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# THIS WEEK IN WASHINGTON

Week of January 30, 2017

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Thanks for your great response to Week One of *This Week in Washington*.

Issue Two highlights trade. President Trump's trade agenda is vitally important to Arizona – because NAFTA (the North American Free Trade Agreement) has helped make Mexico Arizona's primary trading partner. The numbers are better than a thousand words.

The 2015 market value of bilateral trade between Arizona and Mexico was \$16.8 billion. The 2015 export value of trade between Arizona and Mexico was \$9.2 billion. In Arizona, 41% of the state's exports go to Mexico -- and that number is rising. The main exports are transportation equipment, electrical components, processed food, and minerals.

Our lead article on the President's trade policy is written by Larry Smith, who was the U.S. Senate's Chief Executive before beginning his career in public affairs. Larry and his firm became affiliated with Total Spectrum on January 1st, and we couldn't be more pleased. We're also beginning in this issue a regular forum devoted to NAFTA and Trade, which this week gives a detailed examination of the proposed Border Adjustment Tax.

Dana Marston provides an update on the Cabinet's confirmation progress, shares a graphic that shows the key budget deadlines that will drive the congressional calendar, and gives us a calendar of weekly events.

## ICYMI: Arizona Issues in the News

[Sens. John McCain and Jeff Flake defend U.S.-Mexico trade deal from President Donald Trump](#)

[Mexico earmarks \\$50 million to back migrants in US](#)

[Senate Committee Approves DeVos Nomination](#)

## Budget Update

Key budget deadlines will drive the congressional calendar. Click the image below for more complete information on budget deadlines and the 2017 congressional calendar.

reports on this week's big news and some underreported news."

As always, we welcome your thoughts, feedback, and suggestions for future editions of *This Week in Washington*.



## Heard on the Hill, Week of Jan. 30

By [Steve Gordon](#), Managing Director, Total Spectrum

The White House during the first full week of the Trump Administration created a whirlwind of words and actions -- some news and some noise -- clearly designed to show their supporters that they are moving on almost all of Donald Trump's campaign commitments. Congress has also been busy -- acting, responding, and meeting to plan its legislative agenda and calendar.

Most of us in Washington took this past weekend to catch our collective breaths, and sift through and analyze everything that's occurred in week one. Here's some of the big news and some of the unreported news from last week in Washington. [Read more.](#)

### Cabinet Update

Click the image below for a complete update on President Trump's cabinet nominees, including their confirmation status and hearing dates.



## Trump's Trade Policy

By [Larry Smith](#), Partner, President and Founder, Legislative Strategies, Inc.

Donald Trump barely had his bags unpacked as the new occupant of the White House when he started fulfilling his campaign promise to revamp U. S. trade policy. He signed an Executive Order that officially withdraws the United States from the Trans-Pacific Trade Partnership (TPP). He signaled his intent to renegotiate the North America Free Trade Agreement (NAFTA) with Canada and Mexico. He indicated a desire to enter into a bilateral trade agreement with Britain once it exits the European Union. The only thing he hasn't done, though he spoke about it during his campaign, is to declare China a currency manipulator.

Here is our take on all of these issues. [Read more.](#)

## NAFTA and Trade: UPDATE

House Ways and Means Chairman Brady wants tax reform to be revenue neutral. His goal is to reduce the corporate rates (top rate would go from 35% to 20%), reduce the individual tax rates, minimize or eliminate some deductions, and find a new source of revenue to offset reductions.

One option being discussed is a Border Adjustment Tax, which would be a new tax on imported products and services, created by no longer allowing a domestic company to deduct the cost of international products or services. [Read more.](#)

### On the Calendar This Week (All Times ET)

#### Monday

12 p.m.

House convenes

3 p.m.

Senate convenes

6 p.m.

[Senate Finance Committee votes on Treasury nominee Mnuchin](#)

#### Tuesday

9:30 am

[Senate Energy and Natural Resources Committee votes on Interior nominee Zinke and Energy nominee Perry](#)

9:30 a.m.

[Senate Judiciary Committee votes on AG nominee Sessions](#)

10 a.m.

[Senate Foreign Relations Committee hearing on North Korea](#)

2 p.m.

[House Oversight subcommittee hearing on Obamacare](#)

#### Wednesday

9:40 a.m.

[Senate Homeland Security and Governmental Affairs Committee votes on OMB nominee Mulvaney](#)

House Energy and Commerce subcommittee hearing on Medicaid

10 a.m.

Senate HELP Committee hearing on Obamacare

10 a.m.

Senate Homeland Security and Governmental Affairs Committee hearing on fencing on southwest border

10:30 a.m.

Senate Budget Committee hearing on CBO budget and economic outlook

2 p.m.

House Oversight Committee hearing on the Whistleblower Protection Enhancement Act

**Thursday**

10 a.m.

House Foreign Relations joint subcommittee hearing on a U.S.-U.K. trade agreement

10:30 a.m.

House Energy and Commerce subcommittee hearing on health markets

**Friday**

No events scheduled

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**BIG news.**

*Jobs and regulations.* President Trump met with business leaders this week -- a meeting that will be repeated quarterly. President Trump emphasized his agenda of creating manufacturing jobs in the U.S. He also talked to corporate leaders about tax cuts, and said that he wants to reduce regulations by up to 75%.

*Trade:* President Trump signed documents to withdraw the U.S. from the Trans-Pacific Partnership and announced that he wanted to renegotiate the North American Free Trade Agreement (NAFTA).

*Taxes:* Kevin Brady, Chairman of the House Ways and Means Committee, said that net neutrality was still a priority – and that the House Blueprint on tax reform would not add to the federal debt in the long run.

*Trade and Taxes.* Chairman Brady pushed back hard on objections to the Border Adjustment Tax. (See NAFTA and Trade Update for a full description of how this proposed tax would work.) Congresswoman Marsha Blackburn (TN), a subcommittee chairman on the Energy and Natural Resources Committee, said today that she did not see how the border adjustment proposal could become law: “It might have been the right thing to do 50 years ago, but it’s too complicated to do now.”

*Healthcare:* President Trump signed an executive order to waive, defer, grant exemptions, and delay implementation of Obamacare, and to offer states great flexibility.

*Energy:* President Trump signed documents promoting the Keystone Pipeline and Dakota Access Pipelines. One memorandum invited the TransCanada Corporation to resubmit their application for the Keystone XL pipeline. Another memorandum requested that the appropriate agencies expedite their review of the Dakota Access pipeline. Yet a third memorandum requested that the Commerce Department create a plan for U.S. pipelines to use U.S. materials and equipment.

*Infrastructure.* President Trump met with heads of business trade unions to talk about his infrastructure goals and jobs. He also issued an order to “streamline and expedite environmental reviews and approvals on infrastructure projects.”

*Immigration.* President Trump signed an executive order signaling his intent to build a wall

**Trans-Pacific Trade Agreement (TPP)**

For all practical purposes, TPP was already considered dead. President Obama never sent the agreement to Congress for its review for fear that it would be rejected. All President Trump did was to drive the last nail into TPP’s coffin.

Trump’s decision on TPP was a complete reversal of long held free trade policy by the Republican Party and was embraced by Capitol Hill Democrats and organized labor.

Trump had previously said that the TPP was “a potential disaster for our country.” But Senator John McCain (R-AZ) said that Trump’s decision to withdraw from TPP was “a serious mistake.” And House Ways and Means Committee Chairman Kevin Brady (R-TX) and Trade Subcommittee Chairman David Reichert (R-WA) urged the president not to kill TPP. In a joint statement, Congressmen Brady and Reichert said that strong TPP provisions should be retained, while weaker segments should be renegotiated. Canadian Foreign Minister (and former Trade Minister) Chrystia Freeland says that TPP is impossible if the U.S. isn’t involved. (Canada is a signatory to the agreement.)

Wilbur Ross, Secretary-designate for the U.S. Department of Commerce, says that the U.S. will move to reach bilateral agreements with each of the signatories of TPP.

The international symbolism of the TPP decision could be enormous. Bowing out of TPP may serve to diminish the U.S. role in Asia and enhance China’s. It’s too early to tell for certain.

**North American Free Trade Agreement (NAFTA)**

President Trump announced he wants to renegotiate NAFTA with Canada and Mexico. This will be a huge undertaking that is much easier said than done.

Canada has already sent signals that it would be willing to enter into a bilateral agreement with the U.S.

There is some question as to whether the Executive Branch can withdraw from NAFTA without congressional concurrence. Withdrawal would certainly be subject to lawsuits by those entities harmed by such a decision.

At a minimum, under Article 2205 of the NAFTA agreement, parties must give six months written

leading to sanctuary cities that don't enforce federal laws on undocumented immigrants.

He also issued an executive order on Saturday night that temporarily blocks the entry of all refugees to the U.S. for 120 days while barring entry for Syrian refugees for an undetermined length of time. It also barred citizens from seven Middle Eastern countries from entering the US for 90 days. Parts of these orders were halted by federal judges. President Trump responded to his critics on Sunday by tweeting that these orders were not about religion, but rather were about keeping America safe.

*Reducing Regulations.* The Trump Administration issued statements that began the process to roll back burdensome regulations on small business and manufacturing. President Trump signed a second executive order that required that every one new federal regulation implemented would require that two existing regulations be rescinded.

*Reducing Financial Regulations.* Speaker Paul Ryan told his colleagues at the Republican congressional retreat in Philadelphia that financial deregulation was a top priority this year.

*Growth of government.* President Trump has signed a memorandum dictating that agencies can't fill vacant positions and directing the Office of Management and Budget to plan for the reduction of the federal workforce via attrition.

*Congressional agenda.* President Trump traveled to Philadelphia to meet with Republican Senators and Congressman at the congressional retreat to build relationships and discuss a legislative agenda.

*International.* President Trump met with British Prime Minister Theresa May. The Prime Minister said that her understanding was that President Trump was 100% behind NATO, and both leaders seemed to agree on expanded responsibilities for this organization. They discussed trade agreements -- which can only be concluded after Great Britain exits the European Union. President Trump spoke on the phone on Saturday with Russia's President Putin and German Chancellor Merkel. Mexico's President Enrique Pena Nieto was scheduled to meet in Washington this week with President Trump, but the trip was cancelled when discussions over paying for the wall escalated. The two presidents had a private telephone call the next day, and both sides agreed to keep talking and keep their conversations out of the press.

Congress passed a number of laws to put NAFTA's terms in effect. Those laws would still remain in effect unless Congress takes legislative action.

All parties (U.S., Mexico and Canada) would have to agree to any new terms for NAFTA. Also, it is most likely that Congress would have a role in approving those terms.

Since NAFTA became effective in 1994, North American supply chains have become more complex and interwoven. There are undoubtedly many unforeseen complications in trying to undo any aspect of the current NAFTA agreement.

If NAFTA ends, Canada and Mexico, as U.S. trading partners, would revert back to pre-NAFTA status. For Mexico, this means tariffs, and it has threatened to retaliate.

It's unclear which federal agency would take the lead on NAFTA negotiations. Will it be the newly formed White House entity called the National Trade Council, headed by economist Peter Navarro; the Office of the U.S. Trade Representative, led by soon-to-be confirmed Robert Lighthizer; or the Department of Commerce under the leadership of soon-to-be confirmed Secretary Wilbur Ross? In the meantime, President Trump has already sent Stephen Schwarzman, CEO of the Blackstone Group and a Trump surrogate, to Canada for preliminary discussions.

Mexico's Economic Minister Ildefonso Guajardo has suggested that Mexico would walk away from NAFTA if the renegotiation hurts more than helps his country. He has also said that making Mexico pay for the proposed border wall would be a deal breaker.

Mexico's President Enrique Pena Nieto canceled his trip to Washington and his meeting with President Trump over the border wall issue. A draft Executive Order, yet to be issued, called "Moratorium on New Multilateral Treaties," would require the review of all current and pending treaties the U. S. has with more than one country. While the draft order specifically states that this does not extend to those treaties involving national security, extradition or international trade, it is still unclear whether this Executive Order would have any impact on NAFTA until the actual language is released for review.

House Republicans and President Trump are studying the idea of a border adjustment tax on goods imported from Mexico. Other ideas include

**UNDERREPORTED NEWS**

The Gross National Products grew at 1.6% in 2016 -- the weakest growth since 2011.

The Senate Foreign Relations Committee approved Rex Tillerson's nomination for Secretary of State, and a final vote on the floor of the Senate is expected this week.

The Senate Banking, Housing and Urban Affairs Committee approved Dr. Ben Carson's nomination for Secretary of Housing and Urban Affairs.

President Trump indicated that his selection for the Supreme Court could be announced this week. It is now scheduled for 8 PM (Eastern Time) today, Tuesday, January 31st.

Former President Obama and Mrs. Obama flew from Washington, D.C. to Palm Springs for 3 days, and then boarded Sir Richard Branson's private jet and took off to Mr. Branson's private island in the Caribbean.

Queen Elizabeth has invited President and Mrs. Trump to Buckingham Palace, and the invitation has been accepted.

**NAFTA AND TRADE, continued.**

The following example is based on a manufacturing company in the US that uses imported products and services that are included in their final product.

\$30,000	Final price of the finished product
- \$14,000	The cost of international parts and service
<u>- \$8,000</u>	The cost of domestic labor
\$8,000	Net profit

Under the current law, the corporation would pay as much as 35% corporate tax on the net profit of \$8,000.

Under the proposed Border Adjustment Tax, the domestic company would be unable to deduct the cost of the international parts and services, so they would pay the new corporate rate (goal is 20%) on \$22,000.

Some economists contend that the value of the dollar will rise under this proposal, so imported goods will become cheaper.

There's no lack of opposition to this proposal. Importers such as international refiners, auto manufacturers, and retailers are opposed -- as are

revenue from either scheme would be used to finance the construction of the border wall as well as lowering the overall corporate tax rate. The American consumer might foot the tax bill through higher consumer prices.

Bilateral relations between Mexico and the United States seem to be at a low point.

**Britain**

Prime Minister Theresa May was the first foreign leader to visit the United States since Donald Trump became President. In addition to speaking to House and Senate Republicans at their retreat in Philadelphia, the Prime Minister met with the President.

Britain cannot enter into a final bilateral trade agreement with the United States until after it has removed itself from the European Union.

Negotiations between the United Kingdom and the European Union could take up to two years to complete, though the Prime Minister is anxious to begin those talks as soon as possible.

In the meantime, nothing prohibits the U.S. and the U.K. from undertaking preliminary talks on a bilateral agreement.

**Summing Things Up**

The speed with which Donald Trump has hit the ground running has amazed even the most seasoned observers in the Nation's Capitol. Whether one agrees or disagrees with his policies, one thing is clear: Donald Trump is in charge. At this juncture, it is impossible to foresee the final resolution of any of these trade issues except to say that the President is going to keep them front and center as policy issues to tackle in the coming months, if not years. All of this means we need to follow things very closely. Supporters should not begin celebrating and opponents of these trade policy changes should take heart -- major policy changes take a great deal of time.

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