in new debt (and Wall Street collected some \$900 million in fees), but that did little to ease the strain. The most recent U.S. Census statistics indicate the island's poverty rate is double that of Mississippi, the poorest state.

About four years ago Puerto Rico's government decided the economy would benefit from a return to its agrarian roots. It dangled numerous incentives in front of would-be farmers: They could get reimbursed for half of the cost of tractors; all farm supplies were exempted from sales and use taxes; farm vehicles, such as pickup trucks, could be bought tariff-free, which reduced the price by up to 40 percent. More than 30,000 acres of new farmland and almost 2,000 new farms have been established since 2013. It seemed one of the very few points of light in the local economy, until Maria. In the days after the storm, the government reported that about 80 percent of crops were destroyed. Entire coffee plantations were leveled, and acres of plantains were stripped to stubble. Traveling back to the island, Szendrey-Ramos—one of those who'd been attracted to the profession by the incentives—hoped his small operation had fared better than most. While he was in Spain, a friend had been able to snatch a cell signal in San Juan and send him a picture of his field via Facebook: Several of his dragon fruit plants—a cactus that grows on wooden stakes—appeared to be standing. But

the picture didn't show the main part of the plot, which had been planted with *ají dulce*, or sweet peppers. Szendrey-Ramos had grown a test crop earlier in the year, but this was his first major planting. He'd planned to harvest them the week after he returned from Spain. The expected yield was some 10,000 pounds, worth about \$20,000.

When he finally drove to the field, he found the access road blocked by fallen trees and the perimeter fence down. He made his way to the rows of peppers. If they'd survived, he knew he could sell them. Demand for anything fresh in Puerto Rico was soaring after the hurricane. Much of the space on the ships serving the island's ports was occupied by relief supplies, and the produce arriving via air was often left sitting in airports for days at a time. "They see the 'perishable' sticker, and they don't care," said Jose Sierra, an administrator with Drouyn & Co., a food distributor based in Guaynabo. "They're dealing with so much volume, they don't pay attention."

Desperate for fresh produce, Sierra had called Szendrey-Ramos, eager to snap up all the *ají dulce* he could get. But when the farmer was able to get a close look at his crop, he called the distributor back with the kind of news the company had grown accustomed to hearing. "It's a total loss," Szendrey-Ramos told him.



In central Aguadilla there's a plaza that contains the Ojo de Agua, a natural spring that was a principal water source for conquistadors in the 15th century. Christopher Columbus himself claimed Puerto Rico for the Spanish crown in 1493, and many believe he made land in Aguadilla Bay, about 2 miles south of the spring. Columbus and his crew encountered a native population of Taíno Indians,

whom they found to be unusually peaceful and welcoming. The Spanish wasted little time enslaving the natives and putting them to work in gold mines and on plantations. The island has been a colonial property ever since—it became a U.S. territory in 1898, a spoil of the Spanish-American War. Puerto Ricans became U.S. citizens in 1917.

In the days after the hurricane, Orlando Gonzalez walked to the Ojo de Agua every day. There he filled water jugs and buckets and lugged them up the steep hillsides to his grandmother's house. It was lung-busting work, and it was also training: Before the storm, his manager had secured him a fight in Tampa on Oct. 13 at the A La Carte Pavilion Center, a venue that for decades has showcased up-and-coming fighters, including several who went on to become world champions.

Flights out of Puerto Rico were a mess, and cellphones weren't working in Aguadilla, but Gonzalez's family desperately worked to find a ticket, for his sister's sake. Eighteen-year-old Samantha is a diabetic, and her insulin supplies would last only a couple more weeks. Evelyn, Gonzalez's mother, found a landline that hadn't been severed and was able to call the airlines a few days after the storm. At first the ticketing agents told her no outbound flights were available until late October, but once, while Evelyn happened to be on the line, three tickets popped up as available. She snagged them.

Evelyn, Samantha, and Orlando would go to Sanford, Fla., where Evelyn's sister lives, to stock up on insulin and other supplies. Meanwhile, Evelyn would look for temporary work, and Orlando would fight, collect his purse (\$2,000, win or lose), and return to the island a few weeks later with the money that would help his family reclaim their lives. In the two weeks between the storm and their flight to the mainland, he trained three times a day, augmenting his water hauling with strength and stamina workouts at 5 a.m. and 10 a.m., and a 3 p.m. session with his father to polish his technique.

The family has a cistern with some potable water, but they knew it could be months before they had running water again, and their supply might not last. Gonzalez and his father agreed that he would shower just once a day at home, and after his other two workouts he'd

bathe at the Ojo de Agua. It was there, in the natural pools in the center of town, that his optimism returned. The pools were full of people bathing, washing clothes, collecting drinking water, and playing. The low-hanging branch of a tree became a diving platform. If you got into the pools, you'd more likely than not be invited into a game of tag.

The festive feeling seemed a form of resilience to him, something Puerto Ricans consider a defining spirit of the place, one they trace back to the Taíno. But confronting that spirit is a tricky thing. Some outsiders equate it with complacency; to others, that suggestion itself drips with colonial condescension. At a leadership conference three years ago, Prouty, the Act 20/22 investor, suggested Puerto Ricans needed to chisel a sharper edge onto their collective identity. "Someone tried to explain to me the coat of arms of Puerto Rico, which has a lamb sitting on a Bible, as opposed to, for example, Mexico's, whose coat of arms is an eagle standing on a cactus with a snake in its mouth," Prouty said. "Symbols have great value and should never be overlooked, as they are windows into a country's culture—in this case, docility vs. courageousness." The island needs a makeover, he said. "We need to develop modern symbols."

On Sept. 28, America's then-acting Homeland Security director, Elaine Duke, praised the federal government's relief efforts, prompting the mayor of San Juan, Carmen Yulín Cruz, to respond, "Damn it, this is not a feel-good story; this is a people-are-dying story." That was true, but it wasn't only that kind of story. Gonzalez had never seen the people of his hometown connect as they did now. The spirit he encountered at the Ojo de Agua reinforced an idea that people in Puerto Rico would talk about for months: how disaster brought out the best in the people here. It sometimes felt uncomfortable to acknowledge this, as if doing so might undercut the urgency of the disaster, but how could anyone deny it? The peace that Gonzalez discovered at the Ojo de Agua became a new source of local pride for him, and it infused his upcoming fight with meaning. When he boarded a plane to Florida on Oct. 8 along with his mother and sister, he told himself that he was fighting for the spirit of Puerto Rico.

The morning after he arrived, Gonzalez called the boxing promoter to check in

and get the details on where he should report for prefight preparations. His manager in Puerto Rico, like Gonzalez and almost everyone else on the island, had been cut off from cellphone and internet coverage since the storm. The promoter listened to Gonzalez introduce himself, and then he apologized. There'd been a misunderstanding. He hadn't heard from anyone in Gonzalez's camp. He'd replaced Gonzalez with another boxer. There was nothing he could do, he said. He'd assumed there was no chance anyone from Puerto Rico would have been able to make that fight.

ON NOV. 10 THE U.S. ARMY COMMANDER in charge of the military responders in Puerto Rico, Lieutenant General Jeffrey Buchanan, announced that he was returning to the mainland. Since late September the military had cleared thousands of miles of roads, provided emergency medical attention to 5,000 local residents, and distributed 20 million meals and as many as 51 million gallons of water. Governor Rosselló, at the news conference announcing Buchanan's departure, suggested that the emergency phase of the hurricane response was transitioning into something less urgent, if not less challenging. "We are now entering a recovery phase," he said. More than half the island was still without electricity, and thousands of businesses both small and large had yet to reopen. Trade associations reported that about 30 percent of hotels and almost 40 percent of restaurants remained closed. The government reported that the number of people applying for emergency unemployment benefits in October was triple that of the same month the year before. Although official statistics blamed the storm for only 62 deaths, a recent review of the island's mortality statistics by the *New York Times* showed that 1,052 more people than usual died in the months after Maria, suggesting the storm was far more lethal than the official death toll implied.

On the same day Buchanan's departure was announced, Mark Curry drove to a warehouse in Las Piedras, on the east side of the island, to load a pickup truck full of rice, lentils, pinto beans, toilet paper, fruit, and water for Loiza, a poor community east of San Juan where many residents remained in temporary shelters. Curry had moved to Puerto Rico to take advantage of the tax breaks in 2013; in

press releases put out by his principal company, Sol Partners, he was described as a financial technology entrepreneur and a "disruptive philanthropist," a term favored by those who fund alternatives to taxpayer-backed social programs.

Since immediately after the storm, he and other members of the Act 20/22 Society—a dues-paying organization of businesspeople who'd sought tax shelter here—had been organizing relief runs such as this one. Most Act 20/22 participants, like Curry, are wealthy. "As a broad rule, we say if you don't make more than \$2 million a year, it's probably not worth it for you to do this," said Robb Rill, a leader of the group who runs a private equity firm with nearly \$100 million in assets.

Before Curry loaded his truck with supplies, he outlined a general philosophy that I heard repeated by several Act 20/22 transplants ("People want a hand up, not a handout") and sketched what he believes is the government's ideal role in the long-term relief effort ("Empowering small business"). The private sector's responsibility, Curry said, is to direct its competitive drive and creativity toward the humanitarian effort. A few days before, he'd made a deal with Uber Technologies Inc., which had agreed to deliver aid supplies free of charge anywhere on the island. When Curry or his associates got a donation or purchased a batch of food or water, they could call Uber, and the drivers would be fully compensated at Uber's expense. Details were still being worked out, which meant that on this day Curry had to drive more than an hour to load his truck before dropping the supplies off at a public basketball court in the center of Loiza. "It'll be much faster and more efficient to do something like this with the Uber deal," he said, driving past downed power lines and abandoned houses on the way back from the drop-off. "And it gives people jobs."

Robert Anderson—the Ghost—had formed a partnership with a group of like-minded free agents to advance a similar line of thinking. In mid-November, I joined him in the convention center to meet one of these partners, a man named Steve Birnbaum, whose affiliations were just as hard to pin down as Anderson's. When asked what company or agency he worked for, Birnbaum never varied in his reply: "Nobody." He'd come to the island just before the storm hit, funded by an unnamed organization that anticipated ►





◀ the disaster and “wants to stay out of the picture.” Since then, he said, no one was paying him a salary, and his motivation was simply “to help any way I can.”

The convention center had undergone a transformation in the past month. As power and internet access had been restored to other parts of San Juan, the media had been kicked out of the building, and several other agencies and nonprofits had moved to other offices. Security was tighter, but Anderson and Birnbaum met me at the door and shepherded me toward a table, where they began to explain part of their plan to help Puerto Rico.

Birnbaum said “an associate” of his had determined that from 40 percent to 65 percent of Puerto Ricans customarily purchased the bulk of their food supplies with federal aid in the form of Electronic Benefits Transfer, or EBT, cards. Small businesses around the island depend on EBT spending. In many rural areas, the point-of-sale terminals in grocery and convenience stores still hadn’t been connected to a network, meaning cash was the only option. Most of the ATMs in those areas were still offline, too. The stores, as a result, were unable to sell goods to a customer base that desperately wanted to buy them. “By enabling those terminals, the store can pay its employees, let the residents buy food, and create less reliance on FEMA for food distribution,” Birnbaum told me.

As he and Anderson began to explain how they were working together to solve this, someone approached the table to interrupt. “How you doing, gentlemen?” It was the head of security for the facility, backed by four members of his staff. The press was no longer allowed in FEMA headquarters, he said. He then began quizzing Birnbaum and Anderson. “Who do you work for?” he asked. Anderson answered that he’d been granted authority to be in the building by Puerto Rico’s chief information office, where he’d been working as an unofficial, and unpaid, technical consultant.

Birnbaum, however, didn’t budge when pressed for his employer.

“Nobody,” he said.

The answer inflamed the security ▶

◀ chief, who suggested Birnbaum had been impersonating a FEMA employee to gain unapproved access to the convention center. Birnbaum's denials didn't work, nor did Anderson's attempts to smooth things over. Within minutes, Birnbaum was banished to the parking lot, where he began calling friends, wondering if he might have ticked off someone at FEMA or if someone had fingered him as a target of suspicion.

Maybe the controversy surrounding the contract given to Whitefish Energy Holdings LLC had put FEMA on edge. The Montana company's two full-time employees had anticipated the storm, and in San Juan they quickly established the connections that led to a \$300 million contract with the Puerto Rico Electric Power Authority to rebuild the island's electrical grid. The blowback from that deal, which was canceled on Oct. 29, seemed to make FEMA acutely sensitive to the prospect of private companies angling for fat government contracts, and Birnbaum's evasions might have been a red flag. "When you say you're with nobody, people don't understand it," Birnbaum told Anderson.

"Well," Anderson conceded, "it does rub some people the wrong way."

That was beyond doubt, and now that Birnbaum had been exiled from headquarters after almost two months of access, he dropped his air of mystery. About an hour later, he and Anderson reconvened at a house where a loose coalition of private, for-profit organizations was based—and where their affiliations finally would snap into clearer focus.

MIGUEL SZENDREY-RAMOS BENT low and held one of his *ají dulce* plants by the stem, pulling the leaves back, searching for a miracle. Not all the plants had died, and he'd continued to tend to them, hoping they might sprout pepper buds. No such luck.

"The few that survived are in so much stress that they're not producing," he said. "A plant like this, by now, should have about 30 peppers on it. But it's doing nothing."

His dragon fruit field, which he'd planted earlier this year, would need an additional three years to reach maturity; after that he expected them to produce fruit for 15 years or so. While those plants matured, the peppers were supposed to be his cash crop. He'd counted on reaping up to three harvests per year, which would

allow him to pay off his farm loans until the dragon fruit became his moneymaker.

The loss of the \$20,000 crop left him dazed. He'd responded to Puerto Rico's economic collapse by remaking himself into a farmer, but many of his friends and relatives—including three of his four sisters—had left Puerto Rico, moving to the mainland, where opportunities were easier to find. From 2010 to 2015, Puerto Rico shed more than 7 percent of its population, reducing the number to about 3.4 million. The majority of those who left were working age, and many took with them the next generation of workers; the island lost about one-third of its elementary school students from 2005 to 2015.

Since the storm, the pace of the exodus has accelerated, and it remains difficult to find an available seat on a departing airplane. In the first five weeks after the storm, 199,000 people left the island by boat or plane. An additional 100,000 had booked tickets on flights before the end of the year. Some analysts predict that 400,000 to 500,000 could leave by the end of next year.

Szendrey-Ramos had taken out loans for the farm, and he was paying off a mortgage on his house. He couldn't just pack up and leave. But standing in a field of ruined peppers, he struggled with unavoidable questions. Should he replant or should he downsize his whole operation to minimize the potential losses? If he risked replanting, would he be setting himself up for another disaster? Would the next hurricane leave him with the same questions?

He began seeing a few scattered job offers. FEMA and the insurance companies were looking for architectural inspectors to review hurricane damage. That seemed like something he could do. But what would happen when the disaster responders left the island? Rosselló was lobbying Congress for \$94.4 billion in aid, but as of December, the White House had asked for \$44 billion to cover combined hurricane costs in Texas, Florida, the U.S. Virgin Islands, and Puerto Rico. At the same time, the new tax bill being debated in Congress aimed to encourage U.S. companies to invest domestically instead of overseas. The unique tax status that had benefited the territory in the past would now be a liability, and the island's government worried that it would be a death-blow to the industries that remained.

Some in Congress were searching for last-minute changes to the bill to soften the potential impact on Puerto Rico, but all of the discussions led Szendrey-Ramos to a conclusion that almost every economist shared: Puerto Rico's financial troubles weren't ending anytime soon.

"If there's no money, there's no architecture—it's a formula," Szendrey-Ramos said. "And there won't be additional jobs in the long run, not until the economy gets better, which will be many, many years."

His bank had given him a three-month reprieve from his mortgage payments, a grace period that would stretch through January. He decided to spend that money to buy new sweet pepper seedlings. He was, effectively, renewing his commitment to the new life he'd adopted three years before.

"Producing food seems pretty safe, in one sense," he said. "Everybody needs to eat."



Gonzalez, his mother, and his sister had planned to stay in Florida for a few weeks, just enough time for them to stock up on insulin and earn a little money to bring back to the island. Both his mother and his sister found jobs at the same Walmart where his aunt worked, but the jobs came with a catch: They had to promise to stay for at least six months. They agreed, and began working in mid-October.

Gonzalez, meanwhile, felt lost. With the fight canceled, he faced the humiliating prospect of returning to the island empty-handed. He learned that Guillermo Rigondeaux, the super featherweight world titleholder from Cuba, was training in Miami for a pay-per-view match scheduled for Dec. 9 in New York's Madison Square Garden. His opponent was to be Vasyl Lomachenko,

the junior lightweight world champion. Both fighters were southpaws, as was Gonzalez, who was told Rigondeaux might be looking for a sparring partner. He took a bus to Miami to speak with the fighter's promoter, who offered him \$100 to spend one day in the ring with the champion. Gonzalez needed a longer commitment, for more money. He reluctantly declined the offer.

His cousin came up with another opportunity. He could get Gonzalez hired for a temporary construction job that paid close to \$15 an hour with a \$40 per diem. Gonzalez jumped at the chance. He hoped to make enough money to help rebuild his grandmother's house and also to pay down the loans he'd taken out for college. He planned to start another semester at the University of Puerto Rico, where he had maintained a 3.2 GPA while compiling a professional record of 6-0 with five knockouts.

Every morning he joined a temporary workforce that was overwhelmingly Latino, and he purposefully treated his days as if he were a sociologist, quizzing the other laborers about their experiences. He met Hondurans who worked 10 to 12 hours a day, with a 15-minute lunch break, for the minimum wage of \$8.10 an hour. Most lived six to an apartment, they told him. He befriended a Cuban who couldn't understand the instructions the boss gave him in English; when other workers teased the man, telling him he'd probably spend 20 years in America and never be able to understand the boss, he responded that he'd rather go back to Cuba than spend 20 years doing this kind of work. "He said, 'This is a slave country for the Latin people,'" Gonzalez recalled. "He said that to me. 'A slave country.' That really surprised me to hear that."

During his two weeks struggling on the mainland, his island pride swelled. He began posting messages on his Facebook page asking the local Puerto Rican community to donate food that he might take back with him. He collected 480 pounds of nonperishables but struggled to figure out a way to ship it home. He hoped to send it by boat, because it was cheaper, but was told it would take six weeks. "My cousin called a friend at an airline and got a discount, and we could send all the food back for 50¢ per pound," he said. "But we had to leave 80 pounds of water, because we didn't have enough money for it."

He returned to Aguadilla on Nov. 8. About a third of Puerto Ricans still lacked running water, and more than half remained without electricity. But on the balcony of his grandmother's house, a bedsheet hung with a message painted in large black letters: *Hoy es un nuevo día de nuevo bendiciones*. "Today is a new day with new blessings." A Puerto Rican flag was tied to that same balcony railing, affixed by a cord from an old telephone that no longer worked.

ANDERSON AND BIRNBAUM stepped into the kitchen of a six-bedroom rental house in a quiet residential neighborhood in San Juan. Through the rear sliding glass doors they could look out on a hammock and a swimming pool. They popped open beers and sat down at a dining table. The house had become a sort of alternative headquarters for several small, independent relief organizations that shared one goal: to open up the field of disaster response to the kind of parachute-style, private-sector problem-solving that they'd elevated to an ideal. Three others joined them at the table, listening to the story of Birnbaum's expulsion from the convention center. When Birnbaum got to the part about the security guard, Anderson jumped in to point out that FEMA's staff was, to be fair, simply doing its job—a necessary job to distance itself from profiteering carpetbaggers. A security guard, he pointed out, couldn't be expected to tell the difference between the good guys and the bad guys.

I was having a hard time with that myself. Anderson and his cohorts' repeated insistence that they worked for "nobody" piqued all sorts of suspicions in me. Anderson had already spent more than two months working long days, and he swore he hadn't been paid for any of it. The notion that they might be scheming to orchestrate some sort of Whitefish-style contract kept rearing its head. But as he and Birnbaum continued to talk with others around the table, those suspicions were quelled. So was the idea that they were pure free agents, working for absolutely no one, determined to wholly self-finance their altruism.

Jesse Levin—the "associate" Birnbaum had referred to earlier—was the house leader. He's a fit 32-year-old who speaks with machine-gun speed and efficiency. The team he'd assembled wasn't

just a team, he said, it was "an initial post-occurrence instigation force." He was a co-founder of Brooklyn Boulders LLC, a chain of rock climbing gyms with branches in New York, Chicago, and Boston. His new project is Tactivate, a for-profit company he'd brought to Puerto Rico, one that aims to combine the mindset of military special operations forces (though he's not himself ex-military) with the sort of business savvy he picked up at Babson College. He calls the hybrid "expeditionary entrepreneurship," and one of Tactivate's missions is to bring it to disaster zones.

During Hurricane Sandy in 2012, Levin had turned his Brooklyn gym into a temporary headquarters for a group called Team Rubicon, a Los Angeles-based non-governmental organization formed by former marines. It was there he met Birnbaum, who at the time was working for the Global VSAT Forum, an industry association for the satellite communications business. During Sandy, Birnbaum was appointed to something called the FEMA Innovation Team, made up primarily of private-sector experts, and he later received a "Champions of Change" commendation from President Obama's White House for his work in setting up temporary communications networks in the New York City communities of Red Hook, the Rockaways, and Staten Island. Birnbaum left the nonprofit in 2015, and this year joined forces with Levin and Tactivate, becoming its director for response and recovery.

"We're all essentially against the traditional NGO model," Levin told me. "They're not sustainable. All the smart people who want to effect change are always begging for money. They implement solutions, but they're dependent on fundraising. What happens when the money goes away? If you want to build sustainable, lasting capacity, it has to come from the private sector. It's OK if there's a profit motive. That's what makes the world go round, you know?"

When Maria hit, Levin saw Puerto Rico as the perfect testing ground for his ideas. In a blog post written in early October, he could barely contain his enthusiasm: "This is a call to arms. We are not often handed a chance to innovate and experiment on such a grand scale with so much incredible immediate need and impact potential. Stop blaming. Stop trying to accuse or fix ►



Architect-turned-farmer Szendrey-Ramos (left) tends to a dragon fruit plant



Anderson—the Ghost—in his office in San Juan



Supplies are ferried across a river in Utuado, where Maria destroyed a bridge



Searching for waterlines in Mariana, in the eastern part of the island

◀ the system and get working outside of it. The system may or may not catch up. If there is one thing Americans are good at, it's being solution-focused and creative when there is a profit motive. In Puerto Rico, you get to have your cake and eat it too."

The men in the Tactivate house don't try to disguise how much they love all this stuff—the field missions, the helicopters, the chance to do things “MacGyver-style,” as the Tactivate website phrases it. They're adventurers, and they don't see any shame in that. Plenty of people are looking for a physical challenge, for excitement, for a sense of purpose, they say, and Tactivate is fulfilling a market niche. They recognize that there's a certain selfishness somewhere near the core of that—a desire to gratify personal needs—but so be it. “At the end of the day, if you're helping people and doing good, nothing else really matters,” Anderson said. “The payoff is, I sleep really, really well at night.”

Their work bringing point-of-sale terminals online is the best example they can hold up to illustrate their approach. After Levin and Birnbaum identified it as a mission for Tactivate, Anderson tried to find partners who might be able to provide connections to those EBT and credit card stations. He first reached out to Google's Project Loon, which uses high-altitude balloons to provide internet access to remote areas, but found that they couldn't keep the balloons in the right place for long enough. After following a couple more dead ends, Birnbaum connected with Focused Mission Inc., a company in Orlando that models its work on what it calls the “servant leadership of Jesus.” Steve Hailey, a former American Red Cross technician who co-founded the company two years ago, described it to me as “mission first, profit second.”

Hailey suggested that Tactivate implement a machine-to-machine satellite connection that can provide simple connectivity to special point-of-sale terminals. The company donated the first three satellite terminals—each about the size of an iPad—in addition to performing the installation work at no cost. Anderson began crunching government data to help find the regions of the island most isolated from connectivity, and Tactivate continued to install more satellite terminals as the weeks passed.

Tactivate earns some money through training seminars with corporations in the U.S., but mostly through a variety of side projects, such as a roving pop-up bar called Mortar & Pistil, where Tactivate members offer survival training courses while customers sip elaborate cocktails. The company uses profits from those ventures to finance its trips to disaster zones; once there, it looks for ways to cover its expenditures. In San Juan, Tactivate had rounded up several rental apartments and re-rented them to NGOs. To offset the point-of-sale project, Levin said, Tactivate could form a partnership with a credit card processing company, for example, or even craft a deal with a chain of convenience stores. So far, though, that wasn't happening; none of the team members had collected a salary or landed a contract.

“I'm paying for it,” Levin said. “Right now, I'm probably \$55,000 deep, and I don't have a clue where that'll come from. But I'm confident enough in my ability to figure it all out afterwards.”



Szendrey-Ramos spotted a *guaraguao*, a kind of hawk, drifting slowly over his field. “Sometimes, when you see him circling like that, he has five or six little birds bothering him,” he said.

There's a saying in Puerto Rico that goes, *Cada guaraguao tiene su pitirre*, or, “Every hawk has its kingbird.” In the popular telling, the hawk represents imperial America, whose shadow falls on almost everything. The little kingbird, meanwhile, is Puerto Rico—small, brave, and relentless.

This particular hawk, however, soared undisturbed. Remarkably, a single, small gray bird—a kingbird—was perched on a table in the field where Szendrey-Ramos had placed a few potted açai berry trees

that he planned to plant in the swampier areas of his plot. If anyone dared read anything symbolic into that resting bird, anything suggestive of a local surrender to the larger forces of either nature or geopolitics, the tenacity Szendrey-Ramos poured into his fields could neutralize it.

He was waging a war against the ants that were harassing his fledgling dragon fruit. Yet he was itching to do more, and almost every day he tried calling his seed supplier so that he could get started on his sweet pepper replanting. If he got them into the ground now, in mid-November, he estimated he might be able to harvest a full crop by the beginning of February, when the grace period for his mortgage payments expired. He hoped to plant 3,500 seedlings, or 500 more than had been wiped out by the hurricane. “I have to act fast now, to take advantage,” he said.

It would take more than his willingness to work, however. Because of the ongoing troubles with cellphone connections in some rural areas, he struggled to make contact with seed suppliers. When he finally did, it was late November, and he was told that one customer, a business that develops seeds into seedlings, had purchased the entire stock of *aji dulce*. Szendrey-Ramos tracked down the nursery in early December and bought all the seedlings he could get. “He's dividing them between a couple of farmers, including me, but I'm not going to be able to get the 3,500 that I need to cover my field now,” he told me. “I'm only going to get 1,500.”

And he'd still have to wait for the seedlings to mature enough for replanting. At best, he could get them into the ground in mid-December. Until then, all he could do was try to suppress every anxious impulse that told him precious time was slipping away. If all went well, he might be able to start selling by late February. Between now and then, the fate of his peppers wouldn't depend on the economy, or an aid package from Congress, or the details of a tax reform bill. It would be up to the kinds of forces that, every once in a while, still could make everything else seem comparatively insignificant: the sun, the wind, and the rain.

FOR A FEW WEEKS AFTER THE hurricane, anyone flying over Puerto Rico at 15,000 feet or so would have said the predominant color of the island was

brown. The coastal palms were shorn of fronds, crownless. Forests dense with rosewood, teak, and *tabonuco* trees had been stripped of their leaves, and the trunks were indelicately exposed, bent at painful angles, allowing unaccustomed light to shine down and dry the electric-green moss to cheerless shades.

But within two months, the vegetation reasserted itself. Leaves sprang back, and fronds extended, and the moss recovered. You could still see brown in the forests below, but it was more difficult now, and the bare trunks that had been so stark were now blurred by greenery.

Somewhere down there, in the middle of all that, Anderson and Birnbaum traipsed through jungly thickets in the mountainous municipality of Jayuya—"the heart of darkness," Anderson called it—on a field mission to transport doctors to a rural community and restore connectivity to a point-of-sale terminal in what they'd identified as one of the most isolated stores on the island. Levin and Tactivate had secured funding for the project from the Foundation for Puerto Rico, a San Juan nonprofit that before the storm was dedicated to promoting tourism and innovation. By December the Tactivate team had installed 15 units, with eight more planned, and Levin estimated that the connections had enabled more than \$1.3 million in transactions.

In Aguadilla, Gonzalez and his grandmother, Blanca Hernandez, stepped onto the balcony of her house. Here, too, everything was newly brushed with green, but some of the hillside trees that had stood between them and the sea were simply gone. "Look," Hernandez said. "See that? Look at this view. See it? I actually got more view now than I did before. See? It ain't like it's all *crying* or something all the time over here."

Hernandez is a lean 62-year-old. In her smile there's something sly, and in her vowels there's a lot of Brooklyn, where she lived from the mid-1960s to the late 1980s, before she and her husband, Carlos, moved their family back home. She keeps family pictures in the bedroom, and they're curled at the edges from all the water. She grabbed one of her husband, who died in 2014, and her voice got a little dreamy: "He had green eyes," she said.

Since the storm, Gonzalez has been living with his father in a different

neighborhood, and Hernandez has stayed with a family friend. She got one blue tarp from FEMA and draped it over as much of her house as she could. Earlier in the afternoon it rained hard, as it did almost every day in November, and the tarp sagged. It couldn't cover everything, and the tile floor in Gonzalez's old bedroom was covered with about a half-inch of water.

In an exposed closet hung some of Gonzalez's shirts. They were damp. "Every time I try to dry anything it rains," Hernandez said. She pointed to bedding that was bundled in plastic bags. "I can't use those sheets," she said. "Rats got into them." The mosquitoes, too, have been a problem. "You go to the store, you can't find no candles."

She held an envelope with a letter inside. It was a form from FEMA, with a telephone number she could call to see if she might be eligible for an emergency loan. She wasn't quite sure what to make of it. The agency had provided the family with about \$500 to buy food, and she was waiting for another check that might help pay for home repairs. Gonzalez said his girlfriend's family had received a check for about \$2,000, which wasn't enough to pay for a new roof. "They'll have to take out one of the loans," he said. But Hernandez wasn't eager to call the number. The last thing she wanted to spend energy on now was waiting in more lines, dealing with more bureaucracy, and contemplating how she might pay back borrowed money.

All she needed, she said, was a new concrete roof and—more than anything—her family, in Puerto Rico, together in the same place. That's why she and Carlos had returned to the island 30 years ago. "I just want my family back," Hernandez said. "To me, a miracle is gonna come." Her eyes began to water. "Because God knows my heart."

Gonzalez watched her without a word. Back at his father's house, in a small bedroom crowded with trophies and medals and baseball caps, a cluster of packed bags and a backpack sat on the twin bed. In about three hours, he too would leave, to an apartment he shared with four other students. The next day, he was starting his first day of the fall semester at the University of Puerto Rico's main campus in Río Piedras, about two hours away by car.

Last spring the island's financial crisis threatened to slash the campus's budget

by as much as half, sparking student protests and a closure that cut two months out of the semester. This fall, Hurricane Maria lopped about seven weeks out of the beginning of the semester.

Around 4 p.m., Gonzalez said goodbye to Hernandez and his father and caught a ride to Río Piedras. When he arrived, he discovered that the windows in his university apartment unit had been blown out by the storm, and the school still hadn't replaced them. Another student let him and three others sleep in her apartment on cots. A week later, they moved into another apartment; six students shared two bedrooms. For the first two weeks, they had no refrigerator or stove, and it was hard to find a reliable internet connection anywhere on campus.

Numerous universities on the mainland have offered reduced fees, or even waived fees altogether, for Puerto Rican students this fall. Several of Gonzalez's friends seized the opportunity to leave. Others are simply dropping out. In early December, two of the six students sharing his apartment left school.

Gonzalez is the first person on either side of his family to go to college, and his father, especially, has encouraged him to stick with it. When he was young, Orlando Sr. tried to become a professional boxer before he was ready; he lost his first two pro fights, and his career was over. "My father was a good fighter, but he didn't have a good adviser," Gonzalez said. "He told me, 'Well, I didn't study, so I never really had another alternative. If you go to a university, you'll have more alternatives.'"

Gonzalez still dreams of professional boxing success, but he knows how precarious it is and how many punches he'll have to take to be a champion. His other dream, the one he goes to school for, is to become the sort of adviser his father never had: one who can read the fine print of a contract and keep others from being exploited. After he gets a sociology degree, he said, "I want to go to the school of law, right here, in Puerto Rico."

If there's one sort of job that will always be in demand in Puerto Rico, he said, it'll be that of an advocate. Someone who's educated and experienced and interested in making sure the people who live there get a fair deal. He figures it might as well be him. **E**



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José Andrés figured out how to feed Puerto Rico after the storm. What now? p64

A decision tree for doing good p66

Jason Flom won't shut up about wrongful incarceration p68

How to give

Will 2018 be the year you turn doing good into a pursuit? Here are **25** pieces of advice from givers at every level

Andy Roddick's good game p68

Lessons from a life of volunteering p69

Donor-advised funds are better for you—and the causes you support p70

Payroll donations reinvented p69

Christy Turlington Burns's quest to help mothers is personal p70

The truth behind charity galas p71

Zoe Terry, 11, is making girls stronger p72

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1 Just start.

Does José Andrés ever sleep? In a year defined by floods and fires, the Michelin-starred chef has become the face of feeding the needy.

In August, Andrés was in Houston after Hurricane Harvey, where his World Central Kitchen (WCK) organization helped local chefs such as Bryan Caswell provide 20,000 meals from the George R. Brown Convention Center. By early December, he was coordinating relief efforts for those affected by the fires in the Los Angeles area, tweeting at the Red Cross from Miami that he'd found a kitchen to make 1,000 meals a day.

In between, he spearheaded an effort to feed the citizens of Puerto Rico in the aftermath of Hurricane Maria, which made landfall on Sept. 20. In his ever-present khaki field vest, Andrés became a synecdoche for the relief effort that's provided 3 million meals across the island—about 75 percent of them hot-serving paella outside the José Miguel Agrelot Coliseum in San Juan, delivering Thanksgiving dinner in Vieques, and bringing *carne guisada* to rural mountain communities like Naguabo.

His motto is simple: action before planning. “When you have people who are hungry, you don't have time to sit down at a table and make plans,” he says. “If you're lucky, it happens at the same time. But probably the planning is after.”

And yet, “there's nothing revolutionary about the chef's strategy,” says Brad Kieserman, vice president for disaster operation and logistics at the Red Cross. Feeding people is Andrés's life's work, and when disaster strikes, he shows up. “I'm never surprised to see Chef,” Kieserman says. “He always brings energy, passion, and his indefatigability. Can other people replicate what he does? Absolutely. They can model it every day in their own community.”

Andrés is based in Washington, D.C., where his Michelin-starred Minibar is the flagship restaurant of almost 30 he operates across the U.S. Long credited with bringing the small-plates concept to America, he runs an empire that includes the Bazaar, which brings a menu of avant-garde cuisine to Beverly Hills, Las Vegas, and Miami; Beefsteak, a vegetable-focused restaurant that has outposts across the mid-Atlantic; and Jaleo, a less-formal Spanish spot with five locations. He has three eateries in Los Angeles alone, the site of his current volunteer efforts to cook for the 200,000 people forced to evacuate.

Five days after the storm hit Puerto Rico, Andrés flew on one of the first available flights to San Juan. He arrived at the eponymous restaurant of his friend José Enrique, the island's most celebrated chef, who was already cooking

sancocho, a hearty stew made with pork and potatoes.

“The night he flew in, José came to my restaurant and started formulating a plan,” Enrique says. It was true chaos, Andrés recalls. “Ninety percent of the island didn't have electricity,” he says. “Banks were closed, gas stations were closed, food stores were emptying, people were using generators, but there was not enough diesel to go around.”

Andrés set up three channels that roughly mimicked his response in Houston to Hurricane Harvey: One was a system by which community centers and hospitals could pick up meals from Enrique's restaurant. Another handled deliveries by car to places that didn't have access to transportation. Food trucks served a third role by going to communities that were cut off from the rest of the island. (Andrés persuaded some of the cooks who owned the trucks to stay on the island rather than flee.)

“We didn't plan for long or meet for long,” he says. “We said, ‘We just have to start cooking.’” Unlike the efforts of other rescue organizations, he didn't want to limit distribution to cold food or MREs (meals-ready-to-eat), instead preferring the dignity of a home-cooked meal. “It was important to serve hot food,” he says.

The day after his arrival, Andrés already was overseeing production to feed 2,300 people. “From there, it went ballistic,” Enrique says. “Not a snowball effect but an avalanche.” After six days, the output was close to 20,000 meals a day, and the group of volunteer chefs had outgrown the facilities. It was an epic, efficient production—one that he's characterized as “the largest restaurant in the world.”

“Big agencies don't activate quickly enough,” Andrés says. “They spend a lot of time asking, ‘How should we do this?’” By mid-October, there were three kitchens at the coliseum, the largest indoor stadium in Puerto Rico, serving about 80,000 meals a day for workers inside medical centers, people waiting in line for gas, even volunteers at the Salvation Army.

At its height, the WCK operated 18 kitchens in Puerto Rico. Crews were preparing and delivering more than 120,000 hot meals and sandwiches every day to reach all 78 municipalities on the island, spending \$300,000 to \$400,000 a day to accomplish the task. “It more than exceeded everyone's expectations,” Enrique says. “Except maybe José Andrés's.”

Born in Mieres, Spain, Andrés trained under Ferran Adrià, the renowned chef at Spain's legendary temple to modernist cuisine, El Bulli. Eventually, he moved to the U.S. and became a naturalized citizen in 2013. Along the way, he's received the award for outstanding chef from the James Beard Foundation, been named best chef in America by *Bon Appétit*, and was granted a National Humanities Medal. In 2012, *Time* magazine included Andrés on its list of the 100 Most Influential People, thanks to his efforts to feed Haitians after a 7.0 magnitude earthquake.

It was his experience in Haiti that inspired him to create the WCK. Although he'd worked with nonprofits such as D.C. Central Kitchen for years under its founder, his mentor Robert Egger, Andrés wanted an organization that would have a global focus. “I do what I do in Puerto Rico because of Robert Egger,” Andrés says. In 2013, the WCK created a “chefs without borders” network that now includes more than 140 professional cooks. “This is not about one man feeding the world,” he says. “That's why I didn't call the organization ‘José Andrés.’”

Until this year, WCK focused most of its resources on things such as food-related job training in impoverished regions and education and social enterprise projects. It's built a culinary

18

makeshift kitchens set up across Puerto Rico

140

chefs in Andrés's network

16,000

volunteers mobilized by World Central Kitchen

3 million

meals served in Puerto Rico

13,000

meals delivered in the Los Angeles area

1 million

pounds of food donated for Hurricane Harvey relief

150,000

meals served on the busiest day in Puerto Rico



Andrés visits a meal distribution center in Loiza, P.R., on Nov. 23

school in Port-au-Prince, Haiti, helped honey harvesters in the Dominican Republic, and cleaned coffee-roasting facilities in Nicaragua. When Hurricane Matthew hit Haiti in 2016, killing more than 900 people, the WCK distributed 15,000 meals from a mobile kitchen, the beginning of its disaster relief efforts that continued in Houston and Puerto Rico.

The organization's work in Southern California is in partnership with L.A. Kitchen, an offshoot of D.C. Central Kitchen; Andrés is a founding chairman. "Feeding people in Los Angeles brings it full circle for me," he says. "Men and women who graduated from L.A. Kitchen's program were feeding firefighters, feeding victims. This is the beauty of it. In moments of need, the same cooks and the same people can be the agent of hope."

Social media has been Andrés's primary method of communication. He couldn't be in Los Angeles when operations started because of prior commitments at his Miami restaurant. (On Dec. 9, Andrés was being honored for the WCK's work.)

But he sent messages on Twitter (630,000 followers) and Instagram (224,000 followers) that told where chefs could help in California. It's a strategy he employed in Houston and perfected in Puerto Rico. Since he first posted the Twitter hashtag #chefs-forPuertoRico on Sept. 27, it's been viewed almost 3.7 million times, according to the Twitter analysis tool Keyhole.

The visibility of these efforts has helped the WCK secure donations, crucial to feeding people still left without food, clean water, and electricity. The organization was also awarded \$10.8 million in Federal Emergency Management Agency grants. Having fulfilled the FEMA contract, Andrés announced on Nov. 13 that the WCK would stay in Puerto Rico through Christmas and focus on the central regions. (Donations will allow the group to feed people through December.) It will continue to operate satellite kitchens to serve the most vulnerable communities, including those in the municipalities of Ponce and Naguabo.

"There's no single entity that is going to be able to handle any part of a large response by itself," says the Red Cross's Kieserman. "It's a big table. But Chef Andrés contributes according to his talents, and his passion is feeding people."

Andrés won't say how much of his own money he's spent on the effort, noting that WCK is "still working" on donations to cover all the costs. "After my wife started seeing my credit card bills from Puerto Rico, she said, 'José, you always said you wouldn't die rich. Now I know what you mean,'" he says.

The Tuesday before Thanksgiving, Andrés traveled back to Puerto Rico with his wife, Patricia, three daughters, and 12,000 pounds of turkey. They began at 3 a.m. that holiday morning, serving meals at three locations around the island—San Jose, Vieques, and Humacao. At 7 p.m., Andrés, his family, and 1,000 volunteers as well as members of the military sat down and had their own celebratory feast. —*Kate Krader*

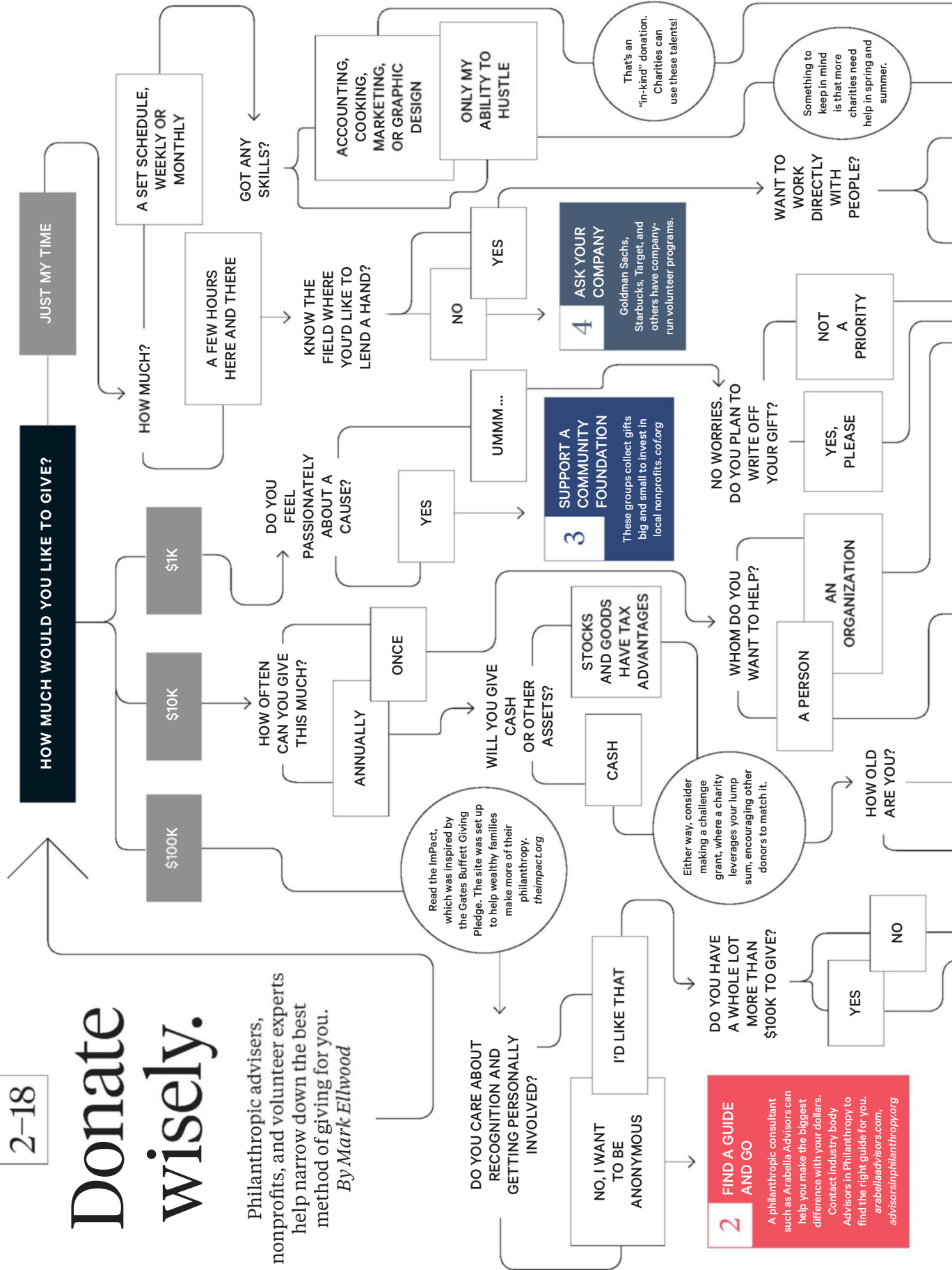
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Donate Wisely.

Philanthropic advisers, nonprofits, and volunteer experts help narrow down the best method of giving for you.

By *Mark Ellwood*

STRATEGIES FOR GIVING





19 Be your own evangelist.



Jason Flom, CEO of Lava Records and founding board member of the Innocence Project, takes criminal justice reform to the airwaves with *Wrongful Conviction*.

“I love a microphone, and I love to talk,” Jason Flom says, laughing. The 56-year-old head of Lava Records—who helped launch the careers of

Katy Perry, Kid Rock, Lorde, and many others—has a voice that will be familiar to anyone who listens to *Wrongful Conviction*, the podcast Flom created and hosts.

But for a man who loves the spotlight, he makes sure the guests shine on his show, which began in July 2016 and has been streamed more than 2.6 million times. Unlike *Serial*, which dangles the question of guilt to listeners, Flom’s subjects are presumed innocent ahead of time—though they’ve spent years in prison.

The podcast, now up to almost 50 episodes, is an offshoot of Flom’s two-decade-long support for the Innocence Project, an organization founded by lawyer Barry Scheck that uses DNA science to overturn wrongful convictions. “It has the goal of exonerating people who were factually innocent,” Flom says, “and changing policies so these things don’t happen with such alarming frequency.” Although he’d spent considerable energies at the Innocence Project as both a fundraiser and board member for decades, in 2016 he wanted to find a way to leverage his digital savvy to spread the message. The best option, he reasoned, would be a podcast.

It’s a medium tailor-made for in-depth interviews. The wrongfully convicted can quite literally plead their cases to potential supporters. Flom’s show usually consists of a 45-minute conversation between him and a guest, who’s often accompanied by his or her lawyer. “Many of the exonerates have said it was cathartic for them to tell their stories to a real audience,” Flom says. His first episode was with Raymond Santana, who spent 12 years in prison as a result of the botched Central Park jogger assault case. Since then he’s interviewed high-profile subjects such as Amanda Knox, famously convicted of murder in Italy and later released, and Michael Morton, the Texas supermarket manager convicted of killing his wife and exonerated more than 24 years later—after a prosecutor was shown to have withheld crucial evidence. (The prosecutor ended up in prison himself.)

Flom’s most popular episode, at more than 150,000 downloads, was a visit inside Sing Sing Correctional Facility to interview Jon-Adrian Velazquez, who was sentenced to 25 years to life for killing a retired cop. There was no physical or DNA evidence, merely the testimony of two eyewitnesses, one of whom has recanted. “He’s been locked up for probably 20 years,” Flom says. “There’s an added element when you’re

dealing with a case that’s not resolved yet, because it allows people the chance to form their own opinions, feel a different sort of outrage, because the guy’s still in.” (After the show aired, Velazquez got a court date to address his case.)

Flom gives all the money he makes from *Wrongful Conviction* to the Innocence Project and encourages listeners to donate at the end of every episode. And he gave an additional \$1 million—one dollar for each of the first million downloads.

Flom says he was encouraged to be altruistic by his father, Joseph, a mergers-and-acquisitions lawyer nicknamed Mr. Takeover. “I had a sense of giving back [instilled] at an early age,” he says. “I like to say I was in criminal justice before it was cool.” —*Mark Ellwood*

20 Don’t let inexperience stop you.



Since 2000 the Austin-based **Andy Roddick** Foundation has raised \$20 million for after-school and summer programs for children in literacy, science, technology, the arts, and sports.

As told to Mark Ellwood:

Before I was a tennis player of any note, Andre Agassi used me as a hitting partner. After a charity event in Houston, we were on the plane home, and he says, “All right, kid, ask me any question you want.” We ran the gamut through his history, his highlights, even his unfortunate wardrobe choices. Then I asked what his biggest regret was. He said, “I didn’t start my foundation early enough.” [The Andre Agassi Foundation for Education, established in 1994, operates a charter school campus in Las Vegas.] This is right after I’d watched him take two hours of phone calls and emails about it. It really struck home.

The next year, I won a couple of tournaments, had a good run at the U.S. Open, and then took on a more formal process of

setting up a proper foundation. That was at 18. At that age you think, I can do anything. I didn't understand the full responsibility of it, but that made it an easy thing to greenlight, too. Early on, you're able to learn and maybe make some mistakes along the way. Of course, I wasn't an 18-year-old with nothing to offer. I was lucky: People were pointing at me to be the next American tennis guy. I think Venus and Serena Williams came to our first foundation event.

Once, we raised close to 2 million bucks for an event with Elton John and distributed it to our partners, and I thought, This is so great. But a friend of mine who'd served in Afghanistan and went to Harvard Business School had a lot of questions that I didn't know the answers to. He asked, "What's the focus of it? What does it look like in 15 years?" I'm going, "Wait a minute, I want a big pat on the back for what we did last week." I was pissed off at him for the next two or three days. But the more distance we had, I realized he was right—I really needed to start thinking about the long term. I'm thankful for those tough conversations, so I was able to figure stuff out while there was still a little bit of runway left with my career.



at SF State, working a job, and doing PHE. When I asked her, "Why the hell are you doing this?" she said, "Because I had a kid as a young person. This stuff is really important for young people who share my background. I'm going to work tirelessly to make sure they have choices."

THREE. "People crave community, and when a volunteer opportunity brings them together with their peers and has some social component, it's an opportunity to hang out," explains Langheier. "At Columbia University, for example, we have 350 applicants for 140 spots. It happens because this is the thing to do at Columbia. It is not only personal, and a movement for equity, but it is also the community to be a part of."

These connections can last for years, creating a long-term bond with the charity as well. "Our college students have ended up marrying each other or being best friends," Langheier says. "Actually having something that you are a part of, that you're a community working for, is really special." —Chris Rovzar

21 Build a community.

Co-founded in 2003 by **Louise Langheier**, Peer Health Exchange Inc. (PHE) has sent more than 13,000 trained college students nationwide to teach 150,000 ninth-graders about safe sex, mental health, and substance abuse.

Over the past 14 years, Louise Langheier, 36, has learned what works when it comes to recruiting thousands of student volunteers and keeping them involved: More than half of PHE educators return year after year. Langheier believes that three lessons can be learned by volunteers of all ages.

ONE. "Right now young people care very deeply about equity," she says. Equity in the world of political action means righting systematic wrongs in society. Politically motivated college students want to find charity work that doesn't just fix an immediate problem but moves toward righting injustice long term. "They are really discerning about whether a volunteer opportunity is going to fight racism and oppression of marginalized groups," Langheier says.

TWO. "Our volunteers make it personal. College students are going through their own mental and sexual health challenges and substance challenges," she says. "This woman in the Bay Area last year had two kids and was finishing her degree as a thirtysomething

"Bet on the person. In an early-stage organization it makes a lot of sense. In philanthropy it's the person much more than the idea."

Bill Ackman, CEO of Pershing Square Capital Management LP

22 Make giving easy.

Alexandre Mars's Epic Foundation builds charitable giving into everyday payment and saving structures.

Walk into the offices of French-born entrepreneur Alexandre Mars in the Flatiron neighborhood of Manhattan, and it won't be long before he hands you a pair of virtual-reality glasses. "Try them on," he says. "Then look around."

Do so, and you'll see a young child on a road in a Mumbai slum. Turn your head to peer around the corner, and you'll discover a group of women gathered in a small classroom to learn



◀ about nutrition. High-tech tools like these are part of the future of philanthropy, says Mars, the 42-year-old investor dubbed “the French Bill Gates” by newspapers in Paris.

More than just showing off catchy flourishes such as the Samsung Gear VR glasses, Mars’s Epic Foundation—which also has offices in Bangkok, Brussels, London, Mumbai, Paris, and San Francisco—is facilitating more subtle, systemic shifts to make it easier for people to give. Rethinking traditional payroll donations, for example: Using a network of technology companies that provide implementation, Mars’s foundation helps businesses empower employees to choose how much to give, whether a percentage of their salary—as in a 401(k) plan—or a flat amount. It can even be as small as “whatever is after the dot” on your paycheck.

The foundation also manages what it calls a “portfolio” of vetted charities. Think of it as a philanthropic mutual fund: Instead of deciding on one charity, you can distribute among a range of social organizations, whether children’s legal help in New York, vocational training services in Vietnam, or educational opportunities for refugees in Germany. Epic’s approach has shown signs of success. In July, Christian Dior Couture signed on for its more than 1,000 employees. Other participants include London-based 17Capital LLP, a \$2.7 billion private equity firm.

“A lot of this workplace giving has fallen by the wayside,” says Ray Madoff, a professor at Boston College Law School who specializes in philanthropy. And though payroll donations are a time-honored tradition through the work of groups such as the United Way, Epic is reviving the strategy with technology. “It’s great to disrupt industries,” Mars says. “Why not disrupt one of the oldest industries of all time, the industry of giving?” —Margaret Collins

23 Join a cause that connects directly to you.

Since 2012, model **Christy Turlington Burns’s** nonprofit, Every Mother Counts, has donated more than \$4.6 million to improving birth outcomes. With grants that connect pregnant women and mothers to health care, train workers, and provide medical supplies, it’s affected 600,000 lives globally.

As told to Sara Clemence:

When I think of traditional philanthropy, I think of wealthy people writing checks. And sometimes that’s the best thing to do. When I started becoming successful in my career, people asked me to get involved with different causes. I’d come on as a committee member, I’d support friends. And that was great for a little while—I learned about what types of philanthropy felt meaningful and right to me. Ultimately it taught me that I am



the kind of person who wants to go deep on issues. I want to have connection.

When I gave birth to my first child, I had a life-threatening hemorrhage. I learned that postpartum bleeding is one of the leading causes of maternity deaths and felt like I had to do something. I ended up working on a master’s degree in public health and spent two years making a documentary, *No Woman, No Cry*, about the struggles women around the world face having safe births.

Once the film was finished, I thought, This is a real contribution to this issue, anyone can use it.

Every Mother Counts started as just an awareness campaign. I felt like, All the world needs is *another* entity and *another* brand. But that forced us to look deeper, to figure out our points of difference. We got very clear about our goals: making pregnancy and childbirth safe for mothers everywhere, providing transportation to women, and equipping clinics with electricity and supplies.

Getting to where I am now was a process and journey. Spend time supporting other organizations to get up to speed and learn where you can really add value. Because once you jump in, there’s no jumping out.

24 Expand your tax advantages.

Mohamed Hamir is on the Los Angeles board of the Pratham Education Foundation, which in 2016 reached 350,000 schoolchildren in India by bridging gaps in the education system. It also helped train and place 18,000 young people in entry-level jobs.

When former Citibank NA executive Mohamed Hamir heard that *Petals in the Dust: The Endangered Indian Girls* would spotlight gender violence in India, including infanticide and dowry deaths, he knew he wanted to make sure the documentary got made. Funneling his support was easy once he connected with the film’s director, Nyna Pais Caputi. Hamir, who was born and raised in Tanzania but now lives in Orange County, Calif., used the single philanthropic vehicle he always uses, a donor-advised fund (DAF).

People interested in philanthropy can simplify their giving and get some tax advantages by contributing to a DAF such

“The problem in our country today is that so many people are not getting a good education. We can change the tax laws and take the wealth away of all the people on the Forbes 400—it’s not going to change income inequality. Income inequality is only going to change by educating people who are not getting educated now. One of the best things we can do is support scholarships.”

David Rubenstein, co-founder and co-CEO of the Carlyle Group LP

as those managed by Fidelity Investments or Charles Schwab Corp. The investment companies manage the growing pool of money, from which the account holder can direct grants to specific charities. The first formal DAFs appeared in the 1930s, but they’ve grown increasingly popular in the past two decades. From 2010 to 2015, the number of such funds in the U.S. rose to 270,000 from 180,000.

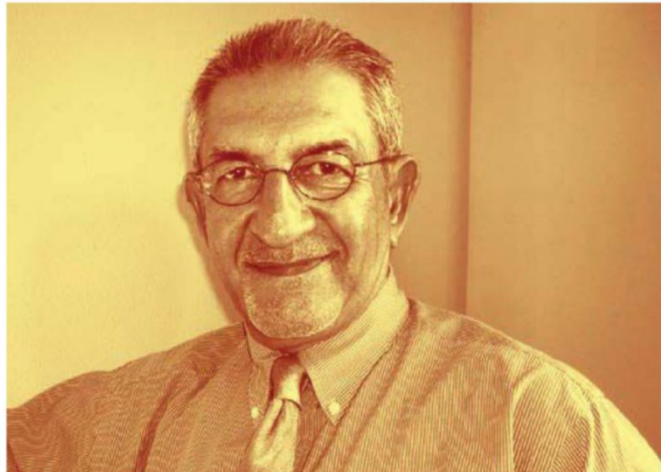
Most require a minimum initial investment of \$5,000, and providers handle book-keeping and reporting to the IRS. Hamir used Fidelity Charitable, an offshoot of the mutual fund company that’s a standalone nonprofit with low fees, to support the filmmakers. All the funds Hamir

directs to the Pratham Education Foundation go directly to administration and training in India.

Using a DAF, a donor isn’t limited to a preselected roster of recipients: Any 501(c)(3) is eligible, though DAFs vet every grant recommendation to confirm legitimacy.

Money donated to a DAF is immediately tax deductible, up to 50 percent of a donor’s income. “It’s an excellent scheme for managing your tax liability,” Hamir says. “How can you not use such a vehicle to fund charities?” DAFs are more flexible than the foundation model, too—there is no set amount that a donor must put aside in a given year or that the fund itself must pay out.

Hamir, who’s followed Pratham as it’s helped teach hundreds of thousands of children to read and do basic arithmetic, would structure his giving no other way. “I don’t have to worry about how much money I have to raise in a given year; I can focus on how much I’m going to give. I am absolutely sold on this.” —*Mark Ellwood*



25 Have fun. It adds up.



Gabriela Palmieri, former chairman of contemporary art at Sotheby’s, is a private art consultant who lends her auctioneering talents to help raise money at events for Independent Curators International, Guild Hall, and the Bronx Museum of the Arts.

As told to Chris Rovzar:

In these charity art auctions, the choreography of how you lay out lots or emotional appeals is very important. The really well-oiled machines plant bids by their big trustees, so you say you already have a bid of \$10,000 or \$20,000. Also I, as an auctioneer, have never been to an auction where I don’t say, “I will start the bidding here with myself,” whether it’s \$5,000 or \$500. That lends a sense of honesty.

You start with an item you know is going to have a lot of bids. A lot of these charity auctions are already up on online portals like Artsy or Paddle8, which field bids in advance. You like to have anywhere from five to seven lots in a live sale, which can take 25 to 30 minutes—that’s a long time to be sitting still. The closing lot is usually the main event, so it should be the one that will get the most bids and the most excitement.

That last lot usually gives you a running start into the emotional appeal. Often, there will be a “paddle raise” after an exciting live auction, where you just ask for donations. Once, when I did an auction for Maestro Cares, pop singer Marc Anthony’s charity for orphaned children throughout Latin America, everybody was given these wishes that were written by children who had been in these orphanages. It was unbelievable—one child wrote, “I wish I’ll ever get to go on an airplane.” It’s the hooks that make the gifts so important.

We try to keep them hydrated. I don’t mean with water. I mean with wine. Because if you lose that audience and everyone’s kind of sitting on their paddles, the energy in the room—once you lose it—it’s very difficult to bring it back.

Making sure everyone is having fun means the charity will make more money. The artist donors, the ticket buyers, the auctioneer, the director of the whole event: When done right, all those things come together and create exponentially more value for the cause. **B**

GAME CHANGER

Zoe Terry

The kid philanthropist empowers girls to love the skin they're in. *By Nikita Richardson*



ZOE TERRY'S FIRST DAY OF PRE-kindergarten at Miami Country Day School in 2010 didn't exactly go well. "I was bullied because of the color of my skin and because my hair was so puffy," says Terry, who arrived to find out she was the only black girl in her class. "I didn't want that to stop me," she says.

Not long after, Terry—who's now an exceedingly polite and energetic 11-year-old—told her mother, Nakia Bowling, about an idea she had: to give out dolls of color to other black and brown girls who were less fortunate than she was, so they could feel beautiful and less alone. Six years later that idea has grown into Zoe's Dolls, which posts Toys For Tots-style collection bins at public sites in Georgia, Mississippi, and Texas, in addition to Terry's home state of Florida. "We already have a list of about 60 places just in Miami alone," says Bowling, who handles the day-to-day administrative duties and runs a Zoe's Dolls after-school program in Miami. So far the program has distributed almost 20,000 dolls to 12,000 girls in the U.S., Haiti, and Zambia.

"Anywhere a girl needs a doll, we deliver to," Terry says. "It doesn't matter how little they are, how old they are." She and her mother soon expanded Zoe's Dolls to include a Girl Ambassadors program, which undertakes community projects. This year they started Girl Fit Experience, to teach

Miami's young nonwhite girls about healthy eating habits, and Love Letters to Black Girls, which solicits stories, poems, and notes of encouragement from adults to send to young women of color nationwide.

All that work attracted the eye of the Nickelodeon network, which this year selected Terry as one of four recipients of its Helping and Leading Others (HALO) awards. "Zoe really exemplified all the things that we think our audience can relate to," says Jay Schmalholz, senior vice president for live events and unscripted development at Nickelodeon and executive producer of the awards. "Just her maturity and her level of confidence and her playfulness and her energy."

With the award, Terry received a \$10,000 scholarship and a \$20,000 grant, which she'll put toward giving away more dolls and producing her own proprietary line, Simply Zoe. Each doll will come with a book that tells Terry's story, and for every one sold, Zoe's Dolls will give another away.

Compared with the work Terry is doing on Zoe's Dolls, school politics seem irrelevant these days. "People know that certain things won't bother me as much," she says. "Like, if you make a mean comment, it won't bother me, because I have so much confidence in myself." **B**

b. 2006, Washington, D.C.

Had a stroke at age 2 that impaired some of her speech and motor skills

Starting when she was 3, her mother made her give away one Christmas present each year

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