THIS WEEK IN WASHINGTON

Week of August 7, 2017

This Week in Washington

Thanks for your interest in Washington, and for reading *This Week in Washington*.

Congress's August recess came late this year, but it did come last Thursday night. Steve Gordon summarizes the news and the noise from last week, and adds few of his reflections from the last seven months in Heard on the Hill. Larry Smith summarizes NAFTA and trade, Al Jackson updates on the Defense Authorization Bill, and Jake Ostenso continues looking at the Trump Administration's efforts to provide regulatory relief in his Agency Update. Dana Marston looks into potential changes in U.S.-China trade policy, latest in unemployment reports, solutions sought by centrist lawmakers in the continuing health care debate, and the economic sanctions process.

We're off for a few weeks, and we'll return on September 5th.

We're grateful for your notes, suggestions, and continued interest.

Heard on the Hill

By Steve Gordon, Managing Director, Total Spectrum

The Senate's Last Week Before a Shortened August Recess
Senator Perdue of Georgia had convinced the Majority Leader that the first two weeks of the August recess should be taken back so the Senate could work on health care, nominations, passing a debt ceiling, and other legislative issues. Keeping Senators and staff in Washington made sense when the Senate was rolling toward health care reform, but it made far less once health care died.

ICYMI: Arizona Issues in the News

Mayo Clinic retains No. 1 ranking in U.S. News

12 new Arizona laws that could affect you – and that take effect Wednesday

Arizona Gov. Doug Ducey: 'We're back to square one' with health care

The American Dream: How New Americans are transforming the Arizona workforce

What Is Traded Most Between the U.S. and China?

Click on the image below for a look at trade relationship between U.S. and China.

I had a chance meeting last Tuesday with two Republican Senators, both great friends. They told me that they were exhausted, but they didn't have to say it, as it was written all over their faces. Extending July into the first two weeks of August was not going to achieve anything positive. The Leader knew it, and pushed the reset button.

The debt ceiling issue was kicked to September, as were appropriations bills and the FY2018 budget. A deal between the majority and minority leaders allowed a number of nominations to be voted on and approved, and with that the Senate went into pro-forma session last Thursday evening.

Both the Senate and the House of Representatives will reconvene on Tuesday following Labor Day.

Read more.

Trade/NAFTA Update

By Larry Smith, President Legislative Strategies Inc and Strategic Consultant to Total Spectrum

Section 301 Investigation by USTR
Washington was all abuzz last week about the prospects of the President ordering a Section 301 investigation into Chinese violations of U.S. intellectual property rights and forced technology transfer, something that for many years has been a plague on those U.S. technology companies wanting to do business in China. Section 301 is a part of the Trade Act of 1974.

The expectation was that President Trump would order Robert Lighthizer, the head of the Office of United States Trade Representative, to initiate an investigation. A White House ceremony on Friday, August 4th was scheduled for the President to make that announcement. That planned event did not happen for one reason: North Korea.

Read more.

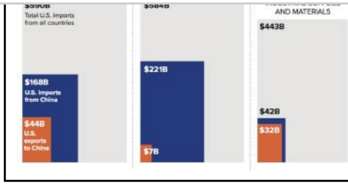
Defense Authorization Update

By Al Jackson of the Jackson Group, a strategic consultant to Total Spectrum

Senator John McCain, Chairman of the Senate Committee on Armed Services, kept his promise regarding the Fiscal Year (FY) 2018 National Defense Authorization Act, which dedicates $640 billion in national defense discretionary spending. The bill also authorizes $60 billion for Overseas Contingency Operations (OCO). In sum, the NDAA supports a defense topline budget of $700 billion. This legislation has been reported out of committee and will be considered by the full Senate in September.

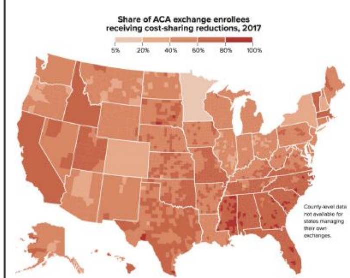
According to Senator McCain, the administration's request of $603 billion for the base defense budget was a step in the right direction but insufficient to undo the "damage" of the last six years. Indicating the need for funding above and beyond this request, the military services sent the committee over $30 billion in unfunded requirements.

Read more



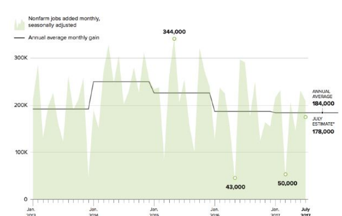
Centrist Lawmakers Seek ACA Fixes, Despite Trump Threats

Click the image below for an in-depth look at the latest ACA fixes.



July Unemployment Steady at 4.3 Percent

Click the image below for a look at the July's unemployment rate.



What Are Economic Sanctions?

Click the image below for a look at the economic sanctions in the U.S..

On the Calendar This Week
(All Times ET)

There is nothing on the calendar for this week.

By Jake Ostenso, Total Spectrum

The Office of Management and Budget recently updated its Unified Agenda for 2017. The Agenda states that its goal is to "promote economic growth and innovation and protect liberty" through eliminating regulations that are "ineffective, duplicative, and obsolete." The Administration has withdrawn 469 proposed regulatory actions that had been laid out in the previous Administration's 2016 agenda. Along with the withdrawn actions, 391 regulatory actions have been reclassified as "long-term" or "inactive" which allows for further review. Also in the 2017 Unified Agenda, all agencies are required to make public their list of "inactive" rules. President Trump made repealing regulations a cornerstone of his campaign, arguing that the current amount of federal regulations harms economic growth and job creation, promising to eliminate 80 percent of all federal regulations. Three regulations that have been withdrawn, repealed, or delayed:

Foreign Trade Regulations: Clarification on Filing Requirements
The Administration in July issued a final rule amending the Foreign Trade Regulations (FTR) in regards to the implementation of the International Data System (ITDS). The implementation of this new system is in order to reflect new export reporting requirements. The ITDS would be the means by which all government agencies involved in international trade would be able to find export/import data that companies are required to file. This system, administered by the Census Bureau, will also become a "single window" through which the international trade community will be able to streamline the reporting of such export/import data. This change is in accordance with Executive Order 13659 which helps to the exporting and importing process for American businesses by putting all necessary information in one, easily accessible place.

Read more.

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Heard on the Hill, continued.

Thoughts and reflections on Key Issues

Trade, continued.

U.S. Frozen Beef Hit Hard with Japanese Tariff to tax reform as soon as the Senate returns. But he also knows that there is a real need to stabilize the exchanges and that there's the real possibility of getting some badly needed reforms. Watch for Plan B with hearings in the Senate Health, Education, Labor, and Pensions Committee. Additionally, the Children's Health Insurance Program (CHIP) must also be reauthorized by September 30th. It's bound to be contentious but it's bound to pass.

Tax Reform

A former staffer who was in the thick of the 1986 tax reform struggle told me earlier this year that the bill passed because eventually three lines marked Policy, People, and Purpose all came together. Let's try the formula for 2017.

· Politics: The pressure will be on to get real reform passed and signed. The President needs a win, and the Republican Congress needs a win just as bad. The Business Roundtable and the Koch Brothers' Americans for Prosperity have both announced major ad buys in support of tax reform, and other groups will surely follow suit.

· Purpose: Most people agree that a tax cut will surely stimulate the economy, and there is a general agreement among the key participants about 80% of the bill. But the devil is in the details –revenue offsets, deductions, and credits. Congressman Mark Meadows, Chairman of the House Freedom Caucus, wants to shoot for a top rate of 17, 18, or 19 percent – a figure that many people think is unrealistic. More probable is in the early to mid 20's for a top corporate rate.

· People: Gary Cohn, Director of the President's National Economic Council, has put together a first rate organization. Christopher Campbell, Senator Hatch's Staff Director on the Finance Committee, was just approved by the Senate to be Undersecretary of the Treasury for Financial Institutions. Chris worked for Senator Hatch for over 10 years, and he will be vital to helping move the tax legislation. The President has said he'll use the bully pulpit in support of the bill.

Chairman Hatch – also President Pro Tem of the Senate – would like nothing better to cap his career than major tax reform. Congressman Brady, Chairman of the Ways and Means Committee, believed in the Border Adjustment Tax, but dropped the idea to promote unity within the Big Six. (As you may recall, the Big Six refers to the top tax negotiators - Speaker Ryan, Majority Leader McConnell, Treasury Secretary Mnuchin, National Economic Council Director Cohn, Senate Finance Chairman Orrin Hatch, and House

frozen beef from 38.5% to 50%. The tariff increase could be triggered if beef imports into Japan increased in a previous quarter by more than 17%. The U.S. beef exports exceeded that figure so the tariff increased accordingly. What makes this extremely difficult for U.S. beef producers is the fact that their Australian competitors enjoy a lower tariff of 27.2% due to a 2015 bilateral agreement Australia and Japan signed back in 2015.

NAFTA Talks About to Begin

There is a fair amount of angst leading up to the start of the NAFTA talks, slated to convene August 16th in Washington. The entire freshmen class of House Republicans sent a letter to the Ambassador Robert Lighthizer with a warning not to seek changes to the agreement that could bring an end to the trade pact. This warning was given even though President Trump, once again, raised the possibility that he would withdraw from the pact if the revised agreement is not to his liking.

Thirty-two House Republicans signed a letter that said while they realized that the agreement needed updating, they also were "keenly aware of the potential for damage to U.S. farmers, businesses, manufacturers, service providers and workers if long-standing agreements are suddenly vacated. Canada and Mexico are our largest export markets, and our $3.5 billion in daily trade with these two countries supports $14 million American jobs." Given that both the House and the Senate must approve whatever agreement Ambassador Lighthizer achieves with Mexico and Canada, his job is not easy - especially with the President's threat of withdrawing from the agreement altogether.

The Chapter 19 dispute resolution mechanism continues to draw more attention given that the U.S. has said it should be dropped. Mexico's Congress is now on record urging its negotiating team to stand firm on the issue. By way of background, Chapter 19 has hindered the U.S. from pursuing anti-dumping and anti-subsidy cases against Canadian and Mexican corporations, so the differences of opinion are well founded on the part of all of the current signatories.

U.S. organized labor is also making its feelings known regarding the upcoming talks. The AFL-CIO's Executive Council has put its members on notice to be prepared to "mobilize with the same level of intensity as our campaign to defeat the TPP." Despite the warning, it also trying to put forth positive messages about protecting jobs, wages, and negotiating power not only for U.S. workers but also for labor allies in Canada and Mexico.

U.S. – China Relations

Senator Hatch is upset about the amount of time the Senate spent on healthcare and wants to totally focus on tax reform. Markups will be held in both the Finance Committee and in the House Ways and Means Committee right after recess on a bill assembled by the Big Six. The goal is to get a bill to the President by the end of the year.

There are many people who are publicly skeptical about eliminating the deduction of state and local taxes. It's a big target so a natural one – but politically a very tough one.

All agree that both principals and staff have a lot of work to do in August to be ready for September markups.

Budget and Appropriations
Spending bills to prevent a government shutdown and a bill to raise the debt ceiling must be done in September. The White House is now behind a clean debt ceiling bill, and that's what the Republican leadership in the Senate and House want too. That approach is destined to upset some conservatives, but will deliver the Democratic votes it will need to pass.

Thoughts and Reflections on the First 200 Days
Someone asked me what Washington, D.C. has been like since the first of the year. I responded that it has been like being in a perpetual spin cycle full of news and noise, working together and also competing for oxygen. Three general thoughts:

· Every Administration comes in with high expectations and goes through a shake-down period. Donald Trump was elected to disrupt the status quo, and he's learning to balance disruption with the need to sustain some of the status quo. The President recently realized that he needed more stability and asked General John Kelly to become his new Chief of Staff. Everyone is hopeful that General Kelly will bring more discipline and less drama to the workings of the White House.
· Congress often looked undisciplined too. That's how sausage is made – especially in today's environment, where it's hard for leaders to get and keep the attention of their caucus. But it's been a difficult seven months for the Republican majority. Members learned that there is a difference between talking and governing and hopefully they will come back in September focused on the future – because there's rarely much education in the second kick of the mule.

Administration to take a look at an array of economic options to punish China for its inability or unwillingness to curb the nuclear aspirations of its next door neighbor. This review has taken on a new sense of urgency given that North Korea has successfully tested an intercontinental ballistic missile (ICBM) that appears to have the capability of reaching certain areas of the continental United States.

This is a rapidly developing situation. It's hard to know the extent of any economic options the Administration might decide to take, but the ramifications could be serious in terms of U.S.-China relations.

Administration officials met over the weekend to explore options and those discussions are continuing.

Defense, continued.

The legislation includes a number of provisions to streamline administration, transform business practices, and eliminate excess bureaucracy. Most importantly, the legislation clarifies the role and expands the responsibilities of the DOD Chief Management Officer (CMO), establishing it as the third most senior position in the Pentagon. The FY17 NDAA created this new role, which will be established on February 1, 2018. The fundamental mission of the CMO will be to manage the business operations of the Department. This year's bill also gives the CMO explicit authority to direct the secretaries of the military departments and the heads of other defense organizations with regard to business operations and Department-wide shared services.

The legislation authorizes substantial increases in procurement over the president's budget request. Funding for F-35 was given an increase of $3.1 billion over the president's budget, which authorizes an additional 24 aircraft. The bill authorizes:

· $1.9 billion for procuring 24 F/A-18 Super Hornets, $739 million and 10 aircraft more than the administration's request;
· $2.3 billion for procuring 13 P-8A Poseidon aircraft; $1 billion and 6 aircraft more than the administration's request;
· $1.5 billion increase for various missile procurement and development;
· $8.5 billion for the Missile Defense Agency to strengthen homeland, regional, and space missile defenses, $630 million more than the administration's request;
· $700 million more than the administration's request for cyber requirements

being done in the Administration's agencies. We've begun highlighting regulatory actions by this administration in This Week, and we'll continue to do so.

· I was told last week that a Senate staffer invests five hours to prepare for one hour of his/her boss's time. Congressional staffers deserve our appreciation – and have earned a few weeks of rest and relaxed preparation time before Congress gears back up in September.

o $1.4 billion for 74 AH-64E Apaches;
o $1.1 billion for 48 UH-60 Blackhawks;
o $203 million for 6 CH-47F Chinooks;
o $247 million for 4 MH-47G Chinooks; and
o $108 million for 13 Light Utility Helicopters; and

· $25 billion for shipbuilding to fund 13 ships, $5 billion and five ships more than the administration's request.

The House version of NDAA, H.2819, passed on July 14, 2017, supports funds for base budget requirements of $631.5 billion, including a $28.5 billion increase for essential readiness recovery above the president's budget request. This level is informed by in-depth committee oversight, as well as unfunded requirements identified by the military services and validated by Secretary Mattis. Committee oversight indicates that the Department can efficiently spend these additional funds in FY18.

The NDAA addresses important readiness shortfalls neglected by the President's request, including: $7.9 billion for Aviation Readiness, $5.9 billion for increased Naval presence, $5.7 billion for Ground Forces, $2.3 billion for facilities maintenance, and $2.5 billion for Missile Defense.

H.2189 provides an additional $2.0 billion to procure more F-35 (+17) and F/A-18 (+8) fighters. Apache helicopters also received an increase above the president's request to the tune of eight additional aircraft. CH-47 (+8), V-22 (+4) and CH-47 (+8) also received increases.

Reform in the legislation pertinent to industry includes acquisition reform to further streamline bureaucracy and contract auditing, which hopefully helps small business.

Agency Update, continued.

Mineral Royalty Rule
It was announced in April that the Administration would be repealing the Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform Final Rule. The Obama-era rule created new standards as to how the lease royalties for minerals on federal and Native American lands were calculated. The memo, released by the Department of Interior, said that they agreed with the purpose for implementing the rule, but in actuality there were "significant defects" that created confusion among the regulated industries. Among those defects is a difficulty to comply with and enforce the rule, which puts a burden on the development of oil and gas on federal lands. The Administration is reinstating the

Policy Committee, which will advise on current and emerging
issues. Industry groups are praising this move, saying that it provides certainty and clarity to the regulated communities.

International Entrepreneur Rule Delay
The Department of Homeland Security announced that it is delaying the implementation of the International Entrepreneur Final Rule until March 14, 2018. The rule allows foreigners who want to build and grow their business entry into the United States for thirty months. Those wishing to enter the United States through this program would need to have $250,000 or more from American investors, or $100,000 or more in grants from local or state entities. Though people from the technology industry have criticized the delay, the Trump Administration says it is delaying the program in order to give the public more time to submit comments on the final rule. The delay is also in line with President Trump's Border Security and Immigration Enforcement Improvements executive order, which calls for tightened border security as well as the Secretary of Homeland Security to be able to address each case on an individual basis.