

## What's News

### Business & Finance

**General Motors** and **Volkswagen** say that they see no future for hybrid vehicles in their U.S. lineups and are concentrating their investment on fully electric cars. **A1**

◆ **Recent swings across asset classes** are flashing a warning sign for stocks. The Dow slid 1.5% Monday, while the S&P 500 and Nasdaq both fell 1.2%. **B1, B11**

◆ **CBS and Viacom** are in the final stages of negotiating a deal that would reunite mogul Sumner Redstone's media empire. **B1**

◆ **Saudi Aramco unveiled** a \$15 billion deal to expand its global refining footprint and held its first-ever earnings call with financial analysts. **B1**

◆ **Argentina's stocks** staged their steepest fall in decades amid investor concerns about the potential return to power of the Peronist movement. **A7**

◆ **South Korea dropped** Japan as a favored trading partner, further escalating tensions between the two. **A8**

◆ **Verizon agreed** to sell blogging website Tumblr to the owner of online-publishing tool WordPress.com for an undisclosed sum. **B1**

◆ **A stock-market data feed** run by the NYSE suffered a glitch, leading to delays in releasing the end-of-day values of the Dow and S&P 500. **B10**

◆ **Rite Aid appointed** Heyward Donigan as CEO, touting her experience leading health-care companies. **B3**

◆ **Yum Brands named** operating chief David Gibbs to be its next CEO. **B3**

### World-Wide

◆ **The Trump administration** issued a rule that would disqualify legal immigrants from permanent residency if they use certain public-assistance programs and block prospective applicants deemed likely to need them. **A1**

◆ **Antigovernment** demonstrators shut down Hong Kong's airport, as Beijing officials responded to weekend clashes by saying they saw signs of terrorism emerging in the protests. **A1, A8**

◆ **Investigators have** found serious irregularities at the federal jail in New York where Epstein was being held, Barr said. **A2**

◆ **Trump confirmed** reports that an advanced nuclear-powered cruise missile had exploded during testing in Russia. **A18**

◆ **The administration** is easing several Endangered Species Act regulations, responding to complaints from developers and others. **A3**

◆ **An NRA check** sent to an obscure Delaware entity raises new questions about the group's attempts to explain an aborted mansion deal. **A6**

◆ **Prosecutors allege** a friend of the Dayton gunman bought body armor and gun accessories that were used in the mass shooting. **A3**

◆ **Residents of India-administered Kashmir** observed the Muslim holiday of Eid al-Adha under tight security. **A9**

◆ **Two experimental Ebola drugs** significantly improve a patient's chance of surviving the virus, according to preliminary data. **A18**

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Antigovernment protesters filled the arrival hall of the Hong Kong International Airport on Monday, prompting a halt to all flights.

## Protests in Hong Kong Intensify As Beijing Cites Signs of Terrorism

By *Natasha Khan, Wenxin Fan and Preetika Rana*

HONG KONG—A large crowd of antigovernment demonstrators shut down Hong Kong's airport and stranded thousands of passengers, as officials in Beijing responded to the weekend's violent clashes by saying they saw signs of terrorism emerging in the protests.

Hong Kong's airport authority canceled all departing

flights Monday as well as some arrivals after thousands of demonstrators thronged the arrival and departure halls, joining a sit-in at the terminal that has run since Friday. Hundreds of inbound and out-

bound flights were canceled Tuesday as well.

Demonstrators gathered to protest what they said was police brutality over a bloody weekend that saw some of the worst clashes between police and protesters in more than two months of demonstrations.

By 8 p.m. Monday, a few hours after the cancellations were announced, most protest-

ers had dispersed. Among the dozens of demonstrators remaining at the airport the next morning, some said they expected more supporters to return after online pleas.

Passengers crowded into Hong Kong's airport Tuesday

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◆ **Cathay Pacific warns staff** on joining protests..... **A8**

## At 25%, Tariffs Have Firms Squirming

A vinyl flooring importer tries every angle to disperse the cost, keep his suppliers on board

By *CHAO DENG*

ZHANGJIAGANG, China—When the U.S. raised its tariffs on Chinese imports in May, Harlan Stone knew his U.S. vinyl flooring importing business had to move fast.

He got on the phone with his main customer, Home Depot Inc., to update it. Soon he was on a plane to China, prepared for tough conversations with suppliers.

Mr. Stone cajoled his Chinese suppliers not to let the now-25% tariff deter them from the American market. He worked across time zones to see if Home Depot would absorb part of the added costs. He tried to time ocean shipments so that some might not be subject to the punitive levies. And his U.S. team looked at rejiggering transport and packaging costs for more savings.

"It comes down to every little thing,"

said Mr. Stone, wearing sneakers and a Yankees cap as he moved between meetings in the Yangtze River port city of Zhangjiagang. "We find every quarter-point we can. If you have 10 quarter-points, then you have 2½ points."

When the Trump administration first imposed 10% tariffs on many Chinese goods about a year ago, suppliers, importers, distributors and retailers worked together to defray the cost and

*Please turn to page A10*

## CBS, Viacom Near A Deal

CBS and Viacom are in the final stages of talks to reunite Sumner Redstone's media empire. His daughter, Shari Redstone, right, vice chairman of both CBS and Viacom, has backed the combination. **B1**



PATRICK J. FALLON/BLOOMBERG NEWS

## Once on the Cutting Edge, Hybrids Lose Favor With Some Auto Makers

By *MIKE COLLAS*

Auto makers for two decades have leaned on hybrid vehicles to help them comply with regulations on fuel consumption and give customers greener options in the showroom. Now, two of the world's largest car manufacturers said they see no future for hybrids in their U.S. lineups.

General Motors Co. and Volkswagen AG are concentrating their investment on

fully electric cars, viewing hybrids—which save fuel by combining a gasoline engine with an electric motor—as only a bridge to meeting tougher tailpipe-emissions requirements, particularly in China and Europe.

GM plans to launch 20 fully electric vehicles world-wide in the next four years, including plug-in models in the U.S. for the Chevy and Cadillac brands. Volkswagen has committed billions of dollars to producing

more battery-powered models, including introducing a small plug-in SUV in the U.S. next year and an electric version of its minibus around 2022.

"If I had a dollar more to invest, would I spend it on a hybrid? Or would I spend it on the answer that we all know is going to happen and get there faster and better than anybody else?" GM President Mark Reuss said in an interview.

GM's view contrasts with *Please turn to page A6*

## Think U.S. Politics Is Exhausting? Mexico's President Briefs Daily

At 7 a.m., Chatterbox-in-Chief López Obrador treats nation to one-man show

By *DAVID LUHNOW AND JUAN MONTES*

MEXICO CITY—Every weekday morning at 7 o'clock sharp, President Andrés Manuel López Obrador stars in his own one-man show.

As dawn breaks over this capital city, the 65-year-old takes to a pulpit in front of the press, where he answers questions and holds forth in a folksy style about everything from the price of gas to whether drug lord Joaquín "El Chapo" Guzmán got too harsh a prison sentence.

A daily news conference is almost unheard of for any major world leader. It marks an especially radical change in Mexico, where pomp-laden presidents have long been seen as out-of-touch and inaccessible.

The event is popularly

dubbed "La Mañanera," which is Mexican slang for a morning sexual encounter. Equal parts politician, preacher and cranky old man, the silver-haired leftist usually talks for nearly 90 minutes. His answers can last for five or 10 minutes.

"He was and is a magician of communication," said Felipe González, a former Spanish prime minister, at an event last year. "I don't know a single political leader who can hold [even] a weekly press conference without getting burned."

It doesn't hurt that many of the questions are softballs—perhaps because the early hour means the journalists are half-asleep. One local TV reporter compared the president to a Kenyan long-distance runner, and asked in awed tones

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ISTOCK

### LIFE & ARTS

Kondo comes to the fridge, with color-coordinated produce and tidy shelves **A11**

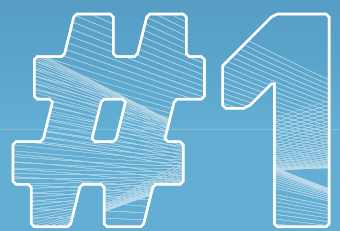


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### SPORTS

After a sex-abuse scandal and bankruptcy, USA Gymnastics gets a reprieve **A14**

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1 IDC WW Quarterly Cloud IT Infrastructure Tracker, 2019Q1 - Vendor Revenue  
2 IDC WW Quarterly Enterprise Storage Systems Tracker, 2019Q1 - Vendor Revenue  
3 IDC WW Quarterly Converged Systems Tracker, 2019Q1 - Vendor Revenue



FROM PAGE ONE

# Wake-Up Call From President

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what the secret was to his energy and health.

Other journalists have become quasi celebrities, including a local energy reporter who sports a slim black mustache and a trademark bow tie. In the wake of a gasoline pipeline explosion that killed 137 people in January, he asked about the temperature at which “the molecule”—referring to gasoline—would ignite, so that people at filling stations might be careful.

The question went viral and quickly earned the reporter the moniker “Lord Molecule” on Twitter.

The president has also opened up the conference to YouTube and Twitter personalities—part of what he calls the “blessed social media” that helped him get elected. Some, with names like the *Nopal Times*, are openly pro-government. Another site, called

“El Chapucero,” or “The Bungler,” has nearly a million subscribers and sells López Obrador-themed T-shirts, mugs, and socks.

“It’s less an exercise in transparency and accountability than in political communication,” says Juan Pardinas, the editor of Mexico’s respected daily *Reforma*, which is often attacked by the president as “posh press.”

“Ironically, he’s using a news conference to remove the media in their role as intermediaries and take his message directly to the people,” he adds.

The president’s legions of supporters welcome a chance to hear directly from a leader they trust. “It feels good to know the president is in charge so early in the morning,” says Raúl Palacios, a burly 34-year-old mechanic who says he often watches parts of the conference on YouTube during work breaks.

Many local media are wary of challenging the president because the vast majority depend on government advertising to break even, says Andrew Paxman, a historian and media expert at the CIDRE research university in Aguascalientes. This year’s government



Mexican President Andrés Manuel López Obrador at his daily morning news conference.

SASHENKA GUTIERREZ/EPDA/SHUTTERSTOCK

budget calls for some \$240 million in such advertising.

Journalists who ask tough questions often get attacked on social media by the president’s followers or heckled by supporters at the *Mañana*. Mr. López Obrador has denied he is behind the intimidation, but in April he told journalists: “If you step out of line, you know what will happen. But it won’t be me, it’s the people.”

According to an analysis by Spin, a local political consulting firm, the president makes

on average six false statements in each news conference.

In April, Mr. López Obrador said his government had violence under control and that murders hadn’t increased in the first quarter of the year.

In fact, murders increased 8% to some 8,500, the highest on record, according to figures of his own interior ministry. He said he had “other figures.”

He also boasted that formal job creation in the January-March period increased at a

pace not seen in 10 years, when in fact was the lowest since 2014, according to local think tank *Mexico Cómo Vamos*.

Throughout, one theme is constant: The president was elected to lead the country out of a dark period of neoliberal economic policies like privatizations that protected a corrupt and conservative elite at the expense of Mexico’s good and honest people.

It is a message that resonates in a country with one of the world’s highest gaps be-

tween rich and poor.

As part of his populist appeal, he cut his own salary by half, and slashed the wages of most other top officials as well. He is selling the presidential plane, a new Boeing 787-8 Dreamliner, and travels economy on commercial flights. He opened up the former presidential residence to visitors, allowing more than a million Mexicans to walk its gilded halls.

Recently, he was asked to respond to the IMF having lowered its growth estimate for Mexico’s economy to 0.9% this year from 1.6%. The president responded by blasting multilateral organizations.

“With all due respect, those organizations were the ones that imposed neoliberal economic policies that did so much damage to Mexico. I think they should apologize to the people of Mexico,” he said.

He has also asked the Spanish king and Catholic Church to apologize for the Conquest.

One of the few topics that leave him tongue-tied is Mexico’s sometimes-rocky relationship with the U.S. president. When asked about Donald Trump, Mr. López Obrador often just replies, “Peace and love.”

# 25% Tariffs Have Firms Squirming

*Continued from Page One*  
try to avoid passing it on to consumers for fear of losing sales. Mr. Stone and his Chinese partners initially ate most of the vinyl flooring tariff cost, passing just a tad on to retailers.

Tariffs at the 25% level are quite another matter. They are upending cost projections and business models and straining relationships built up over decades. For operations such as Mr. Stone’s, the math is painful. He and others are trying to figure out how much of the new expense can be dispersed throughout the supply chain, how much should be passed to customers, at what potential cost in lost sales, and how much they must swallow.

These tit-for-tat tariffs, at their new higher levels, are forcing businesses into tortuous calculations and negotiations. How these ultimately turn out will have ramifications throughout the U.S. economy, determining how the higher costs get distributed and what effects they may have on sales, as the U.S. and China dig in for what is becoming a protracted trade battle.

“This is a chaos moment. If I pay the tariffs, I don’t have any money,” said Mr. Stone.

The 61-year-old has been buying goods from Asia since the 1970s, first from Taiwan and later mainland China, having followed his father into the vinyl flooring business.

The product, often made to look like hardwood flooring or stone, was one of the largest categories of Chinese exports on the U.S. target list for tariffs. The U.S. vinyl flooring market was worth about \$3 billion last year, with most coming from China, according to Stifel Equity Research Group. High-end flooring, the kind Mr. Stone sells through his wholesale and distribution business, makes up most of that market and is growing roughly 25% annually.

His Chinese suppliers, partners for decades, were shellshocked by the latest tariffs, fearing they and their thousands of workers would face canceled orders from U.S. customers. Some smaller Chinese suppliers began offering discounts to European buyers to unload inventory.

## Cheerleading

On his trip to China, part of a multipronged search for tariff solutions that has absorbed him for months, Mr. Stone acted as a cheerleader, trying to rally his partners.

“Do not stop production. Do not let your workers go home. Finance yourselves locally,” he instructed managers at Zhangjiagang Elegant Home-Tech Co., a family business started by a Chinese factory worker-turned-entrepreneur and now run by that man’s Canada-educated son.

Mr. Stone and his Connecticut-headquartered HMTX Industries LLC wanted a commitment from Home Depot to



Facing 25% tariffs on Chinese vinyl flooring, importer Harlan Stone went to Zhangjiagang, China, to meet with his longtime suppliers.

absorb some of the higher tariff. A Home Depot spokesman declined to share details about the retailer’s approach, saying its strategy varies across vendors and products and it makes “every effort to lessen the impact on the consumer.”

HMTX, which Mr. Stone said has about \$700 million in annual revenue and a net profit margin in the mid-single digits, has a wholesale division that sells to other regional distributors in the U.S. That division decided to raise prices by nearly 20% on flooring. Wholesalers in general have increased prices of luxury vinyl flooring by as much as 50 cents a square foot, or close to 25%, according to estimates from industry executives.

The 18 Flooring Liquidators retail stores in California carry Chinese-made products from HMTX, among others. The chain has raised prices for some products because of the tariffs. Tiles for a living room, dining room and hallway space can run up to hundreds of dollars more than before.

“You can’t have a 25% increase and not have an effect on retail prices,” said Stephen Kellogg, president and owner.

As for other tariff-hit household goods, such as washing machines and furniture, FFO Home in Fort Smith, Ark., is raising prices on couches and dining-room sets with parts from China. Store owner Larry Zigerelli said some items have already gone up by 10% because of tariffs imposed last year, and he expects to raise prices more as manufacturers pass on 25% tariffs.

For now, consumer spending in the U.S. is solid. By econo-

mists’ estimates, it will take three to six months for some portion of the tariff costs to be fully reflected in consumer prices.

On average, an American household will pay about \$770 more each year under the 25% tariffs the U.S. has imposed on \$250 billion in Chinese goods, according to Trade Partnership Worldwide, a consulting firm working with industry groups. Consumers’ costs to are likely to rise more if President Trump carries through with 10% tariffs he announced this month on the roughly \$300 billion in annual Chinese imports not yet taxed.

## Permanent change?

“There’s certainly going to be people who just can’t afford the same good,” said Kathryn Russ, a University of California, Davis, economics professor.

CFL Flooring, one of the largest exporters of flooring from China to the U.S., with around 2,600 workers at factories in Jiaxing city south of Shanghai, sees the tariffs as a portent of permanent change. CFL decided last fall to set up factories in Taiwan and Vietnam and started shipping goods from those sites in March.

“The desire to not be dependent on China is here to stay,” said Thomas Baert, a CFL co-owner. “Whatever happens with tariffs, certain customers have made up their mind that they want to be out of China for X% of their business.”

Mr. Stone thinks most manufacturing of vinyl flooring will remain in China. Since he began purchasing the product in

China in the 1980s, he said, the country has developed a deep pool of skilled labor and quality manufacturers that would be hard to replicate.

Hundreds of Chinese factories compete for business, investing in new technologies to improve costs and products. Chinese suppliers, Mr. Stone said, have led the way in producing a thinner but stronger and more affordable form of vinyl flooring in recent years.

When he started working with Zhangjiagang Yihua Plastic Co., the company was still state-owned. The government assigned a demobilized military officer, Sun Yonghua, to run the company and he later

‘We find every quarter-point we can,’ says a vinyl flooring importer.

privatized it, retaining Mr. Stone as a customer.

In May, over a dinner of crayfish, beef hot pot, fish and red wine, the two men discussed the tariffs and what to do about them. Mr. Sun said he was confident his company would get support from big Chinese banks, and that would help him weather the tariffs.

Mr. Sun bellowed that their more than 30-year partnership would survive. “Under your leadership, we aren’t afraid of the trade war,” he said, raising a toast to Mr. Stone. The two exchanged pictures of their grandchildren.

Throughout his trip, Mr.

Stone took care to project optimism with Mr. Sun and other suppliers. Fresh designs were in the pipeline, he reminded them, and a new digital printing method from Italy would allow them to adapt designs more quickly. American customers would see that their offerings were higher-quality and pick those, Mr. Stone said.

He reminded them, too, that Home Depot hadn’t canceled any orders and was prepared to fight the tariffs too. Still, the lack of a firm deal with the retailer, at the time, nagged him.

Over the following weeks, there were emails, phone calls and texts with the Home Depot team. Mr. Stone’s colleagues made trips to the chain’s Atlanta headquarters. Their pitch was that Home Depot should share the tariff burden, otherwise HMTX and its manufacturers wouldn’t have money to invest in designs and processes to remain competitive.

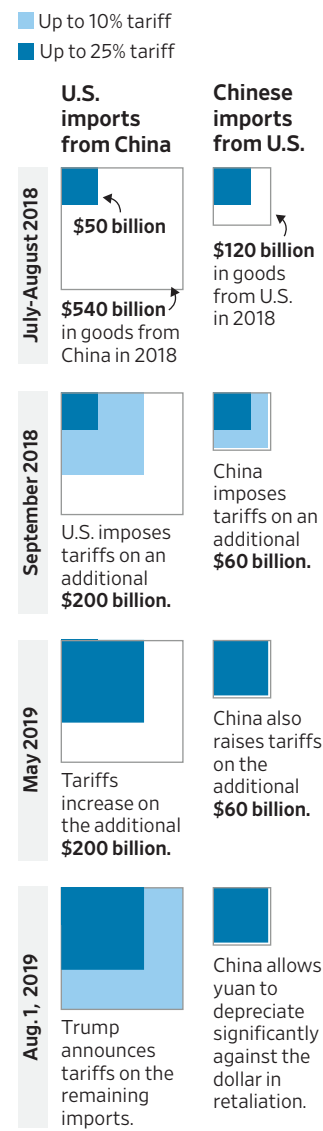
“All that costs money,” Mr. Stone recalled saying. “I’ve built warehouses, I’ve stocked them, I have robots taking orders. If I don’t keep doing this, we’ll both lose.”

Home Depot’s argument for footing less of the bill, according to Mr. Stone, was that with this type of product, raising retail prices risked driving away customers. Unlike fixing a leaky roof or replacing a broken washing machine, homeowners could put off buying a new floor.

Home Depot set up what employees called a “tariffs war room” to analyze products and costs and devise pricing strategies, Mr. Stone said. In late June, Home Depot’s chief executive told CNBC it was working

## Tariff Trail

Trade duties imposed by the U.S. and China on each other’s goods



Source: U.S. Census Bureau (2018 imports)

with suppliers to offset tariff costs, although part of the 25% would be passed to consumers.

A few weeks later, according to Mr. Stone, after six different offers and multiple revisions, he and Home Depot reached an agreement that will last until February. Without providing specifics, he said it was “in the spirit of half-half.” His Chinese partners, he said, were relieved.

## Lobbying effort

Meanwhile, Mr. Stone is trying to get luxury vinyl flooring off the list of tariffed products. One argument he makes is that U.S. manufacturers can’t meet the huge demand for vinyl flooring at home. He has teams of lawyers in New York, Washington and Hong Kong working the issue and said he is in touch with legislators to help lobby the Trump administration.

In another challenge he faces, a rival that makes vinyl tiles in America, Mohawk Industries Inc., has lobbied in Washington in favor of tariffs on China-made goods. This year, Mohawk petitioned the U.S. International Trade Commission to block Chinese imports, alleging patent infringement.

On a recent Friday, Mr. Stone was in New York to meet a lawyer about next steps in the patent-infringement case. It had been nearly a year since the Trump administration imposed duties that hit the vinyl flooring business.

“Eighty percent of my time and nearly 100% of my energy goes to dealing with the tariffs,” Mr. Stone said.