

Business

With votes at stake, trade talk less bellicose

INDIANAPOLIS

President's shifting tone on China may reflect tight Senate race in Indiana

BY MARK LANDLER

When President Trump said that he had held a “long and very good conversation” on trade with President Xi Jinping of China, it kicked off a brief rally in financial markets and a flurry of questions about why the tensions between Washington and Beijing had suddenly eased.

The answer is, they haven't really. The explanation for Mr. Trump's newly soothing tone lies less in the state of trade negotiations — which remain stalled — than in the president's domestic political calculations, particularly in states heavily dependent on trade, like Indiana.

In the closing days before a midterm election on Tuesday that features a nip-and-tuck Senate race in Indiana, Mr. Trump has been trying to quell fears of a protracted trade war with China. His reassuring message may resonate in Indiana, the United States' largest producer of steel and also home to soybean farmers who have been hurt by China's retaliatory tariffs on American agriculture.

“We've had very good discussions with China,” Mr. Trump told reporters at the White House on Friday as he left for a pair of political rallies in Indianapolis and Huntington, W.Va. “We're getting much closer to doing something. They very much want to make a deal.”

The president's enthusiasm was at odds with his advisers, who said nothing much had changed with Beijing. But it cheered investors in a market increasingly depressed by worries about a trade war. And analysts said it would pacify farmers and factory workers across the Midwest.

Mr. Trump went to Indiana to campaign for Mike Braun, a Republican candidate for Senate who is trying to unseat the Democratic incumbent, Joe Donnelly. Mr. Donnelly has a slim lead in the polls, but Mr. Braun has made inroads lately, in part by challenging his opponent on trade.

“I spoke to President Xi today,” Mr. Trump told a raucous crowd at a high school in Indianapolis. “They want to make a deal, but we have to have a fair deal. We have to have a deal that's fair for the United States.”

The president took credit for the recently revised North American Free Trade Agreement with Canada and Mexico, which he called a “giant victory for Indiana farmers, manufacturers and dairy producers.”



A worker performing quality control at a steel mill in Portage, Ind. Days before the midterm elections, President Trump has softened his tone on the trade war with China.

The trade showdown with China, however, has whipsawed Indiana, benefiting it in some ways while hurting it in others. Steel mills in the industrial north are prospering because of Mr. Trump's tariffs on China and other steel exporters. But soybean farmers are suffering because of the retaliatory tariffs China imposed on agricultural exports.

Companies that make auto parts are able to charge higher prices because of a loss of competition from China. But the recreational vehicle industry, one of Indiana's manufacturing pillars, worries that sales will be hurt if it passes along those higher prices to customers.

“The R.V. industry could be in a period of transition,” said Richard Curtin, an economist at the University of Michigan, who studies the industry. A deal with China “would be widely welcomed,” he said. “The closer you are to these industries, the more it would be welcomed.”

Mr. Trump's phone call to Mr. Xi, however, did not appear to be linked to any progress in trade negotiations. Those talks have been on hiatus for weeks, and officials said they did not expect any progress at least until the two presidents meet, which is likely to be at the Group of 20 meeting of industrialized nations in Buenos Aires early next month.

Mr. Trump's chief economic adviser, Larry Kudlow, dismissed reports that Mr. Trump asked his cabinet to draft a trade deal with China and said “there's no massive movement” to get something done quickly.

“We're doing a normal, routine run-through of things that we've already put together and normal preparation,” Mr. Kudlow said on Friday on CNBC. “We're not on the cusp of a deal.”

Still, after warning for weeks that China was not ready to negotiate on trade with the United States, Mr. Trump

“They want to make a deal, but we have to have a fair deal. We have to have a deal that's fair for the United States.”

took an uncharacteristically conciliatory tone after his call with Mr. Xi, which was both unusually long — 56 minutes — and initiated by him.

“We talked about many subjects, with a heavy emphasis on Trade,” Mr. Trump said on Twitter. “Those discussions are moving along nicely with meetings being scheduled at the G-20 in Argentina.”

Mr. Xi issued a similarly warm statement on Friday, reaffirming the importance of his personal relationship with Mr. Trump and predicting that the two sides could reach a deal. Chinese officials have been taken aback by the vehemence of Mr. Trump's language against them, and Mr. Xi's response suggested

he was eager to lower the temperature.

Administration officials caution that the gulf between the two countries remained wide over issues like market access and China's alleged purloining of technology from American companies. Any deal, they said, would require specific pledges on the part of the Chinese.

In a sign of the administration's determination to keep up the pressure, the Justice Department took legal action last week against two companies based in China and Taiwan, accusing them of stealing trade secrets from Micron Technology, an American technology company.

The Trump administration remains divided internally between officials who want to take an uncompromising approach toward China — allying the European Union and other trading partners in a united front — and those who favor cutting some kind of deal.

In recent months, Mr. Trump has

sided with the hard-liners, though he remains unpredictable, particularly when other considerations are at play, as his most recent about-face demonstrates.

Mr. Trump, people who know him said, was also motivated by a desire to give the markets a tonic, days before voters go to the polls. The president has regularly boasted about rising stock prices since he took office, but the markets have given up those gains in recent weeks.

The Chinese are also seeking to defuse the situation at a time when their own economy and currency are showing signs of weakening.

Still, they remain confounded by Mr. Trump — especially his recent claims that they are attempting to interfere in the midterm elections — and they still feel burned by the president's rejection of a steel deal negotiated last year by his commerce secretary, Wilbur L. Ross.

Craig Allen, the president of the U.S.-China Business Council, which represents 200 American companies that do business with China, said Chinese nationalism would make it “difficult for any Chinese leader to accept anything that is a less than equal agreement.”

Trade concerns have dominated the Senate race in Indiana, with Mr. Donnelly and Mr. Braun, both of whom have business ties, accusing each other of selling out American workers.

“I voted against every bad trade deal that hurts Hoosiers,” Mr. Donnelly said in one recent campaign ad, in which he stands next to a pickup truck loaded with boxes of auto parts sold by Mr. Braun's company — each bearing a sticker that says, “Made in China.” “Mike Braun has used those same deals to outsource Hoosier jobs to China.”

Some analysts here said they were dubious that Mr. Trump's shifting tone on trade would drastically change the outcome in Indiana, a state he won by 19 points in 2016 and in which he remains popular.

“I have been amazed by the steadfast support of farmers for the president,” said Mike Yoder, a Republican who is a county commissioner in Elkhart County. “They have been willing to stick by this president, and if there is some plan for an endgame on tariffs, it has escaped me.”

But Mr. Yoder said he welcomed Mr. Trump's softer tone. Elkhart County is a manufacturing hub, with assembly lines that produce recreational vehicles, as well as trucks and buses. Tariffs on steel and aluminum are driving up the cost of parts for these manufacturers.

“It is a good message,” Mr. Yoder said, “because for Indiana — and especially Elkhart County — these tariffs need to go away.”

Glenn Thrush and Alan Rappeport contributed reporting from Washington.

Beverage makers try to defuse health initiative

SEATTLE

Defending sugary drinks, companies use what critics say are misleading ads

BY ANDREW JACOBS

Standing in a supermarket produce aisle, her face shadowed with dread, the middle-aged woman speaks directly to the camera and makes a plea for common decency.

“We should not be taxed on what we eat,” she says in a commercial that is being broadcast across Washington State. “We need to eat to survive, and if we have to cut back on what we eat, that's not going to be good — especially for the elderly.”

As Americans prepared to vote on Tuesday in congressional and local elections, residents of Washington and Oregon have been bombarded with similar messages from groups with names like Yes! To Affordable Groceries. The organizations have spent more than \$25 million on commercials that feature plain-spoken farmers and penny-pinching moms urging support of ballot measures that would prohibit municipalities from taxing food sales.

But what most voters don't know is that Coca-Cola, PepsiCo and other American beverage companies are largely financing the initiatives — not to block taxes on staples like milk and vegetables but to choke off a growing movement to tax sugary drinks.

At a time of soaring childhood obesity and with more than one in three adults overweight, health advocates say that soda taxes are an effective way to dampen consumption of sugar-sweetened beverages. Nearly 40 countries now have them, along with seven cities in the United States, including Philadelphia, San Francisco and Boulder, Colo.

Towns and cities across America have been mulling similar moves as a way to reduce sugary drink sales while raising revenue for programs that aim to blunt the public health impact of heart disease, hypertension and Type 2 diabetes, conditions that have been linked to diets heavy in sugar.

Now the nation's soda giants have turned to a new tactic to fight them: pushing sweeping ballot measures and state-wide legislation that would permanently deny municipalities the ability to impose taxes on a broad range of goods and services. The initiatives are packaged and sold as citizen revolts against tax-happy politicians. None of them explicitly mention soda taxes.

Opponents of the measures say they are fundamentally misleading because neither Washington nor Oregon has a plan to tax groceries. “No one is even talking about taxing food,” said Jim Krieger, a professor of medicine and health services at the University of Washington. “This is simply the soda industry trying to protect its profits at the expense of public health and local democracy.”

The industry has momentum — and money — on its side. In Washington, the industry has spent over \$20 million to promote Initiative 1634, according to state finance filings. Those fighting the ballot measure have raised \$100,000.

Starting last year, legislatures in Michigan, Arizona and California passed laws that pre-emptively bar local governments from imposing such taxes in the future. The outcome in Oregon and Washington, political analysts say, could determine the future of the country's soda tax movement by encouraging soda companies to embrace ballot measures in states across the country.

“It's a pivotal moment,” said Mark Pertschuk, director of the advocacy group Grassroots Change. “It's hard to overstate the chilling effect of having soda taxes barred from the whole West Coast, where so many progressive policies are born.”

Opponents of the approach criticize it as overreach. The Oregon initiative, for example, takes the form of a constitutional amendment and critics say it is so vaguely worded that it could be used to block future taxes on restaurant meals, electronic cigarettes, catering halls and trucking companies that transport McDonald's Happy Meals.

“These pre-emptive measures undermine democracy and completely take away a local government's ability to do what's best for their communities,” said Jennifer L. Pomeranz, professor of public health at New York University. “It's a



Shopping in Burien, Wash. Companies like Coca-Cola and PepsiCo are quietly funding efforts to stop the taxation of sugary drinks.

true corporate takeover of America.”

William Dermody, a spokesman for the American Beverage Association, the industry group backing the measures, countered that referendums are by their very nature democratic. Most voters, he said, don't want taxes on the items they put in their shopping carts — soda included. “We believe there is a better way to help people reduce the amount of sugar consumed from beverages and bring about lasting change, including working alongside the public health community and offering more low- and no-sugar options,” he said.

Public health studies that have assessed the impact of soda taxes have found a significant drop in soda consumption, including 21 percent in Berkeley, Calif., and 40 percent in Philadelphia.

“We know that even modest soda taxes work,” said Laura MacCleery, policy director at the Center for Science in the Public Interest. “Because they work, soda companies fight the taxes tooth and nail.”

But critics say such taxes hurt small businesses and have an outsized impact on the poor.

“Thousands of good wage jobs are tied to the food and beverage industry, and the taxes are regressive because they take money out of the pockets of folks least able to afford them,” said Peter Lamb, a senior official for Teamsters Local 174 in Tukwila, Wash., which is championing the ballot measure.

The strategy of pushing pre-emptive laws and ballot measures was pioneered four decades ago by the tobacco industry and the National Rifle Association as

a way to stop localities from passing antimoking ordinances or limitations on gun ownership.

Although nearly all of Washington's major newspapers have come out against the grocery tax ballot measure, neither side has a decisive lead, according to polling. But interviews with voters suggest the soda industry's efforts to conceal its involvement are working. At a Safeway supermarket in Burien, a Seattle suburb, most shoppers expressed enthusiasm for the initiative.

“For those of us who are struggling to get by, the last thing we need is a tax on food,” Mallory Brumfield, 31, a preschool aide, said as she shopped for groceries at a Safeway supermarket with her two children in tow.

Like many shoppers, Ms. Brumfield was surprised to learn that Coca-Cola,

Pepsi and the Dr Pepper Snapple Group have provided most of the money to promote the measure. “Knowing that kind of gives me pause about whether I should support it,” she said.

In Oregon, the grocery tax ballot, known as Measure 103, has been met with more public skepticism, largely because it involves a change to the state Constitution. Opponents of the measure have raised more money than in Washington, around \$2.6 million, including an infusion of \$1.5 million late last month from former Mayor Michael R. Bloomberg of New York. The group backing the measure, Yes! Keep Our Groceries Tax Free!, has raised over twice that amount, with donations evenly split between soda companies and supermarket chains.

Critics accuse the Yes on 103 campaign of spreading misinformation, citing a television ad that claimed the initiative would prevent levies on food pantries. “There is no universe in which food banks are going to be taxed,” said Matt Newell-Ching, public affairs director at Partners for a Hunger-Free Oregon, an advocacy group. “It's like saying, ‘Vote for this measure and the sky will continue to be blue.’”

Last year, Seattle became the first city in the Pacific Northwest to enact a tax on sugary beverages, and it would be allowed to remain in place should the ballot measure pass. The tax is expected to generate \$20.6 million this year, money that will go toward early education and a raft of programs that give the working poor better access to healthier foods.

Sarah Wandler, a social worker at the Odessa Brown Children's Clinic, said soda tax revenues have provided 300 families at the clinic with vouchers to buy fresh produce at farmers' markets and corner stores. “Our clients all report having healthier foods in the house, and they are trying fruits and vegetables they never had before,” she said.

State Senator Reuven Carlyle, a Democrat, is pessimistic about the prospects for defeating the proposal, but he takes the long view, citing the decades-long fight against Big Tobacco that eventually changed national attitudes.

“At the end of the day,” he said, “you can't bury the truth, because let's be honest: No one on the planet believes that soda is groceries.”